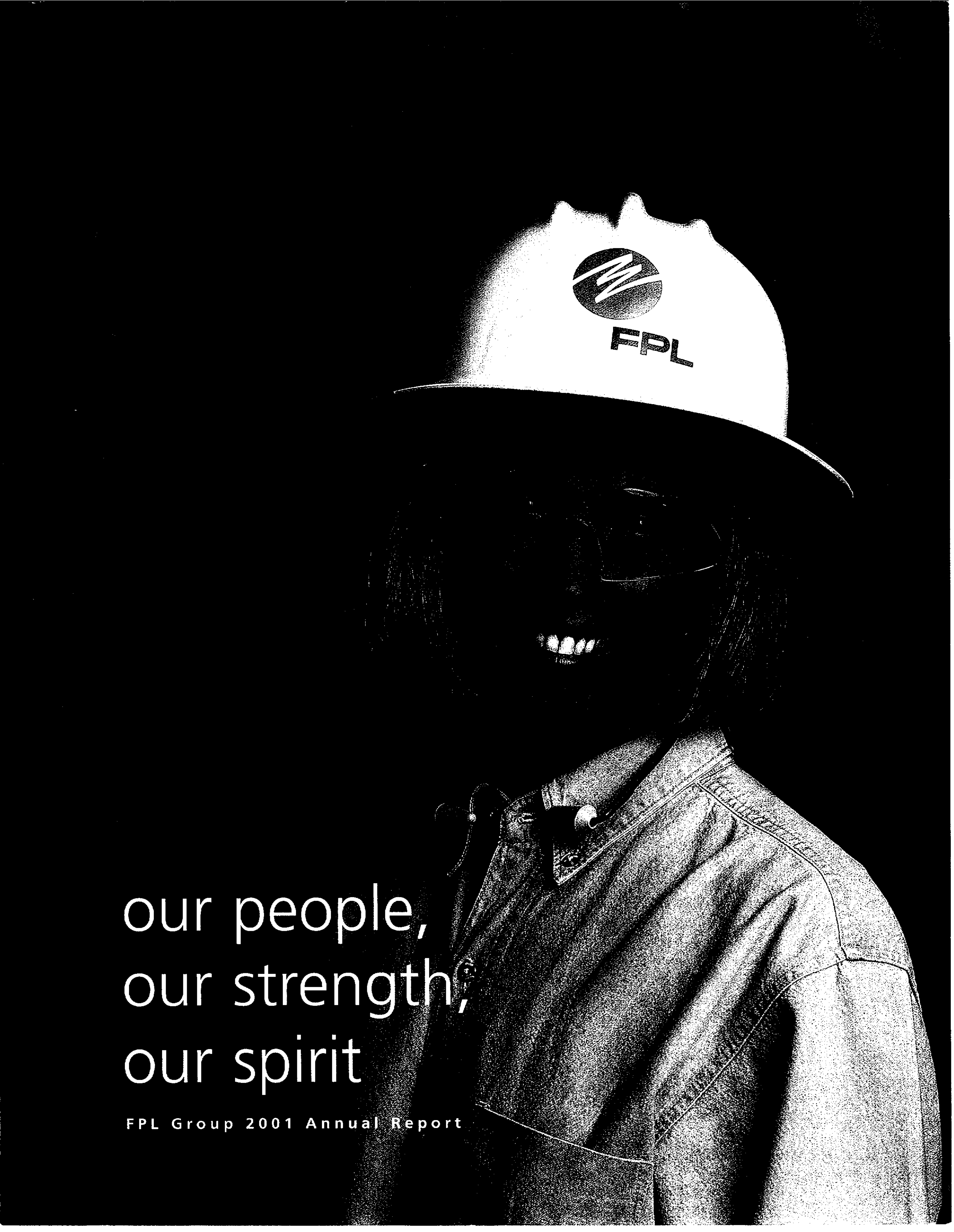


our people, our strength, our spirit

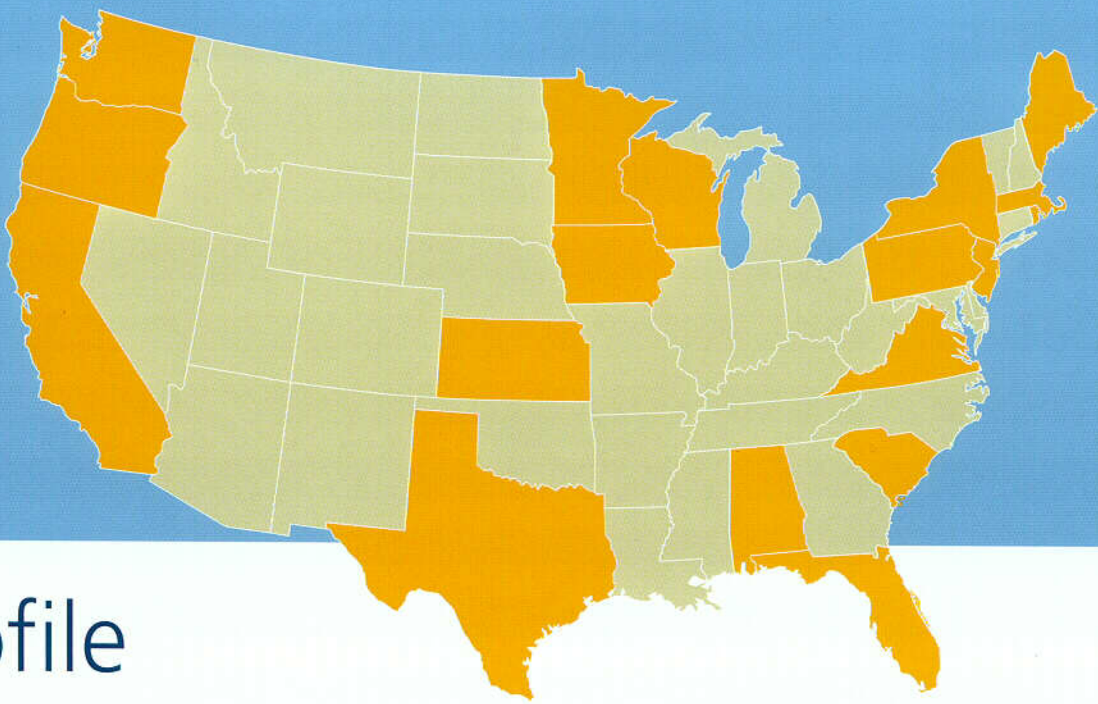
FPL Group 2001 Annual Report

FPL: Serving a Growing State

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

FPL Energy: A Growing National Presence

Areas in yellow denote states with FPL Energy projects and offices.



profile

FPL Group, Inc. is one of the nation's largest providers of electricity-related services. Its principal subsidiary, Florida Power & Light Company, serves nearly eight million people along the eastern seaboard and the southern portion of Florida. FPL Energy, LLC, FPL Group's unregulated electricity generating subsidiary, is a leader in producing electricity from clean and renewable fuels. Together, FPL and FPL Energy own domestic power plants representing nearly 22,000 megawatts of capacity. By 2005, the company expects to own a total of more than 31,000 megawatts of capacity. FPL FiberNet provides fiber-optic services and fiber-optic cable to businesses within Florida.

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For the Years Ended December 31,	2001	2000	% change
Financial Results *(millions, except per share amounts)*			
Net Income excluding merger-related expenses and the net positive effects of FAS 133	$792	$745	6.3
Net Income	$781	$704	10.9
Earnings Per Share excluding merger-related expenses and the net positive effects of FAS 133 (assuming dilution)	$4.69	$4.38	7.1
Earnings Per Share (assuming dilution)	$4.62	$4.14	11.6
Operating Revenues	$8,475	$7,082	19.7
Operating Income	$1,397	$1,240	12.7
Cash Flows from Operating Activities	$1,942	$976	99.0
Total Assets	$17,463	$15,300	14.1
Common Stock Data			
Weighted-Average Shares Outstanding *(millions)*	169	170	(0.6)
Dividends Per Share	$2.24	$2.16	3.7
Book Value Per Share	$35.59	$33.22	7.1
Market Price Per Share *(high / low)*	$71.63-$51.21	$73-$36.38	
Operating Data			
Utility Energy Sales *(millions kwh)*	93,488	91,969	1.7
FPL Customer Accounts *(average; thousands)*	3,935	3,848	2.3
Employees *(year end)*	10,992	10,852	1.3

contents

Safe Harbor Statement: *Any statements made herein about future operating results or other future events are forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Actual results may differ substantially from such forward-looking statements. A discussion of factors that could cause actual results or events to vary is contained in FPL Group's 2001 SEC Form 10-K.*

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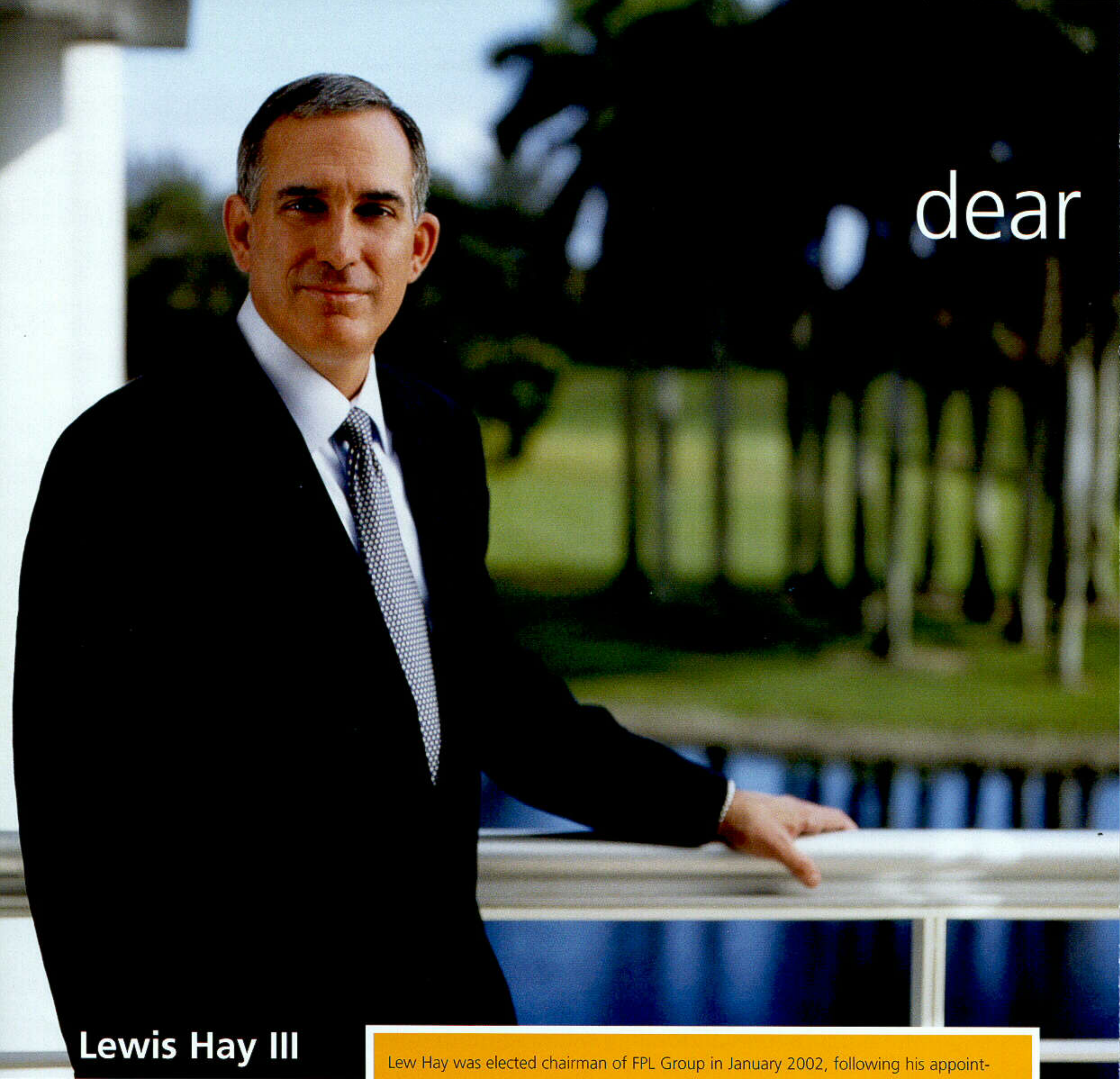
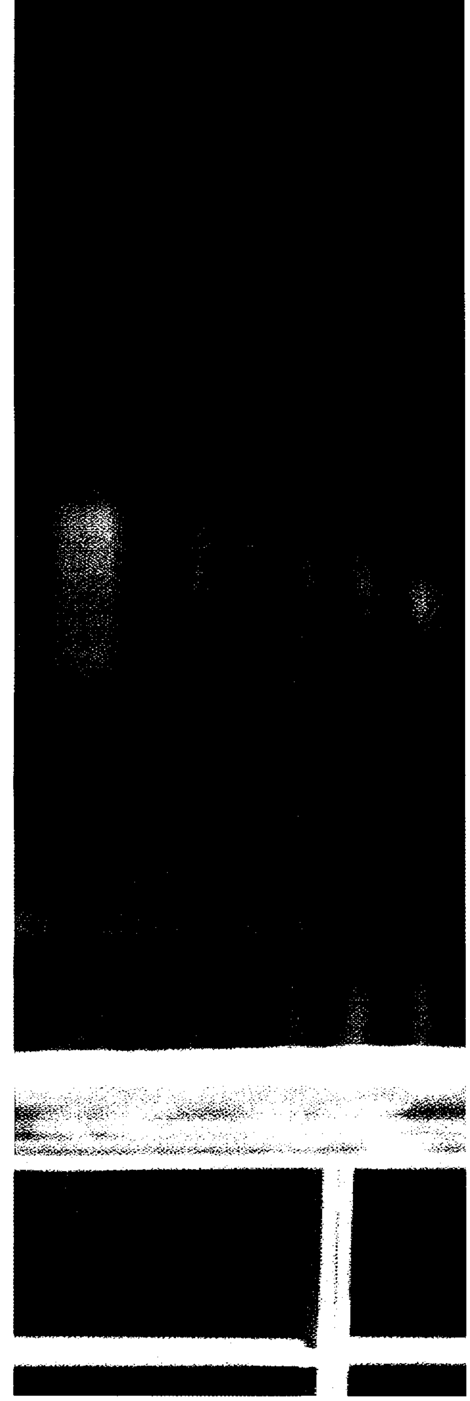
dear



Lewis Hay III

Chairman and
Chief Executive Officer

Lew Hay was elected chairman of FPL Group in January 2002, following his appointment as president and CEO in June 2001. He joined FPL Group in August 1999 as chief financial officer and became president of FPL Energy in March 2000. Before joining FPL Group, Mr. Hay was executive vice president and CFO at U.S. Foodservice, where he helped build the company through a combination of internal growth, improved operations and acquisitions, from $1 billion in sales in 1991 to more than $6 billion in sales in 1999. Prior to that, he was a partner and senior vice president at Mercer Management Consulting where he led the firm's Washington, D.C.-based strategy practice, assisting Fortune 100 companies in developing business strategies and execution plans. Mr. Hay holds a master's degree in business administration from Carnegie Mellon University and a bachelor's degree in electrical engineering from Lehigh University.



shareholders:

Without doubt, the past year was one of the most tumultuous years ever for the electricity business. The events of 2001 had, and continue to have, an impact on our company:

- the California energy debacle and, along with it, warnings of a national power shortage
- within a few months of the California crisis, fears of a glut of generating capacity in most regional markets
- the collapse of Enron, which, coming on the heels of the California problem, has caused many states, including Florida, to rethink plans to deregulate electric service
- economic recession
- changing federal rules about how transmission assets should be structured and managed, and changing rules governing pricing in "unregulated markets"
- volatile natural gas and electricity prices
- the toughening of credit rating standards by rating agencies
- and, of course, the tragic events of September 11th.

2001: STRONG FINANCIAL PERFORMANCE

Despite these tumultuous events, FPL Group turned in an outstanding year. All three of our businesses delivered strong growth, record earnings and excellent operating performance.

- Net income, excluding merger-related expenses and the effects of accounting standard FAS 133, reached $792 million, an all-time high, compared with $745 million in 2000.
- Earnings per share, excluding the same items, increased by 7 percent to $4.69 per share, meeting our target.

Florida Power & Light: *An Outstanding Utility*

FPL is among the very best performing utilities in the nation, and this was surely evident last year.

- Our residential base rates are 12 percent below the industry average.
- Our operational performance places us in the top 10 percent of the industry in virtually every meaningful performance measure. Fossil plant availability of 95 percent equaled the best we've ever achieved and

nuclear availability of 92 percent, despite three refueling outages last year, significantly exceeded the industry average. And the average amount of time our customers were without power during the year was just 69 minutes – 36 percent better than the national average.

- We continued to expand our electric system infrastructure to meet growing demand in our service territory, adding 1,200 megawatts of generating capacity and expanding our network to serve almost 87,000 new customer accounts.
- Despite this expansion, we remained a low-cost provider. Both our operations and maintenance costs and our capital investment per customer are well below industry averages.

FPL Energy:
Growth and Asset Optimization

We continued the disciplined growth of our national wholesale power business, FPL Energy.

- In 2001, excluding merger-related expenses and the effects of FAS 133, this business represented 13 percent of FPL Group's net income and its contributions to earnings per share increased 27 percent.

Consistent Earnings Per Share Growth

Excluding nonrecurring items and the effects of FAS 133

- We started the year with 4,110 net-megawatts of generation in operation and have since brought 1,014 new megawatts online, growing by more than 20 percent.
- We have focused on building a diversified portfolio – by region and by fuel mix – and operating these plants at the same high performance levels as those in our regulated utility.
- We further added to shareholder value through the efforts of our significantly enhanced asset optimization organization, which allowed us to maintain operating margins despite declining electricity prices.

FPL FiberNet:
Profitability Amidst Difficult Industry Conditions

The telecommunications sector has undergone tremendous changes, especially with the bursting of the "dot-com bubble." Despite this depressed telecom market, FPL FiberNet, our wholesale fiber-optic business, has done an outstanding job of continuing to grow – and grow profitably. In fact, this is one of the few fiber-optic network businesses to make a profit in 2001.

SOUND STRATEGIC DIRECTION

For more than a decade now, the company has successfully pursued a strategy focused on energy-related businesses. Begun thanks to the visionary leadership of Jim Broadhead, who served as chairman and CEO for 13 years until his retirement in December, this strategy has served shareholders very well. We plan to continue to build on that strategy going forward.

- As an owner and operator of assets in what is fundamentally a commodity business, we must be a low-cost producer and provide superior service in order to succeed. We do very well in both areas and are committed to getting even better.

C04

- Our financial strength and discipline have also served us well in the past and will continue to do so as we pursue further opportunities for profitable growth.
- Our business portfolio is diversified by region and by fuel type, and we participate successfully in both the traditional, regulated utility sector and the newer competitive wholesale sector.
- We limit our exposure to market volatility by focusing our trading activities primarily on optimizing the profitability of our assets, rather than engaging in speculative trading.

By staying focused and playing to our strengths, we have avoided many of the mistakes that have proven costly for some in our industry and are confident we can continue our successful track record of profitable growth and outstanding operational performance.

PROSPECTS FOR 2002 AND BEYOND

Florida Power & Light

FPL is well positioned for future growth. Though we will continue to feel some effects in 2002 from the aftermath of September 11th and the continued economic slowdown, we are located in one of the fastest growing markets in the country. To meet that growing demand for electricity, we will add more than 4,000 megawatts of clean, state-of-the-art generating capacity by the end of 2005. This new generation, along with demand management programs and additional short-term purchases, will allow us to maintain a strong 20 percent reserve margin.

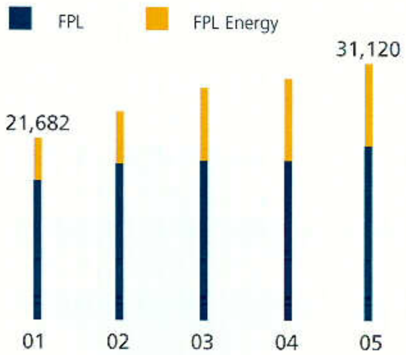
In March, the Florida Public Service Commission approved a new four-year incentive-based agreement with the Florida Public Counsel and others which reduces base rates for customers by approximately $1 billion through 2005. The new agreement, which builds upon the current agreement in place since 1999, becomes effective April 15, 2002.

The reduction benefits our customers by lowering the base rates they pay for electricity by 7 percent. Although the new agreement reduces FPL revenues, it also provides important incentives that would allow FPL to grow earnings through continued operational productivity enhancements and other actions.

Going forward, we are confident that, given our track record of providing reliable power at reasonable rates and our presence in a growing service territory, we will build on our impressive 2001 results and achieve even greater levels of performance in future years.

A Growing Portfolio

FPL Group projected net-megawatts in operation



FPL Energy

Opportunities for growth at FPL Energy are significant. We expect its recent growth trend to continue, with earnings per share contributions increasing an average of between 20 and 30 percent over the next several years. Much of this growth will be driven by our growing portfolio of generating assets which, based on projects already announced or under construction, is expected to exceed 10,000 net-megawatts by 2004.

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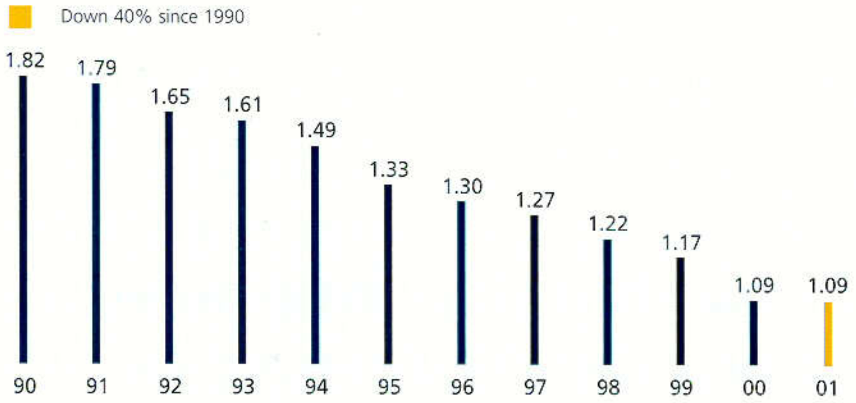
A Decade of O&M Expense Reductions
(Cents per kilowatt-hour)



We expect this growth to be further augmented by new wind generation projects. We are the leading developer and operator of wind-powered generation in the U.S. With Congress extending the production tax credit through 2003, we are targeting the addition of 1,000 to 2,000 megawatts of new wind generation over that timeframe.

Given the short-term abundance of generating capacity, we envision less new project development activity in the next few years. Instead, we expect to be able to capitalize on our financial strength and look to attractively priced acquisition opportunities as some companies may elect to sell generating assets.

FPL FiberNet

Our building program at FPL FiberNet is largely complete, and we are well positioned for continued revenue growth within our existing network. With a high proportion of our fiber-optic cable ready for service, we have plenty of capacity available to offer to existing or new customers.

A TOP-NOTCH TEAM

We are committed to maintaining a team approach at FPL Group.

During the year we further strengthened an already outstanding team by adding several key executives, including Ron Green as president of FPL Energy, Moray Dewhurst as chief financial officer and Mark Maisto as president of Power Marketing Inc., our energy trading & marketing group. I am confident that the energy and unique perspectives these talented executives have brought, coupled with a focus on getting the best ideas from all of our people, will help us achieve even greater levels of performance.

This team approach extends to other important groups as well, including our customers, without whom we would not exist and whose needs we are continually working hard to anticipate and satisfy, and our suppliers, whose partnership is critical to satisfying the customers we both share.

None of our achievements would be possible, of course, without the outstanding contributions of an extremely talented workforce, and the ongoing confidence our shareholders place in us. We appreciate the support of both groups.

Several key leaders also retired during the year, most notably Jim Broadhead, as I mentioned earlier in this letter. In addition, Marshall Criser retired from our board of directors after 13 years of distinguished service, and Tom Plunkett retired after 11 years of outstanding service during which time he led our nuclear division to its current position as one of the best performing nuclear operations in

C06

the country. We thank each of them for their contributions to our success and wish them all well.

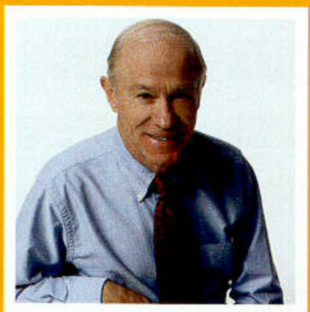
LOOKING FORWARD

We're in an exciting industry, and I'm very confident of the inherent strength of FPL Group and its businesses. We have in place:

- an excellent leadership team and a talented and committed workforce
- three well-performing businesses, each with attractive growth opportunities
- financial strength
- and what is perhaps our greatest strength, a commitment to continuous improvement in every part of our business.

The creation of shareholder value, of course, will be the ultimate measure of our success. Be assured that we have the utmost confidence in the ability and resolve of our talented and highly motivated team of employees to execute our plans and create this all-important value for our shareholders.

Lewis Hay III
Chairman, President and
Chief Executive Officer
March 22, 2002



Jim Broadhead retires

The retirement at the end of 2001 of James L. Broadhead as chairman of FPL Group brings to an end a 13-year tenure marked by significant growth and marked improvement in the company's financial and operating performance.

During this period, FPL's power capability expanded by approximately 20 percent while non-utility generating capacity increased from less than 100 megawatts to more than 5,000. Overall, FPL Group's power capability, including purchased power, grew almost 50 percent to nearly 24,000 megawatts. This helped to more than double from the end of 1990 through the end of 2001 the value of FPL Group and rewarded shareholders with an annualized total return well above the industry average. Customers, meanwhile, were rewarded with the lowest electric rates since 1984.

Mr. Broadhead focused on quality, cost management and customer satisfaction to build FPL Group into one of the nation's premier energy providers. By utilizing the company's core competencies to concentrate on the energy business – and successfully divesting unrelated businesses – he leaves a financially strong company, well positioned for future growth and continued success.

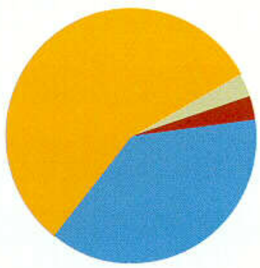
C07

outstanding

In recent years Florida Power & Light Company has distinguished itself from most other energy companies through a combination of growth, operational excellence, and financial strength. In 2001, each of these elements was clearly evident as the utility turned in another outstanding year.

2001 Customer Mix
(FPL revenues by customer class)

Residential	56%
Commercial	38%
Industrial	3%
Other	3%



FPL's underlying growth fundamentals remained strong even in light of the effects of the September 11 tragedies. FPL's customer base grew 2.3 percent as the company added almost 87,000 new customer accounts to total nearly 4 million. Electricity usage per retail customer grew 0.4 percent. Growth in both usage and new customer accounts is expected to continue in 2002.

Continuing to expand

To meet the demands of more customers and greater use of electricity, FPL in 1998 began an on-going capacity expansion program. As part of that program, 1,200 megawatts of new generation were added at existing facilities in 2001. Included were 900 megawatts at the Fort Myers power plant and 300 megawatts of peaking units at the Martin Plant. Over the next four years, the utility expects to add more than 4,000 megawatts of capacity.

The additions in 2001 increased FPL's total system capability, including purchased power, to nearly 19,000 megawatts. This increased capability, combined with demand management programs and additional short-term purchases, will allow us to maintain a strong 20 percent reserve margin.

More new generation will come on line this year with the completion of "repowering" projects at Fort Myers and Sanford. This will increase from 250,000 to 600,000 the number of homes and businesses supplied power by the two plants.

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performance

As part of our generation expansion in Florida, FPL is "repowering" the Sanford power plant, a process that will more than double the plant's generating capacity while reducing emissions. The Florida Ocean Alliance recently recognized FPL's repowering projects at Sanford and Fort Myers for significant reductions in air emissions and barge traffic and for the wise use of existing land. Both projects also were presented with the Star Award, the highest safety honor the U.S. Department of Labor bestows.

Repowering For the Future

Sanford Power Plant

(From left) Mike Cooney, production manager; Joe Fisher, maintenance leader; Roxane Kennedy, plant manager; and Daniel Woods, plant leader.

C09

Making New Connections

Transmission Line Construction

On the ground is Herman Clowney, foreman; working in the buckets (reflected in Mr. Clowney's safety glasses) are Line Specialists Ernie Garces, Jeff Massey and Bobby Nelson.

To serve one of the nation's fastest-growing regions, FPL continues to add power lines and other electric facilities to deliver power to customers. At this site near Pompano Beach, FPL crews are expanding our transmission network after winning a bid to do the job more cost effectively than outside contractors. FPL often asks customers for input on proposed transmission line routes. Customer research, community advisory panels and open houses also are used to learn more about customers' interests and factor community priorities into planning.

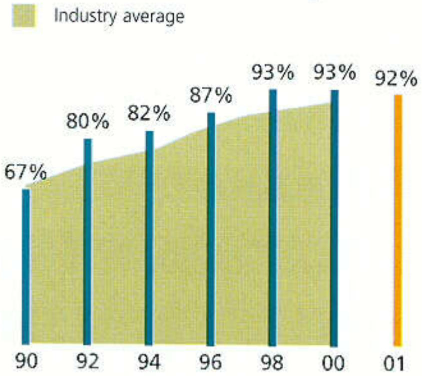
The process of repowering – converting existing oil-burning plants to state-of-the-art natural gas operations – not only increases plant output, but reduces emissions as well. As a leading "clean energy" utility, FPL's overall emissions are among the lowest of any U.S. electric utility based on the amount of electricity that it produces.

Early this year FPL proposed a plan to expand capacity at its Martin and Manatee plant sites. The proposal would add 1,900 megawatts of clean-burning, natural gas combined-cycle generation by mid-2005 and allow FPL to serve more than 400,000 new customers while maintaining its reserve margin requirements.

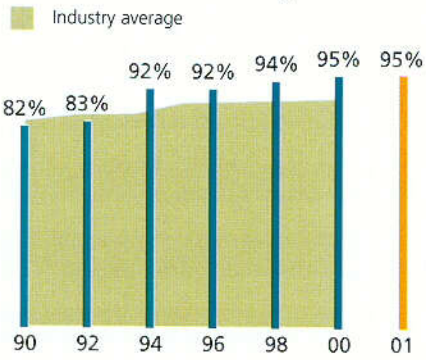
FPL is an industry leader in helping to hold down the need for additional new generation by utilizing energy management and conservation programs to reduce demand for electricity during peak periods. Over the past two decades, through conservation and other programs, FPL has helped customers reduce their overall energy use and avoided having to build nine additional power plants. By meeting its current conservation goals, FPL will avoid building two additional 400-megawatt power plants that otherwise would have been part of its expansion program.

An Industry Leader in Plant Performance

Nuclear Plant Availability



Fossil Plant Availability



Superior operating performance

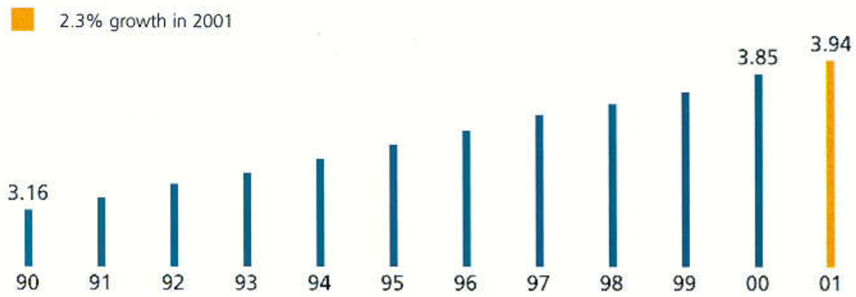
The performance of FPL's power plants remains among the best in the nation. In 2001, the availability of FPL's fossil-fired plants equaled their all-time high of 95 percent, well above the latest available industry average of 87 percent. The 92 percent availability of the company's nuclear plants, despite three refueling outages last year, was also higher than the nuclear industry average of 87 percent. In addition, the plants received one of the nation's highest ratings from the World Association of Nuclear Operators.

FPL's nuclear facilities at St. Lucie and Turkey Point continue to play an important role in FPL's generation mix and currently provide 24 percent of the utility's power output, compared to 24 percent for natural gas and 26 percent for oil. To ensure the continuation of this safe, reliable and low-cost source of power, the company has filed applications with the Nuclear Regulatory Commission to renew the operating licenses of both plants beyond the original license term of 40 years. If approved, St. Lucie units 1 and 2 could operate until 2036 and 2043. Turkey Point units 3 and 4 could run until 2032 and 2033.

Outstanding reliability, customer service

FPL's electricity delivery system is dramatically improved as the result of an aggressive

FPL Customer Growth
Number of customer accounts (millions)



program launched in 1997 and now ranks among the industry's best. FPL has reduced customers' average annual outage time by 50 percent. In addition, the frequency of interruptions is 28 percent less, and their average length is 30 percent less.

Improvements in customer service also were evident in 2001. The J.D. Power & Associates annual study of mid-size business customers ranked FPL third nationally among the top 39 utilities. FPL vaulted from 14th to 6th nationally in overall customer satisfaction.

To further improve customer service and satisfaction, FPL is focusing on a project called Tech 21, which leverages technology to provide FPL customers with better service. For example, one new computer system gives customers who call to report a power outage the estimated time service will be restored. If the estimated time should change by more than one hour from the original estimate, customers are automatically called back with an update. Another system eliminates the manual paper process of dispatching routine work orders and allows field employees to relay information electronically using hand-held data transmitting devices.

Focus on costs provides benefits

Cost efficiency has played a major role in FPL's success for more than a decade. Since 1990, the company's operations and maintenance costs per kilowatt-hour have fallen from 1.82 cents to 1.09 cents, a decline of 40 percent. This is the largest percentage of reduction in costs of any company within a utility peer group. Taking inflation into consideration, the decline in costs is much greater.

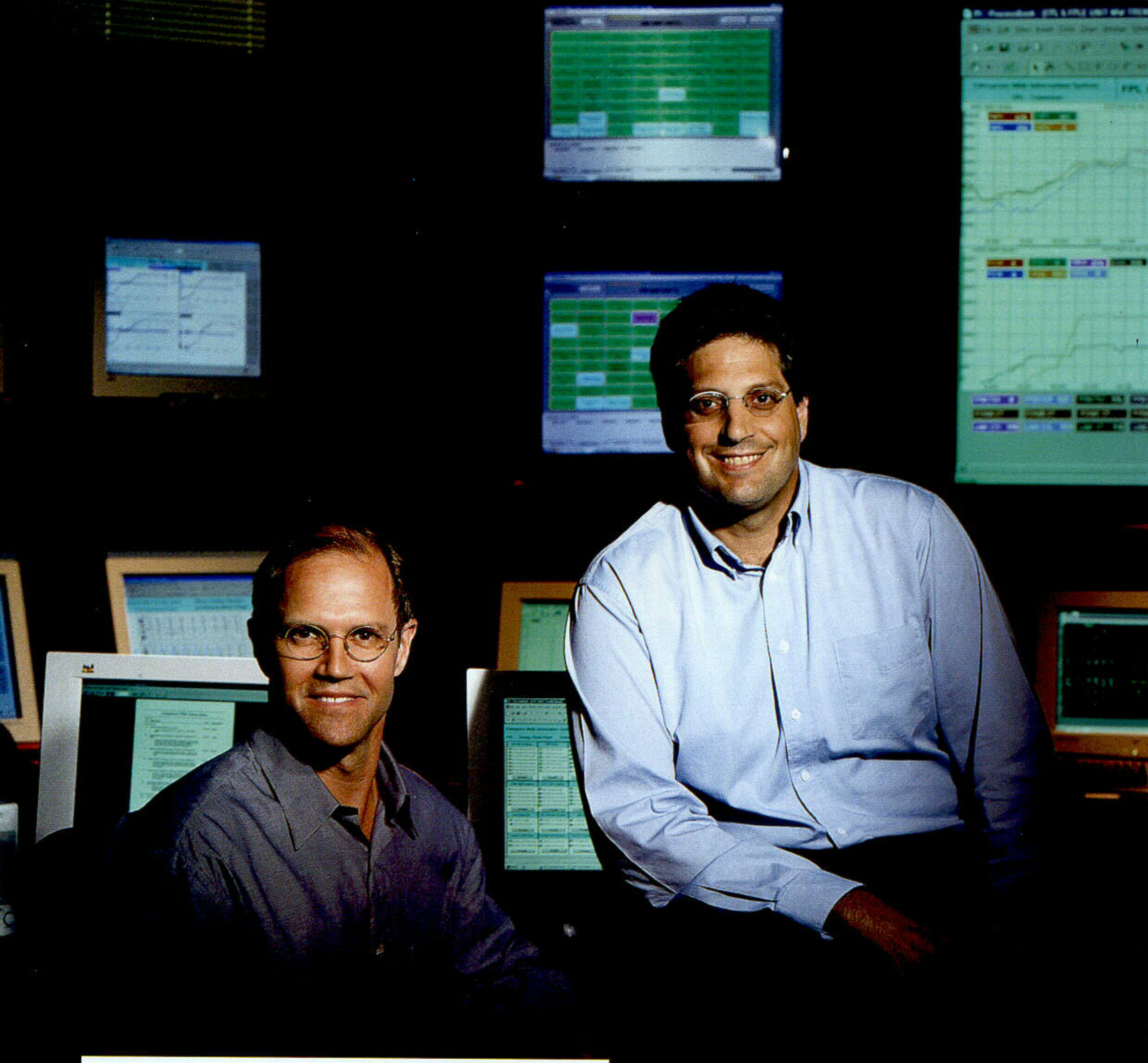
The ability of FPL to successfully control costs has enabled it to maintain base rates substantially lower than the industry average. The utility's base rates for residential customers are currently about 12 percent lower than the national average.

Regulatory update

In March, the Florida Public Service Commission (FPSC) approved a four-year agreement with Florida's Public Counsel and others to reduce base rates for FPL customers by 7 percent, or approximately $1 billion through 2005.

The agreement, which becomes effective April 15, 2002, builds upon the current incentive-based agreement in place since 1999 that has saved FPL customers nearly $1.3 billion. Although the new agreement reduces FPL revenues, it also provides important incentives that would allow FPL to grow earnings through continued operational productivity enhancements and other actions.

The new agreement does not establish a range for a return on equity, but instead is incentive-

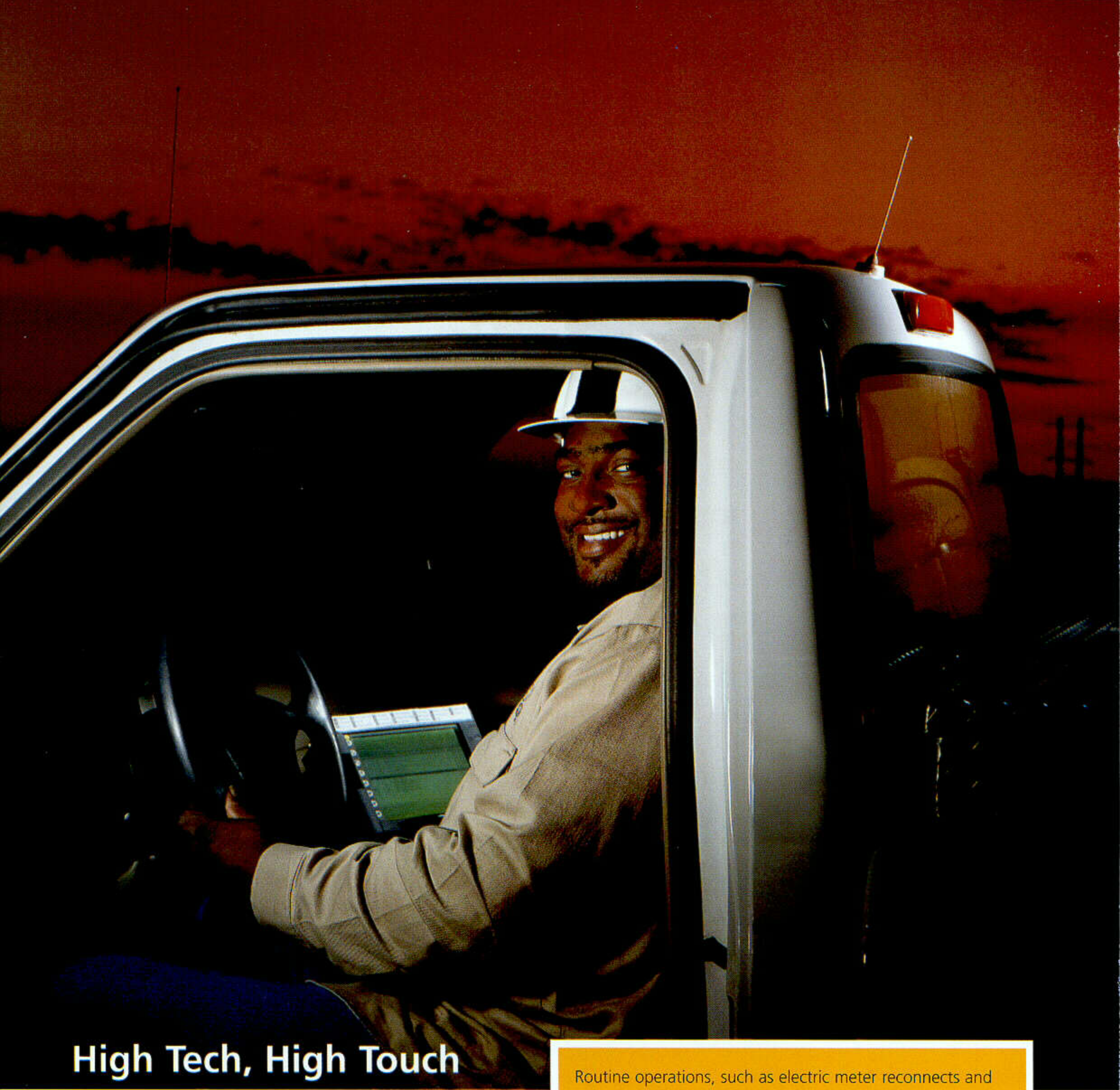


Our fleet performance and diagnostics center, an industry first, is helping us further improve the reliability and efficiency of our fossil-fueled power plants. Plant performance is monitored continuously, and personnel can establish live data and video links between the center and plant control rooms to prevent and solve problems. Generating unit and component performance is tracked to determine how we can make improvements in operations. Last year, the center received the power industry Excellence in Engineering Award from the Southeast Electric Exchange.

World Class Reliability

Fleet Performance and Diagnostics Center

Pete Holzapfel, general manager of the fleet performance and diagnostics center (left); and Gerard Nostra, power generation leader.



High Tech, High Touch

Routine Work Management System

Kerry Wilson, meter electrician.

Routine operations, such as electric meter reconnects and disconnects, are completed much faster with FPL's automated Routine Work Management System. Real-time data is transmitted to and from field technicians via hand-held computers, eliminating the time-consuming paperwork, pagers and radios previously involved in dispatching work orders. The system also provides immediate confirmation when operations are completed. This is just one of many areas in which FPL is leveraging technology to provide better service to customers.

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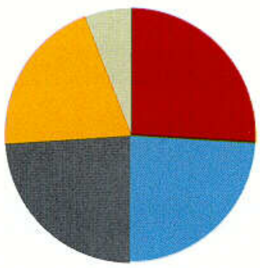
based with a revenue-sharing provision that is the exclusive mechanism to address earnings levels.

The Commission also is studying a proposal by FPL, Florida Power Corporation and Tampa Electric Company to create a regional transmission organization, or RTO, to be called GridFlorida. Late last year the Commission agreed that FPL's participation in GridFlorida was prudent to date, but requested a variation of the original proposal that would include keeping the transmission assets with the investor owned utilities. The Federal Energy Regulatory Commission (FERC) mandated that all investor-owned utilities form RTOs, but the Florida process was halted while the FPSC examined the proposal along with its costs and benefits.

In late 2001, the 2020 Energy Study Commission, established by Florida Governor Jeb Bush to study possible changes in the state's electric system, made its final report to the governor and legislative leaders. The report recommended several ways to establish competition in the wholesale electricity market, but said retail markets should remain regulated for the near term.

Energy Sources
Florida Power & Light Company
(based on kilowatt-hours produced in 2001)

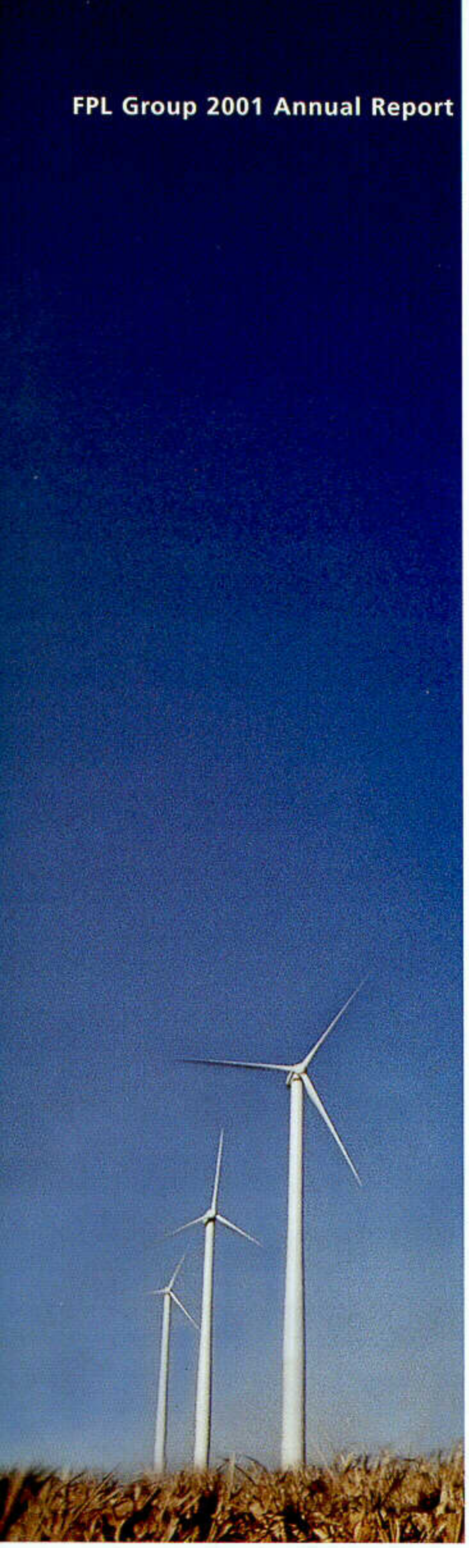
Oil	26%
Natural Gas	24%
Nuclear	24%
Purchased Power	20%
Coal	6%



An environmental leader

FPL is widely regarded within the energy industry as an environmental leader. During 2001 the company's environmental stewardship programs drew attention on several fronts:

- The Florida Ocean Alliance, a nonpartisan organization dedicated to protecting and enhancing Florida's coastal and ocean resources, recognized FPL's Fort Myers and Sanford repowering projects for significant reductions in air emissions and barge traffic and for the wise use of existing land. In addition to the projects' environmental accomplishments, both were presented with the Star Award, the highest safety honor the U.S. Department of Labor bestows.
- The Florida Department of Environmental Protection's Partnership for Ecosystem Protection recognized the Fort Myers repowering site for its exemplary environmental performance as a partner in the Air Division's environmental protection program.
- The Edison Electric Institute presented FPL with its Land Management Award for integrating environmental stewardship with power plant operations, including its management of wetlands and crocodile habitat at the Turkey Point nuclear power plant in Miami-Dade County.
- FPL also won for the third time the U.S. Environmental Protection Agency's WasteWise "Program Champion Award." WasteWise is a voluntary program that involves businesses, government agencies and others in reducing waste through recycling, waste prevention, and buying recycled material.
- In addition, in February 2002, FPL Group announced its participation as a charter partner in the Environmental Protection Agency's new voluntary Climate Leaders program aimed at reducing greenhouse gas emissions.



growing national

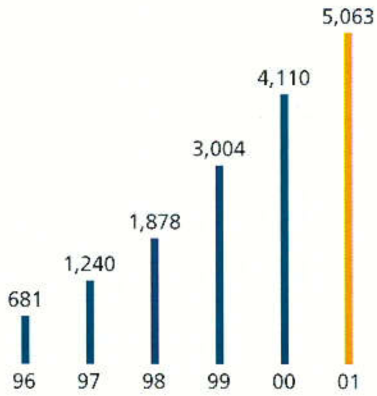
The presence of FPL Group in the national wholesale power business grew significantly in 2001 as FPL Energy – the company's unregulated electricity generation subsidiary – continued to add to an already-impressive portfolio of projects and increase its contributions to the parent company's earnings.

FPL Energy's net income rose 27 percent for the year, growing from $83 million in 2000 to $105 million, excluding the effects of FAS 133 and merger-related expenses. Contributions to earnings per share increased 27 percent, from 49 cents to 62 cents.

FPL Energy is an industry leader in the production of clean energy with more than 80 percent of its generation coming from natural gas or renewable sources including wind, hydro and solar. While the company's primary focus has been on greenfield development – building on new sites – it expects to shift to a mix of development and acquisition.

The drivers of FPL Energy's growth in 2001 included increased optimization of the company's existing portfolio, contributions from new natural gas-fired generating facilities, and the continued expansion and strong performance of its wind portfolio.

FPL Energy's Growing Portfolio
(net-megawatts in operation)



FPL Energy added more than 1,000 megawatts to its portfolio in 2001, bringing its total number of net-megawatts in operation to more than 5,000. The additions included 171 megawatts from a peaking unit at the Doswell plant in Virginia, and approximately 843 megawatts from five wind facilities. Two of the wind plants are near Odessa, Texas, and produce 278 and 160 megawatts. Also added were a 263-megawatt wind facility on the Oregon-Washington border, a 112-megawatt facility in Gray County, Kansas, and a 30-megawatt facility at Montfort, Wisconsin.

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presence

FPL Energy is the nation's largest owner and operator of wind generation, with more than 1,400 net-megawatts of capacity. Five new wind power projects were completed in 2001, which was approximately 50 percent of the wind power installed in the U.S. during the year. With the renewal of the federal wind energy production tax credit, the company expects to expand its wind power portfolio. FPL Energy also has cut the development time of wind projects and increased unit availability.

A Clean Energy Leader

Wind Power Projects

Collie Powell, wind projects director, FPL Energy.

Generating Performance

Doswell Power Plant

(From left) Ken Schauer and Jimmy Fuerte, production technicians; Bill Reed, plant leader; Juan Nasiff, production manager; and David Thissen, plant leader.

FPL Energy's Doswell plant in Virginia serves as a prime example of the company's outstanding power generation skills. In recent years, employees have boosted plant availability and slashed operations and maintenance costs. The plant's combustion turbines can operate on either oil or gas to take advantage of changes in fuel prices and availability. In 2001, this team added a peaking unit to the site, bringing Doswell's total capacity to 879 megawatts.

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Once considered a "niche" business, FPL Energy is now a leader in the U.S. wind power market. With the production tax credit for wind energy projects extended through 2003, the company is targeting the addition of 1,000 to 2,000 megawatts of wind-powered generation during that period.

Additional plant construction underway

Additional FPL Energy plants and their scheduled completion dates during 2002 include:

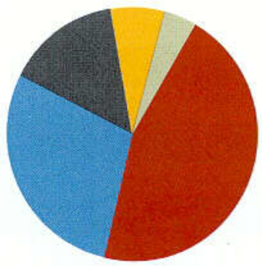
- A 54-megawatt natural gas-fired peaking unit in New York City, which will supply electricity to the Long Island Power Authority (late spring)
- A 566-megawatt natural gas combined-cycle plant near Austin, Texas, in which FPL Energy holds a 50 percent partnership (mid-year)
- A 535-megawatt natural gas combined-cycle plant near Providence, Rhode Island (mid-year)
- A 517-megawatt natural gas-fired plant in Blythe, California (late year).

Two additional plants are scheduled for completion during 2003. These include:

A Diversified Portfolio at FPL Energy

(net-megawatts in operation)

Natural Gas	46%
Wind	28%
Oil	15%
Hydro	7%
Other	4%



- A 1,789-megawatt natural gas-fired plant in Forney, Texas, near Dallas, of which FPL Energy owns 1,700 megawatts (mid-year)
- A 668-megawatt natural gas-fired plant in Calhoun County in northeastern Alabama (mid-year).

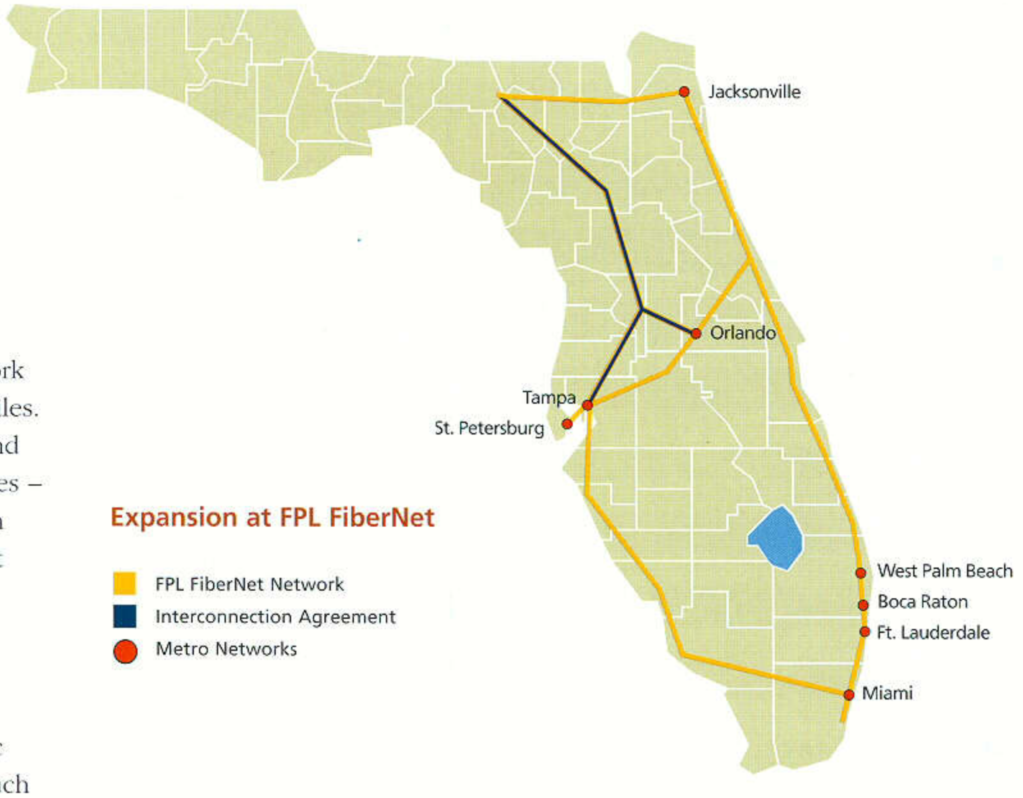
Keys to success

A key to FPL Energy's success is its outstanding power generation skills. The power generation division, which serves both FPL Energy and FPL, allows the company not only to develop low cost, state-of-the-art power plants utilizing clean technologies, but also to increase existing plant efficiency and achieve higher availability than the competition.

In addition, FPL Energy utilizes its enhanced energy marketing and trading organization – Power Marketing, Inc. – to realize the full value of its physical assets. The company employs a relatively low-risk, asset-based hedging strategy, rather than a speculative trading strategy, which enables it to moderate risk and enhance returns. Power Marketing, Inc. actively trades around FPL Energy's expanding portfolio and contracts for a substantial portion of its output, as market conditions warrant. At the beginning of this year approximately 80 percent of FPL Energy's 2002 capacity and more than 50 percent of its 2003 capacity was under contract.

Another key to FPL Energy's success is its financial strength and flexibility as part of FPL Group. This has enabled the company to seize opportunities to profitably grow its portfolio.

profitable network



Less than two years after entering the unregulated fiber-optic wholesale business, FPL FiberNet has built a network spanning nearly 2,500 route-miles. These include loops in, out, and around eight major Florida cities – most of the major metropolitan areas in the state. FPL FiberNet operates one of the largest metropolitan-area fiber-optic networks in the United States.

FPL FiberNet's rapid growth and success at forging strategic partnerships with customers such as SBC Communications, Genuity and BellSouth is enabling it to increase its contributions to FPL Group's earnings.

Backed by the strength of FPL Group, the subsidiary not only offers customers the highest quality fiber at the fastest transmission speeds, but also gets customers to market faster than many other fiber-optic companies. In most cases, the fiber is already in place and ready for customers to use. In an industry undergoing a difficult period, FPL FiberNet's profitability and continued growth allow it to stand out from the crowd.

Positioned for growth

FiberNet is well positioned for future growth. Only a small amount of its current network capability is being utilized, which means there is great potential for added revenues and earnings without additional investment required. In addition, the company's operations are in the high-tech world of South Florida, where there is a heavy concentration of web-hosting companies and application service providers.

Application service providers help companies operate their software applications and home pages from central servers.

In addition, Miami is home to the NAP (Network Access Point) of the Americas – a giant, high-speed switching station capable of routing global Internet traffic. FPL FiberNet was one of the founding members of the NAP of the Americas and is strategically positioned to offer connectivity to telecommunications traffic flowing through the Caribbean, South America, Europe and Asia. The subsidiary also offers connections to the BellSouth Multimedia Internet Exchange (MIX).

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Financial and Operating Statistics

Years Ended December 31,	2001	2000	1999	1998	1997	1996	1991
FPL Group, Inc. (millions)							
Operating Revenues	$8,475	$7,082	$6,438	$6,661	$6,369	$6,037	$5,239
Operating Expenses	$7,078	$5,842	$5,518	$5,409	$5,141	$4,866	$4,372
Operating Income	$1,397	$1,240	$920	$1,252	$1,228	$1,171	$866
Income from Continuing Operations	$781(1)	$704(2)	$697(3)	$664	$618	$579	$376(4)
Net Income	$781(1)	$704(2)	$697(3)	$664	$618	$579	$241(4)(5)
Total Assets	$17,463	$15,300	$13,441	$12,029	$12,449	$12,219	$11,282
Long-Term Debt(6)	$4,858	$3,976	$3,478	$2,347	$2,949	$3,144	$3,668
Preferred Stock of FPL with sinking fund requirements(6)	$ —	$ —	$ —	$ —	$ —	$42	$150
Florida Power & Light Company							
Operating Revenues (millions)	$7,477	$6,361	$6,057	$6,366	$6,132	$5,986	$5,159
Energy Sales (millions of kwh)	93,488	91,969	88,067	89,362	82,734	80,889	68,712
Customer Accounts — Average (thousands)	3,935	3,848	3,756	3,680	3,616	3,551	3,227
Peak Load, Winter (mw 60-minute)(7)	17,585	18,219	17,057	16,802	13,047	16,490	13,319
Peak Load, Summer (mw 60-minute)	18,754	17,808	17,615	17,897	16,613	16,064	14,123
Reserve Margin (summer peak, %)(8)	14	13	14	10	20	23	19
Total Capability (mw)(8)	18,871	19,069	18,649	18,509	18,715	18,538	16,355
Net Energy for Load (%):							
Oil	26	25	25	27	18	18	28
Natural Gas	24	25	25	26	29	29	18
Nuclear	24	26	27	26	25	26	19
Net Purchased Power and Interchange	20	17	16	14	20	20	31
Coal	6	7	7	7	8	7	4
Common Stock Data							
Average Shares Outstanding (millions)	169	170	172	173	173	174	163
Earnings Per Share of Common Stock:							
Basic	$4.63(1)	$4.14(2)	$4.07(3)	$3.85	$3.57	$3.33	$2.31(4)(9)
Assuming Dilution	$4.62(1)	$4.14(2)	$4.07(3)	$3.85	$3.57	$3.33	$2.31(4)(9)
Dividends Paid Per Share	$2.24	$2.16	$2.08	$2.00	$1.92	$1.84	$2.39
Book Value Per Share (year end)	$35.59	$33.22	$31.47	$29.76	$28.03	$26.46	$19.64
Market Price Per Share (year end)	$56.40	$71.75	$42.81	$61.63	$59.19	$46	$37
Market Price Per Share (high-low)	$71.63-51.21	$73-36.38	$61.94-41.13	$72.56-56.06	$60-42.63	$48.13-41.50	$37.25-28.13
Number of Shareholders (year end)	40,990	45,066	50,215	55,149	60,493	67,580	71,117

(1) Includes merger-related expenses and the net positive effects of applying FAS 133. Excluding these items, net income and earnings per share (basic and assuming dilution) would have been $792 million and $4.69, respectively.

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

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

(4) Includes restructuring charge. Excluding this charge, income and earnings per share from continuing operations would have been $432 million and $2.65, respectively.

(5) Includes charges for disposition of a subsidiary accounted for as discontinued operations.

(6) Excludes current maturities.

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

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

(9) Represents earnings per share of common stock from continuing operations. Earnings per share were $1.48.

Management's discussion and analysis of financial condition and results of operations

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

Critical Accounting Policies and Estimates

The preparation of financial statements requires the application of numerous complex accounting principles. One of the more significant accounting principles considered in the preparation of the financial statements is FAS 71, "Accounting for the Effects of Certain Types of Regulation." FAS 71 requires rate-regulated public utilities companies (such as FPL) to alter the accounting for certain costs and revenues from what would otherwise be reported by an unregulated entity to more closely reflect the ratemaking process. As described in Note 1 — Regulation, significant regulatory assets and liabilities have been recorded on FPL's books as a result of applying FAS 71. In the event that FPL is no longer subject to cost-based rate regulation, these regulatory assets and liabilities would be written off unless regulators specify another means of recovery or refund. See Note 1 for a discussion of other significant accounting policies.

Management is often required to use its judgment and make assumptions in the calculation of estimates that affect the recorded amounts of assets, liabilities, revenues and expenses in the financial statements. One of the more significant estimates affecting the financial statements is the estimated cost to decommission and dismantle generating units. See Note 1 — Decommissioning and Dismantlement of Generating Plant for a description of the significant assumptions used to calculate estimated decommissioning and dismantlement costs.

Results of Operations

FPL Group's net income and earnings per share in 2001 and 2000 increased despite charges for merger-related expenses in both periods. These charges reduced net income and earnings per share in 2001 by $19 million and $0.11, respectively, and in 2000 by $41 million and $0.24, respectively. Also impacting 2001 earnings was the implementation of FAS 133, "Accounting for Derivative Instruments and Hedging Activities." Net unrealized gains related to derivative instruments accounted for under FAS 133 during 2001 increased net income and earnings per share by $8 million and $0.04, respectively. Net income and earnings per share in 1999 included the net effect of several nonrecurring transactions that resulted in additional net income of $16 million, or $0.09 per share. Excluding the merger-related expenses in 2001 and 2000 and the net unrealized mark-to-market gains recorded in accordance with FAS 133 in 2001, FPL Group's net income in 2001 increased 6.3% to $792 million, and earnings per share (basic and assuming dilution) increased 7.1% to $4.69. The comparable growth rates for 2000, excluding also the nonrecurring items in 1999, were 9.4% and 10.1%, respectively. In 2001 and 2000, both FPL and FPL Energy contributed to the growth. The discussion of results of operations below excludes the effects of FAS 133 net unrealized gains (see Note 5) and merger-related expenses (see Note 11).

FPL — FPL's net income for 2001, 2000 and 1999, excluding the nonrecurring charges, was $695 million, $645 million and $618 million, respectively. FPL's results for 2001 reflect continued customer growth, slightly higher electricity usage per retail customer despite a slowing economy and the terrorist attacks on the United States on September 11, and lower depreciation expense. A higher retail refund provision under the revenue sharing mechanism of the rate agreement, as well as higher O&M and interest expenses, partly offset the positive factors. FPL's results for 2000 benefited from customer growth, increased electricity usage per retail customer and lower O&M expenses. The effect of the rate reduction and higher interest charges partly offset these positives.

FPL's operating revenues consist primarily of revenues from retail base operations, cost recovery clauses, certain revenue taxes and franchise fees. Revenues from retail base operations were $3.6 billion, $3.5 billion and $3.5 billion in 2001, 2000 and 1999, respectively. Revenues from cost recovery clauses and franchise fees represent a pass-through of costs and do not significantly affect net income. Fluctuations in these revenues are primarily driven by changes in energy sales, fuel prices and capacity charges. Ordinarily, the fuel charge is set annually based on estimated fuel costs and estimated customer usage, plus or minus a true-up for prior period estimates. As a result of significant volatility in oil and gas prices in the last couple of years, FPL has received permission from the FPSC for mid-course changes to the annual retail customer fuel rate. The fuel rate was increased in June 2000 and April 2001 (in addition to another increase on January 1, 2001 as part of the normal fuel setting process) but was decreased in October 2001. This has resulted in a significant increase in clause revenues in 2001 and, to a lesser extent, in 2000. FPL's annual fuel filing for 2001, as approved by the FPSC, included approximately $518 million of under-recovered fuel costs from 2000, of which one-half ($259 million) was recovered in 2001. The remaining $259 million is being recovered in 2002. FPL agreed to this two-year recovery, rather than the typical one-year time frame, to ease the impact to customers' bills. FPL also agreed that, instead of receiving a return at the commercial paper rate on this unrecovered portion through the fuel clause, the under-recovery will be included as a rate base regulatory asset over the two-year recovery period. See Note 1 — Regulation.

FPL's current rate agreement, which became effective April 15, 1999 and expires on April 14, 2002, provides for a $350 million reduction in annual revenues from retail base operations allocated to all customers on a cents-per-kilowatt-hour basis. Additionally, the agreement sets forth a revenue sharing mechanism for each of the twelve-month periods covered by the agreement, whereby revenues from retail base operations in excess of a stated threshold are required to be shared on the basis of two-thirds refunded to retail customers and one-third retained by FPL. Revenues from retail base operations in excess of a second threshold are required to be refunded 100% to retail customers. For the twelve-month period ending April 14, 2002, the first threshold is $3.5 billion and the second threshold is $3.656 billion. During 2001, 2000 and 1999, FPL accrued approximately $110 million, $60 million and $20 million, respectively, relating to refunds to retail customers. At December 31, 2001 and 2000, the accrual for the revenue refund was approximately $62 million and $57 million, respectively. Actual refunds to retail customers, including interest, for the twelve-month periods ending April 14, 2001 and 2000 were $109 million and $23 million, respectively. The final refund under the rate agreement will be distributed to customers in June 2002.

The earnings effect of the annual revenue reduction was offset by lower special depreciation. Under the rate agreement, the FPSC allowed FPL to recover, as special depreciation, up to $100 million in each year of the three-year agreement period. The additional depreciation recovery was required to be applied to nuclear and/or fossil generating assets. Under this depreciation program, FPL recorded $100 million of special depreciation in the first twelve-month period and $71 million in the second twelve-month period. Through December 31, 2001, FPL has not recorded any special depreciation for the third twelve-month period. On a calendar year basis, FPL recorded approximately $101 million and $70 million of special depreciation in 2000 and 1999, respectively, and nothing in 2001. FPL also recorded special amortization in the amount of $63 million in 1999 under a previous program approved by the FPSC.

The rate agreement also lowered FPL's authorized regulatory ROE range to 10% – 12%. During the term of the agreement, the achieved ROE may from time to time be outside the authorized range, and the revenue sharing mechanism described above is specified to be the appropriate and exclusive mechanism to address that circumstance. FPL reported an ROE of 12.3%, 12.2% and 12.1% in 2001, 2000 and 1999, respectively. See Note 1 — Revenues and Rates.

The increase in retail base revenues in 2001 was due to a 2.3% increase in retail customer accounts and a 0.4% increase in electricity usage per retail customer. This was partly offset by a higher provision for refund to retail customers. Revenues from retail base operations were flat during 2000. Customer growth of 2.5% and a 1.9% increase in electricity usage per retail customer was almost entirely offset by the effect of the rate reduction and a higher provision for refund to retail customers.

On March 22, 2002, the FPSC approved an agreement regarding FPL's retail base rates that, among other things, provides for an additional $250 million annual reduction in retail base revenues. The new rate agreement resolves all matters in FPL's base rate proceeding and will be effective April 15, 2002 through December 31, 2005. For additional information regarding the new rate agreement, see Note 18 — Base Rate Proceeding.

FPL's O&M expenses increased in 2001 after several years of decline. The increase can be attributed to system growth, reliability improvements, costs incurred at fossil production plants to comply with regulations and maintain operating service availability, as well as costs associated with weaker economic conditions. O&M expenses in 2000 declined due to improved productivity. FPL's O&M expenses are expected to increase in 2002 and 2003 reflecting continued pressure from inflation, customer growth and an aging asset base.

Interest charges increased in both 2001 and 2000 reflecting increased debt activity to fund FPL's capital expansion program and under-recovered fuel costs.

The electric utility industry is facing increasing competitive pressure. FPL currently faces competition from other suppliers of electrical energy to wholesale customers and from alternative energy sources and self-generation for other customer groups, primarily industrial customers. In 2001, operating revenues from wholesale and industrial customers combined represented approximately 4% of FPL's total operating revenues. Various states, other than Florida, have enacted legislation or have state commissions that issued orders designed to deregulate the production and sale of electricity. By allowing customers to choose their electricity supplier, deregulation is expected to result in a shift from cost-based rates to market-based rates for energy production and other services provided to retail customers. Similar initiatives are also being pursued on the federal level. Although the legislation and initiatives vary substantially, common areas of focus include when market-based pricing will be available for wholesale and retail customers, what existing prudently incurred costs in excess of the market-based price will be recoverable and whether generating assets should be separated from transmission, distribution and other assets. It is generally believed transmission and distribution activities would remain regulated.

In 2000, the Governor of Florida signed an executive order creating the Energy 2020 Study Commission to propose an energy plan and strategy for Florida. The commission chose to split the energy study between wholesale and retail competition. In January 2001, the commission issued an interim report containing a proposal for restructuring Florida's wholesale electricity market, and no action was taken in the 2001 legislative session, which ended in May 2001. In December 2001, the commission issued a final report that recommended the removal of statutory barriers to entry for merchant plants and, according to the report, provides a discretionary transition to a "level playing field" for all generating assets. Under the commission's proposal, investor-owned utilities such as FPL could, at their discretion, transfer or sell their existing generating assets. The utility would have the right to six-year cost-based transition contracts to commit the capacity of assets sold or transferred back to the utility. Transfers to affiliates would be at net book value. Gains on sales of existing generating assets within the transition contract period would be shared with customers. Any losses would be absorbed by the utility's shareholders. The load-serving utilities would acquire new capacity through competitive bidding (which would be required if acquired from affiliates), negotiated contracts or from the short-term (spot) market. Transmission assets could be transferred (at net book value) to, or operated by, a FERC-approved RTO. The final report recommends no change to the retail competition structure until an effective competitive wholesale market has been developed. The commission's proposal may be addressed in the legislative session which takes place from January through March 2002, or in a subsequent session. In addition, the FERC has jurisdiction over potential changes which could affect competition in wholesale transactions.

In 1999, the FERC issued its final order on RTOs which, under a variety of structures, provides for the independent operation of transmission systems for a given geographic area. In November 2001, the FERC issued an order providing guidance on how the FERC will proceed with the RTO development. The issues of scope and governance will be addressed within individual RTO dockets, after consultation with the state utility commissions. The issues of standardization of tariffs and market design will be addressed in a separate rulemaking docket. With regard to the operational deadline of the RTOs initially set for December 15, 2001, the FERC, in consultation with the state utility commissions, will set revised timelines in each of the individual RTO dockets.

In March 2002, FPL filed a modified RTO proposal with the FPSC changing the structure from a for-profit transmission company to a non-profit independent system operator (ISO). Under the proposal, FPL would continue to own the transmission lines and the ISO would manage them. In addition, the FPSC urged the utilities to continue participation in discussions with the FERC initiated in mid-2001 regarding the creation of a single RTO for the Southeast region of the United States, but did not recommend them joining it now.

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

FPL Energy — FPL Energy's 2001 earnings growth was driven mainly by the expansion of its independent power generation portfolio. Portfolio additions that contributed to the earnings growth included a 495 mw natural gas-fired unit at Lamar Power Partners in the Central region, which became operational in late 2000, a 171 mw natural gas-fired peaking unit at its Doswell plant in the Mid-Atlantic region and five new wind projects totaling 843 mw in the Central and West regions. Earnings in 2001 also benefited from improved results from the Maine assets, primarily the result of asset optimization activities and higher capacity revenues, partly offset by higher administrative and interest expenses associated with the growth of the business.

In 2000, FPL Energy's earnings also benefited from the expansion of its independent power generation portfolio, as well as increased revenues generated by the Maine assets as a result of warmer weather and higher prices in the Northeast during May 2000 and lower O&M expenses at Doswell. In 1999, the effect of a $176 million ($104 million after-tax) impairment loss (see Note 13) and higher administrative expenses to accommodate future growth more than offset the benefits of the growing generation portfolio and improved results from Doswell.

Deregulation of the electric utility market presents both opportunities and risks for FPL Energy. Opportunities exist for the selective acquisition of generation assets that are being divested under deregulation plans and for the construction and operation of efficient plants that can sell power in competitive markets. Current wholesale market trends indicate the potential of an oversupply of generation and lower demand as a result of a weakening economy, which would likely result in lower wholesale electricity prices. FPL Energy believes that favorable conditions continue to exist in certain areas of the country and plans to move forward with the projects currently under construction. FPL Energy seeks to minimize its market risk by having a diversified portfolio, by fuel type and location, as well as by selling a significant amount of the electricity output of its plants through power sales agreements. In 2001, approximately 86% of FPL Energy's capacity was under contract. FPL Energy has approximately 80% of its 2002 capacity and more than 50% of its 2003 capacity currently under contracts which expire in 2002-27. As competitive wholesale markets become more accessible to other generators, obtaining power sales agreements will become a progressively more competitive process. FPL Energy expects that as its existing power sales agreements expire, more of the energy produced will be sold through shorter-term contracts and into competitive wholesale markets.

Competitive wholesale markets in the United States continue to evolve and vary by geographic region. Revenues from electricity sales in these markets will vary based on the prices obtainable for energy, capacity and other ancillary services. Some of the factors affecting success in these markets include the ability to operate generating assets efficiently, the price and supply of fuel, transmission constraints, competition from new sources of generation, demand growth and exposure to legal and regulatory changes.

On March 1, 2002, FPL Energy's projects received the majority of the payments due from California utilities for electricity sold from November 2000 through March 2001, which had been past due. FPL Group's remaining earnings exposure relating to past due receivables from these California utilities is not material.

Corporate and Other — FPL FiberNet's 2001 earnings were more than offset by corporate expenses. FPL FiberNet's operating results were included in the corporate and other segment beginning in 2000. FPL FiberNet was formed in January 2000 to enhance the value of FPL Group's fiber-optic network assets that were originally built to support FPL operations. Accordingly, in January 2000, FPL's existing fiber-optic lines were transferred to FPL FiberNet. In 1999, net income for the corporate and other segment reflects a $149 million ($96 million after-tax) gain on the sale of an investment in Adelphia Communications Corporation common stock, a $108 million ($66 million after-tax) gain recorded by FPL Group Capital on the redemption of its one-third interest in a cable limited partnership, costs associated with closing a retail marketing business of $11 million ($7 million after-tax) and the favorable resolution of a prior year state tax matter of $10 million ($7 million after-tax). For information related to the positive resolution in March 2002 of a prior year tax matter, see Note 18 — Income Taxes.

Merger

In July 2000, FPL Group and Entergy announced a proposed merger, which was approved by the shareholders of the respective companies in December 2000. Subsequently, a number of factors led FPL Group to conclude the merger would not achieve the synergies or create the shareholder value originally contemplated when the merger was announced. As a result, on April 1, 2001, FPL Group and Entergy mutually terminated the merger agreement.

In 2001, FPL Group recorded $30 million in merger-related expenses, of which FPL recorded $26 million ($16 million after-tax) and Corporate and Other recorded $4 million ($3 million after-tax). In 2000, FPL Group recorded $67 million in merger-related expenses, of which FPL recorded $62 million ($38 million after-tax), FPL Energy recorded $2 million ($1 million after-tax) and Corporate and Other recorded $3 million ($2 million after-tax). For additional information concerning the merger, see Note 11.

Liquidity and Capital Resources

In 2001, FPL Group Capital and a subsidiary of FPL Energy issued debt totaling $935 million and FPL redeemed approximately $65 million of bonds. The proceeds from the debt issuances were used in part to reduce FPL Group Capital's commercial paper balance. Debt maturities of FPL Group's subsidiaries will require cash outflows of approximately $1.750 billion through 2006, including $32 million in 2002. It is anticipated that cash requirements for capital expenditures, energy-related investments and debt maturities in 2002 will be satisfied with internally generated funds and from the issuance of debt and other securities. Internally generated funds may be affected by, among other things, regulatory actions, including the resolution of FPL's rate proceeding, weather conditions, changes in competitive wholesale markets and pricing and transportation of fuel and other energy commodities. Any internally generated funds not required for capital expenditures and current maturities may be used to reduce outstanding debt or repurchase common stock, or for investment. Any temporary cash needs will be met by short-term bank borrowings. Bank lines of credit currently available to FPL Group and its subsidiaries aggregate $3 billion ($2 billion for FPL Group Capital and $1 billion for FPL). One-half of these facilities have a 364-day term, with the remainder being a three-year term. These facilities are available to support the companies' commercial paper programs as well as for general corporate purposes.

FPL Group's commitments at December 31, 2001 were as follows (see Note 15 — Commitments):

(millions)	2002	2003–04	Thereafter	Total
Standby letters of credit	$ 278	$ —	$ 1	$ 279
Guarantees	51	3	633	687
Other commitments[a]:				
FPL	1,300	3,100	—	4,400
FPL Energy	80	748	—	828
Total	$1,709	$3,851	$634	$6,194

(a) Other commitments for FPL represent capital expenditures to meet increased electricity usage and customer growth and for FPL Energy represent firm commitments in connection with the development and expansion of independent power projects. FPL Energy expects 2002 capital expenditures to approximate $2.7 billion.

In February 2002, FPL Group sold a total of 11.5 million publicly-traded equity units known as Corporate Units, and in connection with that financing, FPL Group Capital issued $575 million principal amount of debentures due February 16, 2007. Each Corporate Unit initially consisted of a $50 FPL Group Capital debenture and a purchase contract pursuant to which the holder will purchase $50 of FPL Group common shares on or before February 16, 2005. Prior to the issuance of FPL Group's common stock, the purchase contracts will be reflected in FPL Group's diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of FPL Group common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares that would be issued upon settlement of the purchase contracts less the number of shares that could be purchased by FPL Group in the market, at the average market price during the period, using the proceeds receivable upon settlement. Consequently, FPL Group anticipates that there will not be a dilutive effect on its earnings per share except during periods when the average market price of its common stock is above $62.02. The net proceeds from the sale of the equity units were used to reduce FPL Group Capital's commercial paper borrowings. See Note 8.

In 2000, subsidiaries of FPL Energy entered into two off-balance sheet financing arrangements with special purpose entities. In the first transaction, FPL Energy's subsidiary entered into an operating lease agreement to lease a 535 mw combined-cycle power generation plant. In the second transaction, the special purpose entity funds the construction of certain turbines and related equipment. The special purpose entities in these transactions have arranged funding commitments totaling $1.075 billion through debt and equity contributions from investors who are not affiliated with FPL Group. At December 31, 2001, $340 million had been drawn on these commitments. FPL Group Capital has guaranteed the obligations of the FPL Energy subsidiaries under these agreements, which are included in the table above. Additionally, at December 31, 2001, FPL Energy has posted cash collateral of $256 million (included in other assets on the consolidated balance sheets). See Note 15 — Off-Balance Sheet Financing Arrangements.

FPL Group has guaranteed certain payment obligations of FPL Group Capital, including those under the FPL Group Capital debt, commercial paper and guarantees discussed above.

FPL Group did not repurchase any common shares in 2001. As of December 31, 2001, FPL Group had repurchased a total of approximately 4.6 million shares of common stock under its 10 million share repurchase program that began in April 1997.

FPL self-insures for damage to certain transmission and distribution properties and maintains a funded storm reserve to reduce the financial impact of storm losses. The balance of the storm fund reserve at December 31, 2001 and 2000 was approximately $235 million and $229 million, respectively. FPL's bank lines of credit discussed above are also available if needed to provide cash for storm restoration costs. The FPSC has indicated that it would consider future storm losses in excess of the funded reserve for possible recovery from customers.

FPL's charter and mortgage contain provisions which, under certain conditions, restrict the payment of dividends and the issuance of additional unsecured debt, first mortgage bonds and preferred stock. Given FPL's current financial condition and level of earnings, expected financing activities and dividends should not be affected by these limitations.

Energy Marketing and Trading and Market Risk Sensitivity

Energy Marketing and Trading — Certain of FPL Group's subsidiaries, including FPL and FPL Energy, use derivative instruments (primarily swaps, options, futures and forwards) to manage the commodity price risk inherent in fuel purchases and electricity sales, as well as to optimize the value of power generation assets. To a lesser extent, FPL Energy engages in limited energy trading activities to take advantage of expected future favorable price movements. Derivatives with fair values based on quoted market prices totaled negative $8 million, those with fair values based on prices provided by other external sources totaled $3 million and those with fair values based on valuation models totaled negative $1 million. The fair value of derivatives expiring in 2002 was $3 million and the remainder have expiration dates through December 2005. At December 31, 2001, the fair value of trading instruments at FPL Group was less than $1 million.

Derivative instruments are recorded on the balance sheets as either an asset or liability (in other current assets, other assets, other current liabilities and other liabilities) measured at fair value. At FPL, changes in fair value are deferred as a regulatory asset or liability until the contracts are settled. Upon settlement, any gains or losses will be passed through the fuel clause and the capacity clause. For FPL Group's unregulated operations, predominantly FPL Energy, changes in the derivatives' fair value are recognized currently in earnings (in other – net) unless hedge accounting is applied. Settlement gains and losses are included within the line items in the statements of income to which they relate. See Note 5.

Market Risk Sensitivity — Substantially all financial instruments and positions affecting the financial statements described below are held for purposes other than trading. Market risk is measured as the potential loss in fair value resulting from hypothetical reasonably possible changes in commodity prices, interest rates or equity prices over the next year.

Commodity price risk — The fair value of the net position in commodity-based derivative instruments at December 31, 2001 and 2000 was a negative $6 million and a negative $11 million, respectively. The effect of a hypothetical 40% decrease in the price of natural gas and electricity and a hypothetical 25% decrease in the price of oil, both of which are reasonably possible near-term market changes, would be to change the fair value at December 31, 2001 of these instruments to a negative $36 million.

Interest rate risk — The special use funds of FPL include restricted funds set aside to cover the cost of storm damage and for the decommissioning of FPL's nuclear power plants. A portion of these funds is invested in fixed income debt securities carried at their market value of approximately $1.020 billion and $1.002 billion at December 31, 2001 and 2000, respectively. Adjustments to market value result in a corresponding adjustment to the related liability accounts based on current regulatory treatment. Because the funds set aside for storm damage could be needed at any time, the related investments are generally more liquid and, therefore, are less sensitive to changes in interest rates. The nuclear decommissioning funds, in contrast, are generally invested in longer-term securities, as decommissioning activities are not expected to begin until at least 2012. At December 31, 2001 and 2000, other investments include approximately $600 million and $300 million, respectively, of investments that are carried at estimated fair value or cost, which approximates fair value.

At December 31, 2001, the carrying value and fair value of long-term debt (including current maturities) was $4.890 billion and $5.080 billion, respectively; the corresponding amounts at December 31, 2000, were $4.041 billion and $4.080 billion. The fair values were based on quoted market prices for these or similar issues.

Based upon a hypothetical 10% decrease in interest rates, which is a reasonable near-term market change, the net fair value of the net liabilities would increase by approximately $148 million at December 31, 2001.

Equity price risk — Included in the special use funds of FPL are marketable equity securities carried at their market value of approximately $576 million and $511 million at December 31, 2001 and 2000, respectively. A hypothetical 10% decrease in the prices quoted by stock exchanges, which is a reasonable near-term market change, would result in a $58 million reduction in fair value and corresponding adjustment to the related liability accounts based on current regulatory treatment at December 31, 2001.

New Accounting Rules

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

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

Management's Report

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

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

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

Lewis Hay III
Chairman, President and Chief Executive Officer

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

K. Michael Davis
Controller and Chief Accounting Officer

Independent Auditors' Report

To the Board of Directors and Shareholders, FPL Group, Inc.:

We have audited the accompanying consolidated balance sheets of FPL Group, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of FPL Group, Inc. and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Deloitte & Touche LLP
Certified Public Accountants

Miami, Florida
February 8, 2002, except for Note 18, as to which the date is March 25, 2002.

Consolidated Statements of Income

Years Ended December 31,	**2001**	2000	1999
(millions, except per share amounts)			
Operating Revenues	$8,475	$7,082	$6,438
Operating Expenses			
Fuel, purchased power and interchange	4,030	2,868	2,365
Other operations and maintenance	1,325	1,257	1,253
Merger-related	30	67	—
Litigation settlement	—	—	69
Depreciation and amortization	983	1,032	1,040
Impairment loss on Maine assets	—	—	176
Taxes other than income taxes	710	618	615
Total operating expenses	7,078	5,842	5,518
Operating Income	1,397	1,240	920
Other Income (Deductions)			
Interest charges	(324)	(278)	(222)
Preferred stock dividends — FPL	(15)	(15)	(15)
Divestiture of cable investments	—	—	257
Other — net	102	93	80
Total other income (deductions) — net	(237)	(200)	100
Income Before Income Taxes	1,160	1,040	1,020
Income Taxes	379	336	323
Net Income	$ 781	$ 704	$ 697
Earnings per share of common stock:			
Basic	$4.63	$4.14	$4.07
Assuming dilution	$4.62	$4.14	$4.07
Dividends per share of common stock	$2.24	$2.16	$2.08
Weighted-average number of common shares outstanding:			
Basic	168.7	169.9	171.3
Assuming dilution	168.9	170.2	171.5

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

Consolidated Balance Sheets

December 31,	2001	2000
(millions)		
Property, Plant and Equipment		
Electric utility plant in service and other property	$ 21,272	$ 19,642
Nuclear fuel under capital lease — net	133	127
Construction work in progress	1,983	1,253
Less accumulated depreciation and amortization	(11,726)	(11,088)
Total property, plant and equipment — net	11,662	9,934
Current Assets		
Cash and cash equivalents	82	129
Customer receivables, net of allowances of $8 and $7, respectively	636	637
Other receivables	144	246
Materials, supplies and fossil fuel inventory — at average cost	349	370
Deferred clause expenses	304	337
Other	87	62
Total current assets	1,602	1,781
Other Assets		
Special use funds of FPL	1,608	1,497
Other investments	1,035	651
Other	1,556	1,437
Total other assets	4,199	3,585
Total Assets	$ 17,463	$ 15,300
Capitalization		
Common shareholders' equity	$ 6,015	$ 5,593
Preferred stock of FPL without sinking fund requirements	226	226
Long-term debt	4,858	3,976
Total capitalization	11,099	9,795
Current Liabilities		
Commercial paper	1,680	1,158
Note payable	302	—
Accounts payable	473	564
Customers' deposits	285	254
Accrued interest and taxes	160	146
Deferred clause revenues	144	70
Other	595	571
Total current liabilities	3,639	2,763
Other Liabilities and Deferred Credits		
Accumulated deferred income taxes	1,302	1,378
Deferred regulatory credit — income taxes	88	107
Unamortized investment tax credits	140	162
Storm and property insurance reserve	235	229
Other	960	866
Total other liabilities and deferred credits	2,725	2,742
Commitments and Contingencies		
Total Capitalization and Liabilities	$ 17,463	$ 15,300

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

Consolidated Statements of Cash Flows

Years Ended December 31,	2001	2000	1999
(millions)			
Cash Flows from Operating Activities			
Net income	$ 781	$ 704	$ 697
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	983	1,032	1,040
Increase (decrease) in deferred income taxes and related regulatory credit	(91)	283	(198)
Deferrals under cost recovery clauses	411	(810)	55
Increase in restricted cash	(260)	—	—
Gain on sale of cable investments	—	—	(257)
Impairment loss on Maine assets	—	—	176
Other — net	118	(233)	50
Net cash provided by operating activities	1,942	976	1,563
Cash Flows from Investing Activities			
Capital expenditures of FPL	(1,154)	(1,299)	(861)
Independent power investments	(1,977)	(507)	(1,540)
Proceeds from the sale of assets	50	22	198
Other — net	(188)	(159)	31
Net cash used in investing activities	(3,269)	(1,943)	(2,172)
Cash Flows from Financing Activities			
Issuances of long-term debt	920	947	1,609
Retirements of long-term debt	(87)	(515)	(584)
Increase in commercial paper and note payable	824	819	229
Repurchases of common stock	—	(150)	(116)
Dividends on common stock	(377)	(366)	(355)
Net cash provided by financing activities	1,280	735	783
Net increase (decrease) in cash and cash equivalents	(47)	(232)	174
Cash and cash equivalents at beginning of year	129	361	187
Cash and cash equivalents at end of year	$ 82	$ 129	$ 361
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest (net of amount capitalized)	$ 373	$ 301	$ 221
Cash paid for income taxes	$ 433	$ 160	$ 573
Supplemental Schedule of Noncash Investing and Financing Activities			
Additions to capital lease obligations	$ 70	$ 43	$ 86

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

Consolidated Statements of Shareholders' Equity

(millions)	Common Stock[a] Shares	Common Stock[a] Aggregate Par Value	Additional Paid-In Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)[b]	Retained Earnings	Common Shareholders' Equity
Balances, December 31, 1998	181	$ 2	$3,252	$(252)	$ 1	$2,123	
Net income	—	—	—	—	—	697	
Repurchases of common stock	(2)	—	(116)	—	—	—	
Dividends on common stock	—	—	—	—	—	(355)	
Earned compensation under ESOP	—	—	12	14	—	—	
Other comprehensive loss	—	—	—	—	(2)	—	
Other	—	—	—	(6)	—	—	
Balances, December 31, 1999	179[c]	2	3,148	(244)	(1)	2,465	
Net income	—	—	—	—	—	704	
Repurchases of common stock	(3)	—	(150)	—	—	—	
Dividends on common stock	—	—	—	—	—	(366)	
Earned compensation under ESOP	—	—	12	15	—	—	
Other comprehensive income	—	—	—	—	1	—	
Other	—	—	(2)	9	—	—	
Balances, December 31, 2000	176[c]	2	3,008	(220)	—	2,803	$5,593
Net income	—	—	—	—	—	781	
Dividends on common stock	—	—	—	—	—	(377)	
Earned compensation under ESOP	—	—	15	15	—	—	
Other comprehensive loss	—	—	—	—	(8)	—	
Other	—	—	2	(6)	—	—	
Balances, December 31, 2001	176[c]	$2	$3,025	$(211)	$ (8)	$3,207	$6,015

(a) $0.01 par value, authorized — 300,000,000 shares; outstanding 175,854,056 and 175,766,215 at December 31, 2001 and 2000, respectively.
(b) Comprehensive income, which includes net income and other comprehensive income (loss), totaled $773 million, $705 million and $695 million for 2001, 2000 and 1999, respectively.
(c) Outstanding and unallocated shares held by the Employee Stock Ownership Plan Trust totaled 7 million, 7 million and 8 million at December 31, 2001, 2000 and 1999, respectively.

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

Notes To Consolidated Financial Statements

Years Ended December 31, 2001, 2000 and 1999

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation — FPL Group, Inc.'s (FPL Group) operations are conducted primarily through its wholly-owned subsidiary Florida Power & Light Company (FPL) and its wholly-owned indirect subsidiary FPL Energy, LLC (FPL Energy). FPL, a rate-regulated public utility, supplies electric service to approximately 3.9 million customers throughout most of the east and lower west coasts of Florida. FPL Energy invests in independent power projects through both controlled and consolidated entities and non-controlling ownership interests in joint ventures accounted for under the equity method.

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

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

The principal regulatory assets and liabilities are as follows:

(millions) December 31,	**2001**	2000
Assets (included in other assets):		
Unamortized debt reacquisition costs	$ 17	$ 18
Deferred Department of Energy assessment	$ 30	$ 35
Under-recovered fuel costs (noncurrent portion)	$ —	$259
Litigation settlement (see Note 12)	$178	$223
Liabilities:		
Deferred regulatory credit — income taxes	$ 88	$107
Unamortized investment tax credits	$140	$162
Storm and property insurance reserve (see Note 15 — Insurance)	$235	$229

The amounts presented above exclude clause-related regulatory assets and liabilities that are recovered or refunded over the next twelve-month period. Those amounts are included in deferred clause expenses and deferred clause revenues on the consolidated balance sheets. Cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets utilized by these programs, include substantially all fuel, purchased power and interchange expenses, conservation- and environmental-related expenses, certain revenue taxes and franchise fees. Revenues from cost recovery clauses are recorded when billed; FPL achieves matching of costs and related revenues by deferring the net under- or over-recovery. Any under-recovered costs or over-recovered revenues are collected from or returned to customers in subsequent periods.

At December 31, 2000, FPL had $259 million of noncurrent under-recovered fuel costs which were included in other assets. The noncurrent portion of under-recovered fuel costs resulted from the FPSC allowing FPL to recover $518 million of under-recovered fuel costs over a two-year period beginning January 2001, rather than the typical one-year time frame. FPL also agreed that instead of receiving a return at the commercial paper rate on this unrecovered portion through the fuel and purchased power cost recovery clause (fuel clause), the under-recovery will be included as a rate base regulatory asset over the two-year recovery period.

In the event that FPL's generating operations are no longer subject to the provisions of FAS 71, portions of the existing regulatory assets and liabilities that relate to generation would be written off unless regulators specify an alternative means of recovery or refund. Further, other aspects of the business, such as generation assets and long-term power purchase commitments, would need to be reviewed to assess their recoverability in a changed regulatory environment. The continued applicability of FAS 71 is assessed at each reporting period.

Various states, other than Florida, have enacted legislation or have state commissions that issued orders designed to deregulate the production and sale of electricity. By allowing customers to choose their electricity supplier, deregulation is expected to result in a shift from cost-based rates to market-based rates for energy production and other services provided to retail customers. Similar initiatives are also being pursued on the federal level. Although the legislation and initiatives vary substantially, common areas of focus include when market-based pricing will be available for wholesale and retail customers, what existing prudently incurred costs in excess of the market-based price will be recoverable and whether generating assets should be separated from transmission, distribution and other assets. It is generally believed transmission and distribution activities would remain regulated.

In 2000, the Governor of Florida signed an executive order creating the Energy 2020 Study Commission to propose an energy plan and strategy for Florida. The commission chose to split the energy study between wholesale and retail competition. In January 2001, the commission issued an interim report containing a proposal for restructuring Florida's wholesale electricity market, and no action was taken in the 2001 legislative session, which ended in May 2001. In December 2001, the commission issued a final report that recommended the removal of statutory barriers to entry for merchant plants and, according to the report, provides a discretionary transition to a "level playing field" for all generating assets. Under the commission's proposal, investor-owned utilities such as FPL could, at their discretion, transfer or sell their existing generating assets. The utility would have the right to six-year cost-based transition contracts to commit the capacity of assets sold or transferred back to the utility. Transfers to affiliates would be at net book value. Gains on sales of existing generating assets within the transition contract period would be shared with customers. Any losses would be absorbed by the utility's shareholders. The load-serving utilities would acquire new capacity through competitive bidding (which would be required if acquired from affiliates), negotiated contracts or from the short-term (spot) market. Transmission assets could be transferred (at net book value) to, or operated by, a FERC-approved regional transmission organization (RTO). The final report recommends no change to the retail competition structure until an effective competitive wholesale market has been developed. The commission's proposal may be addressed in the legislative session which takes place from January through March 2002, or in a subsequent session. In addition, the FERC has jurisdiction over potential changes which could affect competition in wholesale transactions.

In 1999, the FERC issued its final order on RTOs which, under a variety of structures, provides for the independent operation of transmission systems for a given geographic area. In November 2001, the FERC issued an order providing guidance on how the FERC will proceed with the RTO development. The issues of scope and governance will be addressed within individual RTO dockets, after consultation with the state utility commissions. The issues of standardization of tariffs and market design will be addressed in a separate rulemaking docket. With regard to the operational deadline of the RTOs initially set for December 15, 2001, the FERC, in consultation with the state utility commissions, will set revised timelines in each of the individual RTO dockets.

FPL as well as other investor-owned utilities in Florida had requested that the FPSC open a separate generic docket to address issues related to the utilities' participation in an independent RTO, pursuant to the FERC's 1999 order on RTOs. In June 2001, the FPSC decided to address on an expedited basis the RTO matters in conjunction with the base rate proceeding instead of in a generic docket. In December 2001, the FPSC ordered the utilities to file a modified RTO proposal by March 20, 2002. The FPSC has stated that the proposal should not involve the divestiture of transmission assets initially, but does not preclude the RTO from building or owning transmission assets in the future. In addition, the FPSC urged the utilities to continue participation in discussions with the FERC initiated in mid-2001 regarding the creation of a single RTO for the Southeast region of the United States, but did not recommend them joining it now. For subsequent events, see Note 18 — RTO.

Revenues and Rates — FPL's retail and wholesale utility rate schedules are approved by the FPSC and the FERC, respectively. FPL records unbilled base revenues for the estimated amount of energy delivered to customers but not yet billed. Unbilled base revenues are included in customer receivables and amounted to $146 million and $137 million at December 31, 2001 and 2000, respectively. FPL's operating revenues also include amounts resulting from cost recovery clauses (see Regulation), certain revenue taxes and franchise fees. The majority of the energy produced by FPL Energy's independent power projects is sold through power sales agreements with utilities and revenue is recorded as electricity is delivered.

FPL's current rate agreement, which became effective April 15, 1999 and expires on April 14, 2002, provides for a $350 million reduction in annual revenues from retail base operations allocated to all customers on a cents-per-kilowatt-hour basis. Additionally, the agreement sets forth a revenue sharing mechanism for each of the twelve-month periods covered by the agreement, whereby revenues from retail base operations in excess of a stated threshold are required to be shared on the basis of two-thirds refunded to retail customers and one-third retained by FPL. Revenues from retail base operations in excess of a second threshold are required to be refunded 100% to retail customers. For the twelve-month period ending April 14, 2002, the first threshold is $3.5 billion and the second threshold is $3.656 billion.

The accrual for the refund associated with the revenue sharing mechanism is computed monthly for each twelve-month period of the rate agreement. At the beginning of each twelve-month period, planned revenues are reviewed to determine if it is probable that the threshold will be exceeded. If so, an accrual is recorded each month for a portion of the anticipated refund based on the relative percentage of year-to-date planned revenues to the total estimated revenues for the twelve-month period, plus accrued interest. In addition, if in any month actual revenues are above or below planned revenues, the accrual is increased or decreased as necessary to recognize the effect of this variance on the expected refund amount. The annual refund (including interest) is paid to customers as a credit to their June electric bill. At December 31, 2001 and 2000, the accrual for the revenue refund was approximately $62 million and $57 million, respectively.

The rate agreement also lowered FPL's authorized regulatory return on common equity (ROE) range to 10% – 12%. During the term of the agreement, the achieved ROE may from time to time be outside the authorized range, and the revenue sharing mechanism described above is specified to be the appropriate and exclusive mechanism to address that circumstance. For purposes of calculating ROE, the agreement establishes a cap on FPL's adjusted equity ratio of 55.83%. The adjusted equity ratio reflects a discounted amount for off-balance sheet obligations under certain long-term purchased power contracts. Finally, the rate agreement established a new special depreciation program (see Electric Plant, Depreciation and Amortization) and includes provisions which limit depreciation rates and accruals for nuclear decommissioning and fossil dismantlement costs to the then approved levels and limit amounts recoverable under the environmental compliance cost recovery clause during the term of the rate agreement.

In May 2001, the FPSC ordered FPL to submit minimum filing requirements (MFRs) to initiate a base rate proceeding regarding FPL's future retail rates. FPL completed the filing of MFRs with the FPSC on October 15, 2001 and supplemented these filings with information filed on November 9, 2001. Hearings are scheduled for April 2002 and a final decision is scheduled for June 2002. Any change in base rates would not become effective until after the expiration of FPL's current rate agreement on April 14, 2002. FPL is conducting settlement discussions with the FPSC staff, the State of Florida Office of Public Counsel and other parties. Also, as part of the rate case, the FPSC will consider FPL's request to increase the annual accrual to the storm and property insurance reserve fund (storm fund) by $30 million to $50.3 million. FPL has requested approval to establish a corresponding storm fund reserve objective of $500 million to be achieved over five years. At December 31, 2001, the storm fund reserve totaled approximately $235 million. See Storm Fund. For subsequent events, see Note 18 — Base Rate Proceeding.

Electric Plant, Depreciation and Amortization — The cost of additions to units of utility property of FPL and FPL Energy is added to electric utility plant. In accordance with regulatory accounting, the cost of FPL's units of utility property retired, less net salvage, is charged to accumulated depreciation. Maintenance and repairs of property as well as replacements and renewals of items determined to be less than units of utility property are charged to other operations and maintenance (O&M) expenses. At December 31, 2001, the generating, transmission, distribution and general facilities of FPL represented approximately 44%, 13%, 37% and 6%, respectively, of FPL's gross investment in electric utility plant in service. Substantially all electric utility plant of FPL is subject to the lien of a mortgage securing FPL's first mortgage bonds. FPL Energy's Doswell generating facility is encumbered by liens against its assets securing bonds issued by an FPL Energy subsidiary in July 2001.

Depreciation of electric property is primarily provided on a straight-line average remaining life basis. FPL includes in depreciation expense a provision for fossil plant dismantlement and nuclear plant decommissioning (see Decommissioning and Dismantlement of Generating Plant). For substantially all of FPL's property, depreciation studies are performed and filed with the FPSC at least every four years. In April 1999, the FPSC granted final approval of FPL's most recent depreciation studies, which were effective January 1, 1998. The weighted annual composite depreciation rate for FPL's electric plant in service was approximately 4.2% for 2001, 4.2% for 2000 and 4.3% for 1999, excluding the effects of decommissioning and dismantlement. Further, these rates exclude the special and plant-related deferred cost amortization discussed below.

Under the current rate agreement that reduced FPL's base rates (see Revenues and Rates), the FPSC allowed FPL to recover, as special depreciation, up to $100 million in each year of the three-year agreement period. The additional depreciation recovery was required to be applied to nuclear and/or fossil generating assets. Under this depreciation program, FPL recorded $100 million of special depreciation in the first twelve-month period and $71 million through December 31, 2000 of the second twelve-month period. Through December 31, 2001, FPL has not recorded any special depreciation for the third twelve-month period. On a calendar year basis, FPL recorded approximately $101 million and $70 million of special depreciation in 2000 and 1999, respectively, and nothing in 2001. FPL also recorded special amortization in the amount of $63 million in 1999 under a previous program approved by the FPSC. These costs are considered recoverable costs and are monitored through the monthly reporting process with the FPSC.

Nuclear Fuel — FPL leases nuclear fuel for all four of its nuclear units. Nuclear fuel lease expense was $70 million, $82 million and $83 million in 2001, 2000 and 1999, respectively. Included in this expense was an interest component of $5 million, $9 million and $8 million in 2001, 2000 and 1999, respectively. Nuclear fuel lease payments and a charge for spent nuclear fuel disposal are charged to fuel expense on a unit of production method. These costs are recovered through the fuel clause. Under certain circumstances of lease termination, FPL is required to purchase all nuclear fuel in whatever form at a purchase price designed to allow the lessor to recover its net investment cost in the fuel, which totaled $133 million at December 31, 2001. For ratemaking, these leases are classified as operating leases. For financial reporting, the capital lease obligation is recorded at the amount due in the event of lease termination.

Decommissioning and Dismantlement of Generating Plant — FPL accrues nuclear decommissioning costs over the expected service life of each unit. Nuclear decommissioning studies are performed at least every five years and are submitted to the FPSC for approval. FPL's latest nuclear decommissioning studies were approved by the FPSC in December 2001 and are effective in May 2002. The changes include a reduction in the annual decommissioning expense accrual to $79 million from $85 million and the reclassification of approximately $99 million of accumulated nuclear amortization to a regulatory liability, which will be amortized over the remaining life of the nuclear units. These studies assume prompt dismantlement for the Turkey Point Units Nos. 3 and 4 with decommissioning activities commencing in 2012 and 2013, respectively, when the current operating licenses expire. Current plans, which are consistent with the term of the existing operating licenses, call for St. Lucie Unit No. 1 to be mothballed beginning in 2016 with decommissioning activities to be integrated with the prompt dismantlement of St. Lucie Unit No. 2 beginning in 2023. These studies also assume that FPL will be storing spent fuel on site pending removal to a U.S. government facility. The studies indicate FPL's portion of the ultimate costs of decommissioning its four nuclear units, including costs associated with spent fuel storage, to be $6.4 billion. Decommissioning expense accruals included in depreciation and amortization expense, were $85 million in each of the years 2001, 2000 and 1999. FPL's portion of the ultimate cost of decommissioning its four units, expressed in 2001 dollars, is currently estimated to aggregate $1.9 billion. At December 31, 2001 and 2000, the accumulated provision for nuclear decommissioning totaled approximately $1.7 billion and $1.5 billion, respectively, and is included in accumulated depreciation. See Electric Plant, Depreciation and Amortization and Accounting for Asset Retirement Obligations.

Similarly, FPL accrues the cost of dismantling its fossil fuel plants over the expected service life of each unit. Fossil fuel plant dismantlement studies are performed and filed with the FPSC at least every four years. FPL's latest fossil fuel plant dismantlement studies were effective January 1, 1999. Fossil dismantlement expense was $16 million in 2001, $14 million in 2000 and $17 million in 1999 and is included in depreciation and amortization expense. FPL's portion of the ultimate cost to dismantle its fossil units is $482 million. At December 31, 2001 and 2000, the accumulated provision for fossil dismantlement totaled $253 million and $246 million, respectively, and is included in accumulated depreciation. See Electric Plant, Depreciation and Amortization.

Restricted trust funds for the payment of future expenditures to decommission FPL's nuclear units are included in special use funds of FPL. Securities held in the decommissioning funds are carried at market value with market adjustments resulting in a corresponding adjustment to the accumulated provision for nuclear decommissioning. See Note 3 — Special Use Funds. Contributions to the funds are based on current period decommissioning expense. Additionally, fund earnings, net of taxes are reinvested in the funds. The tax effects of amounts not yet recognized for tax purposes are included in accumulated deferred income taxes.

Accrual for Major Maintenance Costs — Consistent with regulatory treatment, FPL's estimated nuclear maintenance costs for each nuclear unit's next planned outage are accrued over the period from the end of the last outage to the end of the next planned outage. The accrual for nuclear maintenance costs at December 31, 2001 and 2000 totaled $23 million and $31 million, respectively, and is included in other liabilities. Any difference between the estimated and actual costs is included in O&M expenses when known.

FPL Energy's estimated major maintenance costs for each unit's next planned outage are accrued over the period from the end of the last outage to the end of the next planned outage. The accrual for FPL Energy's major maintenance costs totaled $28 million and $33 million at December 31, 2001 and 2000, respectively. Any difference between the estimated and actual costs is included in O&M expenses when known.

Construction Activity — In accordance with FPSC guidelines, FPL has elected not to capitalize interest or a return on common equity on construction projects. The cost of these construction projects is allowed as an element of rate base. FPL Group's unregulated operations capitalize interest on construction projects. Capitalized interest amounted to $55 million, $23 million and $9 million in 2001, 2000 and 1999, respectively.

Storm Fund — The storm fund provides coverage toward storm damage costs and possible retrospective premium assessments stemming from a nuclear incident under the various insurance programs covering FPL's nuclear generating plants. Securities held in the fund are carried at market value with market adjustments resulting in a corresponding adjustment to the storm and property insurance reserve. See Note 3 — Special Use Funds and Note 15 — Insurance. Fund earnings, net of taxes, are reinvested in the fund. The tax effects of amounts not yet recognized for tax purposes are included in accumulated deferred income taxes. For information concerning FPL's request to the FPSC for an increase in contributions to the storm fund, see Revenues and Rates.

Investments in Partnerships and Joint Ventures — FPL Energy has non-controlling non-majority owned interests in partnerships and joint ventures, essentially all of which are accounted for under the equity method. At December 31, 2001 and 2000, FPL Energy's investment in partnerships and joint ventures totaled $276 million and $196 million, respectively, which are included in other investments on the consolidated balance sheets. FPL Energy provides certain services to the partnerships and joint ventures, including O&M and business management services. Operating revenues for the years ended December 31, 2001, 2000 and 1999 include approximately $14 million, $15 million and $12 million, respectively, related to such services. The receivables at December 31, 2001 and 2000 for these services, as well as payroll and other payments made on behalf of these investments, were approximately $23 million and $20 million, respectively, and are included in other current assets on the consolidated balance sheets. For information regarding notes receivable from these investments, see Note 3.

Investments in Leveraged Leases — Subsidiaries of FPL Group have investments in leveraged leases, which at December 31, 2001 and 2000, totaled $155 million and $154 million, respectively, and are included in other investments on the consolidated balance sheets. The related deferred tax liabilities totaled $135 million and $143 million at December 31, 2001 and 2000, respectively, and are included in accumulated deferred income taxes.

Impairment of Long-Lived Assets — FPL Group evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable as described in FAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." See Note 13.

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

Retirement of Long-Term Debt — The excess of FPL's reacquisition cost over the book value of long-term debt is deferred and amortized to expense ratably over the remaining life of the original issue, which is consistent with its treatment in the ratemaking process. See Regulation. FPL Group Capital Inc (FPL Group Capital) expenses this cost in the period incurred.

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

Energy Trading — FPL Energy engages in limited energy trading activities to optimize the value of electricity and fuel contracts and generating facilities, as well as to take advantage of expected favorable commodity price movements. These activities are accounted for at market value. FPL Energy's unrealized net trading gains and losses are recognized in other – net in the consolidated statements of income. FPL Energy's realized gains and losses from trading in financial instruments are recorded net in operating revenues and realized gains and losses from trading in physical power contracts are recorded gross in operating revenues and fuel, purchased power and interchange in the consolidated statements of income.

Goodwill and Other Intangible Assets — Effective January 1, 2002, FPL Group adopted FAS 142, "Goodwill and Other Intangible Assets." Under this statement, the amortization of goodwill is no longer permitted. Instead, goodwill is assessed for impairment at least annually by applying a fair-value based test, with the initial impairment test to be completed by June 30, 2002. FPL Group recorded approximately $10 million in goodwill amortization expense in 2001. At December 31, 2001, FPL Group had approximately $365 million of goodwill recorded in other assets. Management is in the process of conducting the initial impairment test and is unable to estimate the effect, if any, on the financial statements.

Accounting for Asset Retirement Obligations — In August 2001, the Financial Accounting Standards Board (FASB) issued FAS 143, "Accounting for Asset Retirement Obligations." The statement requires that a liability for the fair value of an asset retirement obligation be recognized in the period in which it is incurred with the offsetting associated asset retirement costs capitalized as part of the carrying amount of the long-lived asset. The asset retirement cost is subsequently allocated to expense using a systematic and rational method over its useful life. FPL and FPL Energy currently accrue for asset retirement obligations over the life of the related asset through depreciation and O&M expenses, respectively. At FPL, the net effect of recording the full fair value of asset retirement obligations and the associated increase in assets pursuant to FAS 143 will, in accordance with regulatory treatment, be recorded as a regulatory asset. Management is in the process of evaluating the impact of implementing FAS 143 and is unable to estimate the effect, if any, on the financial statements. FPL Group will be required to adopt FAS 143 beginning in 2003. See Decommissioning and Dismantlement of Generating Plant.

2. Employee Retirement Benefits

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

(millions)	Pension Benefits		Other Benefits	
	2001	2000	**2001**	2000
Change in benefit obligation:				
Obligation at October 1 of prior year	$1,205	$1,178	$ 350	$ 335
Service cost	48	44	6	5
Interest cost	82	77	23	22
Participant contributions	—	—	1	1
Plan amendments	42	6	—	—
Actuarial (gains) losses — net	55	(20)	29	4
Benefit payments	(79)	(80)	(22)	(17)
Obligation at September 30	1,353	1,205	387	350
Change in plan assets:				
Fair value of plan assets at October 1 of prior year	2,750	2,555	98	111
Actual return on plan assets	(117)	284	(1)	7
Participant contributions	—	—	1	1
Benefit payments and expenses	(87)	(89)	(24)	(21)
Fair value of plan assets at September 30	2,546	2,750	74	98
Funded Status:				
Funded status at September 30	1,193	1,545	(313)	(252)
Unrecognized prior service cost	(39)	(76)	—	—
Unrecognized transition (asset) obligation	(70)	(93)	38	42
Unrecognized (gain) loss	(591)	(993)	53	15
Prepaid (accrued) benefit cost at December 31	$ 493	$ 383	$(222)	$(195)

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

(millions)	Pension Benefits			Other Benefits		
Years Ended December 31,	**2001**	2000	1999	**2001**	2000	1999
Service cost	$ 48	$ 44	$ 46	$ 6	$ 5	$ 6
Interest cost	82	77	71	24	21	21
Expected return on plan assets	(185)	(172)	(156)	(7)	(7)	(7)
Amortization of transition (asset) obligation	(23)	(23)	(23)	3	4	3
Amortization of prior service cost	5	(7)	(8)	—	—	—
Amortization of (gains) losses	(37)	(31)	(22)	—	—	1
Effect of Maine acquisition	—	—	—	—	—	2
Net periodic (benefit) cost	$(110)	$(112)	$ (92)	$26	$23	$26

The weighted-average discount rate used in determining the benefit obligations was 6.25% and 6.75% for 2001 and 2000, respectively. The assumed level of increase in future compensation levels was 5.5% for all years. The expected long-term rate of return on plan assets was 7.75% for all years.

Based on the current discount rates and current health care costs (as related to other benefits), the projected 2002 trend assumptions used to measure the expected cost of benefits covered by the plans are 5.4% for persons up to age 65 and 5.2% thereafter. The rate is assumed to decrease over the next two years to the ultimate trend rate of 5% for all age groups and remain at that level thereafter.

Assumed health care cost trend rates can have a significant effect on the amounts reported for the health care plans. A 1% increase or decrease in assumed health care cost trend rates would have a corresponding effect on the service and interest cost components and the accumulated obligation of other benefits of approximately $1 million and $12 million, respectively.

3. Financial Instruments

The carrying amounts of cash equivalents, commercial paper and note payable approximate fair values. At December 31, 2001 and 2000, other investments included financial instruments of approximately $600 million and $300 million, respectively, the majority of which consist of notes receivable that are carried at estimated fair value or cost, which approximates fair value. Notes receivable (long-and short-term) include approximately $120 million and $160 million at December 31, 2001 and 2000, respectively, due from partnerships and joint ventures in which FPL Energy has an ownership interest. The notes receivable mature 2002-14 and the majority bear interest at variable rates, which ranged from 5.575% to 8.7% at December 31, 2001 and 7% to 11.66% at December 31, 2000. Interest income on these notes totaling approximately $12 million, $13 million and $11 million for the years ended December 31, 2001, 2000 and 1999, respectively, is included in other – net in the consolidated statements of income. The associated receivables as of December 31, 2001 and 2000 were approximately $0.5 million and $2 million, respectively, and are included in other current assets on the consolidated balance sheets.

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

(millions) December 31,	**2001**		2000	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Long-term debt, including current maturities	$4,890	$5,080[(a)]	$4,041	$4,080[(a)]

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

Special Use Funds — The special use funds consist of storm fund assets totaling $145 million and $140 million, and nuclear decommissioning fund assets totaling $1.463 billion and $1.357 billion at December 31, 2001 and 2000, respectively. Securities held in the special use funds are carried at estimated fair value based on quoted market prices. The nuclear decommissioning fund consists of approximately 40% equity securities and 60% municipal, government, corporate and mortgage- and other asset-backed debt securities with a weighted-average maturity of approximately eight years. The storm fund primarily consists of municipal debt securities with a weighted-average maturity of approximately five years. The cost of securities sold is determined on the specific identification method. The funds had approximate realized gains of $30 million and approximate realized losses of $16 million in 2001, $8 million and $15 million in 2000 and $32 million and $22 million in 1999, respectively. The funds had unrealized gains of approximately $208 million and $258 million at December 31, 2001 and 2000, respectively; the unrealized losses at those dates were approximately $9 million and $4 million. The proceeds from the sale of securities in 2001, 2000 and 1999 were approximately $1.8 billion, $2.0 billion and $2.7 billion, respectively.

4. Common Stock

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

(millions, except per share amounts) Years Ended December 31,	2001	2000	1999
Numerator (basic and assuming dilution):			
Net income	$ 781	$ 704	$ 697
Denominator:			
Weighted-average number of shares outstanding — basic	168.7	169.9	171.3
Performance awards and options	0.2	0.3	0.2
Weighted-average number of shares outstanding — assuming dilution	168.9	170.2	171.5
Earnings per share:			
Basic	$ 4.63	$ 4.14	$ 4.07
Assuming dilution	$ 4.62	$ 4.14	$ 4.07

Shares issuable upon the exercise of stock options, which were not included in the denominator above due to their antidilutive effect, were 1.6 million in 2001, none in 2000 and 0.2 million in 1999.

In February 2002, FPL Group issued publicly-traded equity units which include a purchase contract that will be reflected in diluted earnings per share calculations using the treasury stock method. See Note 8.

Common Stock Dividend Restrictions — FPL Group's charter does not limit the dividends that may be paid on its common stock. As a practical matter, the ability of FPL Group to pay dividends on its common stock is dependent upon dividends paid to it by its subsidiaries, primarily FPL. FPL's charter and a mortgage securing FPL's first mortgage bonds contain provisions that, under certain conditions, restrict the payment of dividends and other distributions to FPL Group. These restrictions do not currently limit FPL's ability to pay dividends to FPL Group. In 2001, 2000 and 1999, FPL paid, as dividends to FPL Group, its net income available to FPL Group on a one-month lag basis.

Employee Stock Ownership Plan (ESOP) — The employee thrift plans of FPL Group include a leveraged ESOP feature. Shares of common stock held by the Trust for the thrift plans (Trust) are used to provide all or a portion of the employers' matching contributions. Dividends received on all shares, along with cash contributions from the employers, are used to pay principal and interest on an ESOP loan held by FPL Group Capital. Dividends on shares allocated to employee accounts and used by the Trust for debt service are replaced with an equivalent amount of shares of common stock at prevailing market prices.

ESOP-related compensation expense of approximately $24 million, $22 million and $21 million in 2001, 2000 and 1999, respectively, was recognized based on the fair value of shares allocated to employee accounts during the period. Interest income on the ESOP loan is eliminated in consolidation. ESOP-related unearned compensation included as a reduction of shareholders' equity at December 31, 2001 was approximately $202 million, representing 7 million unallocated shares at the original issue price of $29 per share. The fair value of the ESOP-related unearned compensation account using the closing price of FPL Group stock at December 31, 2001 was approximately $393 million.

Long-Term Incentive Plan — At December 31, 2001, approximately 9 million shares of common stock are reserved and 8.7 million available for awards to officers and employees of FPL Group and its subsidiaries under FPL Group's long-term incentive plan. Restricted stock is issued at market value at the date of grant, typically vests within four years and is subject to, among other things, restrictions on transferability. Performance awards are typically payable at the end of a three- or four-year performance period and are subject to risk of forfeiture if the specified performance criteria are not met within the vesting period.

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

	Restricted Stock	Performance Awards[a]	Options[a] Number	Options[a] Weighted-Average Exercise Price
Balances, December 31, 1998	216,800	510,620	—	—
Granted	210,100[b]	294,662[c]	1,300,000[d]	$51.53
Paid/released	—	(78,640)	—	—
Forfeited	(13,500)	(80,027)	(200,000)	$51.16
Balances, December 31, 1999	413,400	646,615	1,100,000	$51.59
Granted	28,350[b]	465,614[c]	564,950[d]	$39.64
Paid/released/exercised	(264,800)	(1,038,375)	(1,060,726)	$49.88
Forfeited	(95,700)	(54,854)	(212,056)	$50.51
Balances, December 31, 2000	81,250	19,000	392,168	$39.58
Granted	263,825[b]	617,420[c]	2,009,200[d]	$62.04
Paid/released/exercised	(6,600)	(41,492)	(120,380)	$39.01
Forfeited	(30,750)	(49,849)	(137,174)	$62.61
Balances, December 31, 2001	307,725	545,079	2,143,814[e]	$59.19

(a) Performance awards and options resulted in 169,621, 373,431 and 252,572 assumed incremental shares of common stock outstanding for purposes of computing diluted earnings per share in 2001, 2000 and 1999, respectively.
(b) The weighted-average grant date fair value of restricted stock granted in 2001, 2000 and 1999 was $60.19, $45.55 and $53.21 per share, respectively.
(c) The weighted-average grant date fair value of performance awards in 2001, 2000 and 1999 was $70.25, $41.25 and $61.19 per share, respectively.
(d) The exercise price of each option granted in 2001, 2000 and 1999 equaled the market price of FPL Group stock on the date of grant.
(e) Of the options outstanding at December 31, 2001, 271,514 options were exercisable and had an exercise price ranging from $38.13 to $47.63 per share with a weighted-average exercise price of $39.83 per share and a weighted-average remaining contractual life of 8.2 years. The remainder of the outstanding options had exercise prices ranging from $54.00 to $65.13 per share with a weighted-average exercise price of $61.99 per share and a weighted-average remaining contractual life of 9.3 years.

FAS 123, "Accounting for Stock-Based Compensation," encourages a fair value based method of accounting for stock-based compensation. FPL Group, however, uses the intrinsic value based method of accounting as permitted by the statement. Stock-based compensation expense was approximately $22 million, $80 million and $13 million in 2001, 2000 and 1999, respectively. Stock-based compensation expense in 2000 reflects merger-related costs associated with the change in control provisions in FPL Group's long-term incentive plan. Compensation expense for restricted stock and performance shares is the same under the fair value and the intrinsic value based methods. Had compensation expense for the options been determined as prescribed by the fair value based method, net income and earnings per share would have been $775 million and $4.60 ($4.59 assuming dilution) in 2001, $696 million and $4.10 ($4.09 assuming dilution) in 2000 and $696 million and $4.06 (basic and assuming dilution) in 1999, respectively.

The fair value of the options granted in 2001, 2000 and 1999 were estimated on the date of the grant using the Black-Scholes option-pricing model with a weighted-average expected dividend yield of 4.23%, 3.82% and 3.81%, a weighted-average expected volatility of 19.01%, 20.27% and 17.88%, a weighted-average risk-free interest rate of 4.98%, 6.59% and 5.46% and a weighted-average expected term of 7 years, 10 years and 9.3 years, respectively.

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

5. Accounting for Derivative Instruments

Effective January 1, 2001, FPL Group adopted FAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by FAS 137 and 138 (collectively, FAS 133). As a result, beginning in January 2001, derivative instruments are recorded on the balance sheets as either an asset or liability (in other current assets, other assets, other current liabilities and other liabilities) measured at fair value. FPL Group uses derivative instruments (primarily swaps, options, futures and forwards) to manage the commodity price risk inherent in fuel purchases and electricity sales, as well as to optimize the value of power generation assets.

At FPL, changes in fair value are deferred as a regulatory asset or liability until the contracts are settled. Upon settlement, any gains or losses will be passed through the fuel clause and the capacity cost recovery clause (capacity clause).

For FPL Group's unregulated operations, predominantly FPL Energy, changes in the derivatives' fair value are recognized currently in earnings (in other–net) unless hedge accounting is applied. While substantially all of FPL Energy's derivative transactions are entered into for the purposes described above, hedge accounting is only applied where specific criteria are met and it is practicable to do so. In order to apply hedge accounting, the transaction must be designated as a hedge and it must be highly effective. The hedging instrument's effectiveness is assessed utilizing regression analysis at the inception of the hedge and on at least a quarterly basis throughout its life. Hedges are considered highly effective when a correlation coefficient of .8 or higher is achieved. Substantially all of the transactions that FPL Group has designated as hedges are cash flow hedges which have expiration dates through December 2005. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported as a component of other comprehensive income and is reclassified into earnings in the period(s) during which the transaction being hedged affects earnings. The ineffective portion of these hedges flows through earnings in the current period. Settlement gains and losses are included within the line items in the statements of income to which they relate.

In January 2001, FPL Group recorded in other–net a $2 million loss as the cumulative effect on earnings of a change in accounting principle representing the effect of those derivative instruments for which hedge accounting was not applied. For those contracts where hedge accounting was applied, the adoption of the new rules resulted in a credit of approximately $10 million to other comprehensive income.

During 2001, the FASB discussed and, from time to time throughout the year, issued guidance regarding when certain contracts for the purchase and sale of power and certain fuel supply contracts can be excluded from the provisions of FAS 133. In December 2001, final guidance on these issues was released and will be effective beginning April 1, 2002. Management is in the process of evaluating the new guidance and is unable to estimate the effects, if any, on the financial statements. One possible result of management's evaluation could be that certain of these contracts will have to be recorded on the balance sheet at fair value, with changes in fair value recorded in the income statement each reporting period.

6. Comprehensive Income

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

		Accumulated Other Comprehensive Income (Loss)			
(millions)	Net Income	Net Unrealized Gains (Losses) On Cash Flow Hedges	Other	Total	Comprehensive Income
Balances, December 31, 1998		$—	$ 1	$ 1	
Net income	$697				$697
Net unrealized loss on securities (net of $1 tax benefit)		—	(2)	(2)	(2)
Balances, December 31, 1999		—	(1)	(1)	$695
Net income	$704				$704
Net unrealized gain on securities (net of $1 tax expense)		—	1	1	1
Balances, December 31, 2000		—	—	—	$705
Net income	$781				$781
Net unrealized loss on cash flow hedges:					
FAS 133 transition adjustment (net of $6 tax expense)		10	—	10	10
Net unrealized loss (net of $13 tax benefit)		(21)	—	(21)	(21)
Reclassification adjustment (net of $2 tax expense)		3	—	3	3
Balances, December 31, 2001		$ (8)	$—	$ (8)	$773

7. Preferred Stock

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

	December 31, 2001 Shares Outstanding	December 31, 2001 Redemption Price	(millions) 2001	December 31, 2000
Cumulative, $100 Par Value, without sinking fund requirements, authorized 15,822,500 shares:				
4½% Series	100,000	$101.00	$ 10	$ 10
4½% Series A	50,000	$101.00	5	5
4½% Series B	50,000	$101.00	5	5
4½% Series C	62,500	$103.00	6	6
4.32% Series D	50,000	$103.50	5	5
4.35% Series E	50,000	$102.00	5	5
6.98% Series S	750,000	$103.49[(b)]	75	75
7.05% Series T	500,000	$103.52[(b)]	50	50
6.75% Series U	650,000	$103.37[(b)]	65	65
Total preferred stock of FPL	2,262,500		$226	$226

(a) FPL's charter also authorizes the issuance of 5 million shares of subordinated preferred stock, no par value. None of these shares is outstanding. There were no issuances or redemptions of preferred stock in 2001, 2000 or 1999.
(b) Not callable prior to 2003.

8. Debt

Long-term debt consists of the following:

(millions) December 31,	2001	2000
FPL:		
First mortgage bonds:		
Maturing through 2005 — 6⅝% to 6⅞%	$ 725	$ 725
Maturing 2008 through 2016 — 5⅞% to 7.3%	650	650
Maturing 2023 through 2026 — 7% to 7¾%	516	516
Medium-term notes — maturing 2003 — 5.79%	70	70
Pollution control and industrial development series — maturing 2023 through 2027 — 6.7% to 7.5%	24	41
Pollution control, solid waste disposal and industrial development revenue bonds — maturing 2020 through 2029 — variable, 2.8% and 3.4% average annual interest rates, respectively	609	658
Unamortized discount	(15)	(18)
Total long-term debt of FPL	2,579	2,642
Less current maturities, included in other current liabilities	—	65
Long-term debt of FPL, excluding current maturities	2,579	2,577
FPL Group Capital:		
Debentures — maturing 2004 through 2009 — 6⅛% to 7⅝%	1,900	1,400
Other long-term debt — maturing 2013 — 7.35%	5	5
Unamortized discount	(8)	(6)
Total long-term debt of FPL Group Capital	1,897	1,399
FPL Energy:		
Senior secured bonds — maturing 2019 — 7.52%	414	—
Less current maturities, included in other current liabilities	32	—
Long-term debt of FPL Energy, excluding current maturities	382	—
Total long-term debt	$4,858	$3,976

Minimum annual maturities of long-term debt are approximately $32 million, $205 million, $337 million, $541 million and $635 million for 2002, 2003, 2004, 2005 and 2006, respectively.

At December 31, 2001, commercial paper borrowings and the note payable, had a weighted-average interest rate of 2.19%. Available lines of credit aggregated $3 billion ($2 billion for FPL Group Capital and $1 billion for FPL) at December 31, 2001, all of which were based on firm commitments.

In February 2002, FPL Group sold a total of 11.5 million publicly-traded equity units known as Corporate Units, and in connection with that financing, FPL Group Capital issued $575 million principal amount of 4.75% debentures due February 16, 2007. The interest rate on the debentures is expected to be reset on or after November 16, 2004. Payment of FPL Group Capital debentures is absolutely, irrevocably and unconditionally guaranteed by FPL Group. Each Corporate Unit initially consisted of a $50 FPL Group Capital debenture and a purchase contract pursuant to which the holder will purchase $50 of FPL Group common shares on or before February 16, 2005, and FPL Group will make payments of 3.75% of the unit's $50 stated value until the shares are purchased. Under the terms of the purchase contracts, FPL Group will issue between 9,271,300 and 10,939,950 shares of common stock in connection with the settlement of the purchase contracts (subject to adjustment in certain circumstances). Prior to the issuance of FPL Group's common stock, the purchase contracts will be reflected in diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of FPL Group common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares that would be issued upon settlement of the purchase contracts less the number of shares that could be purchased by FPL Group in the market, at the average market price during the period, using the proceeds receivable upon settlement. Consequently, FPL Group anticipates that there will not be a dilutive effect on its earnings per share except during periods when the average market price of its common stock is above $62.02.

9. Income Taxes

The components of income taxes are as follows:

(millions) Years Ended December 31,	2001	2000	1999
Federal:			
Current	$432	$ 77	$ 511
Deferred	(49)	239	(196)
ITC and other — net	(49)	(35)	(29)
Total federal	334	281	286
State:			
Current	55	6	55
Deferred	(10)	49	(18)
Total state	45	55	37
Total income taxes	$379	$336	$ 323

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

Years Ended December 31,	2001	2000	1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (reductions) resulting from:			
State income taxes — net of federal income tax benefit	2.5	3.5	2.4
Amortization of ITC	(1.9)	(2.1)	(2.1)
Production tax credits — FPL Energy	(2.3)	(1.3)	(0.8)
Amortization of deferred regulatory credit — income taxes	(1.0)	(1.2)	(1.3)
Adjustments of prior years' tax matters	(0.8)	(2.7)	(2.7)
Preferred stock dividends — FPL	0.5	0.5	0.5
Other — net	0.7	0.6	0.6
Effective income tax rate	32.7%	32.3%	31.6%

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

(millions) December 31,	2001	2000
Deferred tax liabilities:		
Property-related	$1,294	$1,338
Investment-related	466	398
Other	545	630
Total deferred tax liabilities	2,305	2,366
Deferred tax assets and valuation allowance:		
Asset writedowns and capital loss carryforward	159	156
Unamortized ITC and deferred regulatory credit — income taxes	88	104
Storm and decommissioning reserves	292	277
Other	489	474
Valuation allowance	(25)	(23)
Net deferred tax assets	1,003	988
Accumulated deferred income taxes	$1,302	$1,378

The carryforward period for a capital loss from the disposition in a prior year of an FPL Group Capital subsidiary expired at the end of 1996. The amount of the deductible loss from this disposition was limited by Internal Revenue Service (IRS) rules. FPL Group is challenging the IRS loss limitation and the IRS is disputing certain other positions taken by FPL Group. Tax benefits, if any, associated with these matters will be reported in future periods when resolved. For subsequent events, see Note 18 — Income Taxes.

10. Jointly-Owned Electric Utility Plant

FPL owns approximately 85% of St. Lucie Unit No. 2, 20% of the St. Johns River Power Park units and coal terminal and approximately 76% of Scherer Unit No. 4. At December 31, 2001, the proportionate share of FPL's gross investment in these units was $1.171 billion, $328 million and $566 million, respectively; accumulated depreciation was $793 million, $178 million and $308 million, respectively.

FPL is responsible for its share of the operating costs, as well as providing its own financing. These costs are included in the consolidated statements of income. At December 31, 2001, there was no significant balance of construction work in progress on these facilities. See Note 15 — Litigation.

11. Merger

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

FPL Group recorded $30 million and $67 million in merger-related expenses in 2001 and 2000, respectively, of which FPL recorded $26 million ($16 million after-tax) and $62 million ($38 million after-tax). FPL Energy recorded $2 million ($1 million after-tax) in 2000 and Corporate and Other recorded $4 million ($3 million after-tax) and $3 million ($2 million after-tax) in 2001 and 2000, respectively.

12. Settlement of Litigation

In October 1999, FPL and the Florida Municipal Power Agency (FMPA) entered into a settlement agreement pursuant to which FPL agreed to pay FMPA a cash settlement; FPL agreed to reduce the demand charge on an existing power purchase agreement; and FPL and FMPA agreed to enter into a new power purchase agreement giving FMPA the right to purchase limited amounts of power in the future at a specified price. FMPA agreed to dismiss the lawsuit with prejudice, and both parties agreed to exchange mutual releases. The settlement reduced 1999 net income by $42 million.

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

13. Acquisition of Maine Assets

In 1999, FPL Energy completed the purchase of Central Maine Power Company's (CMP) non-nuclear generating assets, primarily fossil and hydro power plants, for $866 million. The purchase price was based on an agreement, subject to regulatory approvals, reached with CMP in January 1998. In October 1998, the FERC struck down transmission rules that had been in effect in New England since the 1970s. FPL Energy filed a lawsuit in November 1998 requesting a declaratory judgment that CMP could not meet the essential terms of the purchase agreement and, as a result, FPL Energy should not be required to complete the transaction. FPL Energy believed these FERC rulings regarding transmission constituted a material adverse effect under the purchase agreement because of the significant decline in the value of the assets caused by the rulings. The request for declaratory judgment was denied in 1999 and the acquisition was completed. The acquisition was accounted for under the purchase method of accounting, and the results of operating the Maine plants have been included in the consolidated financial statements since the acquisition date.

The FERC rulings regarding transmission, as well as the announcement of new entrants into the market and changes in fuel prices since January 1998, resulted in FPL Energy recording a $176 million pre-tax impairment loss to write down the fossil assets to their fair value, which was determined based on a discounted cash flow analysis. The impairment loss reduced 1999 results of operations and earnings per share by $104 million and $0.61 per share, respectively.

Most of the remainder of the purchase price was allocated to the hydro operations. The hydro plants and related goodwill are being amortized on a straight-line basis over the 40-year term of the hydro plant operating licenses. See Note 1 — Goodwill and Other Intangible Assets.

14. Divestiture of Cable Investments

In January 1999, an FPL Group Capital subsidiary sold 3.5 million common shares of Adelphia Communications Corporation stock and in October 1999 had its one-third ownership interest in a cable limited partnership redeemed, resulting in after-tax gains of approximately $96 million and $66 million, respectively. Both investments had been accounted for under the equity method.

15. Commitments and Contingencies

Commitments — FPL has made commitments in connection with a portion of its projected capital expenditures. Capital expenditures for the construction or acquisition of additional facilities and equipment to meet customer demand are estimated to be approximately $4.4 billion for 2002 through 2004, including approximately $1.3 billion for 2002. At December 31, 2001, FPL Energy has made commitments in connection with the development and expansion of independent power projects totaling approximately $828 million. At December 31, 2001, subsidiaries of FPL Group, other than FPL, have guaranteed approximately $966 million of lease obligations, prompt performance payments, purchase and sale of power and fuel agreement obligations, debt service payments and other payments subject to certain contingencies.

Off-Balance Sheet Financing Arrangements — In 2000, an FPL Energy subsidiary entered into an operating lease agreement with a special purpose entity (SPE) lessor to lease a 535 megawatt (mw) combined-cycle power generation plant. At the inception of the lease, the lessor obtained the funding commitments required to complete the acquisition, development and construction of the plant through debt and equity contributions from investors who are not affiliated with FPL Group. At December 31, 2001 and 2000, the lessor had drawn $298 million and $127 million, respectively, on a $425 million total commitment. Construction is expected to be completed in the third quarter of 2002. The FPL Energy subsidiary is acting as the lessor's agent to construct the plant and, upon completion, will lease the plant for a term of five years. Generally, if the FPL Energy subsidiary defaults during the construction period on its obligations under the agreement, a residual value guarantee payment equal to 89.9% of lessor capitalized costs incurred to date must be made by the FPL Energy subsidiary. However, under certain limited events of default during the construction period and the post-construction lease term, the FPL Energy subsidiary can be required to purchase the plant for 100% of costs incurred to date. Once construction is complete, the FPL Energy subsidiary is required to make rent payments in amounts intended to cover the lessor's debt service, a stated yield to equity holders and certain other costs; these payments are estimated to be $3 million in 2002, $13 million in each of the years 2003–06 and $10 million thereafter. The FPL Energy subsidiary has the option to purchase the plant for 100% of costs incurred to date at any time during construction or the remaining lease term. If the FPL Energy subsidiary does not elect to purchase the plant at the end of the lease term, a residual value guarantee (equal to 85% of total costs) must be paid and the plant will be sold. Any proceeds received by the lessor in excess of the outstanding debt and equity will be given to the FPL Energy subsidiary. FPL Group Capital has guaranteed the FPL Energy subsidiary's obligations under the lease agreement, which are included in the $966 million of guarantees discussed above. Additionally, at December 31, 2001, FPL Energy has posted cash collateral related to this transaction of $256 million (included in other assets on the consolidated balance sheets). The equity holder controls the lessor. The lessor has represented that it has essentially no assets or obligations other than the plant under construction and the related debt and that total assets, total liabilities and equity of the lessor at December 31, 2001 were $307 million, $296 million and $11 million, respectively.

Also in 2000, another FPL Energy subsidiary entered into an operating lease agreement with an SPE related to the construction of certain turbines and related equipment (equipment). At the inception of the lease, the SPE arranged a total credit facility of $650 million to be funded through debt and equity contributions from investors who are not affiliated with FPL Group. At December 31, 2001 and 2000, the amounts outstanding under the facility were $42 million and $14 million, respectively. Generally, if the FPL Energy subsidiary defaults during the construction period on its obligations under the agreement, a residual value guarantee payment equal to 89.9% of costs incurred to date must be made by the FPL Energy subsidiary. However, under certain limited events of default, the FPL Energy subsidiary can be required to purchase all equipment then in the facility for 100% of costs incurred to date. At any time during the construction period, FPL Energy may purchase any equipment for 100% of payments made to date by the SPE to the equipment vendors. Upon completion of each item of equipment, FPL Energy may choose to purchase the equipment, remarket the equipment to another party or continue under the operating lease agreement to lease the equipment for the remainder of the five year term. The minimum annual lease payments are estimated to be $1 million, $6 million, $8 million, $7 million and $2 million for 2002, 2003, 2004, 2005 and 2006, respectively. If FPL Energy chooses to continue the lease, and does not choose to purchase the equipment at the end of the lease term, the FPL Energy subsidiary is subject to a residual value guarantee payment of 84% of the equipment cost. FPL Group Capital has guaranteed the FPL Energy subsidiary's obligations under the agreement, which are included in the $966 million of guarantees discussed above. The equity holder controls the lessor. The lessor has represented that it has essentially no assets or obligations other than the equipment under construction and the related debt and that total assets, total liabilities and equity of the SPE at December 31, 2001 were $41.7 million, $40.4 million and $1.3 million, respectively.

Insurance — Liability for accidents at nuclear power plants is governed by the Price-Anderson Act, which limits the liability of nuclear reactor owners to the amount of the insurance available from private sources and under an industry retrospective payment plan. In accordance with this Act, FPL maintains $200 million of private liability insurance, which is the maximum obtainable, and participates in a secondary financial protection system under which it is subject to retrospective assessments of up to $363 million per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $43 million per incident per year.

FPL participates in nuclear insurance mutual companies that provide $2.75 billion of limited insurance coverage for property damage, decontamination and premature decommissioning risks at its nuclear plants. The proceeds from such insurance, however, must first be used for reactor stabilization and site decontamination before they can be used for plant repair. FPL also participates in an insurance program that provides limited coverage for replacement power costs if a nuclear plant is out of service because of an accident. In the event of an accident at one of FPL's or another participating insured's nuclear plants, FPL could be assessed up to $71 million in retrospective premiums.

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

FPL self-insures the majority of its transmission and distribution (T&D) property due to the high cost and limited coverage available from third-party insurers. As approved by the FPSC, FPL maintains a funded storm and property insurance reserve, which totaled approximately $235 million at December 31, 2001, for uninsured property storm damage or assessments under the nuclear insurance program. Recovery from customers of any losses in excess of the storm and property insurance reserve will require the approval of the FPSC. FPL's available lines of credit provide additional liquidity in the event of a T&D property loss. See Note 8.

Contracts — FPL Group has a long-term agreement for the supply of gas turbines through 2004 and for parts, repairs and on-site services through 2011, some of which have been assigned to the SPE that is funding the construction of turbines. See Off-Balance Sheet Financing Arrangements. In addition, FPL Energy has entered into various engineering, procurement and construction contracts to support its development activities through 2004. All of these contracts are intended to support expansion, primarily at FPL Energy, and the related commitments are included in Commitments above.

FPL has entered into long-term purchased power and fuel contracts. Take-or-pay purchased power contracts with the Jacksonville Electric Authority (JEA) and with subsidiaries of The Southern Company (Southern Companies) provide approximately 1,300 mw of power through mid-2010 and 388 mw thereafter through 2021. FPL also has various firm pay-for-performance contracts to purchase approximately 900 mw from certain cogenerators and small power producers (qualifying facilities) with expiration dates ranging from 2002 through 2026. The purchased power contracts provide for capacity and energy payments. Energy payments are based on the actual power taken under these contracts and the Southern Companies' contract is subject to minimum quantities. Capacity payments for the pay-for-performance contracts are subject to the qualifying facilities meeting certain contract conditions. In 2001, FPL entered into agreements with several electricity suppliers to purchase an aggregate of up to approximately 1,300 mw of power with expiration dates ranging from 2003 through 2007. In general, the agreements require FPL to make capacity payments and supply the fuel consumed by the plants under the contracts. FPL has medium- to long-term contracts for the transportation and supply of natural gas, coal and oil with various expiration dates through 2022. FPL Energy has long-term contracts for the transportation and supply of natural gas with expiration dates ranging from 2005 through 2017, and a contract for the supply of natural gas that expires in mid-2002.

The required capacity and minimum payments through 2006 under these contracts are estimated to be as follows:

(millions)	2002	2003	2004	2005	2006
FPL:					
Capacity payments:					
JEA and Southern Companies	$190	$190	$190	$190	$200
Qualifying facilities	$340	$350	$360	$360	$310
Other electricity suppliers	$ 80	$100	$100	$ 45	$ 35
Minimum payments, at projected prices:					
Southern Companies — energy	$ 50	$ 60	$ 50	$ 60	$ 60
Natural gas, including transportation	$580	$240	$200	$200	$180
Coal	$ 40	$ 25	$ 15	$ 15	$ 10
Oil	$375	$ —	$ —	$ —	$ —
FPL Energy:					
Natural gas transportation	$ 20	$ 20	$ 15	$ 15	$ 15

Charges under these contracts were as follows:

(millions)	**2001 Charges**		2000 Charges		1999 Charges	
	Capacity	Energy/ Fuel	Capacity	Energy/ Fuel	Capacity	Energy/ Fuel
FPL:						
JEA and Southern Companies	$197[a]	$169[b]	$198[a]	$153[b]	$186[a]	$132[b]
Qualifying facilities	$314[c]	$124[b]	$318[c]	$135[b]	$319[c]	$121[b]
Other electricity suppliers	$ 25[c]	$ 6[b]	$ —	$ —	$ —	$ —
Natural gas, including transportation	$ —	$763[b]	$ —	$567[b]	$ —	$373[b]
Coal	$ —	$ 49[b]	$ —	$ 50[b]	$ —	$ 43[b]
Oil	$ —	$294[b]	$ —	$354[b]	$ —	$115[b]
FPL Energy:						
Natural gas, including transportation and storage	$ —	$ 17	$ —	$ 17	$ —	$ 16

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

Litigation — In 1999, the Attorney General of the United States, on behalf of the U.S. Environmental Protection Agency (EPA), brought an action against Georgia Power Company and other subsidiaries of The Southern Company for certain alleged violations of the Clean Air Act. In May 2001, the EPA amended its complaint. The amended complaint alleges, among other things, that Georgia Power Company constructed and is continuing to operate Scherer Unit No. 4, in which FPL owns a 76% interest, without obtaining proper permitting, and without complying with performance and technology standards as required by the Clean Air Act. It also alleges that unspecified major modifications have been made at Scherer Unit No. 4 that require its compliance with the aforementioned Clean Air Act provisions. The EPA seeks injunctive relief requiring the installation of best available control technology and civil penalties of up to $25,000 per day for each violation from an unspecified date after June 1, 1975 through January 30, 1997, and $27,500 per day for each violation thereafter. Georgia Power Company has answered the amended complaint, asserting that it has complied with all requirements of the Clean Air Act, denying the plaintiff's allegations of liability, denying that the plaintiff is entitled to any of the relief that it seeks and raising various other defenses. In June 2001, a federal district court stayed discovery and administratively closed the case pending resolution of the EPA's motion for consolidation of discovery in several Clean Air Act cases that was filed with a Multi-District Litigation (MDL) panel. In August 2001, the MDL panel denied the motion for consolidation. In September 2001, the EPA moved that the federal district court reopen this case for purposes of discovery. Georgia Power Company has opposed that motion asking that the case remain closed until the Eleventh Circuit Court of Appeals rules on the Tennessee Valley Authority's appeal of an EPA administrative order relating to legal issues that are also central to this case. The federal district court has not yet ruled upon the EPA's motion to reopen.

In 2000, Southern California Edison Company (SCE) filed with the FERC a Petition for Declaratory Order (petition) asking the FERC to apply a November 1999 federal circuit court of appeals' decision to all qualifying small power production facilities, including two solar facilities operated by partnerships indirectly owned in part by FPL Energy (the partnerships) which have power purchase agreements with SCE. The federal circuit court of appeals' decision invalidated the FERC's so-called essential fixed assets standard, which permitted uses of fossil fuels by qualifying small power production facilities beyond those expressly set forth in PURPA. The petition requests that the FERC declare that qualifying small power production facilities may not continue to use fossil fuel under the essential fixed assets standard and that they may be required to make refunds with respect to past usage. In August 2000, the partnerships filed motions to intervene and protest before the FERC, vigorously objecting to the position taken by SCE in its petition. The partnerships contend that they have always operated the solar facilities in accordance with certification orders issued to them by the FERC. Such orders were neither challenged nor appealed at the time they were granted, and it is the position of the partnerships that the orders remain in effect. Briefing in this proceeding is complete and the parties are currently awaiting a final determination from the FERC. In June 2001, SCE and the partnerships entered into an agreement that provides, among other things, that SCE and the partnerships will take all necessary steps to suspend or stay, during a specified period of time, the proceeding initiated by the petition. The agreement is conditioned upon, among other things, completion of SCE's financing plan. The agreement provides that, if the conditions of the agreement are satisfied, then SCE and each of the partnerships agree to release and discharge each other from any and all claims of any kind arising from either parties' performance under the power purchase agreements. Such a release would include release of the claim made by SCE in the petition for refunds with respect to past usage. For subsequent events, see Note 18 — Litigation.

In 2001, J. W. and Ernestine M. Thomas, Chester and Marie Jenkins, and Ray Norman and Jack Teague, as Co-Personal Representatives on behalf of the Estate of Robert L. Johns, filed suit against FPL Group, FPL, FPL FiberNet LLC, FPL Group Capital and FPL Investments, Inc. in the Florida circuit court. This action is purportedly on behalf of all property owners in Florida (excluding railroad and public rights of way) whose property is encumbered by easements in favor of defendants, and on whose property defendants have installed or intend to install fiber-optic cable which defendants currently lease, license or convey or intend to lease, license or convey for non-electric transmission or distribution purposes. The lawsuit alleges that FPL's easements do not permit the installation and use of fiber-optic cable for general communication purposes. The plaintiffs have asserted claims for unlawful detainer, unjust enrichment and constructive trust and seek injunctive relief and compensatory damages. In December 2001, all defendants filed a motion to dismiss the complaint for, among other things, the failure to state a valid cause of action.

In January 2002, Roy Oorbeek and Richard Berman filed suit against FPL Group (as an individual and nominal defendant); its current and certain former directors; and certain current and former officers of FPL Group and FPL, including James L. Broadhead, Lewis Hay III, Dennis P. Coyle, Paul J. Evanson and Lawrence J. Kelleher. The lawsuit alleges that the proxy statements relating to shareholder approval of FPL Group's Long Term Incentive Plan (LTIP) and its proposed, but unconsummated, merger with Entergy were false and misleading because they did not affirmatively state that payments made to certain officers under FPL Group's LTIP upon shareholder approval of the merger would be retained by the officers even if the merger with Entergy was not consummated and did not state that under some circumstances payments made pursuant to FPL Group's LTIP might not be deductible by FPL Group for federal income tax purposes. It also alleges that FPL Group's LTIP required either consummation of the merger as a condition to the payments or the return of the payments if the transaction did not close, and that the actions of the director defendants in approving the proxy statements, causing the payments to be made, and failing to demand their return constitute corporate waste. The plaintiffs seek to have the shareholder votes approving FPL Group's LTIP and the merger declared null and void, the return to FPL Group of the payments received by the officers, compensatory damages from the individual defendants and attorneys' fees. The defendants intend to file a motion to dismiss the complaint or stay the proceeding for failure to make a demand, as required by the Florida Business Corporation Act, that the board of directors of FPL Group take action with respect to the matters alleged in the complaint. FPL Group's board of directors has established a special committee to investigate a demand by another shareholder that the board take action to obtain the return of the payments made to the officers.

FPL Group believes that it has meritorious defenses to the pending litigation discussed above and is vigorously defending the suits. Accordingly, management believes the liabilities, if any, arising from the proceedings are not anticipated to have a material adverse effect on their financial statements.

16. Segment Information

FPL Group's reportable segments include FPL, a rate-regulated utility, and FPL Energy, a non-rate regulated energy generating subsidiary. Corporate and Other represents other business activities, other segments that are not separately reportable and eliminating entries. Operating revenues derived from the sale of electricity represented approximately 97%, 97% and 98% of FPL Group's operating revenues in 2001, 2000 and 1999, respectively. Less than 1% of operating revenues were from foreign sources for each of the three years ended December 31, 2001. At December 31, 2001 and 2000, less than 1% of long-lived assets were located in foreign countries.

Segment information is as follows:

(millions)	**2001**				2000				1999			
	FPL	FPL Energy[a]	Corp. and Other	Total	FPL	FPL Energy[a]	Corp. and Other	Total	FPL	FPL Energy[a]	Corp. and Other	Total
Operating revenues	$ 7,477	$ 869	$129	$ 8,475	$ 6,361	$ 632	$ 89	$ 7,082	$ 6,057	$ 323	$ 58	$ 6,438
Interest charges	$ 187	$ 74	$ 63	$ 324	$ 176	$ 67	$ 35	$ 278	$ 163	$ 44	$ 15	$ 222
Depreciation and amortization	$ 898	$ 77	$ 8	$ 983	$ 975	$ 50	$ 7	$ 1,032	$ 989	$ 34	$ 17	$ 1,040
Equity in earnings of equity method investees	$ —	$ 81	$ —	$ 81	$ —	$ 45	$ —	$ 45	$ —	$ 50	$ —	$ 50
Income tax expense (benefit)	$ 383	$ 25	$ (29)	$ 379	$ 341	$ 36	$ (41)	$ 336	$ 324	$ (42)	$ 41	$ 323
Net income (loss)[b][c]	$ 679	$ 113[d]	$ (11)	$ 781	$ 607	$ 82	$ 15	$ 704	$ 576	$ (46)	$167	$ 697
Significant noncash items	$ 70	$ —	$ —	$ 70	$ (57)	$ —	$100	$ 43	$ 86	$ —	$ —	$ 86
Capital expenditures and investments	$ 1,154	$1,977	$131	$ 3,262	$ 1,299	$ 507	$ 90	$ 1,896	$ 924	$1,540	$ 15	$ 2,479
Total assets	$11,924	$4,957	$582	$17,463	$12,020	$2,679	$601	$15,300	$10,608	$2,212	$621	$13,441
Investment in equity method investees	$ —	$ 276	$ —	$ 276	$ —	$ 196	$ —	$ 196	$ —	$ 166	$ —	$ 166

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

(b) Includes merger-related expense recognized in 2001 and 2000 totaling $19 million after-tax and $41 million after-tax, respectively, of which $16 million and $38 million was recognized by FPL, none and $1 million by FPL Energy and $3 million and $2 million by Corporate and Other (see Note 11).

(c) The following nonrecurring items affected 1999 net income: FPL settled litigation for $42 million after-tax (see Note 12); FPL Energy recorded $104 million after-tax impairment loss (see Note 13); and Corporate and Other divested its cable investments resulting in a $162 million after-tax gain (see Note 14).

(d) Includes an $8 million net positive effect of applying FAS 133.

17. Summarized Financial Information of FPL Group Capital

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

Condensed Consolidating Statements of Income

(millions) Years ended December 31,	2001				2000				1999			
	FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consolidated
Operating revenues	$ —	$999	$7,476	$8,475	$ —	$721	$6,361	$7,082	$ —	$380	$6,058	$6,438
Operating expenses	—	(879)	(6,199)	(7,078)	—	(632)	(5,210)	(5,842)	—	(533)	(4,985)	(5,518)
Interest charges	(29)	(136)	(159)	(324)	(31)	(102)	(145)	(278)	(32)	(59)	(131)	(222)
Divestiture of cable investments	—	—	—	—	—	—	—	—	—	257	—	257
Other income (deductions) — net	788	147	(848)	87	726	135	(783)	78	712	108	(755)	65
Income before income taxes	759	131	270	1,160	695	122	223	1,040	680	153	187	1,020
Income tax expense (benefit)	(22)	18	383	379	(9)	4	341	336	(17)	15	325	323
Net income (loss)	$781	$113	$ (113)	$ 781	$704	$118	$ (118)	$ 704	$697	$138	$ (138)	$ 697

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Balance Sheets

(millions) December 31,	2001				2000			
	FPL Group	FPL Group Capital	Other[a]	FPL Group Consolidated	FPL Group	FPL Group Capital	Other[a]	FPL Group Consolidated
PROPERTY, PLANT AND EQUIPMENT								
Electric utility plant in service and other property	$ —	$3,606	$19,782	$23,388	$ —	$1,984	$19,038	$21,022
Less accumulated depreciation and amortization	—	(246)	(11,480)	(11,726)	—	(170)	(10,918)	(11,088)
Total property, plant and equipment — net	—	3,360	8,302	11,662	—	1,814	8,120	9,934
CURRENT ASSETS								
Cash and cash equivalents	—	81	1	82	12	51	66	129
Receivables	7	442	331	780	56	418	409	883
Other	—	114	626	740	—	66	703	769
Total current assets	7	637	958	1,602	68	535	1,178	1,781
OTHER ASSETS								
Investment in subsidiaries	6,485	—	(6,485)	—	5,967	—	(5,967)	—
Other	108	2,066	2,025	4,199	141	1,365	2,079	3,585
Total other assets	6,593	2,066	(4,460)	4,199	6,108	1,365	(3,888)	3,585
TOTAL ASSETS	$6,600	$6,063	$ 4,800	$17,463	$6,176	$3,714	$ 5,410	$15,300
CAPITALIZATION								
Common shareholders' equity	$6,015	$1,040	$ (1,040)	$ 6,015	$5,593	$ 935	$ (935)	$ 5,593
Preferred stock of FPL without sinking fund requirements	—	—	226	226	—	—	226	226
Long-term debt	—	2,279	2,579	4,858	—	1,400	2,576	3,976
Total capitalization	6,015	3,319	1,765	11,099	5,593	2,335	1,867	9,795
CURRENT LIABILITIES								
Accounts payable and short-term debt	—	1,815	640	2,455	—	705	1,017	1,722
Other	484	284	416	1,184	467	186	388	1,041
Total current liabilities	484	2,099	1,056	3,639	467	891	1,405	2,763
OTHER LIABILITIES AND DEFERRED CREDITS								
Accumulated deferred income taxes and unamortized tax credits	—	513	1,017	1,530	—	399	1,248	1,647
Other	101	132	962	1,195	116	89	890	1,095
Total other liabilities and deferred credits	101	645	1,979	2,725	116	488	2,138	2,742
COMMITMENTS AND CONTINGENCIES								
TOTAL CAPITALIZATION AND LIABILITIES	$6,600	$6,063	$ 4,800	$17,463	$6,176	$3,714	$ 5,410	$15,300

(a) Represents FPL and consolidating adjustments.

Condensed Consolidating Statements of Cash Flows

(millions) Years ended December 31,	**2001**				2000				1999			
	FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consolidated	FPL Group	FPL Group Capital	Other[(a)]	FPL Group Consolidated
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$769	$ 15	$1,158	$1,942	$959	$159	$ (142)	$ 976	$594	$ 56	$913	$1,563
CASH FLOWS FROM INVESTING ACTIVITIES												
Capital expenditures and independent power investments	—	(1,977)	(1,154)	(3,131)	—	(507)	(1,299)	(1,806)	—	(1,540)	(861)	(2,401)
Capital contributions to FPL Group Capital and FPL	(400)	—	400	—	(418)	—	418	—	(127)	—	127	—
Other — net	(4)	(59)	(75)	(138)	3	(34)	(106)	(137)	(18)	313	(66)	229
Net cash used in investing activities	(404)	(2,036)	(829)	(3,269)	(415)	(541)	(987)	(1,943)	(145)	(1,227)	(800)	(2,172)
CASH FLOWS FROM FINANCING ACTIVITIES												
Issuances of long-term debt	—	920	—	920	—	—	947	947	—	1,385	224	1,609
Retirements of long-term debt	—	(21)	(66)	(87)	—	—	(515)	(515)	—	(130)	(454)	(584)
Increase (decrease) in short-term debt	—	1,152	(328)	824	—	353	466	819	—	135	94	229
Capital contributions from FPL Group	—	—	—	—	—	18	(18)	—	—	127	(127)	—
Repurchases of common stock	—			—	(150)	—	—	(150)	(116)	—	—	(116)
Dividends	(377)	—	—	(377)	(366)	(314)	314	(366)	(355)	—	—	(355)
Net cash provided by (used in) financing activities	(377)	2,051	(394)	1,280	(516)	57	1,194	735	(471)	1,517	(263)	783
Net increase (decrease) in cash and cash equivalents	(12)	30	(65)	(47)	28	(325)	65	(232)	(22)	346	(150)	174
Cash and cash equivalents at beginning of year	12	51	66	129	(16)	376	1	361	6	30	151	187
Cash and cash equivalents at end of year	$ —	$ 81	$ 1	$ 82	$ 12	$ 51	$ 66	$ 129	$ (16)	$ 376	$ 1	$ 361

(a) Represents FPL and consolidating adjustments.

18. Subsequent Events

Base Rate Proceeding — On March 22, 2002, the FPSC approved an agreement regarding FPL's retail base rates. The new rate agreement resolves all matters in FPL's base rate proceeding and will be effective April 15, 2002 through December 31, 2005.

The new rate agreement provides for an additional $250 million annual reduction in retail base revenues allocated to all customers by reducing customers' rates by approximately 7%. Accordingly, for the period April 15 through December 31, 2002, the effect of the rate reduction on revenues is estimated to be $178 million. Additionally, the new rate agreement continues the revenue sharing mechanism in FPL's current rate agreement, whereby revenues from retail base operations in excess of a stated threshold will be shared with customers on the basis of two-thirds refunded to customers and one-third retained by FPL. Revenues from retail base operations in excess of a second threshold will be refunded 100% to customers. The refund thresholds are as follows:

(millions) Years ended December 31,	2002(a)	2003	2004	2005
66⅔% to customers	$3,580	$3,680	$3,780	$3,880
100% to customers	$3,740	$3,840	$3,940	$4,040

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

In addition to the reduction in retail base revenues, the new rate agreement specifies that FPL will effect a $200 million reduction of fuel clause recoveries for the remainder of calendar year 2002 effective April 15, 2002, based on projected over-recoveries under the current fuel clause charges. The fuel clause will continue to operate as normal, including but not limited to any additional mid-course adjustments that may become necessary and the calculation of true-ups to actual fuel clause expenses.

Under the terms of the new rate agreement, depreciation may be reduced on FPL's generating plants by up to $125 million annually, and FPL's petition for an increase in the storm fund will be withdrawn.

The revenue sharing mechanism described above will be the appropriate and exclusive mechanism to address earnings levels. However, if FPL's regulatory return on equity, as reported in FPL's monthly earnings surveillance report, falls below 10% during the term of the new rate agreement, FPL may petition the FPSC to amend its base rates. The new rate agreement would terminate on the effective date of any final order issued in a proceeding that changes FPL's base rates. See Note 1 — Revenue and Rates.

RTO — In March 2002, FPL filed a modified RTO proposal with the FPSC changing the structure from a for-profit transmission company to a non-profit independent system operator (ISO). Under the proposal, FPL would continue to own the transmission lines and the ISO would manage them. See Note 1 — Regulation.

Income Taxes — In March 2002, the IRS conceded the issues being challenged by FPL Group related to the amount of the deductible loss from the disposition of an FPL Group Capital subsidiary in a prior year. Accordingly, FPL Group will recognize approximately $30 million of net tax benefits in the first quarter of 2002. See Note 9.

Litigation — On March 8, 2002, William M. Klein, by Stephen S. Klein under power of attorney, on behalf of himself and all others similarly situated, filed suit against FPL Group (as nominal defendant); its current and certain former directors; and certain current and former officers of FPL Group and FPL, including James L. Broadhead, Paul J. Evanson, Lewis Hay III and Dennis P. Coyle. The lawsuit alleges that the payments made to certain officers under FPL Group's LTIP upon shareholder approval of the proposed merger with Entergy were improper and constituted corporate waste because the merger was not consummated. The suit alleges that the LTIP required consummation of the merger as a condition to the payments. The plaintiff seeks the return to FPL Group of the payments received by the officers; contribution, restitution and/or damages from the individual defendants; and attorneys' fees. The plaintiff had made a demand in January 2002 that the directors of FPL Group take action to obtain the return of the payments to the officers. The plaintiff was promptly notified that this demand was being referred to a special committee of FPL Group's board of directors that was established to investigate a demand by another shareholder that the board take action to obtain the return of the payments made to the officers. The defendants intend to file a motion to stay this lawsuit pending the outcome of the special committee's investigation. FPL Group believes that it has meritorious defenses to the pending litigation discussed above and is vigorously defending this suit. Accordingly, management does not anticipate that the liabilities, if any, arising from this proceeding would have a material adverse effect on the financial statements.

Also in March 2002, the conditions of the June 2001 agreement between SCE and the partnerships were fully satisfied. See Note 15 — Litigation.

19. Quarterly Data (Unaudited)

Condensed consolidated quarterly financial information is as follows:

(millions, except per share amounts)	2001				2000			
	March 31(a)	June 30(a)	September 30(a)	December 31(a)	March 31(a)	June 30(a)	September 30(a)	December 31(a)
Operating revenues	$1,941	$2,166	$2,529	$1,839	$1,468	$1,670	$2,087	$1,857
Operating income	$ 240(b)	$ 380	$ 540	$ 237	$ 237	$ 347	$ 511	$ 145(b)
Net income	$ 110(b)(c)	$ 219(c)	$ 334(c)	$ 118(c)	$ 121	$ 204	$ 314	$ 65(b)
Earnings per share:(d)								
Basic	$ 0.65(b)(c)	$ 1.30(c)	$ 1.98(c)	$ 0.70(c)	$ 0.71	$ 1.20	$ 1.85	$ 0.39(b)
Assuming dilution	$ 0.65(b)(c)	$ 1.30(c)	$ 1.98(c)	$ 0.70(c)	$ 0.71	$ 1.20	$ 1.84	$ 0.38(b)
Dividends per share	$ 0.56	$ 0.56	$ 0.56	$ 0.56	$ 0.54	$ 0.54	$ 0.54	$ 0.54
High-low common stock sales prices	$71.63-54.81	$63.15-54.55	$60.50-51.21	$57.28-52.16	$48.25-36.38	$50.81-41.81	$67.13-47.13	$73.00-59.38

(a) In the opinion of FPL Group, all adjustments, which consist of normal recurring accruals necessary to present a fair statement of the amounts shown for such periods, have been made. Results of operations for an interim period may not give a true indication of results for the year.
(b) Includes merger-related expenses.
(c) Includes the net effects of applying FAS 133.
(d) The sum of the quarterly amounts may not equal the total for the year due to rounding.

Board of Directors

From left:

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

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

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

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

Frederic V. Malek
Chairman, Thayer Capital Partners (merchant bank) *Director since 1987. Chairman benefits committee. Member executive committee, finance committee.*

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

Alexander W. Dreyfoos, Jr.
Owner and Chief Executive Officer, The Dreyfoos Group/ Photo Electronics Corporation (electronic equipment developer) *Director since 1997. Member audit committee, finance committee, governance committee.*

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

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

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

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

Officers

FPL Group, Inc.

Lewis Hay III
Chairman, President and Chief Executive Officer

Dennis P. Coyle
General Counsel and Secretary

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

K. Michael Davis
Controller and Chief Accounting Officer

James P. Higgins
Vice President, Tax

Lawrence J. Kelleher
Vice President, Human Resources

Mary Lou Kromer
Vice President Corporate Communications

Florida Power & Light Company

Lewis Hay III
Chairman and Chief Executive Officer

Paul J. Evanson
President

Dennis P. Coyle
General Counsel and Secretary

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

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

Armando J. Olivera
Senior Vice President, Power Systems

Antonio Rodriguez
Senior Vice President Power Generation Division

John A. Stall
Senior Vice President, Nuclear Division

FPL Energy, LLC

Lewis Hay III
Chairman and Chief Executive Officer

Ronald F. Green
President

Michael L. Leighton
Senior Vice President and Chief Operating Officer

Mark Maisto
President, Power Marketing, Inc.

Robert L. McGrath
Vice President, Finance

Michael O'Sullivan
Senior Vice President, Development

FPL FiberNet, LLC

Neil Flynn
President

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Exchange Listings
Common Stock
New York Stock Exchange
Ticker Symbol: FPL

Options
Philadelphia Stock Exchange

Newspaper Listing
Common Stock: FPL Gp

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FPL Preferred Stock
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Nashville, TN 37230-5050
(800) 735-7777

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

Direct Deposit of Dividends
Cash dividends may be deposited directly to personal accounts at financial institutions. Direct deposit expedites payments and eliminates lost checks. Call EquiServe for authorization forms.

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

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

Dividend Reinvestment Plan
FPL Group offers a low-cost plan for holders of common stock and FPL preferred stock to reinvest their dividends or make optional cash payments for the purchase of additional common stock. Enrollment materials may be obtained by calling EquiServe.

Online Investor Information
Up-to-the-minute information on FPL Group and its subsidiaries is just a mouse click away, 24 hours a day, seven days a week. Visit our expanded investor information site at **www.investor.fplgroup.com** to get stock quotes, earnings reports, financial releases and other news. You can also request and receive information via e-mail. Shareholders of record can receive secure online account access through a link to our transfer agent, EquiServe.

Electronic Proxy Material
Registered shareholders may receive proxy materials electronically by contacting www.econsent.com/fpl. Beneficial shareholders should contact their brokerage firm to determine the availability of electronic proxy material distribution.

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

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Miami, FL 33131-2310

Form 10-K
The Form 10-K annual report for 2001 as filed with the Securities and Exchange Commission is available without charge by writing to FPL Group, Shareholder Services.

Annual Meeting
May 24, 2002, 10 a.m.
PGA National Resort
400 Avenue of the Champions
Palm Beach Gardens, FL

Proposed 2002 Common Stock Dividend Dates*

Declaration	Ex-Dividend	Record	Payment
February 11	February 20	February 22	March 15
May 24	June 5	June 7	June 17
August 16	August 28	August 30	September 16
October 18	November 26	November 29	December 16

Optional Cash Payment Dates

Qtr./Yr.	Acceptance begins	Must be received by
2nd/02	May 15	June 10
3rd/02	August 15	September 9
4th/02	November 15	December 9
1st/03	February 14	March 10

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

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

This annual report is dedicated to our nearly 11,000 employees, like Sanford Plant Manager Roxane Kennedy, who appears on the cover. Our people, our strength and our spirit make us one of the premier investor-owned electric companies in the nation. Despite a rather tumultuous year for the electric industry, FPL Group produced record financial results in 2001. We're financially strong and well positioned for future growth.

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