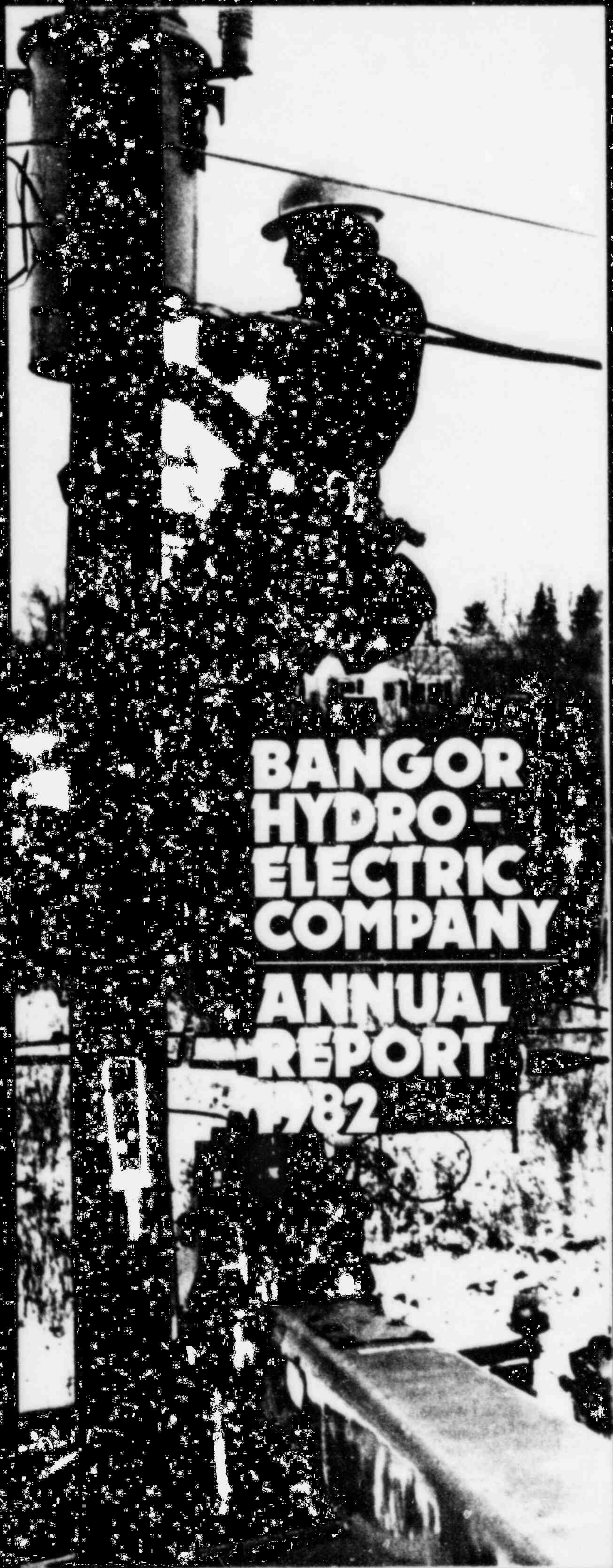
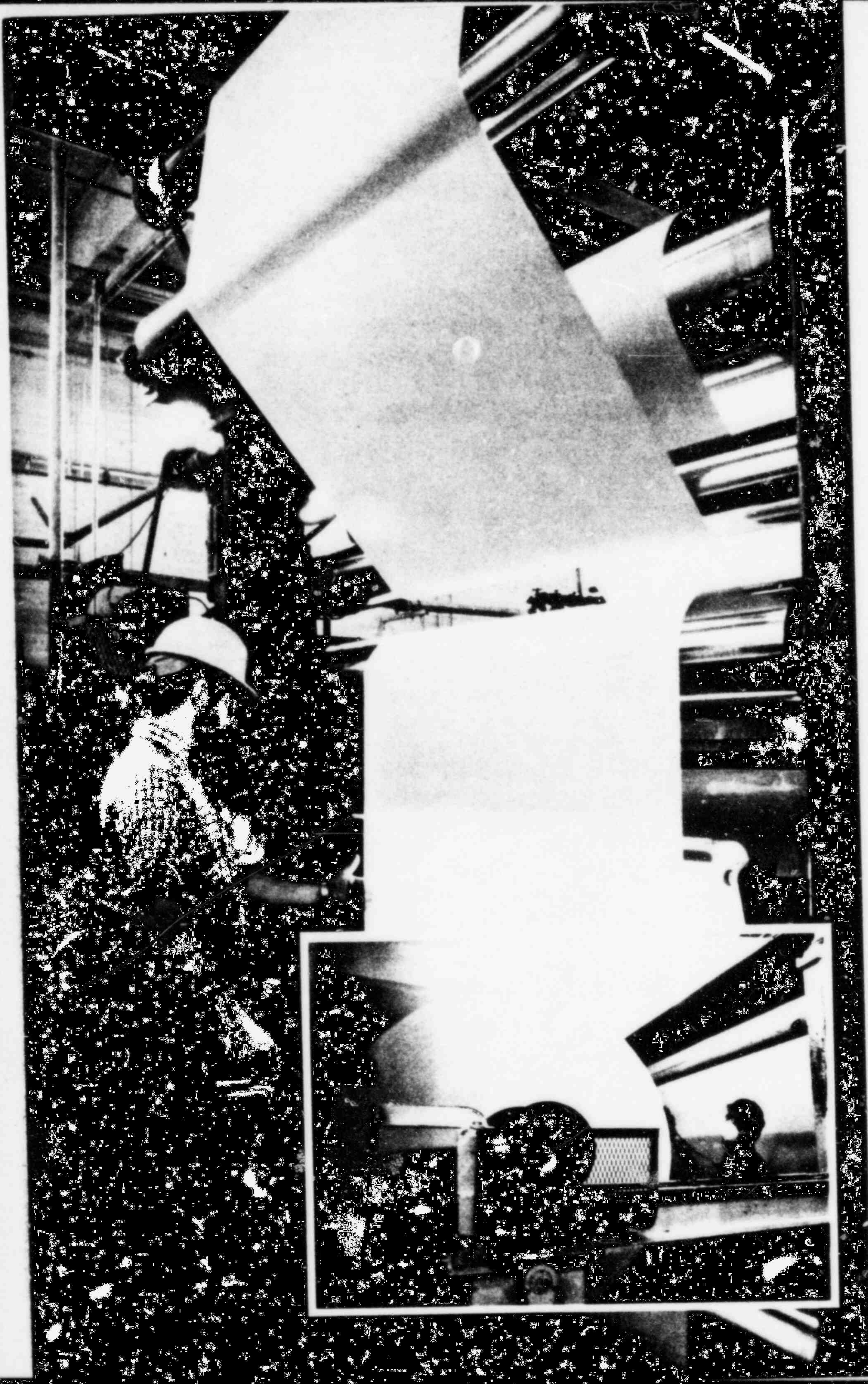


BANGOR HYDRO-ELECTRIC COMPANY

ANNUAL REPORT 1982



Pulp and paper manufac-
turing accounts for a ma
portion of our service ar
industrial base. The East
Fine Paper mill, Brewer
and Diamond Internatio
mill (inset) at Old Town.

THE COMPANY . . . Bangor Hydro-Electric Company is the second largest electric utility in Maine. It was incorporated in 1924, resulting from the combination of several smaller regional companies. It serves a population of about 190,000 (about 77,000 customers) in an area encompassing approximately 4,850 square miles in eastern and east coastal Maine. The Company is a member of the New England Power Pool, and is interconnected with other New England utilities to the south and with the New Brunswick Electric Power Commission to the north.

1982/YEAR AT A GLANCE

	1982	1981	% Increase (Decrease)
Operating Revenue (000)	$ 80,342	$ 80,637	(.4%)
Operating Expenses (000)	$ 70,648	$ 72,919	(3.1%)
Earnings Applicable to Common Stock (000)	$ 5,677	$ 3,191	77.9%
Common Stock Equity (000)	$ 41,794	$ 31,966	30.7%
Construction Expenditures, excluding AFDC (000)	$ 18,918	$ 29,039	(34.9%)
Plant Investment (Net of accumulated depreciation) (000)	$ 125,166	$ 103,740	20.7%
Sales (000 KWH): Non-Interruptible (Firm)	1,091,594	1,063,847	2.6%
Interruptible	169,275	204,906	(17.4%)
Total	1,260,869	1,268,753	(.6%)
Customers - year end	76,787	76,062	1.0%
Residential Customers - average	67,341	66,606	1.1%
Number of Common Stockholders - year end	9,446	8,263	14.3%
Number of Common Shares outstanding - year end	3,416,609	2,608,774	31.0%
Number of Common Shares outstanding - average	2,842,862	2,226,718	27.7%
Dividends per Share Declared on Common Stock	$ 1.54	$ 1.52	1.3%
Earnings per Shares of Common Stock	$ 2.00	$ 1.43	39.9%

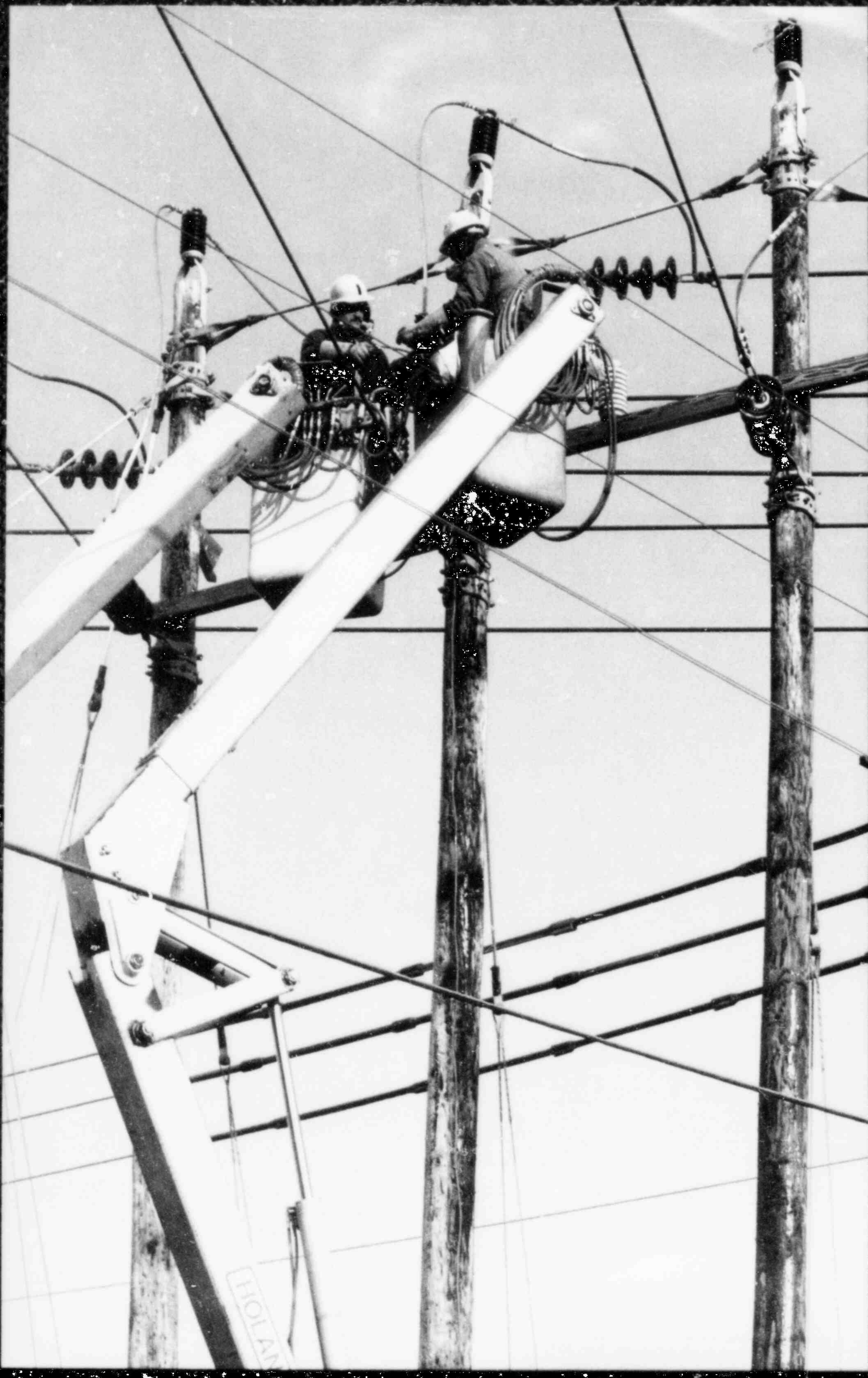
CONTENTS

THE ANNUAL MEETING The annual meeting of stockholders of the Company will be held on Tuesday, April 26, 1983 at 10:00 A.M. at the Bangor Civic Center, 100 Dutton Street, Bangor, Maine.

STOCK TRANSFER AGENTS Northeast Bank and Trust Company, 2 State Street, Bangor, Maine 04401; Morgan Guaranty Trust Company, 30 West Broadway, New York, New York 10015 (common stock only).

REGISTRARS OF STOCK The Merrill Trust Company, Exchange Street, Bangor, Maine 04401; Bradford Trust Company, Fort Lee Executive Park, One Executive Drive, Fort Lee, N.J. 07024 (common stock only).

FORM 10-K The Company will provide without charge to any stockholder a copy of Form 10-K for the year 1982 as filed with the Securities and Exchange Commission. Requests for copies of the Form 10-K should be directed to Bangor Hydro-Electric Company, Attention: Assistant Treasurer, 33 State Street, Bangor, Maine 04401.



To Our Stockholders

Good news for the Company came early in the year when the Maine Public Utilities Commission allowed an increase in the Company's retail rates of $12 million. The rate order allowed a 16.4% rate of return on the common shareholders' investment, and provided for increased cash flow and a recognition of the impact of continuing inflation. The results are clearly demonstrated in our 1982 earnings per common share of $2.00, compared to the 1981 earnings of $1.43.

Current economic conditions have adversely impacted our industrial kilowatt-hour sales. The paper industry, a mainstay in the local economy, is feeling the effects of national economic conditions. Unemployment rates in Maine are below the national average but are still high. These and other factors have combined to hold down our sales, but if the general economy improves, and there are indications it will, we look forward to reasonably good operating results for 1983.

We were not very active in the long-term financial markets during 1982 but plan to be more active in 1983. The Company was unable to issue first mortgage bonds during 1982 due to interest coverage restrictions but in September we successfully issued and sold 750,000 shares of new common stock. To date in 1983 we have raised $5 million through the private placement of a new series of preferred stock, and later on in the year we plan long-term debt and common stock issues.

The Seabrook nuclear units, in which the Company has a 2.17% ownership interest, continue to make the news. In November the lead participant, Public Service Company of New Hampshire, announced higher cost estimates and a revised completion schedule. The joint owners have had several meetings since that announcement to study the revised estimates and their impact on the project and on the participants. In an effort to insure confidence in the new estimates, an independent consultant has been retained to conduct a review which is ongoing at this time.

Our Company needs additional generating capacity beginning in 1984. For the short and intermediate term, that requirement can be met by purchased power contracts, but for the long term our interest in Seabrook is necessary to meet some of that need. Much has been said about the escalating cost of the project, but despite these increases Seabrook's costs still compare favorably with other sources that were considered, and Seabrook enjoys the additional advantage in that its progress has been substantial. It is not just a hypothetical alternative.

In November we again faced a referendum to shut down the Maine Yankee Atomic Power Company plant. For the second time in four years the voters in the State of Maine turned down a proposal to close the plant. Hopefully the issue has been resolved for at least the immediate future.

During the year we lost a good friend and valued advisor. The untimely death in December of John Grant, Chairman of Merrill Bankshares Company and a director of the Company since 1973, was a loss to the community and the many business interests he served. His pleasant nature and good judgment will be missed by all of us.

The remainder of this annual report contains more detail of the items we have discussed as well as other items of interest to shareholders. We wish to thank our shareholders for their suggestions and support during the year and look forward to serving you for the ensuing year.

Respectfully submitted,

R. N. Haskell
R. N. Haskell
Chairman of the Board

T. A. Greenquist
T. A. Greenquist
President

February 15, 1983

BOARD OF DIRECTORS

William C. Bullock, Jr.
Bangor, Maine - Chairman of the Board and President, Merrill Bankshares Company

George D. Carlisle
Bangor, Maine - Chairman, Prentiss & Carlisle Company, Inc. (timberland management)

Thomas A. Greenquist
Brewer, Maine - President of the Company

Robert N. Haskell
Bangor, Maine - Chairman of the Board of the Company

John T. Maines
Holden, Maine - Retired Paper Industry Executive

James G. Sargent
Hampden, Maine - President, H.E. Sargent, Inc. (construction)

Earle R. Webster
Bangor, Maine - Retired Executive of the Company

OFFICERS

Robert N. Haskell
Chairman of the Board

Thomas A. Greenquist
President

Gerald F. Ha t
Vice President-Engineering

John P. O'Sullivan
Vice President and Treasurer

Robert S. Briggs
Vice President and General Counsel; Clerk of the Company

Paul A. LeBlanc
Vice President-Administration

Carroll R. Lee
Vice President-Power Supply and Planning

Carroll A. Brochu
Assistant Treasurer

DIVISION MANAGERS

Robert G. Thomas
Bangor

Barrett O. Young
Bar Harbor

Edward L. Cameron
Ellsworth

Charles T. Dolan
Lincoln

James W. Logan
Machias

Gary W. Brasslett
Miliinocket

Merle O. Boyer
Milo

In Memoriam

John Grant, a director of the Company since 1973, died unexpectedly on December 5, 1982. Mr. Grant was Chairman of the Board of Merrill Bankshares Company and The Merrill Trust Company, leading his bank to its present status as one of New England's most successful financial institutions. He was active on the boards of several other businesses, and contributed much of his time to charitable and public service organizations. He was a valuable source of experience, insight and advice, and his services to the Company will be greatly missed.

Guest Commentary: Richard C. Hill

This year the Company is introducing a new item in its Annual Report – a guest column for comment on energy matters or other timely issues.

This year's commentator is Richard C. Hill, Professor of Mechanical Engineering at the University of Maine in Orono. Prof. Hill has been with the University since 1946, and has for many years been active in research on various energy projects. He is credited with the design of an efficient, small scale wood furnace which is now being marketed commercially, and he has been active in the design of solar buildings in Maine. He is called upon as a consultant on a variety of energy issues by private firms and public agencies in Maine and elsewhere.

Given the present relative stability, or even the expectation of declines, in oil prices and the widely held perception that some form of alternative energy source, especially solar, will be available, many Americans take comfort in the belief that our future energy consumption pattern will be pretty much unchanged from that to which we have become accustomed.

This comfort is certainly misplaced.

First, a closer look at the petroleum situation: To spur production of domestic oil and gas the U.S. has (1) opened the Alaska reserve, (2) doubled the annual rate of drilling - now at some 70,000 miles per year, and (3) decontrolled the price of oil. In spite of these efforts, the production of domestic crude is less now than it was in 1972.

Oil imports have been very sensitive to the total demand for oil. In 1978 we imported nearly one-half of the oil we consumed. Now we import about one-third of the oil we consume. This reduction, however, is not the result of increased domestic production. Rather, the drop in imports is the result of a decrease in domestic demand – from 19 million barrels per day to just over 15 now.

This decrease has been the result of conservation, conversion to alternate energies, and the business recession. A similar pattern of reduced oil consumption is evident worldwide. Consequently, world oil prices have fallen, OPEC is in disarray, and we are enjoying a respite from the spiralling rise in petroleum prices.

For us to continue to enjoy this benefit, however, at least four conditions must prevail: (1) stability in the Middle East; (2) continuation of the business recession; (3) a timely implementation of solutions to the environmental problems of using coal as a fuel; and (4) no Soviet intervention in critical energy supplies. It is folly to assume that we can rely upon the existence or maintenance of these conditions for any significant length of time.

Second, should the public be confident in banking on availability of solar energy and other alternatives?

Solar energy as a substitute for our present methods of home heating first comes to mind. Aside from passive solar construction, which is really only a viable option for those able to afford new construction, the sun's rays would have to be used as an active energy source, to heat water or to produce electricity through solar collectors. Using even the best equipment, a solar collector utilized during the heating season in our local area could capture only enough energy per square foot of collector to power a 4 to 8 watt light bulb - about the size of a Christmas tree light. This is a dilute energy source indeed. Data collected by the U.S. Department of Energy indicates that the useful energy produced is about 100,000 Btu's each heating season for each square foot of solar collector - about as much as a gallon of home heating oil. Any active solar system that makes a significant contribution to space heating must therefore be massive, and there is little hope that massive systems can be substantially reduced in cost. Commercial solar collectors now cost about $60 per square foot, installed and net of tax benefits, while a gallon of oil costs perhaps $1.00, which suggests an unacceptably long payback on the solar investment.

Solar domestic hot water, although more attractive than solar space heating, is still hard to justify at current costs. At an estimated $2000 net cost (after tax benefits), a solar system would provide about one-half of a typical residential water heating requirement. If a typical Bangor Hydro water heating customer now spends about $400 per year for electric hot water, the $2000 investment to save $200 per year is still not, for most, a "rush out and buy" opportunity.

Solar energy for electric power generation, along the lines of the U.S. Department of Energy's "power tower" (130 acres of mirrors focused on a steam boiler), seems to have possibilities for utilities in sunny areas with high air conditioning loads. This is not much help to us in the Northeast.

Wood, used in a number of ways as an energy resource, seems to have particularly attractive economic advantages. However, the problems of safety, inconvenience, air pollution, initial investment, and continuation of an inexpensive source of supply have yet to be faced. On the topic of conversion to wood, one skeptic commented, "The way you guys go about burning wood, you must think it grows on trees."

Our locale does not have satisfactory wind characteristics to make the installation of wind conversion technology an attractive option. Other areas may be more conducive to wind power, but at an elevation of 30 feet, the average wind energy potential in the Bangor area is about 100 watts per square meter of exposure to the wind, and at 160 feet, about 180 watts. Even a good wind energy conversion system generates electricity from the wind at only about 25% efficiency, so perhaps when the wind is blowing in our area one could power one or two medium size lightbulbs for each square meter of wind harnessed.

The history of energy development in the United States began with wood, then progressed to coal, oil and natural gas. Each step brought us cleaner, cheaper, more convenient energy. We are now at the end of that line. We will not simply be replacing our oil burners with solar panels and continuing on in the future as we have in the past. Without doubt, the amount of energy expended to produce our GNP will go down, but the percentage of our GNP devoted to the cost of energy will rise. Stated another way, we will use less and pay more for it.

HIGHLIGHTS '82

Operations

Earnings Improved - Dividend Increased

The $12 million increase in base rates allowed by the Maine Public Utilities Commission ("MPUC") in April provided the basis for significantly improved earnings in 1982. Even after allowance for an increase of 616,144 in the weighted average number of shares outstanding, earnings for 1982 were $2.00 per common share compared to $1.43 per common share in 1981. The MPUC's rate order is discussed in more detail in a later section of this report. In response to the improvement in earnings, in September the Board of Directors voted a $.01 per share increase in the quarterly dividend on common stock, or an increase in the indicated annual rate from $1.52 to $1.56.

In spite of the increased rate revenue, the allowance for funds used during construction ("AFDC") continues to be large in relation to net income. Since no return is permitted in current customer rates to cover the cost of financing construction in progress, these financing costs are capitalized through non-cash credits (AFDC) to the Statements of Income. The capitalized financing costs are added to the cost of the plant and then recovered over the depreciable life of the asset once it is placed in service.

Because AFDC is a non-cash credit in the Statements of Income, its relationship to net income is an indicator of the Company's cash position. This relationship has become one of importance to those interested in the electric utility industry. The magnitude of the Company's construction in progress is attributable to its share of the Seabrook nuclear units, and until the Seabrook project is completed, AFDC will remain a significant part of the Company's Statements of Income.

Reference should be made to the Management's Discussion and Analysis section of the financial statements for more detail about the Company's results of operations and financial position.

KWH Sales Decline Slightly

Electric sales are impacted by a number of factors - most notably, the weather, conservation, the economy of the area in general, activities of individual businesses, the "real" price of electricity and, of course, the number of customers. Conservation efforts continued to be as strong in 1982 as they were

Diamond International's Penobscot mill at Old Town

Reliable electric service is vital to our area's economy. Bangor Hydro-Electric Company's staff and crews are constantly "in the picture", providing electrical power to a 4,850 square-mile area (map, page 17) that is host to diverse activities in heavy and light industry, agriculture, fishing, commercial and retail interests. The great variety that makes up our area's economic base is featured throughout this year's annual report.

in 1981, although it is difficult to identify any change in kilowatt-hour ("KWH") sales between the periods attributable solely to conservation. The general economy of the area has followed the national pattern and declined from the previous year. Weather variations in 1982 were greater than in 1981 which tended to increase the usage of electricity. The real price of electricity, which is measured by applying an inflation factor to the current price of electricity, actually declined from its 1981 level which may have tended to increase KWH sales in 1982. The number of customers served in 1982 remained about the same as in 1981.

These factors combined to result in an increase of about 2.6% in firm, or non-interruptible, KWH sales in 1982, although total KWH sales decreased by about .6% due to a decrease of about 17% in sales to the Company's large interruptible customer, LCP Chemicals and Plastics, Inc. (formerly International Minerals & Chemical Corporation).

Total revenue from KWH sales was approximately the same as in 1981. However, the fuel revenue proportion of total revenues decreased from 60% in 1981 to 49% in 1982, which means that a greater proportion of the Company's total revenue consisted of base rate revenue from which the Company's earnings are derived.

Fossil Fuel Mix Slightly Higher

Electricity sold by the Company comes from three fuel sources - hydro, nuclear and fossil. The percentage produced from each in 1982 was 16.7%, 24.0%, and 59.3%, respectively, as compared with 17.3%, 27.5% and 55.2% in 1981. Although the slight reduction in KWH sales in 1982 would tend to reduce the energy requirement from fossil fuel sources, the availability of energy from hydro and nuclear sources did not remain the same as in 1981. Hydro generation was about 4.5% lower in 1982 due to extensive maintenance at two of the Company's stations and less advantageous water conditions. Nuclear generated energy, obtained from the Company's 7% interest in Maine Yankee Atomic Power Company ("Maine Yankee") was lower by about 13.2% than in 1981 due to a slightly longer refueling and maintenance shutdown.

Financing

Capital requirements in 1982 totaled $22.6 million. Although this is a significant amount, it is less than the $31.8 million added to plant in 1981 when the Company was acquiring the additional 1.8% interest in the Seabrook nuclear units. The capital requirements

The Bangor Mall, one of northern New England's largest enclosed shopping malls

Financing cont'd.

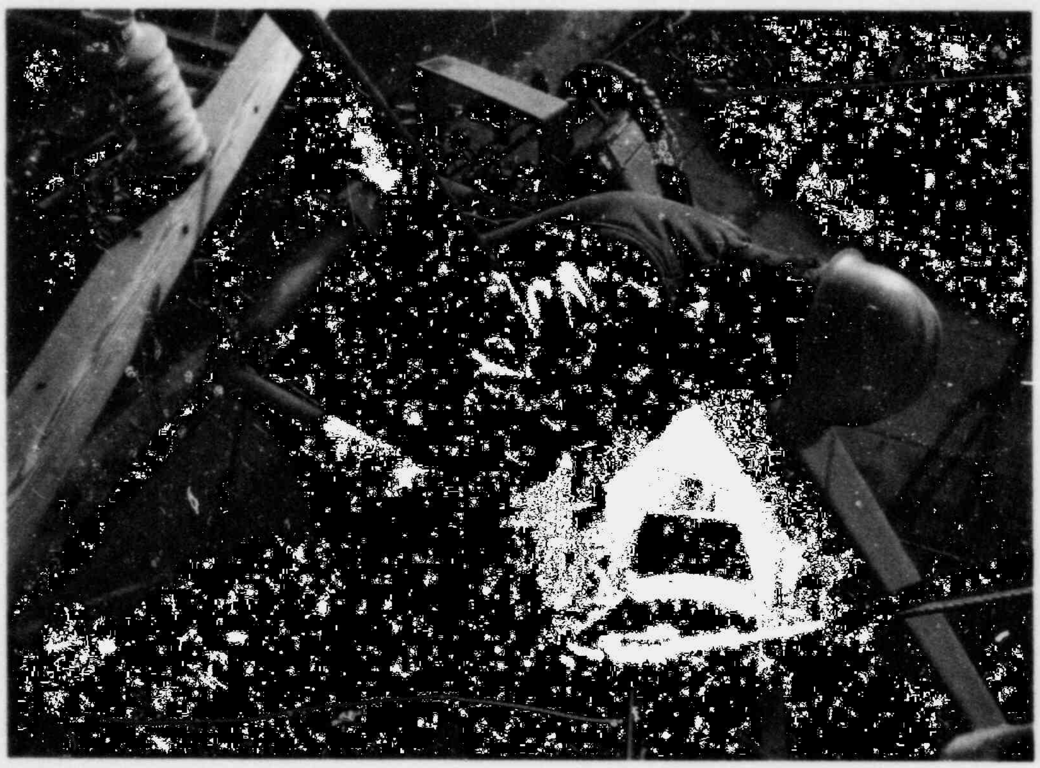
for 1982 were met with internally generated funds of $5.8 million, the issue and sale of 750,000 shares of common stock which raised $8.3 million, $621,797 from shareholder participation in the dividend reinvestment plan, with the remainder coming from short-term bank borrowings. Dividend reinvestment is substantially greater than the $266,444 realized in 1981, due in part to the implementation of plan improvements during the year (including a 5% discount on purchases of common stock made with reinvested dividends) and the commencement in 1982 of the advantageous tax treatment of reinvested public utility dividends.

On January 20, 1983 the Company issued and sold in a private placement transaction 50,000 shares of 13% Preferred Stock at the par value of $100 per share. Other financing activities scheduled for 1983 include a private placement of additional first mortgage bonds and another common stock sale.

Regulatory Activity

Retail Rate Case Most Significant

Dominating the Company's involvement in regulatory matters, especially in the first quarter of the year, was the general rate increase proceeding at the MPUC. The case was commenced by the Company's filing in July 1981 for an increase in base rate revenues of $14.3 million annually. The data supporting the Company's case was allowed to be updated during the course of the proceedings, and as finally updated the request stood at $15.5 million. Hearings were held in late 1981 and early 1982, leading to the decision by the MPUC on April 8, 1982. The MPUC allowed the Company an increase of about $12 million annually, including a return on equity of 16.4%, and $1.5 million to compensate for "attrition", or erosion caused by inflation and cost increases expected to be experienced after the conclusion of the rate case. Of particular significance was the MPUC's allowance, in part, of a request by the Company for a change in rate treatment intended to improve the Company's cash flow. The Company's filing included $4.6 million attributable to a request



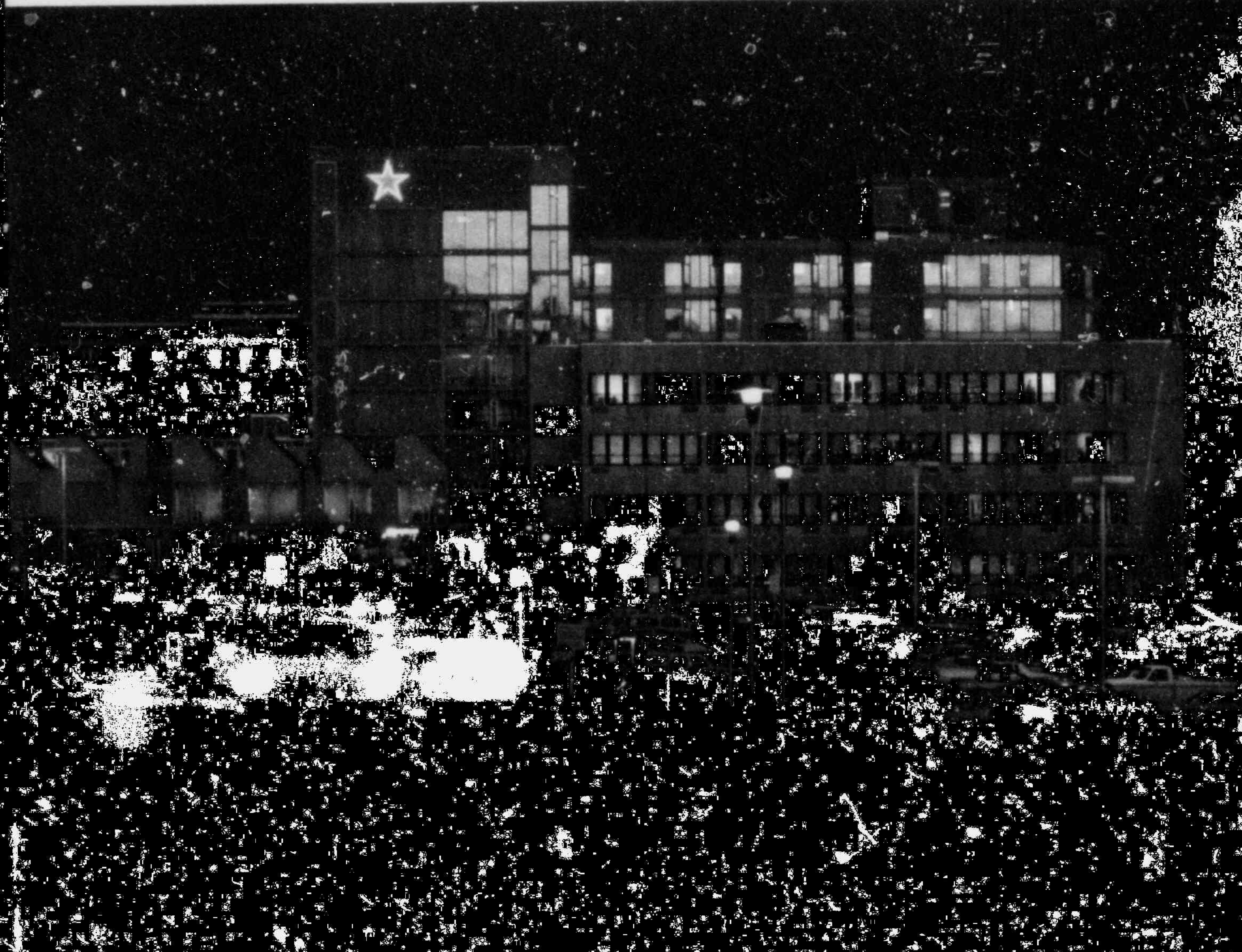
that, for rate-making purposes, the benefit of the income tax deduction for the interest expense on money borrowed to finance construction be deferred until the asset is placed in service and its costs (including the capitalized financing costs) are being recovered through rates. This rate-making technique

increases the Company's revenue requirement for purposes of setting current rates. If allowed it improves cash flow but does not affect earnings. In recognition of the Company's need for improved cash flow, the MPUC allowed this request with respect to a portion of the Company's construction expenditures, which allowance accounted for $1.3 million of the $12 million rate increase.

Management was pleased with the overall outcome of the rate case. Exclusive of the amounts attributable to the above mentioned cash flow item, the Company received 98% of the requested increase. The Company's improved results of operations reflect this favorable rate order.

Fuel Cost Adjustment was Lower

A reduction in the Company's fuel cost adjustment factor was approved by the MPUC concurrent with the base rate increase in April 1982. That rate, if left in place for a 12 month period, was estimated to collect $7 million less than the previous rate. Taken with the $6.4 million (annualized) reduction that became effective in August 1981, the favorable effect of lower fossil fuel costs being experienced by the Company has done much to offset the impact on our customers of the



Eastern Maine Medical Center at Bangor. Maine's second-largest hospital serves some 200,000 patients annually.

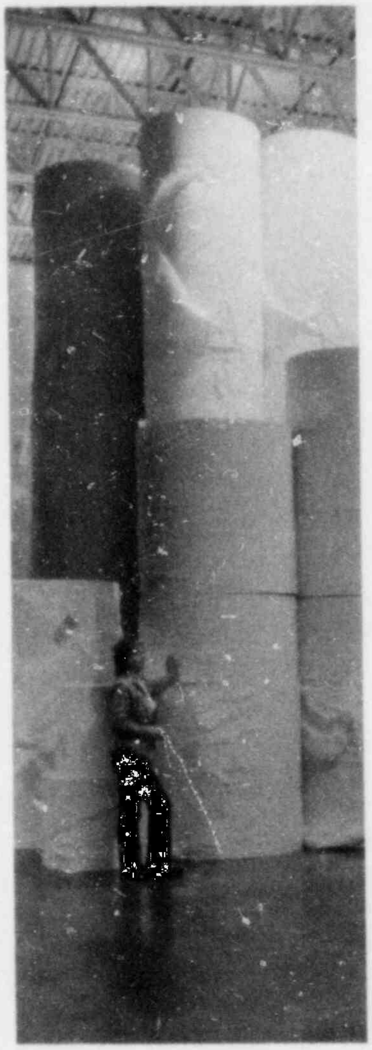
necessary base rate increases.

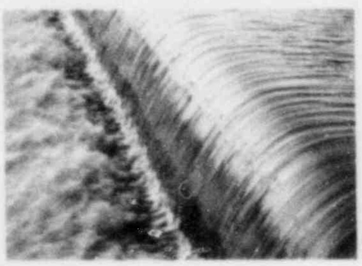
In January 1983 the Company filed, as required by MPUC rules, a revised fuel cost adjustment factor. The new rate should become effective late in the first quarter or early in the second quarter of 1983.

Design of Residential Rate is Changed

Since 1980 there has been a proceeding pending at the MPUC involving the consideration of a comprehensive redesign of the Company's rate structure and of several issues mandated by the federal Public Utilities Regulatory Policies Act of 1978. One of the items about which there

has been very little controversy in this proceeding is the MPUC's preference for eliminating the traditional "declining block" rate for residential customers and replacing it with a flat rate per KWH of energy used. In October the Company and the other parties involved in the case entered into an agreement approved by the MPUC allowing the flat rate structure to go into effect for residential customers. The effect of this change is to reduce the electric bills of those who use less than about 600 KWH per month, and increase the bills of those with higher usage. The Company and the MPUC agreed that it would be timely to implement the revised rate design contemporaneously with the Conservation Loan Program, which is described in the conservation activities section of this annual report.





Rates for Service to Other Utilities is Increased

In July the Company filed with the Federal Energy Regulatory Commission ("FERC") for an increase in its rates for sales to other utilities of $199,300 annually. In October the matter was settled by agreement of the Company and the other parties involved, stipulating to an increase of $150,000 effective October 1, 1982 and another $40,000 effective July 1, 1983. Sales to other utilities constitute a very small portion - about 2% - of the Company's revenues.

Change in Maine Commission

During 1982 two new Commissioners were appointed to the MPUC. In July the term of Dr. Lincoln Smith expired and

Facing page: Control station at Diamond International mill, Old Town.
Above: State-of-the-art health-care technology is always readily accessible to people in eastern Maine.

Diantha Carrigan resigned. Governor Brennan appointed Peter A. Bradford to fill the expired position and Cheryl Harrington to the remaining term of Ms. Carrigan. In addition, Mr. Bradford was appointed by the Governor as Chairman of the MPUC. Former Chairman Ralph Gelder continues to serve on the MPUC.

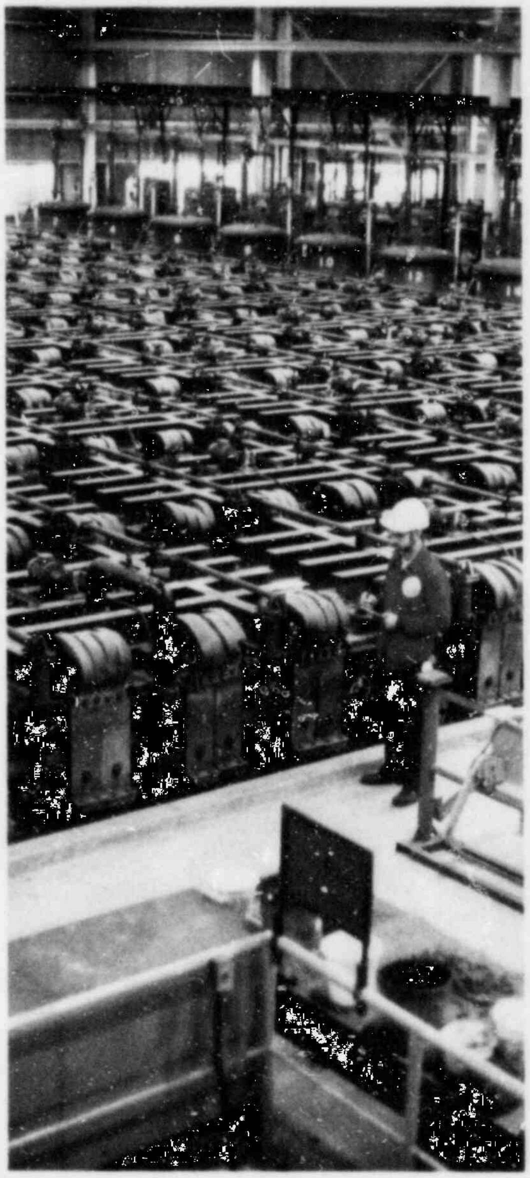
Chairman Bradford had served on the MPUC previously, from December 1971 to 1977, and was Chairman from 1974 to 1975. In 1977, he was selected by President Carter as a member of the Nuclear Regulatory Commission. In 1982, he left the NRC to become the Public Advocate for the State of Maine, a new office created by the Maine Legislature in 1981 to represent the public in proceedings before the MPUC.

Prior to joining the MPUC, Commissioner Harrington had served for five years as Director of the Consumer and Anti-Trust division of the State of Maine Office of the Attorney General.

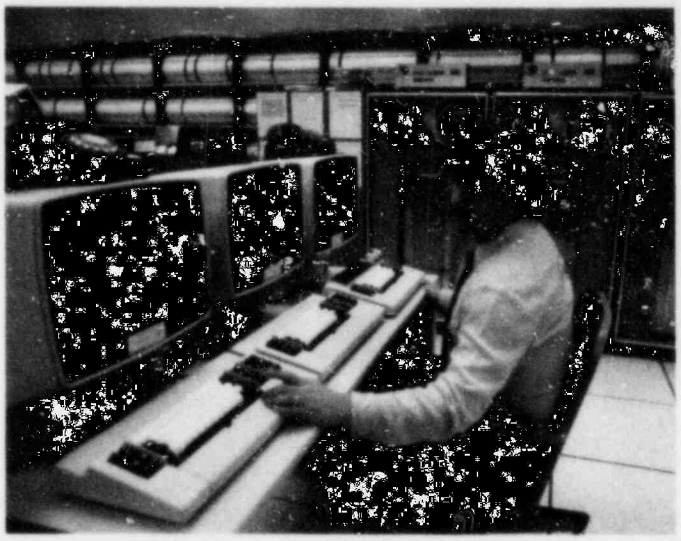
Power Supply Planning

The development of future power supply resources continues to be of utmost importance to the Company and its customers. The basic sources of non-oil fired capacity - nuclear, hydro and coal fired - are also very capital intensive. If they are to be developed, large amounts of capital must be raised. Therefore, in order to satisfy future capacity requirements within the Company's financial capability, careful and effective long-range planning must be observed and capacity requirements must be minimized through the promotion of economically justified conservation and load management programs.

Load growth in the 1970's



Right: LCP Chemicals, Orrington. The Company's largest industrial customer provides chlorine and other process chemicals for the pulp and paper industry. Below: Diamond International data processing center.



Bangor International Airport.

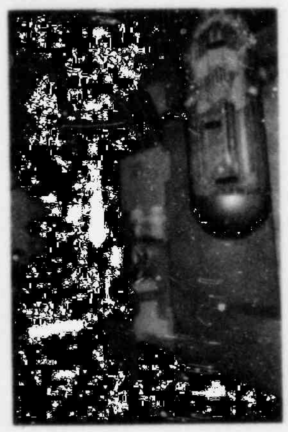
Ornamental gardens, University of Maine-Orono.

in the Company's service area was on the order of 5% to 6% per year. More recently, the rate of growth has been much less. In fact, total sales have declined each year since 1979 due to decreases in the interruptible sales. The Company's planning, however, must be based on firm, or non-interruptible, sales which have fluctuated but have generally continued to increase moderately - up 2.6% in 1982, down .1% in 1981 and up 5.3% in 1980. The Company is currently forecasting future growth to remain moderate - about 2% per year for the next 10 - 15 years. Over this same time period the Company will still require significant amounts of new capacity due to the expiration of some existing power purchase contracts, but if the rate of growth in demand continues to be low there will be a greater opportunity for the Company to acquire the necessary new capacity on a more timely and deliberate basis.

Construction at Seabrook Continues

The Company's largest single source of new base load generating capacity is its 50 megawatt interest (about 2.17%) in the Seabrook nuclear units. This project, jointly owned by several New England utilities, consists of two 1150 megawatt generating units being built in Seabrook, New Hampshire by Public Service Company of New Hampshire ("PSNH"). The participants' interests in the project are divided equally between the two units. The project has been the subject of much controversy and has been plagued by delays and increased costs, and the financing of these costs has been a major challenge for PSNH and some of the other participants. More detail about the project is included in Notes 9 and 10 to the Financial Statements.

Events of the past year are evidence of the challenges that must be met in developing new sources of this kind. In July the New Hampshire Public Utilities Commission ("NHPUC") issued an order prohibiting the use of proceeds from PSNH's financings on construction of Unit 2 until Unit 1 was completed or until certain other conditions were met. This order was successfully appealed, with a favorable decision issued by the New Hampshire Supreme Court in December overturning the NHPUC's action. Nonetheless, construction activity on Unit 2 pending the appeal was held at the level existing at the time the appeal was filed rather than accelerating as it normally would have. Then at the end of November PSNH announced a



Above: Seabrook construction site and Education Center, Seabrook, NH. The Company's interest in the Seabrook plants is about 2.17%, or 50 megawatts of capacity.
Top left: Bangor Airport Hilton and, bottom left, air terminal, both part of a multi-million dollar complex that serves both domestic and international airline passengers.

revised cost estimate and schedule for completion of the project. As of the last estimates, issued in April 1981, the project was expected to cost $2.47 billion, exclusive of initial nuclear fuel and financing costs (AFDC), with Unit 1 to be completed in February 1984 and Unit 2 in May 1986. The November 1982 revision estimates the cost at $3.54 billion, an increase of about 43% over the prior estimate, with Unit 1 to be completed in December 1984 and Unit 2 in March 1987. After a review of the financial impact of the revised estimates, the participants agreed in December to continue to hold construction activities during 1983 on Unit 2 at the level existing during the court appeal discussed above. Assuming construction on Unit 2 is then permitted to accelerate, such a program is estimated to cause about three months' additional delay in completion of Unit 2 and to add approximately $66 million to the cost of the project.

Including the Company's share of the initial nuclear fuel ($5.8 million) and estimated AFDC ($45.5 million), the Company now anticipates its investment in the project at its completion will be approximately $129 million. At year-end 1982 the Company had invested $53 million in Seabrook (including nuclear fuel of $4.1 million and AFDC of $10 million).

Hydro Resources Pursued

Hydro-electric capacity promises additional opportunities to utilize renewable resources and reduce dependence upon oil fired generation while creating great challenges in its development. The Company has identified possibilities for more hydro capacity and is in various phases of attempting to develop hydro projects totalling approximately 50 megawatts at West Enfield, Orono and other sites. Despite the advantages of hydro in terms of long term generation costs, short construction periods and relatively simple and well-developed technology, the high capital cost requires careful planning if financial resources of the Company are not to be overextended.

Hydro-Quebec Tie Line Going Ahead

Progress has been made in the development of the transmission line project between Hydro-Quebec and New England in which the Company has a 1.6% interest. The initial phase of this line will provide a capacity of 690 megawatts to New England and is planned to be used principally to purchase surplus hydro-electric energy from Hydro-Quebec. This energy will be purchased at rates below the cost of fossil-fuel sources and should be of major benefit to the New England utilities and their customers. The second phase, which might be completed in the early 1990's, would increase the capacity of the line to 2000 megawatts and would correspondingly increase the potential benefits of the entity.

Other Sources Encouraged

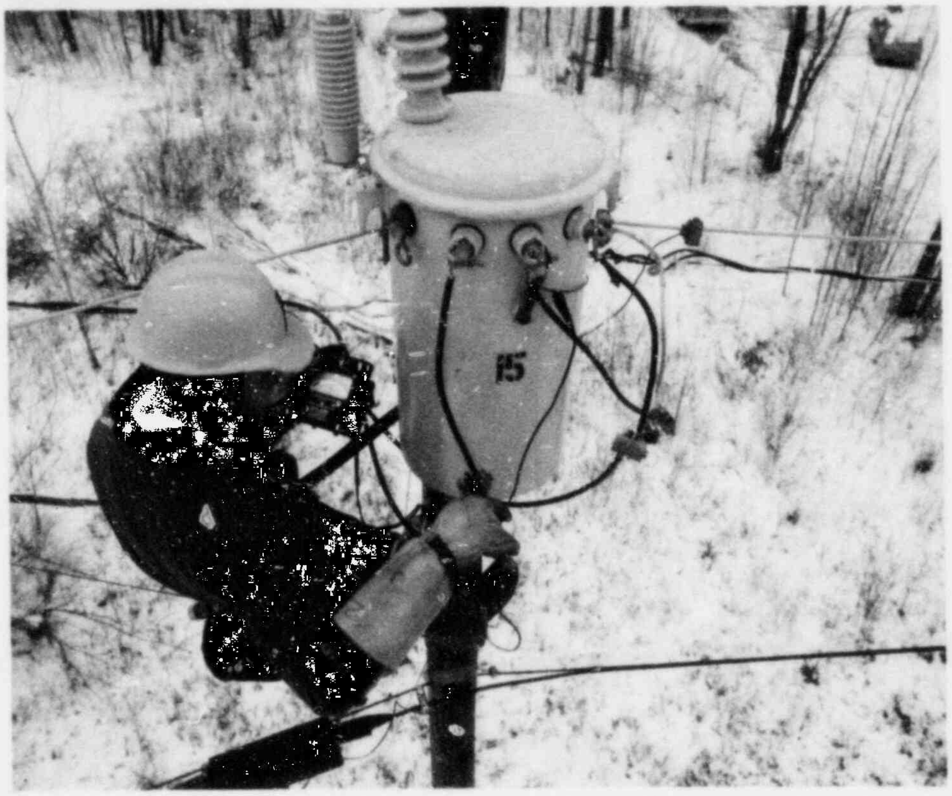
The Company continued to promote conservation and the development of renewable resources in 1982. The energy audit program, the conservation loan program and the other activities described elsewhere in this report evidence the Company's commitment to reduce the demand on our system and the excessive use of energy where possible.

The Company is also negotiating with private power developers for purchases of the output of their facilities. Two purchase contracts with developers were signed in 1982 for small facilities totaling almost 1 megawatt. Several other such possibilities are in various stages of development. In the aggregate, these sources could provide the Company significant amounts of capacity and energy with no investment requirement on the part of the Company.

Conservation Activities

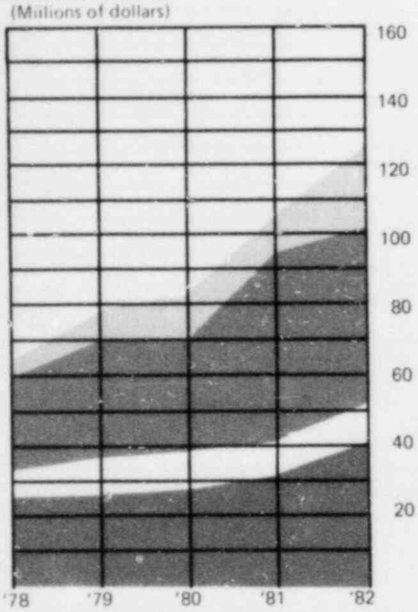
The Conservation and Consumer Services division performed 525 residential energy audits during 1982. Although there were not as many audit requests as anticipated, the 1982 audits identified potential annual energy savings in excess of $250,000 for the consumers involved.

In November, the Company implemented a plan approved by the MPUC making available $1 million to be used for low-interest loans of up to $2,000 to qualifying residential customers for certain energy conservation measures. The program is designed to assist and encourage customers to take steps to reduce electrical energy consumption. The loans are limited to those customers utilizing electric



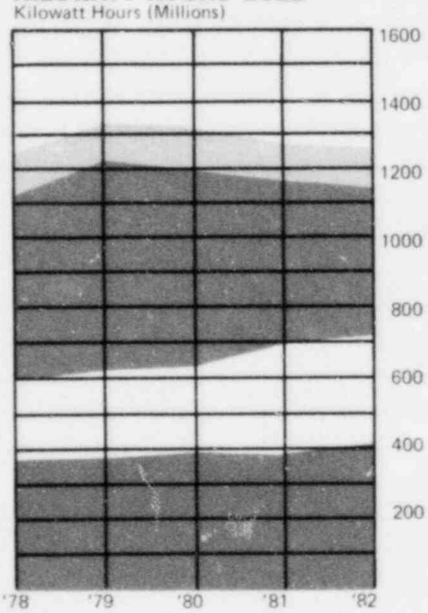
CAPITAL MIX

(Millions of dollars)



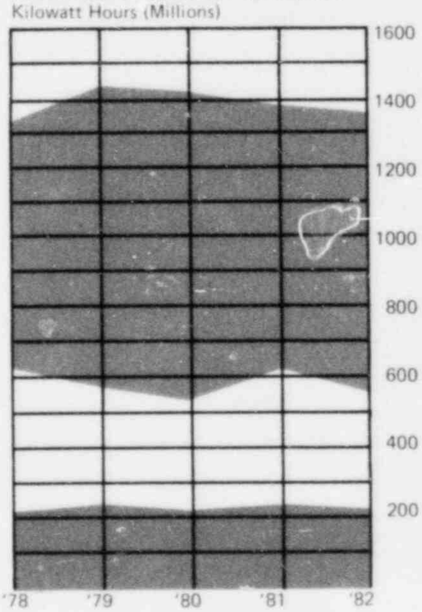
KILOWATT HOURS SOLD

Kilowatt Hours (Millions)



FUEL SOURCES OF ENERGY

Kilowatt Hours (Millions)



Learning about nuclear power at the Seabrook Station Education Center.

Conservation cont'd.

hot water and/or space heating. As yet, consumer response to the program has not been enthusiastic. However, if the program is successful, it is expected to benefit all customers in the long run by helping to reduce costly and unnecessary investment in additional generating facilities. During 1983, the Company will be working with the MPUC and the Maine Office of Energy Resources to consider extending the program to non-residential customers.

Also in conjunction with the MPUC, the Company is considering a plan to subsidize the cost of water heater insulation blankets for residential customers with electric hot water heaters. If approved by the MPUC, this program will take effect in 1983.

Other activities of the Conservation and Consumer Services division include energy awareness and conservation presentations in area schools and individual assistance to customers on request.

Directors, Officers and Employees

On December 20, 1982 the Board of Directors elected William C. Bullock, Jr., as a director to fill the unexpired term of John Grant, who died unexpectedly on December 5. Mr. Bullock is Chairman of the Board of Merrill Bankshares Company, The Merrill Trust Company and Merrill Bank, N.A. He has been associated with the Merrill system of banks since 1969. Before coming to Maine, he served in a number of officer positions with the Morgan Guaranty Trust Company of New York.

Also in December, the Board of Directors elected Carroll R. Lee to the position of Vice President - Power Supply and Planning. Mr. Lee began with the Company in 1970 as an engineering assistant, and was most recently the Assistant Vice President - Engineering.

At year end 1982, the Company had 353 employees, of whom 185 are represented by the International Brotherhood of Electrical Workers. The current union contract expires December 31, 1984.

The Company's employees are its most valuable resource, representing many skills and talents. They are a credit to the communities in which they live and work. The directors and officers of the Company take this opportunity to express their appreciation for the dedicated service and support provided by these men and women.

Income Tax Status of Dividends

The Company has estimated that 100% of dividends paid by the Company in 1982 on its common and preferred stock will be considered nontaxable for federal income tax purposes. The nontaxable dividends should be applied to reduce the tax cost basis of the shares upon which the dividends were paid.

On a preliminary basis, the Company projects that a substantial portion of its 1983 dividends on common stock will also be nontaxable.

The Company's current interpretation of applicable federal tax law is that nontaxable dividends are not eligible for the election to exclude from income up to $750 ($1500 for a joint return) of reinvested public utility dividends. Therefore, participants in the Company's Dividend Reinvestment and Common Stock Purchase Plan who have been planning to take advantage of this tax law provision should not be doing so with respect to the Company's nontaxable dividends.

If further information on this subject is needed, shareholders should consult with their own tax advisors.

SYSTEM MAP

MEDWAY
Hydro-Electric 3,440 KW
Diesel-Electric 8,000 KW

WEST ENFIELD
Hydro-Electric 3,800 KW

HOWLAND
Hydro-Electric 1,875 KW

MILFORD
Hydro-Electric 6,400 KW
Diesel-Electric 2,000 KW

STILLWATER
Hydro-Electric 1,950 KW

ORONO
Hydro-Electric 2,332 KW

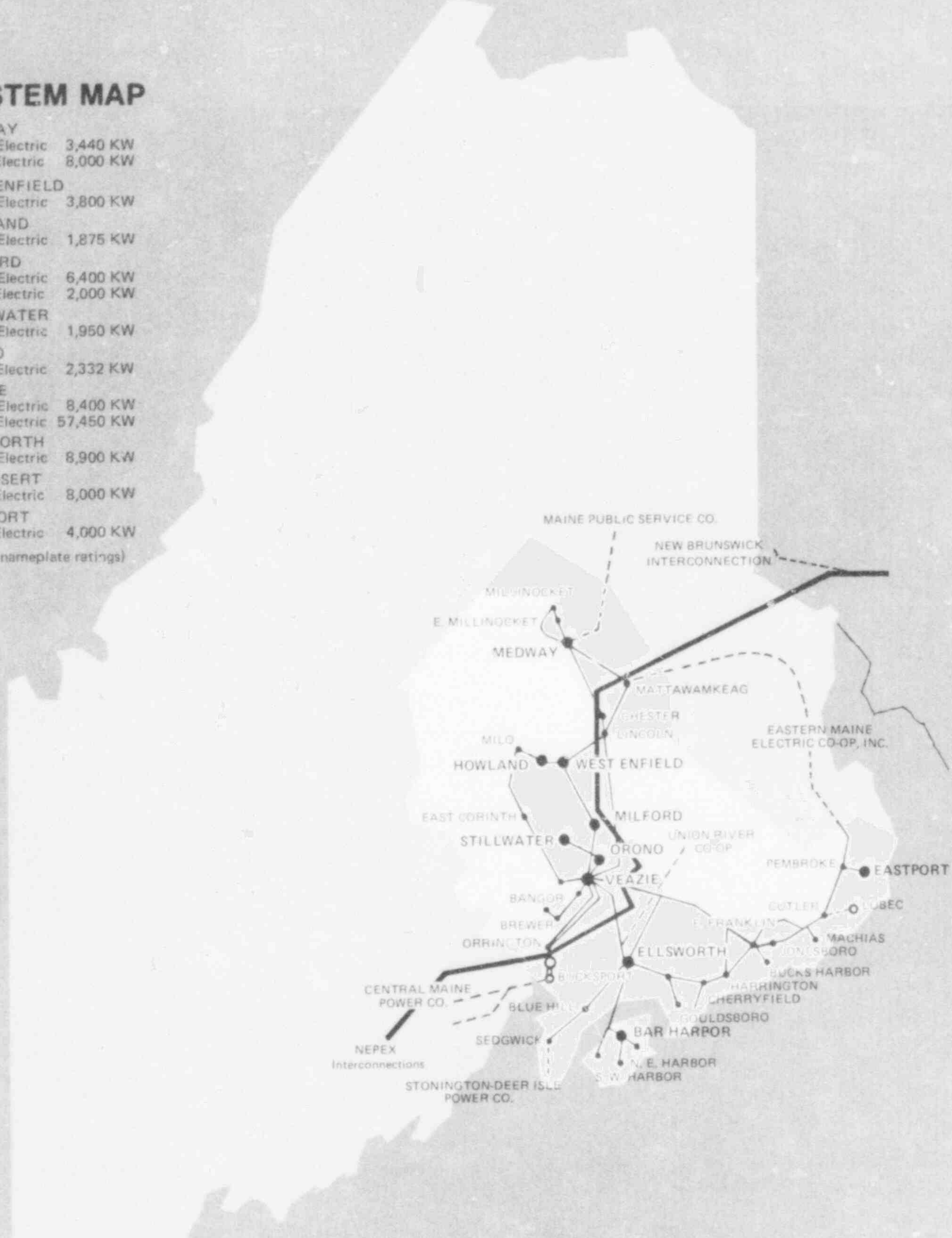
VEAZIE
Hydro-Electric 8,400 KW
Steam-Electric 57,450 KW

ELLSWORTH
Hydro-Electric 8,900 KW

MT. DESERT
Diesel-Electric 8,000 KW

EASTPORT
Diesel-Electric 4,000 KW

(KW at nameplate ratings)



MANAGEMENT'S DISCUSSION and ANALYSIS of FINANCIAL CONDITION and RESULTS of OPERATIONS

Results of Operations 1980-1982

General rate revenue increased by 28% in 1982 and 9% in 1981. This growth reflects the base rate increases authorized by the MPUC of 38% in April 1982 and 18% in August 1980. Highlights of the 1982 rate decision are discussed in an earlier section of this report. This growth in base rate revenue was tempered by a slight decrease in total KWH sales in both 1981 and 1982.

Fuel charge revenue declined by 19% in 1982 after rising 30% in 1981. The level of fuel revenue is generally tied to the cost of oil used to generate electricity and billed to customers through the fuel adjustment factor. The price of a barrel of oil delivered to the Company has varied from \$24.86 at January 1, 1980, to \$34.20 at January 1, 1981, to \$27.87 at January 1, 1982 and to \$29.38 at January 1, 1983. As explained in Note 1 to the Financial Statements, deferred fuel accounting is employed by the Company. Consequently, changes in fuel prices have a minimal impact on earnings.

Operating expenses during this period have been impacted by a number of factors in addition to fuel costs. Purchased power expense is affected largely by the Company's contract with Boston Edison Company which provided for the purchase of 30 MW from November 1, 1979 through October 31, 1980, 40 MW through October 31, 1981, and 85 MW through October 31, 1982. Beginning November 1, 1982 and running through the end of the contract (October 31, 1984) 95 MW will be purchased. In 1982, portions of this purchased power were resold to other New England utilities.

The other operation and maintenance expense category includes the Company's 8.3% share of expenses incurred at Wyman Unit No. 4, a jointly-owned generating facility operated by Central Maine Power Company. Absent the Wyman expenses this category increased about 13% in both 1982 and 1981, generally as a result of inflation and wage increases. The expenses also reflect the impact of a FERC audit which disallowed the capitalization of certain rehabilitation work to hydro-electric property starting in 1982. In addition, the 1982 expense includes \$186,000 incurred in connection with the severe storm in January and an \$83,000, or 24%, increase in tree trimming expenses.

In 1981, a benefit was recorded from federal and state income taxes. This income tax benefit represented an excess of expenses over income for income tax purposes, to be used to offset the income tax liabilities of other periods. This excess of tax expenses arose largely from the increasing amount of interest expense related to the growing construction program.

In 1982, the increase in pre-tax operating income more than offset the continuing increase in interest expense, thus an income tax expense was recorded. See Note 2 to the Financial Statements for further information on income taxes.

Interest payments have increased sharply over the 1980-1982 period due to the requirement for additional funds for the Company's construction program as well as a significant increase in the cost of these funds during 1981. Average short-term borrowings were $13.1 million in 1980, $12.1 million in 1981 and $18.5 million in 1982, at average short-term interest rates of 17.1%, 23.0% and 17.4% respectively. Furthermore, interest expense in 1982 on first mortgage bonds contains a full year of expense related to the two issues totaling $20 million which were sold during 1981.

Likewise, AFDC (both the borrowed portion and the equity portion) has grown due to the costs of financing the growing investment in construction work in progress, principally Seabrook. The average investment in Seabrook was $4.6 million during 1980, $16.9 million during 1981 and $43.5 million during 1982. During the period January 1981 through January 1982, the Company increased its ownership interest in that project from .37% to 2.17%. Also impacting the amount of AFDC and the allocation between the borrowed component and the equity component has been a change in the method used to compute the AFDC rate, which is explained in Note 1 to the Financial Statements.

The increase in the weighted average number of common shares outstanding reflects the public issue of 750,000 shares in September 1982 and 500,000 shares in September 1981.

Impact of Inflation

As noted above, inflation has increased the Company's operating expenses and costs of capital. Inflation also increases the cost of the Company's construction program and the replacement of its plant and equipment. Under the rate-making practices prescribed by the regulatory commissions to which the Company is subject, only the allocation of the Company's historical costs is included in the cost of service and rate base used to establish the Company's rates and hence its earnings. As a result, inflation tends to lower the value of the shareholders' current investment. While the rate-making process gives no recognition to the current impact of inflation on the Company's rate base, it does allow the Company to earn on and recover the increased cost of net investment when the replacement of property, plant and equipment actually occurs. More information on the impact of inflation on the Company is given in Note 12 to the Financial Statements.

Management's Discussion and Analysis cont'd.

Liquidity and Capital Resources

The Statements of Sources of Funds for Plant Additions reflect the Company's liquidity and its requirement for capital resources for 1980 through 1982. During 1982, $22.6 million (including the borrowed component of AFDC) was required for plant additions. The Company's estimated construction expenditures from 1983 through 1987 will total $97.9 million (including AFDC of $35.9 million). This amount includes $76.3 million for the Seabrook project based on the November 30, 1982 revision to the Seabrook cost estimates issued by PSNH, and $21.6 million for normal construction activities related to the Company's transmission and distribution system.

Internal sources accounted for $5.8 million, $6.0 million and $1.5 million in 1982, 1981 and 1980, respectively, of the funds required for plant additions in those years. The 1981 internal funds were primarily the result of the collection of fuel costs previously deferred. In 1982, the base rate increase and changes in certain net current asset accounts kept the level of internal funds the same as in 1981 despite an undercollection of fuel costs in 1982.

The remaining $16.8 million of the 1982 construction program was financed primarily by the public sale of 750,000 common shares for $8.3 million in September and an increase of $8.9 million in borrowings under the Company's revolving credit agreement. The Company's short-term financing is accomplished pursuant to a $30 million revolving credit and term loan agreement. Borrowings under the revolving credit agreement are expected to be replaced by long-term financing through issuances of additional first mortgage bonds, preferred stock and common stock. On January 20, 1983, the Company sold 50,000 shares of preferred stock for $5 million.

The indenture securing the Company's first mortgage bonds provides that, in addition to other requirements, the Company may issue additional bonds provided that net earnings (as defined in the indenture) of the Company are at least twice the interest charges on bonds presently outstanding and those proposed. During 1982, this restriction prohibited the Company from issuing any significant amount of first mortgage bonds. However, earnings at December 31, 1982 were sufficient to allow the Company to issue about $9 million in additional first mortgage bonds assuming an interest rate of 13½%.

AFDC continues to impact the Company's liquidity with the increase in the Company's investment in construction in progress. As discussed in other parts of this report, the 1982 MPUC rate order granted an additional $1.3 million in revenue to allow the Company to defer the tax benefit from the interest expense related to the Company's 1981 (test year) construction amounts. This allowance has somewhat reduced the cash flow problems associated with the construction program.

BANGOR HYDRO-ELECTRIC COMPANY

STATEMENTS OF INCOME

For the Years Ended December 31,	1982	1981	1980
Electric Operating Revenues (Note 1):			
General rate revenue	$41,109,524	$32,105,015	$29,548,586
Fuel charge revenue	39,232,465	48,531,923	37,145,346
	$80,341,989	$80,636,938	$66,693,932
Operating Expenses:			
Fuel for generation (Note 1)	$39,488,719	$48,075,200	$37,234,901
Purchased power (Note 8)	12,869,587	9,390,664	7,858,714
Other operation and maintenance	11,786,101	10,541,304	9,014,550
Depreciation and amortization (Notes 1 and 9)	3,500,044	3,412,791	3,111,502
Taxes:			
Local property and other	2,194,469	2,066,088	1,857,820
Income (Note 2)	809,455	(566,617)	938,426
	$70,648,375	$72,919,430	$60,015,913
Operating Income	$ 9,693,614	$ 7,717,508	$ 6,678,019
Other Income and (Deductions):			
Allowance for equity funds used during construction (Note 1)	2,165,475	344,126	—
Other, net of applicable income taxes (Note 9)	(189,012)	(14,870)	(10,819)
Income Before Interest Expense	$11,670,077	$ 8,046,764	$ 6,667,200
Interest Expense:			
First mortgage bonds (Note 5)	$ 5,679,765	$ 4,089,447	$ 2,513,642
Other (Note 6)	3,257,025	2,835,249	2,265,632
Allowance for borrowed funds used during construction (Note 1)	(3,678,606)	(2,804,332)	(797,989)
	$ 5,258,184	$ 4,120,364	$ 3,981,285
Net Income	$ 6,411,893	$ 3,926,400	$ 2,685,915
Dividends on Preferred Stock	734,799	735,570	735,570
Earnings Applicable To Common Stock	$ 5,677,094	$ 3,190,830	$ 1,950,345
Earnings Per Common Share, based on the weighted average number of shares outstanding of 2,842,862 in 1982, 2,220,718 in 1981 and 1,833,979 in 1980	$ 2.00	$ 1.43	$ 1.06
Dividends Declared Per Common Share	$ 1.54	$ 1.52	$ 1.52

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

BANGOR HYDRO-ELECTRIC COMPANY

BALANCE SHEETS

December 31,	1982	1981
Assets		
Investment in Utility Plant:		
Electric plant in service, at original cost (Note 8)	$106,006,270	$101,880,089
Less - Accumulated depreciation (Note 8)	39,123,652	36,323,839
	$ 66,882,618	$ 65,556,250
Construction in progress, including $53,068,852 in 1982 and $33,125,252 in 1981 for construction of a jointly-owned generating project (Notes 9 and 10)	53,424,795	33,328,203
	$120,307,413	$ 98,884,453
Investments in corporate joint ventures (Notes 1 and 8) -		
Maine Yankee Atomic Power Company	$ 4,703,122	$ 4,690,122
Maine Electric Power Company, Inc.	155,317	165,929
	$125,165,852	$103,740,504
Other Investments, principally at cost	$ 570,109	$ 491,731
Current Assets:		
Cash	$ 1,143,662	$ 1,313,335
Accounts receivable, net of reserve ($135,000 in 1982 and $113,866 in 1981)	8,323,689	8,928,386
Unbilled revenue receivable (Note 1)	3,976,064	3,252,096
Inventories, at average costs		
Material and supplies	1,701,307	1,863,581
Fuel Oil	1,724,906	2,437,901
Prepaid expenses	431,019	458,772
Deferred fuel costs (Note 1)	1,753,219	1,426,912
	$ 19,053,866	$ 19,680,983
Deferred Charges:		
Cost of cancelled NEPCO nuclear units (Note 9)	$ 900,065	$ 1,440,358
Other	1,042,199	1,149,405
	$ 1,942,264	$ 2,589,763
	$146,732,091	$126,502,981

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

December 31,	1982	1981
Stockholders' Investment and Liabilities		
Capitalization (see accompanying statement):		
Common stock investment (Note 3)	$ 41,794,410	$ 31,965,753
Preferred stock (Note 4)	4,734,000	4,734,000
Redeemable preferred stock, exclusive of sinking fund requirements (Note 4)	4,800,000	4,900,000
First mortgage bonds, exclusive of sinking fund requirements and a current maturity in 1981 (Note 5)	50,835,000	51,005,000
Total capitalization	$102,163,410	$ 92,604,753
Current Liabilities:		
Current maturity of long-term debt	$ —	$ 1,000,000
Notes payable to banks (Note 6)	21,671,250	12,800,000
	$ 21,671,250	$ 13,800,000
Other current liabilities -		
Current sinking fund requirements	$ 270,000	$ 270,000
Accounts payable	9,534,572	8,111,141
Dividends payable	1,444,386	1,104,013
Accrued interest	1,888,145	1,886,840
Accrued current and short-term deferred income taxes (Note 2)	1,000,261	1,086,867
Customers' deposits	104,047	91,930
Accrued pension plan contribution (Note 7)	480,000	480,000
	$ 14,721,411	$ 13,030,791
	$ 36,392,661	$ 26,830,791
Commitments and Contingencies (Notes 8, 9 and 10)		
Deferred Credits and Reserves (Note 2):		
Accumulated deferred income taxes	$ 6,570,202	$ 5,466,289
Unamortized investment tax credits	1,336,214	1,356,354
Other	269,604	244,794
	$ 8,176,020	$ 7,067,437
	$146,732,091	$126,502,981

BANGOR HYDRO-ELECTRIC COMPANY

STATEMENTS of RETAINED EARNINGS

For the Years Ended December 31,	1982	1981	1980
Balance at Beginning of Year	$ 7,500,250	$ 7,880,232	$ 8,798,703
Add:			
Net income	6,411,893	3,926,400	2,685,915
	$13,912,143	$11,806,632	$11,484,618
Deduct:			
Cash dividends declared on -			
Preferred stock	$ 734,799	$ 735,570	$ 735,570
Common stock - $1.54 per share in 1982 and $1.52 per share in 1981 and 1980	4,651,294	3,570,812	2,868,816
	$ 5,386,093	$ 4,306,382	$ 3,604,386
Balance at End of Year	$ 8,526,050	$ 7,500,250	$ 7,880,232

STATEMENTS of CAPITALIZATION

December 31,	1982	1981
Common Stock Investment (Note 3):		
Common stock, par value $5 per share -		
Authorized - 5,000,000 shares		
Outstanding - 3,416,609 shares in 1982, 2,608,774 shares in 1981	$ 17,083,045	$13,043,870
Amounts paid in excess of par value	16,185,315	11,421,633
Retained earnings	8,526,050	7,500,250
	$ 41,794,410	$31,965,753
Preferred Stock, non-participating, cumulative, par value $100 per share, authorized 250,000 shares (Note 4):		
Not redeemable or redeemable solely at the option of the issuer -		
7%, Noncallable, 25,000 shares authorized and outstanding	$ 2,500,000	$ 2,500,000
4¼%, Callable at $100, 4,840 shares authorized and outstanding	484,000	484,000
4%, Series A, Callable at $110, 17,500 shares authorized and outstanding	1,750,000	1,750,000
	$ 4,734,000	$ 4,734,000
Subject to mandatory redemption requirements -		
9½%, Callable at $108.00 in 1982 and $108.50 in 1981, 30,000 shares authorized and outstanding	$ 3,000,000	$ 3,000,000
9¼%, Callable at $104.91 in 1982 and $105.53 in 1981,		
Authorized - 20,000 shares		
Outstanding - 19,000 shares in 1982, 20,000 shares in 1981	1,900,000	2,000,000
	$ 4,900,000	$ 5,000,000
Less - Sinking fund requirements	100,000	100,000
	$ 4,800,000	$ 4,900,000
First Mortgage Bonds (Note 5):		
3 1/4% Series due 1982	$ —	$ 1,000,000
3 1/8% Series due 1984	1,000,000	1,000,000
3 1/4% Series due 1985	1,500,000	1,500,000
4% Series due 1988	2,500,000	2,500,000
4% Series due 1993	3,500,000	3,500,000
6 3/4% Series due 1998	2,500,000	2,500,000
8 1/4% Series due 1999	3,500,000	3,500,000
10 1/2% Series due 2000	4,650,000	4,700,000
9 1/4% Series due 2001	2,730,000	2,775,000
8 3/5% Series due 2003	2,125,000	2,200,000
10 1/4% Series due 2004	7,000,000	7,000,000
15 1/4% Series due 1996	5,000,000	5,000,000
16 1/2% Series due 1996	15,000,000	15,000,000
	$ 51,005,000	$52,175,000
Less - Sinking fund requirements and a current maturity in 1981	170,000	1,170,000
	$ 50,835,000	$51,005,000
Total capitalization	$102,163,410	$92,604,753

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

STATEMENTS of SOURCES of FUNDS for PLANT ADDITIONS

For the Years Ended December 31,	1982	1981	1980
Sources of Funds:			
Internal sources -			
Operations -			
Net income	$ 6,411,893	$ 3,926,400	$ 2,685,915
Items not currently requiring or (providing) funds -			
Depreciation and amortization	3,500,044	3,412,791	3,111,502
Deferred income taxes	1,103,913	597,384	641,791
Investment tax credit, net	(20,140)	(34,980)	(96,000)
Allowance for equity funds used during construction	(2,165,475)	(344,126)	—
Funds provided from operations	$ 8,830,235	$ 7,557,469	$ 6,343,208
Other sources (uses) of funds -			
Sinking fund requirements	$ (270,000)	$ (270,000)	$ (170,000)
Dividends declared	(5,386,093)	(4,306,382)	(3,604,386)
Other, net	282,722	(494,422)	128,463
	$(5,373,371)	$(5,070,804)	$(3,645,923)
hange in net current assets, exclusive of interim financing -			
Cash, receivables and unbilled revenue	$ 50,402	$(2,193,786)	$(1,966,233)
Deferred fuel costs	(326,307)	5,630,223	(1,572,447)
Other current assets	903,022	(906,488)	(366,901)
Accounts payable	1,423,431	702,930	2,278,970
Other current liabilities	267,188	274,548	398,662
	$ 2,317,736	$ 3,507,427	$(1,227,949)
Funds available from internal sources	$ 5,774,600	$ 5,994,092	$ 1,469,336
External sources -			
Notes payable to banks	$ 8,871,250	$ 700,000	$ 4,550,000
Retirement of first mortgage bonds	(1,000,000)	—	(2,000,000)
Proceeds from issuance of -			
First mortgage bonds	—	20,000,000	—
Common stock -			
Public offerings (750,000 shares in 1982, 500,000 shares in 1981 and 250,000 shares in 1980)	8,328,750	4,882,500	2,286,000
Dividend reinvestment plan (57,626 shares in 1982, 25,174 shares in 1981 and 21,577 shares in 1980)	621,797	266,444	255,011
Funds from external sources	$16,821,797	$25,848,944	$ 5,091,011
Funds Available for Plant Additions	$22,596,397	$31,843,036	$ 6,560,347
Funds Used For:			
Wyman Unit No. 4	$ 88,271	$ 51,092	$ 323,498
Seabrook Nuclear Units (Note 10)	17,788,790	27,364,595	1,727,362
Other plant additions	4,719,336	4,427,349	4,509,487
Funds Used for Plant Additions	$22,596,397	$31,843,036	$ 6,560,347

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

NOTES to FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Electric Operating Revenues — Electric Operating Revenues include amounts for electricity delivered to customers during the period, both billed and unbilled.

Deferred Fuel Accounting — Under the existing Maine Public Utilities Commission ("MPUC") fuel cost adjustment regulation, the Company is allowed to recover its fuel costs on a current basis. The fuel charge is based on the Company's projected cost of fuel for a twelve month forward-looking period. Over- or under-collections resulting from differences between estimated and actual fuel costs for a period are included in the computation of the estimated fuel costs of the succeeding fuel adjustment period. As a result, the Company utilizes deferred fuel accounting. Under this accounting method, fuel costs are expensed when they are recognized as revenue. Retail fuel costs not yet expensed are classified on the balance sheet as Deferred Fuel Costs.

In December 1980 the MPUC modified the fuel cost adjustment regulations so that, effective January 1, 1981, the fuel cost adjustment rate includes a factor calculated to reimburse the Company or its customers for the carrying cost of funds used to finance under-collected (deferred) or over-collected fuel costs incurred after May 1980.

Equity Method of Accounting — The Company accounts for its investments in the common stock of Maine Yankee Atomic Power Company ("Maine Yankee") and Maine Electric Power Company, Inc. ("MEPCO") on the equity method of accounting and records its proportionate share of the net earnings of these companies (substantially all of these earnings are paid out in dividends) as a reduction of purchased power costs. See Note 8 for additional information with respect to these investments.

Depreciation of Electric Plant and Maintenance Policy — Depreciation of electric plant is provided using the straight-line method at rates designed to allocate the original cost of the properties over their estimated service lives. The composite depreciation rate, expressed as a percentage of average depreciable plant in service, was approximately 3.1% during the periods presented.

The Company follows the practice of charging to maintenance the cost of repairs, replacements and renewals of minor items considered to be less than units of property. Costs of additions, replacements and renewals of items considered to be units of property are charged to the utility plant accounts and any items removed are retired from such accounts. The original costs of units of property retired and removal costs, less salvage, are charged to the reserve for depreciation.

Equity Reserve for Licensed Hydro Projects — The Federal Energy Regulatory Commission ("FERC") requires that a reserve be maintained equal to one-half of earnings in excess of a prescribed rate of return on the Company's investment in licensed hydro property beginning with the twenty-first year of project operation under license. As required by an order of the FERC, the Equity Reserve provided for licensed hydro projects is classified as Retained Earnings.

Allowance for Funds Used During Construction — The Company reflects as an element of the cost of construction of major units of depreciable property an allowance for funds (including common equity funds) employed during the construction period ("AFDC"). Under the rate-making processes of applicable regulatory agencies the Company is permitted to recover these amounts, not currently, but over the useful life of the constructed property. Further, the unrecovered cost of constructed property, including the allowance, is an element of rate base on which the Company is permitted to earn a return.

As part of its April 1982 rate order, the MPUC directed the Company to use an AFDC rate which reflects the Company's overall weighted cost of capital (including short-term debt and the cost of equity allowed in the MPUC's most recent rate decision). The Company commenced using this AFDC rate in April.

Prior to the April 1982 rate order, the amount of the allowance recorded was determined by multiplying the portion of the average monthly dollar balance of construction in progress financed by short-term borrowings by the weighted average interest rate applicable to short-term borrowings for the month and multiplying any remainder of the monthly dollar balance of construction in progress by the weighted average cost of long-term debt and equity as of the beginning of the year. The average rate produced by the Company's computations was 13.9% for 1982, 19.0% for 1981 and 17.1% for 1980.

Note 2. Income Taxes

The individual components of federal and state income taxes reflected in the Statements of Income for 1982, 1981, and 1980 are as follows:

	Year Ended December 31,		
	1982	1981	1980
Current:			
Federal	$ (748,350)	$ 1,627,129	$ (659,423)
State	(65,970)	271,962	(118,869)
	$ (814,320)	$ 1,899,091	$ (778,292)
Deferred - Short Term:			
Federal	$ 561,317	$(2,574,069)	$ 1,026,970
State	91,848	(421,190)	168,041
	$ 653,165	$(2,995,259)	$ 1,195,011
Deferred - Other:			
Federal	$ 1,058,544	$ 617,156	$ 643,020
State	45,369	(19,772)	(1,229)
	$ 1,103,913	$ 597,384	$ 641,791
Investment tax credits, net	$ (20,140)	$ (34,980)	$ (96,000)
Total Provision (Benefit)	$ 922,618	$ (533,764)	$ 962,510
Allocated to other income	(113,163)	(32,853)	(24,084)
Charged to operating expense	$ 809,455	$ (566,617)	$ 938,426

The rate-making practices followed by the MPUC permit the Company to recover federal and state income taxes payable currently and to recover deferred taxes only when the tax law, in effect, requires such treatment or when MPUC approval is granted on specific timing differences. Although this accounting differs from generally accepted accounting principles followed by non-rate-regulated companies, which are required to record deferred taxes related to all timing differences, the Company expects that deferred taxes not recorded will be collected through customer rates in the future when such taxes become payable.

In 1982, 1980 and 1979 the Company experienced net losses for tax purposes while reporting earnings for financial statement purposes. The reasons for the differences between the losses experienced for tax purposes and the earnings reported in the financial statement are categorized as follows: (1) permanent reductions in tax expense resulting from statutory exclusions from taxable income, (2) timing differences between book and taxable income on which deferred taxes are not provided or recovered as a result of requirements by the MPUC, and (3) timing differences on which deferred taxes are permitted to be recovered by the MPUC.

The following table reconciles an income tax provision calculated by multiplying income before federal income taxes (as reported on the financial statements) by the federal income tax rate to the federal income tax expense reported on the financial statements. The difference is represented by the permanent reductions and the timing differences on which deferred taxes are not calculated.

	1982 Amount	1982 %	1981 Amount	1981 %	1980 Amount	1980 %
			(Dollars in Thousands)			
Federal income tax provision at statutory rate	$3,341	46%	$1,638	46%	$1,656	46%
Less permanent reductions in tax expense resulting from statutory exclusions from taxable income:						
Dividend received deduction related to earnings of associated companies	188	3	199	6	198	5
Equity component of AFDC	996	14	158	4	—	—
Preferred dividends paid deduction	34	1	34	1	34	1
Amortization of investment tax credit	20	—	35	1	96	3
Other	[illegible]	—	(72)	(2)	—	—
Federal income tax provision before effect of timing differences	$2,077	28%	$1,284	36%	$1,328	37%
Less timing differences that are flowed through for rate-making and accounting purposes:						
Interest component of AFDC on which deferred taxes are not recorded	1,262	17	1,290	36	367	10
AFDC on cancelled NEPCO project	(119)	(1)	—	—	—	—
Deduction of certain costs (primarily pension costs, payroll taxes and property taxes) for tax purposes that are included in the cost of electric property	240	3	67	2	58	2
State required construction	—	—	112	3	—	—
Deferred interest cost	(120)	(2)	120	3	—	—
Assets acquired before 1971:						
Book depreciation greater than tax depreciation	(39)	(1)	—	—	—	—
Tax depreciation greater than book depreciation	—	—	55	2	—	—
Other	2	—	5	—	(12)	—
Federal income tax provision	$ 851	12%	$ (365)	(10%)	$ 915	25%

The differences between the federal income tax expense reported on the financial statements and the federal income tax liability (income tax benefits for the loss years of 1982, 1980 and 1979) as reflected on the Company's tax returns are caused by timing differences on which deferred taxes are provided and recovered through rates. These have been categorized as Deferred Taxes-Other (principally related to depreciation) and Deferred Taxes-Short Term. The Deferred Taxes-Short Term have been classified to correspond to the accounting for the related assets (deferred fuel costs and unbilled revenue).

As part of its April 1982 rate order, the MPUC allowed the Company to record deferred taxes annually of $657,066 representing the tax effect of interest expense on construction during 1981, the test year in the April 1982 rate order. Deferred taxes of $465,796 were recorded for this item in 1982 and are classified as Deferred Taxes - Other.

The tax benefits of the net operating loss for tax purposes in 1982 together with the net operating losses available from 1980 and 1979 have been recorded as reductions of short-term deferred income taxes and may be used to offset income taxes payable in future years. Subject to review by the Internal Revenue Service, the potential reduction in income taxes from the carryovers (which expire between 1994 and 1997) amounts to $1,936,977.

Under the federal income tax laws, the Company receives investment tax credits at a rate of 10% on qualified property additions. Investment credits utilized are deferred and amortized over the life of the related property. Investment tax credits available of $7,313,392 have not been utilized or recorded and may be used prior to their expiration, which occurs between 1993 and 1997. The financial statements reflect a reclassification to reduce unamortized investment tax credits to amounts utilized in the Company's tax returns. Due to the adoption of a Tax Reduction Act Stock Ownership Plan (see Note 3), the Company receives an additional 1% investment tax credit which will be used to fund the plan through December 31, 1982.

Note 3. Common Stock

The Company issued and sold for cash 750,000 common shares (for proceeds of approximately \$8.3 million) in September 1982, 500,000 common shares (for proceeds of approximately \$4.9 million) in September 1981 and 250,000 common shares (for proceeds of approximately \$2.3 million) in December 1980.

The Company has an employee stock ownership plan which qualifies as a Tax Reduction Act Stock Ownership Plan. Annual contributions to the Plan by the Company are made when the associated investment tax credit is utilized and are in the form of common stock of the Company having a market value equal to an additional 1% investment tax credit currently allowed by federal tax law, less administrative expenses. The Company also has a Dividend Reinvestment and Common Stock Purchase Plan through which shareholders may purchase common stock without payment of brokerage commissions or service charges. In connection with these plans, at December 31, 1982 the Company had reserved 497,101 shares of its authorized but unissued common stock.

Note 4. Preferred Stock

General — At December 31, 1982, authorized preferred stock consisted of 250,000 shares, par value \$100 per share, of which 96,340 shares were outstanding. The remaining 153,660 authorized but unissued shares (plus additional shares equal in number to such presently outstanding shares as may be retired) may be issued with such preferences, restrictions or qualifications as the board of directors may determine. On January 20, 1983, the Company issued an additional 50,000 shares of such preferred stock at par value, in a series designated as the 13% Preferred Stock.

The callable preferred stock may be called in whole or in part upon any dividend date by appropriate resolution of the board of directors.

The 9¼%, the 9½% and the 13% series of preferred stock are non-voting.

Redeemable Preferred Shares — The 9¼% Preferred Stock, the 9½% Preferred Stock and the 13% Preferred Stock are subject to mandatory redemption through the operation of sinking funds at the redemption price of \$100 per share plus dividends accrued. The Company must set aside in cash annually (1) on December 1 in each year commencing with December 1, 1982, an amount sufficient to redeem 1,000 shares of the 9¼% Preferred Stock, (2) on August 1 in each year commencing with August 1, 1985, an amount sufficient to redeem 2,000 shares of the 9½% Preferred Stock, and (3) on January 31 in each year commencing with January 31, 1989 an amount sufficient to redeem a minimum of 2500 shares of the 13% Preferred Stock, with the option in the holders thereof to require the redemption of up to an additional 2500 shares.

The aggregate annual amounts of preferred stock redemption requirements for each of the five years following 1982 are as follows: 1983 and 1984, \$100,000; and 1985-1987, \$300,000.

Note 5. First Mortgage Bonds

Under the provisions of the indenture, substantially all of the Company's plant and property has been mortgaged to secure the first mortgage bonds. Additional bonds may be issued under the first mortgage bond indenture, subject to certain restrictions and provisions specified in the indenture and supplements thereto.

Sinking fund requirements and current maturities of long-term debt for the five years subsequent to December 31, 1982 aggregate \$6,190,000 as follows:

	Sinking Fund Requirements	Current Maturities	Total
1983	\$ 170,000	—	\$ 170,000
1984	170,000	1,000,000	1,170,000
1985	450,000	1,500,000	1,950,000
1986	450,000	—	450,000
1987	2,450,000	—	2,450,000
	\$3,690,000	\$2,500,000	\$6,190,000

Note 6. Notes Payable to Banks

In August 1980 the Company entered into a \$30 million Revolving Credit and Term Loan Agreement with a syndicate of seven banks. Under the Agreement, the Company was able to borrow up to \$17.4 million until the January 31, 1981 commencement of the commitment to purchase the additional interest in the Seabrook nuclear units as described in Note 9. At that time, the credit available to the Company increased to \$30 million. The revolving credit portion of this facility terminates on June 30, 1985, at which time the indebtedness may be converted to a term loan to be paid down by the Company over a three year period ending June 30, 1988.

The interest rate on the revolving credit is tied to the prime rate. For the periods ended June 30, 1981 and June 25, 1982 the interest rates were 106% and 108% of the prime rate respectively. For the periods ending June 25, 1983 and June 29, 1985 the rates will be 105% and 107% of the prime rate respectively. In addition, the Company is obligated to pay a commitment fee of one-half of one percent on the unused portion of the commitment and an additional fee of 3% (4% up to September 15, 1982) of the prime rate applied to the available credit. The interest rate under the term loan portion of the facility is 110% of the prime rate. Under the terms of this agreement, the Company is prohibited from incurring over $1 million of other unsecured borrowings.

The agreement was amended on September 15, 1982 to allow the Company to participate in the commercial paper markets in order to reduce interest costs and fees. The Company has not yet been able to meet the requirements which would enable it to enter into the commercial paper market.

The Company uses the borrowings under this agreement to initially finance construction and for other corporate purposes. The Company intends to refinance such borrowings with the proceeds from sales of long-term debt and equity securities.

Prior to August 1980 the Company arranged for its short-term borrowings under separate lines of credit with individual banks.

Certain information related to short-term borrowings is as follows:

	1982	1981	1980
Total credit available at end of period	$30,000,000	$30,000,000	$17,400,000
Unused credit at end of period	$ 8,328,750	$17,200,000	$ 5,300,000
Borrowings outstanding at end of period	$21,671,250	$12,800,000	$12,100,000
Effective interest rate (exclusive of fees) on borrowings outstanding at end of period	12.1%	17.0%	22.8%
Average daily outstanding borrowings for the period	$18,540,000	$12,102,000	$13,129,000
Weighted daily average annual interest rate	17.4%	23.0%	17.1%
Highest level of borrowings outstanding at any month-end during the period	$22,500,000	$17,100,000	$16,050,000

Note 7. Supplementary Income Statement Information

The Company has a noncontributory pension plan covering substantially all of its employees. The Company funds pension costs accrued. Pension costs were $480,000 for 1982, $480,000 in 1981, $445,000 in 1980, including amortization of unfunded prior service costs (approximately $718,300 as of January 1, 1982) over a twenty-year period.

Pertinent pension plan information is as follows:

	January 1,		
	1982	1981	1980
The actuarial present value of accumulated plan benefits:			
Vested	$ 5,793,300	$ 5,589,000	$ 5,952,800
Non Vested	111,300	130,900	152,000
	$ 5,904,600	$ 5,719,900	$ 6,104,800
Net assets available for benefits	$10,251,700	$ 8,879,400	$ 7,977,989
Assumed rate of return on plan benefits	6½%	6½%	5½%

Maintenance expense, depreciation, and local property and other taxes not based on income which were charged to operating expenses are stated separately in the income statement. Rents and advertising costs are not significant. No royalty or research and development expenses were incurred.

Note 8. Capacity

The Company owns 7% of the common stock of Maine Yankee. Under purchased power arrangements, the Company is entitled to purchase 7.3% (approximately 6.9% after June 1983) of the output of Maine Yankee, and is obligated to pay a like percentage of Maine Yankee's costs regardless of the level of electrical output. A Maine law enacted in 1982 requires that Maine Yankee submit a plan for the eventual decommissioning of the plant for approval by the MPUC, and that amounts being collected for that purpose be set aside in a segregated trust fund. As part of the decommissioning plan, each sponsor of Maine Yankee is required to acknowledge responsibility for its share of the cost of decommissioning the plant (currently estimated at $57.6 million in 1980 dollars). Maine Yankee's purchased power costs include an amount estimated to provide such decommissioning funds over the remaining life of the plant, and the Company's share of such costs (approximately $133,000 annually) is included in customer rates.

The Company owns 14.2% of the common stock of MEPCO, and is entitled to approximately 2% of a purchased power contract between MEPCO and the New Brunswick Electric Power Commission. To the extent that MEPCO's revenues from transmission services are insufficient to meet its expenses, the Company and the other participants pay MEPCO's costs based upon their relative system peaks.

Information relating to the above purchased power arrangements and condensed financial information of Maine Yankee and MEPCO is as follows:

	MAINE YANKEE			MEPCO		
Sales Contract Term	1973-2003			1976-1985		
Capacity Entitlement	61 MW (58 MW after June 30, 1983)			2.7 MW		
	1982	1981	1980	1982	1981	1980
	(Dollars in Thousands)					
Operations:						
As reported by investee -						
Operating revenues	$110,000	$102,650	$ 84,245	$111,522	$139,292	$111,604
Depreciation	$ 11,295	$ 9,031	$ 8,319	$ 734	$ 734	$ 735
Interest and preferred dividends	16,223	18,037	16,585	895	1,044	1,270
Other, net	76,005	68,884	52,767	109,765	137,377	109,453
	$103,523	$ 95,952	$ 77,671	$111,394	$139,155	$111,458
Earnings applicable to common stock	$ 6,477	$ 6,698	$ 6,574	$ 128	$ 137	$ 146
Amounts reported by the Company						
Purchased power costs	$ 6,071	$ 5,077	$ 4,556	$ 178	$ 167	$ 590
Equity in net income	(468)	(468)	(468)	(18)	(24)	(24)
	$ 5,603	$ 4,609	$ 4,088	$ 160	$ 143	$ 566
Financial Position:						
As reported by investee -						
Plant in service	$269,812	$262,315	$246,921	$ 18,589	$ 18,589	$ 18,588
Accumulated depreciation	(79,305)	(69,837)	(61,803)	(8,676)	(7,942)	(7,207)
Other	164,284	135,950	111,946	16,900	13,208	19,719
Total assets	$354,791	$328,428	$297,064	$ 26,813	$ 23,855	$ 31,100
Less -						
Preferred stock	10,796	11,295	11,980	—	—	—
Long-term debt	139,575	129,862	134,823	8,580	9,240	9,900
Other liabilities and deferred credits	137,024	120,010	83,209	17,206	13,515	20,027
Net assets	$ 67,396	$ 67,261	$ 67,052	$ 1,027	$ 1,100	$ 1,173
Company's reported equity -						
Equity in net assets	$ 4,718	$ 4,708	$ 4,694	$ 146	$ 156	$ 167
Adjust Company's estimated to actual	(15)	(18)	(5)	9	10	5
	$ 4,703	$ 4,690	$ 4,689	$ 155	$ 166	$ 172

The Company purchases energy pursuant to an agreement with Boston Edison Company from its Mystic Unit No. 7, a 592 MW plant which can be fueled by either oil or natural gas. Purchases under the contract were at a level of 30 MW for the power year ended October 31, 1980, 40 MW for the power year ended October 31, 1981, 85 MW for the power year ended October 31, 1982, and will be 95 MW from November 1, 1982 until the contract terminates on October 31, 1984. The Company's share of non-fuel related expenses under this contract were $2.7 million in 1980, $4.1 million in 1981 and $6.5 million in 1982. In 1982, portions of the power purchased under this contract were resold to other New England utilities.

The Company owns 8.333% (50 MW) of the oil-fired 600 MW Wyman No. 4 unit. The Company's proportionate share of the direct expenses of this unit is included in the corresponding operating expenses in the Statements of Income. Included in the Company's utility plant are the following amounts with respect to this unit:

	December 31, 1982	December 31, 1981
Electric plant in service	$16,674,246	$16,429,652
Accumulated depreciation	(2,174,915)	(1,518,853)
	$14,499,331	$14,910,799

Note 9. Construction

The Company is engaged in an ongoing construction program the major portion of which is an investment in the Seabrook nuclear units, a jointly-owned electric generating facility being built by Public Service Company of New Hampshire ("PSNH"). In December 1978 the Company purchased a .37249% interest (8.6 MW) in the Seabrook nuclear units, and acquired an additional 1.80142% interest (41.4 MW) during the period January 31, 1981 to January 2, 1982. The Company's participation in the project is summarized below:

Under construction at December 31, 1982:	
Construction and initial core nuclear fuel costs exclusive of allowance for funds	$43,069,000
Estimated for completion (Unit 1 - December 1984, Unit 2 - July 1987):	
Construction and initial core nuclear fuel costs exclusive of allowance for funds	40,706,000
Total	$83,775,000

The above estimates for completion are based on the latest estimates of the project's cost furnished by PSNH. See also Note 10 for a further discussion of this project.

One of the projects in which the Company had an ownership interest was the New England Power Company nuclear units originally planned for Charlestown, Rhode Island, at the site of an abandoned naval base. Efforts to obtain the site were unsuccessful, and the lead owner's parent company determined that the capacity from the units was not required to meet its system's fifteen year corporate plan. Accordingly, in December 1979 the lead owner announced the cancellation of the project. In an August 1980 rate order, the Company received approval from the MPUC to recover over a five year period its investment in the project less any salvage credits. As part of its April 8, 1982 rate order the MPUC disallowed recovery of the unamortized amount of the AFDC portion of this investment which amounted to $239,849. Consequently the Company has charged to 1982 earnings this amount of its investment in the NEPCO nuclear units which reduced 1982 earnings by $.08 per share. This charge is shown in other deductions on the Statements of Income.

Note 10. Contingencies

Seabrook — As discussed in Note 9 above, the Company has a 2.17% interest (50 MW) in the Seabrook nuclear units.

Construction of the Seabrook units has required numerous approvals and permits from various state and federal regulatory agencies. The process of obtaining these approvals and permits has been long and complex and has been opposed consistently by a number of intervening groups. Opposition to the project has included demonstrations at the Seabrook site. The project also has been plagued by lengthy delays which have resulted in greatly increased costs. Court appeals and administrative proceedings are continuing, and further appeals and proceedings are possible.

On November 30, 1982 PSNH issued a revised estimate of the cost and schedule for completion of the project. The cost (exclusive of AFDC and initial nuclear fuel) was estimated at approximately $3.54 billion, or about 43% higher than the most recent prior estimate of approximately $2.47 billion, issued in April 1981. The revised estimate of the schedule indicated that Unit 1 would be completed in December 1984 and Unit 2 in March 1987, instead of February 1984 and May 1986, respectively, as estimated in April 1981. The revised estimates are being reviewed and evaluated by an independent consultant retained by PSNH.

As a result of the revised estimates, the participants agreed in December 1982 that the construction level on Unit 2 will be held at a reduced level for 1983, which action will cause a relatively slight additional increase in the cost of the project and a modest additional delay in completion of Unit 2.

Financing the construction of the Seabrook nuclear units has been and continues to be a major challenge for PSNH, the Company, and most of the other participants. Further delays and increases in the cost of the project could occur for a number of reasons, including difficulties in acquiring the necessary construction permit extensions or the operating licenses for either of the units from the Nuclear Regulatory Commission, the failure for any reason of some of the participants to fulfill their contractual commitments to pay their share of the construction costs, additional substantial revisions to the cost estimates, the effect of ongoing and possible future regulatory proceedings with respect to individual participants' involvement in the project, and other factors. The incurrence of such further delays and cost increases would aggravate any difficulties being experienced by the Company and other participants in financing the project.

In addition, the timely inclusion of Unit 1, when it becomes operational, in the Company's rate base would substantially improve the Company's cash flow. Any difficulties or delay experienced in receipt of the necessary MPUC approval would further increase the Company's financing requirements.

At December 31, 1982, the Company's investment was $40.4 million for Unit 1 and common facilities (including AFDC of $7.6 million) and $12.6 million for Unit 2 (including AFDC of $2.4 million). If future developments led to the cancellation of either or both of the units, the Company would apply to regulatory authorities (principally the MPUC) to amortize its investment over an appropriate future period and recover such investment through customer rates. The Company cannot predict whether and to what extent recovery of the Company's investment would be permitted. The most recent policy of the MPUC, as indicated in Note 9 with respect to the NEPCO project, has been to disallow the recovery in customer rates of the AFDC portion of cancelled projects.

Note 11. Unaudited Quarterly Financial Data

Unaudited quarterly financial data pertaining to the results of operations are shown below:

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(Dollars in Thousands Except Per Share Amounts)			
1982				
Electric Operating Revenues	$20,590	$18,957	$19,971	$20,824
Operating Income	1,924	2,503	2,885	2,381
Net Income	1,102	1,268	2,128	1,914
Earnings Per Share of Common Stock*	.32	.38	.69	.61
1981				
Electric Operating Revenues	$22,315	$19,520	$19,300	$19,502
Operating Income	2,163	1,436	1,973	2,146
Net Income	1,038	428	873	1,587
Earnings Per Share of Common Stock*	.38	.11	.31	.63

* Individual quarters recomputed based on weighted average common shares outstanding during the year.

Note 12. Unaudited Information On The Effects Of Changing Prices

The following supplementary information is supplied in accordance with the requirements of the Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices. This statement requires adjustments to historical costs to estimate the effects that general inflation (constant dollar) and changes in specific prices (current cost) have had on the Company's results of operations and the shareholders' investment. The disclosure of both methods is required by the Financial Accounting Standards Board because there is presently no consensus on which method of reporting better portrays the effects of changing prices on the operations of business enterprises. These data are not intended as substitutes for earnings reported on a historical basis; they do, however, offer some perspective of the approximate effects of inflation rather than a precise measurement of the effects.

Constant dollar amounts represent historical cost stated in terms of dollars of equal purchasing power, as measured by the Consumer Price Index for all Urban Consumers (CPI-U). The current cost of plant was determined by indexing each major class of plant using the Handy-Whitman Index of Public Utility Construction Costs. Current cost does not necessarily represent the replacement cost of existing productive capacity since utility plant is not expected to be replaced precisely in kind. The current year's provisions for depreciation on the constant dollar and current cost amounts of utility plant were determined by applying the Company's depreciation rates to the indexed plant amounts. Current cost amounts reflect changes in specific prices of plant from the date the plant was acquired to the present. They differ from constant dollar amounts to the extent that specific prices have increased more or less rapidly than the general rate of inflation.

Fuel inventories, the cost of fuel used in generation, and the energy component of purchased power costs have not been restated from their historical cost in nominal dollars. The fuel adjustment clause limits the recovery of fuel and purchased power costs to actual cost incurred. For this reason fuel inventories are effectively monetary assets.

Materials and supplies were treated as a monetary asset due to the fact that they are subject to rapid turnover. The Company believes the historical cost of this item adequately represents its current cost. Income tax expense was not adjusted because only historical costs are deductible for income tax purposes.

Under current rate-making policies prescribed by the MPUC, only the historical cost of utility property is included in the rate base upon which the Company is allowed to earn a return. Therefore, the cost of plant stated in terms of constant dollars or current cost that exceeds the historical cost of plant is not presently recoverable in rates, and accordingly has been adjusted down to its net recoverable cost.

During periods of inflation, the holding of monetary assets such as cash and accounts receivable results in a loss of general purchasing power because such items will purchase less at a future date. The holding of monetary liabilities such as long-term debt results in a gain of general purchasing power because the amount of money required to ultimately settle the liabilities represents dollars of diminished purchasing power. The reduction of utility plant to net recoverable cost should be offset by the gain from the decline in purchasing power of net amounts owed. This gain results from the Company's substantial use of debt financing and it should be noted that this is strictly an economic concept and that such gains will never be realized.

Statement of Earnings Adjusted for Changing Prices for the Year Ended December 31, 1982
(In Thousands of Average 1982 Dollars)

	Constant Dollar	Current Cost
Earnings Applicable to Common Stock, as Reported	$ 5,677	$ 5,677
Erosion of Common Stockholders' Equity Because of Changing Prices:		
Cost in excess of the original cost of productive facilities not recoverable in rates as depreciation*		
Reported as an additional provision for depreciation	4,537	5,503
Reported as a reduction to net recoverable cost	119	3,286
	4,656	8,789
Excess of specific price changes in the current year over changes in the general level of prices	–	(4,133)
Total amount not specifically recoverable in rates	4,656	4,656
Gain from decline in purchasing power of net amounts owed including preferred stock	(3,119)	(3,119)
Net erosion of common stockholders' equity	1,537	1,537
Earnings Applicable to Common Stock, as Adjusted	$ 4,140	$ 4,140

* At December 31, 1982, constant dollar and current cost of property, plant and equipment, net of accumulated depreciation was $210,289,000 and $242,714,000 respectively, while historical cost or net cost recoverable through depreciation was $125,165,852.

The Statement of Earnings Adjusted for Changing Prices reveals a decrease in reported net income when depreciation expense is adjusted for either general inflation or changes in specific prices. As noted earlier, the regulatory process limits the amount of depreciation expense recoverable through revenues to the historical cost of the Company's investment in utility plant. This level of depreciation produces cash flows which are inadequate to replace property in future years or to preserve the purchasing power of common equity capital invested. As a result, the Company must increasingly rely on the capital markets to provide necessary financial resources. This further exposes the Company to the effects of inflation in the form of increased financing costs. Consequently, the Company incurs a purchasing power loss which can only be overcome by adequate rate relief through the regulatory process. While the rate-making process gives no recognition to the current cost of replacing property, plant, and equipment, based on past practices the Company believes it will be allowed to earn on the increased cost of its net investment when replacement facilities are placed in service.

Five Year Comparison of Selected Supplementary Financial Data
Adjusted for Effects of Changing Prices (In 1982 Dollars)

	Year Ended December 31,				
	1982	1981	1980	1979	1978
	(Dollars in Thousands Except Per Share Amounts)				
Operating revenues:					
Historical, as reported	$80,604	$80,637	$66,694	$51,748	$42,627
Adjusted for general inflation	$80,604	$85,521	$78,071	$68,767	$63,024
Historical cost information adjusted for general inflation*:					
Earnings applicable to common stock					
Historical	$ 5,677				
Adjusted for additional depreciation	$ 1,140				
Earnings per share applicable to common stock					
Historical	$ 2.00				
Adjusted for additional depreciation	$ .40				
Current cost information*:					
Earnings applicable to common stock adjusted for additional depreciation	$ 174				
Earnings per share applicable to common stock adjusted for additional depreciation	$ .06				
Excess of increase in specific prices over increase in general price level	$ 4,133				
General information:					
Gain from decline in purchasing power of net amounts owed*	$ 3,119				
Common stockholders' investment at year end*					
Historical, as reported	$41,794				
Adjusted for general inflation	$41,097				
Dividends declared per share					
Historical, as reported	$ 1.54	$ 1.52	$ 1.52	$ 1.52	$ 1.46
Adjusted for general inflation	$ 1.54	$ 1.61	$ 1.78	$ 2.02	$ 2.16
High bid price per share in December					
Historical, as reported	$ 13.25	$ 10.75	$ 10.25	$ 12.00	$ 14.125
Adjusted for general inflation	$ 13.25	$ 11.40	$ 12.00	$ 15.95	$ 20.88
Average consumer price index	288.9	272.4	246.8	217.4	195.4

*Information not required for years prior to 1982.

AUDITORS' REPORT

To the Stockholders and Board of Directors of Bangor Hydro-Electric Company:

We have examined the balance sheets and statements of capitalization of BANGOR HYDRO-ELECTRIC COMPANY (a Maine corporation) as of December 31, 1982 and 1981, and the statements of income, retained earnings and sources of funds for plant additions for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Bangor Hydro-Electric Company as of December 31, 1982 and 1981, and the results of its operations and its sources of funds for plant additions for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Boston, Massachusetts, **ARTHUR ANDERSEN & CO.**

January 21, 1983.

The REVENUE DOLLAR

where it came from. . .

Residential 38.7¢
Commercial 26.6¢
Industrial Power 25.7¢
Public Agencies 5.0¢
Other Utilities 1.9¢
Street Lighting 1.7¢
Miscellaneous .4¢

where it went. . .

Fuel and Purchased Power 60.7¢
Wages and Employee Benefits 8.6¢
Interest and Preferred Dividends 11.5¢
Taxes 3.5¢
Depreciation and Amortization 4.1¢
Common Dividends 5.4¢
Other Operating Expenses 5.0¢
Retained Earnings 1.2¢

STOCKHOLDERS, STOCK PRICES, and DIVIDENDS

At December 31, 1982 there were 3,416,609 shares of common stock outstanding, an increase of 807,835 over year-end 1981. At year-end there were 9,446 common stockholders, residing in each of the fifty states and some foreign countries. Residents of Maine account for 50% of the Company's stockholders and own 36% of the outstanding shares. Approximately 21% of the stockholders are participating in the dividend reinvestment plan.

The Company's common stock is traded over-the-counter and is quoted on National Association of Securities Dealers Automated Quotations System ("NASDAQ") under the symbol BANG. The table below sets forth the high and low bid prices for the common stock as reported by the National Quotation Bureau Incorporated. The prices shown represent prices between dealers and do not include retail markup, markdown or commission. They may not represent actual transactions.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1982	11 1/4	9 1/2	11 1/8	9 7/8	11 5/8	10 1/8	13 1/4	11 1/2
1981	10 3/8	9 7/8	11 3/8	9 7/8	11 1/2	9 5/8	10 3/4	9 5/8

Cash dividends of $.38 per share on common stock were declared in each quarter of 1981 and the first two quarters of 1982. The rate was increased to $.39 per share for the last two quarters of 1982.

Taxability of Dividends

As indicated in a prior section of this report, the Company estimates that 100 percent of the dividends on both common and preferred stock paid in 1982 will be considered nontaxable for federal income tax purposes.

SIX YEAR STATISTICAL SUMMARY FROM 1977 THROUGH 1982

	1982	1981	1980	1979	1978	1977
Electric Plant (000)						
Total Electric Plant	**$ 164,290**	$ 140,064	$ 108,696	$ 103,704	$ 97,717	$ 86,026
Depreciation Reserve	**39,124**	36,324	33,929	32,459	30,066	28,239
Net Electric Plant	**$ 125,166**	$ 103,740	$ 74,767	$ 71,245	$ 67,651	$ 57,787
Capital Structure (000)						
Bonds	**$ 50,835**	$ 51,005	$ 32,175	$ 32,345	$ 27,515	$ 25,260
Redeemable Preferred Stock	**4,800**	4,900	5,000	5,000	2,000	2,000
Preferred Stock	**4,734**	4,734	4,734	4,734	4,734	4,734
Common Stock	**17,083**	13,044	10,418	9,060	8,949	7,430
Amounts Paid in Excess of Par Value	**16,185**	11,422	9,019	7,836	7,668	4,843
Retained Earnings	**8,526**	7,500	7,880	8,799	8,600	8,027
Total Capitalization	**$ 102,163**	$ 92,605	$ 69,226	$ 67,774	$ 59,466	$ 52,294
Capital Structure Ratios (%)						
Bonds	**49.8**	55.1	46.5	47.7	46.3	48.3
Preferred Stock	**9.3**	10.4	14.1	14.4	11.3	12.9
Common Stock Equity	**40.9**	34.5	39.4	37.9	42.4	38.8
Summary of Operations (000)						
Operating Revenue	**$ 80,342**	$ 80,637	$ 66,694	$ 51,748	$ 42,627	$ 38,294
Fuel & Purchased Power	**52,358**	57,466	45,094	33,055	26,763	22,548
Operation & Maintenance	**11,786**	10,541	9,015	8,344	6,612	6,687
Depreciation & Amortization	**3,500**	3,413	3,111	2,814	2,201	2,095
Taxes	**3,004**	1,499	2,796	2,545	2,643	2,894
Other Income (expenses)	**2,398**	297	(1,478)	(456)	855	407
Bond Interest	**5,680**	4,089	2,514	2,089	1,872	1,718
Net Income	**$ 6,412**	$ 3,926	$ 2,686	$ 3,488*	$ 3,391	$ 2,759
Common Stock						
Number of Stockholders - End of Year	**9,446**	8,263	7,653	7,535	7,479	6,841
Shares Outstanding - End of Year	**3,416,609**	2,608,774	2,083,600	1,821,023	1,789,827	1,486,027
Shares Outstanding - Average	**2,842,862**	2,226,718	1,833,979	1,801,906	1,658,985	1,317,816
Earnings per Common Share - Average	**$ 2.00**	$ 1.43	$ 1.06	$ 1.63*	$ 1.77	$ 1.75
Dividends Declared per Common Share	**$ 1.54**	$ 1.52	$ 1.52	$ 1.52	$ 1.46	$ 1.41
Production Sources in KWH (000)						
Hydro Generation	**229,094**	239,855	228,038	246,052	213,195	245,821
Fuel Generation	**144,014**	157,200	184,186	77,209	15,910	11,498
Purchased Power	**998,180**	985,349	1,010,481	1,112,676	1,108,416	977,400
Total Generated & Purchased	**1,371,288**	1,382,404	1,422,705	1,435,937	1,337,521	1,234,719
Sales in KWH (000)						
Residential	**406,210**	386,673	394,472	383,945	369,989	349,869
Commercial	**296,974**	293,579	226,433	219,196	213,777	198,384
Other	**557,685**	588,501	688,690	723,252	646,765	580,679
Total	**1,260,869**	1,268,753	1,309,595	1,326,393	1,230,531	1,128,932
Total Non-Interruptible Sales	**1,091,595**	1,063,847	1,065,175	1,011,374	959,845	904,107
Revenue from Electric Energy Sales (000)						
Residential	**$ 31,187**	$ 28,654	$ 23,817	$ 18,698	$ 16,171	$ 14,994
Commercial	**21,434**	16,179	13,490	10,433	9,013	8,207
Other	**27,680**	35,250	29,015	22,328	17,152	14,764
Total	**$ 80,301**	$ 80,083	$ 66,322	$ 51,459	$ 42,336	$ 37,965
Residential Customer Data						
Average Number of Customers	**67,341**	66,606	65,768	64,958	64,666	62,371
Kilowatt Hours per Customer	**6,032**	5,805	5,998	5,910	5,721	5,609
Revenue per Customer	**$ 463.12**	$ 430.20	$ 362.14	$ 287.86	$ 250.07	$ 240.40
Revenue per Kilowatt-hour	**7.68¢**	7.41¢	6.04¢	4.87¢	4.37¢	4.29¢

* Includes cumulative effect of change in accounting principle of $1,043,000 ($.58 per share) and $658,729 ($.36 per share) attributable to the amount of fuel that would have been deferred at December 31, 1978 had the current fuel regulations been effective at that date.

BANGOR HYDRO-ELECTRIC COMPANY
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