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Follow up to Report Issued October 20, 2008 \$44-Hold

**Rating: Hold**

**FPL GROUP**  
**(NYSE-FPL)**

**Production Tax Credit and Investment Tax Credit Earnings Components**  
**Three Months – Year to Date**

Price (intra day)	11/25						
	48						
52-week range	74-34				Price	Y-t-d	12 Mos.
Book 6/30/08	26.33	184%	P/book	Performance	11/25	%	%
Adjusted Earnings*				FPL Group	48	(29)	(29)
2005 Actual	2.63	18.4		Phil. El. Index	398	(30)	(29)
2006 Actual	3.04	15.9		Dow Industrials	8,439	(36)	(35)
2007 Actual	3.48	13.9		Analyst Total**	20		
2008 Consensus	3.84	12.6		Buys	13		
2009 Consensus	4.11	11.8		%	65%		
2010 Mid-guidance	4.70	10.3		Shares (mil)	407		
2012 Mgmt Target***	5.40	8.9		Equity \$ Bil.	20		
Dividend	1.78	3.7%	Yield				

\* GAAP per share earnings: \$3.37 – 2007, \$3.23 – 2006, \$2.34 – 2005, \$2.48 – 2004, \$2.53 - 2003

\*\* Source: Bloomberg Financial Service

\*\*\* Management target of increasing earnings per share 10%-plus annually over 2006/12

**PTC & ITC:** On October 20, 2008, we reviewed FPL Group with a Hold Rating and estimated price range of \$48-\$50. On October 27, the company reported adjusted earnings of \$1.25 a share (GAAP - \$1.92 a share) versus \$1.23 a share (GAAP - \$1.33 a share) for the three months ended September 30. Year to date, the company reported \$2.94 a share (\$3.06 a share GAAP) versus \$2.80 a share (GAAP - \$2.72 a share). Adjusted earnings exclude mark-to-market effects of non-qualifying hedges and losses related to other than temporary impairments on investments. Management reaffirmed earnings guidance of \$3.83-\$3.93 a share for 2008 with the caveat that results will fall in the lower end of that range. Guidance for 2009 and 2010 were maintained at \$4.05-\$4.25 a share and \$4.50-\$4.90 a share, respectively.

Table 1 lists earnings of the utility, Florida Power & Light, and non-regulated Florida Energy. For both the three months and year to date, Florida Power & Light earnings declined 4% to \$0.78 a share (62% of consolidated) and \$1.59 a share (54% of consolidated), respectively. Energy earnings increased 18% for the three months to \$0.53 a share versus \$0.45 a share and 20% year to date to \$1.50 a share compared to \$1.25 a share. Energy earnings contain tax credits derived from Production Tax Credits (PTCs) in the case of Wind and a 30% Investment Tax Credit for solar. At this stage, solar is modest with the PTC accounting for almost all of the credits. For the three months, tax credits were \$0.23 a share (\$94 million) in 2008 versus \$0.11 a share (\$43 million). Year to date, tax credits totaled \$0.48 a share (\$193 million) compared to \$0.36 a share (\$146 million).

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Table 1  
Adjusted Earnings per Share

Column	(1)	(2)	(3)	(4)	(5)	(6)
	3-Mos			Ytd		
September	2008	2007	%	2008	2007	%
Utility	0.78	0.81	(4)	1.59	1.66	(4)
Energy						
PTC & ITC	0.23	0.11	115	0.48	0.36	31
Operations	0.30	0.34	(13)	1.02	0.89	15
Energy - total	0.53	0.45	18	1.50	1.25	20
Combined	1.31	1.26	4	3.09	2.91	6
Parent & Other	0.06	0.03		0.15	0.11	
Consolidated	1.25	1.23	2	2.94	2.80	5
Net of Tax Credits	1.02	1.12	(9)	2.46	2.44	1

According to management, 60% of Energy's growth through 2012 will stem from Wind, which in turn hinges on continuation of Production Tax Credits. The problem with wind valuations is there are few comparables. The company's sum-of-the-parts analysis uses 3-foreign companies and its methodology, if applied to a single unit, would produce a price/earnings ratio in excess of 40 times (refer to our October 20, 2008 report). In our opinion, tax-generated earnings should not be valued higher than its source, in this case the utility.

## Analyst's Certification

I Raymond E. Moore certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report. Other FPL Group reports issued by me are: 1/9/06 (\$42) – Not Rated; 8/3/07 (\$56) – Not Rated; 8/9/07 (\$63) – Not Rated; 2/26/08 (\$64) – Hold; 10/20/08 (\$44) - Hold.

## Important Disclosures

### Guide to Investment Ratings:

**Buy** Total return is expected to exceed significantly the average total return of the analyst's industry coverage universe over the next 12 months.

**Market Perform & Hold** Total return is expected to equal the average total return of the analyst's industry coverage universe over the next 12 months.

**Sell** Total return is expected to significantly under perform (15% plus) the total return of the industry coverage universe over the next 12 months.

### Analyst's Ratings Distribution

		% Investment Banking
Buy	12%	0%
Hold	88%	0%
Sell	0%	0%

The principal risks to the achievement of our price targets include general market trends, disappointing earnings and lower energy prices and adverse regulatory developments

Our target prices are based on projected earnings for the following calendar year, and an assumed price/earnings ratio in line with the company's historical valuation or those of other companies with similar businesses and prospects.



## Important Disclosures, continued

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