FPL Energy
Seabrook Station

FPL Energy Seabrook Station
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FEB 2 8 2005
Docket 50-443

SBK-L-05056

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 2003. The Annual Reports demonstrate the collective ability of the licensees to meet their obligation for payment of deferred premiums.

Annual Reports for 2003 (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

Taunton Municipal Lighting Plant (0.07% Ownership) has not completed its certified financial statements for 2003. The 2003 statements are anticipated to be completed by the end of March and will be submitted at that time. Taunton's 2002 certified financial statements are enclosed.

M004

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

Mark E. Warner
Site Vice President

cc: (without enclosures):

S. J. Collins, 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.
Mr. John J. Aubrecht, Business Manager, FPL Energy, LLC

cc: (with enclosures):

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

ENCLOSURE TO SBK-L-05056

Financial Statements and Report of Independent Certified Public Accountants

Taunton Municipal Lighting Plant

December 31, 2002 and 2001

CONTENTS

Grant Thornton

Accountants and Business Advisors

Report of Independent Certified Public Accountants

Municipal Light Commission
of the City of Taunton
Taunton, Massachusetts

We have audited the accompanying balance sheets of the Taunton Municipal Lighting Plant (a department of the City of Taunton) as of December 31, 2002 and 2001, and the related statements of operations, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following paragraph, 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 our audits provide a reasonable basis for our opinion.

As discussed in Note G to the financial statements, the Plant records pension expense based on a formula determined by the City of Taunton, whereas generally accepted accounting principles require the use of actuarial methods in determining annual pension expense and certain disclosures required by the Governmental Accounting Standards Board relating to pensions have been omitted. The effect on the financial statements of not using actuarial methods has not been determined.

In our opinion, except for the effects of such adjustments noted in paragraph three above, if any, as might have been determined to be necessary had we been able to determine the effects of not using actuarial methods in determining pension expense and the omission of certain pension plan disclosures required by the Governmental Accounting Standards Board on the 2002 and 2001 financial statements, the financial statements referred to above present fairly, in all material respects, the financial position of the Taunton Municipal Lighting Plant 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 A (13) to the financial statements, the accompanying 2001 financial statements have been restated.

Grant Thornton LLP

Boston, Massachusetts
March 12, 2004

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Taunton Municipal Lighting Plant

BALANCE SHEETS

ASSETS

	December 31, 2002	December 31, 2001 (As Restated)
UTILITY PLANT - AT COST		
Plant in service	$133,696,577	$129,804,846
Less accumulated depreciation	90,809,996	87,548,060
Net utility plant in service	42,886,581	42,256,786
Investment in Seabrook	2,132,515	2,260,028
Construction work in progress	8,509,374	5,867,215
Total utility plant	53,528,470	50,384,029
DEPRECIATION FUND (including certificates of deposit of $2,000,000 and $4,000,000 in 2002 and 2001, respectively)	3,187,512	5,694,715
SICK LEAVE TRUST FUND	5,050,959	5,130,468
OTHER ASSETS		
Investment in Hydro Quebec Project	280,959	265,396
Investment in Energy New England LLC	365,057	431,279
Due from Plant Retirement Trust	719,606	689,138
CURRENT ASSETS		
Cash	6,822,896	4,270,322
Customer deposits	1,172,188	872,850
Accounts receivable – purchase power cost adjustment	-	1,592,572
Accounts receivable, less allowance for doubtful accounts of $1,247,203 and $1,785,420 respectively	5,782,314	4,933,255
Accounts receivable Internet	100,832	81,794
Materials and supplies inventory	2,785,609	5,791,430
Prepaid expenses	1,129,123	1,386,856
Total current assets	17,792,962	18,929,079
	$ 80,925,525	$ 81,524,104

RETAINED EARNINGS AND LIABILITIES

	2002	2001
RETAINED EARNINGS		
Appropriated retained earnings		
Loans repayment	$ 25,852,000	$ 24,387,000
Construction repayment	32,434	32,434
	25,884,434	24,419,434
Unappropriated retained earnings	30,845,397	33,113,370
Total retained earnings	56,729,831	57,532,804
LONG-TERM DEBT	5,690,032	7,278,386
COMMTIMENTS AND CONTINGENCIES	-	-
CURRENT LIABILITIES		
Accounts payable	7,243,764	5,912,270
Customer deposits	751,877	554,626
Current maturities of long-term debt	1,585,000	1,465,000
Accrued liabilities		
Sick leave	5,169,328	4,990,781
Pension fund	983,353	954,418
Vacation	845,881	806,099
Interest	336,966	347,474
Payment in lieu of taxes	1,250,000	1,250,000
Purchased power cost adjustment	25,000	25,000
Payroll	194,126	254,092
Other	120,367	153,154
Total current liabilities	18,505,662	16,712,914
	$ 80,925,525	$ 81,524,104

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF OPERATIONS

	Years ended December 31, 2002	2001 (As Restated)
Operating revenues		
Sales of electricity		
Commercial and industrial	$32,985,363	$32,888,541
Residential	21,826,683	21,467,465
Sales for resale	4,699,166	4,978,498
Municipal	3,152,746	3,025,182
Other revenue	280,322	450,638
Discount given	(1,721,230)	(1,611,998)
	61,223,050	61,198,326
Internet operating loss - net	37,502	26,982
Total operating revenues	61,260,552	61,225,308
Operating expenses		
Power production	40,576,357	39,208,847
Transmission and distribution	6,680,094	6,264,538
Customer accounting	2,260,871	1,583,243
Administrative and general	5,374,861	4,994,408
Depreciation and amortization	3,791,872	5,121,803
Nuclear expense	287,256	229,175
Total operating expenses	58,971,311	57,402,014
Earnings from operations	2,289,241	3,823,294
Other expense (income)		
Interest expense	624,724	748,650
Interest income	(56,993)	(267,824)
Other expense (income)	24,483	(724,976)
Total other expense (income)	592,214	(244,150)
Earnings before provision for payment in lieu of taxes	1,697,027	4,067,444
Provision for payment in lieu of taxes	2,500,000	2,430,000
NET (LOSS) EARNINGS	$ (802,973)	$ 1,637,444

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF RETAINED EARNINGS

Years ended December 31, 2002 and 2001

	Appropriated Retained Earnings		Unappropriated Retained Earnings
	Loan Repayment	Construction Repayment	
Balance at December 31, 2000 - as previously reported	$23,037,000	$32,434	$34,528,633
Less: prior period adjustment (see Note A (13))	-	-	(1,702,707)
Balance at December 31, 2000 - as restated	23,037,000	32,434	32,825,926
Transfer for bond repayment	1,350,000	-	(1,350,000)
Net earnings - as previously reported	-	-	2,625,026
Less: prior period adjustment (see Note A (13))	-	-	(987,582)
Net earnings - as restated	-	-	1,637,444
Balance at December 31, 2001 - as restated	24,387,000	32,434	33,113,370
Transfer for bond repayment	1,465,000	-	(1,465,000)
Net loss	-	-	(802,973)
Balance at December 31, 2002	$25,852,000	$32,434	$30,845,397

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

STATEMENTS OF CASH FLOWS

	Years ended December 31, 2002	2001 (As Restated)
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities:		
Net (loss) earnings	$ (802,973)	$ 1,637,444
Adjustments to reconcile net (loss) earnings to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	3,791,872	5,121,803
Amortization of bond premium	(3,354)	(3,354)
Equity in losses of Seabrook investment	127,513	149,965
Equity in losses (income) of Energy New England LLC investment	66,222	(216,201)
Equity in income of Hydro Quebec	(15,563)	-
Change in assets and liabilities:		
Decrease (increase) in accounts receivable	743,513	(240,826)
Increase in accounts receivable Internet	(19,038)	(27,419)
Increase in due from Plant Retirement Trust	(30,468)	(13,422)
Decrease (increase) in inventory	3,005,821	(4,042,712)
Decrease in prepaid expenses	257,733	352,047
Increase in accounts payable	1,331,494	1,078,149
Increase in customer deposits	197,251	106,192
(Decrease) increase in accrued liabilities	144,003	1,342,718
Net cash provided by operating activities	8,794,026	5,244,384
Cash flows from investing activities:		
Additions to utility plant, net of disposals	(7,063,826)	(6,009,186)
Maturity of certificates of deposit – depreciation fund	-	2,000,000
Decrease in Sick Leave Trust Fund	79,509	76,440
Net cash used in investing activities	(6,984,317)	(3,932,746)
Cash flows from financing activities:		
Payment of long-term debt, representing net cash used in financing activities	(1,465,000)	(1,350,000)
Net increase (decrease) in cash and cash equivalents	344,709	(38,362)
Cash and cash equivalents at beginning of year	10,837,887	10,876,249
Cash and cash equivalents at end of year	$11,182,596	$10,837,887

Taunton Municipal Lighting Plant

STATEMENTS OF CASH FLOWS - CONTINUED

	Years ended December 31, 2002	2001 (As Restated)
Cash and cash equivalents at end of year is reflected on the balance sheets as follows:		
Depreciation fund (exclusive of long-term investments)	$ 3,187,512	$ 5,694,715
Cash - operating	6,822,896	4,270,322
Cash – customer deposit	1,172,188	872,850
	$11,182,596	$10,837,887

Supplemental Disclosure of Cash Flow Information:

Cash paid during the year for interest	$ 635,232	$ 793,650

The accompanying notes are an integral part of these statements.

Taunton Municipal Lighting Plant

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Taunton Municipal Lighting Plant's (the "Plant") significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. <u>Nature of Business</u>

The Plant is a regulated municipal electric utility located in Taunton, Massachusetts. The Plant operates as an enterprise fund of the City of Taunton, Massachusetts, and produces, purchases and distributes electricity to approximately 33,000 customers in the City of Taunton and the surrounding areas. The Plant also operates an internet access business unit and provides services to approximately 3,500 customers.

The Department operates within the electric utility industry which is currently undergoing significant restructuring and deregulation. In 1996, the Massachusetts Department of Telecommunications and Energy ("DTE") issued an electric industry restructuring plan, and the Massachusetts legislature created a special committee on electric industry restructuring. The financial impact the resultant changes in the industry will have on the Department is not yet known.

2. <u>Use of Estimates</u>

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.

Estimates relating to the allowance for doubtful accounts and contingencies (see note F) represent the significant estimates included in the financial statements. Management bases their estimates of these items on historical experience, specific identification and future expectations.

3. <u>Rates</u>

The Plant is under the charge and control of the Municipal Light Plant Commissioners in accordance with Chapter 164, Section 55 of the General Laws of the Commonwealth of Massachusetts. Electric power is both produced and purchased and is distributed to customers within their service area. The rates charged by the Plant to its customers are filed with the Department of Telecommunications and Energy ("DTE") (formerly the Massachusetts

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Department of Public Utilities) and are subject to Chapter 164, Section 58 of the General Laws, which provide that prices shall be fixed to yield not more than 8% per annum on the cost of the plant after repayment of operating expenses, interest on outstanding debt, the requirements of any serial debt and depreciation.

4. Depreciation

Pursuant to the DTE regulations, depreciation is calculated as a percentage of depreciable property at January 1. Depreciation is computed using a rate of 4% of the cost of depreciable property.

Depreciation Fund cash is used in accordance with state laws for replacements, enlargements and additions to the utility plant in service.

5. Pension Plan

Substantially all employees of the Plant are covered by a contributory pension plan administered by the City of Taunton in conformity with State Retirement Board requirements (see note G).

6. Inventory

Materials and supplies inventory is carried at cost, principally on the average cost method.

7. Sick Leave Trust Fund

The Plant established a Sick Leave Trust Fund ("Trust") in 1982 for the financing of future sick leave payments. It is the Plant's intention that the Trust be funded to the extent of the Plant's sick leave liability and that future sick leave expense will be paid by the Trust once full funding is achieved. Full funding was achieved in 1999. The assets of the Trust are shown in the financial statements to provide a more meaningful presentation, as the assets of the Trust are for the sole benefit of the Plant.

In March 1997, the Governmental Accounting Standards Board issued Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" ("GASB 31"). Under GASB 31, investments are required to be reported at fair value in the balance sheet, and investment income, including changes in fair value of investments, is required to be recognized as revenue in the operating statement. The provisions of GASB 31 were adopted retroactively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Realized gains and losses, and declines in value are included in the statements of operations.

Net investment income for the Trust was approximately $217,000 and $239,000 in 2002 and 2001, respectively. The net (income) expense for sick leave was approximately $742,000 and $439,000 for the years ended December 31, 2002 and 2001, respectively.

8. Deferred Fuel Costs/Rate Stabilization

The Plant's rates include a Purchased Power Cost Adjustment (PPCA) which allows an adjustment of rates charged to customers in order to recover all changes in power costs from stipulated base costs. The PPCA provides for a quarterly reconciliation of total power costs billed with the actual cost of power incurred.

9. Investment in Seabrook

The Plant's Investment in Seabrook represents a 0.10034% joint ownership share. The Plant records annually depreciation computed at 4% of the initial investment in Seabrook. The Plant's percentage share of new plant additions are capitalized and their share of operating and maintenance expenses, and decommissioning expenses (see note C) are charged against earnings.

10. Cash Equivalents

For purposes of the Statement of Cash Flows, the Plant considers certificates of deposit with maturities of three months or less to be cash equivalents.

11. Internet

Revenue and expense for this business unit is presented in internet operating (loss) revenues in the statement of operations. The business unit leases certain assets from the Plant. For the years ended December 31, 2002 and 2001, other operating revenue for the Plant and internet expense includes approximately $106,000 and $77,000, respectively, relating to this lease.

This venture generated revenues of approximately $1,117,000 and $1,100,000 for the years ended December 31, 2002 and 2001, respectively. Expenses were approximately $1,087,000 and $1,072,000 for the same periods.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Reclassifications

Certain reclassifications have been made to the 2001 financial statements in order to conform with current year's presentation.

13. Restatement

In 2002, the Plant became aware of certain accounting errors and misstatements resulting mainly from purchased power invoices and other vendors invoices relating to 2001 and 2000 operations that were not recorded accordingly. Additional adjustments in 2001 and 2000 are mainly due to reconciliation adjustments to accounts payable, recognition of sale of fuel efficiency credits and amortization of certain prepaid expenses. These restatements resulted in reduction of net earnings of $987,582 and $1,702,707 in 2001 and 2000, respectively. The Plant conducted an inquiry and further review of these errors and misstatements. As a result of this process, the Plant, by means of this report, is restating its previously issued financial statements for the year ended December 31, 2001.

The following table reflects the net increase (decrease) of the restatements:

	December 31, 2001
ASSETS	
Accounts receivable, net allowance for doubtful accounts	$465,000
Prepaid expenses	(112,000)
	$353,000
RETAINED EARNINGS AND LIABILITIES	
Accounts payable	$3,043,289
Unappropriated retained earnings	(2,690,289)
	$ 353,000

	Year ended December 31, 2001
Total operating revenues	$ 27,056
Total operating expenses	(952,582)
Earnings from operations	(925,526)
Other expenses	(62,056)
Net earnings	$(987,582)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

	Years ended December 31, 2001	2000
Net earnings, as previously reported	$2,625,026	$2,120,068
Prior period adjustment	(987,582)	(1,702,707)
Net earnings, as restated	$1,637,444	$ 417,361

NOTE B - CASH AND CERTIFICATES OF DEPOSIT

The Plant's cash is deposited with the City of Taunton Treasurer who commingles it with other City funds. The City invests the cash and credits the Plant each year with interest earned on the cash deposits.

Cash, certificates of deposit deposited and short term investments with the City of Taunton consists of the following at December 31:

	2002	2001
Interest bearing pooled funds including restricted customer deposits of $1,172,188 and $872,850, respectively	$ 9,182,596	$ 6,837,887
Certificates of deposit with rates of 2.55% maturing February 2002	-	2,000,000
Certificates of deposit with rates of 2.00% maturing January 2003	2,000,000	-
Certificates of deposit with rates of 3.00% maturing January 2002	-	2,000,000
	$11,182,596	$10,837,887

Cash, certificates of deposit and short term investments at December 31, is reflected as follows:

	2002	2001
Depreciation Fund - capital additions and replacements	$ 270,705	$ 1,888,108
Depreciation Fund - Major overhaul	567,318	327,318
Depreciation Fund - Unit 9 principal and interest	1,620,805	2,750,605
Depreciation Fund - other	728,684	728,684
Cash – including operating and rate stabilization fund	6,822,896	4,270,322
Customer deposit - principal and interest fund	1,172,188	872,850
	$11,182,596	$10,837,887

NOTE B - CASH AND CERTIFICATES OF DEPOSIT - *Continued*

Certain cash amounts have been designated as restricted for the purpose of a rate stabilization fund. This fund is designated to offset potential future customer rate increases.

NOTE C - INVESTMENTS

The Plant is a 0.10034% joint owner of the Seabrook New Hampshire Unit 1.

The joint owners of Seabrook have established a Decommissioning Fund that is currently held by a Trustee. The Plant's share of the estimated decommissioning liability is approximately $556,000 as of January 1, 1998 (the most current valuation date). The Plant is currently contributing, based on a present value formula, $1,808 per month over 25 years.

Energy New England

In 1998, the Plant, in conjunction with the Reading Municipal Light Department, the Braintree Electric Light Department and the Connecticut Municipal Electric Energy Cooperative, formed a new cooperative, Energy New England LLC, as allowed under Chapter 164 of the General Laws of the Commonwealth of Massachusetts. Each founding system invested $500,000 in order to initially fund the new corporation. Energy New England is an energy and energy services cooperative established to assist publicly owned entities to ensure their continued viability in the newly deregulated wholesale electric utility markets and to strengthen their competitive position in the retail energy market for the benefit of the municipal entities' customers. Energy New England functions as an autonomous, entrepreneurial business unit that is free from many of the constraints imposed on traditional municipal utility operations. Each founding member has one seat on the Board of Directors along with three outside Directors. Energy New England commenced the management of the founders power supply operations in the newly restructured NEPOOL wholesale markets as of May 1, 1999. The Plant records this investment under the equity method. Included in other expense (income) is approximately $66,000 and $(216,000) of income for the years ended December 31, 2002 and 2001, respectively, representing the Plant's share of Energy New England's net (income) losses.

On January 15, 2003, Reading Municipal Light Department gave notice to withdraw from the cooperative effective after a year.

NOTE D - LONG-TERM DEBT

Long-term debt is comprised of the following bonds:

	2002	2001
Electric Loan Act of 1969 Interest rate - 8%, interest payable February 1 and August 1, due serially to February 1, 2006	$7,265,000	$8,730,000
Unamortized premium	10,032	13,386
	7,275,032	8,743,386
Less current maturities	1,585,000	1,465,000
Total long-term debt	$5,690,032	$7,278,386

Aggregate maturities of long-term debt at December 31, 2002, are as follows:

2003	$1,585,000
2004	1,750,000
2005	1,890,000
2006 and thereafter	2,040,000
	$7,265,000

NOTE E - CONTRIBUTION IN LIEU OF TAXES

The Plant contributed $2,500,000 and $2,430,000 in 2002 and 2001 to the City of Taunton in lieu of taxes. All contributions to the City are voted by the Municipal Light Commission.

NOTE F - COMMITMENTS AND CONTINGENCIES

Hydro-Quebec Agreement

In 1988, the Plant entered into an agreement with the Massachusetts Municipal Wholesale Electric Company and other New England Utilities to support the operation of a transmission line to permit the interchange of electricity between such utilities and Hydro-Quebec Electric Corporation (HydroQuebec). In connection with the agreement, the Plant advanced approximately $800,000 toward development of the project of which approximately $450,000 was returned after the project had obtained financing. In 1991, the Hydro Quebec project was completed. Upon completion of this

NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

project, each participant received stock in the New England Hydro Transmission Electric Company and The New England Hydro Transmission Corporation proportional to their advances. The investment is being accounted for on the cost basis. The stock received is not readily marketable, but gives the holder rights to purchase power at a percentage of the fossil fuel rate.

During the years ended December 31, 2002 and 2001, the Plant received dividends from the above noted companies of approximately $42,000 and $37,000, respectively.

Power Contracts

The Plant has commitments under long-term contracts for the purchase of electricity from various suppliers. These wholesale contracts are generally for fixed periods and require payment of demand and energy charges. The total costs under these contracts are included in purchased power in the statements of operations and are normally recoverable in revenues under cost recovery mechanisms mandated by the Commonwealth of Massachusetts. The status of these contracts is as follows:

Unit Fuel Type	2002 KW Entitlements	Contract End Date	Estimated Annual Minimum Payments
Fuel - Unspecified (fixed price contract)	10,000	2005	$5,986,000
Fuel - Methane	3,800	2016	2,784,000
Fuel - Methane	6,650	2019	3,815,000
Fuel - Methane	6,700	2019	2,800,000
Fuel - Methane	1,630	2016	811,000

Litigation and Other Matters

1. The Plant has a contract with Vermont Yankee and certain of its Sponsors for 0.4602 percent of the output of the Vermont Yankee Plant.

   On June 22, 2000, the Department and the 21 Municipals filed a complaint with FERC, in which they asserted that they were entitled to refunds for transaction costs incurred in the sale of the Plant and for certain decommissioning contributions.

NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

In the fall of 2001, Vermont Yankee informed the Plant and the other purchasers that it had entered into a new contract for the sale of the Vermont Yankee plant to Energy Nuclear Vermont Yankee. Prior to new filings being made at the FERC for approval of this proposed transaction, the Plant and the other purchasers entered into negotiations that produced an agreement pursuant to which the Plant and the other purchasers agreed not to contest the plant sale in exchange for early termination of their Vermont Yankee contracts as of February 28, 2002. Absent that agreement, the contracts would have remained in effect through November 30, 2002. Notices of cancellation of the Vermont Yankee contracts for the Plant and the other purchasers were submitted to FERC on December 7, 2001, and accepted by FERC order dated February 26, 2002. In 2002, the Vermont Yankee contracts were terminated.

2. The Plant is involved in various legal matters incident to its business, none of which is believed by management to be significant to the financial condition or the results of operations of the Plant.

3. The Plant is also involved in proceedings relating to environmental matters. Although it is difficult to estimate the liability, if any, of the Plant related to these environmental matters, the Plant believes that these matters will not have a material adverse effect upon its financial condition or the results of operations.

4. The Plant has a program for insurance coverage provided by the Massachusetts Municipal Utility Self-Insurance Trust Fund ("Trust"). The insurance coverage provided by the Trust is in excess of a $50,000 self retention up to a maximum of $500,000 per occurrence. Additionally, coverage for certain environmental claims is provided by the Trust through a separate policy for which the plant is responsible for a $50,000 self-retention and the Trust covers the next $50,000.

NOTE G - PENSION PLANS

The Plant contributes to the City of Taunton Retirement System (the "System"), a public employee retirement system that acts as the investment and administrative agent for the City. All full-time employees participate in the System.

Instituted in 1937, the System is a member of the Massachusetts Contributory System and is governed by Massachusetts General Laws Chapter 32. Membership in the System is mandatory upon the commencement of employment for all permanent, full-time employees.

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.

NOTE G - PENSION PLANS - Continued

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City's payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Active members contribute either 5%, 7%, 8%, or 9% of their regular compensation depending on the date upon which their membership began. The System also provides death and disability benefits.

The System does not make a separate measurement of assets and the pension benefit obligation for the Plant. The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the System. As of January 1, 2002 (the most current valuation date), the Plant's unfunded actuarial accrued liability is approximately $17,152,000.

The Plant has established a separate Employees Retirement Trust Fund ("Trust Fund") for the financing of future pension payments. The market value of the net assets at December 31, 2002 and 2001 was approximately $12,016,000 and $13,593,000, respectively. These funds are invested in money market funds, fixed income securities including government and corporate bonds and other equity securities. The Plant has made no contributions to the Trust Fund in 2002 and 2001.

The Plant receives from the Trust Fund, over the next twenty-eight years, an amount equal to one hundred percent of the annual amortization of the unfunded pension liability.

The following represents the components of the Plant's recorded pension expense:

	December 31, 2002	December 31, 2001
Contributions to the System	$1,942,277	$1,890,456
Contributions from the Trust Fund	(1,384,609)	(1,340,718)
Recorded pension expense	$ 557,668	$ 549,738

NOTE G - PENSION PLANS - Continued

Prior to 1993, the System's funding policy for the participating entities was not actuarially determined. The participating entities were required to contribute each fiscal year an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). Effective for fiscal year ends 1993 and beyond, the System has removed the "pay-as-you-go" method and will amortize the unfunded pension benefit obligation over thirty-two years. This change has been approved by Public Employees Retirement Association.

Accounting standards require certain related disclosures be made including the components of pension costs and the funded status of the System. The effect of omitting such disclosure on the accompanying financial statements has not been determined.

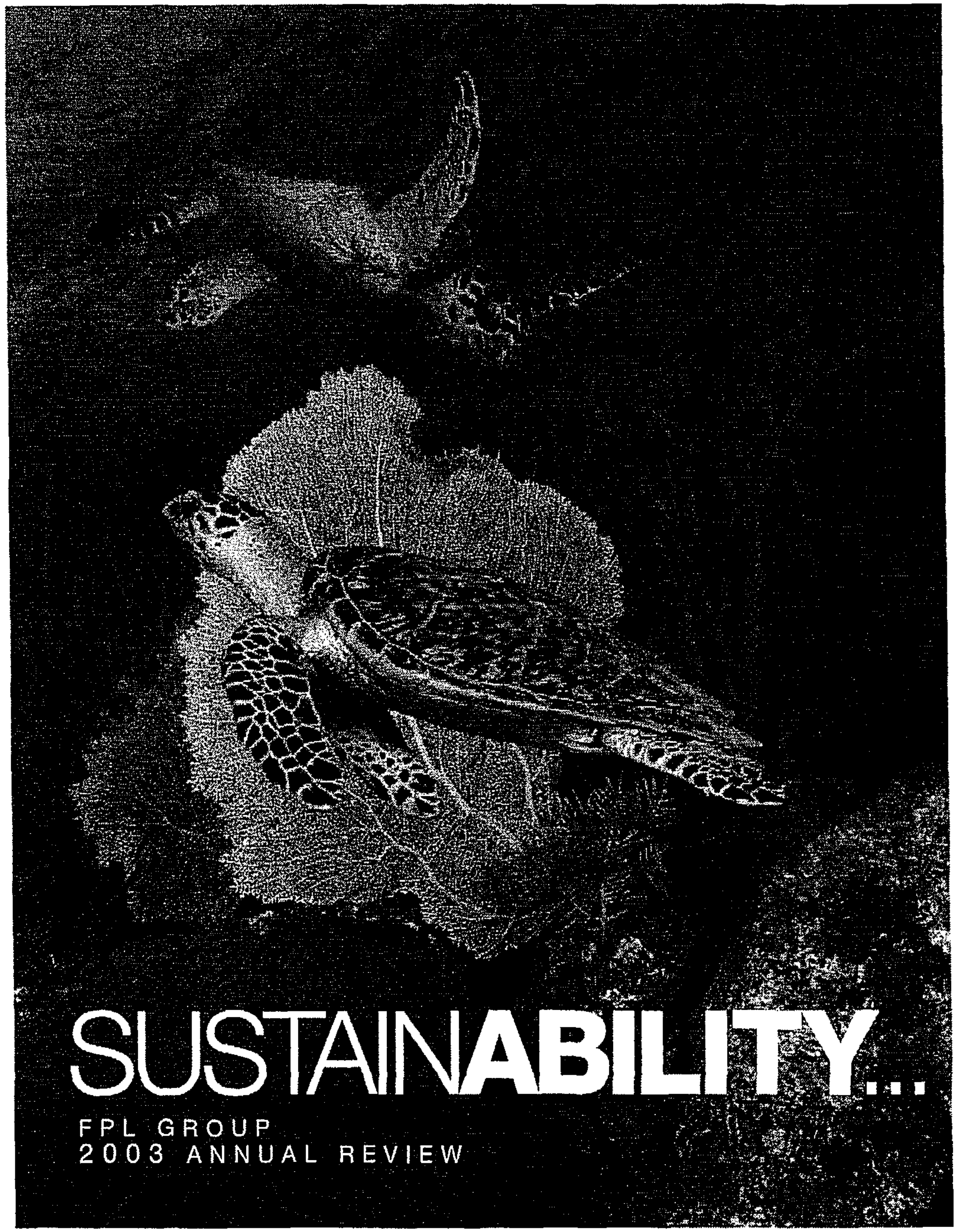
NOTE H - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in note G, the Plant provides post employment health care benefits to retirees that meet certain requirements. Retirees of the Plant under age 65 are eligible for the same health benefits as active employees, while retirees over the age of 65 are eligible for MEDEX. The costs of the benefits provided to retirees are borne 75% by the Plant, and 25% by the retirees.

The Plant is charged their prorata portion of the "pay-as-you-go" cost of benefits based on an allocation by the City done annually. For 2002 and 2001, the costs allocated to the Plant were approximately $486,000 and $599,000, respectively.

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

Coral reefs are among the oldest and most complex ecosystems, supporting more than one-quarter of all known marine species. They are home to over 4,000 species of fish and thousands of other plants and animals, including these endangered hawksbill turtles. The abundant biodiversity sustained by this coral reef, as with the ecosystems featured within this review, is symbolic of FPL Group's concept of sustainability as a framework in leading and managing for the company's long-term success.



SUSTAINABILITY...

FPL GROUP
2003 ANNUAL REVIEW

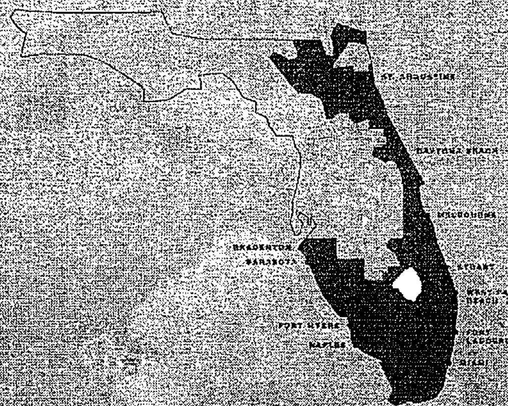
Profile

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 more than eight million people along the eastern seaboard and southern portion of Florida. FPL Energy, LLC, FPL Group's wholesale energy subsidiary, is a leader in producing electricity from clean and renewable fuels. Together, FPL's and FPL Energy's generating assets represent approximately 30,000 megawatts of capacity. FPL FiberNet provides wholesale fiber-optic services and fiber-optic cable to Internet service providers and telecommunications companies in Florida.

This publication is an annual review of the performance of FPL Group and its subsidiaries in 2003. You may view the company's Consolidated Financial Statements, including the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, in the 2004 Proxy Statement mailed to all shareholders of record as of March 16, 2004.

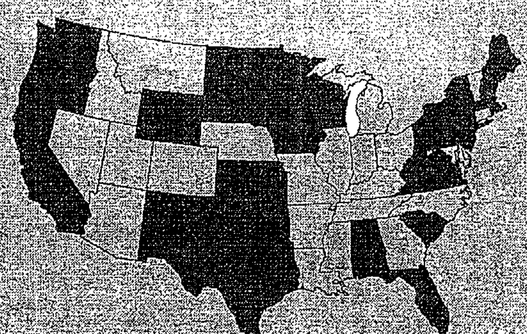
FPL: A PREMIER ELECTRIC UTILITY

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



FPL ENERGY: A LEADING CLEAN ENERGY PROVIDER

With 93 power plants in 24 states, FPL Energy is a leader in producing electricity from clean and renewable fuels (orange areas denote states with FPL Energy projects and offices).



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 on page 27 herein.

Financial Highlights

Years Ended December 31,	2003	2002	% change
FINANCIAL RESULTS			
(millions, except per share amounts)			
Net Income	$890	$473	88.2
Adjustments, net of income taxes:			
Cumulative effect of a change in accounting principle (FAS 142) — FPL Energy	–	222	
Charges due to restructuring — $73 million at FPL Energy and $64 million at Corporate & Other	–	137	
Reserve for leveraged leases — Corporate & Other	–	30	
Gain on settlement of IRS litigation — Corporate & Other	–	(30)	
Cumulative effect of a change in accounting principle (FIN 46) — FPL Energy	3	–	
Net unrealized mark-to-market gains associated with non-qualifying hedges, primarily FPL Energy	(22)	(1)	
Adjusted Earnings	$871	$831	4.8
Earnings Per Share *(assuming dilution)*	$5.00	$2.73	83.2
Adjustments:			
Cumulative effect of a change in accounting principle (FAS 142) — FPL Energy	–	1.28	
Charges due to restructuring — $0.42 per share at FPL Energy and $0.37 per share at Corporate & Other	–	0.79	
Reserve for leveraged leases — Corporate & Other	–	0.17	
Gain on settlement of IRS litigation — Corporate & Other	–	(0.17)	
Cumulative effect of a change in accounting principle (FIN 46) — FPL Energy	0.02	–	
Net unrealized mark-to-market gains associated with non-qualifying hedges, primarily FPL Energy	(0.13)	–	
Adjusted Earnings Per Share *(assuming dilution)*	$4.89	$4.80	1.9
Operating Revenues	$9,630	$8,173	17.8
Operating Income	$1,531	$1,225	25.0
Cash Flow from Operating Activities	$2,254	$2,338	(3.6)
Total Assets	$26,935	$23,185	16.2
COMMON STOCK DATA			
Weighted-Average Shares Outstanding *(assuming dilution – millions)*	178	173	2.9
Dividends Per Share	$2.40	$2.32	3.4
Book Value Per Share	$39.02	$36.21	7.8
Market Price Per Share *(high – low)*	$68.06-$53.55	$65.31-$45.00	
OPERATING DATA			
Utility Energy Sales *(kwh – millions)*	103,202	98,605	4.7
FPL Customer Accounts *(year end – thousands)*	4,167	4,064	2.5
Employees *(year end)*	11,501	11,577	(0.7)

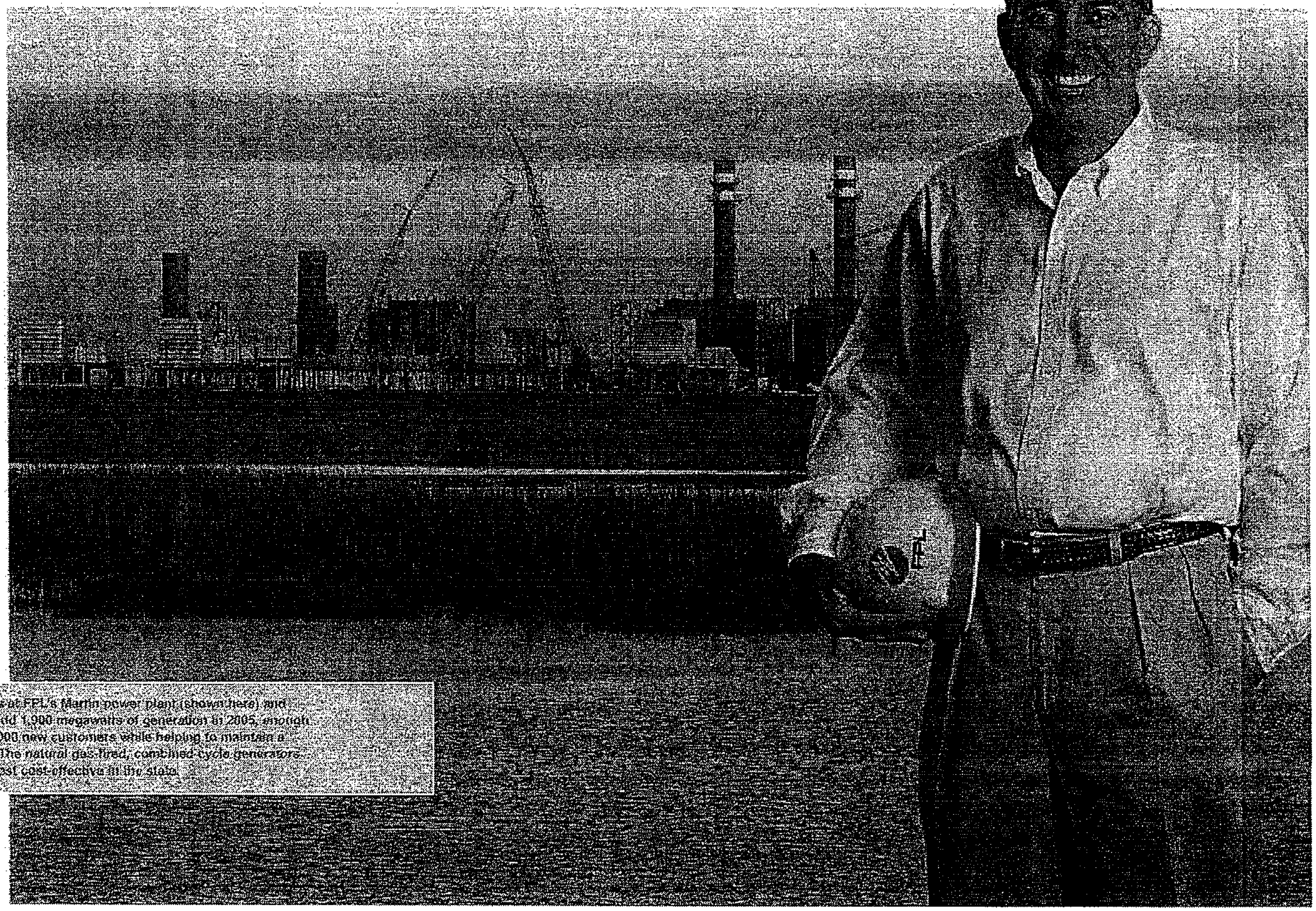
ABILITY TO... DELIVER VALUE

Dear Shareholders:

In 2003, FPL Group again showed that it has the strategies, attributes and top-notch team needed to address successfully the challenges and opportunities of our dynamic, evolving industry.

Continuing a long-term trend, our financial performance for 2003 was strong.

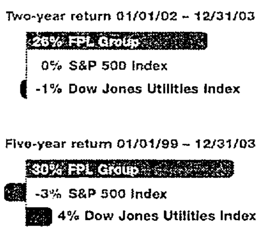
- FPL Group provided a 13 percent total shareholder return for the year, which enabled us to continue to outperform our peers and industry when viewed over the last two-year and five-year periods (see chart on page 4).
- Net income, using generally accepted accounting principles (GAAP), reached $890 million or $5.00 per share in 2003, compared with $473 million or $2.73 per share in 2002.
- On an adjusted basis, FPL Group's 2003 earnings would have been $871 million or $4.89 per share, compared with $831 million or $4.80 per share in 2002. (See page 1 for a reconciliation of net income to adjusted earnings and earnings per share to adjusted earnings per share.)
- FPL Group's management uses adjusted earnings internally for financial planning, for reporting of results to the board of directors and for the company's incentive plan. The company also uses adjusted earnings when communicating its earnings outlook to analysts and investors. Management believes that adjusted earnings provide a more meaningful representation of FPL Group's fundamental earnings power.



Construction began in 2003 on expansion projects at FPL's Martin power plant (shown here) and Manatee power plant sites. The two projects will add 1,900 megawatts of generation in 2005, enough power to sustain the needs of approximately 400,000 new customers while helping to maintain a 20 percent reserve margin for all FPL customers. The natural gas-fired, combined-cycle generators at the two sites will be among the cleanest and most cost-effective in the state.

▶ Net income for Florida Power & Light Company, our largest business and one of the nation's top-performing utilities, increased to $733 million in 2003 from $717 million in 2002, resulting in earnings per share contributions of $4.12 in 2003 and $4.14 in 2002. This solid performance was due primarily to continued strong growth in customer accounts and usage per customer as well as outstanding operations and maintenance cost performance.

FPL GROUP COMPARATIVE TOTAL SHAREHOLDER RETURN



▶ Net income on a GAAP basis for FPL Energy, our wholesale energy subsidiary operating outside of Florida, was $194 million in 2003 or $1.09 per share, compared with a loss of $169 million or negative $0.97 per share in 2002. On an adjusted basis, FPL Energy's earnings would have been $175 million or $0.98 per share, compared with $126 million or $0.73 per share for 2002. (See page 1 for a reconciliation of net income to adjusted earnings and earnings per share to adjusted earnings per share.) Factors contributing to FPL Energy's strong performance included: continued efficient, low-cost operations; portfolio additions, including nearly 1,000 megawatts of new wind power operations; strong performance at, and the full-year impact of owning the majority interest in, the Seabrook Station nuclear power plant; and ongoing asset optimization activities.

Employing the "sustainability" concept

At FPL Group, we approach our business with a long-term view. One of the ways we've chosen to manage and measure our progress and continue our track record of consistently growing earnings is by employing the concept of "sustainability."

At its core, sustainability requires demonstrated attention to, and excellence in, three key areas: economic accountability, environmental stewardship and social responsibility. While our primary emphasis is on economic accountability and, in particular, growing shareholder value, we recognize that, to ensure shareholder value creation over the long term, we must also succeed in meeting our environmental and social responsibilities.

As with the ecosystems featured throughout this report, our businesses must survive and thrive amidst a variety of external constituencies and forces. Like those ecosystems, we strive at least for a peaceful coexistence with others and a mutually beneficial relationship if possible. We are constantly taking actions, large and small, to protect, enhance and sustain our long-term health and viability.

Following is a review of many of our strengths, activities and strategies, using the three elements of this sustainability concept as a framework.

Economic accountability

FPL Group continues to achieve strong financial performance and grow shareholder value.

We have a strong balance sheet, strong credit ratings, good cash flow and a disciplined approach to deploying capital. We believe our financial strength and discipline differentiate us from most of our peers and are strong competitive advantages.

During the course of the year, we raised $3.3 billion in the capital markets and through bank transactions, enabling us to meet external capital requirements, refinance existing high-cost debt, significantly extend our debt maturity profile, improve liquidity and simultaneously reduce our aggregate cost of funding. Included in these transactions were the first-ever capital markets financing of wind projects and a bank financing of natural gas-fired power plants under construction. Both of these financings were recognized by various project finance publications as outstanding transactions within the industry and received Deal of the Year honors in several categories. Our financing activities were all consistent with the plans we have previously described and helped us maintain our very strong credit ratings.

Both of our major businesses had outstanding years in 2003.

▶ FPL benefited from rates of growth in our customer base and in electric usage per customer that are among the highest of any electric utility. We continued outstanding operational and cost performance that places us among the best in our industry. We added more than 1,400 megawatts of generation capacity and expanded our infrastructure to meet growing demand, and we further improved the reliability of our electric system. Our two nuclear units at St. Lucie were granted 20-year license extensions by the Nuclear Regulatory Commission.

▶ At FPL Energy, despite a difficult business environment, we continued to capitalize on our strengths and grow the business. We added nearly 3,000 megawatts of natural gas-fired generation with project additions in New York, Alabama, Texas and California. We grew our world-leading wind portfolio by nearly 1,000 megawatts. We completed 490 days of continuous operation and a record refueling outage at our Seabrook Station nuclear power plant in New Hampshire. We continued to add value and reduce risk by actively hedging our merchant portfolio.

I've said many times that one of the hallmarks of FPL Group and its high performance culture is a deeply-ingrained drive for continuous improvement. We are among the top decile or quartile performers on most key industry metrics. Even so, we regularly benchmark our processes and performance against the best of our peers and U.S. industry as a means for identifying opportunities for further improvements.

We maintain a relatively low risk profile by focusing on our core business and avoiding investments other companies have made in "trends of the day." We mitigate market risk by contracting a high percentage of expected future power output and by hedging our associated fuel requirements. We maintain a diverse fuel mix at our utility, and at FPL Energy, we're well diversified by geography as well as by fuel type.

Last year in my letter, I articulated my strong personal commitment to unquestioned integrity and reviewed a list of tangible actions we had taken to uphold and further strengthen our outstanding record of integrity and accountability in corporate governance matters. Our company's corporate governance practices are now ranked in the top 10 percent in our industry and in the top 15 percent in the S&P 500 by Institutional Shareholder Services, a leading independent appraiser. Another rating organization, GovernanceMetrics International, gave FPL Group 9.0 out of 10 possible points, again placing us well above average as compared to other U.S. companies and better than most energy producers. As we do in all other areas of the company, we will continue to review regularly our corporate governance practices with a goal of raising the bar even further on our practices and performance.

Environmental stewardship

Clean energy is a major focus of our business strategy. The vast majority of the power we generate is derived from clean and renewable fuels. Among the capacity additions we brought online in Florida this year was a facility at Sanford that we "repowered" to replace older oil-fired generating units with clean-burning and more efficient natural gas-fired units. We're the world leader in wind power. We own and operate the two largest solar fields in the world — and more than 20 hydropower facilities. In 2003 alone, we invested more than $1.6 billion in developing new sources of clean and renewable energy. Through our new Sunshine Energy program, FPL residential customers now have an option to apply a small monthly premium to join us in supporting cleaner electricity generation, reducing CO_2 emissions and helping build new renewable sources of electricity in Florida and surrounding states.

Over the past decade, FPL Group voluntarily has made significant reductions in plant emissions. Today, our emissions rates of carbon dioxide, nitrogen oxide and sulfur dioxide are among the lowest of companies our size in the electric power industry. In November, as a key element of our participation in EPA's Climate Leaders program, we committed to reducing our greenhouse gas emissions rate by 18 percent between 2003 and 2008 compared to a 2001 baseline. FPL Group will achieve the 18 percent reduction through a variety of efforts, including: continuing to evaluate fuel switching and efficiency improvement opportunities at FPL's fossil-fuel plants; improving the operating efficiency of our Seabrook nuclear power plant and increasing its output by about nine percent; building or buying power from clean natural gas-fired generation to offset older, less efficient facilities; increasing participation of FPL customers in energy management and conservation programs; continuing expansion of FPL Energy's world-leading wind energy portfolio; and introducing the Sunshine Energy program I referred to earlier in this letter. In addition, these actions will position us well in the event that more stringent air emissions legislation becomes law.

Social responsibility

First and foremost, we make every effort to ensure the safety and security of our employees and those who interact with our people, facilities and service. Thanks to a major behavior-based training program and a safety-first mindset, safety performance across our company is at an all-time high and is approaching the best in our industry. Even one injury is one too many, however, so we will stay vigilant.

The health of our workforce is both a human issue and a business issue. Our employees have drawn great benefit from FPL WELL, our world-class health, wellness and fitness program. Health care costs continue to rise, however, and we're taking actions to limit further increases yet retain quality health care services for our employees.

At FPL Group, we value workplace diversity and view it broadly to include educational background, industry experience and length of service, as well as more traditional measures like ethnicity and gender. The diversity of our management team is quite impressive, and we also have a strong supplier diversity program.

Social responsibility extends to collaborating with environmental and community groups on sensitive issues. The growth in our service territory presents challenges in siting new facilities; despite using state-of-the-art technology to construct and operate our facilities, people aren't always pleased that new electric system infrastructure might be under consideration for their neighborhood. That's why we conduct public outreach programs prior to commencing new infrastructure improvements. While we can't always accommodate the expressed desires of community members, we're committed to listening and to taking their concerns into consideration in our planning.

Clearly, the most important social responsibilities we have are providing a safe, reliable and low-cost supply of electricity to all of our customers — along with great customer service. The California electricity crisis of just two years ago and the August 14, 2003 blackout in parts of the U.S. and Canada have demonstrated just how important a reliable electric system is to all of us. We've invested more than $5 billion between 2000 and 2003 in our electric system infrastructure and plan to invest more than $7 billion between 2004 and 2008 to support projected growth in our service territory and ongoing reliability enhancements. In 2003, the average amount of time an FPL customer was without power — a key measure of reliability — was less than half the national average.

Winning top industry honors

We consider each of these three imperatives — economic accountability, environmental stewardship and social responsibility — in our daily decision making and our longer-term strategy development.

This past year, we were delighted to be presented with the 2003 Edison Award, the electric power industry's highest honor. In announcing the award, the Edison Electric Institute said, "FPL Group's winning strategy clearly demonstrates that environmental excellence and outstanding financial performance can go hand in hand. FPL Group's success is emblematic of the ingenuity and vision that are the hallmarks of our industry. Its leadership and boldness, and the ability to see what lies ahead in a constantly changing industry, are what set them apart."

In December, Platts, the energy information and market services unit of The McGraw-Hill Companies, presented FPL Group with a 2003 Global Energy Award as "Renewable Company of the Year" for our clean energy portfolio.

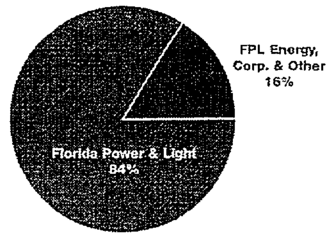
2004 and beyond

Going forward, we have high expectations, sound strategies and strong, tangible growth prospects. For 2004, we expect earnings per share for FPL Group in the range of $4.95 to $5.20. This includes contributions from FPL of $4.20 to $4.35 and $1.05 to $1.20 from FPL Energy, assuming normal weather, as well as an expected negative impact from Corporate & Other of $0.30 to $0.35 per share, largely due to increased interest expense. These ranges exclude the effect of adopting new accounting standards and the mark-to-market effect of non-qualifying hedges, neither of which can be determined at this time. We expect to benefit from continued growth in customer accounts and usage at FPL, ongoing productivity improvements at both FPL and FPL Energy, the full-year impact of nearly 1,000 megawatts of wind generation added in 2003, and ongoing asset optimization and risk management activities at FPL Energy.

Overall, our corporate strategies call for supporting continued growth at FPL and FPL Energy with a balanced financing plan, investigating opportunities that utilize our core strengths — those areas of the company where we have demonstrated superior performance — and financing new investments with a balance of debt and equity.

We were disappointed that Congress did not pass an energy bill in 2003. The bill was not perfect, but did include a number of provisions that would have been favorable to our company, including a wind energy production tax credit. We are hopeful Congress will take action early in 2004 on this bill or, at a minimum, enact the wind production tax credit.

2004 PROJECTED EARNINGS CONTRIBUTION*



**Excludes effect of adopting new accounting standards as well as the mark-to-market effect of non-qualifying hedges, neither of which can be determined at this time*

At a time when many companies are trying to correct their past missteps and find new strategies in a difficult business environment, FPL Group continues to demonstrate its sustainability and its value as a solid long-term investment.

Our ***base business is rock solid.*** Operational excellence and customer satisfaction are central to our culture, and we enjoy regulatory stability in our Florida service territory.

We have ***strong, tangible growth potential.*** FPL is among the largest and fastest-growing electric utilities in America. At FPL Energy, we fully expect to achieve continued growth — particularly in wind energy, assuming continued public policy support — and are well positioned for the recovery of wholesale markets.

We have a ***modest risk profile.*** More than 80 percent of our expected 2004 earnings will be generated by Florida Power & Light and more than 90 percent of the expected 2004 gross margin from our wholesale generation fleet at FPL Energy is now protected from fuel and power market volatility. We're well diversified by region and by fuel source. Our modest low-risk trading business is focused almost exclusively on reducing risk and extracting maximum value from our assets. And we believe our proactive approach to environmental management has minimized our risk going forward and is a sustainable competitive advantage.

We have the ***flexibility to pursue opportunities.*** We have a solid balance sheet and strong cash flow.

Our culture and values are ***conservative and disciplined.*** We avoid investing in "trends of the day." Integrity and accountability are at the very core of our management philosophy.

On the strength of a carefully developed strategy, a team of very talented employees and a commitment to continually raise the bar on our performance, we expect 2004 to be another year of solid financial and operating performance for FPL Group. We are confident it will also be a year in which we further enhance our reputation as one of the best companies in our business and continue to be a powerful investment.

Helping lead us toward these goals is a group of outstanding executives. Of note in 2003, Armando Olivera, a talented leader with more than 30 years of experience at our company, was named president of Florida Power & Light. Elected to the FPL Group board of directors last year was Michael H. Thaman, chairman of the board and chief financial officer of Owens Corning, a world leader in building materials and composite systems. Armando Codina and Willard Dover retired as directors in 2003, and we thank them for their years of dedicated service.

As always, we appreciate the support of you, our shareholders, as we continue our ongoing pursuit of increasing shareholder value.

Lewis Hay, III
Chairman, President and
Chief Executive Officer

February 27, 2004

ABILITY TO...
CAPITALIZE ON GROWTH

Florida Power & Light *continued to demonstrate in 2003 the distinguishing characteristics that make it one of the nation's premier electric utilities and a solid example of sustained success.*

Among the factors that set FPL apart from most of its peers are continued strong growth, operational excellence, superior cost performance and a constructive regulatory environment. This winning combination, once again, allowed the company to deliver outstanding value to customers and FPL Group shareholders.

Nation's fastest-growing utility

In number of customers served, FPL is the nation's third largest investor-owned electric utility and among the fastest growing. In 2003, the company's average number of accounts grew by more than 97,000, or 2.4 percent, to more than 4.1 million. It was the greatest customer growth experienced by FPL since 1989. In 2004, customer growth is expected to be about the same.

Over the last three years, Florida's rate of population growth has been the highest among the nation's largest states, and its population has increased by nearly one million people. Six of the 10 fastest-growing metro areas in the United States are in Florida, and half of those are located in FPL's service territory.

Florida's increase in population has created a record housing boom, representing more than 11 percent of the nation's housing starts in 2003. In addition to being drawn by Florida's climate and quality of life, residents are being attracted by new job opportunities in an increasingly diverse market. In 2003, Florida's job growth was the highest in the nation and greater than that of the next four highest states combined.

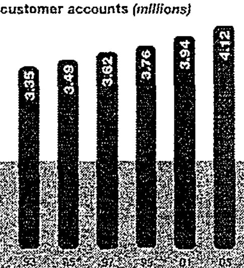
The electricity usage of FPL's customers also continued to rise in 2003, up 1.7 percent over the previous year. Electricity usage by FPL's residential customers is among the highest in the industry. In fact, FPL now sells more retail kilowatt-hours than any other utility in the U.S. In 2003, total sales reached an all time high of more than 103 million megawatt-hours. Since 1993, FPL has averaged annual total sales growth of 3.6 percent compared to the most recently reported 10-year industry average of 2.4 percent.

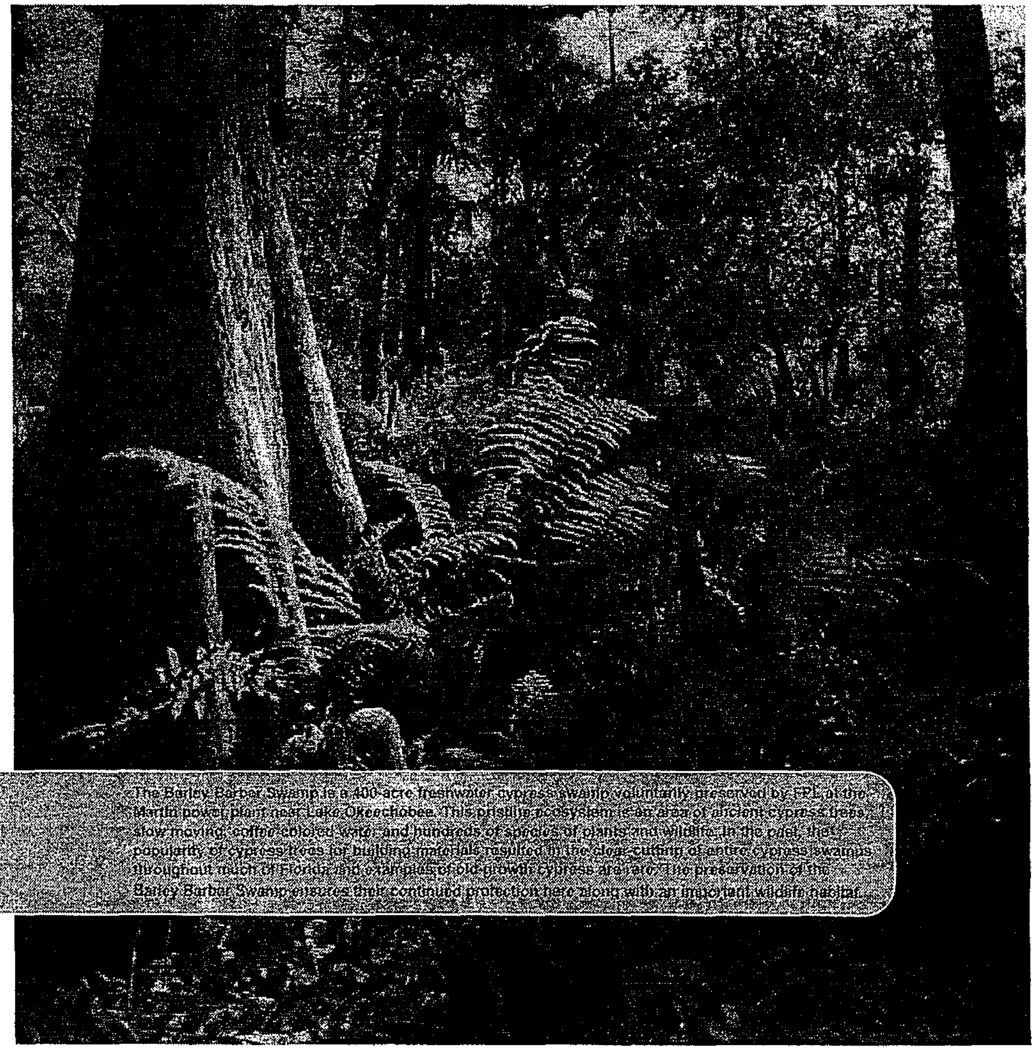
Meeting increased demands of growth

FPL is meeting the increased demands of its customers by adding to its generation capacity and infrastructure, improving its operating performance and enhancing customer loyalty.

The utility added more than 1,400 megawatts of generation during 2003, increasing the capability of its generating fleet to more than 19,000 megawatts. The additions included 314 megawatts from new peaking units at the Fort Myers power plant and 957 megawatts from the repowering of Unit 4 at the Sanford power plant. The utility's total generating capability — including more than 3,000 megawatts of purchased power — grew to more than 22,000 megawatts.

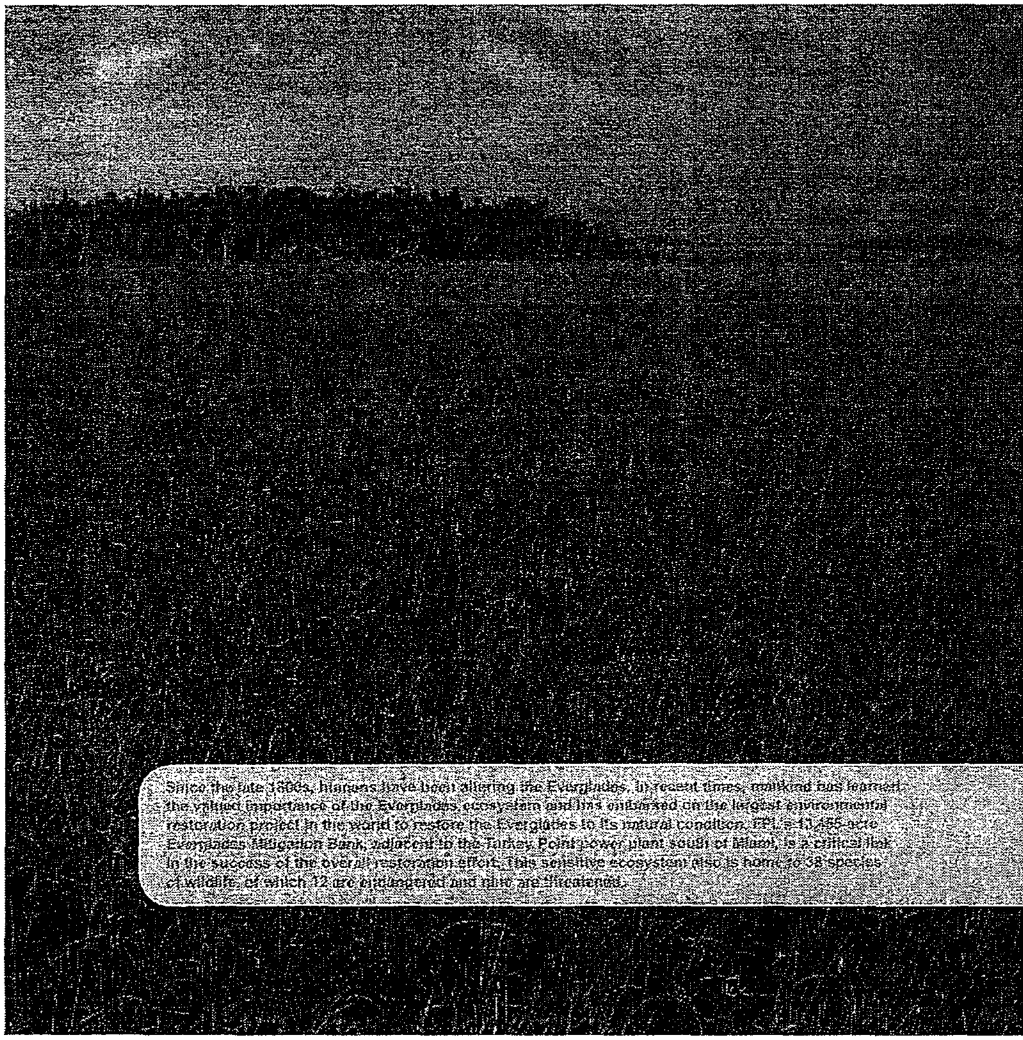
STEADY CUSTOMER GROWTH
Average customer accounts *(millions)*





The Barley Barber Swamp is a 400-acre freshwater cypress swamp voluntarily preserved by FPL at the Martin power plant near Lake Okeechobee. This pristine ecosystem is an area of ancient cypress trees, slow moving, coffee-colored water, and hundreds of species of plants and wildlife. In the past, the popularity of cypress trees for building materials resulted in the clear-cutting of entire cypress swamps throughout much of Florida and examples of old-growth cypress are rare. The preservation of the Barley Barber Swamp ensures their continued protection here along with an important wildlife habitat.

ABILITY TO... CONTINUE OPERATIONAL EXCELLENCE



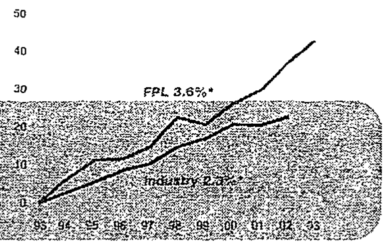
Since the late 1800s, humans have been altering the Everglades. In recent times, mankind has learned the valued importance of the Everglades ecosystem and has embarked on the largest environmental restoration project in the world to restore the Everglades to its natural condition. FPL's 13,455-acre Everglades Mitigation Bank, adjacent to the Turkey Point power plant south of Miami, is a critical link in the success of the overall restoration effort. This sensitive ecosystem also is home to 38 species of wildlife, of which 12 are endangered and nine are threatened.

Construction also began on expansion projects at FPL's Martin and Manatee power plant sites. The two projects will add about 1,900 megawatts of generation in 2005 at an investment of over $1 billion. This will provide enough power to meet the needs of approximately 400,000 new customers while helping maintain a 20 percent reserve margin for all FPL customers. Both projects are utilizing natural gas-fired, combined-cycle generators that will be among the cleanest and most cost-effective in the state.

FPL also plans to build, subject to all necessary reviews and approvals, a 1,100-megawatt natural gas-fired plant at its existing Turkey Point plant site south of Miami. The $600 million unit is expected to begin operation in 2007 and will be capable of providing enough electricity to serve 230,000 homes and businesses. The Turkey Point expansion will enable the company to add needed generation near one of its major population growth centers.

The added generation was identified through a long-term planning process that has enabled FPL to maintain an adequate supply of power while meeting the challenge of continued growth. Since the beginning of this decade, the company has added more than 2,600 megawatts of generation at a cost of approximately $1.3 billion. Over the next four years, FPL expects to invest more than $1 billion more in new generating facilities.

GROWING FASTER THAN INDUSTRY AVERAGE
Cumulative kilowatt-hour growth *(percent)*



**Represents compound annual growth rate through periods shown*
Source for industry: Energy Information Administration

In addition to adding generation, FPL has invested more than $3.3 billion in its power delivery infrastructure since 1998 and expects to spend approximately $3.4 billion through 2008. The investment includes several major new transmission lines on both the southeast and southwest Florida coasts.

Upgrading and adding to its transmission capabilities has helped FPL avoid transmission-related blackouts such as that experienced throughout the Midwest and the Northeast in the summer of 2003. Further safeguards against blackouts include the superior operations of FPL's electric system and the close cooperation of Florida's utilities regarding system security and operations. As a peninsula, Florida has few inter-connections outside the state, which makes it easier for FPL and other utilities to monitor and control the flow of electricity in the state.

Continued high performance

One of the hallmarks of FPL is its strong all-around operating performance, and the company continues to excel in virtually every area of its operations.

In 2003, the availability of FPL's fossil power plants remained above the industry average. The company's nuclear plant availability of 90.9 percent was also above the industry average, but down from the previous year. The decline was primarily due to reactor vessel head inspections, mandated by the Nuclear Regulatory Commission, which extended some planned refueling outages.

FPL's power plants utilize a diverse mixture of fuels to generate electricity, allowing the company to minimize fuel costs and maintain greater operating flexibility. During 2003, clean-burning natural gas accounted for 34 percent of the power provided by FPL. Greenhouse gas emissions-free nuclear was the fuel source for 21 percent, followed by purchased power at 20 percent, oil at 19 percent and coal at 6 percent.

Since launching a major initiative in 1997, FPL's reliability has continued to improve every year. In 2003, the average amount of time each of FPL's customers was without power was reduced to just 68 minutes, less than half the most recently reported industry average. The frequency of interruptions has been reduced 20

ABILITY TO... ENHANCE CUSTOMER SATISFACTION

percent since 1997, and the duration of interruptions has been reduced 38 percent.

The high degree of reliability achieved during 2003 was especially notable in light of the highly unusual weather experienced throughout the company's service area, which included Florida's coldest winter since 1981. The number of lightning strikes during 2003 also was the highest ever recorded by FPL.

In addition to rapidly restoring power to its own customers under emergency conditions, FPL was among the recipients of the Edison Electric Institute's "Emergency Assistance Award." The honor was given in recognition of FPL's restoration of power and assistance to customers of Dominion Virginia Power in the wake of massive damage caused by Hurricane Isabel.

Keeping costs low and customers satisfied

FPL is an industry leader in managing costs, even as it expands and enhances its electric system and further improves its operating performance. The company's operating and maintenance costs grew only modestly in 2003 despite the increased costs of nuclear maintenance, employee benefits and insurance. FPL's costs per kilowatt-hour remain essentially flat and well below the industry average.

In recent years, FPL has focused on customer care with an emphasis on improving service and increasing customer loyalty. In 2003, two independent studies indicated that the company's ongoing efforts are producing positive results.

FPL was rated second highest in the southern region and 10th best nationally in overall customer satisfaction by J.D. Power and Associates. Their annual customer survey of the nation's 77 largest electric utilities gave FPL especially high marks in the areas of price and value, billing and payment, and company image. FPL has ranked above the industry average in overall customer satisfaction each year since the J.D. Power surveys began in 1997, and last year's results were the best yet.

In addition, FPL earned the prestigious Center of Excellence certification from Purdue University's Center for Customer-Driven Quality — the only electric utility to be so honored. The award places the company's customer care centers at near world-class status.

Delivering value to customers

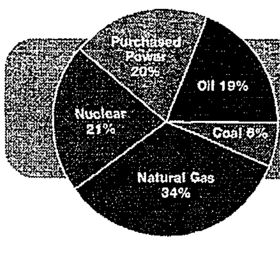
Florida's progressive regulatory environment has allowed FPL to maintain a balanced focus on satisfying its customers while maintaining financial viability.

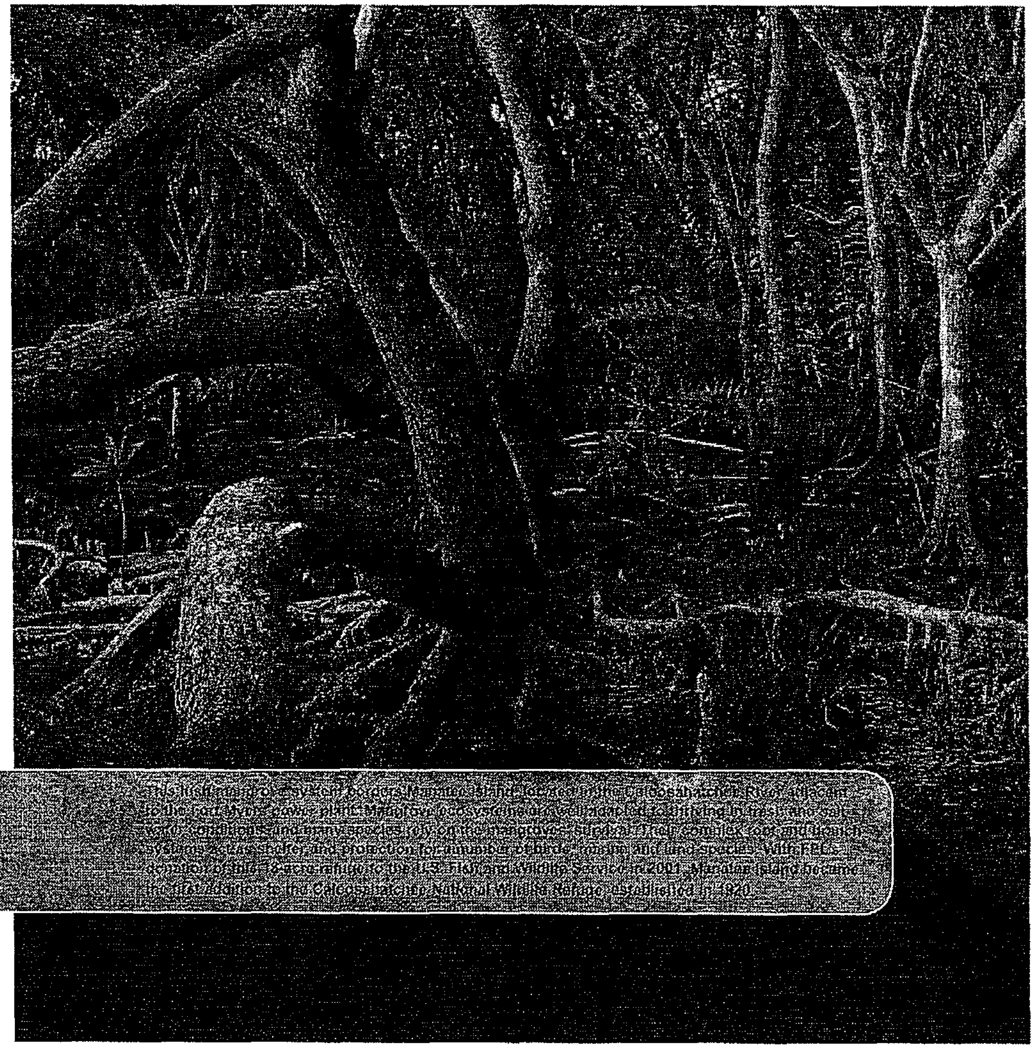
FPL's current incentive-based agreement with the Florida Public Service Commission and the Office of Public Counsel is in effect until the end of 2005. The company looks forward to continued incentive-based rate agreements and the rate stability they bring. Such agreements allow FPL to better plan and manage its business, helping to ensure continued reliability and lower rates than otherwise might exist in less progressive regulatory environments.

Under FPL's rate agreements, the company has been able to provide reliable power at reasonable prices, delivering added value to customers and shareholders alike. As a result of two base rate agreements — the first in 1999 that cut rates by $350 million annually and the second in 2002 that further reduced rates by $250 million — FPL customers will be saving $600 million a year through at least 2005.

Despite investments of more than $5 billion since 2000 in capital expenditures to meet growth and enhance reliability, FPL's rates remain low compared to the national average and other utilities in Florida.

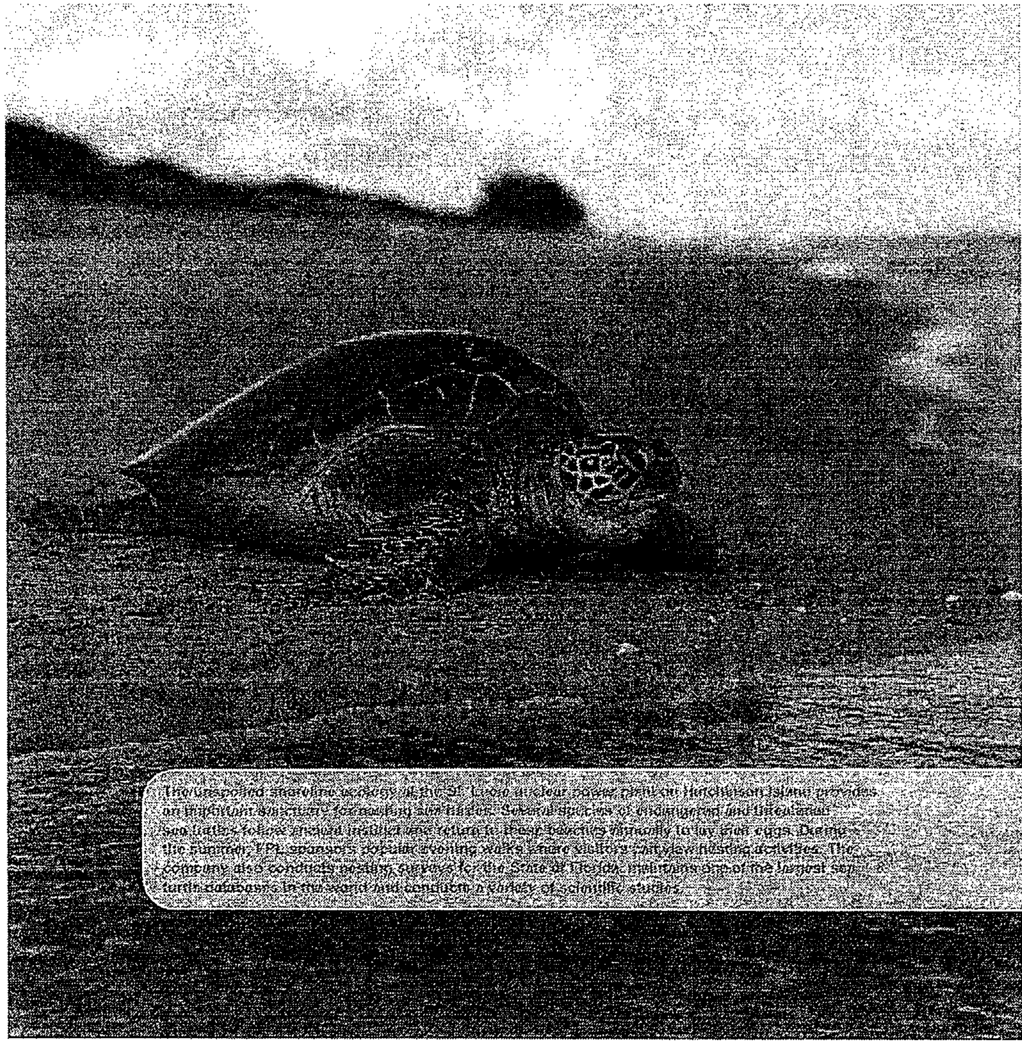
DIVERSIFIED ENERGY MIX
Based on kilowatt-hours produced in 2003





ABILITY TO...

SAFEGUARD THE ENVIRONMENT



The unspoiled shoreline ecology of the St. Lucie nuclear power plant on Hutchinson Island provides an important sanctuary for nesting sea turtles. Several species of endangered and threatened sea turtles follow ancient instinct and return to these beaches annually to lay their eggs. During the summer, FPL sponsors popular evening walks where visitors can view nesting activities. The company also conducts nesting surveys for the State of Florida, maintains one of the largest sea turtle databases in the world and conducts a variety of scientific studies.

Extending benefits of nuclear generation

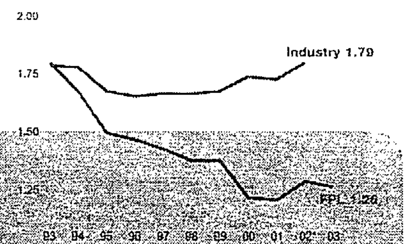
During 2003, nuclear power accounted for about 21 percent of FPL's generation, and it is an important part of the company's commitment to a clean environment.

In 2003, the Nuclear Regulatory Commission issued operating license extensions for the two units at the St. Lucie Nuclear power plant on Hutchinson Island for an additional 20 years. The St. Lucie license extensions were granted after a three-year application and review process that included a comprehensive safety and environmental analysis. In 2002, the NRC granted license extensions of the two nuclear power units at FPL's Turkey Point plant located south of Miami.

During 2003, FPL performed extensive inspections of the reactor vessel heads for St. Lucie unit 2 and both Turkey Point units during scheduled refueling outages. Two minor cracks were identified and promptly repaired at St. Lucie unit 2. No indications of cracking were found at the Turkey Point nuclear units. As a proactive measure, the company has decided to replace the reactor vessel heads on each of its nuclear units during scheduled refueling outages over a four-year period beginning in 2004.

Also, as part of its commitment to ensure superior operating performance, the company plans to replace steam generators at St. Lucie unit 2 during the head replacement outage scheduled for 2007.

SUPERIOR COST PERFORMANCE
O&M per retail kilowatt-hour *(cents)*



** Includes a one-time $35 million FPSC approved addition to the storm fund reserve for FPL*
Source for industry: FERC Form 1

Maintaining environmental leadership

FPL is one of the cleanest utilities in the United States with overall emissions rates that are among the lowest in the industry, and it has long been committed to providing power in an environmentally responsible manner.

Driven by the increasing demand for electricity in its service territory, the company is the U.S. leader in "repowering" older oil-burning power plants, that is, converting them to state-of-the-art natural gas operations. In doing so, FPL has been able to significantly increase the capacity of older plants while increasing efficiency and reducing emissions.

The repowering of existing older oil-fired plants to larger gas-fired plants illustrates FPL's ability to apply the proper technologies to address both its expansion needs and the environment. In 2003, the utility entered into agreements with the Florida Department of Environmental Protection to install pollution prevention technology that will substantially reduce emissions at both its Manatee and Port Everglades power plants.

FPL leads the nation in energy management and conservation programs. More than 1.7 million customers have participated in these programs over the past two decades, helping to reduce electricity demand by more than 4,100 megawatts, or the equivalent of 10 medium-sized power plants.

Early in 2004, FPL introduced a "green power" program called Sunshine Energy, which allows customers to help support financially the development of renewable sources of energy generation in Florida and nationwide, including wind, solar and bioenergy. Continuing its tradition of environmental leadership, FPL has committed to providing 150 kilowatts of solar capacity in Florida for every 10,000 customers who voluntarily enroll in the green energy program.

Looking forward, FPL is strongly positioned for continued success with a growing demand for electricity, high population growth, reasonable customer rates and a favorable regulatory environment.

ABILITY TO... OPTIMIZE DIVERSIFIED MARKETS

FPL Energy *experienced a record year of growth in 2003, strengthening its position as one of the nation's top wholesale generating companies and a leading low-cost provider of energy. The company significantly expanded its portfolio, continued to unlock the value of its assets and successfully focused on quality and improving performance.*

Expanding portfolio

During 2003, the company added nearly 1,000 megawatts to its world-leading wind portfolio and completed the construction of four natural gas-fired power plants totaling more than 2,900 megawatts. With a growing presence in 24 states, FPL Energy has more than 11,000 net operating megawatts in generating capability.

While other wholesale generators were retrenching and refocusing in 2003, FPL Energy continued to capitalize on its strengths to grow the business. Among the keys to its success were fuel and geographic diversity; its ability to optimize existing assets, unprecedented growth in wind assets and the first full year impact of owning Seabrook Station nuclear power plant.

FPL Energy's generation is fueled by a diverse mix of natural gas, wind, nuclear and hydro that makes it one of America's cleanest energy providers. The company also is regionally diversified, with 38 percent of its operations in the Central region, 26 percent in the Northeast, 18 percent in the Mid-Atlantic and 18 percent in the West.

FPL Energy's growth in wind power during 2003 was the greatest of any single company in the history of the industry. The company increased its share of the U.S. wind market to 43 percent and now has 42 wind facilities in 15 states totaling 2,719 megawatts.

'Company of the Year' in renewable energy

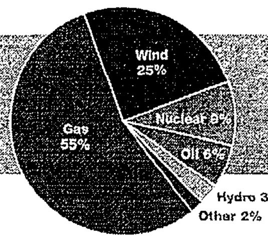
FPL Energy's achievements in wind energy earned it the 2003 Platts Global Energy Award as the "Renewables Company of the Year." The company was recognized for providing "solid commercial solutions that make the dream of a world powered by renewable energy a practical reality."

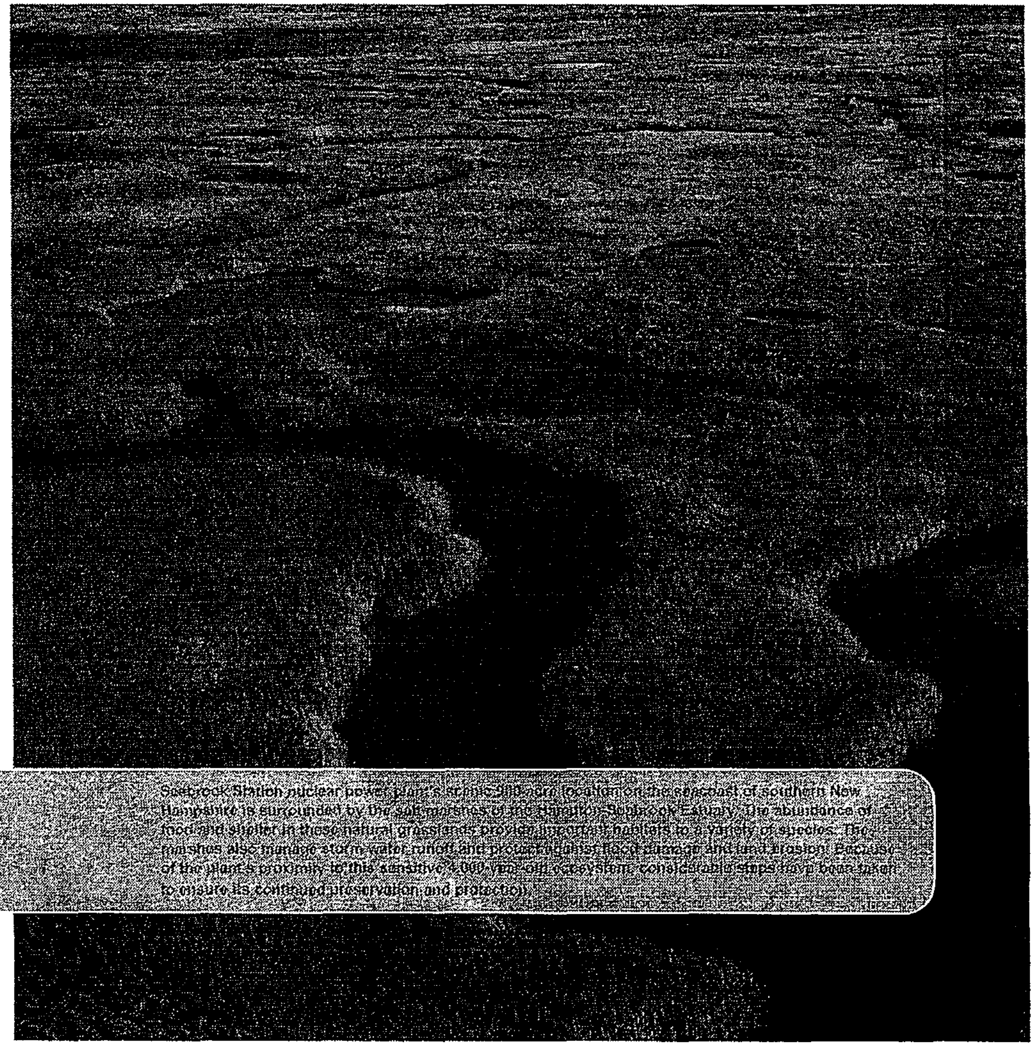
FPL Energy completed new wind energy centers totaling more than 800 megawatts in New Mexico, California, Oklahoma, North Dakota, South Dakota, Pennsylvania and Wyoming. In addition, the company completed four wind acquisitions totaling 164 megawatts in California, Pennsylvania and Minnesota.

Wind power is the fastest-growing segment of the global energy industry and provides a number of advantages to FPL Energy, allowing it to realize attractive financial returns on fully contracted projects.

- Unlike other types of power plants, wind facilities are quick to market and frequently can be constructed in just three to six months;
- The cost of wind power is significantly reduced from around 30 cents per kilowatt-hour in the 1980s to less than four cents per kilowatt-hour, making it more competitive with other forms of power generation;
- Wind power offers tremendous environmental benefits, because it is renewable, produces no emissions

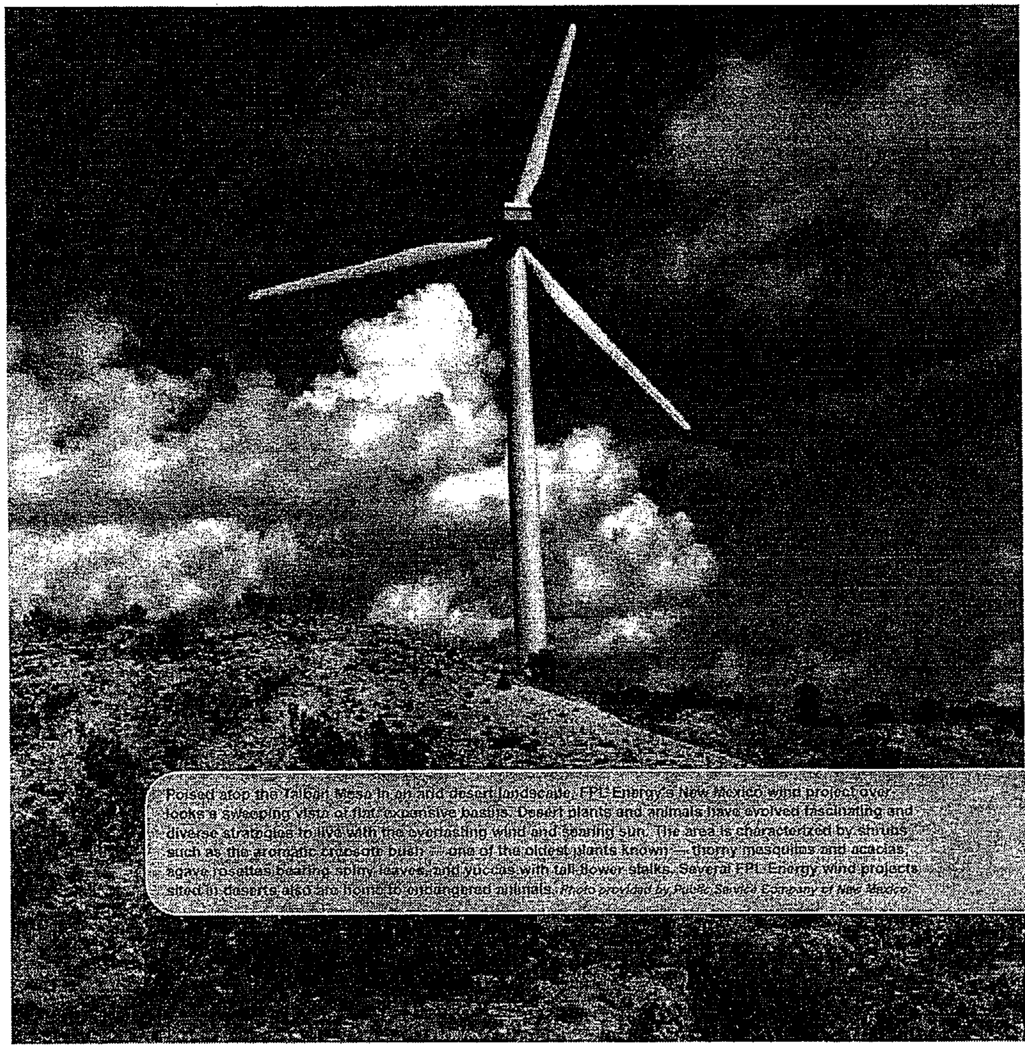
DIVERSIFIED PORTFOLIO PROVIDES BALANCE
11,041 net megawatts in operation at 12/31/03





Seabrook Station nuclear power plant's scenic 300-acre location on the seacoast of southern New Hampshire is surrounded by the salt marshes of the Hampton-Seabrook Estuary. The abundance of food and shelter in these natural grasslands provide important habitats to a variety of species. The marshes also manage storm water runoff and protect against flood damage and land erosion. Because of the plant's proximity to this sensitive 4,000-year-old ecosystem, considerable steps have been taken to ensure its continued preservation and protection.

ABILITY TO... GROW PROFITABLY



Poised atop the Taiban Mesa in an arid desert landscape, FPL Energy's New Mexico wind project overlooks a sweeping vista of flat, expansive basins. Desert plants and animals have evolved fascinating and diverse strategies to live with the everlasting wind and searing sun. The area is characterized by shrubs such as the aromatic creosote bush — one of the oldest plants known — thorny mesquites and acacias, agave rosettes bearing spiny leaves, and yuccas with tall flower stalks. Several FPL Energy wind projects sited in deserts also are home to endangered animals. *Photo provided by Public Service Company of New Mexico*

or solid by-products, and does not deplete natural resources such as coal, oil and gas;

- Energy businesses adding wind to their portfolios help diversify the nation's energy supply while meeting customers' electricity needs; and

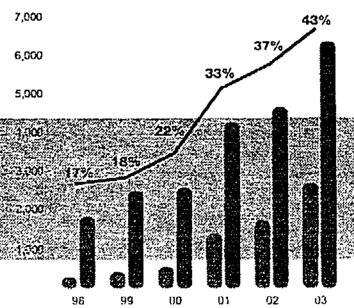
- Wind power is promoted by regulatory initiatives with at least a dozen states having initiatives in place to encourage clean energy production.

The federal wind production tax credit (PTC), which in the past has provided a credit of approximately 1.8 cents per kilowatt-hour for the first ten years of a facility's operation, expired at the end of 2003. While all facilities in service by the end of 2003 will receive their full 10 years of production tax credits, the extension of the program is important for the further development of new wind facilities.

The PTCs have achieved what Congress designed them to do when first included as part of the Energy Policy Act in 1992, which is to support the development of technology and a new industry to provide viable renewable energy sources at reasonable costs. As wind technology has improved and the capacity of wind turbines has increased, production costs have been dramatically reduced.

FPL Energy is optimistic that Congress will extend the PTCs and further enhance the competitiveness of this industry segment.

GROWING OUR MARKET SHARE IN U.S. WIND GENERATION *(megawatts)*



Fossil fleet poised for opportunity

Along with its wind activities during 2003, FPL Energy placed more than 2,900 net-megawatts of new high efficiency gas-fired generation into operation at plants in Alabama, Texas, New York and California. This substantially completes a merchant plant expansion effort the company began several years ago.

During the first half of 2003, the 668-megawatt Calhoun plant in northeastern Alabama and the first of two 850 net-megawatt units at the Forney plant near Dallas entered operation. In the second half of the year, the 54-megawatt Jamaica Bay plant on Long Island in New York, the second Forney unit and the 507-megawatt Blythe I plant in California began operation.

In 2004, the company expects to finish construction and bring on line the 744-megawatt Marcus Hook facility near Philadelphia, adding to its current portfolio of fossil-fueled facilities that are regionally diverse, low cost and well positioned for upside potential. The Marcus Hook project is our last fossil-fueled merchant plant under construction. As part of its 2002 restructuring, FPL Energy noted that, with only a few exceptions, it would be exiting the fossil-fueled merchant power plant development business for the foreseeable future.

Unlocking value of assets

In 2003, the company's power marketing organization capitalized on its market knowledge to better leverage the company's assets. This asset optimization group continued its contract restructuring activities to unlock hidden value in contracts that were negotiated many years ago in much different market conditions. The organization also completed highly successful load-following transactions, which require meeting utilities' fluctuating demands for electricity. It also implemented new tools allowing the company to dispatch more economically its generation resources in specific areas.

In addition, the company took advantage of opportunities to market and sell its uncontracted plant output. At year-end 2003, approximately 74 percent of available capacity was contracted for 2004. Additionally, more than 90 percent of expected gross margins for 2004 are currently hedged. FPL Energy's hedging is a low-risk strategy, allowing it to maximize returns.

Creating value at Seabrook nuclear station

The performance of the Seabrook Station nuclear power plant in New Hampshire — strategically located just north of Boston — exceeded FPL Energy's expectations in 2003. The successful integration of the station in its first full year as an FPL Group nuclear merchant plant was made possible by the outstanding efforts of the Seabrook team.

The facility operated more reliably than anticipated and benefited from stronger than anticipated power markets, thus creating significant value for the company. FPL Energy acquired 88.2 percent of the plant in 2002, representing 1,024 megawatts of the 1,161-megawatt facility.

Seabrook completed a record run of 490 days of continuous operation and its shortest-ever refueling outage of just over 25 days. The station also achieved its highest performance rating ever based upon the World Association of Nuclear Operators performance index.

Approximately 97 percent of Seabrook's 2004 expected generating output is under contract to be sold. Additional value from Seabrook is expected with the potential of a 100-megawatt plant uprating and renewal of the plant's operating license for an additional 20 years.

2004 and beyond

In 2004 and beyond, the company will continue to focus on growing its business, particularly in wind and new customer origination, while remaining a low-cost provider.

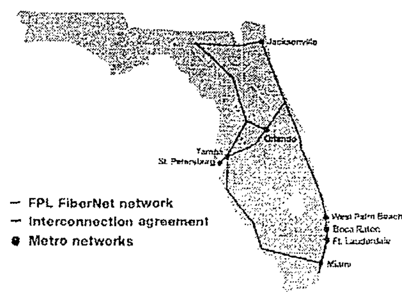
In addition, FPL Energy expects to maintain its outstanding operational performance and optimize its merchant portfolio. Also key to the company's performance is its ability to manage consistently the risks inherent in the wholesale generating business.

While the industry environment continues to be challenging, FPL Energy is optimistic about its future prospects and confident that it will continue to perform well in a tough market.

FPL FiberNet *is a subsidiary of FPL Group that provides wholesale fiber-optic services and fiber-optic cable to Internet service providers and local, long-distance and wireless telecommunications companies in Florida.*

Since being formed in 2000, FPL FiberNet has successfully added to its inter-city fiber-optic network and completed intra-city networks in most of the state's major metropolitan areas. During 2003, the company added the latest generation of Ethernet services for any enterprise wishing to upgrade their existing telecommunications network.

Although the telecommunications sector has been depressed for some time, FPL FiberNet remains in a strong position to benefit from a market rebound and future growth in voice and data communications.



Financial and Operating Statistics

Years Ended December 31,	2003	2002	2001	2000	1999	1998	1993
FPL GROUP, INC. *(millions)*							
Operating Revenues	$9,630	$8,173	$8,217	$6,020	$6,438	$6,661	$5,312
Operating Expenses	$8,099	$6,948	$6,808	$5,687	$5,518	$5,409	$4,342
Operating Income	$1,531	$1,225	$1,409	$1,233	$920	$1,252	$969
Income Before Cumulative Effect of Changes in Accounting Principles	$893[1]	$695[2]	$781[3]	$704[4]	$697[5]	$664	$420[6]
Cumulative Effect of Changes in Accounting Principles, Net of Income Taxes	$(3)	$(222)	$ —	$ —	$ —	$ —	$ —
Net Income	$890[7]	$473[8]	$781[3]	$704[4]	$697[5]	$664	$429[6]
Total Assets[9]	$26,935	$23,185	$20,713	$18,355	$16,220	$14,541	$14,432
Long-Term Debt[10]	$8,723	$5,790	$4,858	$3,976	$3,478	$2,347	$3,749
Preferred Stock of FPL with Sinking Fund Requirements[10]	$ —	$ —	$ —	$ —	$ —	$ —	$548
FLORIDA POWER & LIGHT COMPANY							
Operating Revenues *(millions)*	$8,293	$7,378	$7,477	$6,361	$6,057	$6,366	$5,224
Energy Sales *(kwh – millions)*	103,202	98,605	93,488	91,969	88,067	89,362	72,455
Customer Accounts — Average *(thousands)*	4,117	4,020	3,935	3,848	3,766	3,680	3,350
Peak Load, Winter *(mw 60-minute)*[11]	14,723	20,190	17,585	18,219	17,057	16,802	12,594
Peak Load, Summer *(mw 60-minute)*	19,668	19,219	18,754	17,808	17,616	17,897	15,266
Reserve Margin *(summer peak, %)*[12]	18	18	14	13	14	10	13
Total Capability *(mw)*[12]	22,197	20,938	18,871	19,069	18,849	18,509	16,698
Net Energy for Load (%):							
Oil	19	18	26	25	25	27	32
Natural Gas	34	32	24	25	25	26	17
Nuclear	21	24	24	26	27	26	25
Net Purchased Power and Interchange	20	20	20	17	16	14	21
Coal	6	6	6	7	7	7	5
COMMON STOCK DATA							
Weighted-Average Shares Outstanding *(assuming dilution – millions)*	178	173	169	170	172	173	187
Earnings Per Share of Common Stock:							
Earnings Per Share Before Cumulative Effect of Changes in Accounting Principles	$5.03[1]	$4.02[2]	$4.63[3]	$4.14[4]	$4.07[5]	$3.85	$2.30[6]
Cumulative Effect of Changes in Accounting Principles	$(0.02)	$(1.28)	$ —	$ —	$ —	$ —	$ —
Earnings Per Share	$5.01[7]	$2.74[8]	$4.63[3]	$4.14[4]	$4.07[5]	$3.85	$2.30[6]
Earnings Per Share of Common Stock — Assuming Dilution:							
Earnings Per Share Before Cumulative Effect of Changes in Accounting Principles	$5.02[1]	$4.01[2]	$4.62[3]	$4.14[4]	$4.07[5]	$3.85	$2.30[6]
Cumulative Effect of Changes in Accounting Principles	$(0.02)	$(1.28)	$ —	$ —	$ —	$ —	$ —
Earnings Per Share	$5.00[7]	$2.73[8]	$4.62[3]	$4.14[4]	$4.07[5]	$3.85	$2.30[6]
Dividends Paid Per Share	$2.40	$2.32	$2.24	$2.16	$2.08	$2.00	$2.47
Book Value Per Share *(year end)*	$39.02	$36.21	$35.59	$33.22	$31.47	$29.76	$21.57
Market Price Per Share *(year end)*	$65.42	$60.13	$56.40	$71.75	$42.81	$61.63	$39.13
Market Price Per Share *(high – low)*	$68.08-53.55	$65.31-[illegible]	$71.63-51.21	$73-36.38	$61.94-41.13	$72.56-56.06	$4[illegible]-35.50
Number of Registered Shareholders *(year end)*	35,076	37,283	40,990	45,066	50,215	55,149	85,787

(1) Includes net unrealized mark-to-market gains associated with non-qualifying hedges.
(2) Includes impairment and restructuring charges, charges related to certain wind projects and leveraged leases, a favorable settlement of litigation with the Internal Revenue Service (IRS) and net unrealized mark-to-market gains associated with non-qualifying hedges.
(3) Includes merger-related expenses and net unrealized mark-to-market gains associated with non-qualifying hedges.
(4) Includes merger-related expenses.
(5) Includes effects of gains on divestiture of cable investments, impairment loss and litigation settlement.
(6) Includes charges for cost reduction program.
(7) Includes the cumulative effect of an accounting change and net unrealized mark-to-market gains associated with non-qualifying hedges.
(8) 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-qualifying hedges.
(9) Reflects the adoption of FAS 142 in January 2002 and FIN 46 in July 2003.
(10) Excludes current maturities.
(11) Winter season includes November and December of the current year and January to March of the following year.
(12) Represents installed capability plus purchased power. Reserve margin is based on peak load net of load management.

Condensed Consolidated Statements of Income

Years Ended December 31,	2003	2002	2001
(millions, except per share amounts)			
OPERATING REVENUES	$9,630	$8,173	$8,217
OPERATING EXPENSES			
Fuel, purchased power and interchange	4,539	3,576	3,759
Other operations and maintenance	1,626	1,492	1,325
Restructuring and impairment charges	—	207	—
Merger-related	—	—	30
Depreciation and amortization	1,105	952	983
Taxes other than income taxes	829	721	711
Total operating expenses	8,099	6,948	6,808
OPERATING INCOME	1,531	1,225	1,409
OTHER INCOME (DEDUCTIONS)			
Interest charges	(379)	(311)	(324)
Preferred stock dividends — FPL	(13)	(15)	(15)
Loss on redemption of preferred stock — FPL	(9)	—	—
Reserve for leveraged leases	—	(48)	—
Equity in earnings of equity method investees	89	76	81
Other — net	42	12	9
Total other deductions — net	(270)	(286)	(249)
INCOME FROM OPERATIONS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	1,261	939	1,160
INCOME TAXES	368	244	379
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	893	695	781
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES			
FAS 142, "Goodwill and Other Intangible Assets," net of income taxes of $143	—	(222)	—
FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," net of income taxes of $2	(3)	—	—
NET INCOME	$ 890	$ 473	$ 781
Earnings per share of common stock:			
Earnings per share before cumulative effect of changes in accounting principles	$ 5.03	$ 4.02	$4.63
Cumulative effect of changes in accounting principles	$(0.02)	$(1.28)	$ —
Earnings per share	$ 5.01	$ 2.74	$4.63
Earnings per share of common stock — assuming dilution:			
Earnings per share before cumulative effect of changes in accounting principles	$ 5.02	$ 4.01	$4.62
Cumulative effect of changes in accounting principles	$(0.02)	$(1.28)	$ —
Earnings per share	$ 5.00	$ 2.73	$4.62
Dividends per share of common stock	$ 2.40	$ 2.32	$2.24
Weighted-average number of common shares outstanding:			
Basic	177.5	172.9	168.7
Assuming dilution	178.2	173.3	168.9

Condensed Consolidated Balance Sheets

December 31,	2003	2002
(millions)		
PROPERTY, PLANT AND EQUIPMENT		
Electric utility plant in service and other property	$28,445	$23,664
Nuclear fuel	463	202
Construction work in progress	1,364	2,639
Less accumulated depreciation and amortization	(9,975)	(8,805)
Total property, plant and equipment — net	20,297	17,700
CURRENT ASSETS		
Cash and cash equivalents	129	266
Customer receivables, net of allowances of $25 and $28, respectively	816	642
Other receivables	371	223
Materials, supplies and fossil fuel inventory — at average cost	458	448
Deferred clause expenses	348	131
Derivative assets	188	88
Other	160	110
Total current assets	2,470	1,908
OTHER ASSETS		
Special use funds	2,248	1,921
Other investments	810	697
Other	1,110	959
Total other assets	4,168	3,577
TOTAL ASSETS	$26,935	$23,185
CAPITALIZATION		
Common shareholders' equity	$ 6,967	$ 6,390
Preferred stock of FPL without sinking fund requirements	5	226
Long-term debt	8,723	5,790
Total capitalization	15,695	12,406
CURRENT LIABILITIES		
Commercial paper	708	1,822
Notes payable	212	375
Current maturities of long-term debt	367	105
Accounts payable	542	458
Customers' deposits	357	316
Accrued interest and taxes	226	169
Deferred clause revenues	48	62
Other	893	604
Total current liabilities	3,353	3,911
OTHER LIABILITIES AND DEFERRED CREDITS		
Asset retirement obligations	2,086	—
Accrued asset removal costs	1,902	3,560
Accumulated deferred income taxes	2,155	1,547
Storm and property insurance reserve	327	298
Other	1,417	1,463
Total other liabilities and deferred credits	7,887	6,868
COMMITMENTS AND CONTINGENCIES		
TOTAL CAPITALIZATION AND LIABILITIES	$26,935	$23,185

Condensed Consolidated Statements of Cash Flows

Years Ended December 31,	2003	2002	2001
(millions)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 890	$ 473	$ 781
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,060	908	983
Nuclear fuel amortization	58	—	—
Cumulative effect of changes in accounting principles	5	365	—
Restructuring and impairment charges	—	207	—
Deferred income taxes and related regulatory credit	588	219	(91)
Cost recovery clauses	(186)	135	411
Equity in earnings of equity method investees	(89)	(76)	(102)
Distribution of earnings from equity method investees	68	98	62
Changes in operating assets and liabilities:			
Restricted cash	(22)	232	(260)
Customer receivables	(168)	(6)	6
Other receivables	(133)	(79)	102
Material, supplies and fossil fuel inventory	1	(56)	19
Other current assets	(18)	(86)	(32)
Deferred pension cost	(123)	(83)	(110)
Accounts payable	104	(15)	(91)
Customers' deposits	41	31	31
Accrued interest and taxes	57	9	58
Other current liabilities	90	2	56
Other liabilities	9	(26)	98
Other — net	22	68	22
Net cash provided by operating activities	2,254	2,338	1,942
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures of FPL	(1,383)	(1,256)	(1,154)
Independent power investments	(1,461)	(2,103)	(1,977)
Nuclear fuel purchases	(42)	—	—
Capital expenditures of FPL FiberNet, LLC	(8)	(21)	(128)
Contributions to special use funds	(173)	(86)	(77)
Other — net	(22)	199	67
Net cash used in investing activities	(3,089)	(3,267)	(3,269)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuances of long-term debt	2,995	1,770	920
Retirements of long-term debt	(431)	(797)	(87)
Retirements of preferred stock — FPL	(228)	—	—
Net change in short-term debt	(1,238)	214	824
Issuances of common stock	73	378	—
Dividends on common stock	(425)	(400)	(377)
Other — net	(48)	(52)	—
Net cash provided by financing activities	698	1,113	1,280
Net increase (decrease) in cash and cash equivalents	(137)	184	(47)
Cash and cash equivalents at beginning of year	266	82	129
Cash and cash equivalents at end of year	$ 129	$ 266	$ 82
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest (net of amount capitalized)	$ 342	$ 311	$ 373
Cash paid for income taxes (net of refunds totaling $86 and $256 in 2003 and 2002, respectively)	$ (77)	$ (9)	$ 433
Supplemental Schedule of Noncash Investing and Financing Activities			
Additions to capital lease obligations	$ 41	$ 74	$ 70
Accrual for premium on publicly-traded equity units known as Corporate Units	$ —	$ 111	$ —
Additions to debt through the adoption of FIN 46	$ 515	$ —	$ —
Additions to property, plant and equipment — net through the adoption of FIN 46	$ 346	$ —	$ —

Condensed Consolidated Statements of Shareholders' Equity

	Common Stock[a]		Additional		Accumulated Other		Common
(millions)	Shares	Aggregate Par Value	Paid-In Capital	Unearned Compensation	Comprehensive Income (Loss)[b]	Retained Earnings	Shareholders' Equity
Balances, December 31, 2000	176	$ 2	$3,008	$(220)	$ —	$2,803	
Net income	—	—	—	—	—	781	
Dividends on common stock	—	—	—	—	—	(377)	
Earned compensation under ESOP	—	—	15	15	—	—	
Other comprehensive loss	—	—	—	—	(8)	—	
Other	—	—	2	(6)	—	—	
Balances, December 31, 2001	178[c]	2	3,025	(211)	(8)	3,207	$6,015
Net income	—	—	—	—	—	473	
Issuances of common stock, net of issuance cost of $10	7	—	378	—	—	—	
Dividends on common stock	—	—	—	—	—	(400)	
Earned compensation under ESOP	—	—	16	16	—	—	
Premium on publicly-traded equity units known as Corporate Units	—	—	(111)	—	—	—	
Unamortized issuance cost on publicly-traded equity units known as Corporate Units	—	—	(29)	—	—	—	
Other comprehensive income	—	—	—	—	24	—	
Other	—	—	5	3	—	—	
Balances, December 31, 2002	183[c]	2	3,284	(192)	16	3,280	$6,390
Net income	—	—	—	—	—	890	
Issuances of common stock, net of issuance cost of less than $1	1	—	73	—	—	—	
Dividends on common stock	—	—	—	—	—	(425)	
Earned compensation under ESOP	—	—	18	16	—	—	
Other comprehensive loss	—	—	—	—	(12)	—	
Other	—	—	22	(5)	—	—	
Balances, December 31, 2003	184[c]	$ 2	$3,397	$(181)	$ 4	$3,745	$6,967

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

(b) Comprehensive income, which includes net income and other comprehensive income (loss), totaled approximately $876 million, $497 million and $773 million for 2003, 2002 and 2001, respectively.

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

Management's Report

The management of FPL Group is responsible for the integrity and objectivity of the financial information and representations contained in the condensed consolidated financial statements and other sections of this Annual Review. The condensed consolidated financial statements are an excerpt of the consolidated financial statements included in Appendix A to the proxy statement. 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 consolidated financial statements, from which these condensed consolidated financial statements have been derived. 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 OF FPL GROUP, INC.:

We have audited the consolidated balance sheets of FPL Group, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. Such consolidated financial statements and our report thereon dated February 26, 2004, expressing an unqualified opinion and including explanatory paragraphs relating to the Company's changes in 2003 in its methods of accounting for special-purpose entities and for asset retirement obligations and change in 2002 in its method of accounting for goodwill (which are not included herein) are included in Appendix A to the proxy statement for the 2004 annual meeting of shareholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated balance sheets as of December 31, 2003 and 2002 and the related condensed consolidated statements of income, shareholders' equity, and of cash flows for each of the three years in the period ended December 31, 2003 is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Certified Public Accountants

Miami, Florida
February 26, 2004

Safe Harbor Statement

CAUTIONARY STATEMENTS AND RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

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 Review, 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, 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 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, and the Public Utility Holding Company Act of 1935, as amended, changing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission, the Florida Public Service Commission (FPSC) and the utility commissions of other states in which FPL Group has operations, and the U.S. Nuclear Regulatory Commission, 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, return on common equity 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 by FPL 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, wildlife mortality, natural resources and health and safety that could, among other things, restrict or limit the output of certain facilities or the use of certain fuels required for the production of electricity and/or increase costs. 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.
- FPL Group's results of operations could be affected by their ability to renegotiate franchise agreements with municipalities and counties in Florida.
- The operation of power generation facilities involves many risks, including start up risks, breakdown or failure of equipment, transmission lines or pipelines, use of new technology, 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 the ability to dispose of spent nuclear fuel, as well as additional regulatory actions up to and including shutdown 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 the absence of actively quoted market prices and pricing information from external sources, the valuation of these derivative instruments involves management's judgment or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts. In addition, FPL's use of such instruments could be subject to prudency challenges and if found imprudent, cost recovery could be disallowed by the FPSC.
- There are other risks associated with FPL Group's non-rate regulated 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 successful and timely completion of project restructuring activities, maintenance of the qualifying facility status of certain projects, 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 their 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, accounting standards, securities laws or corporate governance requirements.
- 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 United States 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, governance committee.

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

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

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.

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.*

Michael H. Thaman
Chairman and Chief Financial Officer, Owens Corning (manufacturer)
Director since 2003. Member finance & investment committee.

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

**retiring from the board in May, 2004*

COMMUNICATIONS WITH THE BOARD: Shareholders may communicate directly with any of the company's directors, including the presiding director, by writing to them c/o FPL Group, Inc., P.O. Box 14000, 700 Universe Blvd., Juno Beach, FL 33408-0420. Communications intended for the non-management directors should be directed to the presiding director. Employees and others who wish to contact the board or any member of the audit committee to report complaints or concerns with respect to accounting, internal accounting controls or auditing matters, may do so anonymously using this address.

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 COMPANY

Lewis Hay, III
Chairman and Chief Executive Officer

Armando J. Olivera
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

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

FPL FIBERNET, LLC

Neil Flynn
President

Investor Information

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

Equity Units
New York Stock Exchange
Ticker Symbols:
FPLPrA
FPLPrB

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

NEWSPAPER LISTING
Common Stock: FPL Gp

Equity Units:
FPL GpUn (FPLA)
FPL GpCorp (FPLB)

REGISTRAR, TRANSFER AND PAYING AGENTS
FPL Group Common Stock and FPL Preferred Stock
FPL Group, Inc.
c/o Computershare Investor Services
2 N. LaSalle Street
Chicago, IL 60602
(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

FPL Group Capital Debentures
Bank of New York
Corporate Trust Operations
111 Sanders Creek Parkway
East Syracuse, NY 13057
(800) 254-2826

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

Other shareholder communications to:
Shareholder Services
(800) 222-4511 or (561) 694-4694
(561) 694-4718 (Fax)

DIRECT DEPOSIT OF DIVIDENDS
Cash dividends may be deposited directly to personal accounts at financial institutions. Call Computershare 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 Computershare or by accessing www.computershare.com.

ONLINE INVESTOR INFORMATION
Visit our 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, Computershare.

ELECTRONIC PROXY MATERIAL
Registered shareholders may receive proxy materials electronically by accessing **www.computershare.com/us/sc/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 (866) FPL-NEWS. In addition to hearing recorded announcements, you can request information to be sent via fax or mail.

ANALYST INQUIRIES
Investor Relations
(561) 694-4697
(561) 694-4718 (Fax)

NEWS MEDIA INQUIRIES
Media Relations
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
All Securities and Exchange Commission filings appear on our Web site at www.investor.fplgroup.com. Copies of SEC filings also are available without charge by writing to FPL Group, Shareholder Services.

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 Computershare.

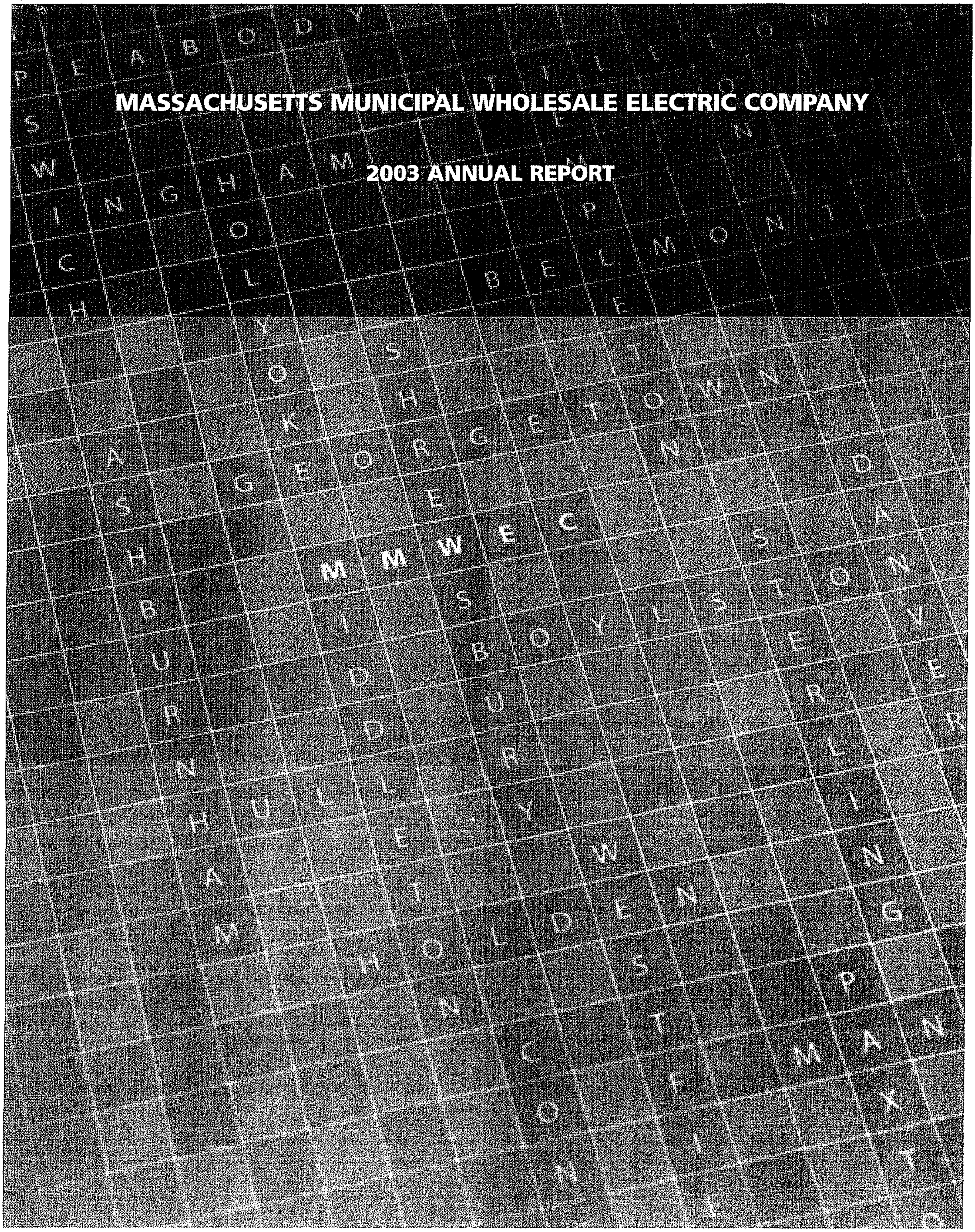
ANNUAL MEETING
May 21, 2004, 10 a.m.
PGA National Resort
400 Avenue of the Champions
Palm Beach Gardens, FL

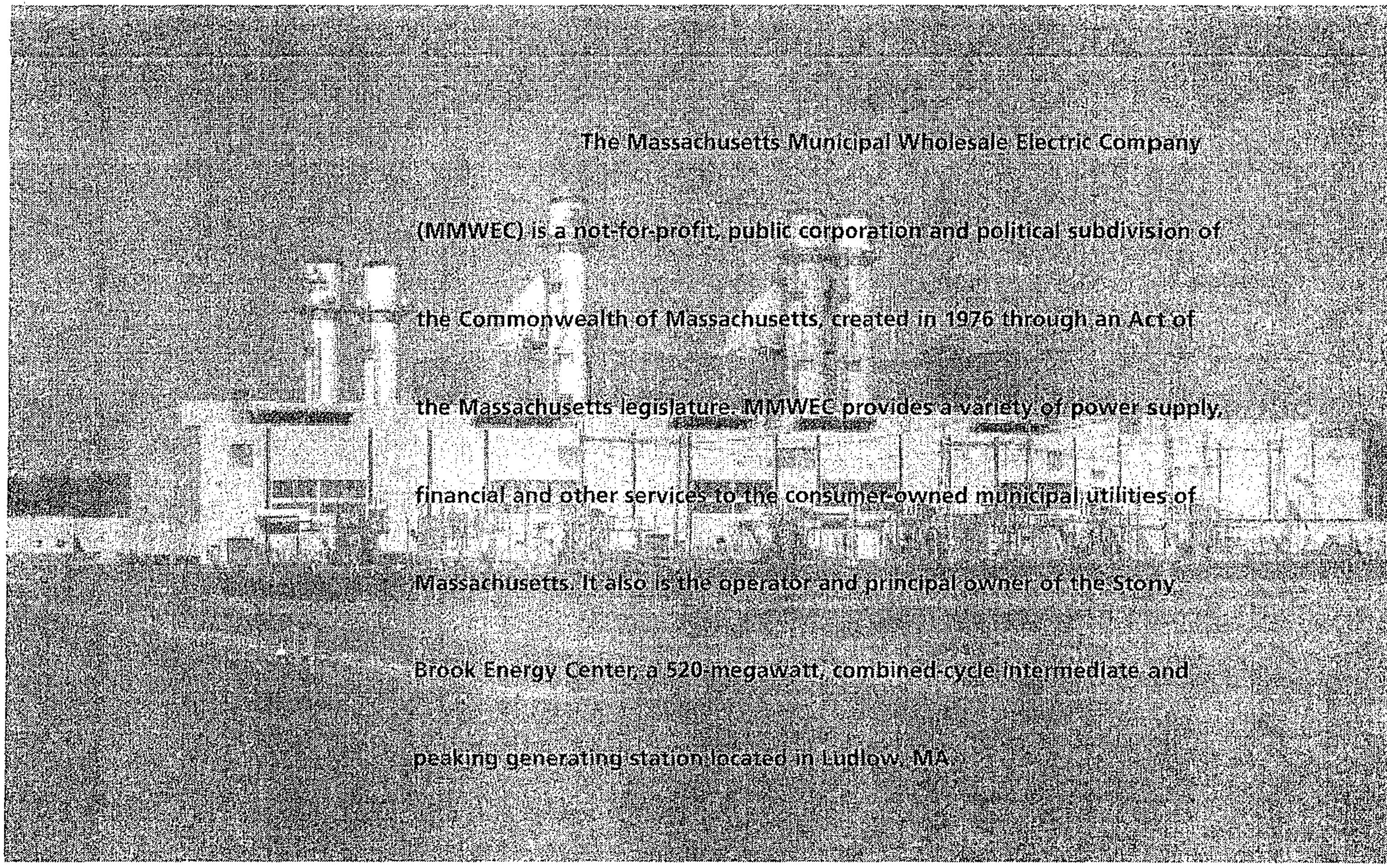
Proposed 2004 Common Stock Dividend Dates*				Optional Cash Payment Dates		
Declaration	Ex-Dividend	Record	Payment	Qtr./Yr.	Acceptance begins	Must be received by
February 13	February 25	February 27	March 15	2nd/04	May 18	June 8
May 21	June 2	June 4	June 15	3rd/04	August 16	September 8
July 30	August 25	August 27	September 15	4th/04	November 15	December 8
October 15	November 23	November 26	December 15	1st/05	February 13	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.

MASSACHUSETTS MUNICIPAL WHOLESALE ELECTRIC COMPANY

2003 ANNUAL REPORT





The Massachusetts Municipal Wholesale Electric Company (MMWEC) is a not-for-profit, public corporation and political subdivision of the Commonwealth of Massachusetts, created in 1976 through an Act of the Massachusetts legislature. MMWEC provides a variety of power supply, financial and other services to the consumer-owned municipal utilities of Massachusetts. It also is the operator and principal owner of the Stony Brook Energy Center, a 520-megawatt, combined-cycle intermediate and peaking generating station located in Ludlow, MA.

Table of Contents

Note: Information included in this report, excluding the Financial Statements and Notes to the Financial Statements, covers the period through March 31, 2004.

In The Past Year

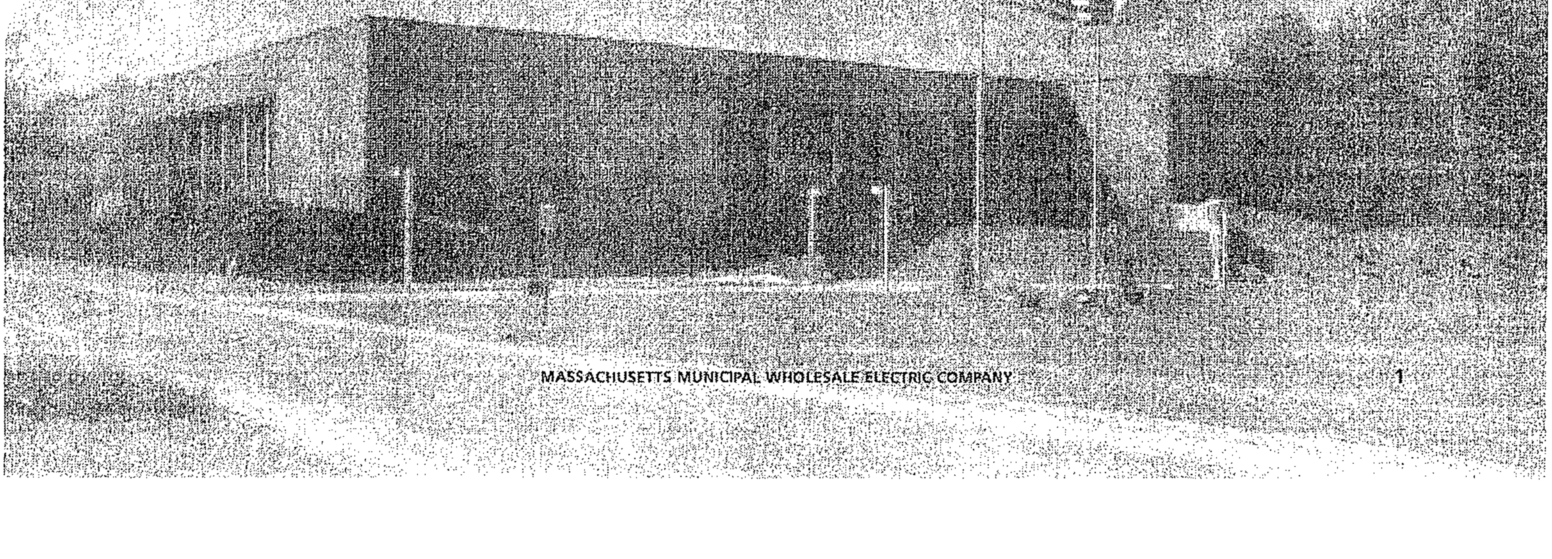
- The Georgetown Municipal Light Department, the Littleton Electric Light & Water Department, and the Peabody Municipal Light Plant rejoined the MMWEC membership, bringing the total number of MMWEC Members to 25.

- MMWEC expanded and improved its services to facilitate municipal utility participation in New England's wholesale electric power markets, which became more complex and demanding with the adoption of a new Standard Market Design (SMD).

- Collectively and individually, MMWEC's Member and Project Participant utilities have undertaken a number of initiatives to strengthen their financial positions in the face of uncertainties posed by electric industry restructuring.

- MMWEC has been a strong and effective advocate for municipal utilities in the negotiations, legal proceedings and other venues where further restructuring of New England's wholesale electricity marketplace is being proposed.

- MMWEC initiated a comprehensive study of power supply alternatives - including generation ownership, power purchases, and load management programs – and will develop recommendations for each of its Members to meet their future resource needs.



Message From Management: A Joint Action Revival

Electric industry restructuring continues to produce many changes in New England's electricity marketplace, but it will take time before the full results of restructuring are known, especially from the perspective of consumers.

There is, however, at least one result of industry restructuring already known to MMWEC. Restructuring has been a unifying force for Massachusetts municipal utilities, which are showing a renewed commitment to joint action in addressing the impact of restructuring and other issues of common concern.

This is most obvious in the recent decisions of the Georgetown Municipal Light Department, the Littleton Electric Light & Water Department and the Peabody Municipal Light Plant to rejoin the membership of MMWEC, the joint action agency for Massachusetts municipal utilities. In discussing their decisions to rejoin, the managers of these utilities – Wayne Snow from Georgetown, Savas Danos from Littleton, and Wesley Merrill from Peabody – all cited the need for and benefits of municipal utility joint action, particularly in light of the changing industry landscape.

MMWEC was founded upon the concept of joint action and the belief that teamwork and cooperation would enable municipal utilities to achieve their goals of power supply independence, competitive strength and customer satisfaction. From its inception in 1969, through its establishment in 1976 as a political subdivision of the Commonwealth of Massachusetts with the power to issue tax-exempt bonds to finance electric power facilities, MMWEC has been an important vehicle for the achievement of these goals.

In the early 1970s, with New England undergoing the first major restructuring of its wholesale power marketplace, MMWEC led the fight against investor-owned utilities that were seeking to bar municipal utilities from participating in the New England Power Pool (NEPOOL). In 1973, after years of litigation, municipal utilities were granted full and equal rights to participate in NEPOOL, the long-standing result of these early restructuring activities.

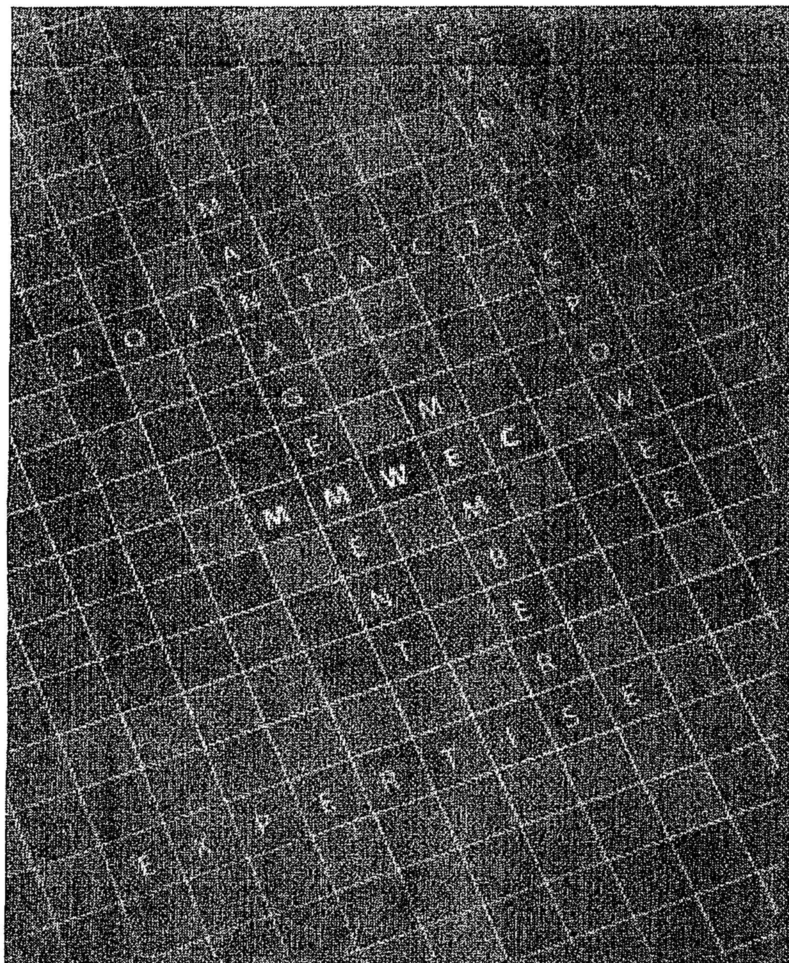
The municipals' NEPOOL rights included opportunities for joint ownership in the large generating units being developed at the time, and the responsibility for providing the region with up to 800 megawatts of NEPOOL-planned capacity. The responsibility for planning and developing this public power supply was assumed by the MMWEC organization, which since has acquired ownership of more than 700 megawatts of generating capacity, financed with MMWEC bonds, on behalf of 28 Massachusetts municipal utilities and six out-of-state utilities.

As we reflect on the events of the past year, in many ways, history is repeating itself.

Today, New England is in the midst of wholesale power market restructuring activities that are similar in magnitude to those of the 1970s. Many marketplace changes already have taken place, including the implementation of a

Left to Right:
Michael A. Minkos, General Manager and Secretary
Raymond R. Shockey, President
H. Bradford White, Director and Chairman of the Board

Standard Market Design (SMD) in 2003, and many more are being proposed. The interests of municipal utilities and their customers are at stake as these proposals move forward, and the technical and financial requirements of representation and participation in the developing marketplace are too great for individual municipal utilities to bear alone.



Similar to their need to develop generating facilities in the 1970s, the MMWEC Member utilities are facing a collective need for up to 250 megawatts of new generation or alternate resources in the 2010 timeframe. And, once again, there may be opportunities to develop these resources through cooperative action, thereby capturing the economies of scale and other benefits of doing so.

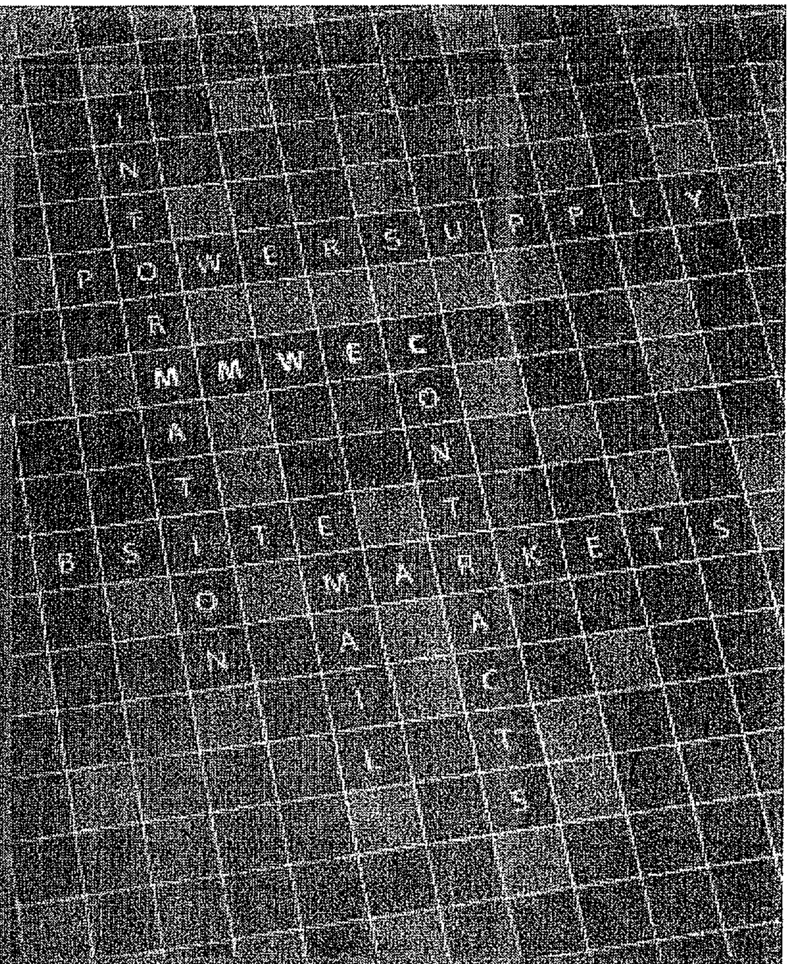
In addition, a new phase has begun in Massachusetts' struggle to retain rights to purchase preference power from hydroelectric projects in New York, as the initial project licenses expire and federal relicensing proceedings are initiated.

The need for MMWEC to help municipal utilities address the challenges associated with marketplace restructuring and developing new resources also continues. Unlike the 1970s, however, the MMWEC of today has more than 30 years of experience in dealing with marketplace issues and in planning, financing, developing and operating an economic and reliable power supply for municipal utilities.

Using this experience, MMWEC has expanded its wholesale power market services to make the complicated transition to SMD as simple and seamless as possible for its Member utilities. On its own and in conjunction with other public power entities, MMWEC also is promoting the rights and interests of its Members in the various forums where ongoing restructuring issues are being addressed, from NEPOOL and ISO-New England negotiations to Federal Energy Regulatory Commission (FERC) cases and U.S. Congressional proceedings on energy legislation.

Through its Comprehensive Power Supply Plan, MMWEC has undertaken studies that ultimately will lead to recommendations for Member utilities to meet their future resource needs. A number of financial initiatives are helping MMWEC Members better prepare financially for the future, and MMWEC has implemented business recovery and risk management programs that are identifying and addressing risks faced by the organization and its membership. More information on these and other MMWEC services can be found deeper in this year's Annual Report.

Looking forward, as the electric power industry continues its transition from a fully regulated to a more competitive business structure, the need for MMWEC and joint action by municipal utilities is greater now than ever before. As it has demonstrated in the past year, MMWEC is up to the challenge of identifying, developing and providing the services needed for municipal utilities to retain their strong competitive positions, which may explain why our membership is expanding for the first time in many years.



"The latest enhancement to the power supply information available on the password-protected MMWEC website is . . ."

So began many e-mails from MMWEC over the past year informing Member utilities of updates to their customized web pages, usually to add new information about a dimension of their participation in New England's wholesale electric power markets.

One recently added web page gives Members access to "a consolidated set of Locational Marginal Price (LMP) data selection options", including the current five-minute real-time LMPs, and a table that "provides comparisons of hourly day-ahead and real-time LMPs at the node or zone of the user's choice." Another web page enables Members to view a graph that shows the actual hourly dispatch of their individual generating resources, compared to the day-ahead LMP for their load zone and the hourly day-ahead demand bids submitted by MMWEC for each Member.

Among the many other web pages displaying power supply information, Members can view their current positions in the various ISO-New England (ISO-NE) markets and find out if they made or paid money in serving their electric loads on any given day or month. And it goes on.

With the advent of New England's SMD in March 2003, participating in the region's wholesale power markets has become vastly more complex and cybernated. There are many new classifications of market data being produced and processed for each market participant and an evolving set of new market rules to follow. Initiating, tracking and reporting transactions requires a high level of technical knowledge and skill, as well as the more traditional expertise in power supply matters.

After a full year of facilitating its Members' participation in the SMD marketplace, MMWEC has in place the electronic systems and markets expertise to ensure that its Members are ready and able to capture the benefits of ongoing marketplace changes. One example is the introduction in January of ISO-NE's Forward Reserve Market (FRM), which compensates generators, typically peaking units, for providing quick-start operating reserve capacity to the region. MMWEC bid its Stony Brook Peaking Unit into the first FRM auction; its bid prices cleared; and the 22 municipal utilities that are Stony Brook Peaking Project Participants are scheduled to receive more than $3 million in FRM payments from ISO-NE during the first five months of 2004. Another FRM auction is scheduled for June 1.

While MMWEC's wholesale power market services meet the day-to-day needs of Member utilities, the organization's comprehensive power supply planning process is structured to meet longer-term needs. Through this process, MMWEC has undertaken a study of power supply alternatives to meet a projected, aggregate need for up to 250 megawatts of generating capacity or load reduction capability in 2010. This need results primarily from projected annual load growth of 1.5 percent and the expiration of Members' existing bilateral contract purchases.

The study's goal is to evaluate and refine the costs, projected benefits and risks of pursuing ownership of different types of generation, such as oil, gas and coal. The result will be a benchmark that can be used to measure other power supply options, such as bilateral power purchase contracts, load reduction programs, or a greater reliance on spot market energy purchases.

Among the ownership options being studied are an expansion or repowering of the Stony Brook plant, construction of a new natural gas combined-cycle plant, and the purchase of an existing generator. In addition to contract purchases from traditional fossil-fueled resources, MMWEC is examining contract purchases from renewable resources, which are insulated from the volatile price swings of fossil fuels.

Through its Wind Power Project, created to explore wind power opportunities, MMWEC already is discussing contract options with two wind project developers. Separately, several Massachusetts municipal utilities are investigating or pursuing wind turbine development in their communities. MMWEC also recognizes the importance and value of demand management programs, which are being evaluated on an equal basis in the resource alternatives study.

Recommendations resulting from the study will be available within a timeframe that provides adequate lead time for Member utilities to make the decisions required to meet their future power supply needs. This is a familiar process for MMWEC and its Members, which, unlike most other utilities in New England, have retained the option of generation ownership to meet their customers' demand for electricity.

"While MMWEC's wholesale power market services meet the day-to-day needs of Member utilities, the organization's comprehensive power supply planning process is structured to meet longer-term needs."

Regional and Federal Issues

Advancing the rights and interests of Massachusetts municipal utilities has been a function of MMWEC since the organization's founding in 1969, when the municipals joined forces and consolidated their strength in MMWEC to pursue several important objectives through coordinated participation in regional and federal affairs.

During the past year, MMWEC continued its participation in the ongoing restructuring of New England's wholesale power markets, which required significant involvement with NEPOOL, ISO-NE and the FERC. In addition, MMWEC argued strongly at the FERC in support of the rights of Massachusetts and its municipal utilities to continue receiving inexpensive hydroelectric power from a federally licensed generating project in New York.

In both cases, MMWEC is continuing a long tradition of providing the joint action services that enable municipal utilities to participate in such activities in a cost-effective and efficient manner.

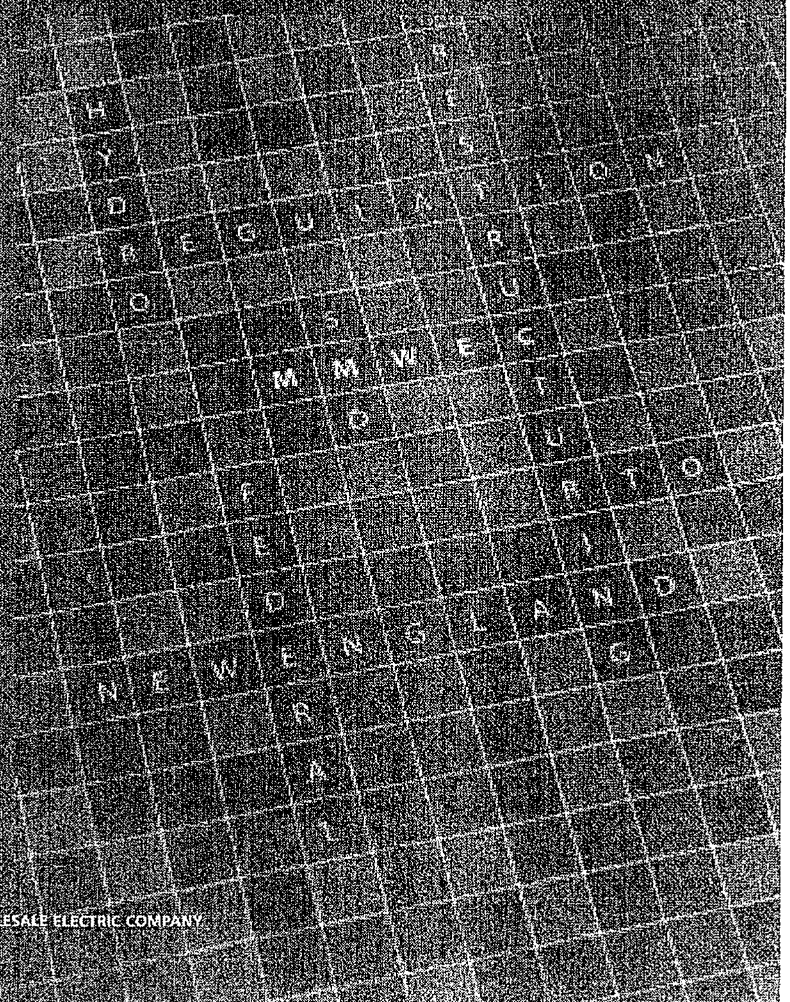
Market Restructuring

On Oct. 31, 2003, ISO-NE and New England's electric transmission owners filed with the FERC a 3,200-page proposal to create a Regional Transmission Organization for New England (RTO-NE). If implemented, among other onerous consequences, this proposal would eliminate NEPOOL, increase transmission costs and deny consumers and market participants an effective voice in the marketplace.

In a joint effort with other New England public power entities, MMWEC filed its objections to the RTO-NE proposal in December. Others opposing RTO-NE include NEPOOL, the regionwide association of all market participants, which voted against the proposal by a margin of 80 percent in opposition to only 20 percent in favor.

It would take many pages of this report to address the issues involved with the RTO-NE proposal and to describe the process of restructuring New England's wholesale power marketplace, which has been ongoing since the mid-1990s. However, throughout this process, MMWEC has been a strong and effective advocate for the rights and interests of Massachusetts municipal utilities, ensuring that public power is represented in the negotiations and extensive litigation associated with marketplace restructuring.

Importantly, MMWEC has worked to limit its expenses associated with these activities by



sharing many costs with the region's other public power entities. It also has been successful in building coalitions and generating support for its positions among other marketplace stakeholders. With the establishment of a national standard market design and regional transmission organizations being addressed in federal energy legislation, there are national politics at play as well. MMWEC has kept key federal legislators informed of issues that could affect their constituents adversely.

In addition, MMWEC staff members serve on the ISO-NE committees where most proposals for marketplace and organizational change are developed. This ground-level input, requiring extensive marketplace knowledge and expertise, is extremely important and is one reason why MMWEC is arguing in support of a continuing role for market participants in the decision-making process.

Hydro Power

Since 1985, largely due to MMWEC's advocacy, Massachusetts has been receiving low-cost power from two federally licensed hydroelectric projects in New York, the St. Lawrence Project and the Niagara Project. The full Massachusetts allocation of hydroelectric power from these projects is delivered to the state's 40 municipal utilities, at a cost of about 2.5 cents/kilowatt hour, resulting in significant power cost savings for municipal utility consumers.

Late in October 2003, the FERC renewed the New York Power Authority's (NYPA) 50-year federal license to operate the St. Lawrence Project. NYPA's license to operate the Niagara Project is up for renewal in August 2007, although Niagara Project relicensing activity already has begun.

The right of Massachusetts and other states to receive a fair power allocation was a major issue throughout the St. Lawrence Project relicensing process, with NYPA initially seeking to eliminate the out-of-state allocations altogether. NYPA is under considerable pressure to reduce such allocations through the Niagara Project relicensing process.

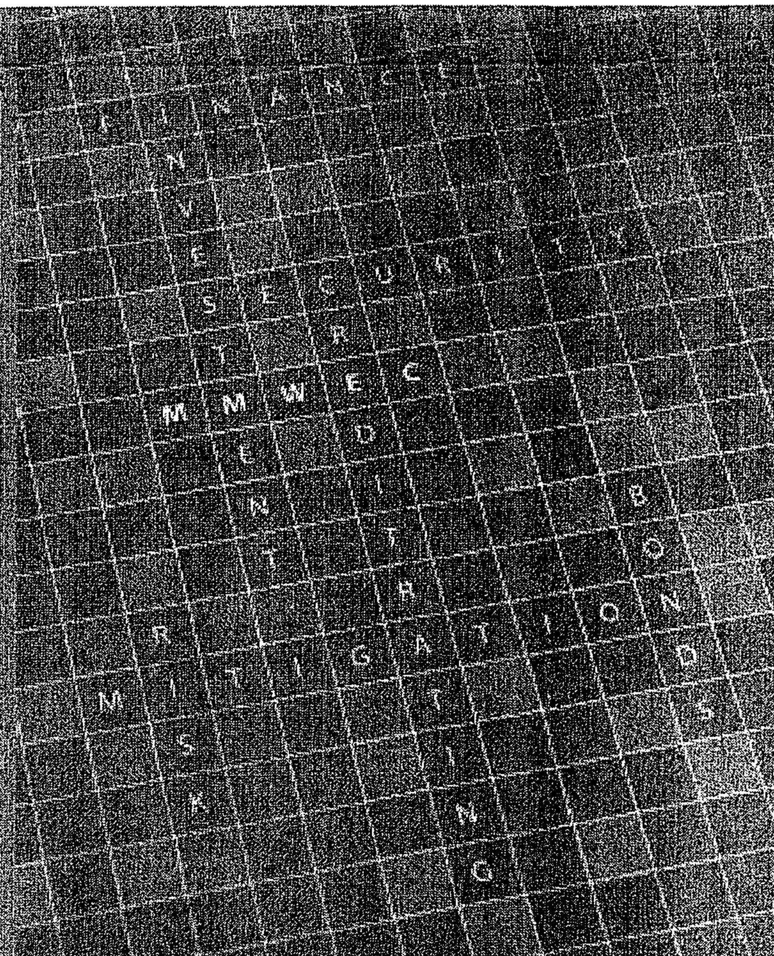
The FERC's St. Lawrence Project relicensing decision affirmed the right of Massachusetts to receive power from the project, but it also cut the Massachusetts allocation of project power in half, from 9.6 to 4.8 megawatts. MMWEC filed a motion for reconsideration of this decision in November, arguing that Massachusetts should receive between 9.6 and 22.4 megawatts of St. Lawrence Project power. A decision on MMWEC's motion was pending in March 2004.

With respect to the Niagara Project, from which Massachusetts currently receives 53 megawatts of preference power, MMWEC has been participating in relicensing activities for more than a year and expects its involvement to increase as the August 2005 deadline for NYPA to file its relicensing request approaches.

As a result of MMWEC's numerous contacts with legislators, the Massachusetts Congressional delegation and many individual state legislators have written to the FERC in support of continuing the NYPA allocations. In October 2003, the Massachusetts state legislature adopted a joint resolution of the House and Senate urging the FERC to ensure that Massachusetts continues receiving the power allocations.

Under an agency agreement with the Massachusetts Department of Telecommunications and Energy, MMWEC represents the interests of Massachusetts in NYPA hydroelectric power matters. MMWEC acquired this role due primarily to its success in asserting the rights of Massachusetts to receive power from these projects in the 1980s. Now, as witnessed in 2003, NYPA power issues have resurfaced, and MMWEC once again has taken up the fight to protect the rights of Massachusetts municipal utilities to these valuable resources.

Financial and Risk Management



Over the past few years, during difficult financial times for many electric utility industry participants, the MMWEC organization and Massachusetts municipal utilities have maintained strong and stable financial positions.

Sound financial planning and management, as well as an emerging program to identify organizational risks, have helped MMWEC to maintain a positive financial profile. In addition, through exemptions in state restructuring law and recognition of the value of local ownership and control, Massachusetts municipal utilities have retained their local rate-setting authority, as well as their right to own generating facilities, both important buffers against the volatility of wholesale power markets.

At the same time, the MMWEC Member and Project Participant utilities, both independently and with MMWEC's support, are taking the steps needed to strengthen their financial positions. Many of these utilities have undertaken or completed extensive upgrades of their electric distribution systems, thereby minimizing future capital needs and ensuring the long-term reliability of their electric systems. They also are building reserves to pay down stranded costs and mitigate future rate increases by increasing their depreciation accounts and funding rate-stabilization accounts, of which MMWEC is trustee.

MMWEC's financial services include the various accounting, investment, budgeting and reporting services required to support the organization's infrastructure and manage the $925.3 million in outstanding MMWEC bonds. They also include programs and services designed to enhance MMWEC's financial standing. Following are updates on some of MMWEC's financial initiatives:

• In June 2003, MMWEC closed out its Tax-Exempt Commercial Paper Program, a $42 million program used by municipal utilities to buy out three high-priced power purchase contracts. In addition to the power cost savings anticipated as a result of the buyout, favorable interest rates enhanced the program benefits by about $2.1 million.

• MMWEC's $1 billion debt refunding and restructuring program, completed late in 2001, continues to generate higher-than-projected savings for Project Participants, primarily due to lower interest rates on the $170.8 million in variable-rate bonds issued as part of the program. Interest rates on these bonds have been averaging less than 1.2 percent, compared to the 4.5-percent rate projected at the time of the refunding.

• Project Participants are continuing to defer the bulk of the $134 million in debt service savings from the refunding program until 2010, which will reduce Participants' power costs at a time when New England's power markets are expected to become more competitive.

- To enhance the organization's liquidity, MMWEC maintains various credit facilities, including a line of credit that can be used to finance oil purchases for the Stony Brook power plant, and others that provide liquidity support for power contracts and agreements.

- MMWEC is seeking changes in its enabling legislation in order to utilize the ever-widening range of financial instruments available to manage the organization's assets, including interest rate swaps and other hedging instruments.

- MMWEC is near full implementation of a new investment management system that integrates many financial management and reporting functions. The system also generates investment options that are analyzed by staff responsible for managing the company's financial portfolio.

With implementation of its Comprehensive Business Recovery Plan and Enterprise Risk Management Program, MMWEC is identifying, prioritizing and addressing risks that could affect adversely its business and financial interests, from the loss of a specialized employee to an extended outage at a major generating facility.

The Comprehensive Business Recovery Plan, completed and tested successfully in 2003, includes requirements and procedures for MMWEC's administrative offices to recover from a power outage, fire or other interruption of business. The Enterprise Risk Management Program, initiated late in 2003, is structured more toward addressing organizational risks associated with internal or external conditions, ranging from staffing levels to economic and political forces. With new risks emerging as the industry continues to change, risk management is an increasingly important requirement of effective management.

MMWEC's financial standing is a reflection of the organization's ability to succeed in an industry that is undergoing significant change and facing numerous uncertainties. In response to these circumstances, the major credit rating agencies are expanding their credit analyses to include more detailed information on all aspects of the MMWEC organization.

Through this turmoil, the rating agencies generally have been supportive of public power utilities due to public power's solid structure and strong performance. The MMWEC Member and Project Participant utilities that have obtained independent credit ratings over the past year all have received high grades. In March 2004, MMWEC was awaiting the results of reviews of its own credit ratings, including the separate ratings for each of the eight MMWEC Power Supply Projects.

What MMWEC demonstrated in its rating agency presentations is that the organization is well prepared, from any perspective, to meet the challenges of a changing, competitive marketplace.

Operating Projects: A Solid Foundation

The foundation of MMWEC's power supply consists of the organization's ownership interests in the Seabrook Station and Millstone Unit No. 3 nuclear units, the oil-fired W.F. Wyman Unit No. 4, and the oil- and gas-fired Stony Brook Intermediate and Peaking units, which also are operated by MMWEC.

The fuel diversity of these resources and the successful operation of the plants over the past year have been important factors in enabling MMWEC's Project Participant utilities to maintain their competitive positions. The continuing volatility of natural gas and oil prices is balanced by the relatively low and stable price of nuclear energy, which helps to stabilize the power costs and rates of Project Participants.

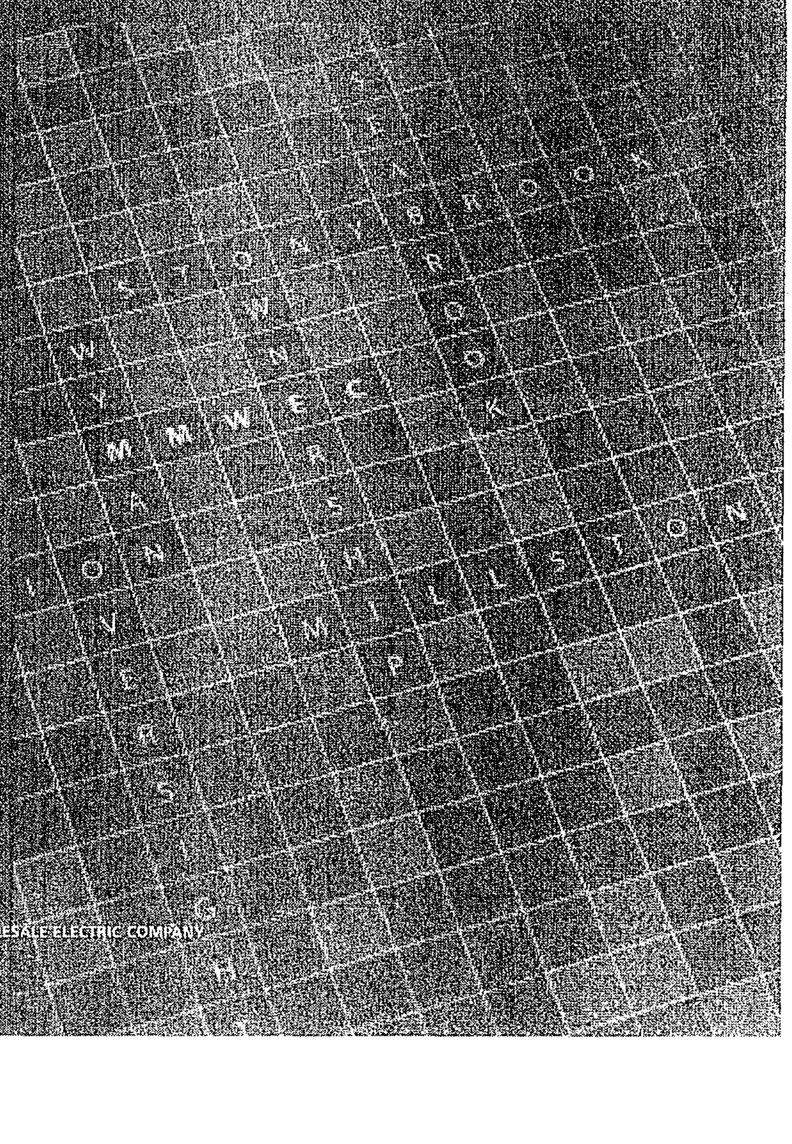
Stony Brook consists of a 350-megawatt combined-cycle Intermediate Unit and a 170-megawatt Peaking Unit. MMWEC owns 90.8 percent of the Intermediate Unit and 100 percent of the Peaking Unit. As the operator of the Stony Brook units, MMWEC completed the first year of operation of the Intermediate Unit's new natural gas pipeline in September 2003, with the pipeline delivering significant quantities of gas to the plant. All components of the pipeline have been functioning as designed, and MMWEC has obtained all of the environmental certifications required for the pipeline, with the exception of a water quality certification that cannot be issued until the fall of 2004.

In order to keep Stony Brook equipped with the latest technology, MMWEC has completed major modifications and upgrades of plant facilities over the years, including a complete overhaul of the Intermediate Unit's steam turbine in April 2003. Also in 2003, MMWEC completed negotiations and signed a new three-year contract with unionized plant employees.

Two of MMWEC's jointly-owned generating assets, Seabrook Station and Wyman Unit No. 4, are operated by indirect subsidiaries of FPL Group, Inc., which owns more than 11,000 megawatts of generating capacity in 22 states and operates four nuclear units in Florida that are similar in design to Seabrook. MMWEC has an 11.59 percent, 133.3-megawatt ownership interest in Seabrook Station, and a 3.6 percent, 22.7-megawatt ownership interest in the Wyman unit.

FPL Energy Seabrook, LLC, which purchased all but the public power ownership shares in Seabrook Station in 2002, has undertaken several activities that should enhance the value of this resource for MMWEC and its Seabrook Project Participants.

FPL Energy Seabrook is pursuing plans to increase the capacity of Seabrook Station by approximately 100 megawatts over the next several years, beginning with the unit's spring 2005 refueling outage. It also has announced



plans to seek an extension of its Seabrook operating license, from the current license expiration date of 2026, to 2050. In addition, FPL Energy Seabrook is centralizing some of its non-safety functions at Seabrook into other FPL operations, raising the potential for operating efficiencies at Seabrook.

MMWEC oversees its interests in Seabrook Station and Wyman Unit No. 4 through staff attendance at regular joint ownership meetings, review of information provided by the operators, and frequent contacts with FPL staff. In 2003, MMWEC began discussions with FPL Energy Seabrook regarding proposed updates to the Seabrook Joint Ownership Agreement, primarily to reflect industry changes and the change in ownership in the plant.

MMWEC also owns a 4.8-percent, 55.2-megawatt share in Millstone Unit No. 3, which is operated and principally owned by Dominion Nuclear Connecticut, Inc., a subsidiary of Virginia-based Dominion Resources, Inc. Dominion owns more than 24,000 megawatts of generation, including four nuclear units in Virginia, and is in the process of acquiring another nuclear unit in Wisconsin.

In January 2004, Dominion Nuclear Connecticut filed an application with the Nuclear Regulatory Commission (NRC) to extend its Millstone Unit No. 3 operating license for an additional 20 years, from 2025 to 2045, a process that generally takes about two years. In March 2003, Dominion received NRC approval for 20-year license extensions for its Virginia nuclear plants.

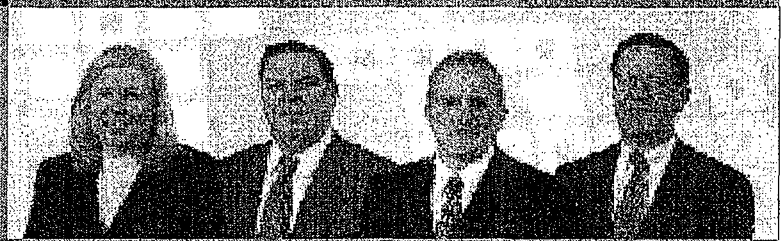
In addition, Dominion Nuclear Connecticut is seeking permission to construct dry cask storage facilities to store spent nuclear fuel from Millstone Station, which is home to two active and one retired nuclear units. While the dry cask storage capacity is not currently needed for Millstone Unit No. 3, it may be needed in the future, particularly if the license extension is granted. Dominion was the first company authorized by the NRC to store spent fuel in dry casks, beginning the practice in 1986 at its Surry Power Station in Virginia. Dominion also has taken steps to align the operation and support structures at all of its nuclear stations, positioning the company to achieve a number of operating efficiencies at Millstone.

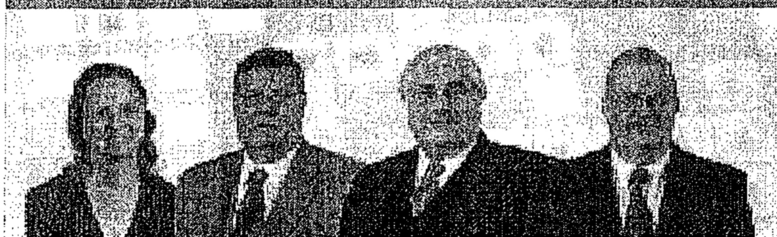
MMWEC oversees its interests in Millstone Unit No. 3 in a manner similar to its oversight of Seabrook Station and Wyman Unit No. 4.

The MMWEC-owned generating units, in combination with other municipal utility power entitlements, represent a highly diversified, well-balanced and efficiently operated mix of resources that brings both stable prices and reliability to the power supply of MMWEC's Member and Project Participant utilities.

"The fuel diversity of these resources and the successful operation of the plants over the past year have been important factors in enabling MMWEC's Project Participant utilities to maintain their competitive positions."

Directors, Officers and Managers





Left Column, Top Photo
Left to Right:
Mark T. Kelly, Director/Elected
Daniel Golubek, Director/Elected
Robert V. Jolly, Jr., Director/Elected
John J. Beliveau, Director/Elected
Timothy L. McCarthy, Director/Elected

Left Column, Bottom Photo
Left to Right:
Nancy A. Brown, Assistant Secretary
Gerald P. Skelton, Director/Elected
Nicholas J. Scobbo, Jr., General Counsel
Ronald W. Kusek, Assistant Treasurer/Accounting Manager

Right Column, Top Photo
Left to Right:
Sandra Z. Magyar, Director of Business Services
Joseph O. Roy, Director of Operating Projects
Ronald C. DeCurzio, Treasurer/Director of Financial Services
Roger W. Bacon, Director of Power Services

Right Column, Bottom Photo
Left to Right:
Luis Vitorino, Director/Town of Ludlow Representative
Michael L. Flynn, Director/ Town of Wilbraham Representative
John M. Flynn, Director/ Town of Hampden Representative
Paul Robbins, Director/Gubernatorial Appointee

Report of Independent Auditors

To the Board of Directors and Members of

Massachusetts Municipal Wholesale Electric Company:

In our opinion, the accompanying statements of financial position 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, 2003 and 2002, 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. 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 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.

As discussed in Note 5 to the financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," on January 1, 2003.

PricewaterhouseCoopers LLP

March 12, 2004

Statements Of Financial Position

December 31, 2003 and 2002

(In Thousands)	2003	2002
ASSETS		
Electric plant		
In service (Note 5)	$1,295,900	$1,256,118
Accumulated depreciation	(668,461)	(634,239)
	627,439	621,879
Construction work in progress	6,538	2,226
Nuclear fuel - net of amortization	9,926	11,438
Total electric plant	643,903	635,543
Special funds (Notes 2, 4 and 6)	230,944	237,895
Current assets		
Cash and temporary investments (Note 6)	4,850	2,256
Accounts receivable	6,774	7,836
Unbilled revenues (Note 3)	7,490	7,107
Inventories	16,978	14,475
Prepaid expenses	7,859	6,614
Total current assets	43,951	38,288
Total special funds and current assets	274,895	276,183
Deferred charges		
Amounts recoverable under terms of the power sales agreements (Note 2)	187,423	244,388
Unamortized debt discount and expenses	10,555	13,166
Nuclear decommissioning trusts	35,572	29,816
Other	3,921	5,328
	237,471	292,698
	$1,156,269	$1,204,424
LIABILITIES		
Long-term debt (Note 4)	$ 888,691	$ 965,095
Current liabilities		
Current maturities of long-term debt (Note 4)	68,970	64,735
Short-term debt (Note 4)	9,753	15,591
Accounts payable	9,168	9,639
Accrued expenses	37,529	38,733
Member and participant advances	29,582	49,123
	155,002	177,821
Asset retirement obligation (Note 5)	76,770	-
Other liabilities	35,806	61,508
Commitments and contingencies (Note 9)		
	$1,156,269	$1,204,424

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

Statements Of Operations

Years Ended December 31, 2003 and 2002

(In Thousands)	2003	2002
Revenues (Note 3)	$295,114	$249,504
Interest income	6,522	7,944
Total revenues and interest income	$301,636	$257,448
Operating and service expenses:		
Fuel used in electric generation	$ 38,104	$ 31,549
Purchased power	78,434	60,992
Other operating	39,239	37,400
Maintenance	10,470	11,177
Depreciation	25,636	46,048
Taxes other than income	3,988	3,790
	195,871	190,956
Interest expense:		
Interest charges	36,827	40,032
Interest charged to projects during construction (Note 2)	(77)	(64)
	36,750	39,968
Total operating costs and interest expense	232,621	230,924
Cumulative effect of change in accounting principle	12,964	-
Total costs and expenses	245,585	230,924
Decrease in amounts recoverable under terms of the power sales agreements (Note 2)	56,051	26,524
	$301,636	$257,448

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

Statements Of Cash Flows

Years Ended December 31, 2003 and 2002

(In Thousands)	2003	2002
Cash flows from operating activities:		
Total revenues and interest income	$ 301,636	$ 257,448
Total costs and expenses, net	(232,621)	(230,924)
Adjustments to arrive at net cash provided by operating activities:		
Depreciation and decommissioning	25,636	48,314
Amortization of debt discount and nuclear fuel	3,625	391
Change in assets and liabilities:		
Accounts receivable	1,062	758
Unbilled revenues	(383)	(386)
Inventories	(2,503)	4,795
Prepaid expenses	(1,245)	(60)
Accounts payable	(471)	(56)
Accrued expenses and other	164	4,920
Other liabilities	4,592	679
Member and participant advances and reserves	(19,541)	(1,661)
Net cash provided by operating activities	79,951	84,218
Cash flows from investing activities:		
Construction expenditures and purchases of nuclear fuel	(8,132)	(17,828)
Interest charged to projects during construction	(77)	(64)
Net (increase) decrease in special funds	5,323	(12,589)
Decommissioning trust payments	(3,898)	(2,374)
Other	-	52
Net cash investing activities	(6,784)	(32,803)
Cash flows from financing activities:		
Payments made on long-term debt	(64,735)	(44,730)
Payments made on short-term debt	(16,122)	(5,025)
Net proceeds from short-term borrowings	7,153	56
Proceeds from issuance of short-term debt	3,131	-
Payments for bond issue costs	-	(12)
Net cash used for financing activities	(70,573)	(49,711)
Net increase in cash and temporary investments	2,594	1,704
Cash and temporary investments at beginning of year	2,256	552
Cash and temporary investments at end of year	$ 4,850	$ 2,256
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 42,997	$ 30,551

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 MMWEC's 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, 2003, twenty-four Massachusetts municipal electric systems were members. Termination of membership does not relieve a system of its PSA or other power purchase 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 in spent fuel, fuel in use, in stock and in process for both 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 four years. At December 31, 2003, MMWEC's share of Millstone Unit 3 and Seabrook Station unbilled assessments was $152,000 and $232,000, respectively. These amounts are included in accrued expenses and other liabilities on the Statements of Financial Position. MMWEC, along with all of the other joint owners of both Millstone Unit 3 and Seabrook Station, has filed claims against the DOE in the United States Court of Claims for partial breach of the disposal contracts with the DOE.

Special Funds

In accordance with the General Bond Resolution (GBR) pursuant to which MMWEC issued its 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. The composition of special funds is as follows:

(In Thousands)	2003	2002
Fund		
Bond Fund Interest, Principal and Retirement Account to pay principal and interest on bonds	$ 53,635	$ 52,849
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	59,067	59,911
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	23,959	26,705
Revenue Fund to receive revenues and disburse them to other funds	67,722	61,177
Working Capital Funds to maintain funds to cover operating expenses	16,827	27,399
Other Funds	9,734	9,854
Total Special Funds	$230,944	$237,895

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, 2003 and 2002, total fuel oil inventory was valued at $8.7 and $4.7 million, and spare parts inventory amounted to $8.3 and $9.8 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), asset retirement obligations, 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 $192.0 and $246.0 million and have cumulative billings in excess of costs which total $4.6 and $1.6 million at December 31, 2003 and 2002, respectively. In accordance with the PSAs, these amounts have been offset in the Statements of Financial Position.

The December 31, 2003 and 2002 balances of $187.4 and $244.4 million, respectively, reflect the Statements of Operations net decrease of $56.1 and $26.5 million for the years then ended, the change in net unrealized gain (loss) on securities available for sale and minimum pension liability adjustments of $.9 and ($2.9) million for 2003 and 2002, respectively, that would otherwise be recorded as other comprehensive income.

Depreciation

Electric plant in service is depreciated using the straight-line method. The aggregate annual provisions for depreciation averaged 2% and 4% of the original cost of depreciable property for 2003 and 2002, respectively. In 2003, the asset lives used in the estimate of depreciation for Millstone Unit 3 and Seabrook Station were increased to correlate with an anticipated license extension for each of these plants.

Nuclear Decommissioning Trusts

As required by the Nuclear Regulatory Commission (NRC) 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, 2003 Millstone Unit 3 and Seabrook Station balances of $14.8 and $20.8 million, respectively, are stated at market value and are included as part of the deferred charges and amounts recoverable under terms of the PSAs on the Statements of Financial Position. In 2003, MMWEC recorded these trust fund earnings as interest income on the Statements of Operations.

Member and Participant Advances and Reserves

MMWEC maintains numerous operating reserves and advances from its Members and Project Participants in accordance with the PSAs, Power Purchase Agreements (PPAs) and related broker arrangements. Member and Participant advances for 2003 and 2002 were $29.6 and $49.1 million, respectively, and are included in member and participant advances on the Statements of Financial Position. Other member and participant reserves for 2003 and 2002 were $34.8 and $30.5 million, respectively, and are included in other liabilities on the Statements of Financial Position.

New Accounting Standards

In 2003, the FASB issued Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149), which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. MMWEC was required to comply with SFAS 149 beginning in 2003. However, the implementation of this standard has not had an impact on its operations or financial position.

The FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulleting No. 51* (Interpretation) during 2003. The Interpretation addresses consolidation by business enterprises of variable interest entities and is effective for MMWEC in 2004. The application of this Interpretation is not expected to materially impact MMWEC's operations, financial position or cash flows.

Reclassifications

Certain reclassifications of prior years' data have been made to conform with the current year presentation. These reclassifications primarily consisted of classifying certain current liabilities as other liabilities.

(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, 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:

(In Thousands)	2003	2002
Revenues		
Electric sales for resale	$292,788	$248,022
Service	2,326	1,482
Total Revenues	$295,114	$249,504

4) Debt

General Bond Resolution

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 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 raise their rates sufficiently to pay such costs. These obligations are not contingent upon the operational status of the Project's unit(s).

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.

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

(In Thousands)	Net Interest Cost	December 31, 2003	2002
Issue			
Stony Brook Peaking Project, Series A	3.1%	$ 8,930	$ 13,345
Stony Brook Intermediate Project, Series A	3.5%	49,805	59,645
W.F. Wyman Unit No. 4 Project, Series A	3.5%	2,485	2,940
Nuclear Mix No. 1, Series A	4.0%	78,230	85,210
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%	327,050	347,535
Nuclear Project No. 3, Series B	4.9%	51,320	60,160
Nuclear Project No. 4, Series B	4.5%	31,510	41,175
Nuclear Project No. 5, Series B	3.8%	2,365	5,510
Project No. 6, Series B	3.5%	-	910
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		925,265	990,000
Unamortized premium		32,396	39,830
Less: Current maturities		(68,970)	(64,735)
Total long-term debt		$888,691	$965,095

The Series A Bonds maturing on and prior to July 1, 2011 and the Series B Bonds 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.

Long-term debt maturities are as follows:

(In Thousands)	Series A	Series B	Series One	Total
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
2008	60,285	11,100	-	71,385
Thereafter	398,650	820	170,775	570,245
	$669,295	$85,195	$170,775	$925,265

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 2003 and 2002 was .9% and 1.3%, respectively.

Net Revenue Available for Debt Service

In accordance with the provisions of MMWEC's 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. For the contract years ended June 30, 2003 and 2002, MMWEC met the GBR debt service coverage requirements for all of MMWEC's Projects.

	Contract Year Ended June 30,	
(In Thousands)	2003	2002
Debt Service Coverage:		
Revenues	$195,638	$170,879
Other Billings	581	587
Reserve and Contingency Fund Billings	10,753	11,116
Total	206,972	182,582
Less: Operating & Maintenance Expenses	(88,691)	(60,307)
Available Revenues Net of Expenses	$118,281	$122,275
Debt Service Requirement	$107,527	$111,159
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 $233,000 and $56,000 as of December 31, 2003 and 2002, respectively. During 2003 and 2002, the maximum outstanding balance under the line of credit was $1.6 and $0.4 million, respectively. Interest charged on borrowings under the line of credit is at minus one percent of the bank's prime rate (3.0% at December 31, 2003). 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, 2004, at which time MMWEC expects to be able to renew the line for an additional year.

In 2003, The MMWEC Board of Directors adopted a resolution which created the Stony Brook Intermediate Fuel Oil Project, Special Project 2003-A (SB Intermediate Fuel Oil Project) for the purposes of financing purchases of fuel oil and selling such fuel oil to the Intermediate Project. Under the resolution, MMWEC entered into a $10 million revolving line of credit with a bank. Borrowings under the line of credit are secured by a lien on and/or security interest in all proceeds of any borrowings prior to disbursement by MMWEC, all amounts payable by the Intermediate Project to the SB Intermediate Fuel Oil Project for fuel oil, and all earnings from MMWEC's investments of any such proceeds and amounts payable to the bank. Borrowings outstanding under the line of credit were $9.5 million as of December 31, 2003. During 2003, the maximum outstanding balance under the line of credit was $9.9 million. The interest rate for the borrowings under this line of credit is at MMWEC's election prior to the last day of any interest period of either the Libor rate plus 1.25% per annum or at a variable rate which is the prime rate minus 1% per annum. If no such selection is made, the variable rate is in effect. Interest charged on the borrowings under the line of credit was 2.4% at December 31, 2003.

The Series B Power Purchase commercial paper program notes were a special obligation of MMWEC payable solely from the revenues and other monies as specified in the Series B Power Purchase Resolution. The commercial paper notes matured in 2003. The December 31, 2003 and 2002 outstanding balances of commercial paper program notes were $0 and $15.5 million, respectively.

(5) Electric Generation Facilities and Financing

MMWEC's power supply capacity includes ownership interests in the Stony Brook Peaking and Intermediate Units, both of 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 $2.6 and $2.7 million in 2003 and 2002, 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).

(In Thousands)	Facility and MMWEC Share of Capability in MW		Amounts as of December 31, 2003	2002
Projects				
Peaking Project	Stony Brook	170.0	$ 56,829	$ 56,671
Intermediate Project	Stony Brook	319.5	165,391	165,044
Wyman Project	W.F. Wyman No. 4	22.7	7,419	7,387
Nuclear Project No. 3	Millstone Unit 3	36.8	135,949	131,045
Nuclear Mix No. 1	Millstone Unit 3	18.4	54,477	52,017
Nuclear Mix No. 1	Seabrook Station	1.9	9,160	8,651
Nuclear Project No. 4	Seabrook Station	49.8	274,132	260,585
Nuclear Project No. 5	Seabrook Station	12.6	74,708	71,279
Project No. 6	Seabrook Station	69.0	521,773	503,011
			$1,299,838	$1,255,690

In January 2004, Dominion Nuclear Connecticut, Inc. (DNCI), a subsidiary of Dominion Resources, Inc., filed an application with the NRC to renew the operating license of Millstone Unit 3 for an additional 20 years. The license currently will expire in 2025.

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

Asset Retirement Obligations

Effective January 1, 2003, MMWEC adopted SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143), which provides accounting requirements for the recognition and measurement of liabilities associated with the retirement of tangible long-lived assets. MMWEC has identified certain asset retirement obligations (ARO) that are subject to the SFAS 143 and which are primarily associated with the decommissioning of MMWEC's ownership interest in Millstone Unit 3 and Seabrook Station. MMWEC's AROs, other than those associated with nuclear decommissioning AROs, were not significant.

Upon adoption of SFAS 143, MMWEC recorded an ARO of approximately $73.1 million, capitalized a net asset related to the ARO of approximately $30.6 million, and reversed the approximately $29.5 million it had previously recorded in deferred credits on the Statements of Financial Position. The difference, approximately $13.0 million, was recorded as a cumulative effect of a change in accounting principle on the Statements of Operations. MMWEC recorded accretion expense of approximately $3.7 million for the year ended December 31, 2003 which increased the ARO to $76.8 million at December 31, 2003. No other adjustments were made to MMWEC's ARO during the year ended December 31, 2003.

AROs are recognized at fair value, as incurred, and capitalized as part of the cost of the related tangible long-lived assets. In the absence of quoted market prices, MMWEC estimated the fair value of AROs using present value techniques, involving discounted cash flow analysis. Measurement using such techniques is dependent upon many subjective factors, including the selection of discount and cost escalation rates, identification of planned retirement activities and related cost estimates, and assertions of probability regarding the timing, nature and costs of such activities. Inputs and assumptions are based on the best information available at the time the estimates are made. However, estimates of future cash flows are highly uncertain by nature and may vary significantly from actual results.

(6) Investments and Deposits

All bank deposits are maintained at one financial institution. Such deposits amounted to $1.7 million at December 31, 2003, 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, 2003 and 2002, investments are classified as available for sale and reported at market value with unrealized gains of $683,000 and $2.4 million, respectively, and unrealized losses of $278,000 and $1,000, 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, 2003, all securities underlying repurchase agreements, and all other investments, were held in MMWEC's name by custodians consisting of the Bond Fund Trustee (as defined in the GBR) 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:

	2003		2002	
(In Thousands)	Amortized Cost Basis	Market Value	Amortized Cost Basis	Market Value
Type of Investment				
Cash Equivalents	$ 65	$ 65	$ 399	$ 399
Other Investments				
U.S. Treasury bills	92,526	92,529	91,948	91,951
U.S. Treasury notes	16,904	17,256	26,033	27,212
U.S. Agency bonds	104,519	104,892	100,873	102,045
U.S. Agency discount notes	19,274	19,272	17,488	17,487
Total Other Investments	233,223	233,949	236,342	238,695
Total Investments	233,288	234,014	236,741	239,094
Invested Cash	1,779	1,779	1,057	1,057
Total Cash and Investments	$235,067	$235,793	$237,798	$240,151

During 2003 and 2002, the proceeds from the sale of securities available for sale were $340.2 and $386.0 million, respectively, resulting in gross realized gains of $428,000 and $395,000, respectively, and gross realized losses of $63,000 and $31,000, 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, 2003 and 2002 was 657 and 593 days, respectively.

Due to seasonal cash flows during 2003 and 2002, 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 estimated fair value of MMWEC's financial instruments are as follows:

	2003		2002	
(In Thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Long-Term Debt, excluding current maturities	$ 888,691	$930,300	$ 965,095	$ 998,001

The fair value of long-term debt is estimated based on quoted market prices for the same or similar issues.

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 6.25% in 2003 and 6.5% in 2002 and projected salary increases of 4.0% in 2003 and 2002, 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:

(In Thousands)	Amounts as of December 31, 2003	2002
Changes in benefit obligation		
Benefit obligation at beginning of year	$12,679	$10,307
Service cost	565	465
Interest cost	834	730
Actuarial loss	833	1,261
Benefits paid	(610)	(84)
Benefit obligation at end of year	$14,301	$12,679
Change in plan assets		
Fair value of plan assets at beginning of year	$ 7,981	$ 8,227
Actual return on plan assets	1,582	(761)
Employer contribution	702	623
Benefits paid	(610)	(84)
Expenses	(32)	(31)
Other	(5)	7
Fair value of plan assets at end of year	$ 9,618	$ 7,981
Funded status	$ (4,683)	$ (4,698)
Unrecognized net actuarial loss	5,187	5,541
Unrecognized prior service cost	509	595
Unrecognized transition obligation	34	58
Prepaid pension cost	$ 1,047	$ 1,496

(In Thousands)	Amounts as of December 31, 2003	2002
Amounts recognized in the Statements of Financial Position consist of:		
Accrued benefit liability	$ (769)	$ (1,113)
Intangible asset	544	653
Amounts recoverable under terms of the Power Sales Agreements	1,272	1,956
Net amount recognized	$ 1,047	$ 1,496
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$14,301	$12,679
Accumulated benefit obligation	10,387	9,094
Fair value of plan assets	9,618	7,981
Components of net periodic benefit cost		
Service cost	$ 565	$ 465
Interest cost	834	730
Expected return on plan assets	(699)	(721)
Amortization of transition obligation	15	15
Amortization of prior service cost	70	70
Recognized net actuarial loss	365	171
Net periodic benefit cost	$ 1,150	$ 730

The following indicates the weighted average asset allocation percentage of the fair value of total Plan assets for each major type of Plan asset as of December 31, 2003 and 2002, respectively.

	Amounts as of December 31, 2003	2002
Asset Category		
Equity securities	64%	57%
Debt securities	21%	20%
Other	15%	23%
Total	100%	100%

The primary investment goal of the plan is to achieve a total annualized investment return of 8.5% over the long-term while mitigating overall portfolio risk. The expected long-term rate of return on the plan assets reflects the average rate of earnings expected on the funds invested or to be invested to provide the benefits included in the projected benefit obligation. The assets are diversified by both asset class (i.e., equities, bonds) and within class (i.e., capitalization, growth, value, international) to minimize unsystematic risk so that no single security or class of securities will have a disproportionate impact on the plan. Portfolio performance and risk are regularly evaluated and compared to like investment options to provide oversight and adherence to the stated plan objectives.

Annual contributions to the pension plans were $702,000 and $623,000, for the years ended December 31, 2003 and 2002, respectively. 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 2003 and 2002, respectively. Pension costs applicable to prior years' service are amortized over thirty years. MMWEC expects to contribute approximately $730,000 to its pension plans in 2004.

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 $124,000 and $115,000, while the employees contributed $207,000 and $190,000 during the years ended December 31, 2003 and 2002, 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 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, 2003, 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.

MMWEC has entered into a contract for a long-term purchase of 21.2 MW from an independent power producer. The table below reflects MMWEC's minimum commitments as of December 31, 2003.

(In Thousands)	Amount
2004	$ 8,255
2005	8,489
2006	8,765
2007	9,041
2008	9,338
Thereafter	51,420
Total	$95,308

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 $10.9 billion for public liability claims from a single incident at a nuclear facility. The $300 million primary layer of insurance for the liability has been purchased in the commercial market. Secondary coverage is to be provided through an approximately $100.6 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 $4.8 and $11.7 million, limited to payments of $.5 and $1.2 million per incident per year, respectively. Renewal of the Act, which expired on December 31, 2003, is currently being considered by Congress.

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 $1.0 and $2.1 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 plants. Nothing has come to management's attention concerning any material pollution liability claims made during 2003 or outstanding as of December 31, 2003.

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.

MMWEC has a guaranty with ISO New England, Inc. (ISO-NE) with respect to certain MMWEC members' financial assurance obligations to ISO-NE.

Report of Independent Auditors 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, 2003 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 12, 2004

Project Statements Of Financial Position

December 31, 2003

(In Thousands)	Service	Nuclear Mix 1	Nuclear Proj. 3	Nuclear Proj. 4
Assets				
Electric plant				
In service	$ 2,600	$ 62,896	$134,597	$ 272,447
Accumulated depreciation	(2,309)	(30,926)	(68,361)	(117,597)
	291	31,970	66,236	154,850
Construction work in progress	-	741	1,352	1,685
Nuclear fuel-net of amortization	-	943	1,685	2,753
Total electric plant	291	33,654	69,273	159,288
Special funds				
Bond funds				
Interest, principal and retirement account	-	5,461	7,045	9,147
Reserve account	-	4,470	7,979	9,135
Reserve and contingency fund	-	3,228	3,791	5,096
Revenue fund	-	5,394	9,323	9,421
Working capital funds	16,838	-	-	-
Other funds	9,734	-	-	-
	26,572	18,553	28,138	32,799
Current assets				
Cash and temporary investments	4,833	-	-	1
Accounts receivable	6,275	9	3	67
Unbilled revenues	7,490	-	-	-
Inventories	7,347	56	-	1,492
Advances to (from) projects	1,976	(48)	(72)	(93)
Prepaid expenses	236	728	1,300	2,019
Total current assets	28,157	745	1,231	3,486
Total special funds and current assets	54,729	19,298	29,369	36,285
Deferred charges				
Amounts recoverable (payable) under terms of the power sales agreements	(176)	44,535	71,639	12,988
Unamortized debt discount and expenses	-	967	1,845	2,111
Nuclear decommissioning trusts	-	5,235	9,853	7,765
Other	540	94	127	823
	364	50,831	83,464	23,687
	$55,384	$103,783	$182,106	$ 219,260
LIABILITIES				
Long-term debt	$ -	$ 85,704	$155,723	$ 174,400
Current liabilities				
Current maturities of long-term debt	-	7,195	9,215	11,085
Short-term debt	9,753	-	-	-
Accounts payable	3,611	151	165	1,822
Accrued expenses	9,100	2,237	2,633	6,700
Member and participant advances	8,589	3,102	5,395	1,502
	31,053	12,685	17,408	21,109
Asset retirement obligation	-	5,358	8,908	23,693
Other liabilities	24,331	36	67	58
Commitments and contingencies				
	$55,384	$103,783	$182,106	$ 219,260

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

Nuclear Proj. 5	Project No. 6	Peaking	Intermediate	Wyman	Hydro Quebec Phase II	Total
$ 74,282	$ 519,439	$ 56,829	$ 165,391	$ 7,419	$ -	$1,295,900
(32,207)	(228,070)	(47,500)	(136,013)	(5,478)	-	(668,461)
42,075	291,369	9,329	29,378	1,941	-	627,439
426	2,334	-	-	-	-	6,538
699	3,846	-	-	-	-	9,926
43,200	297,549	9,329	29,378	1,941	-	643,903
2,846	19,811	2,608	6,437	280	-	53,635
2,771	30,868	653	3,086	105	-	59,067
1,338	7,795	860	1,597	254	-	23,959
2,377	16,004	7,459	16,396	1,348	-	67,722
-	-	-	-	-	(11)	16,827
-	-	-	-	-	-	9,734
9,332	74,478	11,580	27,516	1,987	(11)	230,944
-	2	-	-	-	14	4,850
17	93	3	43	178	86	6,774
-	-	-	-	-	-	7,490
378	2,066	2,093	3,359	187	-	16,978
(31)	(156)	163	(1,720)	(19)	-	-
512	2,797	34	69	164	-	7,859
876	4,802	2,293	1,751	510	100	43,951
10,208	79,280	13,873	29,267	2,497	89	274,895
7,996	54,003	(3,570)	683	204	(879)	187,423
628	4,598	36	352	18	-	10,555
1,965	10,754	-	-	-	-	35,572
208	1,139	-	111	-	879	3,921
10,797	70,494	(3,534)	1,146	222	-	237,471
$ 64,205	$ 447,323	$ 19,668	$ 59,791	$ 4,660	$ 89	$1,156,269
$ 52,136	$ 373,070	$ 4,320	$ 41,305	$ 2,033	$ -	$ 888,691
3,455	22,450	4,770	10,330	470	-	68,970
-	-	-	-	-	-	9,753
461	2,524	16	391	-	27	9,168
1,852	12,758	231	1,908	110	-	37,529
289	3,627	1,604	4,840	572	62	29,582
6,057	41,359	6,621	17,469	1,152	89	155,002
5,997	32,814	-	-	-	-	76,770
15	80	8,727	1,017	1,475	-	35,806
$ 64,205	$ 447,323	$ 19,668	$ 59,791	$ 4,660	$ 89	$1,156,269

Project Statements Of Operations

Year Ended December 31, 2003

(In Thousands)	Service	Nuclear Mix 1	Nuclear Proj. 3	Nuclear Proj. 4
Revenues	$94,813	$15,183	$21,953	$30,196
Interest income	508	541	1,075	1,028
Total revenues and interest income	$95,321	$15,724	$23,028	$31,224
Operating and service expenses:				
Fuel used in electric generation	$ -	$ 673	$ 1,226	$ 1,670
Purchased power	77,958	-	-	-
Other operating	2,108	2,648	4,567	7,914
Maintenance	53	368	589	1,919
Depreciation	18	747	1,554	3,523
Taxes other than income	3	164	276	691
	80,140	4,600	8,212	15,717
Interest expense:				
Interest charges	135	3,524	5,799	7,225
Interest charged to projects during construction	-	(3)	(7)	(25)
	135	3,521	5,792	7,200
Total operating costs and interest expense	80,275	8,121	14,004	22,917
Cumulative effect of change in accounting principle	-	(805)	(2,054)	5,998
Decrease in amounts recoverable under terms of the power sales agreements	15,046	8,408	11,078	2,309
	$95,321	$15,724	$23,028	$31,224

** Allocation between maintenance and other operating is not available.*

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

Nuclear Proj. 5	Project No. 6	Peaking	Intermediate	Wyman	Hydro Quebec Phase II	Total
$8,787	$56,540	$10,944	$52,995	$3,262	$441	$295,114
290	1,972	315	675	53	65	6,522
$9,077	$58,512	$11,259	$53,670	$3,315	$506	$301,636
$ 424	$ 2,334	$ 3,256	$26,484	$2,037	$ -	$ 38,104
-	-	-	-	-	476	78,434
2,053	11,122	2,014	6,288	*525	-	39,239
486	2,657	379	4,019	-	-	10,470
958	6,639	2,323	9,635	239	-	25,636
175	957	415	1,145	162	-	3,988
4,096	23,709	8,387	47,571	2,963	476	195,871
2,124	15,394	387	2,139	100	-	36,827
(6)	(36)	-	-	-	-	(77)
2,118	15,358	387	2,139	100	-	36,750
6,214	39,067	8,774	49,710	3,063	476	232,621
1,518	8,307	-	-	-	-	12,964
1,345	11,138	2,485	3,960	252	30	56,051
$9,077	$58,512	$11,259	$53,670	$3,315	$506	$301,636

Project Statement Of Cash Flows

Year Ended December 31, 2003

(In Thousands)	Service	Nuclear Mix 1	Nuclear Proj. 3	Nuclear Proj. 4
Cash flows from operating activities:				
Total revenues and interest income	$ 95,321	$15,724	$ 23,028	$ 31,224
Total costs and expenses, net	(80,275)	(8,121)	(14,004)	(22,917)
Adjustments to arrive at net cash provided by operating activities:				
Depreciation	18	747	1,554	3,523
Amortization of debt discount and nuclear fuel	57	301	1,324	1,934
Change in assets and liabilities:				
Accounts receivable	31	(7)	(3)	(12)
Unbilled revenues	(383)	-	-	-
Inventories	(7,347)	10	-	282
Prepaid expenses	(33)	82	202	(505)
Accounts payable	(477)	(213)	(430)	180
Accrued expenses and other	1,084	(38)	(235)	(468)
Other liabilities	4,608	-	-	-
Member and participant advances and reserves	(14,312)	(687)	797	(1,722)
Net cash provided by (used for) operating activities	(1,708)	7,798	12,233	11,519
Cash flows from investing activities:				
Construction expenditures and purchases of nuclear fuel	(98)	(935)	(1,721)	(1,920)
Interest charged to projects during construction	-	(3)	(7)	(25)
Net (increase) decrease in special funds	10,244	576	(830)	1,079
Decommissioning trust payments	-	(456)	(835)	(988)
Net cash provided by (used for) investing activities	10,146	(818)	(3,393)	(1,854)
Cash flows from financing activities:				
Payments made on long-term debt	-	(6,980)	(8,840)	(9,665)
Payments made on short-term debt	(16,122)	-	-	-
Net proceeds from short-term borrowings	7,153	-	-	-
Proceeds from issuance of short-term debt	3,131	-	-	-
Net cash used for financing activities	(5,838)	(6,980)	(8,840)	(9,665)
Net increase in cash and temporary investments	2,600	-	-	-
Cash and temporary investments at beginning of year	2,233	-	-	1
Cash and temporary investments at end of year	$ 4,833	$ -	$ -	$ 1
Cash paid during the year for interest (Net of amount capitalized as shown above)	$ 113	$ 4,075	$ 5,930	$ 7,857

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

Nuclear Proj. 5	Project No. 6	Peaking	Intermediate	Wyman	Hydro Quebec Phase II	Total
$ 9,077	$ 58,512	$11,259	$ 53,670	$ 3,315	$ 506	$ 301,636
(6,214)	(39,067)	(8,774)	(49,710)	(3,063)	(476)	(232,621)
958	6,639	2,323	9,635	239	-	25,636
338	555	(159)	(728)	3	-	3,625
(3)	(17)	15	1,246	(142)	(46)	1,062
-	-	-	-	-	-	(383)
71	390	180	3,991	(80)	-	(2,503)
(127)	(700)	(1)	1	(164)	-	(1,245)
47	232	218	131	(163)	4	(471)
(150)	(1,074)	366	800	(91)	(30)	164
-	-	(13)	(3)	-	-	4,592
(508)	(2,941)	175	(424)	37	44	(19,541)
3,489	22,529	5,589	18,609	(109)	2	79,951
(486)	(2,659)	(34)	(247)	(32)	-	(8,132)
(6)	(36)	-	-	-	-	(77)
398	2,930	(1,140)	(8,522)	596	(8)	5,323
(250)	(1,369)	-	-	-	-	(3,898)
(344)	(1,134)	(1,174)	(8,769)	564	(8)	(6,784)
(3,145)	(21,395)	(4,415)	(9,840)	(455)	-	(64,735)
-	-	-	-	-	-	(16,122)
-	-	-	-	-	-	7,153
-	-	-	-	-	-	3,131
(3,145)	(21,395)	(4,415)	(9,840)	(455)	-	(70,573)
-	-	-	-	-	(6)	2,594
-	2	-	-	-	20	2,256
$ -	$ 2	$ -	$ -	$ -	$ 14	$ 4,850
$ 2,446	$ 18,732	$ 645	$ 3,095	$ 104	$ -	$ 42,997

Members and Project Participants

MMWEC Member Utilities

Ashburnham Municipal Light Plant
Belmont Municipal Light Department
Boylston Municipal Light Department
Concord Municipal Light Plant
Danvers Electric Division
Georgetown Municipal Light Department
Groton Electric Light Department
Hingham Municipal Lighting Plant
Holden Municipal Light Department
Holyoke Gas and Electric Department
Hull Municipal Lighting Plant
Ipswich Municipal Light Department
Littleton Electric Light & Water Department
Mansfield Municipal Electric Department
Marblehead Municipal Light Department
Middleton Municipal Electric Department
Paxton Municipal Light Department
Peabody Municipal Light Plant
Rowley Municipal Lighting Plant
Shrewsbury Electric and Cable Operations
Sterling Municipal Light Department
Templeton Municipal Lighting Plant
Wakefield Municipal Gas and Light Department
West Boylston Municipal Lighting Plant
Westfield Gas and Electric Light Department

MMWEC Power Supply Project Participants

(Massachusetts)

Ashburnham Municipal Light Plant
Boylston Municipal Light Department
Braintree Electric Light Department
Danvers Electric Division
Georgetown Municipal Light Department
Groton Electric Light Department
Hingham Municipal Lighting Plant
Holden Municipal Light Department
Holyoke Gas and Electric Department
Hudson Light and Power Department
Hull Municipal Lighting Plant
Ipswich Municipal Light Department
Littleton Electric Light & Water Department
Mansfield Municipal Electric Department
Marblehead Municipal Light Department
Middleborough Gas and Electric Department
Middleton Municipal Electric Department
North Attleborough Electric
Paxton Municipal Light Department
Peabody Municipal Light Plant
Reading Municipal Light Department
Shrewsbury Electric and Cable Operations
South Hadley Electric Light Department
Sterling Municipal Light Department
Templeton Municipal Lighting Plant
Wakefield Municipal Gas and Light Department
West Boylston Municipal Lighting Plant
Westfield Gas and Electric Light Department

(Out-of-State)

Pascoag Utility District (RI)
Green Mountain Power Corporation (VT)
Hardwick Electric Department (VT)
Village of Ludlow Electric Light Department (VT)
Stowe Electric Department (VT)
Swanton Village Electric Department (VT)
Village of Morrisville Water and Light Department (VT)

Copies of this report and supplemental financial information can be obtained, free of charge, by writing to:

Corporate Communications/Public Affairs Office,
Massachusetts Municipal Wholesale Electric Company,
P.O. Box 426, Ludlow, MA 01056.
Phone: (413) 589-0141
Fax: (413) 589-1585
E-mail: mmwec@mmwec.org
Internet: www.mmwec.org

All requests for information about MMWEC should be directed to this office. ©MMWEC 2004.

MMWEC

HUDSON LIGHT AND POWER DEPARTMENT

Financial Statements

December 31, 2003 and 2002

HUDSON LIGHT AND POWER DEPARTMENT
TABLE OF CONTENTS
DECEMBER 31, 2003 AND 2002

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, 2003 and 2002, 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, 2003 and 2002, 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.

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
April 20, 2004

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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 year ended December 31, 2003 and 2002. 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, 2003, it shows our net worth has decreased compared to the year ended December 31, 2002. This decrease is due to the Department's appropriation of net assets to the rate stabilization fund.

The Statements of Revenues, Expenses and Changes in Net Assets summarizes our operating results and reveals how much of a profit was earned for the year. As discussed in more detail below, our net profit for December 31, 2003 and 2002 was $559,768 and $1,247,129, 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.

Summary of Net Assets – Operating Fund

	2003	2002
Current Assets	$ 9,794,693	$ 10,833,193
Noncurrent Assets	11,497,814	11,546,861
Total Assets	$ 21,292,507	$ 22,380,054
Current Liabilities	$ 1,696,302	$ 2,026,229
Noncurrent Liabilities	658,145	731,722
Total Liabilities	2,354,447	2,757,951
Net Assets:		
Restricted for Debt Service	1,925,000	1,925,000
Invested in Capital Assets, Net of Related Debt	6,680,596	5,392,630
Unrestricted	10,332,464	12,304,473
Total Net Assets	18,938,060	19,622,103
Total Net Assets and Liabilities	$ 21,292,507	$ 22,380,054

Summary of Changes in Net Assets – Operating Fund

	2003	2002
Operating Revenues	$ 31,579,604	$ 31,773,059
Operating Expenses	31,314,414	30,918,501
Operating Income	265,190	854,558
Nonoperating Revenues	294,578	392,571
Income Before Contributions and Transfers	559,768	1,247,129
Transfers Out – Payment in Lieu of Taxes	(252,408)	(225,000)
Transfers Out – Rate Stabilization Trust Fund	(1,000,000)	(2,409,987)
Transfers Out – Retirees' Medical Insurance Premiums	(24,033)	0
Transfers Out – Refund of Customer Overpayment	(5,698)	0
Transfers In – Restricted for Capital Projects	2,100	0
Claims and Judgments	36,228	1,678,883
Net Assets, January 1	19,622,103	19,331,078
Net Assets, December 31	$ 18,938,060	$ 19,622,103

Financial Highlights:

Operating revenues decreased by $193,455 in 2003. This decrease in revenues can be attributed primarily to the rate reduction of 14% in August of 2002 remaining in effect for the entire year of 2003. There was also a 3% increase in power consumption.

Operating expenses increased by $395,913 in 2003. This increase in expense can be attributed to the increase in energy and transmission costs.

Utility Plant and Debt Administration:

Utility Plant

Net utility plant increased by $1,287,966 from 2002. This increase is the difference between the current year additions of $1,934,428 and the annual depreciation (3%) write off of $622,611 and amortization of nuclear fuel of $23,851. During 2003, the Department upgraded the transmission and distribution system for approximately $1,747,161, which accounted for 91% of current year additions and the additions to the general plant accounted for approximately 9% of which $114,649 was for a new storage yard.

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 2004.

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 stand at approximately $1.2 billion, of which Hudson Light and Power Department's share is just over $137 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, 2003 AND 2002

OPERATING FUND

ASSETS

	2003	2002
CURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Operating Fund	$ 4,947,973	$ 6,349,867
Petty Cash	500	500
Customer Accounts Receivable	2,883,475	2,850,356
Other Receivables	56,666	27,854
Materials and Supplies	927,233	812,520
Purchased Power Prepayments	150,475	162,297
Purchased Power Working Capital	629,799	629,799
Deferred Debit - Fuel Charge	198,572	0
TOTAL CURRENT ASSETS	9,794,693	10,833,193
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Depreciation Fund	4,067,129	5,207,245
Customer Deposits	532,738	705,038
Insurance Escrow Reserve	149,413	160,000
Investment	67,938	81,948
Utility Plant Assets, Net	6,680,596	5,392,630
TOTAL NONCURRENT ASSETS	11,497,814	11,546,861
TOTAL ASSETS	$ 21,292,507	$ 22,380,054

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2003 AND 2002

OPERATING FUND

LIABILITIES

	2003	2002
CURRENT LIABILITIES:		
Accounts Payable	$ 1,574,978	$ 1,317,441
Miscellaneous Current and Accrued Liabilities	98,324	509,183
Insurance Escrow Reserve	23,000	23,000
Deferred Credit - Fuel Charge	0	176,605
TOTAL CURRENT LIABILITIES	1,696,302	2,026,229
NONCURRENT LIABILITIES:		
Customer Deposits	531,732	592,622
Customer Advances for Construction	0	2,100
Insurance Escrow Reserve	126,413	137,000
TOTAL NONCURRENT LIABILITIES	658,145	731,722
TOTAL LIABILITIES	2,354,447	2,757,951

NET ASSETS

	2003	2002
Restricted for Debt Service	1,925,000	1,925,000
Invested in Capital Assets, Net of Related Debt	6,680,596	5,392,630
Unrestricted	10,332,464	12,304,473
TOTAL NET ASSETS	18,938,060	19,622,103
TOTAL LIABILITIES AND NET ASSETS	$ 21,292,507	$ 22,380,054

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, 2003 AND 2002

OPERATING FUND

	2003	2002
OPERATING REVENUES	$ 31,579,604	$ 31,773,059
OPERATING EXPENSES:		
Operations and Maintenance	30,691,803	30,287,407
Depreciation Expense	622,611	631,094
TOTAL OPERATING EXPENSES	31,314,414	30,918,501
OPERATING INCOME	265,190	854,558
NONOPERATING REVENUES (EXPENSES):		
Interest and Dividend Income	294,578	392,587
Interest Expense	0	(16)
TOTAL NONOPERATING REVENUES (EXPENSES)	294,578	392,571
Income Before Contributions and Transfers	559,768	1,247,129
NET ASSETS - JANUARY 1	19,622,103	19,331,078
Transfers Out - Payment in Lieu of Taxes	(252,408)	(225,000)
Transfers Out - Rate Stabilization Trust Fund	(1,000,000)	(2,409,987)
Transfers Out - Retirees' Medical Insurance Premiums	(24,033)	0
Transfers Out - Refund of Customer Overpayment	(5,698)	0
Transfers In - Restricted for Capital Projects	2,100	0
Claims and Judgments	36,228	1,678,883
NET ASSETS - DECEMBER 31	$ 18,938,060	$ 19,622,103

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

OPERATING FUND

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	$ 31,708,622	$ 32,471,440
Cash Paid to Suppliers and Employees	(30,632,610)	(28,888,195)
Cash Paid for Benefits	(958,889)	(848,052)
Payment in Lieu of Taxes	(252,408)	(225,000)
Cash Received for Claims and Judgments	36,228	1,678,883
Net Cash Provided (Used) by Operating Activities	(99,057)	4,189,076
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Interest Expense	0	(16)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchases of Utility Plant Assets	(1,919,990)	(738,180)
Purchases of Nuclear Fuel	(14,438)	(19,382)
Net Cash Used in Capital and Related Financing Activities	(1,934,428)	(757,562)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Rate Stabilization Reserve	(1,000,000)	(2,409,987)
Interest and Dividend Income	294,578	392,587
Net Proceeds from Maturities (Purchases) of Investments	2,050,585	(1,261,687)
Net Cash Provided (Used) by Investing Activities	1,345,163	(3,279,087)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT	(688,322)	152,411
CASH AND CASH EQUIVALENTS - JANUARY 1	8,065,159	7,912,748
CASH AND CASH EQUIVALENTS - DECEMBER 31	$ 7,376,837	$ 8,065,159

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

OPERATING FUND

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

	2003	2002
Operating Income	$ 265,190	$ 854,558
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	622,611	631,094
Amortization of Nuclear Fuel	23,851	22,234
Payment in Lieu of Taxes	(252,408)	(225,000)
Retirees' Medical Insurance Premiums	(24,033)	0
Refund of Customer Overpayment	(5,698)	0
Cash Received for Claims and Judgments	36,228	1,678,883
Changes in Assets and Liabilities:		
(Increase) Decrease in:		
Customer Accounts Receivable	(33,119)	519,836
Other Receivables	(28,812)	198,480
Materials and Supplies	(114,713)	131,996
Purchased Power Prepayments	11,822	93,502
Deferred Debit - Fuel Charge	(198,572)	0
Increase (Decrease) in:		
Accounts Payable	257,537	(34,190)
Customer Deposits	(60,890)	174,184
Tax Collections Payable	0	13,330
Deferred Credit - Fuel Charge	(176,605)	0
Miscellaneous Current and Accrued Liabilities	(410,859)	(29,831)
Insurance Escrow Reserve	(10,587)	160,000
Net Cash Provided (Used) by Operating Activities	$ (99,057)	$ 4,189,076

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

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:

	2003	2002
Operating Fund	$ 4,947,973	$ 6,349,867
Petty Cash	500	500
Depreciation Fund	1,740,554	413,455
Depreciation Investment Fund (Note 8)	5,659	436,299
Insurance Escrow Reserve	149,413	160,000
Customer Deposits	532,738	705,038
	$ 7,376,837	$ 8,065,159

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF NET ASSETS
DECEMBER 31, 2003 AND 2002

RATE STABILIZATION TRUST FUND

ASSETS

	2003	2002
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	$ 1,490,462	$ 906,093
Investments	8,897,331	10,114,649
TOTAL ASSETS	$ 10,387,793	$ 11,020,742

NET ASSETS

NET ASSETS - Restricted	$ 10,387,793	$ 11,020,742

RETIREMENT TRUST FUND

ASSETS

	2003	2002
NONCURRENT ASSETS:		
Funds on Deposit with Town Treasurer		
Cash and Cash Equivalents	$ 1,084,183	$ 3,020,403
Investments	7,031,831	4,166,661
TOTAL ASSETS	$ 8,116,014	$ 7,187,064

NET ASSETS

NET ASSETS - Restricted	$ 8,116,014	$ 7,187,064

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

RATE STABILIZATION TRUST FUND

	2003	2002
NONOPERATING REVENUES (EXPENSES):		
Interest Earned on Invested Funds	$ 364,687	$ 378,352
Accrued Interest Paid at Purchase	(829)	(21,484)
Gain (Loss) from Security Redemption	3,192	0
Annual Contribution (to) from Operations	(2,000,000)	501,521
NET INCOME (LOSS)	(1,632,950)	858,389
NET ASSETS - JANUARY 1	11,020,743	7,752,366
Transfers In - Operating Fund	1,000,000	2,409,987
NET ASSETS - DECEMBER 31	$ 10,387,793	$ 11,020,742

RETIREMENT TRUST FUND

	2003	2002
NONOPERATING REVENUES (EXPENSES):		
Interest Earned on Invested Funds	$ 278,653	$ 338,711
Accrued Interest Paid at Purchase	(10,618)	(43,858)
Gain (Loss) from Security Redemption	(1,538)	2,000
Management Fee	(2,329)	0
Annual Contribution from Operations	896,093	414,913
Annual Pension Expense	(461,368)	(458,596)
Unrealized Gain on Investments	230,057	0
NET INCOME	928,950	253,170
NET ASSETS - JANUARY 1	7,187,064	6,933,894
NET ASSETS - DECEMBER 31	$ 8,116,014	$ 7,187,064

See Accompanying Notes to Financial Statements

HUDSON LIGHT AND POWER DEPARTMENT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

RATE STABILIZATION TRUST FUND

	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Interest Income	$ 363,858	$ 356,868
Net Proceeds from Maturities (Purchases) of Investments	1,217,319	(4,836,567)
Gain (Loss) on Security Redemption	3,192	0
Appropriation from Net Assets - Operating Fund	0	2,409,987
Annual Contribution from Operations	0	501,521
Net Transfer to Operations	(1,000,000)	0
INCREASE IN CASH AND CASH EQUIVALENTS	584,369	(1,568,191)
CASH AND CASH EQUIVALENTS - JANUARY 1	906,093	2,474,284
CASH AND CASH EQUIVALENTS - DECEMBER 31	$ 1,490,462	$ 906,093

RETIREMENT TRUST FUND

	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net Interest Income	$ 268,035	$ 294,853
Net Proceeds from Maturities (Purchases) of Investments	(2,635,113)	388,860
Gain (Loss) on Security Redemption	(1,538)	2,000
Management Fee	(2,329)	0
Annual Contribution from Operations	896,093	414,913
Annual Pension Expense	(461,368)	(458,596)
INCREASE IN CASH AND CASH EQUIVALENTS	(1,936,220)	642,030
CASH AND CASH EQUIVALENTS - JANUARY 1	3,020,403	2,378,373
CASH AND CASH EQUIVALENTS - DECEMBER 31	$ 1,084,183	$ 3,020,403

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 2003 and 2002.

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 rates have a power adjustment charge (power costs in excess of amounts recovered through base rates) which are billable to customers. The Department records estimated unbilled power 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 and the Town of Stow. 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, 2003 and 2002, advertising expense was $4,593 and $2,481, respectively.

Reclassification

Certain amounts in the 2002 financial statements have been reclassified to conform with the 2003 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, 2003 and 2002, 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. The Light Department's funds on deposit with financial institutions are subject to the insurance coverage limits imposed by the Federal Deposit Insurance Corporation (FDIC) and the Deposit Insurance Fund of Massachusetts (DIF). Deposits in excess of FDIC limits are collateralized by the banks' investment in government securities.

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 is returned monthly to the Department. The balance in the fund is $629,799 as of December 31, 2003 and 2002.

NOTE 7 - MAJOR CUSTOMER:

The Department's revenues include approximately $12,733,265 and $13,136,600 billed to one major customer during 2003 and 2002, respectively. Amounts due from this customer included in accounts receivable were $958,298 and $983,152 at December 31, 2003 and 2002, 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:

	2003	2002
Investments	$ 2,320,916	$ 4,357,491
Cash Equivalents	5,659	436,299
Total	$ 2,326,575	$ 4,793,790

The gross unrealized holding gains on the U.S. Treasury Notes were $16,386 and $25,745 at December 31, 2003 and 2002, respectively.

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

NOTE 9 – UTILITY PLANT ASSETS:

	Balance January 1, 2003	Increases	Decreases	Balance December 31, 2003
Capital Assets Not Being Depreciated:				
Land	$ 60,557	$ 0	$ 0	$ 60,557
Intangible Plant	3,880	0	0	3,880
Construction in Progress	31,399	1,139,065	0	1,170,464
Total	95,836	1,139,065	0	1,234,901
Capital Assets Being Depreciated:				
Production Plant	6,565,847	23,363	(59,207)	6,530,003
Nuclear Fuel	393,938	14,438	0	408,376
Transmission Plant	1,458,209	80,539	(40,269)	1,498,479
Distribution Plant	10,363,795	527,558	(465,023)	10,426,330
General Plant	2,364,454	149,465	(14,103)	2,499,816
Total	21,146,243	795,363	(578,602)	21,363,004
Less Accumulated Depreciation For:				
Production Plant	(5,441,897)	(144,676)	59,207	(5,527,366)
Nuclear Fuel	(339,964)	(23,851)	0	(363,815)
Transmission Plant	(1,360,158)	(11,766)	40,269	(1,331,655)
Distribution Plant	(7,144,631)	(321,916)	465,023	(7,001,524)
General Plant	(1,562,799)	(144,253)	14,103	(1,692,949)
Total Accumulated Depreciation	(15,849,449)	(646,462)	578,602	(15,917,309)
Capital Assets Being Depreciated, Net	5,296,794	148,901	0	5,445,695
Utility Plant Assets, Net	$ 5,392,630	$ 1,287,966	$ 0	$ 6,680,596

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

	2003	2002
Cost of Capital Assets Acquired	$ 22,597,905	$ 21,242,079
Less: Accumulated Depreciation	15,917,309	15,849,449
Invested in Capital Assets, Net of Related Debt	$ 6,680,596	$ 5,392,630

NOTE 11 – CLAIMS AND JUDGMENTS:

The Massachusetts Municipal Utility Trust reimbursed the Department $36,228 during 2003 for an oil spill clean up. 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.

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, 2003 and 2002, sales to these departments totaled $916,502 and $840,000, respectively. At December 31, 2003 and 2002, the amounts due from these departments were $48,339 and $56,893, respectively.

The Department reimburses the town for various employee benefits and services, including health insurance and retirement. During the years ended December 31, 2003 and 2002, the total amount paid for these services was $918,843 and $860,990, respectively. The amounts payable to the town as of December 31, 2003 and 2002 were $1,497 and $1,872, respectively.

NOTE 13 – CONSTRUCTION IN PROGRESS:

The Hudson Light and Power Department is managing a project to construct a substation upgrade to take advantage of a second transmission line connection with National Grid. The project is in the final phase and is to be completed in 2004. The Department has incurred costs totaling $1,170,464 as of December 31, 2003. 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 2003 and 2002, 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 of that Project may be required to increase (step-up) their payments and correspondingly their Participants' share of that Project's Project Capability to an additional amount not to exceed 25% of their original Participants' share of that Project's 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 Purchase Power Agreements (PPAs) with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from 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 $461,368 in 2003, $458,596 in 2002 and $500,215 in 2001.

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 $7,885,957 and $7,187,064 as of December 31, 2003 and 2002, 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 U.S. Treasury Notes and Certificates of Deposit are classified as held to maturity, and are recorded at unamortized cost plus accrued interest paid at purchase. Investments in equity securities with readily determinable fair values are reported at their fair value on the statements of net assets. Fair values are based on the quoted market price of the investments.

At December 31, 2003, the gross unrealized holding gains on the U.S. Treasury Notes were $18,840. The gross unrealized holding gains on Certificate of Deposits were $3,265. The unrealized gain on investments of $230,057 is reflected in the statements of revenues, expenses and changes in net assets.

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.

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, 2003 there were no U.S. Treasury Notes. The gross unrealized holding gains on Certificates of Deposit were $6,412.

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

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,	2004	$	2,430,320
	2005		2,424,800
	2006		1,243,520
	2007		410,000
	2008		410,000
	2009-2012		1,640,000
	Total	$	8,558,640

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 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 the bonds relate, plus available funds pledged under the Amended and Restated General Bond Resolution (GBR) with respect to the bonds of that Project. 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 3.7% interest in the W.F. Wyman Unit No. 4 plant, owned and operated by FPL Energy Wyman IV, a subsidiary of FPL Energy, Inc. 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. In addition to Millstone Unit 3, DNCI also is the owner of Millstone Unit 2. DNCI has requested and received an exemption from the NRC enabling them to submit an application earlier than 20 years before the expiration of the operating license for Unit 3 so that DNCI could submit its application for license renewal for Unit 2 and Unit 3 at the same time. In January 2004, DNCI filed an application with the NRC to renew the operating license. The license currently will expire in 2025.

A substantial portion of MMWEC's plant investment and financing program is an 11.6% ownership interest in the Seabrook Station nuclear generating unit operated by FPL Energy Seabrook, LLC, an indirect subsidiary of FPL Group Inc. FPL Energy Seabrook, LLC plans to file an application with the NRC to recapture the period 1986 to 1990 during which time Seabrook had a license, but did not operate and to extend the Seabrook Unit license, which currently will expire in 2026.

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 costs are being funded through monthly Project billings. Also 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. In February 2003 Congress extended the Price-Anderson Act through the end of 2003. Further extension is being considered by Congress as part of comprehensive energy legislation.

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 MMWEC 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, 2003, total capital expenditures amounted to $1,506,203,000, of which $163,359,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects includes Power Supply System Revenue Bonds totaling $925,265,000, of which $102,149,000 is associated with the Department's share of Project Capability. As of December 31, 2003, MMWEC's total future debt service requirement on outstanding bonds issued for Projects is $1,204,191,000, of which $137,070,000 is anticipated to be billed to the Department in the future.

The estimated 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, 2003 and estimated for future years is shown below.

		ANNUAL COSTS
For years ended December 31,	2004	$ 11,343,000
	2005	11,341,000
	2006	11,343,000
	2007	11,349,000
	2008	11,324,000
	2009 to 2013	47,248,000
	2014 to 2018	32,101,000
	2019	1,021,000
	TOTAL	$ 137,070,000

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 $16,094,000 and $16,450,000 for the years ended December 31, 2003 and 2002, respectively.

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	PERCENTAGE SHARE	TOTAL PROJECT EXPENDITURES TO DATE	PARTICIPANTS SHARE	DEBT ISSUED & OUTSTANDING 12/31/03	PARTICIPANTS SHARE	TOTAL DEBT SERVICE ON BONDS OUTSTANDING	PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ 57,416	$ -	$ 8,930	$ -	$ 6,649	$ -
Stony Brook Intermediate Project	-	163,066	-	49,805	-	50,706	-
Nuclear Mix No. 1-SBK	3.3984	15,098	513	10,648	362	13,132	446
Nuclear Mix No. 1-MLS	3.3984	111,915	3,803	78,932	2,682	97,353	3,308
Nuclear Project No. 3-MLS	1.5997	139,022	2,224	162,225	2,595	214,490	3,431
Nuclear Project No. 4-SBK	4.2300	315,545	13,348	179,530	7,594	237,240	10,035
Nuclear Project No. 5-SBK	1.8613	86,181	1,604	53,560	997	70,590	1,314
Wyman Project	9.2536	7,595	703	2,485	230	2,499	231
Project No. 6-SBK	23.1278	610,365	141,164	379,150	87,689	511,532	118,305
TOTAL		$ 1,506,203	$ 163,359	$ 925,265	$ 102,149	$ 1,204,191	$ 137,070

	PERCENTAGE SHARE	OPERATION & MAINTENANCE 12/31/02	PARTICIPANTS SHARE	OPERATION & MAINTENANCE 12/31/03	PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ 10,592	$ -	$ 11,356	$ -
Stony Brook Intermediate Project	-	46,889	-	51,437	-
Nuclear Mix No. 1-SBK	3.3984	1,807	61	1,726	59
Nuclear Mix No. 1-MLS	3.3984	14,955	508	13,751	467
Nuclear Project No. 3-MLS	1.5997	24,370	390	24,145	386
Nuclear Project No. 4-SBK	4.2300	30,830	1,304	30,273	1,281
Nuclear Project No. 5-SBK	1.8613	9,089	169	8,874	165
Wyman Project	9.2536	1,850	171	3,207	297
Project No. 6-SBK	23.1278	59,871	13,847	58,107	13,439
TOTAL		$ 200,253	$ 16,450	$ 202,876	$ 16,094

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	PERCENTAGE SHARE	2004 ANNUAL COST	2004 PARTICIPANTS SHARE	2005 ANNUAL COST	2005 PARTICIPANTS SHARE	2006 ANNUAL COST	2006 PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ 4,569	$ -	$ 2,080	$ -	$ -	$ -
Stony Brook Intermediate Project	-	12,875	-	12,873	-	12,428	-
Nuclear Mix No. 1-SBK	3.3984	1,355	46	1,354	46	1,358	46
Nuclear Mix No. 1-MLS	3.3984	10,041	341	10,039	341	10,067	342
Nuclear Project No. 3-MLS	1.5997	16,929	271	16,947	271	16,955	271
Nuclear Project No. 4-SBK	4.2300	19,847	840	19,903	842	19,926	843
Nuclear Project No. 5-SBK	1.8613	6,094	113	6,099	114	6,109	114
Wyman Project	9.2536	563	52	523	48	528	49
Project No. 6-SBK	23.1278	41,855	9,680	41,848	9,679	41,847	9,678
TOTAL		$ 114,128	$ 11,343	$ 111,666	$ 11,341	$ 109,218	$ 11,343

	PERCENTAGE SHARE	2007 ANNUAL COST	2007 PARTICIPANTS SHARE	2008 ANNUAL COST	2008 PARTICIPANTS SHARE	2009 to 2013	2009 to 2013 PARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ -	$ -	$ -	$ -	$ -	$ -
Stony Brook Intermediate Project	-	9,262	-	3,268	-	-	-
Nuclear Mix No. 1-SBK	3.3984	1,358	46	1,358	46	5,952	202
Nuclear Mix No. 1-MLS	3.3984	10,070	342	10,070	342	44,119	1,499
Nuclear Project No. 3-MLS	1.5997	16,972	272	16,986	272	80,010	1,281
Nuclear Project No. 4-SBK	4.2300	19,939	843	19,962	844	84,598	3,578
Nuclear Project No. 5-SBK	1.8613	6,107	114	6,108	114	29,066	541
Wyman Project	9.2536	586	54	299	28	-	-
Project No. 6-SBK	23.1278	41,845	9,678	41,845	9,678	173,587	40,147
TOTAL		$ 106,139	$ 11,349	$ 99,896	$ 11,324	$ 417,332	$ 47,248

HUDSON LIGHT AND POWER DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
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	PERCENTAGE SHARE	2014 to 2018 ANNUAL COST	PARTICIPANTS SHARE	2019 ANNUAL COST	ARTICIPANTS SHARE
Stony Brook Peaking Project	-	$ -	$ -	$ -	$ -
Stony Brook Intermediate Project	-	-	-	-	-
Nuclear Mix No. 1-SBK	3.3984	397	13	-	-
Nuclear Mix No. 1-MLS	3.3984	2,947	100	-	-
Nuclear Project No. 3-MLS	1.5997	49,600	793	-	-
Nuclear Project No. 4-SBK	4.2300	53,065	2,245	-	-
Nuclear Project No. 5-SBK	1.8613	11,007	205	-	-
Wyman Project	9.2536	-	-	-	-
Project No. 6-SBK	23.1278	124,290	28,745	4,415	1,021
TOTAL		$ 241,306	$ 32,101	$ 4,415	$ 1,021

Goulet, Salvidio & Associates, P.C.

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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, 2003 and 2002, which are presented in the preceding section of this report. The supplemental information presented on pages 30-32 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
April 20, 2004

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HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Sales to Residential Customers	$ 6,573,366	$ 6,831,927
Sales to Commercial Customers	1,767,094	1,829,846
Sales to Power Customers	12,065,353	13,364,798
Private Property Lighting Sales	72,453	79,699
Miscellaneous Electric Sales	376,115	0
Municipal Sales		
Hudson Street Lights	100,610	115,089
Hudson Municipal Buildings	71,926	68,934
Hudson Municipal Power	426,034	367,082
All Electric Municipal Buildings	334,739	380,759
Stow and Berlin Street Lights	4,710	7,468
Stow, Maynard and Other Municipal Services	91,842	98,271
Total Revenue from Sales of Electricity	21,884,242	23,143,873
Power Adjustment Charges		
Residential Sales	1,965,662	1,674,164
Commercial Sales	561,825	478,916
Power Sales	6,720,690	6,102,549
Private Property Lighting	17,413	16,174
Municipal Power Adjustment Charges		
Hudson Municipal Buildings	22,835	18,230
Hudson Municipal Power	196,028	139,755
All Electric Municipal Buildings	112,794	109,750
Stow and Berlin Street Lights	244	1,290
Stow, Maynard and Other Municipal Services	36,970	31,976
Total Power Adjustment Charges	9,634,461	8,572,804
Other Income		
Other Electric Revenues	60,901	56,382
TOTAL OPERATING REVENUES	$ 31,579,604	$ 31,773,059

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
PRODUCTION EXPENSES:		
Nuclear Power Generation:		
Operation Supervision	$ 22,950	$ 18,691
Fuel	30,997	31,797
Coolants and Water	1,907	2,008
Steam Expenses	7,512	18,378
Electric Expenses	0	473
Miscellaneous Nuclear Power Expenses	64,840	46,240
Maintenance Supervision	6,466	10,517
Maintenance of Structures	3,362	2,816
Maintenance of Reactor Plant Equipment	16,685	17,185
Maintenance of Generation and Electric Plant	7,144	14,359
Total Nuclear Power Generation Expenses	161,863	162,464
Other Power Generation:		
Operation Supervision	37,695	34,820
Fuel-Oil	170,849	50,612
Fuel-Natural Gas	27,066	99,142
Generation Expenses	91,028	81,463
Generation Expenses-Lube	6,842	4,116
Miscellaneous Other Power Generation Expenses	117,175	125,006
Maintenance Supervision	36,388	35,819
Maintenance of Structures	51,804	245,346
Maintenance of Generation and Electric Plant	83,904	77,536
Total Other Power Generation Expenses	622,751	753,860
TOTAL PRODUCTION EXPENSES	784,614	916,324
PURCHASED POWER EXPENSES:		
Purchased Power-Entitlement	19,782,318	20,228,582
Purchased Power-Nepex System	5,123,962	4,312,311
Control and Load Dispersion	7,641	7,544
TOTAL PURCHASED POWER EXPENSES	24,913,921	24,548,437

See Independent Auditors' Report on Supplemental Information

HUDSON LIGHT AND POWER DEPARTMENT
SCHEDULES OF OPERATIONS AND MAINTENANCE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
TRANSMISSION EXPENSES	$ 1,925,638	$ 1,856,552
DISTRIBUTION EXPENSES:		
Operation Supervision and Engineering	38,024	36,534
Station Expenses	153,774	140,382
Overhead Line Expenses	11,251	13,812
Underground Line Expenses	3,236	6,553
Street Lighting and Signal Expenses	12,439	10,788
Meter Expenses	110,873	96,005
Customer Installation Expenses	5,293	4,758
Miscellaneous Distribution Expenses	3,724	1,482
Maintenance Supervision and Engineering	38,058	39,784
Maintenance of Station Equipment	5,500	10,304
Maintenance of Overhead Lines	405,888	377,084
Maintenance of Underground Lines	11,964	23,078
Maintenance of Line Transformer	29,548	16,774
Maintenance of Street Lighting	10,318	9,018
Maintenance of Meters	591	2,018
TOTAL DISTRIBUTION EXPENSES	840,481	788,374
GENERAL EXPENSES:		
Supervision	17,284	15,692
Meter Reader Expenses	68,544	60,148
Customer Records and Collection Expenses	254,654	245,307
Uncollectible Accounts	59,541	131,696
Miscellaneous Sales Expenses	17,252	15,827
Administrative and General Salaries	471,908	494,436
Office Supplies and Expenses	17,668	17,388
Outside Services Employed	69,816	87,335
Property Insurance	41,738	36,387
Injuries and Damages	93,855	75,033
Employee Pension and Benefits	934,856	848,052
General Advertising Expense	4,324	2,481
Miscellaneous General Expenses	36,131	34,148
Maintenance of General Plant	69,429	51,229
Transportation Expenses	54,393	48,044
TOTAL GENERAL EXPENSES	2,211,393	2,163,203
REAL ESTATE AND OTHER TAXES	15,756	14,517
TOTAL OPERATIONS AND MAINTENANCE	$ 30,691,803	$ 30,287,407

See Independent Auditors' Report on Supplemental Information