FLORIDA POWER & LIGHT CO
Form 10-Q
May 03, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2007**

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number	Exact name of registrants as specified in their charters, address of principal executive offices and registrants' telephone number	IRS Employer Identification Number
1-8841	FPL GROUP, INC. FLORIDA POWER & LIGHT COMPANY	59-2449419
2-27612	700 Universe Boulevard Juno Beach, Florida 33408 (561) 694-4000	59-0247775

State or other jurisdiction of incorporation or organization: Florida

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) have been subject to such filing requirements for the past 90 days.

FPL Group, Inc. Yes __X__ No ____ Florida Power & Light Company Yes __X__ No ____

Indicate by check mark whether the registrants are a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "large accelerated filer" and "accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934.

FPL Group, Inc. Large Accelerated Filer __X__ Accelerated Filer ____ Non-Accelerated Filer ____

Florida Power & Light Company Large Accelerated Filer ____ Accelerated Filer ____ Non-Accelerated Filer __X__

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ____ No __X__

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of FPL Group, Inc. common stock, as of the latest practicable date: Common Stock, $0.01 par value, outstanding at March 31, 2007: 406,415,900 shares.

As of March 31, 2007, there were issued and outstanding 1,000 shares of Florida Power & Light Company common stock, without par value, all of which were held, beneficially and of record, by FPL Group, Inc.

This combined Form 10-Q represents separate filings by FPL Group, Inc. and Florida Power & Light Company. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf. Florida Power & Light Company makes no representations as to the information relating to FPL Group, Inc.'s other operations.

Florida Power & Light Company meets the conditions set forth under General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with reduced disclosure format.

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FPL Group, Inc., Florida Power & Light Company, FPL Group Capital Inc and FPL Energy, LLC each have subsidiaries and affiliates with names that include FPL, FPL Energy, FPLE and similar references. For convenience and simplicity, in this report the terms FPL Group, FPL, FPL Group Capital and FPL Energy are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context.

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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, believe, could, estimated, may, plan, potential, 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 have a significant impact on FPL Group, Inc.'s (FPL Group) and/or Florida Power & Light Company's (FPL) operations and financial results, and could cause FPL Group's and/or FPL's actual results to differ materially from those contained in forward-looking statements made by or on behalf of FPL Group and/or FPL in this combined Form 10-Q, in presentations, on their respective websites, in response to questions or otherwise.

- FPL Group and FPL are subject to complex laws and regulations and to changes in laws and regulations as well as changing governmental policies and regulatory actions, including initiatives regarding deregulation and restructuring of the energy industry and environmental matters. FPL holds franchise agreements with local municipalities and counties, and must renegotiate expiring agreements. These factors may have a negative impact on the business and results of operations of FPL Group and FPL.

- The operation and maintenance of power generation facilities, including nuclear facilities, involve significant risks that could adversely affect the results of operations and financial condition of FPL Group and FPL.

- The construction of, and capital improvements to, power generation facilities involve substantial risks. Should construction or capital improvement efforts be unsuccessful, the results of operations and financial condition of FPL Group and FPL could be adversely affected.

- The use of derivative contracts by FPL Group and FPL in the normal course of business could result in financial losses that negatively impact the results of operations of FPL Group and FPL.

- FPL Group's competitive energy business is subject to risks, many of which are beyond the control of FPL Group, that may reduce the revenues and adversely impact the results of operations and financial condition of FPL Group.

- FPL Group's ability to successfully identify, complete and integrate acquisitions is subject to significant risks, including the effect of increased competition for acquisitions resulting from the consolidation of the power industry.

- Because FPL Group and FPL rely on access to capital markets, the inability to maintain current credit ratings and access capital markets on favorable terms may limit the ability of FPL Group and FPL to grow their businesses and would likely increase interest costs.

- Customer growth in FPL's service area affects FPL Group's and FPL's results of operations.

- Weather affects FPL Group's and FPL's results of operations.

- FPL Group and FPL are subject to costs and other effects of legal proceedings as well as changes in or additions to applicable tax laws, rates or policies, rates of inflation, accounting standards, securities laws and corporate governance requirements.

- Threats of terrorism and catastrophic events that could result from terrorism may impact the operations of FPL Group and FPL in unpredictable ways.

- The ability of FPL Group and FPL to obtain insurance and the terms of any available insurance coverage could be affected by national, state or local events and company-specific events.

- FPL Group and FPL are subject to employee workforce factors that could affect the businesses and financial condition of FPL Group and FPL.

These and other risk factors are included in Part I, Item 1A. Risk Factors of FPL Group's and FPL's Annual Report on Form 10-K for the year ended December 31, 2006 (2006 Form 10-K). Any forward-looking statement speaks only as of the date on which such statement is made, and FPL Group and FPL undertake no obligation to update any forward-looking statement to reflect events or circumstances, including unanticipated events, after the date on which such statement is made. 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.

PART I

- FINANCIAL INFORMATION

Item 1. Financial Statements

FPL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(millions, except per share amounts)
(unaudited)

	Three Months Ended March 31,	
	2007	2006
OPERATING REVENUES	$ 3,075	$ 3,584
OPERATING EXPENSES		
Fuel, purchased power and interchange	1,672	2,053
Other operations and maintenance	516	469
Merger-related	-	5
Amortization of storm reserve deficiency	23	32
Depreciation and amortization	295	286
Taxes other than income taxes	271	266
Total operating expenses	2,777	3,111
OPERATING INCOME	298	473
OTHER INCOME (DEDUCTIONS)		
Interest charges	(180)	(169)
Equity in earnings of equity method investees	10	11
Allowance for equity funds used during construction	8	4
Interest income	15	8
Other - net	5	1
Total other deductions - net	(142)	(145)
INCOME BEFORE INCOME TAXES	156	328
INCOME TAXES	6	77
NET INCOME	$ 150	$ 251
Earnings per share of common stock:		
Basic	$ 0.38	$ 0.64
Assuming dilution	$ 0.38	$ 0.64
Dividends per share of common stock	$ 0.410	$ 0.375
Weighted-average number of common shares outstanding:		

Basic	396.8	389.2
Assuming dilution	399.7	392.9

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements (Notes) herein and the Notes to Consolidated Financial Statements appearing in the 2006 Form 10-K for FPL Group and FPL.

FPL GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(millions)
(unaudited)

	March 31, 2007	December 31, 2006
PROPERTY, PLANT AND EQUIPMENT		
Electric utility plant in service and other property	$ 34,328	$ 34,071
Nuclear fuel	762	688
Construction work in progress	1,888	1,393
Less accumulated depreciation and amortization	(11,807)	(11,653)
Total property, plant and equipment - net	25,171	24,499
CURRENT ASSETS		
Cash and cash equivalents	226	620
Customer receivables, net of allowances of $20 and $32, respectively	1,224	1,279
Other receivables, net of allowances of $8 and $8, respectively	711	377
Materials, supplies and fossil fuel inventory - at average cost	719	785
Regulatory assets:		

Deferred clause and franchise expenses	41	167
Storm reserve deficiency	108	106
Derivatives	378	921
Other	3	3
Derivatives	144	376
Other	387	365
Total current assets	3,941	4,999
OTHER ASSETS		
Nuclear decommissioning reserve funds	2,855	2,824
Pension plan assets - net	1,627	1,608
Other investments	455	533
Regulatory assets:		
Storm reserve deficiency	743	762
Unamortized loss on reacquired debt	38	39
Other	88	80
Other	617	647
Total other assets	6,423	6,493
TOTAL ASSETS	$ 35,535	$ 35,991
CAPITALIZATION		
Common stock	$ 4	$ 4
Additional paid-in capital	4,562	4,555
Retained earnings	5,255	5,256
Accumulated other comprehensive income	50	115
Total common shareholders' equity	9,871	9,930
Long-term debt	9,091	9,591
Total capitalization	18,962	19,521
CURRENT LIABILITIES		
Commercial paper	1,100	1,097
Current maturities of long-term debt	1,586	1,645
Accounts payable	995	1,060
Customer deposits	522	510
Accrued interest and taxes	370	302
Regulatory liabilities:		
Deferred clause and franchise revenues	138	37
Pension	13	17
Derivatives	526	1,144
Other	703	681
Total current liabilities	5,953	6,493

OTHER LIABILITIES AND DEFERRED CREDITS		
Asset retirement obligations	1,845	1,820
Accumulated deferred income taxes	3,476	3,432
Regulatory liabilities:		
Accrued asset removal costs	2,077	2,044
Asset retirement obligation regulatory expense difference	872	868
Pension	531	531
Deferred clause revenues	17	-
Other	235	209
Other	1,567	1,073
Total other liabilities and deferred credits	10,620	9,977
COMMITMENTS AND CONTINGENCIES		
TOTAL CAPITALIZATION AND LIABILITIES	$ 35,535	$ 35,991

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2006 Form 10-K for FPL Group and FPL.

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FPL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)
(unaudited)

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 150	$ 251
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	295	276
Nuclear fuel amortization	33	34
Recoverable storm-related costs of FPL	(4)	(282)
Amortization of storm reserve deficiency	23	32
Unrealized (gains) losses on marked to market energy contracts	187	(61)
Deferred income taxes	317	134
Cost recovery clauses and franchise fees	244	312
Change in prepaid option premiums	23	9
Equity in earnings of equity method investees	(10)	(11)
Distributions of earnings from equity method investees	85	26
Changes in operating assets and liabilities:		
Customer receivables	56	(32)

Other receivables	5	29
Materials, supplies and fossil fuel inventory	66	(167)
Other current assets	(11)	(9)
Other assets	(27)	(7)
Accounts payable	(75)	(295)
Customer deposits	12	11
Margin cash deposits	101	(384)
Income taxes	(337)	(83)
Interest and other taxes	67	114
Other current liabilities	6	(73)
Other liabilities	(26)	72
Other - net	39	(13)
Net cash provided by (used in) operating activities	1,219	(117)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures of FPL	(491)	(487)
Independent power investments	(265)	(639)
Nuclear fuel purchases	(68)	(61)
Other capital expenditures	(15)	(15)
Proceeds from sale of securities in nuclear decommissioning funds	477	651
Purchases of securities in nuclear decommissioning funds	(503)	(670)
Proceeds from sale of other securities	48	20
Purchases of other securities	(62)	(31)
Other - net	26	(1)
Net cash used in investing activities	(853)	(1,233)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuances of long-term debt	-	392
Retirements of long-term debt	(618)	(37)
Proceeds from purchased Corporate Units	-	210
Payments to terminate Corporate Units	-	(258)
Net change in short-term debt	3	484
Issuances of common stock	11	299
Dividends on common stock	(163)	(148)
Other - net	7	26
Net cash provided by (used in) financing activities	(760)	968
Net decrease in cash and cash equivalents	(394)	(382)
Cash and cash equivalents at beginning of period	620	530
Cash and cash equivalents at end of period	$ 226	$ 148

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2006 Form 10-K for FPL Group and FPL.

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FLORIDA POWER & LIGHT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(millions)
(unaudited)

	Three Months Ended March 31,	
	2007	2006
OPERATING REVENUES	$ 2,448	$ 2,584
OPERATING EXPENSES		
Fuel, purchased power and interchange	1,414	1,538
Other operations and maintenance	329	330
Amortization of storm reserve deficiency	23	32
Depreciation and amortization	188	195
Taxes other than income taxes	247	243
Total operating expenses	2,201	2,338
OPERATING INCOME	247	246
OTHER INCOME (DEDUCTIONS)		
Interest charges	(68)	(68)
Allowance for equity funds used during construction	8	4
Other - net	7	(1)
Total other deductions - net	(53)	(65)
INCOME BEFORE INCOME TAXES	194	181
INCOME TAXES	68	59
NET INCOME	$ 126	$ 122

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2006 Form 10-K for FPL Group and FPL.

FLORIDA POWER & LIGHT COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(millions)
(unaudited)

	March 31, 2007	December 31, 2006
ELECTRIC UTILITY PLANT		
Plant in service	$ 24,323	$ 24,150
Nuclear fuel	458	423
Construction work in progress	1,303	1,113
Less accumulated depreciation and amortization	(9,880)	(9,848)
Electric utility plant - net	16,204	15,838
CURRENT ASSETS		
Cash and cash equivalents	43	64
Customer receivables, net of allowances of $9 and $15, respectively	744	872
Other receivables, net of allowances of $1 and $1, respectively	136	221
Materials, supplies and fossil fuel inventory - at average cost	551	558
Regulatory assets:		
Deferred clause and franchise expenses	41	167

Storm reserve deficiency	108	106
Derivatives	378	921
Derivatives	11	4
Other	201	202
Total current assets	2,213	3,115
OTHER ASSETS		
Nuclear decommissioning reserve funds	2,288	2,264
Pension plan assets - net	876	857
Regulatory assets:		
Storm reserve deficiency	743	762
Unamortized loss on reacquired debt	38	39
Other	46	37
Other	151	161
Total other assets	4,142	4,120
TOTAL ASSETS	$ 22,559	$ 23,073
CAPITALIZATION		
Common stock	$ 1,373	$ 1,373
Additional paid-in capital	4,319	4,318
Retained earnings	1,624	1,848
Total common shareholder's equity	7,316	7,539
Long-term debt	4,214	4,214
Total capitalization	11,530	11,753
CURRENT LIABILITIES		
Commercial paper	526	630
Accounts payable	651	735
Customer deposits	511	500
Accrued interest and taxes	336	281
Regulatory liabilities:		
Deferred clause and franchise revenues	138	37
Derivatives	268	780
Other	444	423
Total current liabilities	2,874	3,386
OTHER LIABILITIES AND DEFERRED CREDITS		
Asset retirement obligations	1,593	1,572
Accumulated deferred income taxes	2,398	2,561
Regulatory liabilities:		
Accrued asset removal costs	2,077	2,044
Asset retirement obligation regulatory expense difference	872	868

Deferred clause revenues	17	-
Other	235	209
Other	963	680
Total other liabilities and deferred credits	8,155	7,934
COMMITMENTS AND CONTINGENCIES		
TOTAL CAPITALIZATION AND LIABILITIES	$ 22,559	$ 23,073

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2006 Form 10-K for FPL Group and FPL.

FLORIDA POWER & LIGHT COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)
(unaudited)

	Three Months Ended March 31,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 126	$ 122
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	188	184
Nuclear fuel amortization	23	24
Recoverable storm-related costs	(4)	(282)
Amortization of storm reserve deficiency	23	32
Deferred income taxes	109	62
Cost recovery clauses and franchise fees	244	312
Change in prepaid option premiums	23	12
Changes in operating assets and liabilities:		
Customer receivables	128	(61)
Other receivables	16	27
Materials, supplies and fossil fuel inventory	7	(113)
Other current assets	(22)	(17)
Other assets	(34)	(19)
Accounts payable	(88)	(177)
Customer deposits	11	10
Margin cash deposits	56	(382)
Income taxes	63	139
Interest and other taxes	61	92

Other current liabilities	17	(53)
Other liabilities	(3)	39
Other - net	29	22
Net cash provided by (used in) operating activities	973	(27)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(491)	(487)
Nuclear fuel purchases	(29)	(34)
Proceeds from sale of securities in nuclear decommissioning funds	413	634
Purchases of securities in nuclear decommissioning funds	(435)	(652)
Other - net	2	(1)
Net cash used in investing activities	(540)	(540)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuances of long-term debt	-	392
Net change in short-term debt	(104)	170
Dividends on common stock	(350)	-
Net cash provided by (used in) financing activities	(454)	562
Net decrease in cash and cash equivalents	(21)	(5)
Cash and cash equivalents at beginning of period	64	56
Cash and cash equivalents at end of period	$ 43	$ 51

This report should be read in conjunction with the Notes herein and the Notes to Consolidated Financial Statements appearing in the 2006 Form 10-K for FPL Group and FPL.

FPL GROUP, INC. AND FLORIDA POWER & LIGHT COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The accompanying condensed consolidated financial statements should be read in conjunction with the 2006 Form 10-K for FPL Group and FPL. In the opinion of FPL Group and FPL management, all adjustments (consisting of normal recurring accruals) considered necessary for fair financial statement presentation have been made.

Prior year's amounts included in the condensed consolidated financial statements and the Notes herein have been adjusted to reflect the retrospective application of a Financial Accounting Standards Board (FASB) Staff Position related to planned major maintenance activities adopted by FPL Group and FPL effective December 31, 2006. In addition, certain amounts included in the prior year's condensed consolidated financial statements have been reclassified to conform to the current year's presentation. The results of operations for an interim period generally will not give a true indication of results for the year.

1. Employee Retirement Benefits

FPL Group sponsors a qualified noncontributory defined benefit pension plan for substantially all employees of FPL Group and its subsidiaries. FPL Group also has a supplemental executive retirement plan (SERP), which includes a non-qualified supplemental defined pension benefit component that provides benefits to a select group of management and highly compensated employees. The cost of this SERP component is included in the determination of net periodic benefit income for pension benefits in the following table and was not material to FPL Group's financial statements for the three months ended March 31, 2007 and 2006, respectively. In addition to pension benefits, FPL Group sponsors a contributory postretirement plan for health care and life insurance benefits (other benefits) for retirees of FPL Group and its subsidiaries meeting certain eligibility requirements.

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

	Pension Benefits		Other Benefits	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2007	2006	2007	2006
	(millions)			
Service cost	$ 13	$ 13	$ 1	$ 1
Interest cost	24	22	6	6
Expected return on plan assets	(55)	(53)	(1)	(1)
Amortization of transition obligation	-	-	1	1
Amortization of prior service benefit	(1)	(1)	-	-
Amortization of (gains) losses	(4)	(4)	-	-
Other	-	-	-	2
Net periodic benefit (income) cost at FPL Group	$ (23)	$ (23)	$ 7	$ 9
Net periodic benefit (income) cost at FPL	$ (19)	$ (19)	$ 6	$ 8

2. Derivative Instruments

Derivative instruments, when required to be marked to market under Statement of Financial Accounting Standards No. (FAS) 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, are recorded on FPL Group's and FPL's condensed consolidated balance sheets as either an asset or liability measured at fair value.

FPL Group's and FPL's mark-to-market derivative instrument assets (liabilities) are included in the condensed consolidated balance sheets as follows:

	FPL Group		FPL	
	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006
	(millions)			
Current derivative assets	$ 144	$ 376	$ 11	$ 4
Other assets	37	78	-	-
Current derivative liabilities	(526)	(1,144)	(268)	(780)
Other liabilities	(228)	(107)	(3)	(1)
Total mark-to-market derivative instrument assets (liabilities)	$ (573)	$ (797)	$ (260)	$ (777)

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FPL Group and FPL use derivative instruments (primarily swaps, options and forwards) to manage the commodity price risk inherent in the purchase and sale of fuel and electricity, as well as interest rate risk associated with long-term debt. In addition, FPL Group, through FPL Energy, LLC (FPL Energy), uses derivatives to optimize the value of power generation assets and engages in energy trading activities to take advantage of expected future favorable price movements, including providing full energy and capacity requirements services to distribution utilities in certain markets. At FPL, substantially all changes in fair value are deferred as a regulatory asset or liability until the contracts are settled, and upon settlement, any gains or losses are passed through the fuel and purchased power cost recovery clause (fuel clause) or the capacity cost recovery clause (capacity clause). For FPL Group's non-rate regulated operations, predominantly FPL Energy, essentially all changes in the derivatives' fair value for power purchases and sales and trading activities are recognized on a net basis in operating revenues; fuel purchases and sales are recognized on a net basis in fuel, purchased power and interchange expense; and the equity method investees' related activity is recognized in equity in earnings of equity method investees in FPL Group's condensed consolidated statements of income unless hedge accounting is applied. While most of FPL Energy's derivative transactions are entered into for the purpose of managing commodity price risk, 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 in offsetting the hedged risk. Additionally, for hedges of commodity price risk, physical delivery for forecasted commodity transactions must be probable. FPL Group believes that where offsetting positions exist at the same location for the same time, the transactions are considered to have been netted and therefore physical delivery has been deemed not to have occurred for financial reporting purposes. Transactions for which physical delivery is deemed to have not occurred are presented on a net basis. Generally, 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.

At March 31, 2007, FPL Group had cash flow hedges with expiration dates through December 2011 for energy contract derivative instruments, and interest rate cash flow hedges with expiration dates through January 2022. 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 (OCI) and is reclassified into earnings in the period(s) during which the transaction being hedged affects earnings. The ineffective portion of net unrealized gains on these hedges flows through earnings in the current period and amounted to $7 million and $7 million for the three months ended March 31, 2007 and 2006, respectively. Settlement gains and losses are included within the line items in the statements of income to which they relate.

FPL Group's unrealized mark-to-market gains (losses) on derivative transactions reflected in the condensed consolidated statements of income for consolidated subsidiaries and equity method investees are as follows:

	Three Months Ended March 31,	
	2007	2006
	(millions)	
Consolidated subsidiaries	$ (187)	$ 61
Equity method investees	$ (1)	$ (10)

3. Income Taxes

FPL Group's effective income tax rate for the three months ended March 31, 2007 and 2006 was approximately 3.9% and 23.5%, respectively. The reduction from the federal statutory rate mainly reflects the benefit of production tax credits (PTCs), related to FPL Energy's wind projects, of approximately $52 million and $42 million for the three months ended March 31, 2007 and 2006, respectively.

FPL Group recognizes PTCs as wind energy is generated and sold based on a per kilowatt-hour (kwh) rate prescribed in applicable federal and state statutes, which may differ significantly from amounts computed, on a quarterly basis, using an overall effective income tax rate anticipated for the full year. FPL Group utilizes this method of recognizing PTCs for specific reasons including that PTCs are an integral part of the financial viability of most wind projects and a fundamental component of such wind projects' results of operations.

On January 1, 2007, FPL Group and FPL adopted FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." The interpretation prescribes a more-likely-than-not recognition threshold and establishes new measurement requirements for financial statement reporting of an entity's income tax positions.

FPL Group and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states, the most significant being Florida. FPL Group and FPL are no longer subject to U.S. federal, state and local examinations by taxing authorities for years before 1988. As of January 1, 2007, FPL Group is disputing certain adjustments proposed by the Internal Revenue Service (IRS) to its U.S. income tax returns for 1988 through 2002. These IRS proposed adjustments primarily relate to FPL Group's and FPL's method for capitalizing indirect service costs and certain deductions for repairs. Additionally, income tax returns for 2003 through 2006 are still subject to examination.

The adoption of FIN 48 on January 1, 2007 did not have a significant cumulative effect on FPL Group's and FPL's beginning retained earnings or other components of common shareholders' equity. Upon adoption, FPL Group recognized, primarily by reclassification from accumulated deferred income taxes, approximately $316 million ($274 million for FPL) of liabilities for unrecognized tax benefits which are included in the condensed consolidated balance sheets as other liabilities. The majority of the liabilities for unrecognized tax benefits represents tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. A disallowance of the shorter deductibility period for these tax positions would not affect the annual effective income tax rate and would not result in a significant payment of cash to the taxing authority due to FPL Group's ability to offset tax adjustments by utilizing tax credit carryforwards. Included in the liabilities for unrecognized tax benefits identified above is approximately $11 million at FPL Group ($8 million at FPL) that, if disallowed, could impact the annual effective income tax rate. It is expected that the amount of unrecognized tax benefits may change in the next twelve months, however, management does not expect the change to have a significant impact on FPL Group's or FPL's financial statements.

FPL Group recognizes interest income (expense) related to unrecognized tax benefits (liabilities) in interest income and interest charges, respectively, net of the amount deferred at FPL. At FPL, the offset to accrued interest receivable (payable) on income taxes is classified as a regulatory liability (regulatory asset) which will be amortized to income (expense) over a five-year period upon settlement in accordance with regulatory treatment as required by FAS 71, "Accounting for the Effects of Certain Types of Regulation." On January 1, 2007, FPL Group accrued approximately $36 million for net interest receivable ($17 million for FPL).

4. Comprehensive Income

FPL Group's comprehensive income is as follows:

	Three Months Ended March 31,	
	2007	2006
	(millions)	
Net income of FPL Group	$ 150	$ 251
Net unrealized gains (losses) on commodity cash flow hedges:		
Effective portion of net unrealized gains (losses)		
(net of $47 tax benefit and $27 tax expense, respectively)	(70)	39
Reclassification from OCI to net income		
(net of $8 and $9 tax expense, respectively)	11	13
Net unrealized gains (losses) on interest rate cash flow hedges:		
Effective portion of net unrealized gains (losses)		
(net of $3 tax benefit and $3 tax expense, respectively)	(6)	5
Reclassification from OCI to net income		
(net of $0.6 tax benefit in 2007)	(1)	-
Net unrealized gains on available for sale securities		
(net of $1 and $3 tax expense, respectively)	2	5

Supplemental retirement plan liability adjustment		
(net of \$0.5 tax expense in 2006)	-	1
Defined benefit pension and other benefits plans		
(net of \$0.4 tax benefit in 2007)	(1)	-
Comprehensive income of FPL Group	\$ 85	\$ 314

Approximately \$67 million of losses included in FPL Group's accumulated other comprehensive income at March 31, 2007 will be reclassified into earnings within the next twelve months as either the hedged fuel is consumed, electricity is sold or interest payments are made. Such amount assumes no change in fuel prices, power prices or interest rates. Accumulated other comprehensive income is separately displayed on the condensed consolidated balance sheets of FPL Group.

5. Common Stock

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(millions, except per share amounts)	
Numerator - net income	\$ 150	\$ 251
Denominator:		
Weighted-average number of common shares outstanding - basic	396.8	389.2
Restricted stock, performance share awards, options, warrants and equity units [(a)]	2.9	3.7
Weighted-average number of common shares outstanding - assuming dilution	399.7	392.9
Earnings per share of common stock:		
Basic	\$ 0.38	\$ 0.64
Assuming dilution	\$ 0.38	\$ 0.64

(a) Performance share awards are included in diluted weighted-average number of common shares outstanding based upon what would be issued if the end of the reporting period were the end of the term of the award. Restricted stock, performance share awards, options, warrants and, for the 2006 period, equity units (known as Corporate Units) are included in diluted weighted-average number of common shares outstanding by applying the treasury stock method.

Common shares issuable upon the exercise of stock options for the 2007 period and upon the settlement of equity units for the 2006 period which were not included in the denominator above due to their antidilutive effect were approximately 0.2 million and 0.3 million for the three months ended March 31, 2007 and 2006, respectively.

6. Debt

In January 2007, an indirect wholly-owned subsidiary of FPL Energy entered into an interest rate swap agreement to pay a fixed rate of 5.39% on approximately $547 million of its variable rate limited recourse debt in order to limit cash flow exposure.

In April 2007, FPL issued $300 million principal amount of 5.85% first mortgage bonds maturing in May 2037. The proceeds were used to repay a portion of FPL's short-term borrowings and for other corporate purposes.

In April 2007, FPL and FPL Group Capital Inc (FPL Group Capital) each entered into a new five-year revolving credit and letter of credit facility aggregating $6.5 billion ($4.0 billion for FPL Group Capital and $2.5 billion for FPL) expiring in April 2012. These new facilities replaced the previously existing five-year credit facilities aggregating $4.5 billion.

7. 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 include, among other things, the cost for construction or acquisition of additional facilities and equipment to meet customer demand, as well as capital improvements to and maintenance of existing facilities. At FPL Energy, capital expenditures include, among other things, the cost, including capitalized interest, for construction of wind projects and the procurement of nuclear fuel, as well as announced acquisitions. FPL FiberNet, LLC's (FPL FiberNet) capital expenditures primarily include costs to meet customer specific requirements and sustain its fiber-optic network. At March 31, 2007, planned capital expenditures for the remainder of 2007 through 2011 were estimated as follows:

	2007	2008	2009	2010	2011	Total
FPL:			(millions)			
Generation: [a]						
New [b] [c]	$ 270	$ 720	$ 210	$ 10	$ -	$ 1,210
Existing	475	600	485	565	425	2,550
Transmission	640	985	1,105	1,055	1,080	4,865

and distribution [(d)]						
Nuclear fuel	70	130	140	170	110	620
General and other	110	160	170	205	210	855
Total	$ 1,565	$ 2,595	$ 2,110	$ 2,005	$ 1,825	$ 10,100
FPL Energy:						
Wind [(e)]	$ 1,485	$ 1,365	$ 10	$ 5	$ 5	$ 2,870
Nuclear [(f)]	1,175	205	120	165	115	1,780
Gas	65	40	75	80	45	305
Other	55	35	10	10	5	115
Total	$ 2,780	$ 1,645	$ 215	$ 260	$ 170	$ 5,070
FPL FiberNet	$ 8	$ 11	$ 11	$ 11	$ 11	$ 52

(a) Includes allowance for funds used during construction (AFUDC) of approximately $25 million, $52 million, $53 million and $6 million in 2007, 2008, 2009 and 2010, respectively.

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

(c) Excludes capital expenditures of approximately $3.4 billion (approximately $310 million in 2008) for two ultra super critical pulverized coal generating units for the period from early 2008 (expected Siting Board approval) through 2011.

(d) Includes estimated capital costs associated with FPL's initiative to enhance its electrical grid as a result of heightened hurricane activity and in response to concerns expressed by the community, state leaders and regulators, as well as the Florida Public Service Commission's (FPSC) approved storm preparedness plan (collectively, Storm Secure® Plan). These capital costs are subject to change over time based on, among other things, productivity enhancements and prioritization.

(e) Capital expenditures for new wind projects are estimated through 2008, when eligibility for PTCs for new wind projects is scheduled to expire.

(f) Includes nuclear fuel for Seabrook Station (Seabrook) and Duane Arnold Energy Center (Duane Arnold) and, in 2007, the pending acquisition of Point Beach Nuclear Power Plant (Point Beach).

In addition to estimated capital expenditures listed above, FPL and FPL Energy have long-term contracts related to purchased power and/or fuel (see Contracts below). At March 31, 2007, FPL Energy had approximately $4.4 billion in firm commitments, primarily for the purchase of wind turbines and towers, natural gas transportation, purchase and storage, firm transmission service, nuclear fuel for Seabrook and Duane Arnold and a portion of its projected capital expenditures, including the pending acquisition of Point Beach for approximately $1.0 billion. The Point Beach transaction is subject to, among other things, the receipt of approvals from various federal and state regulatory agencies. FPL Energy expects to close the transaction in the third quarter of 2007. In addition, FPL Group has guaranteed certain payment obligations of FPL Group Capital, including most payment obligations under FPL Group Capital's debt.

FPL Group and FPL each account for payment guarantees and related contracts, for which it or a subsidiary is the guarantor, under FIN 45, which requires that the fair value of guarantees provided to unconsolidated entities entered into after December 31, 2002 be recorded on the balance sheet. At March 31, 2007, subsidiaries of FPL Group, other than FPL, have guaranteed debt service payments relating to agreements that existed at December 31, 2002. The term of the guarantees is equal to the term of the related debt, with remaining terms ranging from 1 year to 11 years. The maximum potential amount of future payments that could be required under these guarantees at March 31, 2007 was approximately $16 million. At March 31, 2007, FPL Group did not have any liabilities recorded for these guarantees. In certain instances, FPL Group can seek recourse from third parties for 50% of any amount paid under the guarantees. Guarantees provided to unconsolidated entities entered into subsequent to December 31, 2002, and the related fair value, were not material as of March 31, 2007.

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

Contracts - FPL Group has entered into a long-term agreement for the purchase of wind, combustion and steam turbines, as well as parts, repairs and on-site services, through 2021. The related commitments are included in FPL Energy's minimum payments shown in the table below and in FPL Energy's estimated capital expenditures shown in the table above.

FPL has entered into long-term purchased power and fuel contracts. FPL is obligated under take-or-pay purchased power contracts with JEA and with subsidiaries of The Southern Company (Southern subsidiaries) to pay for approximately 1,300 megawatts (mw) of power annually through mid-2015 and 375 mw annually thereafter through 2021, and one of the Southern subsidiaries' contracts is subject to minimum quantities. FPL also has various firm pay-for-performance contracts to purchase approximately 700 mw from certain cogenerators and small power producers (qualifying facilities) with expiration dates ranging from 2009 through 2026. The purchased power contracts provide for capacity and energy payments. Energy payments are based on the actual power taken under these contracts. Capacity payments for the pay-for-performance contracts are subject to the qualifying facilities meeting certain contract conditions. FPL has various agreements with several electricity suppliers to purchase an aggregate of up to approximately 1,250 mw of power with expiration dates ranging from 2007 through 2012. In general, the agreements require FPL to make capacity payments and supply the fuel consumed by the plants under the contracts. FPL has contracts with expiration dates through 2028 for the purchase of natural gas, coal and oil, transportation of natural gas and coal, and storage of natural gas.

FPL Energy has entered into several contracts for the purchase of wind turbines and towers in support of a portion of its planned new wind generation. In addition, FPL Energy has contracts primarily for the purchase, transportation and storage of natural gas and firm transmission service with expiration dates ranging from 2007 through 2036. FPL Energy also has several contracts for the supply, conversion, enrichment and fabrication of nuclear fuel with expiration dates ranging from 2007 to 2018.

The required capacity and minimum payments under these contracts as of March 31, 2007 were estimated as follows:

	2007	2008	2009	2010	2011	Thereafter

FPL:			(millions)			
Capacity payments: (a)						
JEA and Southern subsidiaries (b)	$ 150	$ 200	$ 210	$ 200	$ 200	$ 980
Qualifying facilities (b)	$ 240	$ 320	$ 320	$ 290	$ 270	$ 3,200
Other electricity suppliers (b)	$ 40	$ 55	$ 50	$ 10	$ 10	$ 5
Minimum payments, at projected prices:						
Southern subsidiaries - energy (b)	$ 60	$ 80	$ 90	$ 40	$ -	$ -
Natural gas, including transportation and storage (c)	$ 2,435	$ 1,345	$ 325	$ 260	$ 260	$ 2,150
Coal (c)	$ 50	$ 35	$ 20	$ 10	$ 10	$ -
Oil (c)	$ 460	$ -	$ -	$ -	$ -	$ -
FPL Energy	$ 1,060	$ 1,100	$ 120	$ 115	$ 80	$ 695

(a) Capacity payments under these contracts, the majority of which are recoverable through the capacity clause, totaled approximately $151 million and $145 million for the three months ended March 31, 2007 and 2006, respectively.

(b) Energy payments under these contracts, which are recoverable through the fuel clause, totaled approximately $99 million and $91 million for the three months ended March 31, 2007 and 2006, respectively.

(c) Recoverable through the fuel clause.

In addition, FPL has entered into several long-term agreements for storage capacity and transportation of natural gas from facilities that have not yet begun construction. These agreements range from 12 to 23 years in length and contain firm commitments totaling up to approximately $131 million annually or $2.4 billion over the terms of the agreements. These firm commitments are contingent upon the occurrence of certain events, including approval by the Federal Energy Regulatory Commission (FERC) and completion of construction of the facilities in 2008 and 2009.

Insurance - Liability for accidents at nuclear power plants is governed by the Price-Anderson Act, which limits the liability of nuclear reactor owners to the amount of insurance available from both private sources and an industry retrospective payment plan. In accordance with this Act, FPL Group maintains $300 million of private liability insurance per site, which is the maximum obtainable, and participates in a secondary financial protection system under which it is subject to retrospective assessments of up to $604 million ($402 million for FPL), plus any applicable taxes, per incident at any nuclear reactor in the United States, payable at a rate not to exceed $90 million ($60 million for FPL) per incident per year. FPL Group and FPL are contractually entitled to recover a proportionate share of such assessments from the owners of minority interests in Seabrook, Duane Arnold and St. Lucie Unit No. 2, which approximates $12 million, $30 million and $15 million, plus any applicable taxes, per incident, respectively.

FPL Group participates in nuclear insurance mutual companies that provide $2.75 billion of limited insurance coverage per occurrence per site for property damage, decontamination and premature decommissioning risks at its nuclear plants. The proceeds from such insurance, however, must first be used for reactor stabilization and site decontamination before they can be used for plant repair. FPL Group also participates in an insurance program that provides limited coverage for replacement power costs if a nuclear plant is out of service for an extended period of time because of an accident. In the event of an accident at one of FPL Group's or another participating insured's nuclear plants, FPL Group could be assessed up to $141 million ($97 million for FPL), plus any applicable taxes, in retrospective premiums. FPL Group and FPL are contractually entitled to recover a proportionate share of such assessments from the owners of minority interests in Seabrook, Duane Arnold and St. Lucie Unit No. 2, which approximates $2 million, $5 million and $4 million, plus any applicable taxes, respectively.

Due to the high cost and limited coverage available from third-party insurers, FPL has essentially no insurance coverage on its transmission and distribution property and FPL Group has no insurance coverage for FPL FiberNet's fiber-optic cable located throughout Florida. Under the terms of the agreement regarding FPL's retail base rates approved by the FPSC (2005 rate agreement) and the FPSC-approved storm cost accounting method, FPL may recover prudently incurred storm restoration costs either through securitization pursuant to Section 366.8260 of the Florida Statutes, through surcharges or through the use of any funds available in a storm reserve.

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

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. The EPA further revised its civil penalty rule in February 2004, such that the maximum penalty is $32,500 per day for each violation after March 15, 2004. Georgia Power Company has answered the amended complaint, asserting that it has complied with all requirements of the Clean Air Act, denying the plaintiff's allegations of liability, denying that the plaintiff is entitled to any of the relief that it seeks and raising various other defenses. In June 2001, a federal district court stayed discovery and administratively closed the case pending resolution of the EPA's motion for consolidation of discovery in several Clean Air Act cases that was filed with a Multi-District Litigation (MDL) panel. In August 2001, the MDL panel denied the motion for consolidation. In September 2001, the EPA moved that the federal district court reopen this case for purposes of discovery. Georgia Power Company opposed that motion asking that the case remain closed until the Eleventh Circuit Court of Appeals ruled on the Tennessee Valley Authority's (TVA) appeal of an EPA administrative compliance order relating to legal issues that are also central to this case. In August 2002, the federal district court denied without prejudice the EPA's motion to reopen. In June 2003, the Eleventh Circuit issued its order dismissing the TVA's appeal because it found the provision of the Clean Air Act allowing the EPA to issue binding administrative compliance orders was unconstitutional, and hence found that the TVA order was a non-final order that courts of appeal do not have jurisdiction to review. In September 2003, the Eleventh Circuit denied the EPA's motion for rehearing. In May 2004, the U.S. Supreme Court denied the EPA's petition for review of the Eleventh Circuit order. The EPA has not yet moved to reopen the Georgia Power Company case.

In April 2007, the U.S. Supreme Court ruled in a separate unrelated case in which it rejected an argument that a "major modification" occurs at a plant only when there is a resulting increase in the hourly rate of air emissions. Georgia Power Company has made a similar argument in defense of its case, but has other factual and legal defenses that are unaffected by the Supreme Court's decision.

In 2001, Florida Municipal Power Agency (FMPA) filed with the U.S. Court of Appeals for the District of Columbia (DC Circuit) a petition for review asking the DC Circuit to reverse and remand orders of the FERC denying FMPA's request for credits for transmission facilities owned by FMPA members. In 1993, FPL filed a comprehensive restructuring of its then-existing tariff structure. All issues in that case were settled in September 2000 except for three issues reserved by FMPA: (i) FMPA's request for transmission credits related to the costs of its transmission facilities (the crediting issue), (ii) treatment of behind-the-meter generation and load ratio pricing for network integration transmission service (the behind-the-meter issue), and (iii) exclusions from FPL's transmission rates of the costs of FPL's facilities that fail to meet the same integration test that was applied to FMPA's facilities with respect to the crediting issue (the rate base issue). The FERC and the DC Circuit have rejected FMPA's claim for transmission credits, which would have reduced FMPA's payment obligation to FPL for network integration transmission service.

With regard to the behind-the-meter issue, the FERC rejected FMPA's argument that its obligation to pay for network integration transmission service should be reduced to the extent that FPL allegedly cannot provide transmission service because of "physical transmission limitations." In June 2005, the DC Circuit remanded the case to the FERC for further consideration. In December 2005, the FERC issued an order on remand finding that load ratio share pricing is appropriate notwithstanding constraints on a third-party's system. In January 2006, FMPA filed a rehearing request of this order with the FERC, which the FERC denied in July 2006. FMPA submitted a petition for review of the FERC's December 2005 and July 2006 orders at the DC Circuit. A briefing schedule has not yet been established in that proceeding.

With regard to the rate base issue, in May 2004 FPL made a compliance filing of a proposed rate schedule that does not include those facilities of FPL that fail to meet the same integration test that was applied to the FMPA facilities. Pursuant to that filing, FPL's current network transmission rate would have been reduced by $0.02 per kilowatt (kw) per month. In June 2004, FMPA filed a protest to FPL's compliance filing, arguing that FPL's current network transmission rate should be reduced by approximately $0.41 per kw per month. In January 2005, the FERC issued an order on FPL's compliance filing. In the order, the FERC accepted FPL's standards for analyzing the transmission system and agreed that FPL's "Georgia Ties" and "Turkey Point Lines" are part of FPL's integrated grid. The FERC required FPL to make an additional compliance filing removing the cost of all radial transmission lines from transmission rates, analyzing the FPL transmission system to remove the cost of any transmission facilities that provide only "unneeded redundancy," and calculating rate adjustments using 1993 data rather than 1998 data. FPL made this compliance filing in April 2005, which would reduce FPL's current rate by $0.04 per kw per month. In May 2005, FMPA protested FPL's compliance filing and argued that FPL's rates should be reduced by an additional $0.20 per kw per month, potentially resulting in a refund obligation to FMPA of approximately $23 million at March 31, 2007. Any reduction in FPL's network service rate also would apply effective January 1, 2004 to Seminole Electric Cooperative Inc. (Seminole), FPL's other network customer. The potential refund obligation to

Seminole based on FMPA's position is approximately $10 million at March 31, 2007.

In December 2005, the FERC issued an order accepting FPL's April 2005 compliance filing in part, rejecting it in part, and directing the submission of a further compliance filing. The FERC concluded that it is not clear whether FPL failed to test its non-radial facilities in a manner comparable to the way it tested FMPA's facilities. FPL filed a rehearing request in January 2006, which the FERC denied in July 2006. FPL filed a request for rehearing of the FERC's July 2006 order. In September 2006, FPL made the required compliance filing, removing additional transmission facilities from rates, which resulted in a refund liability of approximately $4 million to FMPA and approximately $2 million to Seminole at March 31, 2007. FMPA has protested FPL's filing, claiming again that FPL's rates should be reduced by an additional $0.20 per kw per month.

In 1995 and 1996, FPL Group, through an indirect subsidiary, purchased from Adelphia Communications Corporation (Adelphia) 1,091,524 shares of Adelphia common stock and 20,000 shares of Adelphia preferred stock (convertible into 2,358,490 shares of Adelphia common stock) for an aggregate price of approximately $35,900,000. On January 29, 1999, Adelphia repurchased all of these shares for $149,213,130 in cash. On June 24, 2004, Adelphia, Adelphia Cablevision, L.L.C. and the Official Committee of Unsecured Creditors of Adelphia filed a complaint against FPL Group and its indirect subsidiary in the U.S. Bankruptcy Court, Southern District of New York. The complaint alleges that the repurchase of these shares by Adelphia was a fraudulent transfer, in that at the time of the transaction Adelphia (i) was insolvent or was rendered insolvent, (ii) did not receive reasonably equivalent value in exchange for the cash it paid, and (iii) was engaged or about to engage in a business or transaction for which any property remaining with Adelphia had unreasonably small capital. The complaint seeks the recovery for the benefit of Adelphia's bankruptcy estate of the cash paid for the repurchased shares, plus interest. FPL Group has filed an answer to the complaint. FPL Group believes that the complaint is without merit because, among other reasons, Adelphia will be unable to demonstrate that (i) Adelphia's repurchase of shares from FPL Group, which repurchase was at the market value for those shares, was not for reasonably equivalent value, (ii) Adelphia was insolvent at the time of the repurchase, or (iii) the repurchase left Adelphia with unreasonably small capital. The case is in discovery and has been set for trial in July 2008.

In 2003, Scott and Rebecca Finestone brought an action on behalf of themselves and their son Zachary Finestone in the U.S. District Court for the Southern District of Florida alleging that their son has developed cancer (neuroblastoma) as a result of the release and/or dissipation into the air, water, soil and underground areas of radioactive and non-radioactive hazardous materials, including strontium 90, and the release of other toxic materials from FPL's St. Lucie nuclear power plant. The complaint, as subsequently amended, 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 January 2006, the court granted FPL's motion for final summary judgment and dismissed the case. On February 8, 2006, the plaintiffs filed a notice of appeal of the court's decision, which appeal is pending before the U.S. Court of Appeals for the Eleventh Circuit.

In 2003, Tish Blake and John Lowe, as personal representatives of the Estate of Ashton Lowe, on behalf of the estate and themselves, as surviving parents, brought an action in the U.S. District Court for the Southern District of Florida alleging that their son developed cancer (medulo-blastoma) as a result of the release and/or dissipation into the air, water, soil and underground areas of radioactive and non-radioactive hazardous materials, including strontium 90, and the release of other toxic materials from FPL's St. Lucie nuclear power plant. The allegations, counts and damages demanded in the complaint, as subsequently amended, are virtually identical to those contained in the Finestone lawsuit described above. In January 2006, the court granted FPL's motion for final summary judgment and dismissed the case. On February 8, 2006, the plaintiffs filed a notice of appeal of the court's decision, which appeal is pending before the U.S. Court of Appeals for the Eleventh Circuit.

In 2003, Pedro C. and Emilia Roig brought an action on behalf of themselves and their son, Pedro Anthony Roig, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida (the state court), which was removed in October 2003 to the U.S. District Court for the Southern District of Florida, against Aventis Pasteur and a number of other named and unnamed drug manufacturing and distribution companies and FPL, alleging that their son has suffered toxic neurological effects from mercury poisoning. The 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 power plants in southeast Florida. 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. The U.S. District Court remanded the action back to the state court. The drug manufacturing and distribution companies have moved to dismiss the action. Plaintiffs and FPL have agreed that FPL will not respond to the complaint until requested by the plaintiffs.

In 2003, Edward and Janis Shiflett brought an action on behalf of themselves and their son, Phillip Benjamin Shiflett, in the Circuit Court of the Eighteenth Judicial Circuit in and for Brevard County, Florida (the state court), which was removed in January 2004 to the U.S. District Court for the Middle District of Florida, against Aventis Pasteur and a number of other named and unnamed drug manufacturing and distribution companies, FPL and the Orlando Utilities Commission, alleging that their son has suffered toxic neurological effects from mercury poisoning. The allegations, counts and damages demanded in the complaint with respect to FPL are virtually identical to those contained in the Roig lawsuit described above. FPL's motion to dismiss the complaint was denied. The U.S. District Court subsequently remanded the action back to the state court. The state court subsequently dismissed the drug manufacturing and distribution companies from the action. Plaintiffs' appeal of that order is pending before the Florida Fifth District Court of Appeal. Plaintiffs and FPL have agreed that FPL will not respond to the complaint until requested by the plaintiffs.

In October 2004, TXU Portfolio Management Company (TXU) served FPL Energy Pecos Wind I, LP, FPL Energy Pecos Wind I GP, LLC, FPL Energy Pecos Wind II, LP, FPL Energy Pecos Wind II GP, LLC and Indian Mesa Wind Farm, LP (FPL Energy Affiliates) as defendants in a civil action filed in the District Court in Dallas County, Texas. FPL Energy was added as a defendant in 2005. The petition alleges that the FPL Energy Affiliates had a contractual obligation to produce and sell to TXU a minimum quantity of energy each year and that the FPL Energy Affiliates failed to meet this obligation. The plaintiff has asserted claims for breach of contract and declaratory judgment and seeks damages of approximately $34 million. The FPL Energy Affiliates filed their answer and counterclaim in November 2004, denying the allegations. The counterclaim, as now amended, asserts claims for conversion, breach of fiduciary duty, breach of warranty, conspiracy, breach of contract and fraud and seeks termination of the contract and damages. The case has been set

for trial in late May 2007.

In September 2006, PT Pertamina, Indonesia's state-owned oil/energy company, filed an action against Karaha Bodas Company, LLC (KBC), an entity in which FPL Energy owns an equity interest, in the Grand Court of the Cayman

Islands for fraud and for an injunction prohibiting KBC from disposing of, dealing with or diminishing the value of any of KBC's assets up to the value of PT Pertamina's funds KBC received as a result of a court judgment (approximately $320 million) pending resolution of the fraud claim. FPL Energy's portion of the damages being sought is approximately $145 million. KBC sought and in December 2006 received from the U.S. District Court for the Southern District of New York an anti-suit injunction against the plaintiff, prohibiting the plaintiff from pursuing the fraud action, or any similar action, and the request for injunctive relief in the Cayman court or any other court worldwide. The plaintiff's appeal of that order to the U.S. Court of Appeals for the Second Circuit is pending.

In addition to those legal proceedings discussed above, FPL Group and its subsidiaries, including FPL, are involved in a number of other legal proceedings and claims in the ordinary course of their businesses. Generating plants in which FPL Group or FPL have an ownership interest are also involved in legal proceedings and claims, the liabilities from which, if any, would be shared by FPL Group or FPL.

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FPL Group and FPL believe that they, or their affiliates, have meritorious defenses to all the pending litigation and proceedings discussed above under the heading Litigation and are vigorously defending the lawsuits. While management is unable to predict with certainty the outcome of the legal proceedings and claims discussed or described herein, based on current knowledge it is not expected that their ultimate resolution, individually or collectively, will have a material adverse effect on the financial statements of FPL Group or FPL.

8. Segment Information

FPL Group's reportable segments include FPL, a rate-regulated utility, and FPL Energy, a competitive energy business. Corporate and Other represents other business activities, other segments that are not separately reportable and eliminating entries. FPL Group's segment information is as follows:

	Three Months Ended March 31,							
	2007				2006			
	FPL	FPL Energy[a]	Corporate & Other	Total	FPL	FPL Energy[a]	Corporate & Other	Total
	(millions)							
Operating revenues	$ 2,448	$ 585	$ 42	$ 3,075	$ 2,584	$ 952	$ 48	$ 3,584
Operating expenses	$ 2,201	$ 538	$ 38	$ 2,777	$ 2,338	$ 723	$ 50	$ 3,111
Net income (loss)[b]	$ 126	$ 45	$ (21)	$ 150	$ 122	$ 154	$ (25)	$ 251

	March 31, 2007				December 31, 2006			
	FPL	FPL Energy	Corporate &	Total	FPL	FPL Energy	Corporate & Other	Total

			Other					
			(millions)					
Total assets	$ 22,559	$ 11,567	$ 1,409	$ 35,535	$ 23,073	$11,371	$ 1,547	$ 35,991

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

(b) See Note 3 for a discussion of FPL Energy's tax benefits related to PTCs that were recognized based on its tax sharing agreement with FPL Group.

9. Summarized Financial Information of FPL Group Capital

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

Condensed Consolidating Statements of Income

	Three Months Ended March 31,							
	2007				2006			
	FPL Group (Guarantor)	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group (Guarantor)	FPL Group Capital	Other[(a)]	FPL Group Consolidated
	(millions)							
Operating revenues	$ -	$ 629	$ 2,446	$ 3,075	$ -	$1,002	$ 2,582	$ 3,584
Operating expenses	-	(578)	(2,199)	(2,777)	(5)	(769)	(2,337)	(3,111)
Interest charges	(5)	(112)	(63)	(180)	(6)	(101)	(62)	(169)
Other income (deductions) - net	159	24	(145)	38	260	25	(261)	24
Income (loss) before income taxes	154	(37)	39	156	249	157	(78)	328
Income tax	4	(66)	68	6	(2)	21	58	77

expense (benefit)								
Net income (loss)	$ 150	$ 29	$ (29)	$ 150	$ 251	$ 136	$ (136)	$ 251

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Balance Sheets

	March 31, 2007				December 31, 2006			
	FPL Group (Guarantor)	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group (Guarantor)	FPL Group Capital	Other[(a)]	FPL Group Consolidated
	(millions)							
PROPERTY, PLANT AND EQUIPMENT								
Electric utility plant in service and other property	$ -	$ 10,894	$ 26,084	$ 36,978	$ -	$ 10,466	$ 25,686	$ 36,152
Less accumulated depreciation and amortization	-	(1,927)	(9,880)	(11,807)	-	(1,805)	(9,848)	(11,653)
Total property, plant and equipment - net	-	8,967	16,204	25,171	-	8,661	15,838	24,499
CURRENT ASSETS								
Cash and cash equivalents	4	178	44	226	-	556	64	620
Receivables	883	910	142	1,935	170	683	803	1,656
Other	8	510	1,262	1,780	10	767	1,946	2,723

Total current assets	895	1,598	1,448	3,941	180	2,006	2,813	4,999
OTHER ASSETS								
Investment in subsidiaries	9,565	-	(9,565)	-	9,892	-	(9,892)	-
Other	1,173	1,622	3,628	6,423	1,166	1,747	3,580	6,493
Total other assets	10,738	1,622	(5,937)	6,423	11,058	1,747	(6,312)	6,493
TOTAL ASSETS	$ 11,633	$ 12,187	$ 11,715	$ 35,535	$ 11,238	$ 12,414	$ 12,339	$ 35,991
CAPITALIZATION								
Common shareholders' equity	$ 9,871	$ 2,249	$ (2,249)	$ 9,871	$ 9,930	$ 2,354	$ (2,354)	$ 9,930
Long-term debt	-	4,877	4,214	9,091	-	5,377	4,214	9,591
Total capitalization	9,871	7,126	1,965	18,962	9,930	7,731	1,860	19,521
CURRENT LIABILITIES								
Debt due within one year	-	2,160	526	2,686	-	2,112	630	2,742
Accounts payable	4	340	651	995	-	325	735	1,060
Other	637	702	933	2,272	222	749	1,720	2,691
Total current liabilities	641	3,202	2,110	5,953	222	3,186	3,085	6,493
OTHER LIABILITIES AND DEFERRED CREDITS								
Asset retirement obligations	-	252	1,593	1,845	-	248	1,572	1,820
Accumulated deferred	268	1,138	2,070	3,476	269	945	2,218	3,432

income taxes								
Regulatory liabilities	531	-	3,201	3,732	531	-	3,121	3,652
Other	322	469	776	1,567	286	304	483	1,073
Total other liabilities and deferred credits	1,121	1,859	7,640	10,620	1,086	1,497	7,394	9,977
COMMITMENTS AND CONTINGENCIES								
TOTAL CAPITALIZATION AND LIABILITIES	$ 11,633	$ 12,187	$ 11,715	$ 35,535	$ 11,238	$ 12,414	$ 12,339	$ 35,991

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Statements of Cash Flows

	Three Months Ended March 31,							
	2007				2006			
	FPL Group (Guarantor)	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group (Guarantor)	FPL Group Capital	Other[(a)]	FPL Group Consolidated
	(millions)							
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 159	$ 504	$ 556	$ 1,219	$ (100)	$ 54	$ (71)	$ (117)
CASH FLOWS FROM INVESTING ACTIVITIES								

Capital expenditures, independent power investments and nuclear fuel purchases	(12)	(307)	(520)	(839)	-	(674)	(528)	(1,202)
Other - net	14	3	(31)	(14)	-	(11)	(20)	(31)
Net cash provided by (used in) investing activities	2	(304)	(551)	(853)	-	(685)	(548)	(1,233)
CASH FLOWS FROM FINANCING ACTIVITIES								
Issuances of long-term debt	-	-	-	-	-	-	392	392
Retirements of long-term debt	-	(618)	-	(618)	-	(37)	-	(37)
Net change in short-term debt	-	106	(103)	3	-	314	170	484
Proceeds from purchased Corporate Units	-	-	-	-	210	-	-	210
Payments to terminate Corporate Units	-	-	-	-	(258)	-	-	(258)

Issuances of common stock	11	-	-	11	299	-	-	299
Dividends on common stock	(163)	-	-	(163)	(148)	-	-	(148)
Other - net	(5)	(66)	78	7	(10)	(16)	52	26
Net cash provided by (used in) financing activities	(157)	(578)	(25)	(760)	93	261	614	968
Net increase (decrease) in cash and cash equivalents	4	(378)	(20)	(394)	(7)	(370)	(5)	(382)
Cash and cash equivalents at beginning of period	-	556	64	620	7	467	56	

except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian with respect to the Government Obligation or the specific payment of interest on or principal of or any other amount with respect to the Government Obligation evidenced by such depository receipt. (Section 1.1) If after Lubrizol has deposited funds and/or Government Obligations to effect defeasance or covenant defeasance with respect to debt securities of any series, (1) the holder of a debt security of that series is entitled to, and does, elect pursuant to Section 3.1 of the indenture or the terms of such debt security to receive payment in a currency other than that in which such deposit has been made in respect of such debt security, or (2) a Conversion Event occurs in respect of the Foreign Currency in which such deposit has been made, the indebtedness represented by such debt security shall be deemed to have been, and will be, fully discharged and satisfied through the payment of the principal of, any premium and interest on, and any additional amounts with respect to, such debt security as such debt security becomes due out of the proceeds yielded by converting the amount or other properties so deposited in respect of such debt security into the currency in which such debt security becomes payable as a result of such election or such Conversion Event based on (a) in the case of payments made pursuant to clause (1) above, the applicable market exchange rate for such currency in effect on the second business day prior to such payment date, or (b) with respect to a Conversion Event, the applicable market exchange rate for such Foreign

Currency in effect (as nearly as feasible) at the time of the Conversion Event. (Section 4.2) "Conversion Event" means the cessation of use of (1) a Foreign Currency both by the government of the country or the confederation which issued such Foreign Currency and for the settlement of transactions by a central bank or other public institutions of or within the international banking community or (2) any currency unit or composite currency for the purposes for which it was established. All payments of principal of, any premium and interest on, and any additional amounts with respect to, any debt security that are payable in a Foreign Currency that ceases to be used by the government or governments of issuance shall be made in U.S. dollars. (Section 1.1) In the event Lubrizol effects covenant defeasance with respect to any debt securities and such debt securities are declared due and payable because of the occurrence of any Event of Default other than an Event of Default with respect to any covenant as to which there has been covenant defeasance, the amount in such Foreign Currency in which such debt securities are payable, and Government Obligations on deposit with the trustee, will be sufficient to pay amounts due on such debt securities at the time of the stated maturity but may not be sufficient to pay amounts due on such debt securities at the time of the acceleration resulting from such Event of Default. However, Lubrizol would remain liable to make payment of such amounts due at the time of acceleration. NEW YORK LAW TO GOVERN The indenture, the debt securities and the Guarantees will be governed by, and construed in accordance with, the laws of the State of New York applicable to agreements made or instruments entered into and, in each case, performed in that state. (Section 1.13) PLAN OF DISTRIBUTION We may sell our securities from time to time by any method permitted by the Securities Act of 1933, including in the following ways: - through one or more underwriters on a firm commitment or best-efforts basis; - directly to one or more purchasers; 22 - through agents; - through broker-dealers, who may act as agents or principals, including a block trade in which a broker or dealer so engaged will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction; - in privately negotiated transactions; and - in any combination of these methods of sale. We may also make direct sales through subscription rights distributed to our shareholders on a pro rata basis, which may or may not be transferable. In any distribution of subscription rights to shareholders, if all of the underlying securities are not subscribed for, we may then sell the unsubscribed securities directly to third parties or may engage the services of one or more underwriters, dealers or agents, including standby underwriters, to sell the unsubscribed securities to third parties. The applicable prospectus supplement will set forth the specific terms of the offering of our securities including the name or names of any underwriters, dealers or agents; the purchase price of the securities and the proceeds to us from the sale; any underwriting discounts and commissions or agency fees and other items constituting underwriters' or agents' compensation; the initial offering price to the public and any discounts or concessions allowed or reallowed or paid to dealers; and any securities exchange on which the securities may be listed. Any public offering price, discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time. Unless otherwise specified in the applicable prospectus supplement, each series of securities will be a new issue with no established trading market, other than our common shares, which are currently listed on the NYSE. We expect that any common shares sold pursuant to a prospectus supplement will be listed on the NYSE. We may elect to list any series of debt securities on an exchange, but we are not obligated to do so. It is possible that one or more underwriters may make a market in a series of securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. Therefore, no assurance can be given as to the liquidity of, or the trading market for, any series of debt securities that we may issue. The distribution of the securities may be effected from time to time in one or more transactions at a fixed price or prices (which may be changed), at market prices prevailing at the time of sale, at prices related to the prevailing market prices or at negotiated prices. Offers to purchase our securities may be solicited by agents designated by us from time to time. Broker-dealers or agents may receive compensation in the form of commissions, discounts or concessions from us. Broker-dealers or agents may also receive compensation from the purchasers of the securities for whom they sell as principals. Each particular broker-dealer will receive compensation in amounts negotiated in connection with the sale, which might be in excess of customary commissions. Broker-dealers or agents and any other participating broker-dealers participating in the distribution of our securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. If required under applicable state securities laws, we will sell the securities only through registered or licensed brokers or dealers. In addition, in some states, we may not sell securities unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and complied with. If the securities are sold by means of an underwritten offering, we will execute an underwriting agreement with an underwriter or underwriters, and the names of the specific managing underwriter or underwriters, as well as any other underwriters, and the terms of the transaction, including commissions, discounts and any other compensation of the underwriters and dealers, if any, will be set forth in the applicable prospectus supplement, which will be used by the underwriters to make resales of the securities. Under agreements into which we may enter, underwriters, dealers and agents who participate in the 23 distribution of the securities may be entitled to indemnification by us against some liabilities, including liabilities under the Securities Act of 1933. If we use underwriters for an offering of securities, the underwriters may acquire the securities for their own accounts. The underwriters may resell the securities from time to time in one or more transactions at a fixed price or prices, which may be changed, at varying prices determined by the underwriters at the time of sale, or at negotiated prices. We also may, from time to time, authorize underwriters acting as our agents to offer and sell the securities upon the terms and conditions as will be set forth in the applicable prospectus supplement. In connection with the sale of the securities, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and also may receive commissions from purchasers of the securities. Underwriters may sell the securities to or through dealers, who may receive compensation in the form of discounts, concessions from the underwriters and/or commissions from the purchasers of the securities. Any underwriting compensation paid by us to underwriters or agents in connection with any offering of the securities and any discounts, concessions or commissions allowed by underwriters to participating dealers will be set forth in the applicable prospectus supplement. Underwriters, dealers and agents participating in the distribution of our securities may be deemed to be underwriters, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. If so indicated in the applicable prospectus supplement, we may authorize underwriters, dealers or agents to solicit offers from certain types of institutions to purchase securities from us at the public offering price set forth in the applicable prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a future date. Institutions with which delayed delivery contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions. The applicable prospectus supplement will set forth the commission payable for solicitation of such offers. Our securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by the managing underwriters. If any underwriters are utilized in the sale of the securities, the underwriting agreement will provide that the obligations of the underwriters are subject to specified conditions precedent. If we sell our securities to one or more underwriters on a firm commitment basis, then the underwriters will be obligated to purchase all of the securities offered if any are purchased. We may grant to the underwriters options to purchase additional securities to cover over-allotments, if any, at the public offering price with additional underwriting discounts or commissions, as may be set forth in the applicable prospectus supplement. If we grant any over-allotment option, the terms of the over-allotment option will be set forth in the applicable prospectus supplement. In connection with any offering, persons participating in the offering, such as any underwriters, may purchase and sell the securities in the open market. These transactions may include over-allotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. Stabilizing transactions consist of bids or purchases for the purpose of preventing or retarding a decline in the market price of the securities and syndicate short positions involve the sale by underwriters of a greater number of securities than they are required to purchase from us in the offering. Underwriters also may impose a penalty bid, whereby selling concessions allowed to syndicate members or other broker-dealers in respect of the securities sold in the offering for their account may be reclaimed by the syndicate if the securities are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the securities, which may be higher than the price that might prevail in the open market, and these activities, if commenced, may be discontinued at any time. Any underwriters, dealers or agents involved in any distribution or sale of our securities may be customers of, engage in transactions with or perform services for us from time to time. We will bear all costs, expenses and fees in connection with the registration of the securities as well as the expense of all commissions and discounts, if any, attributable to the sales of the securities by us. 24 LEGAL MATTERS The validity of the securities that we are offering has been passed upon for us by Thompson Hine LLP. Shearman & Sterling LLP, New York, New York, may pass upon legal matters for the underwriters with respect to any underwritten offering of common shares or debt securities. Shearman & Sterling LLP will rely upon Thompson Hine LLP with respect to matters of Ohio law. EXPERTS The consolidated financial statements of The Lubrizol Corporation as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003 incorporated in this prospectus by reference from The Lubrizol Corporation's Current Report on Form 8-K dated August 20, 2004 have been audited by Deloitte &

Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 142 in 2002), and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing. Ernst & Young LLP, independent registered public accounting firm, have audited the consolidated financial statements of Noveon International, Inc. at December 31, 2003 and 2002 and for the years ended December 31, 2003 and 2002 and for the ten months ended December 31, 2001, and the consolidated financial statements of BFGoodrich Performance Materials (a segment of Goodrich Corporation) for the two months ended February 28, 2001, as set forth in their reports, included in The Lubrizol Corporation's Current Report (Form 8-K) dated May 20, 2004 and incorporated by reference in The Lubrizol Corporation's Current Report (Form 8-K/A) dated July 29, 2004, which are incorporated by reference in this prospectus. Ernst & Young LLP has also audited the consolidated financial statements of Noveon International, Inc. at December 31, 2003 and for the year then ended, as set forth in their report, included in The Lubrizol Corporation's Current Report (Form 8-K) dated August 4, 2004, which is incorporated by reference in this prospectus. Such consolidated financial statements are incorporated by reference in reliance on Ernst & Young's reports given on their authority as experts in accounting and auditing. 25

13,400,000 COMMON SHARES [LUBRIZOL CORP LOGO] THE LUBRIZOL CORPORATION ------------ PROSPECTUS SUPPLEMENT SEPTEMBER 22, 2004 ------------ CITIGROUP KEYBANC CAPITAL MARKETS ABN AMRO ROTHSCHILD LLC DEUTSCHE BANK SECURITIES

