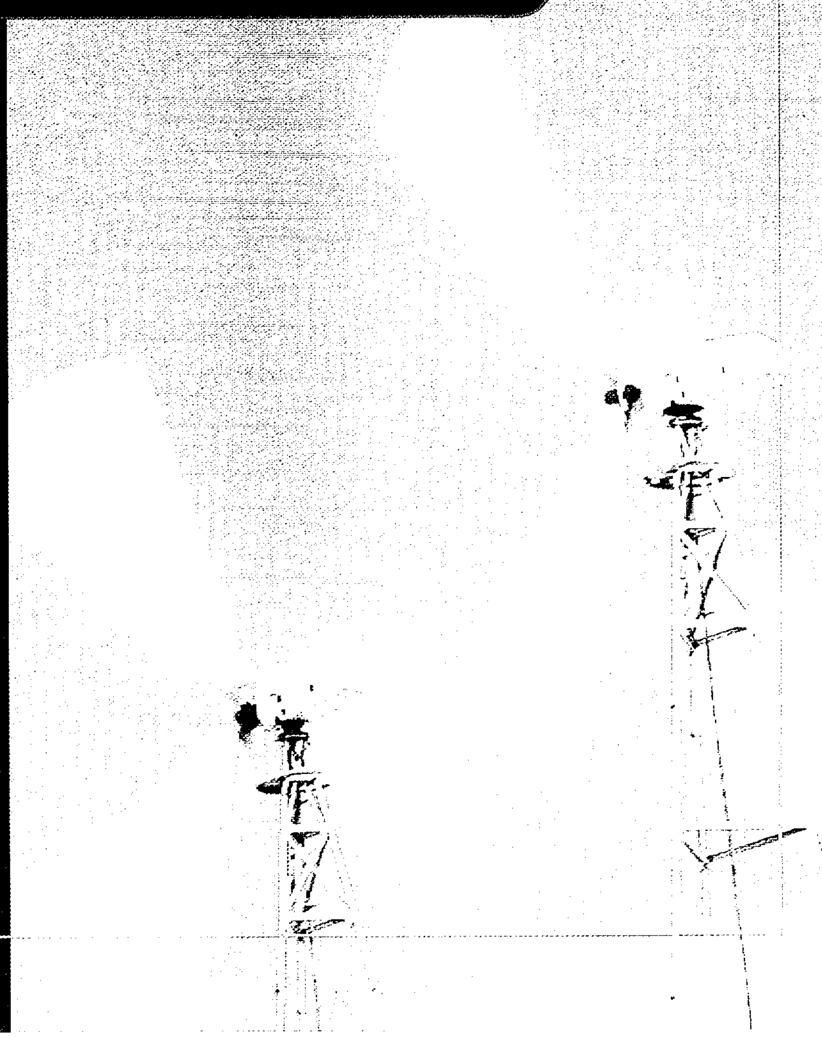
FPL Group

INSIDE:

Why FPL Group is America's most admired electric utility

Generating growth through FPL Energy

Electric service: more than just power & light



FPL Group

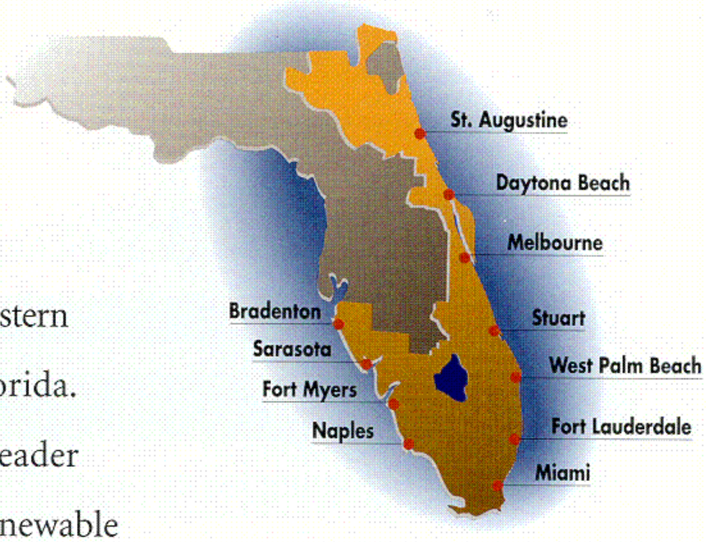
Highlights

(Dollars in millions, except per share amounts)

For the Years Ended December 31,	1997	1996	% Change
Financial Results			
Operating Revenues	**$6,369**	$6,037	5.5
Operating Income	**$1,228**	$1,171	4.9
Net Income	**$618**	$579	6.7
Earnings Per Share (basic and assuming dilution)	**$3.57**	$3.33	7.2
Cash Flow from Operating Activities	**$1,597**	$1,592	0.3
Total Assets	**$12,449**	$12,219	1.9
Common Stock Data			
Average Shares Outstanding (millions)	**173**	174	(0.6)
Dividends Per Share	**$1.92**	$1.84	4.3
Book Value Per Share	**$28.03**	$26.46	5.9
Market Price Per Share (high-low)	**$60 - 42 5/8**	$48 1/8 - 41 1/2	
Operating Data			
Energy Sales (millions kwh)*	**82,734**	80,889	2.3
Customer Accounts (average; thousands)*	**3,616**	3,551	1.8
Employees (year end)	**10,039**	10,250	(2.4)

*Florida Power & Light Company

FPL Group is one of the country's largest providers of electricity-related services. Its principal subsidiary, Florida Power & Light Company, serves more than seven million people along the eastern seaboard and the southern portion of Florida. Other operations include FPL Energy, a leader in producing electricity from clean and renewable fuels. FPL Energy has projects in 11 states and abroad.



Florida Power & Light Company Service Territory

FPL GROUP

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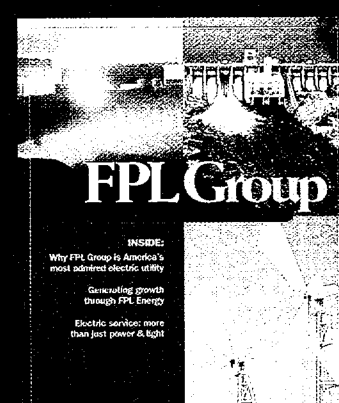
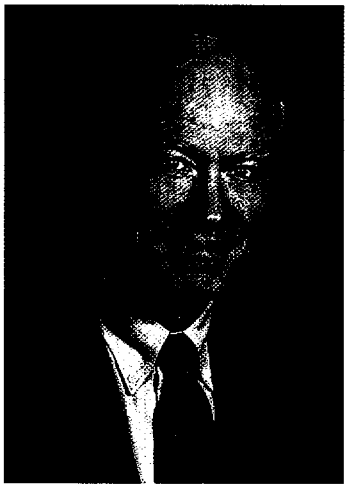
FINANCIAL REVIEW



ON THE COVER:
FPL Group is one of the largest generators of power from clean fuels, including geothermal (top left: Reno, Nevada), wind (lower right: Altamont Pass, California) and natural gas. Plans to acquire hydro plants in Maine (top right) complement the company's environmentally-favored generation portfolio.

Focus On The Future



James L. Broadhead

Nineteen-ninety-seven was an excellent year for FPL Group. We strengthened our core business, Florida Power & Light Company, significantly expanded our role in the power business outside of Florida, and achieved record financial results. As a consequence, we are increasingly being recognized as a premier company, and our shareholders continue to be rewarded with superior returns.

RECORD FINANCIAL RESULTS

Net income reached a record $618 million, and earnings per share increased 7.2% from $3.33 to $3.57. For the fourth consecutive year, we achieved strong positive cash flow. This enabled us to retire more than $560 million of debt and preferred stock, repurchase more than a million shares of common stock, and invest more than $840 million in new growth opportunities, both in Florida and elsewhere.

The common stock of FPL Group continued to be an excellent investment with a total return (dividends plus stock price appreciation) substantially better than the Dow Jones Electric Utilities Index. Since we began restructuring our company in 1990, the annualized total return to our shareholders has been 17.1%, well in excess of the 12.5% return reported by the Index.

CHANGING ELECTRIC UTILITY INDUSTRY

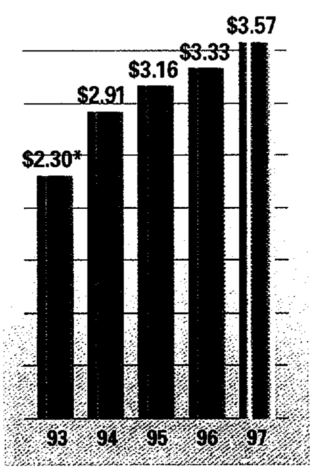
The 1990s has been a time of change and uncertainty for the electric power business. Federal legislation has created new rules governing the generation and transmission of electricity, and several states have begun to restructure their traditional vertically-integrated utilities.

Throughout this period we have consistently followed a two-part strategy to enhance shareholder value. First, ensure the continued success of Florida Power & Light by reducing its costs, improving its quality and customer focus, and increasing its speed and flexibility. Second, invest outside of FPL's service territory in opportunities created by the changing business environment. These opportunities favor efficient power producers, especially those with demonstrated skills in environmentally-favored technologies. Our successes in both these strategic areas continued in 1997.

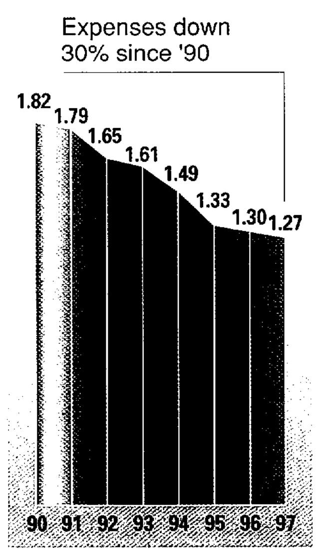
ACHIEVEMENTS OF FLORIDA POWER & LIGHT

By most measures, Florida Power & Light achieved strong operating performance in 1997.

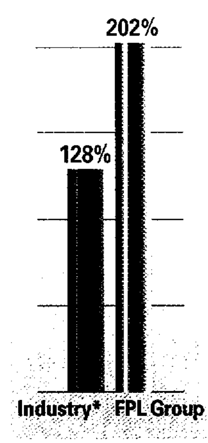
■ Operating and maintenance costs per kilowatt-hour declined for the seventh consecutive year. Since 1990, we have reduced these expenses by 30%.



Earnings Per Share
*(basic and assuming dilution; *includes $0.45 charge)*



Operating and Maintenance Expenses
Florida Power & Light Company
(cents per kilowatt-hour)



Total Return 1990-97
*(*Dow Jones Electric Utilities Index)*

■ Our successes in controlling costs enabled us to maintain electric rates well below the national average. FPL's rates are now 11% below their level in 1985.

■ Availability of our fossil plants reached an all-time record of 93%, well above the industry average.

■ Nuclear plant availability was 85%, significantly higher than the industry average and an extraordinary performance in light of four refueling outages and a complex steam generator replacement at St. Lucie Unit 1.

■ Our employees at St. Lucie achieved notable improvements in nuclear plant operation, regulatory performance, and cost control. At the same time, the plant's two nuclear units combined to set a record of 147 days of continuous operation. This performance was especially gratifying since, as I mentioned in last year's letter, improvements at St. Lucie were a top priority.

■ As a result of the high performance of our nuclear and fossil generating plants, we were able to meet four all-time record summer peak demands.

■ One area in which we fell short during 1997 was the reliability of our distribution system. This was reflected in more frequent and longer outages and somewhat reduced customer ratings of our performance. We recognized these shortfalls early in the year and began implementing a comprehensive plan to return the quality and reliability of our electric service to levels our customers have come to expect. We have made reliability a top priority and expect substantial improvements in 1998 and beyond.

In its March 2, 1998 issue, *FORTUNE* magazine ranked FPL Group first among electric and gas utilities in the magazine's annual survey of America's most admired companies. *FORTUNE* described FPL Group as "...the brightest light in utilities."

■ We expanded our conservation and load management programs, which now provide us the ability to reduce peak electric demand by nearly 2,500 megawatts, or the equivalent of five large generating units.

■ FPL entered into a new contract with the International Brotherhood of Electrical Workers extending through 2000. This allows us to provide competitive wages and benefits, while improving work flexibility and efficiency.

GROWTH OUTSIDE OF FLORIDA

Our operations outside Florida represent the most rapidly growing part of our business. To oversee our expanding domestic and international participation in the energy business, we formed early this year a new company – FPL Energy, Inc. – to consolidate these operations.

FPL Energy encompasses the assets owned by ESI Energy, Inc. and FPL Group International, as well as two generation plants recently acquired in the northeastern United States. It currently has plants in operation or under construction in 11 states, making it the nation's second largest independent power producer. FPL Energy also owns generating plants in Colombia and the United Kingdom.

Earlier this year, we announced our agreement to purchase the hydro, fossil, and biomass generating plants of Maine's largest utility, Central Maine Power. These assets – and generating assets purchased in Massachusetts and New Jersey – will provide an opportunity for FPL Energy to participate in one of the country's most attractive markets for generation.

The acquisitions also will enhance FPL Energy's position as a leader in environmentally-favored generation. With the completion of the Central Maine Power transaction, about 80% of the fuels FPL Energy uses to generate electricity will be "clean" fuels, including natural gas, hydro, geothermal, wind, and solar. FPL Energy is, in fact, already the world's largest generator of electricity using wind and solar.

FPL and FPL Energy combine to make FPL Group one of the largest generators of electricity in the United States and a preeminent clean-fuel energy provider.

A COMMITMENT TO SHAREHOLDER VALUE

Our unwavering objective is to increase shareholder value, and in 1997 we continued to demonstrate success in that endeavor. In addition, we made investments and improvements in Florida Power & Light and FPL Energy that will allow us to satisfy the growing demand for electricity in FPL's service territory and achieve profitable growth in other attractive market areas.

Our actions have been favorably recognized by the financial and business community, as once again more analysts recommended our stock than any other electric utility. Also, in its March 2, 1998 issue, *FORTUNE* magazine ranked FPL Group first among electric and gas utilities in the magazine's annual survey of America's most admired companies. The top companies in their respective industries were evaluated on eight key attributes: innovation, quality of management, employee talent, quality of service, long-term investment value, financial soundness, social responsibility, and use of corporate assets. *FORTUNE* described FPL Group as "...the brightest light in utilities."

FPL Group is a stronger and more focused company than ever before, and our employees understand clearly what is required for continued success. We are confident that our strong operating performance, new growth initiatives, and acknowledged competencies – especially those relating to clean-fuel generation technologies – will make us a winner in any regulatory environment. This should enable us to achieve continued growth at both FPL and FPL Energy in the years ahead and to provide attractive returns for our shareholders.

James L. Broadhead

James L. Broadhead

Chairman and Chief Executive Officer
March 2, 1998

Your board of directors recently increased the quarterly common stock dividend from 48 cents to 50 cents per share, raising the annual dividend to $2.00.

The board also elected a new director, Sherry S. Barrat, a native of Miami and president of Northern Trust Bank of Florida for Palm Beach and Martin counties.

Achieving Operating Excellence

FPL Generates the Energy to Power Florida's Growth

The bustling night life on Miami's South Beach.

Florida Power & Light Company (FPL) provides electricity and related services to one of the fastest growing regions of the country.

The population of Florida has grown dramatically, doubling since 1970 to 14.7 million residents today. FPL has been a part of Florida's growth for more than 70 years, expanding its generation system to keep pace with the substantial increases in customers and average power usage. In 1997, FPL's average customer base grew by nearly 65,000 accounts, continuing a long-term trend of growth that has outpaced other companies in the industry.

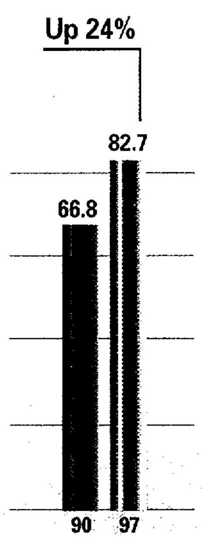
Growth in the Sunshine State means new customers for FPL.

FPL has achieved an excellent record in safely and reliably generating the power to serve its thriving Florida market. FPL's fossil and nuclear generating resources today total more than 16,000 megawatts (MW) and include some of the best-run plants in the U. S.

FOSSIL PLANTS GENERATE EXCELLENT PERFORMANCE

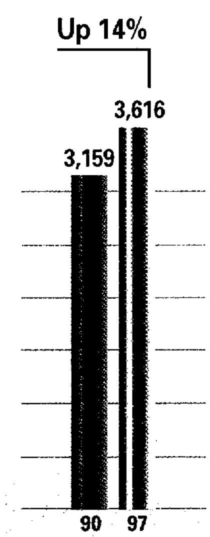
FPL's fossil-fueled generating plants turned in another outstanding performance in 1997, achieving FPL records for availability. This important operating statistic measures the amount of time a plant is available to generate power. Fossil plant availability reached 93%, compared to an average of 87% for other similar plants in the U.S. Such performance reflects both a highly skilled workforce and management processes that stress quality, safety and low costs.

Electricity sales have increased 24% since 1990...



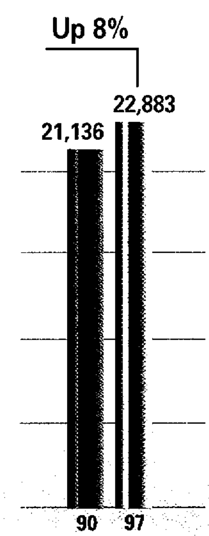
Electricity Sales
(billion kilowatt-hours)

...because FPL's customer base has grown...

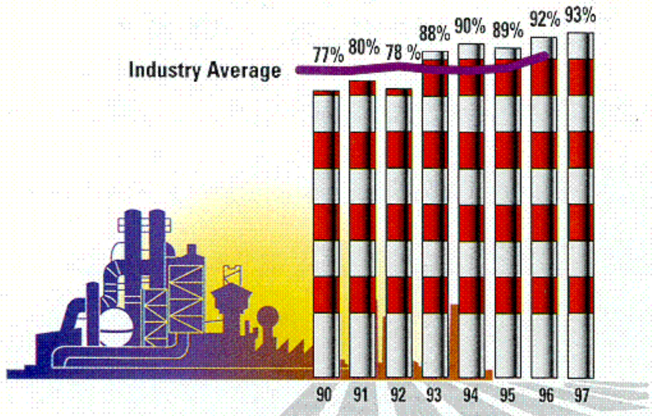


Customer Accounts
(average; thousands)

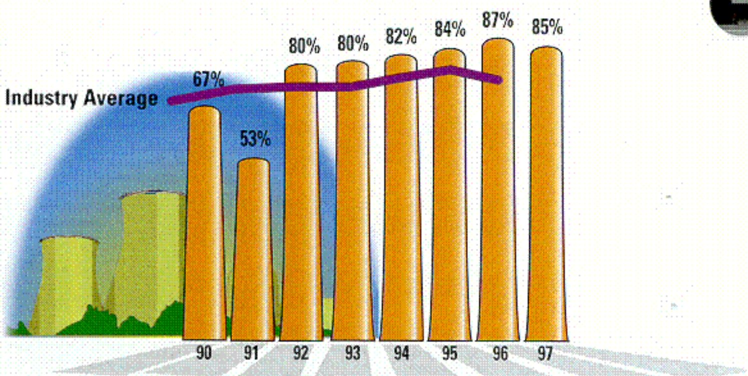
...and the average customer uses more energy.



Usage per Customer Account
(kilowatt-hours)



Fossil Plant Availability



Nuclear Plant Availability

FPL's coal, oil and gas-fired plants achieved record availability in 1997. Nuclear availability continued at a high level, despite planned refueling outages at all units.

In an effort to reach even greater levels of performance, FPL's power generation division began implementing its "Total Operational Excellence" program in 1997. This program uses benchmarking outside the utility industry to identify and transfer to FPL best practices in safety and workforce management.

In addition to achieving top-notch operating performance, FPL reduced fuel costs through better procurement and market monitoring programs. FPL also continued its record of exemplary environmental stewardship; it was recognized as the cleanest of nine major utilities in Florida based on air emission rates.

A YEAR OF ACHIEVEMENTS FOR NUCLEAR PLANTS

Nuclear plants are capable of generating energy that is among the lowest cost in the U.S. For that to happen, these complex and highly regulated facilities must be operated with precision and efficiency. FPL's nuclear performance in 1997 reflects that kind of commitment to excellence.

FPL's two nuclear sites, Turkey Point and St. Lucie, had an excellent year operationally, achieving a combined availability of 85%. This operating level is substantially better than the 75% average for the industry. What makes this performance particularly noteworthy is that all four units (two at each site) were off-line during the year for scheduled refuelings, and one unit also completed a complex steam generator replacement.

High plant availability was achieved, in part, through a marked decrease in the duration of scheduled refueling outages. Excluding the steam generator replacement, FPL's refuelings were completed in just 42 days on average in 1997, a significant improvement from more than 60 days in 1996.

IMPROVEMENTS CONTINUE

For years St. Lucie was rated one of the top plants in the country by the Nuclear Regulatory Commission (NRC). Today, the plant remains a "good" performer, following rating declines in 1996 and 1997. To return the plant to a leadership position in the nuclear industry, FPL completed a self-assessment in 1996 and began an aggressive performance improvement program.

Building on a number of steps taken that year, including management changes and enhanced training, in 1997 St. Lucie made notable improvements in several important areas, including plant operations and regulatory performance.

ST. LUCIE COMPLETES STEAM GENERATOR REPLACEMENT

Perhaps the best indicator of the positive changes that have taken place at St. Lucie is the successful steam generator replacement project. The steam generators of a nuclear plant are highly engineered and critical components. They

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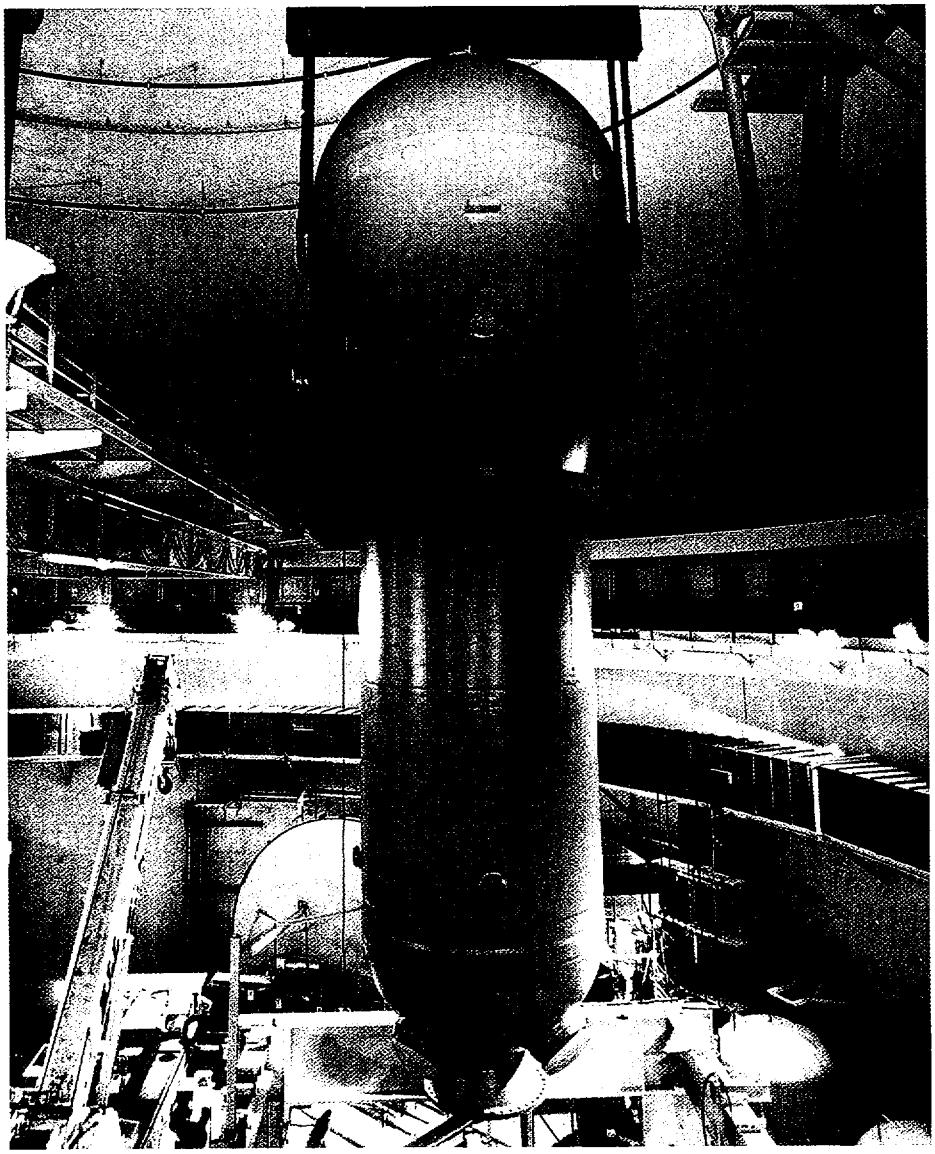


A job well done: replacement of the 546-ton steam generators at St. Lucie Unit 1 was completed under budget and in near-record time.

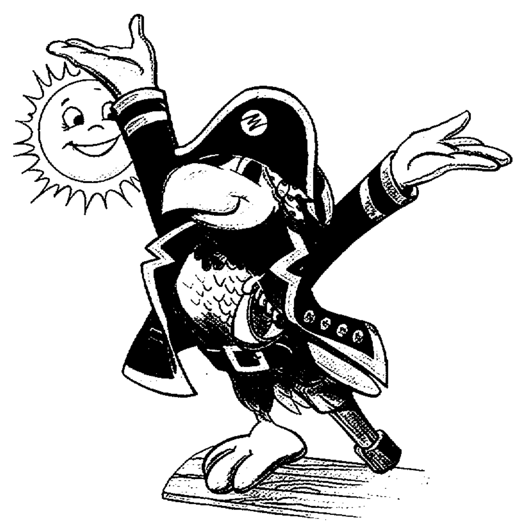
transfer heat from the nuclear reactor to tubes that generate steam to make electricity. Each unit at St. Lucie has two steam generators – massive pieces of equipment that stand 63 feet tall and weigh more than 500 tons. Over the years, deterioration of a number of tubes required that the generators in St. Lucie Unit 1 be replaced.

In October 1997, St. Lucie Unit 1 began the installation of the new generators, the central part of the $168 million project. After years of careful planning and preparation, the change-out took just 79 days to complete, one of the shortest on record for U.S. nuclear plants. The project was also completed safely, under budget and with quality results, with the unit returning to full power in early January. The improved design of the new generators will increase the unit's efficiency.

TURKEY POINT REMAINS AT THE TOP

Turkey Point retained its rank as a world-class nuclear facility in 1997. In addition to successfully executing two refueling outages, the site was recognized by the NRC as one of the country's top two superior performers.

FPL's nuclear operations achieved high performance while continuing to reduce costs. Operating and maintenance expenditures were lower in 1997 for the third consecutive year and were 35% less than the industry average. Material inventory levels were also reduced. Since 1992, FPL has cut nuclear inventory by 50% to a level that is one-third lower than typical nuclear plants.



FPL's Energy Encounter, located on Hutchinson Island at the St. Lucie nuclear plant, is an education center with interactive displays on electricity, nuclear power and the environment. Each year, Hutch, the parrot, guides 40,000 school children and other visitors through a high-tech, interactive treasure hunt in the world of energy.

Seizing Growth Opportunities in New Markets

FPL Energy Focuses on Generation Outside Florida

In early 1998, FPL Group formed a new subsidiary, FPL Energy, to manage more effectively its growing interests in electricity markets outside Florida Power & Light Company's service area. This new entity has a strong portfolio of clean fuel generation resources and a significant focus in the attractive Northeast power market.

FPL Energy's 665 MW Doswell plant in Virginia is one of the country's largest gas-fired independent power plants.

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BUILDING ON CORE STRENGTHS

FPL Group's strategy is to continue building an organization that will be successful in the future, in either a regulated or unregulated power market. Implementing that strategy has involved strengthening the operations of the principal business, Florida Power & Light Company, while using core strengths to pursue growth opportunities in markets outside Florida.

FPL Group took an important step in early 1998 that supports its strategy, forming a new company called FPL Energy. This new organization brings together the domestic independent power business formerly operated under FPL Group's ESI Energy subsidiary and the overseas power projects previously part of FPL Group International. FPL Energy also includes gas-fired cogeneration facilities purchased at the beginning of 1998 in Massachusetts and New Jersey and generating plants being acquired in Maine.

In addition to combining all FPL Group's independent power resources, this new structure builds on the company's world-class skills in gas-fired combined-cycle generation and its leadership position in other clean fuel technologies, such as geothermal, solar and wind.

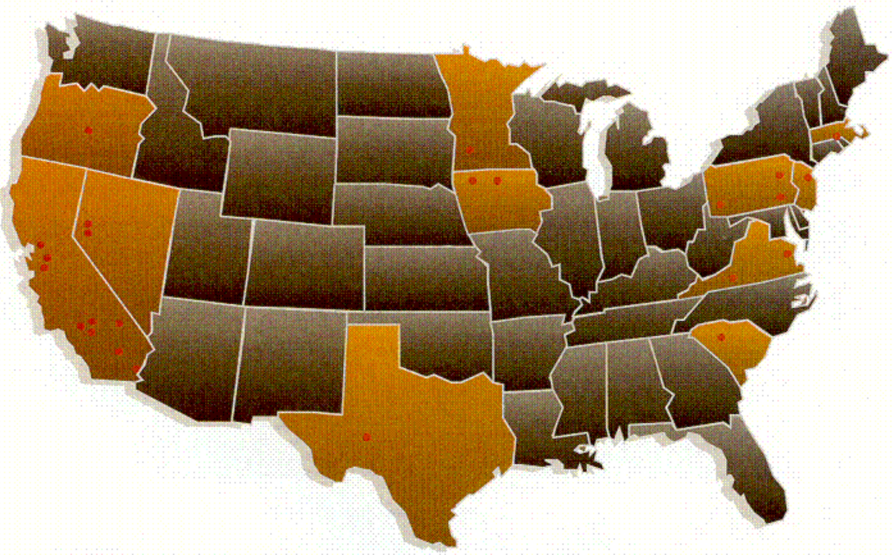
FPL ENERGY NAMES MANAGEMENT TEAM

FPL Energy is headed by a strong management team drawn from FPL Group.

Michael Yackira, former chief financial officer of FPL Group and Florida Power & Light Company, was appointed president of FPL Energy. Les Gelber, who served as president of ESI Energy, was named senior vice president of development for the new organization.

FPL Energy will be supported by a newly created Power Generation Division. This new division will be responsible for the operation and construction of all non-nuclear generation assets of FPL Group, including Florida Power & Light Company.

C. O. Woody, formerly senior vice president of power generation, was appointed president of the power generation division. He brings more than 40 years experience in power plant operations, including the successful construction of FPL's Martin and Lauderdale gas-fired combined-cycle units.



FPL Energy has power projects in 11 states and overseas with a capacity of 3,400 MW. This will increase to more than 4,500 MW with the proposed acquisition of generating plants in Maine.

STARTING FROM A STRONG BASE

FPL Energy begins operation with an existing strong base of independent power projects operated by ESI Energy and FPL Group International.

In 1997, ESI Energy continued to strengthen and expand its portfolio of generating facilities. The company restructured the ownership and financial arrangements of several existing projects, gaining more operating control and enhancing bottom line performance. This builds on a trend of greater ownership of projects. ESI had operating control of 90% of its projects in 1997, up from only 25% four years earlier.

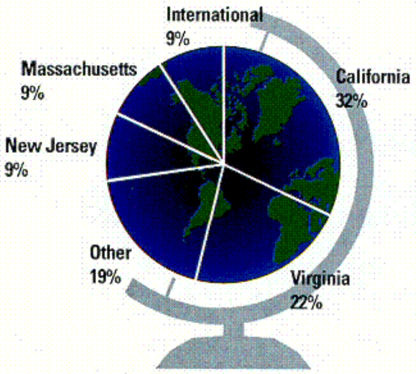
For example, in 1997 ESI became the operator of the largest independent power facility in the country, the 665 MW Doswell combined-cycle plant in Virginia. ESI also became owner of a 160 MW solar field in the Mojave Desert that is the world's largest generator of power from the sun.

Possessing skills in combined-cycle and renewable generation

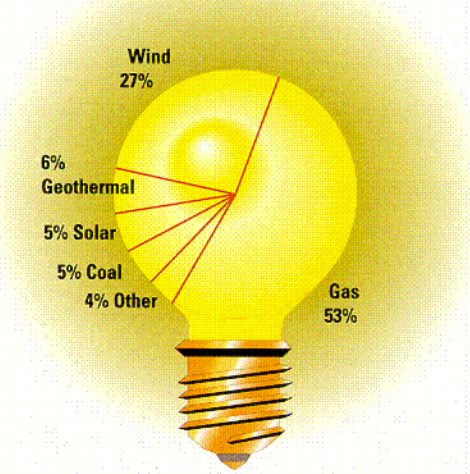
C04

has enabled FPL Energy to expand to overseas markets.

FPL Energy's project portfolio includes 300 MW of gas-fired combined-cycle facilities in Colombia. The plants, owned in partnership with KMR Power Corporation, provide power to the local utilities in Cartagena and Cali under long-term contracts. FPL Energy also operates a 5 MW wind project in Northern Ireland that was constructed by ESI in 1997.



FPL Energy, Inc.
Capacity by Region



FPL Energy, Inc.
Capacity by Energy Source

More than 90% of FPL Energy's capacity uses clean fuels – gas and renewable resources. The proposed acquisition of plants in Maine will add low-cost hydro generation and expand FPL Energy's presence in the Northeast.

The Gulf Island hydro plant is among the facilities FPL Energy is acquiring from Central Maine Power Company.

ESTABLISHING A PRESENCE IN THE NORTHEAST

In January 1998, FPL Group announced two transactions to acquire generation assets in the Northeast. These transactions build upon FPL Energy's focus on clean fuels while establishing a foothold in one of the best power markets in the country.

In the first transaction, FPL Energy agreed to purchase for $846 million all the non-nuclear generating assets of Central Maine Power Company. The facilities consist of hydro, fossil and biomass plants with a combined capacity of 1,185 MW. Pending regulatory approvals, this transaction is expected to be completed by the end of 1998. Between then and the start of retail competition in Maine on March 1, 2000, Central Maine Power will buy from FPL Energy all of the hydro output and a specified minimum amount of the fossil output.

The acquisition of these assets will add valuable hydro capacity to FPL Energy's portfolio. The hydro units have a capacity of 373 MW and provide the lowest-cost power in New England. In fact, these 31 plants operate with costs and staffing levels that are well below average, and they have achieved the best capacity factors of any other group of New England hydro units. The fossil plants being acquired are

C05

oil-fired facilities with a capacity of 781 MW.

BUILDING ON SKILLS IN GAS-FIRED GENERATION

The fossil plant sites in Maine provide an opportunity for the company to profitably utilize its experience with combined-cycle technology, and expand its participation in gas-fired generation, the fastest growing segment of the U.S. power market. These sites are strategically located on the transmission grid and are close to proposed natural gas pipelines.

FPL Energy may build up to 1,500 MW of new gas-fired combined-cycle capacity on these sites. This new capacity will help alleviate possible power shortages caused by the closing of nuclear plants in the region.

In the second transaction, FPL Energy has acquired existing gas-fired facilities. FPL Energy completed the acquisition of two 300 MW combined-cycle plants, in partnership with Tractebel S.A., a Belgian energy and industrial services firm. The plants, one located in Massachusetts southwest of Boston and the other near Newark, New Jersey, were built in the early 1990s and feature modern generation technology.

The plants also have excellent operating records. Over the past five years, the plants have achieved capacity factors greater than 90%. Output from the plants is sold under long-term contracts to local utilities.

FPL Energy is also completing the construction of a 100 MW gas-fired facility in South Carolina that will come on line in the spring of 1998. This combined-cycle facility, called Cherokee, will provide energy under long-term contract to Duke Energy.

FOCUSING ON CLEAN FUEL GENERATION

FPL Energy is one of the nation's largest clean fuel generators and the largest producer of power in the U.S. from renewable sources.

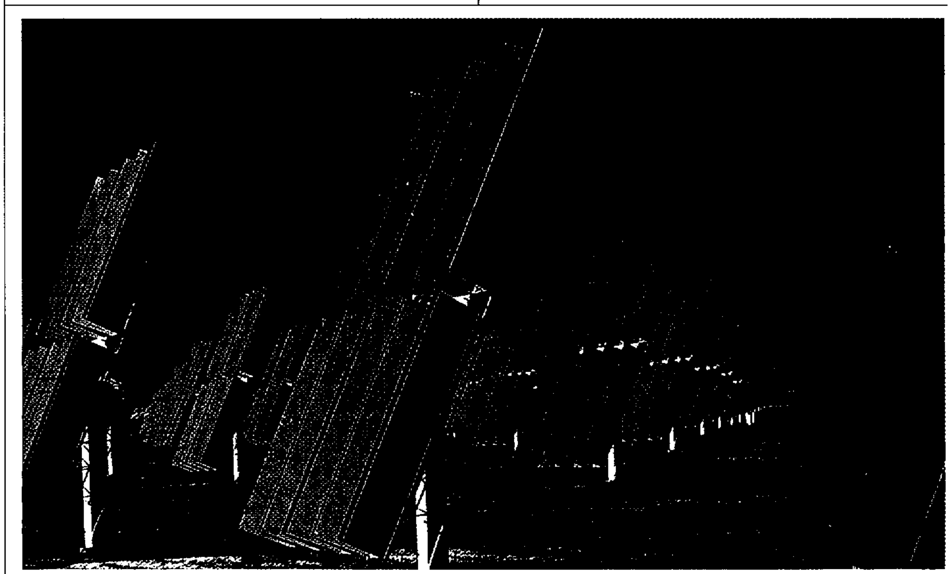
FPL Group sees great opportunity in being one of the preeminent generators of power derived from resources such as gas, solar, geothermal and wind. Both FPL and FPL Energy have technical and financial expertise in these types of projects. With the Maine plants, FPL Energy will have more than 3,000 MW of gas and renewables, including hydro, while Florida Power & Light Company operates more than 9,000 MW of gas-fired plants.

In addition, there is strong demand for clean fuel generation. Increasing concern over the environment has the potential to further expand the market for "green" power.

STAKING A LEADERSHIP POSITION IN WIND

FPL Energy has more than 900 MW of wind power projects in operation and under development, making it the world leader in wind-based generation. This leadership position reflects the restructuring, development and acquisition of projects.

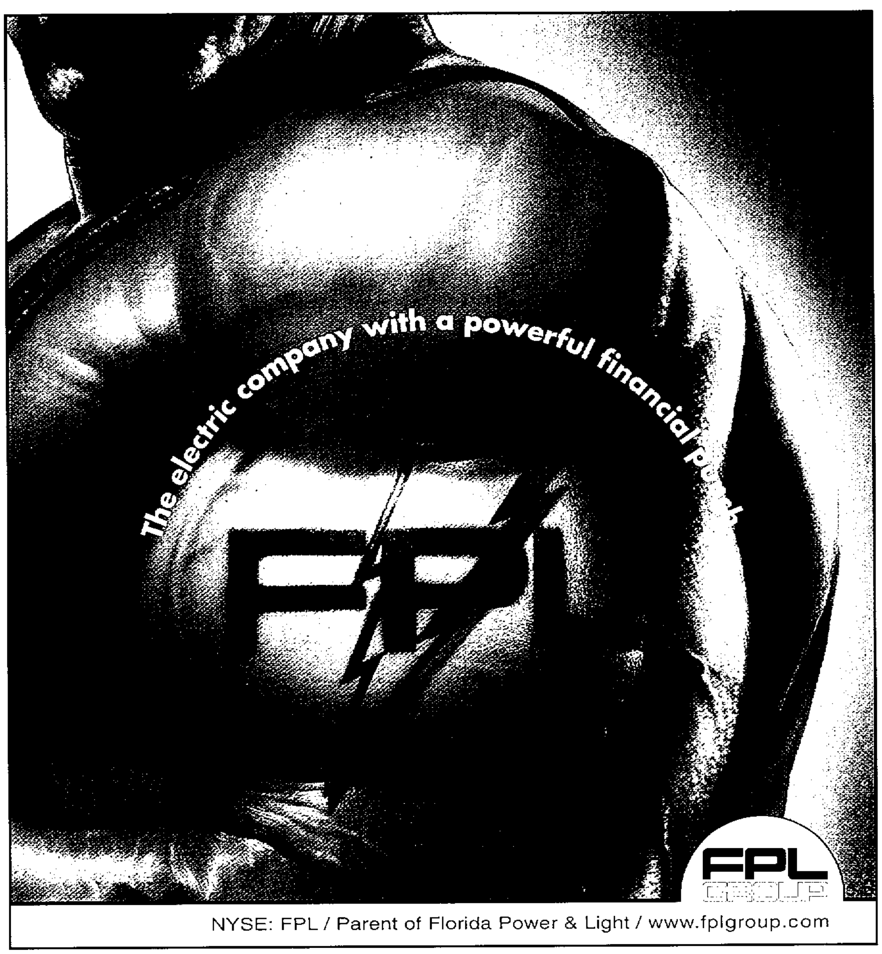
In 1997, FPL Energy was awarded power purchase agreements covering 230 MW of wind generation, including projects to be constructed in Iowa, Texas and Minnesota. The project under development in Iowa will be a 112 MW facility – the largest wind project in the world. In early 1998, FPL Energy acquired 164 MW of wind capacity in the Altamont Pass region of California, near San Francisco.



FPL Energy operates the largest solar facility in the world.

BUILDING FINANCIAL STRENGTH

for a changing environment



Throughout the 1990s, the operating environment in the electric utility industry has moved toward greater competition, bringing an increased level of business risk. FPL Group was one of the first electric utilities to react to this shift, realizing at the start of the decade that financial strength and flexibility would be critical for achieving success.

The company studied other industries that had gone from fully regulated to competitive — airlines, banks and telecommunications — and determined that long-standing financial policies would have to be critically evaluated.

Advertisements, like this one promoting FPL Group's financial strength, appeared in major financial publications beginning in 1997.

FPL Group took a fresh and innovative approach to ensure that its core electric utility business prospered and to position itself to seize new opportunities brought about by industry change.

FOCUSING ON COSTS

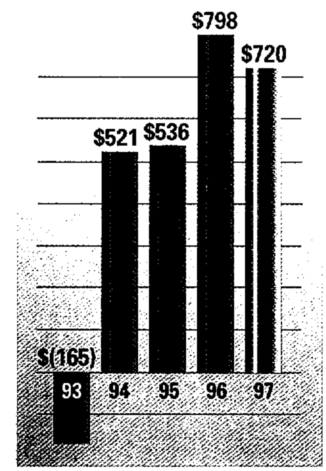
In assessing the new environment confronting electric utility companies, it became clear that low costs and quality operations would be essential success factors. Starting in 1991, FPL Group embarked on an ambitious program to improve efficiency and performance throughout the company with a keen focus on quality and costs. Through these efforts, Florida Power & Light Company has been able to reduce its operating costs per kilowatt-hour by 30% over the last seven years while improving performance in many areas. Today, FPL operates with 38% fewer employees than at the start of the decade while serving nearly half a million more customers.

RECOGNIZING THE NEED FOR CHANGE

Historically, the electric utility industry has been the most capital-intensive industry in the United States, requiring an investment of $2.12 for every dollar of revenue generated. As a result, they have relied heavily on financing — issuing bonds and common stock. Capital structures have typically featured more than 50% debt, and companies paid out a high percentage of their earnings as dividends.

These policies worked well in a regulated environment in which revenues tended to be reasonably steady and were designed to recover allowable operating costs and capital investments. However, competitive forces began to impact the industry, making the recovery of costs less certain.

In 1992, Federal legislation opened wholesale electric markets to competition. Initiatives in more than a dozen states have followed, opening retail markets to competition as well.



Discretionary Cash Flow
(after dividends and capital expenditures)

The company's cash flow position is strong, reflecting higher earnings and reduced capital spending.

ADOPTING NEW FINANCIAL POLICIES

In the face of these competitive forces, FPL Group began adopting financial policies that stressed cash flow and a strong balance sheet. This approach provided flexibility to invest in new growth opportunities.

To preserve cash flow, FPL Group lowered its dividend payout ratio in 1994. At the same time, Florida Power & Light Company was completing a major power plant construction program. Capital expenditures dropped from

Uses of Cash

($ millions)

	97	96
FPL capital expenditures	$551	$474
Independent power investments	291	52
Debt and preferred stock reductions:		
Florida Power & Light Co.	465	512
Other debt	97	5
Common stock repurchases	48	82
Common stock dividends	332	320

FPL Group has used a strong cash position to invest in its core business and growth opportunities outside Florida, as well as to strengthen its capital structure and provide a return to shareholders.

OTHER BUSINESSES CONTRIBUTE TO FINANCIAL PERFORMANCE

Throughout the 1990s, FPL Group narrowed the focus of its other businesses to concentrate on the independent power industry outside Florida. FPL Group divested several businesses, including insurance, consulting, and real estate, and strengthened its independent power operations by restructuring the financial and ownership arrangements in a majority of the projects.

Today, FPL Group has interests in two businesses outside the electric power industry: Turner Foods Corporation, a major citrus producer (see page 21), and Olympus, a cable television partnership with Adelphia Communications that serves more than 400,000 cable subscribers in Florida.

These two well-positioned and valuable businesses contribute positively to FPL Group's financial performance.

$1.1 billion in 1993 to $772 million in 1994. FPL Group also sold several businesses unrelated to the company's core strengths. The combination of these factors resulted in FPL Group achieving positive cash flow (operating cash flow after capital expenditures and dividends) starting in 1994.

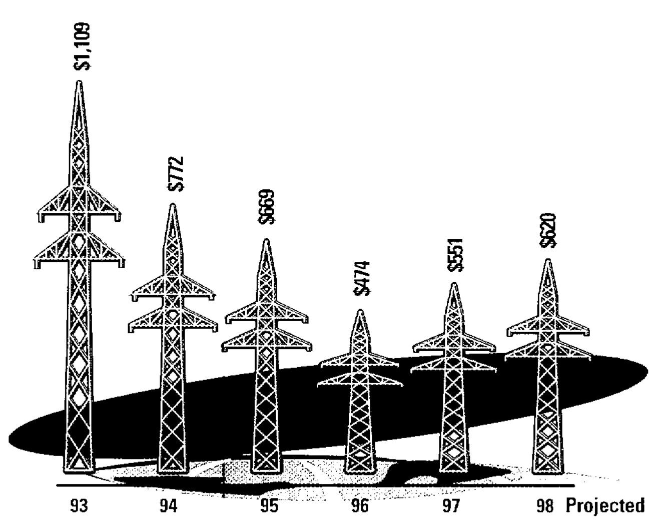
STRENGTHENING THE BALANCE SHEET

FPL Group has used the positive cash flow to strengthen its balance sheet. The increased business risk in the electric utility industry requires a corresponding decrease in financial risk. That means lower debt levels. Over the last three years, the company has used $1.5 billion of cash flow to reduce debt and preferred stock outstanding, including more than $560 million in 1997 alone. As a result, the debt component of Florida Power & Light Company's capital structure has been reduced significantly.

Along with debt reduction, FPL Group has also used its positive cash flow to repurchase common stock. Under programs initiated in 1994, and renewed in 1997, FPL Group has bought back more than nine million shares of common stock.

REDUCING POTENTIAL STRANDED COSTS

As electricity markets grow more competitive, the risk increases that an electric utility's power plant investments won't be fully recoverable based on market prices for power. Florida Power & Light Company began a process to address the issue of asset recovery. Starting in 1995, state regulators approved a program enabling FPL to accelerate the recovery of its generating assets and certain regulatory assets (costs set aside by regulators for future recovery). The program called for the recording of additional depreciation expense associated with



Capital Expenditures
Florida Power & Light Company
($ millions)

"Management has successfully implemented several key financial and operational strategies that have strengthened the balance sheet and reduced operating costs, positioning the company . . . for a competitive environment."

— *quote from a leading Wall Street analyst*

generating and regulatory assets. Almost all the amount of additional depreciation was determined based on a formula linked to base revenues (all revenues not related to fuel and other direct expense recoveries).

For the three years ended 1997, FPL has recorded about $570 million of additional depreciation. As a result, the book value (original cost less depreciation) of FPL's plants and the balance of regulatory assets have been reduced. This, in turn, has reduced both FPL's exposure to not recovering these costs and the need for rate increases in the future.

INVESTING IN GROWTH

While working to strengthen its financial position, FPL Group pursued avenues for strengthening and growing its energy-related business outside of Florida. The company invested nearly $300 million in independent power projects in 1997, acquiring additional ownership interests and building new facilities. This represents a significant shift in the use of cash, from mainly debt reduction to a greater amount of new investment.

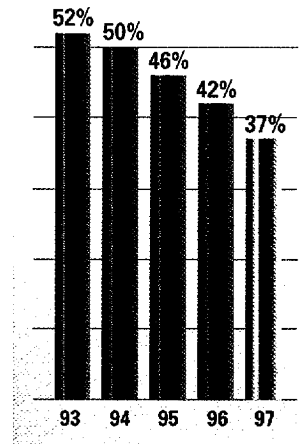
Being in a strong financial position has enabled FPL Group to pursue even larger acquisitions. In early 1998, the company announced plans to invest more than $1 billion in generation facilities in Maine, Massachusetts and New Jersey.

GENERATING BENEFITS FOR INVESTORS

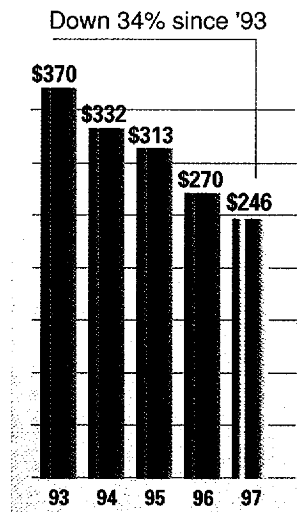
FPL Group's steps to reposition itself for the financial realities of the new business environment have generated benefits for investors. Management actions to solidify FPL's position as one of the premier electric utilities in the country, combined with efforts to refocus and expand independent power operations, have made FPL Group a top performer in the industry.

The performance of FPL Group's stock has been strong, reflecting the company's solid cash flow and earnings growth. Investors have realized an annual return (price appreciation plus dividends) of 17% since 1990, including more than 30% in 1997.

A sound capital structure and excellent business fundamentals have also led to strong credit ratings. FPL's debt is rated AA- by Standard & Poor's and Aa3 by Moody's. Only six electric utilities out of more than 120 in the U.S. have higher credit ratings.



Debt and Preferred Stock
Florida Power & Light Company
(% of total capital)



Interest and Preferred Stock Dividends
Florida Power & Light Company
($ millions)

Using cash to reduce debt and preferred stock has lowered fixed costs and strengthened FPL's balance sheet.

Delivering Value to Customers

The basics of the electric power business have not changed much since Thomas Edison's pioneering efforts launched the industry more than a century ago. Power is generated, sent over wires, and delivered to homes and businesses. Despite technological advances in making and delivering power, a simple truth remains: customers want value — quality electric service at a good price.

Florida Power & Light Company understands that formula and has been working to ensure that its customers get the best energy value possible. That means finding ways to keep costs down, even while investing hundreds of millions of dollars annually to maintain and expand a system that adds more than 175 new customer accounts every day. It also means providing top-notch customer service and support.

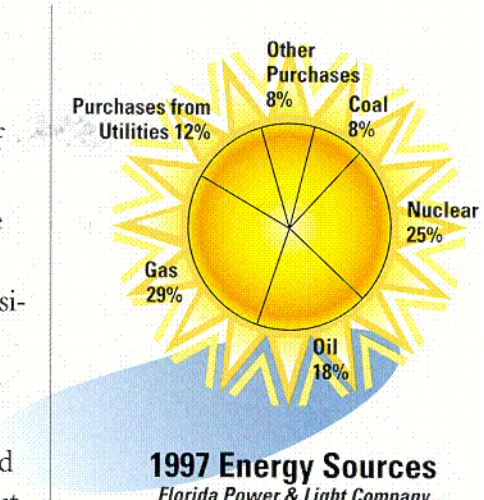
FPL'S ELECTRICITY IS A GREAT VALUE

FPL has been able to keep pace with growing demand while holding the line on price. There are few things that cost less today than they did a decade ago, but FPL's electricity is one of them. In fact, FPL residential rates have dropped 11% since 1985, while inflation, as measured by the Consumer Price Index, has caused prices of goods and services in general to rise 53%.

The value of FPL's energy is even more evident from looking at electricity costs in other parts of the country. While some regions of the U. S., like California and the Northeast, have rates as high as 15 cents per kilowatt-hour, FPL's residential customers enjoy rates that are less than half that amount — about 7.4 cents. Overall, that's the lowest of the major investor-owned electric utilities in Florida, and about 9% below the national average.

MANAGING FUEL COSTS

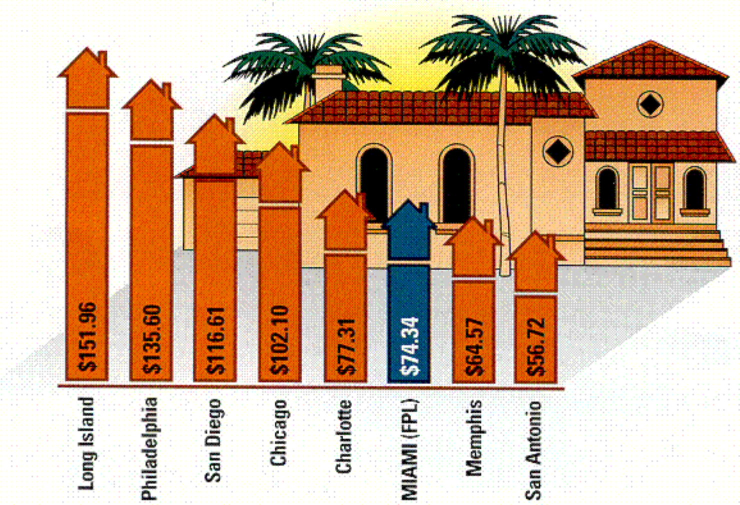
Keeping rates competitive takes an overall commitment to cost control. FPL has successfully reduced non-fuel operating and maintenance costs for seven consecutive years. However, managing energy costs (the cost of fuel and purchased power) is just as important. More than 30% of a typical FPL customer's bill is for energy, so lower energy costs mean lower prices and better value for consumers.



1997 Energy Sources
Florida Power & Light Company

The ability to obtain power from various energy sources provides FPL with operating flexibility.

A diverse energy mix provides FPL with operating flexibility and the ability to minimize fuel costs by taking advantage of energy price changes. About 45% of FPL's fossil capacity can be switched between oil and gas.



Residential Rates Across the Nation
(per 1,000 kilowatt-hours, as of December 1997)

FPL's residential customers pay about 9% less than the national average for electricity.

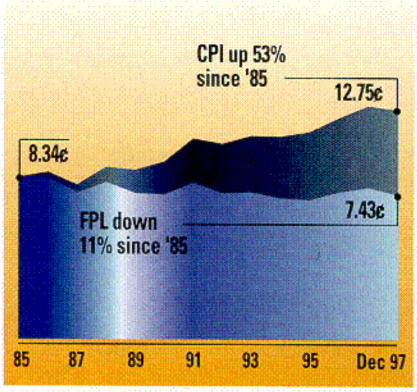
NEW ENERGY MARKETING AND TRADING DIVISION FORMED

Due to greater competition in generation, FPL realized the need to expand its capability to track fuel and energy prices and to participate more broadly in the energy marketplace.

In 1997, FPL formed the energy marketing and trading (EMT) division to complement FPL's strong fossil generation asset base. EMT is capitalizing on the value of existing and new fuel

C06

Above: FPL's state-of-the-art energy trading floor opened in December 1997.



Residential Rates vs. Inflation
(cents per kilowatt-hour)

Few things cost less today than they did in 1985. But FPL's prices have declined 11%, while inflation, as measured by the Consumer Price Index (CPI) has increased 53%.

supply contracts, growing energy markets and new unique products and services.

EMT's core operations include wholesale power and gas trading, as well as energy marketing. EMT operates in areas that are strategic to FPL's generation assets and provides its energy market expertise to third parties. This new division has enabled FPL to be active in energy markets through an enhanced ability to buy, sell and transport fuels at competitive prices. FPL is one of the largest gas buyers in the U.S., and its power sales equal those of the top power marketers.

PURSUING SAVINGS THROUGH ORIMULSION

FPL continues to pursue alternatives for reducing fuel costs further by proposing to use a fuel called Orimulsion, a mixture of water and naturally occurring bitumen from Venezuela. FPL plans to use the fuel in-place of higher-cost oil at its 1,638 MW Manatee plant. By converting to Orimulsion, FPL could reduce fuel costs by more than $100 million per year while improving the environmental performance of its generating system.

Approval to use Orimulsion must be obtained from Florida's Governor and Cabinet, who together constitute the Florida Power Plant Siting Board. The board is expected to vote on FPL's Orimulsion proposal in mid-1998.

SERVICE MAKES THE DIFFERENCE

While maintaining attractive prices is important, keeping customers satisfied also requires

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reliable energy service and the best possible customer care.

FPL responds to more than 50,000 calls from customers per day, using voice-response technology and one of the most modern customer information management systems. Over the past year, FPL customer service representatives improved average call answering speed by 31%.

In early 1998, FPL renamed its customer service centers. They are now called customer care centers, reflecting a sharper focus on delivering world-class service. FPL also has expanded its service reach to the Internet, allowing customers to check their accounts and pay their bills online.

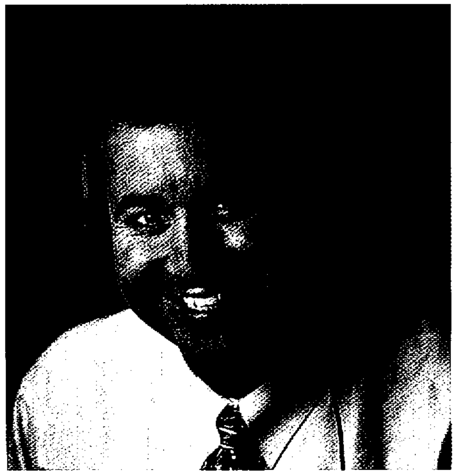
FPL'S COMMITMENT TO RELIABILITY

A significant challenge for FPL is the expansion and maintenance of its distribution system, which covers 65,000 miles of overhead and underground lines. The influx of additional residents requires construction of new service lines, while FPL's existing distribution system is continually being modernized. Climatic conditions that are somewhat unique to Florida, such as salt spray, year-round vegetation growth and the highest incidence of lightning in the country, create additional reliability issues.

FPL's service reliability in 1996 was 20% better than the national average. In fact, power is available for customers 99.97% of the time. However, in early 1997 FPL recognized a decline in reliability and began implementing an improvement program. FPL committed significant funds to a multi-year service enhancement effort. The company spent close to $100 million in 1997 and plans to spend an additional $360 million on reliability projects over the next three years. FPL increased tree trimming and changed work processes to place more service crews on duty during bad weather.

Keeping pace with the growth of Miami Beach best exemplifies how FPL is working to enhance service reliability. In the early 1990s, electric load growth in that area averaged more than 5% a year, double FPL's system average. In fact, by 2000, demand is expected to be 28% greater than it was at the start of the decade.

This high growth, coupled with an existing distribution system that was aging, pointed to the need for new facilities. FPL spent $19 million to upgrade the lines and substations in Miami Beach, improving service and customer satisfaction.



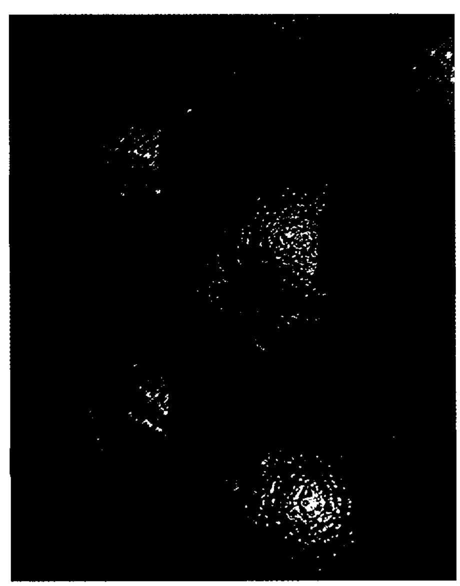
FPL service with a smile: delivering world-class customer care.

TURNER FOODS SENDS SUNSHINE TO MAINE

More than 250,000 customers of Central Maine Power Company were left without electricity after a severe ice storm ravaged the region in early 1998.

To help brighten spirits, FPL Group, through its Turner Foods citrus subsidiary, shipped 1,500 boxes of fresh oranges and grapefruit to restoration crews at Central Maine Power. This Florida "sunshine" was also shared with local Red Cross shelters.

Turner Foods is one of the largest Florida citrus growers, with 19,000 planted acres. More than 85% of production is juice oranges for both the fresh and processed juice market, as well as bulk frozen concentrated orange juice. Turner harvested a record 7.6 million 90-pound boxes of citrus during the 1996-97 season.



Financial and Operating Statistics

For the Years Ended December 31,	1997	1996	1995	1994	1993	1992	1987
Selected Financial Data (Millions)							
Operating Revenues	**$6,369**	$6,037	$5,592	$5,423	$5,312	$5,186	$4,444
Operating Expenses (1)	**$5,141**	$4,866	$4,395	$4,274	$4,342	$4,159	$3,518
Operating Income (1)	**$1,228**	$1,171	$1,197	$1,148	$969	$1,027	$926
Net Income (1)	**$618**	$579	$553	$519	$429	$467	$403
Total Assets	**$12,449**	$12,219	$12,459	$12,618	$13,078	$12,306	$9,887
Long-Term Debt (excl. current maturities)	**$2,949**	$3,144	$3,377	$3,864	$3,749	$3,960	$3,246
Preferred Stock of FPL (excl. current maturities)	**$226**	$331	$340	$545	$548	$551	$541
Florida Power & Light Company							
Operating Revenues (millions)	**$6,132**	$5,986	$5,530	$5,343	$5,224	$5,100	$4,350
Energy Sales (million kwh)	**82,734**	80,889	79,756	77,096	72,455	69,290	57,958
Customer Accounts – Average (thousands)	**3,616**	3,551	3,489	3,422	3,350	3,281	2,840
Peak Load, Winter (mw 60-minute) (2)	**13,047**	16,490	18,096	16,563	12,594	12,964	10,779
Peak Load, Summer (mw 60-minute)	**16,613**	16,064	15,813	15,179	15,266	14,661	12,394
Total Capability (summer peak, mw) (3)	**18,715**	18,538	18,153	18,146	16,698	16,627	15,540
Reserve Margin (summer peak, %) (3)	**20**	23	21	26	13	17	25
Net Energy for Load (%)							
Oil	**18**	18	19	31	32	26	21
Natural Gas	**29**	29	31	20	17	17	21
Nuclear	**25**	26	25	26	25	27	23
Net Purchased Power and Interchange	**20**	20	18	17	21	27	34
Coal	**8**	7	7	6	5	3	1
Capital Expenditures (including nuclear fuel and AFUDC)	**$551**	$474	$669	$772	$1,109	$1,298	$671
Common Stock Data							
Average Shares Outstanding (millions) (4)	**173**	174	175	178	187	176	130
Earnings Per Share of Common Stock (1)(4)(5)	**$3.57**	$3.33	$3.16	$2.91	$2.30	$2.65	$3.10
Dividends Paid Per Share	**$1.92**	$1.84	$1.76	$1.88	$2.47	$2.43	$2.10
Book Value Per Share (year end)	**$28.03**	$26.46	$25.12	$23.82	$21.57	$20.99	$23.82
Market Price Per Share (year end)	**$59 3/16**	$46	$46 3/8	$35 1/8	$39 1/8	$36 1/4	$28 5/8
Market Price Per Share (high-low)	**$60-42 5/8**	$48 1/8-41 1/2	$46 1/2-34	$39 1/8-26 7/8	$41-35 1/2	$38 3/8-32	$34 7/8-26
Number of Shareholders (year end)	**60,493**	67,580	74,169	82,021	85,787	83,109	72,117

(1) *Includes charges in 1993 for cost reduction program ($85 million after tax).*

(2) *Winter peaks include November-December of current year and January-March of following year.*

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

(4) *Reflects a reduction of 9 million in 1997, 10 million in 1996 and 1995, and 11 million in 1994 of unallocated shares held by the ESOP due to an accounting standard adopted effective January 1, 1994.*

(5) *Basic and assuming dilution.*

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

FPL Group, Inc.'s (FPL Group) net income and earnings per share for 1997 grew 6.7% and 7.2%, respectively. The improvement over the respective 1996 growth rates of 4.7% and 5.4% is primarily due to better operating results in FPL Group's other businesses, particularly ESI Energy, Inc.'s (ESI) independent power projects. A number of ESI's projects have been restructured to gain more direct operating control and projects have been added. Beginning in 1997, several projects are consolidated in FPL Group's financial statements, including the accounts of a 665 mw gas-fired exempt wholesale generator and two solar projects. In January 1998, FPL Group announced the formation of FPL Energy, Inc. (FPL Energy), an FPL Group Capital Inc (FPL Group Capital) subsidiary, that will hold directly or indirectly all generation assets not owned by Florida Power & Light Company (FPL).

FPL continues to represent the predominant portion of FPL Group's operations. FPL's results over the past three years reflect a combination of continued growth in the number of customers served by FPL and actions taken by management to accelerate the amortization of nuclear and fossil fuel generating assets and regulatory assets, and to reduce debt and preferred stock balances.

FPL's operating revenues represent about 96% of FPL Group's operating revenues and primarily consist of revenues from base rates, cost recovery clauses and franchise fees. Revenues from FPL's base rates were $3.5 billion, $3.4 billion and $3.4 billion in 1997, 1996 and 1995, respectively. There were no changes in base rates during those years. 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. Clause revenues and the related fuel, purchased power and interchange expense increased in 1996 primarily due to higher fuel prices and higher capacity charges as an additional purchased power contract became effective. See Note 9 - Contracts. In 1997, FPL Group's operating revenues and fuel, purchased power and interchange expense include the effects of consolidating some independent power projects formerly accounted for as equity investments.

The population in FPL's service territory continued to grow, contributing to retail customer growth of 1.8%, 1.8% and 1.9% in 1997, 1996 and 1995, respectively. In 1997, warmer weather contributed to an increase in retail customer usage of 1.2%, while in 1996, milder weather conditions resulted in a decrease in retail customer usage of 1.3%. Extreme weather in 1995 contributed to an increase in usage of 2.5%. Together these factors and changes in sales to other utilities contributed to an increase in FPL's total energy sales of 2.3%, 1.4% and 3.5% in 1997, 1996 and 1995, respectively. The consolidation of some independent power projects increased FPL Group energy sales in 1997.

The Florida Public Service Commission (FPSC) regulates FPL's retail sales, which represent approximately 94% of FPL Group's total operating revenues. FPL reported a retail regulatory return on common equity (ROE) of 12.3%, 12.1% and 12.3% in 1997, 1996 and 1995, respectively. The ROE range authorized by the FPSC for these periods was 11% to 13% with a midpoint of 12%. In December 1997, a large customer of FPL filed a petition with the FPSC requesting a limited scope proceeding to reduce FPL's base rates. The petition asks the FPSC to reduce FPL's authorized ROE and to exclude amounts recorded under an FPSC-approved special amortization program in determining the amount of the rate reduction. FPL Group is unable to predict what course of action the FPSC might take and what effect, if any, this matter would have on FPL Group's financial statements.

Other operations and maintenance (O&M) expenses increased in 1997, following several years of decline, primarily as a result of additional costs associated with the energy conservation cost recovery clause. Excluding these costs, which are essentially a pass-through and do not affect net income, O&M expenses declined slightly as a result of lower nuclear refueling and lower payroll-related costs. Partially offsetting these items were higher maintenance costs on FPL's distribution system to improve service reliability. O&M expenses are expected to increase in 1998 due to a continuing focus on improving service reliability and higher storm fund accruals. In 1996, cost savings from operational improvements were partially offset by the third quarter adoption of an FPSC-approved change in accounting for costs associated with nuclear refueling outages. See Note 1 – Accrual for Nuclear Maintenance Costs. O&M expenses in 1995 include charges associated with facilities consolidation and inventory reductions.

The increases in depreciation and amortization expense are primarily the result of an FPSC-approved special amortization program initiated by FPL in 1995. The program calls for recording as amortization expense a fixed amount of $30 million per year for nuclear assets plus, through 1997, an additional amount of amortization based on the level of retail base revenues achieved compared to a fixed amount for nuclear and fossil generating assets and certain regulatory assets. Under this program, $199 million, $160 million and $126 million of special amortization was recorded in 1997, 1996 and 1995, respectively. The 1997 and 1996 amounts include, as depreciation and amortization expense, $169 million and $20 million, respectively, for amortization of regulatory assets. All other special amortization amounts were applied against nuclear and fossil production assets. In December 1997, the FPSC voted to extend this program through 1999 and added costs associated with the decommissioning of nuclear plants and dismantling fossil plants to the cost categories covered by the plan. The decision was made after the FPSC conducted hearings that were requested by a third party. In addition to depreciation and amortization recorded under the special amortization program, in 1997, 1996 and 1995 FPL amortized $22 million, $28 million and $37 million, respectively, of plant-related regulatory assets deferred since FPL's last rate case in 1984. It is anticipated that substantially all of the remaining $24 million balance will be amortized in 1998 as authorized by the FPSC. In 1997 and 1996 the FPSC approved higher depreciation rates for certain assets which resulted in additional depreciation of $31 million and $22 million in 1997 and 1996, respectively.

FPL lowered its interest charges and preferred stock dividends by reducing debt and preferred stock balances. FPL Group has reduced these balances, net of commercial paper increases, over the past three years by $1.0 billion. In 1997, additional debt has been assumed as a result of ESI's portfolio restructuring and expansion resulting in higher interest charges at FPL Group.

Improved results in 1997 from independent power partnerships contributed to an increase in the non-operating line other - net. The 1996 change in other - net resulted from an accounting rule change, approved by the FPSC, that eliminated the capitalization of interest and return on equity on all but very large construction projects.

The lower effective income tax rate in 1997 and 1996 reflects increased amortization of FPL's deferred investment tax credits due to the special amortization program and adjustments of prior years' tax matters.

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 1997, operating revenues from wholesale and industrial customers combined represented approximately 4% of FPL's total operating revenues. Various states, other than Florida, have either enacted legislation or are pursuing initiatives 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 generation assets should be separated from transmission, distribution and other assets. 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. Since there is no deregulation proposal currently under consideration in Florida, FPL is unable to predict what impact would result from a change to a more competitive environment or when such a change might occur. See Note 1 - Regulation.

FPL Group is working to resolve the potential impact of the year 2000 on the processing of information by its computer systems. An assessment of identified software, including vendor-supplied software, has been completed and work has begun to make the necessary modifications. The estimated cost of addressing year 2000 issues in software applications is not expected to have a material adverse effect on FPL Group's financial statements. FPL Group continues to assess the potential financial and operational impacts of computerized processes embedded in operating equipment.

Liquidity and Capital Resources

FPL Group's primary capital requirements consist of expenditures to meet increased electricity usage and customer growth of FPL. Capital expenditures of FPL for the period 1998 through 2000 are expected to be approximately $1.8 billion, including $620 million for 1998. Also, in January 1998 FPL Group acquired interests in two power plants in the Northeast and announced plans to purchase all of Central Maine Power Company's (Central Maine) non-nuclear generation assets. The Central Maine transaction is expected to close in the second half of 1998 and is subject to approval by federal and state regulators. Commitments for energy-related acquisitions, including the acquisitions mentioned above, are $1.1 billion for 1998. Other acquisitions may be made as opportunities arise. See Note 9 - Commitments. In 1997, FPL's capital expenditures were higher than 1996 as a result of costs associated with the replacement of steam generators at St. Lucie Unit No. 1. The further planned increase in 1998 reflects reliability improvements to be made to the distribution system. Expenditures on independent power projects in 1997 by FPL Group's other operating subsidiaries, primarily ESI, were $291 million. This increase over prior years is the result of ESI's expansion and restructuring of various projects.

Debt maturities of FPL Group's subsidiaries will require cash outflows of approximately $718 million through 2002, including $198 million in 1998. See Note 6. It is anticipated that cash requirements for FPL's capital expenditures, energy-related investments and debt maturities in 1998 will be satisfied with internally generated funds and debt issuances. Any internally generated funds not required for capital expenditures and current maturities may be used to reduce outstanding debt, preferred or 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 $1.3 billion.

In 1997, FPL Group's board of directors authorized the repurchase of up to 10 million shares of common stock over an unspecified period. During 1997, FPL Group repurchased 0.7 million shares of common stock under this program and 0.3 million shares under a previously authorized stock repurchase program.

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, 1997 was $252 million. Bank lines of credit of $300 million, included in the $1.3 billion 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 filed a request for FPSC approval to increase the annual storm fund contribution from $20 million to $35 million; a decision by the FPSC is pending.

In 1996, the Financial Accounting Standards Board (FASB) issued an exposure draft on accounting for obligations associated with the retirement of long-lived assets and recently decided to restudy the matter. A method proposed by the FASB would require the present value of estimated future cash flows to decommission FPL's nuclear power plants and dismantle its fossil power plants to be recorded as an increase to asset balances and as a liability. This amount is currently estimated to be $1.5 billion. Under that proposal, it is anticipated that there will be no effect on cash flows and, because of the regulatory treatment, there will be no significant effect on net income.

FPL Group Capital and its subsidiaries have guaranteed approximately $240 million of lease obligations, debt service payments and other payments subject to certain contingencies. This amount includes guarantees associated with acquisitions occurring in early 1998.

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 are not affected by these limitations.

Market Risk Sensitivity

All financial instruments and positions held by FPL Group described below are held for purposes other than trading.

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 $640 million at December 31, 1997. 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 2012. Market risk associated with all of these securities is estimated as the potential loss in fair value resulting from a hypothetical 10% increase in interest rates and amounts to $19 million.

The fair value of FPL Group's long-term debt is also affected by changes in interest rates. Over the last several years, the outstanding long-term debt balance has been substantially reduced, resulting in a significant decrease in the related interest expense, and a portion of the remaining debt balance has been converted to variable rate debt. Interest rate swap agreements entered into by an FPL Group subsidiary reduce the impact of interest rate changes on its variable rate debt (total notional principal amount of $267 million at December 31, 1997). The following presents the sensitivity of the fair value of debt and interest rate swap agreements to a hypothetical 10% decrease in interest rates:

(Millions of Dollars)

	Carrying Value	Fair Value	Hypothetical Increase in Fair Value[(a)]
Long-term debt	$3,147	$3,236[(b)]	$103
Interest rate swap agreements	-	$ 31[(c)]	$ 6

(a) *Calculated based on the change in discounted cash flow.*
(b) *Based on quoted market prices for these or similar issues.*
(c) *Based on the estimated cost to terminate the agreements.*

While a decrease in interest rates would increase the fair value of debt, it is unlikely that events that would result in a realized loss will occur.

Equity price risk - Included in the special use funds of FPL are marketable equity securities carried at their market value of $367 million at December 31, 1997. A hypothetical 10% decrease in the prices quoted by stock exchanges would result in a $37 million reduction in fair value and corresponding adjustment to the related liability accounts based on current regulatory treatment.

Other risks - Under current cost-based regulation, FPL's cost of fuel is recovered through the fuel and purchased power cost recovery clause (fuel clause), with no effect on earnings. In line with FPL's ongoing efforts to control costs, and to address the commodity price risk that FPL would face in a deregulated environment, FPL formed a division to buy and sell wholesale energy commodities, such as natural gas and electric power. Initially, the primary focus of the Energy Marketing & Trading Division has been the procurement of natural gas for FPL's own use in power generation (the effects of which are reflected in the cost of fuel recovered through the fuel clause) and the sale of excess electric power. At December 31, 1997, there were no material open positions in these activities. The level of trading activity is expected to grow as FPL seeks to manage the risk associated with fluctuating fuel prices, increase value from its own power generation and position itself to take advantage of opportunities in evolving energy-related markets throughout the country.

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.

Independent Auditors' Report

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

We have audited the consolidated balance sheets of FPL Group, Inc. as of December 31, 1997 and 1996 and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1997. 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 generally accepted auditing standards. 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. at December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

Deloitte & Touche LLP
Certified Public Accountants
Miami, Florida
February 13, 1998

Consolidated Statements of Income

Years Ended December 31,	1997	1996	1995
	(In millions, except per share amounts)		
Operating Revenues	**$6,369**	$6,037	$5,592
Operating Expenses			
Fuel, purchased power and interchange	**2,255**	2,131	1,722
Other operations and maintenance	**1,231**	1,189	1,206
Depreciation and amortization	**1,061**	960	918
Taxes other than income taxes	**594**	586	549
Total operating expenses	**5,141**	4,866	4,395
Operating Income	**1,228**	1,171	1,197
Other Income (Deductions)			
Interest charges	**(291)**	(267)	(291)
Preferred stock dividends – FPL	**(19)**	(24)	(43)
Other – net	**4**	(7)	19
Total other deductions – net	**(306)**	(298)	(315)
Income Before Income Taxes	**922**	873	882
Income Taxes	**304**	294	329
Net Income	**$ 618**	$ 579	$ 553
Earnings per share of common stock (basic and assuming dilution)	**$ 3.57**	$ 3.33	$ 3.16
Dividends per share of common stock	**$ 1.92**	$ 1.84	$ 1.76
Average number of common shares outstanding	**173**	174	175

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

Consolidated Balance Sheets

December 31,	1997	1996
	(Millions of Dollars)	
Property, Plant and Equipment		
Electric utility plant in service and other property	**$17,430**	$16,593
Nuclear fuel under capital lease	**186**	182
Construction work in progress	**204**	258
Less accumulated depreciation and amortization	**(8,466)**	(7,649)
Total property, plant and equipment – net	**9,354**	9,384
Current Assets		
Cash and cash equivalents	**54**	196
Customer receivables, net of allowances of $9 million and $12 million	**501**	462
Materials, supplies and fossil fuel inventory – at average cost	**302**	268
Deferred clause expenses	**122**	127
Other	**122**	120
Total current assets	**1,101**	1,173
Other Assets		
Special use funds of FPL	**1,007**	806
Other investments	**282**	327
Other	**705**	529
Total other assets	**1,994**	1,662
Total Assets	**$12,449**	$12,219

December 31,	1997	1996
	(Millions of Dollars)	
Capitalization		
Common shareholders' equity	**$ 4,845**	$ 4,592
Preferred stock of FPL without sinking fund requirements	**226**	290
Preferred stock of FPL with sinking fund requirements	**—**	42
Long-term debt	**2,949**	3,144
Total capitalization	**8,020**	8,068
Current Liabilities		
Short-term debt	**134**	—
Current maturities of long-term debt and preferred stock	**198**	155
Accounts payable	**368**	308
Customers' deposits	**279**	268
Accrued interest and taxes	**180**	259
Other	**340**	284
Total current liabilities	**1,499**	1,274
Other Liabilities and Deferred Credits		
Accumulated deferred income taxes	**1,473**	1,531
Deferred regulatory credit – income taxes	**166**	129
Unamortized investment tax credits	**229**	251
Storm and property insurance reserve	**252**	223
Other	**810**	743
Total other liabilities and deferred credits	**2,930**	2,877
Commitments and Contingencies		
Total Capitalization and Liabilities	**$12,449**	$12,219

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

Consolidated Statements of Cash Flows

Years Ended December 31,	1997	(Millions of Dollars) 1996	1995
Cash Flows From Operating Activities			
Net income	**$ 618**	$ 579	$ 553
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**1,061**	960	918
Decrease in deferred income taxes and related regulatory credit	**(30)**	(76)	(90)
Increase (decrease) in accrued interest and taxes	**(79)**	39	10
Other – net	**27**	90	119
Net cash provided by operating activities	**1,597**	1,592	1,510
Cash Flows From Investing Activities			
Capital expenditures of FPL	**(551)**	(474)	(661)
Independent power investments	**(291)**	(52)	(37)
Other – net	**45**	—	(4)
Net cash used in investing activities	**(797)**	(526)	(702)
Cash Flows From Financing Activities			
Issuance of long-term debt	**42**	—	178
Retirement of long-term debt and preferred stock	**(717)**	(338)	(574)
Increase (decrease) in short-term debt	**113**	(179)	(56)
Repurchase of common stock	**(48)**	(82)	(69)
Dividends on common stock	**(332)**	(320)	(309)
Other – net	**—**	3	(18)
Net cash used in financing activities	**(942)**	(916)	(848)
Net increase (decrease) in cash and cash equivalents	**(142)**	150	(40)
Cash and cash equivalents at beginning of year	**196**	46	86
Cash and cash equivalents at end of year	**$ 54**	$ 196	$ 46
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	**$ 287**	$ 248	$ 276
Cash paid for income taxes	**$ 434**	$ 381	$ 391
Supplemental Schedule of Noncash Investing and Financing Activities			
Additions to capital lease obligations	**$ 81**	$ 86	$ 84
Debt assumed for property additions	**$ 420**	$ 33	—

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

Notes to Consolidated Financial Statements

Years Ended December 31, 1997, 1996 and 1995

1. Summary of Significant Accounting and Reporting Policies

Basis of Presentation – FPL Group, Inc.'s (FPL Group) operating activities consist of a rate-regulated public utility, Florida Power & Light Company (FPL), independent power projects and agricultural operations. FPL supplies electric service to 3.6 million customers throughout most of the east and lower west coasts of Florida. The independent power projects consist of owned and controlled entities, which are consolidated, and non-controlling ownership interests in joint ventures or leveraged leases.

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

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

Various states, other than Florida, have either enacted legislation or are pursuing initiatives 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 generation assets should be separated from transmission, distribution and other assets. It is generally believed that under any proposal, transmission and distribution activities would remain regulated.

In the event that FPL's generating operations are no longer subject to the provisions of FAS 71, as a result of market-based pricing due to regulatory or other changes, 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. The principal regulatory assets and liabilities are as follows:

	(Millions of Dollars)	
December 31,	**1997**	**1996**
Assets (included in other assets):		
Unamortized debt reacquisition costs	**$171**	$283
Plant-related deferred costs	**$ 24**	$ 46
Nuclear maintenance reserve cumulative effect adjustment	**$ 14**	$ 21
Deferred Department of Energy assessment	**$ 48**	$ 53
Liabilities:		
Deferred regulatory credit – income taxes	**$166**	$129
Unamortized investment tax credits	**$229**	$251
Storm and property insurance reserve	**$252**	$223

The storm and property insurance reserve is primarily related to transmission and distribution properties. The amounts presented above exclude clause-related regulatory assets and liabilities that are recovered or refunded over six- or twelve-month periods. These amounts are included in current assets and liabilities in the consolidated balance sheets. 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. Since there is no deregulation proposal currently under consideration in Florida, FPL is unable to predict what impact would result from a change to a more competitive environment or when such a change might occur.

In 1995, FPL began amortizing the plant-related deferred costs in the preceding table over a period of no more than five years as approved by the FPSC. Amounts recorded in 1997, 1996 and

1995 were $22 million, $28 million and $37 million, respectively. Pursuant to an FPSC-approved program started in 1995, FPL recorded as amortization expense a fixed amount of $30 million per year for nuclear assets plus, through 1997, an additional amount of amortization based on the level of retail base revenues achieved compared to a fixed amount for nuclear and fossil generating assets and certain regulatory assets. Under this program, $199 million, $160 million and $126 million of special amortization was recorded in 1997, 1996 and 1995, respectively. The 1997 and 1996 amounts include, as depreciation and amortization expense, $169 million and $20 million, respectively, for amortization of regulatory assets. All other special amortization amounts were applied against nuclear and fossil production assets. In December 1997, the FPSC voted to extend this program through 1999 and added costs associated with the decommissioning of nuclear plants and dismantling fossil plants to the cost categories covered by the plan. The decision was made after the FPSC conducted hearings that were requested by a third party.

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 approximately $154 million and $161 million at December 31, 1997 and 1996, respectively.

Revenues include amounts resulting from cost recovery clauses, which are designed to permit full recovery of certain costs and provide a return on certain assets utilized by these programs, and franchise fees. These revenues generally represent a pass-through of costs and 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.

In December 1997, a large customer of FPL filed a petition with the FPSC requesting a limited scope proceeding to reduce FPL's base rates. The petition asks the FPSC to reduce FPL's authorized return on common equity and to exclude amounts recorded under the FPSC-approved special amortization program in determining the amount of the rate reduction. FPL Group is unable to predict what course of action the FPSC might take and what effect, if any, this matter would have on FPL Group's financial statements.

Electric Plant, Depreciation and Amortization – The cost of additions to units of utility property of FPL is added to electric utility plant. The cost of 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, 1997, the generating, transmission, distribution and general facilities of FPL represented approximately 47%, 13%, 33% and 7%, 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; a portion of the remaining electric plant in service is pledged as collateral for the senior term loan of FPL Group Capital Inc (FPL Group Capital).

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. For substantially all of FPL's property, depreciation and fossil fuel plant dismantlement studies are performed and filed with the FPSC at least every four years. Depreciation studies were filed in December 1997 and will be effective for 1998. The next fossil fuel plant dismantlement studies are scheduled to be filed by October 1, 1998 and will be effective for 1999. The weighted annual composite depreciation rate was approximately 4.3% for 1997, 4.1% for 1996 and 4.0% for 1995, excluding the effects of decommissioning and dismantlement. Further, these rates exclude approximately $222 million, $188 million and $163 million, respectively, of special and plant-related deferred cost amortization. See Regulation.

Nuclear Fuel – FPL leases nuclear fuel for all four of its nuclear units. Nuclear fuel lease expense was $85 million, $94 million and $104 million in 1997, 1996 and 1995, respectively. Included in this expense was an interest component of $9 million, $10 million and $11 million in 1997, 1996 and 1995, respectively. Nuclear fuel lease payments and a charge for spent nuclear fuel disposal are charged to fuel expense on a unit of production method. These costs are recovered through the fuel and purchased power cost recovery clause (fuel clause). Under certain circumstances of lease termination, FPL is required to purchase all nuclear fuel in whatever form at a purchase price designed to allow the lessor to recover its net investment cost in the fuel, which totaled $186 million at December 31, 1997. 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 once every five years for FPL's four nuclear units and are submitted to the FPSC for approval. The next studies are scheduled to be filed by October 1, 1998 and will be effective for 1999. These studies assume prompt dismantlement for the Turkey Point Unit Nos. 3 and 4 with decommissioning activities commencing in 2012 and 2013, respectively. St. Lucie Unit No. 1 will be mothballed in 2016 until St. Lucie Unit No. 2 is ready for decommissioning in 2023. These studies also assume that FPL will be storing spent fuel on site pending removal to a U.S. Government facility. Decommissioning expense accruals, included in depreciation and amortization expense, were $85 million in 1997, 1996 and 1995. FPL's portion of the ultimate cost of decommissioning its four units, including dismantlement and reclamation, expressed in 1997 dollars, is currently estimated to aggregate $1.5 billion. At December 31, 1997 and 1996, the accumulated provision for nuclear decommissioning totaled $998 million and $805 million, respectively, and is included in accumulated depreciation.

Similarly, FPL accrues the cost of dismantling its fossil fuel plants over the expected service life of each unit. Fossil dismantlement expense totaled $17 million in both 1997 and 1996 and $25 million in 1995, and is included in depreciation and amortization expense. The ultimate cost of dismantlement for the fossil units, expressed in 1997 dollars, is estimated to be $266 million. At December 31, 1997 and 1996, the accumulated provision for fossil dismantlement totaled $162 million and $146 million, respectively, and is a component of accumulated depreciation.

Restricted assets for the payment of future expenditures to decommission FPL's nuclear units are included in special use funds of FPL. At December 31, 1997 and 1996, decommissioning fund assets were $850 million and $667 million, respectively. Securities held in the decommissioning fund are carried at market value with market adjustments resulting in a corresponding adjustment to the accumulated provision for nuclear decommissioning. See Note 3. Contributions to the funds are based on current period decommissioning expense. Additionally, fund earnings, net of taxes are reinvested in the funds. The tax effects of amounts not yet recognized for tax purposes are included in accumulated deferred income taxes.

In 1996, the Financial Accounting Standards Board (FASB) issued an exposure draft on accounting for obligations associated with the retirement of long-lived assets and recently decided to restudy the matter. A method proposed by the FASB would require the present value of estimated future cash flows to decommission FPL's nuclear power plants and dismantle its fossil power plants to be recorded as an increase to asset balances and as a liability. This amount is currently estimated to be $1.5 billion. Under that proposal, it is anticipated that there will be no effect on cash flows and, because of the regulatory treatment, there will be no significant effect on net income.

Accrual for Nuclear Maintenance Costs – In 1996, the FPSC approved a new method of accounting for maintenance costs incurred during nuclear refueling outages. Under this new method, the estimated maintenance costs relating to each unit's next planned outage will be accrued over the period beginning when the unit resumes operations until the end of the next refueling outage. Any difference between the estimated and actual costs will be included in O&M expenses when known. This approach results in FPL recognizing maintenance costs equivalent to slightly less than three outages per year based upon the current refueling outage schedule for FPL's four nuclear units. The cumulative effect of adopting this accounting method was $35 million and, in accordance with the FPSC order, was recorded as a regulatory asset which will be amortized and included in O&M expenses over a period not to exceed five years. In 1997 and 1996, $7 million and $14 million, respectively, of the cumulative adjustment was expensed.

Construction Activity – In accordance with an FPSC rule, FPL is not permitted to capitalize interest or a return on common equity during construction, except for projects that cost in excess of 1/2% of plant in service and will require more than one year to complete. The FPSC allows construction projects below the 1/2% threshold as an element of rate base. FPL Group's non-regulated operations capitalize interest on construction projects.

Storm and Property Insurance Reserve Fund (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. The storm fund, which totaled $157 million and $139 million at December 31, 1997 and 1996, respectively, is included in special use funds of FPL. 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 and Note 9 - 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.

Other Investments – Included in other investments in FPL Group's consolidated balance sheets are FPL Group's participation in leveraged leases of $154 million and $157 million at December 31, 1997 and 1996, respectively. Additionally, other investments include non-majority owned interests in partnerships and joint ventures, essentially all of which are accounted for under the equity method.

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

Short-Term Debt – The year end weighted-average interest rate on short-term debt at December 31, 1997 was 6.3%. Approximately $29 million of the non-FPL fossil-fuel inventory is pledged as collateral for short-term debt.

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. Under the special amortization program, $110 million of this regulatory asset was amortized in 1997. See Regulation. 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. 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. The special amortization program included amortization of regulatory assets related to income taxes of $59 million and $20 million in 1997 and 1996, respectively.

2. Employee Retirement Benefits

Pension Benefits – Substantially all employees of FPL Group and its subsidiaries are covered by a noncontributory defined benefit pension plan. Plan benefits are generally based on employees' years of service and compensation during the last years of employment. Participants are vested after five years of service. During 1997, the pension plan was amended and restated to a cash balance design. This plan amendment, together with changes in assumptions, caused a $38 million decrease in 1997 pension cost and a $236 million decrease in the 1997 projected benefit obligation. Under this new design, benefits are described in terms of account balances and they accrue ratably over the years of service. All costs of the FPL Group pension plan are allocated to participating subsidiaries on a pro rata basis. In September 1997, a special retirement program was accepted by 456 bargaining unit employees at FPL.

For 1997, 1996 and 1995 the components of pension cost are as follows:

	(Millions of Dollars)		
Years Ended December 31,	**1997**	**1996**	**1995**
Service cost	**$ 38**	$ 38	$ 32
Interest cost on projected benefit obligation	**76**	90	88
Actual return on plan assets	**(343)**	(123)	(350)
Net amortization and deferral	**160**	(24)	211
Negative pension cost	**(69)**	(19)	(19)
Effect of special retirement programs	**18**	–	5
Pension cost	**$ (51)**	$ (19)	$ (14)

FPL Group and its subsidiaries fund the pension cost calculated under the entry age normal level percentage of pay actuarial cost method, provided that this amount satisfies the minimum funding standards of the Employee Retirement Income Security Act of 1974, as amended, and is not greater than the maximum tax deductible amount for the year. No contributions to the plan were required for 1997, 1996 or 1995.

A reconciliation of the funded status of the plan to the amounts recognized in FPL Group's consolidated balance sheets is presented below:

	(Millions of Dollars)	
December 31,	**1997**	**1996**
Plan assets at fair value, primarily listed stocks and bonds[a]	**$2,287**	$1,996
Actuarial present value of benefits for services rendered to date[a]:		
Accumulated benefits based on salaries to date, including vested benefits of $1.103 billion and $898 million	**1,127**	951
Additional benefits based on estimated future salary levels	**19**	311
Projected benefit obligation[a]	**1,146**	1,262
Plan assets in excess of projected benefit obligation	**1,141**	734
Prior service (credits) costs not recognized in net periodic pension cost	**(117)**	175
Unrecognized net asset at January 1, 1986, being amortized over 19 years – net of accumulated amortization	**(163)**	(187)
Unrecognized net gain	**(762)**	(675)
Prepaid pension cost	**$ 99**	$ 47

(a) *Measured as of September 30.*

The weighted-average discount rate used in determining the actuarial present value of the projected benefit obligation was 6.50% and 7.00% for 1997 and 1996, respectively. The assumed rate of increase in future compensation levels was 5.5% for both years. The expected long-term rate of return on plan assets used in determining pension cost was 7.75% for 1997, 1996 and 1995. In 1996, FPL Group elected to change the measurement date for pension obligations and plan assets from December 31 to September 30. The effect of this accounting change was not material.

Other Postretirement Benefits – FPL Group and its subsidiaries have defined benefit postretirement plans for health care and life insurance benefits that cover substantially all employees. All costs of the FPL Group plans are allocated to participating subsidiaries on a pro rata basis. Eligibility for health care benefits is based upon age plus years of service at retirement. The plans are contributory and contain cost-sharing features such as deductibles and coinsurance. FPL Group has set a cap on company contributions for postretirement health care which may be reached at some point in the future depending on actual claims experience. Generally, life insurance benefits for retirees are capped at $50,000. FPL Group's policy is to fund postretirement benefits in amounts determined at the discretion of management.

For 1997, 1996 and 1995, the components of net periodic postretirement benefit cost are as follows:

	(Millions of Dollars)		
Years Ended December 31,	**1997**	**1996**	**1995**
Service cost	**$ 6**	$ 5	$ 4
Interest cost	**21**	18	18
Actual return on plan assets	**(28)**	(4)	(23)
Amortization of transition obligation	**3**	3	3
Net amortization and deferral	**21**	(2)	17
Postretirement benefit cost	**$ 23**	$ 20	$ 19

A reconciliation of the funded status of the plan to the amounts recognized in FPL Group's consolidated balance sheets is presented below:

	(Millions of Dollars)	
December 31,	**1997**	**1996**
Plan assets at fair value, primarily listed stocks and bonds[a]	**$125**	$107
Accumulated postretirement benefit obligation[a]:		
Retirees	**214**	189
Fully eligible active plan participants	**9**	3
Other active plan participants	**101**	81
Total	**324**	273
Accumulated postretirement benefit obligation in excess of plan assets	**199**	166
Unrecognized net transition obligation (amortized over 20 years)	**(53)**	(56)
Unrecognized net loss	**(23)**	(10)
Accrued postretirement benefit liability	**$123**	$100

(a) *Measured as of September 30.*

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) for 1997 was 7.0% for retirees under age 65 and 6.0% for retirees over age 65. These rates are assumed to decrease gradually to 5.0% by 2003. The cap on FPL Group's contributions mitigates the potential significant increase in costs resulting from an increase in the health care cost trend rate. Increasing the assumed health care cost trend rate by one percentage point would increase the plan's accumulated postretirement benefit obligation as of September 30, 1997 by $12 million, and the aggregate of the service and interest cost components of net periodic postretirement benefit cost of the plan for 1997 by approximately $1 million.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 6.50% and 7.00% for 1997 and 1996, respectively. The expected long-term rate of return on plan assets used in determining postretirement benefit cost was 7.75% for 1997, 1996 and 1995. In 1996, FPL Group elected to change the measurement date for benefit obligations and plan assets from December 31 to September 30. The effect of this accounting change was not material.

3. Financial Instruments

The carrying amounts of cash equivalents and short-term debt approximate their fair values. Certain investments of FPL Group, included in other investments, are carried at estimated fair value which was $51 million and $66 million at December 31, 1997 and 1996, respectively. 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.

December 31,	1997 Carrying Amount	1997 Estimated Fair Value	1996 Carrying Amount	1996 Estimated Fair Value
	(Millions of Dollars)			
Preferred stock of FPL with sinking fund requirements [a]	-	-	$ 46	$ 47[b]
Long-term debt [a]	$3,147	$3,236[b]	$ 3,295	$3,319[b]
Interest rate swap agreements	-	$ 31[c]	-	-

(a) *Includes current maturities.*
(b) *Based on quoted market prices for these or similar issues.*
(c) *Based on estimated cost to terminate the agreements.*

Special Use Funds – Securities held in the special use funds are carried at estimated fair value. Slightly more than one-half of the nuclear decommissioning fund consists of municipal and corporate debt securities with a weighted-average maturity of 10 years. The remaining balance consists of equity securities. The storm fund primarily consists of municipal debt securities with a weighted-average maturity of 4 years. The cost of securities sold is determined on the specific identification method. The funds had realized gains of $3 million and realized losses of $2 million in 1997, $8 million and $9 million in 1996 and $13 million and $4 million in 1995, respectively. The funds had unrealized gains of $126 million and $55 million at December 31, 1997 and 1996, respectively; the unrealized losses at those dates were $1 million and $2 million. The proceeds from the sale of securities in 1997, 1996 and 1995 were $800 million, $1.05 billion and $950 million, respectively.

4. Common Shareholders' Equity

The changes in common shareholders' equity accounts are as follows:

	Common Stock [a] Shares	Common Stock [a] Aggregate Par Value	Additional Paid-In Capital	Unearned Compensation	Retained Earnings	Common Shareholders' Equity
	(In Millions)					
Balances, December 31, 1994	187	$2	$3,486	$(304)	$1,014	
Net income	-	-	-	-	553	
Repurchase of common stock	(2)	-	(69)	-	-	
Dividends on common stock	-	-	-	-	(309)	
Earned compensation under ESOP	-	-	5	17	-	
Other	-	-	(2)	-	1	
Balances, December 31, 1995	185 [b]	2	3,420	(287)	1,259	
Net income	-	-	-	-	579	
Repurchase of common stock	(2)	-	(82)	-	-	
Dividends on common stock	-	-	-	-	(320)	
Earned compensation under ESOP	-	-	8	15	-	
Other	-	-	(1)	-	-	
Balances, December 31, 1996	183 [b]	2	3,345	(272)	1,518	$4,593
Net income	-	-	-	-	618	
Repurchase of common stock	(1)	-	(48)	-	-	
Dividends on common stock	-	-	-	-	(332)	
Earned compensation under ESOP	-	-	6	8	-	
Balances, December 31, 1997	182 [b]	$2	$3,303	$(264)	$1,804	$4,845

(a) *$.01 par value, authorized - 300,000,000 shares; outstanding 181,762,385 and 182,815,135 at December 31, 1997 and 1996, respectively.*
(b) *Outstanding and unallocated shares held by the ESOP Trust totaled 8.9 million, 9.3 million and 9.8 million at December 31, 1997, 1996 and 1995, respectively.*

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 1997, 1996 and 1995, 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 $19 million in 1997, $23 million in 1996 and $18 million in 1995 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, 1997 was approximately $259 million, representing 8.9 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 as of December 31, 1997 was approximately $528 million.

Long-Term Incentive Plan – In 1994, FPL Group's board of directors and its shareholders approved FPL Group's current long-term incentive plan. Under this plan, 9 million shares of common stock are reserved and available for awards to officers and employees of FPL Group and its subsidiaries as of December 31, 1997. Total compensation charged against earnings under the incentive plan was not material in any year.

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

	Performance Shares [a]	Restricted Stock	Non-Qualified Option Shares [a]
Balances, December 31, 1994	377,190	187,750	38,387
Granted [b]	97,786	13,500	-
Exercised at $30 7/8	-	-	(23,136)
Paid/released	(123,328)	(3,000)	-
Forfeited	(31,312)	(4,050)	(4,066)
Balances, December 31, 1995	320,336	194,200	11,185
Granted [b]	90,772	23,000	-
Exercised at $30 7/8	-	-	(10,935)
Paid/released	(60,359)	(34,250)	-
Forfeited	(39,222)	(16,650)	(250)
Balances, December 31, 1996	311,527	166,300	-
Granted [b]	212,011	71,000	-
Paid/released	(70,008)	-	-
Forfeited	(10,942)	(17,750)	-
Balances, December 31, 1997	442,588 [c]	219,550 [d]	-

(a) *Performance shares and non-qualified option shares resulted in 132 thousand, 124 thousand and 112 thousand assumed incremental shares of common stock outstanding for purposes of computing diluted earnings per share in 1997, 1996 and 1995, respectively. These incremental shares did not change basic earnings per share.*

(b) *The average grant date fair value of equity instruments issued under the incentive plan was $13 million in 1997, $5 million in 1996 and $4 million in 1995.*

(c) *Payment of performance shares is based on the market price of FPL Group's common stock when the related performance goal is achieved.*

(d) *Shares of restricted stock were issued at market value at the date of the grant.*

The accounting and disclosure requirements of FAS 123, "Accounting for Stock-Based Compensation," became effective in 1996. The statement encourages a fair value-based method of accounting for stock-based compensation. FPL Group, however, elected to continue the use of the intrinsic value-based method of accounting as permitted by the statement. The results of utilizing the accounting method recommended in FAS 123 would not have a material effect on FPL Group's results of operations or earnings per share.

Other – Each share of common stock has been granted a Preferred Share Purchase Right (Right), which is exercisable 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. Preferred Stock

FPL Group's charter authorizes the issuance of 100 million shares of serial preferred stock, $.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, 1997		(Millions of Dollars) December 31,	
	Shares Outstanding	Redemption Price	1997	1996
Cumulative, No Par Value, authorized 10,000,000 shares at December 31, 1996; without sinking fund requirements – $2.00 No Par Value, Series A (Involuntary Liquidation Value $25 Per Share) [b]			-	$63
Cumulative, $100 Par Value, authorized 15,822,500 shares at December 31, 1997 and 1996:				
Without sinking fund requirements:				
4 1/2% Series	**100,000**	**$101.00**	**$ 10**	10
4 1/2% Series A	**50,000**	**$101.00**	**5**	5
4 1/2% Series B	**50,000**	**$101.00**	**5**	5
4 1/2% Series C	**62,500**	**$103.00**	**6**	6
4.32% Series D	**50,000**	**$103.50**	**5**	5
4.35% Series E	**50,000**	**$102.00**	**5**	5
6.98% Series S	**750,000**	**$103.49** [c]	**75**	75
7.05% Series T	**500,000**	**$103.52** [c]	**50**	50
6.75% Series U	**650,000**	**$103.37** [c]	**65**	65
Total preferred stock of FPL without sinking fund requirements	**2,262,500**		**226**	289
Less current maturities	**-**		**-**	-
Total preferred stock of FPL without sinking fund requirements, excluding current maturities	**2,262,500**		**$226**	$289
With sinking fund requirements:				
6.84% Series Q [d]			-	$ 41
8.625% Series R [e]			-	5
Total preferred stock of FPL with sinking fund requirements			-	46
Less current maturities			-	4
Total preferred stock of FPL with sinking fund requirements, excluding current maturities			-	$ 42

(a) *FPL's charter authorizes the issuance of 5 million shares of subordinated preferred stock, no par value. None of these shares is outstanding. There were no issuances of preferred stock in 1997, 1996 and 1995. In 1996, FPL redeemed 600,000 shares of its 7.28% Preferred Stock, Series F, $100 Par Value and 400,000 shares of its 7.40% Preferred Stock, Series G, $100 Par Value.*

(b) *In 1997, FPL redeemed all of the outstanding shares of its $2.00 No Par Value Preferred Stock, Series A.*

(c) *Not redeemable prior to 2003.*

(d) *FPL redeemed and retired 30,000 shares in 1996 and the remaining 410,000 shares in 1997.*

(e) *FPL redeemed and retired 50,000 shares in 1996 and the remaining 50,000 shares in 1997.*

6. Long-Term Debt

Long-term debt consists of the following:

December 31,	1997 (Millions of Dollars)	1996
FPL		
First mortgage bonds:		
Maturing through 2000 – 5 3/8% to 5 1/2%	$ 355	$ 355
Maturing 2001 through 2015 – 6 5/8% to 7 7/8%	642	660
Maturing 2016 through 2026 – 7% to 7 3/4%	741	910
Medium-term notes:		
Maturing 1998 – 5.50% to 6.20%	180	180
Maturing 2003 – 5.79%	70	107
Maturing 2016 through 2022 – 8%	-	99
Pollution control and industrial development series - Maturing 2020 through 2027 – 6.7% to 7.5%	150	150
Pollution control, solid waste disposal and industrial development revenue bonds – Maturing 2021 through 2029 – variable, 3.9% and 3.6% average annual interest rate, respectively	484	484
Installment purchase and security contracts – Maturing 2007 – 5.9%	-	2
Quarterly Income Debt Securities (Subordinated Deferrable Interest Debentures) – Maturing 2025 – 8.75%	-	62
Unamortized discount – net	(22)	(28)
Total long-term debt of FPL	2,600	2,981
Less current maturities	180	-
Long-term debt of FPL, excluding current maturities	2,420	2,981
FPL Group Capital		
Debentures:		
Maturing 1997 – 6 1/2%	-	150
Maturing 2013 – 7 5/8%	125	125
Senior term loan – Maturing 2007 – variable [(a)]	333	-
Other long-term debt – 3.5% to 8.58% due various dates to 2013	91	41
Unamortized discount	(2)	(2)
Total long-term debt of FPL Group Capital	547	314
Less current maturities	18	151
Long-term debt of FPL Group Capital, excluding current maturities	529	163
Total long-term debt	$2,949	$3,144

(a) *A notional principal amount of $267 million at December 31, 1997 is hedged with interest rate swap agreements to reduce the impact of changes in interest rates on variable rate long-term debt. The swap agreements effectively change the variable interest rates to an average fixed rate of 9.7% and expire in 2001.*

Minimum annual maturities of long-term debt for FPL Group for 1998-2002 are approximately $198 million, $322 million, $147 million, $24 million and $27 million, respectively.

Available lines of credit aggregated approximately $1.3 billion at December 31, 1997, all of which were based on firm commitments.

7. Income Taxes

The components of income taxes are as follows:

Years Ended December 31,	1997	1996 (Millions of Dollars)	1995
Federal:			
Current	$308	$355	$381
Deferred	(34)	(77)	(78)
ITC – net	(22)	(31)	(22)
Total federal	252	247	281
State:			
Current	52	63	59
Deferred	-	(16)	(11)
Total state	52	47	48
Total income taxes	$304	$294	$329

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

Years Ended December 31,	1997	1996	1995
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increases (reductions) resulting from:			
State income taxes – net of federal income tax benefit	3.7	3.5	3.5
Amortization of ITC	(2.4)	(3.6)	(2.4)
Amortization of deferred regulatory credit – income taxes	(1.8)	(2.0)	(2.0)
Adjustments of prior years' tax matters	(2.7)	(1.3)	(0.1)
Preferred stock dividends – FPL	0.7	1.0	1.7
Other – net	0.5	1.0	1.6
Effective income tax rate	33.0%	33.6%	37.3%

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

December 31,	1997 (Millions of Dollars)	1996
Deferred tax liabilities:		
Property-related	$1,663	$1,708
Investment-related	436	384
Other	362	342
Total deferred tax liabilities	2,461	2,434
Deferred tax assets and valuation allowance:		
Asset writedowns and capital loss carryforward	110	155
Unamortized ITC and deferred regulatory credit – income taxes	153	147
Storm and decommissioning reserves	246	224
Other	507	442
Valuation allowance	(28)	(65)
Net deferred tax assets	988	903
Accumulated deferred income taxes	$1,473	$1,531

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.

8. Jointly-Owned Electric Utility Plant

FPL owns approximately 85% of the 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, 1997, FPL's gross investment in these units was $1.173 billion, $328 million and $573 million, respectively; accumulated depreciation was $484 million, $155 million and $160 million, respectively.

FPL is responsible for its share of the operating costs, as well as providing its own financing. At December 31, 1997, there was no significant balance of construction work in progress on these facilities.

9. 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 $1.8 billion for 1998 through 2000. Included in this three-year forecast are capital expenditures for 1998 of approximately $620 million. Also, in January 1998 FPL Group acquired interests in two power plants in the Northeast and announced plans to purchase all of Central Maine Power Company's (Central Maine) non-nuclear generation assets. The Central Maine transaction is expected to close in the second half of 1998 and is subject to approval by federal and state regulators. Commitments for energy-related acquisitions, including the acquisitions mentioned above, are $1.1 billion for 1998. FPL Group Capital and its subsidiaries have guaranteed approximately $240 million of lease obligations, debt service payments and other payments subject to certain contingencies. This amount includes guarantees associated with acquisitions occurring in early 1998.

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 $327 million per incident at any nuclear utility reactor in the United States, payable at a rate not to exceed $40 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 $68 million in retrospective premiums.

FPL also participates in a program that provides $200 million of tort liability coverage industry wide for nuclear worker claims. In the event of a tort claim by an FPL or another insured's nuclear worker, FPL could be assessed up to $12 million in retrospective premiums per incident.

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 certain of its transmission and distribution (T&D) property due to the high cost and limited coverage available from third-party insurers. FPL maintains a funded storm and property insurance reserve, which totaled approximately $252 million at December 31, 1997, for T&D 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 include $300 million to provide additional liquidity in the event of a T&D property loss.

Contracts – FPL has entered into certain 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 megawatts (mw) of power through mid-2010 and 374 mw through 2022. FPL also has various firm pay-for-performance contracts to purchase approximately 1,000 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. Capacity payments for the pay-for-performance contracts are subject to the qualifying facilities meeting certain contract conditions. The fuel contracts provide for the transportation and supply of natural gas and coal and the supply and use of Orimulsion. Orimulsion is a new fuel that FPL expected to begin using in 1998. The contract and related use of this fuel is subject to regulatory approvals. In 1996, Florida's Power Plant Siting Board denied FPL's request to burn Orimulsion at the Manatee power plant. FPL appealed the denial. In 1997, Florida's Power Plant Siting Board remanded selected issues for hearing before an administrative law judge. Hearings took place in January and February 1998. A decision is pending.

The required capacity and minimum payments through 2001 under these contracts are estimated to be as follows:

	(Millions of Dollars) 1998	1999	2000	2001	2002
Capacity payments:					
JEA	$ 80	$ 90	$ 90	$ 90	$ 90
Southern Companies	$ 130	$ 130	$ 120	$ 120	$ 120
Qualifying facilities [a]	$ 350	$ 360	$ 370	$ 380	$ 400
Minimum payments, at projected prices:					
Natural gas, including transportation	$ 230	$ 220	$ 220	$ 220	$ 220
Orimulsion [b]	-	-	$ 140	$ 140	$ 140
Coal	$ 50	$ 40	$ 40	$ 40	$ 40

(a) *Includes approximately $35 million, $40 million, $40 million, $40 million and $45 million, respectively, for capacity payments associated with two projects that are currently in dispute. These capacity payments are subject to the outcome of the related litigation. See Litigation.*

(b) *All of FPL's Orimulsion-related contract obligations are subject to obtaining the required regulatory approvals.*

Capacity, energy and fuel charges under these contracts were as follows:

	(Millions of Dollars) 1997 Charges Capacity	1997 Charges Energy/Fuel [a]	1996 Charges Capacity	1996 Charges Energy/Fuel [a]	1995 Charges Capacity	1995 Charges Energy/Fuel [a]
JEA	**$ 78 [b]**	**$ 50**	$ 77 [b]	$ 49	$ 83 [b]	$ 47
Southern Companies	**$123 [c]**	**$103**	$115 [c]	$ 99	$130 [c]	$ 94
Qualifying facilities	**$296 [c]**	**$128**	$279 [c]	$125	$158 [c]	$ 92
Natural gas	**-**	**$413**	-	$422	-	$361
Coal	**-**	**$ 52**	-	$ 49	-	$ 37

(a) *Recovered through the fuel clause.*

(b) *Recovered through base rates and the capacity cost recovery clause (capacity clause).*

(c) *Recovered through the capacity clause.*

Litigation – In 1997, FPL filed a complaint against the owners of two qualifying facilities (plant owners) seeking an order declaring that FPL's obligations under the power purchase agreements with the qualifying facilities were rendered of no force and effect because the power plants failed to accomplish commercial operation before January 1, 1997, as required by the agreements. In 1997, the plant owners filed for bankruptcy under Chapter XI of the United States Bankruptcy Code, ceased all attempts to operate the power plants and entered into an agreement with the holders of more than 70% of the bonds that partially financed the construction of the plants. This agreement gives the holder of a majority of the principal amount of the bonds (the majority bondholders) the right to control, fund and manage any litigation against FPL and the right to settle with FPL on any terms such holders approve, provided that certain agreements are not affected and certain conditions are met. In January 1998, the plant owners (through the attorneys for the majority bondholders) filed an answer denying the allegations in FPL's complaint and asserted a counterclaim for approximately $2 billion, consisting of all capacity payments that could have been made over the 30-year term of the power purchase agreements, plus some security deposits. The plant owners also seek three times their actual damages for alleged violations of Florida antitrust laws, plus attorneys' fees.

The Florida Municipal Power Agency (FMPA), an organization comprised of municipal electric utilities, has sued FPL for allegedly breaching a "contract" to provide transmission service to the FMPA and its members and for breaching antitrust laws by monopolizing or attempting to monopolize the provision, coordination and transmission of electric power in refusing to provide transmission service, or to permit the FMPA to invest in and use FPL's transmission system, on the FMPA's proposed terms. The FMPA seeks $140 million in damages, before trebling for the antitrust claim, and court orders requiring FPL to permit the FMPA to invest in and use FPL's transmission system on "reasonable terms and conditions" and on a basis equal to FPL. In 1995, the Court of Appeals vacated the District Court's summary judgment in favor of FPL and remanded the matter to the District Court for further proceedings. In 1996, the District Court ordered the FMPA to seek a declaratory ruling from the FERC regarding certain issues in the case. All other action in the case has been stayed pending the FERC's ruling.

A former cable installation contractor for Telesat Cablevision, Inc. (Telesat), a wholly-owned subsidiary of FPL Group Capital, sued FPL Group, FPL Group Capital and Telesat for breach of contract, fraud, violation of racketeering statutes and several other claims. The trial court entered a judgment in favor of FPL Group and Telesat on nine of twelve counts, including all of the racketeering and fraud claims, and in favor of FPL Group Capital on all counts. It also denied all parties' claims for attorneys' fees. However, the jury in the case awarded the contractor damages totaling approximately $6 million against FPL Group and Telesat for breach of contract and tortious interference. All parties have appealed.

FPL Group and FPL believe that they have meritorious defenses to the litigation to which they are parties described above and are vigorously defending these suits. Accordingly, the liabilities, if any, arising from these proceedings are not anticipated to have a material adverse effect on their financial statements.

10. Summarized Financial Information of FPL Group Capital (Unaudited)

FPL Group Capital's debenture is guaranteed by FPL Group and included in FPL Group's consolidated balance sheets. Operating revenues of FPL Group Capital for the three years ended December 31, 1997, 1996 and 1995 were $237 million, $50 million and $62 million, respectively. For the same periods, operating expenses were $186 million, $65 million and $77 million, respectively. Net income for 1997, 1996 and 1995 was $27 million, $11 million and $2 million, respectively.

At December 31, 1997, FPL Group Capital had $156 million of current assets, $1.447 billion of noncurrent assets, $252 million of current liabilities and $999 million of noncurrent liabilities. At December 31, 1996, FPL Group Capital had current assets of $144 million, noncurrent assets of $857 million, current liabilities of $182 million and noncurrent liabilities of $595 million.

The expansion and restructuring of a number of ESI Energy, Inc. projects contributed to the fluctuations in certain account balances disclosed above. Beginning in 1997, several projects are consolidated in FPL Group Capital's financial statements including the accounts of a 665 mw gas-fired exempt wholesale generator and two solar projects. These transactions increased noncurrent assets by approximately $555 million and noncurrent liabilities by approximately $336 million as of December 31, 1997, as well as contributed to the increase in operating revenues and operating expenses during 1997.

11. Quarterly Data (Unaudited)

FPL Group's condensed consolidated quarterly financial information for 1997 and 1996 is as follows:

	(In millions, except per share amounts)			
	March 31 [a]	June 30 [a]	September 30 [a]	December 31 [a]
1997				
Operating revenues	$ 1,445	$ 1,587	$ 1,859	$ 1,478
Operating income	$ 225	$ 321	$ 464	$ 218
Net income	$ 101	$ 164	$ 262	$ 91
Earnings per share [b]	$ 0.58	$ 0.95	$ 1.52	$ 0.52
Dividends per share	$ 0.48	$ 0.48	$ 0.48	$ 0.48
High-low trading prices	$46 3/4 – 43 5/8	$48 1/8 – 42 5/8	$51 9/16 – 45 1/2	$ 60 – 49 1/4
1996				
Operating revenues	$ 1,358	$ 1,474	$ 1,770	$ 1,435
Operating income	$ 223	$ 299	$ 459	$ 190
Net income	$ 94	$ 150	$ 250	$ 85
Earnings per share [b]	$ 0.54	$ 0.86	$ 1.44	$ 0.49
Dividends per share	$ 0.46	$ 0.46	$ 0.46	$ 0.46
High-low trading prices	$ 48 – 42 1/8	$46 1/4 – 41 1/2	$46 5/8 – 42 5/8	$48 1/8 – 43 1/8

(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. The change in the method of accounting for the cost of nuclear refueling outages described in Note 1 did not have a material effect on the operating results of any quarter.*

(b) *Basic and assuming dilution.*

Officers

FPL Group, Inc.

James L. Broadhead
Chairman, President and Chief Executive Officer

Dennis P. Coyle
General Counsel and Secretary

James P. Higgins
Vice President
Tax

Lawrence J. Kelleher
Vice President
Human Resources

Thomas F. Kirk
Vice President
Planning, Development and Quality

Mary Lou Kromer
Vice President
Corporate Communications

K. Michael Davis
Controller

Dilek L. Samil
Treasurer

Florida Power & Light Company Senior Officers

James L. Broadhead
Chairman and Chief Executive Officer

Paul J. Evanson
President

Dennis P. Coyle
General Counsel and Secretary

Lawrence J. Kelleher
Senior Vice President
Human Resources

Thomas F. Plunkett
President
Nuclear Division

C.O. Woody
President
Power Generation Division

FPL Energy, Inc.

Michael W. Yackira
President

Leslie J. Gelber
Senior Vice President
Development

Turner Foods Corporation

John C. Norris
President

Directors

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

Sherry S. Barrat
President, Northern Trust Bank of Florida
for Palm Beach and Martin counties
(commercial bank)
Director since 1998. Member audit committee, finance committee.

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

James L. Broadhead
Chairman, President and Chief Executive Officer
FPL Group, Inc.
Director since 1989. Chairman executive committee.

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

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

Marshall M. Criser
Of Counsel
McGuire, Woods, Battle & Boothe LLP
(law firm)
Director since 1989. Chairman audit committee. Member executive committee, finance committee.

B. F. Dolan
Retired Chairman and Chief Executive Officer
Textron, Inc.
(diversified company)
Director since 1992. Chairman acquisitions committee. Member audit committee, compensation committee, executive committee.

Willard D. Dover
Principal
Fleming, O'Bryan & Fleming, P.A.
(law firm)
Director since 1989. Member audit committee, acquisitions committee, benefits committee.

Alexander W. Dreyfoos, Jr.
Chairman
The Dreyfoos Group
(investment management company)
Director since 1997. Member audit committee, finance committee.

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

Drew Lewis
Retired Chairman and Chief Executive Officer
Union Pacific Corporation
(diversified company)
Director since 1992. Member acquisitions committee, compensation committee, finance committee.

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

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.

Investor Information

Corporate Offices
FPL Group, Inc.
700 Universe Blvd.
P.O. Box 14000
Juno Beach, FL 33408-0420
(561) 694-4000

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

Options
Philadelphia Stock Exchange

Newspaper Listing
Common Stock: FPL Gp

Registrar, Transfer, and Paying Agents
FPL Group Common Stock and FPL Preferred Stock
Boston EquiServe, L.P.
P.O. Box 8040
Boston, MA 02266-8040
(888) 218-4392
8:30 a.m. to 6:00 p.m., Monday-Friday

Florida Power & Light Co. First Mortgage Bonds
Bankers Trust Company
Security Holder Relations
P.O. Box 305050
Nashville, TN 37230-5050
(800) 735-7777

Shareholder Inquiries
Communications concerning transfer requirements, lost certificates, dividend checks, address changes, stock accounts or the dividend reinvestment plan should be directed to Boston EquiServe, L.P.

Other shareholder communications to:
Alyse E. Porter
Shareholder Services
(800) 222-4511
(561) 694-4693
(561) 694-4620 (Fax)

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 Boston EquiServe, L.P.

Direct Deposit of Dividends
Cash dividends may be deposited directly to personal accounts at financial institutions. Call Boston EquiServe, L.P. for authorization forms.

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 Boston EquiServe, L.P.

News and Financial Information
For the latest news and financial information about FPL Group, call our Shareholder Direct toll-free line: **(888) 375-1329**. Callers may listen to recorded announcements and request information via fax or mail. Company information is also available on the Internet: **http://www.fplgroup.com**

Analyst Inquiries
Contact:
Investor Relations
(561) 694-4697
(561) 694-4718 (Fax)

News Media Inquiries
Contact:
Corporate Communications
P.O. Box 029100
Miami, FL 33102-9100
(305) 552-3888
(305) 552-2144 (Fax)

Certified Public Accountants
Deloitte & Touche LLP
100 S.E. Second Street, Suite 2500
Miami, FL 33131-2100

Form 10-K
The Form 10-K annual report for 1997 as filed with the Securities and Exchange Commission is available without charge by writing to FPL Group Shareholder Services.

Annual Meeting
May 18, 1998, 10 a.m.
Palm Beach Gardens Marriott
4000 RCA Boulevard
Palm Beach Gardens, FL

Proposed 1998 Common Stock Dividend Dates*

Declaration	Ex-Dividend	Record	Payment
February 16	February 25	February 27	March 16
May 18	May 27	May 29	June 15
August 17	August 26	August 28	September 15
November 16	November 24	November 27	December 15

Optional Cash Payment Dates

Qtr./Yr.	Acceptance begins	Must be received by
2nd/98	May 15	June 10
3rd/98	August 15	September 10
4th/98	November 15	December 10
1st/99	February 15	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.*

Preserving the Environment

FPL's long-standing commitment to preserving Florida's fragile environment includes wildlife protection programs for crocodiles, manatees and other endangered species.

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

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