STEEL
HECTOR
& DAVIS
REGISTERED LIMITED LIABILITY PARTNERSHIP

Steel Hector & Davis LLP
215 South Monroe, Suite 601
Tallahassee, Florida 32301-1804
850.222.2300
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www.steelhector.com

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RECORDS AND REPORTING

September 30, 1998

**Charles A. Guyton**
850.222.3423

Blanca S. Bayó, Director
Records and Reporting
Florida Public Service Commission
4075 Esplanade Way, Room 110
Tallahassee, Florida 32399-0850

**By Hand Delivery**

981242-EI

**RE: Application of Florida Power & Light Company For Authority To Issue And Sell Securities Pursuant To Section 366.04, Florida Statutes, And Chapter 25-8, Florida Administrative Code**

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida Power & Light Company are the original and five (5) copies of the Application of Florida Power & Light Company For Authority to Issue and Sell Securities. A separate copy of the filing has been sent to the Office of Public Counsel.

Also enclosed to assist in processing this Application are five (5) copies of a proposed Notice for the Florida Administrative Weekly and a checklist of critical language. The date for final Commission action has been left blank in the proposed Notice; it is the hope of Florida Power & Light Company that the Application can be addressed by mid-November. The checklist, consistent with prior practice, has been provided to assist in the drafting of important portions of a final order if the Application is granted.

If you or your staff have any questions regarding this filing, please contact me.

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

Very truly yours,

Charles A. Guyton

Enclosure
cc: Jack Shreve, Esq.
TAL/25992-1

DOCUMENT NUMBER-DATE
10774 SEP 30 98
FPSC-RECORDS/REPORTING

DOCKET NO.

# FLORIDA PUBLIC SERVICE COMMISSION

Tallahassee, Florida

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## APPLICATION OF

## FLORIDA POWER & LIGHT COMPANY

## FOR AUTHORITY TO ISSUE AND SELL SECURITIES

## PURSUANT TO SECTION 366.04, FLORIDA STATUTES

## AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE

Address communications in connection with this Application to:


Dilek Samil
Treasurer and Assistant Secretary
Florida Power & Light Company
700 Universe Boulevard
P.O. Box 14000
Juno Beach, Florida 33408
Telephone (561) 694-6324

Dennis P. Coyle
General Counsel and Secretary
Florida Power & Light Company
700 Universe Boulevard
P.O. Box 14000
Juno Beach, Florida 33408
Telephone (561) 694-4644

William G. Walker, III
Vice President, Regulatory Affairs
Florida Power & Light Company
9250 West Flagler Street
P.O. Box 029100
Miami, Florida 33102
Telephone (305) 552-4981


The date of this Application is September 30, 1998.

**APPLICATION OF**
**FLORIDA POWER & LIGHT COMPANY**
**FOR AUTHORITY TO ISSUE AND SELL SECURITIES**
**PURSUANT TO SECTION 366.04, FLORIDA STATUTES**
**AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE**

A. Applicability.

This Application is filed in accordance with Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code.

B. Contents of Application.

1. Name and Principal Business Office Address.

Florida Power & Light Company
700 Universe Boulevard
P.O. Box 14000
Juno Beach, Florida 33408

2. State and Date Incorporated.

- State of Florida – December 28, 1925
- Also qualified to do business in the State of Georgia

3. Persons Authorized to Receive Notices and Communications.

Dilek Samil
Treasurer and Assistant Secretary
Florida Power & Light Company
700 Universe Boulevard
P.O. Box 14000
Juno Beach, Florida 33408
Telephone (561) 694-6324

Dennis P. Coyle
General Counsel and Secretary
Florida Power & Light Company
700 Universe Boulevard
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Telephone (561) 694-4644

William G. Walker, III
Vice President, Regulatory Affairs
Florida Power & Light Company
9250 West Flagler Street
P.O. Box 029100
Miami, Florida 33102
Telephone (305) 552-4981

4. Capital Stock and Funded Debt.

4(a)(b)(c) Information responsive to description, amount authorized and amount outstanding: These items are contained in Exhibit C "Statement of Capital Stock and Debt – June 30, 1998."

4(d) The amount held as reacquired securities: At June 30, 1998, FPL held 120,000 shares of its 6.84% Preferred Stock, Series Q, \$100 par value; 500,000 shares of its 8.625% Preferred Stock, Series R, \$100 par value; 600,000 shares of its 7.28% Preferred Stock, Series F, \$100 par value; 400,000 shares of its 7.40% Preferred Stock, Series G, \$100 par value; and 5,000,000 shares of its \$2.00 No Par Preferred Stock, Series A, as reacquired securities resulting from the redemption or reacquisition without cancellation of such



h: /public/fpscapl/98appl.doc

shares. The Restated Articles of Incorporation of FPL, as amended, prohibit the reissuance of shares of Preferred Stock after their redemption.

4(e) The amount pledged by applicant: The pollution control and industrial development first mortgage bonds, in aggregate principal amount of $150,135,000 as of June 30, 1998, have been pledged as security for the payment of principal and interest on private activity bonds issued by political subdivisions of the State of Florida on behalf of FPL.

FPL is the obligor on $483,735,000 aggregate principal amount of outstanding unsecured variable rate pollution control and industrial development bonds issued by certain political subdivisions of the State of Florida which presently pay interest at a variable rate. The proceeds from the issuance of $463,185,000 aggregate principal amount of these variable rate bonds were used to redeem an equal amount of fixed rate pollution control and industrial development bonds, and FPL's first mortgage bonds pledged as security for the redeemed fixed rate bonds were released. FPL has the option to cause the interest on the variable rate bonds to be paid at a fixed rate. If FPL exercises this option, FPL will be required to pledge an equal aggregate principal amount of its first mortgage bonds as security for the payment of principal and interest on such fixed rate bonds.

4(f) The amount owned by affiliated corporations: All of the common stock of FPL is owned by FPL Group, Inc.

4(g) The amount held in any fund: None.

5. Proposed Transactions. FPL seeks permission to issue and sell and/or exchange any combination of the long-term debt and equity securities described below and/or to assume liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed $1.6 billion during calendar year 1999. FPL also seeks permission to enter into forward refunding or forward swap contracts during calendar year 1999. In conjunction with these forward contracts, FPL seeks permission to issue and sell up to $151 million of securities through December 31, 2002, which FPL would commit to deliver under these forward contracts. In addition, FPL seeks permission to issue and sell short-term securities during the calendar years 1999 and 2000 in an amount or amounts such that the aggregate principal amount of short-

term securities outstanding at the time of any such sale will not exceed 25% of FPL's gross revenues during the preceding twelve months of operation.

The long-term debt securities may include first mortgage bonds, medium-term notes, debentures, convertible or exchangeable debentures, notes, convertible or exchangeable notes, or other straight debt or hybrid debt securities, whether secured or unsecured, with maturities ranging from one to one-hundred years. FPL may enter into options, rights, interest rate swaps or other derivative instruments. FPL may also enter into installment purchase and security agreements, loan agreements, or other arrangements with political subdivisions of the States of Florida or Georgia or pledge debt securities or issue guarantees in connection with such political subdivisions' issuance, for the ultimate benefit of FPL, of pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes or other "private activity bonds" with maturities ranging from one to forty years, bond anticipation notes or commercial paper. Such obligations may or may not bear interest exempt from federal tax.

The equity securities may include common stock, preferred stock, preference stock, convertible preferred or preference stock, or warrants, options or rights to acquire such securities, or other equity securities, with such par values, terms and conditions and relative rights and preferences as deemed appropriate by FPL and as are permitted by its Restated Articles of Incorporation, as amended and as they may be amended from time to time.

FPL may also enter into preferred securities financings, whereby FPL would establish and make an equity investment in a special purpose limited partnership or other entity. FPL, or a wholly-owned subsidiary of FPL, would act as the general partner or managing member of the entity. The entity would offer preferred securities to the public and lend the proceeds to FPL. FPL would issue debt securities to the entity equal to the aggregate of its equity investment and the amount of preferred securities borrowed. FPL may also guarantee, among other things, the distributions to be paid by the affiliated entity to the preferred securities holders.

The exchange of FPL's securities may be by way of an exchange of a security of FPL for another security or securities of FPL or of one of its subsidiaries or affiliates, or the exchange of a security of FPL or of one of its subsidiaries or affiliates for the security or securities of another entity.

The manner of issuance and sale and/or exchange of securities will be dependent upon the type of security being offered, the type of transaction in which the securities are being issued and sold and/or exchanged and market conditions at the time of the issuance and sale and/or exchange.

The short-term securities will have maturities of not more than twelve months and may be secured or unsecured. The Securities and Exchange Commission has heretofore indicated through a no action letter that FPL may issue and sell commercial paper without compliance with the registration requirements of the Securities Act of 1933, as amended, subject to certain conditions, including that FPL may have commercial paper borrowings outstanding up to an amount not to exceed 25% of FPL's gross revenues during the preceding twelve months of operation. For the twelve months ended June 30, 1998, 25% of FPL's gross revenues was $1.5 billion.

The interest rate FPL could pay on debt securities will vary depending on the type of debt instruments and the terms thereof, including specifically the length of maturity as well as market conditions. On September 25, 1998 a new issue of 30-year first mortgage bonds of FPL would have carried a yield to maturity of about 6.85%. The dividend rate for preferred stock is similarly affected by the terms of the offering. On September 25, 1998 a new issue of tax deductible preferred stock of FPL would have carried a dividend yield of about 7.25%.

In addition, FPL may from time to time enter into nuclear fuel leases, issue instruments of guaranty, collateralize debt and other obligations, issue other securities, and arrange for the issuance of letters of credit and guaranties, in any such case to be issued (i) by or on behalf of one or more of its subsidiaries or affiliates for the benefit of FPL's utility operations, (ii) by non-affiliates (including employees) in connection with FPL's utility operations, (iii) by FPL or by or on behalf of one or more of its subsidiaries or affiliates in connection with FPL customers' installations of energy efficiency measures, and/or (iv) in connection with other financings by FPL or on its behalf. To the extent that FPL enters into fuel leases, issues instruments of guaranty, collateralizes debt or other obligations, issues other securities or arranges for the issuance of letters of credit or guaranties by or on behalf of one or more of its subsidiaries, affiliates or non-affiliates to benefit its utility operations, FPL will clearly demonstrate such benefits.

FPL will file a consummation report with the Florida Public Service Commission (the Commission) in compliance with Rule 25-8.009, Florida Administrative Code, within 90 days after the end of any fiscal year in which it issues securities.

6. Purposes of Issues. The net proceeds to be received from the issuance and sale and/or exchange of the additional long-term debt and equity securities (with the exception of the proceeds of the issuance and sale of any pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes or other "private activity bonds" or similar securities which will be used for specific purposes) will be added to FPL's general funds and will be used to provide additional electric facilities; to reacquire, by redemption, purchase, exchange or otherwise, any of its outstanding debt securities or equity securities; to repay all or a portion of any maturing long-term debt obligations; to satisfy FPL's obligations under the nuclear fuel leases; to repay all or a portion of short-term bank borrowings and commercial paper outstanding at the time of such transactions; and/or for other corporate purposes. Excess proceeds, if any, will be temporarily invested in short-term instruments pending their application to the foregoing purposes.

During the 1999-2000 period, FPL has a total of approximately $355 million of long-term debt maturities.

FPL maintains a continuous construction program, principally for electric generation, transmission and distribution facilities. FPL estimates that construction expenditures under its 1999-2000 construction program will approximate $1.6 billion (see Exhibit B). There is no Allowance for Funds Used During Construction (AFUDC) assumed in the construction expenditures forecast for 1999-2000.

Under future market conditions, the interest rate on new issue long-term debt or the dividend rate on new issue preferred stock of FPL may be such that it becomes economically attractive to reacquire a portion or all of certain of its long-term debt securities or equity securities, providing an opportunity for FPL to reduce interest or dividend expense even after accounting for such other considerations as the (i) reacquisition premium, (ii) other associated reacquisition expenses and (iii) related income tax effects.

This reduction would be beneficial to the ratepayers and, with proper regulatory treatment, would not be detrimental to FPL's shareholders. Other important considerations in making such a decision would include an assessment of anticipated future interest and dividend rates and FPL's ability to raise enough new capital to finance its construction program while concurrently pursuing any refinancing opportunities.

The forward refunding contracts would be for the purpose of refunding up to $151 million of pollution control revenue bonds which were issued on FPL's behalf and which become callable in July 2000, February 2001 and May 2002. These pollution control revenue bonds are collateralized by FPL First Mortgage Bonds which are more fully described in Exhibit C under the category of First Mortgage Bonds - Pollution Control and Industrial Development and include the following: 7.30% due July 2020 ($76,300,000), 7.50% due July 2020 ($9,835,000), 7.15% due February 2023 ($15,000,000), 7.15% due February 2023 ($32,985,000), 7.15% due February 2023 ($4,000,000) and 6.7% due May 2027 ($12,015,000). Under federal tax law, pollution control revenue bonds cannot be refunded with tax-exempt bonds issued more than 90 days prior to the redemption or retirement of the outstanding issue. However, through a forward refunding contract, FPL could lock in prevailing tax-exempt fixed rates for refunding pollution control revenue bonds which would be issued 90 days prior to the first call date of the outstanding issue. Alternatively, FPL could enter into a forward swap contract, to become effective on the first call date of the outstanding issue, to lock in prevailing tax-exempt fixed rates. Under future market conditions, it may be economical to enter into forward refunding or forward swap contracts, and any anticipated savings generated by such forward transactions would be spread over the combined life of the outstanding bonds and the refunding bonds starting with the execution of the forward contract.

FPL's nuclear fuel leases obligate FPL to purchase portions of the nuclear fuel from the non-affiliated lessor company (the Fuel Company) at the net investment value of such fuel, if required to enable the Fuel Company to pay maturing notes or other borrowings. Also, upon the occurrence of certain events which constitute a default by FPL under such fuel leases or give rise to termination of such fuel leases, FPL may be required to purchase all of the Fuel Company's interest in such leased nuclear fuel at a purchase price equal to (i) the net investment value of such fuel, plus (ii) such additional amounts as are sufficient to enable the Fuel Company to retire all of its debt obligations and any other charges or fees under the appropriate financing agreements which correspond to such fuel leases and to which the Fuel Company is a party. As of June 30, 1998, the net investment value of the nuclear fuel outstanding under both fuel leases was approximately $150 million, and FPL estimates that if it had been required to repurchase all of the outstanding nuclear fuel on such date, the cumulative lease termination payment would have been approximately $173 million.

FPL presently has an affiliate which promotes the installation of energy efficiency measures by contracting with customers to guarantee the anticipated energy savings. To facilitate FPL's customers' installations of energy efficiency measures, FPL may issue instruments of guaranty, collateralize debt or other obligations, issue other securities, or arrange for the issuance of letters of credit or guaranties to promote energy efficiency savings contracted for by FPL or FPL subsidiaries or affiliates with FPL customers.

The short-term securities are to provide funds to temporarily finance portions of FPL's construction program and capital commitments and for other corporate purposes. Significant parts of FPL's construction program may temporarily be financed through the sale of short-term securities from time to time. Also, during the 1999-2000 period, FPL may need short-term financing capabilities for seasonal fuel requirements, for contingency financing such as fuel adjustment underrecoveries or storm restoration costs, and for the temporary funding of maturing or called long-term debt securities.

7. Facts Supporting Legality, Necessity or Appropriateness. In addition to the reasons shown under "Purposes of Issues", the proposed issues are consistent with the proper performance by FPL of service as a public utility, will enable and permit FPL to perform that service, and are necessary and appropriate for such purpose and other corporate purposes.

8. Name and Address of Counsel Passing upon the Legality of the Proposed Issues:

Steel Hector & Davis LLP
1900 Phillips Point West
777 South Flagler Drive
West Palm Beach, Florida 33401-6198
Attention: Jeffrey I. Mullens, P.A.

9. Other State or Federal Regulatory Body. If required, a Registration Statement with respect to each public sale of securities hereunder subject to the Securities Act of 1933, as amended, will be filed with

the Securities and Exchange Commission, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, certain state securities or "blue sky" laws may require the filing of consents to service of process or other documents with applicable state securities commissions.

10. Control or Ownership. There is no measure of control or ownership exercised by or over FPL by any other public utility. FPL is a wholly-owned subsidiary of FPL Group, Inc., a holding company which is exempt from regulation under the Public Utility Holding Company Act of 1935, except for that section which regulates the acquisition of securities of public utility companies.

11. Exhibits.

Exhibit Number

* A(6) Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and Form 10-Q for the three months ended June 30, 1998.

B 1999 and 2000 Sources and Uses of Funds Forecast and Construction Expenditures Forecast.

C Statement of Capital Stock and Debt as of June 30, 1998.

* As permitted by Rule 25-8.003(1)(a)(6), Florida Administrative Code, FPL is satisfying the requirements for Schedules A(1) through A(5) by submitting its Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and Form 10-Q for the three months ended June 30, 1998 in conjunction with this Application.

## SIGNATURE

Pursuant to the provisions of Section 366.04, Florida Statutes and Chapter 25-8, Florida Administrative Code, Florida Power & Light Company has caused its duly authorized officer to execute this Application on this 30th day of September, 1998.

Florida Power & Light Company

By: Dilek Samil

Dilek Samil
Treasurer and Assistant Secretary
700 Universe Boulevard
P.O. Box 14000
Juno Beach, Florida 33408

ATTORNEYS FOR APPLICANT:

Steel Hector & Davis LLP

By: Charles A. Guyton

Charles A. Guyton
Suite 601
215 South Monroe Street
Tallahassee, Florida 32301
(850) 222-2300

# Exhibit B

## FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
## 1999 and 2000 Sources and Uses of Funds Forecast
## (Millions of Dollars)

| | 1999 | 2000 |
|---|---|---|
| Significant cash flow items (Note 1) | | |
| Depreciation and amortization (Note 2) | $ 1000 | $ 800 |
| Deferred income taxes | (250) | (90) |
| Deferred investment tax credit - net | (20) | (20) |
| Total | $ 730 | $ 690 |
| Capital requirements | | |
| Construction expenditures (Note 3): | $ 770 | $ 824 |
| Long-term debt maturities | 230 | 125 |
| Total capital requirements | $ 1,000 | $ 949 |

## FLORIDA POWER & LIGHT COMPANY AND SUBSIDIARIES
## Construction Expenditures Forecast
## (Millions of Dollars)

| | | |
|---|---|---|
| Construction expenditures (Note 3): | $ 770 | $ 824 |

NOTES

1) Projected amounts do not include any effect of potential changes in retail base rates or other regulated activities which could cause the projections to change.

2) Excludes nuclear plant decommissioning costs.

3) Excludes AFUDC. All of the estimated construction expenditures are subject to continuing review and adjustment and actual construction expenditures may vary from these estimates due to factors such as changes in customers, energy sales, business and economic conditions, construction and design requirements, fuel supply and costs, availability of labor, supplies and materials, regulatory treatment, environmental and conservation requirements, and existing and proposed legislation. FPL is keeping its construction program as flexible as possible with the intention of accommodating those factors that may develop or change.

# Exhibit C

# FLORIDA POWER & LIGHT COMPANY
## Statement of Capital Stock and Debt -- June 30, 1998

**Preferred Stock without Sinking Fund Requirements:**

| Dividend Rate | Series | Issue Date | Shares Authorized and Outstanding | Amount Authorized and Outstanding |
|---|---|---|---|---|
| 4.50% | | 09/47 | 100,000 | $10,000,000 |
| 4.50% | A | 05/51 | 50,000 | 5,000,000 |
| 4.50% | B | 01/53 | 50,000 | 5,000,000 |
| 4.50% | C | 02/54 | 62,500 | 6,250,000 |
| 4.32% | D | 07/54 | 50,000 | 5,000,000 |
| 4.35% | E | 11/55 | 50,000 | 5,000,000 |
| 6.98% | S | 03/93 | 750,000 | 75,000,000 |
| 7.05% | T | 06/93 | 500,000 | 50,000,000 |
| 6.75% | U | 09/93 | 650,000 | 65,000,000 |
| | | Total | 2,262,500 | $226,250,000 |

**Other:**

| Description | Issue Date | Shares | |
|---|---|---|---|
| | | Authorized (1) | Outstanding |
| Preferred Stock, undesignated, $100 par | - | 11,575,000 | 0 |
| Preferred Stock, undesignated, no par | - | 5,000,000 | 0 |
| Subordinated Preferred Stock | - | 5,000,000 | 0 |
| Common Stock, no par | Dec-84 | 1,000 | 1,000 |
| Total | | 21,576,000 | 1,000 |

(1) Remaining authorized under amended Charter.

# FLORIDA POWER & LIGHT COMPANY
## Statement of Capital Stock and Debt -- June 30, 1998

**First Mortgage Bonds:**

| Series | Issue Date | Maturity | Principal Outstanding | |
|---|---|---|---|---|
| 7.875% | 01/92 | 01/01/07 | $75,000,000 | (1) |
| 7.875% | 12/92 | 12/01/12 | 125,779,000 | (2) |
| 7.875% | 01/93 | 01/01/13 | 215,959,000 | |
| 6.625% | 02/93 | 02/01/03 | 100,000,000 | |
| 7.750% | 02/93 | 02/01/23 | 124,555,000 | |
| 6.875% | 04/93 | 04/01/04 | 125,000,000 | |
| 7.300% | 04/93 | 04/01/16 | 225,000,000 | |
| 7.625% | 06/93 | 06/01/24 | 175,000,000 | |
| 5.500% | 07/93 | 07/01/99 | 230,000,000 | |
| 5.375% | 09/93 | 04/01/00 | 125,000,000 | |
| 7.000% | 09/93 | 09/01/25 | 108,800,000 | |
| 7.050% | 12/93 | 12/01/26 | 107,919,000 | |
| 6.000% | 6/98 | 06/01/08 | 200,000,000 | |
| | | Total | $1,938,012,000 | |

**First Mortgage Bonds -- Medium-Term Notes:**

| Series | Issue Date | Maturity | Principal Outstanding |
|---|---|---|---|
| 5.79% | 09/93 | 09/15/03 | 70,000,000 |

(1) Redeemed all $75,000,000 in July 1998.
(2) Redeemed all $125,779,000 in July 1998.

# FLORIDA POWER & LIGHT COMPANY
## Statement of Capital Stock and Debt -- June 30, 1998

**First Mortgage Bonds - Pollution Control and Industrial Development:**

| Series | Issue Date | Maturity | Principal Outstanding |
|---|---|---|---|
| 7.30% Martin | 06/90 | 07/01/20 | $76,300,000 |
| 7.50% St. Lucie | 06/90 | 07/01/20 | 9,835,000 |
| 7.15% Dade | 08/91 | 02/01/23 | 15,000,000 |
| 7.15% St. Lucie | 08/91 | 02/01/23 | 32,985,000 |
| 7.15% Broward | 08/91 | 02/01/23 | 4,000,000 |
| 6.7% St. Lucie | 05/92 | 05/01/27 | 12,015,000 |
| | | Total | $150,135,000 |

**Unsecured Pollution Control and Industrial Development Bonds:**

| Series | Issue Date | Maturity | Principal Outstanding | |
|---|---|---|---|---|
| Variable Rate St. Lucie | 05/92 | 05/01/27 | $49,325,000 | |
| Variable Rate Jacksonville | 05/92 | 05/01/27 | 28,300,000 | |
| Variable Rate St. Lucie | 07/93 | 01/01/26 | 56,390,000 | |
| Variable Rate Martin | 07/93 | 01/01/27 | 4,050,000 | |
| Variable Rate St. Lucie | 07/93 | 01/01/27 | 16,500,000 | (1) |
| Variable Rate Dade | 12/93 | 06/01/21 | 45,750,000 | |
| Variable Rate Jacksonville | 03/94 | 09/01/24 | 45,960,000 | |
| Variable Rate Martin | 03/94 | 09/01/24 | 19,400,000 | |
| Variable Rate Manatee | 03/94 | 09/01/24 | 16,510,000 | |
| Variable Rate Putnam | 03/94 | 09/01/24 | 4,480,000 | |
| Variable Rate St. Lucie | 07/94 | 07/01/29 | 57,500,000 | |
| Variable Rate St. Lucie | 07/94 | 07/01/29 | 29,000,000 | |
| Variable Rate St. Lucie | 03/95 | 03/01/27 | 49,995,000 | |
| Variable Rate Dade | 03/95 | 04/01/20 | 8,635,000 | |
| Variable Rate Jacksonville | 06/95 | 05/01/29 | 51,940,000 | |
| | | Total | $483,735,000 | |

(1) $600,000 redeemed in September 1998.

# Exhibit A(6)

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

# FORM 10-Q

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

For the quarterly period ended **June 30, 1998**

OR

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

| Commission File Number | Exact name of Registrants as specified in their charters, address of principal executive offices and Registrants' telephone number | IRS Employer Identification Number |
|---|---|---|
| 1-8841 | **FPL GROUP, INC.** | 59-2449419 |
| 1-3545 | **FLORIDA POWER & LIGHT COMPANY**<br>700 Universe Boulevard<br>Juno Beach, Florida 33408<br>(561) 694-4000 | 59-0247775 |

State or other jurisdiction of incorporation or organization: Florida

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) have been subject to such filing requirements for the past 90 days. Yes X No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of each class of FPL Group, Inc. common stock, as of the latest practicable date: Common Stock, $.01 Par Value, outstanding at June 30, 1998: 181,217,035 shares

As of June 30, 1998, there were issued and outstanding 1,000 shares of Florida Power & Light Company's common stock, without par value, all of which were held, beneficially and of record, by FPL Group, Inc.

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

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (Reform Act), FPL Group, Inc. (FPL Group) and Florida Power & Light Company (FPL) (collectively, the Company) are hereby filing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) of the Company made by or on behalf of the Company which are made in this combined Form 10-Q, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, projection, outlook) are not statements of historical facts and may be forward-looking. Forward-looking statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause the Company's actual results to differ materially from those contained in forward-looking statements of the Company made by or on behalf of the Company.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Some important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements include prevailing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission (FERC), the Florida Public Service Commission (FPSC) and the Nuclear Regulatory Commission, with respect to allowed rates of return, industry and rate structure, operation of nuclear power facilities, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of fuel and purchased power costs, decommissioning costs, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs).

The business and profitability of the Company are also influenced by economic and geographic factors including political and economic risks, changes in and compliance with environmental and safety laws and policies, weather conditions (including natural disasters such as hurricanes), population growth rates and demographic patterns, competition for retail and wholesale customers, pricing and transportation of commodities, market demand for energy from plants or facilities, changes in tax rates or policies or in rates of inflation, unanticipated development project delays or changes in project costs, unanticipated changes in operating expenses and capital expenditures, capital market conditions, competition for new energy development opportunities, legal and administrative proceedings (whether civil, such as environmental, or criminal) and settlements, and any unanticipated impact of the year 2000, including delays or changes in costs of year 2000 compliance, or the failure of major suppliers, customers and others with whom FPL does business to resolve their own year 2000 issues on a timely basis.

All such factors are difficult to predict, contain uncertainties which may materially affect actual results, and are beyond the control of the Company.

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| OPERATING REVENUES | $1,692 | $ 1,587 | $3,031 | $3,032 |
| OPERATING EXPENSES: | | | | |
| Fuel, purchased power and interchange | 558 | 560 | 994 | 1,104 |
| Other operations and maintenance | 319 | 298 | 618 | 567 |
| Depreciation and amortization | 348 | 262 | 597 | 530 |
| Taxes other than income taxes | 150 | 146 | 286 | 285 |
| Total operating expenses | 1,375 | 1,266 | 2,495 | 2,486 |
| OPERATING INCOME | 317 | 321 | 536 | 546 |
| OTHER INCOME (DEDUCTIONS): | | | | |
| Interest charges | (64) | (74) | (127) | (145) |
| Preferred stock dividends - FPL | (4) | (4) | (7) | (10) |
| Other - net | 16 | 4 | 22 | 12 |
| Total other deductions - net | (52) | (74) | (112) | (143) |
| INCOME BEFORE INCOME TAXES | 265 | 247 | 424 | 403 |
| INCOME TAXES | 89 | 83 | 140 | 138 |
| NET INCOME | $ 176 | $ 164 | $ 284 | $ 265 |
| Earnings per share of common stock (basic and assuming dilution) | $ 1.02 | $ 0.95 | $ 1.65 | $ 1.53 |
| Dividends per share of common stock | $ 0.50 | $ 0.48 | $ 1.00 | $ 0.96 |
| Average number of common shares outstanding | 173 | 173 | 173 | 173 |

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements on Pages 9 through 11 herein and the Notes to Consolidated Financial Statements appearing in the combined Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (1997 Form 10-K) for FPL Group and FPL.

**FPL GROUP, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(Millions of Dollars)**

| | June 30, 1998 (Unaudited) | December 31, 1997 |
|---|---|---|
| PROPERTY, PLANT AND EQUIPMENT: | | |
| Electric utility plant in service and other property, including nuclear fuel and construction work in progress | $17,955 | $17,820 |
| Less accumulated depreciation and amortization | (9,049) | (8,466) |
| Total property, plant and equipment - net | 8,906 | 9,354 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 428 | 54 |
| Customer receivables, net of allowances of $8 and $9, respectively | 613 | 501 |
| Materials, supplies and fossil fuel inventory - at average cost | 282 | 302 |
| Other | 306 | 244 |
| Total current assets | 1,629 | 1,101 |
| OTHER ASSETS: | | |
| Special use funds of FPL | 1,146 | 1,007 |
| Other investments | 399 | 282 |
| Other | 764 | 705 |
| Total other assets | 2,309 | 1,994 |
| TOTAL ASSETS | $12,844 | $12,449 |
| CAPITALIZATION: | | |
| Common stock | $ 2 | $ 2 |
| Additional paid-in capital | 3,018 | 3,038 |
| Retained earnings | 1,915 | 1,804 |
| Accumulated other comprehensive income | 1 | 1 |
| Total common shareholders' equity | 4,936 | 4,845 |
| Preferred stock of FPL without sinking fund requirements | 226 | 226 |
| Long-term debt | 2,862 | 2,949 |
| Total capitalization | 8,024 | 8,020 |
| CURRENT LIABILITIES: | | |
| Debt and preferred stock due within one year | 456 | 332 |
| Accounts payable | 353 | 368 |
| Accrued interest, taxes and other | 1,075 | 799 |
| Total current liabilities | 1,884 | 1,499 |
| OTHER LIABILITIES AND DEFERRED CREDITS: | | |
| Accumulated deferred income taxes | 1,428 | 1,473 |
| Unamortized regulatory and investment tax credits | 374 | 395 |
| Other | 1,134 | 1,062 |
| Total other liabilities and deferred credits | 2,936 | 2,930 |
| COMMITMENTS AND CONTINGENCIES | | |
| TOTAL CAPITALIZATION AND LIABILITIES | $12,844 | $12,449 |

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements on Pages 9 through 11 herein and the Notes to Consolidated Financial Statements appearing in the 1997 Form 10-K for FPL Group and FPL.

FPL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of Dollars)
(Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1998 | 1997 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 997 | $ 953 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures of FPL | (327) | (230) |
| Independent power investments | (395) | (237) |
| Distributions and loan repayments from partnerships and joint ventures | 236 | 21 |
| Other - net | (43) | 28 |
| Net cash used in investing activities | (529) | (418) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of long-term debt | 197 | 21 |
| Retirement of long-term debt and preferred stock | (189) | (205) |
| Increase (decrease) in short-term debt | 103 | (11) |
| Repurchase of common stock | (33) | (32) |
| Dividends on common stock | (172) | (166) |
| Net cash used in financing activities | (94) | (393) |
| Net increase in cash and cash equivalents | 374 | 142 |
| Cash and cash equivalents at beginning of period | 54 | 196 |
| Cash and cash equivalents at end of period | $ 428 | $ 338 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | $ 129 | $ 139 |
| Cash paid for income taxes | $ 13 | $ 85 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Additions to capital lease obligations | $ 2 | $ 40 |
| Debt assumed for property additions | - | $ 420 |

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements on Pages 9 through 11 herein and the Notes to Consolidated Financial Statements appearing in the 1997 Form 10-K for FPL Group and FPL.

## FLORIDA POWER & LIGHT COMPANY
## CONDENSED CONSOLIDATED STATEMENTS OF INCOME
**(Millions of Dollars)**
**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |
| OPERATING REVENUES | $1,634 | $1,541 | $2,929 | $2,940 |
| OPERATING EXPENSES: | | | | |
| Fuel, purchased power and interchange | 546 | 551 | 977 | 1,076 |
| Other operations and maintenance | 285 | 278 | 553 | 525 |
| Depreciation and amortization | 342 | 256 | 585 | 518 |
| Income taxes | 96 | 92 | 154 | 150 |
| Taxes other than income taxes | 149 | 144 | 284 | 283 |
| Total operating expenses | 1,418 | 1,321 | 2,553 | 2,552 |
| OPERATING INCOME | 216 | 220 | 376 | 388 |
| OTHER INCOME (DEDUCTIONS): | | | | |
| Interest charges | (49) | (57) | (100) | (117) |
| Other - net | - | 1 | (3) | 3 |
| Total other deductions - net | (49) | (56) | (103) | (114) |
| NET INCOME | 167 | 164 | 273 | 274 |
| PREFERRED STOCK DIVIDENDS | 4 | 4 | 7 | 10 |
| NET INCOME AVAILABLE TO FPL GROUP | $ 163 | $ 160 | $ 266 | $ 264 |

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements on Pages 9 through 11 herein and the Notes to Consolidated Financial Statements appearing in the 1997 Form 10-K for FPL Group and FPL.

## FLORIDA POWER & LIGHT COMPANY
## CONDENSED CONSOLIDATED BALANCE SHEETS
### (Millions of Dollars)

| | June 30, 1998 (Unaudited) | December 31, 1997 |
|---|---|---|
| ELECTRIC UTILITY PLANT: | | |
| Plant in service, including nuclear fuel and construction work in progress | $17,340 | $17,136 |
| Less accumulated depreciation and amortization | (8,930) | (8,355) |
| Electric utility plant - net | 8,410 | 8,781 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 357 | 3 |
| Customer receivables, net of allowances of $8 and $9, respectively | 582 | 471 |
| Materials, supplies and fossil fuel inventory - at average cost | 225 | 242 |
| Other | 291 | 226 |
| Total current assets | 1,455 | 942 |
| OTHER ASSETS: | | |
| Special use funds | 1,146 | 1,007 |
| Other | 451 | 442 |
| Total other assets | 1,597 | 1,449 |
| TOTAL ASSETS | $11,462 | $11,172 |
| CAPITALIZATION: | | |
| Common shareholder's equity | $ 4,863 | $ 4,814 |
| Preferred stock without sinking fund requirements | 226 | 226 |
| Long-term debt | 2,418 | 2,420 |
| Total capitalization | 7,507 | 7,460 |
| CURRENT LIABILITIES: | | |
| Debt and preferred stock due within one year | 201 | 220 |
| Accounts payable | 324 | 344 |
| Accrued interest, taxes and other | 1,033 | 748 |
| Total current liabilities | 1,558 | 1,312 |
| OTHER LIABILITIES AND DEFERRED CREDITS: | | |
| Accumulated deferred income taxes | 1,029 | 1,070 |
| Unamortized regulatory and investment tax credits | 374 | 395 |
| Other | 994 | 935 |
| Total other liabilities and deferred credits | 2,397 | 2,400 |
| COMMITMENTS AND CONTINGENCIES | | |
| TOTAL CAPITALIZATION AND LIABILITIES | $11,462 | $11,172 |

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements on Pages 9 through 11 herein and the Notes to Consolidated Financial Statements appearing in the 1997 Form 10-K for FPL Group and FPL.

# FLORIDA POWER & LIGHT COMPANY
## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
### (Millions of Dollars)
### (Unaudited)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1998 | 1997 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 971 | $ 851 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (327) | (230) |
| Other - net | (43) | (47) |
| Net cash used in investing activities | (370) | (277) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Issuance of long-term debt | 197 | - |
| Retirement of long-term debt and preferred stock | (180) | (194) |
| Decrease in commercial paper | (39) | - |
| Dividends | (225) | (224) |
| Net cash used in financing activities | (247) | (418) |
| Net increase in cash and cash equivalents | 354 | 156 |
| Cash and cash equivalents at beginning of period | 3 | 78 |
| Cash and cash equivalents at end of period | $ 357 | $ 234 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | $ 99 | $ 113 |
| Cash paid for income taxes | $ 22 | $ 197 |
| Supplemental schedule of noncash investing and financing activities: | | |
| Additions to capital lease obligations | $ 2 | $ 40 |

This report should be read in conjunction with the Notes to Condensed Consolidated Financial Statements on Pages 9 through 11 herein and the Notes to Consolidated Financial Statements appearing in the 1997 Form 10-K for FPL Group and FPL.

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

The accompanying condensed consolidated financial statements should be read in conjunction with the combined 1997 Form 10-K for FPL Group and FPL. In the opinion of FPL Group and FPL, all adjustments (consisting of normal recurring accruals) considered necessary for fair financial statement presentation have been made. Certain amounts included in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. The results of operations for an interim period may not give a true indication of results for the year.

**1. Summary of Significant Accounting and Reporting Policies**

*Revenues and Rates* - In March 1998, a large customer of FPL withdrew its petition requesting a limited scope proceeding to reduce FPL's base rates. The docket was subsequently closed by the FPSC.

**2. Capitalization**

*FPL Group Common Stock* - During the three and six months ended June 30, 1998, FPL Group repurchased 264,600 shares and 544,600 shares of common stock, respectively, under its share repurchase program. A total of approximately 1.2 million shares have been repurchased under the share repurchase program that began in April 1997.

*Long-Term Debt* - In June 1998, FPL sold $200 million principal amount of first mortgage bonds maturing in June 2008, with an interest rate of 6%. The proceeds were used in July 1998 to redeem approximately $200 million principal amount of first mortgage bonds, maturing in 2007 and 2012, bearing interest at 7.875%.

In July 1998, a subsidiary of FPL Group Capital Inc (FPL Group Capital) sold $150 million of senior secured bonds maturing in 2018, bearing interest at 7.645%.

*Long-Term Incentive Plan* - Performance shares granted to date under FPL Group's long-term incentive plan resulted in assumed incremental shares of common stock outstanding for purposes of computing both basic and diluted earnings per share for the three and six months ended June 30, 1998 and 1997. These incremental shares were not material in the periods presented and did not cause diluted earnings per share to differ from basic earnings per share.

*Other* - In the first quarter of 1998, FPL Group adopted Statement of Financial Accounting Standards No. (FAS) 130, "Reporting Comprehensive Income." The statement establishes standards for reporting comprehensive income and its components. Comprehensive income of FPL Group totaling $176 million and $164 million for the three months ended June 30, 1998 and 1997, respectively, and, $284 million and $265 million for the six months ended June 30, 1998 and 1997, respectively, includes net income, and changes in unrealized gains (losses) on securities and foreign currency translation adjustments. Accumulated other comprehensive income is separately displayed in the condensed consolidated balance sheets of FPL Group.

**3. 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 $2.0 billion for 1998 through 2000. Included in this three-year forecast are capital expenditures for 1998 of approximately $620 million, of which $327 million had been spent through June 30, 1998. Also, in January 1998 FPL Group 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 fourth quarter of 1998, subject to approval by federal and state regulators. Commitments for independent power investments, including the acquisition mentioned above, are approximately $850 million for 1998. FPL Group Capital and its subsidiaries have guaranteed approximately $221 million of purchase power agreement obligations, debt service payments and other payments subject to certain contingencies.

*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 $54 million in retrospective premiums.

In the event of a catastrophic loss at one of FPL's nuclear plants, the amount of insurance available may not be adequate to cover property damage and other expenses incurred. Uninsured losses, to the extent not recovered through rates, would be borne by FPL and could have a material adverse effect on FPL Group's and FPL'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 $269 million at June 30, 1998, 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 thereafter 383 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. Fuel contracts provide for the transportation and supply of natural gas and coal. Commitments to purchase Orimulsion, a controversial fuel from Venezuela, have been eliminated as a result of the rejection in June 1998, by Florida's Power Plant Siting Board, of FPL's application to burn Orimulsion at its Manatee Power Plant.

The required capacity and minimum payments through 2002 under these contracts are estimated to be as follows:

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| | | (Millions of Dollars) | | | |
| Capacity payments: | | | | | |
| JEA and Southern Companies | $200 | $210 | $210 | $210 | $210 |
| Qualifying facilities (a) | $350 | $360 | $370 | $380 | $400 |
| Minimum payments, at projected prices: | | | | | |
| Natural gas, including transportation | $250 | $210 | $210 | $210 | $240 |
| 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 contracts that are currently in dispute. These capacity payments are subject to the outcome of the related litigation. See Litigation.

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

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 1998 Charges | | 1997 Charges | | 1998 Charges | | 1997 Charges | |
| | Capacity | Energy/ Fuel (a) | Capacity | Energy/ Fuel (a) | Capacity | Energy/ Fuel (a) | Capacity | Energy/ Fuel (a) |
| | | | | (Millions of Dollars) | | | | |
| JEA and Southern Companies | $54(b) | $35 | $50(b) | $ 38 | $105(b) | $ 66 | $102(b) | $ 73 |
| Qualifying facilities | $75(c) | $28 | $74(c) | $ 31 | $149(c) | $ 54 | $148(c) | $ 60 |
| Natural gas | - | $84 | - | $112 | - | $138 | - | $201 |
| Coal | - | $11 | - | $ 14 | - | $ 23 | - | $ 26 |

(a) Recovered through the fuel and purchased power cost recovery clause (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 holders 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 and are vigorously defending the suits. Accordingly, the liabilities, if any, arising from the proceedings are not anticipated to have a material adverse effect on their financial statements.

**4. Summarized Financial Information of FPL Group Capital**

FPL Group Capital's debenture is guaranteed by FPL Group and included in FPL Group's condensed consolidated balance sheets. For the three months ended June 30, 1998 and 1997, operating revenues of FPL Group Capital were approximately $58 million and $46 million, respectively. Operating expenses were approximately $54 million and $36 million, respectively, and net income was approximately $18 million and $9 million, respectively, for the same periods. Operating revenues of FPL Group Capital for the six months ended June 30, 1998 and 1997 were approximately $102 million and $92 million, respectively. For the same periods, operating expenses were approximately $95 million and $83 million, respectively, and net income was approximately $29 million and $10 million, respectively.

At June 30, 1998, FPL Group Capital had approximately $280 million of current assets, $1.5 billion of noncurrent assets, $383 million of current liabilities and $1.0 billion of noncurrent liabilities. At December 31, 1997, FPL Group Capital had current assets of approximately $156 million, noncurrent assets of $1.4 billion, current liabilities of $252 million and noncurrent liabilities of $999 million.

Management has not presented separate financial statements and other disclosures concerning FPL Group Capital because management has determined that such information is not material to holders of the FPL Group Capital debenture.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

This discussion should be read in conjunction with the Notes to Condensed Consolidated Financial Statements contained herein and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in the 1997 Form 10-K for FPL Group and FPL. The results of operations for an interim period may not give a true indication of results for the year. In the following discussion, all comparisons are with the corresponding items in the prior year.

**RESULTS OF OPERATIONS**

The generation, transmission, distribution and sale of electric energy by FPL continues to represent the principal operations of FPL Group. However, growth in FPL Group's net income for the three and six months ended June 30, 1998 was primarily due to better operating results at FPL Energy, Inc.'s (FPL Energy) independent power investments. FPL's net income available to FPL Group also increased, mainly due to higher customer usage and customer growth, partly offset by higher depreciation and O&M expenses.

FPL's revenues from base rates for the three and six months ended June 30, 1998 increased to $970 million and $1.72 billion, respectively, from $875 million and $1.64 billion for the same period in 1997. The improvements resulted from increases in energy usage per retail customer of 8.3% and 2.4%, respectively, primarily due to weather conditions, and customer growth of 1.9% and 1.8%, respectively. Cost recovery clause revenues and franchise fees comprise substantially all of the remaining operating revenues. Such revenues 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.

O&M expenses increased for the three and six months ended June 30, 1998, primarily due to additional spending associated with improving service reliability. Depreciation and amortization expense in all periods presented includes amortization recorded under the special amortization program, which is a function of retail base revenues. Depreciation and amortization expense increased for the three and six months ended June 30, 1998 mainly due to the increase in revenues discussed above. Also, in June 1998 the FPSC approved, on an interim basis, higher depreciation rates for FPL. The higher depreciation rates will result in an annual increase in depreciation expense of $25 million, half of which was recorded in the second quarter of 1998. The FPSC is expected to give final consideration to this matter in the fourth quarter of 1998. Interest and preferred stock dividend requirements declined for the three and six months ended June 30, 1998, resulting from continued reductions in average debt and preferred stock balances.

FPL Energy's operating results improved for the three and six months ended June 30, 1998. The improvements primarily reflect better over-all results from FPL Energy's earnings in independent power investments.

FPL Group is continuing to work to resolve the potential impact of the year 2000 on the processing of information by its computer systems. An assessment of the information technology infrastructure, computer applications and computerized processes embedded in operating equipment has been substantially completed and work is underway to make the necessary modifications. Additionally, FPL Group is actively communicating with major suppliers, customers, financial institutions and others to ensure that electronic interfaces with these parties will continue to function properly into 2000. The cost of addressing year 2000 issues is estimated to be approximately $50 million, a small portion of which has been spent to date. The majority of these costs represent the redeployment of existing resources and therefore, are not expected to have a significant effect on O&M expenses. Work related to the year 2000 effort is expected to be completed in 1999.

In June 1998, the Financial Accounting Standards Board issued FAS 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. FPL Group is currently assessing the effect, if any, on its financial statements of implementing FAS 133. FPL's energy marketing and trading division uses forward contracts and options to manage fuel costs and to market any excess generation. Substantially all of the results of these activities are reflected in the fuel or the capacity clauses and, accordingly, do not affect net income. FPL Group will be required to adopt the standard in 2000.

## LIQUIDITY AND CAPITAL RESOURCES

Using available cash flows from operations, FPL repaid certain series of secured medium-term notes that matured during the first quarter of 1998. Additionally, during the three and six months ended June 30, 1998, FPL Group repurchased 264,600 and 544,600 shares of common stock, respectively. These actions are consistent with management's intent to reduce debt and preferred stock balances and the number of outstanding shares of common stock. See Note 2.

In June 1998, the FPSC denied FPL's request to increase the $20 million annual storm fund contribution. FPL does not intend to contest the denial.

In March 1998, FPL filed with the FPSC a ten-year power plant site plan that includes adding approximately 2,500 mw of generating capacity to meet the electricity needs of a growing customer base. The plan includes repowering two existing plants by 2002 and 2004, respectively, and adding two new gas-fired units in 2006 and 2007 at the Martin power plant. For information concerning capital commitments, see Note 3.

## PART II - OTHER INFORMATION

**Item 4. Submission of Matters to a Vote of Security Holders**

FPL Group:

(a) The Annual Meeting of FPL Group's shareholders was held on May 18, 1998. Of the 181,512,385 shares of common stock outstanding on the record date of March 9, 1998, a total of 148,229,362 shares were represented in person or by proxy.

(b) The following directors were elected effective May 18, 1998:

| | Votes Cast | |
|---|---|---|
| | For | Against or Withheld |
| H. Jesse Arnelle | 145,960,657 | 2,268,705 |
| Sherry S. Barrat | 145,943,226 | 2,286,136 |
| Robert M. Beall, II | 145,391,428 | 2,837,934 |
| James L. Broadhead | 145,775,626 | 2,453,736 |
| J. Hyatt Brown | 145,943,100 | 2,286,262 |
| Armando M. Codina | 145,944,064 | 2,285,298 |
| Marshall M. Criser | 146,001,872 | 2,227,490 |
| B. F. Dolan | 146,014,942 | 2,214,420 |
| Willard D. Dover | 145,475,478 | 2,753,884 |
| Alexander W. Dreyfoos, Jr | 146,053,943 | 2,175,419 |
| Paul J. Evanson | 145,979,518 | 2,249,844 |
| Drew Lewis | 145,860,701 | 2,368,661 |
| Frederic V. Malek | 145,833,806 | 2,395,556 |
| Paul R. Tregurtha | 145,907,034 | 2,322,328 |

(c)(i) The vote to ratify the appointment of Deloitte & Touche LLP as independent auditors for 1998 was 146,584,973 for, 908,692 against and 735,697 abstaining.

(ii) The vote on a shareholder proposal requesting that FPL Group adopt cumulative voting for the election of directors was 44,978,047 for, 83,375,404 against, 3,549,605 abstaining and 16,326,306 broker non-votes.

FPL:

(a) The following FPL directors were elected effective May 18, 1998 by the written consent of FPL Group, as the sole common shareholder of FPL, in lieu of an annual meeting of shareholders:

James L. Broadhead
Dennis P. Coyle
Paul J. Evanson
Lawrence J. Kelleher
Thomas F. Plunkett
C. O. Woody
Michael W. Yackira

**Item 5. Other Information**

(a) Reference is made to Item 1. Business - FPL Operations - General in the 1997 Form 10-K for FPL Group and FPL.

In June 1998, FPL and the JEA filed a petition with the FPSC seeking approval of a territorial exchange affecting portions of Duval and St. John's Counties. FPL will serve an additional portion of St. John's County and will turn over its service area in Duval County to the JEA. The FPSC is expected to consider this matter during the third quarter of 1998. The territorial exchange will involve approximately 1,800 customers in each area and is not expected to have a material effect on earnings. The transition is anticipated to take from one to three years.

EXHIBIT 12(a)

## FPL GROUP, INC. AND SUBSIDIARIES
## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

| | Six Months Ended June 30, 1998 | Years Ended December 31, 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|---|
| | | (Millions of Dollars) | | | | |
| Earnings, as defined: | | | | | | |
| Net income | $ 284 | $ 618 | $ 579 | $ 553 | $ 519 | $ 429 |
| Income taxes | 140 | 304 | 294 | 329 | 307 | 250 |
| Fixed charges, included in the determination of net income, as below | 134 | 304 | 283 | 308 | 337 | 388 |
| Total earnings, as defined | $ 558 | $1,226 | $1,156 | $1,190 | $1,163 | $1,067 |
| Fixed charges, as defined: | | | | | | |
| Interest charges | $ 127 | $ 291 | $ 267 | $ 291 | $ 319 | $ 367 |
| Rental interest factor | 2 | 4 | 5 | 6 | 7 | 10 |
| Fixed charges included in nuclear fuel cost | 5 | 9 | 11 | 11 | 11 | 11 |
| Fixed charges, included in the determination of net income | 134 | 304 | 283 | 308 | 337 | 388 |
| Capitalized interest | 2 | 5 | - | - | - | 1 |
| Total fixed charges, as defined | $ 136 | $ 309 | $ 283 | $ 308 | $ 337 | $ 389 |
| Ratio of earnings to fixed charges | 4.10 | 3.97 | 4.08 | 3.86 | 3.45 | 2.74 |

(b) Reference is made to Item 1. Business - FPL Operations - System Capability and Load in the 1997 Form 10-K for FPL Group and FPL.

From June 2, 1998 through June 5, 1998, FPL set four consecutive records for summertime peak demand, ranging from 17,156 mw to 17,931 mw. Adequate resources were available at the time of each peak to meet customer demand.

(c) Reference is made to Item. 1 Business - FPL Operations - Nuclear Operations for FPL.

In June 1998, FPL informed the Nuclear Regulatory Commission (NRC) of its intent to apply for a 20-year license renewal for Turkey Point Units Nos. 3 and 4. FPL expects to file the application with the NRC in approximately 2002. Operating licenses for Turkey Point Units Nos. 3 and 4 expire in 2012 and 2013, respectively.

(d) After February 13, 1999, notice to FPL Group of a shareholder proposal submitted for consideration at the 1999 Annual Meeting of Shareholders, which is not submitted for inclusion in FPL Group's proxy statement and form of proxy, will be considered untimely and the persons named in the proxies solicited by FPL Group's Board of Directors for the 1999 Annual Meeting of Shareholders may exercise discretionary voting power with respect to any such proposal.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

| Exhibit Number | Description | FPL Group | FPL |
|---|---|---|---|
| 4 | Ninety-eighth Supplemental Indenture dated as of June 1, 1998 between FPL and Bankers Trust Company, Trustee | x | x |
| 12(a) | Computation of Ratio of Earnings to Fixed Charges | x | |
| 12(b) | Computation of Ratios | | x |
| 27 | Financial Data Schedule | x | x |

(b) Reports on Form 8-K - None

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FPL GROUP, INC.
FLORIDA POWER & LIGHT COMPANY
(Registrants)

Date: August 3, 1998

K. MICHAEL DAVIS
K. Michael Davis
Controller and Chief Accounting Officer of FPL Group, Inc.
Vice President, Accounting, Controller and
Chief Accounting Officer of Florida Power & Light Company
(Principal Financial Officer of the Registrants)

EXHIBIT 12(b)

# FLORIDA POWER & LIGHT COMPANY
## COMPUTATION OF RATIOS

| | Six Months Ended June 30, 1998 (Millions of Dollars) |
|---|---|
| **RATIO OF EARNINGS TO FIXED CHARGES** | |
| Earnings, as defined: | |
| Net income | $ 273 |
| Income taxes | 149 |
| Fixed charges, as below | 107 |
| Total earnings, as defined | $ 529 |
| Fixed charges, as defined: | |
| Interest charges | $ 100 |
| Rental interest factor | 2 |
| Fixed charges included in nuclear fuel cost | 5 |
| Total fixed charges, as defined | $ 107 |
| Ratio of earnings to fixed charges | 4.94 |

| | |
|---|---|
| **RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS** | |
| Earnings, as defined: | |
| Net income | $ 273 |
| Income taxes | 149 |
| Fixed charges, as below | 107 |
| Total earnings, as defined | $ 529 |
| Fixed charges, as defined: | |
| Interest charges | $ 100 |
| Rental interest factor | 2 |
| Fixed charges included in nuclear fuel cost | 5 |
| Total fixed charges, as defined | 107 |
| Non-tax deductible preferred stock dividends | 7 |
| Ratio of income before income taxes to net income | 1.55 |
| Preferred stock dividends before income taxes | 11 |
| Combined fixed charges and preferred stock dividends | $ 118 |
| Ratio of earnings to combined fixed charges and preferred stock dividends | 4.48 |

## CHECKLIST OF ITEMS IN FPL'S FINANCING APPLICATION WHICH NEED TO BE ADDRESSED IN THE FPSC ORDER

1. Scope of Financing Authority Sought: It is important that the Commission's order include the fact that FPL is seeking the Commission's authority for the following types of financings:

a) Issuance and sale and/or exchange of any combination of long-term debt and equity securities (as described in the Application) and/or assumption of liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed $1.6 billion during calendar year 1999.

b) Issuance and sale of short-term securities during the calendar years 1999 and 2000 in an amount or amounts such that the aggregate principal amount of short-term securities outstanding at the time of sale does not exceed 25 percent of FPL's gross revenues for the preceding 12 months of operation.

c) Entry into forward refunding or forward swap contracts during calendar year 1999 and in conjunction with such contracts, FPL's issuance and sale of up to $151 million of securities through December 31, 2002.

2. Purposes of Issues of Securities:

In order to ensure that FPL has authority to support its past or future financing obligations and to demonstrate the need for the scope of financing authority sought under Item 1, FPL believes that it is necessary for the Commission to address the purposes of the issues of securities. The Commission may want to discuss the sources and uses of funds and/or the construction forecasts provided by FPL as a basis for its financing request; however, at a minimum, FPL believes the inclusion of the following language in the Order would be helpful to support its financing obligations:

The net proceeds to be received from the issuance and sale and/or exchange of the additional long-term debt and equity securities (with the exception of the proceeds of the issuance and sale of any pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes or other "private activity bonds" or similar securities which will be used for specific purposes) will be added to FPL's general funds and will be used for the following purposes: (i) to provide additional electric facilities; (ii) to reacquire, by redemption, purchase, exchange or otherwise, any of its outstanding debt securities or equity securities; (iii) to repay all or a portion of any maturing long-term debt obligations; (iv) to satisfy FPL's obligations under its nuclear fuel leases; (v) to repay all or a portion of short-term bank borrowings and commercial paper outstanding at the time of such transactions; and/or (vi) for other corporate purposes. Excess proceeds, if any, will be temporarily invested in short-term instruments pending their application to the foregoing purposes.

The short-term securities are to provide funds to temporarily finance portions of FPL's construction program and capital commitments and for other corporate purposes. During the 1999-2000 period, FPL may need short-term financing for significant parts of its construction program, for seasonal fuel requirements, for contingency financing such as fuel adjustment underrecoveries or storm restoration costs, and for the temporary funding of maturing or called long-term debt securities.

The forward refunding contracts and forward swap contracts would be for the purpose of refunding up to $151 million of pollution control revenue bonds which were issued on FPL's behalf and which become callable in July, 2000, February, 2001 and May, 2002. These pollution control revenue bonds were collateralized by FPL First Mortgage Bonds and include the following: 7.30% due July, 2020 ($76,300,000); 7.50% due July, 2020 ($9,835,000); 7.15% due February, 2023 ($15,000,000); 7.15% due February, 2023 ($32,985,000); 7.15% due February, 2023 ($4,000,000) and 6.7% due May, 2027 ($12,015,000).

3. Form of Orders Proposed: In the event FPL's Application is granted, the following proposed language addresses the financing authority FPL is seeking in the Application.

Having considered FPL's Application, we find that it should be granted in its entirety.

Based on the foregoing, it is

*ORDERED, that Florida Power & Light Company's request for authority to issue and sell and/or exchange any combination of long-term debt and equity securities and/or assume liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed $1.6 billion during calendar year 1999 is granted. It is further

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*ORDERED, that Florida Power & Light Company shall file with the Commission a consummation report in compliance with Rule 25-8.009, Florida Administrative Code.

**Proposed Notice For**
**Florida Administrative Weekly**

NOTICE is hereby given that the Florida Public Service Commission, at the regularly scheduled Agenda Conference on November (December) ___, 1998 will take final agency action in Docket No. _____________,_____ the Application of Florida Power & Light Company For Authority To Issue And Sell Securities. Pursuant to Section 366.04, Florida Statutes, Florida Power & Light Company ("FPL") seeks authority to issue and sell and/or exchange any combination of long-term debt and equity securities and/or to assume liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed $1.6 billion during calendar year 1999, and authority to issue and sell short-term securities during calendar years 1999 and 2000 in an amount such that the aggregate principal amount of short-term securities outstanding at the time of sale does not exceed 25 percent of FPL's gross revenues for the preceding twelve months of operation. FPL also seeks authority to enter into forward refunding or forward swap contracts during calendar year 1999, and in conjunction with those forward contracts, seeks authority to issue and sell up to $151 million of securities through December 31, 2002.

| | |
|---|---|
| Date and Time: | Tuesday, November (December) ___, 1998, 9:30 a.m. |
| Place: | Commission Hearing Room 148, Betty Easley Conference Center, 4075 Esplanade Way, Tallahassee, Florida 32399-0870 |
| Purpose: | To take final agency action in Docket No. _____________,_____ |
| Legal Authority: | Section 366.04, Florida Statutes; Chapter 25-8, Florida Administrative Code. |

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The short-term securities are to provide funds to temporarily finance portions of FPL's construction program and capital commitments and for other corporate purposes. During the 1999-2000 period, FPL may need short-term financing for significant parts of its construction program, for seasonal fuel requirements, for contingency financing such as fuel adjustment underrecoveries or storm restoration costs, and for the temporary funding of maturing or called long-term debt securities.

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2. Purposes of Issues of Securities:

In order to ensure that FPL has authority to support its past or future financing obligations and to demonstrate the need for the scope of financing authority sought under Item 1, FPL believes that it is necessary for the Commission to address the purposes of the issues of securities. The Commission may want to discuss the sources and uses of funds and/or the construction forecasts provided by FPL as a basis for its financing request; however, at a minimum, FPL believes the inclusion of the following language in the Order would be helpful to support its financing obligations:

The net proceeds to be received from the issuance and sale and/or exchange of the additional long-term debt and equity securities (with the exception of the proceeds of the issuance and sale of any pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes or other "private activity bonds" or similar securities which will be used for specific purposes) will be added to FPL's general funds and will be used for the following purposes: (i) to provide additional electric facilities; (ii) to reacquire, by redemption, purchase, exchange or otherwise, any of its outstanding debt securities or equity securities; (iii) to repay all or a portion of any maturing long-term debt obligations; (iv) to satisfy FPL's obligations under its nuclear fuel leases; (v) to repay all or a portion of short-term bank borrowings and commercial paper outstanding at the time of such transactions; and/or (vi) for other corporate purposes. Excess proceeds, if any, will be temporarily invested in short-term instruments pending their application to the foregoing purposes.

The short-term securities are to provide funds to temporarily finance portions of FPL's construction program and capital commitments and for other corporate purposes. During the 1999-2000 period, FPL may need short-term financing for significant parts of its construction program, for seasonal fuel requirements, for contingency financing such as fuel adjustment underrecoveries or storm restoration costs, and for the temporary funding of maturing or called long-term debt securities.

The forward refunding contracts and forward swap contracts would be for the purpose of refunding up to $151 million of pollution control revenue bonds which were issued on FPL's behalf and which become callable in July, 2000, February, 2001 and May, 2002. These pollution control revenue bonds were collateralized by FPL First Mortgage Bonds and include the following: 7.30% due July, 2020 ($76,300,000); 7.50% due July, 2020 ($9,835,000); 7.15% due February, 2023 ($15,000,000); 7.15% due February, 2023 ($32,985,000); 7.15% due February, 2023 ($4,000,000) and 6.7% due May, 2027 ($12,015,000).

3. Form of Orders Proposed: In the event FPL's Application is granted, the following proposed language addresses the financing authority FPL is seeking in the Application.

Having considered FPL's Application, we find that it should be granted in its entirety.

Based on the foregoing, it is

*ORDERED, that Florida Power & Light Company's request for authority to issue and sell and/or exchange any combination of long-term debt and equity securities and/or assume liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed $1.6 billion during calendar year 1999 is granted. It is further

*ORDERED, that Florida Power & Light Company's request for authority to issue and sell short-term securities during the calendar years 1999 and 2000, in an amount or amounts such that the aggregate principal amount of short-term securities outstanding at the time of sale does not exceed 25 percent of FPL's gross revenues for the preceding 12 months of operation is granted. It is further

*ORDERED, that Florida Power & Light Company's request for authority to enter into forward refunding contracts or forward swap contracts during calendar year 1999, and to issue and sell up to $151 million of securities through December 31, 2002, which FPL shall commit to deliver under the forward refunding contracts or forward swap contracts is granted. It is further

*ORDERED, that Florida Power & Light Company shall file with the Commission a consummation report in compliance with Rule 25-8.009, Florida Administrative Code.

CHECKLIST OF ITEMS IN FPL'S FINANCING APPLICATION WHICH NEED TO BE ADDRESSED IN THE FPSC ORDER

1. Scope of Financing Authority Sought: It is important that the Commission's order include the fact that FPL is seeking the Commission's authority for the following types of financings:

a) Issuance and sale and/or exchange of any combination of long-term debt and equity securities (as described in the Application) and/or assumption of liabilities or obligations as guarantor, endorser or surety in an aggregate amount not to exceed $1.6 billion during calendar year 1999.

b) Issuance and sale of short-term securities during the calendar years 1999 and 2000 in an amount or amounts such that the aggregate principal amount of short-term securities outstanding at the time of sale does not exceed 25 percent of FPL's gross revenues for the preceding 12 months of operation.

c) Entry into forward refunding or forward swap contracts during calendar year 1999 and in conjunction with such contracts, FPL's issuance and sale of up to $151 million of securities through December 31, 2002.

2. Purposes of Issues of Securities:

In order to ensure that FPL has authority to support its past or future financing obligations and to demonstrate the need for the scope of financing authority sought under Item 1, FPL believes that it is necessary for the Commission to address the purposes of the issues of securities. The Commission may want to discuss the sources and uses of funds and/or the construction forecasts provided by FPL as a basis for its financing request; however, at a minimum, FPL believes the inclusion of the following language in the Order would be helpful to support its financing obligations:

The net proceeds to be received from the issuance and sale and/or exchange of the additional long-term debt and equity securities (with the exception of the proceeds of the issuance and sale of any pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes or other "private activity bonds" or similar securities which will be used for specific purposes) will be added to FPL's general funds and will be used for the following purposes: (i) to provide additional electric facilities; (ii) to reacquire, by redemption, purchase, exchange or otherwise, any of its outstanding debt securities or equity securities; (iii) to repay all or a portion of any maturing long-term debt obligations; (iv) to satisfy FPL's obligations under its nuclear fuel leases; (v) to repay all or a portion of short-term bank borrowings and commercial paper outstanding at the time of such transactions; and/or (vi) for other corporate purposes. Excess proceeds, if any, will be temporarily invested in short-term instruments pending their application to the foregoing purposes.

The short-term securities are to provide funds to temporarily finance portions of FPL's construction program and capital commitments and for other corporate purposes. During the 1999-2000 period, FPL may need short-term financing for significant parts of its construction program, for seasonal fuel requirements, for contingency financing such as fuel adjustment underrecoveries or storm restoration costs, and for the temporary funding of maturing or called long-term debt securities.

The forward refunding contracts and forward swap contracts would be for the purpose of refunding up to $151 million of pollution control revenue bonds which were issued on FPL's behalf and which become callable in July, 2000, February, 2001 and May, 2002. These pollution control revenue bonds were collateralized by FPL First Mortgage Bonds and include the following: 7.30% due July, 2020 ($76,300,000); 7.50% due July, 2020 ($9,835,000); 7.15% due February, 2023 ($15,000,000); 7.15% due February, 2023 ($32,985,000); 7.15% due February, 2023 ($4,000,000) and 6.7% due May, 2027 ($12,015,000).

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K

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

For the fiscal year ended **December 31, 1997**

OR

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

| Commission File Number | Exact name of Registrants as specified in their charters, address of principal executive offices and Registrants' telephone number | IRS Employer Identification Number |
|---|---|---|
| 1-8841 | **FPL GROUP, INC.** | 59-2449419 |
| 1-3545 | **FLORIDA POWER & LIGHT COMPANY** | 59-0247775 |
| | 700 Universe Boulevard<br>Juno Beach, Florida 33408<br>(561) 694-4000 | |

**State or other jurisdiction of incorporation or organization:** Florida

| | Name of exchange on which registered |
|---|---|
| **Securities registered pursuant to Section 12(b) of the Act:** | |
| **FPL Group, Inc.:** Common Stock, $.01 Par Value and Preferred Share Purchase Rights | New York Stock Exchange |
| **Florida Power & Light Company:** None | |

**Securities registered pursuant to Section 12(g) of the Act:**
**FPL Group, Inc.:** None
**Florida Power & Light Company:** Preferred Stock, $100 Par Value

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) have been subject to such filing requirements for the past 90 days. Yes X No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrants' knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Aggregate market value of the voting stock of FPL Group, Inc. held by non-affiliates as of January 31, 1998 (based on the closing market price on the Composite Tape on January 31, 1998) was $10,407,089,108 (determined by subtracting from the number of shares outstanding on that date the number of shares held by directors and officers of FPL Group, Inc.).

There was no voting stock of Florida Power & Light Company held by non-affiliates as of January 31, 1998.

The number of shares outstanding of each class of FPL Group, Inc. common stock, as of the latest practicable date: Common Stock, $.01 Par Value, outstanding at January 31, 1998: 181,762,385 shares

As of January 31, 1998, there were issued and outstanding 1,000 shares of Florida Power & Light Company's common stock, without par value, all of which were held, beneficially and of record, by FPL Group, Inc.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of FPL Group, Inc.'s Proxy Statement for the 1998 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

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

## DEFINITIONS

Acronyms and defined terms used in the text include the following:

| Term | Meaning |
|---|---|
| capacity clause | Capacity cost recovery clause |
| Central Maine | Central Maine Power Company |
| charter | Restated Articles of Incorporation, as amended, of FPL Group or FPL, as the case may be |
| conservation clause | Energy conservation cost recovery clause |
| DOE | United States Department of Energy |
| EMF | Electric and magnetic fields |
| environmental clause | Environmental compliance cost recovery clause |
| ESI | ESI Energy, Inc. |
| EWG | Exempt wholesale generator |
| FDEP | Florida Department of Environmental Protection |
| FERC | Federal Energy Regulatory Commission |
| FGT | Florida Gas Transmission Company |
| FMPA | Florida Municipal Power Agency |
| FPL | Florida Power & Light Company |
| FPL Energy | FPL Energy, Inc. |
| FPL Group | FPL Group, Inc. |
| FPL Group Capital | FPL Group Capital Inc |
| FPL Group International | FPL Group International, Inc. |
| FPSC | Florida Public Service Commission |
| fuel clause | Fuel and purchased power cost recovery clause |
| Holding Company Act | Public Utility Holding Company Act of 1935, as amended |
| IBEW | International Brotherhood of Electrical Workers |
| JEA | Jacksonville Electric Authority |
| kv | Kilovolt |
| kva | Kilovolt-ampere |
| kwh | Kilowatt-hour |
| Management's Discussion | Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations |
| mortgage | FPL's Mortgage and Deed of Trust dated as of January 1, 1944, as supplemented and amended |
| mw | Megawatt(s) |
| Note __ | Note __ to Consolidated Financial Statements |
| NRC | United States Nuclear Regulatory Commission |
| Nuclear Waste Policy Act | Nuclear Waste Policy Act of 1982 |
| O&M expenses | Other operations and maintenance expenses in the Consolidated Statements of Income |
| PURPA | Public Utility Regulatory Policies Act of 1978, as amended |
| qualifying facilities | Non-utility power production facilities meeting the requirements of a qualifying facility under the PURPA |
| Reform Act | Private Securities Litigation Reform Act of 1995 |
| ROE | Return on common equity |
| SJRPP | St. Johns River Power Park |
| Turner | Turner Foods Corporation |

## SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

In connection with the safe harbor provisions of the Reform Act, FPL Group and FPL (collectively, the Company) are hereby filing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements (as such term is defined in the Reform Act) of the Company made by or on behalf of the Company which are made in this combined Form 10-K, in presentations, in response to questions or otherwise. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as will likely result, are expected to, will continue, is anticipated, estimated, projection, outlook) are not statements of historical facts and may be forward-looking. Forward-looking statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause the Company's actual results to differ materially from those contained in forward-looking statements of the Company made by or on behalf of the Company.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for management to predict all of such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Some important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements include prevailing governmental policies and regulatory actions, including those of the FERC, the FPSC and the NRC, with respect to allowed rates of return, industry and rate structure, operation of nuclear power facilities, acquisition and disposal of assets and facilities, operation and construction of plant facilities, recovery of fuel and purchased power costs, decommissioning costs, and present or prospective wholesale and retail competition (including but not limited to retail wheeling and transmission costs).

The business and profitability of the Company are also influenced by economic and geographic factors including political and economic risks, changes in and compliance with environmental and safety laws and policies, weather conditions (including natural disasters such as hurricanes), population growth rates and demographic patterns, competition for retail and wholesale customers, pricing and transportation of commodities, market demand for energy from plants or facilities, changes in tax rates or policies or in rates of inflation, unanticipated development project delays or changes in project costs, unanticipated changes in operating expenses and capital expenditures, capital market conditions, competition for new energy development opportunities, and legal and administrative proceedings (whether civil, such as environmental, or criminal) and settlements.

All such factors are difficult to predict, contain uncertainties which may materially affect actual results, and are beyond the control of the Company.

## PART I

### Item 1. Business

### FPL GROUP

FPL Group is a public utility holding company, as defined in the Holding Company Act. It was incorporated in 1984 under the laws of Florida. FPL Group's principal subsidiary, FPL, is engaged in the generation, transmission, distribution and sale of electric energy. Other operations are conducted through FPL Group Capital and its subsidiaries and mainly consist of independent power projects and agricultural operations. FPL Group and its subsidiaries employ 10,039 persons.

FPL Group is exempt from substantially all of the provisions of the Holding Company Act on the basis that FPL Group's and FPL's businesses are predominantly intrastate in character and carried on substantially in a single state in which both are incorporated.

### FPL OPERATIONS

**General.** FPL was incorporated under the laws of Florida in 1925 and is a wholly-owned subsidiary of FPL Group. FPL supplies electric service throughout most of the east and lower west coasts of Florida. This service territory contains 27,650 square miles with a population of approximately 7 million. During 1997, FPL served 3.6 million customer accounts. Operating revenues were as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| | (Millions of Dollars) | | |
| Residential | $3,394 | $3,324 | $3,097 |
| Commercial | 2,222 | 2,116 | 1,953 |
| Industrial | 206 | 203 | 195 |
| Other, including the net change in unbilled revenues | 310 | 343 | 285 |
| | $6,132 | $5,986 | $5,530 |

**Regulation.** The retail operations of FPL provided approximately 99% of FPL's operating revenues for 1997. Such operations are regulated by the FPSC which has jurisdiction over retail rates, service territory, issuances of securities, planning, siting and construction of facilities and other matters. FPL is also subject to regulation by the FERC in various respects, including the acquisition and disposition of facilities, interchange and transmission services and wholesale purchases and sales of electric energy.

FPL's nuclear power plants are subject to the jurisdiction of the NRC. NRC regulations govern the granting of licenses for the construction and operation of nuclear power plants and subject such power plants to continuing review and regulation.

Federal, state and local environmental laws and regulations cover air and water quality, land use, power plant and transmission line siting, EMF from power lines and substations, noise and aesthetics, solid waste and other environmental matters. Compliance with these laws and regulations increases the cost of electric service by requiring, among other things, changes in the design and operation of existing facilities and changes or delays in the location, design, construction and operation of new facilities. FPL estimates that capital expenditures required to comply with environmental laws and regulations for 1998 through 2000 will not be material. These expenditures are included in FPL's projected capital expenditures set forth in Item 1. Business - FPL Operations - Capital Expenditures.

FPL holds franchises with varying expiration dates to provide electric service in various municipalities and counties in Florida. FPL considers its franchises to be adequate for the conduct of its business.

**Retail Ratemaking**. The underlying concept of utility ratemaking is to set rates at a level that allows the utility to collect from customers total revenues (revenue requirements) equal to its cost of providing service, including a reasonable rate of return on invested capital. To accomplish this, the FPSC uses various ratemaking mechanisms.

The basic costs of providing electric service, other than fuel and certain other costs, are recovered through base rates, which are designed to recover the costs of constructing, operating and maintaining the utility system. These basic costs include O&M expenses, depreciation and taxes, as well as a return on FPL's investment in assets used and useful in providing electric service (rate base). The rate of return on rate base approximates FPL's weighted cost of capital, which includes its costs for debt and preferred stock and an allowed ROE. FPL's currently authorized ROE range is 11% to 13% with a midpoint of 12%. The FPSC monitors FPL's ROE through a surveillance report that is filed monthly by FPL with the FPSC. The FPSC does not provide assurance that the allowed ROE will be achieved. Base rates are determined in rate proceedings which occur at irregular intervals at the initiative of FPL, the FPSC or a substantially affected party. FPL's last base rate proceeding was in 1984. In 1990, FPL's base rates were reduced following a change in federal income tax rates. 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 and FPL's financial statements.

Fuel costs totaled $1.7 billion in 1997 and are recovered through levelized charges per kwh established pursuant to the fuel clause. These charges are calculated semi-annually based on estimated costs of fuel and estimated customer usage for the ensuing six-month period, plus or minus a true-up adjustment to reflect the variance of actual costs and usage from the estimates used in setting the fuel adjustment charges for prior periods.

Capacity payments to other utilities and generating companies for purchased power are recovered through the capacity clause and base rates. In 1997, $430 million was recovered through the capacity clause. Costs associated with implementing energy conservation programs totaled $119 million in 1997 and are recovered through the conservation clause. Costs of complying with federal, state and local environmental regulations enacted after April 1993 totaled $14 million in 1997 and are recovered through the environmental clause to the extent not included in base rates.

The FPSC has the authority to disallow recovery of costs that it considers excessive or imprudently incurred. Such costs may include O&M expenses, the cost of replacing power lost when fossil and nuclear units are unavailable and costs associated with the construction or acquisition of new facilities.

**Competition**. 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. See Management's Discussion - Results of Operations and Note 1 - Regulation.

While legislators and state regulatory commissions will decide what impact, if any, competitive forces will have on retail transactions, the FERC has jurisdiction over potential changes which could affect competition in wholesale transactions. In 1993, FPL filed with the FERC a comprehensive revision of its service offerings in the wholesale market. FPL proposed changes to its wholesale sales tariffs for service to municipal and cooperatively-owned electric utilities and its power sharing (interchange) agreements with other utilities. In addition, FPL proposed expanding its transmission offerings for new services by switching from individually negotiated contracts to three tariffs of general applicability. FPL began collecting the proposed rates in 1994, subject to refund pending the final ruling on its proposal. In December 1995, the administrative law judge issued his initial decision, ruling in favor of FPL on some issues and against FPL on others. In 1996, the FERC revised its policies with respect to transmission service and required all jurisdictional utilities to have on file at the FERC open access transmission tariffs. In general, these policies require a utility to provide to third parties access to the utility's transmission system on a basis comparable to the uses the utility makes of its own system and at comparable rates. FPL updated its 1993 filing to accommodate the FERC's revised policies. A final decision on these filings is pending before FERC.

FPL is a defendant in an antitrust suit filed by the FMPA. The complaint includes an alleged inability to utilize FPL's transmission facilities to wheel power. See Item 3. Legal Proceedings.

**System Capability and Load**. FPL's resources for serving load as of December 31, 1997 consisted of 18,589 mw of electric power, of which 16,416 mw are from FPL-owned facilities (see Item 2. Properties - Generating Facilities) and 2,173 mw are obtained through purchased power contracts. See Note 9 - Contracts. The compounded annual growth rate of kwh sales and customers was 2.5% and 1.9%, respectively, for the three years ended December 31, 1997.

Customer usage and operating revenues are typically higher during the summer months largely due to the prevalent use of air conditioning in FPL's service territory. However, occasionally, extremely cold temperatures during the winter months result in unusually high electricity usage for a short period of time.

**Capital Expenditures.** FPL's capital expenditures totaled $551 million in 1997, $474 million in 1996 and $669 million in 1995. Capital expenditures for the 1998-2000 period are expected to be approximately $1.8 billion, including $620 million in 1998. This estimate is subject to continuing review and adjustment, and actual capital expenditures may vary from this estimate. See Management's Discussion - Liquidity and Capital Resources.

**Nuclear Operations.** FPL owns and operates four nuclear units, two at St. Lucie and two at Turkey Point. The operating licenses for St. Lucie Units Nos. 1 and 2 expire in 2016 and 2023, respectively. The operating licenses for Turkey Point Units Nos. 3 and 4 expire in 2012 and 2013, respectively. The nuclear units are periodically removed from service to accommodate normal refueling and maintenance outages, repairs and certain other modifications. A condition of the operating license for each unit requires an approved plan for decontamination and decommissioning. FPL's current plans provide for dismantlement of the Turkey Point units commencing in 2013. St. Lucie Unit No. 1 will be mothballed in 2016 until 2023 when dismantlement of both Unit No. 1 and Unit No. 2 will commence. See estimated cost data in Note 1 - Decommissioning and Dismantlement of Generating Plant.

In mid-1995, the St. Lucie nuclear plant began experiencing a series of mechanical and operational problems that resulted in increased attention and fines from the NRC. In 1997, St. Lucie's operating performance improved as a result of corrective actions implemented by St. Lucie's management team. Also during 1997, the St. Lucie Unit No. 1 steam generators were replaced and put into service.

**Fuel.** FPL's generating plants use a variety of fuels. See Item 2. Properties - Generating Facilities and Note 9 - Contracts. The diverse fuel options, along with purchased power, enable FPL to shift between sources of generation to achieve an economical fuel mix. FPL's oil requirements are obtained under short-term contracts and in the spot market.

FPL has contracts in place with FGT that satisfy substantially all of the anticipated needs for natural gas transportation. The existing contracts expire in 2005 and 2010, but can be extended at FPL's option. To the extent desirable, FPL can also purchase interruptible gas transportation service from FGT based on pipeline availability. FPL has a 15-year firm natural gas supply contract at market rates with an affiliate of FGT to provide approximately two-thirds of FPL's anticipated needs for natural gas. The remainder of FPL's gas requirements will be purchased under other contracts and in the spot market.

FPL has, through its joint ownership interest in SJRPP Units Nos. 1 and 2, long-term coal supply and transportation contracts for a portion of the fuel needs for those units. All of the transportation requirements and a portion of the fuel supply needs for Scherer Unit No. 4 are covered by a series of annual and long-term contracts. The remaining fuel requirements will be obtained in the spot market.

FPL leases nuclear fuel for all four of its nuclear units. See Note 1 - Nuclear Fuel. Under the Nuclear Waste Policy Act, the DOE is required to construct permanent disposal facilities and take title to and provide transportation and disposal for spent nuclear fuel by January 31, 1998 for a specified fee based on current generation from nuclear power plants. Through 1997, FPL has paid approximately $341 million in such fees to the DOE's Nuclear Waste Fund. The DOE did not meet its statutory obligation for disposal of spent nuclear fuel under the Nuclear Waste Policy Act. In 1997, FPL joined a number of other utilities in a lawsuit against the DOE seeking to suspend payments for future transportation and disposal. Alternatively, the utilities proposed to hold the funds in escrow until a nuclear waste storage facility is available. In November 1997, a court ruled that DOE failed to meet the statutory deadline for spent fuel disposal, and ordered that the DOE could not assert a claim that its delay was unavoidable in any defense against lawsuits seeking money damages. The DOE has appealed this decision. The court also declined the utilities' request for an order to have the DOE begin disposal of spent nuclear fuel, and did not specifically address the request to escrow the Nuclear Waste Fund payments. In December 1997, FPL and a number of other utilities filed a petition with the DOE requesting suspension of payments into the Nuclear Waste Fund in light of the DOE's impending default on taking title to and disposing of spent nuclear fuel. This Petition was denied by the DOE. In February 1998, FPL and the other utilities petitioned an appeals court for an order preventing the DOE from using money in the Nuclear Waste Fund to pay the utilities' damages for the DOE's breach of obligation. Currently, FPL is storing spent fuel on site and plans to provide adequate storage capacity for all of its spent nuclear fuel, pending its removal by the DOE.

In 1994, FPL entered into a 20-year contract with Bitor America to purchase Orimulsion, a fuel that is an emulsion of bitumen and water and is priced equivalently to coal. FPL has committed to purchase Orimulsion to satisfy approximately 60% of the capacity of the Manatee units, but may elect to purchase sufficient Orimulsion to satisfy the Manatee units' total capacity. See Item 2. Properties - Generating Facilities. The contract is contingent upon FPL obtaining an operating permit from environmental agencies to use Orimulsion at the Manatee units. 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.

**Energy Marketing and Trading.** During 1997, 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. 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.

**Electric and Magnetic Fields.** In recent years, public, scientific and regulatory attention has been focused on possible adverse health effects of EMF. These fields are created whenever electricity flows through a power line or an appliance. Several epidemiological (i.e., statistical) studies have suggested a linkage between EMF and certain types of cancer, including leukemia and brain cancer; other studies have been inconclusive, contradicted earlier studies or have shown no such linkage. Neither these epidemiological studies nor clinical studies have produced any conclusive evidence that EMF does or does not cause adverse health effects.

The FDEP has promulgated regulations setting standards for EMF levels within and at the edge of the rights of way for transmission lines, and FPL is in compliance with these regulations. The FDEP reviewed its EMF standards in 1997 and confirmed the field limits previously established. Future changes in the standards could require additional capital expenditures by FPL for such things as increasing the right of way corridors or relocating or reconfiguring transmission facilities. At present it is not known whether any such expenditures will be required.

**Employees.** FPL had 9,588 employees at December 31, 1997. Approximately 34% of the employees are represented by the IBEW under a collective bargaining agreement with FPL. In 1997, IBEW members approved a new collective bargaining agreement which expires on October 31, 2000.

## OTHER FPL GROUP OPERATIONS

FPL Group Capital, a wholly-owned subsidiary of FPL Group, holds the capital stock and provides funding for the operating subsidiaries other than FPL. At December 31, 1997, FPL Group Capital and its subsidiaries represented approximately 10% of FPL Group's total assets. The business activities of these companies primarily consist of independent power projects and agricultural operations.

**FPL Energy.** In January 1998, FPL Energy was formed as a subsidiary of FPL Group Capital to manage existing non-regulated investments and to pursue new investment opportunities in the domestic and international energy markets. All of the capital stock of ESI and FPL Group International was transferred to FPL Energy in January and two separate investment transactions were announced. First, FPL Energy announced an agreement to acquire, subject to approval by federal and state regulators, the non-nuclear generation assets of Central Maine, in a transaction that is expected to close in the second half of 1998. FPL Energy, through ESI, also announced participation in a joint venture that owns and operates two 300 mw combined-cycle power plants located in Massachusetts and New Jersey. FPL Energy's focus is on environmentally-favored generation including natural gas, wind, geothermal, solar, biomass, and, with the expected addition of the Central Maine assets later in 1998, hydro.

FPL Energy's participation in the domestic energy market has changed in recent years from non-controlling equity investments to a more active role including ownership, management, operation, construction and development of many projects. This active role is expected to continue as opportunities in the non-regulated generation market are pursued. FPL Energy currently owns or has non-controlling ownership interests in a number of independent power projects totaling approximately 3,100 mw of generating capacity. These projects are geographically concentrated in California and Virginia. Upon completion of the acquisition of the Central Maine assets, generating capacity will increase to over 4,200 mw.

Deregulation of the electricity utility market across the United States presents both opportunities and risks for FPL Energy. Opportunities exist for the selective acquisition of generation assets that are being divested under deregulation plans and for the construction and operation of efficient plants that can sell low-cost power in competitive markets. However, market-based pricing, new entrants and the possibility of reduced availability of long-term power purchase agreements may result in fluctuations in revenues and earnings. FPL Energy has long-term power purchase agreements in place with utilities for essentially all of its existing portfolio. The majority of power generated by the Central Maine assets will be sold under a power purchase agreement until the year 2000, when market-based pricing is implemented.

FPL Energy also holds non-controlling investments in natural gas and geothermal generator projects totaling 300 mw located in Colombia and Indonesia, and owns a 5 mw wind farm in Northern Ireland. Essentially all of the output from these projects is subject to long-term power purchase agreements. The project in Colombia is expanding its generating capability and the Indonesian project is under development. FPL Energy is monitoring the economic uncertainty in Indonesia, but currently anticipates no material adverse effect on FPL Group's financial statements from its investment there.

**Turner.** FPL Group Capital's agricultural subsidiary, Turner, owns and operates citrus groves in Florida. Turner's primary product is juice oranges, which are sold to processors for the premium not-from-concentrate, as well as the domestic frozen-concentrate, orange juice markets. Other products include grapefruit and specialty fruits. Turner's operations are seasonal, with the majority of the citrus harvest taking place between January and April.

As of December 31, 1997, Turner owned or leased approximately 30,000 acres of citrus properties, which included 19,000 planted acres, 3,000 acres of undeveloped land and 8,000 acres of infrastructure, wetlands and reservoirs.

## EXECUTIVE OFFICERS OF THE REGISTRANTS [a][b]

| Name | Age | Position | Effective Date |
|---|---|---|---|
| James L. Broadhead | 62 | Chairman of the Board, President and Chief Executive Officer of FPL Group | May 8, 1990 |
| | | Chairman of the Board and Chief Executive Officer of FPL | January 15, 1990 |
| Dennis P. Coyle | 59 | General Counsel and Secretary of FPL Group | June 1, 1991 |
| | | General Counsel and Secretary of FPL | July 1, 1991 |
| K. Michael Davis | 51 | Controller and Chief Accounting Officer of FPL Group | May 13, 1991 |
| | | Vice President, Accounting, Controller and Chief Accounting Officer of FPL | July 1, 1991 |
| Paul J. Evanson | 56 | President of FPL | January 9, 1995 |
| Lawrence J. Kelleher | 50 | Vice President, Human Resources of FPL Group | May 13, 1991 |
| | | Senior Vice President, Human Resources of FPL | July 1, 1991 |
| Thomas F. Plunkett | 58 | President, Nuclear Division of FPL | March 1, 1996 |
| Dilek L. Samil | 42 | Treasurer of FPL Group | May 13, 1991 |
| | | Treasurer of FPL | July 1, 1991 |
| C. O. Woody | 59 | President, Power Generation Division of FPL Group and FPL | January 15, 1998 |
| Michael W. Yackira | 46 | President of FPL Energy, Inc. | January 15, 1998 |

(a) Executive officers are elected annually by, and serve at the pleasure of, their respective boards of directors. Except as noted below, each officer has held his or her present position for five years or more and his or her employment history is continuous.

(b) The business experience of the executive officers is as follows: Mr. Evanson was formerly vice president, finance and chief financial officer of FPL Group and senior vice president, finance and chief financial officer of FPL; Mr. Plunkett was site vice president at Turkey Point; Mr. Woody was senior vice president, power generation of FPL; and Mr. Yackira was vice president, finance and chief financial officer of FPL Group and senior vice president, finance and chief financial officer of FPL from January 1995 to January 1998. Prior to that, Mr. Yackira was senior vice president, market and regulatory services of FPL.

### Item 2. Properties

FPL Group and its subsidiaries maintain properties which are adequate for their operations. At December 31, 1997, the electric generating, transmission, distribution and general facilities of FPL represent 47%, 13%, 33% and 7%, respectively, of FPL's gross investment in electric utility plant in service.

**Generating Facilities.** As of December 31, 1997, FPL had the following generating facilities:

| Facility | Location | No. of Units | Fuel | Net Warm Weather Peaking Capability (mw) |
|---|---|---|---|---|
| STEAM TURBINES | | | | |
| Cape Canaveral | Cocoa, FL | 2 | Oil/Gas | 810 |
| Cutler | Miami, FL | 2 | Gas | 215 |
| Fort Myers | Fort Myers, FL | 2 | Oil | 544 |
| Manatee | Parrish, FL | 2 | Oil | 1,638 |
| Martin | Indiantown, FL | 2 | Oil/Gas | 1,630 |
| Port Everglades | Port Everglades, FL | 4 | Oil/Gas | 1,227 |
| Riviera | Riviera Beach, FL | 2 | Oil/Gas | 580 |
| St. Johns River Power Park | Jacksonville, FL | 2 | Coal/Petroleum Coke | 260(a) |
| St. Lucie | Hutchinson Island, FL | 2 | Nuclear | 1,553(b) |
| Sanford | Lake Monroe, FL | 3 | Oil/Gas | 926 |
| Scherer | Monroe County, GA | 1 | Coal | 667(c) |
| Turkey Point | Florida City, FL | 2 | Oil/Gas | 810 |
| | | 2 | Nuclear | 1,386 |
| COMBINED-CYCLE | | | | |
| Lauderdale | Dania, FL | 2 | Gas/Oil | 860 |
| Martin | Indiantown, FL | 2 | Gas | 860 |
| Putnam | Palatka, FL | 2 | Gas/Oil | 498 |
| COMBUSTION TURBINES | | | | |
| Fort Myers | Fort Myers, FL | 12 | Oil | 626 |
| Lauderdale | Dania, FL | 24 | Oil/Gas | 876 |
| Port Everglades | Port Everglades, FL | 12 | Oil/Gas | 438 |
| DIESEL UNITS | | | | |
| Turkey Point | Florida City, FL | 5 | Oil | 12 |
| TOTAL | | | | 16,416 |

(a) Represents FPL's 20% individual ownership interest in SJRPP Units Nos. 1 and 2, which are jointly owned with the JEA.

(b) Excludes Orlando Utilities Commission's and the FMPA's combined share of approximately 15% of St. Lucie Unit No. 2.

(c) Represents FPL's approximately 76% ownership of Scherer Unit No. 4, which is jointly owned with the JEA.

FPL Energy has wholly-owned generating facilities totaling 830 mw, the largest being a 665 mw gas-fired combined-cycle plant in Virginia. The remaining facilities include solar- and wind-power generators located in California and Northern Ireland.

**Transmission and Distribution.** FPL owns and operates 478 substations with a total capacity of 104,493,440 kva. Electric transmission and distribution lines owned and in service as of December 31, 1997 are as follows:

| Nominal Voltage | Overhead Lines Pole Miles | Trench and Submarine Cable Miles |
|---|---|---|
| 500 kv | 1,107(a) | - |
| 230 kv | 2,196 | 31 |
| 138 kv | 1,405 | 48 |
| 115 kv | 672 | - |
| 69 kv | 166 | 11 |
| Less than 69 kv | 39,168 | 20,086 |
| Total | 44,714 | 20,176 |

(a) Includes approximately 80 miles owned jointly with the JEA.

**Character of Ownership.** Substantially all of FPL's properties are subject to the lien of its mortgage, which secures most debt securities issued by FPL. The principal properties of FPL are held by it in fee and are free from other encumbrances, subject to minor exceptions, none of which is of such a nature as to substantially impair the usefulness to FPL of such properties. Some of the electric lines are located on land not owned in fee but are covered by necessary consents of governmental authorities or rights obtained from owners of private property.

**Item 3. Legal Proceedings**

In 1991, FPL entered into 30-year power purchase agreements with two qualifying facilities (as defined by PURPA) located in Palm Beach County, Florida. The power plants, which have a total generating capacity of 125 mw, were intended to sell capacity and energy to FPL and to provide steam to sugar processors. The plants were to be fueled by bagasse (sugar cane waste) and wood waste. Construction of the plants was funded, in part, through the sale of $288.5 million of solid waste industrial development revenue bonds (the bonds). The plants are owned by Okeelanta Power Limited Partnership (Okeelanta); Osceola Power Limited Partnership (Osceola); Flo-Energy Corp.; Glades Power Partnership; Gator Generating Company, Limited Partnership; and Lake Power Leasing Partnership (collectively, the partnerships).

In January 1997, FPL filed a complaint against Okeelanta and Osceola in the Circuit Court for Palm Beach County, Florida, seeking an order declaring that FPL's obligations under the power purchase agreements 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 November 1997, the complaint was amended to include all the partnerships.

The partnerships filed for bankruptcy under Chapter XI of the United States Bankruptcy Code in May 1997 and ceased all attempts to operate the power plants in September 1997. In November 1997, the partnerships entered into an agreement with the holders of more than 70% of the bonds. This agreement gives the holders 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 majority bondholders approve, provided that certain agreements with the sugar processors are not affected and certain other conditions are met.

In January 1998, the partnerships (through the attorneys for the majority bondholders) filed an answer denying the allegations in FPL's complaint and asserting 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 partnerships also seek three times their actual damages for alleged violations of Florida antitrust laws, plus attorneys' fees.

In December 1991, the FMPA, an organization comprised of municipal electric utilities operating in the state, filed a suit against FPL in the Circuit Court of the Ninth Judicial Circuit in Orange County, Florida. The suit was subsequently removed to the United States District Court for the Middle District of Florida. The FMPA alleges that FPL is in breach of a "contract," consisting of several different documents, by refusing to provide transmission service to the FMPA and its members on the FMPA's terms. The FMPA also alleges that FPL has violated federal and Florida antitrust laws by monopolizing or attempting to monopolize the provision, coordination and transmission of electric power in FPL's area of operation by 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 asks the court to require FPL: to transmit electric power among the FMPA and its members on "reasonable terms and conditions"; to permit the FMPA to contribute to and use FPL's transmission system on "reasonable terms and conditions"; and to recognize the FMPA transmission investments as part of FPL's transmission system such that the FMPA can obtain transmission on a basis equivalent to FPL or, alternatively, to provide transmission service equivalent to such FMPA transmission ownership. In 1993, the District Court granted summary judgment in favor of FPL. In 1995, the court of appeals vacated the District Court's summary judgment 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.

In November 1989, Johnson Enterprises of Jacksonville, Inc. (Johnson Enterprises) filed suit in the United States District Court for the Middle District of Florida against FPL Group, FPL Group Capital and Telesat Cablevision, Inc. (Telesat), a subsidiary of FPL Group Capital. The suit alleged breach of contract, fraud, violation of racketeering statutes and several other claims. Plaintiff claimed more than $24 million in compensatory damages, treble damages under racketeering statutes, punitive damages and attorneys' fees. The District 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.

In the event that FPL Group or FPL does not prevail in these suits, there may be a material adverse effect on their financial statements. However, FPL Group and FPL believe that they have meritorious defenses to the litigation to which they are parties 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.

**Item 4. Submission of Matters to a Vote of Security Holders**

None

## PART II

**Item 5. Market for the Registrants' Common Equity and Related Stockholder Matters**

**Common Stock Data.** All of FPL's common stock is owned by FPL Group. FPL Group's common stock is traded on the New York Stock Exchange. The high and low sales prices for the common stock of FPL Group as reported in the consolidated transaction reporting system of the New York Stock Exchange for each quarter during the past two years are as follows:

| Quarter | 1997 High | 1997 Low | 1996 High | 1996 Low |
|---|---|---|---|---|
| First | $46 3/4 | $43 5/8 | $48 | $42 1/8 |
| Second | $48 1/8 | $42 5/8 | $46 1/4 | $41 1/2 |
| Third | $51 9/16 | $45 1/2 | $46 5/8 | $42 5/8 |
| Fourth | $60 | $49 1/2 | $48 1/8 | $43 1/8 |

**Approximate Number of Stockholders.** As of the close of business on January 31, 1998, there were 60,024 holders of record of FPL Group's common stock.

**Dividends.** Quarterly dividends have been paid on common stock of FPL Group during the past two years in the following amounts:

| Quarter | 1997 | 1996 |
|---|---|---|
| First | $.48 | $.46 |
| Second | $.48 | $.46 |
| Third | $.48 | $.46 |
| Fourth | $.48 | $.46 |

The amount and timing of dividends payable on FPL Group's common stock are within the sole discretion of FPL Group's board of directors. The board of directors reviews the dividend rate at least annually (in February) to determine its appropriateness in light of FPL Group's financial position and results of operations, legislative and regulatory developments affecting the electric utility industry in general and FPL in particular, competitive conditions and any other factors the board deems relevant. The ability of FPL Group to pay dividends on its common stock is dependent upon dividends paid to it by its subsidiaries, primarily FPL. There are no restrictions in effect that currently limit FPL's ability to pay dividends to FPL Group. See Management's Discussion - Liquidity and Capital Resources and Note 4 regarding dividends paid by FPL to FPL Group.

## Item 6. Selected Financial Data

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| SELECTED DATA OF FPL GROUP | | | | | |
| (Millions of Dollars, except per share amounts): | | | | | |
| Operating revenues | $ 6,369 | $ 6,037 | $ 5,592 | $ 5,423 | $ 5,312 |
| Net income | $ 618 | $ 579 | $ 553 | $ 519 | $ 429(a) |
| Earnings per share of common stock(b) | $ 3.57 | $ 3.33 | $ 3.16 | $ 2.91 | $ 2.30(a) |
| Dividends paid per share of common stock | $ 1.92 | $ 1.84 | $ 1.76 | $ 1.88 | $ 2.47 |
| Total assets | $12,449 | $12,219 | $12,459 | $12,618 | $13,078 |
| Long-term debt, excluding current maturities | $ 2,949 | $ 3,144 | $ 3,377 | $ 3,864 | $ 3,749 |
| Obligations of FPL under capital lease, excluding current maturities | $ 186 | $ 182 | $ 179 | $ 186 | $ 271 |
| Preferred stock of FPL with sinking fund requirements, excluding current maturities | - | $ 42 | $ 50 | $ 94 | $ 97 |
| Energy sales (millions of kwh)(c) | 84,765 | 80,889 | 79,756 | 77,096 | 72,455 |
| SELECTED DATA OF FPL (Millions of Dollars): | | | | | |
| Operating revenues | $ 6,132 | $ 5,986 | $ 5,530 | $ 5,343 | $ 5,224 |
| Net income available to FPL Group | $ 608 | $ 591 | $ 568 | $ 529 | $ 425(a) |
| Total assets | $11,172 | $11,531 | $11,751 | $11,821 | $11,911 |
| Long-term debt, excluding current maturities | $ 2,420 | $ 2,981 | $ 3,094 | $ 3,581 | $ 3,463 |
| Energy sales (millions of kwh) | 82,734 | 80,889 | 79,756 | 77,096 | 72,455 |
| Energy sales: | | | | | |
| Residential | 50.6% | 51.1% | 50.8% | 50.2% | 50.2% |
| Commercial | 39.8 | 38.6 | 38.5 | 38.8 | 39.3 |
| Industrial | 4.7 | 4.7 | 4.9 | 5.0 | 5.4 |
| Interchange power sales | 2.1 | 2.6 | 1.6 | 2.5 | 2.6 |
| Other(d) | 2.8 | 3.0 | 4.2 | 3.5 | 2.5 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Approximate 60-minute net peak served (mw)(e): | | | | | |
| Summer season | 16,613 | 16,064 | 15,813 | 15,179 | 15,266 |
| Winter season | 13,047 | 16,490 | 18,096 | 16,563 | 12,594 |
| Average number of customer accounts (thousands): | | | | | |
| Residential | 3,209 | 3,153 | 3,097 | 3,038 | 2,974 |
| Commercial | 389 | 381 | 374 | 366 | 358 |
| Industrial | 15 | 15 | 15 | 16 | 15 |
| Other | 3 | 2 | 3 | 2 | 3 |
| Total | 3,616 | 3,551 | 3,489 | 3,422 | 3,350 |
| Average price per kwh sold (cents)(f) | 7.29 | 7.29 | 6.83 | 6.82 | 7.10 |

(a) Reduced by $85 million, or $.45 per share, after-tax effect of cost reduction program charge.
(b) Basic and assuming dilution.
(c) Includes consolidated entities only from the date of consolidation.
(d) Includes the net change in unbilled sales.
(e) The winter season includes November and December of the current year and January through March of the following year.
(f) Includes the net change in unbilled and cost recovery clause revenues.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

FPL Group's 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's 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 EWG and two solar projects. In January 1998, FPL Group announced the formation of FPL Energy, an FPL Group Capital subsidiary, that will hold directly or indirectly all generation assets not owned by 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 FPSC regulates FPL's retail sales, which represent approximately 94% of FPL Group's total operating revenues. FPL reported a retail regulatory 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 and FPL's financial statements.

O&M expenses increased in 1997, following several years of decline, primarily as a result of additional costs associated with the conservation 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 ($1.4 billion for FPL). 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 of FPL Group. The 1996 change in other - net of both FPL Group and FPL 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's 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 ($535 million for FPL) through 2002, including $198 million ($180 million for FPL) 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 ($900 million for FPL).

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 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 and FPL 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 and FPL'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:

| | Carrying Value | Fair Value | Hypothetical Increase in Fair Value(a) |
|---|---|---|---|
| | (Millions of Dollars) | | |
| Long-term debt of FPL | $ 2,600 | $ 2,679(b) | $ 92 |
| Long-term debt of FPL Group | $ 3,147 | $ 3,236(b) | $103 |
| Interest rate swap agreements of FPL Group | - | $ 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 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.

**Item 7a. Quantitative and Qualitative Disclosures About Market Risk**

See Management's Discussion - Market Risk Sensitivity.

**Item 8. Financial Statements and Supplementary Data**

## INDEPENDENT AUDITORS' REPORT

FPL GROUP, INC. AND FLORIDA POWER & LIGHT COMPANY:

We have audited the consolidated financial statements of FPL Group, Inc. and of Florida Power & Light Company, listed in the accompanying index at Item 14(a)1 of this Annual Report (Form 10-K) to the Securities and Exchange Commission for the year ended December 31, 1997. These financial statements are the responsibility of the companies' 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. and Florida Power & Light Company 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
Certified Public Accountants

Miami, Florida
February 13, 1998

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| 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.

## FPL GROUP, INC.
## CONSOLIDATED BALANCE SHEETS
## (Millions of Dollars)

| | December 31, 1997 | December 31, 1996 |
|---|---|---|
| **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 and $12 | 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 |
| **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.

# FPL GROUP, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
### (Millions of Dollars)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 1997 | 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.

## FLORIDA POWER & LIGHT COMPANY
## CONSOLIDATED STATEMENTS OF INCOME
### (Millions of Dollars)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| OPERATING REVENUES | $6,132 | $5,986 | $5,530 |
| OPERATING EXPENSES: | | | |
| Fuel, purchased power and interchange | 2,196 | 2,131 | 1,722 |
| Other operations and maintenance | 1,132 | 1,127 | 1,138 |
| Depreciation and amortization | 1,034 | 955 | 909 |
| Income taxes | 329 | 329 | 347 |
| Taxes other than income taxes | 592 | 585 | 549 |
| Total operating expenses | 5,283 | 5,127 | 4,665 |
| OPERATING INCOME | 849 | 859 | 865 |
| OTHER INCOME (DEDUCTIONS): | | | |
| Interest charges | (227) | (246) | (270) |
| Other - net | 5 | 2 | 16 |
| Total other deductions - net | (222) | (244) | (254) |
| NET INCOME | 627 | 615 | 611 |
| PREFERRED STOCK DIVIDENDS | 19 | 24 | 43 |
| NET INCOME AVAILABLE TO FPL GROUP, INC. | $ 608 | $ 591 | $ 568 |

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

# FLORIDA POWER & LIGHT COMPANY
## CONSOLIDATED BALANCE SHEETS
### (Millions of Dollars)

| | December 31, 1997 | December 31, 1996 |
|---|---|---|
| ELECTRIC UTILITY PLANT: | | |
| Plant in service | $16,819 | $16,406 |
| Less accumulated depreciation | (8,355) | (7,610) |
| Net | 8,464 | 8,796 |
| Nuclear fuel under capital lease | 186 | 182 |
| Construction work in progress | 131 | 220 |
| Electric utility plant - net | 8,781 | 9,198 |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | 3 | 78 |
| Customer receivables, net of allowances of $9 and $12 | 471 | 460 |
| Materials, supplies and fossil fuel inventory - at average cost | 242 | 248 |
| Deferred clause expenses | 122 | 127 |
| Other | 104 | 98 |
| Total current assets | 942 | 1,011 |
| OTHER ASSETS: | | |
| Special use funds | 1,007 | 806 |
| Other | 442 | 516 |
| Total other assets | 1,449 | 1,322 |
| TOTAL ASSETS | $11,172 | $11,531 |
| CAPITALIZATION: | | |
| Common shareholder's equity | $ 4,814 | $ 4,668 |
| Preferred stock without sinking fund requirements | 226 | 289 |
| Preferred stock with sinking fund requirements | - | 42 |
| Long-term debt | 2,420 | 2,981 |
| Total capitalization | 7,460 | 7,980 |
| CURRENT LIABILITIES: | | |
| Commercial paper | 40 | - |
| Current maturities of long-term debt and preferred stock | 180 | 4 |
| Accounts payable | 344 | 299 |
| Customers' deposits | 279 | 268 |
| Accrued interest and taxes | 180 | 301 |
| Other | 289 | 256 |
| Total current liabilities | 1,312 | 1,128 |
| OTHER LIABILITIES AND DEFERRED CREDITS: | | |
| Accumulated deferred income taxes | 1,070 | 1,147 |
| Deferred regulatory credit - income taxes | 166 | 129 |
| Unamortized investment tax credits | 229 | 251 |
| Storm and property insurance reserve | 252 | 223 |
| Other | 683 | 673 |
| Total other liabilities and deferred credits | 2,400 | 2,423 |
| COMMITMENTS AND CONTINGENCIES | | |
| TOTAL CAPITALIZATION AND LIABILITIES | $11,172 | $11,531 |

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

# FLORIDA POWER & LIGHT COMPANY
## CONSOLIDATED STATEMENTS OF CASH FLOWS
### (Millions of Dollars)

| | Years Ended December 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $ 627 | $ 615 | $ 611 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,034 | 955 | 909 |
| Decrease in deferred income taxes and related regulatory credit | (98) | (25) | (107) |
| Increase (decrease) in accrued interest and taxes | (121) | 22 | 12 |
| Other - net | 61 | 41 | 97 |
| Net cash provided by operating activities | 1,503 | 1,608 | 1,522 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures | (551) | (474) | (661) |
| Other - net | (83) | (124) | (73) |
| Net cash used in investing activities | (634) | (598) | (734) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Issuance of long-term debt | - | - | 170 |
| Retirement of long-term debt and preferred stock | (505) | (333) | (574) |
| Increase (decrease) in commercial paper | 40 | (179) | (47) |
| Capital contributions from FPL Group, Inc. | 140 | 195 | 280 |
| Dividends | (619) | (617) | (597) |
| Other - net | - | 2 | (21) |
| Net cash used in financing activities | (944) | (932) | (789) |
| Net increase (decrease) in cash and cash equivalents | (75) | 78 | (1) |
| Cash and cash equivalents at beginning of year | 78 | - | 1 |
| Cash and cash equivalents at end of year | $ 3 | $ 78 | $ - |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid for interest | $ 216 | $ 228 | $ 252 |
| Cash paid for income taxes | $ 575 | $ 379 | $ 479 |
| SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Additions to capital lease obligations | $ 81 | $ 86 | $ 84 |

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

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

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

| | December 31, | |
|---|---|---|
| | 1997 | 1996 |
| | (Millions of Dollars) | |
| 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 and FPL'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% (6.6% for FPL). 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. FPL is included in the consolidated federal income tax return filed by FPL Group. FPL determines its income tax provision on the "separate return method." The deferred regulatory credit - income taxes of FPL represents the revenue equivalent of the difference in accumulated deferred income taxes computed under FAS 109, "Accounting for Income Taxes," as compared to regulatory accounting rules. This amount is being amortized in accordance with the regulatory treatment over the estimated lives of the assets or liabilities which resulted in the initial recognition of the deferred tax amount. Investment tax credits (ITC) for FPL are deferred and amortized to income over the approximate lives of the related property in accordance with the regulatory treatment. 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:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 1997 | 1996 | 1995 |
| | (Millions of Dollars) | | |
| 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 |
| FPL Group's pension cost | $ (51) | $ (19) | $ (14) |
| Pension cost allocated to FPL | $ (50) | $ (18) | $ (13) |

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:

| | December 31, 1997 | December 31, 1996 |
|---|---|---|
| | (Millions of Dollars) | |
| 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 of FPL Group | $ 99 | $ 47 |
| Prepaid pension cost allocated to FPL | $ 94 | $ 43 |

(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:

| | Years Ended December 31, 1997 | 1996 | 1995 |
|---|---|---|---|
| | (Millions of Dollars) | | |
| 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 |
| FPL Group's postretirement benefit cost | $ 23 | $20 | $ 19 |
| Postretirement benefit cost allocated to FPL | $ 23 | $19 | $ 18 |

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

| | December 31, 1997 | December 31, 1996 |
|---|---|---|
| | (Millions of Dollars) | |
| 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 of FPL Group | $123 | $100 |
| Accrued postretirement benefit liability allocated to FPL | $122 | $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 | | December 31, 1996 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| | (Millions of Dollars) | | | |
| Preferred stock of FPL with sinking fund requirements (a) | $ - | $ - | $ 46 | $ 47(b) |
| Long-term debt of FPL (a) | $2,600 | $2,679(b) | $2,981 | $3,001(b) |
| Long-term debt of FPL Group (a) | $3,147 | $3,236(b) | $3,295 | $3,319(b) |
| Interest rate swap agreements of FPL Group | $ - | $ 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**

**FPL Group** - The changes in common shareholders' equity accounts of FPL Group are as follows:

| | Common Stock (a) | | Additional Paid-In Capital | Unearned Compensation | Retained Earnings | Common Shareholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Aggregate Par Value | (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.

**FPL** - The changes in common shareholder's equity accounts of FPL are as follows:

| | Common Stock (a) | Additional Paid-In Capital | Retained Earnings | Common Share-holder's Equity |
|---|---|---|---|---|
| | | (Millions of Dollars) | | |
| Balances, December 31, 1994 | $1,373 | $1,947 | $ 866 | |
| Contributions from FPL Group | - | 280 | - | |
| Net income available to FPL Group | - | - | 568 | |
| Dividends to FPL Group | - | - | (558) | |
| Other | - | 2 | (4) | |
| Balances, December 31, 1995 | 1,373 | 2,229 | 872 | |
| Contributions from FPL Group | - | 195 | - | |
| Net income available to FPL Group | - | - | 591 | |
| Dividends to FPL Group | - | - | (593) | |
| Other | - | - | 1 | |
| Balances, December 31, 1996 | 1,373 | 2,424 | 871 | $4,668 |
| Contributions from FPL Group | - | 140 | - | |
| Net income available to FPL Group | - | - | 608 | |
| Dividends to FPL Group | - | - | (601) | |
| Other | - | 2 | (3) | |
| Balances, December 31, 1997 | $1,373 | $2,566 | $ 875 | $4,814 |

(a) Common stock, no par value, 1,000 shares authorized, issued and outstanding.

## 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 | | December 31, | |
|---|---|---|---|---|
| | Shares Outstanding | Redemption Price | 1997 | 1996 |
| | | | (Millions of Dollars) | |
| 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 | December 31, 1996 |
|---|---|---|
| | (Millions of Dollars) | |
| 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. The respective amounts for FPL are $180 million, $230 million, $125 million, with no amounts due in 2001 and 2002.

Available lines of credit aggregated approximately $1.3 billion ($900 million for FPL) at December 31, 1997, all of which were based on firm commitments.

## 7. Income Taxes

The components of income taxes are as follows:

| | FPL Group Years Ended December 31, 1997 | 1996 | 1995 | FPL Years Ended December 31, 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| | (Millions of Dollars) | | | | | |
| Federal: | | | | | | |
| Current | $308 | $355 | $381 | $377 | $388 | $395 |
| Deferred | (34) | (77) | (78) | (83) | (81) | (85) |
| ITC - net | (22) | (31) | (22) | (22) | (31) | (20) |
| Total federal | 252 | 247 | 281 | 272 | 276 | 290 |
| State: | | | | | | |
| Current | 52 | 63 | 59 | 60 | 53 | 64 |
| Deferred | - | (16) | (11) | (3) | - | (7) |
| Total state | 52 | 47 | 48 | 57 | 53 | 57 |
| Income taxes charged to operations - FPL | | | | 329 | 329 | 347 |
| Credited to other income (deductions) - FPL | | | | (8) | (7) | (5) |
| Total income taxes | $304 | $294 | $329 | $321 | $322 | $342 |

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

| | FPL Group Years Ended December 31, 1997 | 1996 | 1995 | FPL Years Ended December 31, 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% | 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 | 3.9 | 3.7 | 3.9 |
| Amortization of ITC | (2.4) | (3.6) | (2.4) | (2.3) | (3.3) | (2.2) |
| Amortization of deferred regulatory credit - income taxes | (1.8) | (2.0) | (2.0) | (1.8) | (1.9) | (1.8) |
| Adjustments of prior years' tax matters | (2.7) | (1.3) | (0.1) | (1.7) | (0.1) | (0.5) |
| Preferred stock dividends - FPL | 0.7 | 1.0 | 1.7 | - | - | - |
| Other - net | 0.5 | 1.0 | 1.6 | 0.8 | 0.9 | 1.5 |
| Effective income tax rate | 33.0% | 33.6% | 37.3% | 33.9% | 34.3% | 35.9% |

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

| | FPL Group December 31, 1997 | 1996 | FPL December 31, 1997 | 1996 |
|---|---|---|---|---|
| | (Millions of Dollars) | | | |
| Deferred tax liabilities: | | | | |
| Property-related | $1,663 | $1,708 | $1,631 | $1,677 |
| Investment-related | 436 | 384 | - | - |
| Other | 362 | 342 | 185 | 188 |
| Total deferred tax liabilities | 2,461 | 2,434 | 1,816 | 1,865 |
| Deferred tax assets and valuation allowance: | | | | |
| Asset writedowns and capital loss carryforward | 110 | 155 | - | - |
| Unamortized ITC and deferred regulatory credit - income taxes | 153 | 147 | 153 | 147 |
| Storm and decommissioning reserves | 246 | 224 | 246 | 224 |
| Other | 507 | 442 | 347 | 347 |
| Valuation allowance | (28) | (65) | - | - |
| Net deferred tax assets | 988 | 903 | 746 | 718 |
| Accumulated deferred income taxes | $1,473 | $1,531 | $1,070 | $1,147 |

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 and FPL'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:

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|
| | | (Millions of Dollars) | | | |
| 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:

| | 1997 Charges | | 1996 Charges | | 1995 Charges | |
|---|---|---|---|---|---|---|
| | Capacity | Energy/ Fuel (a) | Capacity | Energy/ Fuel (a) | Capacity | Energy/ Fuel (a) |
| | | | (Millions of Dollars) | | | |
| 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 fluctuation in certain account balances as 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 non-current 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)

Condensed consolidated quarterly financial information for 1997 and 1996 is as follows:

| | March 31 (a) | June 30 (a) | September 30 (a) | December 31 (a) |
|---|---|---|---|---|
| | (In millions, except per share amounts) | | | |
| **FPL Group:** | | | | |
| 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 1/2 |
| 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 |
| **FPL:** | | | | |
| 1997 | | | | |
| Operating revenues | $ 1,399 | $ 1,541 | $ 1,819 | $ 1,373 |
| Operating income | $ 168 | $ 220 | $ 311 | $ 150 |
| Net income | $ 110 | $ 164 | $ 256 | $ 97 |
| Net income available to FPL Group. | $ 104 | $ 160 | $ 251 | $ 93 |
| 1996 | | | | |
| Operating revenues | $ 1,341 | $ 1,455 | $ 1,761 | $ 1,429 |
| Operating income | $ 167 | $ 219 | $ 317 | $ 156 |
| Net income | $ 107 | $ 158 | $ 253 | $ 97 |
| Net income available to FPL Group. | $ 101 | $ 153 | $ 247 | $ 90 |

(a) In the opinion of FPL Group and FPL, 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.

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None

## PART III

**Item 10. Directors and Executive Officers of the Registrants**

**FPL Group** - The information required by this Item will be included in FPL Group's Proxy Statement which will be filed with the Securities and Exchange Commission in connection with the 1998 Annual Meeting of Shareholders (FPL Group's Proxy Statement) and is incorporated herein by reference, or is included in Item I. Business - Executive Officers of the Registrants.

**FPL DIRECTORS[(a)]**

**James L. Broadhead.** Mr. Broadhead, 62, is chairman and chief executive officer of FPL and chairman, president and chief executive officer of FPL Group. He is a director of Delta Air Lines, Inc. and The Pittston Company, and a board fellow of Cornell University. Mr. Broadhead has been a director of FPL and FPL Group since 1989.

**Dennis P. Coyle**. Mr. Coyle, 59, is general counsel and secretary of FPL and FPL Group. Mr. Coyle has been a director of FPL since 1990.

**Paul J. Evanson.** Mr. Evanson, 56, became the president of FPL in January 1995, after having served as senior vice president, finance and chief financial officer of FPL and vice president, finance and chief financial officer of FPL Group since December 1992. He is a director of Lynch Corporation and Southern Energy Homes, Inc. Mr. Evanson has been a director of FPL since 1992 and a director of FPL Group since 1995.

**Lawrence J. Kelleher**. Mr. Kelleher, 50, is senior vice president, human resources of FPL and vice president, human resources of FPL Group. Mr. Kelleher has been a director of FPL since 1990.

**Thomas F. Plunkett**. Mr. Plunkett, 58, is president of FPL's nuclear division. He was formerly site vice president at Turkey Point. Mr. Plunkett has been a director of FPL since 1996.

**C. O. Woody**. Mr. Woody, 59, became president of the power generation division in January 1998. He was formerly senior vice president, power generation of FPL. Mr. Woody has been a director of FPL since 1989.

**Michael W. Yackira.** Mr. Yackira, 46, became president of FPL Energy, Inc. in January 1998. Prior to that, Mr.Yackira was senior vice president, finance and chief financial officer of FPL and vice president, finance and chief financial officer of FPL Group from January 1995 to January 1998. Prior to that, Mr. Yackira was senior vice president, market and regulatory services of FPL. Mr. Yackira has been a director of FPL since 1990.

(a) Directors are elected annually and serve until their resignation, removal or until their respective successors are elected. Each director's business experience during the past five years is noted either here or in the Executive Officers table in Item 1. Business - Executive Officers of the Registrants.

**Item 11. Executive Compensation**

**FPL Group** - The information required by this Item will be included in FPL Group's Proxy Statement and is incorporated herein by reference, provided that the Compensation Committee Report and Performance Graph which are contained in FPL Group's Proxy Statement shall not be deemed to be incorporated herein by reference.

**FPL** - The following table sets forth FPL's portion of the compensation paid during the past three years to FPL's chief executive officer and the other four most highly-compensated persons who served as executive officers of FPL at December 31, 1997.

### SUMMARY COMPENSATION TABLE

| | | Annual Compensation | | | Long-Term Compensation | | |
|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary | Bonus | Other Annual Compensation | Restricted Stock Awards(a) | Long-Term Incentive Plan Payouts(b) | All Other Compensation(c) |
| James L. Broadhead (a) | 1997 | $846,000 | $824,850 | $ 9,813 | - | $1,402,140 | $11,286 |
| Chairman of the Board and Chief | 1996 | 799,800 | 633,423 | 10,601 | - | 920,892 | 12,727 |
| Executive Officer of FPL and FPL Group, President of FPL Group | 1995 | 749,567 | 637,000 | 30,342 | - | 947,387 | 15,901 |
| Paul J. Evanson | 1997 | 564,300 | 423,200 | 2,646 | - | 306,741 | 15,233 |
| President | 1996 | 540,000 | 340,200 | 2,925 | - | 197,471 | 15,868 |
| | 1995 | 500,000 | 307,400 | 3,691 | - | 155,513 | 12,906 |
| Dennis P. Coyle | 1997 | 353,628 | 198,904 | 3,600 | - | 310,021 | 10,653 |
| General Counsel and Secretary | 1996 | 334,800 | 158,193 | - | - | 203,637 | 10,742 |
| of FPL and FPL Group | 1995 | 303,849 | 138,957 | 3,756 | - | 223,724 | 11,972 |
| C.O. Woody | 1997 | 308,000 | 135,800 | 5,663 | $572,500 | 279,837 | 12,959 |
| President of the Power Generation | 1996 | 295,000 | 142,500 | 3,882 | - | 184,711 | 13,448 |
| Division | 1995 | 283,300 | 133,400 | 3,234 | - | 207,350 | 15,539 |
| Michael W. Yackira | 1997 | 300,800 | 195,520 | 3,600 | 538,150 | 222,173 | 10,115 |
| President of FPL Energy, Inc. | 1996 | 279,000 | 131,874 | 3,886 | - | 145,942 | 9,908 |
| | 1995 | 239,250 | 110,403 | 4,526 | - | 153,294 | 9,092 |

(a) At December 31, 1997, Mr. Broadhead held 96,800 shares of restricted common stock with a value of $5,729,350. These shares were awarded in 1991 for the purpose of financing Mr. Broadhead's supplemental retirement plan and will offset lump sum benefits that would otherwise be payable to him in cash upon retirement. See Retirement Plans herein. In 1997, 10,000 restricted shares were awarded to Messrs. Woody and Yackira, which will vest on June 18, 2000 and August 14, 2007, respectively. Dividends at normal rates are paid on restricted common stock.

(b) Payouts were made in cash (for payment of income taxes) and shares of common stock, valued at the closing price on the last business day preceding payout. Messrs. Evanson and Woody deferred their payouts under FPL Group's Deferred Compensation Plan.

(c) Represents employer matching contributions to employee thrift plans and employer contributions for life insurance as follows:

| | Thrift Match | Life Insurance |
|---|---|---|
| Mr. Broadhead ........................ | $7,144 | $4,142 |
| Mr. Evanson .......................... | 7,600 | 7,633 |
| Mr. Coyle ............................ | 7,144 | 3,509 |
| Mr. Woody ............................ | 7,600 | 5,359 |
| Mr. Yackira .......................... | 7,144 | 2,971 |

**Long-Term Incentive Plan Awards** - In 1997, performance awards under FPL Group's Long-Term Incentive Plan were made to the executive officers named in the Summary Compensation Table as set forth in the following tables.

### LONG-TERM INCENTIVE PLAN AWARDS

| | | | Estimated Future Payouts Under Non-Stock Price-Based Plans Number of Shares | | |
|---|---|---|---|---|---|
| Name | Number of Shares | Performance Period Until Payout | Threshold | Target | Maximum |
| James L. Broadhead ................ | 22,310 | 1/1/97 - 12/31/00 | - | 22,310 | 35,696 |
| Paul J. Evanson ................... | 8,902 | 1/1/97 - 12/31/00 | - | 8,902 | 14,243 |
| Dennis P. Coyle ................... | 5,087 | 1/1/97 - 12/31/00 | - | 5,087 | 8,139 |
| C. O. Woody ....................... | 4,165 | 1/1/97 - 12/31/00 | - | 4,165 | 6,664 |
| Michael W. Yackira ................ | 4,327 | 1/1/97 - 12/31/00 | - | 4,327 | 6,923 |

Shown in the preceding table, the performance share awards are payable at the end of the four-year performance period. The amount of the payout is determined by multiplying the participant's target number of shares by his average level of attainment, expressed as a percentage, which may not exceed 160%, of his targeted awards under the Annual Incentive Plans for each of the years encompassed by the award period. Annual incentive compensation is based on the attainment of net income goals for FPL and FPL Group, which are established by the Compensation Committee of FPL Group's Board of Directors (the Committee) at the beginning of the year. The amounts earned on the basis of this performance measure are subject to reduction based on the degree of achievement of other corporate and business unit performance measures, and in the discretion of the Committee. Mr. Broadhead's annual incentive compensation for 1997 was based on the achievement of FPL Group's net income goals and the following performance measures for FPL (weighted 85%) and the non-utility and/or new businesses (weighted 15%) and upon certain qualitative factors. For FPL, the incentive performance measures were financial indicators (weighted 50%) and operating indicators (weighted 50%). The financial indicators were operations and maintenance costs, capital expenditure levels, net income, regulatory return on equity and operating cash flow. The operating indicators were service reliability as measured by the frequency and duration of service interruptions, system performance as measured by availability factors for the fossil and nuclear power plants, SALP ratings for nuclear power plants, unplanned trips of nuclear power plants, employee safety, number of significant environmental violations, customer satisfaction survey results, load management installed capability, conservation programs' annual installed capacity and full-time equivalent workforce. For the non-utility and/or new businesses, the performance measures were total combined net income and the achievement of the net income targets for ESI Energy, Inc. and Turner Foods Corporation and to develop wholesale energy marketing capabilities, develop retail marketing strategy, evaluate international acquisitions and evaluate domestic electric and gas acquisitions. The qualitative factors included measures to position FPL Group for greater competition and initiating other actions that significantly strengthen FPL and FPL Group and enhance shareholder value.

| | | | Estimated Future Payouts Under Non-Stock Price-Based Plans Number of Shares | | |
|---|---|---|---|---|---|
| Name | Number of Shares | Performance Period Until Payout | Threshold | Target | Maximum |
| James L. Broadhead | 15,211 | 1/1/97 - 12/31/99 | - | 15,211 | 24,338 |
| Paul J. Evanson | 7,630 | 1/1/97 - 12/31/99 | - | 7,630 | 12,208 |
| Dennis P. Coyle | 3,815 | 1/1/97 - 12/31/99 | - | 3,815 | 6,104 |
| C. O. Woody | 3,123 | 1/1/97 - 12/31/99 | - | 3,123 | 4,997 |
| Michael W. Yackira | 3,606 | 1/1/97 - 12/31/99 | - | 3,606 | 5,770 |

Shown in the preceding table, the shareholder value share awards are payable at the end of the three-year performance period. The amount of the payout is determined by multiplying the participant's target number of shares by a factor determined based on the average annual total shareholder return of FPL Group (includes appreciation in FPL Group common stock plus dividends) as compared to the total shareholder return of the Dow Jones Electric Utilities Index companies over the three-year performance period. This payment may not exceed 160% of targeted awards.

**Retirement Plans** - FPL Group maintains a non-contributory defined benefit pension plan and a supplemental executive retirement plan which covers FPL employees. The following table shows the estimated annual benefits, calculated on a straight-line annuity basis, payable upon retirement in 1997 at age 65 after the indicated years of service.

**PENSION PLAN TABLE**

| Eligible Average Annual Compensation | Years of Service 10 | 20 | 30 | 40 | 50 |
|---|---|---|---|---|---|
| $ 300,000 | $ 58,974 | $117,936 | $146,910 | $155,487 | $157,875 |
| 400,000 | 78,974 | 157,936 | 196,910 | 207,987 | 210,375 |
| 500,000 | 98,974 | 197,936 | 246,910 | 260,487 | 262,875 |
| 600,000 | 118,974 | 237,936 | 296,910 | 312,987 | 315,375 |
| 700,000 | 138,974 | 277,936 | 346,910 | 365,487 | 367,875 |
| 800,000 | 158,974 | 317,936 | 396,910 | 417,987 | 420,375 |
| 900,000 | 178,974 | 357,936 | 446,910 | 470,487 | 472,875 |
| 1,000,000 | 198,974 | 397,936 | 496,910 | 522,987 | 525,375 |
| 1,100,000 | 218,974 | 437,936 | 546,910 | 575,487 | 577,875 |
| 1,200,000 | 238,974 | 477,936 | 596,910 | 627,987 | 630,375 |
| 1,300,000 | 258,974 | 517,936 | 646,910 | 680,487 | 682,875 |
| 1,400,000 | 278,974 | 557,936 | 696,910 | 732,987 | 735,375 |
| 1,500,000 | 298,974 | 597,936 | 746,910 | 785,487 | 787,875 |
| 1,600,000 | 318,974 | 637,936 | 796,910 | 837,987 | 840,375 |
| 1,700,000 | 338,974 | 677,936 | 846,910 | 890,487 | 892,875 |
| 1,800,000 | 358,974 | 717,936 | 896,910 | 942,987 | 945,375 |
| 1,900,000 | 378,974 | 757,936 | 946,910 | 995,487 | 997,875 |
| 2,000,000 | 398,974 | 797,936 | 996,910 | 1,047,987 | 1,050,375 |

The compensation covered by the plans includes annual salaries and bonuses of officers of FPL Group and subsidiaries other than FPL, and annual salaries of officers of FPL, as shown in the respective Summary Compensation Tables, but no other amounts shown in that table. The estimated credited years of service for the executive officers named in the Summary Compensation Table are: Mr. Broadhead, 9 years; Mr. Evanson, 5 years; Mr. Coyle, 8 years; Mr. Woody, 41 years; and Mr. Yackira, 8 years. Amounts shown in the table reflect deductions to partially cover employer contributions to Social Security.

A supplemental retirement plan for Mr. Broadhead provides for a lump-sum retirement benefit equal to the then present value of a joint and survivor annuity providing annual payments to him equal to 61% to 70% of his average annual compensation for the three years prior to his retirement between age 62 (1998) and age 65 (2001) and to his surviving beneficiary of 61% to 70% of such average annual compensation, reduced by the then present value of the annual amount of payments to which he is entitled under all other pension and retirement plans of FPL Group and former employers. This benefit is further reduced by the then value of 96,800 shares of restricted common stock which vest as to 77,000 shares in 1998 (Mr. Broadhead has elected to defer vesting and payment of these shares until at least 1999) and as to 19,800 shares in 2001. Upon a change of control of FPL Group (as defined below under Employment Agreements), the restrictions on the restricted stock lapse and the full retirement benefit becomes payable. Upon termination of Mr. Broadhead's employment agreement (also described below) without cause, the restrictions on the restricted stock lapse and he becomes fully vested under the supplemental retirement plan.

A supplemental retirement plan for Mr. Coyle provides for benefits, upon retirement at age 62 or more, based on two times his credited years of service. A supplemental retirement plan for Mr. Evanson provides for benefits based on two times his credited years of service up to age 65 and one times his credited years of service thereafter.

FPL Group sponsors a split-dollar life insurance plan for certain of FPL and FPL Group's senior officers. Benefits under the split-dollar plan are provided by universal life insurance policies purchased by FPL Group. If the officer dies prior to retirement, the officer's beneficiaries generally receive two and one-half times the officer's annual salary at the time of death. If the officer dies after retirement, the officer's beneficiaries receive between 50% to 100% of the officer's final annual salary. Each officer is taxable on the insurance carrier's one year term rate for his or her life insurance coverage.

**Employment Agreements** - FPL Group has entered into an employment agreement with Mr. Broadhead for an initial term ending December 1997, with automatic one-year extensions thereafter unless either party elects not to extend. The agreement provides for a minimum base salary of $765,900 per year, subject to increases based upon corporate and individual performance and increases in cost-of-living indices, plus annual and long-term incentive compensation opportunities at least equal to those currently in effect. If FPL Group terminates Mr. Broadhead's employment without cause, he is entitled to receive a lump sum payment of two years' compensation. Compensation is measured by the then current base salary plus the average of the preceding two years' annual incentive awards. He would also be entitled to receive all amounts accrued under all performance share grants in progress, prorated for the year of termination and assuming achievement of the targeted award, and to full vesting of his benefits under his supplemental retirement plan.

FPL Group and FPL have entered into employment agreements with certain officers, including the individuals named in the Summary Compensation Table, to become effective in the event of a change of control of FPL Group, which is defined as the acquisition of beneficial ownership of 20% of the voting power of FPL Group, certain changes in FPL Group's board of directors, or approval by the shareholders of the liquidation of FPL Group or of certain mergers or consolidations or of certain transfers of FPL Group's assets. These agreements are intended to assure FPL Group and FPL of the continued services of key officers. The agreements provide that each officer shall be employed by FPL Group or one of its subsidiaries in his or her then current position, with compensation and benefits at least equal to the then current base and incentive compensation and benefit levels, for an employment period of four and, in certain cases, five years after a change in control occurs.

In the event that the officer's employment is terminated (except for death, disability or cause) or if the officer terminates his or her employment for good reason, as defined in the agreement, the officer is entitled to severance benefits in the form of a lump sum payment equal to the compensation due for the remainder of the employment period or for two years, whichever is longer. Such benefits would be based on the officer's then base salary plus an annual bonus at least equal to the average bonus for the two years preceding the change of control. The officer is also entitled to the maximum amount payable under all long-term incentive compensation grants outstanding, continued coverage under all employee benefit plans, supplemental retirement benefits and reimbursement for any tax penalties incurred as a result of the severance payments.

**Director Compensation** - All of the directors of FPL are salaried employees of FPL Group and its subsidiaries and do not receive any additional compensation for serving as a director.

**Item 12. Security Ownership of Certain Beneficial Owners and Management**

**FPL Group** - The information required by this Item will be included in FPL Group's Proxy Statement and is incorporated herein by reference.

**FPL** - FPL Group owns 100% of FPL's common stock. FPL's directors and executive officers beneficially own shares of FPL Group's common stock as follows:

| Name | Number of Shares (a) |
|---|---|
| James L. Broadhead | 139,916(b)(c) |
| Dennis P. Coyle | 9,356(b) |
| Paul J. Evanson | 13,610(b) |
| Lawrence J. Kelleher | 25,124(b)(c) |
| Thomas F. Plunkett | 21,332(b)(c) |
| C. O. Woody | 25,343(b)(c) |
| Michael W. Yackira | 23,470(b)(c) |
| All directors and executive officers as a group | 271,493(d) |

(a) Information is as of January 31, 1998, except for executive officers' holdings under the thrift plans and the Supplemental Executive Retirement Plan, which are as of December 31, 1997. Unless otherwise indicated, each person has sole voting and sole investment power.

(b) Includes 11,456, 2,739, 2,437, 1,415, 238, 1,045 and 1,560 phantom shares for Messrs. Broadhead, Coyle, Evanson, Kelleher, Plunkett, Woody and Yackira, respectively, credited to a Supplemental Matching Contribution Account under the Supplemental Executive Retirement Plan.

(c) Includes 96,800, 10,000, 15,000, 10,000 and 10,000 shares of restricted stock as to which Messrs. Broadhead, Kelleher, Plunkett, Woody and Yackira, respectively, have voting but not investment power.

(d) Less than 1% of FPL Group's common stock outstanding.

**Section 16(a) Beneficial Ownership Reporting Compliance** - FPL's directors and executive officers are required to file initial reports of ownership and reports of changes of ownership of FPL Group common stock with the Securities and Exchange Commission. Based upon a review of these filings and written representations from FPL directors and executive officers, all required filings were timely made in 1997.

### Item 13. Certain Relationships and Related Transactions

**FPL Group** - The information required by this Item will be included in FPL Group's Proxy Statement and is incorporated herein by reference.

**FPL** - None

## PART IV

### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) 1. Financial Statements

| | Page(s) |
|---|---|
| Independent Auditors' Report | 15 |
| FPL Group: | |
| Consolidated Statements of Income | 16 |
| Consolidated Balance Sheets | 17 |
| Consolidated Statements of Cash Flows | 18 |
| FPL: | |
| Consolidated Statements of Income | 19 |
| Consolidated Balance Sheets | 20 |
| Consolidated Statements of Cash Flows | 21 |
| Notes to Consolidated Financial Statements | 22-36 |

2. Financial Statement Schedules - Schedules are omitted as not applicable or not required.

3. Exhibits including those Incorporated by Reference

| Exhibit Number | Description | FPL Group | FPL |
|---|---|---|---|
| *3(i)a | Restated Articles of Incorporation of FPL Group dated December 31, 1984, as amended through December 17, 1990 (filed as Exhibit 4(a) to Post-Effective Amendment No. 5 to Form S-8, File No. 33-18669) | x | |
| *3(i)b | Amendment to FPL Group's Restated Articles of Incorporation dated June 27, 1996 (filed as Exhibit 3 to Form 10-Q for the quarter ended June 30, 1996, File No. 1-8841) | x | |

| | | FPL Group | FPL |
|---|---|---|---|
| *3(i)c | Restated Articles of Incorporation of FPL dated March 23, 1992 (filed as Exhibit 3(i)a to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(i)d | Amendment to FPL's Restated Articles of Incorporation dated March 23, 1992 (filed as Exhibit 3(i)b to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(i)e | Amendment to FPL's Restated Articles of Incorporation dated May 11, 1992 (filed as Exhibit 3(i)c to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(i)f | Amendment to FPL's Restated Articles of Incorporation dated March 12, 1993 (filed as Exhibit 3(i)d to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(i)g | Amendment to FPL's Restated Articles of Incorporation dated June 16, 1993 (filed as Exhibit 3(i)e to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(i)h | Amendment to FPL's Restated Articles of Incorporation dated August 31, 1993 (filed as Exhibit 3(i)f to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(i)i | Amendment to FPL's Restated Articles of Incorporation dated November 30, 1993 (filed as Exhibit 3(i)g to Form 10-K for the year ended December 31, 1993, File No. 1-3545) | | x |
| *3(ii)a | Bylaws of FPL Group dated November 15, 1993 (filed as Exhibit 3(ii) to Form 10-K for the year ended December 31, 1993, File No. 1-8841) | x | |
| *3(ii)b | Bylaws of FPL dated May 11, 1992 (filed as Exhibit 3 to Form 8-K dated May 1, 1992, File No. 1-3545) | | x |
| *4(a) | Form of Rights Agreement, dated as of July 1, 1996, between FPL Group and the First National Bank of Boston (filed as Exhibit 4 to Form 8-K dated June 17, 1996, File No. 1-8841) | x | |
| *4(b) | Mortgage and Deed of Trust dated as of January 1, 1944, and Ninety-seven Supplements thereto between FPL and Bankers Trust Company and The Florida National Bank of Jacksonville (now First Union National Bank of Florida), Trustees (as of September 2, 1992, the sole trustee is Bankers Trust Company) (filed as Exhibit B-3, File No. 2-4845; Exhibit 7(a), File No. 2-7126; Exhibit 7(a), File No. 2-7523; Exhibit 7(a), File No. 2-7990; Exhibit 7(a), File No. 2-9217; Exhibit 4(a)-5, File No. 2-10093; Exhibit 4(c), File No. 2-11491; Exhibit 4(b)-1, File No. 2-12900; Exhibit 4(b)-1, File No. 2-13255; Exhibit 4(b)-1, File No. 2-13705; Exhibit 4(b)-1, File No. 2-13925; Exhibit 4(b)-1, File No. 2-15088; Exhibit 4(b)-1, File No. 2-15677; Exhibit 4(b)-1, File No. 2-20501; Exhibit 4(b)-1, File No. 2-22104; Exhibit 2(c), File No. 2-23142; Exhibit 2(c), File No. 2-24195; Exhibit 4(b)-1, File No. 2-25677; Exhibit 2(c), File No. 2-27612; Exhibit 2(c), File No. 2-29001; Exhibit 2(c), File No. 2-30542; Exhibit 2(c), File No. 2-33038; Exhibit 2(c), File No. 2-37679; Exhibit 2(c), File No. 2-39006; Exhibit 2(c), File No. 2-41312; Exhibit 2(c), File No. 2-44234; Exhibit 2(c), File No. 2-46502; Exhibit 2(c), File No. 2-48679; Exhibit 2(c), File No. 2-49726; Exhibit 2(c), File No. 2-50712; Exhibit 2(c), File No. 2-52826; Exhibit 2(c), File No. 2-53272; Exhibit 2(c), File No. 2-54242; Exhibit 2(c), File No. 2-56228; Exhibits 2(c) and 2(d), File No. 2-60413; Exhibits 2(c) and 2(d), File No. 2-65701; Exhibit 2(c), File No. 2-66524; Exhibit 2(c), File No. 2-67239; Exhibit 4(c), File No. 2-69716; Exhibit 4(c), File No. 2-70767; Exhibit 4(b), File No. 2-71542; Exhibit 4(b), File No. 2-73799; Exhibits 4(c), 4(d) and 4(e), File No. 2-75762; Exhibit 4(c), File No. 2-77629; Exhibit 4(c), File No. 2-79557; Exhibit 99(a) to Post-Effective Amendment No. 5 to Form S-8, File No. 33-18669; Exhibit 99(a) to Post-Effective Amendment No. 1 to Form S-3, File No. 33-46076); Exhibit 4(b) to Form 10-K for the year ended December 31, 1993, File No. 1-3545; Exhibit 4(i) to Form 10-Q for the quarter ended June 30, 1994, File No. 1-3545; Exhibit 4(b) to Form 10-Q for the quarter ended June 30, 1995, File No. 1-3545; and Exhibit 4(a) to Form 10-Q for the quarter ended March 31, 1996, File No. 1-3545) | x | x |

| | | FPL Group | FPL |
|---|---|---|---|
| *10(a) | Supplemental Executive Retirement Plan, amended and restated effective January 1, 1994 (filed as Exhibit 10(a) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| 10(b) | FPL Group Amended and Restated Supplemental Executive Retirement Plan for James L. Broadhead effective January 1, 1990 | x | |
| *10(c) | Supplement to the FPL Group Supplemental Executive Retirement Plan as it applies to Paul J. Evanson effective January 1, 1996 (filed as Exhibit 10(b) to Form 10-K for the year ended December 31, 1996, File No. 1-8841) | x | |
| 10(d) | Supplement to the FPL Group Supplemental Executive Retirement Plan as it applies to Thomas F. Kirk | x | |
| 10(e) | Supplement to the FPL Group Supplemental Executive Retirement Plan as it applies to Thomas F. Plunkett | x | |
| *10(f) | FPL Group Long-Term Incentive Plan of 1985, as amended (filed as Exhibit 99(h) to Post-Effective Amendment No. 5 to Form S-8, File No. 33-18669) | x | |
| *10(g) | Long-Term Incentive Plan 1994 (filed as Exhibit 4(d) to Form S-8, File No. 33-57673) | x | |
| *10(h) | Annual Incentive Plan dated as of March 31, 1994 (filed as Exhibit 10(k) to Form 10-Q for the quarter ended March 31, 1994, File No. 1-8841) | x | |
| *10(i) | FPL Group Deferred Compensation Plan, amended and restated effective January 1, 1995 (filed as Exhibit 10(f) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(j) | FPL Group Executive Long Term Disability Plan effective January 1, 1995 (filed as Exhibit 10(g) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(k) | Employment Agreement between FPL Group and James L. Broadhead dated as of December 13, 1993 (filed as Exhibit 10(j) to Form 10-K for the year ended December 31, 1993, File No. 1-8841) | x | |
| *10(l) | Employment Agreement between FPL Group and James L. Broadhead dated as of December 11, 1995 (filed as Exhibit 10(i) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(m) | Employment Agreement between FPL Group and Dennis P. Coyle dated as of December 11, 1995 (filed as Exhibit 10(j) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(n) | Employment Agreement between FPL Group and Paul J. Evanson dated as of December 11, 1995 (filed as Exhibit 10(k) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(o) | Employment Agreement between FPL Group and Lawrence J. Kelleher dated as of December 11, 1995 (filed as Exhibit 10(l) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| 10(p) | Employment Agreement between FPL Group and Thomas F. Kirk dated as of June 16, 1997 | x | |
| *10(q) | Employment Agreement between FPL Group and Thomas F. Plunkett dated as of September 16, 1996 (filed as Exhibit 10 to Form 10-Q for the quarter ended September 30, 1996) | x | |
| *10(r) | Employment Agreement between FPL Group and C.O. Woody dated as of December 11, 1995 (filed as Exhibit 10(m) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(s) | Employment Agreement between FPL Group and Michael W. Yackira as of December 11, 1995 (filed as Exhibit 10(n) to Form 10-K for the year ended December 31, 1995, File No. 1-8841) | x | |
| *10(t) | FPL Group, Inc. Non-Employee Directors Stock Plan dated as of March 17, 1997 (filed as Appendix A to FPL Group's 1997 Proxy Statement, File No. 1-8841) | x | |

FPL

| | | FPL Group | FPL |
|---|---|---|---|
| 12 | Computation of Ratios | | x |
| 21 | Subsidiaries of the Registrant | x | |
| 23 | Independent Auditors' Consent | x | x |
| 27 | Financial Data Schedule | x | x |

* Incorporated herein by reference

(b) Reports on Form 8-K - None

## FPL GROUP, INC. SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FPL Group, Inc.

JAMES L. BROADHEAD
**James L. Broadhead**
*Chairman of the Board, President and*
*Chief Executive Officer*
(Principal Executive Officer and Director)

Date: February 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature and Title as of February 26, 1998:

K. MICHAEL DAVIS
**K. Michael Davis**
Controller and Chief Accounting Officer
(Principal Financial and Accounting Officer)

Directors:

H. JESSE ARNELLE
**H. Jesse Arnelle**

SHERRY S. BARRAT
**Sherry S. Barrat**

ROBERT M. BEALL, II
**Robert M. Beall, II**

J. HYATT BROWN
**J. Hyatt Brown**

ARMANDO M. CODINA
**Armando M. Codina**

MARSHALL M. CRISER
**Marshall M. Criser**

B. F. DOLAN
**B. F. Dolan**

WILLARD D. DOVER
**Willard D. Dover**

ALEXANDER W. DREYFOOS JR.
**Alexander W. Dreyfoos Jr.**

PAUL J. EVANSON
**Paul J. Evanson**

**Drew Lewis**

FREDERIC V. MALEK
**Frederic V. Malek**

PAUL R. TREGURTHA
**Paul R. Tregurtha**

## FLORIDA POWER & LIGHT COMPANY SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Florida Power & Light Company

PAUL J. EVANSON
**Paul J. Evanson**
*President and Director*

Date: February 26, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature and Title as of February 26, 1998:

JAMES L. BROADHEAD
**James L. Broadhead**
*Chairman of the Board*
(Principal Executive Officer and Director)

K. MICHAEL DAVIS
**K. Michael Davis**
*Vice President, Accounting,*
*Controller and Chief Accounting Officer*
(Principal Financial and Accounting Officer)

Directors:

DENNIS P. COYLE
**Dennis P. Coyle**

LAWRENCE J. KELLEHER
**Lawrence J. Kelleher**

THOMAS F. PLUNKETT
**Thomas F. Plunkett**

C. O. WOODY
**C. O. Woody**

MICHAEL W. YACKIRA
**Michael W. Yackira**

EXHIBIT 21

## SUBSIDIARIES OF FPL GROUP, INC.

| Subsidiary | State or Jurisdiction of Incorporation |
|---|---|
| 1. Florida Power & Light Company (100%-Owned) | Florida |
| 2. Bay Loan and Investment Bank (a) | Rhode Island |
| 3. Palms Insurance Company, Limited (a) | Cayman Islands |

(a) 100%-owned subsidiary of FPL Group Capital Inc

**EXHIBIT 12**

**FLORIDA POWER & LIGHT COMPANY**
**COMPUTATION OF RATIOS**

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1997 | 1996 | 1995 | 1994 | 1993 |
| | (Millions of Dollars) | | | | |
| **RATIO OF EARNINGS TO FIXED CHARGES** | | | | | |
| Earnings, as defined: | | | | | |
| Net income | $ 627 | $ 615 | $ 611 | $ 568 | $ 468 |
| Income taxes | 321 | 322 | 342 | 319 | 240 |
| Fixed charges, as below | 240 | 262 | 286 | 310 | 348 |
| Total earnings, as defined | $1,188 | $1,199 | $1,239 | $1,197 | $1,056 |
| Fixed charges, as defined: | | | | | |
| Interest charges | $ 227 | $ 246 | $ 270 | $ 292 | $ 327 |
| Rental interest factor | 4 | 5 | 5 | 7 | 10 |
| Fixed charges included in nuclear fuel cost | 9 | 11 | 11 | 11 | 11 |
| Total fixed charges, as defined | $ 240 | $ 262 | $ 286 | $ 310 | $ 348 |
| Ratio of earnings to fixed charges | 4.95 | 4.58 | 4.33 | 3.86 | 3.03 |

**RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|---|---|---|---|---|---|
| Earnings, as defined: | | | | | |
| Net income | $ 627 | $ 615 | $ 611 | $ 568 | $ 468 |
| Income taxes | 321 | 322 | 342 | 319 | 240 |
| Fixed charges, as below | 240 | 262 | 286 | 310 | 348 |
| Total earnings, as defined | $1,188 | $1,199 | $1,239 | $1,197 | $1,056 |
| Fixed charges, as defined: | | | | | |
| Interest charges | $ 227 | $ 246 | $ 270 | $ 292 | $ 327 |
| Rental interest factor | 4 | 5 | 5 | 7 | 10 |
| Fixed charges included in nuclear fuel cost | 9 | 11 | 11 | 11 | 11 |
| Total fixed charges, as defined | 240 | 262 | 286 | 310 | 348 |
| Non-tax deductible preferred stock dividends | 19 | 24 | 43 | 40 | 42 |
| Ratio of income before income taxes to net income | 1.51 | 1.52 | 1.56 | 1.56 | 1.51 |
| Preferred stock dividends before income taxes | 29 | 36 | 68 | 62 | 64 |
| Combined fixed charges and preferred stock dividends | $ 269 | $ 298 | $ 354 | $ 372 | $ 412 |
| Ratio of earnings to combined fixed charges and preferred stock dividends | 4.42 | 4.02 | 3.50 | 3.22 | 2.56 |

**EXHIBIT 23**

## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-56869 on Form S-3; Registration Statement No. 33-57673 on Form S-8; Post-Effective Amendment No. 2 to Registration Statement No. 33-31487 on Form S-8; Post-Effective Amendment No. 2 to Registration Statement No. 33-33215 on Form S-8; Registration Statement No. 33-11631 on Form S-8; Post-Effective Amendment No. 1 to Registration Statement No. 33-39306 on Form S-3; Registration Statement No. 33-57470 on Form S-3; Post-Effective Amendment No. 6 to Registration Statement No. 33-18669 on Form S-8; Registration Statement No. 333-27079 on Form S-8; Registration Statement No. 333-30695 on Form S-8; Registration Statement 333-30697 on Form S-8 of FPL Group, Inc., of our report dated February 13, 1998 appearing in this Annual Report on Form 10-K of FPL Group, Inc. for the year ended December 31, 1997.

We also consent to the incorporation by reference in Registration Statement No. 33-40123 on Form S-3; Post-Effective Amendment No. 1 to Registration Statement No. 33-46076 on Form S-3; Registration Statement No. 33-61390 on Form S-3; and Post-Effective Amendment No. 2 to Registration Statement No. 33-59429 on Form S-4 of Florida Power & Light Company, of our report dated February 13, 1998 appearing in this Annual Report on Form 10-K of Florida Power & Light Company for the year ended December 31, 1997.

DELOITTE & TOUCHE LLP

Miami, Florida
February 26, 1998