MATERIALITY CONSIDERATIONS IN FINANCIAL REPORTING

Background and Purpose

Materiality judgments affect the reliability of the Company's financial statements. All individuals are expected to bring any circumstances that require materiality decisions to the attention of their management. All individuals with direct or indirect accounting responsibilities and all process owners and officers with responsibilities in the scope of Sarbanes-Oxley (SOX) Section 404 are responsible for complying with generally accepted accounting principles.

This policy addresses materiality criteria to be applied to financial reporting across all Eversource subsidiaries. Materiality is defined as the significance of an item to users of Eversource's or a subsidiary's financial statements. An item is considered material if there is a substantial likelihood that an investor or other reasonable person would consider it significant. When matters requiring materiality judgments arise, discussions should include Accounting under the direction of the Vice President, Controller and Chief Accounting Officer and should involve all individuals with relevant information.

Circumstances that may require materiality judgments include, but are not limited to, the following:

- A financial statement misstatement is discovered after the general ledger is closed, earnings have been released and/or financial statements have been filed with the SEC, and management needs to evaluate whether or not to adjust or restate the financial statements.
- The impact of the inclusion or omission of a disclosure in the financial statements is being evaluated by management to determine whether or not it is material to the financial statement presentation.
- Internal controls over financial reporting are being evaluated, and management needs to determine whether or not a process or control relates to a material account or item in the financial statements.
- An internal control deficiency is being evaluated.
- Events occur after the balance sheet date but before the financial statements are issued and management needs to determine the impact, if any, of the event on the financial statements and/or related disclosures.
- A new accounting standard is issued, and management needs to determine if the impact of implementing that standard is material to the financial statements.

Policy

All issues that could reasonably be expected to materially affect the Company's financial statements should be brought to the attention of Accounting. The final decision regarding whether an item is material enough to be corrected for financial statement purposes and whether or not the item is a SOX significant deficiency or material weakness would be made through discussions with Accounting. A final materiality decision will ultimately be made by the Vice President, Controller and Chief Accounting Officer or a designee.

Individuals should use their best judgment in deciding if an item is immaterial. Some items will be clearly immaterial. Unless an item is clearly immaterial, individuals who become aware of the need for a materiality decision must gather the facts, including how the item arose and the surrounding circumstances, and involve Accounting in making a materiality evaluation and preparing required documentation. The accounting guidance applicable to the item must be used with the assistance of Accounting to determine the appropriate action to be taken.

Supporting documentation related to the accounting judgment must be prepared. The support should include an analysis of the issue considering quantitative and qualitative factors, the conclusion reached, any impact on prior reporting periods, how the conclusion was reached and any further action that needs to be taken (e.g., adjustment of a financial statement amount). Any journal entries made to correct a financial statement amount should refer to the supporting documentation.

When evaluating the materiality of an item, both quantitative and qualitative factors should be considered and documented.

1) Quantitative thresholds should be used to determine if an item is material to the financial statements for the applicable reporting entity and period. For example, an initial threshold that may be appropriate in evaluating materiality is 1 percent of net income. When in doubt, Accounting should be consulted with respect to the materiality of items.

2) Qualitative factors that should be considered include:

    a. The individual line item that will be affected on the financial statements
    b. Impacts on interim financial information and annual net income forecasts
    c. Whether the item masks a change in earnings or other trends
    d. Whether the item changes a loss into income or vice versa
    e. Whether the item affects compliance with regulatory requirements, loan covenants or other contractual requirements
    f. Whether the item has the effect of increasing management compensation
    g. The impact of the item on our conclusions on the effectiveness of internal controls over financial reporting

It is also important to document whether the item arose from the operation of systems or whether it was a mistake due to human error and to analyze and determine how systems or processes will be changed to prevent future recurrences.

Revision History

0	Original issue	12/14/12
1	Revised for Eversource name	02/26/19