FPL Energy
Seabrook Station

FPL Energy Seabrook Station
P.O. Box 300
Seabrook, NH 03874
(603) 773-7000

JAN 30 2004

Docket 50-443
NYN-03107

U. S. Nuclear Regulatory Commission
Attention: Document Control Desk
Washington, DC 20555-0001

Seabrook Station
Guarantees of Payments of Deferred Premiums

Pursuant to 10CFR 140.21(e) and 10CFR 50.71 (b), FPL Energy Seabrook, LLC, on behalf of the licensees named in Facility Operating License NPF-86, provides the Annual Reports for 2002. The Annual Reports demonstrate the collective ability of the licensees to meet their obligation for payment of deferred premiums.

Annual Reports for 2002 (containing certified financial statements) are enclosed for the following:

- FPL Group (for subsidiary FPL Energy Seabrook)
- Massachusetts Municipal Wholesale Electric Company
- Hudson Light and Power Department

The 2002 Annual Report for Taunton Municipal Lighting Plant will be provided when it becomes available.

M001

Should you have any questions regarding this matter, please contact Mr. James M. Peschel, Regulatory Programs Manager, at (603) 773-7194.

Very truly yours,

FPL ENERGY SEABROOK, LLC

James M. Peschel
Regulatory Programs Manager

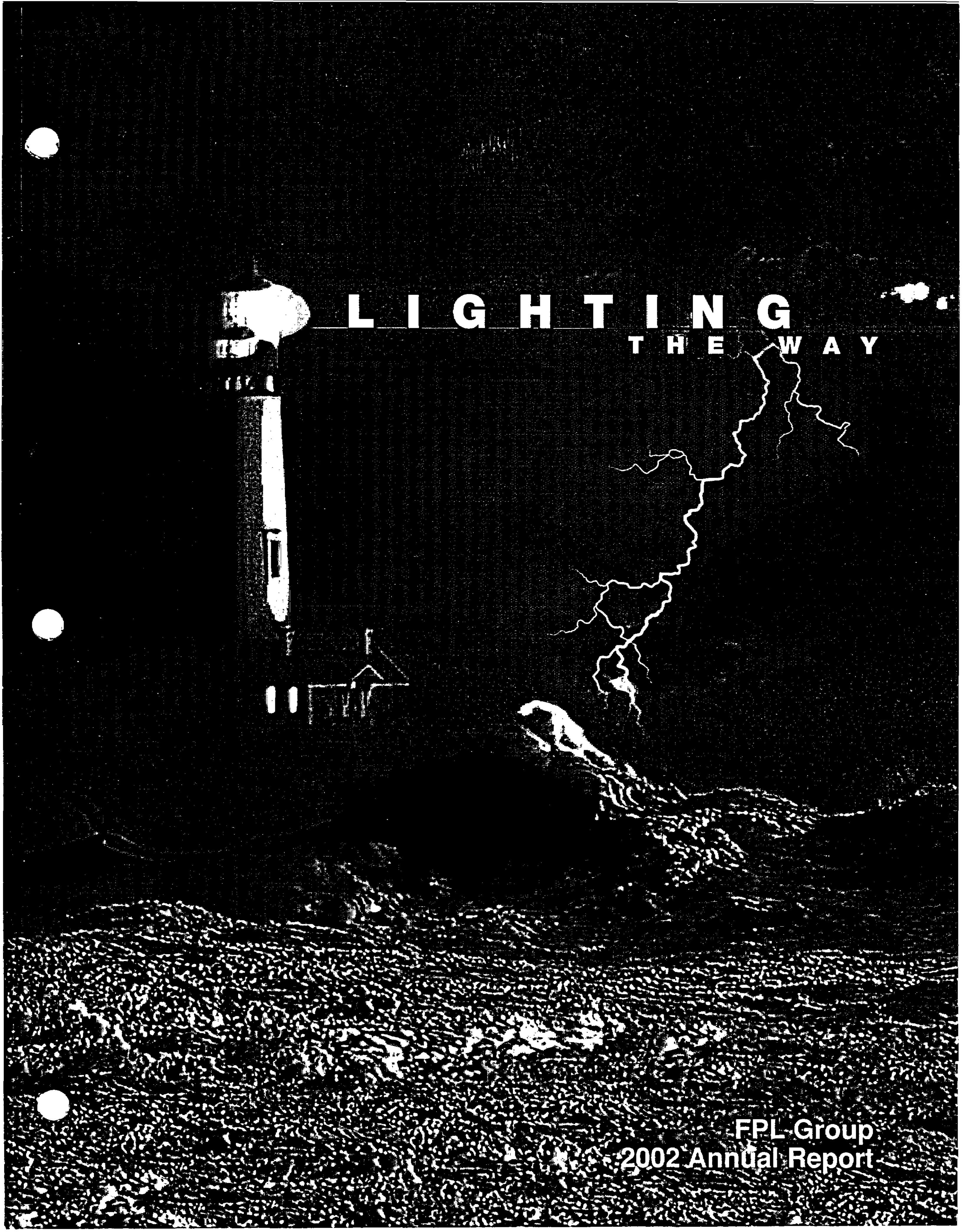
cc: (without enclosures):

H. J. Miller, NRC Region I Administrator
V. Nerses, NRC Project Manager, Project Directorate I-2
G. T. Dentel, NRC Senior Resident Inspector
Mr. Anthony J. Monteiro, Manager Hudson Light and Power
Mr. Joseph M. Blain, Manager Taunton Municipal Lighting
Mr. Joseph O. Roy, Manager of Operating Projects, Massachusetts Municipal Wholesale Electric Co.
Ms. Liza Kuzel, Business Manager FPL Energy, LLC

cc: (with enclosures):

U. S. Nuclear Regulatory Commission
Attention: James Dyer
Director of Nuclear Reactor Regulation
One White Flint North
11555 Rockville Pike
Rockville, Maryland 20852-2738

ENCLOSURE TO NYN-03107



LIGHTING THE WAY

FPL Group
2002 Annual Report

PROFILE

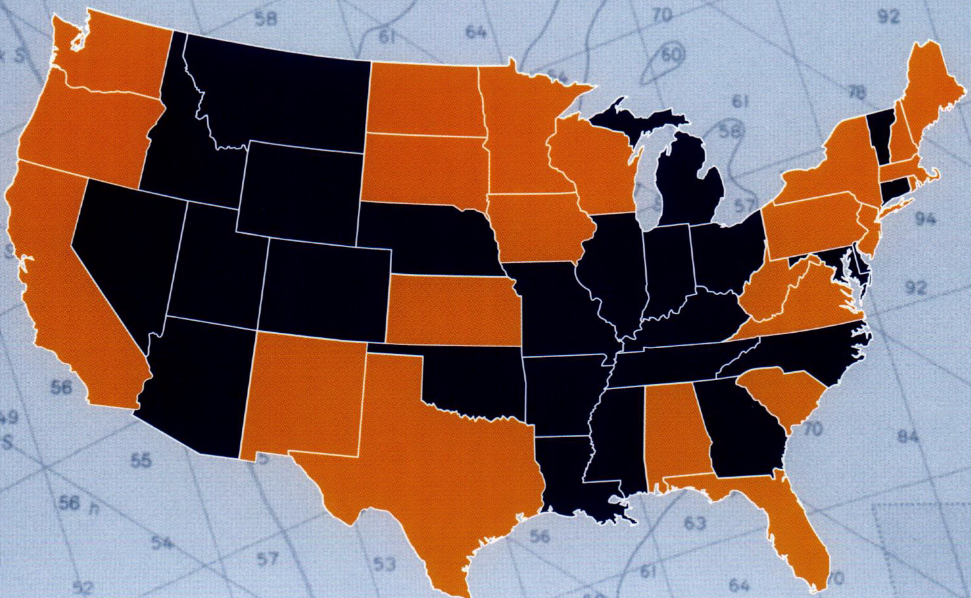
FPL Group, Inc. is one of the nation's largest providers of electricity-related services and is nationally known as a high-quality, efficient and customer-driven organization. Its principal subsidiary, Florida Power & Light Company, serves nearly eight million people along the eastern seaboard and southern portion of Florida. FPL Energy, LLC, FPL Group's unregulated wholesale energy subsidiary, is a leader in producing electricity from clean and renewable fuels. Together, FPL's and FPL Energy's generating assets represent more than 24,000 megawatts of capacity. By 2005, this combined portfolio is expected to increase to more than 31,500 megawatts of capacity. FPL FiberNet, LLC, provides fiber-optic services and fiber-optic cable to businesses in Florida.

FPL: POWERING A GROWING STATE

Florida Power & Light serves more than four million customer accounts in 34 counties.

FPL ENERGY: A POWERFUL NATIONAL PRESENCE

FPL Energy is one of America's leading clean energy providers (yellow areas denote states with FPL Energy projects and offices)



For the Years Ended December 31,	2002	2001	% change
FINANCIAL RESULTS *(millions, except per share amounts)*			
Net Income excluding after-tax effect of non-recurring items and net unrealized mark-to-market gains associated with non-managed hedges*	$831	$792	4.9
Net Income	$473	$781	(39.4)
Earnings Per Share excluding non-recurring items and net unrealized mark-to-market gains associated with non-managed hedges (assuming dilution)*	$4.80	$4.69	2.3
Earnings Per Share (assuming dilution)	$2.73	$4.62	(40.9)
Operating Revenues	$8,311	$8,326	(0.2)
Operating Income	$1,228	$1,396	(12.0)
Cash Flow from Operating Activities	$2,338	$1,942	20.4
Total Assets	$19,790	$17,463	13.3
COMMON STOCK DATA			
Weighted-Average Shares Outstanding (*millions*)	173	169	2.4
Dividends Per Share	$2.32	$2.24	3.6
Book Value Per Share	$36.21	$35.59	1.7
Market Price Per Share (*high/low*)	$65.31-$45.00	$71.63-$51.21	
OPERATING DATA			
Utility Energy Sales (*millions kwh*)	98,605	93,488	5.5
FPL Customer Accounts (*year end*)	4,064	3,970	2.4
Employees (*year end*)	11,577	10,992	5.3

**See page 24 for more details about the non-recurring items.*

CONTENTS

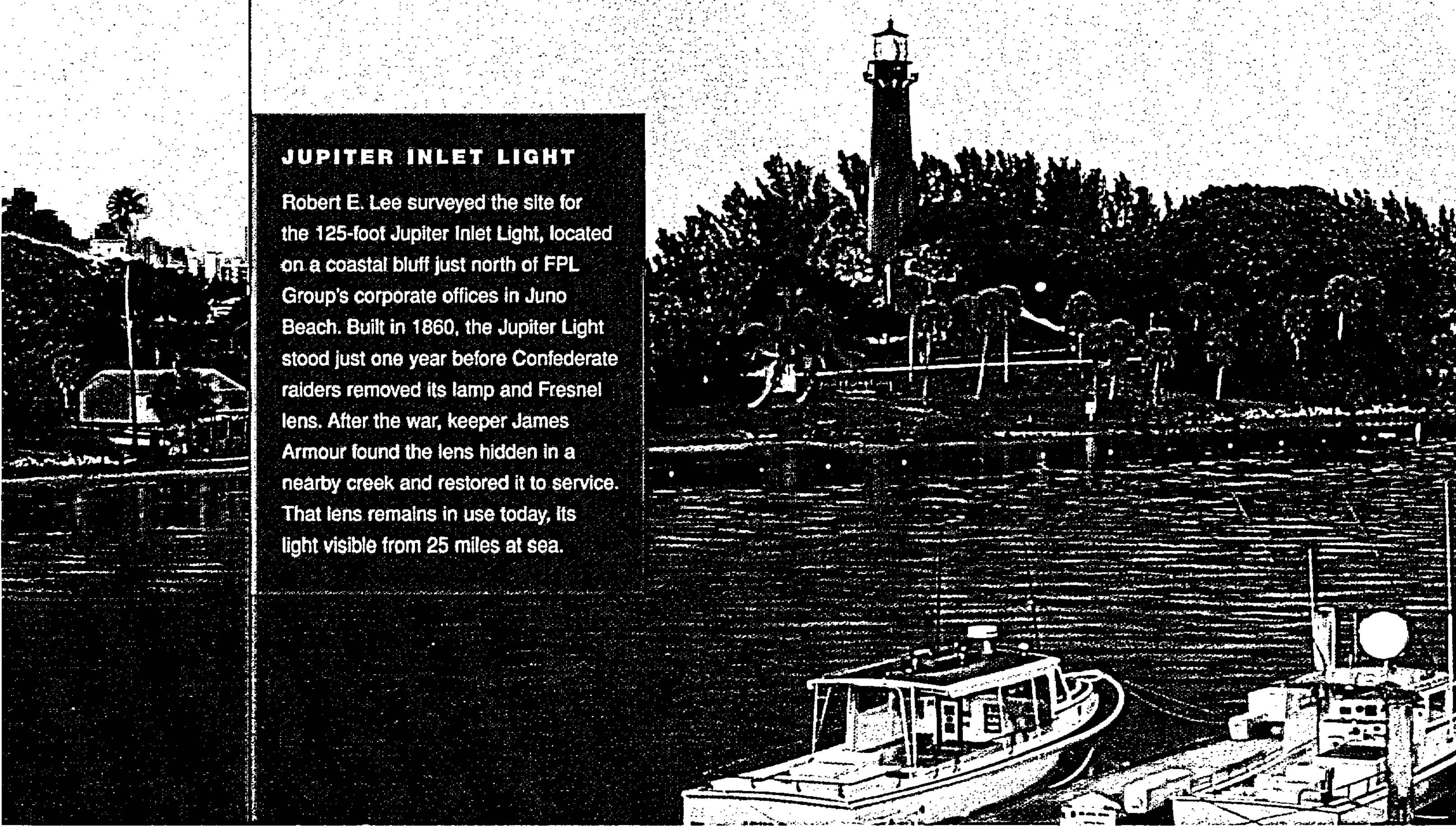
SAFE HARBOR STATEMENT:

Any statements made herein about future operating results or other future events are forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ substantially from such forward-looking statements. A discussion of factors that could cause actual results or events to vary is contained in FPL Group's 2002 SEC Form 10-K (See the full statement on page 69.)

Dear Shareholders:

Last year I wrote to you detailing the stormy year experienced in 2001 by American industry in general and the electric power industry in particular. Well, 2002 wasn't much kinder and, in many ways, the seas got even choppier. Difficult economic conditions, overcapacity in many electricity markets and lower power prices persisted. Moreover, financial scandals and other mismanagement — such as so-called "wash trading" to artificially inflate revenues and the apparent aggressive use of mark-to-market accounting — that at first appeared limited to energy trading companies and some independent power producers later threatened to sink some of the most well-respected companies in our business.

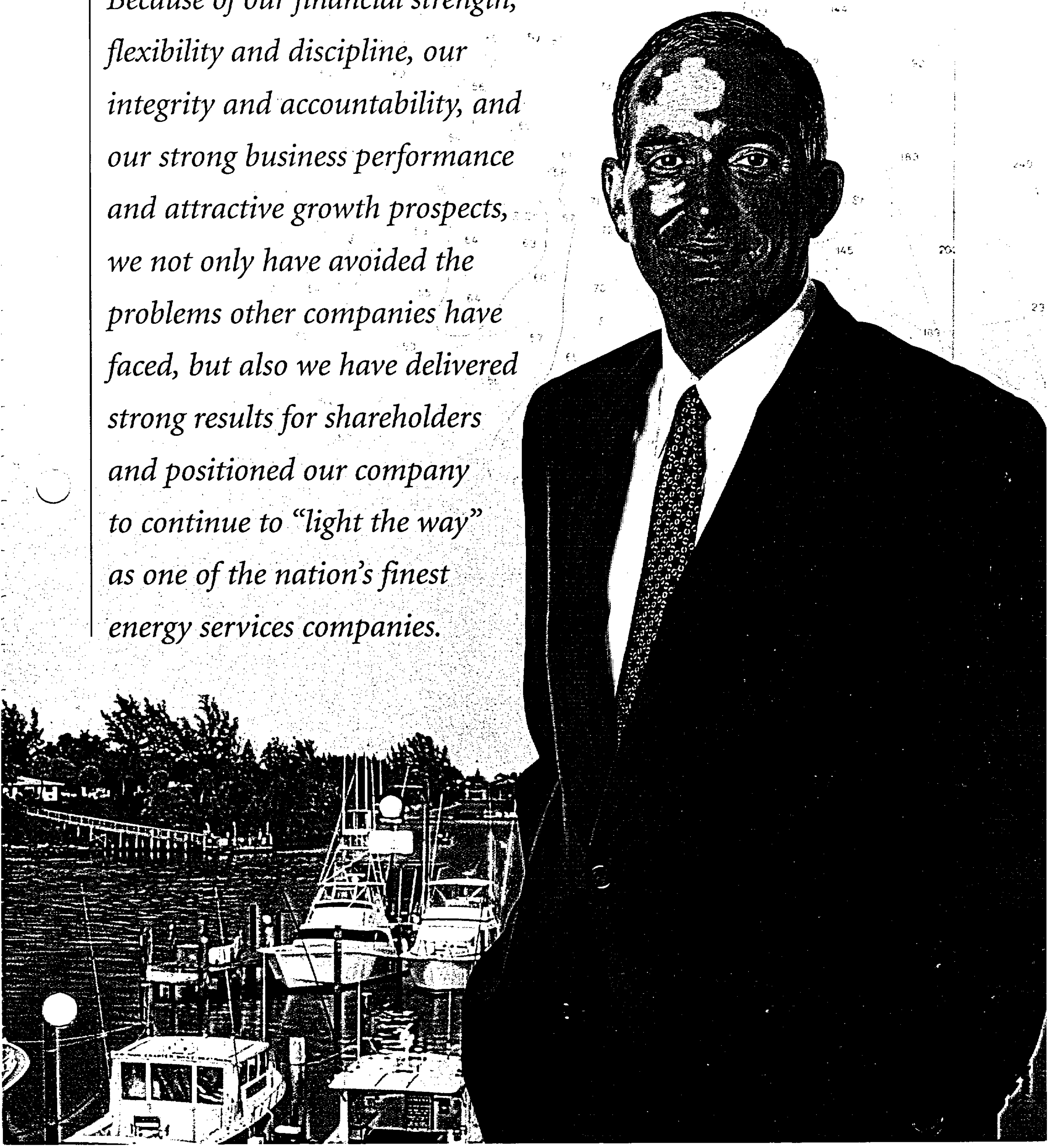
FPL Group weathered this period of uncertainty remarkably well. Because of our financial strength, flexibility and discipline, our integrity and accountability, and our strong business performance and attractive growth prospects, we not only have avoided the problems other companies have faced, but also we have delivered strong results for shareholders and positioned our company to continue to "light the way" as one of the nation's finest energy services companies. Let me discuss each of these attributes in greater detail.



JUPITER INLET LIGHT

Robert E. Lee surveyed the site for the 125-foot Jupiter Inlet Light, located on a coastal bluff just north of FPL Group's corporate offices in Juno Beach. Built in 1860, the Jupiter Light stood just one year before Confederate raiders removed its lamp and Fresnel lens. After the war, keeper James Armour found the lens hidden in a nearby creek and restored it to service. That lens remains in use today, its light visible from 25 miles at sea.

Because of our financial strength, flexibility and discipline, our integrity and accountability, and our strong business performance and attractive growth prospects, we not only have avoided the problems other companies have faced, but also we have delivered strong results for shareholders and positioned our company to continue to "light the way" as one of the nation's finest energy services companies.

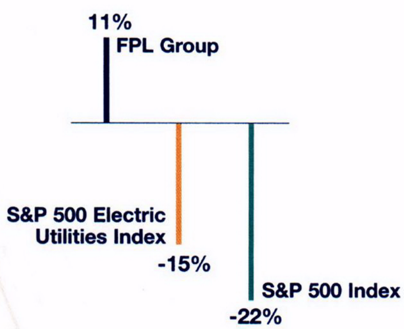


FINANCIAL STRENGTH, FLEXIBILITY AND DISCIPLINE

Thanks to contributions from our outstanding team of employees, FPL Group delivered significant value to our shareholders in 2002, providing an 11% total shareholder return. FPL Group shares significantly out-performed the S&P 500 Index this year — and a key peer group, the S&P 500 Electric Utilities Index.

FPL Group Comparative Total Shareholder Return

12/31/01 – 12/31/02



Our strong business franchises combined in 2002 to deliver record earnings.

- Net income, excluding the after-tax effect of certain non-recurring items and the mark-to-market effect of non-managed hedges, reached $831 million — an all-time high — compared with $792 million in 2001. Including the after-tax effect of these items (totalling $358 million after-tax) — virtually all non-cash items and the majority of which is associated with a goodwill accounting change — net income was $473 million. (See page 24 for more details about the non-recurring charges.)
- Related earnings per share were up 2.3% at $4.80, compared to $4.69 in 2001.

We continued to emphasize the importance of financial strength, flexibility and discipline — hallmarks of this company for many years. We enhanced our already strong financial position by issuing $1.4 billion of equity and equity-linked securities by mid-year. In a year when liquidity was sometimes difficult to obtain, we successfully expanded the short-term credit resources available to us.

Credit rating agencies continued to recognize our financial strength and integrity. In June, Moody's reconfirmed FPL's senior secured credit rating at Aa3 and FPL Group Capital's senior unsecured credit rating at A2. Standard & Poor's reaffirmed its A corporate credit ratings on FPL Group and FPL in November.

Reflecting our confidence in the sustainability of our earnings power, our board continued our past practice of raising the dividend modestly each year.

INTEGRITY AND ACCOUNTABILITY

I believe you can tell a lot about a company by how it approaches "corporate governance" matters — those principles, policies and activities that determine how a company is led and managed.

We have long been committed to unquestioned integrity in all aspects of our business. For example, we were one of 14 companies given an A+ rating in the first national survey of corporate responsibility policies conducted by the California Public Employees Retirement System.

You have my personal commitment that FPL Group will continue to take tangible and meaningful actions to uphold and further strengthen our outstanding record of integrity and accountability. For example:

- As we did last year, our Chief Financial Officer Moray Dewhurst, our Controller and Chief Accounting Officer Mike Davis and I are voluntarily signing the management's report contained in this annual report. In addition, on a regular reporting basis since August and in accord with the Sarbanes-Oxley Act, Moray and I personally attest to the completeness and accuracy of our annual and quarterly reports.
- Our senior executive team stays close to the day-to-day operations of our business. We know where our revenues come from and how the company makes its money. We understand the risks the company is undertaking in the course of carrying out our business, and we have strong controls in place for managing those risks.

C02

- Today, 11 of our 13 directors are independent. Our compensation and audit committees have been comprised solely of independent directors for many years, as has our corporate governance committee since its inception in 2001.
- Additionally, the agenda for every regularly scheduled board meeting includes an executive session where the independent directors, if they so choose, can meet without members of management.
- A Code of Conduct for our employees has been updated, and we're requiring our top 200+ officers and managers to certify annually, in writing, their compliance with this code.

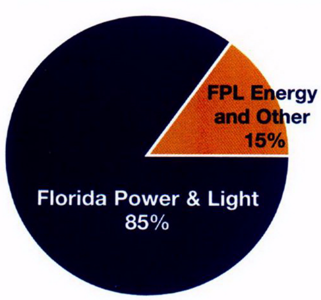
STRONG PERFORMANCE AND ATTRACTIVE GROWTH PROSPECTS

Our three businesses are positioned well for attractive long-term growth. Each is guided by a talented leadership team and a sound, disciplined business strategy.

Florida Power & Light: *A Premier Integrated Utility*

Florida Power & Light Company, the largest investor-owned utility in Florida, is one of the nation's top-performing utilities. It produced strong average annual earnings growth of more than 4% over the past decade and is expected to provide 85% of FPL Group's earnings this year.

2003 Projected Earnings Contribution



In 2002, FPL produced excellent results despite a 7% reduction in base rates approved by the Office of Public Counsel and Florida Public Service Commission in March that will remain in effect through 2005.

- Net income for Florida Power & Light increased to $717 million or $4.14 per share in 2002, from $695 million or $4.11 per share in 2001, excluding an after-tax non-recurring expense of $16 million in 2001.
- FPL added almost 94,000 new customer accounts during the year, a 2.4% increase over 2001. During the year we turned on power to our 4 millionth customer. Electricity usage per retail customer also grew — by 3.5% — reflecting warmer than normal weather.
- Our operational performance continues to place us near the very top among U.S. utilities. The amount of time our power plants are available to produce power is among the highest in the industry, and the reliability of our electric transmission and delivery systems is also among the best in the business.
- Our residential rates are 13% below national average.
- Our power plant emissions, on a per megawatt-hour basis, are among the lowest in the industry.
- Of special note, the Nuclear Regulatory Commission in 2002 granted 20-year license extensions to our two nuclear power generating units at Turkey Point, allowing FPL customers to continue to benefit from this clean, reliable and low-cost power source. We hope to receive similar license extensions for our two St. Lucie units this year.
- We continued to expand our electric system to meet growing customer demand, while remaining a low-cost provider. Both our operations and maintenance costs and our capital investment per customer are well below industry averages.

Florida Power & Light expects to see healthy earnings growth of 4–5% in 2003, which equates to $725 to $735 million in net income, adjusting the comparative 2002 results for normal weather. This assumes continued growth in customer accounts, normal weather and gains in productivity in 2003. Our strategy is to:

- Capitalize on growing demand for electricity in our service territory.
- Continue to improve our outstanding operating performance.

C03

- Seek opportunities to profitably grow our core utility business.
- Work to maintain the collaborative and progressive regulatory environment that has resulted in incentive-based ratemaking that benefits both our shareholders and our customers.

FPL Energy: *Disciplined Wholesale Power Generation Business*

FPL Energy, our unregulated wholesale energy subsidiary operating outside the state of Florida, continued its growth in 2002 despite substantial turmoil in the wholesale generation market.

- Excluding the mark-to-market effect of non-managed hedges and non-recurring charges that totalled $295 million after-tax in 2002 (virtually all non-cash items and the majority of which is associated with a goodwill accounting change) and a net gain of $8 million in 2001, FPL Energy's net income was up 20% over 2001 to a record $126 million, and its contribution to earnings per share was up 18%. Factors contributing to this record performance included our commitment to efficient, low-cost operations, portfolio additions, and ongoing asset and contract restructuring activities.
- We increased our portfolio by more than 40%, to 7,250 net-megawatts, including leased capacity. Most notably, we acquired a controlling interest in the Seabrook Station nuclear power plant in New Hampshire, the premier nuclear power plant in the Northeast. This plant will complement our portfolio in the region and further diversify our fuel mix.
- We remained the U.S. leader in wind power by adding 324 megawatts to our wind portfolio, which now totals more than 1,700 megawatts — or more than one-third of the U.S. total. All of our wind plants have long-term power sales contracts.
- To reduce risk and lend stability to our earnings profile, approximately 80% of the power we generated in 2002 was sold under forward contracts.
- In response to soft market conditions, we took decisive actions — reducing overhead costs, renegotiating purchase agreements for fewer combustion turbines, and canceling and/or postponing new gas-fired power plant projects.

We expect the wholesale generation industry to be weak for the next several years. Nonetheless, we have built a solid, profitable portfolio of generating assets, and our outlook for continued profitable growth is strong. In 2003, we expect FPL Energy to produce healthy earnings growth of 30-50% as more than 90% of our expected gross margin for the year is already under contract.

Our strategy for achieving our 2003 and longer-term goals is multi-faceted:

- Remain a low-cost provider.
- Maintain a portfolio of assets diversified by region and by fuel source.
- Reduce risk by contracting to sell the majority of expected future output and correspondingly hedge our fuel requirements.
- Add 700 to 1,200 megawatts of wind energy in 2003 and sell the output under long-term sales contracts.
- Complete in 2003 four natural gas-fired power plants currently under construction that will add nearly 3,000 net-megawatts.
- Continue to search for opportunities to further optimize our portfolio, capturing additional value through asset sales, contract restructurings, and related strategies.

Given the financial pressures on other generation companies, and with a reported 20,000 megawatts of generation capacity for sale, we may purchase additional generation assets if attractive opportunities present themselves. However, we will be extremely selective in doing so, only pursuing accretive acquisitions that fit our strategy and are financeable in today's environment. Going forward, we are better positioned than most companies in this sector today, and we are well positioned to capitalize on market opportunities when business conditions improve.

FPL FiberNet: *Adjusting to Difficult Market Conditions*

Given the ongoing difficulties in the telecommunications sector, the short-term growth prospects for FPL FiberNet are not good. We expect this to be roughly a break-even business over the next year or so. FPL FiberNet remains focused on its core mission of operating one of the leading metropolitan-area fiber-optic networks in the United States. However, we will be minimizing the amount of new investment in this business until market conditions improve.

IN OTHER IMPORTANT ACTIONS...

- Frank G. Zarb and James L. Camaren were elected to serve as directors of FPL Group, and Jim Robo was named president of FPL Energy. Each has valuable expertise that will serve us well in our changing industry.
- FPL Group again received the highest ranking in environmental performance among 28 electric utilities in the United States evaluated by Innovest Strategic Value Advisors, an internationally recognized investment research firm. It was the second straight time our company earned this #1 ranking.

LIGHTING THE WAY

Amidst the turbulent seas that have characterized our industry in the recent past, FPL Group continues to hold steady as a reliable beacon and a solid investment.

We are a company ***built on solid fundamentals***. We consistently experience healthy growth in demand for electricity in our utility service territory, we manage high quality assets, and we have a longstanding culture of operational excellence and financial discipline.

We have a ***proven track record***. We have long been known for meeting our earnings expectations and enhancing shareholder value, we act proactively to meet challenges, and our actions often exceed the levels of performance required by law or regulation. With the interest of shareholders and customers in mind, we have avoided many industry fads that have proven later to be of questionable worth or value for many of the companies that have pursued them.

We continue to capitalize on ***attractive, realistic growth prospects***, both at our regulated utility — especially due to customer and usage growth — and at our unregulated wholesale energy subsidiary.

And we have a ***relatively low-risk profile***. Approximately 85% of our expected 2003 earnings will be generated by Florida Power & Light, and more than 90% of the expected 2003 gross margin at FPL Energy has been hedged. We have a strong balance sheet, we're well diversified by region and fuel source, and our modest, low-risk trading business is focused almost exclusively on reducing risk and extracting maximum value from our assets.

Consistent Growth in Earnings Per Share

6% compound annual growth rate

Excluding mark-to-market effects of non-managed hedges and non-recurring items.

Benefiting from a carefully crafted strategy, a very talented team of employees and a commitment to continuous improvement, 2003 is shaping up to be another year of record financial and operating performance for FPL Group, and a year in which we expect to further enhance our reputation as one of the very best companies in our industry.

As always, we at FPL Group appreciate the support of our shareholders. Please be assured that we'll continue to do our best each day to sustain that support and grow shareholder value.

Lewis Hay III
Chairman, President and
Chief Executive Officer

March 28, 2003

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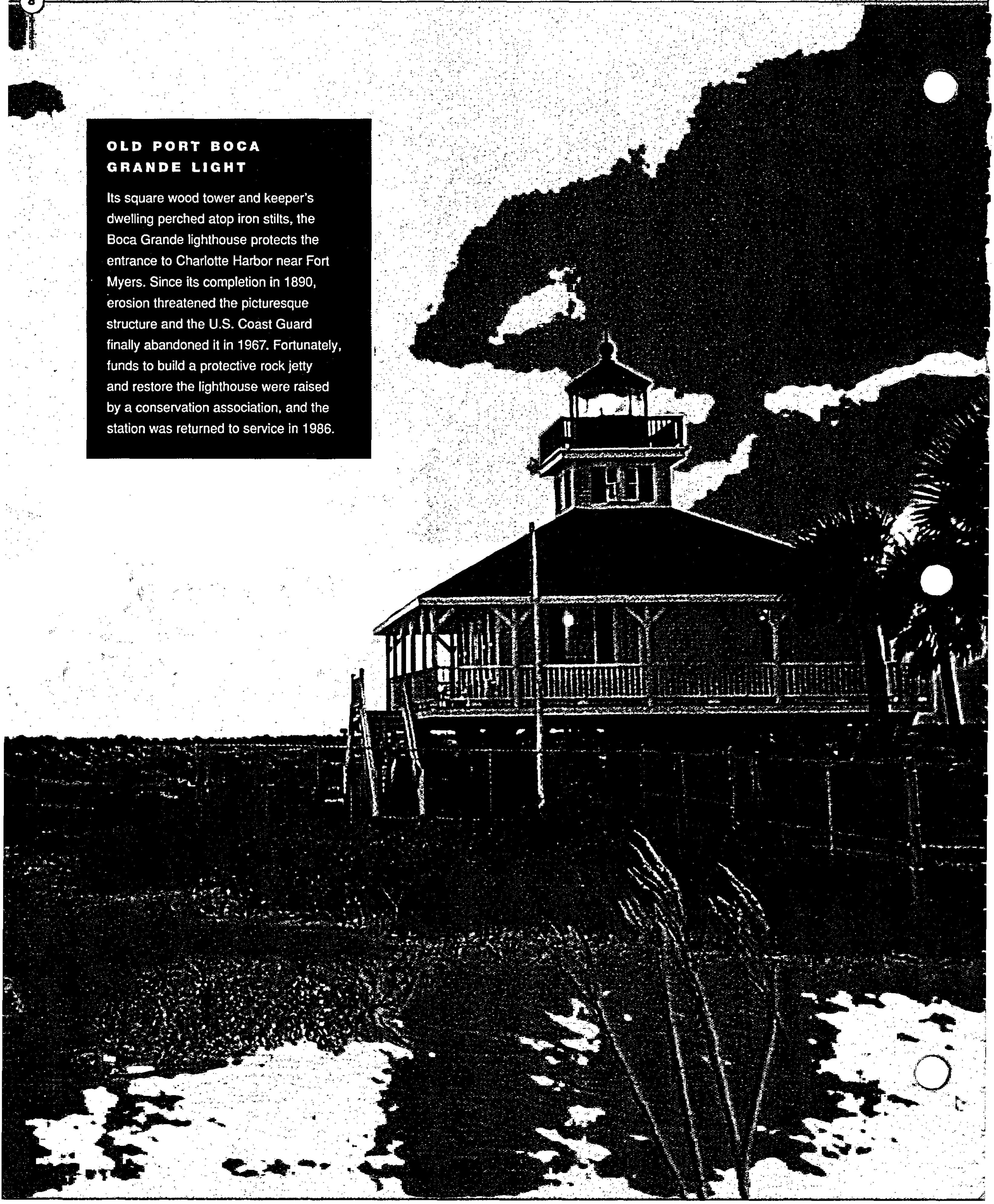


OLD PORT BOCA GRANDE LIGHT

Its square wood tower and keeper's dwelling perched atop iron stilts, the Boca Grande lighthouse protects the entrance to Charlotte Harbor near Fort Myers. Since its completion in 1890, erosion threatened the picturesque structure and the U.S. Coast Guard finally abandoned it in 1967. Fortunately, funds to build a protective rock jetty and restore the lighthouse were raised by a conservation association, and the station was returned to service in 1986.

Florida Power & Light

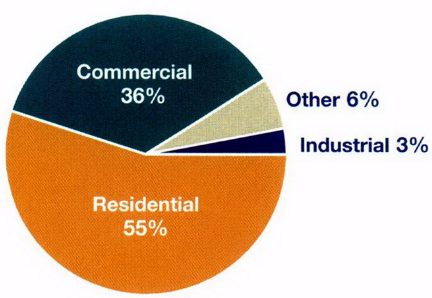
Florida Power & Light stood out as a beacon of stability within the electric industry during 2002 as it delivered another year of superior performance. Continued growth, improvements in reliability and service, and a favorable rate agreement helped solidify FPL's position as a low-cost, high-quality provider of electricity and one of the top utilities in the country.

MEETING FLORIDA'S GROWING ENERGY NEEDS

FPL is among America's largest and fastest growing electric utilities. During the year the utility added 94,000 new accounts, a 2.4% increase, including our four millionth customer. Electricity usage per retail customer grew by 3.5%, due primarily to warmer than normal weather and the elasticity of demand in the aftermath of a reduction in base electricity rates. Energy sales reached an all-time high of 98.6 billion kilowatt-hours. For 2003, we expect customer growth of about 1.9% and weather normalized usage growth of about 2.1%.

2002 Customer Mix

(FPL revenues by customer segment)



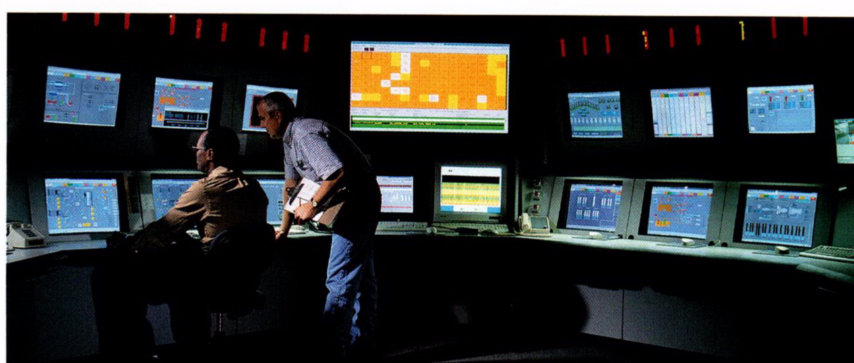
To meet future growth — and as part of an on-going expansion plan — FPL increased its generating capability by 1,022 net-megawatts during 2002 with the successful completion of the Fort Myers plant repowering project and the first half of the Sanford plant repowering project. The utility's total generating capability at year-end 2002 was nearly 21,000 megawatts, including purchased power. The completion in 2003 of the Sanford project and additional peaking units being built at Fort Myers will add nearly 1,300 more megawatts to the FPL system.

Following an analysis of 134 other proposals in two competitive capacity solicitations, the Florida Public Service Commission unanimously approved FPL's proposed expansion projects at the Manatee and Martin plant sites. Subject to additional regulatory approvals, the expansion at Manatee and Martin will provide an additional 1,900 megawatts of power in 2005, enough to meet the needs of approximately 400,000 new customers and maintain a reserve margin of 20%.

FPL is expanding its system facilities and infrastructure to support the increased generating capacity and demand. During 2002 the company added 11 new substations, 36 miles of transmission lines, and more than 400 miles of distribution lines. In 2003, the company expects to add 14 new substations, nearly 90 miles of transmission, and approximately 415 miles of distribution.

While building plants and facilities to meet the growing demand on its system, FPL works with customers to help them conserve or reduce their use of electricity. Its conservation and demand side

This is the control room of FPL's state-of-the-art combined-cycle power plant at Fort Myers. A four-year project to repower the Fort Myers plant culminated in Spring 2002. With a new generating capability of more than 1,400 megawatts, the project nearly tripled the plant's former capacity while substantially reducing emissions. The installation of additional peaking units here, as well as the repowering of the Sanford plant, will be completed this year.



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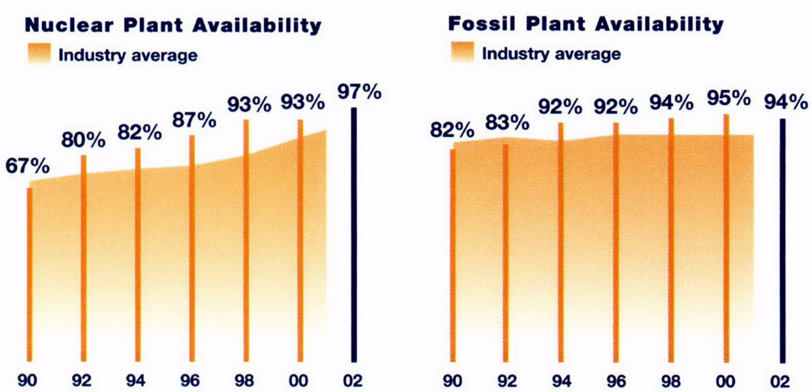
management programs are among the most effective in the nation and to date have reduced the need for new generation by approximately 3,200 megawatts — the equivalent of not building six large power plants.

SUPERIOR RELIABILITY

FPL's power plants operate at world-class levels. The percentage of time they are available to generate power is among the highest in the industry. During 2002 the "availability" of FPL's nuclear facilities rose to a record 97%, well above the most recent industry average of 89%. In addition, the company's nuclear operations received a rating of 99.3 from the World Association of Nuclear Operators, placing us among the top quarter of the nation's 103 nuclear units.

An Industry Leader in Plant Performance



The availability of the company's fossil-fueled plants was 94%, just off last year's record and also well above the industry average of 87%.

Healthy population growth in the Sunshine State and increased customer electric use make FPL one of the largest and fastest-growing electric utilities in the nation. FPL added its four millionth customer in 2002, and its annual customer growth rate continues to be higher than that of most other utilities. Retail customer energy use also increased by 3.5% in 2002. Both of these drivers contributed to record energy sales of 98.6 billion kilowatt-hours.

FPL's reliability and customer service continue to improve. Over the past five years the average annual amount of time that customers were without power has been cut nearly in half, from more than 137 minutes to 69 minutes. In addition, the duration and frequency of interruptions have been reduced by 35% and 23%, respectively.

IMPROVING CUSTOMER SERVICE

FPL continually strives to be a customer-friendly company. For example, as the result of an initiative begun in 2000, customers are being kept better informed about the status of planned power outages and the restoration of power. Improvements in Web-based options allow customers to access their accounts and other important energy information, as well as pay their bills more conveniently. These and other quality initiatives have enabled the company to receive continued high marks in its annual customer surveys of both residential and business customers.

After more than a decade of steady reductions, FPL's operating and maintenance costs per kilowatt-hour rose in 2002, driven by higher expenses for nuclear maintenance, property insurance and employee medical costs, and a one-time voluntary accrual of $35 million — in addition to the normal $20 million — in the storm fund to be better prepared should a major storm strike within its service area. Nonetheless, the company's O&M expenses as measured in dollars per customer remained at 42% below the industry average. With a goal of further improving both service levels and cost effectiveness, FPL is intensifying its efforts to improve its quality, productivity and operational efficiency.

MILESTONES FOR NUCLEAR OPERATIONS

FPL's nuclear facilities at Turkey Point, located south of Miami, and at St. Lucie, on Hutchinson Island, combined to produce more than 26 billion kilowatt-hours of electricity during 2002. This is more than a 5% increase over the previous year and an all-time high.

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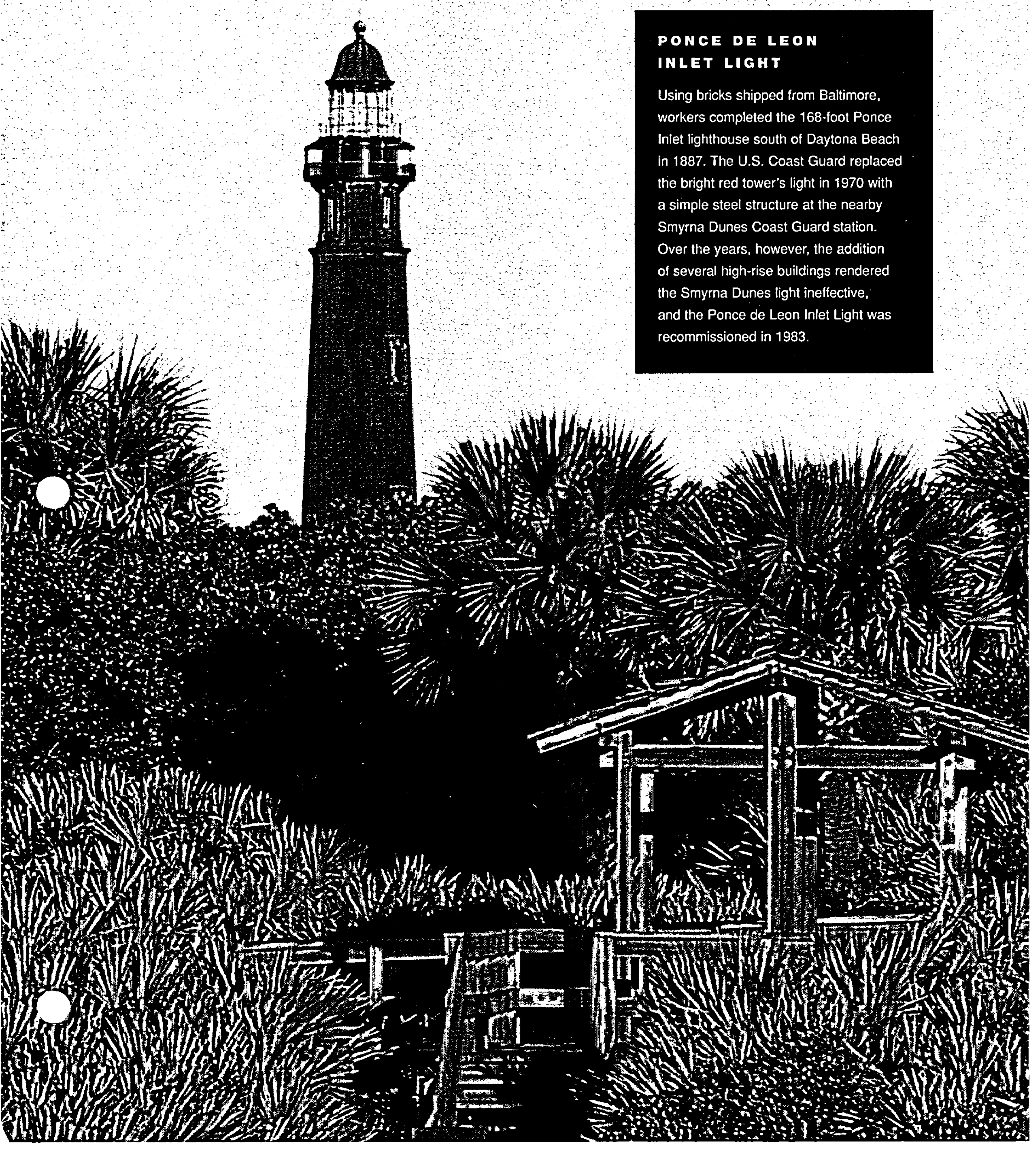


PONCE DE LEON INLET LIGHT

Using bricks shipped from Baltimore, workers completed the 168-foot Ponce Inlet lighthouse south of Daytona Beach in 1887. The U.S. Coast Guard replaced the bright red tower's light in 1970 with a simple steel structure at the nearby Smyrna Dunes Coast Guard station. Over the years, however, the addition of several high-rise buildings rendered the Smyrna Dunes light ineffective, and the Ponce de Leon Inlet Light was recommissioned in 1983.

ST. AUGUSTINE LIGHT

A federal customs official placed a lantern in an old stone tower to create the first lighthouse at St. Augustine shortly after the U.S. purchased Florida from Spain in 1819. This primitive light and a second brick structure were replaced in 1874 with the current 165-foot tower. Its distinctive black and white stripes guide mariners to America's Oldest City by day, while its 129-year-old lens still shines a welcoming beacon at night.

After an extensive four-year application and review process, the Nuclear Regulatory Commission extended the operating licenses of Turkey Point nuclear units 3 and 4 until 2032 and 2033, respectively. The NRC is currently reviewing FPL's application to renew the operating licenses of its two St. Lucie units, a process expected to be completed in the fall of 2003.

Successful refueling outages were conducted at both Turkey Point and St. Lucie. The outage at Turkey Point's unit 4 was the shortest conducted by any similarly-designed nuclear power plant in the United States. Reflecting its overall success, Turkey Point received the 2002 Utility Achievement Award from the American Nuclear Society for its outstanding performance coupled with production costs that are among the lowest in the nation.

The nuclear division's top priorities continue to be safety and security, and during 2002 a number of security measures were added to the plants' already extensive security program. Also, in response to an NRC directive to nuclear plants nationwide, FPL visually inspected the reactor vessel heads at all four of its nuclear units and no problems were found. Additional volumetric and visual testing performed on the reactor vessel heads at St. Lucie unit 1 and Turkey Point unit 3 during scheduled refueling outages confirmed these results. These tests also will be conducted on FPL's two other nuclear units during their scheduled refueling outages this year. As a cost-effective measure, FPL plans to replace the reactor vessel heads over a three-year period beginning in 2004 rather than undergo expensive supplemental inspections.

PROGRESSIVE REGULATORY ACTION

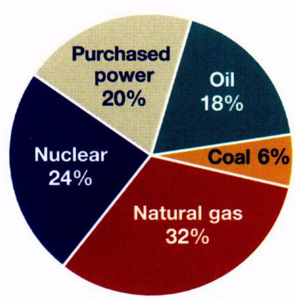
Under an agreement, negotiated between FPL and the Office of Public Counsel and approved by the Florida Public Service Commission in March of 2002, FPL reduced its base rates by 7%, or $250 million annually. As a result, at year-end 2002, the utility's residential rates were 13% below the national average and the lowest of all the major investor-owned utilities in Florida. The agreement avoided a full-scale rate hearing and will provide savings to customers of approximately $1 billion through 2005.

FPL is working harder and smarter to provide customers with high quality, reliable service, including how the company responds to restore electric service following interruptions caused by storms. Improved work processes, new technologies and enhanced communications to keep customers better informed about restoration status represent some of these improvements.

In addition, the agreement provided for revenue sharing between FPL and its customers if revenues exceed certain levels. In February of this year, FPL returned approximately $11 million to its customers as a result of the revenue-sharing feature. The agreement is incentive-based in that the company benefits from productivity gains and has no stated return on equity limitation.

Diverse Energy Sources at FPL

(based on kilowatt-hours produced in 2002)



With the state's progressive regulatory environment, any actions to restructure the electric industry in Florida are unlikely in the near future.

In other regulatory actions, progress continued on the development of GridFlorida, a non-profit Independent System Operator (ISO) for the state. The ISO was presented to the Florida Public Service Commission as a regional transmission organization, as mandated by the Federal Energy Regulatory Commission. The Commission approved a proposal by FPL and two other major Florida utilities for an ISO in 2002, but the Office of Public Counsel protested this decision to the Florida Supreme Court on jurisdictional grounds. A ruling is expected in 2003.

C07

FPL's efforts to protect and preserve the environment at the Turkey Point plant site have attracted world-wide attention. The site contains fresh and estuarine wetlands and subtropical hardwood forests as well as 26 state- and 17 federally protected animal species, including the endangered American crocodile. The nuclear power units attracted additional attention in 2002 when the Nuclear Regulatory Commission extended their operating licenses for an additional 20 years.

ENVIRONMENTAL LEADERSHIP

As one of the nation's cleanest electric utilities, FPL's rates of emission of sulfur dioxide, carbon dioxide and nitrogen oxides are among the lowest of major investor-owned utilities throughout the nation. Over the past decade, the company has dramatically reduced emissions from its power plants while adding thousands of megawatts of additional power.

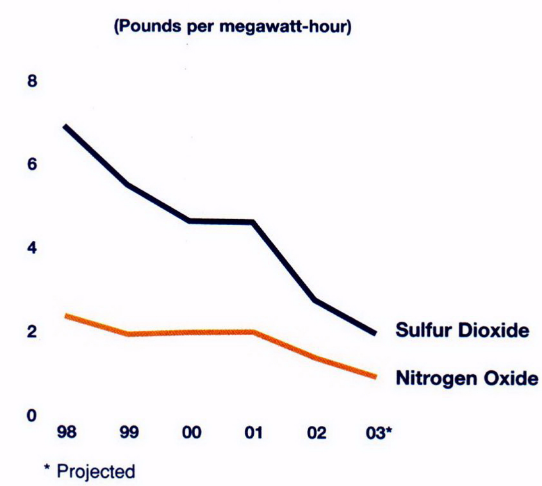
For example, FPL's process of repowering — converting existing oil-burning plants to state-of-the-art natural gas operations — not only increases plant output, but reduces emissions as well. The repowering of its Fort Myers plant reduced nitrogen oxide emissions from 7.23 pounds per megawatt-hour to 0.26; sulfur dioxide from 20.94 lbs/mwh to 0.02; and carbon dioxide from 1,722 to 774 lbs/mwh. In addition, FPL recently received the support of the Florida Department of Environmental Protection to proceed with the installation of pollution control technology to lower nitrogen oxide emissions at its two existing oil-fired units at the Manatee plant located near Bradenton, Florida.

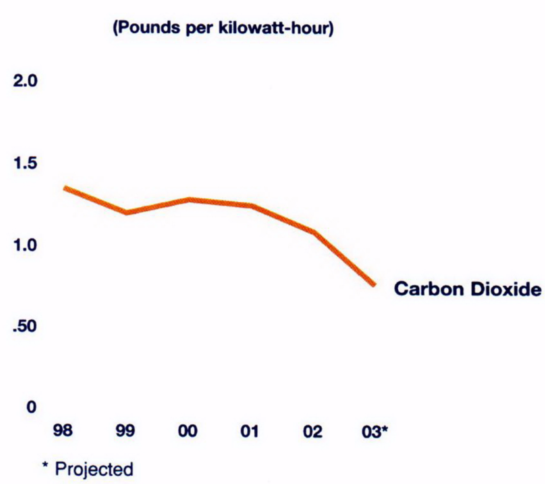
Being one of America's cleanest electric utilities benefits all of the citizens of Florida and also allows FPL to avoid many of the costs other companies must incur to bring their operations into compliance with environmental laws and regulations.

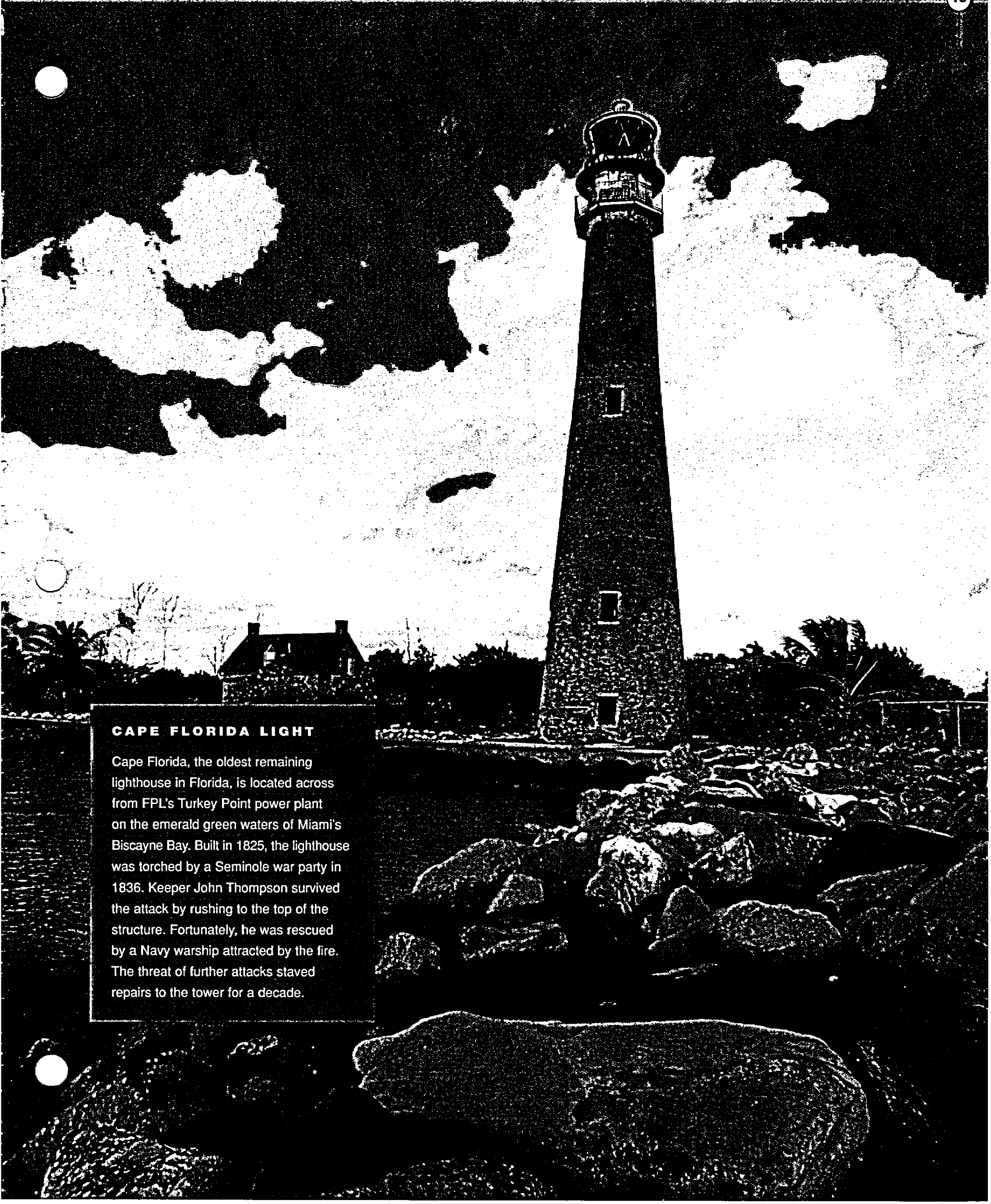
Early in 2002, FPL Group participated as a charter partner in the Environmental Protection Agency's new voluntary Climate Leaders program aimed at reducing greenhouse gas emissions. Partnering with the EPA is an important next step in assessing and reducing emissions at power plants in Florida and throughout the country.

FPL Group's environmental achievements resulted in the company being recognized for a second straight time as having the strongest environmental program in the electric power industry. Innovest, an international independent investment research firm, ranked FPL Group number one among more than two dozen U.S. electric companies surveyed.

Reducing Emission Rates at FPL Group

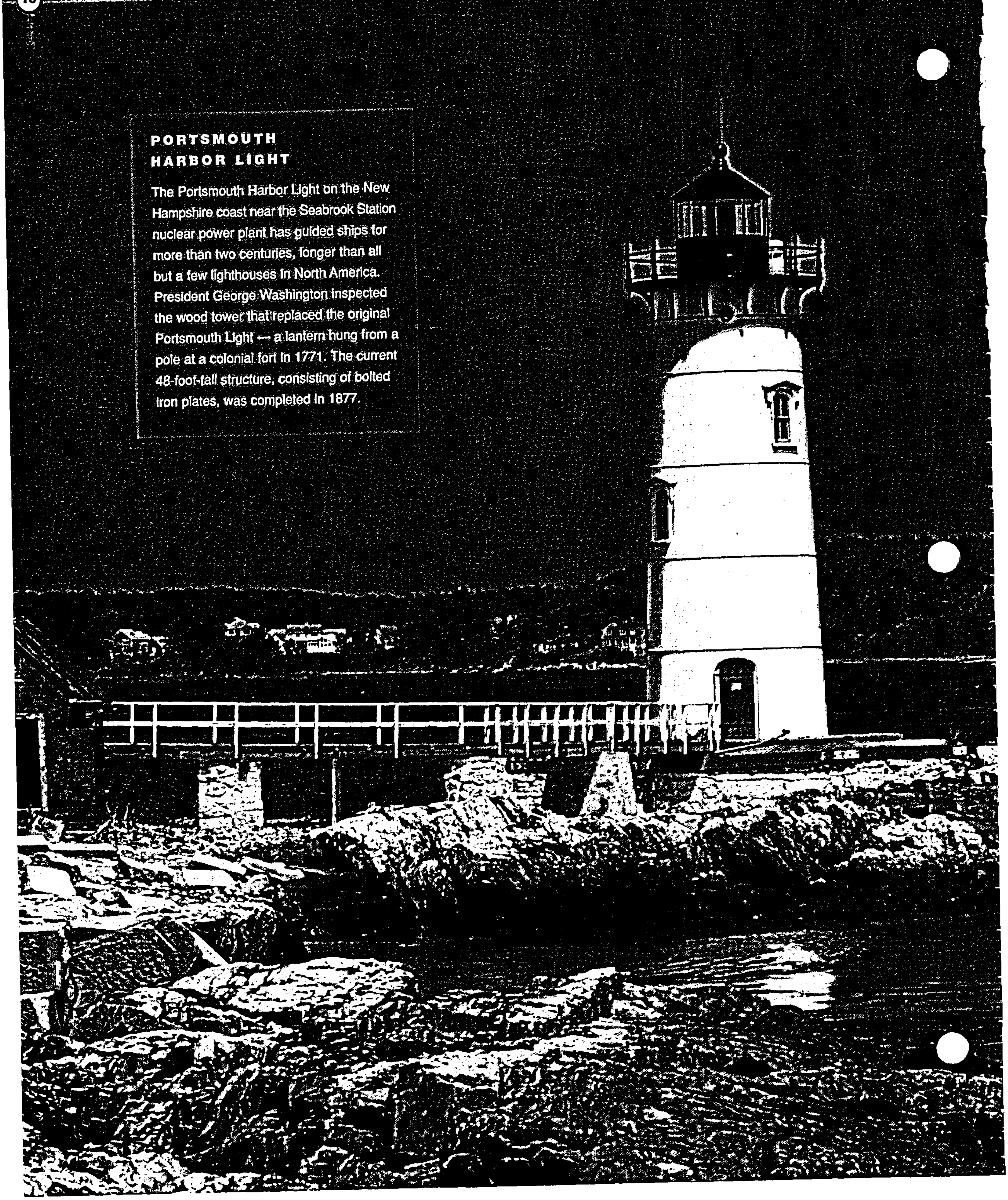






CAPE FLORIDA LIGHT

Cape Florida, the oldest remaining lighthouse in Florida, is located across from FPL's Turkey Point power plant on the emerald green waters of Miami's Biscayne Bay. Built in 1825, the lighthouse was torched by a Seminole war party in 1836. Keeper John Thompson survived the attack by rushing to the top of the structure. Fortunately, he was rescued by a Navy warship attracted by the fire. The threat of further attacks staved repairs to the tower for a decade.



PORTSMOUTH HARBOR LIGHT

The Portsmouth Harbor Light on the New Hampshire coast near the Seabrook Station nuclear power plant has guided ships for more than two centuries, longer than all but a few lighthouses in North America. President George Washington inspected the wood tower that replaced the original Portsmouth Light — a lantern hung from a pole at a colonial fort in 1771. The current 48-foot-tall structure, consisting of bolted iron plates, was completed in 1877.

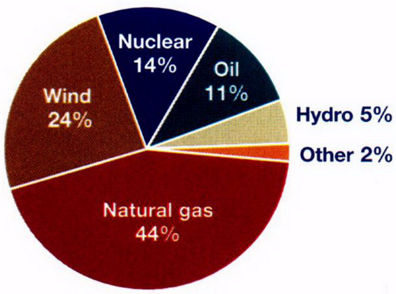
FPL Energy

In successfully navigating the turbulent waters of the wholesale energy sector during 2002, FPL Energy emerged with a strong performance and in a solid position to benefit from future market opportunities.

By adhering to a disciplined and moderate-risk strategy — and continuing to focus on clean energy — net income at the company's unregulated wholesale energy subsidiary rose 20% to a record $126 million, or 73 cents per share, excluding the mark-to-market effect of non-managed hedges and certain non-recurring charges that totalled $295 million after-tax in 2002 (virtually all non-cash items and the majority of which is associated with a goodwill accounting change) and excluding a net gain of $8 million in 2001. Earnings growth was driven both by generation capacity additions — primarily wind projects and the acquisition of the Seabrook Station in New Hampshire — and by project restructuring activities.

A Diversified Portfolio at FPL Energy

(7,250 net-megawatts in operation at 12/31/02)



During the year, FPL Energy restructured to better align the company's organization and business strategy to the current realities of the marketplace. Wholesale energy markets across the nation have witnessed dramatic change, with sharp price decreases and the withdrawal of a number of key players. Responding to these changes, the restructuring included a reduction of general and administrative expenses and the corporation's financial obligation for additional gas turbines from 32 to 7, as well as the cancellation or postponement of new gas-fired power plant projects.

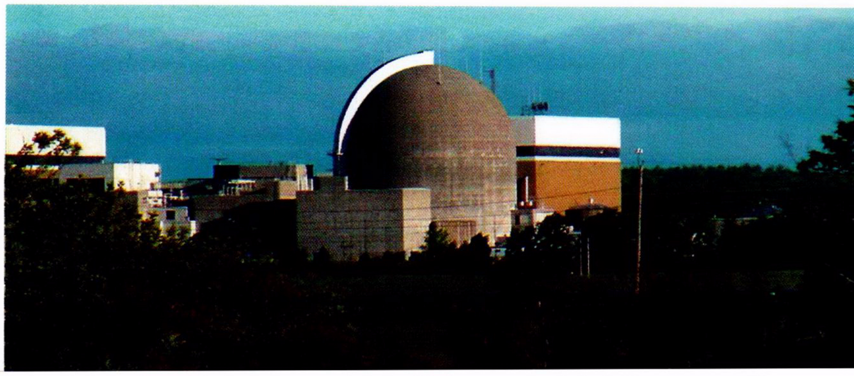
The company's generating portfolio grew by nearly 2,200 megawatts during 2002 with the completion of several wind and natural gas projects and the acquisition of a majority interest of the Seabrook Station nuclear power plant in New Hampshire. Total generation is now more than 7,200 net-megawatts, including leased capacity.

FPL Energy currently has projects in operation or construction in 22 states. With more than 80% of its generation fueled by natural gas, nuclear or renewable sources, we are among America's leading clean energy providers.

FPL Energy continues to successfully execute its strategy of:

- Profitably growing a geographically diverse portfolio;
- Focusing on clean energy generation; and
- Optimizing its assets through operational excellence, sound business management, and conservative marketing and trading practices.

Acquiring a controlling interest in one of the nation's newest nuclear power plants, Seabrook Station in New Hampshire, was a major achievement for FPL Energy in 2002. The 1,161-megawatt facility strengthens our competitive position in the Northeast and is an excellent complement to our clean energy portfolio in the region. More than 95% of Seabrook's 2003 generating output is contracted to be sold. Substantial amounts also are under contract through 2006.



C09

FPL Energy expanded its Stateline wind energy facility on the Oregon/Washington border in 2002, making it the largest wind facility in the U.S. The company also completed or acquired new wind projects in four other states. This performance further solidifies FPL Energy's position as the nation's leader in wind power development and operation, with more than one-third of the installed capacity.

In 2003, FPL Energy plans to focus on portfolio growth through building new wind assets, completing existing gas-fired power plant construction projects and making selective acquisitions that strategically fit the portfolio and add long-term value.

#1 IN WIND POWER

Wind is the nation's fastest growing source of power and a profitable business for FPL Energy. We lead the nation in the development and operation of wind power with more than one-third of the installed capacity, and our share is increasing. In 2002, FPL Energy was responsible for roughly half of all new wind power projects completed in the U.S.

The company's 28 wind facilities — located in 10 states — provide approximately 1,700 megawatts of electricity, or nearly 25% of our total generation capacity. Despite the current surplus in generating capacity across much of the U.S., demand for new wind generation remains strong, and due to its many environmental benefits, it is encouraged by numerous laws at both the state and federal levels.

In early 2002 the federal wind production tax credit, which provides for tax credits of 1.8 cents per kilowatt-hour for the first ten years of a facility's operation, was extended through 2003. The company is currently working with members of Congress in efforts to extend the tax credit beyond 2003.

During 2002 new wind energy centers were completed in West Virginia (66 megawatts) and Iowa (98 megawatts). In addition, the Stateline facility on the Oregon/Washington border was expanded by 37 megawatts to 300 megawatts, making it the largest wind facility in the United States. Also, 123 megawatts of wind assets were acquired in Texas and Pennsylvania.

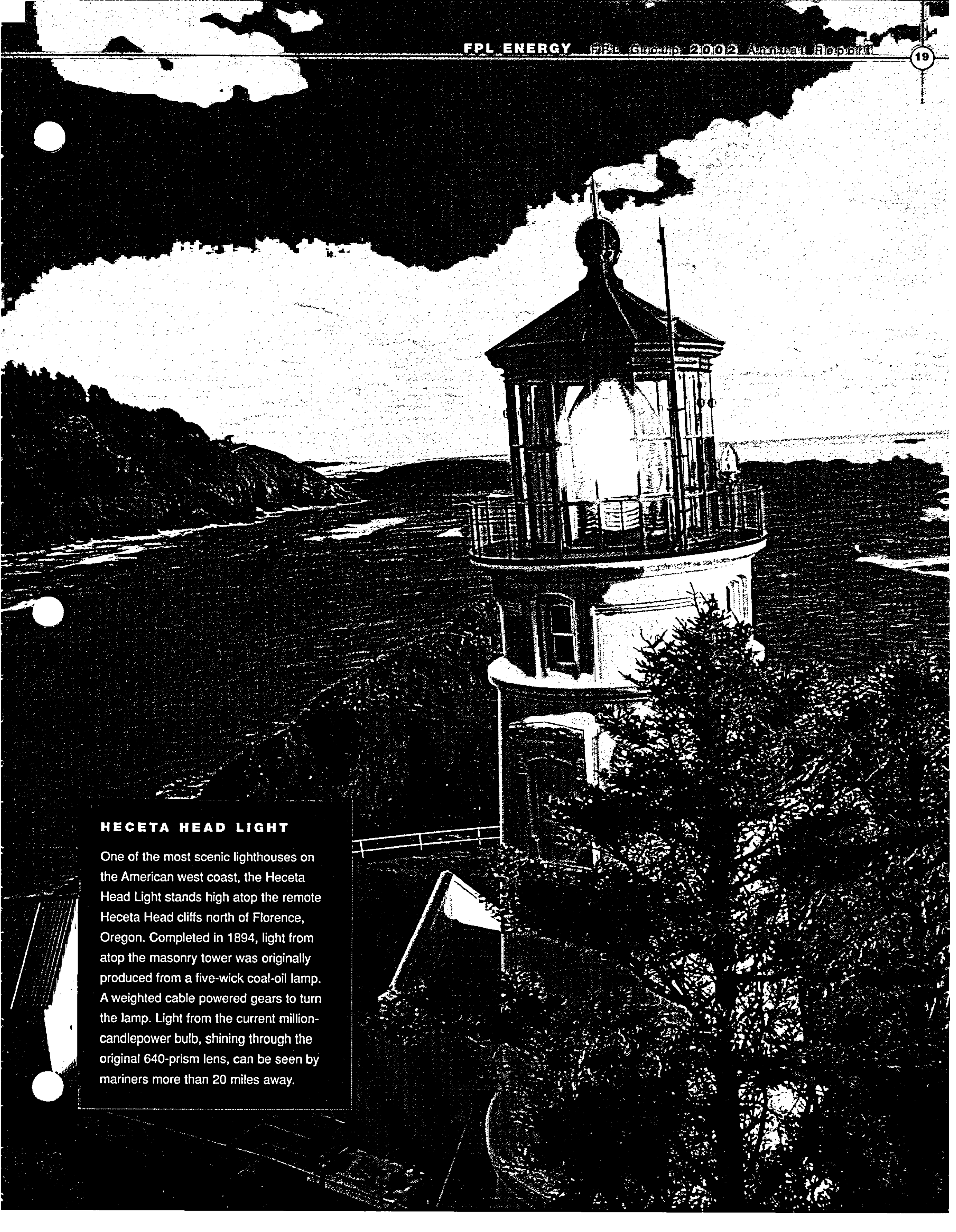
FPL Energy is targeting to add another 700 to 1,200 megawatts of wind power in 2003. Announced projects include a 204-megawatt facility in eastern New Mexico, a 150-megawatt facility in northern California, and 40-megawatt facilities in both North Dakota and South Dakota.

NATURAL GAS ENHANCES "CLEAN" PORTFOLIO

Clean-burning natural gas is the fuel source for approximately 45% of FPL Energy's generation, and nearly 900 megawatts of new gas-fired facilities were placed into operation during 2002. These included combined-cycle power plants in Rhode Island (550 megawatts of leased capacity) and Texas (283 net-megawatts), and a 54-megawatt peaking unit in New York City. Combined-cycle technology enables a plant to produce electricity more efficiently and cost effectively, while peaking units are used to provide power during short-term periods of high energy demand.

FPL Energy expects to add nearly 3,000 megawatts of combined-cycle power during 2003 from projects that include:

- A 517-megawatt plant in Blythe, California, which is strategically located to serve California, Arizona and Nevada (mid–2003);
- A 668-megawatt facility in northeastern Alabama, which has a long-term purchase power agreement with a regional utility (mid–2003);
- A 1,700-net-megawatt facility near Dallas that is well positioned to serve the growing north Texas market (mid–2003), and;
- A 54-megawatt peaking unit to supply electricity to the Long Island Power Authority for the Rockaway Peninsula in Queens County, New York City (mid–2003).



HECETA HEAD LIGHT

One of the most scenic lighthouses on the American west coast, the Heceta Head Light stands high atop the remote Heceta Head cliffs north of Florence, Oregon. Completed in 1894, light from atop the masonry tower was originally produced from a five-wick coal-oil lamp. A weighted cable powered gears to turn the lamp. Light from the current million-candlepower bulb, shining through the original 640-prism lens, can be seen by mariners more than 20 miles away.

In addition, a 744-megawatt plant is scheduled to begin operation in Pennsylvania in mid–2004.

SELECTIVE ACQUISITIONS

A major achievement for FPL Energy in 2002 was acquiring a controlling interest in New England's premier nuclear power facility — the 1,161-megawatt Seabrook Station — in early November.

Strategically located just north of Boston, Seabrook provides more than 7% of the electricity used in New England and is similar in design to Florida Power & Light's Turkey Point and St. Lucie nuclear power plants. The plant has a strong history of safe and reliable operations since its start-up in 1991. As one of the nation's newest nuclear power plants, Seabrook is well positioned to provide the region with long-term, reliable and low-cost energy. FPL Energy is drawing upon the expertise of FPL's nuclear division to help manage and operate the Seabrook plant.

Acquiring Seabrook enables FPL Energy to add nuclear power to its already diversified clean energy portfolio. It also complements the company's hydro-electric and fossil-fueled holdings in New England and strengthens our position as a major energy provider in the Northeast.

More than 95% of the plant's 2003 generating output is contracted to be sold. Approximately 80% of the plant's 2004 generation is under contract, with about 60% under contract for 2005 and about 50% for 2006.

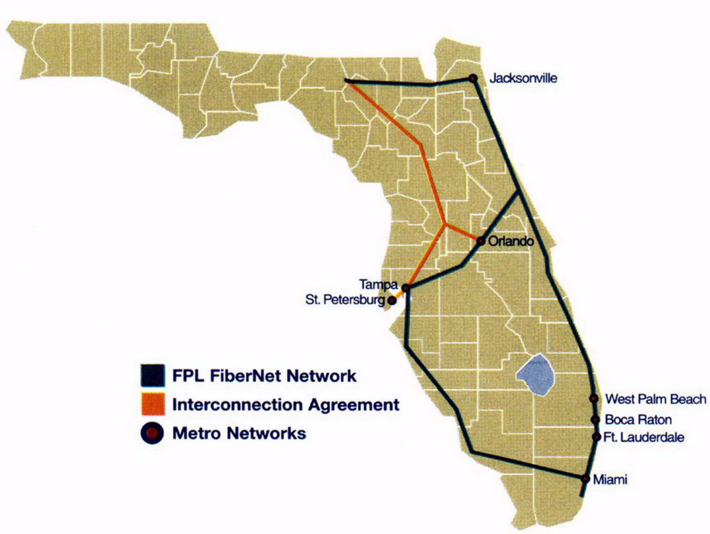
OUTLOOK

Although market conditions in the wholesale energy sector are not expected to improve appreciably over the next 1–2 years, FPL Energy is in a strong position to continue its profitable growth. More than 90% of our expected gross margin for generation in 2003 is already under contract. Earnings growth of 30–50% is expected in 2003.

FPL FiberNet

FOCUSING ON METRO MARKETS

FPL Group's fiber-optic subsidiary, FPL FiberNet, provides wholesale telecommunications services in Florida to major local, long-distance, and wireless telecommunications companies and Internet service providers. The company supplies long-haul network capability to Florida Power & Light, ensuring a robust and cost-effective communications link among FPL plants and operations.



Florida is the nation's fourth largest telecommunications market. Since its inception in 2000, FPL FiberNet has successfully focused on building its intra-city network in major metropolitan areas in the state, where demand continues to grow.

The company anticipates little improvement in the depressed telecommunications market in the near term. As a result, it will make very limited investments in the business and expects to be at or near break even in 2003. Longer term, the company is well positioned to profit from the strong underlying growth of data communications usage.

C10

FINANCIAL AND OPERATING STATISTICS

Years Ended December 31,	2002	2001	2000	1999	1998	1997	1992
FPL GROUP, INC. (millions)							
Operating Revenues	$8,311	$8,326	$7,062	$6,438	$6,661	$6,369	$5,186
Operating Expenses	$7,083	$6,930	$5,822	$5,518	$5,409	$5,141	$4,159
Operating Income	$1,228	$1,396	$1,240	$920	$1,252	$1,228	$1,027
Income Before Cumulative Effect of a Change in Accounting Principle	$695 [1]	$781 [2]	$704 [3]	$697 [4]	$664	$618	$467
Cumulative Effect of Adopting FAS 142, Net of Income Taxes of $143	$(222)	$ —	$ —	$ —	$ —	$ —	$ —
Net Income	$473 [5]	$781 [2]	$704 [3]	$697 [4]	$664	$618	$467
Total Assets	$19,790	$17,463	$15,300	$13,441	$12,029	$12,449	$12,306
Long-Term Debt [6]	$5,790	$4,858	$3,976	$3,478	$2,347	$2,949	$3,960
Preferred Stock of FPL with Sinking Fund Requirements [6]	$ —	$ —	$ —	$ —	$ —	$ —	$551
FLORIDA POWER & LIGHT COMPANY							
Operating Revenues (millions)	$7,378	$7,477	$6,361	$6,057	$6,366	$6,132	$5,100
Energy Sales (millions of kwh)	98,605	93,488	91,969	88,067	89,362	82,734	69,290
Customer Accounts — Average (thousands)	4,020	3,935	3,848	3,756	3,680	3,616	3,281
Peak Load, Winter (mw 60-minute) [7]	20,190	17,585	18,219	17,057	16,802	13,047	12,964
Peak Load, Summer (mw 60-minute)	19,219	18,754	17,808	17,615	17,897	16,613	14,661
Reserve Margin (summer peak, %) [8]	15	14	13	14	10	20	17
Total Capability (mw) [8]	20,938	18,871	19,069	18,649	18,509	18,715	16,627
Net Energy for Load (%):							
Oil	18	26	25	25	27	18	26
Natural Gas	32	24	25	25	26	29	17
Nuclear	24	24	26	27	26	25	27
Net Purchased Power and Interchange	20	20	17	16	14	20	27
Coal	6	6	7	7	7	8	3
COMMON STOCK DATA							
Average Shares Outstanding (millions)	173	169	170	172	173	173	176
Earnings Per Share of Common Stock:							
Earnings Per Share Before Cumulative Effect of Adopting FAS 142	$4.02 [1]	$4.63 [2]	$4.14 [3]	$4.07 [4]	$3.85	$3.57	$2.65
Cumulative Effect of Adopting FAS 142	$(1.28)	$ —	$ —	$ —	$ —	$ —	$ —
Earnings Per Share	$2.74 [5]	$4.63 [2]	$4.14 [3]	$4.07 [4]	$3.85	$3.57	$2.65
Earnings Per Share of Common Stock — Assuming Dilution:							
Earnings Per Share Before Cumulative Effect of Adopting FAS 142	$4.01 [1]	$4.62 [2]	$4.14 [3]	$4.07 [4]	$3.85	$3.57	$2.65
Cumulative Effect of Adopting FAS 142	$(1.28)	$ —	$ —	$ —	$ —	$ —	$ —
Earnings Per Share	$2.73 [5]	$4.62 [2]	$4.14 [3]	$4.07 [4]	$3.85	$3.57	$2.65
Dividends Paid Per Share	$2.32	$2.24	$2.16	$2.08	$2.00	$1.92	$2.43
Book Value Per Share (year end)	$36.21	$35.59	$33.22	$31.47	$29.76	$28.03	$20.99
Market Price Per Share (year end)	$60.13	$56.40	$71.75	$42.81	$61.63	$59.19	$36.25
Market Price Per Share (high-low)	$65.31-45	$71.63-51.21	$73-36.38	$61.94-41.13	$72.56-56.06	$60-42.63	$38.38-32
Number of Registered Shareholders (year end)	37,283	40,990	45,066	50,215	55,149	60,493	83,109

(1) Includes impairment and restructuring charges, charges related to certain wind projects and leveraged leases, a favorable settlement of litigation with the IRS and net unrealized mark-to-market gains associated with non-managed hedges.

(2) Includes merger-related expenses and net unrealized mark-to-market gains associated with non-managed hedges. Excluding these items, net income and earnings per share (assumung dilution) would have been $792 million and $4.69, respectively.

(3) Includes merger-related expenses. Excluding these expenses, net income and earnings per share (assuming dilution) would have been $745 million and $4.38, respectively.

(4) Includes effects of gains on divestiture of cable investments, impairment loss and litigation settlement. Excluding these items, net income and earnings per share (assuming dilution) would have been $681 million and $3.98, respectively.

(5) Includes the cumulative effect of an accounting change, impairment and restructuring charges, charges related to certain wind projects and leveraged leases, a favorable settlement of litigation with the IRS and net unrealized mark-to-market gains associated with non-managed hedges. Excluding these items, net income would have been $831 million and earnings per share (assuming dilution) would have been $4.80.

(6) Excludes current maturities.

(7) Winter season includes November and December of the current year and January to March of the following year.

(8) Represents installed capability plus purchased power. Reserve margin is based on peak load net of load management.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion should be read in conjunction with the Notes to Consolidated Financial Statements contained herein. In the discussion of Results of Operations below, all comparisons are with the corresponding items in the prior year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles requires management to exercise judgment and make estimates and assumptions where amounts are not subject to precise measurement or are dependent on future events.

Critical accounting policies and estimates, which are important to the portrayal of both FPL Group's financial condition and results of operations and which require complex, subjective judgments are as follows:

Accounting for Derivatives and Hedging Activities – On January 1, 2001, FPL Group adopted FAS 133, "Accounting for Derivatives and Hedging Activities," as amended by FAS 137 and FAS 138 (collectively, FAS 133). FPL Group uses derivative instruments (primarily forward purchases and sales, swaps, options and futures) to manage the commodity price risk inherent in fuel purchases and electricity sales, as well as to optimize the value of power generation assets and related contracts. To a lesser extent, FPL Group also engages in limited energy trading activities to take advantage of expected favorable price movements. These accounting pronouncements, which require the use of fair value accounting if certain conditions are met, apply not only to traditional financial derivative instruments, but to any contract having the accounting characteristics of a derivative.

FAS 133 requires that derivative instruments be recorded on the balance sheet at fair value. Fair values for some of the longer-term contracts where liquid markets are not available are based on internally developed models. The estimation of fair value for long-term contracts requires the use of internally developed models based on the forward prices for electricity. Forward prices represent the price at which a buyer or seller could contract today to purchase or sell a commodity at a future date. In general, the models estimate the fair value of a contract by calculating the present value of the difference between the prices in the contract and the forward prices. The market for electricity in the first one to two years of a contract is generally liquid and therefore the prices in the early years of the forward curves reflect observable market quotes. However, in the later years, the market is much less liquid and forward price curves must be developed. Factors used in developing forward curves for electricity include the forward prices for the commodities used as fuel to generate electricity, the expected system heat rate (which measures the efficiency of power plants in converting fuel to electricity) in the region where the purchase or sale takes place, and a fundamental forecast of expected spot prices based on modeled supply and demand in the region. The assumptions in these models are critical since any changes therein could have a significant impact on the fair value of the contract. Substantially all changes in the fair value of derivatives held by FPL are deferred as a regulatory asset or liability until the contracts are settled. Upon settlement, any gains or losses will be passed through the fuel and capacity clauses. In the non-rate regulated operations, predominantly FPL Energy, changes in the derivatives' fair values are recognized in current earnings, unless certain hedge accounting criteria are met. For those transactions for which hedge accounting can be applied, much of the effects of changes in fair value are reflected in other comprehensive income (a component of shareholders' equity) rather than being recognized in current earnings.

Since FAS 133 became effective in 2001, the Financial Accounting Standards Board (FASB) has discussed and, from time to time, issued implementation guidance related to FAS 133. In particular, much of the interpretive guidance affects when certain contracts for the purchase and sale of power and certain fuel supply contracts can be excluded from the provisions of FAS 133. Despite the large volume of implementation guidance, FAS 133 and the supplemental guidance does not provide specific guidance on all contract issues. As a result, significant judgment must be used in applying FAS 133 and its interpretations. The interpretation of FAS 133 continues to evolve. One possible result of changes in interpretation could be that certain contracts would have to be recorded on the balance sheet at fair value, with changes in fair value recorded in the income statement. See Note 5.

Accounting for Pensions and Other Post Employment Benefits – FPL Group and its subsidiaries sponsor a noncontributory defined benefit pension plan and defined benefit postretirement plans for health care and life insurance benefits (other benefits) for substantially all employees. Both the pension and life insurance plans have funded trusts dedicated to providing the benefits.

FPL Group's pension income net of the cost of other benefits was approximately $82 million, $84 million and $89 million for the years ended December 31, 2002, 2001 and 2000, respectively. Pension income and the cost of other benefits are included in O&M expenses, and are calculated using a number of actuarial assumptions. Those assumptions include an expected long-term rate of return on qualified plan assets of 7.75% for all years, assumed increases in future compensation levels of 4.5% for 2002 and 5.5% for 2001 and 2000, and a weighted-average discount rate used in determining the benefit obligations of 6.00% and 6.25% for 2002 and 2001, respectively. Based on current health care costs (as related to other benefits), the projected 2003 trend assumptions used to measure the expected cost of benefits covered by the plans are 10% for all age groups. The rate is assumed to decrease over the next ten years to the ultimate trend rate of 5% for all age groups and remain at that level thereafter. In developing these assumptions, FPL Group evaluated input from its actuaries, as well as information available in the market place. For the expected long-term rate of return on fund assets, FPL Group considered 10-year and 20-year long-term median returns for a portfolio with a 50/50 equity/bond asset mix similar to its funds. FPL Group also considered its historical 10-year and 20-year compounded returns which have been in excess of these broad equity and bond benchmark indices. FPL Group believes that 7.75% is a reasonable long-term rate of return on its plan assets, despite the recent market downturn. FPL Group will continue to evaluate all of its actuarial assumptions, including its expected rate of return, at least annually, and will adjust them as necessary.

FPL Group bases its determination of pension and other benefits expense or income on a market-related valuation of assets, which reduces year-to-year volatility. This market-related valuation recognizes investment gains or losses over a five-year period from the year in which they occur. Investment gains or losses for this purpose are the difference between the expected return calculated using the market-related value of assets and the actual return realized on those assets. Since the market-related value of assets recognizes gains or losses over a five-year period, the future value of assets will be affected as previously deferred gains or losses are recognized. Such gains and losses together with other differences between actual results and the estimates used in the actuarial valuations are deferred and recognized in determining pension and other benefits expense and income only when they exceed 10% of the greater of projected benefit obligations or the market-related value of assets.

Lowering the expected long-term rate of return on plan assets by 0.5% (from 7.75% to 7.25%) would have reduced FPL Group's net income for 2002 by approximately $13 million. Lowering the discount rate assumption by 0.5% would have decreased FPL Group's net income for 2002 by approximately $5 million. Lowering the salary increase assumption by 0.5% would have increased FPL Group's net income for 2002 by approximately $2 million. Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. An increase or decrease of 1% in assumed health care cost trend rates would have a corresponding effect on the service and interest cost components and the accumulated obligation of other benefits of approximately $1 million and $8 million, respectively.

The fair value of plan assets has decreased from $2.5 billion at September 30, 2001 to $2.4 billion at September 30, 2002 for the pension plan and from $74 million at September 30, 2001 to $45 million at September 30, 2002 for other benefits. Despite the recent reductions in the funded status of FPL Group's pension plan, management believes that, based on the actuarial assumptions and the well funded status of the pension plan, FPL Group will not be required to make any cash contributions to the pension plan in the near future. FPL Group does not anticipate making cash contributions to the postretirement plans during 2003 but is studying the feasibility of transferring pension plan assets to fund claims associated with retiree medical benefits, as allowed by current tax law. See Note 3.

Carrying Value 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."

Under that standard, an impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounting estimated future cash flows using an appropriate interest rate.

The amount of future net cash flows, the timing of the cash flows and the determination of an appropriate interest rate all involve estimates and judgments about future events. In particular, the aggregate amount of cash flows determines whether an impairment exists, and the timing of the cash flows is critical in determining fair value. Because each assessment is based on the facts and circumstances associated with each long-lived asset, the effects of changes in assumptions cannot be generalized.

Nuclear Decommissioning and Fossil Dismantlement – FPL's current plans provide for prompt dismantlement of the Turkey Point Units Nos. 3 and 4 with decommissioning activities commencing upon license expiration in 2012 and 2013. In June 2002, the U.S. Nuclear Regulatory Commission (NRC) approved extension of the operating licenses for Turkey Point Units Nos. 3 and 4, which will allow operation of these units until 2032 and 2033, respectively. FPL has not yet decided whether to exercise the option to operate past the original license expiration dates. Current plans provide for St. Lucie Unit No. 1 to be mothballed upon license expiration in 2016 with decommissioning activities to be integrated with the prompt dismantlement of St. Lucie Unit No. 2 when its license expires in 2023. In 2001, FPL filed with the NRC applications for 20-year license extensions for the St. Lucie units and expects a ruling from the NRC in the fall of 2003.

FPL accrues and funds a reserve for nuclear decommissioning costs over the expected service life of each unit based on studies that are filed with the FPSC at least every five years. The FPSC approved new decommissioning studies in 2001 and, effective in May 2002, reduced the annual decommissioning accrual from $85 million to approximately $79 million. The studies assume that FPL will be storing spent fuel on site pending removal to a U.S. government facility. The studies indicate that FPL's portion of the future cost of decommissioning its four nuclear units, including spent fuel storage, is $6.4 billion, or $2.0 billion in 2002 dollars. At December 31, 2002, the accumulated provision for nuclear decommissioning totaled approximately $1.7 billion.

Upon the adoption of FAS 143 on January 1, 2003, the accumulated provision for nuclear decommissioning was moved from the accumulated depreciation caption on FPL Group's balance sheet to a noncurrent liability, the amount of the obligation was adjusted to reflect the then current fair value of the obligation, an asset was recognized for the undepreciated present value of the initial obligation and any difference was recognized as a regulatory liability.

FPL also accrues the estimated cost of dismantling its fossil fuel plants over the expected service life of each unit. However, unlike nuclear decommissioning, fossil dismantlement costs are not funded. Dismantlement studies are filed with the FPSC at least every four years. The most recent studies became effective January 1, 1999 and indicated that FPL's portion of the ultimate cost to dismantle its fossil units is $482 million. At December 31, 2002, the accumulated provision for fossil dismantlement was $260 million. The liability that was recognized for obligations associated with the retirement of FPL's fossil fuel plants under FAS 143 was not significant.

Upon acquisition of its interest in Seabrook, FPL Energy recorded a liability for the present value of Seabrook's expected decommissioning costs. The liability will be accreted using the interest method over an assumed license extension period that runs through 2050. Seabrook's existing license expires in 2026, but FPL Energy plans to file with the NRC an application to extend the license period to 2050. Comprehensive studies are filed with New Hampshire's Nuclear Decommissioning Financing Committee every four years, with updates provided annually. The next comprehensive study will be filed in mid-2003. The September 1999 studies indicate that FPL Energy's portion of the future cost of decommissioning Seabrook, including spent fuel storage, is $1.7 billion, or $516 million in 2002 dollars. The nuclear decommissioning obligation recorded in connection with the acquisition of Seabrook was determined in a manner similar to that prescribed by FAS 143. At December 31, 2002, the accumulated provision for nuclear decommissioning totaled approximately $152 million. See Note 1 – Decommissioning and Dismantlement of Generating Plant and Accounting for Asset Retirement Obligations.

The calculation of the future cost of retiring long-lived assets, including nuclear decommissioning and fossil dismantlement costs, involves the use of estimates and judgments concerning the amount and timing of future expenditures. FPL Group also makes interest rate, rate of return and inflation projections to determine funding requirements related to decommissioning. Periodically, FPL Group will be required to update its estimates and projections which can affect the annual expense amounts recognized, the liabilities recorded and the annual funding requirements for nuclear decommissioning costs.

Regulatory Accounting – FPL follows the accounting practices set forth in 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. If FPL were no longer subject to cost-based rate regulation, the existing 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. Such costs may include, among others, O&M expenses, the cost of replacing power lost when fossil and nuclear units are unavailable and costs associated with the construction or acquisition of new facilities. The continued applicability of FAS 71 is assessed each reporting period. See Note 1 – Regulation.

See Note 1 for a discussion of FPL Group's other significant accounting policies.

RESULTS OF OPERATIONS

FPL Group's net income decreased by approximately $308 million in 2002 compared to 2001, while net income increased $77 million in 2001 compared to 2000. The decrease in 2002 net income is due to a number of charges aggregating $389 million after tax recorded at FPL Energy and at Corporate and Other. The charges consisted primarily of the cumulative effect of an accounting change ($222 million after tax), impairment and restructuring charges ($127 million after tax) and charges related to certain wind projects ($10 million after tax) and leveraged leases ($30 million after tax). These charges were partially offset by a gain from an income tax settlement ($30 million). Merger-related charges reduced FPL Group's net income in 2001 by $19 million and in 2000 by $41 million. Unrealized gains from non-managed hedge activities increased FPL Group's net income by $1 million and $8 million for the years ended December 31, 2002 and 2001, respectively. Management assesses the economic performance of its business segments excluding these charges, gains and the effects of non-managed hedges. Although such items are properly included in the determination of net income in accordance with generally accepted accounting principles, both the size and nature of such items make year to year comparisons of operations difficult and potentially confusing. Excluding these items, net income would have been $831 million, $792 million and $745 million in 2002, 2001 and 2000, respectively. The restructuring activities discussed above are not expected to have a significant effect on FPL Group's future results of operations, liquidity or capital resources.

Beginning January 1, 2002, FPL Group segregated unrealized mark-to-market gains and losses on derivative transactions into two categories. Prior year amounts have been reclassified into these categories. The first category, referred to as trading and managed hedge activities, represents the net unrealized effect of actively traded positions entered into to take advantage of market price movements and to optimize the value of generation assets and related contracts. The unrealized gains from trading and managed hedge activities were $8 million and $0 for the years ended December 31, 2002 and 2001, respectively, and are reported net in operating revenues. The second category, referred to as non-managed hedges, represents the net unrealized effect of derivative transactions entered into as economic hedges (but which do not qualify for hedge accounting under FAS 133) and the ineffective portion of transactions accounted for as cash flow hedges. These transactions have been entered into to reduce our aggregate risk, and any mark-to-market gains or losses during the period prior to realization will continue to be reported outside of operating income in other – net in FPL Group's consolidated statements of income. Any position that is moved between non-managed hedge activity and trading and managed hedge activity is transferred at its fair value on the date of reclassification. For additional information regarding derivative instruments, see Note 5.

FPL — FPL's net income available to FPL Group for 2002, 2001 and 2000 was $717 million, $679 million and $607 million, respectively, representing more than 85% of FPL Group's consolidated net income in each year. During 2002, FPL's net income benefited from higher revenues from retail base operations (net of the revenue refund provision), lower depreciation expense and lower interest charges. However, higher O&M expenses partially offset these positives. During 2001, higher revenues from retail base operations and lower depreciation were partially offset by higher O&M expenses and higher interest charges. Also in 2001 and 2000, FPL recorded merger-related expenses totaling $26 million ($16 million after tax) and $62 million ($38 million after tax), respectively. For additional information regarding these expenses, see Note 9. Excluding merger-related expenses, net income would have been $717 million, $695 million and $645 million in 2002, 2001 and 2000, respectively.

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.

The 1999-2002 rate agreement 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. See Note 1 – Revenues and Rates and Electric Plant, Depreciation and Amortization. During the term of the agreement, FPL's 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 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,			
(millions)	2002[a]	2003	2004	2005
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 is 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. See Note 1 – Revenues and Rates. In addition, depreciation rates will not be changed during the term of the agreement; however, FPL will reduce its recorded depreciation expense by $125 million annually. As a result of that provision and other FPSC actions affecting accumulated nuclear amortization, FPL reclassified $170 million of special depreciation recorded in 1999 and 2000 and $99 million of nuclear amortization from accumulated depreciation to a regulatory liability, which is included in other liabilities on FPL Group's consolidated balance sheet. FPL also reduced depreciation expense in 2002 by $125 million. The nuclear amortization will be amortized ratably over the remaining life of the nuclear units based on the term of the existing operating licenses of the units at a rate of $7 million per year.

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. Initial briefs, answer briefs and a reply brief were filed by the parties during 2002. Oral arguments are expected to take place in mid-2003. FPL intends to vigorously contest this appeal and believes that the FPSC's decision approving the 2002-2005 rate agreement will be upheld.

FPL's operating revenues consisted of the following:

	Years Ended December 31,		
(millions)	**2002**	2001	2000
Retail base operations	**$3,603**	$3,616	$3,507
Revenue refund provision	**(34)**	(110)	(60)
Cost recovery clauses and other pass-through costs	**3,793**	3,955	2,902
Other	**16**	16	12
Total	**$7,378**	$7,477	$6,361

For the year ended December 31, 2002, the increase in retail base revenues, due to an increase in the number of retail customer accounts and an increase in usage per retail customer, was more than offset by the 7% reduction in retail rates pursuant to the 2002-2005 rate agreement that was effective in mid-April 2002. A 2.1% increase in the number of retail customer accounts increased revenues by $78 million, while the balance of the increase, or $112 million, was primarily due to a 3.5% increase in electricity usage per retail customer. About half of the growth in usage for the year was associated with weather, with both the late spring and early fall months being significantly warmer than usual. The remaining increase in usage was due to stronger economic conditions and price elasticity associated with lower rates. The 7% rate reduction equated to a $203 million reduction in retail base revenues.

The increase in retail base revenues in 2001 was due to a 2.3% increase in retail customer accounts which contributed $66 million to revenues while the balance of the increase, or $43 million, was primarily due to a 0.4% increase in electricity usage per retail customer. These increases occurred despite a slowing economy and a decline in tourism following the terrorist attacks on the United States on September 11, 2001.

Revenues from cost recovery clauses, franchise fees and revenue taxes represent a pass-through of costs and do not significantly affect net income. However, differences between actual revenues and costs incurred can significantly affect FPL Group's operating cash flows. Fluctuations in these revenues, as well as in fuel, purchased power and interchange expenses, are primarily driven by changes in energy sales, fuel prices and capacity charges. Ordinarily, the fuel charge is set annually based on estimated fuel costs and estimated customer usage, plus or minus a true-up for prior period estimates. During 2002, clause revenues (primarily fuel-related) declined due to lower fuel costs. Significant volatility in oil and gas prices during 2001 and 2000 resulted in a significant increase in clause revenues in 2001 and, to a lesser extent, in 2000. FPL's annual fuel filing for 2001, as approved by the FPSC, included approximately $518 million of under-recovered fuel costs from 2000, of which one-half ($259 million) was recovered in 2001 and the balance was recovered in 2002. FPL agreed to this two-year recovery, rather than the typical one-year time frame, to ease the impact on customers' bills. FPL also agreed that, instead of receiving a return at the commercial paper rate on this unrecovered portion through the fuel clause, the under-recovery would be included as a rate base regulatory asset over the two-year recovery period. In March 2003, the FPSC approved a fuel adjustment increase totaling $347 million beginning in April 2003 due to higher than projected oil and natural gas prices. See Note 1 – Regulation.

FPL's O&M expenses increased $143 million in 2002. Approximately $42 million of the increase is attributable to higher nuclear costs associated with more comprehensive inspections of the reactor vessel heads at FPL's nuclear facilities as ordered by the NRC, as well as increased outage and plant maintenance costs. In February 2003, the NRC issued an order, subsequent to an NRC bulletin issued in August 2002, requiring all pressurized water reactor licensees, including FPL, to perform visual and volumetric inspections of reactor vessel heads at each unit's scheduled refueling outage to identify if degradation such as cracking or corrosion has occurred. During the scheduled refueling outages for St. Lucie Unit No. 1 in October 2002 and Turkey Point Unit No. 3 in March 2003, FPL performed visual and volumetric inspections and found no degradation associated with the reactor vessel heads. Visual inspections at St. Lucie Unit No. 2 during 2001 and at Turkey Point Unit No. 4 during 2002 revealed no degradation associated with the reactor vessel heads and visual and volumetric inspections will be performed during their next scheduled refueling outages in 2003. The cost to perform inspections and any necessary repairs for all of the four nuclear units until the reactor vessel heads are replaced is estimated at $67 million. During 2002, the FPSC authorized recognition of this amount on a levelized basis over a five-year period beginning in 2002. FPL anticipates that it will replace the reactor vessel heads at all of its nuclear units over a three-year period beginning in 2004 and has placed orders for long-lead time components. The estimated cost for the reactor vessel heads is included in FPL's estimated capital expenditures. See Note 17 – Commitments.

In addition to the increase in nuclear O&M expenses in 2002, employee benefit costs, primarily medical-related, increased $15 million and property insurance costs increased $9 million due to lower refunds under nuclear insurance policies. These pressures are expected to carry over into 2003. In addition, in December 2002, the FPSC approved a one-time $35 million addition to the storm fund reserve, which was accrued in 2002. The balance of the increase in O&M expenses primarily related to costs associated with work force reductions, overhaul of fossil plants and system reliability efforts. FPL's O&M expenses increased $20 million in 2001, of which $5 million related to higher transmission and distribution costs mainly due to system growth and reliability improvements, $9 million related to generation costs primarily those incurred at fossil production plants to comply with regulations and maintain operating service availability, and the balance of the increase primarily reflects additional reserves for uncollectible accounts due to weaker economic conditions.

Depreciation and amortization expense declined during the year ended December 31, 2002 due to the $125 million credit to depreciation expense authorized under the 2002-2005 rate agreement. This credit was partially offset by higher depreciation expense associated with the amortization of a regulatory asset recorded as a result of a litigation settlement. The amortization approximates $44 million annually over a 5-year period beginning in January 2002 and is being recovered over the 5-year period through the fuel and capacity clauses. See Note 10. The remaining depreciation expense variance is primarily due to overall growth in the asset base reflecting the completion of the Fort Myers and Sanford repowering projects. The decrease in depreciation expense during 2001 reflects the absence of special depreciation under the previous rate agreement partially offset by higher depreciation expense associated with overall growth in the asset base. In 2000, FPL recorded approximately $101 million related to special depreciation.

In June 2002, the NRC approved an extension of the operating licenses for Turkey Point Units Nos. 3 and 4, which will allow operation of these units until 2032 and 2033, respectively. FPL has not yet decided whether to exercise the option to operate past the original license expiration dates of 2012 and 2013. Nevertheless, FPL is continuing to take actions to ensure the long-term viability of the units in order to preserve this option. This decision will be made by 2007. Any adjustment to depreciation and decommissioning rates would require FPSC approval. In 2001, FPL filed applications with the NRC for 20-year license extensions for the St. Lucie units and expects a ruling from the NRC in the fall of 2003.

Interest charges for 2002 decreased primarily due to lower interest rates, as well as lower average debt balances as a result of the recovery of previously under-recovered fuel costs. In 2001, the increase in interest charges primarily reflects increased debt activity to fund FPL's capital expansion program. Also in 2001, taxes other than income taxes increased significantly primarily due to higher franchise and gross receipts taxes associated with higher retail customer fuel charges that do not have a material effect on net income.

FPL currently faces competition from other suppliers of electrical energy to wholesale customers and from alternative energy sources and self-generation for other customer groups, primarily industrial customers. In 2002, operating revenues from wholesale and industrial customers combined represented approximately 4% of FPL's total operating revenues. 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 that 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. The request for proposal 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 2002, FPL received approval to construct new generation at its Martin and Manatee sites.

The FERC has jurisdiction over potential changes which could affect competition in wholesale transactions. In 1999, the FERC issued its final order on 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 (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 from a for-profit transmission company to a non-profit 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 and setting a hearing date of October 31, 2002 on market design and other outstanding issues. In October 2002, Public Counsel filed a notice of administrative appeal with the Supreme Court of Florida seeking an appeal of the FPSC's order, which caused an automatic stay of the proceedings. On October 28, 2002, the FPSC ordered that the GridFlorida proceedings be held in abeyance pending Public Counsel's appeal. On December 12, 2002, Public Counsel filed their brief. Public Counsel contends that the FPSC should not approve the ISO proposal because the FPSC cannot voluntarily abdicate its jurisdiction over retail transmission rates and transmission planning and the ISO will not be subject to the FPSC's jurisdiction. Oral arguments are scheduled for May 6, 2003. A ruling from the Supreme Court of Florida is expected in late 2003.

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. State regulators from the southeast and western states have expressed strong reservations about FERC's proposal. FPL is evaluating the proposed rule. The FERC has announced it will be issuing a "white paper" in April 2003 incorporating comments received on its proposed rule and is currently unable to determine the effects, if any, on FPL's operations. The "white paper" will re-examine the schedule, which had originally proposed full implementation of the standard market design by September 2004. The FERC will allow parties to file comments on the "white paper" before issuing its final order this fall.

In the event the basis of regulation for some or all of FPL's business changes from cost-based regulation, existing regulatory assets and liabilities would be written off unless regulators specify an alternative means of recovery or refund. Further, other aspects of the business, such as generation assets and long-term power purchase commitments, would need to be reviewed to assess their recoverability in a changed regulatory environment. See Note 1 – Regulation.

FPL Energy – FPL Energy's net income (loss) for 2002, 2001 and 2000 was $(169) million, $113 million and $82 million, respectively. FPL Energy's net income has become a greater portion of FPL Group's consolidated net income increasing from 1% in 1997 to 14% in 2001. The net loss for 2002 was the result of FPL Energy recording impairment and other charges totaling $485 million ($295 million after tax). The impairment and other charges consisted of a goodwill impairment charge of $365 million ($222 million after tax) representing the cumulative effect of adopting FAS 142, "Goodwill and Other Intangible Assets," and restructuring and other charges totaling $120 million ($73 million after tax) due to the unfavorable market conditions in the wholesale energy market. For further discussion of FAS 142, see Note 7, and for the restructuring and other charges, see below. In addition, during 2002, FPL Energy recorded less than $1 million of after-tax net unrealized mark-to-market gains from non-managed hedges compared to gains of $8 million during 2001. For further discussion of derivative instruments, see Note 5. In 2000, FPL Energy recorded merger-related expenses totaling $2 million ($1 million after tax). For additional information regarding these expenses, see Note 9. Excluding these items, FPL Energy's net income would have been $126 million, $105 million and $83 million in 2002, 2001 and 2000, respectively.

As a result of depressed economic conditions coupled with an oversupply of energy generating facilities in certain markets, projected profit margins for certain natural gas projects had declined and were not sufficient to cover the cost of capital. Therefore, FPL Energy made a strategic decision during 2002 to substantially exit the fossil-fueled greenfield power plant development business for the foreseeable future and, as a result, recorded the following charges as restructuring and impairment charges in FPL Group's consolidated statements of income:

- $67 million ($41 million after tax) to write-off previously capitalized development costs,
- $16 million ($10 million after tax) related to the renegotiation of an agreement to significantly reduce the commitment to purchase gas turbines and other related equipment and
- $20 million ($12 million after tax) related to the realignment of the organization and the termination of an operating lease agreement with an SPE and related credit facility used to finance certain turbine purchases.

For additional information concerning these charges, see Note 4 – FPL Energy.

Also in 2002, FPL Energy recorded a charge of approximately $17 million ($10 million after tax) against its investment in two wind projects due to regulatory issues associated with another investor in the projects. The resulting expense is included in equity in earnings of equity method investees in FPL Group's consolidated statements of income. At December 31, 2002, FPL Energy's net investment in the two wind projects totaled approximately $14 million. For additional information concerning these wind projects, see Note 17 – Other Contingencies.

Despite the downturn in the wholesale energy industry, FPL Energy's 2002 net income benefitted from project additions, primarily wind assets in the central and western regions of the United States and the purchase of an 88.23% interest in Seabrook in November 2002, as well as a leased natural gas-fired power plant that began operations during the fourth quarter of 2002. Project additions totaling more than 1,000 mw in 2001 and more than 2,200 mw in 2002 contributed $41 million to net income, $22 million coming from the full-year effect of new wind projects that came on line in the second half of 2001 and the 324 mw added in 2002, and the balance from earnings from other project additions, including Seabrook. For additional information concerning the Seabrook acquisition, see Note 2. FPL Energy's operating revenues and operating expenses for 2002 increased $109 million and $233 million, respectively, primarily driven by project additions coupled with the previously discussed restructuring charges that added $103 million to operating expenses. These project additions resulted in increases to operating revenues of $149 million and operating expenses of $128 million (including fuel-related costs of $37 million, O&M expenses of $54 million and depreciation expense of $37 million) during 2002. Increased revenues from project additions were partially offset by lower revenues of $41 million from the balance of the consolidated portfolio primarily due to reduced energy prices driven by new entrants in the market, as well as mild weather in the Northeast including drought conditions, which had a negative impact on the performance of the hydro assets.

Earnings from investments in partnerships and joint ventures, presented as equity in earnings of equity method investees, declined $5 million in 2002 reflecting the $17 million charge recorded against investments in two wind projects discussed above and a gain of $23 million on the restructuring of a gas supply contract that was renegotiated to yield lower fuel costs and is expected to improve future cash flows, as well as improve equity in earnings from the project. In addition, equity in earnings of equity method investees in 2001 included a gain of $34 million resulting from the sale of a partnership interest in a geothermal project. This gain was almost entirely offset by the write-off of affiliate debt associated with the partnership interest, which was included in other – net. Excluding these events, earnings in 2002 from FPL Energy's investment in equity method investees increased approximately $20 million over 2001. This increase is primarily due to increased contract prices, as the majority of the output of the projects is sold under long-term contracts with counterparties, as well as reduced fuel prices in the northeast region.

FPL Energy is currently constructing five gas-fired power plants with a total capacity of approximately 3,700 mw, and expects to add 700 to 1,200 mw of new wind generation by the end of 2003. FPL Energy expects its future portfolio growth to come from a mix of asset acquisitions and wind development (assuming the extension of the production tax credits beyond 2003).

Interest charges increased $12 million during 2002 associated with higher debt balances due to growth in the business, partly offset by lower average interest rates. Interest income in 2002 declined approximately $14 million and includes, in 2001, interest from a favorable settlement with the Internal Revenue Service. In addition, the decline in interest income reflects lower interest rates.

FPL Energy's 2001 net income growth of $31 million was driven mainly by the expansion of its independent power generation portfolio. Portfolio additions contributed $22 million to the earnings growth including $11 million from a 495 mw natural gas-fired unit in Texas, which became operational in late 2000, $2 million from a 171 mw natural gas-fired peaking unit in the Mid-Atlantic region and $9 million from five new wind projects totaling 843 mw in the Central and West regions. FPL Energy's 2001 operating revenues and operating expenses increased by $108 million and $95 million, respectively, primarily due to project additions. These project additions resulted in increases to operating revenues of $124 million and operating expenses of $102 million (including fuel-related costs of $61 million, O&M expenses of $17 million and depreciation expense of $24 million) during 2001. Increased revenues from project additions were partially offset by lower revenues of $11 million from the remaining consolidated portfolio mainly because sales of excess fuel at a natural gas-fired generating facility in the Mid-Atlantic region that occurred in 2001 did not recur in 2002. Operating expenses related to the remaining consolidated projects declined as a result of lower fuel costs of $13 million due to reduced fuel sales.

Equity in earnings of equity method investees in 2001 increased $36 million due to a gain resulting from the sale of a partnership interest in a geothermal project which totaled $34 million. Earnings in 2001 also included a loss recognized in connection with the write-off of affiliate debt associated with the sale, which was included in other – net. The remaining increase in equity in earnings during 2001 was mainly due to higher energy prices.

Interest charges increased $7 million during 2001 associated with higher debt balances due to growth in the business, partially offset by the effect of lower average interest rates.

Since early June 2002, there has been a decline in the wholesale energy market, 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. These market conditions have made it more difficult for FPL Energy to manage the risk associated with fluctuating commodity prices, to optimize the value of its assets and to contract the output of its plants. Any uncontracted output from the plants has been and will be sold into the market place at prevailing prices. FPL Energy expects, as its existing power sales agreements expire, more of the energy produced will be sold through shorter-term contracts and into competitive wholesale markets.

Competitive wholesale markets in the United States continue to evolve and vary by geographic region. Expanded competition in a relaxed regulatory environment presents both opportunities and risks for FPL Energy. Some of the factors affecting success in these markets include the ability to operate generating assets efficiently, the price and supply of fuel, transmission constraints, wind and hydro resources (weather conditions), competition from new sources of generation, demand growth and exposure to legal and regulatory changes. Opportunities exist for the selective acquisition of generation assets divested under deregulation plans and for the construction and operation of efficient plants that can sell power in competitive markets. Wholesale energy markets have experienced lower demand and lower wholesale electricity prices as a result of weather and economic conditions and the oversupply of generation in certain regions. FPL Energy seeks to minimize its market risk by having a diversified portfolio, by fuel type and location, as well as by contracting for the sale of a significant amount of the electricity output of its plants.

FPL Energy's 2003 earnings are subject to variability due to commodity price exposure, counterparty performance, weather conditions and project restructuring activities. FPL Energy's exposure to commodity price risk is reduced by the high degree of contract coverage or hedging obtained for 2003. FPL Energy's target is to have approximately 75% of its capacity under contract or hedged over the following twelve-month period. As of December 31, 2002, FPL Energy's capacity under contract for 2003 is as follows:

Asset Class	Available MW[a]	% MW Hedged
Wind[b]	1,924	100%
Non-wind assets under long-term contract	1,255	98%
Merchants:		
Seabrook	955	96%
NEPOOL/PJM/NYPP	1,558	44%[c]
ERCOT	2,301	75%[c]
Other (WECC/SERC)	862	42%[c]
Total portfolio	8,855	77%

(a) Weighted to reflect in-service dates; all assets adjusted for planned 2003 outages, including a refueling outage for Seabrook.

(b) For further discussion regarding two wind projects involved in litigation that could potentially terminate long-term power sales agreements, see Note 17 – Other Contingencies.

(c) Represents on-peak mw hedged.

In managing its exposure to commodity prices, FPL Energy is dependent upon its counterparties to perform under their contractual obligations. FPL Energy actively manages the trade-off between market risk and credit risk, as well as exposure with individual counterparties as a function of their creditworthiness. The majority of FPL Energy's 2003 contracted revenues are with investment grade counterparties.

FPL Energy's results are affected by natural fluctuations in weather. In addition to the effect of temperature, which is reflected in commodity prices and demand, changes in weather affect the wind portfolio as well as the hydro units in Maine.

FPL Energy expects project restructuring activities to contribute 10-15% to its net income in 2003. FPL Energy's wind development activities are expected to add between 700 and 1,200 mw during 2003, of which 434 mw have been announced. The majority of the new wind assets are expected to go into service during the second half of 2003, and consequently will have a greater impact on 2004 results of operations.

Corporate and Other – Corporate and Other is primarily comprised of FPL FiberNet and other corporate income and expenses such as interest income and interest expense. FPL FiberNet's net income (loss) was $(55) million, $15 million and $8 million, in 2002, 2001 and 2000, respectively. The net loss for 2002 includes impairment charges as a result of declines in the 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. These charges are included in restructuring and impairment charges in FPL Group's consolidated statements of income.

Although the demand for telecommunication capacity continues to grow, many telecommunication companies have filed for bankruptcy protection under Chapter 11 as market conditions deteriorated. This has caused customer credit to become a primary focus for the industry as credit downgrades have increased. Most of FPL FiberNet's customers are required to pay in advance and past due amounts are closely monitored and actively pursued. Several of FPL FiberNet's customers have filed for bankruptcy protection under Chapter 11 and reserves for any pre-petition receivables due to FPL FiberNet have been established. As a result of this deterioration and general economic conditions, FPL FiberNet has experienced a slowdown in its longhaul (intercity transport) business. FPL FiberNet's metropolitan network continues to benefit from an expanding customer base and increasing use of FPL FiberNet's network by its existing customers. FPL FiberNet's capital expenditure forecast for 2003-07 is approximately $50 million.

An indirect subsidiary of FPL Group has 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 a reserve during 2002 totaling $48 million ($30 million after tax), which is included in reserve for leveraged leases in FPL Group's consolidated statements of income. This reserve amount was offset by the favorable settlement of a prior year income tax matter. See Note 6. Also in 2001 and 2000, Corporate and Other recorded merger-related expenses totaling $4 million ($3 million after tax) and $3 million ($2 million after tax), respectively. For additional information regarding these expenses, see Note 9.

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. The note receivable plus accrued interest totaled approximately $127 million at December 31, 2002 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 its subsequent Quarterly Reports on Form 10-Q with the SEC, and consequently the September 30, 2001 financial information may not be indicative of Olympus' current financial position. 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, which controlled Adelphia. Pursuant to a bankruptcy court order, Olympus is required to file with the court updated financial information. After a number of motions to extend being granted by the court, updated financial information is now required to be filed by June 23, 2003.

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 is no impairment. However, the ultimate collectibility of the note receivable cannot be assured. FPL Group will continue to monitor these developments.

LIQUIDITY AND CAPITAL RESOURCES

FPL Group and its subsidiaries require funds to support and to grow their businesses. These funds are used for working capital, capital expenditures, investments in or acquisitions of assets and businesses and, among other things, to redeem debt or pay maturing debt obligations. It is anticipated that these requirements will be satisfied through a combination of internally generated funds and the issuance, from time to time, of debt and equity securities, consistent with FPL Group's objective of maintaining, on a long-term basis, a capital structure that will support a strong investment grade credit rating. Credit ratings can affect FPL Group's ability to obtain short- and long-term financing, the cost of such financing and the execution of its financing strategies.

In 2002, FPL Group raised approximately $1.4 billion through the issuance of 5.75 million shares of common stock and 21.62 million Corporate Units. Also during 2002, FPL redeemed $750 million and issued $600 million of first mortgage bonds and FPL Group Capital entered into two variable-rate term loans totaling $175 million. See Note 16. In October 2002, FPL and FPL Group Capital renewed their bank lines of credit that were scheduled to expire. Bank lines of credit available to FPL Group and its subsidiaries at December 31, 2002 aggregated approximately $3.1 billion ($2.1 billion for FPL Group Capital and $1 billion for FPL). Approximately one-half of these facilities expire in the second half of 2003, with the remainder expiring in 2004. These facilities are available to support the companies' commercial paper programs as well as for general corporate purposes. In 2002, FPL received a $230 million tax refund out of an estimated $300 million it expects to receive as a result of an IRS ruling, and paid special dividends totaling $375 million to FPL Group. Also, in 2002, 2001 and 2000, FPL paid, as dividends to FPL Group, its net income available to FPL Group on a one-month lag basis.

FPL's charter and mortgage contain provisions which, under certain conditions, restrict the payment of dividends and the issuance of additional unsecured debt, first mortgage bonds and preferred stock. In light of FPL's current financial condition and level of earnings, management does not expect that planned financing activities or dividends would be affected by these limitations.

FPL Group and its subsidiaries, have no credit rating downgrade triggers that would accelerate the maturity dates of debt outstanding. A change in ratings is not an event of default under applicable debt instruments, and while there are conditions to drawing on the credit facilities maintained by FPL Group Capital and FPL, the maintenance of a specific minimum level of credit rating is not a condition to drawing upon those credit facilities. However, interest rates on loans under the credit facilities agreements and commitment fees are tied to credit ratings and would increase or decrease when ratings are changed. A ratings downgrade also could reduce the accessibility and increase the cost of commercial paper issuances and additional or replacement credit facilities, and could result in the requirement that FPL Group subsidiaries, post collateral under certain power purchase and other agreements.

Securities of FPL Group and its subsidiaries are currently rated by Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services (S&P). At February 28, 2003, Moody's and S&P had assigned the following credit ratings to FPL Group, FPL and FPL Group Capital:

	Moody's[(a)]	S&P[(a)]
FPL Group:		
Corporate credit rating	N/A	A
FPL:		
Corporate credit rating	A1	A/A-1
First mortgage bonds	Aa3	A
Pollution control, solid waste disposal and industrial development revenue bonds	Aa3/VMIG-1	A/A-1
Preferred stock	A3	BBB+
Commercial paper	P-1	A-1
FPL Group Capital:		
Corporate credit rating	N/A	A/A-1
Debentures	A2	A-
Commercial paper	P-1	A-1

(a) A security rating is not a recommendation to buy, sell or hold securities and should be evaluated independently of any other rating. The rating is subject to revision or withdrawal at any time by the assigning rating organization.

In June 2002, Moody's confirmed its credit ratings for FPL and FPL Group Capital. The outlook indicated by Moody's for the ratings of FPL is stable, while the outlook for the ratings of FPL Group Capital is negative reflecting uncertainty in the wholesale generation market. In April 2002, following the announcement of the Seabrook acquisition, S&P placed FPL Group's credit rating on CreditWatch with negative implications. In November 2002, S&P removed the CreditWatch with negative implications for FPL Group. The outlook was revised to negative, and the "A" corporate credit rating was affirmed for FPL Group and subsidiaries.

FPL Group's commitments at December 31, 2002 were as follows:

(millions)	2003	2004-05	2006-07	Thereafter	Total
Long-Term Debt:					
FPL	$ 70	$ 500	$ —	$1,875	$ 2,445
FPL Energy	35	78	57	212	382
Corporate and Other	—	275	1,675	1,136	3,086
Standby letters of credit:					
FPL	9	—	—	—	9
FPL Energy	320	—	—	—	320
Corporate and Other	4	—	—	—	4
Guarantees:					
FPL Energy	105	6	214	332	657
Corporate and Other	—	2	—	1	3
Other commitments:					
FPL(a)	1,365	2,635	1,925	—	5,925
FPL Energy(b)	224	325	262	188	999
Corporate and Other	10	—	—	—	10
Total	$2,142	$3,821	$4,133	$3,744	$13,840

(a) Represents projected capital expenditures through 2007 to meet increased electricity usage and customer growth. Excludes minimum payments under purchased power and fuel contracts which are recoverable through various cost recovery clauses. See Note 17 – Contracts.
(b) Represents firm commitments in connection with the acquisition, development and expansion of independent power projects.

In 2000, subsidiaries of FPL Energy entered into two off-balance sheet financing arrangements with SPEs. In the first transaction, FPL Energy's subsidiary entered into an operating lease agreement to lease a 550 mw combined-cycle power generation plant. In the second transaction, the SPE was established to fund the construction of certain turbines and related equipment. This SPE arrangement was terminated in 2002. The SPE that remains had arranged funding commitments through debt and equity contributions from investors who are not affiliated with FPL Group. At December 31, 2002, $380 million had been drawn on these commitments. FPL Group Capital has guaranteed the obligations of the FPL Energy subsidiaries under these agreements, which are included in the table above. In addition, in 2002, FPL Energy received approximately $282 million which had previously been posted as collateral in connection with this off-balance sheet financing arrangement. See Note 17 – Off-Balance Sheet Financing Arrangement.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which will replace the current accounting guidance for SPEs. As a result, entities that are deemed to be VIEs in which FPL Group or one of its subsidiaries is considered to be the "primary beneficiary" will be consolidated. Variable interests are considered to be contractual, ownership, or other monetary interests in an entity that fluctuate with changes in the entity's net asset value. Under its current structure, FPL Group believes that the SPE discussed above will be required to be consolidated beginning in July 2003. At December 31, 2002, FPL Group's maximum exposure to loss as a result of its involvement with this SPE was $215 million.

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 a stated mechanical availability and guaranteed average output. Based on past performance of similar projects, management believes that the exposure associated with this guarantee is not material.

FPL Group has guaranteed certain payment obligations of FPL Group Capital, including those under the FPL Group Capital debt, commercial paper and guarantees discussed above. FPL has no outstanding guarantees.

FPL self-insures for damage to certain transmission and distribution properties and maintains a funded storm and property insurance reserve to reduce the financial impact of storm losses. The balance of the storm fund reserve at December 31, 2002 and 2001 was approximately $298 million and $235 million, respectively, representing the amount in the storm fund plus related deferred income taxes. The December 31, 2002 balance includes a one-time accrual of $35 million as approved by the FPSC. The FPSC has indicated that it would consider future storm losses in excess of the funded reserve for possible recovery from customers. FPL's bank lines of credit discussed above are also available if needed to provide cash for storm restoration costs.

ENERGY MARKETING AND TRADING AND MARKET RISK SENSITIVITY

Energy Marketing and Trading – Certain of FPL Group's subsidiaries, including FPL and FPL Energy, use derivative instruments (primarily swaps, options, futures and forwards) to manage the commodity price risk inherent in fuel purchases and electricity sales, as well as to optimize the value of power generation assets. To a lesser extent, FPL Energy engages in limited energy trading activities to take advantage of expected future favorable price movements.

Derivative instruments are recorded on FPL Group's balance sheets as either an asset or liability (in other current assets, other assets, other current liabilities and other liabilities) measured at fair value. At FPL, substantially all changes in fair value are deferred as a regulatory asset or liability until the contracts are settled. Upon settlement, any gains or losses are 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 other – net for non-managed hedges in FPL Group's consolidated statements of income unless hedge accounting is applied. Settlement gains and losses are included within the line items in the statements of income to which they relate. See Note 5.

The changes in the fair value of FPL Group's derivative instruments for the year ended December 31, 2002, were as follows:

	Year Ended December 31, 2002		
(millions)	Trading & Managed Hedges	Non-Managed Hedges & Hedges in OCI	FPL Group Total
Fair value of contracts outstanding at beginning of period	$ 1	$ (7)	$ (6)
Contracts realized or settled	(8)	(14)	(22)
Fair value of new contracts when entered into	9	—	9
Changes in valuation assumptions	—	2	2[a]
Other changes in fair values	2	67	69
Fair value of contracts outstanding at December 31, 2002	$ 4	$ 48	$ 52[b]

(a) Change in valuation assumption of correlation between power and fuel prices.
(b) Includes the fair value of FPL's derivative instruments of approximately $12 million at December 31, 2002.

The sources of fair value and maturity of derivative instruments at December 31, 2002 were as follows:

	Maturity						
(millions)	2003	2004	2005	2006	2007	Thereafter	Total
Sources of Fair Value:							
Prices actively quoted	$50	$(2)	$(2)	$ —	$ —	$ —	$46
Prices provided by other external sources, primarily broker quotes	—	1	—	—	—	—	1
Prices based on models and other valuation methods	1	(1)	1	1	1	2	5
	$51	$(2)	$(1)	$ 1	$ 1	$ 2	$52

Market Risk Sensitivity – Substantially all financial instruments and positions affecting the financial statements of FPL Group described below are held for purposes other than trading. Market risk is measured as the potential loss in fair value resulting from hypothetical reasonably possible changes in commodity prices, interest rates or equity prices over the next year. Management has established risk management policies to monitor and manage market risks. FPL Group's Exposure Management Committee (EMC), which is comprised of certain members of senior management, is responsible for the overall approval of market risk management policies and the delegation of approval and authorization levels. The EMC receives periodic updates on market positions and related exposures, credit exposures and overall risk management activities. FPL Group manages its interest rate exposure by monitoring current interest rates in relation to total capitalization.

Commodity price risk – FPL Group uses a value-at-risk (VaR) model to measure market risk in its trading and mark-to-market portfolios. The VaR is the estimated loss based on a one-day holding period at a 95% confidence level using historical simulation methodology. As of December 31, 2002 and 2001, the VaR figures are as follows:

	Trading and Managed Hedges			Non-Managed Hedges and Hedges in OCI			Total		
(millions)	FPL	FPL Energy	FPL Group	FPL	FPL Energy	FPL Group	FPL	FPL Energy	FPL Group
December 31, 2001	$—	$ 1	$ 1	$2	$3	$5	$2	$2	$ 4
December 31, 2002	$—	$—	$—	$1	$3	$4	$1	$3	$ 4
Average for the period ended December 31, 2002	$ 1	$—	$ 1	$1	$8	$9	$2	$8	$10

Interest rate risk – The special use funds of FPL Group include restricted funds set aside to cover the cost of storm damage for FPL and for the decommissioning of FPL Group's nuclear power plants. A portion of these funds is invested in fixed income debt securities carried at their market value of approximately $1.184 billion and $1.020 billion at December 31, 2002 and 2001, respectively. Adjustments to market value result in a corresponding adjustment to the related liability accounts based on current regulatory treatment for FPL. The market value adjustments of FPL Group's non-rate regulated operations result in a corresponding adjustment to other comprehensive income. Because the funds set aside by FPL for storm damage could be needed at any time, the related investments are generally more liquid and, therefore, are less sensitive to changes in interest rates. The nuclear decommissioning funds, in contrast, are generally invested in longer-term securities, as decommissioning activities are not expected to begin until at least 2012. See Note 12.

At December 31, 2002, the carrying amount and estimated fair value of long-term debt (including current maturities) was $5.895 billion and $6.222 billion, respectively; the corresponding amounts at December 31, 2001 were $4.890 billion and $5.080 billion. The estimated fair values were based on quoted market prices for these or similar issues.

Based upon a hypothetical 10% decrease in interest rates, which is a reasonable near-term market change, the net fair value of the net liabilities would increase by approximately $134 million at December 31, 2002.

Equity price risk – Included in the special use funds of FPL Group are marketable equity securities carried at their market value of approximately $689 million and $576 million at December 31, 2002 and 2001, respectively. A hypothetical 10% decrease in the prices quoted by stock exchanges, which is a reasonable near-term market change, would result in a $69 million reduction in fair value and corresponding adjustments to the related liability accounts based on current regulatory treatment at December 31, 2002.

NEW ACCOUNTING RULES AND INTERPRETATIONS

Goodwill and Other Intangible Assets – Effective January 1, 2002, FPL Group adopted FAS 142, "Goodwill and Other Intangible Assets." For information concerning the adoption of FAS 142, see Note 1 – Goodwill and Other Intangible Assets.

Accounting for Asset Retirement Obligations – Beginning in 2003, FPL Group will be required to adopt FAS 143, "Accounting for Asset Retirement Obligations." See Note 1 – Accounting for Asset Retirement Obligations.

Guarantees – In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." See Note 1 – Guarantees.

Variable Interest Entities – In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." See Note 1 – Variable Interest Entities (VIEs).

Derivative Instruments – FPL Group is currently analyzing the effect on its financial statements of a change in interpretation of Derivative Implementation Group Issue C11. For further discussion, see Note 5.

MANAGEMENT'S REPORT

The management of FPL Group is responsible for the integrity and objectivity of the financial information and representations contained in the consolidated financial statements and other sections of this Annual Report. The consolidated financial statements, which in part are based on informed judgments and estimates made by management, have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

To aid in carrying out this responsibility, management maintains a system of internal accounting control, which is established after weighing the cost of such controls against the benefits derived. The overall system of internal accounting control, in the opinion of management, provides reasonable assurance that the assets of FPL Group and its subsidiaries are safeguarded and transactions are executed in accordance with management's authorization and are properly recorded for the preparation of financial statements. In addition, management believes the overall system of internal accounting control provides reasonable assurance that material errors or irregularities would be prevented or detected on a timely basis by employees in the normal course of their duties. Due to the inherent limitations of the effectiveness of any system of internal accounting control, management cannot provide absolute assurance that the objectives of internal accounting control will be met. The system of internal accounting control is supported by written policies and guidelines, the selection and training of qualified employees, an organizational structure that provides an appropriate division of responsibility and a program of internal auditing. To further enhance the internal accounting control environment, management has prepared and distributed to all employees a Code of Conduct which states management's policy on conflict of interest and ethical conduct.

FPL Group's independent auditors, Deloitte & Touche LLP, are engaged to express an opinion on FPL Group's financial statements. Their report is based on procedures believed by them to provide a reasonable basis to support such an opinion. The Board of Directors pursues its oversight responsibility for financial reporting and accounting through its Audit Committee. This Committee, which is comprised entirely of outside directors, meets periodically with management, the internal auditors and the independent auditors to make inquiries as to the manner in which the responsibilities of each are being discharged. The independent auditors and the internal audit staff have free access to the Committee without management's presence to discuss auditing, internal accounting control and financial reporting matters.

Lewis Hay III

Chairman, President and Chief Executive Officer

Moray P. Dewhurst

Vice President, Finance and Chief Financial Officer

K. Michael Davis

Controller and Chief Accounting Officer

INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS, FPL GROUP, INC:

We have audited the accompanying consolidated balance sheets of FPL Group, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FPL Group, Inc. and subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 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

DELOITTE & TOUCHE LLP
Certified Public Accountants

Miami, Florida
February 13, 2003

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	2002	2001	2000
(millions, except per share amounts)			
OPERATING REVENUES	**$8,311**	$8,326	$7,062
OPERATING EXPENSES			
Fuel, purchased power and interchange	**3,711**	3,881	2,848
Other operations and maintenance	**1,492**	1,325	1,257
Restructuring and impairment charges	**207**	—	—
Merger-related	**—**	30	67
Depreciation and amortization	**952**	983	1,032
Taxes other than income taxes	**721**	711	618
Total operating expenses	**7,083**	6,930	5,822
OPERATING INCOME	**1,228**	1,396	1,240
OTHER INCOME (DEDUCTIONS)			
Interest charges	**(311)**	(324)	(278)
Preferred stock dividends — FPL	**(15)**	(15)	(15)
Reserve for leveraged leases	**(48)**	—	—
Equity in earnings of equity method investees	**76**	81	45
Other — net	**9**	22	48
Total other deductions — net	**(289)**	(236)	(200)
INCOME FROM OPERATIONS BEFORE INCOME TAXES	**939**	1,160	1,040
INCOME TAXES	**244**	379	336
INCOME BEFORE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	**695**	781	704
CUMULATIVE EFFECT OF ADOPTING FAS 142, "GOODWILL AND OTHER INTANGIBLE ASSETS," NET OF INCOME TAXES OF $143	**(222)**	—	—
NET INCOME	**$ 473**	$ 781	$ 704
Earnings per share of common stock:			
Earnings per share before cumulative effect of adopting FAS 142	**$4.02**	$4.63	$4.14
Cumulative effect of adopting FAS 142	**$(1.28)**	—	—
Earnings per share	**$2.74**	$4.63	$4.14
Earnings per share of common stock — assuming dilution:			
Earnings per share before cumulative effect of adopting FAS 142	**$4.01**	$4.62	$4.14
Cumulative effect of adopting FAS 142	**$(1.28)**	—	—
Earnings per share	**$2.73**	$4.62	$4.14
Dividends per share of common stock	**$2.32**	$2.24	$2.16
Weighted-average number of common shares outstanding:			
Basic	**172.9**	168.7	169.9
Assuming dilution	**173.3**	168.9	170.2

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

CONSOLIDATED BALANCE SHEETS

December 31,	2002	2001
(millions)		
PROPERTY, PLANT AND EQUIPMENT		
Electric utility plant in service and other property	$ 23,664	$ 21,272
Nuclear fuel — net	202	133
Construction work in progress	2,639	1,983
Less accumulated depreciation and amortization	(12,201)	(11,726)
Total property, plant and equipment — net	14,304	11,662
CURRENT ASSETS		
Cash and cash equivalents	266	82
Customer receivables, net of allowances of $26 and $8, respectively	642	636
Other receivables	223	144
Materials, supplies and fossil fuel inventory — at average cost	448	349
Deferred clause expenses	131	304
Other	198	87
Total current assets	1,908	1,602
OTHER ASSETS		
Special use funds	1,921	1,608
Other investments	697	1,035
Other	960	1,556
Total other assets	3,578	4,199
TOTAL ASSETS	$ 19,790	$ 17,463
CAPITALIZATION		
Common shareholders' equity	$ 6,390	$ 6,015
Preferred stock of FPL without sinking fund requirements	226	226
Long-term debt	5,790	4,858
Total capitalization	12,406	11,099
CURRENT LIABILITIES		
Commercial paper	1,822	1,680
Notes payable	375	302
Current maturities of long-term debt	105	32
Accounts payable	458	473
Customers' deposits	316	285
Accrued interest and taxes	169	160
Deferred clause revenues	62	144
Other	504	563
Total current liabilities	3,911	3,639
OTHER LIABILITIES AND DEFERRED CREDITS		
Accumulated deferred income taxes	1,547	1,302
Deferred regulatory credit — income taxes	73	88
Unamortized investment tax credits	120	140
Storm and property insurance reserve	298	235
Other	1,435	960
Total other liabilities and deferred credits	3,473	2,725
COMMITMENTS AND CONTINGENCIES		
TOTAL CAPITALIZATION AND LIABILITIES	$ 19,790	$ 17,463

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2002	2001	2000
(millions)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	**$ 473**	$ 781	$ 704
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**908**	983	1,032
Goodwill impairment	**365**	—	—
Restructuring and impairment charges	**207**	—	—
Increase (decrease) in deferred income taxes and related regulatory credit	**219**	(91)	283
Cost recovery clauses	**135**	411	(810)
(Increase) decrease in restricted cash	**232**	(260)	—
(Increase) decrease in customer receivables	**(6)**	6	(155)
(Increase) decrease in material, supplies and fuel	**(56)**	19	(27)
(Increase) decrease in other current assets	**(86)**	70	(152)
Increase (decrease) in accounts payable	**(15)**	(91)	157
Increase (decrease) in customers' deposits	**31**	31	(30)
Increase (decrease) in accrued interest and taxes	**9**	58	(36)
Increase in other current liabilities	**2**	55	87
Equity in earnings of equity method investees	**(76)**	(102)	(45)
Distribution of earnings from equity method investees	**96**	62	80
Increase in deferred pension debit	**(63)**	(110)	(112)
Increase (decrease) in other liabilities	**(26)**	98	10
Other — net	**(11)**	22	(10)
Net cash provided by operating activities	**2,338**	1,942	976
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures of FPL	**(1,256)**	(1,154)	(1,299)
Independent power investments	**(2,103)**	(1,977)	(507)
Capital expenditures of FPL FiberNet	**(21)**	(128)	(88)
Increase in special use funds	**(86)**	(77)	(97)
Other — net	**199**	67	48
Net cash used in investing activities	**(3,267)**	(3,269)	(1,943)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of long-term debt	**1,770**	920	947
Retirements of long-term debt	**(797)**	(87)	(515)
Increase in commercial paper and notes payable	**214**	824	819
Issuances of common stock	**378**	—	—
Repurchases of common stock	**—**	—	(150)
Dividends on common stock	**(400)**	(377)	(366)
Other — net	**(52)**	—	—
Net cash provided by financing activities	**1,113**	1,280	735
Net increase (decrease) in cash and cash equivalents	**184**	(47)	(232)
Cash and cash equivalents at beginning of year	**82**	129	361
Cash and cash equivalents at end of year	**$ 266**	$ 82	$ 129
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest (net of amount capitalized)	**$ 311**	$ 373	$ 301
Cash paid for income taxes (net of refunds totaling $256 in 2002)	**$ (9)**	$ 433	$ 160
Supplemental Schedule of Noncash Investing and Financing Activities			
Additions to capital lease obligations	**$ 74**	$ 70	$ 43
Accrual for premium on publicly-traded equity units known as Corporate Units	**$ 111**	—	—

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(millions)	Common Stock[a] Shares	Common Stock[a] Aggregate Par Value	Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)[b]	Retained Earnings	Common Shareholders' Equity
Balances, December 31, 1999	179	$ 2	$3,148	$(244)	$ (1)	$2,465	
Net income	—	—	—	—	—	704	
Repurchases of common stock	(3)	—	(150)	—	—	—	
Dividends on common stock	—	—	—	—	—	(366)	
Earned compensation under ESOP	—	—	12	15	—	—	
Other comprehensive income	—	—	—	—	1	—	
Other	—	—	(2)	9	—	—	
Balances, December 31, 2000	176[c]	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 knows 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

(a) $0.01 par value, authorized — 300,000,000 shares; outstanding 182,754,905 and 175,854,056 at December 31, 2002 and 2001, respectively.
(b) Comprehensive income, which includes net income and other comprehensive income (loss), totaled $497 million, $773 million and $705 million for 2002, 2001 and 2000, respectively.
(c) Outstanding and unallocated shares held by the Employee Stock Ownership Plan Trust totaled 6 million, 7 million and 7 million at December 31, 2002, 2001 and 2000, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2002, 2001 and 2000

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 4.0 million customers 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 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:

(millions) December 31,	2002	2001
Assets (current and long-term):		
Unamortized debt reacquisition costs	$ 41	$ 17
Deferred Department of Energy assessment	$ 24	$ 30
Litigation settlement (see Note 10)	$178	$223
Deferred losses on sale of utility property	$ 1	$ 1
Liabilities:		
Deferred regulatory credit — income taxes	$ 73	$ 88
Unamortized investment tax credits	$120	$140
Storm and property insurance reserve (see Note 17 — Insurance)	$298	$235
Discretionary depreciation and nuclear amortization	$140	$ —
Unamortized gains on reacquired debt	$ 5	$ 5
Deferred gains on sale of utility property	$ 5	$ 5

During 2002 in accordance with the terms of the current rate agreement with the FPSC, which became effective April 15, 2002, as well as other FPSC actions with regard to accumulated nuclear amortization, FPL reclassified certain amounts that were previously classified within accumulated depreciation to a regulatory liability, which is included in other liabilities on the consolidated balance sheet. The amounts reclassified include $170 million of special depreciation which will be credited to depreciation expense at up to $125 million per year over the term of the rate agreement, which extends through December 31, 2005, and $99 million of nuclear amortization which will be 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 amounts presented in the table above exclude clause-related regulatory assets and liabilities that are recovered or refunded over the next twelve-month period. Those amounts are included in deferred clause expenses and deferred clause revenues on the consolidated balance sheets. 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, under- or over-recoveries of such can significantly affect operating cash flows.

Significant regulatory assets and liabilities have been recorded on FPL Group's books as a result of FAS 71. If FPL were no longer subject to cost-based rate regulation, these 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. The request for proposal 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 2002, FPL received approval to construct new generation at its Martin and Manatee sites.

The FERC has jurisdiction over potential changes which could affect competition in wholesale transactions. In 1999, the FERC issued its final order on 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 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 cost recovery clause (capacity clause) and setting a hearing date of October 31, 2002 on market design and other outstanding issues. In October 2002, 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, which caused an automatic stay of the proceedings. On October 28, 2002, the FPSC ordered that the GridFlorida proceedings be held in abeyance pending Public Counsel's appeal. On December 12, 2002, Public Counsel filed their brief. Public Counsel contends that the FPSC should not approve the ISO proposal because the FPSC cannot voluntarily abdicate its jurisdiction over retail transmission rates and transmission planning and the ISO will not be subject to the FPSC's jurisdiction. Oral arguments are scheduled for May 6, 2003. A ruling from the Supreme Court of Florida is expected in late 2003.

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. State regulators from the southeast and western states have expressed strong reservations about FERC's proposal. FPL is evaluating the proposed rule. The FERC has announced it will be issuing a "white paper" in April 2003 incorporating comments received on its proposed rule and is currently unable to determine the effects, if any, on FPL's operations. The "white paper" will re-examine the schedule, which had originally proposed full implementation of the standard market design by September 2004. The FERC will allow parties to file comments on the "white paper" before issuing its final order this fall.

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 $140 million and $146 million and at December 31, 2002 and 2001, 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 on the consolidated statements of income and were approximately $372 million, $388 million and $316 million in 2002, 2001 and 2000, respectively. FPL also collects municipal utility taxes which are reported gross in customer receivables and accounts payable on the 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,			
(millions)	**2002**[(a)]	2003	2004	2005
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 is 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. Initial briefs, answer briefs and a reply brief were filed by the parties during 2002. Oral arguments are expected to take place in mid-2003. FPL intends 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 beginning in 2003. At December 31, 2002, the accrual for the revenue refund was approximately $11 million.

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, 2002, the electric generating, transmission, distribution and general facilities of FPL represented approximately 44%, 13%, 37% and 6%, respectively, of FPL's gross investment in electric utility plant in service. Substantially all electric utility plant of FPL is subject to the lien of a mortgage securing FPL's first mortgage bonds. FPL Energy's Doswell generating facility is encumbered by liens against its assets securing bonds issued by an FPL Energy subsidiary in July 2001. Substantially all of the assets of Doswell serve as collateral and approximated $394 million at December 31, 2002.

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 and Dismantlement of Generating Plant). For substantially all of FPL's property, depreciation studies are performed and filed with the FPSC at least every four years. In April 1999, the FPSC granted final approval of FPL's most recent depreciation studies, which were 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 4.4% for 2002, 4.4% for 2001 and 4.5% for 2000. 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 4.0%, 4.0% and 3.7% for 2002, 2001 and 2000, 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 and $101 million of special depreciation in 2000. 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. Nuclear fuel lease expense was $71 million, $70 million and $82 million in 2002, 2001 and 2000, respectively. Included in this expense was an interest component of $3 million, $5 million and $9 million in 2002, 2001 and 2000, respectively. Nuclear fuel lease payments and a charge for spent nuclear fuel disposal are charged to fuel expense on a unit of production method. These costs are recovered through the fuel and purchased power cost recovery clause (fuel clause). Under certain circumstances of lease termination, FPL is required to purchase all nuclear fuel in whatever form at a purchase price designed to allow the lessor to recover its net investment cost in the fuel, which totaled $140 million at December 31, 2002. For ratemaking, these leases are classified as operating leases. For financial reporting, the capital lease obligation is recorded at the amount due in the event of lease termination.

Seabrook Station (Seabrook) has several long-term contracts for the supply, enrichment, conversion 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.

Decommissioning and Dismantlement of Generating Plant – FPL accrues nuclear decommissioning costs over the expected service life of each nuclear generating unit. 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 a reduction in the annual decommissioning expense accrual to $79 million from $85 million and the reclassification of approximately $99 million of accumulated nuclear amortization to a regulatory liability, which is amortized as a reduction of depreciation expense over the remaining life of the nuclear units. These studies assume prompt dismantlement for the Turkey Point Units Nos. 3 and 4 with decommissioning activities commencing in 2012 and 2013, respectively, when the original operating licenses were to expire. Current plans, which are consistent with the term of the existing 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. Decommissioning expense accruals, included in depreciation and amortization expense, were $81 million in 2002 and $85 million in each of 2001 and 2000. FPL's portion of the ultimate cost of decommissioning its four units, expressed in 2002 dollars, is estimated by the studies to aggregate $2.0 billion. At both December 31, 2002 and 2001, the accumulated provision for nuclear decommissioning totaled approximately $1.7 billion and is included in accumulated depreciation. See Electric Plant, Depreciation and Amortization and Accounting for Asset Retirement Obligations.

Similarly, FPL accrues the cost of dismantling its fossil fuel plants over the expected service life of each unit. 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, 1999. Fossil dismantlement expense was $16 million in 2002, $16 million in 2001 and $14 million in 2000 and is included in depreciation and amortization expense. The studies indicate that FPL's portion of the ultimate cost to dismantle its fossil units is $482 million. At December 31, 2002 and 2001, the accumulated provision for fossil dismantlement totaled $260 million and $253 million, respectively, and is included in accumulated depreciation. See Electric Plant, Depreciation and Amortization and Accounting for Asset Retirement Obligations.

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 accumulated provision for nuclear decommissioning. See Note 12 – 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.

In accounting for the purchase of its interest in Seabrook, FPL Energy recorded a nuclear decommissioning liability of approximately $150 million which represents the fair value of its ultimate decommissioning liability as determined by an independent study. See Note 2. During 2002, the liability was accreted using the interest method over an assumed license extension period that runs through 2050. In 2002, FPL Energy recorded approximately $2 million of accretion expense related to Seabrook's nuclear decommissioning liability, which is included in depreciation and amortization expense on the consolidated statements of income. As of December 31, 2002, FPL Energy's accumulated provision for Seabrook's nuclear decommissioning totaled approximately $152 million and is included in other liabilities on the consolidated balance sheet. See Accounting for Asset Retirement Obligations.

Seabrook's current decommissioning funding plan provides for accelerated funding through 2006 and completion of funding by 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 will file an updated nuclear decommissioning study in mid-2003 with the NDFC. The decommissioning study filed with the NDFC in 1999 indicates that FPL Energy's 88.23% of the ultimate cost of decommissioning Seabrook, including costs associated with spent fuel storage, is $1.7 billion, or $516 million, expressed in 2002 dollars.

As of December 31, 2002, FPL Energy's 88.23% portion of Seabrook's restricted trust fund for the payment of future expenditures to decommission Seabrook is approximately $229 million and is included in special use funds on the consolidated balance sheet. 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, 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. See Note 12 – Special Use Funds.

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 accrual for nuclear maintenance costs at December 31, 2002 and 2001 totaled $51 million and $23 million, respectively, and is included in 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 accrual for FPL Energy's major maintenance costs totaled $47 million and $28 million at December 31, 2002 and 2001, respectively. Any difference between the estimated and actual costs is included in O&M expenses when known.

Stock-Based Compensation – FAS 123, "Accounting for Stock-Based Compensation," encourages a fair value based method of accounting for stock-based compensation. FPL Group, however, uses the intrinsic value based method of accounting as permitted by the statement. Stock-based compensation expense was approximately $23 million, $22 million and $80 million in 2002, 2001 and 2000, respectively. Stock-based compensation expense in 2000 reflects merger-related costs associated with the change in control provision in FPL Group's long-term incentive plan. 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:

(millions, except per share amounts)

Years Ended December 31,	**2002**	2001	2000
Net income, as reported	**$ 473**	$781	$704
Deduct: total stock-based employee compensation expense determined under fair value based method, net of related tax effects	**(7)**	(6)	(8)
Pro forma net income	**$ 466**	$775	$696
Earnings per share:			
Basic — as reported	**$2.74**	$4.63	$4.14
Basic — pro forma	**$2.69**	$4.60	$4.10
Assuming dilution — as reported	**$2.73**	$4.62	$4.14
Assuming dilution — pro forma	**$2.69**	$4.59	$4.09

The fair value of the options granted in 2002, 2001 and 2000 were estimated on the date of the grant using the Black-Scholes option-pricing model with a weighted-average expected dividend yield of 4.04%, 4.23% and 3.82%, a weighted-average expected volatility of 19.18%, 19.01% and 20.27%, a weighted-average risk-free interest rate of 4.99%, 4.98% and 6.59% and a weighted-average expected term of 7 years, 7 years and 10 years, respectively.

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 2002, FPL did not capitalize AFUDC on any construction projects. During 2003, FPL's Martin and Manatee expansion projects will qualify for AFUDC.

FPL's construction work in progress at December 31, 2002 is primarily attributable to the addition of two new gas-fired combustion turbines at its Fort Myers site, the repowering of Sanford Unit No. 4 and 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.

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, 2002 and 2001, FPL Energy's capitalized development costs totaled $31 million and $61 million, respectively, which are included in other assets on the 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 operations these costs are transferred to electric utility plant or 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 4. In addition to capitalized development costs, FPL Energy capitalizes interest on its construction projects. Interest capitalized on construction projects amounted to $90 million, $55 million and $23 million during 2002, 2001 and 2000, respectively. FPL Energy's interest charges are based on an assumed capital structure of 50% debt for operating projects and 100% debt for projects under construction.

FPL Energy's construction work in progress at December 31, 2002 is primarily attributable to new gas and wind projects under construction. Included in construction work in progress are construction materials, prepayments on turbine generators, third party engineering costs, interest and other costs directly associated with the construction of the project. Upon commencement of plant operation, these costs are transferred to electric utility plant in service and other property.

Storm Fund – The 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 12 – 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, 2002, the storm and property insurance reserve (approximately $298 million) equals the amount in the storm fund (approximately $183 million) plus related deferred income taxes (approximately $115 million).

Investments in Leveraged Leases – Subsidiaries of FPL Group have investments in leveraged leases, which at December 31, 2002 and 2001, totaled $106 and $155 million, respectively, and are included in other investments on the consolidated balance sheets. The related deferred tax liabilities totaled $108 million and $135 million at December 31, 2002 and 2001, 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 4.

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

Restricted Cash – At December 31, 2002, FPL Group had approximately $36 million of restricted cash included in other current assets on the consolidated balance sheets, essentially all of which is restricted for the payment of operating and/or construction expenditures. At December 31, 2001, FPL Group had approximately $267 million of restricted cash included in other assets on the consolidated balance sheets, most of which was posted as cash collateral for an off-balance sheet financing arrangement. See Note 17 – Off-Balance Sheet Financing Arrangement.

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.

Retirement of Long-Term Debt – The excess of FPL's reacquisition cost over the book value of long-term debt which is retired is deferred and amortized to 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.

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. 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 Note 6.

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. These activities are accounted for at market value. Beginning in the third quarter of 2002, FPL Group adopted guidance provided in the June consensus of Emerging Issues Task Force (EITF) Issue No. 02-3, which requires realized gains and losses from all trading contracts, including those where physical delivery is required, to be recorded net and comparative financial statement amounts for prior periods to be reclassified. Previously, FPL Energy's realized gains and losses from trading in financial instruments were recorded net in operating revenues and realized gains and losses from trading in physical power contracts were recorded gross in operating revenues and fuel, purchased power and interchange in the consolidated statements of income. The netting of realized gains from physical trading and managed hedge activities resulted in reduced revenues and fuel, purchased power and interchange expenses by $193 million for the six months ended June 30, 2002 (the guidance was adopted in the beginning of the third quarter of 2002) and $149 million and $20 million for the years ended December 31, 2001 and 2000, respectively. Effective January 1, 2003, FPL Group adopted the provisions of the EITF 02-3 October consensus, which did not have a significant effect on the financial statements. The guidance requires that trading activities that meet the definition of a derivative under FAS 133 be marked-to-market and reported on a net basis.

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 7.

Accounting for Asset Retirement Obligations – Effective January 1, 2003, FPL Group adopted FAS 143, "Accounting for Asset Retirement Obligations." The statement requires that a liability for the fair value of an asset retirement obligation 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 the useful life of the related asset. Changes in the asset retirement obligation resulting from the passage of time are recognized as an increase in the carrying amount of the liability and as accretion expense. Prior to January 1, 2003, FPL accrued asset retirement obligations over the life of the related asset through depreciation expense. See Decommissioning and Dismantlement of Generating Plant. Upon adoption of FAS 143, with respect to amounts for nuclear decommissioning, FPL reversed the approximately $1.6 billion it had previously recorded in accumulated depreciation and recorded an asset retirement obligation of approximately $1.8 billion. FPL capitalized a net asset related to the asset retirement obligation of approximately $231 million. The difference, approximately $29 million, was deferred as a regulatory liability. FPL's asset retirement obligations 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 will be deferred in accordance with FAS 71. Approximately $1.8 billion remains in accumulated depreciation for previously recorded asset retirement costs that are not considered legal obligations.

In addition to the amounts recorded by FPL, the adoption of FAS 143 by FPL Energy resulted in an increase in asset retirement obligations of approximately $6 million, an increase to net property, plant and equipment of approximately $6 million and a decrease to investments in partnerships and joint ventures of approximately $1 million. The difference, a loss of approximately $1 million, was recorded as the cumulative effect of a change in accounting principle.

Guarantees – In November 2002, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." The interpretation requires that guarantors recognize at the inception of a guarantee a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of the interpretation are to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. See additional disclosures in Note 17 – Commitments.

Variable Interest Entities (VIEs) – In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities." The interpretation will require FPL Group to assess the variable interests it holds and to determine if those entities are VIEs. If FPL Group holds the majority of the variable interests in a VIE that was in existence at January 31, 2003, it will be required to consolidate that entity on July 1, 2003. For interests in VIEs created after January 31, 2003, the new rules must be applied immediately. Under its current structure, FPL Group believes that the special purpose entity (SPE) discussed in Note 17 – Off-Balance Sheet Financing Arrangement, will be required to be consolidated beginning in July 2003. FPL Group is in the process of evaluating the effects that FIN 46 would have on its interests in entities accounted for under the equity method and other potential VIEs.

2. SEABROOK

To strengthen its competitive position in the northeast electric utility 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. See Note 11. Since November 1, 2002, FPL Energy's proportionate share of Seabrook's results have been included in the consolidated financial statements. The following table summarizes the 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

3. EMPLOYEE RETIREMENT BENEFITS

FPL Group and its subsidiaries sponsor a noncontributory defined benefit pension plan and defined benefit postretirement plans for health care and life insurance benefits (other benefits) for substantially all employees. Effective November 1, 2002, FPL Group acquired Seabrook. The liabilities and obligations shown below reflect the acquisition. The following tables provide a reconciliation of the changes in the plans' benefit obligations, fair value of assets and a statement of the funded status:

	Pension Benefits		Other Benefits	
(millions)	2002	2001	2002	2001
Change in benefit obligation:				
Obligation at October 1 of prior year	$1,353	$1,205	$ 387	$ 350
Service cost	52	48	6	6
Interest cost	84	82	24	23
Participant contributions	—	—	2	1
Plan amendments	(3)	42	—	—
Acquisition	48	—	12	—
Special termination benefits	4	—	—	—
Actuarial (gains) losses — net	(55)	55	68	29
Benefit payments	(78)	(79)	(30)	(22)
Obligation at September 30	1,405	1,353	469	387
Change in plan assets:				
Fair value of plan assets at October 1 of prior year	2,546	2,750	74	98
Actual return on plan assets	(80)	(117)	(1)	(1)
Participant contributions	—	—	2	1
Benefit payments	(78)	(87)	(30)	(24)
Fair value of plan assets at September 30	2,388	2,546	45	74
Funded Status:				
Funded status at September 30	983	1,193	(424)	(313)
Unrecognized prior service cost	(43)	(39)	—	—
Unrecognized transition (asset) obligation	(47)	(70)	35	38
Unrecognized (gain) loss	(338)	(591)	127	53
Prepaid (accrued) benefit cost at December 31	$ 555	$ 493	$(262)	$(222)

The following table provides the components of net periodic benefit cost for the plans:

	Pension Benefits			Other Benefits		
	Years Ended December 31,			Years Ended December 31,		
(millions)	2002	2001	2000	2002	2001	2000
Service cost	$ 52	$ 48	$ 44	$ 6	$ 6	$ 5
Interest cost	84	82	77	24	24	21
Expected return on plan assets	(196)	(185)	(172)	(6)	(7)	(7)
Amortization of transition (asset) obligation	(23)	(23)	(23)	3	3	4
Amortization of prior service cost	1	5	(7)	—	—	—
Amortization of (gains) losses	(32)	(37)	(31)	1	—	—
Cost of special termination benefits	4	—	—	—	—	—
Net periodic benefit (income) cost	$(110)	$(110)	$(112)	$28	$26	$23

The weighted-average discount rate used in determining the benefit obligations was 6.00% and 6.25% for 2002 and 2001, respectively. The assumed level of increase in future compensation levels was 4.5% for 2002 and was 5.5% for 2001 and 2000. The expected long-term rate of return on plan assets was 7.75% for all years.

Based on current health care costs (as related to other benefits), the projected 2003 trend assumptions used to measure the expected cost of benefits covered by the plans are 10% for all age groups. The rate is assumed to decrease over the next ten years to the ultimate trend rate of 5% for all age groups and remain at that level thereafter.

Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. An increase or decrease of 1% in assumed health care cost trend rates would have a corresponding effect on the service and interest cost components and the accumulated obligation of other benefits of approximately $1 million and $8 million, respectively.

4. 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 the consolidated balance sheets. During 2002, approximately $3 million was charged against the liabilities. Following is a discussion of the charges by segment.

FPL Energy – The wholesale energy sector continues to face difficult market conditions including a deterioration in forward prices and reduced liquidity, as well as increasing credit concerns that may limit 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 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 Group remains committed to purchase seven gas turbines through 2003, of which six will be used at FPL and are included in FPL's projected capital expenditures (see Note 17 – Commitments). The use of one gas turbine has not been determined and is included in Corporate and Other's projected capital expenditures (see Note 17 – Commitments).

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 an SPE 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.

5. DERIVATIVE INSTRUMENTS

Effective January 1, 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 the balance sheets as either an asset or liability (in other current assets, other assets, other current liabilities and other liabilities) measured at fair value. FPL Group uses derivative instruments (primarily swaps, options, futures and forward purchases and sales) to manage the commodity price risk inherent in fuel purchases and electricity sales, as well as to optimize the value of power generation assets.

At FPL, substantially all changes in fair value are deferred as a regulatory asset or liability until the contracts are settled. Upon settlement, any 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 other – net for non-managed hedges in the consolidated statements of income unless hedge accounting is applied. See further discussion of the two derivative-related categories below. 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 and it must be highly effective. 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 2016. 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.

Beginning January 1, 2002, FPL Group segregated unrealized mark-to-market gains and losses on derivative transactions into two categories. Prior year amounts have been reclassified into these categories. The first category, referred to as trading and managed hedge activities, represents the net unrealized effect of actively traded positions entered into to take advantage of market price movements and to optimize the value of generation assets and related contracts. The unrealized gains from trading and managed hedge activities were $8 million and $0 for the years ended December 31, 2002 and 2001, respectively, and are reported net in operating revenues. The second category, referred to as non-managed hedges, represents the net unrealized effect of derivative transactions entered into as economic hedges (but which do not qualify for hedge accounting under FAS 133) and the ineffective portion of transactions accounted for as cash flow hedges. These transactions have been entered into to reduce our aggregate risk, and any mark-to-market gains or losses during the period prior to realization will continue to be reported outside of operating income in other – net in the consolidated statements of income. Unrealized gains from non-managed hedge activities were $1 million and $12 million (including the cumulative effect loss of $4 million recorded in other – net) for the years ended December 31, 2002 and 2001, respectively. Any position that is moved between non-managed hedge activity and trading and managed hedge activity is transferred at its fair value on the date of reclassification.

Beginning in the third quarter of 2002, FPL Group adopted guidance provided in the June consensus of EITF Issue No. 02-3, which requires realized gains and losses from all trading contracts, including those where physical delivery is required, to be recorded net and comparative financial statement amounts for prior periods to be reclassified. Previously, FPL Energy's realized gains and losses from trading in financial instruments were recorded net in operating revenues and realized gains and losses from trading in physical power contracts were recorded gross in operating revenues and fuel, purchased power and interchange in the consolidated statements of income. The netting of realized gains from physical trading and managed hedge activities resulted in reduced revenues and fuel, purchased power and interchange expenses by $193 million for the six months ended June 30, 2002 (the guidance was adopted in the beginning of the third quarter of 2002), and $149 million and $20 million for the years ended December 31, 2001 and 2000, respectively. Effective January 1, 2003, FPL Group adopted the provisions of the EITF 02-3 October consensus, which did not have a significant effect on the financial statements. The guidance requires that trading activities that meet the definition of a derivative under FAS 133 be marked-to-market and reported on a net basis.

Since the adoption of Derivatives Implementation Group Issue C11 in July 2001, FPL Group has considered any contract with its total sales price indexed to the consumer price index (CPI) or any similar broad market index to not be eligible for the normal purchases and normal sales exception under FAS 133, since its price was not clearly and closely related to the asset being sold. However, electricity contracts with a price based on the fuel used to generate the electric power being sold have been considered to be eligible for the normal sales exception, even when that price also contained an additional payment for incremental operations and maintenance expenses that was indexed to CPI. FPL Group believed that the types of expenses incurred as incremental operations and maintenance expenses, such as labor and materials, would be expected to fluctuate with CPI and as such believed the overall price in the contract was clearly and closely related to the electric power being sold. At its January 2003 meeting the EITF was asked, but declined, to address a similar issue relating to CPI indexing. It is unclear whether the FASB will further deliberate this issue. However, certain parties at the EITF meeting questioned whether the accounting for similar contracts under the normal exception should continue. Based on these discussions, FPL Group has concluded that, unless the FASB decides to address this issue further, this application of Issue C11 will no longer be acceptable and that contracts containing any reference to CPI will no longer qualify for the normal exception. Accordingly, beginning April 1, 2003, any such contracts will be accounted for at fair value. An analysis is currently underway to determine which of these contracts held by FPL Group may be amended to eliminate the reference to CPI. FPL Group is currently unable to determine the effect, if any, on its financial statements, that will result from this change in interpretation.

6. INCOME TAXES

The components of income taxes are as follows:

(millions)	2002	2001	2000
	Years Ended December 31,		
Federal:			
Current	$ (70)	$432	$ 77
Deferred	337	(49)	239
ITC and other — net	(74)	(49)	(35)
Total federal	193	334	281
State:			
Current	(22)	55	6
Deferred	73	(10)	49
Total state	51	45	55
Total income taxes	$244	$379	$336

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

	2002	2001	2000
	Years Ended December 31,		
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (reductions) resulting from:			
State income taxes — net of federal income tax benefit	3.5	2.5	3.5
Amortization of ITC	(2.1)	(1.9)	(2.1)
Production tax credits — FPL Energy	(5.7)	(2.3)	(1.3)
Amortization of deferred regulatory credit — income taxes	(1.1)	(1.0)	(1.2)
Adjustments of prior years' tax matters	(3.2)	(0.8)	(2.7)
Preferred stock dividends — FPL	0.6	0.5	0.5
Other — net	(1.0)	0.7	0.6
Effective income tax rate	26.0%	32.7%	32.3%

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

(millions)	2002	2001
	December 31,	
Deferred tax liabilities:		
Property-related	$1,768	$1,294
Investment-related	518	466
Other	491	545
Total deferred tax liabilities	2,777	2,305
Deferred tax assets and valuation allowance:		
Asset writedowns	250	109
Unamortized ITC and deferred regulatory credit — income taxes	74	88
Storm and decommissioning reserves	331	292
Post retirement benefits	102	91
Other	494	448
Valuation allowance	(21)	(25)
Net deferred tax assets	1,230	1,003
Accumulated deferred income taxes	$1,547	$1,302

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. In 2002, FPL received a $230 million tax refund out of an estimated $300 million it expects to receive as a result of an IRS ruling.

7. 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 the 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 proforma effect on prior years of excluding goodwill amortization expense:

	Years Ended December 31,		
(millions, except per share amounts)	2002	2001	2000
Net income	$473	$ 781	$ 704
Add back: Cumulative effect of adopting FAS 142, net of income taxes of $143	222	—	—
Net income excluding cumulative effect	695	781	704
Add back: Goodwill amortization, net of income taxes of $4 each	—	6	6
Adjusted net income	$695	$ 787	$ 710
Earnings per share (basic)	$2.74	$4.63	$4.14
Add back: Cumulative effect of adopting FAS 142	1.28	—	—
Earnings per share excluding cumulative effect	4.02	4.63	4.14
Add back: Goodwill amortization	—	0.03	0.04
Adjusted earnings per share (basic)	$4.02	$4.66	$4.18
Earnings per share (assuming dilution)	$2.73	$4.62	$4.14
Add back: Cumulative effect of adopting FAS 142	1.28	—	—
Earnings per share excluding cumulative effect	4.01	4.62	4.14
Add back: Goodwill amortization	—	0.04	0.03
Adjusted earnings per share (assuming dilution)	$4.01	$4.66	$4.17

8. COMPREHENSIVE INCOME

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

		Accumulated Other Comprehensive Income (Loss)			
(millions)	Net Income	Net Unrealized Gains (Losses) On Cash Flow Hedges	Other	Total	Comprehensive Income
Balances, December 31, 1999		$ —	$(1)	$ (1)	
Net income	$704				$704
Net unrealized gain on securities (net of $1 tax expense)		—	1	1	1
Balances, December 31, 2000		—	—	—	$705
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)[a]		33	—	33	33
Reclassification adjustment (net of $4 tax benefit)[b]		(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

(a) Approximately $22 million of accumulated other comprehensive income at December 31, 2002 will be reclassified into earnings within the next 12 months as the hedged fuel is consumed or as electricity is sold.

(b) Includes gains and (losses) reclassified into earnings due to settlements of approximately $8 million and discontinuance of cash flow hedges of approximately $1 million.

9. 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 is 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 and $67 million in merger-related expenses in 2001 and 2000, respectively, of which FPL recorded $26 million ($16 million after tax) and $62 million ($38 million after tax). FPL Energy recorded $2 million ($1 million after tax) in 2000 and Corporate and Other recorded $4 million ($3 million after tax) and $3 million ($2 million after tax) in 2001 and 2000, respectively.

10. SETTLEMENT OF LITIGATION

In September 2000, a bankruptcy court approved the settlement of a contract dispute between FPL and two qualifying facilities. The settlement was approved by the FPSC in October 2000. In December 2000, under the terms of the settlement, the trustee was paid $222.5 million plus security deposits. The funds were subsequently distributed by the trustee as directed by the bankruptcy court. FPL will recover the cost of the settlement through the fuel and capacity clauses over a five-year period beginning January 1, 2002. Also, from the payment date to December 31, 2001, FPL did not receive a return on the unrecovered amount through the fuel and capacity clauses, but instead, the settlement amount was included as a rate base regulatory asset over that period. See Note 1 – Regulation.

11. 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 the 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, 2002, the proportionate share of FPL's gross investment in these units was $1.168 billion, $327 million and $571 million, respectively; accumulated depreciation was $782 million, $188 million and $330 million, respectively. FPL is responsible for its share of the operating costs, as well as providing its own financing. These costs are included in the consolidated statements of income. At December 31, 2002, there was no significant balance of construction work in progress on these facilities. See Note 17 – Litigation.

FPL Energy – FPL Energy owns approximately 88.23% of Seabrook. At December 31, 2002, the proportionate share of FPL Energy's gross investment was $945 million and accumulated depreciation was $3 million. FPL Energy is responsible for its share of the operating costs, as well as providing its own financing. These costs are included in the consolidated statements of income. At December 31, 2002, there was $16 million of construction work in progress for capital projects underway at Seabrook. See Note 2.

FPL Energy owns approximately 61.78% of Wyman Station Unit No. 4, an oil burning unit located in Maine. At December 31, 2002, the proportionate share of FPL Energy's gross investment was $98 million and accumulated depreciation was $20 million. FPL Energy is responsible for its share of the operating costs, as well as providing its own financing. These costs are included in the consolidated statements of income. At December 31, 2002, there was approximately $3 million of construction work in progress for capital projects underway at Wyman Station.

12. FINANCIAL INSTRUMENTS

The carrying amounts of cash equivalents, commercial paper and notes payable approximate fair values. At December 31, 2002 and 2001, other investments included financial instruments of approximately $280 million and $600 million, respectively, the majority of which consist of notes receivable that are carried at estimated fair value or cost, which approximates fair value. See Note 13.

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.

At December 31, 2002 and 2001, the carrying amount of FPL Group's long-term debt, including current maturities, was $5.895 billion and $4.890 billion, respectively. The estimated fair value of such amounts based on quoted market prices for these or similar issues was $6.222 billion and $5.080 billion, respectively.

Special Use Funds – The special use funds consist of FPL's storm fund assets totaling $183 million and $145 million, and FPL Group's nuclear decommissioning fund assets totaling $1.738 billion and $1.463 billion at December 31, 2002 and 2001, respectively. Securities held in the special use funds are carried at estimated fair value based on quoted market prices. FPL Group's nuclear decommissioning funds consist of approximately 40% equity securities and 60% municipal, government, corporate and mortgage- and other asset-backed debt securities with a weighted-average maturity of approximately eight years. FPL's storm fund primarily consists of municipal debt securities with a weighted-average maturity of approximately four 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,		
(millions)	2002	2001	2000
Realized gains	$ 128	$ 30	$ 8
Realized losses	$ 116	$ 16	$ 15
Proceeds from sale of securities	$2,524	$1,778	$1,959

	December 31,	
(millions)	2002	2001
Unrealized gains	$143	$208
Unrealized losses	$ 44	$ 9

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 will require similar investment restrictions. 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, respectively. 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.

13. 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, 2002 and 2001, FPL Energy's investment in partnerships and joint ventures totaled approximately $310 million and $276 million, respectively, which is included in other investments on the consolidated balance sheets. FPL Energy's interest in these partnerships and joint ventures range from approximately 20% to 50%. At December 31, 2002, the principal entities included in FPL Energy's investments in partnerships and joint ventures were Bastrop Energy Partners, LP, Northeast Energy, LP and Luz Solar Partners LTD., VIII and IX.

Summarized combined unaudited information for these four entities is as follows:

(millions)	2002	2001
Net income	$ 106	$ 40
Total assets	$1,568	$1,592
Total liabilities	$1,078	$1,205
Partners' equity	$ 490	$ 387
FPL Energy's share of underlying equity in the four entities	$ 243	$ 196
Difference between investment carrying amount and underlying equity in net assets[a]	(10)	(23)
FPL Energy's investment carrying amount for the four entities	$ 233	$ 173

(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, 2002, 2001 and 2000 include approximately $16 million, $14 million and $15 million, respectively, related to such services. The receivables at December 31, 2002 and 2001, for these services, as well as payroll and other payments made on behalf of these investments, were approximately $15 million and $23 million, respectively, and are included in other current assets on the consolidated balance sheets.

Notes receivable (long- and short-term) include approximately $94 million and $120 million at December 31, 2002 and 2001, respectively, due from partnerships and joint ventures in which FPL Energy has an ownership interest. The notes receivable mature 2004-14 and the majority bear interest at variable rates, which ranged from approximately 5.0% to 6.8% at December 31, 2002 and 5.6% to 8.7% at December 31, 2001. Interest income on these notes totaling approximately $12 million, $12 million and $13 million for the years ended December 31, 2002, 2001 and 2000, respectively, is included in other – net in the consolidated statements of income. The associated interest receivables as of December 31, 2002 and 2001 were approximately $0.2 million and $0.5 million, respectively, and are included in other current assets on the consolidated balance sheets.

14. COMMON STOCK

Earnings per share – The reconciliation of basic and diluted earnings per share is shown below:

	Years Ended December 31,		
(millions, except per share amounts)	**2002**	2001	2000
Numerator (basic and assuming dilution):			
Net income	**$ 473**	$ 781	$ 704
Denominator:			
Weighted-average number of shares outstanding — basic	**172.9**	168.7	169.9
Performance share awards and shareholder value awards, options and equity units[a]	**0.4**	0.2	0.3
Weighted-average number of shares outstanding — assuming dilution	**173.3**	168.9	170.2
Earnings per share:			
Basic	**$ 2.74**	$ 4.63	$ 4.14
Assuming dilution	**$ 2.73**	$ 4.62	$ 4.14

(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 (known as Corporate Units), which were not included in the denominator above due to their antidilutive effect, were 11 million in 2002, 1.6 million in 2001 and none in 2000.

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. 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. In 2002, 2001 and 2000, 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.

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 $24 million, $24 million and $22 million in 2002, 2001 and 2000, 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, 2002 was approximately $186 million, representing 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, 2002 was approximately $386 million.

Long-Term Incentive Plan – At December 31, 2002, approximately 9 million shares of common stock are reserved and 8.0 million available for 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 incentive plan are as follows:

	Restricted Stock	Performance Share and Shareholder Value Awards	Options Number	Options Weighted-Average Exercise Price
Balances, December 31, 1999	413,400	646,615	1,100,000	$51.59
Granted	28,350[a]	465,614[b]	564,950[c]	$39.64
Paid/released/exercised	(264,800)	(1,038,375)	(1,060,726)	$49.88
Forfeited	(95,700)	(54,854)	(212,056)	$50.51
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[d]	$57.29

(a) The weighted-average grant date fair value of restricted stock granted in 2002, 2001 and 2000 was $54.82, $60.19 and $45.55 per share, respectively.

(b) The weighted-average grant date fair value of performance share and shareholder value awards in 2002, 2001 and 2000 was $56.95, $70.25 and $41.25 per share, respectively.

(c) The exercise price of each option granted in 2002, 2001 and 2000 equaled the market price of common stock on the date of grant. Accordingly, the weighted-average grant date fair value of all options granted is $0.

(d) Of the options outstanding at December 31, 2002, 826,174 options were exercisable and had exercise prices ranging from $38.13 to $65.13 per share with a weighted-average exercise price of $55.58 per share and a weighted-average remaining contractual life of 8.0 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 $57.79 per share and a weighted-average remaining contractual life of 8.8 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.

15. 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 is 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, 2002		(millions) December 31,	
	Shares Outstanding[b]	Redemption Price	2002	2001
Cumulative, $100 Par Value, without sinking fund requirements, authorized 15,822,500 shares:				
4 1/2% Series	100,000	$101.00	$ 10	$ 10
4 1/2% Series A	50,000	$101.00	5	5
4 1/2% Series B	50,000	$101.00	5	5
4 1/2% Series C	62,500	$103.00	6	6
4.32% Series D	50,000	$103.50	5	5
4.35% Series E	50,000	$102.00	5	5
6.98% Series S	750,000	$103.49[c]	75	75
7.05% Series T	500,000	$103.52[c]	50	50
6.75% Series U	650,000	$103.37[c]	65	65
Total preferred stock of FPL	2,262,500		$226	$226

(a) FPL's charter also authorizes the issuance of 5 million shares of subordinated preferred stock, no par value. None of these shares is outstanding. There were no issuances or redemptions of preferred stock in 2002, 2001 or 2000.

(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.

(c) Shares outstanding from Series S, Series T and Series U are redeemable on or after March 1, June 1 and August 1, 2003, respectively.

16. DEBT

Long-term debt consists of the following:

(millions)	December 31, 2002	2001
FPL:		
First mortgage bonds:		
Maturing through 2005 — 6 5/8% to 6 7/8%	$ 500	$ 725
Maturing 2008 through 2016 — 4.85% to 7.3%	825	650
Maturing 2023 through 2033 — 5.85% to 7 3/4%	417	516
Medium-term notes — maturing 2003 — 5.79%	70	70
Pollution control and industrial development series — maturing 2023 through 2027 — 6.7% to 7.15%	24	24
Pollution control, solid waste disposal and industrial development revenue bonds — maturing 2020 through 2029 — variable, 1.6% and 2.8% average annual interest rates, respectively	609	609
Unamortized discount	(11)	(15)
Total long-term debt of FPL	2,434	2,579
Less current maturities	70	—
Long-term debt of FPL, excluding current maturities	2,364	2,579
FPL Group Capital:		
Debentures — maturing 2004 through 2009 — 6 1/8% to 7 5/8%	1,900	1,900
Debentures, related to FPL Group's equity units — maturing 2007 and 2008 — 4.75% and 5%, respectively	1,081	—
Other long-term debt — maturing 2013 — 7.35%	5	5
Term loan facility — maturing 2004 — variable, 2.04% average annual interest rate	100	—
Unamortized discount	(7)	(8)
Total long-term debt of FPL Group Capital	3,079	1,897
FPL Energy:		
Senior secured bonds — maturing 2019 — 7.52%	382	414
Less current maturities	35	32
Long-term debt of FPL Energy, excluding current maturities	347	382
Total long-term debt	$5,790	$4,858

In December 2002, FPL redeemed $225 million principal amount of first mortgage bonds maturing 2016, $125 million principal amount of first mortgage bonds maturing 2023 and $175 million principal amount of first mortgage bonds maturing 2024, bearing interest at 7.30%, 7 3/4% and 7 5/8%, respectively. In December 2002, FPL sold $400 million principal amount of first mortgage bonds maturing 2013 and $200 million principal amount of first mortgage bonds maturing 2033, with interest rates of 4.85% and 5.85%, respectively.

Minimum annual maturities of long-term debt are approximately $105 million, $312 million, $541 million, $635 million and $1.097 billion for 2003, 2004, 2005, 2006 and 2007, respectively.

At December 31, 2002, commercial paper borrowings and notes payable had a weighted-average interest rate of 1.58%. Available lines of credit aggregated approximately $3.1 billion ($2.1 billion for FPL Group Capital and $1 billion for FPL) at December 31, 2002, all of which were based on firm commitments.

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, as 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).

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, as 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). 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.

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. At FPL Energy, capital expenditures include costs for the acquisition, development and expansion of independent power projects. Capital expenditures for Corporate and Other primarily relate to FPL FiberNet. At December 31, 2002, capital expenditures for 2003 through 2007 are estimated to be as follows:

(millions)	2003	2004	2005	2006	2007	Total
FPL:						
Generation	$ 595	$ 605	$ 425	$200	$165	$1,990
Transmission	150	185	140	135	140	750
Distribution	510	520	510	515	525	2,580
General and other	110	135	115	125	120	605
Total	$1,365	$1,445	$1,190	$975	$950	$5,925
FPL Energy:						
Wind[(a)]	$1,165	$ —	$ —	$ —	$ —	$1,165
Gas	405	65	10	70	15	565
Nuclear	20	20	25	15	15	95
Total	$1,590	$ 85	$ 35	$ 85	$ 30	$1,825
Corporate and Other	$ 20	$ 10	$ 10	$ 10	$ 10	$ 60

(a) FPL Energy has projected capital expenditures for 1,200 mw of wind through 2003 when the production tax credits are scheduled to expire.

As of December 31, 2002, FPL Energy had $999 million in firm commitments for a portion of its capital expenditures, natural gas transportation and storage contracts and minimum lease payments associated with the off-balance sheet financing arrangement discussed below. See Contracts below. FPL Group has guaranteed certain payment obligations of FPL Group Capital, including all those under FPL Group Capital's debt and commercial paper issuances, as well as the guarantees discussed above.

At December 31, 2002, subsidiaries of FPL Group have guaranteed a firm gas transportation agreement obligation with a letter of credit, purchase and sale of power and fuel agreement obligations and debt service payments. The term of the guarantees is equal to the term of the related debt, firm transportation agreement, or purchase and sale of power and fuel agreement, which can be as short as 30 days or as long as 20 years. The maximum potential amount of future payments that could be required under these guarantees at December 31, 2002 is approximately $21 million, of which $2 million relates to a guarantee for the performance of an unrelated party. At December 31, 2002, FPL Group does 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 guarantee.

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 a stated mechanical availability and guaranteed average output. Based on past performance of similar projects, management believes that the exposure associated with this guarantee is not material.

Contracts – During 2002, FPL Group amended its long-term agreement for the supply of gas turbines. At December 31, 2002, FPL Group remains committed to purchase seven gas turbines through 2003, and parts, repairs and on-site service through 2011. Six of the turbines will be used at FPL and are included in FPL's commitments above. The use of one gas turbine has not been determined and is included in Corporate and Other's commitments above.

FPL Energy has entered into several contracts for the supply of wind turbines and towers to support a portion of the new wind generation planned. In addition, FPL Energy has entered into various engineering, procurement and construction contracts with expiration dates through 2004 to support its development activities. All of these contracts are intended to support expansion, and the related commitments as of December 31, 2002 are included in Commitments above.

FPL has entered into long-term purchased power and fuel contracts. FPL is obligated under take-or-pay purchased power contracts with the Jacksonville Electric Authority (JEA) and with subsidiaries of The Southern Company (Southern Companies) to pay for approximately 1,300 mw of power through mid-2010 and 382 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. In 2001, FPL entered into agreements with several electricity suppliers to purchase an aggregate of up to 1,100 mw of power with expiration dates ranging from 2003 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 2022. FPL Energy has long-term contracts for the transportation, supply and storage of natural gas with expiration dates ranging from 2006 through 2017. FPL Energy also has several contracts for the supply, conversion, enrichment and fabrication of Seabrook's nuclear fuel with expiration dates ranging from 2003 to 2008.

The required capacity and minimum payments under these contracts as of December 31, 2002 are estimated to be as follows:

(millions)	2003	2004	2005	2006	2007	Thereafter
FPL:						
Capacity payments:						
JEA and Southern Companies	$ 190	$190	$190	$200	$200	$1,300
Qualifying facilities	$ 350	$360	$350	$300	$300	$4,700
Other electricity suppliers	$ 91	$ 89	$ 50	$ 41	$ 4	$ —
Minimum payments, at projected prices:						
Southern Companies — energy	$ 60	$ 50	$ 60	$ 60	$ 58	$ 200
Natural gas, including transportation	$1,161	$441	$345	$201	$201	$1,870
Coal	$ 55	$ 27	$ 26	$ 12	$ 8	$ —
Oil	$ 357	$ —	$ —	$ —	$ —	$ —
FPL Energy:						
Natural gas transportation and storage	$ 15	$ 15	$ 15	$ 15	$ 15	$ 160
Nuclear fuel	$ 10	$ 5	$ —	$ —	$ —	$ —

Charges under these contracts were as follows:

	2002 Charges		2001 Charges		2000 Charges	
(millions)	Capacity	Energy/ Fuel	Capacity	Energy/ Fuel	Capacity	Energy/ Fuel
FPL:						
JEA and Southern Companies	$185[a]	$161[b]	$197[a]	$169[b]	$198[a]	$153[b]
Qualifying facilities	$315[c]	$122[b]	$314[c]	$124[b]	$318[c]	$135[b]
Other electricity suppliers	$ 81[c]	$ 20[b]	$ 25[c]	$ 6[b]	$ —	$ —
Natural gas, including transportation	$ —	$858[b]	$ —	$763[b]	$ —	$567[b]
Coal	$ —	$159[b]	$ —	$ 49[b]	$ —	$ 50[b]
Oil	$ —	$401[b]	$ —	$294[b]	$ —	$354[b]
FPL Energy:						
Natural gas, including transportation and storage	$ —	$ 18	$ —	$ 17	$ —	$ 17
Nuclear fuel	$ —	$ —	$ —	$ —	$ —	$ —

(a) Recoverable through base rates and the capacity clause.
(b) Recoverable through the fuel clause.
(c) Recoverable through the capacity clause.

Off-Balance Sheet Financing Arrangement – In 2000, an FPL Energy subsidiary entered into an operating lease agreement with an 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 and 2001, the lessor had drawn $380 million and $298 million, respectively. The $380 million commitment includes $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 will begin making lease payments March 31, 2003. The amounts are intended to cover the lessor's debt service, which includes a stated yield to equity holders and certain other costs. The minimum annual lease payments are estimated to be $21 million in 2003, $23 million in 2004, $26 million in 2005, $19 million in 2006 and $210 million in 2007 (includes residual value guarantee of $192 million). The lease payments are based on a floating interest rate, tied to three month LIBOR, which adjusts quarterly.

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, it 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 (included in the minimum lease payments above) 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 the FPL Energy subsidiary's obligations under the lease agreement. The equity holder controls the lessor. The lessor has represented that it has essentially no assets or obligations other than the plant and the related debt and that total assets, total liabilities and equity of the lessor at December 31, 2002 were $383 million, $369 million and $14 million, respectively. In June 2002, the cash collateral requirement related to this transaction was removed and the collateral was returned to FPL Energy as a result of the lessor's syndication of its debt.

In January 2003, the FASB issued FIN 46, "Consolidation of Variable Interest Entities," which will replace the current accounting guidance for SPEs. As a result, entities that are deemed to be VIEs in which FPL Group or one of its subsidiaries is considered to be the "primary beneficiary" will be consolidated. Variable interests are considered to be contractual, ownership or other monetary interests in an entity that fluctuate with changes in the entity's net asset value. Under its current structure, FPL Group believes that the SPE discussed above will be required to be consolidated beginning in July 2003. At December 31, 2002, FPL Group's maximum exposure to loss as a result of its involvement with this SPE was $215 million.

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 private sources and under an industry retrospective payment plan. In accordance with this Act, effective January 1, 2003, 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 $454 million per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $54 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 $11 million and $14 million, 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 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 may 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 the majority of its transmission and distribution (T&D) property due to the high cost and limited coverage available from third-party insurers. As approved by the FPSC, FPL maintains a funded storm and property insurance reserve, which totaled approximately $298 million at December 31, 2002, for uninsured property storm damage or assessments under the nuclear insurance program. The current annual accrual approved by the FPSC is $20.3 million. In addition, the storm and property insurance reserve balance includes a one-time accrual in 2002 of $35 million as approved by the FPSC. 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.

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. 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 has opposed that motion asking that the case remain closed until the Eleventh Circuit Court of Appeals rules on the Tennessee Valley Authority's appeal of an EPA administrative 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 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, filed suit against FPL Group, FPL, FPL FiberNet, FPL Group Capital and FPL Investments, Inc. 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 defendants, 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 July 2002, defendants' motion to dismiss the amended complaint for, among other things, the failure to state a valid cause of action was denied. Defendants have filed an answer and affirmative defenses to the amended complaint. The parties are pursuing discovery regarding class certification.

In August 2001, Florida Municipal Power Agency (FMPA) filed with the United States 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 (OATT) since the mid-1990s. 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. On January 21, 2003, the DC Circuit upheld FERC's order denying FMPA credits for its facilities, finding that substantial evidence supported FERC's conclusion that FMPA's facilities do not satisfy the integration test. FMPA since has requested that FERC decide the crediting issue again in a separate FERC proceeding. That proceeding dates back to a filing by FPL on March 19, 1993, as completed on July 26, 1993, of a comprehensive restructuring of its then-existing tariff structure. A FERC administrative law judge issued an order in that proceeding on December 13, 1995. The judge's order, which did not address credits, is currently pending at FERC on rehearing. FPL has argued that, particularly in light of the DC Circuit's order, FERC should not issue another order addressing FMPA's request for credits. If FERC does decide the crediting issue in this separate proceeding, and reverses its previous finding that FMPA is not entitled to transmission credits, FMPA is likely to seek refunds for amounts collected from FMPA member cities taking service under FPL's OATT. FPL estimates that through December 31, 2002 its maximum exposure to refunds, including interest, is approximately $50 million to $60 million.

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 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. The lawsuit alleges 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 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. It also alleges 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. 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) all defendants (except FPL Group) and attorneys' fees. FPL Group's board of directors established a special committee to investigate a demand by another shareholder that the board take action to obtain the return of the payments made to the officers and expanded that investigation to include the allegations in the Oorbeek and Berman complaint.

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 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. The lawsuit alleges that the payments made to certain officers under FPL Group's LTIP upon shareholder approval of the proposed merger with Entergy were improper and constituted breaches of fiduciary duties by the individual defendants because the LTIP required consummation of the merger as a condition to the payments. The plaintiff seeks the return to FPL Group of the payments received by the officers ($62 million); contribution, restitution and/or damages from the individual defendants; and attorneys' fees. These allegations also were referred to the special committee of FPL Group's board of directors investigating the allegations in the Oorbeek and Berman lawsuit.

In August 2002, the special committee filed under seal with the court its report of its investigation. The report concluded that pursuit of the claims identified by the plaintiffs in the Oorbeek and Berman and the Klein lawsuits 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 independent directors participating) concluded likewise. In September 2002, FPL Group, as nominal defendant, filed the special committee's report in the public docket 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 Statement of Position also 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 the LTIP pursuant to which the payments to eight senior officers were calculated. The board, the affected officers (two of whom have retired from FPL Group), and their respective legal counsel are discussing resolution of the issue. Any change from the original interpretation could result in a repayment to FPL Group of up to approximately $9 million.

In February 2003, Donald E. and Judith B. Phillips filed suit against FPL Group (as nominal defendant); all its current directors (except James L. Camaren 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, Dennis P. Coyle and Lawrence J. Kelleher. The lawsuit alleges that the proxy statements relating to shareholder approval of FPL Group's LTIP and FPL Group's proposed, but unconsummated, merger with 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. It also alleges 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. 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 attorney's fees.

In February 2003, Scott and Rebecca Finestone brought an action on behalf of themselves and their son Zachary Finestone in the Florida district court 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.

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. 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 not yet responded to the complaint but expects to do so in the near future.

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 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. 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, 2002 and are included in other investments on the 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 its subsequent Quarterly Reports on Form 10-Q with the Securities and Exchange Commission (SEC), and consequently the September 30, 2001 financial information may not be indicative of Olympus' current financial position. 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, which controlled Adelphia. Pursuant to a bankruptcy court order, Olympus is required to file with the court updated financial information. After a number of motions to extend being granted by the Court, updated financial information is now required to be filed by June 23, 2003.

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 is no impairment. However, the ultimate collectibility of the note receivable cannot be assured. FPL Group will continue to monitor these developments.

FPL Energy owns a 50% interest in two wind projects that are qualifying facilities under the Public Utility Regulatory Policies Act of 1978, as amended (PURPA) and sell 100% of their output to Southern California Edison (SCE). The projects' qualifying facility status is based on an application filed by FPL Energy's partner in the projects. FERC regulations preclude more than 50% of the equity in qualifying facilities to be owned directly or indirectly by utilities or utility holding companies. However, the ownership restriction does not apply to utility holding companies that are exempt from the Public Utility Holding Company Act of 1935, as amended (Holding Company Act) under section 3(a)(3) or 3(a)(5). FPL Energy and its partner both are utility holding companies, but its partner currently has exemptions from the Holding Company Act under both section 3(a)(3) and 3(a)(5). Thus, FPL Energy and its partner currently satisfy the 50% ownership test of PURPA. SCE has filed a motion with the SEC requesting that the SEC revoke the Holding Company Act exemptions currently held by FPL Energy's partner prospectively, as well as retroactively, on the basis that the Holding Company Act exemption applications filed by FPL Energy's partner were not filed in good faith. On February 6, 2003, an administrative law judge issued a decision revoking FPL Energy's partner's exemptions from the Holding Company Act. FPL Energy's partner has filed for an appeal of this decision with the SEC. On February 27, 2003, in response to the administrative law judge's decision, FPL Energy's partner transferred the ownership of its affiliates, which are partners in the partnership, to a trust with an independent non-utility trustee. The partnerships plan to apply with the FERC for recertification of the facilities as qualifying facilities under the new ownership arrangements. In addition, on October 24, 2002, the FERC issued an Order Initiating Investigation and Hearing on the issue of whether three facilities, including the two wind projects described above and a third in which FPL Energy has no interest, satisfied statutory and regulatory requirements for qualifying facility status following the 1997 transfer of ownership interests in the facilities from FPL Energy's partner to a third party. This investigation resulted in a tentative settlement with SCE. The tentative settlement, if approved by the FERC and the California Public Utilities Commission, would result in the facilities no longer having to satisfy qualifying facility ownership requirements and would not materially affect FPL Energy's results of operations. If the SEC upholds the administrative law judge's decision, the FERC rejects the recertification application and/or FPL Energy or its partner did not take appropriate remedial steps, the projects could lose their qualifying facility status, the settlement with SCE might not be consummated and SCE could seek to terminate its long-term power sales agreements with the partnerships. If the long-term power sales agreements were terminated, the projects would have to sell their output into the marketplace. FPL Energy recorded a charge in 2002 associated with these regulatory issues of approximately $17 million ($10 million after tax), which is included in equity in earnings of equity method investees in the consolidated statements of income. At December 31, 2002, FPL Energy's net investment in these two wind projects totaled approximately $14 million, which is included in other investments and other current assets on the consolidated balance sheets.

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 $48 million ($30 million after tax) in 2002.

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. Operating revenues derived from the sale of electricity represented approximately 96%, 97% and 97% of FPL Group's operating revenues in 2002, 2001 and 2000, respectively. Less than 1% of operating revenues were from foreign sources for each of the three years ended December 31, 2002. At December 31, 2002 and 2001, less than 1% of long-lived assets were located in foreign countries.

Segment information is as follows:

	2002				2001				2000			
(millions)	**FPL**	**FPL Energy[a]**	**Corp. and Other**	**Total**	FPL	FPL Energy[a]	Corp. and Other	Total	FPL	FPL Energy[a]	Corp. and Other	Total
Operating revenues	**$ 7,378**	**$ 829**	**$ 104**	**$ 8,311**	$ 7,477	$ 720	$129	$ 8,326	$ 6,361	$ 612	$ 89	$ 7,062
Operating expenses	**$ 6,052**	**$ 842**	**$ 189**	**$ 7,083**	$ 6,200	$ 609	$121	$ 6,930	$ 5,210	$ 514	$ 98	$ 5,822
Interest charges	**$ 166**	**$ 86**	**$ 59**	**$ 311**	$ 187	$ 74	$ 63	$ 324	$ 176	$ 67	$ 35	$ 278
Depreciation and amortization	**$ 831**	**$ 107**	**$ 14**	**$ 952**	$ 898	$ 77	$ 8	$983	$ 975	$ 50	$ 7	$ 1,032
Equity in earnings of equity method investees	**$ —**	**$ 76**	**$ —**	**$ 76**	$ —	$ 81	$ —	$81	$ —	$ 45	$ —	$ 45
Income tax expense (benefit)	**$ 413**	**$ (54)**	**$(115)[d]**	**$ 244**	$ 383	$ 25	$ (29)	$379	$ 341	$ 36	$ (41)	$ 336
Income (loss) before cumulative effect of change in accounting principle[b][c]	**$ 717**	**$ 53**	**$ (75)**	**$ 695**	$ 679	$ 113	$ (11)	$781	$ 607	$ 82	$ 15	$ 704
Cumulative effect of adopting FAS 142, net of income taxes	**$ —**	**$ (222)[e]**	**$ —**	**$ (222)**	$ —	$ —	$ —	$—	$ —	$ —	$ —	$ —
Net income (loss)[b][c]	**$ 717**	**$ (169)**	**$ (75)**	**$ 473**	$ 679	$ 113	$ (11)	$781	$ 607	$ 82	$ 15	$ 704
Significant noncash investing and financing activities	**$ 74**	**$ —**	**$ 111**	**$ 185**	$ 70	$ —	$ —	$70	$ (57)	$ —	$100	$ 43
Capital expenditures and investments	**$ 1,256**	**$2,103**	**$ (99)**	**$ 3,260**	$ 1,154	$1,977	$131	$3,262	$ 1,299	$ 507	$ 90	$ 1,896
Total assets	**$12,637**	**$6,358**	**$ 795**	**$19,790**	$11,924	$4,957	$582	$17,463	$12,020	$2,679	$601	$15,300
Investment in equity method investees	**$ —**	**$ 310**	**$ —**	**$ 310**	$ —	$ 276	$ —	$276	$ —	$ 196	$ —	$ 196

(a) FPL Energy's interest charges are based on an assumed capital structure of 50% debt for operating projects and 100% debt for projects under construction.

(b) Includes merger-related expense recognized in 2001 and 2000 totaling $19 million after tax and $41 million after tax, respectively, of which $16 million and $38 million was recognized by FPL, none and $1 million by FPL Energy and $3 million and $2 million by Corporate and Other (see Note 9).

(c) Includes, in 2002, restructuring and other charges of $73 million after tax at FPL Energy, restructuring and impairment charges of $64 million after tax at FPL FiberNet and a reserve for leveraged leases of $30 million after tax at Corporate and Other.

(d) Includes favorable settlement of litigation with the IRS for which a net tax benefit of $30 million was recognized.

(e) See Note 7.

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. The majority of FPL Group Capital's debt, 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, 2002				Year Ended December 31, 2001				Year Ended December 31, 2000			
(millions)	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
Operating revenues	$ —	$ 932	$7,379	$8,311	$ —	$ 850	$ 7,476	$ 8,326	$ —	$ 701	$ 6,361	$7,062
Operating expenses	(5)	(1,031)	(6,047)	(7,083)	—	(730)	(6,200)	(6,930)	—	(612)	(5,210)	(5,822)
Interest charges	(28)	(144)	(139)	(311)	(29)	(136)	(159)	(324)	(31)	(102)	(145)	(278)
Other income (deductions) — net	488	84	(550)	22	788	147	(847)	88	726	135	(783)	78
Income before income taxes	455	(159)	643	939	759	131	270	1,160	695	122	223	1,040
Income tax expense (benefit)	(18)	(151)	413	244	(22)	18	383	379	(9)	4	341	336
Net income (loss) before cumulative effect of change in accounting principle	473	(8)	230	695	781	113	(113)	781	704	118	(118)	704
Cumulative effect of adopting FAS 142, net of income taxes	—	(222)	—	(222)	—	—	—	—	—	—	—	—
Net income (loss)	$473	$ (230)	$ 230	$ 473	$781	$ 113	$ (113)	$ 781	$ 704	$ 118	$ (118)	$ 704

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Balance Sheets

(millions)	December 31, 2002 FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consoli-dated	December 31, 2001 FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consoli-dated
PROPERTY, PLANT AND EQUIPMENT								
Electric utility plant in service and other property	$ —	$5,745	$20,760	$26,505	$ —	$3,606	$19,782	$23,388
Less accumulated depreciation and amortization	—	(360)	(11,841)	(12,201)	—	(246)	(11,480)	(11,726)
Total property, plant and equipment — net	—	5,385	8,919	14,304	—	3,360	8,302	11,662
CURRENT ASSETS								
Cash and cash equivalents	5	261	—	266	—	81	1	82
Receivables	460	269	136	865	7	442	331	780
Other	—	240	537	777	—	114	626	740
Total current assets	465	770	673	1,908	7	637	958	1,602
OTHER ASSETS								
Investment in subsidiaries	6,221	—	(6,221)	—	6,485	—	(6,485)	—
Other	103	1,284	2,191	3,578	108	2,066	2,025	4,199
Total other assets	6,324	1,284	(4,030)	3,578	6,593	2,066	(4,460)	4,199
TOTAL ASSETS	$6,789	$7,439	$ 5,562	$19,790	$6,600	$6,063	$ 4,800	$17,463
CAPITALIZATION								
Common shareholders' equity	$6,390	$ 839	$ (839)	$ 6,390	$6,015	$1,040	$(1,040)	$ 6,015
Preferred stock of FPL without sinking fund requirements	—	—	226	226	—	—	226	226
Long-term debt	—	3,426	2,364	5,790	—	2,279	2,579	4,858
Total capitalization	6,390	4,265	1,751	12,406	6,015	3,319	1,765	11,099
CURRENT LIABILITIES								
Accounts payable and short-term debt	—	1,563	1,092	2,655	—	1,815	640	2,455
Other	17	812	427	1,256	201	284	699	1,184
Total current liabilities	17	2,375	1,519	3,911	201	2,099	1,339	3,639
OTHER LIABILITIES AND DEFERRED CREDITS								
Accumulated deferred income taxes and unamortized tax credits	(5)	412	1,333	1,740	—	513	1,017	1,530
Other	387	387	959	1,733	384	132	679	1,195
Total other liabilities and deferred credits	382	799	2,292	3,473	384	645	1,696	2,725
COMMITMENTS AND CONTINGENCIES								
TOTAL CAPITALIZATION AND LIABILITIES	$6,789	$7,439	$ 5,562	$19,790	$6,600	$6,063	$ 4,800	$17,463

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Statements of Cash Flows

(millions)	Year Ended December 31, 2002				Year Ended December 31, 2001				Year Ended December 31, 2000			
	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
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 426	$ 1,227	$ 685	$ 2,338	$ 769	$ 15	$ 1,158	$ 1,942	$ 959	$ 159	$ (142)	$ 976
CASH FLOWS FROM INVESTING ACTIVITIES												
Capital expenditures and independent power investments	—	(2,004)	(1,256)	(3,260)	—	(2,105)	(1,154)	(3,259)	—	(595)	(1,299)	(1,894)
Capital contributions to FPL Group Capital and FPL	(350)	—	350	—	(400)	—	400	—	(418)	—	418	—
Other — net	3	88	(98)	(7)	(4)	69	(75)	(10)	3	54	(106)	(49)
Net cash used in investing activities	(347)	(1,916)	(1,004)	(3,267)	(404)	(2,036)	(829)	(3,269)	(415)	(541)	(987)	(1,943)
CASH FLOWS FROM FINANCING ACTIVITIES												
Issuances of long-term debt	—	1,177	593	1,770	—	920	—	920	—	—	947	947
Retirements of long-term debt	—	(32)	(765)	(797)	—	(21)	(66)	(87)	—	—	(515)	(515)
Increase (decrease) in short-term debt	—	(276)	490	214	—	1,152	(328)	824	—	353	466	819
Capital contributions from FPL Group	—	—	—	—	—	—	—	—	—	18	(18)	—
Issuances of common stock	378	—	—	378	—	—	—	—	—	—	—	—
Repurchases of common stock	—	—	—	—	—	—	—	—	(150)	—	—	(150)
Dividends	(400)	—	—	(400)	(377)	—	—	(377)	(366)	(314)	314	(366)
Other — net	(52)	—	—	(52)	—	—	—	—	—	—	—	—
Net cash provided by (used in) financing activities	(74)	869	318	1,113	(377)	2,051	(394)	1,280	(516)	57	1,194	735
Net increase (decrease) in cash and cash equivalents	5	180	(1)	184	(12)	30	(65)	(47)	28	(325)	65	(232)
Cash and cash equivalents at beginning of year	—	81	1	82	12	51	66	129	(16)	376	1	361
Cash and cash equivalents at end of year	$ 5	$ 261	$ —	$ 266	$ —	$ 81	$ 1	$ 82	$ 12	$ 51	$ 66	$ 129

(a) Represents FPL and consolidating adjustments.

20. QUARTERLY DATA (UNAUDITED)

Condensed consolidated quarterly financial information is as follows:

(millions, except per share amounts)	March 31[a]	June 30[a]	September 30[a]	December 31[a]
2002				
Operating revenues	$1,771	$2,128	$2,353	$2,059
Operating income	$ 256	$ 409	$ 315[c]	$ 248
Income before cumulative effect of a change in accounting principle	$ 166[b]	$ 250	$ 150[c]	$ 129
Cumulative effect of adopting FAS 142	$ (222)	$ —	$ —	$ —
Net income (loss)	$ (56)[b]	$ 250	$ 150[c]	$ 129
Earnings per share before cumulative effect of adopting FAS 142 (basic and assuming dilution)[d]	$ 0.98[b]	$ 1.46	$ 0.85[c]	$ 0.73
Cumulative effect of adopting FAS 142[d]	$ (1.31)	$ —	$ —	$ —
Earnings (loss) per share (basic and assuming dilution)[d]	$ (0.33)[b]	$ 1.46	$ 0.85[c]	$ 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
2001				
Operating revenues	$1,903	$2,129	$2,490	$1,804
Operating income	$ 240[e]	$ 380	$ 543	$ 233
Net income	$ 110[e]	$ 219	$ 334	$ 118
Earnings per share (basic and assuming dilution)[d]	$ 0.65[e]	$ 1.30	$ 1.98	$ 0.70
Dividends per share	$ 0.56	$ 0.56	$ 0.56	$ 0.56
High-low common stock sales prices	$71.63 – 54.81	$63.15 – 54.55	$60.50 – 51.21	$57.28 – 52.16

(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) Includes a gain from an income tax settlement.

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

(d) 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.

(e) Includes merger-related expenses.

SAFE HARBOR STATEMENT

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), FPL Group is hereby filing cautionary statements identifying important factors that could cause FPL Group's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) made by or on behalf of FPL Group in this Annual Report, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, projection, target, outlook) are not statements of historical facts and may be forward-looking. Forward-looking statements involve estimates, assumptions and uncertainties. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors (in addition to any assumptions and other factors referred to specifically in connection with such forward-looking statements) that could cause FPL Group's actual results to differ materially from those contained in forward-looking statements made by or on behalf of FPL Group.

Any forward-looking statement speaks only as of the date on which such statement is made, and FPL Group undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

The following are some important factors that could have a significant impact on FPL Group's operations and financial results, and could cause FPL Group's actual results or outcomes to differ materially from those discussed in the forward-looking statements:

- FPL Group is subject to changes in laws or regulations, including the Public Utility Regulatory Policies Act of 1978, as amended (PURPA) and the Public Utility Holding Company Act of 1935, as amended (Holding Company Act), changing governmental policies and regulatory actions, including those of the FERC, the FPSC and the utility commissions of other states in which FPL Group has operations, and the NRC, with respect to, among other things, allowed rates of return, industry and rate structure, operation of nuclear power facilities, operation and construction of plant facilities, operation and construction of transmission facilities, acquisition, disposal, depreciation and amortization of assets and facilities, recovery of fuel and purchased power costs, decommissioning costs, ROE and equity ratio limits, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs). The FPSC has the authority to disallow recovery of costs that it considers excessive or imprudently incurred.
- The regulatory process generally restricts FPL's ability to grow earnings and does not provide any assurance as to achievement of earnings levels.
- FPL Group is subject to extensive federal, state and local environmental statutes, rules and regulations relating to air quality, water quality, waste management, natural resources and health and safety that could, among other things, restrict or limit the use of certain fuels required for the production of electricity. There are significant capital, operating and other costs associated with compliance with these environmental statutes, rules and regulations, and those costs could be even more significant in the future.
- FPL Group operates in a changing market environment influenced by various legislative and regulatory initiatives regarding deregulation, regulation or restructuring of the energy industry, including deregulation of the production and sale of electricity. FPL Group and its subsidiaries will need to adapt to these changes and may face increasing competitive pressure.
- The operation of power generation facilities involves many risks, including start up risks, breakdown or failure of equipment, transmission lines or pipelines, the dependence on a specific fuel source or the impact of unusual or adverse weather conditions (including natural disasters such as hurricanes), as well as the risk of performance below expected levels of output or efficiency. This could result in lost revenues and/or increased expenses. Insurance, warranties or performance guarantees may not cover any or all of the lost revenues or increased expenses, including the cost of replacement power. In addition to these risks, FPL Group's nuclear units face certain risks that are unique to the nuclear industry including additional regulatory actions up to and including shut down of the units stemming from public safety concerns, whether at FPL Group's plants, or at the plants of other nuclear operators. Breakdown or failure of an FPL Energy operating facility may prevent the facility from performing under applicable power sales agreements which, in certain situations, could result in termination of the agreement or incurring a liability for liquidated damages.
- FPL Group's ability to successfully and timely complete their power generation facilities currently under construction, those projects yet to begin construction or capital improvements to existing facilities is contingent upon many variables and subject to substantial risks. Should any such efforts be unsuccessful, FPL Group could be subject to additional costs, termination payments under committed contracts and/or the write-off of their investment in the project or improvement.
- FPL Group uses derivative instruments, such as swaps, options, futures and forwards to manage their commodity and financial market risks, and to a lesser extent, engage in limited trading activities. FPL Group could recognize financial losses as a result of volatility in the market values of these contracts, or if a counterparty fails to perform. In addition, FPL's use of such instruments could be subject to prudency challenges by the FPSC and if found imprudent, cost disallowance.
- There are other risks associated with FPL Group's nonregulated businesses, particularly FPL Energy. In addition to risks discussed elsewhere, risk factors specifically affecting FPL Energy's success in competitive wholesale markets include the ability to efficiently develop and operate generating assets, the price and supply of fuel, transmission constraints, competition from new sources of generation, excess generation capacity and demand for power. There can be significant volatility in market prices for fuel and electricity, and there are other financial, counterparty and market risks that are beyond the control of FPL Energy. FPL Energy's inability or failure to effectively hedge its assets or positions against changes in commodity prices, interest rates, counterparty credit risk or other risk measures could significantly impair its future financial results. In keeping with industry trends, a portion of FPL Energy's power generation facilities operate wholly or partially without long-term power purchase agreements. As a result, power from these facilities is sold on the spot market or on a short-term contractual basis, which may affect the volatility of FPL Group's financial results. In addition, FPL Energy's business depends upon transmission facilities owned and operated by others; if transmission is disrupted or capacity is inadequate or unavailable FPL Energy's ability to sell and deliver its wholesale power may be limited.
- FPL Group is likely to encounter significant competition for acquisition opportunities that may become available as a result of the consolidation of the power industry. In addition, FPL Group may be unable to identify attractive acquisition opportunities at favorable prices and to successfully and timely complete and integrate them.
- FPL Group relies on access to capital markets as a significant source of liquidity for capital requirements not satisfied by operating cash flows. The inability of FPL Group and its subsidiaries to maintain their current credit ratings could affect their ability to raise capital on favorable terms, particularly during times of uncertainty in the capital markets which, in turn, could impact FPL Group's ability to grow its businesses and would likely increase interest costs.
- FPL Group's results of operations can be affected by changes in the weather. Weather conditions directly influence the demand for electricity and natural gas and affect the price of energy commodities, and can affect the production of electricity at wind and hydro-powered facilities. In addition, severe weather can be destructive, causing outages and/or property damage, which could require additional costs to be incurred.
- FPL Group is subject to costs and other effects of legal and administrative proceedings, settlements, investigations and claims; as well as the effect of new, or changes in, tax rates or policies, rates of inflation or accounting standards.
- FPL Group is subject to direct and indirect effects of terrorist threats and activities. Generation and transmission facilities, in general, have been identified as potential targets. The effects of terrorist threats and activities include, among other things, terrorist actions or responses to such actions or threats, the inability to generate, purchase or transmit power, the risk of a significant slowdown in growth or a decline in the U.S. economy, delay in economic recovery in the U.S., and the increased cost and adequacy of security and insurance.
- FPL Group's ability to obtain insurance, and the cost of and coverage provided by such insurance, could be affected by national events as well as company-specific events.
- FPL Group is subject to employee workforce factors, including loss or retirement of key executives, availability of qualified personnel, collective bargaining agreements with union employees or work stoppage.

The issues and associated risks and uncertainties described above are not the only ones FPL Group may face. Additional issues may arise or become material as the energy industry evolves. The risks and uncertainties associated with these additional issues could impair FPL Group's businesses in the future.

Board of Directors

H. Jesse Arnelle
Of Counsel, Womble, Carlyle, Sandridge & Rice (law firm)
Director since 1990. Member finance & investment committee, compensation committee.

Sherry S. Barrat
Chairman and Chief Executive Officer, Northern Trust Bank of California N.A. (commercial bank) *Director since 1998. Member audit committee, finance & investment committee, governance committee.*

Robert M. Beall, II
Chairman and Chief Executive Officer, Beall's, Inc. (department stores)
Director since 1989. Chairman audit committee. Member compensation committee, executive committee.

J. Hyatt Brown
Chairman and Chief Executive Officer, Brown & Brown, Inc. (insurance broker)
Director since 1989. Chairman compensation committee. Member audit committee, executive committee.

James L. Camaren
Chairman and Chief Executive Officer, Utilities, Inc. (water utilities)
Director since 2002. Member compensation committee, finance & investment committee.

Armando M. Codina
Chairman and Chief Executive Officer, Codina Group, Inc. (real estate developer)
Director since 1994. Chairman governance committee. Member compensation committee, executive committee.

Willard D. Dover
Principal, Niles, Dobbins, Meeks, Raleigh & Dover (law firm)
Director since 1989. Member audit committee, governance committee.

Alexander W. Dreyfoos, Jr.
Owner and Chairman, The Dreyfoos Group/Photo Electronics Corporation (electronic equipment developer)
Director since 1997. Member audit committee, finance & investment committee, governance committee.

Paul J. Evanson
President, Florida Power & Light Company *Director since 1995.*

Lewis Hay III
Chairman, President and Chief Executive Officer, FPL Group, Inc. *Director since 2001. Chairman executive committee.*

Frederic V. Malek
Chairman, Thayer Capital Partners, (merchant bank) Formerly President and Vice Chairman, Northwest Airlines, Inc. *Director since 1987. Chairman finance & investment committee. Member executive committee, audit committee.*

Paul R. Tregurtha
Chairman and Chief Executive Officer, Mormac Marine Group, Inc. (maritime shipping company) *Director since 1989. Member compensation committee, finance & investment committee, governance committee.*

Frank G. Zarb
Chairman, Frank Zarb Associates, LLC (consulting firm to the financial industry) Retired Chairman and Chief Executive Officer, National Association of Securities Dealers, Inc. (NASD) *Director since 2002. Member compensation committee, governance committee.*

Officers

FPL GROUP, INC.

Lewis Hay III
Chairman, President and Chief Executive Officer

Dennis P. Coyle
General Counsel and Secretary

Moray P. Dewhurst
Vice President, Finance and Chief Financial Officer

Lawrence J. Kelleher
Vice President, Human Resources

Paul Cutler
Treasurer

K. Michael Davis
Controller and Chief Accounting Officer

James P. Higgins
Vice President, Tax

Mary Lou Kromer
Vice President Corporate Communications

FLORIDA POWER & LIGHT

Lewis Hay III
Chairman and Chief Executive Officer

Paul J. Evanson
President

Dennis P. Coyle
General Counsel and Secretary

Moray P. Dewhurst
Senior Vice President, Finance and Chief Financial Officer

Lawrence J. Kelleher
Senior Vice President, Human Resources and Corporate Services

Robert L. McGrath
Senior Vice President, Engineering and Construction Division

Armando J. Olivera
Senior Vice President, Power Systems

Antonio Rodriguez
Senior Vice President Power Generation Division

John A. Stall
Senior Vice President, Nuclear Division

FPL ENERGY, LLC

Lewis Hay III
Chairman and Chief Executive Officer

James L. Robo
President

Michael L. Leighton
Senior Vice President and Chief Operating Officer

Mark Maisto
President, Power Marketing, Inc.

Michael O'Sullivan
Senior Vice President, Development

Mark R. Sorensen
Vice President, Finance and Chief Financial Officer

Edward F. Tancer
Vice President, General Counsel and Assistant Secretary

FPL FIBERNET, LLC

Neil Flynn
President

CORPORATE OFFICES
FPL Group, Inc.
700 Universe Blvd.
P.O. Box 14000
Juno Beach, FL 33408-0420

EXCHANGE LISTINGS
Common Stock
New York Stock Exchange
Ticker Symbol: FPL

Options
American Stock Exchange
Chicago Board Options Exchange
Pacific Exchange
Philadelphia Stock Exchange

NEWSPAPER LISTING
Common Stock: FPL Gp

REGISTRAR, TRANSFER, AND PAYING AGENTS
FPL Group Common Stock and FPL Preferred Stock
FPL Group, Inc.
c/o EquiServe
P.O. Box 43010
Providence, RI 02940-3010
(888) 218-4392

Florida Power & Light Co. First Mortgage Bonds
Deutsche Bank
Corporate Trust & Agency Group
648 Grassmere Park Road
Nashville, TN 37211
(800) 735-7777

DUPLICATE MAILINGS
Financial reports must be mailed to each account unless you instruct us otherwise. If you wish to discontinue multiple mailings to your address, please call EquiServe.

SHAREHOLDER INQUIRIES
Communications concerning transfer requirements, lost certificates, dividend checks, address changes, stock accounts and the dividend reinvestment plan should be directed to EquiServe:
(888) 218-4392 or www.equiserve.com

Other shareholder communications to:
Shareholder Services
(800) 222-4511
(561) 694-4694
(561) 694-4620 (Fax)

DIRECT DEPOSIT OF DIVIDENDS
Cash dividends may be deposited directly to personal accounts at financial institutions. Call EquiServe for authorization forms.

DIVIDEND REINVESTMENT PLAN
FPL Group offers a plan for holders of common stock and FPL preferred stock to reinvest their dividends or make optional cash payments for the purchase of additional common stock. Enrollment materials may be obtained by calling EquiServe or by accessing www.equiserve.com.

ONLINE INVESTOR INFORMATION
Visit our expanded investor information site at www.investor.fplgroup.com to get stock quotes, earnings reports, financial releases, SEC filings and other news. You can also request and receive information via e-mail. Shareholders of record can receive secure online account access through a link to our transfer agent, EquiServe.

ELECTRONIC PROXY MATERIAL
Registered shareholders may receive proxy materials electronically by accessing www.econsent.com/fpl. Beneficial shareholders should contact their brokerage firm to determine the availability of electronic proxy material distribution.

NEWS AND FINANCIAL INFORMATION
Investors can get the latest news and financial information about FPL Group through our Shareholder Direct toll-free line at (888) 375-1329. In addition to hearing recorded announcements, you can request information to be sent via mail, fax or e-mail.

ANALYST INQUIRIES
Investor Relations
(561) 694-4697
(561) 694-4620 (Fax)

NEWS MEDIA INQUIRIES
Corporate Communications
P.O. Box 029100
Miami, FL 33102-9100
(305) 552-3888
(305) 552-2144 (Fax)

CERTIFIED PUBLIC ACCOUNTANTS
Deloitte & Touche LLP
200 S. Biscayne Boulevard, Suite 400
Miami, FL 33131-2310

SEC FILINGS
Copies of filings with the Securities and Exchange Commission are available without charge by writing to FPL Group, Shareholder Services, or by accessing www.investor.fplgroup.com.

ANNUAL MEETING
May 23, 2003, 10 a.m.
PGA National Resort
400 Avenue of the Champions
Palm Beach Gardens, FL

PROPOSED 2003 COMMON STOCK DIVIDEND DATES*

Declaration	Ex-Dividend	Record	Payment
February 14	February 26	February 28	March 17
May 23	June 4	June 6	June 16
August 15	August 27	August 29	September 15
October 17	November 25	November 28	December 15

OPTIONAL CASH PAYMENT DATES

Qtr./Yr.	Acceptance begins	Must be received by
2nd/03	May 17	June 9
3rd/03	August 16	September 8
4th/03	November 15	December 8
1st/04	February 14	March 8

**Declaration of dividends and dates shown are subject to the discretion of the board of directors of FPL Group. Dates shown are based on the assumption that past patterns will prevail.*

FPL GROUP

FPL Group, Inc.
700 Universe Boulevard
Juno Beach, Florida 33408

0732-AR-0403

PRICEWATERHOUSECOOPERS

Massachusetts Municipal Wholesale Electric Company

Financial Statements
For the years ended December 31, 2002 and 2001

MASSACHUSETTS MUNICIPAL WHOLESALE
ELECTRIC COMPANY
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2002 AND 2001

TABLE OF CONTENTS

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One International Place
Boston MA 02110
Telephone (617) 478 5000
Facsimile (617) 478 3900

Report of Independent Accountants

To the Board of Directors and Members of
Massachusetts Municipal Wholesale Electric Company:

In our opinion, the accompanying balance sheet as of December 31, 2002 and the related statements of operations and of cash flows present fairly, in all material respects, the financial position of Massachusetts Municipal Wholesale Electric Company at December 31, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001, and for the year then ended were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated March 8, 2002.

PricewaterhouseCoopers LLP

March 13, 2003

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2002 AND 2001
(In Thousands)

ASSETS	2002	2001
Electric plant		
In service (Note 5)	$ 1,256,118	$ 1,241,219
Accumulated depreciation	(634,239)	(589,328)
	621,879	651,891
Construction work in progress	2,226	6,114
Nuclear fuel - net of amortization	11,438	11,279
Total electric plant	635,543	669,284
Special funds (Notes 2, 4 and 6)	237,895	225,306
Current assets		
Cash and temporary investments (Note 6)	2,256	552
Accounts receivable	7,836	8,594
Unbilled revenues (Note 3)	7,107	6,721
Inventories	14,475	19,270
Prepaid expenses	6,614	6,554
Total current assets	38,288	41,691
Total special funds and current assets	276,183	266,997
Deferred charges		
Amounts recoverable under terms of the power sales agreements (Note 2)	234,353	258,016
Unamortized debt discount and expenses	13,166	16,685
Nuclear decommissioning trusts	29,816	27,442
Other	5,328	9,130
	282,663	311,273
	$ 1,194,389	$ 1,247,554

LIABILITIES	2002	2001
Long-term debt (Note 4)	$ 965,095	$ 1,037,845
Current liabilities		
Current maturities of long-term debt (Note 4)	64,735	44,730
Short-term debt (Note 4)	15,591	20,560
Accounts payable	9,639	9,695
Accrued expenses	39,846	37,610
Member and participant advances and reserves	69,617	70,599
	199,428	183,194
Deferred credits	29,866	26,515
Commitments and contingencies (Note 9)		
	$ 1,194,389	$ 1,247,554

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands)

	2002	2001
Revenues (Note 3)	$ 249,504	$ 258,711
Interest income	7,944	14,932
Total revenues and interest income	$ 257,448	$ 273,643
Operating and service expenses:		
Fuel used in electric generation	$ 31,549	$ 31,205
Purchased power	60,992	74,923
Other operating	37,400	33,562
Maintenance	11,177	11,184
Depreciation	46,048	45,368
Taxes other than income	3,790	4,611
	190,956	200,853
Interest expense:		
Interest charges	40,032	56,981
Interest charged to projects during construction (Note 2)	(64)	(60)
	39,968	56,921
Total operating costs and interest expense	230,924	257,774
Other credits	-	(5)
Loss on refinancing - net (Note 4)	-	56,813
Total costs and expenses	230,924	314,582
(Increase) decrease in amounts recoverable under terms of the power sales agreements (Note 2)	26,524	(40,939)
	$ 257,448	$ 273,643

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

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001
(In Thousands)

	2002	2001
Cash flows from operating activities:		
Total revenues and interest income	$ 257,448	$ 273,643
Total costs and expenses, net	(230,924)	(316,185)
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and decommissioning	48,314	48,312
Amortization of debt discount and nuclear fuel	391	25,374
Change in current assets and liabilities:		
Accounts receivable	758	1,211
Unbilled revenues	(386)	5,483
Inventories	4,795	(5,591)
Prepaid expenses	(60)	(120)
Accounts payable	(56)	410
Accrued expenses and other	4,920	2,247
Member and participant advances and reserves	(982)	14,650
Net cash provided by operating activities	84,218	49,434
Cash flows from investing activities:		
Construction expenditures and purchases of nuclear fuel	(17,828)	(10,168)
Interest charged to projects during construction	(64)	(60)
Net (increase) decrease in special funds	(12,589)	34,085
Decommissioning trust payments, net	(2,374)	(3,252)
Other	52	1,415
Net cash provided by (used for) investing activities	(32,803)	22,020
Cash flows from financing activities:		
Payments for principal of long-term debt and short-term debt	(49,699)	(59,215)
Proceeds from bonds	-	1,130,530
Payments for bond and commercial paper issue costs	(12)	(18,565)
Bond issue premium	-	49,203
Payment for defeasance of bonds	-	(1,173,770)
Net cash used for financing activities	(49,711)	(71,817)
Net increase (decrease) in cash and temporary investments	1,704	(363)
Cash and temporary investments at beginning of year	552	915
Cash and temporary investments at end of year	$ 2,256	$ 552
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 30,551	$ 49,709

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

(1) Nature of Operations

The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a public corporation and a political subdivision of the Commonwealth of Massachusetts (Commonwealth) formed to be a joint action agency and to develop a bulk power supply for its member Massachusetts municipal electric systems and other utilities. Among other things, MMWEC is authorized to construct, own, or purchase ownership interests in, and to issue revenue bonds to finance electric facilities secured by revenues received by MMWEC in each of its Projects. A Project is MMWEC's ownership interest in electric generation facilities (Note 5). Project revenues are derived, in part, from Power Sales Agreements (PSAs) with its members and other utilities who are Participants in a Project. The bulk power supply program consists of power purchase arrangements, power brokering services, planning and financial services, and the Projects relating to generating facilities either built and operated by MMWEC or other regional utilities.

A Massachusetts city or town having a municipal electric system, authorized by majority vote of the city or town, may become a member of MMWEC by applying for admission and agreeing to comply with the terms and conditions of membership as the MMWEC By-Laws may require. As of December 31, 2002, twenty-two Massachusetts municipal electric systems were members. Termination of membership does not relieve a system of its PSA obligations.

(2) Significant Accounting Policies

MMWEC presents its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

Interest Charged to Projects During Construction

MMWEC capitalizes interest as an element of the cost of electric plant and nuclear fuel in process. A corresponding amount is reflected as a reduction of interest expense. The amount of interest capitalized is based on the cost of debt, including amortization of debt discount and expenses, related to each Project, net of investment gains and losses and interest income derived from unexpended Project funds.

Nuclear Fuel

Nuclear fuel, net of amortization, includes MMWEC's ownership interest of spent fuel, fuel in use, in stock and in process for Millstone Unit 3 and Seabrook Station. The cost of nuclear fuel is amortized to fuel used in electric generation for each nuclear unit based on the relationship of energy produced in the current period to total expected energy production for fuel in the reactor. A provision for fuel disposal costs is included in fuel used in electric generation based upon disposal contracts with The Department of Energy (DOE). In addition, fuel used in electric generation includes the annual assessment, under the Energy Policy Act of 1992, for the cost of decontamination and decommissioning of uranium enrichment plants operated by the DOE. Billings from the DOE will occur over the next five years. At December 31, 2002, MMWEC's share of Millstone Unit 3 and Seabrook Station unbilled assessments was \$199,000 and \$303,000, respectively. These amounts are included in other deferred charges and deferred credits on the Statements of Financial Position.

(2) Significant Accounting Policies (continued)

Special Funds

In accordance with the General Bond Resolution (GBR) covering MMWEC's long-term debt, numerous special funds are required. The special funds, other than certain working capital funds and other funds, are invested in accordance with the provisions of the GBR which was amended and restated during 2001. Changes to the GBR are discussed in Note 4. None of these changes affect the names of the funds specified below, except each such fund is now specific to a Project. The composition of special funds is as follows:

Fund	2002	2001
	(In Thousands)	
Bond Fund Interest, Principal and Retirement Account to pay principal and interest on bonds	$ 52,849	$ 17,818
Bond Fund Reserve Account set at the maximum annual interest obligation to make up any deficiencies in the Bond Fund Interest, Principal and Retirement Account	59,911	59,100
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	26,705	27,435
Revenue Fund to receive revenues and disburse them to other funds	61,177	90,177
Working Capital Funds to maintain funds to cover operating expenses	27,399	21,416
Other Funds	9,854	9,360
Total Special Funds	$237,895	$225,306

Cash and Temporary Investments

Certain cash and temporary investment amounts used for power purchases and working capital requirements of MMWEC are not subject to the provisions of the GBR. In addition to the investment securities delineated in the GBR, MMWEC may invest in repurchase agreements with banks where MMWEC has established accounts. Temporary investments have maturities of less than ninety days.

Inventories

Fuel oil and spare parts inventory are recorded and accounted for by the average cost method. At December 31, 2002 and 2001, total fuel oil inventory was valued at $4.7 and $9.7 million, and spare parts inventory amounted to $9.8 and $9.6 million, respectively.

Amounts Recoverable Under Terms of the Power Sales Agreements

Billings to Project Participants are structured to recover costs in accordance with the PSAs, which generally provide for billing debt service, operating funds and reserve requirements. Expenses are reflected in the Statements of Operations in accordance with GAAP. The timing difference between amounts billed and expensed is charged or credited to amounts recoverable under terms of the PSAs. Such amounts will be recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, fuel amortization, costs associated with canceled Projects (or assets abandoned within a Project), cost of refinancing, billing for certain interest, reserves, net unrealized gains or losses on securities available for sale and other costs. Individual Projects have a cumulative deferral of costs which total $246.0 and $268.2 million and have cumulative billings in excess of costs which total $11.6 and $10.2 million at December 31, 2002 and 2001, respectively. In accordance with the PSAs, these amounts have been offset in the Statements of Financial Position.

(2) Significant Accounting Policies (continued)

Amounts Recoverable Under Terms of the Power Sales Agreements (continued)

The December 31, 2002 and 2001 balances of $234.4 and $258.0 million, respectively, reflect the Statements of Operations net decrease (increase) of $26.5 and ($40.9) million for the years then ended, the change in net unrealized gain (loss) on securities available for sale and minimum pension liability adjustments that would otherwise be recorded as other comprehensive income. These amounts were ($2.9) and $0.2 million for 2002 and 2001, respectively.

Depreciation

Electric plant in service is depreciated using the straight-line method. The aggregate annual provisions for depreciation for 2002 and 2001 averaged 4% of the original cost of depreciable property.

Nuclear Decommissioning Trusts

As required by the Nuclear Regulatory Commission and respective state statutes and regulations, MMWEC has funded trust funds maintained by external trustees to provide for the decommissioning activities of Millstone Unit 3 and Seabrook Station. The December 31, 2002 Millstone Unit 3 and Seabrook Station balances of $13.0 and $16.8 million, respectively, are stated at market value and are included as part of the deferred charges and deferred credits on the Statements of Financial Position. MMWEC's share of the estimated reserve requirement for the prompt dismantling and removal of the Millstone Unit 3 and Seabrook Station, at the expiration of their original operating licenses in 2025 and 2026, is $28.1 and $71.3 million, respectively, in year end 2002 dollars. The new accounting standard described below could change the accounting for the decommissioning liability.

New Accounting Standards

The FASB has issued Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). SFAS 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. SFAS 143 was effective on January 1, 2003. MMWEC is currently evaluating its asset obligations related to its various Projects in accordance with SFAS 143.

The FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), which became effective January 1, 2002, and addresses accounting and reporting for the impairment or disposal of long-lived assets. The implementation of SFAS 144 has had no effect on MMWEC's operations or financial position.

The FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146) that requires entities to record a liability for costs related to exit or disposal activities when the costs are incurred. MMWEC is required to comply with SFAS 146 beginning January 1, 2003, and anticipates that the implementation of this standard will not have an impact on its operations or financial position.

(2) Significant Accounting Policies (continued)

New Accounting Standards (continued)

The FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (the "Interpretation") effective December 15, 2002. The Interpretation elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The application of this Interpretation is not expected to materially impact MMWEC's operations, financial position or cash flows.

Adjustments to Prior Year – Unaudited

MMWEC has consolidated trust assets with a fair market value of $9.4 million and recorded a corresponding increase to member and participant advances and reserves as of December 31, 2001, net of unrealized gains. In addition, prepaid pension costs of $1.6 million were recorded, and nuclear decommissioning trust assets were increased $1.4 million to reflect their market value. Amounts recoverable under terms of the PSAs were reduced as a result of these adjustments.

(3) Revenues and Unbilled Revenues

Revenues include electric sales for resale provided through MMWEC's bulk power supply program. Revenues consist of billings under the PSAs, Power Purchase Agreements (PPAs), and related power brokering arrangements. MMWEC also provides its members with power supply planning and related services which are billed pursuant to the MMWEC Service Agreement, or the All-Requirements Bulk Power Sales Agreement as service revenues. Amounts that are not yet billed are included in unbilled revenues on the Statements of Financial Position. Revenues are comprised of the following:

Revenues	2002	2001
	(In Thousands)	
Electric sales for resale	$248,022	$256,103
Service	1,482	1,482
Millstone Unit 3 Settlement	-	56
Other	-	1,070
Total Revenues	$249,504	$258,711

In October 2001, MMWEC received a payment of approximately $1.1 million in settlement of an arbitration against Central Maine Power Company (CMP) and FPL Energy, Inc. under the W.F. Wyman Unit No. 4 Joint Ownership Agreement. MMWEC and the other W.F. Wyman Unit No. 4 minority owners filed a claim related to the 1999 sale of CMP's majority ownership in W.F. Wyman Unit No. 4 to FPL Energy Wyman IV LLC, which required CMP to make payments to the joint owners as a result of the sale. This payment was recorded in other revenues and as a decrease to amounts recoverable under terms of the PSAs and was refunded to the Wyman IV Project Participants in 2002.

(4) Debt

General Bond Resolution

MMWEC has eight Projects which were originally financed through the issuance of a multiple series of Power Supply System Revenue Bonds (Bonds) under the GBR, originally adopted by MMWEC in 1976. Security for those Bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of Bonds.

Amended and Restated General Bond Resolution

In November 2001, through a refinancing of all of its outstanding Bonds, MMWEC amended and restated its GBR to eliminate this "cross-pledge" of revenues. In refinancing all of its debt, MMWEC issued separate issues of Bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates, plus available funds pledged under the Amended and Restated GBR, with respect to the Bonds of such issues. The revenues derived from each Project are used solely to provide for the payment of the Bonds of any Bond issue relating to such Project, and to pay MMWEC's cost of owning and operating such Project, and are not used to provide for the payment of the Bonds of any Bond issue relating to any other Project. Pursuant to all of the Project PSAs, each Project Participant is obligated to pay its share of the actual costs relating to the Project's generating unit(s), and these obligations are not contingent upon the operational status of the Project's unit(s).

As part of the plan to refund and restructure its debt and amend the existing GBR, MMWEC developed a plan to enable it to refund all the existing long-term debt, which was accomplished with two transactions. MMWEC expects to realize gross debt service savings from this debt-restructuring program of approximately $136.1 million over the life of the Bonds, with annual savings between $58,000 and $13.5 million. The January 2001 and November 2001 portions, as described below, of this restructuring program produced economic gains (the present value of debt service savings adjusted for additional cash paid) of approximately $7.8 million and $38.8 million, respectively.

In January 2001, MMWEC issued $94.2 million of 2001 Series A and $1.6 million of 2001 Series B refunding Bonds which were utilized to purchase for cancellation $95.4 million of portions of the 1992 Series A, 1992 Series C, 1992 Series E, 1993 Series A, 1994 Series A and 1994 Series B Bonds. The net cost of the refinancing equalled $6 million, plus $.7 million of net expenses.

In November 2001, MMWEC issued $726.3 million of Series A Bonds at a premium of $49.2 million, $137.7 million of Series B Bonds and $170.8 million of Series One refunding Bonds, the total proceeds of which were utilized to purchase for cancellation $1,078.3 million of previously issued Bonds consisting of the 1987 Series A, 1992 Series A, 1992 Series B, 1992 Series C, 1992 Series D, 1992 Series E, 1993 Series A, 1994 Series A, 1994 Series B, 1994 Series C and 2001 Series A Bonds. The net cost of the refinancing equaled $50.8 million, plus $1.0 million of net expenses.

Power Supply System Revenue Bonds

MMWEC's issuance of debt, other than obligations with a maturity of less than one year, requires authorization by the Massachusetts Department of Telecommunications and Energy (DTE).

(4) Debt (continued)

Power Supply System Revenue Bonds (continued)

Bonds payable consist of serial and variable-rate bonds and are comprised of the following issues:

Issue	Net Interest Cost	December 31, 2002	December 31, 2001
		(In Thousands)	
Stony Brook Peaking Project, Series A	3.1%	$ 13,345	$ 16,435
Stony Brook Intermediate Project, Series A	3.5%	59,645	66,270
W.F. Wyman Unit No. 4 Project, Series A	3.5%	2,940	3,255
Nuclear Mix No. 1, Series A	4.0%	85,210	90,015
Nuclear Project No. 3, Series A	4.2%	47,930	47,930
Nuclear Project No. 4, Series A	4.3%	112,695	112,695
Nuclear Project No. 5, Series A	4.2%	42,170	42,170
Project No. 6, Series A	4.2%	347,535	347,535
Nuclear Project No. 3, Series B	4.9%	60,160	65,290
Nuclear Project No. 4, Series B	4.5%	41,175	48,450
Nuclear Project No. 5, Series B	3.8%	5,510	7,765
Project No. 6, Series B	3.5%	910	16,145
Nuclear Mix No. 1, Series One	Variable	11,350	11,350
Nuclear Project No. 3, Series One	Variable	62,975	62,975
Nuclear Project No. 4, Series One	Variable	35,325	35,325
Nuclear Project No. 5, Series One	Variable	9,025	9,025
Project No. 6, Series One	Variable	52,100	52,100
Bonds payable		990,000	1,034,730
Unamortized premium		39,830	47,845
Less: Current maturities		(64,735)	(44,730)
Total long-term debt		$ 965,095	$1,037,845

The Series A Bonds issued in November 2001 and maturing on and prior to July 1, 2011, and the Series B Bonds issued in November 2001, are not subject to redemption prior to maturity at the option of MMWEC. The Series A Bonds maturing on and after July 1, 2012 are subject to redemption prior to maturity at the option of MMWEC at 101% of the principal amount from January 1, 2012 to December 31, 2012 and at 100% from January 1, 2013 and thereafter.

The Series One Bonds of each issue are subject to redemption at the option of MMWEC, in whole or in part, at a redemption price of 100% of the principal amount.

(4) Debt (continued)

Power Supply System Revenue Bonds (continued)

Long-term debt maturities are as follows (In Thousands):

	Series A	Series B	Series One	Total
2003	$ 42,175	$ 22,560	$ -	$ 64,735
2004	46,305	22,665	-	68,970
2005	50,125	21,175	-	71,300
2006	51,465	18,895	-	70,360
2007	62,465	10,540	-	73,005
Thereafter	458,935	11,920	170,775	641,630
	$711,470	$107,755	$170,775	$990,000

The interest rates on the Series One variable rate Bonds may be converted at the option of MMWEC to a daily, weekly, flexible, term or fixed mode. The interest rate on the Series One variable rate Bonds during 2002 and 2001 was 1.3% and 1.5%, respectively.

Debt Service Forward Delivery Agreement

In 1994, MMWEC entered into a seven year Debt Service Forward Delivery Agreement (Forward Agreement) for purposes other than trading. The Forward Agreement expired on June 30, 2002. MMWEC made monthly deposits to the various accounts within the Bond Fund for each Project for the semiannual payment of its debt service on its outstanding bonds for each Project. In exchange for the right to direct the investment of such monies, the counterparty paid a fixed amount to MMWEC on a periodic basis, providing MMWEC a fixed yield that could be earned on a security with a five to seven year maturity purchased at the time the Forward Agreement was executed, while complying with the maturity limitations for investments in the Bond Fund for each Project under the terms of the GBR. The counterparty had the right to sell to MMWEC government obligations that mature prior to the relevant debt service payment dates during the term of the Forward Agreement.

Net Revenue Available for Debt Service

In accordance with the provisions of MMWEC's Amended and Restated GBR, MMWEC covenants that it shall fix, revise and collect rates, tolls, rents and other fees and charges sufficient to produce revenues to pay all operating and maintenance expenses and principal of, premium and the interest on the Bonds and to pay all other obligations against its revenues for each Project. Revenues for each Project, which include applicable interest earnings from investments, are required to equal 1.10 times the annual debt service for each contract year ending June 30, after deduction of certain operating and maintenance expenses and exclusive of depreciation. As such, these amounts do not agree with those in the accompanying Statements of Operations. For the contract years ended June 30, 2002 and 2001, MMWEC met the Amended and Restated GBR and the original GBR debt service coverage requirements for the applicable MMWEC Projects, respectively.

(4) Debt (continued)

Net Revenue Available for Debt Service (continued)

	Contract Year Ended June 30,	
	2002	2001
Debt Service Coverage:	(In Thousands)	
Revenues	$170,879	$191,732
Other Billings	587	577
Reserve and Contingency Fund Billings	11,116	11,121
Total	182,582	203,430
Less: Operating & Maintenance Expenses	(60,307)	(81,102)
Available Revenues Net of Expenses	$122,275	$122,328
Debt Service Requirement	$111,159	$111,207
Coverage (110% Required)	110%	110%

Short-Term Debt

MMWEC maintains a $5 million revolving line of credit to finance temporarily certain power purchases made by MMWEC for resale under power purchase contracts. Borrowings outstanding under the line of credit were $56,000 and $0 as of December 31, 2002 and 2001, respectively. During 2002 and 2001, the maximum outstanding balance under the line of credit was $0.4 and $3.9 million, respectively. Interest charged on borrowings under the line of credit is at minus one percent of the bank's prime rate (3.25% at December 31, 2002). In addition, a commitment fee of one quarter of 1% per annum is charged on the unused portion of the line based on the average daily principal amount of the borrowing outstanding. This line of credit expires June 30, 2003, at which time MMWEC expects to be able to renew the line for an additional year.

The Series B Power Purchase commercial paper program notes are a special obligation of MMWEC payable solely from the revenues and other monies as specified in the Series B Power Purchase Resolution (Resolution). The commercial paper notes are not subject to redemption prior to maturity but are subject to acceleration upon the occurrence of an event of default under the Resolution. As of December 31, 2002, MMWEC had a bank letter of credit in the amount of $16.9 million that provides security for the payment of principal and interest on the Series B Power Purchase notes. The December 31, 2002 and 2001 outstanding balances of commercial paper program notes were $15.5 and $20.6 million, respectively. At December 31, 2002, the interest rate on the Series B Power Purchase notes was 1.4%.

(5) Electric Generation Facilities and Financing

MMWEC's power supply capacity includes ownership interests in the Stony Brook Peaking and Intermediate units which it operates. MMWEC is a nonoperating joint owner in the W.F. Wyman Unit No. 4, Millstone Unit 3 and Seabrook Station. Electric plant in service also includes MMWEC's service operations which totaled $2.7 and $2.4 million in 2002 and 2001, respectively. The following is a summary of Projects included in electric plant in service and construction work in progress, as well as MMWEC's share of capability in megawatts (MW).

(5) Electric Generation Facilities and Financing (continued)

Projects	Facility and MMWEC Share of Capability in MW		Amounts as of December 31, 2002 (In Thousands)	2001
Peaking Project	Stony Brook	170.0	$ 56,671	$ 56,636
Intermediate Project	Stony Brook	319.5	165,044	155,488
Wyman Project	W.F. Wyman No. 4	22.7	7,387	7,341
Nuclear Project No. 3	Millstone Unit 3	36.8	131,045	130,653
Nuclear Mix No. 1	Millstone Unit 3	18.4	52,017	51,818
Nuclear Mix No. 1	Seabrook Station	1.9	8,651	8,644
Nuclear Project No. 4	Seabrook Station	49.8	260,585	260,374
Nuclear Project No. 5	Seabrook Station	12.6	71,279	71,226
Project No. 6	Seabrook Station	69.0	503,011	502,719
			$1,255,690	$1,244,899

On November 1, 2002, an indirect subsidiary of FPL Group Inc., FPL Energy Seabrook, LLC completed the purchase of an approximately 88% share of the Seabrook nuclear plant from all of the joint owners of Seabrook Station, except MMWEC and two other owners.

In April 2001, Dominion Resources, Inc. purchased an approximately 93.5% ownership interest in Millstone Unit 3 from all of the joint owners of Millstone Unit 3, except MMWEC and one other joint owner.

(6) Investments and Deposits

All bank deposits are maintained at one financial institution. Such deposits amounted to $1.2 million at December 31, 2002, and are included in both cash and temporary investments and special funds. The Federal Deposit Insurance Corporation currently insures up to $100,000 per depositor. At December 31, 2002 and 2001, investments are classified as available for sale and reported at market value with unrealized gains of $2.4 and $2.3 million, respectively, and unrealized losses of $1,000 and $151,000, respectively. The net losses and gains are excluded from earnings and are reported as a component of amounts recoverable under the terms of the PSAs on the Statements of Financial Position. At December 31, 2002, all securities underlying repurchase agreements, and all other investments, were held in MMWEC's name by custodians consisting of the Bond Fund Trustee or MMWEC's depository bank. Investments, representing the special funds and cash and temporary investments, as well as certain additional amounts disbursed but available for investment, and accrued interest, are presented below:

(6) Investments and Deposits (continued)

Type of Investment	2002 Amortized Cost Basis	2002 Market Value	2001 Amortized Cost Basis	2001 Market Value
	(In Thousands)			
Cash Equivalents	$ 399	$ 399	$ 739	$ 739
Other Investments				
U.S. Treasury bills	91,948	91,951	17,904	17,902
U.S. Treasury notes	26,033	27,212	39,254	40,533
U.S. Agency bonds	100,873	102,045	127,750	128,639
U.S. Agency discount notes	17,488	17,487	33,873	33,873
Total Other Investments	236,342	238,695	218,781	220,947
Total Investments	236,741	239,094	219,520	221,686
Invested Cash	1,057	1,057	4,172	4,172
Total Cash and Investments	$237,798	$240,151	$223,692	$225,858

During 2002 and 2001, the proceeds from the sale of available for sale securities were $386.0 and $222.4 million, respectively, resulting in gross realized gains of $395,000 and $1.0 million, respectively, and gross realized losses of $31,000 and $8,000, respectively. The basis on which cost was determined in computing realized gain or loss was specific identification. The average contractual maturity of the investments in debt securities at December 31, 2002 and 2001 was 593 and 814 days, respectively.

Due to seasonal cash flows during 2002 and 2001, MMWEC, from time-to-time, invested in repurchase agreements with its depository bank that were collateralized by securities in MMWEC's name held by the depository bank.

(7) Fair Values of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Long-Term Debt - The fair value is estimated based on quoted market prices for the same or similar issues.

Debt Service Forward Delivery Agreement - The fair value reflects the estimated amounts that MMWEC would receive to terminate the contracts at the reporting date, thereby taking into account the current unrealized gains or losses of open contracts.

The estimated fair values of MMWEC's financial instruments are as follows:

	2002 Carrying Value	2002 Estimated Fair Value	2001 Carrying Value	2001 Estimated Fair Value
	(In Thousands)			
Financial Liabilities:				
Long-Term Debt, excluding current maturities	$ 965,095	$ 998,001	$1,037,845	$1,018,783
Unrecognized Financial Instruments				
Debt Service Forward Delivery Agreement	-	-	-	643

(7) Fair Values of Financial Instruments (continued)

The carrying amounts for cash, accounts receivable, notes payable and accounts payable approximate their fair value due to the short-term nature of these instruments.

(8) Benefit Plans

MMWEC has two non-contributory defined benefit pension plans covering substantially all full-time active employees. One plan covers union employees (union plan) and the other plan covers non-union employees (non-union plan). The amount shown below as the benefit obligation for MMWEC is a standardized disclosure measure of the present value of pension benefits, adjusted for the effect of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the plans.

The benefit obligation was determined by an actuarial valuation performed as of January 1 of each of the years presented below. Significant actuarial assumptions used in the valuation include a weighted-average discount rate of 6.5% in 2002 and 7.0% in 2001 and projected salary increases of 4.0% in 2002 and 2001, respectively. The benefit obligation, plan assets, funded status, amounts recognized in the statements of financial position and components of net periodic benefit cost for both plans are as follows:

	Amounts as of December 31,	
	2002	2001
	(In Thousands)	
Changes in benefit obligation		
Benefit obligation at beginning of year	$ 10,307	$ 8,004
Service cost	465	458
Interest cost	730	650
Actuarial loss	1,261	1,313
Benefits paid	(84)	(118)
Benefit obligation at end of year	$ 12,679	$ 10,307
Change in plan assets		
Fair value of plan assets at beginning of year	$ 8,227	$ 8,119
Actual return on plan assets	(792)	(336)
Employer contribution	623	562
Benefits paid	(84)	(118)
Other	7	-
Fair value of plan assets at end of year	$ 7,981	$ 8,227
Funded status	$ (4,698)	$ (2,080)
Unrecognized net actuarial loss	5,541	2,949
Unrecognized prior service cost	595	661
Unrecognized transition obligation	58	73
Prepaid pension cost	$ 1,496	$ 1,603

(8) Benefit Plans (continued)

	Amounts as of December 31,	
	2002	2001
	(In Thousands)	
Amounts recognized in the Statements of Financial Position consist of:		
Prepaid benefit costs	$ -	$ 1,603
Accrued benefit liability	(1,113)	-
Intangible asset	653	-
Amounts recoverable under terms of the Power Sales Agreements	1,956	-
Net amount recognized	$ 1,496	$ 1,603
Components of net periodic benefit cost		
Service cost	$ 465	$ 458
Interest cost	730	650
Expected return on plan assets	(721)	(689)
Amortization of transition obligation	15	15
Amortization of prior service cost	70	70
Recognized net actuarial loss	171	97
Net periodic benefit cost	$ 730	$ 601

Annual contributions to the pension plans were $623,000 and $562,000, for the years ended December 31, 2002 and 2001, respectively. These amounts were billed through the PSAs, PPAs and Service Agreement with MMWEC members and are included in other operating expense in the Statements of Operations. The union plan uses the aggregate actuarial cost method and the non-union plan uses the frozen initial liability actuarial cost method in determining pension expense. In addition to the actuarial assumptions outlined above, the assumed long-term rate of return used in determining pension expense was 8.5% in 2002 and 2001, respectively. Pension costs applicable to prior years' service are amortized over thirty years.

MMWEC contributes to an employee savings plan administered by an insurance company. All full-time employees meeting the service requirements are eligible to participate in this defined contribution plan. Under the provisions of the plan, MMWEC's contributions vest immediately. MMWEC contributed $115,000 and $108,000, while the employees contributed $190,000 and $180,000 during the years ended December 31, 2002 and 2001, respectively.

(9) Commitments and Contingencies

Power Purchases

MMWEC entered into agreements for participation in the transmission interconnection between New England utilities and the Hydro-Quebec electric system near Sherbrooke, Quebec (Phase I), which began commercial operation in October 1986. The New England portion of the interconnection was constructed at a total cost of about $140 million, of which 3.65% or $5 million is MMWEC's share to support Phase I. MMWEC also entered into similar agreements for participation in the interconnection between New England utilities and the Hydro-Quebec electric system for the expansion of the Hydro-Quebec interconnection (Phase II), which went into commercial operation in November 1990. MMWEC's

(9) Commitments and Contingencies (continued)

Power Purchases (continued)

Phase II equity investment approximates 0.6% or $3.3 million. MMWEC has corresponding agreements with certain of its members and another utility to recover MMWEC's share of the costs associated with the Phase II interconnection.

On a limited basis, MMWEC may enter into agreements providing financial assurance to third parties. At December 31, 2002, outstanding guarantees consisted of $0.5 million related to its equity interest in the Hydro-Quebec transmission companies. Management believes the likelihood MMWEC would be required to perform or otherwise incur any significant losses associated with this guarantee is remote.

Legal Actions

MMWEC is involved in various legal actions. Based on bond counsel's opinions regarding the validity of the PSAs and legal counsel's representations regarding the litigation, discussions with such counsel and other considerations, management believes that the ultimate resolution of litigation in which MMWEC is currently involved will not have a material, adverse effect on the financial position of MMWEC.

Nuclear Insurance

The Price-Anderson Act (the Act), a federal statute, mandates an industry-wide program of liability insurance for nuclear facilities. The Act now provides approximately $9.5 billion for public liability claims from a single incident at a nuclear facility. The $200 million primary layer of insurance for the liability has been purchased in the commercial market. Secondary coverage is to be provided through an approximately $88.1 million per incident assessment of each of the currently licensed nuclear units in the United States. The maximum assessment is $10 million per incident per unit in any year. Under the Act, MMWEC's ownership interests in Millstone Unit 3 and Seabrook Station could result in a maximum assessment of $4.2 and $10.2 million, limited to payments of $.5 and $1.2 million per incident per year, respectively.

Insurance has been purchased from Nuclear Electric Insurance Limited (NEIL) to cover the cost of repair, replacement, decontamination or premature decommissioning of utility property resulting from insured occurrences at Millstone Unit 3 and Seabrook Station. The NEIL insurance is subject to retroactive assessments if losses exceed the accumulated funds available to the insurer. MMWEC is potentially subject to a $0.9 and $2.7 million assessment for its participation in Millstone Unit 3 and Seabrook Station, respectively, for excess property damage, decontamination and premature decommissioning.

Environmental and Other Issues

MMWEC is not currently covered under gradual pollution liability insurance related to MMWEC's Stony Brook power plant. Nothing has come to management's attention concerning any material pollution liability claims made during 2002 or outstanding as of December 31, 2002.

MMWEC has established a trust fund to enhance its Directors' and Officers' liability coverage. The purpose of the trust fund is to make available funds for the purchase of Directors' and Officers' liability insurance and/or indemnification of the Directors or Officers.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One International Place
Boston MA 02110
Telephone (617) 478 5000
Facsimile (617) 478 3900

Report of Independent Accountants on Accompanying Consolidating Information

To the Board of Directors of Massachusetts
Municipal Wholesale Electric Company:

The report on our audit of the consolidated financial statements of Massachusetts Municipal Wholesale Electric Company as of December 31, 2002 and for the year then ended appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 13, 2003

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2002
(In Thousands)

ASSETS	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Electric plant·											
In service	$ 2,654	$ 60,596	$ 130,959	$ 259,801	$ 71,081	$ 501,925	56,671	$ 165,044	$ 7,387	$ -	$ 1,256,118
Accumulated depreciation	(2,299)	(29,544)	(65,733)	(111,526)	(30,604)	(217,902)	(45,066)	(126,325)	(5,240)	-	(634,239)
	355	31,052	65,226	148,275	40,477	284,023	11,605	38,719	2,147	-	621,879
Construction work in progress	-	72	86	784	198	1,086	-	-	-	-	2,226
Nuclear fuel-net of amortization	-	1,066	1,903	3,190	810	4,469	-	-	-	-	11,438
Total electric plant	355	32,190	67,215	152,249	41,485	289,578	11,605	38,719	2,147	-	635,543
Special funds											
Bond funds											
Interest, principal and retirement account	-	5,458	6,995	8,593	2,740	19,816	2,530	6,438	279	-	52,849
Reserve account	-	4,566	8,152	9,348	2,822	31,107	670	3,136	110	-	59,911
Reserve and contingency fund	-	3,572	4,393	5,737	1,488	8,775	894	1,597	249	-	26,705
Revenue fund	-	5,682	7,990	10,441	2,729	18,041	6,413	7,916	1,965	-	61,177
Working capital funds	27,418	-	-	-	-	-	-	-	-	(19)	27,399
Other funds	9,854	-	-	-	-	-	-	-	-	-	9,854
	37,272	19,278	27,530	34,119	9,779	77,739	10,507	19,087	2,603	(19)	237,895
Current assets											
Cash and temporary investments	2,233	-	-	1	-	2	-	-	-	20	2,256
Accounts receivable	6,306	2	-	55	14	76	18	1,289	36	40	7,836
Unbilled revenues	7,107	-	-	-	-	-	-	-	-	-	7,107
Inventories	-	66	-	1,774	449	2,456	2,273	7,350	107	-	14,475
Advances to (from) projects	679	(29)	(46)	(55)	(18)	(101)	405	(822)	(13)	-	-
Prepaid expenses	203	810	1,502	1,514	385	2,097	33	70	-	-	6,614
Total current assets	16,528	849	1,456	3,289	830	4,530	2,729	7,887	130	60	38,288
Total special funds and current assets	53,800	20,127	28,986	37,408	10,609	82,269	13,236	26,974	2,733	41	276,183
Deferred charges											
Amounts recoverable (payable) under terms of the power sales agreements	14,908	52,988	82,842	15,556	9,418	65,501	(9,712)	4,740	(1,039)	(849)	234,353
Unamortized debt discount and expenses	57	1,235	2,236	2,577	771	5,588	94	579	29	-	13,166
Nuclear decommissioning trusts	-	4,585	8,673	6,276	1,589	8,693	-	-	-	-	29,816
Other	578	111	157	853	216	1,182	483	899	-	849	5,328
	15,543	58,919	93,908	25,262	11,994	80,964	(9,135)	6,218	(1,010)	-	282,663
	$ 69,698	$ 111,236	$ 190,109	$ 214,919	$ 64,088	$ 452,811	15,706	$ 71,911	$ 3,870	$ 41	$ 1,194,389
LIABILITIES											
Long-term debt	$ -	$ 93,614	$ 165,323	$ 186,427	$ 56,007	$ 399,316	9,308	$ 52,590	$ 2,510	$ -	$ 965,095
Current liabilities											
Current maturities of long-term debt	-	6,980	8,840	9,665	3,145	21,395	4,415	9,840	455	-	64,735
Short-term debt	15,591	-	-	-	-	-	-	-	-	-	15,591
Accounts payable	2,791	383	621	1,680	427	2,347	40	1,158	169	23	9,639
Accrued expenses	8,920	2,275	2,867	7,172	2,002	13,835	334	2,240	201	-	39,846
Member and participant advances and reserves	42,396	3,789	4,597	3,224	798	6,568	1,609	6,083	535	18	69,617
	69,698	13,427	16,925	21,741	6,372	44,145	6,398	19,321	1,360	41	199,428
Deferred credits	-	4,195	7,861	6,751	1,709	9,350	-	-	-	-	29,866
Commitments and contingencies											
	$ 69,698	$ 111,236	$ 190,109	$ 214,919	$ 64,088	$ 452,811	15,706	$ 71,911	$ 3,870	$ 41	$ 1,194,389

The accompanying notes are an integral part of this supplemental schedule.

Schedule I

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31,2002
(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Revenues	$ 66,528	$ 15,243	$ 21,226	$ 29,712	$ 8,669	$ 56,136	$ 8,818	$ 42,181	$ 535	$ 456	$ 249,504
Interest income	798	673	1,057	1,250	356	2,423	360	867	121	39	7,944
Total revenues and interest income	$ 67,326	$ 15,916	$ 22,283	$ 30,962	$ 9,025	$ 58,559	$ 9,178	$ 43,048	$ 656	$ 495	$ 257,448
Operating and service expenses:											
Fuel used in electric generation	$ -	$ 640	$ 1,156	$ 1,746	$ 443	$ 2,433	$ 1,664	$ 22,936	$ 531	$ -	$ 31,549
Purchased power	60,490	-	-	-	-	-	-	-	-	502	60,992
Other operating	1,557	2,867	5,072	7,358	1,910	10,302	1,797	6,116	* 421	-	37,400
Maintenance	38	829	1,453	2,653	672	3,674	189	1,669	-	-	11,177
Depreciation	12	1,990	4,184	9,526	2,601	18,268	2,312	6,923	232	-	46,048
Taxes other than income	2	176	306	616	156	853	395	1,092	194	-	3,790
	62,099	6,502	12,171	21,899	5,782	35,530	6,357	38,736	1,378	502	190,956
Interest expense:											
Interest charges	406	3,809	6,386	7,765	2,292	16,412	530	2,317	115	-	40,032
Interest charged to projects during construction	-	(12)	(38)	(5)	(2)	(7)	-	-	-	-	(64)
	406	3,797	6,348	7,760	2,290	16,405	530	2,317	115	-	39,968
Total operating costs and interest expense	62,505	10,299	18,519	29,659	8,072	51,935	6,887	41,053	1,493	502	230,924
(Increase) decrease in amounts recoverable under terms of the power sales agreements	4,821	5,617	3,764	1,303	953	6,624	2,291	1,995	(837)	(7)	26,524
	$ 67,326	$ 15,916	$ 22,283	$ 30,962	$ 9,025	$ 58,559	$ 9,178	$ 43,048	$ 656	$ 495	$ 257,448

* Allocation between maintenance and other operating is not available.

The accompanying notes are an integral part of this supplemental schedule.

Schedule II

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY
PROJECT STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2002
(In Thousands)

	SERVICE	NUCLEAR MIX 1	NUCLEAR PROJ. 3	NUCLEAR PROJ. 4	NUCLEAR PROJ. 5	PROJECT NO. 6	PEAKING	INTERMEDIATE	WYMAN	HYDRO QUEBEC PHASE II	TOTAL
Cash flows from operating activities:											
Total revenues and interest income	$ 67,326	$ 15,916	$ 22,283	$ 30,962	$ 9,025	$ 58,559	9,178	$ 43,048	$ 656	$ 495	$ 257,448
Total costs and expenses, net	(62,505)	(10,299)	(18,519)	(29,659)	(8,072)	(51,935)	(6,887)	(41,053)	(1,493)	(502)	(230,924)
Adjustments to arrive at net cash provided by operating activities:											
Depreciation and decommissioning	12	2,234	4,625	10,140	2,757	19,120	2,303	6,891	232	-	48,314
Amortization of debt discount and nuclear fuel	114	58	969	1,000	110	(887)	(183)	(795)	5	-	391
Change in current assets and liabilities:											
Accounts receivable	(235)	248	308	341	101	674	194	(920)	(7)	54	758
Unbilled revenues	(386)	-	-	-	-	-	-	-	-	-	(386)
Inventories	-	(1)	-	(39)	(10)	(54)	540	4,227	132	-	4,795
Prepaid expenses	(74)	(79)	(173)	132	33	183	(26)	(56)	-	-	(60)
Accounts payable	2,170	(215)	(375)	(545)	(151)	(998)	(828)	764	101	21	(56)
Accrued expenses and other	695	(734)	(2,291)	35	136	2,756	158	4,134	39	(8)	4,920
Member and participant advances and reserves	6,498	(133)	406	(1,572)	(428)	(3,116)	831	(3,363)	(66)	(39)	(982)
Net cash provided by (used for) operating activities	13,615	6,995	7,233	10,795	3,501	24,302	5,280	12,877	(401)	21	84,218
Cash flows from investing activities:											
Construction expenditures and purchases of nuclear fuel	(290)	(952)	(1,767)	(1,709)	(432)	(2,366)	(43)	(10,222)	(47)	-	(17,828)
Interest charged to projects during construction	-	(12)	(38)	(5)	(2)	(7)	-	-	-	-	(64)
Net (increase) decrease in special funds	(6,476)	(959)	218	(1,070)	(640)	(6,011)	(2,145)	3,726	769	(1)	(12,589)
Decommissioning trust payments, net	-	(348)	(656)	(520)	(131)	(719)	-	-	-	-	(2,374)
Other	(196)	82	142	(214)	(40)	41	(2)	245	(6)	-	52
Net cash provided by (used for) investing activities	(6,962)	(2,189)	(2,101)	(3,518)	(1,245)	(9,062)	(2,190)	(6,251)	716	(1)	(32,803)
Cash flows from financing activities:											
Payments for principal of long-term and short-term debt	(4,969)	(4,805)	(5,130)	(7,275)	(2,255)	(15,235)	(3,090)	(6,625)	(315)	-	(49,699)
Payments for bond issue costs	-	(1)	(2)	(2)	(1)	(5)	-	(1)	-	-	(12)
Net cash used for financing activities	(4,969)	(4,806)	(5,132)	(7,277)	(2,256)	(15,240)	(3,090)	(6,626)	(315)	-	(49,711)
Net decrease in cash and temporary investments	1,684	-	-	-	-	-	-	-	-	20	1,704
Cash and temporary investments at beginning of year	549	-	-	1	-	2	-	-	-	-	552
Cash and temporary investments at end of year	$ 2,233	$ -	$ -	$ 1	$ -	$ 2	-	$ -	$ -	$ 20	$ 2,256
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 353	$ 2,882	$ 4,508	$ 5,532	$ 1,715	$ 12,891	505	$ 2,089	$ 76	$ -	$ 30,551

The accompanying notes are an integral part of this supplemental schedule.

Schedule III

Hudson Light and Power Department
Financial Statements
December 31, 2002 and 2001

"Over 100 Years of Service"

Town of Hudson, Massachusetts

Office of

Light and Power Department

49 Forest Avenue

Hudson, MA 01749

(978) 568-8736

December 18, 2003

FPL Energy Seabrook Station
P.O. Box 300
Seabrook, NH 03874

Dear Dave:

Enclosed is Hudson Light & Power Department Annual Report for year ending December 31, 2002 as requested.

Sincerely,

W. JERRY ROOSA

Enc. 1

HUDSON LIGHT AND POWER DEPARTMENT
Financial Statements
December 31, 2002 and 2001

HUDSON LIGHT AND POWER DEPARTMENT
TABLE OF CONTENTS
DECEMBER 31, 2002 AND 2001

Goulet, Salvidio & Associates, P.C.
Certified Public Accountants

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA

Michael A. Salvidio, CPA
James R. Dube, CPA

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Hudson Light and Power Department

We have audited the accompanying financial statements of Hudson Light and Power Department of Hudson, Massachusetts, as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hudson Light and Power Department as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement of Accounting Standards No. 34 in 2001.

The Management's Discussion and Analysis on pages two through four is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
May 16, 2003

Nine Irving Street · Worcester, MA 01609 · Tel: 508-757-5957 · Fax: 508-753-0948 · E-mail: admin@gsamycpa.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Hudson Light and Power Department's annual financial report, management provides narrative discussion and analysis of the financial activities of the Hudson Light and Power Department for the years ended December 31, 2002 and 2001. The Department's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

Overview of the Financial Statements:

The basic financial statements include (1) the statements of net assets (2) the statements of revenues, expenses and changes in net assets (3) the cash flow statements and (4) notes to the financial statements.

The Statements of Net Assets are designed to indicate our financial position as of a specific point in time. At December 31, 2002, it shows our net worth has increased 1.5% compared to the year ended December 31, 2001.

The Statements of Revenues, Expenses and Changes in Net Assets summarizes our operating results and reveals how much, if any, of a profit was earned for the year. As discussed in more detail below, our net profit for December 31, 2002 and 2001 was $1,247,129 and $889,222, respectively.

The Statements of Cash Flows provides information about the cash receipts and cash payments during the accounting period. It also provides information about the investing and financing activities for the same period. A review of our Statements of Cash Flows indicates that the cash receipts from operating activities, (that is, electricity sales and related services) adequately covers our operating expenses.

Summary of Net Assets – Operating Fund

	2002	2001
Current Assets	$ 10,833,193	$ 11,023,390
Noncurrent Assets	11,546,861	10,782,146
Total Assets	$ 22,380,054	$ 21,805,536
Current Liabilities	$ 2,026,229	$ 2,053,920
Noncurrent Liabilities	731,722	420,538
Total Liabilities	2,757,951	2,474,458
Net Assets:		
Restricted for Debt Service	1,925,000	1,925,000
Invested in Capital Assets, Net of Related Debt	5,392,630	5,288,396
Unrestricted	12,304,473	12,117,682
Total Net Assets	19,622,103	19,331,078
Total Liabilities and Net Assets	$ 22,380,054	$ 21,805,536

Summary of Changes in Net Assets – Operating Fund

	2002	2001
Operating Revenues	$ 31,773,059	$ 32,433,584
Operating Expenses	30,918,501	31,949,194
Operating Income	854,558	484,390
Nonoperating Revenues (Expenses)	392,571	404,832
Increase in Net Assets before Transfers	1,247,129	889,222
Transfers Out - Payment in Lieu of Taxes	(225,000)	(225,000)
Transfers Out - Rate Stabilization Trust Fund	(2,409,987)	(1,411,653)
Claims and Judgments	1,678,883	353,115
Beginning Net Assets	19,331,078	19,725,394
Ending Net Assets	$ 19,622,103	$ 19,331,078

Financial Highlights:

Operating revenues decreased by $660,525 in 2002, or 2%. This decrease in revenue can be attributed primarily to two issues: there were two rate reductions in 2002, 2.5% in March and 14% in August. There was also a 10% increase in power consumption.

Operating expenses decreased by $1,030,693 in 2002, or 3%. This decrease in expense can be attributed to the decrease in energy costs.

Utility Plant and Debt Administration:

Utility Plant
Net utility plant increased by $104,234 from 2002. This increase is the difference between the current year additions of $757,562 and the annual depreciation (3%) write off of $631,094 and amortization of nuclear fuel of $22,234. During 2002, the Department upgraded the distribution system for approximately $640,000, which accounted for 87% of current year additions. The additions to the general plant accounted for the balance.

In December 2001, the Department approved a substation redesign to improve reliability by taking advantage of a second transmission line being built by National Grid. The substation redesign started in 2002 and will be completed in 2003.

Debt Administration
The Hudson Light and Power Department remains a vertically integrated utility, as do all Municipal Light Departments in Massachusetts. This means that we are allowed under the Massachusetts Utility Restructuring Laws to retain our ownership and control over our electrical generation assets. Investor owned utilities, such as Massachusetts Electric Company, have been required to sell their generation assets as a result of the same restructuring laws.

Debt Administration – Continued

The generation assets, which we have a vested interest in through a Purchase Sales Agreement along with the other municipal electrical systems in New England, are financed through municipal bonds. The collective debt service owed under these bonds stands at approximately $1.3 billion, of which Hudson Light and Power Department's share is just over $148 million.

In an effort to ensure stable costs for electricity in future years the Hudson Light and Power Department, worked with the Massachusetts Municipal Wholesale Electric Company, on a bond refinancing in 2001. This refinancing is expected to save the Hudson Light and Power Department approximately $15 million in interest over the life of the bonds.

Though we will not gain any immediate benefit from the refinancing, it is part of a longer-term, strategic effort to maintain the competitive rates and reliable electric service into the future. The bulk of the savings from the refinancing program will be used to stabilize our power costs beginning in 2010. During this timeframe competition in the power markets is expected to intensify, and reduced debt service will place us in a better position to control costs.

Significant Balances and Transactions:

Retirement Trust Fund

The Retirement Trust Fund's purpose is to directly reimburse the Town of Hudson for retirement costs attributable to the Hudson Light and Power Department's retirees for whom the Town of Hudson is assessed annually by the Middlesex County Retirement System, and to satisfy the Department's anticipated future pension liabilities for it's current employees.

Rate Stabilization Trust Fund

The Rate Stabilization Trust Fund's purpose is to fund future power supply costs for which the department is presently obligated to make, so as to eliminate or reduce future power supply costs, in order to remain competitive within the electric industry and for other supply-related issues which the Trustees designate by vote.

Depreciation Fund

Hudson Light and Power Department maintains a depreciation fund, which is managed by the Town of Hudson Treasurer. This fund is used to pay for large capital investments such as new trucks and other long-term assets. Items such as these would be purchased from the operating funds, which would then be replenished by funds transferred from the depreciation fund. The depreciation fund is required by state statute. We set aside 3% of our cost of plant annually to be used for capital improvements and additions.

Purchased Power Working Capital

The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. MMWEC requires that they hold a set amount of capital from which it may pay our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments.

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2002 AND 2001

OPERATING FUND

ASSETS

		2002		2001
CURRENT ASSETS:				
Funds on Deposit with Town Treasurer				
Operating Fund	$	6,349,867	$	5,596,250
Petty Cash		500		500
Customer Accounts Receivable		2,850,356		3,370,192
Other Receivables		27,854		226,334
Materials and Supplies		812,520		944,516
Purchased Power Prepayments		162,297		255,799
Purchased Power Working Capital		629,799		629,799
TOTAL CURRENT ASSETS		10,833,193		11,023,390
NONCURRENT ASSETS:				
Funds on Deposit with Town Treasurer				
Depreciation Fund		413,455		292,539
Depreciation Investment Fund		4,793,790		4,602,207
Customer Deposits		484,542		315,891
Customer Deposits - Interest		220,496		194,696
Insurance Escrow Reserve		160,000		0
Investment		81,948		88,417
Utility Plant Assets, Net		5,392,630		5,288,396
TOTAL NONCURRENT ASSETS		11,546,861		10,782,146
TOTAL ASSETS	$	22,380,054	$	21,805,536

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2002 AND 2001

OPERATING FUND

LIABILITIES

	2002	2001
CURRENT LIABILITIES:		
Accounts Payable	$ 1,317,441	$ 1,351,631
Miscellaneous Current and Accrued Liabilities	509,183	525,684
Insurance Escrow Reserve	23,000	0
Deferred Credit - Fuel Charge	176,605	176,605
TOTAL CURRENT LIABILITIES	2,026,229	2,053,920
NONCURRENT LIABILITIES:		
Customer Deposits	483,537	315,981
Customer Deposits - Interest	109,085	102,457
Customer Advances for Construction	2,100	2,100
Insurance Escrow Reserve	137,000	0
TOTAL NONCURRENT LIABILITIES	731,722	420,538
TOTAL LIABILITIES	2,757,951	2,474,458

NET ASSETS

	2002	2001
Restricted for Debt Service	1,925,000	1,925,000
Invested in Capital Assets, Net of Related Debt	5,392,630	5,288,396
Unrestricted	12,304,473	12,117,682
TOTAL NET ASSETS	19,622,103	19,331,078
TOTAL LIABILITIES AND NET ASSETS	$ 22,380,054	$ 21,805,536

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

	2002	2001
OPERATING REVENUES	$ 31,773,059	$ 32,433,584
OPERATING EXPENSES:		
Operations and Maintenance	30,287,407	31,321,473
Depreciation Expense	631,094	627,721
TOTAL OPERATING EXPENSES	30,918,501	31,949,194
OPERATING INCOME	854,558	484,390
NONOPERATING REVENUES (EXPENSES):		
Interest and Dividend Income	392,587	404,928
Interest Expense	(16)	(96)
TOTAL NONOPERATING REVENUES (EXPENSES)	392,571	404,832
Income Before Contributions and Transfers	1,247,129	889,222
NET ASSETS - JANUARY 1	19,331,078	19,725,394
Transfers Out - Payment in Lieu of Taxes	(225,000)	(225,000)
Transfers Out - Rate Stabilization Trust Fund	(2,409,987)	(1,411,653)
Claims and Judgments	1,678,883	353,115
NET ASSETS - DECEMBER 31	$ 19,622,103	$ 19,331,078

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$ 32,471,440	$ 33,802,400
Cash Paid to Suppliers and Employees	(28,888,195)	(30,863,848)
Cash Paid for Benefits	(848,052)	(768,844)
Payment in Lieu of Taxes	(225,000)	(225,000)
Cash Received for Claims and Judgments	1,678,883	353,115
Net Cash Provided by Operating Activities	4,189,076	2,297,823
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest Expense	(16)	(96)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Utility Plant Assets	(738,180)	(451,676)
Purchases of Nuclear Fuel	(19,382)	(25,541)
Net Cash Used in Capital and Related Financing Activities	(757,562)	(477,217)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Rate Stabilization Reserve	(2,409,987)	(1,411,653)
Interest and Dividend Income	392,587	404,928
Net Proceeds from Maturities (Purchases) of Investments	(1,261,687)	732,743
Net Cash Used by Investing Activities	(3,279,087)	(273,982)
INCREASE IN CASH AND CASH EQUIVALENTS	152,411	1,546,528
CASH AND CASH EQUIVALENTS - JANUARY 1	7,912,748	6,366,220
CASH AND CASH EQUIVALENTS - DECEMBER 31	$ 8,065,159	$ 7,912,748

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:

	2002	2001
Operating Income	$ 854,558	$ 484,390
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	631,094	627,721
Amortization of Nuclear Fuel	22,234	22,649
Payment in Lieu of Taxes	(225,000)	(225,000)
Cash Received for Claims and Judgments	1,678,883	353,115
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Customer Accounts Receivable	519,836	(155,421)
Other Receivables	198,480	(199,774)
Deferred Debit - Fuel Charge	0	1,535,547
Materials and Supplies	131,996	114,316
Purchased Power Prepayments	93,502	365,388
Purchased Power Working Capital	0	7,028
Increase (Decrease) in:		
Accounts Payable	(34,190)	(889,823)
Customer Deposits	167,556	(5,657)
Customer Deposits - Interest	6,628	17,516
Tax Collections Payable	13,330	(17,306)
Deferred Credit - Fuel Charge	0	176,605
Miscellaneous Current and Accrued Liabilities	(29,831)	86,529
Insurance Escrow Reserve	160,000	0
Net Cash Provided by Operating Activities	$ 4,189,076	$ 2,297,823

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

OPERATING FUND

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

The following amounts are considered to be cash or cash equivalents for the purpose of the statements of cash flows:

	2002	2001
Operating Fund	$ 6,349,867	$ 5,596,250
Petty Cash	500	500
Depreciation Fund	413,455	292,539
Depreciation Investment Fund (Note 8)	436,299	1,512,872
Insurance Escrow Reserve	160,000	0
Customer Deposits	484,542	315,891
Customer Deposits - Interest	220,496	194,696
	$ 8,065,159	$ 7,912,748

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2002 AND 2001

RATE STABILIZATION TRUST FUND

ASSETS

	2002	2001
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	$ 906,093	$ 2,474,284
Investments	10,114,649	5,278,082
TOTAL ASSETS	$ 11,020,742	$ 7,752,366

NET ASSETS

	2002	2001
NET ASSETS - Restricted	$ 11,020,742	$ 7,752,366

RETIREMENT TRUST FUND

ASSETS

	2002	2001
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	$ 3,020,403	$ 2,378,373
Investments	4,166,661	4,555,521
TOTAL ASSETS	$ 7,187,064	$ 6,933,894

NET ASSETS

	2002	2001
NET ASSETS - Restricted	$ 7,187,064	$ 6,933,894

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

RATE STABILIZATION TRUST FUND

	2002	2001
NONOPERATING REVENUES (EXPENSES):		
Interest Earned on Invested Funds	$ 378,352	$ 439,363
Accrued Interest Paid at Purchase	(21,484)	(2,258)
Loss from Security Redemption	0	(41)
Annual Contribution from Operations	501,521	692,322
Annual Purchased Power Stabilization Transfer	0	(1,600,000)
NET INCOME (LOSS)	858,389	(470,614)
NET ASSETS - JANUARY 1	7,752,366	6,811,327
Transfers In - Operating Fund	2,409,987	1,411,653
NET ASSETS - DECEMBER 31	$ 11,020,742	$ 7,752,366

RETIREMENT TRUST FUND

	2002	2001
NONOPERATING REVENUES (EXPENSES):		
Interest Earned on Invested Funds	$ 338,711	$ 481,174
Accrued Interest Paid at Purchase	(43,858)	(7,431)
Gain from Security Redemption	2,000	437
Annual Contribution from Operations	414,913	384,007
Annual Pension Expense	(458,596)	(500,215)
NET INCOME	253,170	357,972
NET ASSETS - JANUARY 1	6,933,894	6,575,922
NET ASSETS - DECEMBER 31	$ 7,187,064	$ 6,933,894

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

RATE STABILIZATION TRUST FUND

	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Interest Income	$ 356,868	$ 437,105
Net Proceeds from Maturities (Purchases) of Investments	(4,836,567)	784,327
Loss on Security Redemption	0	(41)
Appropriation from Net Assets - Operating Fund	2,409,987	1,411,653
Annual Contribution from Operations	501,521	692,322
Annual Purchased Power Stabilization Transfer	0	(1,600,000)
INCREASE IN CASH AND CASH EQUIVALENTS	(1,568,191)	1,725,366
CASH AND CASH EQUIVALENTS - JANUARY 1	2,474,284	748,918
CASH AND CASH EQUIVALENTS - DECEMBER 31	$ 906,093	$ 2,474,284

RETIREMENT TRUST FUND

	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Interest Income	$ 294,853	$ 473,743
Net Proceeds from Maturities (Purchases) of Investments	388,860	1,669,826
Gain on Security Redemption	2,000	438
Annual Contribution from Operations	414,913	384,007
Annual Pension Expense	(458,596)	(500,215)
INCREASE IN CASH AND CASH EQUIVALENTS	642,030	2,027,799
CASH AND CASH EQUIVALENTS - JANUARY 1	2,378,373	350,574
CASH AND CASH EQUIVALENTS - DECEMBER 31	$ 3,020,403	$ 2,378,373

See Accompanying Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The significant accounting policies of Hudson Light and Power Department are as follows:

Reporting Entity

The Hudson Light and Power Department is a component unit of the Town of Hudson, Massachusetts. The Department purchases power from various sources and sells it to the ultimate customers at rates submitted to the Massachusetts Department of Telecommunications and Energy (DTE). The Municipal Light Board appoints a manager of municipal lighting who shall, under the direction and control of the Municipal Light Board, have full charge of the operation and management of the Department.

Regulation and Basis of Accounting

The Town of Hudson complies with Generally Accepted Accounting Principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

The Department uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Department adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* in 2001.

Under Massachusetts law, electric rates of the Department are set by the Municipal Light Board and may be changed not more often than once every three months. Rate schedules are filed with the Massachusetts Department of Telecommunications and Energy (DTE). While the DTE exercises general supervisory authority over the Department, the Department's rates are not subject to DTE approval.

Depreciation

The general laws of Massachusetts allow utility plant to be depreciated at an annual rate of 3%. In order to change this rate, approval must be obtained from the Department of Telecommunications and Energy. Changes in annual depreciation rates may be made for financial factors relating to cash flow rather than for engineering factors relating to estimates of useful lives. The Department used a depreciation rate of 3% for 2002 and 2001.

The Department charges maintenance to expense when incurred. Replacements and betterments are charged to utility plant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Revenues
Revenues from sales of electricity are recorded on the basis of bills rendered from monthly readings taken on a cycle basis. The revenues are based on rates established by the Department which are applied to the customers' consumption of electricity.

The Department has a fuel cost adjustment clause pursuant to which increased fuel costs (fuel costs in excess of amounts recovered through base rates) are billable to customers. The Department records estimated unbilled fuel adjustment charge revenue at the end of accounting periods.

Materials and Supplies
Materials and supplies are valued using the average cost method.

Taxes
The Department is exempt from federal and state income taxes. Although also exempt from property taxes, the Department pays amounts in lieu of taxes to the Town of Hudson. Taxes are paid to the State of New Hampshire resulting from ownership in the Seabrook, New Hampshire Nuclear Power Plant.

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

Cash and Cash Equivalents
For purposes of the statements of cash flows, the Department considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Advertising
The Department expenses advertising costs as incurred. At December 31, 2002 and 2001, advertising expense was $2,481 and $474, respectively.

Reclassification
Certain amounts in the 2001 financial statements have been reclassified to conform with the 2002 presentation with no effect on previously reported net income.

Compensated Absences
In accordance with Town and Light Department policies, employees are allowed to accumulate sick days up to a maximum of 960 hours. Upon termination of employment with the Light Department, the employee will not be paid for accumulated sick days. Upon retirement, employees are paid up to 50% of their accumulated sick time at their regular rate of pay. The percentage is based on employee's age and number of years of service with the Light Department.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Compensated Absences (continued)
Employees are permitted to carry vacation time from one year to the next. Upon termination of employment with the Light Department, the employee will be paid for unused vacation time based on the employee's base rate of pay at the time of termination. Union employees have to use their vacation by April of the following year.

Accounts Receivable
The Light Department carries its accounts receivable at cost. On a periodic basis, the Department evaluates its accounts receivable. The Department's policy is to consider an invoice past due if payment has not been received by the Department within 60 days. Letters are sent out requesting payment. If payment is still not received, a shutoff process is started.

Allowance for Doubtful Accounts
Accounts are charged to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts. At December 31, 2002 and 2001, no allowance for uncollectible accounts was considered necessary.

NOTE 2 - UNBILLED REVENUE:

No recognition is given to the amount of sales to customers which are unbilled at the end of the accounting period.

NOTE 3 - CONCENTRATION OF CREDIT RISK:

The Hudson Light and Power Department's deposits with the Town Treasurer are commingled and invested with deposits from other Town funds. Accordingly, it is not practical to disclose the related bank balance and credit risk of such cash deposits for the Light Department. Funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC). The amount of insurance coverage for the Light Department deposits is not determinable because the limits of insurance are computed on a Town-wide basis.

NOTE 4 - INVESTMENT:

The Department owns shares of Hydro Quebec Phase II stock. The securities are stated at cost. Fair market value approximates stated value.

NOTE 5 - DEPRECIATION FUND:

Pursuant to provisions of the Commonwealth General Laws, cash in an amount equivalent to the annual depreciation expense is transferred from unrestricted funds to the depreciation fund. Interest earned on the balance of the fund must also remain in the fund. Such cash may be used for the cost of plant, nuclear decommissioning costs, the costs of contractual commitments, and deferred costs related to such commitments which the Municipal Light Board determines are above market value.

NOTE 6 - PURCHASED POWER WORKING CAPITAL:

The purchased power working capital is an amount held by Massachusetts Municipal Wholesale Electric Company (MMWEC), our power supply agent. The implementation of the Working Capital Program began August 1, 1985. MMWEC Participants approved certain working capital amendments to the various power purchase agreements. MMWEC requires that they hold a set amount of capital from which it may pay our power obligations when they are due. They replenish the fund as needed from our monthly invoice payments. The income earned allocated to the Light Department will be applied as a credit to MMWEC Power Sales Billing. The balance in the fund is $629,799 as of December 31, 2002 and 2001.

NOTE 7 - MAJOR CUSTOMER:

The Department's revenues include approximately $13,136,000 and $11,744,600 billed to one major customer during 2002 and 2001, respectively. Amounts due from this customer included in accounts receivable were $983,152 and $1,082,342 at December 31, 2002 and 2001, respectively.

NOTE 8 - CASH EQUIVALENTS:

The Department's cash, cash equivalents and investments are held by the Hudson Town Treasurer. The Department's investments are classified as held to maturity and are recorded at unamortized cost plus accrued interest paid at purchase. The Depreciation Investment Fund is allocated between investments and cash equivalents as follows:

	2002	2001
Investments	$ 4,357,491	$ 3,089,335
Cash Equivalents	436,299	1,512,872
Total	$ 4,793,790	$ 4,602,207

gross unrealized holding gains on the U.S. Treasury Notes were $25,745 and $14,642 at ember 31, 2002 and 2001, respectively.

NOTE 9 – UTILITY PLANT ASSETS:

	Balance January 1, 2002	Increases	Decreases	Balance December 31, 2002
Capital Assets Not Being Depreciated:				
Land	$ 60,557	$ 0	$ 0	$ 60,557
Intangible Plant	3,880	0	0	3,880
Construction in Progress	0	31,399	0	31,399
Total	64,437	31,399	0	95,836
Capital Assets Being Depreciated:				
Production Plant	7,019,902	1,110	(455,165)	6,565,847
Nuclear Fuel	374,556	19,382	0	393,938
Transmission Plant	1,598,003	5,812	(145,606)	1,458,209
Distribution Plant	10,112,193	571,468	(319,866)	10,363,795
General Plant	2,306,358	128,391	(70,295)	2,364,454
Total	21,411,012	726,163	(990,932)	21,146,243
Less Accumulated Depreciation For:				
Production Plant	(5,729,281)	(167,781)	455,165	(5,441,897)
Nuclear Fuel	(317,730)	(22,234)	0	(339,964)
Transmission Plant	(1,494,364)	(11,400)	145,606	(1,360,158)
Distribution Plant	(7,164,648)	(299,849)	319,866	(7,144,631)
General Plant	(1,481,030)	(152,064)	70,295	(1,562,799)
Total Accumulated Depreciation	(16,187,053)	(653,328)	990,932	(15,849,449)
Capital Assets Being Depreciated, Net	5,223,959	72,835	0	5,296,794
Utility Plant Assets, Net	$ 5,288,396	$ 104,234	$ 0	$ 5,392,630

NOTE 10 – INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT:

	2002	2001
Cost of Capital Assets Acquired	$ 21,242,079	$ 21,475,449
Less: Accumulated Depreciation	15,849,449	16,187,053
Invested in Capital Assets, Net of Related Debt	$ 5,392,630	$ 5,288,396

NOTE 11 – CLAIMS AND JUDGMENTS:

The MMWEC Board of Directors voted in 2002 to refund $1,378,709 of decommissioning reserves that were deemed unnecessary for the Millstone 3 and Seabrook Projects. The Department also received $231,278 in 2002 from the Vermont Legal Settlement, $60,171 in 2002 from New England Power for adjustment of deferred taxes and ICAP Final Settlement Adjustment of $8,725. In 2001, the Department received a $278,557 refund for the Pilgrim Decommissioning settlement and $74,558 from the Mass Self Insurance Trust.

NOTE 12 – RELATED PARTY TRANSACTIONS:

In the ordinary course of business, the Department sells electricity to various town departments. During the years ended December 31, 2002 and 2001, sales to these departments totaled $840,444 and $904,714, respectively. At December 31, 2002 and 2001, the amounts due from these departments were $56,893 and $78,778, respectively.

The Department reimburses the town for various employee benefits and services, including health insurance and retirement. During the years ended December 31, 2002 and 2001, the total amount paid for these services was $860,990 and $807,161, respectively. The amounts payable to the town as of December 31, 2002 was $1,872 and as of December 31, 2001 was $977.

NOTE 13 – CONSTRUCTION IN PROGRESS:

The Hudson Light and Power Department is managing a project to construct a second transmission line to the substation. The project is in the preliminary phase and is to be completed in 2003. The Department has incurred costs totaling $31,399 as of December 31, 2002. Total cost of the project is approximately $1,400,000.

NOTE 14 – RISK MANAGEMENT:

Self Insurance Trust

Hudson Light and Power Department participates in Mass Municipal Self Insurance Trust (the Trust) with 17 other municipal light departments for the purpose of sharing excess liability and officers' liability risks. Hudson Light and Power Department is commercially insured for $500,000 per occurrence, with a $50,000 deductible that would be paid by the Trust. Each participating light department contributes to the Trust based on its share of the group's total kilowatt-hour sales. In 2002 and 2001, the Trust required no contributions from its members as the Trust was overfunded and experienced favorable claims experience. Payments for claims under the deductible limit are funded by trust assets or, if required, additional contributions from the participants.

NOTE 15 - MMWEC PARTICIPATION:

Town of Hudson acting through its Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other utilities (Project Participants) under Power Sales Agreements (PSAs). Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which costs include debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make any payment when due, other Project Participants may be required to increase (step-up) their payments and correspondingly their Participants' share of Project Capability to an additional amount not to exceed 25% of their original Participants' share of the Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

Hudson Light and Power Department has entered into PSAs and PPAs with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Municipal Light Department revenues. Under the PSAs, each Participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

NOTE 16 - PENSION PLAN:

The Department is a member of the Middlesex Retirement System, which, in turn is a member of the Massachusetts Contributory Retirement System, which is governed by M.G.L. c.32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The plan is a contributory defined benefit plan for all county employees and employees of participating towns and districts except those employees who are covered by the teachers retirement board.

Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

A $30,000 salary cap, upon which members' benefits were calculated, was removed by the Middlesex Retirement System effective January 1, 1991. Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. Members hired after 1978 contribute an additional 2% of annual pay above $30,000. These contributions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employees' Retirement Administration's Commission (PERAC's) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification. Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those contributions.

NOTE 16 - PENSION PLAN (continued):

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

The Town of Hudson is assessed annually for its share of the current year pension payments which includes the retired employees of the Town of Hudson Light and Power Department. The Department then reimburses the Town for the Department's share of this assessment. The Department paid to the Town $458,596 in 2002, $500,215 in 2001 and $507,728 in 2000.

The Plan's separately issued financial statements can be obtained by contacting Middlesex Retirement System at 25 Linnell Circle, Billerica, MA 01865.

The Department is making provisions for their share of the Town of Hudson's unfunded actuarial liability by setting up the Town of Hudson Light and Power Department Employees' Retirement Trust to which they make contributions as deemed necessary by an actuary hired every two years to analyze the trust's estimated actuarial liability and assets. In addition to its annual town assessment, the Department has set aside amounts totaling $7,187,064 and $6,933,894 as of December 31, 2002 and 2001, for the Department's anticipated future liabilities for its current employees.

NOTE 17 - RETIREMENT TRUST FUND:

The Department's cash equivalents and investments are held by the Hudson Town Treasurer. The Department's investments are classified as held to maturity and are recorded at unamortized cost plus accrued interest paid at purchase.

At December 31, 2002, the gross unrealized holding gains on the U.S. Treasury Notes were $42,420. The gross unrealized holding gains on Certificate of Deposits were $6,115.

At December 31, 2001, the gross unrealized holding gains on the U.S. Treasury Notes were $36,977, the gross unrealized holding losses were $3,698 and the gross unrealized holding gains on Certificate of Deposits were $4,732.

NOTE 18 - RATE STABILIZATION TRUST FUND:

The Hudson Light and Power Board of Commissioners voted (January 11, 1997) to establish a Rate Stabilization Trust Fund for the purpose of providing the necessary funds to meet future power supply costs. Under the terms of the trust any assets remaining after the final payment of Power Sales Agreement obligations will revert back to the Department.

NOTE 18 - RATE STABILIZATION TRUST FUND (continued):

The Department's cash equivalents and investments are held by the Hudson Town Treasurer. The Department's investments are classified as held to maturity and are recorded at unamortized cost plus accrued interest paid at purchase.

At December 31, 2002 the gross unrealized holding gains on the U.S. Treasury Notes were $54,962, and the gross unrealized holding gains on Certificates of Deposit were $14,698.

At December 31, 2001, the gross unrealized holding losses on the U.S. Treasury Notes were $24,143. The gross unrealized holding gains on Certificates of Deposit were $10,098.

NOTE 19 - COMMITMENTS AND CONTINGENCIES:

Environmental Matters
Hudson Light and Power Department is subject, like other electric utilities, to evolving standards administered by federal, state and local authorities relating to the quality of the environment. These standards affect the siting of electric property, ambient air and water quality, plant safety and other environmental factors. These standards have had an impact on Hudson Light and Power Department's operations in the past and they will continue to have an impact on future operations, capital costs and construction schedules.

Mirant and Taunton Purchase Power Commitments
Hudson Light and Power Department has entered into a purchase power contract with Mirant Americas Energy Marketing, LP to purchase a minimum of 5 MW of power through June 1, 2006. The power purchase contract calls for Hudson Light and Power Department to make monthly payments based on the amount of energy supplied.

Hudson Light and Power Department has entered into a unit contract with Taunton Municipal Light Plant for power through life of the Cleary 9 unit (2012). The power purchase contract calls for Hudson Light and Power Department to make certain monthly payments based on their percent share of the operations of the unit, regardless of actual energy generated.

The estimated contract entitlements required are as follows:

For years ended December 31,	2003	$	2,424,800
	2004		2,430,320
	2005		2,424,800
	2006		1,243,520
	2007		410,000
	2008-2012		2,050,000
	Total	$	10,983,440

NOTE 19 - COMMITMENTS AND CONTINGENCIES (continued):

MMWEC Commitments and Litigation
Through its participation in MMWEC, the Hudson Light and Power Department is contingently liable on the various Projects in which they participate as detailed below.

MMWEC has eight Projects. MMWEC originally financed all eight Projects through the issuance of multiple series of revenue bonds under the General Bond Resolution adopted by MMWEC in 1976 (GBR). Security for these bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of bonds. In 2001, through a refinancing of all of its outstanding bonds, MMWEC amended and restated its GBR to eliminate this "joint-pledge" of revenues. In refinancing its debt, MMWEC issued a separate issue of bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated GBR with respect to the bonds of such issue. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC operates the Stony Brook Intermediate Project and the Stony Brook Peaking Project fossil-fueled power plants. MMWEC has a 22.7 MW interest in the W.F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of Florida Power & Light and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc. DNCI has stated its intention to file an application with the Nuclear Regulatory Commission (NRC) for an extension of the Millstone Unit 3 operating license, which currently will expire in 2025. DNCI has not yet filed its application with the NRC.

MMWEC's 11.6% ownership interest in the Seabrook Station nuclear generating unit which represents a substantial portion of its plant investment and financing program. On November 1, 2002, an indirect subsidiary of FPL Group Inc., FPL Energy Seabrook, LLC purchased an approximate 88% share in the Seabrook nuclear plant from seven other owners. MMWEC is now one of three, minority non-operating owners of the Seabrook Station.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which is being funded through monthly Project billings. The Project Participants are also liable for their proportionate share of the uninsured costs of a nuclear incident that might be imposed by the Price-Anderson Act. By its terms, the Price-Anderson Act expired in August 2002. Congress is currently considering extending the Act.

NOTE 19 - COMMITMENTS AND CONTINGENCIES (continued):

In November 1997, the Commonwealth of Massachusetts enacted legislation effective March 1, 1998 to restructure the electric utility industry. MMWEC and the municipal light departments, including the Massachusetts Project Participants, are not specifically subject to this legislation. However, it is management's belief that industry restructuring and customer choice promulgated by the legislation will have an effect on MMWEC and the Participant's operations.

MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the Department.

As of December 31, 2002, total capital expenditures amounted to $1,499,827,000, of which $162,911,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects and PPAs included Power Supply System Revenue Bonds and commercial paper notes totals $1,005,535,000, of which $107,986,000 is associated with the Department's share of Project Capability and PPAs. As of December 31, 2002, MMWEC's total future debt service requirement on outstanding bonds issued for Projects and commercial paper notes for the PPAs is $1,333,835,000, of which $148,389,000 is anticipated to be billed to the Department.

The aggregate amount of Hudson Light and Power Department's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2002 and estimated for future years is shown below.

		ANNUAL COSTS
For years ended December 31,	2003	$ 11,317,000
	2004	11,343,000
	2005	11,341,000
	2006	11,343,000
	2007	11,349,000
	2008-2012	49,397,000
	2013-2017	40,085,000
	2018-2019	2,214,000
	TOTAL	$ 148,389,000

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which they participate. The Department's total O&M costs including debt service under the PSAs were $13,737,000 and $17,240,000 for the years ended December 31, 2002 and 2001, respectively.

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	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANTS SHARE	DEBT ISSUED & OUTSTANDING 12/31/02	PARTICIPANTS SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ 56,840	$ -	$ 13,345	$ -	$ 11,569	$ -
Stony Brook Intermediate Project	-	161,988	-	59,645	-	63,580	-
Nuclear Mix No. 1-SBK	3.3984	15,056	512	11,502	391	14,521	493
Nuclear Mix No. 1-MLS	3.3984	111,341	3,784	85,058	2,891	107,391	3,650
Nuclear Project No. 3-MLS	1.5997	137,876	2,206	171,065	2,737	231,357	3,701
Nuclear Project No. 4-SBK	4.2300	314,433	13,301	189,195	8,003	256,494	10,850
Nuclear Project No. 5-SBK	1.8613	85,900	1,599	56,705	1,055	76,581	1,425
Wyman Project	9.2536	7,563	700	2,940	272	3,058	283
Project No. 6-SBK	23.1278	608,830	140,809	400,545	92,637	553,392	127,987
TOTAL		$ 1,499,827	$ 162,911	$ 990,000	$ 107,986	$ 1,317,943	$ 148,389
Commercial Paper Program	-	$ -	$ -	$ 15,535	$ -	$ 15,892	$ -

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/01	PARTICIPANTS SHARE	OPERATION & MAINTENANCE 12/31/02	PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ 11,762	$ -	$ 8,967	$ -
Stony Brook Intermediate Project	-	46,235	-	38,404	-
Nuclear Mix No. 1-SBK	3.3984	1,881	64	1,515	51
Nuclear Mix No. 1-MLS	3.3984	15,620	531	12,528	426
Nuclear Project No. 3-MLS	1.5997	29,084	465	20,388	326
Nuclear Project No. 4-SBK	4.2300	32,372	1,369	25,812	1,092
Nuclear Project No. 5-SBK	1.8613	9,390	175	7,582	141
Wyman Project	9.2536	2,434	225	1,498	139
Project No. 6-SBK	23.1278	62,310	14,411	49,993	11,562
TOTAL		$ 211,088	$ 17,240	$ 166,687	$ 13,737
Commercial Paper Program	-	$ -	$ -	$ -	$ -

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(000)

	PERCENTAGE SHARE	2003 ANNUAL COST	PARTICIPANTS SHARE	2004 ANNUAL COST	PARTICIPANTS SHARE	2005 ANNUAL COST	PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ 4,920	$ -	$ 4,569	$ -	$ 2,080	$ -
Stony Brook Intermediate Project	-	12,874	-	12,875	-	12,873	-
Nuclear Mix No. 1-SBK	3.3984	1,361	46	1,357	46	1,357	46
Nuclear Mix No. 1-MLS	3.3984	10,066	342	10,039	341	10,036	341
Nuclear Project No. 3-MLS	1.5997	16,867	270	16,929	271	16,947	271
Nuclear Project No. 4-SBK	4.2300	19,255	814	19,847	840	19,903	842
Nuclear Project No. 5-SBK	1.8613	5,991	112	6,094	113	6,099	114
Wyman Project	9.2536	559	52	563	52	523	48
Project No. 6-SBK	23.1278	41,860	9,681	41,855	9,680	41,848	9,679
TOTAL		$ 113,753	$ 11,317	$ 114,128	$ 11,343	$ 111,666	$ 11,341
Commercial Paper Program	-	$ 15,892	$ -	$ -	$ -	$ -	$ -

	PERCENTAGE SHARE	2006 ANNUAL COST	PARTICIPANTS SHARE	2007 ANNUAL COST	PARTICIPANTS SHARE	AFTER 2007	PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ -	$ -	$ -	$ -	$ -	$ -
Stony Brook Intermediate Project	-	12,428	-	9,262	-	3,268	-
Nuclear Mix No. 1-SBK	3.3984	1,361	46	1,361	46	7,724	263
Nuclear Mix No. 1-MLS	3.3984	10,064	342	10,067	342	57,119	1,942
Nuclear Project No. 3-MLS	1.5997	16,955	271	16,972	272	146,687	2,346
Nuclear Project No. 4-SBK	4.2300	19,926	843	19,939	843	157,624	6,668
Nuclear Project No. 5-SBK	1.8613	6,109	114	6,107	114	46,181	858
Wyman Project	9.2536	528	49	586	54	299	28
Project No. 6-SBK	23.1278	41,847	9,678	41,845	9,678	344,137	79,591
TOTAL		$ 109,218	$ 11,343	$ 106,139	$ 11,349	$ 763,039	$ 91,696
Commercial Paper Program	-	$ -	$ -	$ -	$ -	$ -	$ -

Goulet, Salvidio & Associates, P.C.

Certified Public Accountants

James F. Goulet, CPA, MST
Catherine A. Kuzmeskus, CPA

Michael A. Salvidio, CPA
James R. Dube, CPA

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

The Board of Commissioners
Hudson Light and Power Department

Our audits were made for the purpose of forming an opinion on the financial statements of Hudson Light and Power Department for the years ended December 31, 2002 and 2001, which are presented in the preceding section of this report. The supplemental information presented on pages 29-31 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Goulet, Salvidio & Associates, P.C.

Goulet, Salvidio & Associates, P.C.

Worcester, Massachusetts
May 16, 2003

Nine Irving Street · Worcester, MA 01609 · Tel: 508-757-5957 · Fax: 508-753-0948 · E-mail: admin@gsamycpa.com

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
Sales to Residential Customers	$ 6,831,927	$ 7,171,091
Sales to Commercial Customers	1,829,846	1,849,972
Sales to Power Customers	13,364,798	12,947,863
Private Property Lighting Sales	79,699	88,763
Municipal Sales		
Hudson Street Lights	115,089	113,012
Hudson Municipal Buildings	68,934	74,863
Hudson Municipal Power	367,082	384,240
All Electric Municipal Buildings	380,759	400,122
Stow and Berlin Street Lights	7,468	8,108
Stow, Maynard and Other Municipal Services	98,271	102,418
Total Revenue from Sales of Electricity	23,143,873	23,140,452
Power Adjustment Charges		
Residential Sales	1,674,164	1,953,390
Commercial Sales	478,916	602,488
Power Sales	6,102,549	6,702,800
Private Property Lighting	16,174	21,192
Municipal Power Adjustment Charges		
Street Lighting Stow, et al	1,290	1,655
Municipal Power Hudson	139,755	168,100
Municipal Commercial Hudson	18,230	23,550
Municipal Power Stow, et al	28,157	33,142
Municipal Commercial Stow, et al	3,819	4,946
Municipal All Electric	109,750	127,997
Fuel Charge Adjustment	0	(390,710)
Total Power Adjustment Charges	8,572,804	9,248,550
Other Income		
Other Electric Revenues	56,382	44,582
TOTAL OPERATING REVENUES	$ 31,773,059	$ 32,433,584

See Independent Auditors' Report on Supplemental Information

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
PRODUCTION EXPENSES:		
Nuclear Power Generation:		
Operation Supervision	$ 18,691	$ 18,997
Fuel	31,797	29,512
Coolants and Water	2,008	1,746
Steam Expenses	18,378	14,414
Electric Expenses	473	81
Miscellaneous Nuclear Power Expenses	46,240	38,033
Maintenance Supervision	10,517	8,797
Maintenance of Structures	2,816	2,269
Maintenance of Reactor Plant Equipment	17,185	6,602
Maintenance of Generation and Electric Plant	14,359	10,794
Total Nuclear Power Generation Expenses	162,464	131,245
Other Power Generation:		
Operation Supervision	34,820	33,977
Fuel-Oil	50,612	75,394
Fuel-Natural Gas	99,142	67,934
Generation Expenses	81,463	73,398
Generation Expenses-Lube	4,116	4,164
Miscellaneous Other Power Generation Expenses	125,006	152,915
Maintenance Supervision	35,819	33,529
Maintenance of Structures	245,346	73,387
Maintenance of Generation and Electric Plant	77,536	111,318
Total Other Power Generation Expenses	753,860	626,016
TOTAL PRODUCTION EXPENSES	916,324	757,261
PURCHASED POWER EXPENSES:		
Purchased Power-Entitlement	20,228,582	22,474,256
Purchased Power-Nepex System	4,312,311	3,939,007
Control and Load Dispersion	7,544	7,723
TOTAL PURCHASED POWER EXPENSES	24,548,437	26,420,986

See Independent Auditors' Report on Supplemental Information

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
TRANSMISSION EXPENSES	$ 1,856,552	$ 1,463,054
DISTRIBUTION EXPENSES:		
Operation Supervision and Engineering	36,534	34,778
Station Expenses	140,382	155,092
Overhead Line Expenses	13,812	11,247
Underground Line Expenses	6,553	858
Street Lighting and Signal Expenses	10,788	9,681
Meter Expenses	96,005	83,907
Customer Installation Expenses	4,758	4,487
Miscellaneous Distribution Expenses	1,482	4,700
Maintenance Supervision and Engineering	39,784	35,831
Maintenance of Station Equipment	10,304	5,282
Maintenance of Overhead Lines	377,084	361,619
Maintenance of Underground Lines	23,078	13,599
Maintenance of Line Transformer	16,774	16,433
Maintenance of Street Lighting	9,018	11,953
Maintenance of Meters	2,018	403
TOTAL DISTRIBUTION EXPENSES	788,374	749,870
GENERAL EXPENSES:		
Supervision	15,692	15,544
Meter Reader Expenses	60,148	62,451
Customer Records and Collection Expenses	245,307	228,896
Uncollectible Accounts	131,696	46,946
Miscellaneous Sales Expenses	15,827	11,374
Administrative and General Salaries	494,436	465,060
Office Supplies and Expenses	17,388	15,387
Outside Services Employed	87,335	88,367
Property Insurance	36,387	28,844
Injuries and Damages	75,033	59,558
Employee Pension and Benefits	848,052	768,844
General Advertising Expense	2,481	474
Miscellaneous General Expenses	34,148	34,361
Maintenance of General Plant	51,229	54,052
Transportation Expenses	48,044	32,296
TOTAL GENERAL EXPENSES	2,163,203	1,912,454
REAL ESTATE AND OTHER TAXES	14,517	17,848
TOTAL OPERATIONS AND MAINTENANCE	$ 30,287,407	$ 31,321,473

See Independent Auditors' Report on Supplemental Information