NORTHEAST UTILITIES
Form 10-Q/A
March 17, 2005
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 2

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2004

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	Registrant; State of Incorporation; Address; and Telephone Number	I.R.S. Employer Identification No.
1-5324	**NORTHEAST UTILITIES** (a Massachusetts voluntary association) One Federal Street Building 111-4 Springfield, Massachusetts 01105 Telephone: (413) 785-5871	04-2147929

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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
ü	

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act):

	Yes	No
Northeast Utilities	ü	

Indicate the number of share outstanding of each of the issuers classes of common stock, as of the latest practicable date:

Company - Class of Stock	Outstanding at October 31, 2004
Northeast Utilities Common stock, $5.00 par value	128,384,407 shares

FORM 10-Q/A EXPLANATORY NOTE

Amendment No. 2 to this report eliminates the reference to our certifying officers titles in certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. The certifications are included in Exhibits 31 and 31.1.

Amendment No. 1 to our quarterly report on Form 10-Q (Form 10-Q/A) was filed to amend the quarterly report on Form 10-Q for the quarter ended September 30, 2004 of Northeast Utilities (NU), which was originally filed on November 5, 2004 (Original Form 10-Q). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-Q/A contains the complete text of Items 1, 2, and 4 of Part I and Item 6 of Part II, as amended, as well as certain currently dated certifications. Unaffected items from the quarterly reports of separate registrants The Connecticut Light and Power Company, Public Service Company of New Hampshire and Western Massachusetts Electric Company (and associated certifications) have not been repeated in this Form 10-Q/A.

Subsequent to the filing of the Form 10-Q for the quarter ended September 30, 2004, NU concluded that it incorrectly applied accrual accounting for certain natural gas contracts established by the merchant energy segment to mitigate the risk of electricity purchased in anticipation of winning certain levels of wholesale electric load in New England. The natural gas basis contracts were originally accounted for on the accrual basis. The natural gas futures and swaps contracts were accounted for as cash flow hedges with changes in fair value reflected in other comprehensive income (a component of shareholders equity). However, subsequent to the filing of the third quarter report on Form 10-Q, NU concluded that applying accrual accounting for the basis contracts was incorrect. The basis contracts should have been recorded at current fair value with changes in fair value impacting earnings. The fair value was a negative $0.9 million at June 30, 2004 and at September 30, 2004 is a negative $2.7 million, which is now reflected in non-trading derivative liabilities. Fuel, purchased and net interchange power expenses increased by $1.8 million for the third quarter of 2004 and increased by $2.7 million for the nine-month period ended September 30, 2004 as a result of the restatements. The futures and swaps contracts should not have been accounted for as cash flow hedges and should also have been recorded at fair value. The fair value was a positive $2.7 million at June 30, 2004 and at September 30, 2004 is a negative $71.1 million. These amounts have been removed from other comprehensive income (a component of shareholders equity). Fuel, purchased and net interchange power expenses increased by $73.8 million for the third quarter and increased by $71.1 million for the nine-month period ended September 30, 2004 as a result of the restatements. This Form 10-Q/A reflects the change from accrual and hedge accounting to fair value accounting for the

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aforementioned natural gas derivative contracts. The net income impact of both of these restatements is a negative $47 million for the third quarter and a negative $45.9 million for the nine months ended September 30, 2004.

The natural gas contracts discussed above are accounted for at fair value with changes in fair value included in earnings. NU concluded that fair value or mark-to-market accounting should have been applied. To correct this error, NU restated its condensed consolidated balance sheet as of September 30, 2004, the condensed consolidated statements of income for the three and nine months ended September 30, 2004, and the condensed consolidated statement of cash flows for the nine months ended September 30, 2004. NU has also restated the notes to its condensed consolidated financial statements as necessary to reflect the adjustments.

For December 31, 2003 amounts, corrections have been made to cash and cash equivalents, unrestricted cash from counterparties, special deposits and accounts payable, which had no impact on net income. These corrections reclassified unrestricted cash from counterparties to cash and cash equivalents because those funds were unrestricted and were used to or were available to fund the company s operations. The December 31, 2003 condensed consolidated balance sheet has been restated for these corrections and a correction to decrease derivative assets and liabilities by the same amount in order to eliminate certain intercompany derivative assets and liabilities. For information regarding this restatement and the effects on significant financial statement line items, see Note 9, Restatement of Previously Issued Financial Statements, to the condensed consolidated financial statements.

This amendment does not otherwise reflect events occurring after the filing of the Original Form 10-Q, which was filed on November 5, 2004. Such events include, among others, the events described in NU s current reports on Form 8-K filed after the filing of the Original Form 10-Q, except for those pertaining to this subject matter. Earnings guidance is not included in this Form 10-Q/A. For information regarding NU s most recent earnings guidance, see the current reports on Form 8-K dated January 26, 2005 and February 4, 2005.

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GLOSSARY OF TERMS

The following is a glossary of frequently used abbreviations or acronyms that are found in this report.

NU COMPANIES, SEGMENTS OR INVESTMENTS:

CL&P	The Connecticut Light and Power Company
CRC	CL&P Receivables Corporation
HWP	Holyoke Water Power Company
NGC	Northeast Generation Company
NGS	Northeast Generation Services Company
NU or the company	Northeast Utilities
NU Enterprises	NU s competitive subsidiaries comprised of HWP, NGC, NGS, Select Energy, SESI, and Woods Network. For further information, see Note 8, Segment Information, to the condensed consolidated financial statements.
PSNH	Public Service Company of New Hampshire
RMS	R. M. Services
Select Energy	Select Energy, Inc. (including its wholly owned subsidiary SENY)
SENY	Select Energy New York, Inc.
SESI	Select Energy Services, Inc.
Utility Group	NU s regulated utilities comprised of CL&P, PSNH, WMECO, and Yankee Gas. For further information, see Note 8, Segment Information, to the condensed consolidated financial statements.
WMECO	Western Massachusetts Electric Company
Woods Network	Woods Network Services, Inc.
Yankee	Yankee Energy System, Inc.
Yankee Gas	Yankee Gas Services Company

THIRD PARTIES:

Bechtel	Bechtel Power Corporation
CY	Connecticut Yankee
NRG	NRG Energy, Inc.

REGULATORS:

CSC	Connecticut Siting Council
DPUC	Connecticut Department of Public Utility Control
FERC	Federal Energy Regulatory Commission
NHPUC	New Hampshire Public Utilities Commission
SEC	Securities and Exchange Commission

OTHER:

Act, the	Public Act No. 03-135
CTA	Competitive Transition Assessment
EPS	Earnings Per Share
FASB	Financial Accounting Standards Board
FMCC	Federally Mandated Congestion Costs
GSC	Generation Service Charge
ISO-NE	New England Independent System Operator
kWh	Kilowatt-Hour
LMP	Locational Marginal Pricing

LNG	Liquefied Natural Gas
LOCs	Letters of Credit
MW	Megawatts

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NU 2003 Form 10-K	The Northeast Utilities and Subsidiaries combined 2003 Form 10-K as filed with the SEC
NYMEX	New York Mercantile Exchange
OCA	Office of Consumer Advocate
OCC	Office of Consumer Counsel
Restructuring Settlement	"Agreement to Settle PSNH Restructuring"
ROE	Return on Equity
RTO	Regional Transmission Organization
SBC	System Benefits Charge
SCRC	Stranded Cost Recovery Charge
SFAS	Statement of Financial Accounting Standards
SMD	Standard Market Design
TS	Transition Energy Service
TSO	Transitional Standard Offer

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NORTHEAST UTILITIES AND SUBSIDIARIES

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NORTHEAST UTILITIES AND SUBSIDIARIES

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NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2004 (Restated)*	December 31, 2003 (Restated)*
	(Thousands of Dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 97,852	$ 43,372
Restricted cash - LMP costs		93,630
Special deposits	101,688	79,120
Investments in securitizable assets	212,521	166,465
Receivables, less provision for uncollectible accounts of $41,538 in 2004 and $40,846 in 2003	656,384	704,893
Unbilled revenues	99,408	125,881
Fuel, materials and supplies, at average cost	202,760	154,076
Derivative assets	364,707	249,117
Prepayments and other	66,042	63,780
	1,801,362	1,680,334
Property, Plant and Equipment:		
Electric utility	5,792,149	5,465,854
Gas utility	776,391	743,990
Competitive energy	911,940	885,953
Other	239,663	221,986
	7,720,143	7,317,783
Less: Accumulated depreciation	2,357,086	2,244,263
	5,363,057	5,073,520
Construction work in progress	376,428	356,396

	5,739,485	5,429,916
Deferred Debits and Other Assets:		
Regulatory assets	2,802,912	2,974,022
Goodwill	319,986	319,986
Purchased intangible assets, net	20,251	22,956
Prepaid pension	356,540	360,706
Prior spent nuclear fuel trust	49,110	
Other	448,043	428,567
	3,996,842	4,106,237
Total Assets	$11,537,689	$11,216,487

* See Note 9.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2004 (Restated)*	December 31, 2003 (Restated)*
	(Thousands of Dollars)	
LIABILITIES AND CAPITALIZATION		
Current Liabilities:		
Notes payable to banks	$ 1,043	$ 105,000
Long-term debt - current portion	88,963	64,936
Accounts payable	704,559	728,463
Accrued taxes	3,111	51,598
Accrued interest	58,560	41,653
Derivative liabilities	206,557	112,612
Counterparty deposits	67,356	46,496
Other	207,878	203,080
	1,338,027	1,353,838
Rate Reduction Bonds	1,591,944	1,729,960
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	1,404,391	1,287,354
Accumulated deferred investment tax credits	100,062	102,652
Deferred contractual obligations	423,236	469,218

Regulatory liabilities	1,163,773	1,164,288
Other	244,692	247,526
	3,336,154	3,271,038
Capitalization:		
Long-Term Debt	2,839,694	2,481,331
Preferred Stock of Subsidiary - Non-Redeemable	116,200	116,200
Common Shareholders Equity:		
Common shares, $5 par value - authorized 225,000,000 shares; 150,683,698 shares issued and 128,349,411 shares outstanding in 2004 and 150,398,403 shares issued and 127,695,999 shares outstanding in 2003	753,418	751,992
Capital surplus, paid in	1,111,152	1,108,924
Deferred contribution plan - employee stock ownership plan	(63,831)	(73,694)
Retained earnings	833,237	808,932
Accumulated other comprehensive income	40,754	25,991
Treasury stock, 19,575,940 shares in 2004 and 19,518,023 shares in 2003	(359,060)	(358,025)
Common Shareholders Equity	2,315,670	2,264,120
Total Capitalization	5,271,564	4,861,651
Commitments and Contingencies (Note 4)		
Total Liabilities and Capitalization	$ 11,537,689	$ 11,216,487

* See Note 9.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004 (Restated)*	2003	2004 (Restated)*	2003
	(Thousands of Dollars, except share information)			
Operating Revenues	$ 1,667,985	$ 1,640,117	$ 5,030,938	$ 4,554,338

Operating Expenses:				
Operation-				
Fuel, purchased and net interchange power	1,107,113	1,033,663	3,196,842	2,766,268
Other	273,838	232,616	798,048	672,435
Maintenance	52,919	45,339	150,855	139,110
Depreciation	57,232	50,879	167,366	151,044
Amortization	42,679	56,407	100,057	139,710
Amortization of rate reduction bonds	43,286	40,729	124,579	115,232
Taxes other than income taxes	55,360	53,169	188,644	178,603
Total operating expenses	1,632,427	1,512,802	4,726,391	4,162,402
Operating Income	35,558	127,315	304,547	391,936
Interest Expense:				
Interest on long-term debt	34,940	32,010	101,676	93,496
Interest on rate reduction bonds	24,446	26,863	75,184	82,088
Other interest	4,086	4,474	12,530	10,835
Interest expense, net	63,472	63,347	189,390	186,419
Other Income, Net	8,168	4,678	12,717	6,008
(Loss)/Income Before Income Tax (Benefit)/Expense	(19,746)	68,646	127,874	211,525
Income Tax (Benefit)/Expense	(13,228)	23,277	40,179	76,304
(Loss)/Income Before Preferred Dividends of Subsidiary	(6,518)	45,369	87,695	135,221
Preferred Dividends of Subsidiary	1,390	1,390	4,169	4,169
(Loss)/Income Before Cumulative Effect of Accounting Change	(7,908)	43,979	83,526	131,052
Cumulative effect of accounting change, net of tax benefit of $2,553		(4,741)		(4,741)
Net (Loss)/Income	$ (7,908)	$ 39,238	$ 83,526	$ 126,311
Basic and Fully Diluted (Loss)/Earnings Per Common Share:				
(Loss)/Income Before Cumulative Effect of Accounting Change	$ (0.06)	$ 0.35	$ 0.65	$ 1.03
Cumulative effect of accounting change, net of tax benefit		(0.04)		(0.04)
Basic and Fully Diluted (Loss)/Earnings Per Common Share	$ (0.06)	$ 0.31	$ 0.65	$ 0.99
Basic Common Shares Outstanding (average)	128,279,814	127,167,690	128,064,364	126,976,161
Fully Diluted Common Shares Outstanding (average)	128,442,701	127,303,973	128,231,267	127,086,414

* See Note 9.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NORTHEAST UTILITIES AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2004 (Restated)*	2003
	(Thousands of Dollars)	
Operating Activities:		
Income before preferred dividends of subsidiary	$ 87,695	$ 135,221
Adjustments to reconcile to net cash flows provided by operating activities:		
Depreciation	167,366	151,044
Deferred income taxes and investment tax credits, net	65,133	(55,734)
Amortization	100,057	139,710
Amortization of rate reduction bonds	124,579	115,232
Deferral of recoverable energy costs	(30,688)	(23,021)
Decrease/(increase) in prepaid pension	4,166	(23,778)
Cumulative effect of accounting change		(4,741)
Regulatory (refunds)/overrecoveries	(43,919)	122,870
Mark-to-market on natural gas contracts	45,916	
Other sources of cash	62,026	14,911
Other uses of cash	(42,710)	(105,914)
Changes in current assets and liabilities:		
Restricted cash - LMP costs	93,630	(45,760)
Receivables and unbilled revenues, net	74,982	160,789
Fuel, materials and supplies	(48,684)	(40,548)
Investments in securitizable assets	(46,056)	(36,684)
Other current assets	(85,163)	(5,703)
Accounts payable	(23,904)	10,805
Accrued taxes	(48,487)	(72,851)
Other current liabilities	69,545	24,906
Net cash flows provided by operating activities	525,484	460,754
Investing Activities:		
Investments in property and plant:		
Electric, gas and other utility plant	(449,785)	(369,660)
Competitive energy assets	(13,915)	(12,221)
Cash flows used for investments in property and plant	(463,700)	(381,881)
Buyout/buydown of IPP contracts		(20,437)
Investment in prior spent nuclear fuel trust	(49,110)	
Other investment activities	(32,843)	6,582
Net cash flows used in investing activities	(545,653)	(395,736)
Financing Activities:		
Issuance of common shares	4,470	9,940
Repurchase of common shares		(23,209)
Issuance of long-term debt	463,113	250,384

Retirement of rate reduction bonds	(138,016)	(126,374)
Decrease in short-term debt	(103,957)	(16,000)
Reacquisitions and retirements of long-term debt	(86,628)	(33,607)
Cash dividends on preferred stock of subsidiaries	(4,169)	(4,169)
Cash dividends on common shares	(59,221)	(53,959)
Other financing activities	(943)	(4,564)
Net cash flows provided by/(used in) financing activities	74,649	(1,558)
Net increase in cash and cash equivalents	54,480	63,460
Cash and cash equivalents - beginning of period	43,372	54,678
Cash and cash equivalents - end of period	$ 97,852	$ 118,138

* See Note 9.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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NORTHEAST UTILITIES AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (All Companies)

A. Presentation

Restatement of Previously Issued Financial Statements: Subsequent to the filing of the Form 10-Q for the quarter ended September 30, 2004, Northeast Utilities (NU or the company) concluded that it incorrectly applied accrual accounting for certain natural gas contracts established to mitigate the risk of electricity purchased in anticipation of winning certain levels of wholesale electric load in New England. NU concluded that fair value accounting should have been applied. To correct this error, the financial and other information included herein has been restated for this change. For December 31, 2003 amounts, corrections have been made to cash and cash equivalents, unrestricted cash from counterparties, special deposits, accounts payable, derivative assets, and derivative liabilities, which had no impact on net income. For further information regarding this restatement and the effects on significant financial statement line items, see Note 9, Restatement of Previously Issued Financial Statements.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with this complete report on Form 10-Q/A, the First and Second Quarter 2004 reports on Form 10-Q, the Second Quarter 2004 report on Form 10-Q/A and the Annual Reports of NU, The Connecticut Light and Power Company (CL&P), Public Service Company of New Hampshire (PSNH), and Western Massachusetts Electric Company (WMECO), which were filed as part of the NU 2003 Form 10-K, and the current reports on Form 8-K disclosed in Part II, Item 6, Other Information - Exhibits and Reports on Form 8-K, included in this report on Form 10-Q/A. The accompanying condensed consolidated financial statements contain, in the opinion of management, all adjustments necessary to present fairly NUs and the above companies financial position at September 30,

2004, the results of operations for the three-month and nine-month periods ended September 30, 2004 and 2003, and condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2004 and 2003. All adjustments are of a normal, recurring nature except those described in Note 1B. Due primarily to the seasonality of NU's business and to the quarterly earnings profile of NU Enterprises' merchant energy business segment in 2004, the results of operations and condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2004 and 2003, are not indicative of the results expected for a full year.

The condensed consolidated financial statements of NU and of its subsidiaries, as applicable, include the accounts of all their respective subsidiaries. Intercompany transactions have been eliminated in consolidation.

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

Certain reclassifications of prior period data included in the accompanying condensed consolidated financial statements have been made to conform with the current period presentation.

B. New Accounting Standards

Other-Than-Temporary Impairments: The Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) issued and later deferred the effective date of accounting guidance included in EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF Issue No. 03-1 provides guidance on how to evaluate and recognize an impairment loss that is other-than-temporary and could impact NU's investments in Acumentrics Corporation (Acumentrics) and NEON Communications, Inc. (NEON) upon its effective date. Certain accounting guidance included in EITF Issue No. 03-1 is not effective until the FASB issues additional guidance on this issue. EITF Issue No. 03-1 also requires certain annual disclosures that are effective for NU's December 31, 2004 annual report on Form 10-K.

For further information regarding NU's investments in Acumentrics and NEON, see Note 1H, "Summary of Significant Accounting Policies - Other Investments," to the condensed consolidated financial statements.

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C. Guarantees

NU provides credit assurance in the form of guarantees and letters of credit (LOCs) in the normal course of business, primarily for the financial performance obligations of NU Enterprises. NU would be required to perform under these guarantees in the event of non-performance by NU Enterprises, primarily Select Energy, Inc. (Select Energy). At September 30, 2004, the maximum level of exposure in accordance with FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," under guarantees by NU, primarily on behalf of NU Enterprises, totaled $990.8 million. Additionally, NU had $113.6 million of LOCs issued for the benefit of NU Enterprises outstanding at September 30, 2004.

At September 30, 2004, NU had outstanding guarantees on behalf of the Utility Group of $11.2 million. This amount is included in the total outstanding NU guarantee exposure amount of $990.8 million.

Several underlying contracts that NU guarantees and certain surety bonds contain credit ratings triggers that would require NU to post collateral in the event that NU's credit ratings are downgraded below investment

grade.

NU currently has authorization from the Securities and Exchange Commission (SEC) to provide up to $750 million of guarantees for NU Enterprises through June 30, 2007. The $11.2 million in guarantees to the Utility Group are subject to a separate $50 million SEC limitation apart from the current $750 million guarantee limit. The amount of guarantees outstanding for compliance with the SEC limit for NU Enterprises at September 30, 2004 is $422 million, which is calculated using different, more probabilistic and fair-value based criteria than the maximum level of exposure required to be disclosed under FIN 45. FIN 45 includes all exposures even though they are not reasonably likely to result in exposure to NU.

On October 19, 2004, the SEC authorized NU to issue guarantees of up to an aggregate $100 million through June 30, 2007 of the debt or other obligations of two of its subsidiaries, Northeast Utilities Service Company and Rocky River Realty Company. These companies provide certain specialized support and real estate services to the entire NU system and occasionally enter into transactions that require financial backing from NU parent.

D. Regulatory Accounting

The accounting policies of NUs Utility Group conform to accounting principles generally accepted in the United States of America applicable to rate-regulated enterprises and historically reflect the effects of the rate-making process in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation.

The transmission and distribution businesses of CL&P, WMECO and PSNH, along with PSNHs generation business and Yankee Gas distribution business, continue to be cost-of-service rate regulated, and management believes that the application of SFAS No. 71 to those portions of the aforementioned companies continues to be appropriate. Management also believes that it is probable that NUs Utility Group companies will recover their investments in long-lived assets, including regulatory assets. In addition, all material net regulatory assets are earning an equity return, except for securitized regulatory assets, which are not supported by equity.

Regulatory Assets: The components of regulatory assets are as follows:

	At September 30, 2004			
(Millions of Dollars)	NU Consolidated (1)	CL&P	PSNH	WMECO
Recoverable nuclear costs	$ 54.0	$	$ 30.6	$ 23.4
Securitized assets	1,526.0	1,025.4	432.7	67.9
Income taxes, net	317.3	208.1	39.3	56.8
Unrecovered contractual obligations	352.2	208.3	65.1	78.8
Recoverable energy costs	268.8	61.7	200.7	3.2
Other	284.6	64.7	156.8	10.6
Totals	$2,802.9	$1,568.2	$925.2	$ 240.7

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	At December 31, 2003			
(Millions of Dollars)	NU Consolidated (1)	CL&P	PSNH	WMECO
Recoverable nuclear costs	$ 82.4	$ 16.4	$ 33.3	$ 32.7
Securitized assets	1,664.0	1,123.7	465.3	75.0
Income taxes, net	253.8	140.9	44.2	60.1
Unrecovered contractual obligations	378.6	221.8	69.9	86.9
Recoverable energy costs	255.7	30.1	218.3	3.7
Other	339.5	140.1	138.4	9.8
Totals	$2,974.0	$1,673.0	$969.4	$ 268.2

(1) At September 30, 2004 and December 31, 2003, included in the table are $68.8 million and $63.4 million, respectively, of other regulatory assets, primarily associated with Yankee Gas' income taxes, net and other regulatory assets related to environmental clean-up costs and hardship receivables.

Additionally, NU had approximately $11.6 million and approximately $12 million of regulatory costs at September 30, 2004 and December 31, 2003, respectively, that are included in deferred debits and other assets - other on the accompanying condensed consolidated balance sheets. These amounts represent regulatory costs that have not yet been approved by the applicable regulatory agency. Management believes these assets are recoverable in future rates.

As discussed in Note 4D, “Commitments and Contingencies - Deferred Contractual Obligations,” a substantial portion of the unrecovered contractual obligations regulatory asset has not yet been approved for recovery. At this time management believes that these regulatory assets are probable of recovery.

Regulatory Liabilities: The Utility Group maintained $1.2 billion of regulatory liabilities at both September 30, 2004 and December 31, 2003. These amounts are comprised of the following:

	At September 30, 2004			
(Millions of Dollars)	NU Consolidated (1)	CL&P	PSNH	WMECO
Cost of removal	$ 331.8	$146.7	$ 88.2	$ 24.6
CTA, GSC and SBC overcollections	235.4	235.4	-	-
Cumulative deferral - SCRC	200.6	-	200.6	-
Regulatory liabilities offsetting Utility Group derivative assets	186.4	186.4	-	-
LMP overcollections	61.6	61.6	-	-
Other	148.0	81.3	24.4	6.8
Totals	$1,163.8	$711.4	$313.2	$ 31.4

	At December 31, 2003			
(Millions of Dollars)	NU Consolidated (1)	CL&P	PSNH	WMECO
Cost of removal	$ 334.0	$150.0	$ 88.0	$ 25.0

CTA, GSC and SBC overcollections	333.7	333.7	—	—
Cumulative deferral — SCRC	160.4	—	160.4	—
Regulatory liabilities offsetting Utility Group derivative assets	116.9	115.4	1.5	—
LMP overcollections	83.6	83.6	—	—
Other	135.7	70.3	22.2	2.8
Totals	$1,164.3	$753.0	$272.1	$ 27.8

(1) At September 30, 2004 and December 31, 2003, included in the table are $107.8 million and $111.4 million, respectively, of other regulatory liabilities, associated with Yankee Gas cost of removal, deferred gas costs, pension and other regulatory liabilities.

E. Allowance for Funds Used During Construction

The allowance for funds used during construction (AFUDC) is a non-cash item that is included in the cost of Utility Group utility plant and represents the cost of borrowed and equity funds used to finance construction. The portion of AFUDC attributable to borrowed funds is recorded as a reduction in other interest expense and the cost of equity funds is recorded as other income on the condensed consolidated statements of income:

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	For the Nine Months Ended	
(Millions of Dollars)	September 30, 2004	September 30, 2003
Borrowed funds	$3.1	$4.1
Equity funds	2.2	5.1
Totals	$5.3	$9.2
Average AFUDC rates	3.8%	4.2%

F. Equity-Based Compensation

NU maintains an Employee Stock Purchase Plan and other long-term, equity-based incentive plans under the Northeast Utilities Incentive Plan. NU accounts for these plans under the recognition and measurement principles of Accounting Principles Board Opinion (APB) No. 25, “Accounting for Stock Issued to Employees,” and related interpretations. No equity-based employee compensation cost for stock options is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share (EPS) if NU had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” to equity-based employee compensation:

(Millions of Dollars, except per share amounts)	For the Nine Months Ended September 30, 2004(Restated)	September 30, 2003
Net income, as reported	$83.5	$126.3
Total equity-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effects	1.5	1.4
Pro forma net income	$82.0	$124.9
EPS:		
Basic and fully diluted as reported	$0.65	$ 0.99
Basic and fully diluted pro forma	$0.64	$ 0.98

Net income as reported includes $2.8 million and $1.2 million expensed for restricted stock and restricted stock units for the nine months ended September 30, 2004 and 2003, respectively. NU accounts for restricted stock in accordance with APB No. 25 and amortizes the intrinsic value of the award over the related service period.

NU assumes an income tax rate of 40 percent to estimate the tax effect on total equity-based employee compensation expense determined under the fair value-based method for all awards.

During the nine-month period ended September 30, 2004, no stock options were awarded.

On March 31, 2004, the FASB issued an exposure draft that, if finalized as proposed, would require NU to expense equity-based employee compensation under the fair value-based method. The FASB continues to redeliberate this exposure draft and has deferred the effective date of a final statement to July 1, 2005 from January 1, 2005. A final standard could be issued in the fourth quarter of 2004.

G. Sale of Customer Receivables

CL&P has an arrangement with a financial institution under which CL&P can sell up to $100 million of accounts receivable and unbilled revenues. At September 30, 2004 and December 31, 2003, CL&P had sold accounts receivable of $40 million and $80 million, respectively, to the financial institution with limited recourse through CL&P Receivables Corporation (CRC), a wholly owned subsidiary of CL&P. At September 30, 2004, the reserve requirements calculated in accordance with the related Receivables Purchase and Sale Agreement were $8.7 million. This reserve amount is deducted from the amount of receivables eligible for sale at the time. Concentrations of credit risk to the purchaser under this agreement with respect to the receivables are limited due to CL&Ps diverse customer base within its service territory. At September 30, 2004, the amount of customer receivables sold to CRC by CL&P but not sold to the financial institution totaling $212.5 million are included in investments in securitizable assets on the accompanying condensed consolidated balance sheets. This amount would be excluded from CL&Ps assets in the event of CL&Ps bankruptcy. On July 7, 2004, CL&P renewed the arrangement with the financial institution through July 6, 2005.

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The transfer of receivables to the financial institution under this arrangement qualifies for sale treatment under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities - A Replacement of SFAS No. 125.

H. Other Investments

Yankee Energy System, Inc. (Yankee) maintains a long-term note receivable from BMC Energy LLC (BMC), an operator of renewable energy projects. In late-March 2004, based on revised information that impacts undiscounted cash flow projections and fair value estimates, management determined that the fair value of the note receivable from BMC had declined and that the note was impaired. As a result, management recorded an after-tax investment write-down of $1.5 million ($2.5 million on a pre-tax basis) in the first quarter of 2004.

NU has an investment in the common stock of Acumentrics, a developer of fuel cell and power quality equipment. Based on revised information that affected the fair value of NUs investment, management determined that at June 30, 2004, the value of NUs investment declined and that the decline was other-than-temporary in nature. An after-tax investment write-down of $2.4 million ($3.8 million on a pre-tax basis) was recorded to reduce the carrying value of the investment to $3.8 million. NU also has an investment in Acumentrics debt securities totaling $2.2 million at September 30, 2004.

On June 30, 2004, Yankee sold virtually all of the assets and liabilities of R.M. Services, Inc. (RMS), a provider of consumer collection services, for $3 million. In conjunction with the sale in the second quarter of 2004, an estimated gain totaling $0.6 million was included as a gain from sale of RMS. As a result of adjustments to estimates recorded in conjunction with the sale during the third quarter of 2004, this gain was increased by $0.2 million and totals $0.8 million at September 30, 2004. For the three and six months ended June 30, 2004, RMS was consolidated into NUs condensed consolidated financial statements and had pre-tax losses totaling $0.7 million and $1.7 million, respectively. These amounts are recorded in other income - other, net on the accompanying condensed consolidated statements of income. For the three and six months ended June 30, 2003, which is before RMS was consolidated, Yankee recorded pre-tax investment write-downs totaling $1.1 million and $1.4 million, respectively, related to its investment in RMS.

These charges are included in Note 1L, Summary of Significant Accounting Policies Other Income, and in the Eliminations and Other segment in Note 8, Segment Information, to the condensed consolidated financial statements.

NU has an investment in the common stock of NEON, a provider of optical networking services. On July 19, 2004, NEON and Globix Corporation (Globix) announced a definitive merger agreement in which Globix, an unaffiliated publicly-owned entity would acquire NEON for shares of Globix common stock. If the merger is consummated, then NU would receive 1.2748 shares of Globix common stock for each of the 1.8 million shares of NEON stock it owns. Management continues to evaluate the potential impact of the proposed merger on NUs investment in NEON, which had a carrying value of $9.9 million at September 30, 2004.

NU owns 49 percent of the common stock of Connecticut Yankee (CY) with a carrying value of $21 million at September 30, 2004. CY is involved in litigation over the termination of the decommissioning contract with Bechtel Power Corporation (Bechtel). Management believes that this litigation has not impaired the value of its investment in CY at September 30, 2004 but will continue to evaluate the impact of the litigation on NUs investment. For further information regarding the Bechtel litigation, see Note 4D, Commitments and Contingencies - Deferred Contractual Obligations, to the condensed consolidated financial statements.

I. 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, overdraft amounts are reclassified from cash and cash equivalents to accounts payable.

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J. Special Deposits

Special deposits represents amounts Select Energy has on deposit with unaffiliated counterparties and brokerage firms in the amount of $80.2 million and amounts included in escrow for Select Energy Services, Inc. (SESI) that have not been spent on construction projects of $21.5 million at September 30, 2004. Similar amounts totaled $24.5 million and $32 million, respectively, at December 31, 2003. Special deposits at December 31, 2003 also included $30.1 million in escrow that PSNH funded to acquire Connecticut Valley Electric Company, Inc. on January 1, 2004.

K. Restricted Cash LMP Costs

Restricted cash - LMP costs represented incremental locational marginal pricing (LMP) cost amounts that were collected by CL&P and deposited into an escrow account. At December 31, 2003, restricted cash - LMP costs totaled $93.6 million, and an additional $30 million was deposited in 2004. During the third quarter of 2004, $83 million of the account was paid to CL&Ps standard offer suppliers in accordance with the Federal Energy Regulatory Commission (FERC) approved Standard Market Design (SMD) settlement. The remaining $41 million was released from the escrow account in the third quarter and will be refunded to CL&Ps customers as a credit on bills from September to December of 2004.

L. Other Income

The pre-tax components of NUs other income items are as follows:

	For the Three Months Ended	
(Millions of Dollars)	September 30, 2004	September 30, 2003
Investment income	$ 6.3	$ 5.5
CL&P procurement fee	3.0	
AFUDC equity funds	0.3	1.8
Gain on sale of RMS	0.2	
Charitable donations	(0.4)	(0.4)
Other, net	(1.2)	(2.2)
Totals	$ 8.2	$ 4.7

	For the Nine Months Ended	
(Millions of Dollars)	September 30, 2004	September 30, 2003
Investment write-downs	$ (6.3)	$
Investment income	13.4	13.5
CL&P procurement fee	8.8	
AFUDC equity funds	2.2	5.1
Gain on sale of RMS	0.8	
Charitable donations	(1.7)	(3.1)
Other, net	(4.5)	(9.5)
Totals	$12.7	$ 6.0

M. Counterparty Deposits

Balances collected from counterparties resulting from Select Energys credit management activities totaled $67.4 million at September 30, 2004 and $46.5 million at December 31, 2003. These amounts are recorded as current liabilities and included as counterparty deposits on the accompanying condensed consolidated balance sheets. To the extent Select Energy requires collateral from counterparties, cash is received as a part of the total collateral required. The right to receive such cash collateral in an unrestricted manner is determined by the terms of Select Energys agreements. Key factors affecting the unrestricted status of a portion of this cash collateral include the financial standing of Select Energy and of NU as its credit supporter.

2. DERIVATIVE INSTRUMENTS (NU, CL&P, Select Energy, Yankee Gas)

Derivatives that are utilized for trading purposes are recorded at fair value with changes in fair value included in earnings. Other contracts that are derivatives but do not meet the definition of a cash flow or fair value hedge and cannot be designated as normal purchases or normal sales are also recorded at fair value with changes in fair value included in earnings. For those contracts that meet the definition of a derivative and meet the cash flow hedge requirements, the changes in the fair value of the effective portion of those contracts are generally recognized in accumulated other comprehensive income until the underlying transactions occur. For contracts that meet the definition of a derivative but do not meet the hedging

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requirements, and for the ineffective portion of contracts that meet the cash flow hedge requirements, the changes in fair value of those contracts are recognized currently in earnings. Derivative contracts designated as fair value hedges and the item they are hedging are both recorded at fair value on the condensed consolidated balance sheets. Derivative contracts that are entered into as a normal purchase or sale and are probable of resulting in physical delivery, and are documented as such, are recorded under accrual accounting.

For the nine months ended September 30, 2004, a negative $42.7 million, net of tax, was reclassified as an expense from other comprehensive income in connection with the consummation of the underlying hedged transactions and recognized in earnings. Also during the third quarter of 2004, new cash flow hedge transactions were entered into that hedge cash flows through 2006. As a result of these new transactions and market value changes since January 1, 2004, accumulated other comprehensive income increased by $15.4 million, net of tax. Accumulated other comprehensive income at September 30, 2004, was a positive $40.2 million, net of tax (increase to equity), relating to hedged transactions, and it is estimated that a positive $36 million included in this net of tax balance will be reclassified as an increase to earnings within the next twelve months. Cash flows from hedge contracts are reported in the same category as cash flows from the underlying hedged transaction.

The restatements discussed in Note 9, Restatement of Previously Issued Financial Statements, resulted in $42.7 million being removed from accumulated other comprehensive income and being recognized as a decrease in earnings.

There was no material impact recognized in earnings for the ineffective portion of cash flow hedges. A pre-tax negative $4.2 million was recognized in earnings for the ineffective portion of fair value hedges. The changes in the fair value of both the fair value hedges and the natural gas inventory being hedged are recorded in fuel, purchased, and net interchange power on the accompanying condensed consolidated statements of income.

The tables below summarize the derivative assets and liabilities at September 30, 2004 and December 31, 2003. The business activities of NU Enterprises that result in the recognition of derivative assets include concentrations of credit risk to energy marketing and trading counterparties. At September 30, 2004, Select Energy has $174.4 million of derivative assets from trading, non-trading, and hedging activities. These assets are exposed to counterparty credit risk. However, a significant portion of these assets is contracted with investment grade rated

counterparties or collateralized with cash. The amounts below do not include option premiums paid, which are recorded as prepayments and amounted to $4.4 million and $9.1 million related to energy trading activities and $9 million and $7.6 million related to marketing activities at September 30, 2004 and December 31, 2003, respectively. These amounts also do not include option premiums received, which are recorded as other current liabilities and amounted to $7 million and $12.2 million related to energy trading activities at September 30, 2004 and December 31, 2003, respectively, and $1.9 million related to marketing activities at September 30, 2004.

	At September 30, 2004		
(Millions of Dollars)	Assets	Liabilities	Total
NU Enterprises:			
Trading	$ 94.0	$ (71.0)	$ 23.0
Non-trading	3.3	(76.1)	(72.8)
Hedging	77.1	(10.0)	67.1
Utility Group - Gas:			
Non-trading	0.3	(0.1)	0.2
Hedging	3.0	—	3.0
Utility Group - Electric:			
Non-trading	186.3	(49.4)	136.9
NU Parent:			
Hedging	0.7	—	0.7
Total	$364.7	$ (206.6)	$158.1

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	At December 31, 2003		
(Millions of Dollars)	Assets	Liabilities	Total
NU Enterprises:			
Trading	$ 71.8	$ (39.3)	$ 32.5
Non-trading	1.6	(0.8)	0.8
Hedging	55.8	(12.7)	43.1
Utility Group - Gas:			
Non-trading	0.2	(0.2)	—
Hedging	2.8	—	2.8
Utility Group - Electric:			
Non-trading	116.9	(56.0)	60.9
NU Parent:			
Hedging	—	(3.6)	(3.6)
Total	$249.1	$ (112.6)	$136.5

NU Enterprises - Trading: To gather market intelligence and utilize this information in risk management activities for the wholesale marketing activities, Select Energy conducts limited energy trading activities in electricity,

natural gas, and oil, and therefore, experiences net open positions. Select Energy manages these open positions with strict policies that limit its exposure to market risk and require daily reporting to management of potential financial exposures.

Derivatives used in trading activities are recorded at fair value and included in the condensed consolidated balance sheets as derivative assets or liabilities. Changes in fair value are recognized in operating revenues in the condensed consolidated statements of income in the period of change. The net fair value positions of the trading portfolio at September 30, 2004 and at December 31, 2003 were assets of $23 million and $32.5 million, respectively.

Select Energy's trading portfolio includes New York Mercantile Exchange (NYMEX) futures, financial swaps, and options, the fair value of which is based on closing exchange prices; over-the-counter forwards, financial swaps, and options, the fair value of which is based on the mid-point of bid and ask market prices; and bilateral contracts for the purchase or sale of electricity or natural gas, the fair value of which is determined using available information from external sources. Select Energy's trading portfolio also includes transmission congestion contracts (TCC). The fair value of the TCCs included in the trading portfolio is based on published market data.

NU Enterprises - Non-Trading: Certain non-trading derivative contracts are used for delivery of energy related to Select Energy's wholesale and retail marketing activities. These contracts are subject to fair value accounting because these contracts are derivatives that cannot be designated as normal purchases or sales, as defined. These contracts cannot be designated as normal purchases or sales either because they are included in the New York energy market that settles financially or because management did not elect the normal purchases and sales designation.

Market information for the TCCs classified as non-trading is not available, and those contracts cannot be reliably valued. Management believes the amounts paid for these contracts, which total $5.4 million at September 30, 2004, and $4.3 million at December 31, 2003 and are included in premiums paid, are equal to their fair value.

Other non-trading derivative contracts with September 30, 2004 fair values of negative $73.8 million are used to mitigate the risk of electricity price changes on Select Energy's fixed-price electricity purchase contracts. These derivatives do not meet criteria to be accounted for as cash flow hedges and are accounted for at fair value as non-trading contracts. The contracts are natural gas basis and natural gas futures and swaps contracts with fair values determined by prices provided by external sources and actively quoted markets. Select Energy held none of these contracts at December 31, 2003.

NU Enterprises - Hedging: Select Energy utilizes derivative financial and commodity instruments, including futures and forward contracts, to reduce market risk associated with fluctuations in the price of electricity and natural gas purchased to meet firm sales and purchase commitments to certain customers. Select Energy also utilizes derivatives, including price swap agreements, call and put option contracts, and futures and forward contracts to manage the market risk associated with a portion of its anticipated supply and delivery requirements. These derivatives have been designated as cash flow hedging instruments and are used to reduce the market risk associated with fluctuations in the price of electricity or natural gas. A derivative that hedges exposure to the variable cash flows of a forecasted transaction (a cash flow hedge) is initially recorded at fair value with changes in fair value recorded in accumulated other comprehensive income. Cash flow hedges impact net income when the forecasted transaction being hedged occurs, when hedge ineffectiveness is measured and recorded, when the forecasted transaction being hedged is no longer probable of occurring, or when there is accumulated other comprehensive loss and the hedge and the forecasted transaction being hedged are in a loss position on a combined basis.

Select Energy maintains natural gas service agreements with certain customers to supply gas at fixed prices for terms extending through 2006. Select Energy has hedged its gas supply risk under these agreements through NYMEX futures contracts. Under these contracts, which also extend through 2006, the purchase price of a specified quantity of gas is effectively fixed over the term of the gas service agreements. At September 30, 2004 the NYMEX futures contracts had notional values of $88.3 million and were recorded at fair value as derivative assets of $18.9 million.

Select Energy also maintains various physical and financial instruments to hedge its electric and gas purchases and sales through 2006. These instruments include forwards, futures, options, financial collars, swaps and financial transmission rights (FTRs). These hedging contracts, which are valued at the mid-point of bid and ask market prices, were recorded as derivative assets of $58.2 million and derivative liabilities of $84.5 million at September 30, 2004.

Select Energy hedges certain amounts of natural gas inventory with gas futures, options and swaps, some of which are accounted for as fair value hedges. The changes in fair value of the futures, options and swaps were recorded as derivative liabilities of $0.4 million at September 30, 2004. During the third quarter, a change in the fair value of hedged natural gas inventory of a negative $4.3 million was recorded along with the change in the fair value of the hedge of a positive $0.1 million. In September 2004, certain of these fair value hedges were redesignated as cash flow hedges, and future changes in fair value will be included in other comprehensive income (equity), unless ineffective.

Utility Group - Gas - Non-Trading : Yankee Gas non-trading derivatives consist of peaking supply arrangements to serve winter load obligations and firm sales contracts with options to curtail delivery. These contracts are subject to fair value accounting because these contracts are derivatives that cannot be designated as normal purchases or sales, as defined, because of the optionality in the contract terms. Non-trading derivatives at September 30, 2004 included assets of $0.3 million and liabilities of $0.1 million.

Utility Group - Gas - Hedging: Yankee Gas maintains a master swap agreement with a financial counterparty to purchase gas at fixed prices. Under this master swap agreement, the purchase price of a specified quantity of gas for an unaffiliated customer is effectively fixed over the term of the gas service agreements with that customer for a period not extending beyond 2005. At September 30, 2004 the commodity swap agreement had a notional value of $3.3 million and was recorded at fair value as a derivative asset of $3 million. The firm commitment contract that is hedged is also recorded as a liability on the accompanying condensed consolidated balance sheets, and changes in fair values of the hedge and firm commitment have offsetting impacts in earnings.

Utility Group - Electric - Non-Trading: CL&P has two independent power producer (IPP) contracts to purchase power that contain pricing provisions that are not clearly and closely related to the price of power and therefore do not qualify for the normal purchases and sales exception to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. The fair values of these IPP non-trading derivatives at September 30, 2004 include a derivative asset with a fair value of $186.3 million and a derivative liability with a fair value of $49.4 million. An offsetting regulatory liability and an offsetting regulatory asset were recorded, as these contracts are part of the stranded costs, and management believes that these costs will continue to be recovered or refunded in rates.

NU Parent - Hedging: In March of 2003, NU parent entered into a fixed to floating interest rate swap on its $263 million, 7.25 percent fixed rate note that matures on April 1, 2012. As a matched-terms fair value hedge, the changes in fair value of the swap and the hedged debt instrument are recorded on the condensed consolidated balance sheets but are equal and offsetting in the condensed consolidated statements of income. The cumulative change in the fair value of the hedged debt of $0.7 million is included an increase to long-term debt on the condensed consolidated balance sheets. The hedge is recorded as a derivative asset of $0.7 million. The resulting changes in interest payments made are recorded as adjustments to interest expense.

3. GOODWILL AND OTHER INTANGIBLE ASSETS (Yankee Gas, NU Enterprises)

SFAS No. 142, Goodwill and Other Intangible Assets, requires that goodwill and intangible assets deemed to have indefinite useful lives be reviewed for impairment at least annually by applying a fair value-based test. NU uses October 1st as the annual goodwill impairment testing date. Goodwill impairment is deemed to exist if the

net book value of a reporting unit exceeds its estimated fair value and if the implied fair value of goodwill based on the estimated fair value of the reporting unit is less than the carrying amount. There were no impairments or adjustments to the goodwill balances during the nine-month periods ended September 30, 2004 and 2003.

NUs reporting units that maintain goodwill are generally consistent with the operating segments underlying the reportable segments identified in Note 8, Segment Information, to the condensed consolidated financial statements. Consistent with

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the way management reviews the operating results of its reporting units, NUs reporting units under the NU Enterprises reportable segment include: 1) the merchant energy reporting unit and 2) the energy services reporting unit. The merchant energy reporting unit is comprised of the operations of Select Energy, Northeast Generation Company (NGC) and the generation operations of Holyoke Water Power Company (HWP), while the energy services reporting unit is comprised of the operations of SESI, Northeast Generation Services Company (NGS) and Woods Network Services, Inc. (Woods Network). As a result, NUs reporting units that maintain goodwill are as follows: the Yankee Gas reporting unit, which is classified under the Utility Group - gas reportable segment; the merchant energy reporting unit, which is classified under the NU Enterprises - merchant energy reportable segment; and the energy services reporting unit, which is classified under NU Enterprises - eliminations and other. The goodwill balances of these reporting units are included in the table herein.

At September 30, 2004, NU maintained $319.9 million of goodwill that is no longer being amortized, $11.7 million of identifiable intangible assets subject to amortization and $8.5 million of intangible assets not subject to amortization. At December 31, 2003, NU maintained $319.9 million of goodwill that is no longer being amortized, $14.4 million of identifiable intangible assets subject to amortization and $8.5 million of intangible assets not subject to amortization. A summary of NUs goodwill balances at September 30, 2004 and December 31, 2003, by reportable segment and reporting unit is as follows:

(Millions of Dollars)	At September 30, 2004	At December 31, 2003
Utility Group Gas:		
Yankee Gas	$287.6	$287.6
NU Enterprises:		
Merchant Energy	3.2	3.2
Energy Services	29.1	29.1
Totals	$319.9	$319.9

The goodwill recorded related to the acquisition of Yankee Gas is not being recovered from the customers of Yankee Gas.

At September 30, 2004 and December 31, 2003, NUs intangible assets and related accumulated amortization, all of which related to NU Enterprises, consisted of the following:

	At September 30, 2004

(Millions of Dollars)	Gross Balance	Accumulated Amortization	Net Balance
Intangible assets subject to amortization:			
Exclusivity agreement	$17.7	$ 9.2	$ 8.5
Customer list	6.6	3.4	3.2
Totals	$24.3	$12.6	$11.7
Intangible assets not subject to amortization:			
Customer relationships	$ 5.2		
Tradenames	3.3		
Totals	$ 8.5		

	At December 31, 2003		
(Millions of Dollars)	Gross Balance	Accumulated Amortization	Net Balance
Intangible assets subject to amortization:			
Exclusivity agreement	$17.7	$7.2	$10.5
Customer list	6.6	2.7	3.9
Totals	$24.3	$9.9	$14.4
Intangible assets not subject to amortization:			
Customer relationships	$ 5.2		
Tradenames	3.3		
Totals	$ 8.5		

NU recorded amortization expense of $2.7 million and $2.6 million for the nine months ended September 30, 2004 and 2003, respectively, related to intangible assets. Based on the current amount of intangible assets subject to amortization, the estimated annual amortization expense for 2004 and for each of the succeeding 5 years from 2005 through 2009 is $3.6 million in 2004 through 2007 and no amortization expense in 2008 or 2009. These amounts may vary as acquisitions and dispositions occur in the future.

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4. COMMITMENTS AND CONTINGENCIES

A. Regulatory Issues and Rate Matters (CL&P, PSNH, WMECO)

Connecticut:

CTA and SBC Reconciliation: The Competitive Transition Assessment (CTA) allows CL&P to recover stranded costs, such as securitization costs associated with the rate reduction bonds, amortization of regulatory assets, and IPP over market costs, while the System Benefits Charge (SBC) allows CL&P to recover certain regulatory and energy public policy costs, such as public education outreach costs, hardship protection costs, transition period property taxes, and displaced worker protection costs.

On April 1, 2004, CL&P filed its 2003 CTA and SBC reconciliation with the Connecticut Department of Public Utility Control (DPUC), which compares CTA and SBC revenues to revenue requirements. A final decision in the 2003 CTA and SBC docket was issued on August 4, 2004 and ordered a refund to customers of $88.5 million over a seven-month period beginning with October 2004 consumption.

The DPUC also directed CL&P to impute revenues of $2.7 million during 2004 payable to customers associated with a previously renegotiated IPP contract. On September 15, 2004, CL&P filed an appeal and a motion for partial stay with the Connecticut Superior Court challenging the DPUC s August 4, 2004 decision regarding this contract. The motion for partial stay was granted. On October 15, 2004, CL&P entered into a settlement involving the counterparties to this contract and various other parties. If approved by the DPUC and by the bankruptcy court of one of the counterparties, the DPUC will rescind the imputed revenues order, and CL&P would withdraw its appeal. CL&P is awaiting approvals of the settlement.

In the 2001 CTA and SBC reconciliation filing, and subsequently in a September 10, 2002 petition to reopen related proceedings, CL&P requested that a deferred intercompany liability associated with the intercompany sale of generation assets be excluded from the calculation of CTA revenue requirements. On September 10, 2003, the DPUC issued a final decision denying CL&P s request, and on October 24, 2003, CL&P appealed the DPUC s final decision to the Connecticut Superior Court. The appeal has been fully briefed and is in the argument phase, and a decision from the Connecticut Superior Court could be rendered by the end of 2004. If CL&P s request is granted through these court proceedings, then there could be additional amounts due to CL&P from its customers. The 2004 impact of including the deferred intercompany liability in CTA revenue requirements has been a reduction of approximately $19.3 million in revenue.

New Hampshire:

SCRC Reconciliation Filing: The stranded cost recovery charge (SCRC) allows PSNH to recover its stranded costs. On an annual basis, PSNH files with the New Hampshire Public Utilities Commission (NHPUC) a SCRC reconciliation filing for the preceding calendar year. This filing includes the reconciliation of stranded cost revenues billed with stranded costs, and transition energy service (TS) revenues billed with TS costs. The NHPUC reviews the filing, including a prudence review of PSNH s generation operations. The cumulative deferral of SCRC revenues in excess of costs was $200.6 million at September 30, 2004. This cumulative deferral will decrease the amount of non-securitized stranded costs that will have to be recovered from PSNH s customers in the future from $422.6 million to $222 million.

The 2003 SCRC reconciliation filing was filed with the NHPUC on April 30, 2004, and a proposed stipulation and settlement agreement between PSNH, the Office of Consumer Advocate and NHPUC staff was filed with the NHPUC on October 4, 2004. Under the terms of the settlement agreement, no costs related to the recovery of stranded costs or the cost of providing TS were disallowed, and the NHPUC staff agreed to accept the 2003 SCRC filing without change. On October 29, 2004, the NHPUC issued an order accepting the settlement agreement as filed.

Estimated unbilled revenues are not included in the reconciliation of billed revenues to incurred costs through rate mechanisms for the SCRC and the TS. At September 30, 2004, the unbilled balance related to SCRC and TS was $11.7 million and $16.7 million, respectively. The level of the TS rate will vary from time to time and will continue until it is replaced with Default Energy Service, or some equivalent, which will then continue indefinitely. The SCRC rate is expected to begin decreasing in late 2006. Management will seek from regulators a determination as to the ultimate inclusion of any of this unbilled revenue into billed rates.

Massachusetts:

Transition Cost Reconciliation: On March 31, 2004, WMECO filed its 2003 transition cost reconciliation with the Massachusetts Department of Telecommunications and Energy. This filing reconciled the recovery of generation-related

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stranded costs for calendar year 2003. The timing of a final decision is uncertain, but management does not expect the outcome of this docket to have a material adverse impact on WMECO s net income or financial position.

B. NRG Energy, Inc. Exposures (CL&P, Yankee Gas)

Certain subsidiaries of NU, including CL&P and Yankee Gas, entered into transactions with NRG Energy, Inc. (NRG) and certain of its subsidiaries. On May 14, 2003, NRG and certain of its subsidiaries filed voluntary bankruptcy petitions. On December 5, 2003, NRG emerged from bankruptcy. NU s NRG-related exposures as a result of these transactions relate to 1) the recovery of congestion charges incurred by NRG prior to the implementation of SMD on March 1, 2003, 2) the recovery of CL&P s station service billings from NRG, and 3) the recovery of Yankee Gas and CL&P s expenditures that were incurred related to an NRG subsidiary s generating plant construction project that is now abandoned. While it is unable to determine the ultimate outcome of these issues, management does not expect that their resolution will have a material adverse effect on NU s consolidated financial condition or results of operations.

C. Long-Term Contractual Arrangements (CL&P, PSNH, WMECO, Yankee Gas, and Select Energy)

Select Energy maintains long-term agreements to purchase energy in the normal course of business as part of its portfolio of resources to meet its actual or expected sales commitments. The aggregate amount of these purchase contracts was $5.4 billion at September 30, 2004, as follows (millions of dollars):

Year	
2004	$ 1,460.9
2005	2,914.6
2006	452.7
2007	125.7
2008	89.0
Thereafter	312.5
Total	$ 5,355.4

Select Energy s purchase contract amounts can exceed the amount expected to be reported in fuel, purchased and net interchange power as energy trading purchases are classified net with the corresponding revenues.

The following are material updates to the table of contractual obligations and commercial commitments discussed in NU s 2003 report on Form 10-K:

(Millions of Dollars)	2004	2005	2006	2007	2008	Thereafter
Contracted expenditures for construction of Yankee Gas LNG facility	$ 7.5	$ 30.6	$ 39.3	$ 3.4	$	$
Northern Wood Project	21.6	36.5	5.6			
FERC-approved billings from the Yankee Companies	40.8	92.5	74.4	68.6	60.9	113.5
	$69.9	$159.6	$119.3	$72.0	$60.9	$ 113.5

Certain other estimated construction expenditures totaling $19.2 million related to the Yankee Gas liquefied natural gas (LNG) facility and $11.3 million related to the Northern Wood Project are not included in the contracts signed to build these facilities and are not included in the table above. NU s other long-term contractual arrangements have not changed materially from the amounts reported at December 31, 2003.

D. Deferred Contractual Obligations (NU, CL&P, PSNH, WMECO)

NU still has significant decommissioning and plant closure cost obligations to the companies that own the Yankee Atomic (YA), CY and Maine Yankee (MY) nuclear power plants (collectively, the Yankee Companies). Each plant has been shut down and is undergoing decommissioning.

The Yankee Companies collect decommissioning and closure costs through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including NU s electric utility companies CL&P, PSNH and WMECO. These companies in turn pass these costs on to their customers through state regulatory commission-approved retail rates. YA has received FERC approval to collect all presently estimated decommissioning costs. MY and various other parties filed a settlement agreement with the FERC, which provides for the collection of approximately $27 million annually through October 31, 2008 for all presently estimated decommissioning and long-term spent fuel storage costs. The MY settlement was approved by the FERC on September 16, 2004.

CY s estimated decommissioning and plant closure costs for the period 2000 through 2023 have increased by approximately $395 million over the April 2000 estimate of $436 million approved by the FERC in a 2000 rate case settlement. The revised

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estimate reflects the fact that CY is now self-performing all work to complete the decommissioning of the plant due to the termination of the decommissioning contract with Bechtel in July 2003, the increases in the projected costs of spent fuel storage, and increased security and liability and property insurance costs. NU s share of CY s increase in decommissioning and plant closure costs is approximately $194 million. On July 1, 2004, CY filed with the FERC for recovery of these increased costs. In the filing, CY sought to increase its annual decommissioning collections from $16.7 million to $93 million for a six-year period beginning on January 1, 2005. On August 30, 2004, the FERC issued an order accepting the rates, with collection beginning on February 1, 2005, subject to refund, and scheduled hearings for May 2005. In total, NU s estimated remaining decommissioning and plant closure obligation for CY is $310.2 million at September 30, 2004.

On June 10, 2004, the DPUC and Office of Consumer Counsel (OCC) filed a petition seeking a declaratory order that CY be allowed to recover all decommissioning costs from its wholesale purchasers, including CL&P, PSNH and WMECO, but that such purchasers may not be allowed to recover in their retail rates any costs that the FERC might determine to have been imprudently incurred. On August 30, 2004, the FERC denied this petition. On September 29, 2004, the DPUC and OCC asked the FERC to reconsider the petition. On October 29, 2004, the FERC issued an order granting further consideration regarding the DPUC s and OCC s petition for reconsideration. No hearing date has been established.

CY is currently in litigation with Bechtel over the termination of its decommissioning contract. On June 13, 2003, CY gave notice of the termination of its contract with Bechtel for the decommissioning of its nuclear power plant. CY terminated the contract due to Bechtel s history of incomplete and untimely performance and refusal to perform the remaining decommissioning work. Bechtel has departed the site and the decommissioning responsibility has been transitioned to CY, which has recommenced the decommissioning process.

On June 23, 2003, Bechtel filed a complaint against CY asserting a number of claims and seeking a variety of remedies, including monetary and punitive damages and rescission of the contract. Bechtel has since amended its complaint to add claims for wrongful termination. On August 22, 2003, CY filed its answer and counterclaims, including counts for breach of contract, negligent misrepresentation and breach of duty of good faith and fair dealing. Discovery is currently underway and a trial has been scheduled for May 2006.

On July 20, 2004, the Connecticut Superior Court (the Court) allowed the DPUC to intervene in the prejudgment remedy (PJR) proceeding filed in June 2004 for the limited purpose of objecting to Bechtel s requested garnishment of the decommissioning trust and related payments. On October 27, 2004, Bechtel and CY entered into a stipulation under which Bechtel relinquished its right to seek garnishment of the decommissioning trust and related payments in return for the potential attachment of CY s real property in Connecticut and the escrowing of $41.7 million the sponsors are scheduled to pay to CY through June 30, 2007. This stipulation is subject to approval of the Court and would not be implemented until the Court found that such assets were subject to attachment. CY intends to contest the attachability of such assets. Management cannot predict the outcome of this litigation or its impact on NU.

NU cannot at this time predict the timing or outcome of the FERC proceeding required for the collection of the increased decommissioning costs. Management believes that the costs have been prudently incurred and will ultimately be recovered from the customers of CL&P, PSNH and WMECO. However, there is a risk that some portion of these increased costs may not be recovered, or will have to be refunded if recovered, as a result of the FERC proceedings. NU also cannot predict the timing and the outcome of the litigation with Bechtel.

The Yankee Companies also are seeking recovery of damages from the United States Department of Energy (DOE) for the cost of storing spent nuclear fuel that the DOE has failed to remove. The DOE trial ended on August 30, 2004 and a verdict has not been reached. The related claim for damages from the DOE incurred through 2010 is approximately $500 million. The current Yankee Companies rates do not include an

amount for recovery of damages in this matter. Management can predict neither the outcome of this matter nor its ultimate impact on NU.

For additional current information regarding these issues and litigation with Bechtel, see Part II, Item 1, Legal Proceedings, in this report on Form 10-Q.

E. Consolidated Edison, Inc. Merger Litigation

Certain gain and loss contingencies continue to exist with regard to the 1999 merger agreement between NU and Consolidated Edison, Inc. (Con Edison) and the related litigation. Interrogatory appeals in the case are now pending, and no trial date has been set. At this stage of the litigation, management can predict neither the outcome of this matter nor its ultimate effect on NU. For additional information on this litigation, see Part II, Item 1, Legal Proceedings in this report on Form 10-Q.

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5. COMPREHENSIVE INCOME (NU, CL&P, PSNH, WMECO, NU Enterprises)

Total comprehensive income, which includes all comprehensive income/(loss) items by category, for the nine months ended September 30, 2004 and 2003 is as follows:

	Nine Months Ended September 30, 2004 (Restated - See Note 9)					
	NU	CL&P	PSNH	WMECO	NU Enterprises	Other
Net income*	$83.5	$65.1	$36.0	$ 8.7	$ (20.2)	$(6.1)
Comprehensive income/(loss) items:						
Qualified cash flow hedging instruments	15.4				15.3	0.1
Unrealized losses on securities	(0.6)					(0.6)
Net change in comprehensive income/(loss) items	14.8				15.3	(0.5)
Total comprehensive income/(loss)	$98.3	$65.1	$36.0	$ 8.7	$ (4.9)	$(6.6)

	Nine Months Ended September 30, 2003					
	NU	CL&P	PSNH	WMECO	NU Enterprises	Other
Net income*	$126.3	$59.0	$34.5	$ 13.9	$ 24.0	$(5.1)
Comprehensive income/(loss) items:						
Qualified cash flow hedging instruments	(18.7)				(14.7)	(4.0)
Unrealized losses on securities	1.0	0.1	0.1			0.8

Net change in comprehensive income/(loss) items	(17.7)	0.1	0.1		(14.7)	(3.2)
Total comprehensive income/(loss)	$108.6	$59.1	$34.6	$ 13.9	$ 9.3	$(8.3)

*After preferred dividends of subsidiary.

NU s total comprehensive income for the three months ended September 30, 2004 and 2003 totaled $12.2 million in losses and $34.6 million in income, respectively.

Amounts included in the Other column primarily relate to NU parent and Northeast Utilities Service Company.

Accumulated other comprehensive income fair value adjustments in NU s qualified cash flow hedging instruments for the three and nine months ended September 30, 2004 and the twelve months ended December 31, 2003 are as follows:

(Millions of Dollars, Net of Tax)	Three Months September 30, 2004	Nine Months September 30, 2004	Twelve Months December 31, 2003
Balance at beginning of period	$ 44.1	$ 24.8	$15.5
Hedged transactions recognized into earnings	(15.5)	(42.7)	(5.3)
Change in fair value	8.3	45.0	5.0
Cash flow transactions entered into for the period	3.3	13.1	9.6
Net change associated with the current period hedging transactions	(3.9)	15.4	9.3
Total fair value adjustments included in accumulated other comprehensive income	$ 40.2	$ 40.2	$24.8

Accumulated other comprehensive income items unrelated to NU s qualified cash flow hedging instruments totaled $0.6 million and $1.2 million in gains at September 30, 2004 and December 31, 2003, respectively. These amounts primarily relate to unrealized gains on investments in marketable debt and equity securities, net of related income taxes.

6. EARNINGS PER SHARE (NU)

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 if certain securities are converted into common stock. At September 30, 2004 and 2003, 647,856 options and 2,004,224 options, respectively, were excluded from the following table as these options were antidilutive. The following table sets forth the components of basic and fully diluted EPS:

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(Millions of Dollars, Except for Share Information)	Nine Months Ended September 30, 2004 (Restated)	2003

Income before preferred dividends of subsidiaries	$ 87.7	$ 135.2
Preferred dividends of subsidiaries	4.2	4.2
Income before cumulative effect of accounting change	$ 83.5	$ 131.0
Cumulative effect of accounting change, net of tax benefit		(4.7)
Net income	$ 83.5	$ 126.3
Basic EPS common shares outstanding (average)	128,064,364	126,976,161
Dilutive effects of employee stock options	166,903	110,256
Fully diluted EPS common shares outstanding (average)	128,231,267	127,086,417
Basic and fully diluted EPS:		
Income before cumulative effect of accounting change	$ 0.65	$ 1.03
Cumulative effect of accounting change net of tax benefit		(0.04)
Net income	$ 0.65	$ 0.99

7. PENSION BENEFITS AND POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (All Companies)

NU s subsidiaries participate in a uniform noncontributory defined benefit retirement plan (Pension Plan) covering the majority of regular NU employees and also provide certain health care benefits, primarily medical and dental, and life insurance benefits through a benefit plan to retired employees (PBOP Plan). The components of net periodic benefit expense/(income) for the Pension Plan and the PBOP Plan for the nine months ended September 30, 2004 and 2003 are estimated as follows:

	For the Nine Months Ended September 30,			
	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	2004	2003	2004	2003
Service cost	$ 30.5	$ 26.3	$ 4.5	$ 4.0
Interest cost	89.2	87.7	19.0	20.1
Expected return on plan assets	(131.3)	(136.9)	(9.4)	(11.2)
Amortization of unrecognized net transition (asset)/obligation	(1.1)	(1.1)	8.9	8.9
Amortization of prior service cost	5.4	5.4	(0.3)	(0.3)
Amortization of actuarial loss/(gain)	11.5	(5.3)		
Other amortization, net			8.6	4.8
Total - net periodic expense/(income)	$ 4.2	$ (23.9)	$31.3	$ 26.3

A portion of these expenses/(income) is capitalized related to employees working on capital projects.

NU does not expect to make any contributions to the Pension Plan in 2004. NU anticipates contributing approximately $10.4 million quarterly totaling $41.7 million in 2004 to fund its PBOP Plan.

Based on the most recent actuarial valuation as of January 1, 2004, the impact of the Medicare program has been revised from a $20 million decrease in the PBOP benefit obligation at December 31, 2003 to $27 million at September 30, 2004. The total $27 million decrease consists of $20 million as a direct result of the subsidy for certain non-capped retirees and $7 million related to changes in participation assumptions for capped retirees and future retirees as a result of the subsidy. The total $27 million decrease is currently being amortized as a reduction to PBOP expense over approximately 13 years. For the nine months ended September 30, 2004, this reduction in PBOP expense totaled approximately $2.8 million, including amortization of the actuarial gain of $1.5 million and a reduction in interest cost based on a lower PBOP benefit obligation of $1.3 million.

As a result of litigation with nineteen former employees, in April 2004, NU was ordered by the court to modify its retirement plan to include special retirement benefits for fifteen of these former employees retroactive to the dates of their retirement and increased future monthly benefit payments. In the third quarter, NU withdrew its appeal of the court s ruling. As a consequence, benefits with an estimated cost of $2.1 million will be provided to these fifteen former employees. This amount will be recorded as a plan amendment, which will be amortized as a prior service cost and will increase pension expense over approximately 13 years.

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8. SEGMENT INFORMATION (All Companies)

NU is organized between the Utility Group and NU Enterprises businesses based on a combination of factors, including the characteristics of each business products and services, the sources of operating revenues and expenses and the regulatory environment in which they operate. Based on enhanced information that is reviewed by NU s chief operating decision maker, separate detailed information regarding the Utility Group s transmission businesses and NU Enterprises merchant energy business is now included in the following segment information. Segment information for all periods has been restated to conform to the current presentation except for total asset information for the transmission business segment.

The Utility Group segment, including both the regulated electric distribution and transmission businesses, as well as the gas distribution business comprised of Yankee Gas, represents approximately 69 percent and 73 percent of NU s total revenues for the nine months ended September 30, 2004 and 2003, respectively, and includes the operations of the regulated electric utilities, CL&P, PSNH and WMECO, whose complete condensed consolidated financial statements are included in NU s combined report on Form 10-Q. PSNH s distribution segment includes generation activities. Also included in this combined report on Form 10-Q is detailed information regarding CL&P s, PSNH s, and WMECO s transmission businesses. Utility Group 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 NU Enterprises merchant energy business segment includes Select Energy, NGC, the generation operations of HWP, and their respective subsidiaries, while the NU Enterprises eliminations and other business segment includes SESI, NGS, Woods Network, and their respective subsidiaries and intercompany eliminations. The results of NU Enterprises parent are also included within eliminations and other.

Effective January 1, 2004, Select Energy began serving a portion of CL&P s transitional standard offer (TSO) load for 2004. Total Select Energy revenues from CL&P for CL&P s standard offer load, TSO load and for other transactions with CL&P, represented approximately $474.9 million or 22 percent for the nine months ended September 30, 2004 and approximately $566.2 million or 30 percent for the nine months ended September 30, 2003, of total NU Enterprises revenues. Total CL&P purchases from Select Energy are eliminated in consolidation.

Additionally, WMECO s purchases from Select Energy for standard offer and default service and for other transactions with Select Energy represented approximately $81.5 million and $110.3 million of total NU Enterprises revenues for the nine months ended September 30, 2004 and 2003, respectively. Total WMECO purchases from Select Energy are eliminated in consolidation. Select Energy revenues related to contracts with NSTAR companies represented $251.6 million or 12 percent of total NU Enterprises revenues for the nine months ended September 30, 2004. Select Energy also provides BGS in the New Jersey market. Select Energy revenues related to these contracts represented $238.5 million or 11 percent of total NU Enterprises revenues for the nine months ended September 30, 2004 and $323.6 million or 17 percent for the nine months ended September 30, 2003. No other individual customer represented in excess of 10 percent of NU Enterprises revenues for the nine months ended September 30, 2004 or 2003.

Eliminations and other in the NU consolidated tables includes the results for Mode 1 Communications, Inc., an investor in NEON, the results of the non-energy-related subsidiaries of Yankee (Yankee Energy Services Company, RMS, Yankee Energy Financial Services, and NorConn Properties, Inc.), the non-energy operations of HWP, the results of NU s parent and service companies, and write-downs of certain of the company s investments. Interest expense included in eliminations and other primarily relates to the debt of NU parent. Inter-segment eliminations of revenues and expenses are also included in eliminations and other. Eliminations and other includes NU s investment in RMS. Virtually all of the assets and liabilities of RMS were sold on June 30, 2004.

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NU s segment information for the three months and nine months ended September 30, 2004 and 2003 is as follows (some amounts between segment schedules may not agree due to rounding):

	For the Nine Months Ended September 30, 2004					
	Utility Group					
	Distribution					
(Millions of Dollars)	Electric	Gas	Transmission	NU Enterprises	Eliminations and Other	Totals
Operating revenues	$ 3,061.4	$ 291.4	$ 105.4	$ 2,156.4	$ (583.7)	$ 5,030.9
Depreciation and amortization	(340.2)	(19.4)	(16.2)	(14.5)	(1.7)	(392.0)
Other operating expenses	(2,474.5)	(250.9)	(48.6)	(2,141.3)	580.9	(4,334.4)
Operating income/(loss)	246.7	21.1	40.6	0.6	(4.5)	304.5
Interest expense, net	(118.4)	(12.7)	(8.7)	(39.4)	(10.2)	(189.4)
Other income/(loss), net	10.9	(0.8)	(0.3)	5.3	(2.4)	12.7
Income tax (expense)/benefit	(48.8)	0.9	(8.0)	13.3	2.5	(40.1)
Preferred dividends	(4.2)					(4.2)
Net income/(loss)	$ 86.2	$ 8.5	$ 23.6	$ (20.2)	$ (14.6)	$ (83.5)
Total assets (1)	$ 8,359.6	$ 1,072.8	$	$ 2,110.0	$ (4.7)	$ 11,537.7
Total investments in plant	$ 281.3	$ 37.1	$ 120.9	$ 13.9	$ 10.5	$ 463.7

(1) Information for segmenting total assets between electric distribution and transmission is not available at September 30, 2004. On a NU consolidated basis, these distribution and transmission assets are disclosed in the electric distribution column above.

	For the Three Months Ended September 30, 2004					
	Utility Group					
	Distribution					
(Millions of Dollars)	Electric	Gas	Transmission	NU Enterprises	Eliminations and Other	Totals
Operating revenues	$ 1,037.7	$ 48.2	$ 40.8	$ 739.0	$ (197.7)	$ 1,668.0
Depreciation and amortization	(124.9)	(6.6)	(6.1)	(4.9)	(0.7)	(143.2)
Other operating expenses	(827.8)	(45.7)	(18.3)	(795.4)	197.9	(1,489.3)
Operating income/(loss)	85.0	(4.1)	16.4	(61.3)	(0.5)	35.5

Interest expense, net	(39.2)	(4.3)	(3.0)	(13.5)	(3.5)	(63.5)
Other income/(loss), net	3.9	(0.2)	(0.2)	2.4	2.3	8.2
Income tax (expense)/benefit	(17.9)	5.0	(2.2)	29.4	(1.0)	13.3
Preferred dividends	(1.4)					(1.4)
Net income/(loss)	$ 30.4	$ (3.6)	$ 11.0	$ (43.0)	$ (2.7)	$ (7.9)

	For the Nine Months Ended September 30, 2003					
	Utility Group					
	Distribution					
(Millions of Dollars)	Electric	Gas	Transmission	NU Enterprises	Eliminations and Other	Totals
Operating revenues	$ 2,998.5	$ 253.7	$ 88.5	$ 1,903.4	$ (689.8)	$ 4,554.3
Depreciation and amortization	(358.4)	(17.2)	(13.9)	(14.8)	(1.7)	(406.0)
Other operating expenses	(2,372.0)	(219.1)	(39.4)	(1,814.3)	688.4	(3,756.4)
Operating income/(loss)	268.1	17.4	35.2	74.3	(3.1)	391.9
Interest expense, net	(125.5)	(9.9)	(3.9)	(36.6)	(10.5)	(186.4)
Other income/(loss), net	2.2	(1.4)	(0.1)	4.2	1.1	6.0
Income tax (expense)/benefit	(54.8)	(2.7)	(9.6)	(17.9)	8.7	(76.3)
Preferred dividends	(4.2)					(4.2)
Income/(loss) before cumulative effect of accounting change	85.8	3.4	21.6	24.0	(3.8)	131.0
Cumulative effect of accounting change, net of tax benefit					(4.7)	(4.7)
Net income/(loss)	$ 85.8	$ 3.4	$ 21.6	$ 24.0	$ (8.5)	$ 126.3
Total investments in plant	$ 255.3	$ 37.4	$ 64.5	$ 12.2	$ 12.5	$ 381.9

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For the Three Months Ended September 30, 2003

	Utility Group					
	Distribution					
(Millions of Dollars)	Electric	Gas	Transmission	NU Enterprises	Eliminations and Other	Totals
Operating revenues	$ 1,104.5	$ 30.6	$ 32.7	$ 735.3	$ (263.1)	$ 1,640.0
Depreciation and amortization	(132.3)	(5.8)	(4.7)	(4.6)	(0.6)	(148.0)
Other operating expenses	(871.5)	(19.5)	(11.6)	(707.2)	245.1	(1,364.7)
Operating income/(loss)	100.7	5.3	16.4	23.5	(18.6)	127.3
Interest expense, net	(41.7)	(3.4)	(1.1)	(13.5)	(3.7)	(63.4)
Other income/(loss), net	2.7	(0.4)		1.3	1.1	4.7
Income tax (expense)/benefit	(23.3)	(11.1)	(5.5)	(4.4)	21.0	(23.3)
Preferred dividends	(1.4)					(1.4)
Income/(loss) before cumulative effect of accounting change	37.0	(9.6)	9.8	6.9	(0.2)	43.9
Cumulative effect of accounting change, net of tax benefit					(4.7)	(4.7)
Net income/(loss)	$ 37.0	$ (9.6)	$ 9.8	$ 6.9	$ (4.9)	$ 39.2

Utility Group segment information related to the regulated electric distribution and transmission businesses for CL&P, PSNH and WMECO for the three months and nine months ended September 30, 2004 and 2003 is as follows:

	CL&P - For the Nine Months Ended September 30, 2004		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 2,083.4	$ 69.9	$ 2,153.3
Depreciation and amortization	(170.5)	(11.4)	(181.9)
Other operating expenses	(1,761.0)	(32.0)	(1,793.0)
Operating income	151.9	26.5	178.4
Interest expense, net	(75.4)	(6.3)	(81.7)
Other income, net	15.3	(0.2)	15.1
Income tax expense	(38.0)	(4.5)	(42.5)
Preferred dividends	(4.2)		(4.2)
Net income	$ 49.6	$ 15.5	$ 65.1
Total investments in plant	$ 180.1	$ 98.9	$ 279.0

	CL&P - For the Three Months Ended September 30, 2004		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 699.4	$ 26.1	$ 725.5
Depreciation and amortization	(56.9)	(3.9)	(60.8)
Other operating expenses	(587.9)	(11.9)	(599.8)
Operating income	54.6	10.3	64.9
Interest expense, net	(24.6)	(2.3)	(26.9)
Other income, net	5.2	(0.1)	5.1

Income tax expense	(19.2)	(0.8)	(20.0)
Preferred dividends	(1.4)		(1.4)
Net income	$ 14.6	$ 7.1	$ 21.7

	CL&P - For the Nine Months Ended September 30, 2003		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 2,061.3	$ 57.7	$ 2,119.0
Depreciation and amortization	(225.6)	(10.4)	(236.0)
Other operating expenses	(1,681.9)	(26.1)	(1,708.0)
Operating income	153.8	21.2	175.0
Interest expense, net	(82.1)	(2.8)	(84.9)
Other income, net	4.8	(0.2)	4.6
Income tax expense	(26.8)	(4.7)	(31.5)
Preferred dividends	(4.2)		(4.2)
Net income	$ 45.5	$ 13.5	$ 59.0
Total investments in plant	$ 176.5	$ 45.9	$ 222.4

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	CL&P - For the Three Months Ended September 30, 2003		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 775.8	$ 22.1	$ 797.9
Depreciation and amortization	(76.6)	(3.5)	(80.1)
Other operating expenses	(639.1)	(7.5)	(646.6)
Operating income	60.1	11.1	71.2
Interest expense, net	(27.4)	(0.8)	(28.2)
Other income, net	2.6		2.6
Income tax expense	(11.3)	(3.9)	(15.2)
Preferred dividends	(1.4)		(1.4)
Net income	$ 22.6	$ 6.4	$ 29.0

	PSNH - For the Nine Months Ended September 30, 2004		
(Millions of Dollars)	Distribution	Transmission	Totals

Operating revenues	$ 705.3	$ 24.2	$ 729.5
Depreciation and amortization	(139.6)	(3.4)	(143.0)
Other operating expenses	(493.0)	(11.4)	(504.4)
Operating income	72.7	9.4	82.1
Interest expense, net	(32.6)	(1.3)	(33.9)
Other income, net	(3.3)	(0.1)	(3.4)
Income tax expense	(6.7)	(2.1)	(8.8)
Net income	$ 30.1	$ 5.9	$ 36.0
Total investments in plant	$ 70.5	$ 18.3	$ 88.8

	PSNH - For the Three Months Ended September 30, 2004		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 247.7	$ 11.2	$ 258.9
Depreciation and amortization	(58.1)	(1.7)	(59.8)
Other operating expenses	(164.2)	(4.5)	(168.7)
Operating income	25.4	5.0	30.4
Interest expense, net	(11.1)	(0.5)	(11.6)
Other income, net	(1.2)		(1.2)
Income tax expense	1.4	(0.8)	0.6
Net income	$ 14.5	$ 3.7	$ 18.2

	PSNH - For the Nine Months Ended September 30, 2003		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 650.8	$ 19.3	$ 670.1
Depreciation and amortization	(81.9)	(2.2)	(84.1)
Other operating expenses	(481.5)	(8.7)	(490.2)
Operating income	87.4	8.4	95.8
Interest expense, net	(33.8)	(0.7)	(34.5)
Other income, net	(3.6)		(3.6)
Income tax expense	(20.4)	(2.8)	(23.2)
Net income	$ 29.6	$ 4.9	$ 34.5
Total investments in plant	$ 59.6	$ 17.3	$ 76.9

	PSNH - For the Three Months Ended September 30, 2003		
(Millions of Dollars)	Distribution	Transmission	Totals

Operating revenues	$ 229.4	$ 6.6	$ 236.0
Depreciation and amortization	(39.1)	(0.8)	(39.9)
Other operating expenses	(158.8)	(2.5)	(161.3)
Operating income	31.5	3.3	34.8
Interest expense, net	(11.3)	(0.2)	(11.5)
Other income, net	(1.2)		(1.2)
Income tax expense	(8.5)	(1.0)	(9.5)
Net income	$ 10.5	$ 2.1	$ 12.6

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	WMECO - For the Nine Months Ended September 30, 2004		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 272.9	$ 11.3	$ 284.2
Depreciation and amortization	(30.1)	(1.4)	(31.5)
Other operating expenses	(220.7)	(5.2)	(225.9)
Operating income	22.1	4.7	26.8
Interest expense, net	(10.3)	(1.0)	(11.3)
Other income, net	(1.1)	(0.1)	(1.2)
Income tax expense	(4.1)	(1.5)	(5.6)
Net income	$ 6.6	$ 2.1	8.7
Total investments in plant	$ 21.6	$ 3.7	$ 25.3

	WMECO - For the Three Months Ended September 30, 2004		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 90.7	$ 3.5	$ 94.2
Depreciation and amortization	(10.0)	(0.5)	(10.5)
Other operating expenses	(75.7)	(1.9)	(77.6)
Operating income	5.0	1.1	6.1
Interest expense, net	(3.4)	(0.3)	(3.7)
Other income, net	(0.2)	(0.1)	(0.3)
Income tax expense	(0.1)	(0.5)	(0.6)

Net income	$ 1.3	$ 0.2	$ 1.5

	WMECO - For the Nine Months Ended September 30, 2003		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 286.3	$ 11.5	$ 297.8
Depreciation and amortization	(50.7)	(1.3)	(52.0)
Other operating expenses	(208.7)	(4.6)	(213.3)
Operating income	26.9	5.6	32.5
Interest expense, net	(9.6)	(0.4)	(10.0)
Other income, net	1.0		1.0
Income tax expense	(7.6)	(2.0)	(9.6)
Net income	$ 10.7	$ 3.2	$ 13.9
Total investments in plant	$ 19.2	$ 1.3	$ 20.5

	WMECO - For the Three Months Ended September 30, 2003		
(Millions of Dollars)	Distribution	Transmission	Totals
Operating revenues	$ 99.3	$ 4.1	$ 103.4
Depreciation and amortization	(16.6)	(0.5)	(17.1)
Other operating expenses	(73.5)	(1.7)	(75.2)
Operating income	9.2	1.9	11.1
Interest expense, net	(3.0)	(0.1)	(3.1)
Other income, net	1.2		1.2
Income tax expense	(3.4)	(0.6)	(4.0)
Net income	$ 4.0	$ 1.2	$ 5.2

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NU Enterprises segment information for the three months and nine months ended September 30, 2004 and 2003 is as follows. Eliminations are included in the services and other column:

	NU Enterprises - For the Nine Months Ended September 30, 2004
	Services

(Millions of Dollars)	Merchant Energy	and Other	Totals
Operating revenues	$ 1,949.1	$ 207.3	$ 2,156.4
Depreciation and amortization	(13.0)	(1.5)	(14.5)
Other operating expenses	(1,934.5)	(206.8)	(2,141.3)
Operating income	1.6	(1.0)	0.6
Interest expense, net	(32.8)	(6.6)	(39.4)
Other (loss)/income, net	(0.1)	5.4	5.3
Income tax expense	12.4	0.9	13.3
Net loss	$ (18.9)	$ (1.3)	$ (20.2)
Total assets	$ 1,793.3	$ 320.4	$ 2,113.7
Total investments in plant	$ 13.0	$ 0.9	$ 13.9

	NU Enterprises - For the Three Months Ended September 30, 2004		
(Millions of Dollars)	Merchant Energy	Services and Other	Totals
Operating revenues	$ 664.1	$ 74.9	$ 739.0
Depreciation and amortization	(4.4)	(0.5)	(4.9)
Other operating expenses	(721.8)	(73.6)	(795.4)
Operating (loss)/income	(62.1)	0.8	(61.3)
Interest expense, net	(11.2)	(2.3)	(13.5)
Other income, net		2.4	2.4
Income tax benefit/(expense)	29.6	(0.2)	29.4
Net (loss)/income	$ (43.7)	$ 0.7	$ (43.0)

	NU Enterprises - For the Nine Months Ended September 30, 2003		
(Millions of Dollars)	Merchant Energy	Services and Other	Totals
Operating revenues	$ 1,731.1	$ 172.3	$ 1,903.4
Depreciation and amortization	(13.2)	(1.6)	(14.8)
Other operating expenses	(1,646.0)	(168.3)	(1,814.3)
Operating income	71.9	2.4	74.3
Interest expense, net	(31.2)	(5.4)	(36.6)
Other (loss)/income, net	(2.5)	6.7	4.2
Income tax expense	(15.9)	(2.0)	(17.9)
Net income	$ 22.3	$ 1.7	$ 24.0
Total investments in plant	$ 12.2	$	$ 12.2

	NU Enterprises - For the Three Months Ended September 30, 2003		
(Millions of Dollars)	Merchant Energy	Services and Other	Totals
Operating revenues	$ 675.9	$ 59.4	$ 735.3
Depreciation and amortization	(4.5)	(0.1)	(4.6)
Other operating expenses	(648.6)	(58.6)	(707.2)
Operating income	22.8	0.7	23.5
Interest expense, net	(11.2)	(2.3)	(13.5)
Other (loss)/income, net	(0.3)	1.6	1.3
Income tax expense	(4.4)		(4.4)
Net income	$ 6.9	$	$ 6.9

9. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS *(NU, Select Energy)*

Subsequent to the filing of the Form 10-Q for the quarter ended September 30, 2004, NU concluded that it incorrectly applied accrual accounting for certain natural gas contracts established by the merchant energy segment to mitigate the risk of electricity purchased in anticipation of winning certain levels of wholesale electric load in New England. NU concluded that

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fair value accounting for the aforementioned natural gas derivative contracts should have been applied. To correct this error, NU restated its condensed consolidated balance sheet as of September 30, 2004, the condensed consolidated statements of income for the three and nine months ended September 30, 2004, and the condensed consolidated statement of cash flows and the condensed consolidated statement of comprehensive income for the nine months ended September 30, 2004. NU has also restated the notes to its condensed consolidated financial statements as necessary to reflect the adjustments.

For December 31, 2003 amounts, corrections have been made to cash and cash equivalents, unrestricted cash from counterparties, special deposits and accounts payable, which had no impact on net income. These corrections reclassified unrestricted cash from counterparties to cash and cash equivalents because those funds are unrestricted and were used to or were available to fund the company s operations. The December 31, 2003 condensed consolidated balance sheet has been restated for these corrections and a correction to decrease derivative assets and liabilities by the same amount in order to eliminate certain intercompany derivative assets and liabilities.

The effects of the revisions on the condensed consolidated balance sheets as of September 30, 2004, and December 31, 2003, the condensed consolidated statements of income and the condensed consolidated statement of comprehensive income for the three and nine months ended September 30, 2004, and the condensed consolidated statement of cash flows for the nine months ended September 30, 2004 are summarized in the following tables (in thousands, except share information):

Condensed Consolidated Balance Sheets	At September 30, 2004	
	Previously Reported	As Restated
Derivative assets	$ 368,470	$ 364,707
Derivative liabilities	207,656	206,557

Accumulated deferred income taxes	1,403,816	1,404,391
Retained earnings	879,153	833,237
Accumulated other comprehensive (loss)/income	(1,923)	40,754

	At December 31, 2003	
	Previously Reported	As Restated
Cash and cash equivalents	$ 37,196	$ 43,372
Unrestricted cash from counterparties	46,496	
Special deposits	86,636	79,120
Derivative assets	301,194	249,117
Accounts payable	768,783	728,463
Derivative liabilities	164,689	112,612

Condensed Consolidated Statements of Income	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
	Previously Reported	As Restated	Previously Reported	As Restated
Fuel, purchased and net interchange power	$ 1,031,540	$ 1,107,113	$ 3,123,051	$ 3,196,842
Income/(loss) before income tax expense/(benefit)	55,827	(19,746)	201,665	127,874
Income tax expense/(benefit)	15,320	(13,228)	68,054	40,179
Income/(loss) before preferred dividends of subsidiaries	40,507	(6,518)	133,611	87,695
Income/(loss) before cumulative effect of accounting change	39,117	(7,908)	129,442	83,526
Net income/(loss)	$ 39,117	$ (7,908)	$ 129,442	$ 83,526
Basic and fully diluted earnings/(loss) per common share:				
Income/(loss) before cumulative effect of accounting change	$ 0.30	$ (0.06)	$ 1.01	$ 0.65
Basic and fully diluted earnings/(loss) per common share	$ 0.30	$ (0.06)	$ 1.01	$ 0.65

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Condensed Consolidated Statement of Cash Flows	Nine Months Ended September 30, 2004	
	Previously Reported	As Restated
Income before preferred dividends of subsidiary	$ 133,611	$ 87,695
Adjustments to reconcile net cash flows provided by operating activities:		
Mark-to-market on natural gas contracts		45,916
Other sources of cash	61,451	62,026
Other current assets	(82,874)	(85,163)
Accounts payable	(24,769)	(23,904)

Accrued taxes	(47,023)	(48,487)
Other current liabilities	73,883	69,545
Other operating activities	417,856	417,856
Net cash flows provided by operating activities	532,135	525,484
Net increase in cash and cash equivalents	61,131	54,980
Cash and cash equivalents - beginning of period	$ 36,721	$ 43,372

Additionally, NU s total comprehensive income for the three and nine months ended September 30, 2004, which was previously reported as $9.4 million in losses and $98.4 million, respectively, has been restated and now totals $12.2 million in losses and $98.3 million, respectively.

Condensed Consolidated Statement of Comprehensive Income	Nine Months Ended September 30, 2004	
	Previously Reported	As Restated
Net income	$ 129.4	$ 83.5
Comprehensive income/(loss) items:		
Qualified cash flow hedging instruments	(30.4)	15.4
Unrealized loss on securities	(0.6)	(0.6)
Net change in comprehensive income/(loss) items	(31.0)	14.8
Total comprehensive income	$ 98.4	$ 98.3

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NORTHEAST UTILITIES AND SUBSIDIARIES

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

FORM 10-Q/A EXPLANATORY NOTE

Subsequent to the filing of the Form 10-Q for the quarter ended September 30, 2004, NU concluded that it incorrectly applied accrual accounting for certain natural gas contracts established by the merchant energy segment to mitigate the risk of electricity purchased in anticipation of winning certain levels of wholesale electric load in New England. NU concluded that fair value, or mark-to-market, accounting should have been applied. To correct this error, NU restated its condensed consolidated balance sheet as of September 30, 2004, the condensed consolidated statements of income for the three and nine months ended September 30, 2004, and the condensed consolidated statement of cash flows for the nine months ended September 30, 2004. NU has also restated the notes to its condensed consolidated financial statements as necessary to reflect the adjustments.

For December 31, 2003 amounts, corrections have been made to cash and cash equivalents, unrestricted cash from counterparties, special deposits and accounts payable, which had no impact on net income. These corrections reclassified unrestricted cash from counterparties to cash and cash equivalents because those funds are unrestricted and were used to or were available to fund the company s operations. The December 31, 2003 condensed consolidated balance sheet has been restated for these corrections and a correction to decrease derivative assets and liabilities by the same amount in order to eliminate certain intercompany derivative assets and liabilities. For information regarding this

restatement and the effects on significant financial statement line items, see Note 9, Restatement of Previously Issued Financial Statements, to the condensed consolidated financial statements. This Management s Discussion and Analysis of Financial Condition and Results of Operations gives effect to this restatement.

This amendment does not otherwise reflect events occurring after the filing of the Original Form 10-Q, which was filed on November 5, 2004. Such events include, among others, the events described in NU s current reports on Form 8-K filed after the filing of the Original Form 10-Q, except for those reports pertaining to this subject matter. Earnings guidance is not included in this Form 10-Q/A. For information regarding NU s most recent earnings guidance, see the current reports on Form 8-K dated January 26, 2005 and February 4, 2005.

This discussion should be read in conjunction with the condensed consolidated financial statements and footnotes in this Form 10-Q/A, the First Quarter 2004 Form 10-Q, the Second Quarter 2004 report on Form 10-Q/A, the NU 2003 Form 10-K, and the current reports on Form 8-K disclosed in Part II, Item 6, Other Information - Exhibits and Reports on Form 8-K, included in this report on Form 10-Q/A. All per share amounts are reported on a fully diluted basis.

FINANCIAL CONDITION AND BUSINESS ANALYSIS

Executive Summary

The following items in this executive summary are explained in more detail in this report on Form 10-Q:

Results and Outlook:

Earnings at Northeast Utilities (NU or the company) decreased by $47.1 million in the third quarter of 2004 compared with the same period of 2003, and decreased by $42.8 million for the first nine months of 2004 compared with the first nine months of 2003. The results for the third quarter of 2004 include the negative after-tax impact of $47 million related to the mark-to-market accounting for certain natural gas contracts established to mitigate the risk of electricity purchased in anticipation of wining certain levels of wholesale electric load in New England. Results in the third quarter of 2003 included a negative cumulative effect of an accounting change of $4.7 million associated with NU s former investment in a bill collection company.

Retail electric sales decreased 4.9 percent in the third quarter of 2004 compared with the third quarter of 2003 primarily as a result of the 2003 positive unbilled revenue adjustments. Absent these adjustments, revenues were virtually unchanged in the third quarter of 2004, compared with 2003. On a weather-adjusted basis, sales increased 2.8 percent as a result of improved economic conditions.

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Regulatory Items:

On August 4, 2004, the Connecticut Department of Public Utility Control (DPUC) issued a final decision on The Connecticut Light and Power Company s (CL&P) petition for reconsideration of the DPUC s December 2003 rate order in CL&P s distribution rate case. This decision had a $6 million positive impact on CL&P s earnings in the third quarter of 2004.

The City of Norwalk, Connecticut appealed the July 14, 2003 Connecticut Citing Council approval of the construction of a 345,000-volt transmission line from Bethel, Connecticut to Norwalk, Connecticut. On August 19, 2004, a Connecticut Superior Court judge dismissed the City of Norwalk s appeal.

A settlement agreement was approved on September 2, 2004 by the New Hampshire Public Utilities Commission (NHPUC) to raise Public Service Company of New Hampshire s (PSNH) retail distribution rates by $3.5 million annually, effective on October 1, 2004 and $10 million annually, effective on June 1, 2005.

On September 3, 2004, the DPUC approved the application of Yankee Gas Services Company (Yankee Gas) to construct a liquefied natural gas (LNG) storage facility in Waterbury, Connecticut, capable of storing the equivalent of 1.2 billion cubic feet of natural gas, with an estimated cost of approximately $100 million.

On September 15, 2004, the Federal Energy Regulatory Commission (FERC) approved a settlement agreement allowing the transmission business to implement a formula rate with an 11.0 percent return on equity (ROE). This ROE will remain in effect until the FERC establishes an ROE for a New England regional transmission organization (RTO).

On October 14, 2004, Yankee Gas filed a settlement agreement between Yankee Gas, the Office of Consumer Counsel (OCC) and the Prosecutorial Division of the DPUC in its rate case proceeding.

Liquidity:

On July 22, 2004, PSNH issued $50 million of 10-year first mortgage bonds at a fixed interest rate of 5.25 percent.

On September 17, 2004, CL&P issued $280 million of 10-year and 30-year first mortgage bonds at fixed interest rates of 4.8 percent and 5.75 percent, respectively.

On September 23, 2004, Western Massachusetts Electric Company (WMECO) issued $50 million of 30-year senior unsecured notes at a fixed interest rate of 5.9 percent.

NU s capital expenditures continue to be lower than initially projected for 2004. NU s capital expenditures totaled $463.7 million for the first nine months of 2004, compared with $381.9 million for the first nine months of 2003. NU s 2004 capital spending is now projected to total $638.4 million compared with the 2004 budget amount of $738 million. The lower projected capital spending amount is due primarily to delays in approvals of major transmission capital projects.

CL&P is required to return to customers past overcollections, including $88.5 million of Competitive Transition Assessment (CTA) and System Benefits Charge (SBC) amounts to be returned from October 2004 through April 2005, and $75 million of previously collected Standard Market Design (SMD) costs to be returned from September 2004 through December 2004. Also, $30 million of previous Generation Service Charge (GSC) overrecoveries each year will be used to recover costs in the years 2004 through 2007.

Overview

Consolidated: NU lost $7.9 million, or $0.06 per share, in the third quarter of 2004, compared with earnings of $39.2 million, or $0.31 per share, in the third quarter of 2003. For the first nine months of 2004, NU earned $83.5 million, or $0.65 per share, compared with $126.3 million, or $0.99 per share in the same period of 2003. Earnings in 2004 include the negative after-tax impact of $47 million related to the mark-to-market accounting for certain natural gas contracts. Earnings in 2003 included a cumulative effect of an accounting change of $4.7 million, or $0.04 per share, associated with NU s former investment in a bill collection company.

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A summary of NU s earnings/(losses) by major business for the third quarter and first nine months of 2004 and 2003 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions of Dollars)	2004	2003	2004	2003
Utility Group	$ 37.8	$ 37.2	$118.3	$110.8
NU Enterprises	(43.0)	6.9	(20.2)	24.0
Parent and other	(2.7)	(4.9)	(14.6)	(8.5)
Net (loss)/income	$ (7.9)	$ 39.2	$ 83.5	$126.3

NU s revenues during the first nine months of 2004 increased to $5 billion from $4.5 billion in the same period of 2003. The increase in revenues was primarily due to an increase of $377 million in revenues at NU Enterprises. This increase is the result of $171 million in higher revenues due to higher electric and gas prices and more of NU Enterprises revenues coming from companies that are not NU subsidiaries. An increase in

volumes accounted for the remainder of that increase.

Utility Group: The Utility Group is comprised of CL&P, PSNH, WMECO, and Yankee Gas. Earnings at the Utility Group increased by $0.6 million in the third quarter of 2004 compared with the same period of 2003, and increased by $7.5 million for the first nine months of 2004 compared with the first nine months of 2003. The increase in earnings for the first nine months of 2004 was primarily due to increases in CL&P s retail rates and an overall lower Utility Group effective tax rate due to adjustments to tax reserves totaling $2.8 million as a result of the actual 2003 tax return amounts being compared to the 2003 year end tax provision estimates in the third quarter of 2004. The CL&P rate case reconsideration decision also had a positive impact on third quarter and year-to-date earnings. Those improvements were partially offset by lower pension income and higher interest and depreciation expense. A summary of Utility Group earnings/(losses) by company for the third quarter and first nine months of 2004 and 2003 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions of Dollars)	2004	2003	2004	2003
CL&P *	$ 21.7	$ 29.0	$ 65.1	$ 59.0
PSNH	18.2	12.6	36.0	34.5
WMECO	1.5	5.2	8.7	13.9
Yankee Gas	(3.6)	(9.6)	8.5	3.4
Net income	$ 37.8	$ 37.2	$118.3	$110.8

* After preferred dividends.

CL&P s third quarter 2004 earnings were lower than the same period of 2003 primarily due to the absence of the positive 2003 adjustment to the estimate of unbilled revenues and milder weather in the third quarter of 2004. CL&P s higher year-to-date earnings resulted from distribution and transmission rate increases that took effect January 1, 2004. These higher retail rates were offset by higher depreciation expense and lower pension income. CL&P also benefited from the final decision on the reconsideration of CL&P s rate case, which had a third quarter 2004 positive pre-tax impact of approximately $10.2 million (approximately $6 million after-tax). The positive earnings impact included the recovery of $9.4 million in pension assets that were written off in the fourth quarter of 2003.

PSNH earnings were higher for the third quarter and year-to-date 2004, compared with the same period of 2003, primarily as a result of a lower effective tax rate. The lower effective tax rate is due to adjustments to tax reserves totaling a positive $5.4 million recorded in the third quarter of 2004 as a result of the actual 2003 tax return amounts being compared to the 2003 year end tax provision estimates. The lower effective tax rate is also due to the allocation of certain parent company tax benefits to PSNH in accordance with the NU tax allocation agreement. Under its tax allocation agreement, more tax benefits were allocated from NU parent to the Utility Group, including PSNH, in 2004 than in 2003.

WMECO s third quarter and year-to-date earnings were lower due to lower pension income and higher interest and depreciation expense, offset by a lower effective tax rate.

Yankee Gas third quarter and year-to-date 2004 results benefited from the absence of a negative $5.1 million adjustment to the estimate of unbilled revenues in the third quarter of 2003 and the reduction in income tax expense due to changes in estimates of deferred taxes associated with Yankee Gas plant assets that were recorded in the second quarter of 2004. Year-to-date results were also positively impacted by a change in rate design implemented in August 2003. Yankee Gas current rate design is intended to recover more costs based on stable, fixed monthly charges rather than based on variable, usage-based charges as was the rate design in place earlier in 2003. That shift from more variable to more fixed charges has reduced quarterly earnings in the higher-use first and fourth quarters and improved quarterly results in the lower-use second and third quarters compared to Yankee Gas previous rate design.

Included in Utility Group earnings are earnings related to the transmission business. Transmission business earnings were $11 million in the third quarter of 2004 and $23.6 million for the first nine months of the year compared with earnings of $9.8 million in the third quarter of 2003 and $21.6 million for the first nine months of 2003. Transmission business earnings for the periods in 2004 are higher than the same periods in 2003 primarily due to higher revenues. Transmission revenues are higher in 2004 due to the implementation of a FERC approved formula rate resulting in increased rates. In the first nine months of 2004, $85 million of transmission projects were placed in service. The formula rate allows immediate recovery of these costs. During the first nine months of 2003, revenues were not subject to this formula rate.

NU Enterprises: NU Enterprises, Inc. is the parent company of Northeast Generation Company (NGC), Northeast Generation Services Company (NGS), Select Energy, Inc. (Select Energy), Select Energy Services, Inc. (SESI) and their respective subsidiaries, and Woods Network Services, Inc. (Woods Network), all of which are collectively referred to as NU Enterprises. The generation operations of Holyoke Water Power Company (HWP) are also included in the results of NU Enterprises. The companies included in the NU Enterprises segment are grouped into two business segments: the merchant energy segment and the energy services business segment. The merchant energy business segment is comprised of Select Energy s wholesale business, which includes approximately 1,293 megawatts (MW) of pumped storage and hydroelectric generation assets owned by NGC, 147 MW of coal-fired generation assets owned by HWP, and Select Energy s retail business. The energy services business consists of the operations of NGS, SESI and Woods Network.

NU Enterprises earnings decreased by $49.9 million in the third quarter of 2004 compared with the third quarter of 2003. Losses in 2004 include the negative after-tax impact of $47 million related to the mark-to-market accounting for certain natural gas contracts established to mitigate the risk of electricity purchased in anticipation of wining certain levels of wholesale electric load in New England. The decrease in third quarter profitability was also due to lower volumes and margins on wholesale contracts from seasonal pricing, offset by positive adjustments to income tax expense totaling $1.8 million and to a reduction in contract reserves totaling $1.1 million (after-tax). The seasonal pricing produced high margins in the first quarter of 2004 and lower margins in the remaining quarters. Cooler summer weather in 2004 contributed to the lower earnings in 2004 by reducing the sales volume during the quarter. The decrease in third quarter profitability was also due to net changes to the fair values of natural gas inventory and related hedges. This decrease amounted to $2.5 million (after-tax).

NU Enterprises earnings decreased by $44.2 million for the first nine months of 2004 compared with the first nine months of 2003. Merchant energy third quarter earnings included an after-tax negative $47 million related to changes in fair value of certain natural gas contracts established to mitigate the risk of electricity purchased in anticipation of wining certain levels of wholesale electric load in New England. The use of fair value accounting for these contracts has and will likely result in earnings volatility in future periods.

A summary of NU Enterprises earnings/(losses) by business for the third quarter and first nine months of 2004 and 2003 is as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Millions of Dollars)	2004	2003	2004	2003
Merchant energy	$(43.7)	$6.9	$(18.9)	$22.3
Energy services and other	0.7		(1.3)	1.7
Net (loss)/income	$(43.0)	$6.9	$(20.2)	$24.0

The decreases in year-to-date earnings at the energy services business are due in part to a $1.8 million after-tax loss recorded in the second quarter on a construction contract and a reduced level of work for the United States government. For the period of September 30, 2003 to October 28, 2004, the United States government was precluded by statute from awarding certain energy savings contracts.

Parent and Other: For the three and nine months ended September 30, 2003, parent and other includes the $4.7 million negative cumulative effect of an accounting change associated with NU s former investment in a bill collection company. Absent that amount, parent and other resulted in decreases to NU s earnings of $2.5 million for the third quarter of 2004 compared to 2003, and $10.8 million for the first nine months of 2004 compared to 2003, primarily due to the allocation of income tax benefits from NU parent to subsidiaries.

Strategic Overview

In September 2004, management completed its comprehensive review of all its business lines and five-year business plans. The review was performed to identify the best opportunities in each business and determine how to allocate capital to those opportunities. This review resulted in

a validation of key elements of the company s existing strategy and increased clarity in

how the company expects to invest capital over the next five years. The company has identified significant investment requirements in the Utility Group transmission and distribution businesses and expects to invest more than $3.7 billion in regulated electric and natural gas infrastructure from 2005 through 2009.

Based on current projections, management expects that the need to invest heavily in regulated infrastructure to meet reliability requirements and customer growth will cause NU s Utility Group distribution and generation rate base to rise from $2.5 billion in 2004 to nearly $3.9 billion by the end of 2009. Based on currently projected expenditures and capital project completion dates, management expects that the same factors will increase NU s Utility Group transmission rate base from approximately $500 million in 2004 to approximately $1.7 billion in 2009.

Management believes the company s Utility Group capital investments as currently scheduled, when added to projected dividend requirements, will result in net cash needs of approximately $4.4 billion from 2005 through 2009. Management believes that approximately $2.6 billion of that sum will be raised through internal sources with the remaining $1.8 billion coming from external sources. Management expects most of the external funding to be in the form of new debt issues and a substantially lesser amount to be in the form of new equity issues. Management does not have a firm schedule for the issuance of those securities, and the schedule is highly dependent on the timing of capital additions, among other things.

Labor Relations

On October 22, 2004, contracts offered by CL&P to employees represented by Locals 420 and 457 of the International Brotherhood of Electrical Workers were rejected by the unions. These two contracts cover approximately 1,200 CL&P employees, primarily physical workers including electricians, line workers, meter readers and installers, cable splicers, and warehouse personnel. Management cannot predict the outcome of contract negotiations or the ultimate impact, if any, of a possible strike.

Liquidity

Consolidated: NU continues to maintain an adequate level of liquidity. At September 30, 2004, NU had $97.9 million of cash and cash equivalents on hand compared with $43.4 million at December 31, 2003. The cash position of NU at September 30, 2004 includes $41 million of previously restricted cash collected for SMD costs that will be refunded to CL&P s customers.

NU s net cash flows provided by operating activities increased to $525.5 million in the first nine months of 2004 from $460.8 million in the first nine months of 2003 due to changes in working capital items and to changes in regulatory (refunds)/overrecoveries.

The release of restricted cash collected in 2003 associated with locational marginal pricing (LMP) costs but not yet paid to suppliers or refunded to customers, increased cash from operations in the first nine months of 2004. CL&P paid $83 million to its standard offer suppliers in accordance with the FERC-approved SMD settlement agreement, which decreased accounts payable. Another approximately $56 million will be refunded to customers related to the SMD settlement agreement in the fourth quarter of 2004 and will negatively impact cash flows from operations. An increase in counterparty deposits, which fluctuate based on changes in the fair value of certain energy contracts, resulted in an increase in other current liabilities and had a positive impact on cash flows from operations in the first nine months of 2004 compared to the same period in 2003.

The decrease in regulatory (refunds)/overrecoveries is primarily due to lower CTA and GSC collections in the first nine months of 2004 as NU refunds amounts to its ratepayers for past over collections or uses those amounts to recover current costs. These refunds are also the primary reason for the positive change in deferred income taxes for the first nine months of 2004 as compared to the first nine months of 2003, which has increased operating cash flows. The change in deferred income taxes is expected to continue to benefit cash flows from operations in 2004 due to bonus tax depreciation on newly completed plant assets.

On September 30, 2004, NU paid a dividend of $0.1625 per share. On October 12, 2004, the NU Board of Trustees approved a common dividend of $0.1625 per share, payable on December 30, 2004, to shareholders of record at December 1, 2004.

NU s capital expenditures have been lower than what had been expected at the beginning of 2004. NU s capital expenditures totaled $463.7 million for the first nine months of 2004, compared with $381.9 million for the first nine months of 2003. NU currently projects capital expenditures of $638.4 million in 2004 compared with the 2004 budgeted amount of $738 million. The revised 2004 projection includes $355.1 by CL&P, $148.2 million by PSNH, $38.4 million by WMECO, $62.4 million by Yankee Gas, and $34.3 million by other NU subsidiaries. The lower level of capital spending compared to the budget was

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primarily related to delays in approvals of certain major transmission projects as a result of an appeal of a Connecticut Siting Council (CSC) decision and other legal and regulatory delays.

Utility Group: At September 30, 2004, the Utility Group had no borrowings outstanding on its $300 million revolving credit line. This revolving credit line is scheduled to mature on November 8, 2004 and will be replaced on that date by a $400 million, five-year facility. Under this new credit line, CL&P will be able to borrow up to $200 million and PSNH, WMECO, and Yankee Gas will be able to borrow up to $100 million, each on a short-term basis.

In addition to its revolving credit line, CL&P has an arrangement with a financial institution under which CL&P can sell up to $100 million of accounts receivable and unbilled revenues. At September 30, 2004, CL&P had sold accounts receivable totaling $40 million to that financial institution. For more information regarding the sale of receivables, see Note 1G, Summary of Significant Accounting Policies - Sale of Customer Receivables to the condensed consolidated financial statements.

On September 17, 2004, CL&P issued $150 million of 10-year first mortgage bonds at a fixed interest rate of 4.8 percent and also issued $130 million of 30-year first mortgage bonds at a fixed interest rate of 5.75 percent. CL&P used the proceeds from these issuances to repay short-term debt.

As part of the approved SMD settlement agreement, CL&P paid $83 million to its suppliers on July 8, 2004. Under the settlement agreement, CL&P also agreed to refund $75 million to its customers. The $83 million supplier payment was made from an escrow fund that was established during 2003 as these costs were being collected from customers. Of the combined payment and refund amount totaling $158 million, $31 million was not funded from the escrow account. CL&P began returning the $75 million to customers over a four-month period on September 1, 2004. Additionally, the DPUC ordered a refund of $88.5 million in CTA/SBC overcollections over a seven-month period beginning with October 2004 consumption. The combination of the SMD and CTA/SBC refunds, when combined with CL&P s proposed capital expenditures, will negatively impact CL&P s liquidity. CL&P is also refunding GSC overrecoveries of $120 million over a four-year period beginning in 2004. However, CL&P expects no difficulty in meeting these additional cash requirements.

On July 22, 2004, PSNH issued $50 million of 10-year first mortgage bonds at a fixed interest rate of 5.25 percent. Proceeds were used to repay short-term debt and fund PSNH s capital expenditure program. In October 2004, PSNH received sufficient approvals to begin the construction related to the conversion of one of the coal-fired units at Schiller Station to burn wood. The NHPUC has approved the project but the NHPUC s approval is subject to an appeal to the New Hampshire Supreme Court. This project is expected to cost $75 million.

On September 23, 2004, WMECO issued $50 million of 30-year senior unsecured notes at a fixed interest rate of 5.9 percent. Proceeds were used to finance a trust fund which will be used to meet WMECO s prior spent nuclear fuel liability.

Yankee Gas plans to issue up to $50 million in 15-year first mortgage bonds in the fourth quarter of 2004, pursuant to existing DPUC approvals. The proceeds will be used primarily to repay short-term debt, approximately $35 million of which was incurred to redeem two series of high coupon rate first mortgage bonds in the fourth quarter of 2004. On September 3, 2004, the DPUC approved the application by Yankee Gas to construct a LNG storage facility with an estimated cost of approximately $100 million that is capable of storing the equivalent of 1.2 billion cubic feet of natural gas.

NU Enterprises: At September 30, 2004, NU Enterprises had $113.6 million in letters of credit (LOCs) outstanding on NU parent s $350 million revolving credit line. This revolving credit line is scheduled to mature on November 8, 2004 and will be replaced on that date by a $500 million five-year facility under which borrowings will be made on a short-term basis. NU is seeking to increase its short-term borrowing authorization from the Securities and Exchange Commission (SEC) to $500 million from $450 million. A total of $350 million of the $500 million under the credit line can be in the form of LOCs which can be used to provide support for Select Energy s activities.

NU Enterprises liquidity is significantly impacted by both the amount of collateral from other counterparties it receives and the amount of collateral it is required to deposit with counterparties.

On September 17, 2004, Moody s Investors Service lowered NGC s bond rating to Baa3 from Baa2 and changed the outlook to stable. The change is not expected to have any negative impact on NGC.

SESI borrowed a net total of $8.1 million during 2004 to finance the implementation of energy saving improvements at customer facilities. Cash to repay these borrowings is funded by SESI s energy savings contracts. No additional non-contract related borrowings were made in the third quarter of 2004.

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Nuclear Decommissioning and Plant Closure Costs

NU has significant decommissioning and plant closure cost obligations to the companies that own the Yankee Atomic (YA), Connecticut Yankee (CY) and Maine Yankee (MY) nuclear power plants (collectively, the Yankee Companies). Each plant has been shut down and is undergoing decommissioning. The Yankee Companies collect decommissioning and closure costs through wholesale, FERC-approved rates charged under power purchase agreements with several New England utilities, including NU s electric utility companies CL&P, PSNH and WMECO. These companies in turn pass these costs on to their customers through state regulatory commission-approved retail rates. YA has received FERC approval to collect all presently estimated decommissioning costs. MY and various other parties filed a settlement agreement with the FERC, which provides for the collection of approximately $27 million annually through October 31, 2008 for all presently estimated decommissioning and long-term spent fuel storage costs. The MY settlement was approved by the FERC on September 16, 2004.

CY s estimated decommissioning and plant closure costs for the period 2000 through 2023 have increased by approximately $395 million over the April 2000 estimate of $436 million approved by the FERC in a 2000 rate case settlement. The revised estimate reflects the fact that CY is now self-performing all work to complete the decommissioning of the plant due to the termination of the decommissioning contract with Bechtel Power Corporation (Bechtel) in July 2003, due to the increases in the projected costs of spent fuel storage, and increased security and liability and property insurance costs. NU s share of CY s increase in decommissioning and plant closure costs is approximately $194 million. On July 1, 2004, CY filed with the FERC for recovery of these increased costs. In the filing, CY sought to increase its annual decommissioning collections from $16.7 million to $93 million for a six-year period beginning on January 1, 2005. On August 30, 2004, the FERC issued an order accepting the rates, with collection beginning on February 1, 2005, subject to refund, and scheduled hearings for May 2005. In total, NU s estimated remaining decommissioning and plant closure obligation for CY is $310.2 million at September 30, 2004.

On June 10, 2004, the DPUC and OCC filed a petition seeking declaratory order that CY be allowed to recover all decommissioning costs from its wholesale purchasers, including CL&P, PSNH and WMECO, but that such purchasers may not be allowed to recover in their retail rates any costs that the FERC might determine to have been imprudently incurred. On August 30, 2004, the FERC denied this petition. On September 29, 2004, the DPUC and OCC asked the FERC to reconsider the petition. On October 29, 2004, the FERC issued an order granting further consideration regarding the DPUC s and OCC s petition for reconsideration. No hearing date has been established.

CY is currently in litigation with Bechtel over the termination of its decommissioning contract. On June 13, 2003, CY gave notice of the termination of its contract with Bechtel for the decommissioning of its nuclear power plant. CY terminated the contract due to Bechtel s history of incomplete and untimely performance and refusal to perform the remaining decommissioning work. Bechtel has departed the site, and the decommissioning responsibility has been transitioned to CY, which has recommenced the decommissioning process.

On June 23, 2003, Bechtel filed a complaint against CY asserting a number of claims and seeking a variety of remedies, including monetary and punitive damages and rescission of the contract. Bechtel has since amended its complaint to add claims for wrongful termination. On August 22, 2003, CY filed its answer and counterclaims, including counts for breach of contract, negligent misrepresentation and breach of duty of good faith and fair dealing. Discovery is currently underway, and a trial has been scheduled for May 2006.

On July 20, 2004, the Connecticut Superior Court (the Court) allowed the DPUC to intervene in the prejudgment remedy (PJR) proceeding filed in June 2004 for the limited purpose of objecting to Bechtel s requested garnishment of the decommissioning trust and related payments. On October 27, 2004, Bechtel and CY entered into a stipulation under which Bechtel relinquished its right to seek garnishment of the decommissioning trust and related payments in return for the potential attachment of CY s real property in Connecticut with a book value of $7.9 million and the escrowing of $41.7 million the sponsors are scheduled to pay to CY through June 30, 2007. This stipulation is subject to approval of the Court and would not be implemented until the Court found that such assets were subject to attachment. CY intends to contest the attachability of such assets.

NU cannot at this time predict the timing or outcome of the FERC proceeding required for the collection of the increased decommissioning costs. Management believes that the costs have been prudently incurred and will ultimately be recovered from the customers of CL&P, PSNH and WMECO. However, there is a risk that some portion of these increased costs may not be recovered, or will have to be refunded if recovered, as a result of the FERC proceedings. NU also cannot predict the timing and outcome of the litigation with Bechtel or its impact on NU. For additional current information regarding these issues and litigation with Bechtel, see Part II, Item 1, Legal Proceedings, in this report on Form 10-Q.

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The Yankee Companies are seeking recovery of damages from the United States Department of Energy (DOE) for the cost of storing spent nuclear fuel that the DOE has failed to remove. The DOE trial ended on August 30, 2004, and a verdict has not yet been reached. The related claim for damages from the DOE incurred through 2010 is approximately $500 million. The current rates of the Yankee Companies do not include an amount for recovery of damages in this matter. Management can predict neither the outcome of this matter nor its ultimate impact on NU.

Utility Group Business Development and Capital Expenditures

Connecticut - CL&P: On August 19, 2004 a Connecticut Superior Court judge dismissed an appeal by the City of Norwalk concerning construction of a 345,000 volt transmission project from Bethel, Connecticut to Norwalk, Connecticut. Based upon a recently completed estimate, the project is currently projected to cost between $300 million and $350 million, depending upon resolution of technical and siting issues. The project is expected to help alleviate identified reliability issues in southwest Connecticut and to help reduce congestion costs for all of Connecticut. This current cost estimate has increased from a previous estimate of $200 million due to a number of factors, including higher bids, especially for underground construction in southwest Connecticut, and additional requirements that were added during the extensive permitting and technical design process. While work on the related substations has begun, work on the transmission lines has not yet begun and is pending final reviews involving the CSC, the New England Independent System Operator (ISO-NE), and the Connecticut Department of Transportation. Management estimates a project completion date of December 2006, which is one year later than the previous estimate due to the Norwalk court appeal. At September 30, 2004, CL&P has capitalized $56.6 million associated with this project.

On October 9, 2003, CL&P and United Illuminating (UI) filed for approval of a separate 345,000 volt transmission line from Norwalk, Connecticut to Middletown, Connecticut. The CSC has requested, and CL&P and UI have granted, a six-month extension of the date for final decision to April 2005. Construction is expected to commence shortly after the final route and configuration are determined by CSC. Some of the alternatives being considered by CL&P and evaluated by ISO-NE and CSC are significantly more costly than CL&P s previous estimate of $620 million for the total project. For forecasting purposes, CL&P is using an estimated total project cost of $700 million with a 2009 in service date, both of which recognize the complexity of the issues surrounding the siting and construction of the project, as well as the potential for court appeals of the CSC decision. The current estimated construction cost of this project continues to be evaluated as the project scope and portions of the transmission line to be built overhead and underground are under review. CL&P will jointly site this project with UI, and CL&P will own 80 percent of the project. At September 30, 2004, CL&P has capitalized $15.8 million related to this project.

In September 2002, the CSC approved a plan to replace an undersea electric transmission line between Norwalk, Connecticut and Northport - Long Island, New York. This project is estimated to cost in the range of $100 million, and CL&P and the Long Island Power Authority (LIPA) will each own approximately 50 percent of the line. CL&P has not yet signed a contract with a vendor to complete this work; therefore, the cost estimate could increase. The project has received CSC approval but still requires federal and New York state approvals. On October 1, 2004, consistent with a comprehensive settlement agreement reached on June 24, 2004, CL&P and LIPA jointly filed an implementation plan for the cable replacement with the Connecticut Department of Environmental Protection. Pending final approval, construction activities are scheduled to begin in the fall of 2006. Management expects the cable to be in service by the middle of 2008. At September 30, 2004, CL&P has capitalized $6.3 million related to this project.

In May 2004, CL&P applied to the CSC to construct two 115,000-volt underground transmission lines between Norwalk, Connecticut and Stamford, Connecticut. The project is expected to cost approximately $120 million and will help meet the growing electric demands in the area. Management expects the lines to be in service by 2008. At September 30, 2004, CL&P has capitalized $2.5 million related to this project.

In the first nine months of 2004, NU placed in service $85 million of electric transmission projects. These projects included CL&P s $37 million upgrade of a transmission substation in Stamford, Connecticut that will allow more than 100 additional MW to be imported into southwest Connecticut.

Connecticut - Yankee Gas: On September 3, 2004, the DPUC approved the application by Yankee Gas to construct a LNG storage facility in Waterbury, Connecticut, at an expected cost of approximately $100 million, that is capable of storing the equivalent of 1.2 billion cubic feet of natural gas. On October 18, 2004, Yankee Gas signed a contract with a vendor that will build the facility, which will be filled through both liquification of natural gas on-site and the transportation of LNG from off-site locations. Yankee Gas anticipates beginning construction late in 2004 and for the facility to become operational in late 2007 in time for the 2007/2008 heating season. At September 30, 2004, Yankee Gas has capitalized $5.4 million related to this project.

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On November 1, 2004, Yankee Gas placed in service a new nine-mile gas line to connect its system in southeast Connecticut to the New England Gas Company (NEGASCO) system in Rhode Island. The construction project and a 20-year contract between Yankee Gas and NEGASCO were previously approved by the DPUC and the FERC. The NEGASCO project will provide Yankee Gas with additional revenue, improve service reliability in the Stonington, Connecticut area, and expand natural gas delivery into additional areas of southeastern Connecticut.

New Hampshire: In October 2004, PSNH received sufficient approvals to begin the construction related to the conversion of one of three 50 megawatt units at the coal-fired Schiller Station to burn wood (Northern Wood Project). The $75 million Northern Wood Project is expected to be completed by late 2006. The NHPUC s approval of the project is subject to an appeal to the New Hampshire Supreme Court brought by some of New Hampshire s existing wood-fired generating plant owners. Management does not believe that the appeal will negatively affect PSNH s ability to complete the Northern Wood Project.

For further information regarding rate matters associated with business development and capital expenditures, see Regulatory Issues and Rate Matters, in this Management s Discussion and Analysis.

Regional Transmission Organization

On October 31, 2003, the ISO-NE, along with NU and six other New England transmission owning companies, filed a proposal with the FERC to create an RTO for New England. On March 24, 2004, the FERC issued an order conditionally accepting the New England RTO proposal. The RTO is intended to strengthen the independent and efficient management of the region s power system while ensuring that customers in New England continue to have highly reliable service and also realize the benefits of a competitive wholesale energy market.

In a separate filing made on November 4, 2003, NU along with six other New England transmission owners requested, consistent with the FERC s pricing policy for RTOs and Order-2000-compliant independent system operators, that the FERC approve a single ROE for regional and local rates that would consist of a proposed 12.8 percent base ROE as well as incentive adders of 0.5 percent for joining a RTO and 1.0 percent

for constructing new transmission facilities approved by the RTO.

In its March 24, 2004 order, the FERC accepted the proposal for the 0.5 percent incentive adder, but set for hearing the issues of the appropriate base ROE and the clarification as to which facilities the 1.0 percent incentive adder applies.

On October 29, 2004, NU along with the other New England transmission owners, filed rebuttal testimony with the FERC in preparation for December 2004 ROE hearings. The revised testimony, among other items, updated the required FERC discounted cash flow methodology calculations used to support the requested base ROE. This update to the calculations produced an 11.1 percent base ROE, which is 1.7 percent lower than the ROE originally proposed in November 2003 of 12.8 percent. The reduction in the ROE is due to changes in some of the inputs used in the discounted cash flow analysis. The incentive adders would still apply to the revised base ROE.

On November 3, 2004, the FERC issued an order that 1) determined that the New England transmission owners methodology used to calculate the proposed ROE is appropriate, 2) provided guidance related to the incentive adders and 3) approved certain compliance items that were required by the FERC s March 24, 2004 order.

The order approved the methodology that had been proposed by the transmission owners for calculating the base ROE, which is based on the use of the mid-point of a proxy group of companies. The FERC found in its order that the proxy group proposed by the transmission owners was appropriate. The actual base ROE will be determined utilizing this methodology following the hearings, which are scheduled to commence in December 2004. Management cannot at this time predict the ultimate ROE that will be determined following the hearings, and cannot predict whether the hearings regarding the ROE will be contentious.

The order also clarified the application of the 0.5 percent incentive adder for joining a RTO and reaffirmed the appropriateness of the 1.0 percent incentive adder for new investments. However, still unresolved is the type of investments to which the FERC believes that the 1.0 percent incentive adder should apply.

A final ruling regarding these issues is expected in the second quarter of 2005.

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Utility Group Regulatory Issues and Rate Matters

Transmission: On August 26, 2003, the transmission segment of NU s regulated companies filed a transmission rate case at the FERC. In the filing, the companies requested implementation of a formula rate that would allow recovery of increasing transmission expenditures on a timelier basis and that the changes, including a $23.7 million annual rate increase through 2004, take effect on October 27, 2003. The companies requested that the FERC maintain their existing 11.75 percent ROE until a ROE for the New England RTO is established by the FERC. On October 22, 2003, the FERC accepted this filing implementing the proposed rates subject to refund effective on October 28, 2003 and set several issues for hearing.

On June 14, 2004, the transmission segment of NU s regulated companies reached a settlement agreement with the parties to its rate case which allows NU to implement formula-based rates as proposed, with an allowed ROE of 11.0 percent. This ROE will be superceded by the ROE determined as part of the ongoing RTO proceedings. On September 15, 2004, the FERC approved the settlement agreement. The impact of the change in ROE from 11.75 percent to 11.0 percent was recognized in the second quarter and reduced earnings by $1.1 million.

Wholesale transmission revenues are based on rates and formulas that are approved by the FERC. Most of NU s wholesale transmission revenues are collected through a combination of the New England Regional Network Service (RNS) tariff and NU s Local Network Service (LNS) tariff. The RNS tariff, which is administered by ISO-NE, recovers the revenue requirements associated with transmission facilities that are deemed by the FERC to be regional facilities. This regional rate is reset on June 1st of each year. The LNS tariff provides for the recovery of NU s total transmission revenue requirements, net of revenues received from other sources, including those revenues received under RNS rates. NU s LNS tariff is also reset on June 1st of each year to coincide with the change in RNS rates. Additionally, NU s LNS tariff provides for a true-up to actual costs which ensures that NU recovers its total transmission revenue requirements, including the allowed ROE. Through September 30, 2004, this true-up has resulted in the recognition of a $4 million regulatory liability.

A significant portion of NU s transmission businesses revenue is from charges to NU s distribution businesses. These distribution businesses recover these charges through rates charged to their retail customers. WMECO has a rate tracking mechanism to track transmission costs charged in distribution rates to the actual amount of transmission charges incurred. The 2004 rates set in the CL&P distribution rate case contained a level of transmission revenue sufficient to recover CL&P s anticipated 2004 transmission costs. CL&P continues to evaluate whether or not it will seek a new retail transmission rate in 2005. The June 1, 2005 PSNH rate increase includes revenues to recover expected transmission costs. Neither CL&P nor PSNH have transmission tracking mechanisms.

Connecticut - CL&P:

Public Act No. 03-135 and Rate Proceedings: On June 25, 2003, the Governor of Connecticut signed into law Public Act No. 03-135 (the Act) which amended Connecticut s 1998 electric utility industry legislation. The Act required CL&P to file a four-year transmission and distribution plan with the DPUC. On December 17, 2003, the DPUC issued its final decision in the rate case.

CL&P filed a petition for reconsideration of certain items in the final decision on December 31, 2003. Other parties also filed petitions for reconsideration. The DPUC issued a final decision on the petitions on August 4, 2004. The final decision allows CL&P to recover an additional $32 million beginning August 1, 2004. The DPUC also authorized using existing CTA overrecoveries in lieu of an increase in rates to recover approximately $24 million, which is the net present value of the $32 million.

The final decision had a third quarter positive pre-tax impact of $10.2 million (approximately $6 million after-tax) on CL&P. The remaining amount will be amortized over four years as an increase to revenues as the related costs to be recovered are incurred. The DPUC s conclusion on streetlighting refund periods and methodologies was also included in the final decision, and management has determined that the streetlighting refund period and methodology included in the final decision did not have an impact on CL&P s net income or financial position at September 30, 2004.

Under the Act, CL&P is allowed to collect a fixed procurement fee of 0.50 mills per kilowatt-hour (kWh) from customers who purchase transitional standard offer service (TSO). That fee can increase to 0.75 mills if CL&P beats certain regional benchmarks. The fixed portion of the procurement fee amounted to approximately $9 million for the nine months ended September 30, 2004, and is expected to total approximately $12 million (approximately $7 million after-tax) for 2004. CL&P submitted to the DPUC its proposed methodology to calculate the variable portion (incentive portion) of the procurement fee. A decision is expected in the first quarter of 2005. The variable portion of the procurement fee has not been recorded in 2004 and could total approximately $6 million if CL&P s proposed methodology is approved by the DPUC.

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CTA and SBC Reconciliation: The CTA allows CL&P to recover stranded costs, such as securitization costs associated with the rate reduction bonds, amortization of regulatory assets, and independent power producer (IPP) over market costs, while the SBC allows CL&P to recover certain regulatory and energy public policy costs, such as public education outreach costs, hardship protection costs, transition period property taxes, and displaced worker protection costs.

On April 1, 2004, CL&P filed its 2003 CTA and SBC reconciliation with the DPUC, which compares CTA and SBC revenues to revenue requirements. A final decision in the 2003 CTA and SBC docket was issued on August 4, 2004 and ordered a refund to customers of $88.5 million over a seven-month period beginning with October 2004 consumption.

The DPUC also directed CL&P to impute revenues of $2.7 million during 2004 payable to customers associated with a previously renegotiated IPP contract. On September 15, 2004, CL&P filed an appeal and a motion for partial stay with the Connecticut Superior Court challenging the DPUC s August 4, 2004 decision regarding this contract. The motion for partial stay was granted. On October 15, 2004, CL&P entered into a settlement agreement involving the counterparties to this contract and various other parties. If approved by the DPUC and by the bankruptcy court of one of the counterparties, the DPUC will rescind the imputed revenues order and CL&P would withdraw its appeal. CL&P is awaiting approvals of the settlement agreement.

In the 2001 CTA and SBC reconciliation filing, and subsequently in a September 10, 2002 petition to reopen related proceedings, CL&P requested that a deferred intercompany liability associated with the intercompany sale of generation assets be excluded from the calculation of CTA revenue requirements. On September 10, 2003, the DPUC issued a final decision denying CL&P s request, and on October 24, 2003, CL&P appealed the DPUC s final decision to the Connecticut Superior Court. The appeal has been fully briefed and is in the argument phase, and a decision from the Connecticut Superior Court could be rendered by the end of 2004. If CL&P s request is granted through these court proceedings, then there could be additional amounts due to CL&P from its customers. The 2004 impact of including the deferred intercompany liability in CTA revenue requirements has been a reduction of approximately $19.3 million in revenue.

Impacts of Standard Market Design: On March 1, 2003, ISO-NE implemented SMD. As part of SMD, LMP is utilized to assign value and causation to transmission congestion and line losses. Transmission congestion costs represent the additional costs incurred due to the need to run uneconomic generating units in certain areas that have transmission constraints, which prevent these areas from obtaining alternative lower-cost generation. Line losses represent losses of electricity as it is sent over transmission lines.

CL&P was billed $186 million of incremental LMP costs in 2003 by its standard offer service suppliers, including affiliate Select Energy, or by ISO-NE and collected $158 million from its customers. CL&P and its suppliers disputed the responsibility for the $186 million of incremental LMP costs incurred. An agreement was reached settling the dispute among all the parties involved and was filed with the FERC on March 3, 2004. NU recorded a pre-tax loss in 2003 of approximately $60 million (approximately $37 million after-tax) related to this settlement agreement. The settlement agreement was approved by the FERC on June 28, 2004.

On July 8, 2004, CL&P paid the standard offer service suppliers $83 million as part of the approved settlement agreement. On August 25, 2004, the DPUC approved a joint proposal for refunding the remaining $75 million to customers. The approved refund was included in customer bills beginning with September 2004 billings and will continue through December 2004 billings. The refund will total $83.5 million, consisting of the remaining $75 million of SMD amounts and an additional $8.5 million associated with previous replacement power costs collected from customers but later recouped from a supplier.

Application for Issuance of Long-Term Debt: On September 9, 2004, CL&P filed an application with the DPUC requesting approval to issue long-term debt in the amount of $600 million during the period February 1, 2005 to December 31, 2007. Additionally, CL&P is requesting approval to enter into hedging transactions, from time to time ending on December 31, 2007, in connection with any prospective or outstanding long-term debt in order to reduce the interest rate risk associated with the debt or debt issuances. The DPUC has not yet issued a schedule for review of this application.

Connecticut - Yankee Gas:

Rate Case Filing: On July 2, 2004, Yankee Gas filed a rate case with the DPUC to increase retail rates by $26.5 million, or 7.2 percent, effective January 1, 2005. Yankee Gas also requested an authorized ROE of 10.75 percent in the rate case filing. The requested increase in rates results from increased costs of distribution delivery services such as pension and healthcare, as well as additional investments needed to maintain a safe and reliable gas distribution system.

On October 14, 2004, Yankee Gas filed a settlement agreement with the DPUC. Parties to the agreement included the OCC and the Prosecutorial Division of the DPUC. The settlement agreement increases customer rates by $14 million annually, allows an ROE of 9.9 percent and reduces Yankee Gas annual expense for plant taken out of service by approximately $5 million. As part of the settlement agreement, Yankee Gas has generally agreed not to file a new rate increase application prior to the earlier of the in-service date of its new LNG facility or July 1, 2007. The DPUC has suspended the rate case hearing schedule and held a hearing on October 28, 2004 to review the settlement agreement. A decision is expected during the fourth quarter of 2004.

New Hampshire:

Delivery Rate Case: PSNH s delivery rates were fixed, effective May 1, 2001, by the Agreement to Settle PSNH Restructuring (Restructuring Settlement) until February 1, 2004. Consistent with the requirements of the Restructuring Settlement and state law, PSNH filed a delivery

service rate case and tariffs with the NHPUC on December 29, 2003 to increase electricity delivery rates by approximately $21 million, or 2.6 percent, effective February 1, 2004.

On July 14, 2004, PSNH filed with the NHPUC a revenue requirements settlement agreement among several parties, including the NHPUC staff and the Office of Consumer Advocate (OCA). The terms of the proposed settlement agreement allowed for increases in PSNH s delivery rates totaling $3.5 million annually, effective prospectively on October 1, 2004, and an incremental $10 million annual increase effective prospectively on June 1, 2005, for a total rate increase of $13.5 million. On July 29, 2004, PSNH filed with the NHPUC a rate design settlement agreement among several parties, including the NHPUC staff. These proposed revenue requirements and rate design settlement agreements together resolve all delivery service rate case issues. On September 2, 2004, the NHPUC issued an order approving both settlement agreements, and new delivery service rates went into effect on October 1, 2004.

Transition Energy Service: In accordance with the Restructuring Settlement and state law, PSNH files for updated transition energy service (TS) rates annually. Presently, TS rates for all customers may change annually effective February 1st. The TS rate recovers PSNH s generation and purchased power costs, including a return on PSNH s generation investment. PSNH defers any difference between its TS revenues and the actual costs incurred.

On September 24, 2004, PSNH filed a petition with the NHPUC requesting a change in the TS rate for the period February 1, 2005 through January 31, 2006. In its filing, PSNH did not request a specific TS rate; rather, given the current price volatility in the energy markets, PSNH requested that the NHPUC review and approve its underlying operational data within the September 24, 2004 filing. In December 2004, PSNH expects to petition for a specific TS rate based on updated market information. Management expects the NHPUC to issue an order prior to February 1, 2005.

SCRC Reconciliation Filing: The stranded cost recovery charge (SCRC) allows PSNH to recover its stranded costs. On an annual basis, PSNH files with the NHPUC a SCRC reconciliation filing for the preceding calendar year. This filing includes the reconciliation of stranded cost revenues billed with stranded costs, and TS revenues billed with TS costs. The NHPUC reviews the filing, including a prudence review of PSNH s generation operations. The cumulative deferral of SCRC revenues in excess of costs was $200.6 million at September 30, 2004. This cumulative deferral will decrease the amount of non-securitized stranded costs that will have to be recovered from PSNH s customers in the future from $422.6 million to $222 million.

The 2003 SCRC reconciliation filing was filed with the NHPUC on April 30, 2004, and a proposed stipulation and settlement agreement between PSNH, the OCA and NHPUC staff was filed with the NHPUC on October 4, 2004. Under the terms of the settlement agreement, no costs related to the recovery of stranded costs or the cost of providing TS were disallowed, and the NHPUC staff agreed to accept the 2003 SCRC filing without change. On October 29, 2004, the NHPUC issued an order accepting the settlement agreement as filed.

Estimated unbilled revenues are not included in the reconciliation of billed revenues to incurred costs through rate mechanisms for the SCRC and the TS. At September 30, 2004, the unbilled balance related to SCRC and TS was $11.7 million and $16.7 million, respectively. The level of the TS rate will vary from time to time and will continue until it is replaced with Default Energy Service, or some equivalent, which will then continue indefinitely. The SCRC rate is expected to begin decreasing in late 2006. Management will seek from regulators a determination as to the ultimate inclusion of any of this unbilled revenue into billed rates.

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Massachusetts:

*Transition Cost Reconciliation:*On March 31, 2004, WMECO filed its 2003 transition cost reconciliation with the Massachusetts Department of Telecommunications and Energy. This filing reconciled the recovery of generation-related stranded costs for calendar year 2003. The timing of a final decision is uncertain, but management does not expect the outcome of this docket to have a material adverse impact on WMECO s net income or financial position.

NU Enterprises

Business Segments: NU Enterprises aligns its businesses into two business segments, the merchant energy business segment and the energy services business segment. The merchant energy business segment includes Select Energy s wholesale and retail marketing businesses. Also included in this segment are 1,440 MW of generation assets, including 1,293 MW of pumped storage and hydroelectric generation assets at NGC and 147 MW of coal-fired generation assets at HWP. The wholesale business primarily services firm requirements sales to local distribution companies and bilateral sales to other counterparties. To serve these customers, Select Energy relies on its own generation and inventory of energy products procured in the market.

The energy services business segment includes the operations of SESI, NGS, and Woods Network. SESI performs energy management services for large commercial customers, institutional facilities and the United States government and energy-related construction services. NGS operates and maintains NGC s and HWP s generation assets and provides third-party electrical services. Woods Network is a network design, products and services company.

Outlook: The energy services business segment expected to earn in the range of between $1 million and $2 million.

Intercompany Transactions: CL&P s standard offer purchases from Select Energy represented $134.8 million for the three months ended September 30, 2004, compared with $184.9 million during the same period in 2003. Other energy purchases between CL&P and Select Energy totaled $25.7 million for the three months ended September 30, 2004 and $32.2 million during the same period in 2003. Additionally, WMECO s purchases from Select Energy represented $28 million for the three months ended September 30, 2004, compared with $42.1 million during the same period in 2003.

CL&P s standard offer purchases from Select Energy represented $391.5 million for the first nine months of 2004, compared with $464.8 million during the same period in 2003. Other energy purchases between CL&P and Select Energy totaled $83.4 million for the first nine months of 2004 and $101.4 million during the same period in 2003. Additionally, WMECO s purchases from Select Energy represented $81.5 million for the first nine months of 2004, compared with $110.3 million during the same period in 2003. These amounts are eliminated in consolidation.

NU Enterprises Market and Other Risks

Overview: For further information on risk management activities, see Competitive Energy Subsidiaries Market and Other Risks in NU s combined report on Form 10-K.

Risk management within Select Energy is organized to address the market, credit and operational exposures arising from the merchant energy business segment, which include: wholesale marketing activities (including limited energy trading for market and price discovery purposes as well as asset optimization) and retail marketing activities. The framework for managing these risks is set forth in NU s risk management policies and procedures, which are reviewed by the NU Board of Trustees on an as needed basis.

A significant portion of Select Energy s merchant energy marketing activities is providing electricity to full requirements customers, which are primarily regulated local distribution companies (LDCs) and commercial and industrial retail customers. Under the terms of full requirements contracts, Select Energy is required to provide a percentage of the LDC s electricity requirements at all times. The volumes sold under these contracts vary based on the usage of the LDC s retail electric customers, and usage is dependent upon factors outside of Select Energy s control, such as the weather. The varying sales volumes could be different than the supply volumes that Select Energy expected to utilize, either from generation or from electricity purchase contracts, to serve the full requirements contracts. Differences between actual sales volumes and supply volumes can require Select Energy to purchase additional electricity or sell excess electricity, both of which are subject to market conditions such as weather, plant availability, transmission congestion, and potentially volatile price fluctuations that can impact prices and, in turn, Select Energy s margins.

The pricing terms of full requirement contracts and of supply contracts can affect the timing of Select Energy s margins. Many full requirements contracts have higher prices in certain months, while certain supply contracts have one price for the

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entire contract term. Accordingly, Select Energy s margins will tend to be higher in the months when the full requirements contract price is high and lower or could be negative when the full requirements contract price is lower.

Energy Sourcing Activities: In June 2004, Select Energy began purchasing fixed-price electricity and some electricity with prices indexed to gas for 2005 and 2006 in anticipation of winning full requirements contract sales and sales to load-serving entities. Purchasing electricity in advance of winning contracts exposes Select Energy to the risk of electricity price decreases before the full requirement quantities are contracted and before contract prices are known.

To mitigate the risk of electricity price decreases on the fixed-price electricity that was purchased, Select Energy in June 2004 began selling contracts for wholesale natural gas delivery (basis contracts) and natural gas futures and swaps contracts for 2005 and 2006. Select Energy expected that the result of this risk mitigation strategy would be that decreases in the value of the fixed-price electricity purchase contracts would be offset in part by increases in the value of the gas contracts, and vice versa. Select Energy intends to purchase natural gas when quantities and prices of electricity are secured by full requirements contracts or sales contracts with load-serving entities. Natural gas was sold in this risk mitigation strategy due to the high liquidity of the natural gas market compared to the low liquidity of electricity in the Northeast.

The electricity contracts are accounted for on the accrual basis, which will result in earnings recognition when the electricity is delivered in 2005 and 2006. These electricity purchase contracts are expected to be used to meet electricity sales contract requirements, which are a key component of Select Energy s business. Select Energy believes that this electricity will be delivered to its customers.

The use of fair value accounting for the natural gas basis and futures and swaps contracts has exposed and will continue to expose Select Energy s and NU s earnings to future changes in natural gas prices, which could be significant. This has and can reasonably be expected to create uncertainty regarding Select Energy s and NU s earnings and earnings trends. The electricity contracts are not expected to be accounted for at fair value, and changes in the value of these contracts, which could be significant, will not impact earnings until the electricity is delivered.

The natural gas basis and futures and swaps contracts are included in non-trading derivative assets and liabilities in the table in Note 2, Derivative Instruments, to the condensed consolidated financial statements.

Merchant Energy Marketing Activities: Select Energy manages its portfolio of wholesale and retail marketing contracts and assets to maximize value while maintaining an acceptable level of risk. There could be significant volatility in the electricity commodities markets that could affect merchant energy assets and contracts between now and when the electricity is delivered and the contracts are settled. Accordingly, there can be no assurances that Select Energy will realize the gross margin expected from its wholesale marketing portfolio.

Hedging and Other Non-Trading: For information on derivatives used for hedging purposes and non-trading derivatives, see Note 2, Derivative Instruments, to the condensed consolidated financial statements.

Wholesale Contracts Defined as Energy Trading : Energy trading transactions at Select Energy include financial transactions and physical delivery transactions for electricity, natural gas and oil in which Select Energy is attempting to profit from changes in market prices. Energy trading contracts are recorded at fair value, and changes in fair value affect net income.

At September 30, 2004, Select Energy had trading derivative assets of $94 million and trading derivative liabilities of $71 million, for a net positive position of $23 million for the entire trading portfolio. These amounts are combined with other derivatives and are included in derivative assets and derivative liabilities on the accompanying condensed consolidated balance sheets. The decrease in both derivative asset and liability amounts from June 30, 2004, relates primarily to contracts realized or otherwise settled during the period. Information regarding non-trading and other derivatives is included in Note 2, Derivative Instruments, to the condensed consolidated financial statements.

There can be no assurances that Select Energy will realize cash corresponding to the present positive net fair value of its trading positions. Numerous factors could either positively or negatively affect the realization of the net fair value amount in cash. These include the volatility of commodity prices, changes in market design or settlement mechanisms, the outcome of future transactions, the performance of counterparties, and other factors.

Select Energy has policies and procedures requiring all trading positions to be marked-to-market at the end of each business day and segregating responsibilities between the individuals actually trading (front office) and those confirming the trades (middle office). The determination of the portfolio s fair value is the responsibility of the middle office independent from the front office.

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The methods used to determine the fair value of energy trading contracts are identified and segregated in the table of fair value of contracts at September 30, 2004. A description of each method is as follows: 1) prices actively quoted primarily represent New York Mercantile Exchange futures and options that are marked to closing exchange prices; and 2) prices provided by external sources primarily include over-the-counter forwards and options, including bilateral contracts for the purchase or sale of electricity or natural gas, and are marked to the mid-point of bid and ask market prices. Currently, Select Energy has no contracts for which fair value is determined based on a model or other valuation method. Broker quotes for electricity at locations that Select Energy has entered into deals are available through the year 2006. Broker quotes for natural gas are available through 2013.

Generally, valuations of short-term contracts derived from quotes or other external sources are more reliable should there be a need to liquidate the contracts, while valuations for longer-term contracts are less certain. Accordingly, there is a risk that contracts will not be realized at the amounts recorded. However, Select Energy has obtained corresponding purchase or sale contracts for substantially all of the trading contracts that have maturities in excess of one year. Because these contracts are sourced, changes in the value of these contracts due to fluctuations in commodity prices are not expected to affect Select Energy s earnings.

As of and for the nine months ended September 30, 2004, the sources of the fair value of trading contracts and the changes in fair value of these trading contracts are included in the following tables. Intercompany transactions are eliminated and not reflected in the amounts below.

(Millions of Dollars)	Fair Value of Trading Contracts at September 30, 2004			
Sources of Fair Value	Maturity Less than One Year	Maturity of One to Four Years	Maturity in Excess of Four Years	Total Fair Value
Prices actively quoted	$0.7	$0.2	$	$ 0.9
Prices provided by external sources	1.1	7.7	13.3	22.1
Totals	$1.8	$7.9	$13.3	$23.0

The fair value of energy trading contracts decreased $5.3 million from $28.3 million at June 30, 2004 to $23 million at September 30, 2004. The change in the fair value of the trading portfolio is primarily attributable to contracts realized or otherwise settled during the period. There were no changes in valuation techniques or assumptions in the third quarter of 2004.

	Total Portfolio Fair Value	
(Millions of Dollars)	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Fair value of trading contracts outstanding at the beginning of the period	$28.3	$ 32.5
Contracts realized or otherwise settled during the period	(5.4)	(11.5)
Changes in fair value of contracts	0.1	2.0
Fair value of trading contracts outstanding at the end of the period	$23.0	$ 23.0

Changing Market: The breadth and depth of the market for energy marketing products in Select Energy s areas of business have been adversely affected by the withdrawal or financial weakening of a number of companies, particularly power marketers, who have historically done significant amounts of business with Select Energy. In general, the market for such products is shorter term in nature with less liquidity, market pricing information is less readily available and participants are sometimes unable to meet Select Energy s credit standards without providing cash or LOC support. Select Energy is being adversely affected by these factors, and there could be a continuing adverse impact on Select Energy s business lines due to its increasing reliance on business arrangements with a more limited number of counterparties, primarily power generators.

Changes are occurring in the administration of transmission systems in territories in which Select Energy does business. RTOs are being proposed and approved, and other changes in market design are occurring within transmission regions. As the market continues to evolve, there could be additional challenges or opportunities that management cannot determine at this time.

Counterparty Credit: Counterparty credit risk relates to the risk of loss that Select Energy would incur because of non-performance by counterparties pursuant to the terms of their contractual obligations. Select Energy has established written credit policies with regard to its counterparties to minimize overall credit risk. These policies require an evaluation of potential counterparties financial condition (including credit ratings), collateral requirements under certain circumstances (including cash advances, LOCs, and parent guarantees), and the use of standardized agreements that allow for the netting of

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positive and negative exposures associated with a single counterparty. This evaluation results in establishing credit limits prior to Select Energy s entering into contracts. The appropriateness of these limits is subject to continuing review. Concentrations among these counterparties may affect Select Energy s overall exposure to credit risk, either positively or negatively, in that the counterparties may be similarly affected by changes to economic, regulatory or other conditions. At September 30, 2004, approximately 74 percent of Select Energy s counterparty credit exposure to wholesale and trading counterparties was cash collateralized or rated BBB- or better. Select Energy received $67.4 million and $46.5 million of counterparty deposits at September 30, 2004 and December 31, 2003, respectively. Select Energy used these amounts to fund current operations. For further information, see Note 1M, Counterparty Deposits, to the condensed consolidated financial statements.

Select Energy s Credit: A number of Select Energy s contracts require the posting of additional collateral in the form of cash or LOCs in the event NU s ratings were to decline and in increasing amounts dependent upon the severity of the decline. At NU s present investment grade ratings, Select Energy has not had to post any collateral based on credit downgrades. Were NU s unsecured ratings to decline two to three levels to sub-investment grade, Select Energy could, under its present contracts, be asked to provide approximately $384 million of collateral or LOCs to various unaffiliated counterparties and approximately $136 million to several independent system operators and unaffiliated local distribution companies, which management believes NU would currently be able to provide, subject to the SEC limits described below. NU s credit ratings outlooks are currently stable or negative, but management does not believe that at this time there is a significant risk of a ratings downgrade to sub-investment grade levels.

On June 30, 2004, the SEC issued an order allowing NU to significantly expand its financial support of NU Enterprises. The new order allows NU through June 30, 2007 to 1) increase its allowable investments in certain of its unregulated businesses, presently 15 percent of its consolidated capitalization as permitted by SEC regulation, by an additional $500 million, 2) increase the limit for its guarantees of all of its competitive affiliates from $500 million to $750 million, and 3) increase its allowable investments in exempt wholesale generators (EWGs) from $481 million to $1 billion. The order will permit NU to fully support the planned level of business activities of Select Energy and its other unregulated businesses. NU has no present plans to significantly expand its EWG portfolio. However, if an investment opportunity becomes available, NU will be able to pursue it within the new allowable EWG investment level.

For further information regarding Select Energy s activities and risks, see Note 2, Derivative Instruments, and Note 5, Comprehensive Income, to the condensed consolidated financial statements.

Critical Accounting Policies and Estimates Update

Derivative Accounting, the Election of Normal, and the Use of Hedge Accounting: Most of the contracts comprising Select Energy s wholesale and retail marketing activities are derivatives. The application of derivative accounting under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, is complex and requires management s judgment. Judgment is applied in determining the qualification for the election of the normal purchases and sale exception (and resulting accrual accounting), which includes the conclusions that it is probable at the inception of the contract and throughout its term that it will result in physical delivery and that the quantities will be used or sold by the business over a reasonable period in the normal course of business. If facts and circumstances change and management can no longer support this conclusion, then the normal exception and accrual accounting would be terminated and fair value accounting would be applied.

Cash flow hedge contracts that are designated as hedges for contracts for which the company has elected the normal purchases and sales exception can continue to be accounted for as cash flow hedges only if the normal exception for the hedged contract continues to be appropriate. If the normal exception is terminated, then the hedge designation would be terminated at the same time and fair value accounting would be applied.

Income Taxes: Income tax expense is calculated in each reporting period in each of the jurisdictions in which NU operates. This process involves estimating actual current tax expense or benefit as well as the income tax impact of temporary differences resulting from differing treatment of items, such as timing of the deduction and expenses, for tax and book accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the condensed consolidated balance sheets. The income tax estimation process impacts all of NU s segments. Adjustments made to income tax estimates can significantly affect NU s condensed consolidated financial statements.

The estimates that are made by management in order to record income tax expense are compared each year to the actual tax amounts included on NU s income tax returns as filed. The income tax returns were filed in the fall of 2004 for the 2003 tax year. Management adjusted NU s tax reserves to reflect the difference in the actual 2003 tax return amounts being compared to the 2003 year end estimated tax expense. Recording these tax reserve adjustments resulted in a positive impact in the third

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quarter on NU s earnings of approximately $3.7 million, including a PSNH adjustment of a positive $5.4 million, a CL&P adjustment of a negative $3.2 million, a WMECO adjustment of a positive $0.6 million, and a NU Enterprises adjustment of a positive $1.8 million. Adjustments for other NU subsidiaries amounted to a negative $0.9 million. The process of truing up the income tax differences between the condensed consolidated financial statements and the income tax returns is an annual procedure.

Goodwill Impairment Testing: NU conducts annual goodwill impairment testing as of October 1st. Testing of current goodwill balances commenced in October of 2004.

Adjustments to the Impact of the Medicare Subsidy: On December 8, 2003, the President signed into law a bill that expanded Medicare, primarily by adding a prescription drug benefit and by adding a federal subsidy to qualifying plan sponsors of retiree health care benefit plans. Management believes that NU currently qualifies for the subsidy.

The actuarial gain resulting from the expansion of the Medicare program decreases the postretirement benefits other than pensions (PBOP) accumulated plan benefit obligation. Based on the most recent actuarial valuation as of January 1, 2004, the impact of the Medicare program has been revised from a $20 million decrease in the PBOP benefit obligation at December 31, 2003 to $27 million at September 30, 2004. The total $27 million decrease consists of $20 million as a direct result of the subsidy for certain non-capped retirees and $7 million related to changes in participation assumptions for capped retirees and future retirees as a result of the subsidy. The total $27 million decrease is currently being amortized as a reduction to PBOP expense over approximately 13 years. For the nine months ended September 30, 2004, this reduction in PBOP expense totaled approximately $2.8 million, including amortization of the actuarial gain of $1.5 million and a reduction in interest cost based on a lower PBOP benefit obligation of $1.3 million.

Utility Group Unbilled Revenues: Unbilled revenues represent an estimate of electricity or gas delivered to customers that has not been billed. Unbilled revenues are assets on the condensed consolidated balance sheet that become accounts receivable in the following month as customers are billed. Such estimates are subject to adjustment when actual meter readings become available, when changes in estimating methodology occur and under other circumstances.

The Utility Group estimates unbilled revenues monthly using the requirements method. The requirements method utilizes the total monthly volume of electricity or gas delivered to the system and applies a delivery efficiency (DE) factor to reduce the total monthly volume by an estimate of delivery losses in order to calculate total estimated monthly sales to customers. The total estimated monthly sales amount less the total monthly billed sales amount results in a monthly estimate of unbilled sales. Unbilled revenues are estimated by applying an average rate to the estimate of unbilled sales. The estimated DE factor can have a significant impact on estimated unbilled revenue amounts.

In accordance with management s policy of testing the estimate of unbilled revenues twice each year using the cycle method of estimating unbilled revenues, testing was performed in the second quarter of 2004. The cycle method uses the billed sales from each meter reading cycle and an estimate of unbilled days in each month based on the meter reading schedule. The cycle method is more accurate than the requirements method when used in a mostly weather-neutral month.

The cycle method testing resulted in adjustments to the estimate of unbilled revenues that had a net positive after-tax earnings impact of $1.5 million in the second quarter of 2004. There were positive after-tax impacts on CL&P, WMECO and Yankee Gas of $1.8 million, $0.9 million, and $0.5 million, respectively, while there was a negative after-tax impact on PSNH of $1.7 million.

Testing using the cycle method will be performed again in the fourth quarter of 2004, and any adjustment will be recorded in the fourth quarter of 2004.

Other Matters

Commitments and Contingencies: For further information regarding other commitments and contingencies, see Note 4, Commitments and Contingencies, to the condensed consolidated financial statements.

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The following are material updates to the table of contractual obligations and commercial commitments disclosed in NU s 2003 report on Form 10-K:

(Millions of Dollars)	2004	2005	2006	2007	2008	Thereafter
Contracted expenditures for construction of Yankee Gas LNG facility	$ 7.5	$ 30.6	$ 39.3	$ 3.4	$	$
Northern Wood Project	21.6	36.5	5.6			
FERC-approved billings from the Yankee Companies	40.8	92.5	74.4	68.6	60.9	113.5
	$69.9	$159.6	$119.3	$72.0	$60.9	$ 113.5

Certain other estimated construction expenditures totaling $19.2 million related to the Yankee Gas LNG facility and $11.3 million related to the Northern Wood Project are not included in the contracts signed to build these facilities and are not included in the table above. NU s other long-term contractual arrangements have not changed materially from the amounts reported at December 31, 2003.

Forward Looking Statements: This discussion and analysis includes statements concerning NU s expectations, plans, objectives, future financial performance and other statements that are not historical facts. These statements are forward looking statements within the meaning of the Private Litigation Reform Act of 1995. In some cases the reader can identify these forward looking statements by words such as estimate, expect, anticipate, intend, plan, believe, forecast, should, could, and similar expressions. Forward looking statements involve risks and uncerta may cause actual results or outcomes to differ materially from those included in the forward looking statements. Factors that may cause actual results to differ materially from those included in the forward looking statements include, but are not limited to, actions by state and federal regulatory bodies, competition and industry restructuring, changes in economic conditions, changes in weather patterns, changes in laws, expiration or initiation of significant energy supply contracts, regulations or regulatory policy, levels of capital expenditures, developments in legal or public policy doctrines, technological developments, volatility in electric and natural gas commodity markets, and other presently unknown or unforeseen factors. Other risk factors are detailed from time to time in our reports to the SEC. Management undertakes no obligation to update the information contained in any forward looking statements to reflect developments or circumstances occurring after the statement is made.

Website: Additional financial information is available through NU s website at www.nu.com.

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RESULTS OF OPERATIONS - NU CONSOLIDATED

The following table provides the variances in income statement line items for the condensed consolidated statements of income for NU included in this report on Form 10-Q for the third quarter of 2004 and the first nine months of 2004:

	Income Statement Variances (Millions of Dollars) 2004 over/(under) 2003			
	Third Quarter	Percent	Nine Months	Percent
Operating Revenues:	$ 28	2%	$ 476	10%
Operating Expenses:				
Fuel, purchased and net interchange power	73	7	431	16
Other operation	41	18	126	19
Maintenance	8	17	12	8
Depreciation	6	12	16	11
Amortization	(14)	(24)	(40)	(28)
Amortization of rate reduction bonds	3	6	9	8
Taxes other than income taxes	2	4	10	6
Total operating expenses	119	8	564	14
Operating income	(91)	(72)	(88)	(22)
Interest expense, net			3	2
Other income, net	3	75	7	(a)
Income before income tax expense	(88)	(a)	(84)	(40)
Income tax expense	(36)	(a)	(36)	(47)
Preferred dividends of subsidiary				
Income before cumulative effect of accounting change	(52)	(a)	(48)	(36)
Cumulative effect of accounting change, net of tax benefit	5	100	5	100
Net Income	$ (47)	(a)%	$ (43)	(34)%

(a) Percent greater than 100.

Comparison of the Third Quarter of 2004 to the Third Quarter of 2003

Operating Revenues
Total revenues increased $28 million in the third quarter of 2004, compared with the same period in 2003, due to higher revenues from NU Enterprises ($78 million after intercompany eliminations), higher gas distribution revenues ($17 million) and higher regulated transmission revenues ($5 million after intercompany eliminations), partially offset by lower electric distribution revenues ($72 million).

NU Enterprises contribution to consolidated NU revenues increased primarily due to more of its revenues coming from companies that are not other subsidiaries of NU ($71 million), and due to higher revenues for the merchant energy segment resulting from higher gas prices and volumes ($10 million). Total NU Enterprises third quarter revenues before eliminations were flat in 2004 compared to 2003.

The electric distribution revenue decrease is primarily due to lower SMD revenue for CL&P ($91 million), lower sales volume for distribution revenues ($14 million) which includes the absence of the 2003 positive unbilled revenue estimate change, lower CL&P Energy Adjustment Clause (EAC) revenue as a result of the end of EAC billings in December 2003 ($12 million), lower revenues for CL&P and WMECO transition charges ($17 million), partially offset by increases in the standard offer, TS, and default service revenues for CL&P, PSNH and WMECO ($41 million) due mainly to rate increases and Federally Mandated Congestion Cost (FMCC) revenues for CL&P ($40 million). Electric retail kWh sales decreased by 4.9 percent in the third quarter of 2004 primarily due to the 2003 unbilled revenue estimate change. In addition, electric wholesale revenues decreased by $27 million primarily due to lower short-term transactions ($21 million) and the expiration of long-term contracts ($6 million).

The higher gas distribution revenues are primarily due to the absence of the 2003 negative adjustment to the estimate of unbilled revenues ($19 million).

Transmission revenues were higher due to the October 2003 implementation of the transmission rate case filed at the FERC.

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Fuel, Purchased and Net Interchange Power
Fuel, purchased and net interchange power expense increased $73 million in the third quarter of 2004, primarily due to higher costs at NU Enterprises ($62 million after intercompany eliminations) and higher purchased power costs for the Utility Group ($11 million after intercompany eliminations). The NU Enterprises increase includes the negative $76 million related to the mark-to-market accounting for certain natural gas contracts. The increase for the Utility Group is primarily due to more of its standard offer service being provided by companies that are not other subsidiaries of NU ($71 million) as a result of the change in the amount of standard offer service provided by Select Energy, partially offset by the decrease in the CL&P fuel expense amortization resulting from the rate adjustment clauses ($62 million).

Other Operation
Other operation expenses increased $41 million in the third quarter of 2004, primarily due to higher competitive business expenses resulting from business growth ($19 million) and higher CL&P reliability must run costs ($22 million) and other power pool related expenses ($6 million), higher regulated business administrative and general expenses ($13 million) primarily due to higher pension costs and higher distribution expenses ($2 million), partially offset by lower C&LM spending ($13 million).

Maintenance
Maintenance expenses increased $8 million in the third quarter of 2004, primarily due to higher distribution maintenance expense ($3 million) and higher fossil production expense ($3 million).

Depreciation
Depreciation increased $6 million in the third quarter of 2004 due to higher Utility Group plant balances and higher depreciation rates at CL&P resulting from the distribution rate case decision effective in January 2004.

Amortization
Amortization decreased $14 million in the third quarter of 2004 primarily due to lower Utility Group recovery of stranded costs ($7 million) and a decrease in CL&P amortization expense resulting from the distribution rate case decision effective in January 2004 ($7 million).

Amortization of Rate Reduction Bonds
Amortization of rate reduction bonds increased $3 million in the third quarter of 2004 due to the repayment of additional principal as compared to 2003.

Taxes Other Than Income Taxes
Taxes other than income taxes increased $2 million in the third quarter of 2004 primarily due to higher local property taxes, higher payroll taxes and higher sales tax.

Other Income, Net
Other income, net increased $3 million in the third quarter of 2004 primarily due to the recognition beginning in 2004 of a CL&P procurement fee approved in the December 2003 TSO docket decision ($3 million).

Income Tax Expense
Income tax expense decreased $36 million in the third quarter of 2004 due to lower income before tax expense along with a lower effective tax rate due to adjustments to tax reserves as a result of the actual 2003 tax return amounts compared to the 2003 year end tax provision estimates.

Comparison of the First Nine Months of 2004 to the First Nine Months of 2003

Operating Revenues
Total revenues increased $476 million in the first nine months of 2004, compared with the same period in 2003, due to higher revenues from NU Enterprises ($377 million after intercompany eliminations), higher electric distribution revenues ($53 million), higher gas distribution revenues ($38 million) and higher regulated transmission revenues ($8 million after intercompany eliminations).

The NU Enterprises revenue increase is primarily due to higher revenues for the merchant energy segment resulting from higher electric prices ($146 million), higher gas volumes ($54 million) and higher gas prices ($25 million), partially offset by lower electric volumes ($7 million). The NU Enterprises contribution to consolidated NU revenues increased due to more of its revenues coming from companies that are not other subsidiaries of NU ($122 million).

The electric distribution revenue increase is primarily due to increases in the standard offer, TS, and default service revenues for CL&P, PSNH and WMECO ($192 million) due mainly to rate increases, FMCC revenues for CL&P ($115 million) and higher CL&P retail transmission rates ($20 million), partially offset by lower SMD revenue for CL&P ($120 million), lower CL&P EAC revenue as a result of the end of EAC billings in December 2003 ($33 million) and lower revenues for CL&P and WMECO transition revenues ($34 million). In addition, electric wholesale revenues decreased by $74 million primarily due to lower short-term transactions ($56 million) and the expiration of long-term contracts ($18 million).

The higher gas distribution revenue is primarily due to the increased recovery of gas costs and the absence of the 2003 unbilled revenue estimate change ($28 million).

Transmission revenues were higher due to the October 2003 implementation of the transmission rate case filed at the FERC.

Fuel, Purchased and Net Interchange Power
Fuel, purchased and net interchange power expense increased $431 million in the first nine months of 2004, primarily due to higher wholesale costs at NU Enterprises ($258 million after intercompany eliminations) and higher purchased power costs for the Utility Group ($170 million after intercompany eliminations). The NU Enterprises increase includes the negative $74 million related to the mark-to-market accounting for certain natural gas contracts. The increase for the Utility Group is primarily due to more of its standard offer service being provided by companies that are not other subsidiaries of NU ($122 million) as a result of the change in the amount of standard offer service provided by Select Energy, an increase in the standard offer service requirements rates for CL&P ($66 million) and WMECO ($15 million), higher Yankee Gas expenses due to increased gas prices ($28 million), partially offset by the 2003 recovery of certain fuel costs ($33 million), lower wholesale purchases for CL&P ($17 million) and WMECO ($5 million), and lower expenses for PSNH due to lower regulated energy and capacity purchases ($7 million).

Other Operation
Other operation expenses increased $126 million in the first nine months of 2004, primarily due to higher competitive business expenses

resulting from business growth ($57 million), higher CL&P reliability must run costs ($42 million) and other power pool related expenses ($8 million), higher regulated business administrative and general expenses ($18 million) primarily due to higher pension costs, higher fossil production expense ($4 million), higher distribution expenses ($4 million), and higher nuclear related expenses as a result of the absence of the 2003 CL&P Millstone use of proceeds docket ($2 million), partially offset by lower C&LM spending ($11 million). That docket resulted in the recovery of certain other operation costs and maintenance costs that were expensed in periods prior to 2003. The recovery of these costs through the use of proceeds docket resulted in credits to these accounts in the first quarter of 2003.

Maintenance
Maintenance expenses increased $12 million in the first nine months of 2004, primarily due to higher distribution maintenance expense ($6 million) and the absence of the 2003 positive resolution of the CL&P Millstone use of proceeds docket ($5 million).

Depreciation
Depreciation increased $16 million in the first nine months of 2004 due to higher Utility Group plant balances and higher depreciation rates at CL&P resulting from the distribution rate case decision effective in January 2004.

Amortization
Amortization decreased $40 million in the first nine months of 2004 primarily due to lower Utility Group recovery of stranded costs and a decrease in amortization expense resulting from the implementation of the CL&P distribution rate case decision effective in January 2004 ($22 million).

Amortization of Rate Reduction Bonds
Amortization of rate reduction bonds increased $9 million in the first nine months of 2004 due to the repayment of additional principal as compared to 2003.

Taxes Other Than Income Taxes
Taxes other than income taxes increased $10 million in the first nine months of 2004 primarily due to higher Connecticut gross earnings tax as a result of an increase in revenues for NU Enterprises, CL&P and Yankee Gas, higher local property taxes, higher payroll taxes and higher sales tax.

Interest Expense, Net
Interest expense, net increased $3 million in the first nine months of 2004 primarily due to the issuance of $75 million of ten-year notes at Yankee Gas in January 2004.

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Other Income, Net
Other income, net increased $7 million in the first nine months of 2004 primarily due to the recognition beginning in 2004 of a CL&P procurement fee approved in the TSO docket decision ($9 million).

Income Tax Expense
Income tax expense decreased $36 million in the first nine months of 2004 due to lower income before tax expense along with a lower effective tax rate due to adjustments to tax reserves as a result of the actual 2003 tax return amounts compared to the 2003 year end tax provision estimates.

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ITEM 4. CONTROLS AND PROCEDURES (RESTATED)

NU, CL&P, PSNH, and WMECO (collectively, the companies) evaluated the design and operation of their disclosure controls and procedures at September 30, 2004 to determine whether they are effective in ensuring that the disclosure of required information is made timely and in accordance with the Exchange Act and the rules and forms of the SEC. This evaluation was made under the supervision and with the participation of management, including the companies principal executive officers and principal financial officer, as of the end of the period covered by this report on Form 10-Q/A. The principal executive officers and principal financial officer previously concluded, based on their review, that the companies disclosure controls and procedures were effective to ensure that information required to be disclosed by the companies in reports that they file under the Exchange Act (i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to management, including the principal executive officers and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

On January 26, 2005, subsequent to the September 30, 2004 disclosure control and procedures evaluation, it was determined that there was a material weakness in NU s internal controls over financial reporting. This weakness relates to the discovery, subsequent to the filing of the September 30, 2004 Form 10-Q, of an accounting error in which certain natural gas basis contracts at NU s subsidiary Select Energy were incorrectly accounted for on an accrual basis and certain natural gas futures and swaps contracts were incorrectly accounted for as cash flow hedges. This conclusion is based on the intent of these contracts to hedge electricity contracts, the uncertainty as to if the contracts will result in physical delivery, and the relationship of these contracts to the status of the wholesale natural gas business. The controls and procedures that should have prevented this error will be enhanced and include improved communications, derivative documentation, reporting relationships, and other items.

This error resulted in the restatement of NU s condensed consolidated financial statements as of and for the three and nine month periods ended September 30, 2004, and this Form 10-Q/A reflects the change from accrual and hedge accounting to fair value accounting for the contracts described above. Because of these restatements, NU s principal executive officer and principal financial officer, following consultation with and approval of the Audit Committee of the Board of Trustees, have now concluded that NU s disclosure controls and procedures were not effective as of September 30, 2004.

The principal executive officer and principal financial officer of CL&P, PSNH, and WMECO continue to believe that their disclosure controls and procedures were effective to ensure that information required to be disclosed by CL&P, PSNH, and WMECO in reports that they file under the Exchange Act i) is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms 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 disclosure.

There were no significant changes in the companies internal controls over financial reporting during the quarter ended September 30, 2004 that have materially affected, or are reasonably likely to materially affect the companies internal controls over financial reporting. Changes to address the material weakness described above were not yet implemented at September 30, 2004.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Listing of Exhibits (NU)

Exhibit No.	Description

10.1	Letter Agreement relating to employment of Lawrence E. De Simone dated September 27, 2004*
31	Certification of Charles W. Shivery, Chairman, President and Chief Executive Officer of Northeast Utilities, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 17, 2005
31.1	Certification of David R. McHale, Senior Vice President and Chief Financial Officer of Northeast Utilities, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated March 17, 2005
32	Certification of Charles W. Shivery, Chairman, President and Chief Executive Officer of Northeast Utilities and David R. McHale, Senior Vice President and Chief Financial Officer of Northeast Utilities, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated March 17, 2005

*Filed with original report on Form 10-Q.

(b) Reports on Form 8-K:

NU and PSNH filed current reports on Form 8-K dated July 14, 2004 disclosing:

The filing with the NHPUC of a settlement among several parties with regards to its delivery service rate case.

NU and CL&P filed current reports on Form 8-K dated August 19, 2004 disclosing:

The dismissal of the appeal by the City of Norwalk concerning the Bethel, Connecticut to Norwalk, Connecticut transmission project.

NU filed a current report on Form 8-K dated September 15, 2004 disclosing:

The announcement that John H. Forsgren, Vice Chairman, Executive Vice President and Chief Financial Officer, will retire effective January 1, 2005 and at that time, David R. McHale, NU Vice President and Treasurer, will be promoted to senior vice president and chief financial officer.

NU filed a current report on Form 8-K dated October 25, 2004 disclosing:

NU s financial results for the third quarter and nine months ended September 30, 2004.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NORTHEAST UTILITIES

Registrant

Date: March 17, 2005

By /s/ David R. McHale

David R. McHale
Senior Vice President and Chief Financial Officer
(for the Registrant and as Principal Financial Officer)

div style="text-align:right;font-size:10pt;">

5,853

(a)
314,365

5,610

(b)
298,564

6,244

(c)
238,958

5,862

(d)
314,848

95,476

(f)
4,841,588

130,720

(g)
6,628,811

Matthew J. Foulston

2,526

(b)
128,093

1,480

(c)
56,640

Thomas E. O’Neill

36,100

(e)
648,310

1,170

(a)
62,841

1,083

(b)
57,637

1,207

(c)
46,192

1,172

(d)
62,948

Erik T. Kahler

14,100

(e)
377,012

637

(a)
34,213

590

(b)
31,400

657

(c)
25,143

638

(d)
34,267

Lori G. Roberts

280

(a)
13,289

330

(a)
17,724

173

(a)
8,216

590

(b)
31,400

657

(c)
25,143

331

(d)
17,778

Maurice Alkemade

1,230

(c)
47,355

(a) Represents the vesting of the third of three tranches of restricted stock unit awards granted in 2015.
(b) Represents the vesting of the second of three tranches of restricted stock unit awards granted in 2016.
(c) Represents the vesting of the first of three tranches of restricted stock unit awards granted in 2017.
(d) Represents the vesting of performance units granted in 2015, with performance period ending December 31, 2017. Awards vested on June 26, 2018.
(e) Represents stock options that were granted on June 27, 2008.
(f) Represents restricted stock units granted in 2016, 2017, and 2018 that vested as of December 31, 2018 pursuant to the terms of Mr. Reed's employment agreement.
(g) Represents performance units granted in 2016, 2017, and 2018 that vested at target as of December 31, 2018 pursuant to the terms of Mr. Reed's employment agreement.

2018 Non-Qualified Deferred Compensation

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)	Aggregate Earnings (Loss) in Last FY ($)(a)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)
Steven Oakland	—	—	—	—	—
Sam K. Reed	—	—	120,332	2,402,695	361,493
Matthew J. Foulston	—	—	—	—	—
Thomas E. O’Neill	—	—	—	—	—
Erik T. Kahler	—	—	—	—	—
Lori G. Roberts	—	—	—	—	—
Maurice Alkemade	—	—	—	—	—

(a) Amounts in this column are not included in the 2018 Summary Compensation Table of this Proxy Statement.

The 2018 Non-Qualified Deferred Compensation table presents amounts previously deferred under our Deferred Compensation Plan. Participants may defer up to 100% of their base salary and annual incentive plan payments under the Deferred Compensation Plan. Deferred amounts are credited with earnings or losses based on the return of mutual funds selected by the executive, which the executive may change at any time. We do not make contributions to participants’ accounts under the Deferred Compensation Plan, except to the extent that employees in the plan have their Company matching contributions in the 401(k) plan limited as a result of participating in the Deferred Compensation Plan. Distributions are made in either a lump sum or an annuity as chosen by the executive at the time of the deferral.

The earnings on Mr. Reed’s Deferred Compensation Plan accounts were measured by reference to a portfolio of publicly available mutual funds chosen by Mr. Reed in advance and administered by an outside third party. As presented above, Mr. Reed’s 2018 annualized gain was approximately 4.6%. Messrs. Oakland, Foulston, O’Neill, Kahler, and Alkemade, as well as Ms. Roberts, do not participate in the Deferred Compensation Plan.

Potential Payments Upon Termination or Change in Control

Benefits upon termination are provided for in either an Executive’s individual employment agreement (Mr. Oakland, Mr. O’Neill, and Mr. Foulston) or the Severance Plan (other NEOs). The rights upon termination of Executive's employment depend upon the circumstance of the termination.

Termination Without Change in Control

Central to an understanding of the rights of each NEO under the agreements is an understanding of the definitions of “Cause” and “Good Reason” that are used in the employment agreements and the Severance Plan:

- Cause: Under the individual employment agreements for Mr. Oakland, Mr. O’Neill, and Mr. Foulston as well as under the Severance Plan, a termination for "Cause" may occur if the NEO has engaged in any of a list of specified activities, including refusing to perform duties consistent with the scope and nature of his position, committing an act materially detrimental to the financial condition and/or goodwill of us or our subsidiaries, commission of a felony or other actions specified in the definition.
Payments: Under the individual employment agreements and the Severance Plan, an NEO is not eligible for any severance benefits in the event of a termination for Cause.

- Good Reason:

Under the terms of their employment agreements, Mr. Oakland, Mr. O'Neill and Mr. Foulston may terminate their employment for "Good Reason" if there is an assignment of duties that is materially inconsistent with their position, a reduction in compensation, or certain other actions specified in the agreement.
Under the terms of the Severance Plan (applies to all other NEOs), the participant is said to have Good Reason to terminate his employment and thereby gain access to the benefits described below if there is a reduction in compensation other than a reduction which applies to all Executive Officers of the Company, or a call for relocation. Following a Change in Control, Good Reason shall also include a material reduction in the Executive's

duties and responsibilities, or the assignment of duties and responsibilities that are materially inconsistent with the Executive's duties.

Payments following an involuntary termination without Cause or a voluntary termination for Good Reason:
Mr. Oakland, Mr. O'Neill and Mr. Foulston: Two times base salary and target bonus plus continuation of certain health and welfare benefits for up to two years.
Other NEOs as covered under the Severance Plan: Base salary and target bonus plus continuation of certain health and welfare benefits for up to one year.

The employment agreements and Severance Plan require, as a precondition to the receipt of these payments, that the NEOs sign a standard form of release in which the NEO waives all claims that the NEO might have against us and certain associated individuals and entities. The NEO's employment agreements also include non-compete and non-solicit provisions that would apply for a period of one year following the NEO's termination of employment, and confidentiality provisions that would apply for an unlimited period of time following the NEO's termination of employment. The Severance Plan includes non-solicit provisions.

Termination Post Change in Control

Payments following a termination without Cause or resignation for Good Reason (as defined above) within a 24-month period immediately following a change-in-control of the Company:
Mr. Oakland, Mr. O'Neill, and Mr. Foulston will receive three times the amount of base salary and target bonus plus continuation of certain health and welfare benefits for up to three years.
Other NEOs as covered under the Severance Plan: Two times base salary and target bonus plus the continuation of certain health and welfare benefits for two years.

Meridian has reviewed the existing change-in-control severance provisions of our NEO's employment agreements and Severance Plan relative to the current practices of our Compensation Comparator Group and has found our practices to be within the norms of the group.

The individual employment agreements and the Severance Plan do not provide a "gross-up" payment from the Company to the extent covered individuals incur excise taxes under Section 4999 of the Code.

TreeHouse Foods, Inc. Equity and Incentive Plan

The Company has issued equity awards to our NEOs that are subject to the terms and conditions of the Equity and Incentive Plan.

In the event of a voluntary or involuntary termination of the NEO without Cause, or resignation by the NEO for Good Reason, no unvested options shall become vested or exercisable, nor will unvested restricted stock or restricted stock units vest. For performance unit awards, the NEO shall receive accrued awards plus a pro rata portion of the award (based on the number of full calendar months served during the performance period divided by the length of the performance period) that would have accrued for the performance period in which the NEO was terminated without Cause by the Company.

In the event of a change in control, the Equity and Incentive Plan provides that each outstanding award may be assumed by the acquirer or replaced with an economically equivalent award. Any such assumed or replaced award will vest in full if a participant's employment is terminated without Cause or due to Good Reason within the 24 months following the change in control. Performance conditions applicable to performance-based awards that are assumed or replaced will be deemed satisfied at the greater of target or actual performance through the date of the change in control, and such awards will be subject only to vesting based on the passage of time for the remainder of the original

performance period. If the acquirer does not assume outstanding awards or replace outstanding awards with economically equivalent awards, such awards will be treated as follows: (i) unvested stock options will become fully vested; (ii) the restrictions on the restricted stock and restricted stock units will lapse, and (iii) performance units will be cancelled in exchange for a payment equal to the value that would have been payable had each performance unit been deemed equal to 100% (or such greater or lesser percentage as determined by the Compensation Committee) of its initially established dollar value. The Compensation Committee may instead provide that outstanding awards that are not assumed or substituted with economically equivalent awards in connection with a change in control will be cancelled in exchange for a cash payment.

In the event of death or disability, unvested options will become fully vested, and upon death, disability or retirement, a pro rata portion of the restricted stock and restricted stock units that would be eligible for lapse of restrictions on the next anniversary date of the grant will lapse. All unvested stock options, restricted stock and restricted stock unit awards will be forfeited for any

other reason of termination. For the performance units, the NEO shall receive accrued awards plus a pro rata portion of the award (based on number of full calendar months served during the performance period divided by the length of the performance period) that would have accrued for the performance period in which the NEO was terminated due to death, disability, or retirement.

TreeHouse Foods, Inc. Annual Incentive Plan

In the event of a voluntary or involuntary termination of the NEO without Cause, or resignation by the NEO for Good Reason, no portion of the Annual Incentive Award will be received by the NEO.

In the event of death, disability or retirement, the NEO will receive a pro rata portion of the Annual Incentive Award (based on the number of days served during the performance period divided by the length of the performance period).

In the event of a change in control without termination, no portion of the Annual Incentive Award will be received by the NEO.
The following tables illustrate the payouts to each NEO under each of the various separation and change in control situations. A table for Mr. Reed is not presented due to his retirement from the Company in March 2018. The tables assume that the events took place on the last business day of the fiscal year ended December 31, 2018.

Name of Participant: Steven Oakland

	Involuntary Termination without Cause or Resignation for Good Reason ($)	Retirement ($)	Disability or Death ($)	Involuntary Termination without Cause or Resignation for Good Reason Following Change in Control ($)	Change in Control Without Termination ($)
Severance	4,600,000	—	—	6,900,000	—
Interest on Severance	113,505	—	—	113,505	—
Pro-rated Annual Incentives	—	—	1,300,000	1,300,000	—
Stock Options	—	—	—	—	—
Restricted Stock Units	—	—	1,256,481	4,523,333	4,523,333
Performance Units & Cash	996,950	—	996,950	3,218,564	3,218,564
Welfare Benefits	25,182	—	—	37,773	—
Aggregate Payments	5,735,637	—	3,553,431	16,093,175	7,741,897

Name of Participant: Matthew J. Foulston

	Involuntary Termination without Cause or Resignation for Good Reason ($)	Retirement ($)	Disability or Death ($)	Involuntary Termination without Cause or Resignation for Good Reason Following Change in Control	Change in Control Without Termination ($)

				($)	
Severance	2,230,980	—	—	3,346,470	—
Interest on Severance	55,049	—	—	55,049	—
Pro-rated Annual Incentives	—	—	528,390	528,390	—
Stock Options	—	—	—	—	—
Restricted Stock Units	—	—	331,418	1,207,743	1,207,743
Performance Units & Cash	298,134	—	298,134	1,059,604	1,059,604
Welfare Benefits	32,612	—	—	48,918	—
Aggregate Payments	2,616,775	—	1,157,942	6,246,174	2,267,347

Name of Participant: Thomas E. O’Neill

	Involuntary Termination Without Cause or Resignation for Good Reason ($)	Retirement (1) ($)	Disability or Death ($)	Involuntary Termination without Cause or Resignation for Good Reason Following Change in Control ($)	Change in Control Without Termination ($)
Severance	2,190,722	—	—	3,286,083	—
Interest on Severance	54,056	—	—	54,056	—
Pro-rated Annual Incentives	—	518,855	518,855	518,855	—
Stock Options	—	—	—	—	—
Restricted Stock Units	—	293,344	293,344	934,417	934,417
Performance Units & Cash	269,431	269,431	269,431	1,110,001	1,110,001
Welfare Benefits	31,670	—	—	47,505	—
Aggregate Payments	2,545,879	1,081,630	1,081,630	5,950,917	2,044,418

(1) Mr. O'Neill is retirement eligible (pursuant to the terms of the Equity and Incentive Plan); therefore, he is eligible to receive a pro-rated portion of the annual incentives, restricted stock units, and performance units.

Name of Participant: Erik T. Kahler

	Involuntary Termination Without Cause or Resignation for Good Reason ($)	Retirement ($)	Disability or Death ($)	Involuntary Termination without Cause or Resignation for Good Reason Following Change in Control ($)	Change in Control Without Termination ($)
Severance	777,490	—	—	1,554,980	—
Interest on Severance	25,579	—	—	25,579	—
Pro-rated Annual Incentives	—	—	333,210	333,210	—
Stock Options	—	—	—	—	—
Restricted Stock Units	—	—	160,004	509,805	509,805
Performance Units & Cash	146,982	—	146,982	605,824	605,824
Welfare Benefits	13,007	—	—	26,015	—
Aggregate Payments	963,058	—	640,196	3,055,413	1,115,629

Name of Participant: Lori G. Roberts

	Involuntary Termination Without Cause or Resignation for Good Reason ($)	Retirement ($)	Disability or Death ($)	Involuntary Termination without Cause or Resignation for Good Reason Following Change in Control ($)	Change in Control Without Termination ($)
Severance	777,490	—	—	1,554,980	—
Interest on Severance	25,579	—	—	25,579	—
Pro-rated Annual Incentives	—	—	333,210	333,210	—
Stock Options	—	—	—	—	—
Restricted Stock Units	—	—	160,004	509,805	509,805
Performance Units & Cash	146,982	—	146,982	605,824	605,824
Welfare Benefits	15,012	—	—	30,025	—
Aggregate Payments	965,063	—	640,196	3,059,423	1,115,629

Name of Participant: Maurice Alkemade

	Involuntary Termination Without Cause or Resignation for Good Reason ($)	Retirement ($)	Disability or Death ($)	Involuntary Termination without Cause or Resignation for Good Reason Following Change in Control ($)	Change in Control Without Termination ($)
Severance	775,075	—	—	1,215,810	—
Interest on Severance	25,500	—	—	25,500	—
Pro-rated Annual Incentives	—	—	332,175	332,175	—
Stock Options	—	—	—	—	—
Restricted Stock Units	—	—	161,581	538,032	538,032
Performance Units & Cash	132,504	—	132,504	320,834	320,834
Welfare Benefits	13,007	—	—	26,015	—
Aggregate Payments	946,086	—	626,260	2,458,366	858,866

2018 DIRECTOR COMPENSATION

Directors who are full-time employees of the Company receive no additional fees for service as a director. Non-employee directors receive a combination of cash payments and equity-based compensation as shown in the table and narrative below:

Name	Fees Earned or Paid in Cash ($)	Restricted Stock Units ($)	Total ($)
George V. Bayly	112,500	167,240	279,740
Linda K. Massman	107,500	167,240	274,740
Dennis F. O’Brien	140,000	167,240	307,240
Frank J. O’Connell	122,500	167,240	289,740
Matthew E. Rubel (1)	97,500	199,004	296,504
Ann M. Sardini	130,000	167,240	297,240
Gary D. Smith	265,000	167,240	432,240
Jean E. Spence (1)	67,500	104,886	172,386
David B. Vermylen	390,000	167,240	557,240

(1) Mr. Rubel and Ms. Spence became non-management directors of the Company in February 2018 and September 2018, respectively; therefore, they received a pro-rata portion of cash compensation and the annual restricted stock unit grant for 2018.

Cash Compensation

For the 2018-2019 Board year, non-management directors of the Company received a cash retainer of $90,000 per year. Committee members received additional annual cash retainers as follows: Audit Committee $7,500; Compensation Committee $5,000; and Nominating and Corporate Governance Committee $5,000. The Chairman of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee received additional annual cash retainers of $17,500, $15,000, and $15,000, respectively. No individual meeting attendance fees are paid to Board or Committee members.

Fees Earned or Paid in Cash

	Annual Retainer ($)	Nominating & Corporate Governance Committee ($)	Audit Committee ($)	Compensation Committee ($)	Chairman of the Board ($)	Other (1) ($)	Total ($)
George V. Bayly*	90,000	15,000	7,500	—	—	—	112,500
Linda K. Massman*	90,000		17,500	—	—	—	107,500
Dennis F. O'Brien	90,000	5,000	—	5,000	—	40,000	140,000
Frank J. O'Connell	90,000	—	7,500	5,000	—	20,000	122,500
Matthew E. Rubel	90,000		7,500	—	—	—	97,500
Ann M. Sardini*	90,000	5,000	—	15,000	—	20,000	130,000
Gary D. Smith	90,000	—	—	—	175,000	—	265,000
Jean E. Spence	67,500	—	—	—	—	—	67,500

David B. Vermylen	90,000	—	—	—	—	300,000	390,000

* Chairman

(1) Payments included in this column for Messrs. O'Brien, O'Connell, and Ms. Sardini reflect fees for the extensive time commitment related to the CEO search. Payments to Mr. Vermylen reflect fees for services provided as a consultant.

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Equity-Based Compensation

To ensure that directors have an ownership interest aligned with other stockholders, each non-management director will be granted options and/or restricted stock units of the Company's stock having a value determined by the Board. The grant date fair value of restricted stock units granted in 2018 for each non-employee director was $167,240.

Outstanding Awards (as of December 31, 2018)

	Stock Options (#)	Restricted Stock Units (#)	Vested & Deferred Restricted Stock Units * (#)
George Bayly	—	4,370	21,590
Linda K. Massman	—	4,370	—
Dennis F. O'Brien	—	4,370	9,560
Frank J. O'Connell	—	4,370	19,320
Matthew E. Rubel		5,200	—
Ann M. Sardini	—	4,370	3,700
Gary D. Smith	—	4,370	23,620
Jean E. Spence	—	2,012	—
David B. Vermylen	19,750	4,370	13,610

* Vested and deferred restricted stock units are deferred until termination of service from the Board.

Board Stock Ownership

At the same time that we adopted formal stock ownership and holding guidelines for management, we also adopted ownership and holding guidelines for the Board. All outside directors are covered by the guidelines and must achieve a stock ownership level equal to three times their annual retainer within five years of joining the Board. Similar to the management guidelines, shares of stock owned outright or through a trust, and vested restricted stock and restricted stock units count towards fulfillment of the guidelines. All of our outside directors are currently in compliance with these guidelines.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No member of the Compensation Committee was, during the year ended December 31, 2018, an officer, former officer or employee of the Company or any of its subsidiaries. No executive officer of the Company served as a member of (i) the compensation committee of another entity in which one of the executive officers of such entity served on the Company's Compensation Committee, (ii) the board of directors of another entity in which one of the executive officers of such entity served on the Company's Compensation Committee, or (iii) the compensation committee of another entity in which one of the executive officers of such entity served as a member of the Company's Board, during the year ended December 31, 2018.

COMMITTEE REPORTS

Notwithstanding anything to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act that might incorporate by reference this Proxy Statement or future filings with the SEC, in whole or in part, the following Committee reports shall not be deemed to be incorporated by reference into any such filings, except to the extent we specifically incorporate by reference a specific report into such filing. Further, the information contained in the following committee reports shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C other than as set forth in Item 407 of Regulation S-K, or subject to the liabilities of Section 18 of the Exchange Act, except to the extent that we specifically request that the information contained in any of these reports be treated as soliciting materials.

The Board has established three (3) committees to help oversee various matters of the Company. These include the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each of these Committees operates under the guidelines of their specific charters. These charters may be reviewed on our website at www.treehousefoods.com. The information on our website is not part of this Proxy Statement and is not deemed to be incorporated by reference herein.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is currently composed of four (4) independent directors, Ms. Massman and Messrs. Bayly, O'Connell, and Rubel, and operates pursuant to a written charter. The Company's management is responsible for its internal accounting controls and the financial reporting process. The Audit Committee is responsible for overseeing and monitoring the integrity of the Company's financial statements, accounting and financial reporting processes, systems of internal control over financial reporting, compliance with legal and regulatory financial accounting requirements, audits of the Company's financial statements, and review of the performance of the Audit Committee. The Audit Committee also regularly receives and reviews reports from the third party whistleblower hotline provider.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, is responsible for performing an independent audit of the Company's consolidated financial statements and internal controls over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board ("PCAOB") and to issue reports thereon. The Audit Committee's responsibilities are to monitor and oversee the audit process, and to appoint, compensate and evaluate the performance of the independent registered public accounting firm.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent registered public accounting firm a formal written statement describing all relationships between the independent registered public accounting firm and the Company that might bear on the independent registered public accounting firm's independence consistent with PCAOB Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, and discussed with Deloitte & Touche LLP any relationships that may impact its objectivity and independence, and the Audit Committee satisfied itself as to Deloitte & Touche LLP's independence. The Audit Committee has reviewed and discussed the financial statements with management. The Audit Committee also discussed with management and Deloitte & Touche LLP the quality and adequacy of the Company's internal controls and the internal audit department's organization, responsibilities, budget and staffing. The Audit Committee reviewed both with Deloitte & Touche LLP and the internal auditors their audit plans, audit scope, and identification of audit risks.

The Audit Committee discussed and reviewed with Deloitte & Touche LLP all communications required by PCAOB Auditing Standard No. 1301, Communications with Audit Committees, and, with and without management present, discussed and reviewed the results of Deloitte & Touche LLP's audit of the financial statements. The Audit Committee also discussed the results of the internal audit examinations.

Based on the Audit Committee's discussions with management and Deloitte & Touche LLP and the Audit Committee's review of the representations of management and the report of the independent registered public accounting firm, the Audit Committee recommended to the Board that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, for filing with the SEC.

In order to assure that the provision of audit and non-audit services provided by Deloitte & Touche LLP, our independent registered public accounting firm, does not impair its independence, the Audit Committee is required to pre-approve all audit services to be provided to the Company by Deloitte & Touche LLP, and all other services, including review, attestation and non-audit services, other than de minimis services that satisfy the requirements of the New York Stock Exchange and the Exchange Act, pertaining to de minimis exceptions.

This report is respectfully submitted by the Audit Committee of the Board.

Linda K. Massman, Chairman
George V. Bayly
Frank J. O'Connell
Matthew E. Rubel

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REPORT OF THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The Nominating and Corporate Governance Committee is currently comprised of three independent directors, Mr. Bayly, Mr. O'Brien, and Ms. Sardini. The purposes of the Nominating and Corporate Governance Committee are (i) to identify individuals qualified to become members of the Board, (ii) to recommend to the Board the persons to be nominated for election as directors at any meeting of the stockholders, (iii) in the event of a vacancy on or increase in the size of the Board, to recommend to the Board the persons to be nominated to fill such vacancy or additional Board seat, (iv) to recommend to the Board the persons to be nominated for each committee of the Board, (v) to develop and recommend to the Board a set of corporate governance guidelines applicable to the Company, including the Company’s Code of Ethics, and (vi) to oversee the evaluation of the Board. The Nominating and Corporate Committee will consider nominees who are recommended by stockholders, provided such nominees are recommended in accordance with the nominating procedures set forth in the Company’s By-laws. The Board adopted a charter for the Nominating and Corporate Governance Committee in June 2005.

This report is respectfully submitted by the Nominating and Corporate Governance Committee of the Board.

George V. Bayly, Chairman
Dennis F. O'Brien
Ann M. Sardini

REPORT OF THE COMPENSATION COMMITTEE

The Compensation Committee is comprised of Ms. Sardini, Mr. O’Brien, and Mr. O'Connell and operates pursuant to a written charter. The Compensation Committee oversees the Company’s compensation program on behalf of the Board. In fulfilling its oversight responsibilities, the Compensation Committee reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

In reliance on the review and discussions referred to above, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and the Company’s Proxy Statement to be filed in connection with the Meeting, each of which will be filed with the SEC.

This report is respectfully submitted by the Compensation Committee of the Board.

Ann M. Sardini, Chairman
Dennis F. O’Brien
Frank J. O'Connell

FEES BILLED BY INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The following table presents fees billed for professional services rendered for the audit of our consolidated financial statements, audit of our internal controls over financial reporting and review of our quarterly reports on Form 10-Q and fees billed for other services rendered by Deloitte & Touche, LLP for 2017 and 2018:

	2017 ($)	2018 ($)
Audit Fees	4,873,123	4,553,167
Audit-Related Fees	1,895	3,138,394
Tax Fees	186,895	241,895
Other	168,976	—
Total Fees	5,230,889	7,933,456

Audit fees include fees associated with the annual audit of our consolidated financial statements and internal controls over financial reporting and reviews of the Company's quarterly reports on Form 10-Q.

Audit-related fees include due diligence services related to acquisitions and divestitures and procedures related to various other audit and special reports.

Tax fees include professional services in connection with tax compliance and advice.

All other fees include fees for non-audit services not listed above that do not impair the independence of the auditor and are not prohibited by the SEC or PCAOB, including a review of the Company's cyber security capability.

The Audit Committee pre-approved all of the audit, audit-related, tax and other services in accordance with the pre-approval policies described above under the heading "Committee Reports — Report of the Audit Committee" and determined that the independent accountant's provision of non-audit services is compatible with maintaining the independent accountant's independence.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We maintain policies and procedures relating to the review, approval or ratification of transactions in which we are a participant and in which any of our directors, executive officers, major stockholders or their family members have a direct or indirect material interest. We refer to these individuals and entities in this Proxy Statement as related parties. Our Code of Ethics, which is available on our website at www.treehousefoods.com, prohibits our employees, including our executive officers, and directors from engaging in specified activities without prior approval. These activities typically relate to conflict of interest situations where an employee or director may have significant financial or business interests in another company competing with or doing business with us, or who stands to benefit in some way from such a relationship or activity. The information on our website is not part of this Proxy Statement and is not deemed to be incorporated by reference herein.

We review all relationships and transactions in which the Company and our directors, executive officers, or their immediate family members are participants, to determine whether such persons have a direct or indirect material interest and whether such transactions involve at least $120,000. Our law department has responsibility for the development and implementation of processes and controls to obtain information from the directors and executive officers with respect to related party transactions and for then determining, based upon the facts and circumstances, whether the Company or a related party has a direct or indirect material interest in the transaction. Each year, we require our directors and executive officers to complete a questionnaire, among other things, to identify such related party relationships and transactions. We also require that directors and executive officers notify our General Counsel

of any changes during the course of the year to the information provided in the annual questionnaire as soon as possible and we gather information regarding possible related party transactions throughout the year. As required under SEC rules, transactions involving the Company that exceed $120,000 and that a related party has a direct or indirect material interest in will be disclosed in our Proxy Statement. Our Board has responsibility for reviewing and approving or ratifying related person transactions.

ADVISORY VOTE TO APPROVE THE COMPANY’S EXECUTIVE COMPENSATION PROGRAM (PROPOSAL 3)

Pursuant to Section 14A of the Exchange Act, we are seeking the advisory approval of stockholders of the Company’s executive compensation program and practices as disclosed in this Proxy Statement. As approved by its stockholders at the 2011 Annual Meeting of Stockholders, consistent with the Board’s recommendation, the Company is submitting this proposal for a non-binding vote on an annual basis. Stockholders are being asked to vote on the following advisory resolution:

“RESOLVED, that the Company’s stockholders approve, on an advisory basis, the compensation of the Company’s executive officers, as disclosed in the 2019 Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2018 Summary Compensation Table and the other related tables and disclosure.”

The Company has a pay-for-performance philosophy that forms the foundation of our decisions regarding executive compensation. This philosophy and the compensation structure approved by the Compensation Committee are central to the Company’s ability to attract, retain and motivate individuals who can achieve superior financial results in the best interests of the Company and its stockholders. To that end, our program links pay to performance by delivering a significant majority of the total compensation opportunity of our NEOs in variable or “pay at risk” compensation programs (annual and LTI plans). Our program also aligns the NEO's financial interest with those of our stockholders by delivering a substantial portion of their total compensation in the form of equity awards and other LTI vehicles.

We urge our stockholders to read “Compensation Discussion and Analysis” above, which describes in detail how our executive compensation program and practices operate and are designed to achieve our compensation objectives, as well as the accompanying compensation tables which provide detailed information on the compensation of our NEOs.

This advisory vote on the Company’s executive compensation program and practices is non-binding on the Board. Although non-binding, the Board and the Compensation Committee will carefully review the voting results when evaluating our executive compensation program.

The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and entitled to be voted on the proposal at the Meeting is required for approval of this advisory resolution.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE “FOR” APPROVAL OF THE ADVISORY RESOLUTION SET FORTH ABOVE.

PROXIES SOLICITED BY THE BOARD WILL BE VOTED FOR THE APPROVAL OF THE ADVISORY RESOLUTION SET FORTH ABOVE UNLESS STOCKHOLDERS SPECIFY A CONTRARY VOTE.

APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE TREEHOUSE FOODS, INC. EQUITY AND INCENTIVE PLAN, INCLUDING AN INCREASE IN THE NUMBER OF SHARES SUBJECT TO THE PLAN (PROPOSAL 4)

At our 2017 Annual Meeting of Stockholders, a majority of our stockholders approved the amendment and restatement of the TreeHouse Foods, Inc. Equity and Incentive Plan. The Compensation Committee of the Board, on behalf of the Board, has approved, subject to stockholder approval, a further amendment and restatement of the TreeHouse Foods, Inc. Equity and Incentive Plan (as so amended and restated, the "Plan") in order to extend the term of the Plan to February 27, 2029, increase the number of shares available for issuance under the Plan, and to make certain other changes to the Plan as described below. At the Meeting, stockholders will be asked to approve the Plan, as amended and restated.

The Board of Directors and Compensation Committee have carefully considered the compensation needs of the Company in determining the number of shares to be subject to the Plan. When combined with our outstanding share balance, we believe the requested 1,450,000 additional shares will support three years of annual and on-going grants. The Compensation Committee believes three years of awards provides adequate equity to allow competitive equity awards in the near term while ensuring that we return to shareholders on a frequent basis for approval of additional shares. The Company evaluated past equity compensation practices, the number of shares likely to be needed for future grants, and benchmark data of long term incentive compensation at both the individual position and aggregate level. Meridian Compensation Partners LLC ("Meridian"), the independent consultant for the Compensation Committee, has also provided analysis and recommendations supporting the request.

The Company believes that its burn-rate and overhang are appropriate for TreeHouse as a private-label food company. Private-label food products are typically sold at a significant discount to branded equivalent products. As a result, the cost of product components and employment costs are significantly higher as a percentage of revenue for private-label food products in comparison with branded products. As a primarily private-label company, TreeHouse's cost, burn-rate and overhang for employee equity programs are generally higher than branded food companies that have a lower percentage of employment costs in their margin structure. TreeHouse is one of the few publicly traded, private-label food companies; and we are the only publicly traded, highly diversified, multibillion dollar private-label food company in the United States. Due to the lack of true comparators, the Company's compensation comparator group and the peer groups established by external proxy advisory groups are primarily composed of larger, branded food companies.

Our potential dilution, or overhang, from outstanding awards and shares available for future awards under the Plan will be approximately 13.5%. This percentage is calculated on a fully diluted basis, based on the total shares underlying outstanding stock-based awards (2,710,000), the shares available for future awards under the prior plan, (4,579,216), the additional shares to be reserved under the Plan (1,450,000), and the total shares of Company common stock outstanding as of January 31, 2019 (55,988,420). The average 'burn rate' for awards granted to TreeHouse employees in the last three fiscal years is approximately 2.6% percent. Burn rate is calculated as the number of awards granted (stock options and restricted stock units) divided by the weighted average number of common shares outstanding.

Expanding the share reserve under the Plan is critical to our ability to attract, motivate and retain highly qualified talent and align pay with shareholder outcomes beyond 2019. If we do not increase the share reserve at our 2019 meeting, we would need to make significant changes to our equity award practices. The changes to our practices would limit our flexibility to provide competitive compensation.

The Plan includes a number of specific terms and limitations that the Board believes are consistent with the long-term interests of our stockholders and sound corporate governance practices, such as:

- Minimum Vesting Provision. The Plan requires that 95% or more of the equity awards have a one-year minimum vesting period.
- Prohibiting Dividends on Unvested Shares. The Plan prohibits the payment of dividends on time-based and performance-based equity awards before the vesting of the underlying award.
- No Evergreen Provision. The Plan provides for a fixed reserve of shares of our common stock available for awards granted under the Plan and does not provide for any annual increase of available shares.
- Conservative Share-Counting Provisions. The Plan prohibits shares tendered to pay the exercise price or shares withheld for payment of taxes of stock options and stock appreciation rights ("SARs") to be added back to the number of shares remaining available for issuance under the Plan. In addition, the Plan contains a fungible share design under which each share subject to an award other than stock options and SARs will count as 2.07 shares against the total number of shares we

have reserved for issuance under the Plan. The fungible share design is used in recognition of the fact that full-value awards can potentially be more costly to our stockholders than awards based on appreciation of stock price, such as options and SARs.

- Limited Terms. The Plan sets the maximum term for options and SARs at ten years. The Plan will terminate in 2029.
- No Stock Option Repricing. The Plan expressly prohibits the repricing of stock options and SARs, including through cancellations in exchange for another award or cash, without shareholder approval.
- No Discounted Stock Options or SARs. The Plan requires the exercise price of stock options and SARs to be not less than the fair market value of our common stock on the date of grant.
- Change in Control Definition Limited. The Plan contains a change in control definition that would trigger payments, if any, to participants only when an actual change in control of TreeHouse occurs.
- Limits on Non-Employee Director Awards. The Plan contains an annual award limit of $500,000 in fair market value for non-employee directors.
- Double-Trigger Change-in-Control Requirement. The Plan provides that if a non-vested award is assumed or replaced by a successor entity upon a change in control, vesting of such award will accelerate upon an employee's qualifying termination of employment following the change in control. Awards not assumed or replaced will vest upon a change in control.

The material terms of the Plan and of the proposed amendments are provided below.

Material Amendments to the Plan

- On February 27, 2019, the Compensation Committee, on behalf of the Board approved, subject to stockholder approval, the amendment and restatement of the Plan that would increase the maximum number of shares of common stock that may be issued under the Plan by 1,450,000 shares from 16,060,167 to 17,510,167 shares. As of December 31, 2018, there were 2,710,000 shares subject to outstanding awards under the Plan and 4,579,216 shares available for future awards under the Plan. The Company anticipates using 2,100,000 shares for our annual grant and the 2019 accelerated performance plan during the first quarter of 2019, leaving only 2,479,216 shares available. With the addition of 1,450,000 shares requested pursuant to the amendment and restatement, there would be 3,929,216 shares available for future grants. This amount would equate to a maximum of 1,898,172 shares that could be issued pursuant to full value awards like restricted stock units and performance units when applying the 2.07:1 fungible share counting ratio in the Plan. The Compensation Committee believes that increasing the total number of shares available for awards under the Plan is necessary to ensure that a sufficient number of shares will be available to fund our compensation programs. If the amendment and restatement is not approved, the Company expects that it will not have enough shares in the Plan to provide management and directors an annual market equity grant beyond 2020 in a manner consistent with prior practices. If the amendment is approved by our stockholders, we plan to register the offer and sale of the 1,450,000 additional shares of common stock on a registration statement on Form S-8. We anticipate we would have enough shares, after approval by our stockholders, to provide annual market equity grants for approximately three years, in a manner consistent with prior practices. If shares of our common stock are changed into or exchanged for a different kind or number of shares, for example in the event of a stock split, stock dividend or other recapitalization, then the number and kind of shares which may be issued under the Plan, the limitations on the number of shares which may be made subject to awards and the terms and provisions of outstanding awards will be appropriately adjusted to reflect such change in the common stock.
- The term of the Plan has been extended to February 27, 2029, which is 10 years from the effective date of the amendment and restatement.

Description of the TreeHouse Foods, Inc. Equity and Incentive Plan

The following is a summary of the Plan, as amended and restated, subject to receiving stockholder approval. For a more complete understanding of the Plan, please refer to the entire text of the Plan, a copy of which is included with this Proxy Statement as Appendix A.

The purposes of the Plan are to attract and retain non-employee directors, consultants, executive personnel and other key employees of outstanding ability, to motivate them by means of performance-related incentives and to enable them to participate in our growth and financial success. Eligibility to participate in the Plan is limited to our non-employee directors, consultants, and employees (including officers and directors who are employees) and the non-employee directors, consultants, and employees of our subsidiaries. As of February 27, 2019, we had approximately 14,200 employees and consultants and nine non-employee directors.

The Plan is administered by our Compensation Committee, which consists entirely of independent directors. The Compensation Committee or, with respect to awards to employees who are below the position of TreeHouse senior vice president

(or any analogous title) and not executive officers, and if the committee so designates, our Chief Executive Officer or such other officer or officers will, from time to time, determine the specific persons to whom awards under the Plan will be granted, the extent of any such awards and the terms and conditions of each award. The Compensation Committee or its designee, pursuant to the terms of the Plan, also will make all other necessary decisions and interpretations under the Plan.

Under the Plan, the Compensation Committee may grant awards of various types of equity-based compensation, including stock options, SARs, restricted stock and restricted stock units, performance shares and performance units and other types of stock-based awards, and cash-based compensation consisting of annual bonuses. The maximum number of shares that are available to be awarded under the Plan is 17,510,167 shares of common stock of the Company, which is equal to the sum of (i) 16,060,167 shares previously authorized under the Plan and (ii) 1,450,000 shares requested pursuant to this amendment and restatement of the Plan.

The maximum number of shares of our common stock that may be issued under the Plan with respect to incentive stock options may not exceed 1,000,000 shares. In addition, no participant may be granted awards of restricted stock, restricted stock units, performance shares and performance units covering more than 1,500,000 shares in any calendar year and no participant may be granted options and SARs over 1,500,000 shares of our common stock in any calendar year. No more than $5,000,000 may be paid to any one participant with respect to cash-based awards made during a calendar year. Shares subject to awards that expire without being exercised, are cancelled or terminated or otherwise settled without the issuance of any shares of common stock shall again be available for grant under the Plan. Shares withheld to satisfy tax obligations for awards other than stock options and stock appreciation rights will again be available for issuance under the Plan. The following shares will not be added back to the aggregate number of shares of common stock available for issuance under the Plan: (i) shares tendered to us or withheld by us to pay the exercise price of a stock option, or to satisfy any tax withholding obligation with respect to stock options or stock appreciation rights; (ii) shares subject to stock appreciation rights that are not issued in connection with the settlement of stock appreciation rights for shares upon exercise; and (iii) shares from stock options that are “net exercised” to cover the exercise price.

The Plan contains a fungible share design such that each share subject to an award that is not a stock option or SAR granted pursuant to the Plan (a “full-value award”) will count as 2.07 shares against the total number of shares we have reserved for issuance under the Plan. This provision is included in the Plan because we recognize that full-value awards can potentially be more costly to our stockholders than awards whose value is derived solely from the appreciation of the underlying common stock, such as stock options and stock appreciation rights. The Plan also provides that for the purpose of determining the number of shares available under the Plan, the number of shares available for issuance under the Plan is increased by one (1.00) share for every one (1.00) share granted in respect of options or SARs that that again become available for grant and two and seven hundredths (2.07) shares for every one (1.00) share granted in respect of awards other than options or SARs that again become available for grant under the Plan.

Performance Shares and Performance Units; Performance Awards; Performance Criteria

The Compensation Committee may grant awards of performance shares or performance units under the Plan based upon the achievement of specified performance objectives or the occurrence of other events, such as a change in control, as determined by the Compensation Committee in its discretion. The Compensation Committee has the authority to determine other terms and conditions of the performance shares and performance units. Participants may not transfer any shares underlying such awards before they vest. The Compensation Committee may also grant performance awards under the Plan. Performance awards may be payable in cash or in shares of common stock, and may relate to a single year performance period, such as an annual bonus award, or multi-year periods.

Unless otherwise determined by the Compensation Committee or provided in an employment or individual severance agreement, if a participant’s service is terminated by reason of death, disability or retirement during the relevant performance period, the participant (or any designated beneficiary) will be entitled to the same payment in respect of the performance award, performance shares or performance units for that performance period as would have been payable if the participant’s service with us had continued until the end of that performance period (based on actual

performance), prorated based on the participant's length of service during the performance period. If a participant's service is terminated for any other reason, all of the participant's rights to the performance award, performance shares and performance units will be immediately forfeited and cancelled (unless otherwise determined by the Compensation Committee or provided in an employment or individual severance agreement), and in any event, all such rights will be immediately forfeited and cancelled upon termination of employment for cause.

The Compensation Committee may establish performance goals applicable to any award, including performance awards, performance shares and performance units. When establishing a performance goal, the Compensation Committee will determine the performance period over which performance against the goal will be measured and the amount of cash or number or value of shares earned based on the level of the performance goal achieved. Additional provisions relating to the setting of the performance goal, certifying achievement of performance against the goal and the amount earned, and the ability to use negative discretion to reduce the amount earned apply to awards made to executive officers which are intended to meet the tax deductibility rules for "performance-based" compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code").

The Plan provides that the Compensation Committee may base the performance goals upon the relative or comparative attainment of one or more of the following performance criteria, (whether in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies): working capital, book value, cash flow (including funds from operations), customer satisfaction, combined ratio, earnings (either in aggregate or on a per-share basis), earnings before or after either, or any combination of, interest, taxes, depreciation, or amortization (EBITDA), economic value added, expenses/costs, gross or net income, gross or net operating margins, gross or net profits, gross or net revenues, inventory turns, margins, market share, net income or earnings, operating income or earnings, operational performance measures, pre-tax income, productivity ratios and measures, profitability ratios, return measures (including return on assets, return on equity, return on investment, return on capital, return on invested capital, gross profit return on investment, gross margin return on investment), share price (including growth in share price and total shareholder return), strategic business objectives (including objective project milestones), or transactions relating to acquisitions or divestitures, and, in the case of persons who are not executive officers, such other criteria as may be determined by the Compensation Committee. Performance criteria may be established on a Company-wide basis or with respect to one or more business units or divisions or subsidiaries. When establishing performance criteria for a performance period, the Compensation Committee shall exclude, unless it determines otherwise at the time that it establishes the performance criteria, (i) any or all items determined to be unusual in nature and/or infrequent in occurrence as determined under ASC Topic 225, (ii) charges or costs associated with restructuring of the Company or any subsidiary, (iii) discontinued operations, (iv) other unusual or non-recurring items, (v) the cumulative effects of accounting changes or (vi) such other objective factors as the Compensation Committee deems appropriate.

The Compensation Committee, in its discretion, may at any time after the grant date completely or partially waive the performance criteria, performance condition, service condition or other restriction imposed on an award of performance awards, performance shares and performance units upon a change in control or upon a participant’s termination of service by reason of death or disability, except to the extent such waiver would result in an award that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code to no longer qualify as performance-based compensation.

Restricted Stock and Restricted Stock Units

The Compensation Committee may grant awards of restricted stock and restricted stock units under the Plan. The restricted stock and restricted stock units are forfeitable and shall not be eligible for dividends until they vest, and the participant may not transfer the restricted stock before it vests. The restricted stock and the restricted stock units will vest as specified in the applicable award agreement, but no earlier than the first anniversary of the date of grant (subject to the participant’s continued service with us) or upon satisfaction of any additional conditions to vesting, such as the achievement of specified performance objectives or changes in control, as determined by the Compensation Committee in its discretion. Unless otherwise determined by the Compensation Committee or provided in an employment or individual severance agreement, if a participant’s service is terminated by reason of retirement or death or disability during the restriction period, a pro rata portion of any restricted stock or restricted stock units (in the case of retirement, restricted stock units only) held by the participant will vest and become nonforfeitable based on the number of full calendar months of the participant’s service relative to the number of months in the restriction period at the date of termination. If the restricted stock units are subject to performance criteria and the participant terminates due to retirement, then the pro rata share portion of such award described in the previous sentence will be earned and vest, if at all, based on the actual achievement of such performance criteria during the performance period. If a participant’s service is terminated for any other reason, any restricted stock or restricted stock units held by the participant will be immediately forfeited and cancelled (unless otherwise determined by the Compensation Committee or provided in an employment or individual severance agreement), and, in any event, all such restricted stock and restricted stock units will be immediately forfeited and cancelled upon termination of service for cause.

The Compensation Committee, in its discretion, may at any time after the grant date waive the restriction period and any restrictions, conditions or limitations imposed on an award of a restricted stock or restricted stock units upon a change in control or upon a participant’s termination of service by reason of death or disability, except to the extent such waiver would result in an award that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code to no longer qualify as performance-based compensation.

Stock Options and Stock Appreciation Rights

The Compensation Committee may grant awards of stock options and SARs under the Plan. The stock options may be either "incentive stock options" (as that term is defined in Section 422 of the Code), which provide the recipient with favorable tax treatment, or options that are not incentive stock options ("non-qualified stock options"). The Compensation Committee has the authority to determine the terms and conditions of the stock options and SARs, including the number of shares subject to each stock option and SAR, the exercise price per share, which must be at least the fair market value of a share of our common stock on the date of grant (as determined in accordance with the Plan), and when the stock option or SAR will become exercisable. The stock options and SARs will become vested and exercisable as specified in the applicable award agreement, including upon satisfaction of any additional conditions to vesting, such as the achievement of specified performance objectives or changes in

control, as determined by the Compensation Committee in its discretion. The exercise period for any stock options and SARs awarded under the Plan may not extend beyond ten years from the date of grant.

Stock options and SARs awarded under the Plan that become vested and exercisable may be exercised in whole or in part. The exercise price must be paid either in cash or cash equivalents or, if permitted by the Compensation Committee, with previously acquired shares of our common stock, by means of a brokered cashless exercise or by a combination of the foregoing provided that the consideration tendered, valued as of the date tendered, is at least equal to the exercise price for the stock options being exercised.

Upon exercise of a SAR, the participant will receive a payment equal to the increase in the fair market value of a share of common stock on the date of exercise over the exercise price (fair market value on date of grant), multiplied by the number of shares with respect to which the SAR is exercised. The payment will be made in cash or shares of common stock of equivalent value.

Unless otherwise determined by the Compensation Committee or provided for in an employment or individual severance agreement, if a participant's service is terminated by reason of death or disability, all stock options and SARs held by the participant at the date of termination will vest and become exercisable and will remain exercisable until the earlier of (i) the second anniversary of such termination (or, for incentive stock options, the first anniversary of such termination) or (ii) the expiration date of the option or SAR. If a participant's service is terminated for any other reason, unless otherwise specified in the applicable award agreement, any stock options held by the participant that have not become vested and exercisable will be immediately cancelled and any stock options that have become vested and exercisable will remain exercisable for 90 days following such termination. In any event, all stock options and SARs (whether or not then vested and exercisable) will be immediately cancelled upon termination of service for cause. The Plan prohibits the repricing of stock options or SARs, including through cancellations in exchange for another award or cash.

In addition, if the exercise period of a stock option or SAR would expire at a time when trading in our common stock is prohibited by federal securities law or the Company's insider trading policy, the expiration of the stock option or SAR will be automatically extended until the thirtieth calendar day following the expiration of such prohibition (so long as the extension does not violate Section 409A of the Code).

Other Stock-Based Awards

The Plan permits the Compensation Committee to grant other forms of stock-based awards with such terms and conditions as the Compensation Committee determines, including provisions relating to the impact of termination of service and a change in control. Such awards may include outright grants of shares without restriction or awards structured to meet the requirements of non-U.S. law or practice. Such awards may be settled by the issuance of shares or by a cash payment equal to the value of the shares earned under the award.

Change in Control

Except as otherwise provided in an employment or individual severance agreement or award agreement, upon a change in control (as defined in the Plan) of the Company, each outstanding award may be assumed by the successor entity or replaced with economically equivalent awards ("Replacement Awards"). Such Replacement Awards shall (i) be subject to "double-trigger" vesting as follows: if a participant's service is terminated other than for cause or due to good reason within 24 months following the change in control, such Replacement Awards will immediately vest upon such termination, and (ii) if the Replacement Award was a performance award, performance share or performance unit then such award (A) will no longer subject to any performance criteria, which will be deemed satisfied at the higher of actual performance through the date of the change in control or the target performance level for such Replacement Awards and (B) will be subject only to a time-based vesting period substantially equivalent to the applicable remaining performance period for such Replacement Award, subject to acceleration pursuant to (i) above.

If the successor entity fails to assume or replace any outstanding awards as described above, then (i) all outstanding stock options, SARs and other stock-based awards will become immediately vested and exercisable; (ii) the restriction period of all outstanding restricted stock and restricted stock units will immediately lapse; (iii) each outstanding performance award and performance share will be cancelled in exchange for 100% of the amount earned upon full achievement of applicable performance criteria; and (iv) each outstanding performance unit will be cancelled in exchange for a payment equal to the value that would have been payable had each such performance unit been deemed

equal to 100% of its initially established dollar or local currency denominated value. In addition, if the successor entity fails to assume or replace any outstanding awards as described above, the Compensation Committee may provide that in connection with a change in control:

- each stock option and SAR will be cancelled in exchange for an amount equal to the excess, if any, of the price per share offered in respect of our common stock in conjunction with the transaction giving rise to the change in control or, in the case of a change in control occurring by reason of a change in the composition of our Board, the highest fair market value of our common stock on any of the preceding 30 trading days (such price, the "Change in Control Price") over the exercise price for such option; and

- each share of restricted stock and each restricted stock unit will be cancelled in exchange for an amount equal to the Change in Control Price multiplied by the number of shares of our common stock covered by such award. All amounts payable as a result of a change in control will be paid in cash or, at the discretion of the Compensation Committee, in shares of stock of any new employer.

If a change in control occurs as a result of a merger, reorganization, consolidation or sale of all or substantially all of our assets, any participant whose service is involuntarily terminated (death, disability or other than for cause) on or after the date on which our stockholders approve the transaction giving rise to the change in control will be treated for purposes of the Plan as continuing service with us until the consummation of the change in control and to have been terminated immediately thereafter.

Adjustments in Connection with Certain Events

In the event of any equity restructuring that causes the per share value of a share of Company's common stock to change (such as a stock dividend, stock split, reverse stock split, split up, spin-off, rights offering or recapitalization through an extraordinary dividend), or in the event of any other change in corporate capitalization (including a merger, consolidation, reorganization, or partial or complete liquidation) to the extent such event does not constitute an equity restructuring or business combination within the meaning of FASB ASC Topic 718 or any successor provision, the Compensation Committee, in order to prevent dilution or enlargement of a participant's rights under the Plan, shall substitute or adjust, as applicable, the number and kind of shares or other securities that may be issued under the Plan or under particular forms of awards, the number and kind of shares or other securities subject to outstanding awards, the exercise price applicable to outstanding awards, the annual award limits, and other value determinations applicable to outstanding awards. In addition, the Committee may, in its discretion, make other adjustments or modifications in the terms of any awards it deems appropriate to reflect any of the foregoing corporate events, including but not limited to the modification of performance goals, changing the length of the performance period and the substitution of property of equivalent value for the shares available under the Plan or the shares covered by Awards, in each case only to the extent permitted by Section 162(m), and in connection with the sale of a subsidiary, arranging for the assumption, or replacement with new awards, of awards held by participants following the sale of such subsidiary.

Amendment and Termination

The Board may terminate or suspend the Plan at any time, and from time to time may amend or modify the Plan, provided that without the approval by a majority of the votes cast at a duly constituted meeting of stockholders, no amendment or modification to the Plan may (i) materially increase the benefits accruing to participants under the Plan, (ii) except as a result of an adjustment in capitalization, materially increase the number of shares of stock subject to awards under the Plan or the number of awards or amount of cash that may be granted to a participant under the Plan, (iii) materially modify the requirements for participation in the Plan, or (iv) materially modify the Plan in any way that would require stockholder approval under any regulatory requirement that the Compensation Committee determines to be applicable. Consequently, the Plan cannot be amended to remove the prohibition on re-pricing or to permit the grant of options or SARs at below fair market value exercise prices without stockholder approval. No amendment, modification, or termination of the Plan shall in any material way adversely affect any award previously granted under the Plan without the consent of the participant. The Plan shall continue in effect, unless sooner terminated by the Board, until February 27, 2029, the tenth anniversary of the date on which the Plan was adopted by the Board, at which time no additional awards may be granted. The Board or the Compensation Committee may amend an award agreement without participant consent, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or an award agreement to (i) any law relating to plans of this or similar nature, and to the administrative regulations and rulings promulgated thereunder, (ii) any applicable exchange requirements and (iii) any compensation recoupment policy adopted by the Company.

Summary of Federal Tax Consequences

The following is a brief description of the federal income tax treatment that generally applies to Plan awards. The description is based on current federal tax laws, rules and regulations, which are subject to change, and does not

purport to be a complete description of the federal income tax aspects of the Plan. A participant may also be subject to state and local taxes.

Non-Qualified Stock Options. The grant of a non-qualified stock option will not result in taxable income to the participant. The participant will realize ordinary income at the time of exercise in an amount equal to the excess, if any, of the then fair market value of the stock acquired over the exercise price for those shares, and we will be entitled to a corresponding deduction. Gains or losses realized by the participant upon disposition of such shares will be treated as capital gains or losses, with the basis in such stock equal to the fair market value of the shares at the time of exercise.

Incentive Stock Options. The grant of an incentive stock option will not result in taxable income to the participant. The exercise of an incentive stock option will not result in taxable income to the participant if the participant was, without a break in service, employed by us or an affiliate from the date of the grant of the option until the date three months prior to the date of

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exercise (one year prior to the date of exercise if the participant is disabled). The excess, if any, of the fair market value of the stock at the time of the exercise over the exercise price is an adjustment that is included in the calculation of the participant's alternative minimum taxable income for the tax year in which the incentive stock option is exercised.

If the participant does not sell or otherwise dispose of the stock within two years from the date of the grant of the incentive stock option or within one year after the transfer of such stock to the participant, then, upon disposition of such stock, any amount realized in excess of the exercise price will be taxed to the participant as capital gain, and we will not be entitled to a corresponding deduction. A capital loss will be recognized to the extent that the amount realized is less than the exercise price. If the foregoing holding period requirements are not met, the participant will generally realize ordinary income at the time of the disposition of the shares, in an amount equal to the lesser of (i) the excess, if any, of the fair market value of the stock on the date of exercise over the exercise price, or (ii) the excess, if any, of the amount realized upon disposition of the shares over the exercise price, and we will be entitled to a corresponding deduction. If the amount realized exceeds the value of the shares on the date of exercise, the additional amount will be capital gain. If the amount realized is less than the exercise price, the participant will recognize no income, and a capital loss will be recognized equal to the excess of the exercise price over the amount realized upon the disposition of the shares.

Stock Appreciation Rights. The grant of a stock appreciation right will not result in taxable income to the participant. The participant will realize ordinary income at the time of exercise in an amount equal to the amount of cash or the fair market value of the shares paid upon exercise, and we will be entitled to a corresponding deduction. Gains or losses realized by the participant upon disposition of any shares received will be treated as capital gains or losses, with the basis in such stock equal to the fair market value of the shares at the time of exercise.

Restricted Stock and Performance Shares. A grant of restricted stock or performance shares will not result in taxable income to the participant at the time of grant, and we will not be entitled to a corresponding deduction, assuming that the shares are subject to transferability restrictions and that certain restrictions on the shares constitute a "substantial risk of forfeiture" for federal income tax purposes. Upon vesting, the holder will realize ordinary income in an amount equal to the then fair market value of the vested shares, and we will be entitled to a corresponding deduction. Gains or losses realized by the participant upon subsequent disposition of such shares will be treated as capital gains or losses, with the basis in such shares equal to the fair market value of the shares at the time of vesting. Dividends paid to the holder of restricted stock during the restriction period also will be compensation income to the participant, and we will be entitled to a corresponding deduction when the dividends no longer are subject to a substantial risk of forfeiture or become transferable. A participant may elect pursuant to Section 83(b) of the Code to have income recognized at the date a restricted stock award or performance share award, as the case may be, is granted and to have the applicable capital gain holding period commence as of that date. In such a case, we will be entitled to a corresponding deduction on the date of grant.

Restricted Stock Units and Performance Units. A grant of restricted stock units or performance units will not result in taxable income to the participant at the time of grant, and we will not be entitled to a corresponding deduction. Upon vesting and issuance of the underlying shares, the holder will realize ordinary income in an amount equal to the then fair market value of the issued shares, and we will be entitled to a corresponding deduction. Gains or losses realized by the participant upon disposition of such shares will be treated as capital gains or losses, with the basis in such shares equal to the fair market value of the shares at the time of vesting and issuance. Dividend equivalents paid to the holder of restricted stock units during the restriction period also will be compensation income to the participant, and we will be entitled to a corresponding deduction when the dividend equivalents are paid. No election pursuant to Section 83(b) of the Code may be made.

Performance Awards and Other Stock-Based Awards. A grant of a performance award or other unvested stock-based award will not result in taxable income to the participant at the time of grant, and we will not be entitled to a corresponding deduction. Upon payment of cash or the vesting or issuance of the underlying shares, the participant will realize ordinary income in an amount equal to the cash received or the then fair market value of the issued shares, and we will be entitled to a corresponding deduction. Gains or losses realized by the participant upon subsequent disposition of such shares will be treated as capital gains or losses, with the basis in such shares equal to the fair market value of the shares at the time of vesting and issuance.

Tax Withholding. As a condition to the delivery of any shares to the recipient of an award, we may require the recipient to make arrangements for meeting certain tax withholding requirements in connection with the award.

The preceding is based on current federal tax laws and regulations, which are subject to change, and does not purport to be a complete description of the federal income tax aspects of the Plan. A participant may also be subject to state and local taxes.

Equity Compensation Plan Information

The following table provides information about our common stock that may be issued upon the exercise of options under all of our equity compensation plans as of December 31, 2018:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights		(b) Weighted-average Exercise Price of Outstanding Options, Warrants and Rights		(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in Column(a))
	(in millions)				(in millions)
Equity compensation plans approved by security holders:					
TreeHouse Foods, Inc. Equity and Incentive Plan	2.7	(1)	$ 75.24	(2)	4.6
Equity compensation plans not approved by security holders:					
None	—		—		—
Total	2.7		$ 75.24		4.6

(1) Includes 0.8 million restricted stock units and 0.2 million performance unit awards outstanding under the TreeHouse Foods, Inc. Equity and Incentive Plan.

(2) Restricted stock units and performance units do not have an exercise price because their value is dependent upon continued performance conditions. Accordingly, we have disregarded the restricted stock units and performance units for purposes of computing the weighted-average exercise price.

New Plan Benefits Table

No awards have been granted under the 2019 Plan. All awards granted under the 2019 Plan will be made in the discretion of the Committee and, accordingly, are not yet determinable. In addition, benefits under the 2019 Plan will depend on a number of factors, including the fair market value of our shares on future dates and the exercise decisions made by the participants. Consequently, it is not possible to determine the benefits that might be received by participants under the 2019 Plan.

RECOMMENDATION:
THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE APPROVAL
OF THE AMENDMENT AND RESTATEMENT OF THE TREEHOUSE FOODS, INC.
EQUITY AND INCENTIVE PLAN, INCLUDING AN INCREASE IN THE
NUMBER OF SHARES SUBJECT TO THE PLAN.

STOCKHOLDER PROPOSALS FOR 2020 ANNUAL MEETING OF STOCKHOLDERS

Any stockholder who intends to present proposals at the Annual Meeting of Stockholders in 2020 pursuant to Rule 14a-8 under the Exchange Act must send notice of such proposal to us so that we receive it no later than November 11, 2019. Any stockholder who intends to present proposals at the Annual Meeting of Stockholders in 2020 other than pursuant to Rule 14a-8 must comply with the notice provisions in our By-laws. The notice provisions in our By-laws require that, for a proposal to be properly brought before the Annual Meeting of Stockholders in 2020, proper notice of the proposal must be received by us not less than ninety (90) days or more than one hundred twenty (120) days prior to the first anniversary of this year's meeting, or no later than January 24, 2020. Stockholder proposals should be addressed to TreeHouse Foods, Inc., 2021 Spring Road, Suite 600, Oak Brook, IL 60523, Attention: Corporate Secretary.

STOCKHOLDER COMMUNICATION WITH THE BOARD

Stockholders and other interested parties may contact the Board, the non-management directors or any individual director (including the Lead Independent Director) by writing to them c/o TreeHouse Foods Corporate Secretary, 2021 Spring Road, Suite 600, Oak Brook, IL 60523, and such mail will be forwarded to the director or directors, as the case may be.

OTHER MATTERS

If any other matters properly come before the Meeting, it is the intention of the person named in the enclosed form of proxy to vote the shares they represent in accordance with the judgments of the persons voting the proxies.

The Annual Report of the Company for the year ending December 31, 2018 is being distributed to stockholders together with this Proxy Statement.

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the internet at the SEC’s website at www.sec.gov and on our website at www.treehousefoods.com. The information on our website is not part of this Proxy Statement and is not deemed to be incorporated by reference herein. You may also read and copy any document we file with the SEC at its public reference facilities at 100 F Street, N.E., Washington, D.C. 20549.

You may also request one free copy of any of our filings (other than an exhibit to a filing unless that exhibit is specifically incorporated by reference into that filing) by writing or telephoning Thomas E. O’Neill, Executive Vice President, General Counsel, Chief Administrative Officer and Corporate Secretary at our principal executive office: TreeHouse Foods, Inc., 2021 Spring Road, Suite 600, Oak Brook, Illinois 60523, telephone (708) 483-1300.

By Order of the Board of Directors
Thomas E. O'Neill
Corporate Secretary

Appendix A

TREEHOUSE FOODS, INC. EQUITY AND INCENTIVE PLAN

(Amended and Restated Effective February 27, 2019)

Section 1. PURPOSE

The TreeHouse Foods, Inc. Equity and Incentive Plan, as amended and restated effective February 27, 2019 (the “Plan”), was originally an amendment and restatement of the TreeHouse Foods, Inc. 2005 Long-Term Stock Incentive Plan approved by stockholders on April 19, 2007, April 23, 2015 and April 27, 2017. The Plan is intended to promote the interests of the Company and its shareholders by (i) attracting and retaining non-employee directors and executive personnel and other key employees of outstanding ability; (ii) motivating non-employee directors and executive personnel and other key employees, by means of performance-related incentives, to achieve longer-range Performance Criteria; and (iii) enabling such non-employee directors and employees to participate in the growth and financial success of the Company.

Section 2. DEFINITIONS

(a) Certain Definitions. Capitalized terms used herein without definition shall have the respective meanings set forth below:

“Act" means the Securities Exchange Act of 1934, as amended.

“Affiliate" means (i) for purposes of Incentive Stock Options, any corporation that is a “parent corporation” (as defined in Section 424(e) of the Code) or a “subsidiary corporation” (as defined in Section 424(e) of the Code) of the Company, and (ii) for all other purposes, with respect to any person, any other person that (directly or indirectly) is controlled by, controlling or under common control with such person.

“Award” means any grant or award made pursuant to Sections 5 through 8 of the Plan, inclusive.

“Award Agreement” means either a written or electronic agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to an Award or Awards granted to the Participant, or a written or electronic statement issued by the Company describing the terms and conditions of an Award or Awards.

“Board” means the Board of Directors of the Company.

“Cause” means (i) the willful failure of a Participant to perform substantially his or her duties; (ii) a Participant’s willful or serious misconduct that has caused, or could reasonably be expected to result in, material injury to the business or reputation of an Employer; (iii) a Participant’s conviction of, or entering a plea of guilty or nolo contendere to, a crime constituting a felony; (iv) the breach by a Participant of any written covenant or agreement with an Employer, any material written policy of any Employer or any Employer’s “code of conduct”, or (v) the Participant’s failure to cooperate with an Employer in any internal investigation or administrative, regulatory or judicial proceeding; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Cause” then, with respect to any Award made to such Participant, “Cause” shall have the meaning set forth in such employment or severance agreement. In addition, the Participant’s Service shall be deemed to have terminated for Cause if, after the Participant’s Service has terminated (for a reason other than Cause), facts and circumstances are discovered that would have justified a termination for Cause.

“Change in Control” means the first occurrence of any of the following events after the Effective Date:

(i) any person, entity or “group” (as defined in Section 13(d) of the Act), other than the Company, a wholly-owned subsidiary of the Company, and any employee benefit plan of the Company or any wholly-owned subsidiary of the Company, becomes a “beneficial owner” (as defined in Rule 13d-3 under the Act), of 30% or more of the combined voting power of the Company’s then outstanding voting securities;

(ii) the persons who, as of the Effective Date, are serving as the members of the Board (the “Incumbent

Directors”) shall cease for any reason to constitute at least a majority of the Board (or the board of directors of any successor to the Company), provided that any director elected to the Board, or nominated for election, by at least two-thirds of the Incumbent Directors then still in office shall be deemed to be an Incumbent Director for purposes of this clause (ii);

(iii) the Company consummates a merger or consolidation with any other corporation, and as a result of which (A) persons who were shareholders of the Company immediately prior to such merger or consolidation, do not, immediately thereafter, own, directly or indirectly and in substantially the same proportions as their ownership of the stock of the Company immediately prior to the merger or consolidation, more than 50% of the combined voting power of the voting securities entitled to vote generally in the election of directors of (x) the Company or the surviving entity or (y) an entity that, directly or indirectly, owns more than 50% of the combined voting power entitled to vote generally in the election of directors of the entity described in subclause (x), and (B), within the 12-month period after such consummation of the merger or consolidation, the members of the Board as of the consummation of such merger or consolidation cease to constitute a majority of the board of directors of the Company or the surviving entity (or the entity that, directly or indirectly, owns more than 50% of the combined voting power entitled to vote generally in the election of directors of the Company or such surviving entity);

(iv) the Company consummates a sale, transfer or other disposition of all or substantially all of the assets of the Company, which is consummated and immediately following which the persons who were shareholders of the Company immediately prior to such sale, transfer or disposition, do not own, directly or indirectly and in substantially the same proportions as their ownership of the stock of the Company immediately prior to the sale, transfer or disposition, more than 50% of the combined voting power of the voting securities entitled to vote generally in the election of directors of (x) the entity or entities to which such assets are sold or transferred or (y) an entity that, directly or indirectly, owns more than 50% of the combined voting power entitled to vote generally in the election of directors of the entities described in subclause (x); and

(v) the shareholders of the Company approve a plan of complete liquidation of the Company, or such a plan is commenced; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Change of Control” then, with respect to any Award made to such Participant, “Change of Control” shall have the meaning set forth in such employment or severance agreement.

“Change in Control Price” means the price per share offered in respect of Stock in conjunction with any transaction resulting in a Change in Control on a fully-diluted basis (as determined in good faith by the Committee as constituted before the Change in Control, if any part of the offered price is payable other than in cash) or, in the case of a Change in Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of a share of Stock on any of the 30 trading days immediately preceding the date on which a Change in Control occurs.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Committee” means the Compensation Committee of the Board or such other committee of the Board as the Board shall from time to time designate to administer the Plan.

“Company” means TreeHouse Foods, Inc., a Delaware corporation.

“Consultant” means any person, including an advisor, engaged by an Employer to render services to such Employer and who is not a Director or an Employee.
“Designated Beneficiary” means the beneficiary designated by the Participant, in a manner determined by the Committee, to receive amounts due the Participant in the event of the Participant’s death. In the absence of an effective designation by the Participant, Designated Beneficiary shall mean the Participant’s estate.

“Director” means any individual who is a member of the Board or the board of directors of an Affiliate of the Company.

“Disability” means, unless another definition is incorporated into the applicable Award Agreement, the Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, (i) unable to engage in any substantial gainful activity, or (ii) receiving income replacement benefits for a period of not less than three months under an accident and health

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plan covering employees of the Company or an Affiliate; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Disability” then, with respect to any Award made to such Participant, “Disability” shall have the meaning set forth in such employment or severance agreement.

“Effective Date” means February 27, 2019, the date on which the Plan, as amended and restated, was approved by the Committee on behalf of the Board.

“Employee” means any officer or employee employed by any Employer in a common-law employee-employer relationship.

“Employer” means the Company and any Affiliate thereof.

“Executive Officer” means any “officer” within the meaning of Rule 16(a)-1(f) promulgated under the Act or any “covered employee” within the meaning of Section 162(m)(3) of the Code.

“Fair Market Value” means the closing price of the Stock as reported for consolidated trading of issues on the New York Stock Exchange on the date in question, or if the Stock was not traded on such date, the closing price on the first date prior thereto on which the Stock was so traded.

“Good Reason” means, as determined by the Committee in its sole discretion and solely with respect to this Plan and any Award made hereunder, the occurrence of any of the following events without the Participant’s express written consent: (i) the material reduction of the Participant’s authorities, duties, and position with the Company, (ii) a material reduction by the Company of the Participant’s base compensation, other than a reduction approved by the Board that similarly applies to all executive officers of the Company or similarly situated Participants, or (iii) a change in the offices of the Participant to a place that is more than thirty (30) miles in distance farther from the Participant’s home than the current executive offices of the Company in Oak Brook, IL; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term “Good Reason” then, with respect to any Award made to such Participant, “Good Reason” shall have the meaning set forth in such employment or severance agreement.

The Participant must provide notice to the Company of the existence of one or more of the foregoing conditions within ninety (90) calendar days of the initial existence of the condition, upon the notice of which the Company will have thirty (30) calendar days during which it may remedy the condition. For a Participant’s termination of Service to be on account of “Good Reason,” it must occur within one hundred eighty (180) calendar days following the initial existence of the applicable condition.

“Incentive Stock Option” means a stock option granted under Section 7 of the Plan that is designated as an Incentive Stock Option that is intended to meet the requirements of Section 422 of the Code.

“Net Exercised” means the exercise of an Option or any portion thereof by the delivery of the greatest number of whole shares of Stock having a Fair Market Value on the date of exercise not in excess of the difference between the aggregate Fair Market Value of the shares of Stock subject to the Option (or the portion of such Option then being exercised) and the aggregate exercise price for all such shares of Stock under the Option (or the portion thereof then being exercised), with any fractional share that would result from such equation to be payable in cash.
“New Employer” means, after a Change in Control, a Participant’s employer, or any direct or indirect parent or any direct or indirect majority-owned subsidiary of such employer.

“Non-statutory Stock Option” means a stock option granted under Section 7 of the Plan that is not intended to be an Incentive Stock Option.

“Option” means an Incentive Stock Option or a Non-statutory Stock Option.

“Other Stock-Based Award” means an award of, or related to, shares of Stock other than Options, SARs, Restricted Stock, Performance Shares, Restricted Stock Units or Performance Units, as granted by the Committee in accordance with the provisions of Section 8 of the Plan.

“Participant” means an Employee, Director or Consultant who is selected by the Committee to receive an Award under the Plan.

"Performance Award" means an Award granted pursuant to Section 5 of the Plan of a contractual right to receive cash or Stock (as determined by the Committee) upon the achievement, in whole or in part, of the applicable Performance Criteria.

"Performance Criteria" means the objectives established by the Committee for a Performance Period pursuant to Section 5(c) of the Plan for the purpose of determining the extent to which an Award of Performance Shares, Performance Awards, or Performance Units has been earned.

"Performance Period" means the period selected by the Committee during which performance is measured for the purpose of determining the extent to which an Award of Performance Shares, Performance Awards, or Performance Units has been earned, provided that the minimum duration of a Performance Period shall be one-year.

"Performance Share" means an Award granted pursuant to Section 5 of the Plan of a contractual right to receive one share of Stock (or the Fair Market Value thereof in cash or any combination of cash and Stock, as determined by the Committee), or a fraction or multiple thereof, upon the achievement, in whole or in part, of the applicable Performance Criteria.

"Performance Unit" means an Award granted pursuant to Section 5 of the Plan of a contractual right to receive a fixed or variable dollar denominated unit (or a unit denominated in the Participant's local currency), or a fraction or multiple thereof, upon the achievement, in whole or in part, of the applicable Performance Criteria. The Committee shall determine whether the earned portion of any such Performance Units shall be payable in cash, Stock or any combination thereof.

"Restriction Period" means the period of time selected by the Committee during which an Award of Restricted Stock and Restricted Stock Units, as the case may be, is subject to forfeiture and/or restrictions on transfer pursuant to the terms of the Plan, provided that the minimum duration of a Restriction Period shall be one-year.

"Restricted Stock" means shares of Stock contingently granted to a Participant under Section 6 of the Plan.

"Restricted Stock Unit" means a fixed or variable stock denominated unit contingently awarded to a Participant under Section 6 of the Plan.

"Retirement" means, unless another definition is incorporated into the applicable Award Agreement, a termination of the Participant's Service at or after the date the Participant has reached age 55 and has completed five years of Service with the Company; provided that if a Participant is a party to an employment or individual severance agreement with an Employer that defines the term "Retirement" then, with respect to any Award made to such Participant, "Retirement" shall have the meaning set forth in such employment or severance agreement.

"Service" means the provision of services to the Company or its Affiliates in the capacity of (i) an Employee, (ii) a Director, or (iii) a Consultant.

"Special Termination" means a termination of the Participant's Service due to death or Disability.

"Stock" means the common stock of the Company, par value $0.01 per share.

"Stock Appreciation Right" or "SAR" means an Award, granted alone or in tandem with an Option, designated as an SAR under Section 7 of the Plan.

"Subsidiary" means any business entity in which the Company possesses directly or indirectly fifty percent (50%) or more of the total combined voting power.

(b) Gender and Number. Except when otherwise indicated by the context, words in the masculine gender used in the Plan shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

Section 3. POWERS OF THE COMMITTEE

(a) Eligibility. Each Employee, Director or Consultant who, in the opinion of the Committee, has the capacity to contribute to the successful performance of the Company is eligible to be a Participant in the Plan.

(b) Power to Grant and Establish Terms of Awards. The Committee shall have the discretionary authority, subject

to the terms of the Plan, to determine which Employees, Directors or Consultants to whom Awards shall be granted, the type or types of Awards to be granted, and the terms and conditions of any and all Awards including, without limitation, the number of shares of Stock subject to an Award, the time or times at which Awards shall be granted, and the terms and conditions of applicable Award Agreements. The Committee may establish different terms and conditions for different types of Awards, for different Participants receiving the same type of Award, and for the same Participant for each type of Award such Participant may receive, whether or not granted at the same or different times.

(c) Administration. The Plan shall be administered by the Committee. The Committee shall have sole and complete authority and discretion to adopt, alter and repeal such administrative rules, guidelines and practices governing the operation of the Plan as it shall from time to time deem advisable, and to interpret the terms and provisions of the Plan. The Committee's decisions (including any failure to make decisions) shall be binding upon all persons, including the Company, shareholders, Employers, and each Employee, Director, Consultant, Participant or Designated Beneficiary, and shall be given deference in any proceeding with respect thereto.

(d) Delegation by the Committee. The Committee may delegate to the Company's Chief Executive Officer and/or to such other officer(s) of the Company the power and authority to make and/or administer Awards under the Plan with respect to individuals who are below the position of Company Senior Vice President (or any analogous title), pursuant to such conditions and limitations as the Committee may establish; provided that only the Committee or the Board may select, and grant Awards to, Executive Officers or exercise any other discretionary authority under the Plan in respect of Awards granted to such Executive Officers. Unless the Committee shall otherwise specify, any delegate shall have the authority and right to exercise (within the scope of such person's delegated authority) all of the same powers and discretion that would otherwise be available to the Committee pursuant to the terms hereof. The Committee may also appoint agents (who may be officers or employees of the Company) to assist in the administration of the Plan and may grant authority to such persons to execute agreements, including Award Agreements, or other documents on its behalf. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company.

(e) Restrictive Covenants and Other Conditions. Without limiting the generality of the foregoing, the Committee may condition the grant of any Award under the Plan upon the Participant to whom such Award would be granted agreeing in writing to certain conditions (such as restrictions on the ability to transfer the underlying shares of Stock) or covenants in favor of the Company and/or one or more Affiliates thereof (including, without limitation, covenants not to compete, not to solicit employees and customers and not to disclose confidential information, that may have effect following the termination of the Participant's Service and after the Stock subject to the Award has been transferred to the Participant), including, without limitation, the requirement that the Participant disgorge any profit, gain or other benefit received in respect of the Award prior to any breach of any such covenant.

(f) Participants Based Outside the United States. To conform with the provisions of local laws and regulations, or with local compensation practices and policies, in foreign countries in which the Company or any of its Subsidiaries or Affiliates operate, but subject to the limitations set forth in Section 4 of the Plan regarding the maximum number of shares of Stock issuable hereunder and the maximum Award to any single Participant, the Committee may (i) modify the terms and conditions of Awards granted to Participants employed outside the United States ("Non-US Awards"), (ii) establish, without amending the Plan, subplans with modified exercise procedures and such other modifications as may be necessary or advisable under the circumstances ("Subplans"), and (iii) take any action which it deems advisable to obtain, comply with or otherwise reflect any necessary governmental regulatory procedures, exemptions or approvals with respect to the Plan. The Committee's decision to grant Non-US Awards or to establish Subplans is entirely voluntary and at the complete discretion of the Committee. The Committee may amend, modify or terminate any Subplans at any time, and such amendment, modification or termination may be made without prior notice to the Participants. The Company, Subsidiaries, Affiliates of any of the foregoing and members of the Committee shall not incur any liability of any kind to any Participant as a result of any change, amendment or termination of any Subplan at any time. The benefits and rights provided under any Subplan or by any Non-US Award (i) are wholly discretionary

and, although provided by either the Company, a Subsidiary or Affiliate of any of the foregoing, do not constitute regular or periodic payments and (ii) are not to be considered part of the Participant's salary or compensation under the Participant's employment with the Participant's local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. If a Subplan is terminated, the Committee may direct the payment of Non-US Awards (or direct the deferral of payments whose amount shall be determined) prior to the dates on which payments would otherwise have been made, and, in the Committee's discretion, such payments may be made in a lump sum or in installments.

Section 4. MAXIMUM AMOUNT AVAILABLE FOR AWARDS

(a) Number. Subject in all cases to the provisions of this Section 4, the maximum number of shares of Stock that are available for issuance pursuant to Awards shall be 17,510,167 or the sum of (i) 16,060,167 shares of Stock previously authorized under the Plan and (ii) 1,450,000 shares of Stock requested pursuant to this most recent amendment and restatement of the Plan. Such maximum number of shares shall be subject to adjustment in Section 4(d). Notwithstanding the provisions of Section 4(b) of the Plan, the maximum number of shares of Stock that may be issued in respect of Incentive Stock Options shall not exceed 1,000,000 shares. Shares of Stock may be made available from Stock held in treasury or authorized but unissued shares of the Company not reserved for any other purpose.

(b) Canceled, Terminated, or Forfeited Awards, etc. Any shares of Stock subject to an Award which for any reason expires without having been exercised, is canceled or terminated or otherwise is settled without the issuance of any Stock shall again be available for grant under the Plan. In applying the immediately preceding sentence, if (i) shares of Stock otherwise issuable or issued in respect of, or as part of, any Award other than Options and SARs are withheld to cover taxes, such shares shall not be treated as having been issued under the Plan and shall again be available for issuance under the Plan, (ii) shares of Stock otherwise issuable or issued in respect of, or as part of, any Award of Options or SARs are withheld to cover taxes or the exercise price of such Award, such shares shall be treated as having been issued under the Plan and shall not be available for issuance under the Plan (iii) any Options are Net Exercised, the aggregate number of shares of Stock subject to such Options shall be deemed issued under the Plan and shall not be available for issuance under the Plan, and (iv) any stock-settled SARs are exercised, the aggregate number of shares of Stock subject to such SARs shall be deemed issued under the Plan and shall not be available for issuance under the Plan. In addition, shares of Stock tendered to exercise outstanding Options or other Awards or to cover applicable taxes on Awards of Options and SARs shall not be available for issuance under the Plan, but shares of Stock tendered to cover applicable taxes on Awards other than Options and SARs shall be available for issuance under the Plan. The number of shares of Stock remaining available for issuance shall be reduced by the number of shares of Stock subject to outstanding Awards and, for Awards that are not denominated by shares of Stock, by the number of shares of Stock actually delivered upon settlement or payment of the Award; provided, however, that, notwithstanding the foregoing, for every one Share issued in respect of an award of (i) Restricted Stock, (ii) Restricted Stock Units, (iii) Performance Shares, (iv) Performance Units, (v) Performance Awards, and (vi) Other Stock-Based Awards, the number of shares of Stock available for issuance under the Plan shall be reduced by 2.07 shares of Stock for purposes of determining the number of shares of Stock that remain available for issuance under the Plan. Solely for the purpose of applying the limitation set forth in Section 4(a), the number of shares available for issuance under the Plan shall be increased by one (1.00) Share for every one (1.00) Share granted in respect of an Award of an Option or SAR that again become available for grant pursuant to this Section 4(b) and two and seven hundredths (2.07) shares of Stock for every one (1.00) Share granted in respect of an Award other than an Award of a Stock Option or Stock Appreciation Right that again become available for grant pursuant to this Section 4(b).
(c) Individual Award Limitations.

(i) Annual Limit on Awards to Participants. Subject to the annual award limitations applicable to a non-Employee Director under Section 4(c)(ii), no Participant may be granted under the Plan in any calendar year Awards of Restricted Stock, Restricted Stock Units, Performance Shares and Performance Units covering an aggregate of more than 1,500,000 shares of Stock, subject to adjustment as described in Section 4(d) or 10(b). No Participant may be granted Options and SARs with respect to more than 1,500,000 shares of Stock under the Plan in any calendar year, subject to adjustment as described in Section 4(d) or 10(b). The maximum aggregate cash payment with respect to cash-based Awards (including Performance Awards) granted in any one fiscal year that may be made to any Participant shall be $5,000,000.

(ii) Annual Limit on Awards to Non-employee Directors. No non-employee Director may receive in any calendar year Awards with an aggregate Fair Market Value greater than $500,000 whether such Awards are settled in cash or in shares of Stock; provided that this limit shall not apply to any Awards a non-employee Director elects to receive at

Fair Market Value in lieu of all or a portion of such non-employee Director's Compensation. "Compensation" for this purpose includes all cash remuneration payable to a non-employee Director, other than reimbursement for expenses, and shall include retainer fees for Service on the Board, fees for serving as Chairman of the Board or for serving as Chairman or member of any committee of the Board, compensation for work performed in connection with service on a committee of the Board or at the request of the Board, any committee of the Board or a Chief Executive Officer or any other kind or other category of fees or payments which may be put into effect in the future.

(d) Adjustment in Capitalization.

(i) In the event that the Committee shall determine that any stock dividend, stock split, share combination,

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extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, exchange of shares, warrants or rights offering to purchase Stock at a price substantially below Fair Market Value, or other similar corporate event affects the Stock such that an adjustment is required in order to preserve, or to prevent the enlargement of, the benefits or potential benefits intended to be made available under this Plan, then an adjustment shall be made, as applicable, in (1) the number and class of shares of stock available for Awards under Section 4(a), (2) the limitations in Section 4(c), (3) the shares of Stock that may become subject to an Award the number and kind of shares of stock or other securities into which each outstanding share of Stock was changed, for which each such share of Stock was exchanged, or to which each such share of Stock, as the case may be, (4) the exercise price applicable to outstanding Awards, and (5) other value determinations applicable to outstanding Awards. In the event of any other change in corporate capitalization (including, but not limited to, a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation of the Company to the extent such events do not constitute equity restructurings or business combinations within the meaning of FASB ASC Topic 718, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Committee, the number of shares of Stock subject to an Award shall always be a whole number.

(ii) In addition to the adjustments permitted under subparagraph (d)(i) above, the Committee, in its sole discretion, may make such other adjustments or modifications in the terms of any Awards that it deems appropriate to reflect any of the events described in subparagraph (d)(i) above, including, but not limited to, (1) modifications of performance goals and changes in the length of Performance Periods, or (2) the substitution of other property of equivalent value (including, without limitation, cash, other securities and securities of entities other than the Company that agree to such substitution) for the shares of Stock available under the Plan or the shares of Stock covered by outstanding Awards, including arranging for the assumption, or replacement with new awards, of Awards held by Participants, but in either case only to the extent permitted by Section 162(m) of the Code with respect to Awards intended to qualify as performance-based compensation within the meaning of Section 162(m)(4) of the Code and (3) in connection with any sale of a Subsidiary, arranging for the assumption, or replacement with new awards, of Awards held by Participants employed by the affected Subsidiary by the Subsidiary or an entity that controls the Subsidiary following the sale of such Subsidiary.

(iii) The determination of the Committee as to the foregoing adjustments set forth in this Section
4(d), if any, shall be made in accordance with Code Sections 409A or 424, to the extent applicable, and shall conclusive and binding on Participants under the Plan.

(e) Effect of Plans Operated by Acquired Companies. If a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by shareholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the shares of Stock authorized for grant under the Plan. Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees, non-employee Directors or Consultant prior to such acquisition or combination.

(f) Minimum Vesting Standards. Any Award granted under this Plan shall be subject to a minimum vesting period of not less than one year following the date the applicable Award is granted. Notwithstanding the foregoing, the Committee may grant Awards covering up to five percent of the total number of shares of Stock authorized under this Plan without respect to the minimum vesting standards set forth in this Section 4(f). Nothing in this Section 4(f) shall

preclude the Administrator from taking action, in its sole discretion, to accelerate the vesting of any Award in connection with or following a holder's death, disability, or in connection with a Change in Control.

Section 5. PERFORMANCE AWARDS, PERFORMANCE SHARES AND PERFORMANCE UNITS

(a) Generally. The Committee shall have the authority to determine the Participants who shall receive Performance Awards, Performance Shares and Performance Units, the number of Performance Shares and the number and value of Performance Units each Participant receives for each or any Performance Period, and the Performance Criteria applicable in respect of such Performance Awards, Performance Shares and Performance Units for each Performance Period. The Committee shall determine the duration of each Performance Period (which may differ from each other), and there may be more than one Performance

Period in existence at any one time as to any Participant or all or any class of Participants. Each grant of Performance Shares and Performance Units shall be evidenced by an Award Agreement that shall specify the number of Performance Shares and the number and value of Performance Units awarded to the Participant, the Performance Criteria applicable thereto, and such other terms and conditions not inconsistent with the Plan as the Committee shall determine. No shares of Stock will be issued at the time an Award of Performance Shares is made, and the Company shall not be required to set aside a fund for the payment of Performance Shares or Performance Units. Subject to the terms of the Plan, Performance Awards may be granted to Participants in such amounts, subject to such Performance Criteria, and upon such terms, and at any time and from time to time, as shall be determined by the Committee.

(b) Earned Performance Awards, Performance Shares and Performance Units. Performance Awards, Performance Shares and Performance Units shall become earned, in whole or in part, based upon the achievement of one or more Performance Criteria or other performance conditions achieved during a Performance Period selected by the Committee. In the case of an Award to any Executive Officer of Performance Awards, Performance Shares or Performance Units that are intended to qualify as “performance-based compensation” under Section 162(m) of the Code, such Award must solely be subject to one or more Performance Criteria selected from among the criteria set forth in Section 5(c) of the Plan. The Committee may provide, at the time of any grant of Performance Shares or Performance Units, that if performance relative to the Performance Criteria exceeds targeted levels, the number of shares issuable in respect of each Performance Share or the value payable in respect of each Performance Unit shall be adjusted by such multiple (not in excess of
200%) as the Committee shall specify.

(c) Performance Criteria. At the discretion of the Committee, Performance Criteria may be based on the total return to the Company’s shareholders, inclusive of dividends paid, during the applicable Performance Period (determined either in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies), or upon the relative or comparative attainment of one or more of the following criteria, whether in absolute terms or relative to the performance of one or more similarly situated companies or a published index covering the performance of a number of companies: working capital, book value, cash flow (including funds from operations), customer satisfaction, combined ratio, earnings (either in aggregate or on a per-share basis), earnings before or after either, or any combination of, interest, taxes, depreciation, or amortization (EBITDA), economic value added, expenses/ costs, gross or net income, gross or net operating margins, gross or net profits, gross or net revenues, inventory turns, margins, market share, net income or earnings, operating income or earnings, operational performance measures, pre-tax income, productivity ratios and measures, profitability ratios, return measures (including return on assets, return on equity, return on investment, return on capital, return on invested capital, gross profit return on investment, gross margin return on investment), share price (including growth in share price and total shareholder return), strategic business objectives (including objective project milestones), or transactions relating to acquisitions or divestitures, and, in the case of persons who are not Executive Officers, such other criteria as may be determined by the Committee. Performance Criteria may be established on a Company-wide basis or with respect to one or more business units or divisions or Subsidiaries. When establishing Performance Criteria for a Performance Period, the Compensation Committee shall exclude, unless it determines otherwise at the time that it establishes the Performance Criteria, (i) any or all items determined to be unusual in nature and/or infrequent in occurrence as determined under ASC Topic 225, (ii) charges or costs associated with restructuring of the Company or any subsidiary, (iii) discontinued operations, (iv) other unusual or non-recurring items, (v) the cumulative effects of accounting changes or (vi) such other objective factors as the Compensation Committee deems appropriate.

Except in the case of Awards to Executive Officers intended to be “performance-based compensation” under Section 162(m)(4) of the Code, the Committee may also adjust the Performance Criteria for any Performance Period as it deems equitable in recognition of unusual or non-recurring events affecting the Company, changes in applicable tax laws or accounting principles, or such other factors as the Committee may determine.

(d) Special Rule for Performance Criteria. If, at the time of grant, the Committee intends an Award of Performance Awards, Performance Shares or Performance Unit to qualify as “performance-based compensation” within the meaning of Section 162(m)(4) of the Code, (i) the Committee must establish the Performance Criteria for the applicable Performance Period no later than the 90th day after the Performance Period begins (or by such other date as may be required under Section 162(m) of the Code) and (ii) the Committee may not in any event increase the amount of compensation payable to a covered employee (within the meaning of Section 162(m) of the Code) upon attainment of the Performance Criteria above the maximum amount approved by the Committee in clause (i) above.

(e) Certification of Attainment of Performance Criteria. As soon as practicable after the end of a Performance Period and prior to any payment in respect of such Performance Period, the Committee shall certify the amount of the Performance Award, the number of Performance Shares, or the number and value of Performance Units, that have been earned on the basis of performance in relation to the established Performance Criteria.

(f) Payment of Awards. Earned Performance Awards, Performance Shares and the value of earned Performance Units shall be distributed to the Participant or, if the Participant has died, to the Participant's Designated Beneficiary, as soon as practicable after the expiration of the Performance Period and the Committee's certification under Section 5(e) above, provided that (i) earned Performance Awards, Performance Shares and the value of earned Performance Units shall not be distributed to a Participant until any other conditions on payment of such Awards established by the Committee have been satisfied, and (ii) any amounts payable in respect of Performance Awards, Performance Shares or Performance Units pursuant to Section 9 of the Plan shall be distributed in accordance with Section 9. The Committee shall determine whether Performance Awards, Performance Shares and the value of earned Performance Units are to be distributed in the form of cash, shares of Stock or in a combination thereof, with the value or number of shares of Stock payable to be determined based on the Fair Market Value of Stock on the date of the Committee's certification under Section 5(e) above.

(g) Newly Eligible Participants. Notwithstanding anything in this Section 5 to the contrary, the Committee shall be entitled to make such rules, determinations and adjustments as it deems appropriate with respect to any Participant who becomes eligible to receive Performance Awards, Performance Shares or Performance Units after the commencement of a Performance Period.

(h) Termination of Service.

(i) Special Termination or Retirement. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, a Participant whose Service terminates by reason of a Special Termination or due to Retirement shall be entitled to a distribution of the same Performance Awards, number of Performance Shares, or the value of Performance Units that would have been payable for the Performance Period had his or her Service continued until the end of the applicable Performance Period (based on actual performance), prorated for the Participant's length of Service during the Performance Period. Any Performance Awards, Performance Shares or value of Performance Units becoming payable in accordance with the preceding sentence shall be paid at the same time as the Performance Awards, Performance Shares and the value of Performance Units are paid to other Participants (or at such earlier time as the Committee may permit). Any rights that a Participant or Designated Beneficiary may have in respect of any Performance Awards, Performance Shares or Performance Units outstanding at the date of the Special Termination or Retirement that are not available to be earned or that are not earned in accordance with this Section 5(h)(i) shall be forfeited and canceled, effective as of the date of the Participant's termination of Service.

(ii) Termination for any Other Reason. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, if a Participant's Service is terminated for any reason other than a Special Termination or Retirement prior to vesting in the Performance Awards, Performance Shares or Performance Units, all of the Participant's rights to Performance Awards, Performance Shares and Performance Units shall be immediately forfeited and canceled as of the date of such termination of Service. Notwithstanding the immediately preceding sentence, a Participant's rights in respect of unearned Performance Awards, Performance Shares and Performance Units shall in all events be immediately forfeited and canceled as of the date of the Participant's termination of Service for Cause.

(iii) Termination in Connection with a Change in Control. Notwithstanding anything to the contrary in this Section 5(h), Section 9 of the Plan shall determine the treatment of Performance Awards, Performance Shares and Performance Units upon a Change in Control, including the treatment of such Awards granted to any Participant whose Service is involuntarily terminated by an Employer other than for Cause or whose Service is terminated due to a Special Termination, in either case, on or after the date on which the shareholders of the Company approve the transaction giving rise to the Change in Control, but prior to the consummation thereof.

Section 6. RESTRICTED STOCK AND RESTRICTED STOCK UNITS

(a) Grant. Restricted Stock and Restricted Stock Units may be granted to Participants at such time or times as shall be determined by the Committee. The grant date of any Restricted Stock or Restricted Stock Units under the Plan will be the date on which such Restricted Stock or Restricted Stock Units are awarded by the Committee, or such other date as the Committee shall determine. Restricted Stock and Restricted Stock Units shall be evidenced by an Award Agreement that shall specify (i) the number of shares of Restricted Stock and the number of Restricted Stock Units granted to each Participant, (ii) the Restriction Period(s) applicable thereto and (iii) such other terms and conditions not inconsistent with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters. Awards of Restricted Stock Units shall be evidenced by a bookkeeping entry in the Company’s records (or by such other reasonable method as the Company shall determine from time to time).

(b) Vesting. Subject to Section 4(f), Restricted Stock and Restricted Stock Units granted to a Participant under the Plan shall be subject to a Restriction Period as specified in the Award Agreement, provided that the Participant continuously provides Service through such vesting date. The Committee in its discretion may provide that the Restriction Period on Restricted Stock and Restricted Stock Units shall lapse, in whole or in part, upon the achievement of one or more Performance Criteria or other performance conditions, during a Performance Period selected by the Committee. In the case of an Award to any Executive Officer of Restricted Stock or Restricted Stock Units that are intended to qualify as “performance-based compensation” under Section 162(m) of the Code, such Award shall be (i) solely subject to Performance Criteria selected from among the criteria set forth in Section 5(c) of the Plan, (ii) subject to the same restrictions and limitations applicable to Awards of Performance Shares under Section 5(d) of the Plan and (iii) subject to the certification required under Section 5(e) of the Plan.

(c) Dividends and Dividend Equivalents. The Committee shall determine whether and to what extent dividends payable on Stock will be credited, or paid currently, to a Participant in respect of an Award of Restricted Stock or Restricted Stock Units provided however, that in the case of an Award of Restricted Stock or Restricted Stock Units as to which vesting depends upon the satisfaction of a service condition and/or one or more performance conditions, the payment of dividends or dividend equivalents shall be subject to the same service conditions and/or performance conditions, as applicable to the underlying Award. A Participant holding Restricted Stock Units shall not be entitled to exercise any voting rights and any other rights as a shareholder with respect to shares of Stock underlying such Award.

(d) Settlement of Restricted Stock and Restricted Stock Units. At the expiration of the Restriction Period for any Restricted Stock, the Company shall remove the restrictions applicable to the Restricted Stock, and shall, upon request, deliver the stock certificates evidencing such Restricted Stock to the Participant or the Participant’s legal representative (or otherwise evidence the issuance of such shares free of any restrictions imposed under the Plan). At the expiration of the Restriction Period for any Restricted Stock Units, for each such Restricted Stock Unit, the Participant shall receive, in the Committee’s discretion, (i) a cash payment equal to the Fair Market Value of one share of Stock as of such payment date, (ii) one share of Stock or (iii) any combination of cash and shares of Stock having an aggregate value equal to the Fair Market Value of one share of Stock.

(e) Restrictions on Transfer. Except as provided herein or in an Award Agreement, shares of Restricted Stock and Restricted Stock Units may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restriction Period. Any such attempt by the Participant to sell, assign, transfer, pledge or encumber shares of Restricted Stock and Restricted Stock Units without complying with the provisions of the Plan shall be void and of no effect.

(f) Termination of Service.

(i) Special Termination. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, if a Participant’s Service terminates by reason of a Special Termination during the Restriction Period, a pro rata portion of any Stock related to Restricted Stock or a Restricted Stock Unit held by such Participant shall become nonforfeitable at the date of such termination, based on the number of full calendar months of such Participant’s Service relative to the number of full calendar months in the relevant Restriction Period.

(ii) Retirement. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, if a Participant’s Service terminates by reason of Retirement during the Restriction Period, a pro rata portion of any Stock related to a Restricted Stock Unit held by such Participant shall become nonforfeitable at the date of such termination, based on the number of full calendar months of such Participant’s Service relative to the number of full calendar months in the relevant Restriction Period. If shares of Restricted Stock Units are subject to the achievement of Performance Criteria,

the pro rata portion of any Stock earned with respect to Restricted Stock Units described in the previous sentence shall only vest based on the actual achievement (if any) of the Performance Criteria and be paid to the Participant at the same time as the Restricted Stock Units are paid to other Participants.

(iii) Termination for any Other Reason. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, if a Participant’s Service terminates for any reason other than a Special Termination or Retirement during the Restriction Period, any Restricted Stock or Restricted Stock Units held by such Participant shall be forfeited and cancelled as of the date of such termination of Service. Notwithstanding the immediately preceding sentence, a Participant’s rights in respect of unvested Restricted Stock or Restricted Stock Units shall in all events be immediately forfeited and canceled as of the date of the Participant’s termination of Service for Cause.

(iv) Termination in Connection with a Change in Control. Notwithstanding anything to the contrary in this Section 6(f), Section 9 of the Plan shall determine the treatment of Restricted Stock and Restricted Stock Units upon a Change in Control, including the treatment of such Awards granted to any Participant whose Service is involuntarily terminated by an Employer other than for Cause or whose Service is terminated due to a Special Termination, in either case, on or after the date on which the shareholders of the Company approve the transaction giving rise to the Change in Control, but prior to the consummation thereof.

Section 7. STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

(a) Grant. Options and Stock Appreciation Rights ("SARs") may be granted to Participants at such time or times as shall be determined by the Committee. The Committee shall have the authority to grant Incentive Stock Options, Non-statutory Stock Options and SARs. The grant date of an Option or SAR under the Plan will be the date on which the Option or SAR is awarded by the Committee, or such other future date as the Committee shall determine in its sole discretion. Each Option or SAR shall be evidenced by an Award Agreement that shall specify the type of Option Award granted, the exercise price, the duration of the Option or SAR, the number of shares of Stock to which the Option or SAR pertains, the conditions upon which the Option or SAR or any portion thereof shall become vested or exercisable and such other terms and conditions not inconsistent with the Plan as the Committee shall determine, including customary representations, warranties and covenants with respect to securities law matters. For the avoidance of doubt, Incentive Stock Options may only be granted to Employees.

(b) Exercise Price. The Committee shall establish the exercise price at the time each Option or SAR is granted, which price shall not be less than 100% of the Fair Market Value of the Stock on the grant date. Notwithstanding the foregoing, if an Incentive Stock Option is granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate thereof, the exercise price shall be at least 110% of the Fair Market Value of the Stock on the grant date.

(c) Vesting and Exercisability. Subject to Section 4(f), each Option and SAR awarded to a Participant under the Plan shall vest and become exercisable as specified in the applicable Award Agreement, provided that the Participant continuously provides Service through such vesting date. The Committee, in its discretion, may establish performance conditions with respect to the exercisability of any Option or SAR during a Performance Period selected by the Committee. No Option or SAR shall be exercisable on or after the tenth anniversary of its grant date (the fifth anniversary of the grant date for an Incentive Stock Option that is granted to an Employee who, at the time of grant, owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate thereof). The Committee may impose such conditions with respect to the exercise of Options or SARs, including without limitation, any relating to the application of federal or state securities laws, as it may deem necessary or advisable.

(d) Payment of Option Exercise Price. No Stock shall be delivered pursuant to any exercise of an Option until payment in full of the exercise price therefore is received by the Company. Such payment may be made in cash or its equivalent or, if permitted by the Committee, (i) by exchanging shares of Stock owned by the Participant and which are not the subject of any pledge or other security interest, (ii) through an arrangement with a broker approved by the Company whereby payment of the exercise price is accomplished with the proceeds of the sale of Stock or (iii) by a combination of the foregoing, provided that the combined value of all cash and cash equivalents and the Fair Market Value of any such Stock so tendered to the Company, valued as of the date of such tender, is at least equal to such exercise price of the portion of the Option being exercised. Additionally, to the extent authorized by the Committee (whether at or after the grant date), Options may be Net Exercised subject to such terms and conditions as the Committee may from time to time impose. The Company may not make a loan to a Participant to facilitate such Participant's exercise of any of his or her Options or payment of taxes.

(e) Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying: (i) the excess of the Fair Market Value of a share of Stock on the date of exercise over the grant price; by (ii) the number of shares of Stock with respect to which the SAR is exercised. At the sole discretion of the Committee, the payment upon SAR exercise may be in cash, in shares of Stock of equivalent value, or in some combination thereof.

(f) Incentive Stock Option Status. Notwithstanding anything in this Plan to the contrary, no term of this Plan relating to Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code.

(g) Termination of Service.

(i) Special Termination. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, if the Participant's Service is terminated due to a Special Termination, then all Options and SARs held by the Participant on the effective date of such Special Termination shall vest and become exercisable and shall remain exercisable until the first to occur of (A) the second anniversary of the effective date of such Special Termination (or, for Incentive Stock Options, the first anniversary of such Special Termination) or (B) the expiration date of the Option or SAR.

(ii) Termination for any Other Reason. Unless otherwise determined by the Committee at or after the grant date, or except as provided in an employment or individual severance agreement between a Participant and an Employer, (A) if the Participant's Service is voluntarily or involuntarily terminated for any reason other than a Special Termination prior to the expiration date of the Option or SAR, any Options and SARs that have not become vested and exercisable on or before the effective date of such termination shall terminate on such effective date, and (B) if the Participant's Service is terminated voluntarily or involuntarily for any reason other than a Special Termination or for Cause, any vested and exercisable Options and SARs then held by the Participant shall remain exercisable for a period of 90 days following the effective date of such termination of Service.

(iii) Termination for Cause. Notwithstanding anything contrary in this Section 7(g), if the Participant's Service is terminated for Cause, then all Options or SARs (whether or not then vested or exercisable) shall terminate and be canceled immediately upon such termination.

(iv) Termination in Connection with a Change in Control. Notwithstanding anything to the contrary in this Section 7(g), Section 9 of the Plan shall determine the treatment of Options and SARs upon a Change in Control, including the treatment of Options and SARs granted to any Participant whose Service is involuntarily terminated by an Employer other than for Cause or whose Service is terminated due to a Special Termination, in either case, on or after the date on which the shareholders of the Company approve the transaction giving rise to the Change in Control, but prior to the consummation thereof.

(v) Limited Extension of Exercisable Period. If the exercise period of an Option or SAR would expire at a time when trading in the Stock is prohibited by federal securities law or the Company's insider trading policy, the expiration of the Option or SAR shall be automatically extended until the thirtieth (30th) calendar day following the expiration of such prohibition (so long as such extension shall not violate Section 409A).

Section 8. OTHER STOCK-BASED AWARDS

(a) Other Stock Based Awards. The Committee may grant Other Stock-Based Awards, including, but not limited to, the outright grant of Stock in satisfaction of obligations of the Company or any Affiliate thereof under another compensatory plan, program or arrangement, modified Awards intended to comply with or structured in accordance with the provisions of applicable non-U.S. law or practice, or the sale of Stock, in such amounts and subject to such terms and conditions as the Committee shall determine, including, but not limited to, the satisfaction of Performance Criteria. Subject to Section 4(f), each Other-Stock Based Award shall be evidenced by an Award Agreement that shall specify the terms and conditions applicable thereto. Any Other Stock-Based Award may entail the transfer of actual shares of Stock or the payment of the value of such Award in cash based upon the value of a specified number of shares of Stock, or any combination of the foregoing, as determined by the Committee. The terms of any Other Stock-Based Award need not be uniform in application to all (or any class of) Participants, and each Other Stock-Based Award granted to any Participant (whether or not at the same time) may have different terms.

(b) Termination of Service. In addition to any other terms and conditions that may be specified by the Committee, each Other Stock-Based Award shall specify the impact of a termination of Service upon the rights of a Participant in

respect of such Award. At the discretion of the Committee, such conditions may be the same as apply with respect to Restricted Stock or Restricted Stock Units, or may be contain terms that are more or less favorable to the Participant.

Section 9. CHANGE IN CONTROL

(a) In General. If the Participant has in effect an employment, retention, severance or similar agreement with the Company that discusses the effect of a Change in Control on the Participant's awards (a "Separate Agreement"), then the terms of the Separate Agreement shall control. If no Separate Agreements exist, except as otherwise specified in an Award

Agreement, the provisions of this Section 9 shall apply upon a Change in Control with respect to Awards granted on or after the Effective Date (for the avoidance of doubt, Awards granted prior to the Effective Date shall be governed by the terms of the Plan in effect prior to the Effective Date). Upon a Change in Control, each outstanding Award may be assumed by the New Employer or replaced with an award that preserves the existing value of the Award at the time of the Change in Control and shall provide for subsequent payout in accordance with the same vesting schedule applicable to the original Award; provided, however, that with respect to any Awards that are assumed or replaced, such assumed or replacement awards shall (i) be subject to “double-trigger” vesting as follows: if a Participant’s Service is involuntarily terminated (for a reason other than Cause) or the Participant terminates his or her Service due to Good Reason within 24 months following the Change in Control, such assumed or replacement awards shall immediately vest upon such termination of Service, and (ii) if assumed or replaced in relation to a Performance Award, Performance Share or Performance Unit outstanding under this Plan, also be (A) no longer subject to any Performance Criteria, which shall be deemed satisfied at the higher of actual performance through the date of the Change in Control or the target performance level for such assumed or replaced award and (B) subject only to a time-based vesting period substantially equivalent to the applicable remaining Performance Period for such award, subject to acceleration pursuant to (i) above.

(b) Failure to Assume Awards. In the event the New Employer after a Change in Control does not assume the Award or substitute for the Award an economically equivalent award that meets the requirements of Section 9(a) above, notwithstanding any other provision of the Plan to the contrary, immediately upon occurrence of the Change in Control (i) all outstanding Options, SARs and Other Stock-Based Awards shall become vested and exercisable; (ii) the Restriction Period on Restricted Stock and Restricted Stock Units shall lapse; (iii) each outstanding Performance Award and Performance Share shall be cancelled in exchange for a payment equal to the payment that would have been payable had each such Performance Award or Performance Share been deemed equal to 100% (or such greater or lesser percentage as the Committee shall specify at the grant date or such greater percentage as the Committee shall specify after the grant date) of the amount earned upon full achievement of applicable Performance Criteria; and (iv) each outstanding Performance Unit shall be cancelled in exchange for a payment equal to the value that would have been payable had each such Performance Unit been deemed equal to 100% (or such greater or lesser percentage as the Committee shall specify at the grant date or such greater percentage as the Committee shall specify after the grant date) of its initially established dollar or local currency denominated value. Additionally, in the event the New Employer after a Change in Control does not assume an Award or substitute for an Award an economically equivalent award that meets the requirements of Section 9(a) above, the Committee (as constituted prior to the Change in Control) may provide that in connection with the Change in Control (i) each Option and SAR shall be cancelled in exchange for an amount (payable in accordance with Section 9(c) below) equal to the excess, if any, of the Change in Control Price over the exercise price for such Option or SAR and (ii) each share of Restricted Stock and each Restricted Stock Unit shall be cancelled in exchange for an amount (payable in accordance with Section 9(c) below) equal to the Change in Control Price, multiplied by the number of shares of Stock covered by such Award. Notwithstanding any provision to the contrary, the settlement of Awards under this Section 9(b) shall be made pursuant to its original schedule if necessary to comply with Code Section 409A).

(c) Payments. Payment of any amounts calculated in accordance with Sections 9(a) and (b) shall be made in cash or, if determined by the Committee (as constituted prior to the Change in Control), in shares of the stock of the New Employer having an aggregate fair market value equal to such amount or in a combination of such shares of stock and cash. All amounts payable hereunder shall be payable in full, as soon as reasonably practicable, but in no event later than 10 business days, following the date of the Participant’s termination of Service or the Change in Control, as applicable. For purposes hereof, the fair market value of one share of stock of the New Employer shall be determined by the Committee (as constituted prior to the consummation of the transaction constituting the Change in Control), in good faith. Notwithstanding any provision to the contrary, the settlement of Awards under this Section 9(c) shall be made pursuant to its original schedule if necessary to comply with Code Section 409A).
(d) Termination of Service Prior to Change in Control. In the event that any Change in Control occurs as a result of any transaction described in clause (iii) or (iv) of the definition of such term, any Participant whose Service is

involuntarily terminated by an Employer other than for Cause, by the Participant for Good Reason or due to a Special Termination, in each case, on or after the date on which the shareholders of the Company approve the transaction giving rise to the Change in Control, but prior to the consummation thereof, shall be treated, solely for purposes of this Plan (including, without limitation, this Section 9), as continuing in Service until the occurrence of such Change in Control, and to have been terminated immediately thereafter.

Section 10. EFFECTIVE DATE, AMENDMENT, MODIFICATION, AND TERMINATION OF THE PLAN OR AWARDS

(a) General. The Plan shall be effective on the Effective Date, and shall continue in effect, unless sooner terminated pursuant to this Section 10, until the 10th anniversary of the Effective Date, after which no new Awards may be granted under the Plan. The Board may at any time in its sole discretion, for any reason whatsoever, terminate or suspend the Plan, and from time to time may amend or modify the Plan; provided that without the approval by a majority of the votes cast at a duly constituted

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meeting of shareholders of the Company, no amendment or modification to the Plan may (i) materially increase the benefits accruing to Participants under the Plan, (ii) except as otherwise expressly provided in Section 4(d) of the Plan, materially increase the number of shares of Stock subject to the Plan or the individual Award limitations specified in Section 4(c) of the Plan, (iii) materially modify the requirements for participation in the Plan or (iv) materially modify the Plan in any other way that would require shareholder approval under any regulatory requirement that the Committee determines to be applicable. In the event that the Committee shall determine that such action would, taking into account such factors as it deems relevant, be beneficial to the Company, the Committee may affirmatively act to amend, modify or terminate any outstanding Award at any time prior to payment or exercise in any manner not inconsistent with the terms of the Plan, subject to Section 10(b), including without limitation, to change the date or dates as of which (A) an Option becomes exercisable, (B) a Performance Award, Performance Share or Performance Unit is deemed earned, or (C) Restricted Stock and Restricted Stock Units becomes nonforfeitable, except that no outstanding Option or SAR may be amended or otherwise modified or exchanged (other than in connection with a transaction described in Section 4(d) of the Plan) in a manner that would have the effect of (I) reducing the exercise price of an outstanding Option or an outstanding SAR, (II) cancelling outstanding Options or SARs in exchange for other Options or SARs with an exercise price that is less than the exercise price of the cancelled Option or the cancelled SAR or (III) cancelling an outstanding Option or outstanding SAR with an exercise price that is less than the Fair Market Value of a share of Stock on the date of cancellation in exchange for cash or another Award. Any such action by the Committee shall be subject to the Participant’s consent if the Committee determines that such action would adversely affect in any material way the Participant’s rights under such Award, whether in whole or in part. No amendment, modification, or termination of the Plan or any Award shall adversely affect in any material way any Award theretofore granted under the Plan, without the consent of the Participant. Notwithstanding any other provision of the Plan to the contrary, the Board may amend the Plan and the Board or the Committee may amend an Award Agreement without Participant consent, to take effect retroactively or otherwise, as deemed necessary or advisable for the purpose of conforming the Plan or an Award Agreement to (i) any law relating to plans of this or similar nature, and to the administrative regulations and rulings promulgated thereunder, (ii) any applicable exchange requirements and (iii) any compensation recoupment policy adopted by the Company.

(b) Adjustment of Awards Upon the Occurrence of Certain Events.

(i) Equity Restructurings. If the outstanding shares of Stock are increased, decreased, changed into or exchanged for a different number or kind of shares or securities of the Company through a non-reciprocal transaction between the Company and its stockholders that causes the per share fair value underlying an Award to change, such as stock dividend, stock split, spin-off, rights offering, recapitalization through a large, non-recurring cash dividend, or other similar transaction, a proportionate adjustment shall be made to the number or kind of shares or securities allocated to Awards that have been granted prior to any such change. Any such adjustment in an outstanding Option or SAR shall be made without change in the aggregate exercise price applicable to the unexercised portion of such Option or SAR but with a corresponding adjustment in the exercise price for each share of Stock or other unit of any security covered by such Option or SAR.

(ii) Reciprocal Transactions. The Board may, but shall not be obligated to, make an appropriate and proportionate adjustment to an Award or to the exercise Price of any outstanding Award, and/or grant an additional Award to the holder of any outstanding Award, to compensate for the diminution in the intrinsic value of the shares of Stock resulting from any reciprocal transaction.

(iii) Certain Unusual or Nonrecurring Events. In recognition of unusual or nonrecurring events affecting the Company or its financial statements, or in recognition of changes in applicable laws, regulations, or accounting principles, and, whenever the Board determines that adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, the Board may, using reasonable care, make adjustments in the terms and conditions of, and the criteria included in, Awards. In case of an Award designed

to qualify for the Performance-Based Exception (as defined in Code Section 409A), the Board will take care not to make an adjustment that would disqualify the Award.

(iv) Fractional Shares and Notice. Fractional shares of Stock resulting from any adjustment in Awards pursuant to this Section 10(b) may be settled in cash or otherwise as the Board determines. The Company will give notice of any adjustment to each Participant who holds an Award that has been adjusted and the adjustment (whether or not such notice is given) will be effective and binding for all Plan purposes.

Section 11. DEFERRALS AND SECTION 409A

(a) Deferrals. As provided in an Award Agreement, the Board may permit a Participant to defer receipt of cash or shares of Stock that would otherwise be due to him or her under the Plan or otherwise create a deferred compensation arrangement

(as defined in Section 409A) in accordance with this Section 11. For purposes of the Plan, "Section 409A" shall mean Code Section 409A and any applicable regulations or interpretative authority promulgated thereunder.
(b) Initial Deferral Elections. The deferral of an Award or compensation otherwise payable to the Participant shall be set forth in the terms of the Award Agreement or as elected by the Participant pursuant to such rules and procedures as the Board may establish. Except as may otherwise be provided in the Award Agreement, any such initial deferral election by a Participant will designate a time and form of payment and shall be made at such time as provided below:

(i) A Participant may make a deferral election with respect to an Award (or compensation giving rise thereto) at any time in any calendar year preceding the year in which services giving rise to such compensation or Award are rendered.

(ii) In the case of the first year in which a Participant becomes eligible to receive an Award or defer compensation under the Plan (aggregating other plans of its type as set forth in Section 409A), the Participant may make a deferral election within 30 days after the date the Participant becomes eligible to participate in the Plan; provided that such election may apply only with respect to the portion of the Award or compensation attributable to services to be performed subsequent to the election.

(iii) Where the grant of an Award or payment of compensation, or the applicable vesting is conditioned upon the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least 12 consecutive months in which the Participant performs Service, a Participant may make a deferral election no later than 6 months prior to the end of the applicable performance period.

(iv) Where the vesting of an Award is contingent upon the Participant's continued Service for a period of no less than 13 months, the Participant may make a deferral election within 30 days of receiving an Award. Any such deferral election must defer receipt for a period of at least two years.

(v) A Participant may make a deferral election in other circumstances and at such times as may be permitted under Section 409A.

(c) Distribution Dates. Any deferred compensation arrangement created under the Plan shall be distributed at such times as provided in the Award Agreement, which may be upon the earliest or latest of one or more of the following:
(i) A fixed date as set forth in the Award Agreement or pursuant to a Participant's election;
(ii) the Participant's death;
(iii) the Participant's disability, as defined in Section 409A;
(iv) a change in control event, as defined in Section 409A;
(v) an Unforeseeable Emergency, as defined in Section 409A and implemented by the Board;
(vi) a Participant's separation of Service, as defined in Section 409A; or

(vii) such other events as permitted under Section 409A.

(d) Redeferrals. The Company, in its discretion, may permit a Participant to make a subsequent election to delay a distribution date, or, as applicable, to change the form of distribution payments, attributable to one or more events triggering a distribution, so long as (i) such election may not take effect until at least twelve (12) months after the election is made, (ii) such election defers the distribution for a period of not less than five years from the date such distribution would otherwise have been made, and (iii) such election may not be made less than twelve (12) months prior to the date the distribution was to be made.

(e) Termination of Deferred Compensation Arrangements. The Company may in its discretion terminate the deferred compensation arrangements created under the Plan subject to the following:

(i) the arrangement may be terminated within the 30 days preceding, or 12 months following, a change in control, as defined in Section 409A, provided that all payments under such arrangement are distributed in full within 12 months after such termination;

(ii) the arrangement may be terminated in the Company's discretion at any time provided that (A) all deferred compensation arrangements of similar type maintained by the Company are terminated, (B) all payments are made at least 12 months and no more than 24 months after such termination, and (C) the Company does not adopt a new arrangement of similar type for a period of five years following the termination of the arrangement; and (iii) the arrangement may be terminated within 12 months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U.S.C. 503(b)(1)(A) provided that the payments under the arrangement are distributed by the latest of the (A) the end of the calendar year of such termination, (B) the calendar year in which such payments are fully vested, or (C) the first calendar year in which such payment is administratively practicable.

(f) Section 409A Savings Clause. Notwithstanding anything in this Plan to the contrary, no terms of this Plan relating to Awards or any deferral with respect thereto shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to cause an Award, or the deferral or payment thereof, to become subject to interests and additional tax under Section 409A. Notwithstanding any other provision in the Plan to the contrary, if a Participant is a "Specified Employee," as that term is used in Section 409A, at the time of his or her separation from service, no amount that is subject to Code Section 409A and that becomes payable by reason of such separation from service shall be paid to such Participant before the earlier of (i) the expiration of the six-month period measured from the date of the Participant's separation from service, and (ii) within 30 days following the Participant's death.

Section 12. GENERAL PROVISIONS

(a) Withholding. The Employer shall have the right to deduct from all amounts paid to a Participant in cash (whether under this Plan or otherwise) any amount required by law to be withheld in respect of Awards under this Plan as may be necessary in the opinion of the Employer to satisfy any applicable tax withholding requirements under the laws of any country, state, province, city or other jurisdiction, including but not limited to income taxes, capital gains taxes, transfer taxes, and social security contributions that are required by law to be withheld. In the case of payments of Awards in the form of Stock, at the Committee's discretion, the Participant shall be required to either pay to the Employer the amount of any taxes required to be withheld with respect to such Stock or, in lieu thereof, the Employer shall have the right to retain (or the Participant may be offered the opportunity to elect to tender) the number of shares of Stock whose Fair Market Value equals such amount required to be withheld provided however that such amount may not exceed the maximum statutory withholding rate.

(b) Nontransferability of Awards. No Award shall be assignable or transferable except by will or the laws of descent and distribution; provided that the Committee may permit (on such terms and conditions as it shall establish) a Participant to transfer an Award for no consideration to the Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons have all of the beneficial interest and any other entity in which these persons (or the Participant) own all of the voting interests ("Permitted Transferees"). Except to the extent required by law, no right or interest of any Participant shall be subject to any lien, obligation or liability of the Participant. All rights with respect to Awards granted to a Participant under the Plan shall be exercisable during the Participant's lifetime only by such Participant or, if applicable, his or her Permitted Transferee(s). The rights of a Permitted Transferee shall be limited to the rights conveyed to such Permitted Transferee, who shall be subject to and bound by the terms of the agreement or agreements between the Participant and the Company.

(c) No Limitation on Compensation. Nothing in the Plan shall be construed to limit the right of the Company to establish other plans or to pay compensation, in cash or property, in a manner which is not expressly authorized under the Plan.

(d) No Right to Employment. No person shall have any claim or right to be granted an Award, and the grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Employer. The grant of an Award hereunder, and any future grant of Awards under the Plan is entirely voluntary, and at the complete discretion of the Company. Neither the grant of an Award nor any future grant of Awards by the Company shall be deemed to create any obligation to grant any further Awards, whether or not such a reservation is explicitly stated at the time of such a grant.

The Plan shall not be deemed to constitute, and shall not be construed by the Participant to constitute, part of the terms and conditions of employment and participation in the Plan shall not be deemed to constitute, and shall not be deemed by the Participant to constitute, an employment or labor relationship of any kind with an Employer. Each Employer expressly reserves the right at any time to dismiss a Participant free from any liability, or any claim under the Plan, except as provided herein and

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in any agreement entered into with respect to an Award. The Company expressly reserves the right to require, as a condition of participation in the Plan, that Award recipients agree and acknowledge the above in writing. Further, the Company expressly reserves the right to require Award recipients, as a condition of participation, to consent in writing to the collection, transfer from the Employer to the Company and third parties, storage and use of personal data for purposes of administering the Plan.

(e) No Rights as Shareholder. Subject to the provisions of the applicable Award contained in the Plan and in the Award Agreement, no Participant, Permitted Transferee or Designated Beneficiary shall have any rights as a shareholder with respect to any shares of Stock to be distributed under the Plan until he or she has become the holder thereof.

(f) Construction of the Plan. The validity, construction, interpretation, administration and effect of the Plan and of its rules and regulations, and rights relating to the Plan, shall be determined solely in accordance with the laws of the State of Illinois (without reference to the principles of conflicts of law).

(g) Compliance with Legal and Exchange Requirements. The Plan, the granting and exercising of Awards thereunder, and any obligations of the Company under the Plan, shall be subject to all applicable federal, state, and foreign country laws, rules, and regulations, and to such approvals by any regulatory or governmental agency as may be required, and to any rules or regulations of any exchange on which the Stock is listed. The Company, in its discretion, may postpone the granting and exercising of Awards, the issuance or delivery of Stock under any Award or any other action permitted under the Plan to permit the Company, with reasonable diligence, to complete such stock exchange listing or registration or qualification of such Stock or other required action under any federal, state or foreign country law, rule, or regulation and may require any Participant to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Stock in compliance with applicable laws, rules, and regulations. The Company shall not be obligated by virtue of any provision of the Plan to recognize the exercise of any Award or to otherwise sell or issue Stock in violation of any such laws, rules, or regulations, and any postponement of the exercise or settlement of any Award under this provision shall not extend the term of such Awards. Neither the Company nor its directors or officers shall have any obligation or liability to a Participant with respect to any Award (or Stock issuable thereunder) that shall lapse because of such postponement.

(h) Indemnification. Each person who is or shall have been a member of the Committee and each delegate of such Committee shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be made a party or in which he or she may be involved in by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company’s approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided that the Company is given an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it personally. The foregoing right of indemnification shall not be exclusive and shall be independent of any other rights of indemnification to which such persons may be entitled under the Company’s Certificate of Incorporation or By-laws, by contract, as a matter of law, or otherwise.

(i) No Impact On Benefits. Except as may otherwise be specifically stated under any employee benefit plan, policy or program, no amount payable in respect of any Award shall be treated as compensation for purposes of calculating a Participant’s right under any such plan, policy or program.

(j) Dividend Treatment. No cash dividends or distributions declared with respect to any Award (including Performance Awards) shall be paid to any Participant unless and until the Participant vests in such underlying Award. All unvested dividends shall be forfeited by the Participants to the extent their underlying Awards are forfeited.

(k) No Constraint on Corporate Action. Nothing in this Plan shall be construed (i) to limit, impair or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets or (ii) to limit the right or power of the Company, or any Subsidiary, to take any action which such entity deems to be necessary or appropriate.

(l) Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of this Plan, and shall not be employed in the construction of this Plan.