

**Central Maine Power Company  
and Subsidiaries  
Consolidated Financial Statements  
For the Years Ended December 31, 2006 and 2005**

**Central Maine Power Company  
Consolidated Financial Statements**

**Index**

<b>December 2006 and 2005</b>	<b>Page(s)</b>
Report of Independent Auditors	1
<b>Consolidated Financial Statements</b>	
Balance Sheets.....	2
Statements of Income.....	4
Statements of Cash Flows.....	5
Statements of Changes in Common Stock Equity.....	6
Notes to Financial Statements.....	7-26

**Report of Independent Accountants**

To the Shareholder and Board of Directors  
of Central Maine Power Company and Subsidiaries:

In our opinion, the accompanying balance sheets and the related statements of income, of cash flows and of changes in common stock equity present fairly, in all material respects, the financial position of Central Maine Power Company and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, effective December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*.



PricewaterhouseCoopers LLP  
February 28, 2007

**Central Maine Power Company**  
Consolidated Balance Sheets

December 31 (Thousands)	2006	2005
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$9,680	\$23,291
Accounts receivable and unbilled revenues, net	139,430	143,031
Affiliated accounts receivable	1,536	1,834
Materials and supplies, at average cost	8,175	8,135
Deferred income taxes	1,228	1,193
Prepayments and other current assets	11,849	8,513
<b>Total Current Assets</b>	<b>171,898</b>	<b>185,997</b>
<b>Utility Plant, at Original Cost</b>		
Electric	1,465,982	1,428,360
Less accumulated depreciation	521,814	501,522
<b>Net Utility Plant in Service</b>	<b>944,168</b>	<b>926,838</b>
Construction work in progress	12,384	1,824
<b>Total Utility Plant</b>	<b>956,552</b>	<b>928,662</b>
<b>Other Property and Investments</b>	<b>17,791</b>	<b>21,705</b>
<b>Regulatory and Other Assets</b>		
Regulatory assets		
Nuclear plant obligations	89,200	126,337
Unfunded future income taxes	152,143	107,105
Unamortized loss of debt reacquisitions	6,854	7,768
NUG termination agreement costs	6,219	4,647
Pension and other postretirement benefits	119,707	-
Other	62,483	62,838
Total regulatory assets	436,606	308,695
Other assets		
Goodwill	324,938	324,938
Prepaid pension benefit	-	59,164
Other	19,028	19,974
Total other assets	343,966	404,076
<b>Total Regulatory and Other Assets</b>	<b>780,572</b>	<b>712,771</b>
<b>Total Assets</b>	<b>\$1,926,813</b>	<b>\$1,849,135</b>

The notes on pages 7 through 26 are an integral part of the consolidated financial statements.

**Central Maine Power Company**  
Consolidated Balance Sheets

December 31	2006	2005
(Thousands)		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt	\$17,553	\$43,042
Notes payable	18,000	29,000
Accounts payable and accrued liabilities	52,304	43,824
Affiliated accounts payable	4,157	4,877
Accounts payable, purchased power	15,789	26,010
Interest accrued	6,356	6,035
Taxes accrued	7,542	8,521
Other	49,846	39,166
<b>Total Current Liabilities</b>	<b>171,547</b>	<b>200,475</b>
<b>Regulatory and Other Liabilities</b>		
Regulatory liabilities		
Accrued removal obligation	101,131	95,353
Deferred income taxes	116,649	85,250
Pension benefit	43,412	-
Other	2,246	2,990
Total regulatory liabilities	263,438	183,593
Other Liabilities		
Deferred income taxes	118,653	91,648
Nuclear plant obligations	89,200	126,337
Pension and other postretirement benefits	152,155	175,648
Environmental remediation costs	6,945	5,089
Other	38,255	39,910
Total other liabilities	405,208	438,632
<b>Total Regulatory and Other Liabilities</b>	<b>668,646</b>	<b>622,225</b>
Long-term debt	347,773	324,626
<b>Total Liabilities</b>	<b>1,187,966</b>	<b>1,147,326</b>
<b>Commitments</b>		
<b>Preferred Stock</b>		
Preferred Stock	13,571	13,571
<b>Common Stock Equity</b>		
Common stock (\$5 par value, 80,000 shares authorized, 31,211 shares outstanding at December 31, 2006 and 2005)	156,057	156,057
Capital in excess of par value	513,399	512,995
Retained earnings	56,675	47,222
Accumulated other comprehensive (loss)	(855)	(28,036)
<b>Total Common Stock Equity</b>	<b>725,276</b>	<b>688,238</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$1,926,813</b>	<b>\$1,849,135</b>

The notes on pages 7 through 26 are an integral part of the consolidated financial statements.

**Central Maine Power Company**  
**Consolidated Statements of Income**

Year Ended December 31 (Thousands)	2006	2005
<b>Operating Revenues</b>		
Sales and services	\$592,736	\$635,886
<b>Operating Expenses</b>		
Electricity purchased	202,625	251,040
Other operating expenses	184,149	178,973
Maintenance	39,853	34,659
Depreciation and amortization	41,240	40,344
Other taxes	15,094	16,165
<b>Total Operating Expenses</b>	<b>482,961</b>	<b>521,181</b>
<b>Operating Income</b>	<b>109,775</b>	<b>114,705</b>
<b>Other (Income)</b>	<b>(4,500)</b>	<b>(3,610)</b>
<b>Other Deductions</b>	<b>706</b>	<b>598</b>
<b>Interest Charges, Net</b>	<b>25,261</b>	<b>24,633</b>
<b>Income Before Income Taxes</b>	<b>88,308</b>	<b>93,084</b>
<b>Income Taxes</b>	<b>33,183</b>	<b>38,086</b>
<b>Net Income</b>	<b>55,125</b>	<b>54,998</b>
<b>Preferred Stock Dividends</b>	<b>672</b>	<b>1,014</b>
<b>Earnings Available for Common Stock</b>	<b>\$54,453</b>	<b>\$53,984</b>

The notes on pages 7 through 26 are an integral part of the consolidated financial statements.

**Central Maine Power Company**  
**Consolidated Statements of Cash Flows**

Year Ended December 31 (Thousands)	2006	2005
<b>Operating Activities</b>		
Net income	\$55,125	\$54,998
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	64,886	52,572
Deferred income taxes and investment tax credits, net	(5,410)	21,197
Pension expense	9,365	7,637
Changes in current operating assets and liabilities		
Accounts receivable and unbilled revenues, net	3,899	(20,667)
Inventory	(40)	(868)
Prepayments and other current assets	(3,315)	(4,484)
Accounts payable and accrued liabilities	1,624	8,779
Interest accrued	321	565
Taxes accrued	(979)	1,184
Other current liabilities	6,119	10,684
Pension contribution	-	(35,000)
Other assets	(18,248)	(30,509)
Other liabilities	(6,389)	(12,726)
<b>Net Cash Provided by Operating Activities</b>	<b>106,958</b>	<b>53,362</b>
<b>Investing Activities</b>		
Utility plant additions	(65,855)	(51,665)
Other property additions	-	(9)
Investments	3,931	7,027
<b>Net Cash Used in Investing Activities</b>	<b>(61,924)</b>	<b>(44,647)</b>
<b>Financing Activities</b>		
Preferred stock repayments	-	(22,220)
Long-term note issuances	40,000	98,893
Long-term note repayments	(42,286)	(46,855)
Equity infusion	-	30,000
Notes payable three months or less, net	(11,000)	(8,500)
Book overdraft	313	(308)
Dividends on common and preferred stock	(45,672)	(49,014)
<b>Net Cash (Used in) Provided by Financing Activities</b>	<b>(58,645)</b>	<b>1,996</b>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<b>(13,611)</b>	<b>10,711</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>23,291</b>	<b>12,580</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$9,680</b>	<b>\$23,291</b>

The notes on pages 7 through 26 are an integral part of the consolidated financial statements.

**Central Maine Power Company**  
**Consolidated Statements of Changes in Common Stock Equity**

(Thousands, except per share amounts)	Common Stock		Capital in	Retained	Accumulated	Total
	Outstanding	\$5 Par Value	Excess of Par	Earnings	Other	
	Shares	Amount	Value		Comprehensive	
					(Loss)	
<b>Balance, January 1, 2005</b>	31,211	\$156,057	\$482,984	\$41,238	\$(23,075)	\$657,204
Net income				54,998		54,998
Other comprehensive (loss), net of tax					(4,961)	(4,961)
Comprehensive income						50,037
Equity contribution from parent			30,011			30,011
Dividends declared						
Preferred stock				(1,014)		(1,014)
Common stock				(48,000)		(48,000)
<b>Balance, December 31, 2005</b>	31,211	156,057	512,995	47,222	(28,036)	688,238
Net income				55,125		55,125
Other comprehensive income, net of tax					17,245	17,245
Comprehensive income						72,370
Adjustment to initially apply Statement 158					9,936	9,936
Equity contribution from parent			404			404
Dividends declared						
Preferred stock				(672)		(672)
Common stock				(45,000)		(45,000)
<b>Balance, December 31, 2006</b>	<b>31,211</b>	<b>\$156,057</b>	<b>\$513,399</b>	<b>\$56,675</b>	<b>\$(855)</b>	<b>\$725,276</b>

The notes on pages 7 through 26 are an integral part of the consolidated financial statements.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 1. Significant Accounting Policies

**Background:** Central Maine Power Company (CMP) and subsidiaries are primarily engaged in the transmission and distribution of electricity generated by others to retail customers in Maine. CMP is the principal operating utility of CMP Group, Inc. (CMP Group), which is a wholly-owned subsidiary of Energy East Corporation (Energy East).

**Accounts receivable:** Accounts receivable include unbilled revenues of \$19 million at December 31, 2006, and \$27 million at December 31, 2005, and are shown net of an allowance for doubtful accounts of \$2 million at December 31, 2006, and December 31, 2005. Accounts receivable balances do not bear interest although late fees may be assessed. Bad debt expense was \$2 million in 2006 and \$3 million in 2005.

Unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, such as current month energy load requirements, billing rates by customer classification and delivery loss factors. Changes in those assumptions could significantly affect the estimates of unbilled revenues.

The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable, determined based on experience and other economic data. Each month we review our allowance for doubtful accounts and past due accounts over 90 days and/or above a specified amount, and review all other balances on a pooled basis by age and type of receivable. When we believe that a receivable will not be recovered, we charge off the account balance against the allowance. Changes in assumptions about input factors such as economic conditions and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.

**Asset retirement obligation:** In accordance with Financial Accounting Standards Board (FASB) Statement 143, Accounting for Asset Retirement Obligations, and FASB Interpretation Number (FIN) 47, Accounting for Conditional Asset Retirement Obligations, we record the fair value of the liability for an asset retirement obligation and/or a conditional asset retirement obligation in the period in which it is incurred and capitalize the cost by increasing the carrying amount of the related long-lived asset. We adjust the liability to our present value periodically over time, and depreciate the capitalized cost over the useful life of the related asset. Upon settlement we will either settle the obligation at our recorded amount or incur a gain or a loss. We defer any timing differences between rate recovery and depreciation expense as either a regulatory asset or a regulatory liability.

FIN 47 clarifies that the term conditional asset retirement obligation as used in Statement 143 refers to an entity's legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires that if an entity has sufficient information to reasonably estimate the fair value of the liability for a conditional asset retirement obligation, it must recognize that liability at the time the liability is incurred. We began applying FIN 47 as of December 31, 2005. Our application of FIN 47 did not have a material effect on our financial position, and there was no effect on our result of operations or cash flows.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

Our asset retirement obligation (ARO) including our estimated conditional asset retirement obligation at December 31 was less than \$1 million for 2006 and 2005. The ARO primarily consists of obligations related to removal or retirement of: asbestos, polychlorinated biphenyl and (PCB) contaminated equipment. The long-lived assets associated with the AROs are distribution property and other property

We have AROs for which we have not recognized a liability because the fair value cannot be reasonably estimated due to indeterminate settlement dates, including: the removal of hydro dams due to structural inadequacy or for decommissioning; the removal of property upon termination of an easement and the costs of right-of-way or franchise.

Statement 143 provides that if the requirement of Statement 71, Accounting for the Effects of Certain Types of Regulation, are met, a regulatory liability should be recognized, for financial reporting purposes only, for the difference between removal costs collected in rates and actual costs incurred. We classify those amounts as accrued removal obligations.

**Consolidated statements of cash flows:** We consider all highly liquid investments with a maturity date of three months or less when acquired to be cash equivalents and those investments are included in cash and cash equivalents.

<b>Supplemental Disclosure of Cash Flows Information</b>	<b>2006</b>	<b>2005</b>
<b>(Thousands)</b>		
Cash paid during the year ended December 31:		
Interest, net of amounts capitalized	<b>\$23,227</b>	\$22,756
Income taxes, net of benefits received	<b>\$39,042</b>	\$15,292

The Company's book overdrafts are treated as a current liability by including them in accounts payable on the balance sheet.

The amount of capitalized interest was less than \$1 million in 2006 and 2005.

**Depreciation and amortization:** We determine depreciation expense using the straight-line method. The average service lives of certain classifications of property are: transmission property - 42 years, distribution property - 38 years and other property - 16 years. Our depreciation accruals were equivalent to 3.0% of average depreciable property for 2006 and 2005.

We charge repairs and minor replacements to operating expense, and capitalize renewals and betterments, including certain indirect costs. We charge the original cost of utility plant retired or otherwise disposed of to accumulated depreciation.

**Estimates:** Preparation of the 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

**FIN 48:** In July 2006 the FASB released FIN 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with Statement 109, Accounting for Income Taxes, by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or to be taken in a tax return. The evaluation of a tax position is a two-step process. The first step is for an entity to determine if it is more likely than not that a tax position will be sustained upon examination. The second step involves measuring the amount of tax benefit to be recognized in the financial statements based on the largest amount of benefit that meets the prescribed recognition threshold. The difference between the amounts based on that position and the position taken in a tax return is generally recorded as a liability. FIN 48 is effective for fiscal years beginning after December 15, 2006. Upon adoption of FIN 48, the cumulative effect of applying the provisions of FIN 48 must be reported as an adjustment to the opening balance of retained earnings for that fiscal year. We are required to adopt FIN 48 on January 1, 2007. While we are still in the process of measuring the effect of the adoption, we estimate that the adoption will not have a material effect on our results of operations or financial position.

**Goodwill:** The excess of the cost over fair value of net assets and as a result of push-down accounting is recorded as goodwill. We evaluate the carrying value of goodwill for impairment at least annually and on an interim basis if there are indications that goodwill might be impaired. We recognize impairment if the fair value of goodwill is less than its carrying value. (See Note 2.)

#### **Other (Income) and Other Deductions:**

<b>Year Ended December 31</b>	<b>2006</b>	<b>2005</b>
<b>(Thousands)</b>		
Interest and dividend income	<b>\$(1,035)</b>	\$(663)
Carrying cost	<b>(2,113)</b>	(1,963)
Earnings from equity investments	<b>(488)</b>	(845)
Miscellaneous	<b>(864)</b>	(139)
<b>Total other (income)</b>	<b>\$(4,500)</b>	\$(3,610)
Miscellaneous	<b>\$706</b>	\$598
<b>Total other deductions</b>	<b>\$706</b>	\$598

**Principles of consolidation:** Our financial statements consolidate our majority-owned subsidiaries after eliminating intercompany transactions.

**Regulatory assets and liabilities:** Pursuant to Statement 71, we capitalize, as regulatory assets, incurred and accrued costs that are probable of recovery in future electric rates. Substantially all regulatory assets for which funds have been expended are either included in rate base or are accruing carrying costs. We also record, as regulatory liabilities, obligations to refund previously collected revenue or to spend revenue collected from customers on future costs. We amortize our various regulatory assets and regulatory liabilities as follows: Unfunded future income taxes and deferred income taxes are amortized as the related temporary differences reverse.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

Unamortized loss on debt reacquisitions is amortized over the lives of the related debt issues. Nuclear plant obligations, demand-side management program costs, gain on sale of generation assets, other regulatory assets and other regulatory liabilities are amortized over various periods in accordance with our current rate plans. We earn a return on substantially all regulatory assets for which funds have been spent.

At December 31, 2006 and 2005, our Other regulatory assets and liabilities consisted of:

	2006	2005
<b>(Thousands)</b>		
Postretirement cost	\$25,429	\$28,679
Revenue levelization	20,163	18,545
Demand-side management	6,181	6,853
Other	10,710	8,761
<b>Total other regulatory assets</b>	<b>\$62,483</b>	<b>\$62,838</b>
<b>Total other regulatory liabilities</b>	<b>\$1,888</b>	<b>\$1,178</b>

**Related party transactions:** Utility Shared Services Corporation and Energy East Management Corporation provide various administrative and management services to Energy East's operating utilities, including CMP, pursuant to service agreements. The cost of those services is allocated in accordance with methodologies set forth in the service agreements. The cost allocation methodologies vary depending on the type of service provided. The cost for services provided to CMP by Utility Shared Services Corporation and Energy East Management Corporation was approximately \$19 million for 2006 and 2005.

**Revenue recognition:** We recognize revenues upon delivery of energy and energy-related products and services to our customers.

Pursuant to Maine State Law, since March 1, 2000, we have been prohibited from selling power to our retail customers. We do not enter into any purchase and sales arrangements for power with ISO New England, Inc. or any other independent system operator or similar entity. All of our power entitlements under our nonutility generator (NUG) and other purchase power bilateral contracts were sold to unrelated third parties.

**Segment Information:** Our electric delivery business, which we conduct in the state of Maine, consists of our transmission and distribution operations. All operating results and capital spending relate to our electric delivery business.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

**Risk management:** The financial instruments we hold or issue are not for trading or speculative purposes.

We use interest rate swap agreements to manage the risk of increases in variable interest rates and to maintain desired fixed-to-floating rate ratios. We record amounts paid and received under the agreements as adjustments to the interest expense of the specific debt issues. We also use derivative instruments to mitigate risk resulting from interest rate changes on future financings. We amortize amounts paid or received under those instruments to interest expense over the life of the corresponding financing. At December 31, 2006, we had \$2 million of derivative liabilities, substantially all of which were long-term and \$6 million of derivative assets of which \$5 million were long-term. At December 31, 2005 we had \$1 million of long-term derivative liabilities and \$5 million of long-term derivative assets.

**Variable interest entities:** FIN 46(R), Consolidation of Variable Interest Entities, and interpretation of Accounting Research Bulletin No. 51, addresses consolidation of variable interest entities. A variable interest entity is an entity that is not controllable through voting interests and/or in which the equity investor does not bear the residual economic risks and rewards. FIN 46(R) requires a business enterprise to consolidate a variable interest entity if the enterprise has a variable interest that will absorb a majority of the entity's expected losses.

We have power purchase contracts with NUGs. However we were not involved in the formation of and do not have ownership interests in any NUGs. We have evaluated all of the power purchase contracts with NUGs with respect to FIN 46(R) and determined that most of the power purchase contracts are not variable interests for one of the following reasons: the contract is based on a fixed price or a market price and there is no other involvement with the NUG, the contract is short-term in duration, the contract is for a minor portion of the NUG's capacity or the NUG is a governmental organization or an individual. We are unable to apply FIN 46(R) to four remaining NUGs because we are unable to obtain the information necessary to: (1) determine if any of the four NUGs is a variable interest entity, (2) determine if we are a NUG's primary beneficiary or (3) perform the accounting required to consolidate any of the NUGs. We routinely request necessary information from the four NUGs, and will continue to do so, but no NUG has yet provided the requested information. We did not consolidate any NUGs at December 31, 2006 and 2005.

We continue to purchase electricity from the four NUGs at above-market prices. We are not exposed to any loss as a result of our involvement with NUGs because we are allowed to recover through rates the cost of our purchases. Also, we are under no obligation to a NUG if the NUG decides not to operate for any reason. The combined contractual capacity for the four NUGs is approximately 23 megawatts. The combined purchases from the four NUGs totaled approximately \$13 million in 2006 and \$11 million for 2005.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

**Statement 157:** In September 2006 the FASB issued Statement 157, Fair Value Measurements. Changes from current practice that will result from the application of Statement 157 relate to the definition of fair value, the methods used to measure fair value, and expanded disclosures about fair value measurements. Statement 157 applies under other accounting pronouncements that require or permit fair value measurements in which the FASB previously concluded that fair value is the relevant measurement attribute. It does not require any new fair value measurements, but may change current practice for some entities. Statement 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with earlier application encouraged. The provisions are to be applied prospectively, with certain exceptions. A cumulative-effect adjustment to retained earnings is required for application to certain financial instruments. We will adopt Statement 157 effective January 1, 2008. We are currently assessing the effect Statement 157 would have on our results of operations, financial position and cash flows.

**Statement 158:** In September 2006 the FASB issued Statement 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends FASB Statements No. 87, 88, 106 and 132(R), and requires an employer to:

- recognize the overfunded or underfunded status of defined benefit pension and/or other postretirement plans as an asset or liability in its balance sheet;
- recognize changes in the funded status of such plans in the year in which the changes occur through comprehensive income;
- measure the funded status of a plan as of the date of its year-end balance sheet, and
- disclose in the notes to the annual financial statements certain effects that the delayed recognition of the gains or losses, prior service costs or credits and transition asset or obligation are expected to have on net periodic benefit cost for the next fiscal year.

The funded status of a benefit plan is measured as the difference between plan assets at fair value and the benefit obligation, which is the projected benefit obligation for a pension plan and the accumulated postretirement benefit obligation for any other postretirement plan. As required by Statement 158, gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to Statement 87, Employers' Accounting for Pensions, or Statement 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, are recognized as a component of other comprehensive income, net of tax. Gains or losses, prior service costs or credits and the transition asset or obligation remaining from the initial application of Statements 87 and 106 that are recognized in accumulated other comprehensive income are adjusted as they are subsequently recognized as components of net periodic benefit cost pursuant to the recognition and amortization provisions of those Statements. However, we are a rate-regulated entity that meets the criteria to apply Statement 71. Based on our assessments of the facts and circumstances applicable to our jurisdiction and regulatory environment, we have determined that we are allowed to defer as regulatory assets or regulatory liabilities the above indicated items. Other entities that are not rate-regulated would recognize those items as a component of other comprehensive income and/or include them in accumulated other comprehensive income.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

We initially applied the recognition and disclosure provisions of Statement 158 as of December 31, 2006, with no material effect on our financial position and no effect on our results of operations or cash flows. Retrospective application of the recognition provisions and measurement provisions is not permitted. We measure our pension and other postretirement plan assets and benefit obligations as of the date of our fiscal year-end balance sheet and therefore have no need to change our measurement date. The incremental effect of applying Statement 158 for our qualified plans on individual line items in our balance sheet as of December 31, 2006, is:

	Before Application of Statement 158	Adjustments	After Application of Statement 158
<b>(Thousands)</b>			
<b>Assets</b>			
Regulatory asset - pension and other postretirement benefits		\$119,707	\$119,707
All other regulatory assets	\$316,899	-	316,899
Prepaid pension benefit	49,800	(49,800)	-
Other assets	20,850	(1,822)	19,028
All other assets	1,471,179	-	1,471,179
<b>Total Assets</b>	<b>\$1,858,728</b>	<b>\$68,085</b>	<b>\$1,926,813</b>
<b>Liabilities</b>			
Regulatory liabilities			
Deferred income taxes	\$86,260	\$30,389	\$116,649
Pension benefit	-	43,412	43,412
Other liabilities			
Deferred income taxes	142,193	(23,540)	118,653
Pension and other postretirement benefits	82,248	69,907	152,155
Other liabilities	100,274	(62,019)	38,255
Long-term debt and other liabilities	718,842	-	718,842
<b>Total Liabilities</b>	<b>\$1,129,817</b>	<b>\$58,149</b>	<b>\$1,187,966</b>
Preferred stock	\$13,571		\$13,571
<b>Common stock equity</b>			
Retained earnings	\$56,675		\$56,675
Accumulated OCI	(10,791)	\$9,936	(855)
Other common equity	669,456	-	669,456
<b>Total Common Stock Equity</b>	<b>\$715,340</b>	<b>\$9,936</b>	<b>\$725,276</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$1,858,728</b>	<b>\$68,085</b>	<b>\$1,926,813</b>

## Notes to Consolidated Financial Statements

### Central Maine Power Company

**Statement 159:** In February 2007 the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement 159), which will allow an entity to measure eligible financial instruments and certain other items at fair value at specified election dates on an instrument-by-instrument basis (the fair value option). The fair value option is irrevocable unless a new election date occurs. The fair value option will significantly expand an entity's ability to select the measurement attribute for certain key assets and liabilities, and allow it to mitigate potential mismatches that arise under the current mixed measurement attribute model. Statement 159 will be effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, with early adoption permitted when specified conditions are met. Retrospective application to fiscal years preceding the effective date is not permitted unless the entity chooses early adoption. Application to eligible items existing at the effective date (or early adoption date) is permitted. We plan to adopt Statement 159 as of January 1, 2008. We are currently assessing the effect Statement 159 would have on our results of operations, financial position and cash flows.

**Taxes:** CMP computes its income tax provision on a separate return method. The determination and allocation of CMP's income tax provision and its components are outlined and agreed to in its tax sharing agreement with Energy East.

Deferred income taxes reflect the effect of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and the amount recognized for tax purposes. CMP amortizes Investment Tax Credits (ITC's), over the estimated lives of the related assets.

CMP accounts for sales tax collected from customers and remitted to taxing authorities on a net basis.

Energy East revised its Income Tax Allocation Agreement (Agreement) in 2006. The revised Agreement, which applies to income tax returns after 2004, and is accounted for at the time of the filing of the income tax returns in the subsequent year, eliminates the push-down requirements of PUHCA and better aligns the allocation of income taxes with the Cost of Service "stand alone" approach used in each of our regulated entities' rate structures.

If the revised agreement had been in place in 2005, CMP's income taxes would have not been impacted for 2005.

#### **Note 2. Goodwill**

We do not amortize goodwill. We test goodwill for impairment at least annually. We have no impairment of goodwill.

The carrying amount of goodwill was \$325 million at December 31, 2006 and 2005.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 3. Income Taxes

Year Ended December 31, (Thousands)	2006	2005
Current		
Federal	\$30,238	\$14,033
State	8,355	2,856
Current taxes charged to expense	38,593	16,889
Deferred		
Federal	(3,139)	16,703
State	(1,556)	5,209
Deferred taxes charged to expense	(4,695)	21,912
ITC adjustment	(715)	(715)
<b>Total</b>	<b>\$33,183</b>	<b>\$38,086</b>

Our tax expense differed from the expense at the statutory rate of 35% due to the following:

Year Ended December 31, (Thousands)	2006	2005
Tax expense at statutory rate	\$31,514	\$32,579
Depreciation and amortization not normalized	804	1,971
ITC amortization	(715)	(715)
State taxes, net of federal benefit	4,420	5,242
Other, net	(2,840)	(991)
<b>Total</b>	<b>\$33,183</b>	<b>\$38,086</b>

Our effective tax rate was 38% in 2006 and 41% in 2005.

At December 31, 2006 and 2005, our deferred tax assets and liabilities consisted of:

	2006	2005
<b>(Thousands)</b>		
<b>Current Deferred Income Tax Assets (Liabilities)</b>		
Derivative assets	\$(50)	\$(79)
Other	1,278	1,272
<b>Total Current Deferred Income Tax Assets (Liabilities)</b>	<b>\$1,228</b>	<b>\$1,193</b>
<b>Noncurrent Deferred Income Tax Liabilities</b>		
Depreciation	\$212,487	\$187,946
Unfunded future income taxes	61,606	43,835
Accumulated deferred ITC	5,524	6,239
Deferred (gain) on sale of generation assets	(98)	(515)
Postretirement benefits	(23,609)	(31,692)
Pension	1,692	(13,470)
Other	(22,300)	(15,445)
<b>Total Noncurrent Deferred Income Tax Liabilities</b>	<b>\$235,302</b>	<b>\$176,898</b>
Less amounts classified as regulatory liabilities		
Deferred income taxes	\$116,649	\$85,250
<b>Noncurrent Deferred Income Tax Liabilities</b>	<b>\$118,653</b>	<b>\$91,648</b>
Deferred tax assets	\$47,285	\$62,394
Deferred tax liabilities	281,359	238,099
<b>Net Accumulated Deferred Income Taxes</b>	<b>\$234,074</b>	<b>\$175,705</b>

We have no federal or state tax credit or loss carryforwards, and no valuation allowances.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 4. Long-Term Debt

At December 31, 2006 and 2005, our consolidated long-term debt was:

	Maturity Dates	Interest Rates	2006	2005
<b>(Thousands)</b>				
Pollution control notes	2014	5 3/8%	<b>\$19,500</b>	\$19,500
Various medium-term notes	2007 to 2035	4.25% to 7.00%	<b>310,700</b>	310,700
Various long-term debt	2020	7.05% to 10.48%	<b>16,373</b>	17,556
Obligations under capital leases			<b>18,866</b>	20,045
Unamortized discount on debt			<b>(113)</b>	(133)
			<b>365,326</b>	367,668
Less debt due within one year, included in current liabilities			<b>17,553</b>	43,042
<b>Total</b>			<b>\$347,773</b>	\$324,626

One of our subsidiaries has debt totaling \$16 million secured by its assets. We have no intercompany collateralizations and have no guarantees to affiliates or subsidiaries. None of our long-term debt is guaranteed or secured by any affiliates or any additional credit supports.

At December 31, 2006, long-term debts, including sinking fund obligations and capital lease payments (in thousands) that will become due during the next five years are:

2007	2008	2009	2010	2011
\$17,553	\$7,586	\$40,109	\$2,635	\$27,622

#### Note 5. Bank Loans and Other Borrowings

We participate in a joint borrowing with the other operating utilities under Energy East in a revolving credit facility providing individual maximum borrowings of up to \$100 million. Sublimits that total to the aggregate limit apply to each joint borrower and can be altered within the constraints imposed by maximum limits that apply to each joint borrower. This facility expires in 2011 and requires a fee on undrawn borrowing capacity.

We use commercial paper and drawings on our credit facility to finance working capital needs, to temporarily finance certain refundings and for other corporate purposes. There was \$18 million of such short-term debt outstanding at December 31, 2006, and \$29 million outstanding at December 31, 2005. The weighted-average interest rate on short-term debt was 5.5% at December 31, 2006 and 4.6% at December 31, 2005.

In our revolving credit facility we covenant not to permit, without the consent of the lender, our ratio of consolidated indebtedness to consolidated total capitalization to exceed 0.65 to 1.00 at any time. The facility contains various other covenants, including a restriction on the amount of secured indebtedness Energy East may maintain. Continued unremedied failure to comply with those covenants for 15 days after written notice of such failure from the lender constitutes an event of default and would result in acceleration of maturity. Our ratio of consolidated indebtedness to consolidated total capitalization pursuant to the revolving credit facility was 0.34 to 1.00 at December 31, 2006. We are not in default at December 31, 2006.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 6. Preferred Stock

At December 31, 2006 and 2005, our cumulative preferred stock was:

Series	Par Value Per Share	Redemption Price Per Share	Shares Authorized and Outstanding <sup>(1)</sup>	Amount	
				2006	2005
				(Thousands)	
6% Noncallable <sup>(2)</sup>	\$100	-	5,713	\$571	\$571
4.60%	100	101.00	30,000	3,000	3,000
4.75%	100	101.00	50,000	5,000	5,000
5.25%	100	102.00	50,000	5,000	5,000
<b>Total</b>				<b>\$13,571</b>	<b>\$13,571</b>

<sup>(1)</sup> At December 31, 2006, CMP had 2,000,000 shares of \$25 par value preferred stock and 1,950,000 shares of \$100 par value callable preferred stock authorized but unissued.

<sup>(2)</sup> CMP's 5,713 shares outstanding include 533 shares owned by CMP Group, which are eliminated in consolidation for Energy East.

In June 2005 we redeemed all \$22 million of our 3.50% Series Preferred Stock \$100 par value per share, at a redemption price of \$101 per share.

**Voting rights:** If preferred stock dividends on any series of preferred stock, other than the 6% Noncallable series, are in default in an amount equivalent to four full quarterly dividends, the holders of the preferred stock are entitled to elect a majority of the directors and their privilege continues until all dividends in default have been paid. The holders of preferred stock, other than the 6% Noncallable series, are not entitled to vote in respect of any other matters except those, if any, in respect of which voting rights cannot be denied or waived under some mandatory provision of law, and except that the charter contains provisions to the effect that such holders shall be entitled to vote on certain matters affecting the rights and preferences of the preferred stock.

Holders of the 6% Noncallable series are entitled to one vote per share and have full voting rights on all matters.

Whenever holders of preferred stock shall be entitled to vote, they shall be entitled to cast one vote for each share of preferred stock held by them. Holders of our common stock are entitled to one-tenth of one vote per share on all matters.

#### Note 7. Commitments

**Capital spending:** We have commitments in connection with our capital spending program. Capital spending is expected to be paid for principally with internally generated funds. The program is subject to periodic review and revision. Our capital spending will be primarily for the extension of energy delivery service, necessary improvements to existing facilities, and compliance with environmental requirements and governmental mandates.

**Nonutility generator power purchase contracts:** We expensed approximately \$159 million for NUG power in 2006, and \$221 million in 2005. We have commitments to purchase NUG power contracts until 2021.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 8. Jointly-Owned Generation Assets and Nuclear Decommissioning

We have ownership interests in three nuclear generating facilities in New England, which are accounted for under the equity method. All three facilities have been permanently shut down, and are in the process of being decommissioned.

Each of the three nuclear generating facilities has an established Nuclear Regulatory Commission licensed independent spent fuel storage installation on site to store spent nuclear fuel in dry casks until the Department Of Energy takes the fuel for disposal.

<b>(\$ in Millions)</b>	Maine Yankee	Yankee Atomic	Connecticut Yankee
Ownership share	38%	9.5%	6%
Location	Wiscasset, Maine	Rowe, Massachusetts	Haddam, Connecticut
2006 decommissioning and spent fuel storage costs	\$24.1	\$4.7	\$7.3
Share of remaining decommissioning and other costs (in 2006 dollars)	\$62.1	\$7.3	\$19.8
Equity interest at December 31, 2006	\$6.0	-	\$2.6

Maine Yankee's decommissioning was completed in 2005. Yankee Atomic's decommissioning was completed during 2006 and Connecticut Yankee's decommissioning is scheduled to be completed during 2007. Yankee Atomic increased its decommissioning and spent fuel storage costs in January 2006. Connecticut Yankee increased its decommissioning collections to \$93 million annually as of January 2005. Our share of that increase is approximately \$6 million. Under Maine statutes, we are allowed to recover in rates any increases in decommissioning costs. Pursuant to our 2005 stranded cost settlement with the Maine Public Utilities Commission; we began to collect the higher Connecticut Yankee decommissioning costs in March 2005 and for Yankee Atomic in March 2006.

## **Notes to Consolidated Financial Statements**

### **Central Maine Power Company**

#### **Note 9. Environmental Liability**

From time to time environmental laws, regulations and compliance programs may require changes in our operations and facilities and may increase the cost of electric service.

The United States Environmental Protection Agency and various state environmental agencies, as appropriate, notified us that we are among the potentially responsible parties who may be liable for costs incurred to remediate certain hazardous substances at four waste sites. The four sites do not include sites where gas was manufactured in the past, which are discussed below. With respect to the four sites, three sites are included in Maine's Uncontrolled Sites Program, and two of the sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. We have recorded an estimated liability of less than \$1 million related to the four sites. An estimated liability of \$2 million has been recorded related to two additional sites where we believe it is probable that we will incur remediation and/or monitoring costs, although we have not been notified that we are among the potentially responsible parties. The ultimate cost to remediate the sites may be significantly more than the accrued amount. Factors affecting the estimated remediation amount include the remedial action plan selected, the extent of site contamination and the portion attributed to us.

We have a program to investigate and perform necessary remediation at our four sites where gas was manufactured in the past. With respect to the four sites, four sites are part of Maine's Voluntary Response Action Program and one of those four sites is part of Maine's Uncontrolled Sites Program. In November 2003 an additional site was identified where we believe it is probable that we will incur remediation and/or monitoring costs, although we have not been notified that we are among the potentially responsible parties.

Our estimate for all costs related to investigation and remediation of the four sites ranges from \$4 million to \$6 million at December 31, 2006. The estimate could change materially based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites, reflected on our consolidated balance sheet was \$4 million at December 31, 2006 and \$3 million at December 31, 2005.

Our environmental liability accruals, the majority of which are expected to be paid within the next three years, have been established on an undiscounted basis. We received insurance settlements during the last three years, which we accounted for as reductions in our related regulatory asset.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 10. Fair Value of Financial Instruments

The carrying amounts and estimated fair values of our financial instruments included on our consolidated balance sheets are shown in the following table. The fair values are based on the quoted market prices for the same or similar issues of the same remaining maturities.

<b>December 31</b>	<b>2006</b>		<b>2005</b>	
	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>
<b>(Thousands)</b>				
Pollution control notes, fixed	<b>\$19,500</b>	<b>\$20,943</b>	\$19,500	\$19,933
Various medium-term notes	<b>\$310,587</b>	<b>\$308,990</b>	\$310,567	\$322,422
Various long-term debt	<b>\$16,373</b>	<b>\$22,850</b>	\$17,556	\$24,959

The carrying amounts for cash and cash equivalents, notes payable and interest accrued approximate their estimated fair values.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 11. Accumulated Other Comprehensive Income

	Balance December 31, 2004	Other Comprehensive Income (Loss) 2005	Balance December 31, 2005	Other Comprehensive Income (Loss) 2006	Adjustment to Initially Apply Statement 158	Balance December 31, 2006
<b>(Thousands)</b>						
Pension liability net of income tax benefit (expense) of, \$1,796 for 2005 and \$(19,042) for 2006	(21,594)	(6,026)	(27,620)	17,684	9,936	-
Unrealized gains (losses) on derivatives qualified as hedges: Unrealized (losses) gains during period on derivatives qualified as hedges, net of income tax (expense) of, \$1,338 for 2005 and \$(1,706) for 2006		(1,869)		2,474		
Reclassification adjustment for (gains) losses included in net income, net of income tax expense of \$(2,023) for 2005 and \$2,008 for 2006		2,934		(2,913)		
Net unrealized gains (losses) on derivatives qualified as hedges	(1,481)	1,065	(416)	(439)		(855)
<b>Accumulated Other Comprehensive (Loss)</b>	<b>\$(23,075)</b>	<b>\$(4,961)</b>	<b>\$(28,036)</b>	<b>\$17,245</b>	<b>\$9,936</b>	<b>(855)</b>

## Notes to Consolidated Financial Statements

### Central Maine Power Company

#### Note 12. Retirement Benefits

We sponsor defined benefit pension plans and postretirement benefit plans that cover substantially all of our employees. We use a December 31 measurement date for our pension and postretirement benefit plans.

Obligations and funded status:	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
<b>(Thousands)</b>				
<b>Change in benefit obligation</b>				
Benefit obligation at January 1	\$267,499	\$248,728	\$131,072	\$126,456
Service cost	5,573	4,736	1,843	1,596
Interest cost	14,486	14,053	7,141	6,931
Actuarial loss (gain)	(12,344)	13,856	(3,402)	3,190
Benefits paid	(12,150)	(13,875)	(8,045)	(7,101)
Federal Subsidy on benefits paid		-	504	-
Benefit obligation at December 31	\$263,064	\$267,498	\$129,113	\$131,072
<b>Change in plan assets</b>				
Fair value of plan assets at January 1	\$206,956	\$170,906	\$11,222	\$11,282
Actual return on plan assets	29,518	14,924	1,389	272
Employer contributions	-	35,000	3,000	-
Benefits paid	(12,150)	(13,875)	87	(332)
Fair value of plan assets at December 31	\$224,324	\$206,955	\$15,698	\$11,222
Funded status <sup>(1)</sup>	\$(38,740)	\$(60,543)	\$(113,415)	\$(119,850)
Unrecognized net actuarial loss <sup>(1)</sup>		117,616		44,214
Unrecognized prior service cost (benefit) <sup>(1)</sup>		2,091		(7,846)
Total unrecognized amounts		\$119,707		\$36,368
Prepaid (accrued) benefit cost		\$59,164		\$(83,482)

<sup>(1)</sup>December 31, 2006 these amounts for pension benefits and postretirement benefits are included in regulatory assets or regulatory liabilities, as appropriate, due to the application of Statement 158 and in accordance with Statement 71. See statement 158 disclosure in Note 1.

Amounts recognized on the balance sheet	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Noncurrent liabilities	\$(38,740)		\$(113,415)	
Prepaid benefit cost		\$59,164		-
Accrued benefit cost		-		\$(83,482)
Additional minimum liability		(92,166)		-
Intangible asset		2,091		-
Regulatory liability		43,412		-
Accumulated other comprehensive income		46,663		-
Net amount recognized		\$59,164		\$(83,482)

## Notes to Consolidated Financial Statements

### Central Maine Power Company

The minimum liability for pension benefits included in other comprehensive income increased \$8 million in 2005. We recorded a minimum pension liability of \$92 million at December 31, 2005, as required by Statement 87. We recognized the effect of the minimum pension liability in other long-term liabilities, intangible assets, regulatory liabilities and other comprehensive income, as appropriate. That treatment was prescribed when the accumulated benefit obligation in the plan exceeded the fair value of the underlying pension plan assets and accrued pension liabilities. The increase in the unfunded accumulated benefit obligation in 2005 was primarily due to a decrease in the assumed discount rate. The minimum pension liability was eliminated and related amounts reversed based on their balances at December 31, 2006, due to the application of Statement 158. See Statement 158 disclosure in Note 1.

Amounts recognized in regulatory assets or regulatory liabilities at December 31, 2006, consist of:

	Pension Benefits	Postretirement Benefits
<b>(Thousands)</b>		
Net loss	\$86,718	\$37,536
Prior service cost (benefit)	\$1,822	\$(6,368)

Our accumulated benefit obligation for all defined benefit pension plans at December 31 was \$236.6 million for 2006 and \$240.0 million for 2005.

Our postretirement benefits were partially funded at December 31, 2006 and 2005.

#### **Information for pension plans with an accumulated benefit obligation in excess of plan assets**

<b>December 31,</b>	<b>2006</b>	<b>2005</b>
<b>(Thousands)</b>		
Projected benefit obligation	<b>\$263,064</b>	\$267,499
Accumulated benefit obligation	<b>\$236,543</b>	\$239,957
Fair value of plan assets	<b>\$224,324</b>	\$206,956

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
<b>(Thousands)</b>				
<b>Components of net periodic benefit cost</b>				
Service cost	<b>\$5,573</b>	\$4,737	<b>\$1,843</b>	\$1,596
Interest cost	<b>14,486</b>	14,053	<b>7,140</b>	6,931
Expected return on plan assets	<b>(18,161)</b>	(17,371)	<b>(646)</b>	(641)
Amortization of prior service cost	<b>269</b>	269	<b>(1,477)</b>	(1,477)
Amortization of net loss	<b>7,198</b>	5,949	<b>2,426</b>	1,847
<b>Net periodic benefit cost</b>	<b>\$9,365</b>	\$7,637	<b>\$9,286</b>	\$8,256

## Notes to Consolidated Financial Statements

### Central Maine Power Company

We include the net periodic benefit cost in other operating expenses. The net periodic benefit cost for postretirement benefits represents the amount expensed for providing health care benefits to retirees and their eligible dependents. The amount of postretirement benefit cost deferred at December 31 was \$25 million for 2006, and \$29 million for 2005. We expect to recover any deferred postretirement costs by 2012. We are amortizing over 20 years the transition obligation for postretirement benefits that resulted from the adoption of Statement 106.

**Amounts expected to be amortized from regulatory assets or regulatory liabilities into net periodic benefit cost for the fiscal year ended December 31, 2007**

	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>
<b>(Thousands)</b>		
Estimated net loss	\$5,638	\$1,867
Estimated prior service cost (benefit)	\$269	\$(1,478)

**Weighted-average assumptions used to determine benefit obligations at December 31,**

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Discount rate	<b>5.75%</b>	5.50%	<b>5.75%</b>	5.50%
Rate of compensation increase	<b>4.00%</b>	4.00%	<b>4.00%</b>	4.00%

As of December 31, 2006, we increased our discount rate from 5.50% to 5.75%. The discount rate is the rate at which the benefit obligations could presently be effectively settled. We determined the discount rate developing a yield curve derived from a portfolio of high grade noncallable bonds that closely matches the duration of the expected cash flows of our benefit obligations.

**Weighted-average assumptions used to determine net periodic benefit cost years ended December 31,**

	<b>Pension Benefits</b>		<b>Postretirement Benefit</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Discount rate	<b>5.50%</b>	5.75%	<b>5.50%</b>	5.75%
Expected return on plan assets	<b>8.75%</b>	8.75%	<b>6.00%</b>	8.75%
Rate of compensation increase	<b>4.00%</b>	4.00%	<b>4.00%</b>	4.00%

We developed our expected long-term rate of return on plan assets assumption based on a review of long-term historical returns for the major asset classes. That analysis considered current capital market conditions and projected conditions. Given the current low interest rate environment, we selected an assumption of 8.75% per year for the Pension Benefits plan and 6.0% per year for the Postretirement Benefits plan, which are lower than the rate that would otherwise be determined solely based on historical returns. We amortize unrecognized actuarial gains and losses using the standard amortization methodology, under which amounts in excess of 10% of the greater of the projected benefit obligation or market related value are amortized over the plan participants' average remaining service to retirement.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

<b>Assumed health care cost trend rates at December 31</b>	<b>2006</b>	<b>2005</b>
Health care cost trend rate assumed for next year	<b>9.0%</b>	10.0%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	<b>5.0%</b>	5.0%
Year that the rate reaches the ultimate trend rate	<b>2011</b>	2011

Assumed health care cost trend rates have significant effect on the amount reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	<b>1% Increase</b>	<b>1% Decrease</b>
<b>(Thousands)</b>		
Effect on total of service and interest cost components	\$1,210	\$(964)
Effect on postretirement benefit obligation	\$13,625	\$(11,230)

**Plan assets:** Our weighted-average asset allocations at December 31, 2006 and 2005, by asset category, are:

<b>Asset Category</b>	<b>Pension Benefits</b>			<b>Postretirement Benefits</b>		
	<b>Target Allocation</b>	<b>Actual Allocation</b>		<b>Target Allocation</b>	<b>Actual Allocation</b>	
		<b>2006</b>	<b>2005</b>		<b>2006</b>	<b>2005</b>
Equity securities	58%	<b>64%</b>	64%	50%	<b>51%</b>	70%
Debt securities	27%	<b>24%</b>	28%	45%	<b>26%</b>	30%
Real estate	5%	<b>4%</b>	2%	-	-	-
Other	10%	<b>8%</b>	6%	5%	<b>23%</b>	-
Total	100%	<b>100%</b>	100%	100%	<b>100%</b>	100%

Our pension benefits plan assets are held in a master trust with a trustee and our other postretirement benefits plan assets are held with a trustee in multiple VEBA and 401(h) arrangements. Those assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with our risk tolerance. This is achieved for our pension benefits plan assets through utilization of multiple asset managers and systematic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets; and for our postretirement benefits plan assets through the utilization of multiple institutional mutual and money market funds, providing exposure to different segments of the fixed income, equity and short-term cash markets.

Equity securities did not include any Energy East common stock at December 31, 2006 and 2005.

**Contributions:** In accordance with our funding policy we make annual contributions of not less than the minimum required by applicable regulations. We do not anticipate any contributions to our pension benefit plans in 2007 and we expect to contribute approximately \$12 million to our other postretirement benefit plans in 2007.

## Notes to Consolidated Financial Statements

### Central Maine Power Company

**Estimated future benefit payments:** Our expected benefit payments and expected Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Medicare Act) subsidy receipts, which reflect expected future service, as appropriate, are as follows:

	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>	<b>Medicare Act Subsidy Receipts</b>
<b>(Thousands)</b>			
2007	\$12,753	\$ 9,759	\$ 856
2008	\$12,977	\$ 9,696	\$ 955
2009	\$13,341	\$10,182	\$1,034
2010	\$13,806	\$10,697	\$1,104
2011	\$14,480	\$11,363	\$1,165
2012 – 2016	\$84,408	\$60,700	\$6,894