HELIX TECHNOLOGY CORP
Form 425
July 11, 2005

Filed by Helix Technology Corporation

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under the Securities Act of 1933

and deemed filed pursuant to

Rule 14a-12 under the Securities Exchange Act of 1934

Subject Company: Helix Technology Corporation

(Commission File No.: 0-6866)

This filing relates to a planned business combination between Helix Technology Corporation (Helix) and Brooks Automation, Inc. (Brooks) pursuant to the terms of an Agreement and Plan of Merger, dated as of July 11, 2005 (the Merger Agreement), among Helix, Brooks and Mt. Hood Corporation. The Merger Agreement has been filed with the Securities and Exchange Commission as an exhibit to the Report on Form 8-K filed by Helix on July 11, 2005.

On July 11, 2005, Helix sent the following communication to its customers:

July 11, 2005

Dear Helix Customer:

I m pleased to share with you some important and exciting news about Helix Technology Corporation. As the attached press release indicates, we and Brooks Automation, Inc., announced this morning that we have signed a definitive agreement to merge in a transaction creating one of the semiconductor capital equipment industry s leading providers of integrated subsystem solutions.

This stock-for-stock transaction, which we expect to complete in the fourth calendar quarter, is an attractive growth opportunity for both companies. We believe it will build significant value for both Helix and Brooks stockholders. Moreover, we believe it will significantly enhance our ability to create value for you, by enabling us to offer you an even broader range of automation products, systems, services and solutions.

The combined company will be known as Brooks Automation, will be headquartered in Chelmsford, Mass., and will be 61% and 39% owned by the stockholders of Brooks and Helix, respectively. Upon completion of the transaction, I will become President and Chief Operating Officer of a newly formed Semiconductor Products Group. Joe Bellini, currently EVP and GM of Brooks Software Division, will become President/COO of a newly formed Enterprise

Software Group. Joe and I will be joined in a newly formed Office of the President by Ed Grady, who will continue to serve as Brooks President and Chief Executive Officer.

Like Helix today, the combined enterprise will be strongly committed to maintaining the high levels of customer service and responsiveness for which Helix has long been known. Both Helix and Brooks have solid reputations for outstanding semiconductor equipment products and services. Key to maintaining and building upon that reputation will be our retention and continued support for such respected and valued brands as CTI-Cryogenics, Granville-Phillips and Polycold Systems. The new Brooks will be listed on the NASDAQ national market, where both companies currently trade.

Our two organizations bring unique and outstanding competencies to our respective markets. Brooks is a leading global semiconductor automation solutions company, with fiscal 2004 revenue of $539 million. Helix is a recognized leader in integrated vacuum systems technology and support. The partners in the new company have combined trailing annual sales of more than $720 million. We believe we will have the size, scope, scale and strength as well as the people, technologies, and other capabilities to meet your needs over the long term.

If you have any questions about our merger with Brooks, please contact either me or your usual Helix representative. Meanwhile, on behalf of all of us at Helix, thank you for your continuing business, interest and support.

Sincerely yours,

Jim Gentilcore

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BROOKS AUTOMATION AND HELIX TECHNOLOGY AGREE TO MERGE

Strategic Business Combination Creates a Leading Provider of Integrated Subsystem Solutions to the Semiconductor Capital Equipment Industry

Chelmsford and Mansfield, Mass., July 11, 2005 Brooks Automation, Inc. (Brooks) (Nasdaq: BRKS), a leading provider of hardware and software automation solutions to the global semiconductor industry, and Helix Technology Corporation (Helix) (Nasdaq: HELX), a global leader in the development and application of innovative solutions in the field of vacuum technology, today announced that they have signed a definitive agreement under which Brooks will acquire Helix. The strategic business combination of Brooks and Helix will create a leading provider of integrated subsystem solutions to the semiconductor capital equipment industry, with trailing annual revenues totaling more than $720 million.

Under the terms of the definitive agreement, which was unanimously approved by the boards of directors of both companies, Helix stockholders will receive 1.11 shares of Brooks common stock for each share of Helix common stock. Based on the closing price of Brooks common stock on July 8, 2005, the transaction values Helix at $454 million. Brooks stockholders will own 61% and Helix stockholders will own 39% of the combined company on a fully diluted basis. The transaction is expected to be significantly accretive to Brooks earnings within the first year and to be tax-free to the stockholders of both companies for U.S. federal income tax purposes.

Edward C. Grady, president and chief executive officer of Brooks, will be president and chief executive officer of the combined company, which will be known as Brooks Automation. The combined enterprise will have an Office of the President, which will include James Gentilcore, currently Helix president and chief executive officer, as president and chief operating officer of a newly created Semiconductor Products Group; and Joseph M. Bellini, currently executive vice president and general manager of the Brooks Software Division, as president and chief operating officer of a newly created Enterprise Software Group. The combined company s board of directors will be composed of 10 members, including the 7 current members of the Brooks board and 3 additional members from Helix s current board. In addition, one non-voting emeritus director will be selected by Helix. The combined company will be headquartered in Chelmsford, Massachusetts.

We expect this transaction to be significantly accretive to Brooks earnings in our fiscal year 2006, said Edward C. Grady, president and chief executive officer of Brooks Automation. In addition, we believe we will be able to capture significant operating efficiencies that will position us to accelerate earnings growth and enhance our financial performance throughout business cycles, and thereby benefit all the stakeholders of the combined enterprise. Moreover, by combining the strong, market-leading products of Brooks and Helix, particularly in the vacuum products segment, we believe we will be significantly better positioned to deliver increased value as a major systems supplier to our customers while continuing to build value for our stockholders and employees.

Mr. Grady continued: As semiconductor capital equipment manufacturers increasingly outsource their systems, we have strengthened our leadership position in what we believe is the fastest-growing segment within tool automation, the vacuum modules and systems business. In addition, the strong global service and support capabilities of the Helix organization will substantially increase Brooks abilities in that area.

James Gentilcore, president and chief executive officer of Helix Technology, said: The complementary skills, technologies and product offerings of Brooks and Helix will create a strong platform for delivering unique, integrated vacuum systems to both existing and new customers. Helix s world-class process vacuum technology, thermal management offerings and global services complement Brooks vacuum tool automation modules and systems, enabling the combined enterprise to enhance its customer value proposition and more effectively pursue attractive growth opportunities. As the industry continues to move towards consolidation, it is more critical than ever to have the size and scale required to compete successfully for continued market leadership. We believe this important and exciting transaction is a unique opportunity to create significant value for the stockholders, customers and employees of the combined enterprise.

Completion of the transaction is subject to the applicable Hart-Scott-Rodino waiting period, stockholder approval of each company, and other customary closing conditions, and is expected to occur in the fourth calendar quarter of 2005.

Credit Suisse First Boston LLC acted as financial advisor and Ropes & Gray LLP acted as legal advisor to Brooks. Needham and Company, LLC rendered a fairness opinion to Brooks. Morgan Stanley & Co. Incorporated acted as financial advisor and Palmer & Dodge LLP acted as legal advisor to Helix.

Conference Call and Webcast

Brooks and Helix will host a joint conference call on July 11, 2005, at 9:00 a.m. Eastern (6:00 a.m. Pacific), at which Messrs. Grady and Gentilcore and other senior executives will discuss the transaction and answer questions from analysts, investors and other interested parties.

Conference Call Date:	July 11, 2005
Time:	9:00 a.m. Eastern (6:00 a.m. Pacific)
Dial in #:	(719) 457-2654
Passcode:	9246842

A live Webcast of this conference call will be available in the investor relations section of the Brooks Web site, www.brooks.com, and Helix Web site, www.helixtechnology.com, under the title Brooks and Helix Transaction Announcement Webcast.

An archive of this Webcast will be made available following the conference call, and can be accessed for at least the next twelve months on the section for Webcasts at www.brooks.com and www.helixtechnology.com under the title Brooks and Helix Transaction Announcement Webcast. A telephone replay will also be made available following the call at the following number: (719) 457-0820 beginning at 1:00 p.m. Eastern, Monday, July 11, 2005, and available for 7 days. The passcode for the replay is 9246842.

About Brooks Automation, Inc.

Brooks (Nasdaq: BRKS) is a leading worldwide provider of automation solutions to the global semiconductor and related industries. The company s factory and tool automation hardware, software and professional services can manage every wafer, reticle and data movement in the fab, helping customers improve throughput and yield while reducing both cost and time to market. Brooks products and services are used in virtually every fab in the world as well as by many customers in industries outside of semiconductor manufacturing. For more information, visit www.brooks.com.

About Helix Technology

Helix Technology Corporation (Nasdaq: HELX) is a global leader in the development and application of innovative solutions in the field of vacuum technology. Helix product offerings provide a broad range of components and subsystems that are key to the manufacture of semiconductors, flat panel displays and data storage devices. In addition, Helix s highly regarded Global Support activity provides critical ongoing operational support services to semiconductor device producers throughout the world. For more information, visit www.helixtechnology.com.

Important Additional Information to be Filed with the SEC

In connection with the proposed transaction, Brooks plans to file a Registration Statement on Form S-4 containing a Joint Proxy Statement/Prospectus with the Securities and Exchange Commission (SEC). Security holders of each company and other investors are urged to read the Registration Statement and any other relevant documents filed with the SEC, including the Joint Proxy Statement/Prospectus that will be part of the Registration Statement, when they become available because they will contain important information about Brooks, Helix, the proposed transaction and related matters. The final Joint Proxy Statement/Prospectus will be mailed to stockholders of Brooks and Helix. Security holders and investors of Brooks and Helix will be able to obtain free copies of the Registration Statement and the Joint Proxy Statement/Prospectus, when they become available, as well as other filings with the SEC that will be incorporated by reference into such documents, containing information about Brooks and Helix, without charge, at the SEC s Internet site (http://www.sec.gov). These documents can also be obtained, without charge, by directing a request to Brooks Automation, 15 Elizabeth Drive, Chelmsford, MA 01824, Attention: Investor Relations Dept., telephone: 978-262-2602, or at mark.chung@brooks.com; or to Helix Technology Corporation, Nine Hampshire Street, Mansfield, MA 02048, Attention: Investor Relations Dept., telephone: (508) 337-5111, or at *investors@helixtechnology.com. In addition, investors and security holders may access copies of the documents filed with the SEC by Brooks or Helix on their respective Web sites at www.brooks.com or www.helixtechnology.com.*

Participants in Solicitation

Brooks, Helix and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the solicitation of proxies from Brooks and Helix stockholders in respect of the proposed transaction. Information regarding Brooks participants is available in Brooks Annual Report on Form 10-K for the year ended September 30, 2004, and the proxy statement, dated January 10, 2005, for its 2005 annual meeting of stockholders, which are filed with the SEC. Information regarding Helix s participants is available in Helix s Annual Report on Form 10-K for the year ended December 31, 2004, and the proxy statement, dated May 2, 2005, for its 2005 annual meeting of stockholders, which are filed with the SEC. Additional information regarding interests of such participants will be included in the Registration Statement containing the Joint Proxy Statement/Prospectus to be filed with the SEC.

Cautionary Statement Concerning Forward-Looking Statements. Statements in this press release regarding the proposed transaction, and the expected timetable for completing the transaction, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements concerning the benefits of the proposed transaction, the combined company s status as a premier provider of integrated subsystems solutions primarily for the semiconductor capital equipment market; trends in the semiconductor manufacturing industry, including the trend among semiconductor capital equipment manufacturers to outsource production of certain of their systems and growth trends within the market segments in which the combined company will compete; the strength, profitability and capabilities of the combined company; the ability of the combined company to achieve efficiencies, profitability and growth; the capabilities and market acceptance of the combined company s products going forward; the impact of the acquisition and merger in mitigating the volatility of financial performance; and the importance of size and scale as a factor in competing in the market segments in which the combined company will operate. Such statements are based upon the current beliefs and expectations of Brooks and Helix s management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. Any statements that are not statements of historical fact (including statements containing the words believes, plans, anticipates, expects, estimates and similar expressions) should also be considered to be forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: the ability to obtain governmental approvals of the transaction on the proposed terms and schedule; the failure of Brooks and Helix stockholders to approve the transaction; the ability of Brooks to successfully integrate Helix s operations and employees; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers and employees; and competition and its effect on pricing, spending, third-party relationships and revenues. Additional factors that may affect future results are contained in Brooks and Helix s filings with the SEC, including Brooks Annual Report on Form 10-K for the year ended September 30, 2004 and Helix s Annual Report on Form 10-K for the year ended December 31, 2004, which are available at the SEC s Internet site (http://www.sec.gov). The information set forth herein speaks only as of the date hereof, and Brooks and Helix disclaim any intention or obligation to update any forward-looking statements as a result of developments occurring after the date of this press release.

;10 to the consolidated financial statements, in 2003 FPL Group, Inc. and subsidiaries changed their method of accounting for special-purpose entities to conform to FASB Interpretation No. 46, as revised. Also as discussed in Note 16 to the consolidated financial statements, in 2003 FPL Group, Inc. and subsidiaries changed their method of accounting for asset retirement obligations to conform to Statement of Financial Accounting Standards No. 143.

As discussed in Note 5 to the consolidated financial statements, in 2002 FPL Group, Inc. and subsidiaries changed their method of accounting for goodwill to conform to Statement of Financial Accounting Standards No. 142.

DELOITTE & TOUCHE LLP
Certified Public Accountants

Miami, Florida
February 26, 2004

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FPL GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(millions, except per share amounts)

	Years Ended December 31,		
	2003	**2002**	**2001**
OPERATING REVENUES	$ 9,630	$ 8,173	$ 8,217
OPERATING EXPENSES			
Fuel, purchased power and interchange	4,539	3,576	3,759
Other operations and maintenance	1,626	1,492	1,325
Restructuring and impairment charges		207	
Merger-related			30
Depreciation and amortization	1,105	952	983
Taxes other than income taxes	829	721	711
Total operating expenses	8,099	6,948	6,808
OPERATING INCOME	1,531	1,225	1,409
OTHER INCOME (DEDUCTIONS)			
Interest charges	(379)	(311)	(324)

	Years Ended December 31,		
Preferred stock dividends FPL	(13)	(15)	(15)
Loss on redemption of preferred stock FPL	(9)		
Reserve for leveraged leases		(48)	
Equity in earnings of equity method investees	89	76	81
Other net	42	12	9
Total other deductions net	(270)	(286)	(249)
INCOME FROM OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	1,261	939	1,160
INCOME TAXES	368	244	379
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	893	695	781
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES			
FAS 142, "Goodwill and Other Intangible Assets," net of income taxes of $143		(222)	
FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," net of income taxes of $2	(3)		
NET INCOME	$ 890	$ 473	$ 781
Earnings per share of common stock:			
Earnings per share before cumulative effect of changes in accounting principles	$ 5.03	$ 4.02	$ 4.63
Cumulative effect of changes in accounting principles	$ (0.02)	$ (1.28)	$
Earnings per share	$ 5.01	$ 2.74	$ 4.63
Earnings per share of common stock assuming dilution:			
Earnings per share before cumulative effect of changes in accounting principles	$ 5.02	$ 4.01	$ 4.62
Cumulative effect of changes in accounting principles	$ (0.02)	$ (1.28)	$
Earnings per share	$ 5.00	$ 2.73	$ 4.62
Dividends per share of common stock	$ 2.40	$ 2.32	$ 2.24
Weighted-average number of common shares outstanding:			
Basic	177.5	172.9	168.7
Assuming dilution	178.2	173.3	168.9

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

FPL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(millions)

	December 31,	
	2003	**2002**

	December 31,	
PROPERTY, PLANT AND EQUIPMENT		
Electric utility plant in service and other property	$ 28,445	$ 23,664
Nuclear fuel	463	202
Construction work in progress	1,364	2,639
Less accumulated depreciation and amortization	(9,975)	(8,805)
Total property, plant and equipment net	20,297	17,700
CURRENT ASSETS		
Cash and cash equivalents	129	266
Customer receivables, net of allowances of $25 and $26, respectively	816	642
Other receivables	371	223
Materials, supplies and fossil fuel inventory at average cost	458	448
Deferred clause expenses	348	131
Derivative assets	188	88
Other	160	110
Total current assets	2,470	1,908
OTHER ASSETS		
Special use funds	2,248	1,921
Other investments	810	697
Other	1,110	959
Total other assets	4,168	3,577
TOTAL ASSETS	$ 26,935	$ 23,185
CAPITALIZATION		
Common shareholders' equity	$ 6,967	$ 6,390
Preferred stock of FPL without sinking fund requirements	5	226
Long-term debt	8,723	5,790
Total capitalization	15,695	12,406
CURRENT LIABILITIES		
Commercial paper	708	1,822
Notes payable	212	375
Current maturities of long-term debt	367	105
Accounts payable	542	458
Customers' deposits	357	316
Accrued interest and taxes	226	169
Deferred clause revenues	48	62
Other	893	604
Total current liabilities	3,353	3,911

	December 31,	
OTHER LIABILITIES AND DEFERRED CREDITS		
Asset retirement obligations	2,086	
Accrued asset removal costs	1,902	3,560
Accumulated deferred income taxes	2,155	1,547
Storm and property insurance reserve	327	298
Other	1,417	1,463
Total other liabilities and deferred credits	7,887	6,868
COMMITMENTS AND CONTINGENCIES		
TOTAL CAPITALIZATION AND LIABILITIES	$ 26,935	$ 23,185

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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FPL GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions)

	Years Ended December 31,		
	2003	**2002**	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 890	$ 473	$ 781
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,060	908	983
Nuclear fuel amortization	58		
Cumulative effect of changes in accounting principles	5	365	
Restructuring and impairment charges		207	
Deferred income taxes and related regulatory credit	588	219	(91)
Cost recovery clauses	(186)	135	411
Equity in earnings of equity method investees	(89)	(76)	(102)
Distribution of earnings from equity method investees	68	96	62
Changes in operating assets and liabilities:			
Restricted cash	(22)	232	(260)
Customer receivables	(168)	(6)	6
Other receivables	(133)	(79)	102
Material, supplies and fossil fuel inventory	1	(56)	19
Other current assets	(18)	(86)	(32)
Deferred pension cost	(123)	(63)	(110)
Accounts payable	104	(15)	(91)
Customers' deposits	41	31	31
Accrued interest and taxes	57	9	58
Other current liabilities	90	2	55

	Years Ended December 31,		
Other liabilities	9	(26)	98
Other net	22	68	22
Net cash provided by operating activities	2,254	2,338	1,942
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures of FPL	(1,383)	(1,256)	(1,154)
Independent power investments	(1,461)	(2,103)	(1,977)
Nuclear fuel purchases	(42)		
Capital expenditures of FPL FiberNet, LLC	(8)	(21)	(128)
Contributions to special use funds	(173)	(86)	(77)
Other net	(22)	199	67
Net cash used in investing activities	(3,089)	(3,267)	(3,269)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of long-term debt	2,995	1,770	920
Retirements of long-term debt	(431)	(797)	(87)
Retirements of preferred stock FPL	(228)		
Net change in short-term debt	(1,238)	214	824
Issuances of common stock	73	378	
Dividends on common stock	(425)	(400)	(377)
Other net	(48)	(52)	
Net cash provided by financing activities	698	1,113	1,280
Net increase (decrease) in cash and cash equivalents	(137)	184	(47)
Cash and cash equivalents at beginning of year	266	82	129
Cash and cash equivalents at end of year	$ 129	$ 266	$ 82
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid for interest (net of amount capitalized)	$ 342	$ 311	$ 373
Cash paid for income taxes (net of refunds totaling $85 and $256 in 2003 and 2002, respectively)	$ (77)	$ (9)	$ 433
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Additions to capital lease obligations	$ 41	$ 74	$ 70
Accrual for premium on publicly-traded equity units known as Corporate Units	$	$ 111	$
Additions to debt through the adoption of FIN 46	$ 515	$	$
Additions to property, plant and equipment net through the adoption of FIN 46	$ 346	$	$

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

FPL GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(millions)

	Common Stock(a)						
	Shares	**Aggregate Par Value**	**Additional Paid-In Capital**	**Unearned Compensation**	**Accumulated Other Comprehensive Income (Loss)(b)**	**Retained Earnings**	**Common Shareholders' Equity**
Balances, December 31, 2000	176	$ 2	$ 3,008	$ (220)	$	$ 2,803	
Net income						781	
Dividends on common stock						(377)	
Earned compensation under ESOP			15	15			
Other comprehensive loss					(8)		
Other			2	(6)			
Balances, December 31, 2001	176(c)	2	3,025	(211)	(8)	3,207	$ 6,015
Net income						473	
Issuances of common stock, net of issuance cost of $10	7		378				
Dividends on common stock						(400)	
Earned compensation under ESOP			16	16			
Premium on publicly-traded equity units known as Corporate Units			(111)				
Unamortized issuance cost on publicly-traded equity units known as Corporate Units			(29)				
Other comprehensive income					24		
Other			5	3			
Balances, December 31, 2002	183(c)	2	3,284	(192)	16	3,280	$ 6,390
Net income						890	
Issuances of common stock, net of issuance cost of less than $1	1		73				
Dividends on common stock						(425)	
Earned compensation under ESOP			18	16			
Other comprehensive loss					(12)		
Other			22	(5)			
Balances, December 31, 2003	184(c)	$ 2	$ 3,397	$ (181)	$ 4	$ 3,745	$ 6,967

(a) $0.01 par value, authorized 300,000,000 shares; outstanding 184,264,127, 182,754,905 and 175,854,056 at December 31, 2003, 2002 and 2001, respectively.

(b)

Comprehensive income, which includes net income and other comprehensive income (loss), totaled approximately $878 million, $497 million and $773 million for 2003, 2002 and 2001, respectively.

(c)

Outstanding and unallocated shares held by the Employee Stock Ownership Plan Trust totaled approximately 6 million, 6 million and 7 million at December 31, 2003, 2002 and 2001, respectively.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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FPL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2003, 2002 and 2001

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation FPL Group, Inc.'s (FPL Group) operations are conducted primarily through its wholly-owned subsidiary Florida Power & Light Company (FPL) and its wholly-owned indirect subsidiary FPL Energy, LLC (FPL Energy). FPL, a rate-regulated public utility, supplies electric service to approximately 4.1 million customer accounts throughout most of the east and lower west coasts of Florida. FPL Energy invests in independent power projects through both controlled and consolidated entities and non-controlling ownership interests in joint ventures essentially all of which are accounted for under the equity method.

The consolidated financial statements of FPL Group include the accounts of its respective majority-owned and controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts included in prior years' consolidated financial statements have been reclassified to conform to the current year's presentation. The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Regulation FPL is subject to regulation by the Florida Public Service Commission (FPSC) and the Federal Energy Regulatory Commission (FERC). Its rates are designed to recover the cost of providing electric service to its customers including a reasonable rate of return on invested capital. As a result of this cost-based regulation, FPL follows the accounting practices set forth in Statement of Financial Accounting Standards No. (FAS) 71, "Accounting for the Effects of Certain Types of Regulation." FAS 71 indicates that regulators can create assets and impose liabilities that would not be recorded by non-rate regulated entities. Regulatory assets and liabilities represent probable future revenues that will be recovered from or refunded to customers through the ratemaking process.

FPL's regulatory assets and liabilities are as follows:

	December 31,	
	2003	2002
	(millions)	
Assets (current and noncurrent):		
Deferred clause expenses	$ 348	$ 131
Litigation settlement (noncurrent portion)	$ 89	$ 134
Unamortized debt reacquisition costs	$ 48	$ 41
Deferred Department of Energy assessment	$ 19	$ 24
Losses deferred and amortized	$ 1	$ 2
Liabilities (current and noncurrent):		
Accrued asset removal costs (see Note 16)	$ 1,902	$
Storm and property insurance reserve (see Note 17 Insurance)	$ 327	$ 298

	December 31,			
Asset retirement obligation regulatory expense difference	$	180	$	
Unamortized investment tax credits	$	100	$	120
Derivative liability (see Note 3)	$	93	$	12
Special depreciation and nuclear amortization	$	88	$	140
Deferred clause revenues	$	48	$	62
Deferred regulatory credit income taxes	$	46	$	73
Gains deferred and amortized	$	16	$	12

Cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets allowed to be recovered through the various clauses, include substantially all fuel, purchased power and interchange expenses, conservation and certain environmental-related expenses, certain revenue taxes and franchise fees. Revenues from cost recovery clauses are recorded when billed; FPL achieves matching of costs and related revenues by deferring the net under- or over-recovery. Any under-recovered costs or over-recovered revenues are collected from or returned to customers in subsequent periods. Although deferred clause revenues and expenses do not significantly affect net income, the under- or over-recoveries can significantly affect FPL Group's operating cash flows.

In 2000, a bankruptcy court approved a $222.5 million settlement of a contract dispute between FPL and two qualifying facilities. As approved by the FPSC, FPL is recovering the cost of the settlement through the fuel and purchased power cost recovery clause (fuel clause) and capacity cost recovery clause (capacity clause) over a five-year period which began January 1, 2002. The settlement cost is included in deferred clause expenses and litigation settlement in the table above.

During 2002, FPL reclassified certain amounts that were previously classified within accumulated depreciation to a regulatory liability. The reclassifications were made as a result of the terms of the 2002-2005 rate agreement, as well as other FPSC actions with regard to accumulated nuclear amortization. The amounts reclassified included $170 million of special depreciation and $99 million of nuclear amortization. During 2003 and 2002, FPL credited depreciation expense for $125 million as permitted under the rate agreement. The $125 million annual credit to depreciation went first to offset the $170 million of special depreciation and the remainder to accumulated depreciation. The $99 million of nuclear amortization is being credited to depreciation expense ratably over the remaining life of the plants, based on the term of the existing operating licenses of the plants, at a rate of $7 million per year. The regulatory liability balances at December 31, 2003 and 2002 are included in other liabilities on FPL Group's consolidated balance sheets. See special depreciation and nuclear amortization in table above.

If FPL were no longer subject to cost-based rate regulation, the regulatory assets and liabilities would be written off unless regulators specify an alternative means of recovery or refund. In addition, the FPSC has the authority to disallow recovery of costs that it considers excessive or imprudently incurred. The continued applicability of FAS 71 is assessed at each reporting period.

Various states, other than Florida, have enacted legislation or have state commissions that have issued orders designed to allow retail customers to choose their electricity supplier. This regulatory restructuring is expected to result in a shift from cost-based rates to market-based rates for energy production and other services provided to retail customers. Although the legislation and initiatives vary substantially, common areas of focus include when market-based pricing will be available for wholesale and retail customers, what existing prudently incurred costs in excess of the market-based price will be recoverable and whether generating assets should be separated from transmission, distribution and other assets. It is generally believed transmission and distribution activities would remain regulated. Recently, these state restructuring efforts have diminished and several states have delayed the implementation or reversed previously approved restructuring legislation and rules. Management believes it is unlikely there will be any state actions to restructure the electric industry in Florida in the near future.

The FPSC promotes competition for building major new steam generating capacity by requiring investor-owned electric utilities, such as FPL, to issue a request for proposal (RFP). The RFP process allows independent power producers and others to bid to supply the needed generating capacity. If a bidder has the most cost-effective alternative, meets other criteria such as financial viability and demonstrates adequate expertise and experience in building and/or operating generation capacity of the type proposed, the investor-owned electric utility would seek to negotiate a power purchase agreement with the selected bidder and request that the FPSC authorize the construction of the bidder's generation capacity under the terms of the power purchase agreement. In 2003, FPL issued an RFP for additional power resources of approximately 1,100 mw beginning in June 2007. In January 2004, after evaluating alternative proposals, FPL concluded that its plan to build a new natural gas-fired plant at its Turkey Point site was the best and most cost-effective option to provide the 1,100 mw. In March 2004, FPL plans to file a petition for approval of this alternative with the FPSC. A decision is expected by mid-2004. This alternative will also be subject to approval by a Siting Board (comprised of the governor and cabinet) under the Florida Electrical Power Plant Siting Act.

The FERC has jurisdiction over potential changes which could affect competition in wholesale transactions. In 1999, the FERC issued its final order on regional transmission organizations (RTOs) which, under a variety of structures, provides for the independent operation of transmission systems for a given geographic area. In March 2001, the FERC approved GridFlorida LLC (FPL's, Progress Energy Florida, Inc.'s and Tampa Electric Company's proposed RTO) as the RTO for peninsular Florida. In December 2001, the FPSC determined that the RTO as proposed was not in the best interest of Florida customers and required the companies to develop a modified proposal. In March 2002, FPL, Progress Energy Florida, Inc. and Tampa Electric Company filed a modified RTO proposal with the FPSC changing the structure of GridFlorida LLC (GridFlorida) from a for-profit transmission company to a non-profit independent system operator (ISO). Under the proposal, FPL would continue to own its transmission lines and the ISO would manage them. In September 2002, the FPSC approved many of the aspects of the modified RTO proposal, allowing recovery of GridFlorida's incremental costs through the capacity clause. In October 2002, the State of Florida Office of Public Counsel (Public Counsel) filed a notice of administrative appeal with the Supreme Court of Florida seeking an appeal of the FPSC's order. In June 2003, the Florida Supreme Court dismissed the Public Counsel's appeal of the FPSC's approval of GridFlorida without prejudice concluding that the appeal was premature because the FPSC proceedings had not yet been completed and not all aspects of the FPSC's order on appeal were considered final agency action. The FPSC has restored the GridFlorida docket to active status and in December 2003 issued a procedural order establishing a series of workshops through 2004 to address GridFlorida issues.

In July 2002, the FERC issued a notice of proposed rulemaking to reform public utilities' transmission tariffs and implement a standardized design for electric markets in the United States. The proposed rule would, among other things, require FERC regulated entities, including FPL, that own, control or operate transmission facilities to hire an independent transmission provider, which can be an RTO such as GridFlorida for the operation of those facilities. The proposed rule also will require the independent transmission provider to administer various spot markets for the sale of electricity and ancillary services and to manage congestion on the transmission system using financial congestion rights. Legislators and regulators from the southeast and western states have expressed strong reservations about the FERC's proposal. In April 2003, the FERC issued a White Paper on Wholesale Power Market Platform (White Paper) responding to comments on its proposed rule. The White Paper indicates that the FERC intends to be more flexible on how and when the final rule will be implemented, defer to regional state committees to address significant RTO/ISO features, require regulated utilities to join RTOs or ISOs and require RTOs to implement spot markets. While a moratorium on further action by the FERC was included in the proposed Energy Policy Act, the status of that legislation is uncertain. FPL is evaluating the proposed FERC rule and is currently unable to determine its effects, if any, on FPL's operations.

Revenues and Rates FPL's retail and wholesale utility rate schedules are approved by the FPSC and the FERC, respectively. FPL records unbilled base revenues for the estimated amount of energy delivered to customers but not yet billed. Unbilled base revenues are included in customer receivables and amounted to $133 million and $140 million at December 31, 2003 and 2002, respectively. FPL's operating revenues also include amounts resulting from cost recovery clauses (see Regulation),

franchise fees and gross receipts taxes. Franchise fees and gross receipts taxes are imposed on FPL; however, the FPSC allows FPL to include in rates charged to customers the amount of the gross receipts tax for all customers and the franchise amount for those customers located in the jurisdiction that imposes the fee. Accordingly, franchise fees and gross receipts taxes are reported gross in operating revenues and taxes other than income taxes, respectively, on FPL Group's consolidated statements of income and were approximately $535 million, $478 million and $498 million in 2003, 2002 and 2001, respectively. FPL also collects municipal utility taxes which are reported gross in customer receivables and accounts payable on FPL Group's consolidated balance sheets. FPL Energy's revenue is recorded as electricity is delivered, which is when revenue is earned.

In March 2002, the FPSC approved a new rate agreement regarding FPL's retail base rates, which became effective April 15, 2002 and expires December 31, 2005. The 2002-2005 rate agreement replaced a rate agreement that was effective April 15, 1999 through April 14, 2002. Both agreements include a revenue sharing mechanism for each of the twelve-month periods covered by the agreement, whereby revenues from retail base operations in excess of a stated threshold are required to be shared on the basis of two-thirds refunded to retail customers and one-third retained by FPL. Revenues from retail base operations in excess of a second threshold are required to be refunded 100% to retail customers.

During the term of the 1999-2002 rate agreement, FPL's return on common equity (ROE) was from time to time outside the 10%-12% authorized range. However, the revenue sharing mechanism described above was specified as the appropriate and exclusive mechanism to address that circumstance. The agreement included provisions which limited depreciation rates and accruals for nuclear decommissioning and fossil dismantlement costs to the then approved levels and limited amounts recoverable under the environmental compliance cost recovery clause during the term of that agreement.

The 2002-2005 rate agreement provides for a $250 million annual reduction in retail base revenues allocated to all customers by reducing customers' base rates and service charges by approximately 7%. The revenue sharing thresholds specified in the 2002-2005 rate agreement are as follows:

	Years Ended December 31,			
	2002[(a)]	**2003**	**2004**	**2005**
	(millions)			
$66^{2}/_{3}$% to customers	$ 3,580	$ 3,680	$ 3,780	$ 3,880
100% to customers	$ 3,740	$ 3,840	$ 3,940	$ 4,040

(a) Refund was limited to 71.5% (representing the period April 15 through December 31, 2002) of the revenues from base rate operations exceeding the thresholds.

During the term of the 2002-2005 rate agreement, FPL will not have an authorized regulatory ROE range for the purpose of addressing earnings levels. However, FPL will continue to file monthly earnings surveillance reports with the FPSC and if the reported ROE falls below 10% during the term of the 2002-2005 rate agreement, FPL may petition the FPSC to amend its base rates. The 2002-2005 rate agreement would terminate on the effective date of any final order issued in a proceeding that changes FPL's base rates.

In April 2002, the South Florida Hospital and Healthcare Association and certain hospitals filed a joint notice of administrative appeal with the FPSC and the Supreme Court of Florida appealing the FPSC's approval of the 2002-2005 rate agreement. The appellants contend that the FPSC rushed to judgment and approved the settlement without the benefit of any evidentiary record to support its actions, and requested that the Supreme Court remand the case to the FPSC for additional proceedings. In November 2003, the Florida Supreme Court heard oral arguments in the appeal. There is no specified time by which the Supreme Court of Florida must rule. FPL intends to continue to

vigorously contest this appeal and believes that the FPSC's decision approving the 2002-2005 rate agreement will be upheld.

Under both the 1999-2002 and the 2002-2005 rate agreements, the accrual for the refund associated with the revenue sharing mechanism is computed monthly for each twelve-month period of the rate agreement. At the beginning of each twelve-month period, planned revenues are reviewed to determine if it is probable that the threshold will be exceeded. If so, an accrual is recorded each month for a portion of the anticipated refund based on the relative percentage of year-to-date planned revenues to the total estimated revenues for the twelve-month period, plus accrued interest. In addition, if in any month actual revenues are above or below planned revenues, the accrual is increased or decreased as necessary to recognize the effect of this variance on the expected refund amount. Under the 2002-2005 rate agreement, the annual refund (including interest) is paid to customers as a credit to their February electric bill. At December 31, 2003 and 2002, the accrual for the revenue refund was approximately $3 million and $11 million, respectively.

Electric Plant, Depreciation and Amortization The cost of additions to units of utility property of FPL and FPL Energy is added to electric utility plant. In accordance with regulatory accounting, the cost of FPL's units of utility property retired, less net salvage, is charged to accumulated depreciation. Maintenance and repairs of property as well as replacements and renewals of items determined to be less than units of utility property are charged to other operations and maintenance (O&M) expenses. At December 31, 2003, the electric generating, transmission, distribution and general facilities of FPL represented approximately 44%, 12%, 36% and 8%, respectively, of FPL's gross investment in electric utility plant in service. Substantially all of FPL's properties are subject to the lien of FPL's mortgage, which secures most debt securities issued by FPL. Several of FPL Energy's generating facilities are encumbered by liens against their assets securing various financings. The total balance of FPL Energy's assets serving as collateral was approximately $2.7 billion at December 31, 2003.

Depreciation of FPL's electric property is primarily provided on a straight-line average remaining life basis. FPL includes in depreciation expense a provision for fossil plant dismantlement and nuclear plant decommissioning (see Decommissioning of Nuclear Plant and Dismantlement of Fossil Plant). For substantially all of FPL's property, depreciation studies are performed and filed with the FPSC at least every four years; however, the 2002-2005 rate agreement requires FPL to continue to depreciate its electric property based on rates approved in April 1999 that became effective January 1, 1998. The weighted annual composite depreciation rate for FPL's electric plant in service, including intangible software, but excluding the effects of decommissioning and dismantlement, was approximately 4.3%, 4.4% and 4.4% for 2003, 2002 and 2001, respectively. Further, these rates exclude the depreciation adjustments discussed below. FPL Energy's electric plants in service less salvage value are depreciated using the straight-line method over their estimated useful lives. FPL Energy's effective depreciation rates were 3.9%, 4.0% and 4.0% for 2003, 2002 and 2001, respectively.

The 1999-2002 rate agreement (see Revenues and Rates) allowed FPL at its discretion to recover, as special depreciation, up to $100 million in each year of the three-year agreement period. The additional depreciation recovery was required to be applied to nuclear and/or fossil generating assets based on future depreciation studies. Under the 1999-2002 rate agreement, on a calendar year basis FPL recorded nothing in 2002 and 2001. Under the 2002-2005 rate agreement (see Revenues and Rates), depreciation will be reduced on FPL's plant in service by $125 million in each year 2002 through 2005. These depreciation adjustments are included in earnings and will be allocated to the appropriate assets when FPL files its comprehensive depreciation studies at the end of 2005.

Nuclear Fuel FPL leases nuclear fuel for all four of its nuclear units. Beginning July 1, 2003, the lessor was consolidated by FPL as a result of adopting the Financial Accounting Standards Board's (FASB) Interpretation No. (FIN) 46, "Consolidation of Variable Interest Entities." See Note 10 FPL. For ratemaking purposes, these leases are classified as operating leases. For financial reporting, prior to

July 1, 2003, the capital lease obligation was recorded at the amount due in the event of lease termination. Nuclear fuel lease expense was $31 million for the six months ended June 30, 2003, $71 million in 2002 and $70 million in 2001. Included in this expense was an interest component of $1 million for the six months ended June 30, 2003, $3 million for 2002 and $5 million in 2001. Until July 1, 2003, the lease payments were charged to fuel expense on a unit of production method. Beginning July 1, 2003, the cost of nuclear fuel was capitalized and is being amortized to fuel expense on a unit of production method except for the interest component, which is recorded as interest expense. These charges, as well as a charge for spent nuclear fuel, are recovered through the fuel clause. FPL makes quarterly payments to the lessor for the lease commitments. Under certain circumstances of lease termination, the associated debt ($154 million at December 31, 2003), which was recorded in commercial paper and long-term debt on FPL Group's consolidated balance sheets as a result of the consolidation on July 1, 2003, would become due.

Seabrook Station (Seabrook) has several contracts for the supply, conversion, enrichment and fabrication of nuclear fuel. See Note 17 Contracts. Seabrook's nuclear fuel costs are charged to fuel expense on a unit of production method.

Construction Activity Allowance for funds used during construction (AFUDC) is a non-cash item which represents the allowed cost of capital, including a return on common equity, used to finance construction projects. The portion of AFUDC attributable to borrowed funds is recorded as a reduction of interest expense and the remainder is recorded as other income. The FPSC rules limit the recording of AFUDC to projects that cost in excess of 0.5% of a utility's plant in service balance and require more than one year to complete. The FPSC rules allow construction projects below the 0.5% threshold as a component of rate base. During 2003, AFUDC was capitalized at a rate of 7.84% and amounted to approximately $18 million. See Note 17 Commitments.

FPL's construction work in progress at December 31, 2003 is primarily attributable to the addition of combined cycle generation at its Martin and Manatee sites. Included in construction work in progress are construction materials, progress payments on turbine generators, third party engineering costs and other costs directly associated with the construction of a project. Upon commencement of plant operation, these costs are transferred to electric utility plant in service. At December 31, 2003 and 2002, FPL recorded approximately $111 million and $61 million, respectively, of construction accruals, which are included in other current liabilities on FPL's Group's consolidated balance sheets.

FPL Energy capitalizes project development costs once it is probable that such costs will be realized through the ultimate construction of a power plant. At December 31, 2003 and 2002, FPL Energy's capitalized development costs totaled approximately $9 million and $31 million, respectively, which are included in other assets on FPL Group's consolidated balance sheets. These costs include professional services, permits and other third party costs directly associated with the development of a new project. Upon commencement of construction, these costs either are transferred to construction work in progress or remain in other assets, depending upon the nature of the cost. Capitalized development costs are charged to O&M expenses when the development of a project is no longer probable. See Note 6. In addition to capitalized development costs, FPL Energy capitalizes interest on its construction projects. Interest capitalized on construction projects amounted to $83 million, $90 million and $55 million during 2003, 2002 and 2001, respectively. FPL Energy's interest charges are based on a deemed capital structure of 50% debt for operating projects and 100% debt for projects under construction.

FPL Energy's construction work in progress includes construction materials, prepayments on turbine generators, third party engineering costs, interest and other costs directly associated with the construction and development of the project. Upon commencement of plant operation, these costs are transferred to electric utility plant in service and other property. At December 31, 2003 and 2002, FPL

Energy recorded approximately $174 million and $88 million, respectively, of construction accruals, which are included in other current liabilities on FPL Group's consolidated balance sheets.

Asset Retirement Obligations Effective January 1, 2003, FPL Group adopted FAS 143, "Accounting for Asset Retirement Obligations." See Note 16.

Decommissioning of Nuclear Plant and Dismantlement of Fossil Plant For ratemaking purposes, FPL accrues for the cost of retirement and disposal of its nuclear and fossil plants over the expected service life of each unit based on decommissioning, dismantlement and depreciation studies periodically filed with the FPSC. Beginning January 1, 2003, FPL began recognizing decommissioning and dismantlement liabilities for financial reporting purposes in accordance with FAS 143, which requires that a liability for the fair value of an asset retirement obligation (ARO) be recognized in the period in which it is incurred with the offsetting associated asset retirement cost capitalized as part of the carrying amount of the long-lived asset. The cost of dismantling the majority of FPL's fossil plants is not considered an ARO. Accordingly, the impact of adopting FAS 143 for dismantlement of fossil plants was not significant. Any differences between expense recognized under FAS 143 and the amount recoverable through rates is deferred in accordance with FAS 71 and was approximately $180 million at December 31, 2003. FPL Energy also records a nuclear decommissioning liability for Seabrook in accordance with FAS 143, representing the fair value of its ultimate decommissioning liability as determined by an independent study. See Regulation, Electric Plant, Depreciation and Amortization and Note 16.

Decommissioning of Nuclear Plant Nuclear decommissioning studies are performed at least every five years and are submitted to the FPSC for approval. FPL's latest nuclear decommissioning studies were approved by the FPSC in December 2001 and became effective in May 2002. The changes included, among other things, a reduction in the annual decommissioning expense accrual to $79 million from $85 million. These studies assume prompt dismantlement of Turkey Point Units Nos. 3 and 4 with decommissioning activities commencing in 2012 and 2013, respectively, when the original operating licenses are to expire. Current plans, which are consistent with the term of the original operating licenses, call for St. Lucie Unit No. 1 to be mothballed beginning in 2016, with decommissioning activities to be integrated with the prompt dismantlement of St. Lucie Unit No. 2 beginning in 2023. These studies also assume that FPL will be storing spent fuel on site pending removal to a U.S. government facility. The studies indicate FPL's portion of the ultimate costs of decommissioning its four nuclear units, including costs associated with spent fuel storage, to be $6.4 billion FPL's portion of the ultimate cost of decommissioning its four units, expressed in 2003 dollars, is estimated by the studies to aggregate $2.1 billion. At December 31, 2003, $2,009 million was accrued for nuclear decommissioning, of which $1,907 million was recorded as an ARO, $222 million was recorded as a capitalized net asset related to the ARO, $181 million was recorded as a regulatory liability and $143 million was included in accrued asset removal costs. At December 31, 2002, the provision for nuclear decommissioning included in accrued asset removal costs totaled approximately $1.7 billion. During 2003, in accordance with FAS 143, FPL recognized approximately $101 million of accretion expense related to its nuclear decommissioning obligations, which is included in depreciation and amortization expense. During 2002 and 2001, FPL accrued decommissioning expense of approximately $81 million and $85 million, respectively, which is included in depreciation and amortization expense.

Restricted trust funds for the payment of future expenditures to decommission FPL's nuclear units are included in special use funds. Consistent with regulatory treatment, securities held in the decommissioning funds are carried at market value with market adjustments resulting in a corresponding adjustment to the related liability accounts. See Note 11 Special Use Funds. Contributions to the funds are based on current period decommissioning expense. Additionally, fund earnings, net of taxes, are reinvested in the funds. The tax effects of amounts not yet recognized for tax purposes are included in accumulated deferred income taxes.

Seabrook's current decommissioning funding plan is based on a funding date of 2026. The funding plan is based on a comprehensive nuclear decommissioning study reviewed by the New Hampshire Nuclear Decommissioning Financing Committee (NDFC) in 1999 and is effective for four years. Seabrook filed an updated nuclear decommissioning study in mid-2003 with the NDFC. These studies assume that Seabrook would begin decommissioning in 2026 and that FPL Energy's 88.23% portion of the ultimate cost of decommissioning Seabrook, including costs associated with spent fuel storage, is $1.5 billion, or $553 million, expressed in 2003 dollars. At December 31, 2003, FPL Energy had an ARO related to nuclear decommissioning of $163 million. At December 31, 2002, FPL Energy's provision for nuclear decommissioning was approximately $152 million and is included in accrued asset removal costs on FPL Group's consolidated balance sheets.

The liability is being accreted using the interest method over an assumed license extension period that runs through 2050. In 2003 and 2002, FPL Energy recorded approximately $11 million and $2 million of accretion expense, respectively, related to Seabrook's nuclear decommissioning liability, which is included in depreciation and amortization expense. FPL Energy's 88.23% portion of Seabrook's restricted trust fund for the payment of future expenditures to decommission Seabrook is included in special use funds. Marketable securities held in the decommissioning fund are classified as available for sale and are carried at market value with market adjustments resulting in a corresponding adjustment to other comprehensive income. Fund earnings are reinvested in the funds either on a pretax or after tax basis. The tax effects of amounts not yet recognized for tax purposes are included in accumulated deferred income taxes. See Note 11 Special Use Funds.

Dismantlement of Fossil Plant Fossil fuel plant dismantlement studies are performed and filed with the FPSC at least every four years. FPL's latest fossil fuel plant dismantlement studies became effective January 1, 2003, and indicated an increase in the annual expense from $16 million to $19 million. The studies indicate that FPL's portion of the ultimate cost to dismantle its fossil units is $668 million. At December 31, 2003 and 2002, the provision for fossil dismantlement included in accrued asset removal costs totaled approximately $274 million and $260 million, respectively. FPL recognized fossil dismantlement expense of approximately $19 million in 2003 and $16 million in both 2002 and 2001, which is included in depreciation and amortization expense.

Accrual for Major Maintenance Costs Consistent with regulatory treatment, FPL's estimated nuclear maintenance costs for each nuclear unit's next planned outage are accrued over the period from the end of the last outage to the end of the next planned outage. During 2002, the FPSC authorized deferral and amortization of the estimated costs for inspection and repair of FPL's four reactor vessel heads on a levelized basis over a five-year period beginning in 2002. The accrued liability for nuclear maintenance costs, including those for the reactor vessel heads, at December 31, 2003 and 2002 totaled $52 million and $51 million, respectively, and is included in other current liabilities and other liabilities. Any difference between the estimated and actual costs is included in O&M expenses when known.

FPL Energy's estimated major maintenance costs for each generating unit's next planned outage are accrued over the period from the end of the last outage to the end of the next planned outage. The accrued liability for FPL Energy's major maintenance costs totaled $41 million and $47 million at December 31, 2003 and 2002, respectively, and is included in other liabilities. Any difference between the estimated and actual costs is included in O&M expenses when known.

Cash Equivalents Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less.

Restricted Cash At December 31, 2003 and 2002, FPL Group had approximately $76 million and $36 million, respectively, of restricted cash included in other current assets on FPL Group's consolidated balance sheets, essentially all of which is restricted for debt service payments, construction liabilities and O&M expenses.

Allowance for Doubtful Accounts FPL maintains an accumulated provision for uncollectible customer accounts receivable that is determined by multiplying the previous six months of revenues by a bad debt percentage, which represents an average of the past two years' actual write-offs. Additional amounts are included in the provision to address specific items that are not considered in the calculation described above. FPL Energy and FPL FiberNet, LLC (FPL FiberNet) regularly review collectibility of their receivables and establish a provision for losses when necessary using the specific identification method.

Inventory FPL values materials, supplies and fossil fuel inventory using a weighted-average cost method. FPL Energy's oil and gas inventories are carried at the lower of cost or market using a weighted-average cost basis. FPL Energy's spare parts are carried at the lower of cost or market using specifically identified cost. FPL FiberNet utilizes a weighted-average cost method to value its inventory.

Energy Trading FPL Energy engages in limited energy trading activities to optimize the value of electricity and fuel contracts and generating facilities, as well as to take advantage of expected favorable commodity price movements. In accordance with Emerging Issues Task Force Issue No. (EITF) 02-3, trading contracts that meet the definition of a derivative are accounted for at market value and realized gains and losses from all trading contracts, including those where physical delivery is required, are recorded net for all periods presented. See Note 3.

Storm Fund The storm and property insurance reserve fund (storm fund) provides coverage toward FPL's storm damage costs and possible retrospective premium assessments stemming from a nuclear incident under the various insurance programs covering FPL's nuclear generating plants. Securities held in the fund are carried at market value with market adjustments resulting in a corresponding adjustment to the storm and property insurance reserve. See Note 11 Special Use Funds and Note 17 Insurance. Fund earnings, net of taxes, are reinvested in the fund. The tax effects of amounts not yet recognized for tax purposes are included in accumulated deferred income taxes. Accordingly, at December 31, 2003, the storm and property insurance reserve (approximately $327 million) equals the amount in the storm fund (approximately $200 million) plus related deferred income taxes (approximately $127 million).

Investments in Leveraged Leases Subsidiaries of FPL Group have investments in leveraged leases, which at December 31 of both 2003 and 2002 totaled $106 million, and are included in other investments on FPL Group's consolidated balance sheets. The related deferred tax liabilities totaled $99 million and $108 million at December 31, 2003 and 2002, respectively, and are included in accumulated deferred income taxes. See Note 17 Other Contingencies.

Impairment of Long-Lived Assets FPL Group evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable as described in FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." See Note 6.

Goodwill and Other Intangible Assets Effective January 1, 2002, FPL Group adopted FAS 142, "Goodwill and Other Intangible Assets." Under this statement, the amortization of goodwill is no longer permitted. Instead, goodwill is assessed for impairment at least annually by applying a fair value based test. See Note 5.

Stock-Based Compensation FAS 123, "Accounting for Stock-Based Compensation," encourages a fair value based method of accounting for stock-based compensation. In May 2003, FPL Group announced it would begin using the fair value based method of accounting for stock-based compensation beginning in 2004. Through 2003, however, FPL Group used the intrinsic value based method of accounting as permitted by the statement. Stock-based compensation expense was approximately $19 million, $23 million and $22 million in 2003, 2002 and 2001, respectively. Compensation expense for restricted stock and performance shares is the same under the fair value and

the intrinsic value based methods. The following table illustrates the effect on net income and earnings per share if FPL Group's compensation expense relating to options had been determined using the fair value based method:

	Years Ended December 31,		
	2003	**2002**	**2001**
	(millions, except per share amounts)		
Net income, as reported	$ 890	$ 473	$ 781
Deduct: Stock option-based compensation expense determined under the fair value based, net of related income tax effects	(7)	(7)	(6)
Pro forma net income	$ 883	$ 466	$ 775
Earnings per share:			
Basic as reported	$ 5.01	$ 2.74	4.63
Basic pro forma	$ 4.97	$ 2.69	4.60
Assuming dilution as reported	$ 5.00	$ 2.73	4.62
Assuming dilution pro forma	$ 4.96	$ 2.69	4.59

The weighted-average fair value of options granted was $8.37, $9.33 and $10.17 in 2003, 2002 and 2001, respectively. The fair value of the options granted in 2003, 2002 and 2001 were estimated on the date of the grant using the Black-Scholes option-pricing model with a weighted-average expected dividend yield of 3.97%, 4.04% and 4.23%, a weighted-average expected volatility of 19.99%, 19.18% and 19.01%, a weighted-average risk-free interest rate of 3.48%, 4.99% and 4.98%, respectively, and a weighted-average expected term of 7 year for each of three years.

Retirement of Long-Term Debt Gains and losses that result from differences in FPL's reacquisition cost and the book value of long-term debt which is retired are deferred and amortized to interest expense ratably over the remaining life of the original issue, which is consistent with its treatment in the ratemaking process. See Regulation. FPL Group Capital Inc (FPL Group Capital) recognizes as expense any such excess at time of retirement.

Retirement of Preferred Stock Gains and losses that result from differences in FPL's reacquisition cost and the book value of preferred stock which is retired are recognized as expense at the time of retirement.

Income Taxes Deferred income taxes are provided on all significant temporary differences between the financial statement and tax bases of assets and liabilities. FPL Group's subsidiaries are included in the consolidated federal income tax return and determine their income tax provisions on the "separate return method." The deferred regulatory credit income taxes of FPL represents the revenue equivalent of the difference in accumulated deferred income taxes computed under FAS 109, "Accounting for Income Taxes," as compared to regulatory accounting rules. This amount is being amortized in accordance with the regulatory treatment over the estimated lives of the assets or liabilities which resulted in the initial recognition of the deferred tax amount. Investment tax credits (ITC) for FPL are deferred and amortized to income over the approximate lives of the related property in accordance with the regulatory treatment. Production tax credits generated by certain wind operations of FPL Energy are utilized currently as a reduction of current income taxes payable, unless limited by tax law in which instance they are recorded as deferred tax assets. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. See Regulation and Note 4.

Guarantees FPL Group accounts for payment guarantees and related contracts, for which it or a subsidiary is the guarantor, under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others," which requires that the fair value of guarantees provided to unconsolidated entities entered into after December 31, 2002 be recorded on the balance sheet. See Note 17 Commitments.

Variable Interest Entities (VIEs) In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." The interpretation requires FPL Group to assess the variable interests it holds and to determine if those entities are VIEs. See Note 10.

2. Employee Retirement Benefits

FPL Group sponsors a noncontributory defined benefit pension plan for substantially all employees of FPL Group and its subsidiaries. In addition, FPL Group sponsors a substantially contributory postretirement plan for health care and life insurance benefits (other benefits) for retirees of FPL Group and its subsidiaries meeting certain eligibility requirements who elect participation at the time of retirement.

Benefit Obligations FPL Group uses a measurement date of September 30 for its pension and other benefits plans. The following table provides a reconciliation of the changes in the benefit obligations of the plans:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
	(millions)			
Obligation at October 1 of prior year	$ 1,405	$ 1,353	$ 469	$ 387
Service cost	51	52	7	6
Interest cost	83	84	27	24
Participant contributions			3	2
Plan amendments		(3)		
Seabrook acquisition		48		12
Special termination benefits		4		
Actuarial (gains) losses net	53	(55)	8	68
Benefit payments	(93)	(78)	(26)	(30)
Obligation at September 30	$ 1,499	$ 1,405	$ 488	$ 469

FPL Group's accumulated benefit obligation, which includes no assumption about future compensation levels, for its pension plan at September 30, 2003 and 2002 was $1,449 million and $1,357 million, respectively.

The following table provides the weighted-average assumptions used to determine benefit obligations for the plans. These rates are used in determining net periodic benefit cost in the following year.

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
Discount rate	5.50%	6.00%	5.50%	6.00%
Rate of compensation increase	4.00%	4.50%	4.00%	4.50%

A 9.50% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004. The rate was assumed to decrease gradually to 5.00% by 2012 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in assumed health care cost trend rates would have the following effect:

	One Percentage Point	
	Increase	Decrease
	(millions)	
Effect on other benefits obligation at September 30, 2003	$ 9	$ (9)

Plan Assets The following table provides a reconciliation of the fair value of assets of the plans. Employer contributions and benefits paid in the table below include only those amounts contributed directly to, or paid directly from, plan assets.

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
	(millions)			
Fair value of plan assets at October 1 of prior year	$ 2,388	$ 2,546	$ 45	$ 74
Actual return on plan assets	402	(80)	15	(1)
Employer contributions			18	
Participant contributions			2	2
Benefit payments	(93)	(78)	(26)	(30)
Fair value of plan assets at September 30	$ 2,697	$ 2,388	$ 54	$ 45

FPL Group's current investment policy for the pension plan recognizes the benefit of protecting the plan's funded status, thereby avoiding the necessity of future employer contributions. Its broad objectives are to achieve a high rate of total return with a prudent level of risk taking while maintaining sufficient liquidity and diversification to avoid large losses while preserving capital.

FPL Group's pension plan fund has a relatively conservative strategic asset allocation that targets a mix of 50% equity investments and 50% fixed income investments. The fund's investment strategy emphasizes traditional investments, broadly diversified across the global equity and fixed income markets, utilizing a combination of different investment styles and vehicles. The pension fund's equity investments include direct equity holdings and assets classified as equity commingled vehicles. Similarly, its fixed income investments include direct debt security holdings and assets classified as debt security commingled vehicles. These equity and debt security commingled vehicles include common and collective trusts, pooled separate accounts, registered investment companies or other forms of pooled investment arrangements.

At September 30, the asset allocation for FPL Group's pension fund is as follows:

Asset Category	2003	2002
Equity	16%	15%
Equity commingled vehicles	35	30
Debt securities	32	34
Debt security commingled vehicles	17	21

Asset Category	2003	2002
Total	100%	100%

With regard to its other benefits, FPL Group's policy is to fund claims as incurred during the year through FPL Group contributions, participant contributions and plan assets. The other benefits' assets are invested with a focus on assuring the availability of funds to pay benefits while maintaining sufficient diversification to avoid large losses and preserve capital. The other benefits plan fund has a relatively conservative strategic asset allocation that targets a mix of 55% equity investments and 45% fixed income investments. The fund's investment strategy emphasizes traditional investments, diversified among equity and fixed income investments. The fund's equity investments include direct equity holdings and assets classified as equity commingled vehicles. Similarly, its fixed income investments include direct debt security holdings and assets classified as debt security commingled vehicles. These equity and debt commingled vehicles include common and collective trusts, pooled separate accounts, registered investment companies or other forms of pooled investment arrangements.

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At September 30, the asset allocation for FPL Group's other benefits fund is as follows:

Asset Category	2003	2002
Equity	33%	25%
Equity commingled vehicles	14	16
Debt securities	2	37
Debt security commingled vehicles	51	22
Total	100%	100%

Funded Status The following table reconciles the funded status of the plans to the amounts on the consolidated balance sheets:

	Pension Benefits		Other Benefits	
	2003	2002	2003	2002
	(millions)			
Fair value of plan assets	$ 2,697	$ 2,388	$ 54	$ 45
Benefit obligation	(1,499)	(1,405)	(488)	(469)
Funded status at September 30	1,198	983	(434)	(424)
Unrecognized prior service (benefit) cost	(38)	(43)		
Unrecognized transition (asset) obligation	(23)	(47)	31	35
Unrecognized (gain) loss	(459)	(338)	119	127
Other			6	
Prepaid (accrued) benefit cost at December 31	$ 678	$ 555	$ (278)	$ (262)

Expected Cash Flows FPL Group does not expect to make contributions to the pension plan in calendar year 2004. FPL Group expects to contribute $27 million to the other benefits plan in calendar year 2004.

The following table provides information about benefit payments expected to be paid by the plans for each of the following calendar years:

	Pension Benefits	Other Benefits

	(millions)	
2004	$ 101	$ 33
2005	$ 106	$ 36
2006	$ 114	$ 39
2007	$ 121	$ 43
2008	$ 126	$ 47
2009-2013	$ 693	$ 279

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Net Periodic Cost The following table provides the components of net periodic benefit (income) cost for the plans:

	Pension Benefits			Other Benefits		
	Years Ended December 31,			Years Ended December 31,		
	2003	2002	2001	2003	2002	2001
	(millions)					
Service cost	$ 51	$ 52	$ 48	$ 7	$ 6	$ 6
Interest cost	83	84	82	27	24	24
Expected return on plan assets	(199)	(196)	(185)	(4)	(6)	(7)
Amortization of transition (asset) obligation	(23)	(23)	(23)	3	3	3
Amortization of prior service (benefit) cost	(5)	1	5			
Amortization of (gains) losses	(30)	(32)	(37)	6	1	
Cost of special termination benefits		4				
Net periodic benefit (income) cost	$ (123)	$ (110)	$ (110)	$ 39	$ 28	$ 26

The following table provides the weighted-average assumptions used to determine net periodic benefit (income) cost for the plans:

	Pension Benefits			Other Benefits		
	Years Ended December 31,			Years Ended December 31,		
	2003	2002	2001	2003	2002	2001
Discount rate	6.00%	6.25%	6.75%	6.00%	6.25%	6.75%
Salary increase	4.50%	5.50%	5.50%	4.50%	5.50%	5.50%
Expected long-term rate of return(a)	7.75%	7.75%	7.75%	7.75%	7.75%	7.75%

(a) In developing the expected long-term rate of return on assets assumption for its plans, FPL Group evaluated input from its actuaries as well as information available in the market place. FPL Group considered the 10-year and 20-year historical median returns for a portfolio with an equity/bond asset mix similar to its funds. FPL Group also considered its funds' historical compounded returns. No specific adjustments were made to reflect expectations of future returns.

Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have had the following effect:

One Percentage Point

	One Percentage Point	
	Increase	Decrease
	(millions)	
Effect on total service and interest cost at September 30, 2003	$ 1	$ (1)

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide at least an actuarially equivalent benefit. The Act became law after FPL Group's September 30, 2003 measurement date. As a result of this Act, in January 2004, the FASB issued Staff Position FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Accordingly, FPL Group must decide in the first quarter of 2004 whether to begin

recognizing the effects of the Act or defer recognition, pending authoritative guidance on the appropriate accounting treatment for the federal subsidy.

3. Derivative Instruments

Effective January 2001, FPL Group adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FAS 137 and 138 (collectively, FAS 133). As a result, beginning in January 2001, derivative instruments are recorded on FPL Group's consolidated balance sheets as either an asset or liability (in derivative assets, other assets, other current liabilities and other liabilities) measured at fair value. FPL Group uses derivative instruments (primarily forward purchases and sales, swaps, options and futures) to manage the commodity price risk inherent in fuel and electricity contracts, as well as to optimize the value of power generation assets.

Effective July 2003, FPL Group adopted FAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The statement amends and clarifies financial accounting and reporting for derivative instruments, including derivative instruments embedded in other contracts, and for hedging activities. There was no financial statement impact upon adoption of FAS 149. However, the statement could have a significant future impact on the number of contracts that will be marked to market through earnings.

Effective July 2002, FPL Group adopted EITF 02-03. In accordance with this guidance, trading contracts that meet the definition of a derivative are accounted for at market value and realized gains and losses from all trading contracts, including those where physical delivery is required, are recorded net for all periods presented.

Effective October 2003, FPL Group adopted EITF 03-11, which provides guidance on whether to report realized gains or losses on physically settled derivative contracts not held for trading purposes on a gross or net basis and requires realized gains or losses on derivative contracts that do not settle physically to be reported on a net basis. The guidance in EITF 03-11 was applied to all periods presented and was applied using a revised definition of "physical delivery." Based on changes made by FAS 149, FPL Group believes that where offsetting positions exist at the same location for the same time, the transactions are considered to have been netted and therefore, under these new rules, physical delivery has not occurred. Previously, FPL Group generally reported contracts requiring physical delivery of a commodity on a gross basis, even when an offsetting position existed. Under EITF 03-11, FPL Group reduced operating revenues and fuel, purchased power and interchange expense by $416 million for the nine months ended September 30, 2003 and $134 million and $115 million for the years ended December 31, 2002 and 2001, respectively.

Effective October 2003, FPL Group also adopted the U.S. Securities and Exchange Commission (SEC) staff guidance requiring the realized and unrealized effects of derivative instruments not accounted for as hedges to be reported within the same caption on the statements of income. All periods presented have been reclassified to reflect this guidance. Previously, FPL Group reflected unrealized gains and losses related to non-qualifying hedges in other net and the related realized gains and losses for these instruments within the line items in the statements of income to which they relate. The following table reflects the effects of FPL Group adopting the SEC staff guidance:

	Nine Months Ended September 30, 2003	Years Ended December 31,	
		2002	2001
	(millions)		

	Years Ended December 31,		
Increase (decrease) by line item:			
Operating revenues	$ 7	$ (4)	$ 6
Fuel, purchased power and interchange	$ 6	$ (1)	$ (7)
Other net	$ (1)	$ 3	$ (13)

At FPL, substantially all changes in fair value are deferred as a regulatory asset or liability until the contracts are settled. Upon settlement, any related gains or losses will be passed through the fuel clause and the capacity clause. For FPL Group's non-rate regulated operations, predominantly FPL Energy, changes in the derivatives' fair value are recognized net in operating revenues for trading and managed hedge activities and in the same line item as the related realized amounts for non-qualifying hedges in FPL Group's consolidated statements of income unless hedge accounting is applied. While substantially all of FPL Energy's derivative transactions are entered into for the purposes described above, hedge accounting is only applied where specific criteria are met and it is practicable to do so. In order to apply hedge accounting, the transaction must be designated as a hedge, it must be highly effective and physical delivery must be probable for forecasted commodity transactions. The hedging instrument's effectiveness is assessed utilizing regression analysis at the inception of the hedge and on at least a quarterly basis throughout its life. Hedges are considered highly effective when a correlation coefficient of .8 or higher is achieved. Substantially all of the transactions that FPL Group has designated as hedges are cash flow hedges which have expiration dates through December 2008. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported as a component of other comprehensive income and is reclassified into earnings in the period(s) during which the transaction being hedged affects earnings. The ineffective portion of these hedges flows through earnings in the current period. Settlement gains and losses are included within the line items in the statements of income to which they relate.

Unrealized mark-to-market gains (losses) on derivative transactions for both consolidated subsidiaries and equity method investees are as follows:

	Years Ended December 31,		
	2003	**2002**	**2001**
		(millions)	
Consolidated subsidiaries	$ 16	$ 5	$ 13
Equity method investees	$ 21	$ 5	$ (1)

4. Income Taxes

The components of income taxes, including deferred regulatory credit, are as follows:

	Years Ended December 31,		
	2003	**2002**	**2001**
		(millions)	
Federal:			
Current	$ (181)	$ (70)	$ 432
Deferred	507	283	(76)
ITC	(20)	(20)	(22)
Total federal	306	193	334
State:			
Current	(21)	(22)	55

	Years Ended December 31,		
Deferred	83	73	(10)
Total state	62	51	45
Total income taxes	$ 368	$ 244	$ 379

A reconciliation between the effective income tax rates and the applicable statutory rates is as follows:

	Years Ended December 31,		
	2003	**2002**	**2001**
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (reductions) resulting from:			
State income taxes net of federal income tax benefit	3.2	3.5	2.5
Allowance for other funds used during construction	(0.4)		
Amortization of ITC	(1.6)	(2.1)	(1.9)
Production tax credits FPL Energy	(6.2)	(5.7)	(2.3)
Amortization of deferred regulatory credit income taxes	(0.8)	(1.1)	(1.0)
Adjustments of prior years' tax matters	(0.6)	(3.2)	(0.8)
Preferred stock dividends FPL	0.4	0.6	0.5
Other net	0.2	(1.0)	0.7
Effective income tax rate	29.2%	26.0%	32.7%

The income tax effects of temporary differences giving rise to consolidated deferred income tax liabilities and assets are as follows:

	December 31,	
	2003	**2002**
	(millions)	
Deferred tax liabilities:		
Property-related	$ 2,570	$ 2,010
Investment-related	297	275
Other	632	492
Total deferred tax liabilities	3,499	2,777
Deferred tax assets and valuation allowance:		
Asset writedowns	244	250
Unamortized ITC and deferred regulatory credit income taxes	56	74
Storm and decommissioning reserves	362	331
Post retirement benefits	108	102
Other	601	494
Valuation allowance	(27)	(21)

	December 31,	
Net deferred tax assets	1,344	1,230
Accumulated deferred income taxes	$ 2,155	$ 1,547

Deferred tax liabilities associated with property-and investment-related assets reflect additional first year depreciation as allowed by recent tax legislation. In addition, a capital loss from the disposition in a prior year of an FPL Group Capital subsidiary was limited by Internal Revenue Service (IRS) rules. FPL Group challenged the IRS loss limitation and in March 2002, the IRS conceded the issue. Accordingly, FPL Group recognized approximately $30 million of net tax benefits in the first quarter of 2002.

5. Goodwill and Other Intangible Assets

Effective January 1, 2002, FPL Group adopted FAS 142, "Goodwill and Other Intangible Assets." Under this statement, the amortization of goodwill is no longer permitted. Instead, goodwill is assessed for impairment at least annually by applying a fair value based test. In January 2002, FPL Energy recorded an impairment loss of $365 million ($222 million after tax) as the cumulative effect of adopting FAS 142, eliminating all goodwill previously included in other assets on FPL Group's consolidated balance sheets. Estimates of fair value were determined using discounted cash flow models.

The following table provides reported net income and earnings per share excluding the impact of adopting FAS 142 and the pro forma effect on prior years of excluding goodwill amortization expense:

	Years Ended December 31,	
	2002	2001
	(millions, except per share amounts)	
Net income	$ 473	$ 781
Add back: Cumulative effect of adopting FAS 142, net of income taxes of $143	222	
Net income excluding cumulative effect	695	781
Add back: Goodwill amortization, net of income taxes of $4		6
Adjusted net income	$ 695	$ 787
Earnings per share (basic)	$ 2.74	$ 4.63
Add back: Cumulative effect of adopting FAS 142	1.28	
Earnings per share excluding cumulative effect	4.02	4.63
Add back: Goodwill amortization		0.03
Adjusted earnings per share (basic)	$ 4.02	$ 4.66
Earnings per share (assuming dilution)	$ 2.73	$ 4.62
Add back: Cumulative effect of adopting FAS 142	1.28	
Earnings per share excluding cumulative effect	4.01	4.62
Add back: Goodwill amortization		0.04

	Years Ended December 31,	
Adjusted earnings per share (assuming dilution)	$ 4.01	$ 4.66

6. Restructuring and Impairment Charges

FPL Group recorded charges totaling $207 million ($127 million after tax) in the third quarter of 2002 due to unfavorable market conditions in the wholesale energy and telecommunications markets. As of September 30, 2002, approximately $29 million of the total nonrecurring charges were recognized as liabilities and were included in other current liabilities on FPL Group's consolidated balance sheets. During 2003 and 2002, approximately $24 million and $3 million, respectively, were charged against the liabilities. As of December 31, 2003, a balance of approximately $2 million remains and is included in other current liabilities on FPL Group's consolidated balance sheets.

FPL Energy Over the last several years, there has been a general decline in the wholesale energy markets, including deterioration in forward prices and reduced liquidity, as well as increasing credit concerns that have limited the number of counterparties with which FPL Energy does business. During 2002, FPL Energy conducted a thorough review of its business development plans, organizational structure and expenses. As a result, FPL Energy decided to substantially exit fossil-fueled greenfield merchant power plant development activities, which resulted in the write-off of approximately $67 million ($41 million after tax) of previously capitalized development costs.

An agreement for the supply of gas turbines and other related equipment was renegotiated during 2002 to significantly reduce the commitment to purchase such equipment, resulting in a charge totaling approximately $16 million ($10 million after tax).

FPL Energy also realigned its organizational structure during 2002 to lower general and administrative expenses and took other actions associated with the restructuring. The operating lease agreement with a special purpose entity and the related credit facility used to finance certain turbine purchases were terminated during 2002. Together these resulted in a charge of approximately $20 million ($12 million after tax).

Corporate and Other Due to the changing telecommunications market, FPL FiberNet completed valuation studies to assess the recoverability of its assets and as a result in 2002 recorded charges of approximately $104 million ($64 million after tax). Of this amount, $85 million ($52 million after tax) represents an impairment charge related to property, plant and equipment, the fair value of which was determined based on a discounted cash flow analysis. Additionally, FPL FiberNet decided not to pursue the planned build-out of metro fiber rings in certain cities, and restructuring charges of $19 million ($12 million after tax) were recognized related to the write-off of development costs and inventory.

7. Merger

In July 2000, FPL Group and Entergy Corporation (Entergy) announced a proposed merger, which was approved by the shareholders of the respective companies in December 2000. Subsequently, a number of factors led FPL Group to conclude the merger would not achieve the synergies or create the shareholder value originally contemplated when the merger was announced. As a result, on April 1, 2001, FPL Group and Entergy mutually terminated the merger agreement. Both companies agreed that no termination fee was payable under the terms of the merger agreement as a result of this termination. Each company paid its own merger-related expenses. FPL Group recorded $30 million in merger-related expenses in 2001, of which FPL recorded $26 million ($16 million after tax) and Corporate and Other recorded $4 million ($3 million after tax).

8. Comprehensive Income

The following table provides the components of comprehensive income and accumulated other comprehensive income (loss):

	Net Income	Accumulated Other Comprehensive Income (Loss): Net Unrealized Gains (Losses) On Cash Flow Hedges	Other	Total	Comprehensive Income
		(millions)			
Balances, December 31, 2000		$	$	$	
Net income	$ 781				$ 781
Net unrealized loss on cash flow hedges:					
FAS 133 transition adjustment (net of $6 tax expense)		10		10	10
Effective portion of net unrealized loss (net of $13 tax benefit)		(21)		(21)	(21)
Reclassification adjustment (net of $2 tax expense)		3		3	3
Balances, December 31, 2001		(8)		(8)	$ 773
Net income	$ 473				$ 473
Net unrealized gain on cash flow hedges:					
Effective portion of net unrealized gain (net of $21 tax expense)		33		33	33
Reclassification adjustment (net of $4 tax benefit)		(6)		(6)	(6)
Minimum supplemental executive retirement plan liability adjustment (net of $3 tax benefit)			(4)	(4)	(4)
Net unrealized gain on available for sale securities (net of $1 tax expense)			1	1	1
Balances, December 31, 2002		19	(3)	16	497
Net income	$ 890				$ 890
Net unrealized gain on cash flow hedges:					
Effective portion of net unrealized gain:(a)					
Consolidated subsidiaries (net of $7 tax expense)		11		11	11
Equity method investees (net of $7 tax expense)		11		11	11
Reclassification adjustment:(b)					
Consolidated subsidiaries (net of $23 tax benefit)		(35)		(35)	(35)
Equity method investees (net of $7 tax benefit)		(12)		(12)	(12)
Net unrealized loss on interest rate swaps (net of $3 tax benefit)		(4)		(4)	(4)
Net unrealized gain on available for sale securities (net of $11 tax expense)			17	17	17
Balances, December 31, 2003		$ (10)	$ 14	$ 4	$ 878

(a) Approximately $1 million of FPL Group's accumulated other comprehensive income at December 31, 2003 will be reclassified into earnings within the next 12 months as the hedged fuel is consumed or as electricity is sold.

(b)

Includes amounts reclassified into earnings due to settlements of approximately $44 million and discontinuance of cash flow hedges of approximately $3 million for which the hedged transaction is no longer probable of occurring.

9. Jointly-Owned Electric Plant

The following FPL Group subsidiaries own undivided interests in the jointly-owned facilities described below, and are entitled to a proportionate share of the output from those facilities. Accordingly, each subsidiary includes its proportionate share of the facilities and related revenues and expenses in the appropriate balance sheet and income statement captions. FPL Group's and FPL's share of direct expenses for these facilities are included in fuel, purchased power and interchange, other operations and maintenance, depreciation and amortization and taxes other than income taxes on FPL Group's consolidated statements of income.

FPL FPL owns approximately 85% of St. Lucie Unit No. 2, 20% of the St. Johns River Power Park units and coal terminal and approximately 76% of Scherer Unit No. 4. At December 31, 2003, FPL's proportionate share of the gross investment in these units was $1.178 billion, $328 million and $575 million, respectively; accumulated depreciation was $825 million, $200 million and $355 million, respectively. FPL is responsible for its share of the operating costs, as well as providing its own financing. These costs are included in FPL Group's consolidated statements of income. At December 31, 2003, there was no significant balance of construction work in progress on these facilities. See Note 17 Litigation.

FPL Energy To strengthen its competitive position in the northeast energy market, on November 1, 2002, FPL Energy completed the purchase of an 88.23% undivided interest, or 1,024 megawatts (mw), in Seabrook located in New Hampshire. The transaction was financed through general funds of FPL Group Capital. Since November 1, 2002, FPL Energy's proportionate share of Seabrook's results have been included in FPL Group's consolidated financial statements. The following table summarizes the allocation of purchase price based upon estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (millions):

Property, plant and equipment	$ 774
Decommissioning trust fund	227
Other assets	61
Total assets acquired	1,062
Nuclear decommissioning liability	150
Other liabilities	104
Total liabilities assumed	254
Net assets acquired	$ 808

At December 31, 2003, FPL Energy's proportionate share of the gross investment in property, plant and equipment was $843 million and accumulated depreciation was $49 million. FPL Energy is responsible for its share of the operating costs, as well as providing its own financing. These costs are included in FPL Group's consolidated statements of income. At December 31, 2003, included in gross investment in property, plant and equipment was $35 million of construction work in progress for capital projects underway at Seabrook.

FPL Energy owns approximately 61.78% of Wyman Station Unit No. 4, an oil-fired power plant unit located in Maine. At December 31, 2003, FPL Energy's proportionate share of the gross investment in property, plant and equipment was $75 million and accumulated depreciation was $17 million. FPL Energy is responsible for its share of the operating costs, as well as providing its own

financing. These costs are included in FPL Group's consolidated statements of income. At December 31, 2003, there was no construction work in progress on this power plant.

10. Variable Interest Entities

In January 2003, the FASB issued FIN 46, "Consolidations of Variable Interest Entities." In December 2003, the FASB revised FIN 46, which partially delayed its effective date for public companies until the first quarter of 2004, but permitted companies to choose earlier adoption for some or all of their investments. FIN 46 requires the consolidation of entities which are determined to be VIEs when the reporting company determines that it will absorb a majority of the VIE's expected losses, receive a majority of the VIE's residual returns, or both. The company that is required to consolidate the VIE is called the primary beneficiary. Conversely, the reporting company would be required to deconsolidate VIEs which are currently consolidated when the company is not considered to be the primary beneficiary. Variable interests are contractual, ownership or other monetary interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An entity is considered to be a VIE when its capital is insufficient to permit it to finance its activities without additional subordinated financial support or its equity investors, as a group, lack the characteristics of having a controlling financial interest.

FPL Group consolidated two VIEs as of July 1, 2003, which are discussed below. FPL Group will continue to analyze its other investments and contractual relationships to determine if other entities should be consolidated or deconsolidated in accordance with FIN 46.

FPL FPL leases nuclear fuel for all four of its nuclear units. For ratemaking purposes, these leases are classified as operating leases. For financial reporting, the capital lease obligation was recorded at the amount due in the event of lease termination. FPL makes quarterly payments to the lessor for the lease commitments. The lessor has issued senior secured notes to fund the procurement of nuclear fuel and has established a revolving credit facility to support its commercial paper program. FPL has provided an unconditional guarantee of the payment obligations of the lessor under the notes and credit facility.

FPL Energy In 2000, an FPL Energy subsidiary entered into an operating lease agreement with a special purpose entity (SPE) lessor to lease a 550-mw combined-cycle power generation plant through 2007. At the inception of the lease, the lessor obtained the funding commitments required to complete the acquisition, development and construction of the plant through debt and equity contributions from investors who are not affiliated with FPL Group. At December 31, 2002, the commitment was capped at costs incurred of $380 million. The $380 million commitment included $364 million of debt and $16 million of equity. The conditions to achieve project completion were satisfied as of December 27, 2002, at which time the base lease term began. The FPL Energy subsidiary began making quarterly lease payments on March 31, 2003. The quarterly lease payments are intended to cover the lessor's debt service, which includes a stated yield to equity holders and certain other costs.

The FPL Energy subsidiary has the option to purchase the plant at any time during the remaining lease term for 100% of the outstanding principal balance of the loans and equity contributions made to the SPE, all accrued and unpaid interest and yield, and all other fees, costs and amounts then due and owing pursuant to the provisions of the related financing documents. However, under certain limited events of default, the FPL Energy subsidiary can be required to purchase the plant for the same cost. If the FPL Energy subsidiary does not elect to purchase the plant at the end of the lease term, a residual value guarantee must be paid, and the plant will be sold. Any proceeds received by the lessor in excess of the outstanding debt and equity will be given to the FPL Energy subsidiary. FPL Group Capital has guaranteed certain obligations of the FPL Energy subsidiary under the lease agreement. The equity holders control the lessor.

As a result of the consolidation of the above mentioned VIEs beginning July 1, 2003, FPL Group's consolidated balance sheet line items increased (decreased) by the following amounts:

	FPL Group (millions)
Assets:	
Electric utility plant in service and other property	$ 354
Nuclear fuel	257
Less accumulated depreciation and amortization	265
Materials, supplies and fossil fuel inventory	9
Other	11
Total Assets	$ 366

		FPL Group
Capitalization and Liabilities:		
Retained earnings	$	(5)
Accumulated other comprehensive loss		(7)
Long-term debt		486
Commercial paper		29
Accounts payable		(12)
Other		(125)
Total Capitalization and Liabilities	$	366

The cumulative effect on FPL Group's net income of implementing FIN 46 for the VIEs discussed above is approximately a $3 million loss (net of income taxes of $2 million).

11. Financial Instruments

The carrying amounts of cash equivalents, commercial paper and notes payable approximate fair values. At December 31, 2003 and 2002, other investments of FPL Group included financial instruments of approximately $300 million and $240 million, respectively, the majority of which consist of notes receivable that are carried at estimated fair value or cost, which approximates fair value. See Notes 12 and 17 Other Contingencies.

The following estimates of the fair value of financial instruments have been made using available market information. However, the use of different market assumptions or methods of valuation could result in different estimated fair values.

	December 31, 2003				December 31, 2002			
	Carrying Amount		Estimated Fair Value		Carrying Amount		Estimated Fair Value	
	(millions)							
Long-term debt, including current maturities	$	9,090	$	9,548(a)	$	5,895	$	6,222(a)
Special Use Funds:								
Storm fund	$	200	$	200(a)	$	183	$	183(a)
Nuclear decommissioning fund	$	2,048	$	2,048(a)	$	1,738	$	1,738(a)
Other investments	$	57	$	57(a)	$	41	$	41(a)
Interest rate swaps net unrealized loss	$	(10)	$	(10)(b)	$		$	

(a) Based on quoted market prices for these or similar issues.

(b) Based on market prices provided by external sources or modeled internally.

Special Use Funds The special use funds consist of storm fund and nuclear decommissioning fund assets. Securities held in the special use funds are carried at estimated fair value based on quoted market prices. Nuclear decommissioning funds consist of approximately 45% equity securities and 55% municipal, government, corporate and mortgage- and other asset-backed debt securities with a weighted-average maturity of approximately 7 years. The storm fund primarily consists of municipal debt securities with a weighted-average maturity of approximately

3 years. The cost of securities sold is determined on the specific identification method.

The following tables provide the special use funds approximate gains and losses and proceeds from the sale of securities:

	Years Ended December 31,		
	2003	2002	2001
	(millions)		
Realized gains	$ 26	$ 28	$ 30
Realized losses	$ 20	$ 16	$ 16
Proceeds from sale of securities	$ 2,735	$ 2,524	$ 1,778

	December 31,	
	2003	2002
	(millions)	
Unrealized gains	$ 300	$ 143
Unrealized losses	$ 2(a)	$ 44

(a) At December 31, 2003, FPL Group had 9 securities in an unrealized loss position for greater than twelve months. The total unrealized loss on these securities was less than $1 million and the fair value was approximately $8 million.

Regulations issued by the FERC and the Nuclear Regulatory Commission (NRC) provide general risk management guidelines to protect nuclear decommissioning trust funds and to allow such funds to earn a reasonable return. The FERC regulations set forth in the Code of Federal Regulations prohibit investments in any securities of FPL Group or its subsidiaries, affiliates or associates, excluding investments tied to market indices or other mutual funds. Similar restrictions applicable to the decommissioning trust fund for FPL Energy's Seabrook nuclear plant are contained in the NRC operating license for that facility. Effective December 24, 2003, NRC regulations applicable to NRC

licensees not in cost-of-service environments require similar investment restrictions. The NRC's regulations permit licensees with operating licenses containing conditions restricting the use of decommissioning trust funds to rely on those conditions in lieu of compliance with the new NRC regulations. FPL Energy's Seabrook nuclear plant contains such restrictions in its NRC operating license. With respect to the decommissioning trust fund for FPL Energy's Seabrook nuclear plant, decommissioning trust fund withdrawals are also regulated by the NDFC pursuant to New Hampshire law.

The special use funds are managed by investment managers who must comply with the guidelines and rules of the applicable regulatory authorities, FPL Group and FPL. The special use fund assets are invested in order to optimize the after-tax earnings of these funds, giving consideration to liquidity, risk, diversification and other prudent investment objectives.

Interest Rate Swaps FPL Group and its subsidiaries use a combination of fixed rate and variable rate debt to manage interest rate exposure. Interest rate swaps are used to adjust and mitigate interest rate exposure when deemed appropriate based upon market conditions or when required by financing agreements. At December 31, 2003, FPL Group had the following interest rate swaps:

Notional Amount	Effective Date	Maturity Date	Rate Paid	Rate Received	Estimated Fair Value
(millions)					(millions)

Notional Amount	Effective Date	Maturity Date	Rate Paid	Rate Received	Estimated Fair Value
Fair value hedges FPL Group Capital:					
$150	July 2003	September 2006	variable(a)	7.625%	$ (2)
$150	July 2003	September 2006	variable(b)	7.625%	(2)
$175	December 2003	June 2004	variable(c)	6.875%	1
Total fair value hedges					(3)
Cash flow hedges FPL Energy:					
$103	July 2002	December 2007	4.41%	variable(d)	(4)
$200	August 2003	November 2007	3.557%	variable(d)	(2)
$ 94	December 2003	December 2017	4.245%	variable(e)	(1)
Total cash flow hedges					(7)
Total interest rate hedges					$ (10)

(a) Six-month LIBOR plus 4.9900%

(b) Six-month LIBOR plus 4.9925%

(c) Six-month LIBOR plus 4.8921%

(d) Three-month LIBOR

(e) One-month LIBOR

12. Investments in Partnerships and Joint Ventures

FPL Energy has non-controlling non-majority owned interests in various partnerships and joint ventures, essentially all of which are electricity producers. At December 31, 2003 and 2002, FPL Energy's investment in partnerships and joint ventures totaled approximately $346 million and $310 million, respectively, which is included in other investments on FPL Group's consolidated balance sheets. FPL Energy's interest in these partnerships and joint ventures range from approximately 5.5% to 50%. At December 31, 2003, the principal entities included in FPL Energy's investments in partnerships and joint ventures were Bastrop Energy Partners, LP, Northeast Energy, LP, Cherokee County Cogeneration Partners, LP, Luz Solar Partners LTD., VIII and Luz Solar Partners LTD., IX.

Summarized combined information for these five entities is as follows:

	2003	2002
	(millions)	

	2003	2002
Net income	$ 118	$ 112
Total assets	$ 1,629	$ 1,660
Total liabilities	$ 1,052	$ 1,158
Partners' equity	$ 577	$ 502
FPL Energy's share of underlying equity in the five entities	$ 289	$ 248
Difference between investment carrying amount and underlying equity in net assets(a)	(12)	(10)
FPL Energy's investment carrying amount for the five entities	$ 277	$ 238

(a) The majority of the difference between the investment carrying amount and the underlying equity in net assets is being amortized over the remaining life of the investee's assets.

Certain subsidiaries of FPL Energy provide services to the partnerships and joint ventures, including O&M and business management services. FPL Group's operating revenues for the years ended December 31, 2003, 2002 and 2001 include approximately $16 million, $16 million and $14 million, respectively, related to such services. The receivables at December 31, 2003 and 2002, for these services, as well as for payroll and other payments made on behalf of these investees, were approximately $19 million and $15 million, respectively, and are included in other current assets on FPL Group's consolidated balance sheets.

Notes receivable (long- and short-term) include approximately $107 million and $94 million at December 31, 2003 and 2002, respectively, due from partnerships and joint ventures in which FPL Energy has an ownership interest. The notes receivable mature in 2004 through 2014 and the majority bear interest at variable rates, which ranged from approximately 6.1% to 8.5% at December 31, 2003 and 5.0% to 6.8% at December 31, 2002. Interest income on these notes totaling approximately $6 million, $8 million and $12 million for the years ended December 31, 2003, 2002 and 2001, respectively, is included in other net in FPL Group's consolidated statements of income. The associated interest receivables as of December 31, 2003 and 2002 were less than $1 million, respectively, and are included in other current assets on FPL Group's consolidated balance sheets.

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13. Common Stock

Earnings per share The reconciliation of FPL Group's basic and diluted earnings per share is shown below:

	Years Ended December 31,		
	2003	2002	2001
	(millions, except per share amounts)		
Numerator (basic and assuming dilution):			
Net income	$ 890	$ 473	$ 781
Denominator:			
Weighted-average number of shares outstanding basic	177.5	172.9	168.7
	0.7	0.4	0.2

	Years Ended December 31,		
Performance share awards and shareholder value awards, options and equity units (a)			
Weighted-average number of shares outstanding assuming dilution	178.2	173.3	168.9
Earnings per share:			
Basic	$ 5.01	$ 2.74	$ 4.63
Assuming dilution	$ 5.00	$ 2.73	$ 4.62

(a) Performance share awards and shareholder value awards are included in diluted weighted-average number of shares outstanding based upon what would be issued if the end of the reporting period was the end of the term of the award. Options and equity units (known as Corporate Units) are included in diluted weighted-average number of shares outstanding by applying the treasury stock method.

Shares issuable upon the exercise of stock options and settlement of purchase contracts that form a part of equity units, which were not included in the denominator above due to their antidilutive effect, were approximately 1 million in 2003, 11 million in 2002 and 1.6 million in 2001. See Note 15.

Common Stock Dividend Restrictions FPL Group's charter does not limit the dividends that may be paid on its common stock. As a practical matter, the ability of FPL Group to pay dividends on its common stock is dependent upon dividends paid to it by its subsidiaries, primarily FPL. In 2003, 2002 and 2001, FPL paid, as dividends to FPL Group, its net income available to FPL Group on a one-month lag basis. In addition, during 2002, FPL paid special dividends totaling $375 million to FPL Group. FPL's charter and a mortgage securing FPL's first mortgage bonds contain provisions that, under certain conditions, restrict the payment of dividends and other distributions to FPL Group. These restrictions do not currently limit FPL's ability to pay dividends to FPL Group.

Employee Stock Ownership Plan (ESOP) The employee thrift plans of FPL Group include a leveraged ESOP feature. Shares of common stock held by the trust for the thrift plans (Trust) are used to provide all or a portion of the employers' matching contributions. Dividends received on all shares, along with cash contributions from the employers, are used to pay principal and interest on an ESOP loan held by FPL Group Capital. Dividends on shares allocated to employee accounts and used by the Trust for debt service are replaced with an equivalent amount of shares of common stock at prevailing market prices. For purposes of computing basic and fully diluted earnings per share, ESOP shares that have been committed to be released are considered outstanding.

ESOP-related compensation expense of approximately $25 million, $24 million and $24 million in 2003, 2002 and 2001, respectively, was recognized based on the fair value of shares allocated to employee accounts during the period. Interest income on the ESOP loan is eliminated in consolidation. ESOP-related unearned compensation included as a reduction of shareholders' equity at December 31,

2003 was approximately $170 million, representing approximately 6 million unallocated shares at the original issue price of $29 per share. The fair value of the ESOP-related unearned compensation account using the closing price of FPL Group stock at December 31, 2003 was approximately $383 million.

Long-Term Incentive Plan At December 31, 2003, approximately 9 million shares of common stock were reserved and 7.6 million were available for awards (including outstanding awards) to officers and employees of FPL Group and its subsidiaries under FPL Group's long-term incentive plan. Restricted stock is issued at market value at the date of grant, typically vests within four years and is subject to, among other things, restrictions on transferability. Performance share awards and shareholder value awards are typically payable at the end of a three- or four-year performance period if the specified performance criteria are met.

The changes in awards under the long-term incentive plan are as follows:

Performance Share and	Options

	Restricted Stock	Performance Share and Shareholder Value Awards	Options Number	Options Weighted-Average Exercise Price
Balances, December 31, 2000	81,250	19,000	392,168	$ 39.58
Granted	263,825(a)	617,420(b)	2,009,200(c)	$ 62.04
Paid/released/exercised	(6,600)	(41,492)	(120,380)	$ 39.01
Forfeited	(30,750)	(49,849)	(137,174)	$ 62.61
Balances, December 31, 2001	307,725	545,079	2,143,814	$ 59.19
Granted	127,325(a)	206,605(b)	1,669,625(c)	$ 54.27
Paid/released/exercised	(123,095)	(246,246)	(69,101)	$ 41.19
Forfeited	(13,250)	(86,949)	(99,208)	$ 59.09
Balances, December 31, 2002	298,705	418,489	3,645,130	$ 57.29
Granted	234,345(a)	210,433(b)	1,605,970(c)	$ 56.13
Paid/released/exercised	(112,918)	(169,095)	(118,301)	$ 47.88
Forfeited	(37,444)	(64,181)	(352,387)	$ 55.63
Balances, December 31, 2003	382,688	395,646	4,780,412(d)	$ 57.24

(a) The weighted-average grant date fair value of restricted stock granted in 2003, 2002 and 2001 was $59.00, $54.82 and $60.19 per share, respectively.

(b) The weighted-average grant date fair value of performance share and shareholder value awards in 2003, 2002 and 2001 was $61.33, $56.95 and $70.25 per share, respectively.

(c) The exercise price of each option granted in 2003, 2002 and 2001 equaled the market price of common stock on the date of grant. Accordingly, the weighted-average grant date intrinsic value of all options granted is $0. Stock options typically vest within three years and have a maximum term of ten years.

(d) Of the options outstanding at December 31, 2003, 1,444,204 options were exercisable and had exercise prices ranging from $38.13 to $65.13 per share with a weighted-average exercise price of $57.84 per share and a weighted-average remaining contractual life of 7.3 years. The remainder of the outstanding options had exercise prices ranging from $52.64 to $65.13 per share with a weighted-average exercise price of $57.00 per share and a weighted-average remaining contractual life of 8.4 years.

Other Each share of common stock has been granted a Preferred Share Purchase Right (Right), at an exercise price of $120, subject to adjustment, in the event of certain attempted business combinations. The Rights will cause substantial dilution to a person or group attempting to acquire FPL Group on terms not approved by FPL Group's board of directors.

14. Preferred Stock

FPL Group's charter authorizes the issuance of 100 million shares of serial preferred stock, $0.01 par value. None of these shares are outstanding. FPL Group has reserved 3 million shares for issuance upon exercise of preferred share purchase rights which expire in June 2006. Preferred stock of FPL consists of the following:(a)

	December 31, 2003			December 31,			
	Shares Outstanding(b)		Redemption Price		2003		2002
					(millions)		
Cumulative, $100 Par Value, without sinking fund requirements, authorized 15,822,500 shares:							
$4^{1}/_{2}$% Series		$		$		$	10
$4^{1}/_{2}$% Series A	50,000	$	103.25		5		5
$4^{1}/_{2}$% Series B		$					5
$4^{1}/_{2}$% Series C		$					6
4.32% Series D		$					5
4.35% Series E		$					5
6.98% Series S		$					75
7.05% Series T		$					50
6.75% Series U		$					65
Total preferred stock of FPL	50,000			$	5	$	226

(a) FPL's charter also authorizes the issuance of 5 million shares of subordinated preferred stock, no par value. None of these shares are outstanding. There were no issuances or redemptions of preferred stock in 2002 or 2001. In November 2003, FPL redeemed 2.2 million shares of preferred stock with an aggregate par value of $221 million for redemption prices per share ranging from $101.00 to $103.52. In January 2004, FPL sold 0.2 million shares of $4^{1}/_{2}$% Series V preferred stock with an aggregate par value of $20 million to FPL Group.

(b) FPL's preferred shares are entitled to dividends at the stated rates in preference to FPL's common stockholder, FPL Group. In the event of voluntary liquidation, the outstanding preferred shares have preference over common shares until an amount equal to the current redemption price of all shares has been paid. In the event of involuntary liquidation, outstanding preferred shares shall have preference over common shares until the full par value of all shares and all unpaid accumulated dividends thereon have been paid.

15. Debt

Long-term debt consists of the following:

	December 31,			
		2003		2002
		(millions)		
FPL				
First mortgage bonds:				
Maturing through 2005 $6^{7}/_{8}$%	$	500	$	500

	December 31,	
Maturing 2008 through 2013 4.85% to 6.00%	825	825
Maturing 2025 through 2034 5 7/8% to 7 1/20%	1,000	417
Medium-term notes maturing 2003 through 2006 2.34% to 5.79%	135	70
Pollution control and industrial development series maturing 2023 through 2027 6.70% to 7.15%		24
Pollution control, solid waste disposal and industrial development revenue bonds maturing 2020 through 2029 variable, 1.1% and 1.6% weighted average annual interest rates, respectively	633	609
Unamortized discount	(19)	(11)
Total long-term debt of FPL	3,074	2,434
Less current maturities		70
Long-term debt of FPL, excluding current maturities	3,074	2,364
FPL Group Capital:		
Debentures maturing 2004 through 2009 1 7/8% to 7 5/8%	2,600	1,900
Debentures maturing 2005 variable, 1.45% weighted average annual interest rate	400	
Debentures, related to FPL Group's equity units maturing 2007 and 2008 4.75% to 5.00%	1,081	1,081
Other long-term debt maturing 2013 7.35%	5	5
Term loan facilities maturing 2004 through 2005 variable, 1.82% and 2.04% weighted average annual interest rates, respectively	175	100
Fair value swaps (see Note 11)	(3)	
Unamortized discount	(6)	(7)
Total long-term debt of FPL Group Capital	4,252	3,079
Less current maturities	275	
Less fair value swap on current maturities (see Note 11)	1	
Long-term debt of FPL Group Capital, excluding current maturities	3,976	3,079
FPL Energy:		
Senior secured bonds maturing 2017 through 2023 6.639% to 7.52%	852	382
Senior secured notes maturing 2020 7.11%	115	
Construction term facility maturing 2008 variable, 2.90% weighted average annual interest rate	315	
Other long-term debt maturing 2007 through 2017 variable, 2.32% weighted average annual interest rate	482	
Total long-term debt of FPL Energy	1,764	382
Less current maturities	91	35
Long-term debt of FPL Energy, excluding current maturities	1,673	347
Total long-term debt	$ 8,723	$ 5,790

In January 2004, FPL issued $240 million principal amount of 5.65% first mortgage bonds maturing in February 2035. The proceeds were used to repay a portion of its short-term borrowings and for other corporate purposes.

Minimum annual maturities of long-term debt are approximately $367 million, $1,294 million, $1,351 million, $1,493 million and $1,021 million for 2004, 2005, 2006, 2007 and 2008, respectively.

At December 31, 2003, commercial paper borrowings and notes payable had a weighted-average interest rate of 1.24%. Available lines of credit aggregated approximately $3.0 billion ($2.0 billion for FPL Group Capital and $1.0 billion for FPL) at December 31, 2003, all of which were based on firm commitments. While no direct borrowings were outstanding at December 31, 2003, undrawn letters of credit totaling $85 million were outstanding under the FPL Group Capital credit facilities. No letters of credit were outstanding under the FPL credit facilities.

FPL Group Capital has guaranteed certain debt and other obligations of FPL Energy and its subsidiaries. FPL Group has guaranteed certain payment obligations of FPL Group Capital, including most of those under FPL Group Capital's debt, including all of its debentures and commercial paper issuances, as well as most of its guarantees.

In February 2002, FPL Group sold a total of 11.5 million publicly-traded equity units known as Corporate Units, and in connection with that financing, FPL Group Capital issued $575 million principal amount of 4.75% debentures due February 16, 2007. The interest rate on the debentures is expected to be reset on or after November 16, 2004. The interest rate resets, upon a successful remarketing of the debentures, at the rate the debentures should bear to have an approximate market value of 100.5% of par. Payment of FPL Group Capital debentures is absolutely, irrevocably and unconditionally guaranteed by FPL Group. Each Corporate Unit initially consisted of a $50 FPL Group Capital debenture and a purchase contract pursuant to which the holder will purchase $50 of FPL Group common shares on or before February 16, 2005, and FPL Group will make payments of 3.75% of the unit's $50 stated value until the shares are purchased. Under the terms of the purchase contracts, FPL Group will issue between 9,271,300 and 10,939,950 shares of common stock in connection with the settlement of the purchase contracts (subject to adjustment under certain circumstances) and receive approximately $575 million.

In June 2002, FPL Group sold concurrently a total of 5.75 million shares of common stock and 10.12 million 8% Corporate Units. In connection with the corporate units financing, FPL Group Capital issued $506 million principal amount of 5% debentures due February 16, 2008. The interest rate on the debentures is expected to be reset on or after August 16, 2005. The interest rate resets, upon a successful remarketing of the debentures, at the rate the debentures should bear to have an approximate market value of 100.5% of par. Payment of FPL Group Capital debentures is absolutely, irrevocably and unconditionally guaranteed by FPL Group. Each 8% Corporate Unit initially consisted of a $50 FPL Group Capital debenture and a purchase contract pursuant to which the holder will purchase $50 of FPL Group common shares on or before February 16, 2006, and FPL Group will make payments of 3% of the unit's $50 stated value until the shares are purchased. Under the terms of the purchase contracts, FPL Group will issue between 7,450,344 and 8,940,008 shares of common stock in connection with the settlement of the purchase contracts (subject to adjustment under certain circumstances) and receive approximately $506 million.

Prior to the issuance of FPL Group's common stock, the purchase contracts will be reflected in FPL Group's diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of FPL Group common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares that would be issued upon settlement of the purchase contracts over the number of shares that could be purchased by FPL Group in the market, at the average market price during the period, using the proceeds receivable upon settlement.

16. Asset Retirement Obligations

Effective January 1, 2003, FPL Group adopted FAS 143, "Accounting for Asset Retirement Obligations." This statement requires that a liability for the fair value of an ARO be recognized in the period in which it is incurred with the offsetting associated asset retirement cost capitalized as part of the carrying amount of the long-lived asset. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over its useful life. Changes in the ARO resulting from the passage of time are recognized as an increase in the carrying amount of the liability and as accretion expense, which is included in depreciation and amortization expense in the consolidated statements of income. Prior to January 1, 2003, FPL accrued for decommissioning and dismantlement costs over the life of the related asset through depreciation expense.

Upon adoption of FAS 143, with respect to amounts for nuclear decommissioning, FPL recorded an ARO of approximately $1.8 billion, capitalized a net asset related to the ARO of approximately $231 million and reversed the approximately $1.6 billion it had previously recorded in accumulated depreciation. The difference, approximately $29 million, was deferred as a regulatory liability. FPL's AROs other than nuclear decommissioning were not significant. The adoption of FAS 143 results in timing differences in the recognition of legal asset retirement costs for financial reporting purposes and the method the FPSC allows FPL to recover in rates. Accordingly, any differences between the ongoing expense recognized under FAS 143 and the amount recoverable through rates are deferred in accordance with FAS 71. FPL recorded accretion expense of approximately $101 million for the year ended December 31, 2003. No other adjustments were made to FPL's ARO during the year ended December 31, 2003.

FPL Group has identified but not recognized ARO liabilities related to electric transmission and distribution (T&D) and telecommunications assets resulting from easements over property not owned by FPL Group. These easements are generally perpetual and only require retirement action upon abandonment or cessation of use of the property for the specified purpose. The ARO liability is not estimable for such easements as FPL Group intends to utilize these properties indefinitely. In the event FPL Group decides to abandon or cease the use of a particular easement, an ARO liability would be recorded at that time.

In addition to the amounts recorded by FPL, upon adoption of FAS 143, FPL Energy increased its ARO by approximately $6 million to a total ARO of approximately $164 million and increased its net property, plant and equipment by approximately $6 million. Approximately $152 million of FPL Energy's ARO related to the nuclear decommissioning obligation of Seabrook, and the remainder primarily represented the current estimated fair value of obligations to dismantle its wind facilities located on leased property and certain hydro facilities. The cumulative effect on FPL Energy's net income of adopting FAS 143 was immaterial. FPL Energy recorded accretion expense of approximately $12 million for the year ended December 31, 2003, and approximately $2 million in additional ARO liabilities relating to new wind assets which caused FPL Energy's ARO to increase to approximately $178 million at December 31, 2003.

Had FAS 143 been applied in 2002 and 2001, FPL Group would have recorded AROs of approximately $2.0 billion and $1.7 billion at December 31, 2002 and 2001, respectively. Additionally,

had FPL Group applied FAS 143 in the years ended December 31, 2002 and 2001, FPL Group's net income and earnings per share would have been as follows:

	Years Ended December 31,	
	2002	**2001**
	(millions, except per share amounts)	
Pro forma:		
Net income	$ 473	$ 780
Earnings per share (basic)	$ 2.73	$ 4.62
Earnings per share (assuming dilution)	$ 2.73	$ 4.62
As reported:		
Net income	$ 473	$ 781
Earnings per share (basic)	$ 2.74	$ 4.63
Earnings per share (assuming dilution)	$ 2.73	$ 4.62

Based on FPSC rules and regulations, FPL also accrues for asset removal costs that do not meet the definition of an ARO under FAS 143, or are not estimable as discussed above. In 2003, upon adoption of FAS 143, FPL reclassified the accrued asset removal costs that do not meet the definition of an ARO to a regulatory liability on FPL Group's consolidated balance sheets, which totaled $1,902 million at December 31, 2003. This amount is comprised of $143 million for nuclear decommissioning costs (see Note 1 Decommissioning of Nuclear Plant), $274 million of fossil dismantlement costs (see Note 1 Dismantlement of Fossil Plants) and $1,485 million of costs for transmission, distribution and other property. At December 31, 2002, FPL's accrued asset removal costs included the total provision for nuclear decommissioning of $1,726 million, $260 million of fossil dismantlement and $1,410 million for transmission, distribution and other property. For FPL Energy, accrued asset removal costs totaled $164 million at December 31, 2002.

17. Commitments and Contingencies

Commitments FPL Group and its subsidiaries have made commitments in connection with a portion of their projected capital expenditures. Capital expenditures at FPL consist of the cost for construction or acquisition of additional facilities and equipment to meet customer demand, as well as capital improvements to and maintenance of existing facilities. At FPL Energy, capital expenditures include, among other things, the construction of a gas-fired power plant and nuclear fuel (including capitalized interest). FPL FiberNet's capital expenditures primarily include costs to sustain its fiber

optic network and meet customer specific requirements. Capital expenditures for 2004 through 2008 are estimated to be as follows:

	2004	2005	2006	2007	2008	Total
			(millions)			
FPL:						
Generation:(a)						
New(b)	$ 385	$ 290	$ 265	$ 105	$	$ 1,045
Existing	430	430	355	455	270	1,940
Transmission and distribution	605	700	690	700	715	3,410
Nuclear fuel	95	75	80	100	80	430
General and other	130	155	175	180	165	805
Total	$ 1,645	$ 1,650	$ 1,565	$ 1,540	$ 1,230	$ 7,630
FPL Energy:(c)						
Gas	$ 140	$ 5	$	$	$	$ 145
Nuclear fuel and other	85	35	60	60	15	255
Total	$ 225	$ 40	$ 60	$ 60	$ 15	$ 400
FPL FiberNet	$ 10	$ 10	$ 10	$ 10	$ 10	$ 50

(a) Includes AFUDC of approximately $61 million, $52 million, $39 million, $59 million and $71 million in 2004, 2005, 2006, 2007 and 2008, respectively.

(b) Includes generating structures, transmission interconnection and integration, licensing and AFUDC.

(c) Estimated capital expenditures exclude estimates for the development of new wind projects pending the enactment of legislation reestablishing the production tax credits for new wind facilities.

In addition to estimated capital expenditures listed above, FPL and FPL Energy have long-term contracts related to purchased power and/or fuel (see Contracts below). As of December 31, 2003, FPL Energy had approximately $1.1 billion in firm commitments primarily for natural gas transportation and storage, firm transmission service, nuclear fuel and a portion of its capital expenditures. Additionally, during 2003, a subsidiary of FPL Group Capital committed to lend up to $250 million under a secured loan to a third party, which matures no later than June 30, 2006. As of December 31, 2003, $47 million had been drawn on under the loan. FPL Group has guaranteed certain payment obligations of FPL Group Capital, including most payment obligations under FPL Group Capital's debt.

FPL Group accounts for payment guarantees and related contracts, for which it or a subsidiary is the guarantor, under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others," which requires that the fair value of guarantees provided to unconsolidated entities entered into after December 31, 2002, be recorded on the balance sheet. At December 31, 2003, subsidiaries of FPL Group have guaranteed purchase and sale of power and fuel agreement obligations and debt service payments relating to agreements that existed at December 31, 2002. The term of the guarantees is equal to the term of the related debt, or purchase and sale of power and fuel agreement, with terms ranging from 30 days to 20 years. The maximum potential amount of future payments that could be required under these guarantees at December 31, 2003 was approximately $19 million. At December 31, 2003, FPL Group did not have any liabilities recorded for these guarantees. In certain instances, FPL Group can seek recourse from third parties for 50% of any amount paid under the guarantees.

FPL Energy has guaranteed certain performance obligations of a power plant owned by a wholly-owned subsidiary as part of a power purchase agreement (PPA) that expires in 2027. Under the PPA, the subsidiary could incur market-based liquidated damages for failure to meet contractual minimum outputs. In addition, certain subsidiaries of FPL Energy have contracts that require certain projects to meet annual minimum generation amounts. Failure to meet the annual minimum generation amounts would result in the FPL Energy subsidiary incurring specified liquidated damages. Based on past performance of these and similar projects and current forward prices, management believes that the exposure associated with these guarantees is not material.

Contracts FPL has entered into long-term purchased power and fuel contracts. FPL is obligated under take-or-pay purchased power contracts with JEA (formerly known as the Jacksonville Electric Authority) and with subsidiaries of The Southern Company (Southern Companies) to pay for approximately 1,300 mw of power through mid-2010 and 381 mw thereafter through 2021. FPL also has various firm pay-for-performance contracts to purchase approximately 900 mw from certain cogenerators and small power producers (qualifying facilities) with expiration dates ranging from 2005 through 2026. The purchased power contracts provide for capacity and energy payments. Energy payments are based on the actual power taken under these contracts, and the Southern Companies' contract is subject to minimum quantities. Capacity payments for the pay-for-performance contracts are subject to the qualifying facilities meeting certain contract conditions. FPL has various agreements with several electricity suppliers to purchase an aggregate of up to approximately 1,200 mw of power with expiration dates ranging from 2004 through 2007. In general, the agreements require FPL to make capacity payments and supply the fuel consumed by the plants under the contracts. FPL has medium- to long-term contracts for the transportation and supply of natural gas, coal and oil with various expiration dates through 2028.

FPL Energy has long-term contracts primarily for the transportation and storage of natural gas and firm transmission service with expiration dates ranging from 2005 through 2033. FPL Energy also has several contracts for the supply, conversion, enrichment and fabrication of Seabrook's nuclear fuel with expiration dates ranging from 2004 to 2014.

The required capacity and minimum payments under these contracts are estimated to be as follows:

	2004	2005	2006	2007	2008	Thereafter
			(millions)			
FPL:						
Capacity payments:						
JEA and Southern Companies	$ 180	$ 180	$ 180	$ 190	$ 190	$ 900
Qualifying facilities	$ 350	$ 350	$ 300	$ 300	$ 300	$ 4,000
Other electricity suppliers	$ 100	$ 75	$ 70	$ 20	$	$
Minimum payments, at projected prices:						
Southern Companies energy	$ 60	$ 70	$ 70	$ 70	$ 70	$ 110
Natural gas, including transportation	$ 1,625	$ 1,170	$ 610	$ 275	$ 250	$ 2,920
Coal	$ 40	$ 35	$ 20	$ 15	$	$
Oil	$ 200	$	$	$	$	$
FPL Energy	$ 90	$ 55	$ 45	$ 45	$ 40	$ 625

Charges under these contracts were as follows:

	2003 Charges		2002 Charges		2001 Charges	
	Capacity	Energy/ Fuel	Capacity	Energy/ Fuel	Capacity	Energy/ Fuel
	(millions)					
FPL:						
JEA and Southern Companies	$ 193(a)	$ 164(b)	$ 185(a)	$ 161(b)	$ 197(a)	$ 169(b)
Qualifying facilities	$ 352(c)	$ 141(b)	$ 315(c)	$ 122(b)	$ 314(c)	$ 124(b)
Other electricity suppliers	$ 96(c)	$ 41(b)	$ 81(c)	$ 20(b)	$ 25(c)	$ 6(b)
Natural gas, including transportation	$	$ 1,672(b)	$	$ 858(b)	$	$ 763(b)
Coal	$	$ 56(b)	$	$ 59(b)	$	$ 49(b)
Oil	$	$ 663(b)	$	$ 401(b)	$	$ 294(b)
FPL Energy	$	$ 47	$	$ 18	$	$ 17

(a) Majority is recoverable through the capacity clause.

(b) Recoverable through the fuel clause.

(c) Recoverable through the capacity clause.

Insurance Liability for accidents at nuclear power plants is governed by the Price-Anderson Act, which limits the liability of nuclear reactor owners to the amount of insurance available from both private sources and an industry retrospective payment plan. In accordance with this act, FPL Group maintains $300 million of private liability insurance per site, which is the maximum obtainable, and participates in a secondary financial protection system under which it is subject to retrospective assessments of up to $518 million per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $52 million per incident per year. FPL Group is contractually entitled to recover a proportionate share of such assessments from the owners of minority interests in Seabrook and St. Lucie Unit No. 2, which approximates $12 million and $15 million per incident, respectively. The Price-Anderson Act expired on August 1, 2002 but the liability limitations did not change for plants, including FPL's four nuclear units and Seabrook, with operating licenses issued by the NRC prior to August 1, 2002.

FPL Group participates in nuclear insurance mutual companies that provide $2.75 billion of limited insurance coverage per occurrence per site for property damage, decontamination and

premature decommissioning risks at its nuclear plants. The proceeds from such insurance, however, must first be used for reactor stabilization and site decontamination before they can be used for plant repair. FPL Group also participates in an insurance program that provides limited coverage for replacement power costs if a nuclear plant is out of service for an extended period of time because of an accident. In the event of an accident at one of FPL Group's or another participating insured's nuclear plants, FPL Group could be assessed up to $93 million in retrospective premiums. FPL Group is contractually entitled to recover a proportionate share of such assessments from the owners of minority interests in Seabrook and St. Lucie Unit No. 2, which approximates $3 million and $3 million, respectively.

In the event of a catastrophic loss at one of FPL Group's nuclear plants, the amount of insurance available might not be adequate to cover property damage and other expenses incurred. Uninsured losses, to the extent not recovered through rates in the case of FPL, would be borne by FPL Group and could have a material adverse effect on FPL Group's financial condition and results of operations.

FPL self-insures its T&D property due to the high cost and limited coverage available from third-party insurers. As approved by the FPSC, FPL maintains a storm and property insurance reserve for uninsured property storm damage or assessments under the nuclear insurance program. At December 31, 2003, the storm and property insurance reserve (approximately $327 million) equals the amount in the storm fund (approximately $200 million) plus related deferred income taxes (approximately $127 million). The current annual accrual approved by the

FPSC is approximately $20 million. Recovery from customers of any losses in excess of the storm and property insurance reserve will require the approval of the FPSC. FPL's available lines of credit provide additional liquidity in the event of a T&D property loss. In addition, FPL Group is self-insured for FPL FiberNet's fiber-optic cable located throughout Florida.

Litigation In 1999, the Attorney General of the United States, on behalf of the U.S. Environmental Protection Agency (EPA), brought an action against Georgia Power Company and other subsidiaries of The Southern Company for certain alleged violations of the Clean Air Act. In May 2001, the EPA amended its complaint. The amended complaint alleges, among other things, that Georgia Power Company constructed and is continuing to operate Scherer Unit No. 4, in which FPL owns a 76% interest, without obtaining proper permitting, and without complying with performance and technology standards as required by the Clean Air Act. It also alleges that unspecified major modifications have been made at Scherer Unit No. 4 that require its compliance with the aforementioned Clean Air Act provisions. The EPA seeks injunctive relief requiring the installation of best available control technology and civil penalties of up to $25,000 per day for each violation from an unspecified date after June 1, 1975 through January 30, 1997 and $27,500 per day for each violation thereafter. Under a proposed EPA rule, the maximum penalty would increase to $32,500 per day for each violation after publication of the final rule. Georgia Power Company has answered the amended complaint, asserting that it has complied with all requirements of the Clean Air Act, denying the plaintiff's allegations of liability, denying that the plaintiff is entitled to any of the relief that it seeks and raising various other defenses. In June 2001, a federal district court stayed discovery and administratively closed the case pending resolution of the EPA's motion for consolidation of discovery in several Clean Air Act cases that was filed with a Multi-District Litigation (MDL) panel. In August 2001, the MDL panel denied the motion for consolidation. In September 2001, the EPA moved that the federal district court reopen this case for purposes of discovery. Georgia Power Company opposed that motion asking that the case remain closed until the Eleventh Circuit Court of Appeals rules on the Tennessee Valley Authority's (TVA) appeal of an EPA administrative compliance order relating to legal issues that are also central to this case. In August 2002, the federal district court denied without prejudice the EPA's motion to reopen. In June 2003, the Eleventh Circuit issued its order dismissing the TVA's appeal because it found the provision of the Clean Air Act allowing the EPA to issue binding administrative compliance orders was unconstitutional, and hence found that the

TVA order was a non-final order that courts of appeal do not have jurisdiction to review. In September 2003, the Eleventh Circuit denied the EPA's motion for rehearing, and the EPA is now evaluating whether to seek review of the Eleventh Circuit decision by the U.S. Supreme Court. The EPA has not yet moved to reopen the Georgia Power Company case.

In 2001, J. W. and Ernestine M. Thomas, Chester and Marie Jenkins, and Ray Norman and Jack Teague, as Co-Personal Representatives on behalf of the Estate of Robert L. Johns, served FPL Group, FPL, FPL FiberNet, FPL Group Capital and FPL Investments, Inc. (FPL Investments) as defendants in a civil action filed in the Florida circuit court. This action is purportedly on behalf of all property owners in Florida (excluding railroad and public rights of way) whose property is encumbered by easements in favor of FPL, and on whose property defendants have installed or intend to install fiber-optic cable which defendants currently lease, license or convey or intend to lease, license or convey for non-electric transmission or distribution purposes. The lawsuit alleges that FPL's easements do not permit the installation and use of fiber-optic cable for general communication purposes. The plaintiffs have asserted claims for unlawful detainer, unjust enrichment and constructive trust and seek injunctive relief and compensatory damages. In May 2002, plaintiffs filed an amended complaint, adding allegations regarding the installation of wireless communications equipment on some easements, and adding a claim for declaratory relief. In August 2002, Hazel and Lamar Jenkins were substituted for Chester and Marie Jenkins as plaintiffs. Defendants filed an answer and affirmative defenses to the amended complaint in August 2002. The parties are now pursuing discovery. In September 2003, FPL Group Capital and FPL Investments moved for summary judgment as to all claims asserted against them. Additionally, in October 2003, FPL Group moved for summary judgement as to all claims asserted against it. These motions have been granted and FPL Group, FPL Group Capital and FPL Investments have been dismissed from this lawsuit. The court is currently scheduled to hear argument on whether this case will proceed as a class action sometime in late June 2004.

In August 2001, Florida Municipal Power Agency (FMPA) filed with the U.S. Court of Appeals for the District of Columbia (DC Circuit) a petition for review asking the DC Circuit to reverse and remand orders of the FERC denying FMPA's request for credits for transmission facilities owned by FMPA members. The transmission credits sought by FMPA would offset the transmission charges that FPL bills FMPA for network transmission service to FMPA's member cities. FMPA member cities have been taking network transmission service under FPL's open access transmission tariff since 1996. In the orders appealed by FMPA, FERC ruled that FMPA would be entitled to credits for any FMPA facilities that were "integrated" with the FPL transmission system. Based on the evidence submitted, FERC concluded that none of the FMPA facilities met the integration test and, therefore, FMPA was not entitled to credits against FPL's charges for transmission service. In January 2003, the DC Circuit upheld FERC's order denying FMPA credits for its facilities; in March 2003, the DC Circuit denied FMPA's rehearing request of the DC Circuit's decision; and in October 2003, the U.S. Supreme Court denied FMPA's petition for review of the DC Circuit's decision. FMPA also has requested that FERC decide the crediting issue again in a separate FERC proceeding. That proceeding dates back to a filing by FPL in 1993 of a comprehensive restructuring of its then-existing tariff structure. All issues in that case are settled except for three issues reserved by FMPA, one of which is the crediting issue. FPL previously estimated the exposure for the crediting issue at $65 million.

With the passage of time, the exposure has grown to $71 million as of December 31, 2003. However, in December 2003, FERC issued a ruling on the three reserved issues. With respect to the crediting issue, FERC stated that it had previously determined that FMPA was not entitled to credits for its facilities in the related proceeding discussed above and saw no persuasive reason to revisit that determination in this proceeding. With respect to the second issue, FERC directed FPL to make a compliance filing of a proposed rate schedule that does not include those facilities of FPL that fail to meet the same integration test applied to the FMPA facilities. With respect to the third reserved issue, FERC affirmed its previous ruling against FMPA. In January 2004, FMPA requested a "conditional rehearing on the Commission's failure to order rate credits solely in the event that Commission does not adequately reduce FPL's rate base to

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achieve comparability." On January 30, 2004, FPL filed an answer to FMPA's request for rehearing, asking that the request be denied. Unless FERC accepts and responds favorably to FMPA's rehearing request, FPL's exposure will be limited to refunds arising from the exclusion of FPL facilities that fail to meet the integration test from its rate schedule.

In February 2003, Scott and Rebecca Finestone brought an action on behalf of themselves and their son Zachary Finestone in the U.S. District Court for the Southern District of Florida alleging that their son has developed cancer (neuroblastoma) as a result of the release and/or dissipation into the air, water, soil and underground areas of radioactive and non-radioactive hazardous materials, including strontium 90, and the release of other toxic materials from FPL's St. Lucie nuclear power plant. The complaint includes counts against FPL for strict liability for allegedly engaging in an ultra-hazardous activity and for alleged negligence in operating the plant in a manner that allowed emissions of the foregoing materials and failing to limit its release of nuclear fission products as prescribed by federal and state laws and regulations. The plaintiffs seek damages in excess of $1 million. FPL moved to dismiss the complaint. In September 2003, the court entered an order denying FPL's motion to dismiss. Following FPL's motion for reconsideration in the Blake and Lowe lawsuit, discussed below, the court entered a similar order vacating its order denying the motion to dismiss the count for strict liability and upon reconsideration granted FPL's motion to dismiss the count for strict liability.

In May 2003, Tish Blake and John Lowe, as personal representatives of the Estate of Ashton Lowe, on behalf of the estate and themselves, as surviving parents, brought an action in the U.S. District Court for the Southern District of Florida alleging that their son developed cancer (medulo-blastoma) as a result of the release and/or dissipation into the air, water, soil and underground areas of radioactive and non-radioactive hazardous materials, including strontium 90, and the release of other toxic materials from FPL's St. Lucie nuclear power plant. The allegations, counts and damages demanded in the complaint are virtually identical to those contained in the Finestone lawsuit described above. FPL moved to dismiss the complaint. In September 2003, the court entered an order denying FPL's motion to dismiss. FPL moved for reconsideration of the court's order as to the count for strict liability. The court then entered an order vacating the order denying the motion to dismiss as to the count for strict liability, and upon reconsideration granted FPL's motion to dismiss the count for strict liability.

In March 2003, James J. and Lori Bradstreet brought an action on behalf of themselves and their son, Matthew Bradstreet, in the Circuit Court of the 18th Judicial Circuit in and for Brevard County, Florida, against Aventis Pasteur and a number of other named and unnamed drug manufacturing and distribution companies, the American Dental Association, the Florida Dental Association, FPL and the Orlando Utilities Commission (OUC), alleging that their son has suffered toxic neurological effects from mercury poisoning. An amended complaint was filed in May 2003. The sources of mercury exposure are alleged to be vaccines containing a preservative called thimerosal that were allegedly manufactured and distributed by the drug companies, mercury amalgam dental fillings, and emissions from FPL and OUC power plants in Florida, including Brevard County. The complaint includes counts against all defendants for civil battery and against FPL for alleged negligence in operating the plants such that the son was exposed to mercury and other heavy metals emissions. The damages demanded from FPL are for injuries and losses allegedly suffered by the son as a result of his exposure to the plants' mercury emissions and the parents' alleged pain and suffering, medical expenses, loss of wages, and loss of their son's services and companionship. No amount of damages is specified. FPL has moved to dismiss the complaint. In July 2003, the Bradstreets brought an identical action in the same court on behalf of themselves and their daughter, Elizabeth Bradstreet. FPL has moved to dismiss the complaint.

In June 2003, Monty and Kathryn Wooldridge brought an action on behalf of themselves and their son, Kevin Allen Wooldridge, in the Circuit Court of the 9th Judicial Circuit in and for Orange County, Florida, against Aventis Pasteur and a number of other named and unnamed drug manufacturing and distribution companies, the American Dental Association, the Florida Dental Association, FPL and the

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OUC, alleging that their son has suffered toxic neurological effects from mercury poisoning. The allegations, counts and damages demanded in the complaint are virtually identical to those contained in the Bradstreet lawsuits described above. FPL has moved to dismiss the complaint.

In August 2003, Pedro C. and Emilia Roig brought an action on behalf of themselves and their son, Pedro Anthony Roig, in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida (the state court), which was removed in October 2003 to the U.S. District Court for the Southern District of Florida, against Aventis Pasteur and a number of other named and unnamed drug manufacturing and distribution companies and FPL, alleging that their son has suffered toxic neurological effects from mercury poisoning. The allegations, counts and damages demanded in the complaint with respect to FPL are virtually identical to those contained in the Bradstreet and Wooldridge lawsuits described above. The plaintiffs have moved to remand the action back to the state court. The motion has been briefed by both parties and is pending in the U.S. District Court, which has stayed all discovery in the action. FPL will be moving to dismiss the case once the remand motion is decided.

In December 2003, Edward and Janis Shiflett brought an action on behalf of themselves and their son, Phillip Benjamin Shiflett, in the Circuit Court of the 18th Judicial Circuit in and for Brevard County, Florida, against Aventis Pasteur and a number of other named and unnamed drug manufacturing and distribution companies, FPL and the OUC, alleging that their son has suffered toxic neurological effects from mercury poisoning. The allegations, counts and damages demanded in the complaint with respect to FPL are virtually identical to those contained in the Bradstreet, Wooldridge and Roig lawsuits. FPL anticipates removing the action to the U.S. District Court for the Middle District of Florida, and will be moving to dismiss the case.

In January 2004, the Center For Biological Diversity, Inc. (Center) filed a lawsuit against FPL Group, FPL Energy and its subsidiaries ESI Bay Area GP, Inc., Green Ridge Power LLC and Altamont Power, LLC, as well as other defendants, in the U.S. District Court for the Northern District of California. The complaint alleges violations of certain sections of the California Business and Professions Code, unjust enrichment and certain violations of the Lanham Act. The complaint alleges that numerous birds have died as the result of collisions with wind turbines owned and operated by subsidiaries of FPL Energy in the Altamont area. The complaint requests injunctive relief, restitution, penalties, forfeiture of the wind turbines, disgorgement of profits and attorneys' fees. As of February 26, 2004, none of the FPL Group-related entities named in the lawsuit have been served with this complaint.

On February 13, 2004, Albert Litter Studios, Inc. instituted an action against FPL in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida, seeking damages on behalf of itself, and purportedly on behalf of all other similarly situated commercial entities in Florida. The plaintiff asserts that FPL's intentional use of allegedly defective thermal demand meters has resulted in overcharging it and certain other commercial customers millions of dollars and constitutes an unfair and/or deceptive practice in violation of the Florida Deceptive and Unfair Trade Practices Act, breach of an implied contract, and in breach of a duty of good faith and fair dealing. The complaint seeks damages in excess of $15,000, representing the amount of the alleged overcharges, interest, and such other relief as the court may order. FPL had determined in 2002 that, based on sample testing of the approximately 3,900 1V thermal demand meters in service, the demand component of its 1V meter population was exceeding allowable tolerance levels established by FPSC rules. In 2002, FPL proposed to replace and test all of the 1V meters in service and to issue refunds, as appropriate, within certain parameters. FPL was given administrative approval from the FPSC staff to proceed with the replacement of the 1V meters. By early 2003, all 1V meters had been replaced. Testing of all 1V meters disclosed that approximately 15% of the 3,900 meters were outside of allowed tolerances, with 10% under-registering and 5% over-registering electricity usage. In November 2003, the FPSC, as proposed agency action, approved a method for testing the meters and calculating refunds. On

December 10, 2003, Southeastern Utility Services, Inc., on behalf of several commercial customers, filed a protest to the proposed agency action and requested a hearing. Southeastern Utility Services, Inc. alleges that, among other things, the proposed method for computing the amount of the refund is flawed. Discovery is proceeding and no hearing date has been set.

FPL Group believes that it has meritorious defenses to the pending litigation discussed above and is vigorously defending the lawsuits. Management does not anticipate that the liabilities, if any, arising from the proceedings would have a material adverse effect on the financial statements.

In January 2002, Roy Oorbeek and Richard Berman filed suit against FPL Group (as an individual and nominal defendant); all its current directors (except James L. Camaren, Michael H. Thaman and Frank G. Zarb); certain former directors; and certain current and former officers of FPL Group and FPL, including James L. Broadhead, Lewis Hay III, Dennis P. Coyle, Paul J. Evanson and Lawrence J. Kelleher. In March 2002, William M. Klein, by Stephen S. Klein under power of attorney, on behalf of himself and all others similarly situated, filed suit against FPL Group (as nominal defendant); all its current directors (except James L. Camaren, Michael H. Thaman and Frank G. Zarb); certain former directors; and certain current and former officers of FPL Group and FPL, including James L. Broadhead, Paul J. Evanson, Lewis Hay III and Dennis P. Coyle. In February 2003, Donald E. and Judith B. Phillips, represented by the same attorneys who represent Klein, filed suit in the same court against the same defendants as the Klein lawsuit (plus Lawrence J. Kelleher). All three suits have been consolidated. In February 2004, by stipulation of the parties, FPL Group was removed as a defendant.

The lawsuits, taken together, allege that the proxy statements relating to shareholder approval of FPL Group's Long Term Incentive Plan (LTIP) and FPL Group's proposed, but unconsummated, merger with Entergy Corporation (Entergy) were false and misleading because they did not affirmatively state that payments made to certain officers under FPL Group's LTIP upon shareholder approval of the merger would be retained by the officers even if the merger with Entergy was not consummated and did not state that under some circumstances payments made pursuant to FPL Group's LTIP might not be deductible by FPL Group for federal income tax purposes. They also allege that FPL Group's LTIP required either consummation of the merger as a condition to the payments or the return of the payments if the transaction did not close, and that the actions of the director defendants in approving the proxy statements, causing the payments to be made, and failing to demand their return constitute corporate waste and a breach of fiduciary duties by those individual defendants. The plaintiffs seek to have the shareholder votes approving FPL Group's LTIP and the merger declared null and void, the return to FPL Group of $62 million of payments received by the officers, compensatory damages of $92 million (including the $62 million of payments received by the officers) from all defendants (except FPL Group) and attorneys' fees.

A special committee of non-management directors of FPL Group conducted an investigation of the claims made in the Oorbeek and Klein lawsuits and reported thereon to FPL Group's board of directors. The report concluded that pursuit of the claims is not in the best interest of FPL Group or its shareholders generally, and recommended that FPL Group seek dismissal of the lawsuits. After reviewing the special committee's report, FPL Group's board of directors (with only non-management directors participating) concluded likewise and filed with the court a statement of position setting forth the special committee's and the board's conclusions and authorizing the filing of a motion to dismiss the lawsuits, which motion was filed in October 2002. Messrs. Zarb, Camaren and Thaman joined the board in August 2002, October 2002 and July 2003, respectively, and did not participate in the proceedings relating to the statement of position or the filing of the motion to dismiss. On January 20, 2004, the court issued an order denying FPL Group's motion to dismiss the lawsuits.

FPL Group's above-referenced statement of position reported that during the course of the special committee's investigation of the allegations in the lawsuits a separate question arose concerning the interpretation of the provisions of FPL Group's LTIP pursuant to which the payments to eight current

and former senior officers were calculated. A change from the original interpretation could result in a repayment to FPL Group of up to approximately $9 million. FPL Group and the eight senior officers have entered into a binding arbitration agreement in order to resolve the issue.

In May 2003, the plaintiff's attorneys in the Klein lawsuit sent a new letter to FPL Group's board of directors (the May 2003 Letter) demanding among other things, that the board take action (i) to recover from the persons who approved such payments and/or otherwise breached their fiduciary duties, all of the above-described $92 million of LTIP payments made to officers and employees of FPL Group, allegedly on the grounds that the payments constituted a breach of fiduciary duty, bad faith, corporate waste and other unspecified wrongs, (ii) to investigate whether the proposed merger with Entergy was a plan by FPL Group's officers and directors to enrich themselves at the expense of the company, (iii) to seek the return of certain LTIP awards made in replacement of accelerated LTIP awards, (iv) to take immediate actions to secure the return of up to approximately $9 million in LTIP payments which is subject to an interpretation question under the LTIP, (v) to investigate and seek the return of stock options and restricted stock paid to Mr. Broadhead in January 2002 in connection with a consulting agreement and his retirement from FPL Group in December 2001, and (vi) to investigate whether punitive damages may be sought. In July 2003, FPL Group's board of directors appointed a special committee, composed of James L. Camaren and Michael H. Thaman, to investigate the matters raised in the May 2003 Letter and to make a determination as to how FPL Group should respond to the matters raised therein. In August 2003, the plaintiff's attorney in the Klein lawsuit sent a letter to FPL Group's board of directors purporting to "withdraw" the May 2003 Letter.

In addition to those legal proceedings discussed herein, FPL Group and its subsidiaries are involved in a number of other legal proceedings and claims in the ordinary course of their businesses. In addition, generating plants in which FPL Group has an ownership interest are involved in legal proceedings and claims, the liabilities from which, if any, would be shared by FPL Group. While management is unable to predict with certainty the outcome of these other legal proceedings and claims, it is not expected that their ultimate resolution, individually or collectively, will have a material adverse effect on the financial statements.

Other Contingencies In connection with the redemption in 1999 of its one-third ownership interest in Olympus Communications, L.P. (Olympus), an indirect subsidiary of FPL Group holds a note receivable from a limited partnership, of which Olympus is a general partner. The note receivable is secured by a pledge of the redeemed ownership interest. Olympus is an indirect subsidiary of Adelphia Communications Corp. (Adelphia). In June 2002, Adelphia and a number of its subsidiaries, including Olympus, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code (Chapter 11). The note receivable plus accrued interest totaled approximately $127 million at December 31, 2003 and are included in other investments on FPL Group's consolidated balance sheets. The note was due on July 1, 2002 and is currently in default.

Based on the most recent publicly available financial information set forth in Olympus' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2001, total assets of Olympus exceeded liabilities by approximately $3.6 billion and Olympus served 1,787,000 basic subscribers. Olympus has not filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2001 or any subsequent Quarterly Reports on Form 10-Q or Annual Reports on Form 10-K with the SEC, and consequently the September 30, 2001 financial information may not be indicative of Olympus' current financial position. Olympus has stated publicly that it expects to restate its financial statements for the years ended December 31, 2000 and 1999, and its interim financial statements for 2001 and possibly other periods. In addition, current management of Olympus believes that other public information provided by the Rigas family, which controlled Adelphia, was unreliable. In July 2002, the SEC filed suit against Adelphia and certain of its officers alleging that Adelphia fraudulently excluded billions of dollars of debt from its financial statements, misstated its financial and operating results and concealed rampant self-dealing by the Rigas family. In October 2003, Olympus filed certain limited financial

information as required by orders of the bankruptcy court. However, such information was not useful to FPL Group in its evaluation of the collectibility of the note receivable. In January 2004, the FPL Group subsidiary filed its proof of claims with the bankruptcy court.

In August 2002, an affidavit was filed in the bankruptcy court proceedings by a director of Lazard Freres & Co. LLC stating that, based on his analysis, the market value of FPL Group's secured interest in Olympus exceeded the carrying value of the note receivable plus accrued interest. In February 2003, FPL Group obtained an evaluation of the Olympus assets from an independent third party. The results of the evaluation, which was based on the limited information available, indicated that there was no impairment.

On February 25, 2004, Adelphia and certain of its affiliates and subsidiaries, including Olympus, filed a disclosure statement (Disclosure Statement) and plan of reorganization (Plan). The Disclosure Statement provides for the "deemed consolidation" of the Adelphia debtors into ten separate groups for purposes of voting, confirmation and distribution under the Plan. The note receivable has been classified under the Plan by the Adelphia debtors as one of those groups and, under the proposed treatment under the Plan, the note receivable will be satisfied with shares of common stock of a reorganized Adelphia.

FPL Group believes that the Disclosure Statement and the Plan have misclassified the note receivable and anticipates filing appropriate objections. FPL Group cannot predict whether its objection to the Plan will result in changes to the Plan or whether the Plan will be approved. As such, the ultimate collectibility of the note receivable cannot be assured.

Subsidiaries of FPL Group have investments in several leveraged leases, two of which are with MCI Telecommunications Corporation (MCI). In July 2002, MCI filed for bankruptcy protection under Chapter 11. Due to the uncertainty of collectibility associated with these leveraged leases, FPL Group recorded reserves totaling approximately $48 million ($30 million after tax) in the third quarter of 2002. At December 31, 2003, investments in leveraged leases with MCI totaled approximately $15 million and related deferred tax liabilities totaled approximately $11 million. An agreement has been reached with MCI that will consolidate and amend the leases upon the effective date of MCI's reorganization plan. On September 2, 2003, MCI was authorized by the bankruptcy court to assume the consolidated and amended lease, cure any prepetition arrearages and take all further action necessary or appropriate to effectuate the amended lease upon the effective date of MCI's reorganization plan. The amended lease would be classified as an operating lease and is not expected to have a significant effect on FPL Group's financial statements. In October 2003, the bankruptcy court approved MCI's reorganization plan which is expected to become effective in early 2004.

18. Segment Information

FPL Group's reportable segments include FPL, a rate-regulated utility, and FPL Energy, a non-rate regulated energy generating subsidiary. Corporate and Other represents other business activities, other segments that are not separately reportable and eliminating entries. FPL Group's operating revenues derived from the sale of electricity represented approximately 97% of FPL Group's operating revenues for each of the three years ended December 31, 2003. Less than 1% of operating revenues were from foreign sources for each of the three years ended December 31, 2003. At December 31, 2003 and 2002, less than 1% of long-lived assets were located in foreign countries.

Segment information is as follows:

	2003				2002				2001			
	FPL	FPL Energy(a)	Corp. and Other	Total	FPL	FPL Energy(a)	Corp. and Other	Total	FPL	FPL Energy(a)	Corp. and Other	Total
	(millions)											
Operating revenues	$ 8,293	$ 1,252	$ 85	$ 9,630	$ 7,378	$ 691	$ 104	$ 8,173	$ 7,477	$ 611	$ 129	$ 8,217
Operating expenses	$ 6,964	$ 1,059	$ 76	$ 8,099	$ 6,052	$ 707	$ 189	$ 6,948	$ 6,200	$ 487	$ 121	$ 6,808
Interest charges	$ 173	$ 124	$ 82	$ 379	$ 166	$ 86	$ 59	$ 311	$ 187	$ 74	$ 63	$ 324
Depreciation and amortization	$ 898	$ 187	$ 20	$ 1,105	$ 831	$ 107	$ 14	$ 952	$ 898	$ 77	$ 8	$ 983
Equity in earnings of equity method investees	$	$ 89	$	$ 89	$	$ 76	$	$ 76	$	$ 81	$	$ 81
Income tax expense (benefit)(b)	$ 403	$ (4)	$ (31)	$ 368	$ 413	$ (54)	$ (115)	$ 244	$ 383	$ 25	$ (29)	$ 379
Income (loss) before cumulative effect of changes in accounting principles(b)	$ 733	$ 197	$ (37)	$ 893	$ 717	$ 53(c)	$ (75)(d)	$ 695	$ 679(e)	$ 113	$ (11)(f)	$ 781
Cumulative effect of changes in accounting principles, net of income taxes	$	$ (3)(g)	$	$ (3)	$	$ (222)(h)	$	$ (222)	$	$	$	$
Net income (loss)(b)	$ 733	$ 194	$ (37)	$ 890	$ 717	$ (169)(c)	$ (75)(d)	$ 473	$ 679(e)	$ 113	$ (11)(f)	$ 781
Capital expenditures and investments	$ 1,409	$ 1,478	$ 7	$ 2,894	$ 1,256	$ 2,103	$ 21	$ 3,380	$ 1,154	$ 1,977	$ 128	$ 3,259
Total assets(h)(i)(g)	$ 17,817	$ 8,440	$ 678	$ 26,935	$ 16,032	$ 6,358	$ 795	$ 23,185	$ 15,174	$ 4,957	$ 582	$ 20,713
Investment in equity method investees	$	$ 346	$	$ 346	$	$ 310	$	$ 310	$	$ 276	$	$ 276

(a) FPL Energy's interest charges are based on a deemed capital structure of 50% debt for operating projects and 100% debt for projects under construction. Residual non-utility interest charges are included in Corporate and Other.

(b) Includes, in 2002, favorable settlement of litigation with the IRS for which a net tax benefit of $30 million was recognized at Corporate and Other.

(c) Includes restructuring and other charges of $73 million after tax.

(d) Includes restructuring and impairment charges of $64 million after tax at FPL FiberNet and a reserve for leveraged leases of $30 million after tax.

(e) Includes merger-related expense of $16 million after tax.

(f) Includes merger-related expense of $3 million after tax.

(g) Reflects the adoption of FIN 46 in July 2003. See Note 10.

(h) Reflects the adoption of FAS 142 in January 2002. See Note 5.

(i) See Note 16.

19. Summarized Financial Information of FPL Group Capital

FPL Group Capital, a 100% owned subsidiary of FPL Group, provides funding for and holds ownership interest in FPL Group's operating subsidiaries other than FPL. Most of FPL Group Capital's debt and payment guarantees, including its debentures, are fully and unconditionally guaranteed by FPL Group. Condensed consolidating financial information is as follows:

Condensed Consolidating Statements of Income

	Year Ended December 31, 2003				**Year Ended December 31, 2002**				**Year Ended December 31, 2001**			
	FPL Group	**FPL Group Capital**	**Other(a)**	**FPL Group Consolidated**	**FPL Group**	**FPL Group Capital**	**Other(a)**	**FPL Group Consolidated**	**FPL Group**	**FPL Group Capita**	**Other(a)**	**FPL Group Consolidated**
	(millions)											
Operating revenues	$	$ 1,337	$ 8,293	$ 9,630	$	$ 795	$ 7,378	$ 8,173	$	$ 741	$ 7,476	$ 8,217
Operating expenses		(1,135)	(6,964)	(8,099)	(5)	(896)	(6,047)	(6,948)		(608)	(6,200)	(6,808)
Interest charges	(28)	(204)	(147)	(379)	(28)	(144)	(139)	(311)	(29)	(136)	(159)	(324)
Other income (deductions) net	903	154	(948)	109	488	86	(549)	25	788	134	(847)	75
Income (loss) before income taxes and cumulative effect of changes in accounting principles	875	152	234	1,261	455	(159)	643	939	759	131	270	1,160
Income tax expense (benefit)	(15)	(20)	403	368	(18)	(151)	413	244	(22)	18	383	379
Net Income (loss) before cumulative effect of changes in accounting principles	890	172	(169)	893	473	(8)	230	695	781	113	(113)	781
Cumulative effect of changes in accounting principles, net of income taxes		(3)		(3)		(222)		(222)				
Net income (loss)	$ 890	$ 169	$ (169)	$ 890	$ 473	$ (230)	$ 230	$ 473	$ 781	$ 113	$ (113)	$ 781

(a) Represents FPL and consolidating adjustments.

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Condensed Consolidating Balance Sheets

	December 31, 2003				December 31, 2002			
	FPL Group	FPL Group Capital	Other(a)	FPL Group Consolidated	FPL Group	FPL Group Capital	Other(a)	FPL Group Consolidated
	(millions)							
PROPERTY, PLANT AND EQUIPMENT								
Electric utility plant in service and other property	$	$ 7,783	$ 22,489	$ 30,272	$	$ 5,745	$ 20,760	$ 26,505
Less accumulated depreciation and amortization		(738)	(9,237)	(9,975)		(360)	(8,445)	(8,805)
Total property, plant and equipment net		7,045	13,252	20,297		5,385	12,315	17,700
CURRENT ASSETS								
Cash and cash equivalents	27	98	4	129	5	261		266
Receivables	16	436	735	1,187	460	269	136	865
Other		271	883	1,154		240	537	777
Total current assets	43	805	1,622	2,470	465	770	673	1,908
OTHER ASSETS								
Investment in subsidiaries	7,218		(7,218)		6,221		(6,221)	
Other	110	1,491	2,567	4,168	103	1,284	2,190	3,577
Total other assets	7,328	1,491	(4,651)	4,168	6,324	1,284	(4,031)	3,577
TOTAL ASSETS	$ 7,371	$ 9,341	$ 10,223	$ 26,935	$ 6,789	$ 7,439	$ 8,957	$ 23,185
CAPITALIZATION								
Common shareholders' equity	$ 6,967	$ 1,214	$ (1,214)	$ 6,967	$ 6,390	$ 839	$ (839)	$ 6,390
Preferred stock of FPL without sinking fund requirements			5	5			226	226
Long-term debt		5,649	3,074	8,723		3,426	2,364	5,790
Total capitalization	6,967	6,863	1,865	15,695	6,390	4,265	1,751	12,406
CURRENT LIABILITIES								
Accounts payable and short-term debt		397	1,065	1,462		1,563	1,092	2,655
Other	62	809	1,020	1,891	17	812	427	1,256
Total current liabilities	62	1,206	2,085	3,353	17	2,375	1,519	3,911
OTHER LIABILITIES AND DEFERRED CREDITS								
Asset retirement obligations		178	1,908	2,086				

	December 31, 2003				December 31, 2002			
Accrued asset removal costs			1,902	1,902		164	3,396	3,560
Accumulated deferred income taxes	(5)	826	1,334	2,155	(5)	412	1,140	1,547
Other	347	268	1,129	1,744	387	223	1,151	1,761
Total other liabilities and deferred credits	342	1,272	6,273	7,887	382	799	5,687	6,868
COMMITMENTS AND CONTINGENCIES								
TOTAL CAPITALIZATION AND LIABILITIES	$ 7,371	$ 9,341	$ 10,223	$ 26,935	$ 6,789	$ 7,439	$ 8,957	$ 23,185

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Statements of Cash Flows

	Year Ended December 31, 2003				Year Ended December 31, 2002				Year Ended December 31, 2001			
	FPL Group	FPL Group Capital	Other(a)	FPL Group Consolidated	FPL Group	FPL Group Capital	Other(a)	FPL Group Consolidated	FPL Group	FPL Group Capital	Other(a)	FPL Group Consolidated
	(millions)											
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 1,028	$ 397	$ 829	$ 2,254	$ 426	$ 1,227	$ 685	$ 2,338	$ 769	$ 15	$ 1,158	$ 1,942
CASH FLOWS FROM INVESTING ACTIVITIES												
Capital expenditures and independent power investments		(1,486)	(1,408)	(2,894)		(2,124)	(1,256)	(3,380)		(2,105)	(1,154)	(3,259)
Capital contributions to FPL Group Capital and FPL	(600)		600		(350)		350		(400)		400	
Other net		(18)	(177)	(195)	3	208	(98)	113	(4)	69	(75)	(10)
Net cash used in investing activities	(600)	(1,504)	(985)	(3,089)	(347)	(1,916)	(1,004)	(3,267)	(404)	(2,036)	(829)	(3,269)
CASH FLOWS FROM FINANCING ACTIVITIES												
Issuances of long-term debt		2,118	877	2,995		1,177	593	1,770		920		920
Retirements of long-term debt		(43)	(388)	(431)		(32)	(765)	(797)		(21)	(66)	(87)
Retirements of preferred stock FPL			(228)	(228)								
Net change in short-term debt		(1,116)	(122)	(1,238)		(276)	490	214		1,152	(328)	824

	Year Ended December 31, 2003				Year Ended December 31, 2002				Year Ended December 31, 2001			
Issuances of common stock	73			73	378			378				
Dividends on common stock	(425)			(425)	(400)			(400)	(377)			(377)
Other net	(54)	(15)	21	(48)	(52)			(52)				
Net cash provided by (used in) financing activities	(406)	944	160	698	(74)	869	318	1,113	(377)	2,051	(394)	1,280
Net increase (decrease) in cash and cash equivalents	22	(163)	4	(137)	5	180	(1)	184	(12)	30	(65)	(47)
Cash and cash equivalents at beginning of year	5	261		266		81	1	82	12	51	66	129
Cash and cash equivalents at end of year	$ 27	$ 98	$ 4	$ 129	$ 5	$ 261	$	$ 266	$	$ 81	$ 1	$ 82

(a) Represents FPL and consolidating adjustments.

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20. Quarterly Data (Unaudited)

Condensed consolidated quarterly financial information is as follows:

	March 31(a)	June 30(a)	September 30(a)	December 31(a)
	(millions, except per share amounts)			
2003				
Operating revenues(b)	$ 2,082	$ 2,339	$ 2,775	$ 2,435
Operating income(b)	$ 294	$ 413	$ 565	$ 259
Income before cumulative effect of a change in accounting principle(b)	$ 175	$ 239	$ 334	$ 145
Cumulative effect of adopting FIN 46	$	$	$ (3)	$
Net income(b)	$ 175	$ 239	$ 331	$ 145
Earnings per share before cumulative effect of adopting FIN 46(c)	$ 0.99	$ 1.35	$ 1.88	$ 0.81
Cumulative effect of adopting FIN 46(c)	$	$	$ (0.02)	$
Earnings per share(c)	$ 0.99	$ 1.35	$ 1.86	$ 0.81
Earnings per share before cumulative effect of adopting FIN 46 (assuming dilution)(c)	$ 0.99	$ 1.34	$ 1.88	$ 0.81
Cumulative effect of adopting FIN 46(c)	$	$	$ (0.02)	$
Earnings per share (assuming dilution)(c)	$ 0.99	$ 1.34	$ 1.86	$ 0.81
Dividends per share	$ 0.60	$ 0.60	$ 0.60	$ 0.60
High-low common stock sales prices	$ 63.77-53.55	$ 68.08-57.74	$ 67.66-60.01	$ 65.98-62.65
2002				
Operating revenues(b)	$ 1,716	$ 2,113	$ 2,302	$ 2,042
Operating income(b)	$ 255	$ 410	$ 321(d)	$ 239
	$ 166(e)	$ 250	$ 150(d)	$ 129

	March 31(a)	June 30(a)	September 30(a)	December 31(a)
Income before cumulative effect of a change in accounting principle(b)				
Cumulative effect of adopting FAS 142	$ (222)	$	$	$
Net income (loss)(b)	$ (56)(e)	$ 250	$ 150(d)	$ 129
Earnings per share before cumulative effect of adopting FAS 142 (basic and assuming dilution)(c)	$ 0.98(e)	$ 1.46	$ 0.85(d)	$ 0.73
Cumulative effect of adopting FAS 142(c)	$ (1.31)	$	$	$
Earnings (loss) per share (basic and assuming dilution)(c)	$ (0.33)(e)	$ 1.46	$ 0.85(d)	$ 0.73
Dividends per share	$ 0.58	$ 0.58	$ 0.58	$ 0.58
High-low common stock sales prices	$ 60.10-51.13	$ 65.31-56.30	$ 60.08-45.00	$ 61.40-48.35

(a) In the opinion of FPL Group, all adjustments, which consist of normal recurring accruals necessary to present a fair statement of the amounts shown for such periods, have been made. Results of operations for an interim period may not give a true indication of results for the year.

(b) The sum of the quarterly amounts may not equal the total for the year due to rounding.

(c) The sum of the quarterly amounts may not equal the total for the year due to rounding and changes in weighted-average number of common shares outstanding.

(d) Includes restructuring, impairment and/or other charges.

(e) Includes a gain from an income tax settlement.

APPENDIX B

FPL GROUP, INC.
AMENDED AND RESTATED LONG TERM INCENTIVE PLAN

SECTION 1. **Purpose.** The purpose of this Amended and Restated Long Term Incentive Plan (the "Plan") of FPL Group, Inc. (together with any successor thereto, the "Company") is (a) to promote the identity of interests between shareholders and employees of the Company by encouraging and creating significant ownership of common stock of the Company by officers and other salaried employees of the Company and its subsidiaries; (b) to enable the Company to attract and retain qualified officers and employees who contribute to the Company's success by their ability, ingenuity and industry; and (c) to provide meaningful long-term incentive opportunities for officers and other employees who are responsible for the success of the Company and who are in a position to make significant contributions toward its objectives.

SECTION 2. **Definitions.** In addition to the terms defined elsewhere in the Plan, the following shall be defined terms under the Plan:

2.01. "*Award*" means any Performance Award, Option, Stock Appreciation Right, Restricted Stock, Deferred Stock, Dividend Equivalent, or Other Stock-Based Award, or any other right or interest relating to Shares or cash, granted to a Participant under the Plan.

2.02. "*Award Agreement*" means any written agreement, contract, or other instrument or document evidencing an Award.

2.03. "*Board*" means the Board of Directors of the Company.

2.04. "*Cause*" shall mean, unless otherwise defined in an Award Agreement, (i) repeated violations by the Participant of the Participant's obligations to the Company (or the applicable employer affiliate of the Company) (other than as a result of incapacity due to physical or mental illness) which are demonstrably willful and deliberate on the Participant's part, which are committed in bad faith or without reasonable belief that such violations are in the best interests of the Company (or the applicable employer affiliate of the Company) and which are not remedied in a reasonable period of time after receipt of written notice from the Company specifying such violations, (ii) the conviction of the Participant of a felony involving an act of dishonesty intended to result in substantial personal enrichment at the expense of the Company or its affiliated companies, or (iii) prior to a Change in Control, such other events as shall be determined by the Committee in its sole discretion.

2.05. "*Change of Control*" and related terms are defined in Section 9.

2.06. "*Code*" means the Internal Revenue Code of 1986, as amended from time to time. References to any provision of the Code shall be deemed to include successor provisions thereto and regulations thereunder.

2.07. "*Committee*" means a committee composed of not less than two directors designated by the Board to administer the Plan; provided, however, that each member of the Committee shall be a "Non-Employee Director" within the meaning of Rule 16b-3 under the Exchange Act, an "outside director" within the meaning of Section 162(m)(4)(C)(i) of the Code and the regulations thereunder, and an "independent director" within the meaning of Section 303A of the New York Stock Exchange Listed Company Manual (or, in each case, any successor term or provision). The Committee may, without limitation, be the Compensation Committee of the Board or a subcommittee thereof, if such committee or subcommittee satisfies the foregoing requirements.

2.08. "*Company*" is defined in Section 1.

2.09. "*Covered Employee*" means a Participant designated as such in connection with the grant of a Performance Award, Performance-Based Restricted Stock Award, or Other Stock-Based Award by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which such Award is expected to be taxable to such Participant.

2.10. "*Deferred Stock*" means a right, granted to a Participant under Section 6.05, to receive Shares at the end of a specified deferral period.

2.11. "*Disability*" shall, unless otherwise defined in an Award Agreement, be considered to occur when a Participant's employment terminates as a result of disability that is expected to be permanent or of indefinite duration.

2.12. "*Dividend Equivalent*" means a right, granted to a Participant under Section 6.03, to receive cash, Shares, other Awards, or other property equal in value to dividends paid with respect to a specified number of Shares.

2.13. "*Exchange Act*" means the Securities Exchange Act of 1934, as amended from time to time. References to any provision of the Exchange Act shall be deemed to include successor provisions thereto and regulations thereunder.

2.14. "*Fair Market Value*" means, with respect to Shares, Awards, or other property, the fair market value of such Shares, Awards, or other property determined by such methods or procedures as shall be established from time to time by the Committee. Unless otherwise determined by the Committee, the Fair Market Value of Shares as of any date shall be the closing sales price on that date of a Share as reported in the New York Stock Exchange Composite Transaction Report (or if the Shares were not traded on the New York Stock Exchange on such date, the closing sales price on the nearest date preceding such date on which the Shares were so traded).

2.15. "*Incentive Stock Option*" means any Option designated as, and qualified as, an "incentive stock option" within the meaning of Section 422 of the Code.

2.16. "*Non-Qualified Stock Option*" means an Option that is not an Incentive Stock Option, whether or not designated as such.

2.17. "*Option*" means a right, granted to a Participant under Section 6.06, to purchase Shares, other Awards, or other property at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.18. "*Other Stock-Based Award*" means a right, granted to a Participant under Section 6.08, that relates to or is valued by reference to Shares.

2.19. "*Participant*" means a person who, as an officer or salaried employee of the Company or any Subsidiary, has been granted an Award under the Plan.

2.20. "*Performance Award*" means a right, granted to a Participant under Section 6.02, to receive cash, Shares, other Awards, or other property the payment of which is contingent upon achievement of performance goals specified by the Committee.

2.21. "*Performance-Based Restricted Stock*" means Restricted Stock that is subject to a risk of forfeiture if specified performance criteria are not met within the restriction period.

2.22. "*Plan*" is defined in Section 1.

2.23. "*Repricing Restrictions*" means the second sentence of Section 6.06(i) and the second sentence of Section 6.07(i).

2.24. "*Restricted Stock*" means Shares, granted to a Participant under Section 6.04, that are subject to certain restrictions and to a risk of forfeiture.

2.25. "*Rule 16b-3*" means Rule 16b-3, as from time to time amended and applicable to Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

2.26. "*Shares*" means the Common Stock, $.01 par value, of the Company and such other securities of the Company as may be substituted for Shares or such other securities pursuant to Section 10.

2.27. "*Stock Appreciation Right*" means a right, granted to a Participant under Section 6.07, to be paid an amount measured by the appreciation in the Fair Market Value of Shares from the date of grant to the date of exercise of the right, with payment to be made in cash, Shares, other Awards, or other property as specified in the Award or determined by the Committee.

2.28. "*Subsidiary*" means any corporation (other than the Company) with respect to which the Company owns, directly or indirectly, 50% or more of the total combined voting power of all classes of stock. In addition, any other related entity may be designated by the Board as a Subsidiary, provided such entity could be considered as a subsidiary according to generally accepted accounting principles.

2.29. "*Year*" means a calendar year.

SECTION 3. **Administration.**

3.01. *Authority of the Committee.* The Plan shall be administered by the Committee. The Committee shall have full and final authority to take the following actions, in each case subject to and consistent with the provisions of the Plan:

(i) to select and designate Participants;

(ii) to designate Subsidiaries;

(iii) to determine the type or types of Awards to be granted to each Participant;

(iv) to determine the number of Awards to be granted, the number of Shares to which an Award will relate, the terms and conditions of any Award granted under the Plan including, but not limited to, any exercise price, grant price, or purchase price, any restriction or condition, any schedule for lapse of restrictions or conditions relating to transferability or forfeiture, exercisability, or settlement of an Award, and waivers or accelerations thereof, and waiver of performance conditions relating to an Award, based in each case on such considerations as the Committee shall determine), and all other matters to be determined in connection with an Award;

(v) to determine whether, to what extent, and under what circumstances an Award may be settled, or the exercise price of an Award may be paid, in cash, Shares, other Awards, or other property, or an Award may be cancelled, forfeited, or surrendered;

(vi) to determine whether, to what extent, and under what circumstances cash, Shares, other Awards, or other property payable with respect to an Award will be deferred either automatically, at the election of the Committee, or at the election of the Participant;

(vii) to prescribe the form of each Award Agreement, which need not be identical for each Participant;

(viii) to adopt, amend, suspend, waive, and rescind such rules and regulations and appoint such agents as the Committee may deem necessary or advisable to administer the Plan;

(ix) to correct any defect or supply any omission or reconcile any inconsistency in the Plan and to construe and interpret the Plan and any Award, rules and regulations, Award Agreement, or other instrument hereunder; and

(x) to make all other decisions and determinations as may be required under the terms of the Plan or as the Committee may deem necessary or advisable for the administration of the Plan.

3.02. *Manner of Exercise of Committee Authority.* Unless authority is specifically reserved to the Board under the terms of the Plan, or applicable law, the Committee shall have sole discretion in exercising such authority under the Plan. Any action of the Committee with respect to the Plan shall be final, conclusive, and binding on all persons, including the Company, Subsidiaries, Participants, any person claiming any rights under the Plan from or through any Participant, and shareholders. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. A memorandum signed by all members of the Committee shall constitute the act of the Committee without the necessity, in such event, to hold a meeting. The Committee may delegate to officers or managers of the Company or any Subsidiary the authority, subject to such terms as the Committee shall determine, to perform administrative functions under the Plan.

3.03. *Limitation of Liability.* Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him by any officer or other employee of the Company or any Subsidiary, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan. No member of the Committee, nor any officer or employee of the Company acting on behalf of the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Committee and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination, or interpretation.

SECTION 4. **Shares Subject to the Plan.** Subject to adjustment as provided in Section 10, the total number of Shares reserved and available for Awards under the Plan as of December 31, 2003, shall be 13,000,000. Such Shares may be authorized and unissued Shares or Shares purchased on the open market. For purposes of this Section 4, the number of and time at which Shares shall be deemed to be subject to Awards and therefore counted against the number of Shares reserved and available under the Plan shall be earliest date at which the Committee can reasonably estimate the number of Shares to be distributed in settlement of an Award or with respect to which payments will be made; provided, however, that, the Committee may adopt procedures for the counting of Shares relating to any Award for which the number of Shares to be distributed or with respect to which payment will be made cannot be fixed at the date of grant to ensure appropriate counting, avoid double counting (in the case of tandem or substitute awards), and provide for adjustments in any case in which the number of Shares actually distributed or with respect to which payments are actually made differs from the number of Shares previously counted in connection with such Award.

If any Shares to which an Award relates are forfeited or the award is settled or terminates without a distribution of Shares (whether or not cash, other Awards, or other property is distributed with respect to such Award), any Shares counted against the number of Shares reserved and available under the Plan with respect to such Award shall, to the extent of any such forfeiture, settlement or termination, again be available for Awards under the Plan.

SECTION 5. **Eligibility.** Awards may be granted only to individuals who are officers or other salaried employees (including employees who also are directors) of the Company or a Subsidiary; provided, however, that no Award shall be granted to any member of the Committee.

SECTION 6. **Specific Terms of Awards.**

6.01. *General.* Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 11.02), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including without limitation the acceleration of vesting of any Awards or terms requiring forfeiture of Awards in the event of termination of employment by the Participant. Except as provided in Sections 7.03 or 7.04, only services may be required as consideration for the grant of any Award.

6.02. *Performance Awards.* Subject to the provisions of Sections 7.01 and 7.02, the Committee is authorized to grant Performance Awards to Participants on the following terms and conditions:

(i) *Award and Conditions.* A Performance Award shall confer upon the Participant rights, valued as determined by the Committee, and payable to, or exercisable by, the Participant to whom the Performance Award is granted, in whole or in part, as determined by the Committee, conditioned upon the achievement of performance criteria determined by the Committee.

(ii) *Other Terms.* A Performance Award shall be denominated in Shares and may be payable in cash, Shares, other Awards, or other property, and have such other terms as shall be determined by the Committee.

6.03. *Dividend Equivalents.* The Committee is authorized to grant Dividend Equivalents to Participants. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or shall be deemed to have been reinvested in additional Shares or Awards, or otherwise reinvested.

6.04. *Restricted Stock.* The Committee is authorized to grant Restricted Stock to Participants on the following terms and conditions:

(i) *Issuance and Restrictions.* Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends thereon), which restrictions may lapse separately or in combination at such times, under such circumstances, in such installments, or otherwise as the Committee shall determine.

(ii) *Forfeiture.* Performance-Based Restricted Stock shall be forfeited unless preestablished performance criteria specified by the Committee are met during the applicable restriction period. Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited and reacquired by the Company; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes.

(iii) *Possession of Restricted Shares.* Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock are registered in the name of the Participant, such certificates shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, the Company shall retain physical possession of the certificates, and the Participant shall deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock. If non-certificated shares representing Restricted Stock are registered in the name of the Participant, such shares shall be maintained in a separate restricted share account subject to terms, conditions, and restrictions of like effect.

(iv) *Dividends.* Unless otherwise determined by the Committee, cash dividends paid on Performance-Based Restricted Stock shall be automatically reinvested in additional shares of Performance-Based Restricted Stock and cash dividends paid on other Restricted Stock shall be paid to the Participant. Dividends reinvested in Performance-Based Restricted Stock and Shares distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such stock or other property has been distributed.

6.05. *Deferred Stock.* The Committee is authorized to grant Deferred Stock to Participants, on the following terms and conditions:

(i) *Award and Restrictions.* Delivery of Shares will occur upon expiration of the deferral period specified for Deferred Stock by the Committee (or, if permitted by the Committee, as elected by the Participant). In addition, Deferred Stock shall be subject to such restrictions as the Committee may impose, which restrictions may lapse at the expiration of the deferral period or at earlier specified times, separately or in combination, in installments, or otherwise, as the Committee shall determine.

(ii) *Forfeiture.* Except as otherwise determined by the Committee, upon termination of employment (as determined under criteria established by the Committee) during the applicable deferral period or portion thereof (as provided in the Award Agreement evidencing the Deferred Stock), all Deferred Stock that is at that time subject to deferral (other than a deferral at the election of the Participant) shall be forfeited; provided, however, that the Committee may provide, by rule or regulation or in any Award Agreement, or may determine in any individual case, that restrictions or forfeiture conditions relating to Deferred Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Deferred Stock.

6.06. *Options.* The Committee is authorized to grant Options to Participants on the following terms and conditions:

(i) *Exercise Price.* The exercise price per Share purchasable under an Option shall be determined by the Committee; provided, however, that, except as provided in Section 7.03, such exercise price shall be not less than the Fair Market Value of a Share on the date of grant of such Option. After an Option is granted, the exercise price per Share purchasable under the Option may not be decreased, nor shall any other action be taken with respect to such Option that would constitute a "re-pricing" (determined in accordance with generally applicable accounting standards), unless such decrease or re-pricing is approved by the affirmative vote of the holders of a majority of the Shares present or represented and entitled to vote (and the affirmative vote of a majority of the Shares voting) at a meeting of the holders of the Shares, or any adjournment thereof.

(ii) *Time and Method of Exercise.* The Committee shall determine the time or times at which an Option may be exercised in whole or in part, the methods by which such exercise price may be paid or deemed to be paid, the form of such payment, including, without limitation, cash, Shares, other Awards or awards issued under other Company plans, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis, such as through "cashless exercise" arrangements), and the methods by which Shares will be delivered or deemed to be delivered to Participants. Options shall expire not later than ten years after the date of grant.

(iii) *Incentive Stock Options.* The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, including but not limited to the requirement that no Incentive Stock Option shall be granted more than ten years after the effective date of the Plan. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended, or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code. In the event a Participant voluntarily disqualifies an Option as an Incentive Stock Option, the Committee may, but shall not be obligated to, make such additional Awards or pay bonuses as the Committee shall deem appropriate to reflect the tax savings to the Company which result from such disqualification.

6.07. *Stock Appreciation Rights.* The Committee is authorized to grant Stock Appreciation Rights to Participants on the following terms and conditions:

(i) *Right to Payment.* A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine in the case of any such right, other than one related to an Incentive Stock Option, the Fair Market Value of one Share at any time during a specified period before or after the date of exercise) over (B) the grant price of the Stock Appreciation Right as determined by the Committee as of the date of grant of the Stock Appreciation Right, which, except as provided in Section 7.03, shall be not less than the Fair Market Value of one Share on the date of grant. After a Stock Appreciation Right is granted, the grant price of the Stock

Appreciation Right may not be decreased, nor shall any other action be taken with respect to such Stock Appreciation Right that would constitute a "re-pricing" (determined in accordance with generally applicable accounting standards), unless such decrease or re-pricing is approved by the affirmative vote of the holders of a majority of the Shares present or represented and entitled to vote (and the affirmative vote of a majority of the Shares voting) at a meeting of the holders of the Shares, or any adjournment thereof.

(ii) *Other Terms.* The Committee shall determine the time or times at which a Stock Appreciation Right may be exercised in whole or in part, the method of exercise, method of settlement, form of consideration payable in settlement, method by which Shares will be delivered or deemed to be delivered to Participants, and any other terms and conditions of any Stock Appreciation Right. Stock Appreciation Rights shall expire not later than ten years after the date of grant.

6.08. *Other Stock-Based Awards.* The Committee is authorized to grant to Participants such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan, including without limitation, Shares awarded purely as a "bonus" or other "incentive" whether or not subject to any restrictions or conditions, convertible or exchangeable debt securities, other rights convertible or exchangeable into Shares, purchase rights, and Awards valued by reference to book value of Shares or the value of securities of or the performance of specified Subsidiaries. The Committee shall determine the terms and conditions of such Awards, which may include performance criteria. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 6.08 shall be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards, or other property, as the Committee shall determine.

SECTION 7. **Certain Provisions Applicable to Awards.**

7.01. *Performance-Based Awards.* Performance Awards, Performance-Based Restricted Stock, and Other Stock-Based Awards available to Covered Employees and subject to performance criteria are intended to be "qualified performance-based compensation" within the meaning of section 162(m) of the Code and shall be paid to a Covered Employee solely on account of the attainment of one or more preestablished, objective performance goals within the meaning of section 162(m) and the regulations thereunder. Until otherwise determined by the Committee, the performance goal shall be the attainment of preestablished amounts of annual net income of the Company.

The payout of any such Award to a Covered Employee may be reduced, but not increased, based on the degree of attainment of other performance criteria or otherwise at the discretion of the Committee.

7.02. *Maximum Yearly Awards.* A maximum of 600,000 Shares (or the equivalent Fair Market Value thereof with respect to Awards valued in whole or in part by reference to, or otherwise based on or related to, Shares) may be made subject to Performance Awards, Performance-Based Restricted Stock, and Other Stock-Based Awards subject to performance criteria in any Year. The maximum payout of such Awards in any Year may not exceed 160% of the amount thereof, or 960,000 Shares in the aggregate and 125,000 Shares in the case of any Participant. A maximum of 1,500,000 Shares may be made subject to Options and Stock Appreciation Rights in any Year. No Participant may receive Awards covering or representing more

than 25% of the maximum number of Shares which may be made subject to such types of Awards in any Year. The Share amounts in this Section 7.02 are subject to adjustment under Section 10 and are subject to the Plan maximum under Section 4.

7.03. *Stand-Alone, Additional, Tandem, and Substitute Awards.* Awards granted under the Plan may, in the discretion of the Committee and subject to the Repricing Restrictions, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company, any Subsidiary, or any business entity to be acquired by the Company or a Subsidiary, or any other right of a Participant to receive payment from the Company or any Subsidiary. If an Award is granted in substitution for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. Awards granted in addition to or in tandem with other Awards or awards may be granted either as of the same time as or a different time from the grant of such other Awards or awards. Subject to the Repricing Restrictions, the per Share exercise price of any Option, grant price of any Stock Appreciation Right, or purchase price of any other Award conferring a right to purchase Shares:

(i) Granted in substitution for an outstanding Award or award shall be not less than the lesser of the Fair Market Value of a Share at the date such substitute award is granted or such Fair Market Value at that date reduced to reflect the Fair Market Value at that date of the Award or award required to be surrendered by the Participant as a condition to receipt of the substitute Award; or

(ii) Retroactively granted in tandem with an outstanding Award or award shall be not less than the lesser of the Fair Market Value of a Share at the date of grant of the later Award or at the date of grant of the earlier Award or award.

7.04. *Exchange Provisions.* Subject to the Repricing Restrictions, the Committee may at any time offer to exchange or buy out any previously granted Award for a payment in cash, Shares, other Awards (subject to Section 7.03), or other property based on such terms and conditions as the Committee shall determine and communicate to the Participant at the time that such offer is made.

7.05. *Term of Awards.* The term of each Award shall be for such period as may be determined by the Committee; provided, however, that in no event shall the term of any Option or a Stock Appreciation Right granted in tandem therewith exceed a period of ten years from the date of its grant (or such shorter period as may be applicable under Section 422 of the Code).

7.06. *Form of Payment Under Awards.* Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Subsidiary upon the grant or exercise of an Award may be made in such forms as the Committee shall determine, including without limitation, cash, Shares, other Awards, or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. Such payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents in respect of installment or deferred payments denominated in Shares.

7.07. *Loan Provisions.* With the consent of the Committee, and subject to compliance with applicable laws and regulations including any such law or regulation that restricts or limits the Company's ability to grant a loan to any individual (including without limitation the Sarbanes-Oxley Act of 2002), the Company may make, guarantee, or arrange for, a loan or loans to a Participant with respect to the exercise of any Option or other payment in connection with any Award, including the payment by a Participant of any or all federal, state, or local income or other taxes due in connection with any Award. Subject to such limitations, the Committee shall have full authority to decide whether to make a loan or loans hereunder and to determine the amount, terms, and provisions of any such loan or loans, including the interest rate to be charged in respect of any such loan or loans, whether the loan or loans are to be with or without recourse against the borrower, the terms on which the loan is to be repaid and conditions, if any, under which the loan or loans may be forgiven. Nothing in this Section shall be construed as implying that the Committee shall or will offer such loans.

SECTION 8. **General Restrictions Applicable to Awards.**

8.01. *Six-Month Holding Period Restrictions Under Rule 16b-3.* Unless a Participant could otherwise transfer an equity security, derivative security, or Shares issued upon exercise of a derivative security granted under the Plan without incurring liability under Section 16(b) of the Exchange Act, (i) an equity security issued under the Plan, other than an equity security issued upon exercise or conversion of a derivative security granted under the Plan, shall be held for at least six months from the date of acquisition; (ii) with respect to a derivative security issued under the Plan, at least six months shall elapse from the date of acquisition of the derivative security to the date of disposition of the derivative security (other than upon exercise or conversion) or its underlying equity security; and (iii) any Award in the nature of a Stock Appreciation Right must be held for six months from the date of grant to the date of cash settlement.

8.02. *Nontransferability; ISO Exercisability.* Awards which constitute derivative securities (including any Option, Stock Appreciation Right, or similar right) shall not be transferable by a Participant except by will or the laws of descent and distribution or, in the case of any derivative security other than an Incentive Stock Option, pursuant to a beneficiary designation authorized under Section 8.04 or as otherwise determined by the Committee. An Incentive Stock Option shall be exercisable during the lifetime of a Participant only by such Participant or his guardian or legal representative.

8.03. *Compliance with Rule 16b-3.* It is the intent of the Company that this Plan comply in all respects with Rule 16b-3 in connection with any Award granted to a person who is subject to Section 16 of the Exchange Act. Accordingly, if any provision of this Plan or any Award Agreement does not comply with the requirements of Rule 16b-3 as then applicable to any such person, such provision shall be construed or deemed amended to the extent necessary to conform to such requirements with respect to such person.

8.04. *Limits on Transfer of Awards; Beneficiaries.* No right or interest of a Participant in any Award shall be pledged, encumbered, or hypothecated to or in favor of any party (other than the Company or a Subsidiary), or shall be subject to any lien, obligation, or liability of such Participant to any party (other than the Company or a Subsidiary). Unless otherwise determined by the Committee (including pursuant to Section 8.02), no Award subject to any restriction shall be assignable or transferable by a Participant otherwise than by will or the laws of descent and distribution (except to the Company under the terms of the Plan); provided, however, that a Participant may, in the manner established by the Committee designate a beneficiary or beneficiaries to exercise the rights of the Participant, and to receive any distribution, with respect to any Award, upon the death of the Participant. A beneficiary, guardian, legal representative, permitted transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant or agreement applicable to such, except to the extent the Plan and such Award Agreement or agreement otherwise provide with respect to such persons, and to any additional restrictions deemed necessary or appropriate by the Committee.

8.05. *Registration and Listing Compliance.* The Company shall not be obligated to deliver any Award or distribute any Shares with respect to any Award in a transaction subject to regulatory approval, registration, or any other applicable requirement of federal or state law, or subject to a listing requirement under any listing or similar agreement between the Company and any national securities exchange, until such laws, regulations, and contractual obligations of the Company have been complied with in full, although the Company shall be obligated to use its best efforts to obtain any such approval and comply with such requirements as promptly as practicable.

8.06. *Share Restrictions.* All Shares delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop-transfer order and other restrictions as the Committee may deem advisable under applicable federal or state laws, rules and regulations thereunder, and the rules of any national securities exchange on which Shares are listed. The Committee may cause (i) a legend or legends to be placed on such Shares, if they are evidenced by certificates, to make appropriate reference to such

restrictions or any other restrictions that may be applicable to Shares, including under the terms of the Plan or any Award Agreement, and (ii) the creation and maintenance of a segregated restricted share account to hold any such Shares that are issued to a Participant as shares without certificates. In addition, during any period in which Awards or Shares are subject to restrictions under the terms of the Plan or any Award Agreement, or during any period during which delivery or receipt of an Award or Shares has been deferred by the Committee or a Participant, the Committee may require the Participant to enter into an agreement providing that any Shares issuable or issued pursuant to an Award shall (i) if represented by certificates, remain in the physical custody of the Company or such other person as the Committee may designate, or (ii) if issued as shares without certificates, remain in a segregated restricted share account from which they may be released only at the direction of the Company or such other person as the Committee may designate.

SECTION 9. **Change of Control Provisions.**

Unless otherwise determined by the Committee in connection with the grant of an Award, or unless the Participant and the Company agree in writing that the provisions of this Section 9 shall not apply, the following provisions shall apply in the event of a "Change of Control" as defined in this Section 9:

9.01. *Acceleration.* The following shall automatically occur upon the occurrence of a "Change of Control" (as defined in Section 9.02):

(i) 50% of all Performance Awards, Performance-Based Restricted Stock and Other Stock-Based Awards not in the nature of a right that may be exercised and which are subject to performance criteria shall be deemed fully earned and vested at a deemed achievement level equal to the higher of (x) the targeted level of performance for such award or (y) the average level (expressed as a percentage of target) of achievement in respect of similar performance stock-based awards which matured over the three fiscal years immediately preceding the year in which the Change of Control occurred (such higher level, the "Deemed Performance Award Achievement Level"); payment of each such vested award shall be made to the Participant as soon as practicable following such Change of Control; and the remainder of each such award shall remain outstanding (on a converted basis, if applicable) and shall remain subject to the terms and conditions of the Plan;

(ii) Each share of Restricted Stock and each Other Stock-Based Award not in the nature of a right that may be exercised and which is not subject to performance criteria shall be fully vested and earned;

(iii) Any Option, Stock Appreciation Right, and other Award in the nature of a right that may be exercised which was not previously exercisable and vested shall become fully exercisable and vested, and, notwithstanding any other provision of this Plan to the contrary, in the event a Participant's employment with the Company and the Subsidiaries is terminated other than for Cause during the 24-month period following a Change of Control, any Option or Stock Appreciation Right held by such Participant as of such Change of Control that remains outstanding on the date of such termination may thereafter be exercised by the Participant, to the extent it was exercisable at the time of such termination, or on such accelerated basis as the Committee may determine, until the earlier of (A) the later of (x) the second anniversary of such date of such termination or (y) the applicable date under the applicable Award Agreement, or (B) the expiration of the stated term of such Option or Stock Appreciation Right; and

(iv) The restrictions, deferral limitations, and forfeiture conditions applicable to any other Award granted under the Plan shall lapse and such Awards shall be deemed fully vested.

9.02. *Change of Control.* For the purposes of this Plan, a "Change of Control" shall mean the first to occur (after February 11, 2002) of the following:

(1) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (x) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions (collectively, the "Excluded Acquisitions") shall not constitute a Change of Control (it being understood that shares acquired in an Excluded Acquisition may nevertheless be considered in determining whether any subsequent acquisition by such individual, entity or group (other than an Excluded Acquisition) constitutes a Change of Control): (i) any acquisition directly from the Company or any Subsidiary; (ii) any acquisition by the Company or any Subsidiary; (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary; (iv) any acquisition by an underwriter temporarily holding Company securities pursuant to an offering of such securities; (v) any acquisition in connection with which, pursuant to Rule 13d-1 promulgated pursuant to the Exchange Act, the individual, entity or group is permitted to, and actually does, report its beneficial ownership on Schedule 13G (or any successor Schedule); provided that, if any such individual, entity or group subsequently becomes required to or does report its beneficial ownership on Schedule 13D (or any successor Schedule), then, for purposes of this paragraph, such individual, entity or group shall be deemed to have first acquired, on the first date on which such individual, entity or group becomes required to or does so report, beneficial ownership of all of the Outstanding Company Common Stock and/or Outstanding Company Voting Securities beneficially owned by it on such date; or (vi) any acquisition in connection with a Business Combination (as hereinafter defined) which, pursuant to subparagraph (3) below, does not constitute a Change of Control; or

(2) Individuals who, as of February 11, 2002, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to such date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of an individual, entity or group other than the Board; or

(3) Consummation of a reorganization, merger, consolidation or other business combination (any of the foregoing, a "Business Combination") of the Company or any Subsidiary with any other corporation, in any case with respect to which:

> (a) the Outstanding Company Voting Securities outstanding immediately prior to such Business Combination do not, immediately following such Business Combination, continue to represent (either by remaining outstanding or being converted into voting securities of the resulting or surviving entity or any ultimate parent thereof) more than 55% of the outstanding common stock and of the then outstanding voting securities entitled to vote generally in the election of directors of the resulting or surviving entity (or any ultimate parent thereof); or
>
> (b) less than a majority of the members of the board of directors of the resulting or surviving entity (or any ultimate parent thereof) in such Business Combination (the "New Board") consists of individuals ("Continuing Directors") who were members of the Incumbent Board (as defined in subparagraph (2) above) immediately prior to consummation of such Business Combination (excluding from Continuing Directors for this purpose, however, any individual whose election or

> appointment to the Board was at the request, directly or indirectly, of the entity which entered into the definitive agreement with the Company or any Subsidiary providing for such Business Combination); or

(4) (i) Consummation of a sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation with respect to which, following such sale or other disposition, more than 55% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities as the case may be or (ii) shareholder approval of a

complete liquidation or dissolution of the Company.

The term "the sale or disposition by the Company of all or substantially all of the assets of the Company" shall mean a sale or other disposition transaction or series of related transactions involving assets of the Company or of any Subsidiary (including the stock of any Subsidiary) in which the value of the assets or stock being sold or otherwise disposed of (as measured by the purchase price being paid therefor or by such other method as the Board determines is appropriate in a case where there is no readily ascertainable purchase price) constitutes more than two-thirds of the fair market value of the Company (as hereinafter defined). The "fair market value of the Company" shall be the aggregate market value of the then Outstanding Company Common Stock (on a fully diluted basis) plus the aggregate market value of the Company's other outstanding equity securities. The aggregate market value of the shares of Outstanding Company Common Stock shall be determined by multiplying the number of shares of Outstanding Company Common Stock (on a fully diluted basis) outstanding on the date of the execution and delivery of a definitive agreement with respect to the transaction or series of related transactions (the "Transaction Date") by the average closing price of the shares of Outstanding Company Common Stock for the ten trading days immediately preceding the Transaction Date. The aggregate market value of any other equity securities of the Company shall be determined in a manner similar to that prescribed in the immediately preceding sentence for determining the aggregate market value of the shares of Outstanding Company Common Stock or by such other method as the Board shall determine is appropriate.

9.03. *Benefits Upon First Anniversary of Change of Control.* If a Participant remains employed by the Company or its affiliated companies, or both, as applicable, from the date of a Change of Control to the date of the first anniversary of such Change of Control, or if prior to the first anniversary of such Change of Control, the Participant's employment with the Company or its affiliates is involuntarily terminated by the Company or its affiliates, or both, as applicable, other than for Cause or Disability, the performance stock-based awards outstanding immediately prior to such Change of Control that did not become vested and earned at the time of such Change of Control pursuant to Section 9.01(i) shall (irrespective of any provision of the applicable Award Agreement providing for earlier or later vesting) become vested and earned as of the earlier of (a) the first anniversary of the Change of Control or (b) the date the Participant's employment is terminated. Payment in respect of such awards shall be made as soon as practicable following such date. The deemed level of achievement with respect to such awards shall be the Deemed Performance Award Achievement Level.

SECTION 10. **Adjustment Provisions.** In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, spin-off, combination, repurchase, or share exchange, or other similar corporate transaction or event, affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the rights of Participants under the Plan or for any other reason, then the Committee shall, in such manner as it may

deem equitable, make such adjustments to outstanding Awards as it may determine to be appropriate. Such adjustments may include, without limitation: (i) adjustments to any or all of (A) the number and kind of Shares or other property which may thereafter be issued in connection with Awards, (B) the number and kind of Shares or other property issued or issuable in respect of outstanding Awards, and (C) the exercise price, grant price, or purchase price relating to any Award; (ii) the cancellation of outstanding Awards in exchange for payments of cash, property or a combination thereof; (iii) the substitution of other property (including, without limitation, other securities of the Company and securities of entities other than the Company) for the Shares covered by outstanding Awards; and (iv) in connection with any spin-off, sale, or other disaffiliation of any Subsidiary or division of the Company, arranging for the assumption, or replacement with new awards based on other property (including, without limitation, other securities of the Company and securities of entities other than the Company) for the Shares covered by outstanding Awards based on other securities or other property or cash, by the affected Subsidiary or division by the entity that controls such Subsidiary or division following such disaffiliation (as well as any corresponding adjustments to Awards that remain based upon Company securities). In addition, the Committee shall have the discretion to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence) affecting the Company or any Subsidiary or the financial statements of the Company or any Subsidiary, or in response to changes in applicable laws, regulations, or accounting principles; provided, however, that the Committee shall not have such discretion to the extent reserving or exercising such discretion would cause an Award intended, pursuant to Section 7.01, to qualify as "qualified performance-based compensation" not so to qualify.

SECTION 11. **Changes to the Plan and Awards.**

11.01. *Changes to the Plan.* The Board may amend, alter, suspend, discontinue or terminate the Plan without the consent of shareholders or Participants, except that any such amendment, alteration, suspension, discontinuation, or termination shall be subject to the approval of the Company's shareholders within one year after such Board action if such shareholder approval is required by any federal or state law or regulation or the rules of any stock exchange on which the Shares may be listed, or if the Board in its discretion determines that obtaining such shareholder approval is for any reason advisable; provided, however, that, without the consent of an affected Participant, no amendment, alteration, suspension, discontinuation, or termination of the Plan may impair the rights of such Participant under any Award theretofore granted to him.

11.02. *Changes to Awards.* The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue, or terminate, any Award theretofore granted and any Award Agreement relating thereto; provided, however, that, without the consent of an affected Participant, no such amendment, alteration, suspension, discontinuation, or termination of any Award may impair the rights of such Participant under such Award.

SECTION 12. **General Provisions.**

12.01. *No Rights to Awards.* No Participant or employee shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Participants and employees.

12.02. *No Shareholder Rights.* No Award shall confer on any Participant any of the rights of a shareholder of the Company unless and until Shares are duly issued or transferred to the Participant in accordance with the terms of the Award.

12.03. *Tax Withholding.* The Company or any Subsidiary is authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to a Participant, amounts of withholding and other taxes due with respect thereto, its exercise, or any payment thereunder, and to take such other action as the Committee may deem

necessary or advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax liabilities relating to any Award. This authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of Participant's tax obligations.

12.04. *No Right to Employment.* Nothing contained in the Plan or any Award Agreement shall confer, and no grant of an Award shall be construed as conferring, upon any employee any right to continue in the employ of the Company or any Subsidiary or to interfere in any way with the right of the Company or any Subsidiary to terminate his employment at any time or increase or decrease his compensation from the rate in existence at the time of granting of an Award.

12.05. *Unfunded Status of Awards.* The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of trusts or make other arrangements to meet the Company's obligations under the Plan to deliver cash, Shares, other Awards, or other property pursuant to any award, which trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

12.06. *Other Compensatory Arrangements.* The Company or any Subsidiary shall be permitted to adopt other or additional compensation arrangements (which may include arrangements which relate to Awards), and such arrangements may be either generally applicable or applicable only in specific cases.

12.07. *Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

12.08. *Governing Law.* The validity, construction, and effect of the Plan, any rules and regulations relating to the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Florida, without giving effect to principles of conflicts of laws, and applicable federal law.

Effective Date. The Plan was originally effective on February 14, 1994 having been approved by the affirmative vote of the holders of a majority of the Shares present or represented and entitled to vote (and the affirmative vote of a majority of the Shares voting) at a meeting of the Company's shareholders held on May 9, 1994. The Plan was subsequently amended and restated by the Board of Directors of the Company at a meeting held on February 11, 2002 and further amended and restated by the Board of Directors of the Company at a meeting held on December 20, 2002. The Plan was further amended and restated, which amendment and restatement shall become effective on , 2004 (the "Effective Date"), subject to approval of the Plan within one year of the Effective Date by the affirmative vote of the holders of a majority of the Shares present or represented and entitled to vote (and the affirmative vote of a majority of the Shares voting) at a meeting of the Company's shareholders, or any adjournment thereof. The Plan will terminate on the tenth anniversary of the Effective Date. Awards outstanding as of such termination date shall not be affected or impaired by the termination of the Plan.

FPL Group
2004 Annual Meeting

PGA National Resort
400 Avenue of the Champions
Palm Beach Gardens, Florida

DRIVING DIRECTIONS

1. I-95: PGA Boulevard, exit 79B. Proceed west on PGA Boulevard (approximately 2 1/4 miles) through the intersection of PGA Blvd. and the Florida Turnpike. Take the first left after the Florida Turnpike intersection on Avenue of the Champions at the entrance to

PGA National. The resort is at the end of Avenue of the Champions. At the stop sign, facing the resort, turn right. Parking is available in the parking lot on the right side.

2. **Florida Turnpike:** Palm Beach Gardens (PGA Boulevard), exit 109. At the light go west and take the first left on Avenue of the Champions at the entrance to PGA National. The resort is at the end of Avenue of the Champions. At the stop sign, facing the resort, turn right. Parking is available in the parking lot on the right side.

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MR A SAMPLE
DESIGNATION (IF ANY)
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ADD 6

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o Mark this box with an X if you have made changes to your name or address details above.

Annual Meeting Proxy Card

Proxy/Voting Instructions
FPL Group, Inc.
This Proxy is solicited on behalf of the Board of Directors

The undersigned hereby appoints Dennis P. Coyle, Lawrence J. Kelleher, and Mary Lou Kromer, and each of them, with power of substitution, proxies of the undersigned, to vote all shares of Common Stock of FPL Group, Inc. that the undersigned would be entitled to vote at the Annual Meeting of Shareholders to be held May 21, 2004 and any adjournment or postponement thereof, upon the matters referred to on this proxy and, in their discretion, upon any other business that may properly come before the meeting.

This Proxy when properly executed will be voted in the manner directed by the undersigned shareholder. If no direction is made, this Proxy will be voted FOR all nominees listed in proposal 1 and FOR proposals 2, 3, 4, 5 and 6.

If you are a participant in any of FPL Group, Inc.'s Employee Thrift Plans (the 'plans'), this proxy information will be forwarded to Fidelity Management Trust Company, as Trustee of the Thrift plans, and will tell the Trustee how to vote the number of shares of Common Stock reflecting your proportionate interest in the FPL Group Stock Fund and the FPL Group Leveraged ESOP Fund. Your instructions will also determine the vote on a proportionate number of the Leveraged ESOP shares which are held in the Thrift Plans but not yet allocated to participants. If you do not give the Trustee voting instructions, the number of shares reflecting your proportionate interest will not be voted, but your proportionate share of the unallocated Leveraged ESOP shares will be voted by the Trustee in the same manner as it votes unallocated shares for which instructions are received.

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Admission Ticket

Admission: This ticket, along with a form of personal identification, admits the named shareholder(s) and one guest.

Security: For the safety of attendees, all boxes, handbags and briefcases are subject to inspection.

Driving Directions: The resort is at the end of Avenue of the Champions. At the stop sign, facing the resort, turn right. Parking is available in the parking lot on the right side.

1. **I-95:** PGA Boulevard, exit 79B. Proceed west on PGA Boulevard (approximately 2 1/4 miles) through the intersection of PGA Blvd. and the Florida Turnpike. Take the first left after the Florida Turnpike intersection on Avenue of the Champions at the entrance to PGA National.

2.

Florida Turnpike: Palm Beach Gardens (PGA Boulevard), exit 109. At the light, go west and take the first left on Avenue of the Champions at the entrance to PGA National.

FPL Group's 2004 Annual Shareholders' Meeting will be held at 10:00 A.M. Eastern Time on Friday, May 21, 2004 at the PGA National Resort, Palm Beach Gardens, Florida. If you plan to attend the annual Shareholders' Meeting, please tear off this Admission Ticket. PGA National Resort is handicap accessible. If you require special assistance, call the Coordinator, Shareholder Services at 561-694-4694.

MR A SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4
ADD 5
ADD 6

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Proxy FPL Group, Inc.

A Election of Directors

SEE BELOW FOR INTERNET AND TELEPHONE VOTING INSTRUCTIONS.

1. The Board of Directors recommends a vote FOR the listed nominees.

	For	Withhold		For	Withhold		For	Withhold
01 H. Jesse Arnelle	o	o	05 James L. Camaren	o	o	09 Paul R. Tregurtha	o	o
02 Sherry S. Barrat	o	o	06 Lewis Hay III	o	o	10 Frank G. Zarb	o	o
03 Robert M. Beall, II	o	o	07 Frederic V. Malek	o	o	Mark here if you plan to attend the meeting.	o	
04 J. Hyatt Brown	o	o	08 Michael H. Thaman	o	o			

B Issues

The Board of Directors recommends a vote FOR proposals 2, 3, 4, 5 and 6.

		For	Against	Abstain			For	Against	Abstain
2.	Ratification of the appointment of Deloitte & Touche LLP as auditors.	o	o	o	5.	Approval of the performance-based awards provisions of the Amended and Restated Long Term Incentive Plan as required by the Internal Revenue Code.	o	o	o
3.	Approval of the Amended and Restated Long Term Incentive Plan, in an amended form.	o	o	o	6.	Approval of an amendment to the Restated Articles of Incorporation to increase the number of authorized shares of common stock.	o	o	o
4.	Approval of the Annual Incentive Plan as required by the Internal Revenue Code.	o	o	o		**In their discretion such other business as may properly come before the meeting.**			

C Authorized Signatures Sign Here This section must be completed for your instructions to be executed.

NOTE: Please sign your name(s) EXACTLY as your name(s) appear(s) on this proxy. All joint holders must sign. When signing as attorney, trustee, executor, administrator, guardian or corporate officer, please provide your FULL title.

Signature 1 Please keep signature within the box | Signature 2 Please keep signature within the box | Date (mm/dd/yyyy)

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Internet and Telephone Voting Instructions

Your vote is important. Regardless of whether you plan to attend the meeting, it is important that your shares be voted. Accordingly, we ask that you vote your shares as soon as possible using one of three convenient methods: over the phone, over the internet or by signing and returning your proxy card in the envelope provided. If you plan to attend the meeting, please mark the appropriate box on the proxy.

You can vote by telephone OR Internet! Available 24 Hours a day 7 days a week!
Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

To vote using the Telephone (within U.S. and Canada)
Call toll free 1-866-396-1522 in the United States or Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the call.
Follow the simple instructions provided by the recorded message.

To vote using the Internet
Go to the following web site:
WWW.COMPUTERSHARE.COM/US/PROXY
Enter the information requested on your computer screen and follow the simple instructions.

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If you vote by telephone or the Internet, please DO NOT mail back this proxy card.
Proxies submitted by telephone or the Internet must be received by 1:00 a.m., Central Time, on May 21, 2004.
THANK YOU FOR VOTING

QuickLinks