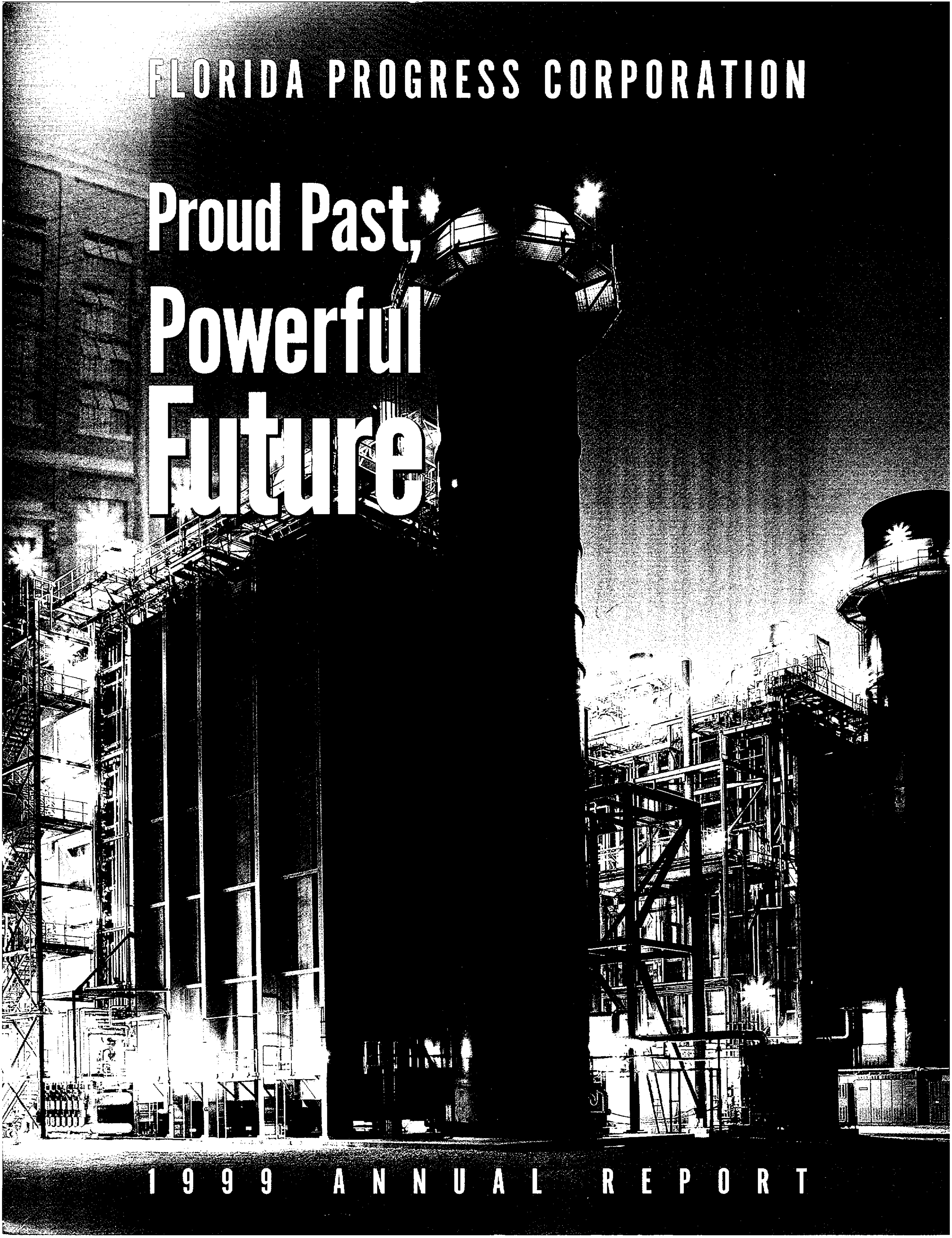
FLORIDA PROGRESS CORPORATION

Proud Past, Powerful Future



1999 ANNUAL REPORT

FLORIDA PROGRESS CORPORATION

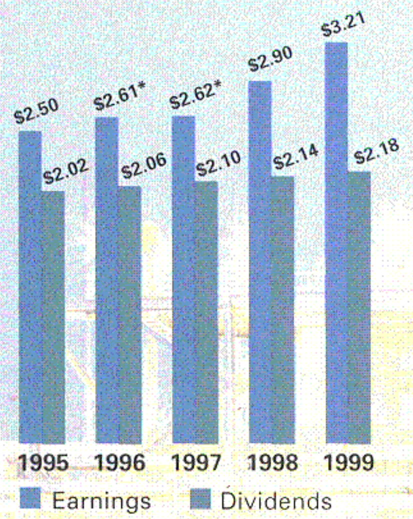
INVESTOR HIGHLIGHTS

(Dollars in millions, except per share amounts)

	1999	1998	Annual Growth Rates (in percent) 1998-1999	1994-1999
OPERATING RESULTS				
Utility revenues	**$2,632.6**	$2,648.2	(.6)	4.8
Diversified revenues	**1,212.5**	972.1	24.7	13.5
Net income	**314.9**	281.7	11.8	8.2
DATA PER SHARE				
Earnings:				
Utility	**$2.70**	$2.56	5.5	5.7
Diversified	**.51**	.34	50.0	17.3
Consolidated	**3.21**	2.90	10.7	7.1
Dividends	**2.18**	2.14	1.9	1.8
Book value	**20.40**	19.13	6.6	(.4)
Closing stock price	**42 5/16**	44 13/16	(5.6)	7.1
Stock price range	**35 7/8 - 48**	37 11/16 - 47 1/8		
FINANCIAL POSITION AT DECEMBER 31				
Assets	**$6,528.2**	$6,160.8	6.0	3.7
Total capitalization	**4,812.6**	4,528.0	6.3	3.4
Capitalization structure:				
Short-term debt, including current maturities	**6.6%**	8.4%		
Long-term debt	**44.8%**	49.7%		
Preferred stock	**.7%**	.8%		
Florida Progress-obligated mandatorily redeemable preferred securities	**6.2%**	-		
Common stock equity	**41.7%**	41.1%		
OTHER STATISTICS				
Return on common equity	**16.2%**	15.6%		
Dividend yield (year end)	**5.2%**	4.8%		
Average common shares outstanding (in millions)	**98.1**	97.1	1.0	1.1
Employees	**9,329**	9,125	2.2	4.5
Registered shareholders	**41,574**	44,760		

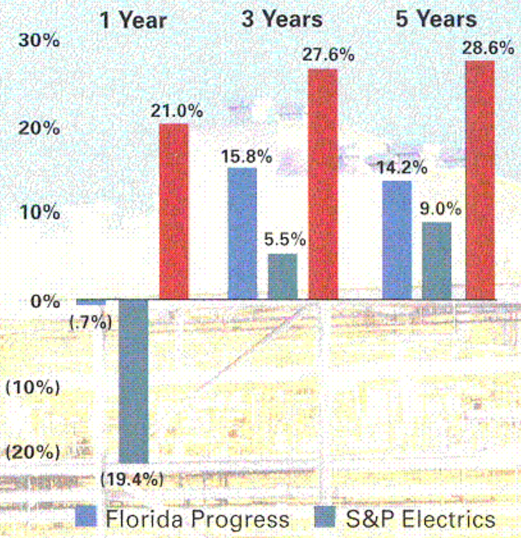
See Note 11 to the Financial Statements for business segment information.

Earnings and Dividends Per Share



* From continuing operations before nonrecurring items

Average Annual Total Returns*
For the periods ended December 31, 1999



* Includes the reinvestment of dividends

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BIGGER. BETTER. STRONGER.

1999 will be remembered as a historic year for Florida Progress Corporation. Our largest subsidiary, Florida Power Corporation, completed its first century of service. Generations of employees have created a tradition of commitment that forms the basis of an ongoing relationship with customers in what continues to be one of the fastest-growing markets in the country.

We are bigger, better and stronger than ever before, and the proof is in our 1999 achievements. Florida Progress enjoyed considerable financial and operational successes during the year. Earnings increased significantly. Our nonregulated businesses posted record results. Florida Power set a new record for power plant output and performance and added more cost-efficient generating capacity during the year. And most significant in 1999, we entered into an agreement to combine Florida Progress with Carolina Power & Light Company in a transaction designed to offer our shareholders a substantial premium.

As we celebrated our company's 100-year anniversary, our employees and the communities we serve came together to honor our proud past. One important legacy of our rich history is momentum. Our financial and operational successes are mounting — as we move toward an even more powerful future.

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Pictured here and on the cover of this report is Florida Power's newest power plant — the Hines Energy Complex in Central Florida.

FLORIDA PROGRESS CORPORATION

Florida Progress Corporation
(NYSE: FPC) is a Fortune 500 diversified electric utility holding company based in St. Petersburg, Florida. In 1999, Florida Progress was added to the S&P 500 Index. The company's principal holdings are Florida Power Corporation, an electric utility with a high-growth service area, and Electric Fuels Corporation, a growing energy and transportation company. Florida Progress reported annual revenues of $3.8 billion and assets in excess of $6.5 billion in 1999.

Florida Power Corporation
For more than 100 years, Florida Power has provided Floridians with reliable, competitively priced electric service. Today, Florida Power is the state's second-largest electric utility, serving approximately 1.4 million customers in Central and North Florida. Its service territory covers about 20,000 square miles in 32 counties, including the major Gulf Coast cities of St. Petersburg and Clearwater, as well as the rapidly growing Central Florida area around Orlando. Florida Power has about 4,700 employees, and its 1999 revenues were $2.6 billion.

Electric Fuels Corporation
Electric Fuels is a rapidly growing energy and transportation company with operations in 25 states, Canada and Mexico. The company has three main business units: Energy & Related Services, Rail Services and Inland Marine Transportation. Through these units, Electric Fuels owns energy-related operations and river terminal facilities; is one of the largest integrated providers of products and services to the railroad industry in North America; and operates a modern, efficient fleet of river barges and towboats. Electric Fuels and its subsidiaries have about 4,500 employees, and its 1999 revenues were $1.5 billion, of which approximately 20 percent is from sales to Florida Power.

Shareholders
Approximately 50 percent of the stock of Florida Progress Corporation is held by individual shareholders, and of the 41,000-plus registered holders of the company, about 17,500 reside in Florida.

LETTER TO OUR SHAREHOLDERS

In 1999, Florida Progress Corporation achieved major milestones as we moved into a position of increasing prominence. The year will be remembered as historic and outstanding for a number of reasons.

Proud Past

In 1999, our principal subsidiary, Florida Power Corporation, marked its 100th year of service. We celebrated with an extensive advertising and community campaign that reached hundreds of thousands of our customers.

In this historic year, both Florida Power and Electric Fuels Corporation — our energy and transportation subsidiary — celebrated impressive financial and operational successes. After a hundred years, some companies might rest on their laurels, but at Florida Progress, we have leveraged the momentum of our past to make us bigger, better and stronger.

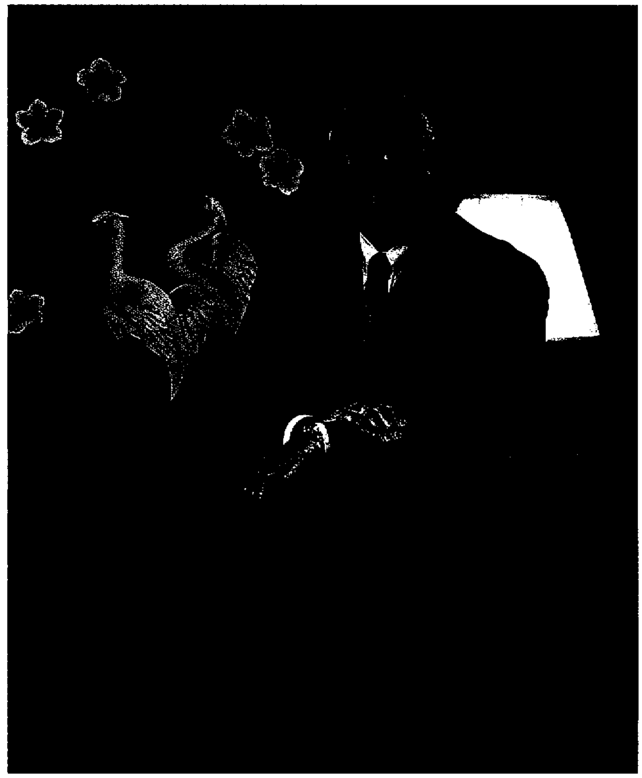
Powerful Future

The growth of our company over the past century has been marked at times by a series of mergers and acquisitions. On August 22, 1999, our board made a historic decision to accept an offer to combine Florida Progress with Carolina Power & Light Company (CP&L). It was an opportunity for us to become part of a larger, stronger energy company and create one of the most powerful regional electric and natural gas companies in the Southeast U.S.

The planned combination with CP&L, headquartered in Raleigh, North Carolina, provides our shareholders with a premium price that recognizes the outstanding value of our successful company. A joint proxy statement about the combination will be sent to shareholders of both companies.

A powerful presence in the Southeast U.S.

The combined companies will create the nation's ninth-largest energy utility based on generating capacity of more than 18,500 megawatts. The new company will have total revenues of almost $7 billion and serve 2.5 million electric customers.



Richard Korpan, Florida Progress Chairman, President & Chief Executive Officer

Our two companies are a great strategic fit. We both share complementary visions of how to provide our high-growth markets with reliable, competitively priced energy and excellent customer service. Together, we are committed to expanding electric generation capacity in the Southeast U.S. Each company has announced plans to build additional capacity to meet the future energy needs of its customers.

Our combination with CP&L is expected to produce more than $100 million in annual synergies. These synergies will result from operating efficiencies and the elimination of duplicate corporate and administrative programs and services. Revenue enhancements also are possible from wholesale marketing opportunities and generation expansion.

The new company will create a platform for growth and will increase our competitive position in generation, power marketing and delivery of energy services. The move fulfills our strategic objective to increase our company's size and become a leading energy provider, serving some of the fastest-growing markets in the country.

Earnings per share up 10.7 percent

Florida Progress reported record earnings in 1999. Earnings per share climbed to $3.21, a 10.7-percent increase over 1998. This increase is impressive considering that 1998 was a strong year in which earnings per share were $2.90, also a 10.7-percent increase, before nonrecurring items, over 1997. Consolidated earnings were $314.9 million in 1999 on revenues of $3.8 billion, compared with 1998 earnings of $281.7 million on revenues of $3.6 billion.

Our outstanding 1999 financial results were due to the continued strong improvement in earnings from Florida Power and a significant increase in earnings from Electric Fuels.

At Florida Power, the story was growth — both in customers and usage. About 27,000 new retail customers were added during 1999. The number of new residential customers increased by almost 2 percent, while commercial customers grew by 3 percent. Total kilowatt-hour sales rose by 3.4 percent over 1998.

Our utility reported 1999 earnings of $264.7 million, or $2.70 per share, compared with $248.6 million, or $2.56 per share, in 1998.

At Electric Fuels, earnings per share were up about 45 percent over 1998. The company's Energy & Related Services unit contributed to most of the earnings increase. This resulted from the growing production and sales of Electric Fuels' newest product: a coal-based synthetic fuel, which generates tax credits. In 1999, about 2 million tons of synthetic fuel were sold, primarily to electric utilities. The company's Rail Services unit also posted higher earnings during the year.

Our energy and transportation subsidiary reported 1999 earnings of $62.5 million, or $.64 per share, up from $42.3 million, or $.44 per share, in 1998.

Continuing a trend of solid earnings growth

To our shareholders, we continue to deliver on our goal to produce consistent annual earnings per share growth of 5 percent or better. Fueling our confidence in 2000 is the forecast of a strong Florida economy, continued sales growth at Florida Power, and profitable growth opportunities at Electric Fuels.

In the years ahead, we're confident that we can achieve this shareholder commitment as we combine our operations with CP&L. The new company's long-term potential is excellent. Both utilities operate in fast-growing service territories and are building new generation facilities to meet increasing customer demand. The regulatory climate is constructive, fair and reasonable in the states served by both utilities.

Our confidence in sustained earnings growth is a key factor used in setting dividend policy. In 1999, Florida Progress increased the dividends paid per share — for the 47th consecutive year —

1999 Highlights

Consolidated earnings per share up 10.7 percent

Florida Power earnings per share up 5.5 percent

Electric Fuels earnings per share up 45 percent

Annual dividend increased to $2.18 per share

Stock performance second among S&P Electrics Index

Agreed to a combination with CP&L that provides shareholders with a substantial premium

Planned combination creates large regional utility with 2.5 million customers

Power generation at record-high output and efficiency to $2.18. Over the past several years, our board has evaluated the company's dividend policy to ensure that our dividend payout and dividend rate are appropriate, given the industry outlook for utilities, our business plan and our projected earnings growth.

Our policy has been to increase the annual dividend rate by about 2 percent each year while continuing to lower our payout ratio. Under our agreement with CP&L, we have the flexibility to continue that policy if the Florida Progress board of directors so decides. Our combination with CP&L is scheduled to be completed in the fall of 2000, pending shareholder and regulatory approvals.

1999 stock performance ranks 2nd among S&P electrics

Florida Progress' common stock outperformed most electric utility stocks in 1999. Utility stocks in general fell in disfavor during the year due to investor preference for high-growth technology companies and concerns over higher interest rates.

The Standard & Poor's (S&P) Electrics Index, composed of 29 major electric utilities, dropped 23.2 percent in 1999, the worst annual performance since 1974. Many utilities hit 52-week lows in late 1999, but our stock price benefited from the announcement in August of our agreement to combine our company with CP&L and strong 1999 operating results. Our share price closed the year at $42.31, down only 5.6 percent in 1999.

The slide in utility stocks meant that total annual returns — stock price appreciation and dividends — also were down for the year. The S&P electrics realized an average total return in 1999 of negative 19.4 percent, while Florida Progress' investment return finished the year at negative .7 percent. This ranked second among all the 29 S&P electrics. On a longer-term basis, over the past five years, our stock has continued to outperform the S&P electrics, achieving an average annual total return of 14.2 percent.

We were pleased that S&P placed Florida Progress on its S&P 500 Index, effective June 21. The S&P 500 Index is widely recognized as a measure of U.S. stock market performance. Our company was selected from a list of companies because of a variety of factors, including our size and significance.

Serving Florida for 100 years

In 1999, Florida Power celebrated 100 years of service. The anniversary provided the opportunity to honor our past by renewing our commitments for the future. Our anniversary message was simple: you can count on us now and in the future, just like you could count on us in the past.

We renewed our commitments to shareholders, customers, employees and communities by establishing specific business objectives. For example, we set a goal to increase shareholder value and deliver consistent annual earnings per share growth of 5 percent or better. I'm pleased to say that we've already made major progress in that area in the first year.

Throughout 1999, a series of events and activities were held to focus attention on Florida Power's 100-year anniversary and our commitments. During the year, nearly 4,700 past and present employees demonstrated their dedication to the company's commitments by signing a 32-foot banner, bearing the words "Count On Us." The banner traveled to company facilities around the state to raise awareness of the campaign and gain momentum as the company approached its official anniversary date: July 18, 1999. Anniversary activities will continue during 2000.

Building momentum to a powerful future

We are proud of our past. In our first century, we evolved a tradition of service that is the core of a strong relationship between our dedicated employees and the customers we serve. We have built a company with solid fundamentals — a company of outstanding value that has been recognized by today's competitive market.

We have built momentum — the kind of momentum that should continue to grow. You can see it in the outstanding achievements of 1999. And you'll continue to see it as we move toward an even more powerful future.

Richard Korpan

Richard Korpan
Chairman, President & Chief Executive Officer
February 7, 2000

FLORIDA POWER CORPORATION

Maximizing the momentum of a century of service

For Florida Power, 1999 began with fireworks and parades — literally — as the company kicked off its 100th anniversary by sponsoring major New Year's events in St. Petersburg and Orlando. Throughout the year, Florida Power conducted an extensive community campaign that leveraged a proud past to increase customer ties.

At the heart of the campaign, Florida Power renewed its commitments to customers, shareholders and employees, and focused on reducing electricity prices, improving reliability and providing outstanding customer service.

What became clear, over the course of the year, was that as impressive as the past was, the present was even more so. In 1999, the momentum generated by 100 years of service became evident in significant financial and operational achievements.

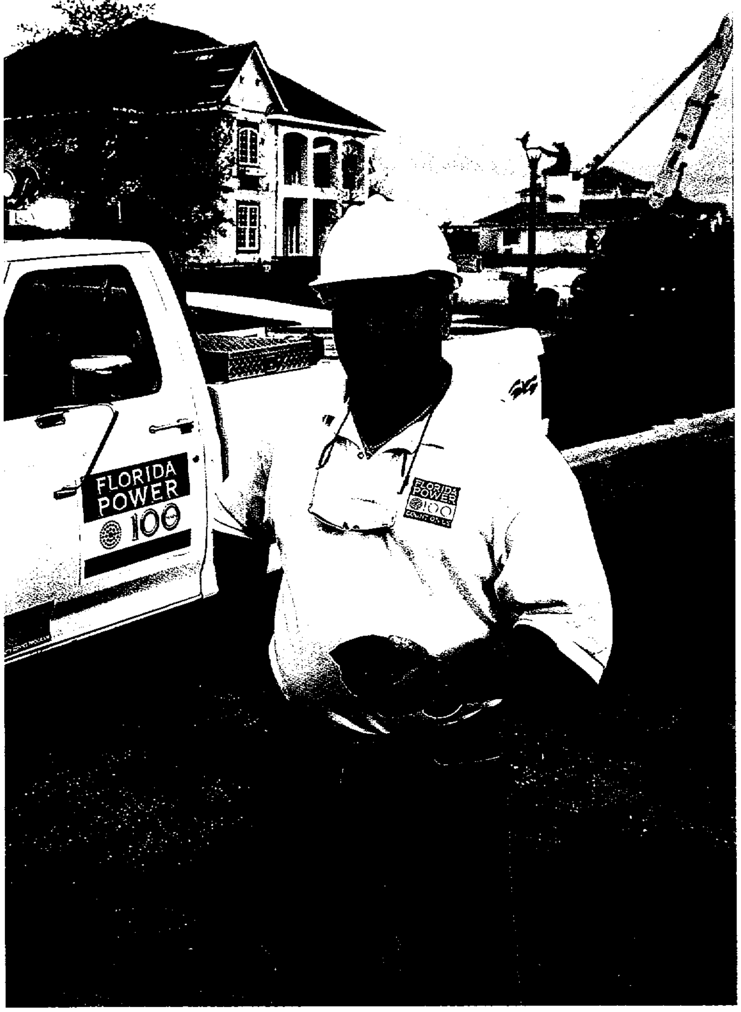
Meeting the growing demand for electricity

Florida Power continues to meet the energy needs of a growing customer base. Our service territory in Central and North Florida includes some of the fastest-growing regions in the country. In 1999, we added about 27,000 new customers to our system. Over the past five years, the average number of new customers has grown 2 percent annually — nearly twice the national average. Keeping pace with growth means maintaining an adequate, reliable supply of power. That is a key customer commitment at Florida Power.

Our power plants operated exceptionally well in 1999, particularly during periods of high customer demand. In the peak usage months of summer and winter, the availability of our system generation from 59 units improved over 1998. Thanks to accelerated maintenance performed in 1998 and the efficiency of completed maintenance in the spring of 1999, we expect our plants to continue operating reliably in 2000.

Over the years, Florida Power has earned a reputation as one of the industry's most successful utilities in terms of power plant efficiency. Our coal-fired power plants consistently rank among the nation's best for efficient power output.

In 1999, Florida Power produced about 32 billion kilowatt-hours of electricity — the most ever by the company. Florida Power produced that amount of generation by effectively balancing the costs from its fuel sources. The company's 1999 fuel mix was 35 percent coal, 17 percent oil, 14 percent nuclear, 13 percent natural gas, and 21 percent purchased power. A diverse fuel mix gives us more flexibility and helps minimize the impact of any fluctuations in the supply and price of individual fuels.



Florida Power's Jim Kent oversees installation of new underground electrical equipment at Keene's Pointe in Windermere, Florida. The upscale residential community is an example of the type of explosive growth in new development that is occurring in Florida Power's Central Florida region.

Bringing into service new cost-efficient generation

In April, the first generating unit at our new Hines Energy Complex went into service. Hines Unit 1 uses the latest in combined-cycle technology and is fueled by natural gas, with oil as a back-up fuel. The new unit, capable of producing up to 530,000 kilowatts of power, represents a total investment of about $270 million. Using natural gas as a fuel source will help meet tighter emission standards. The Hines Energy Complex is located in Polk County in Central Florida.

In 1999, state regulators approved a plan to increase the level of reserve generating capacity in Florida from 15 percent to 20 percent by the summer of 2004. In response, Florida Power announced plans to accelerate construction of a planned second generating unit at the Hines site. To be sure building Hines Unit 2 is the best option, the company is seeking proposals from qualified bidders for new generating capacity to be available beginning in 2003.

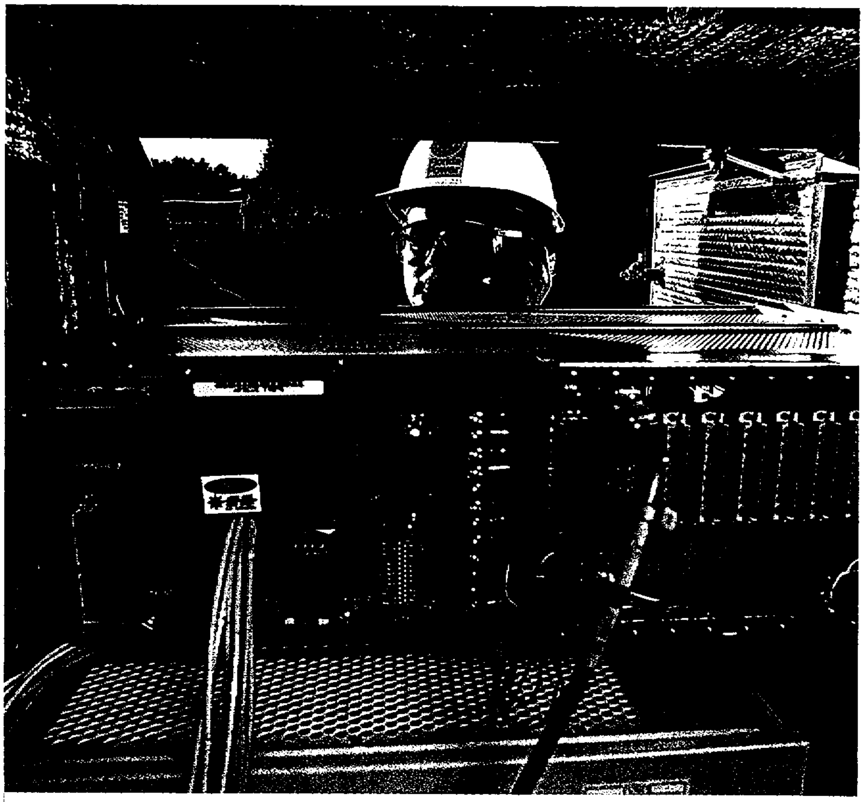
Hunt Paulling, a Florida Power distribution lineman, completes installation of a new streetlighting fixture at Keene's Pointe, a residential development in Central Florida.

The bids received will be compared with the Hines Unit 2 option on the basis of location, price, reliability and other factors. Hines Unit 2 would be a sister unit of the site's first unit. It would use the same advanced technology and be capable of producing a little more power, up to 570,000 kilowatts of power. In anticipation of the growing electricity needs of our customers, the Hines Energy Complex has a build-out capacity of 3 million kilowatts of generation.

About 30 miles from the Hines site, in Osceola County, Florida Power is adding three combustion turbines at its Intercession City site. The three generating units will provide a total of about 280,000 kilowatts beginning in December 2000. The units are called "peakers" because they provide electricity during periods of peak customer demand.

All three peaker units will be capable of burning either oil or natural gas, allowing the company to select the most cost-effective fuel. In recent years, other Florida Power peakers have been converted from oil to gas.

By the end of 2000, Florida Power's total system capacity, including purchased power, will be almost 10 million kilowatts of power.



Henry Cooper, a substation electrician apprentice at Florida Power, inspects fiber-optic controllers in a relay cabinet located near International Drive in Orlando.

Record nuclear plant performance

Florida Power's Crystal River nuclear plant continued one of its best operating cycles ever in 1999. From February 1998 through September 1999, the 850,000-kilowatt unit operated at 100 percent of its rated capacity. During that 20-month period, the plant generated 12 billion kilowatt-hours of electricity, about 20 percent of the company's total generation output.

Following this successful run, the plant's staff completed a planned refueling and maintenance outage in just 42 days, the shortest in the plant's 22-year history. All Florida Power customers benefit because nuclear fuel has the lowest cost of any fuel used by the company for power generation.

Delivering technological innovation

In addition to maintaining an adequate supply of power, we also know the importance of providing reliable service. It's what our customers expect, and it's what we strive for every minute of the day.

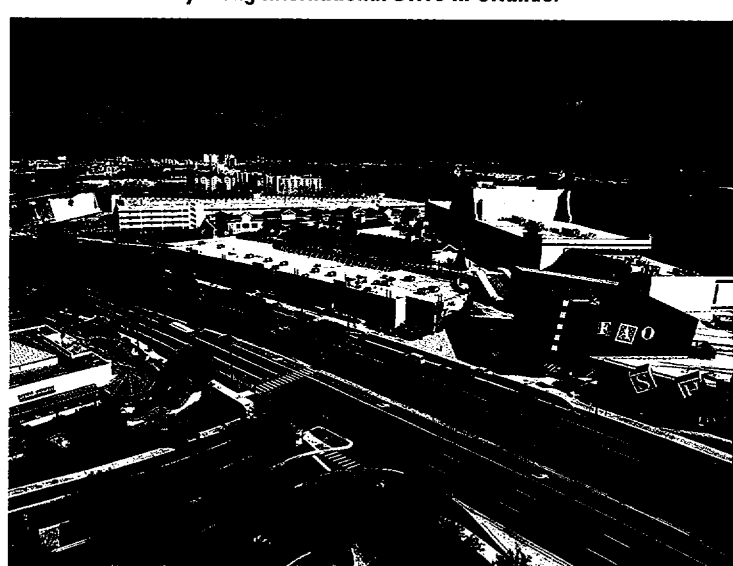
New technologies are helping Florida Power do just that. In February 1998, the company launched an aggressive three-year project that will allow employees to work smarter and more efficiently. "Delivery 2000" is one of the most ambitious computer technology initiatives ever undertaken in Florida Power's 100-year history. Its goal is to create work efficiencies and improve service reliability. This will ultimately reduce the frequency and duration of service interruptions per customer.

We are investing more than $20 million in Delivery 2000 for advanced technology and new delivery systems. In one upgrade, we are installing computers in company vehicles. An outage management system displays information in a visual, graphic format and shows where the outages are on an electronic map. This helps speed restoration efforts and reduce the duration of power outages. The technology improvements are expected to be completed by late 2001.

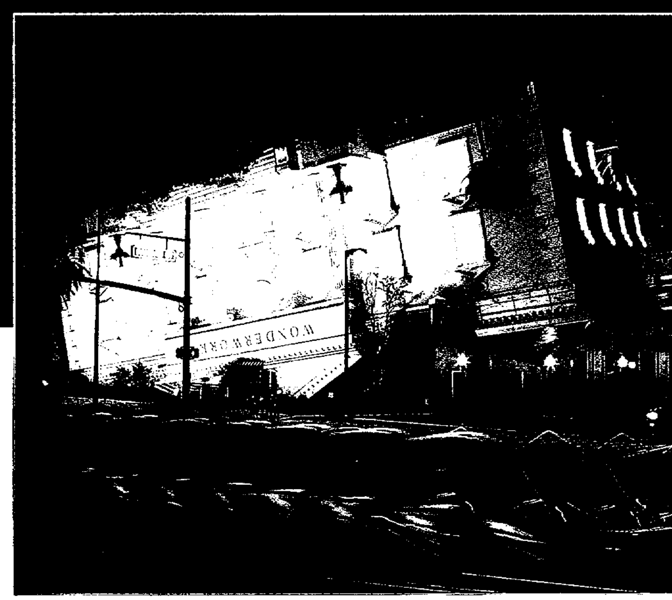
Enhancing service reliability to customers

In October, Florida Power completed a major distribution automation project along International Drive in Orlando. Visitors from all over the world travel here to enjoy the area's tourist

The proliferation of new tourist attractions, hotels, restaurants and retail stores continues to create a high demand for reliable electricity along International Drive in Orlando.



Florida Power's Brent Guyton stands in front of FAO Schwarz at Pointe*Orlando®, a large retail development located on International Drive. In 1999, Guyton managed a major distribution automation project in the area that greatly enhanced service reliability to hundreds of Florida Power customers.



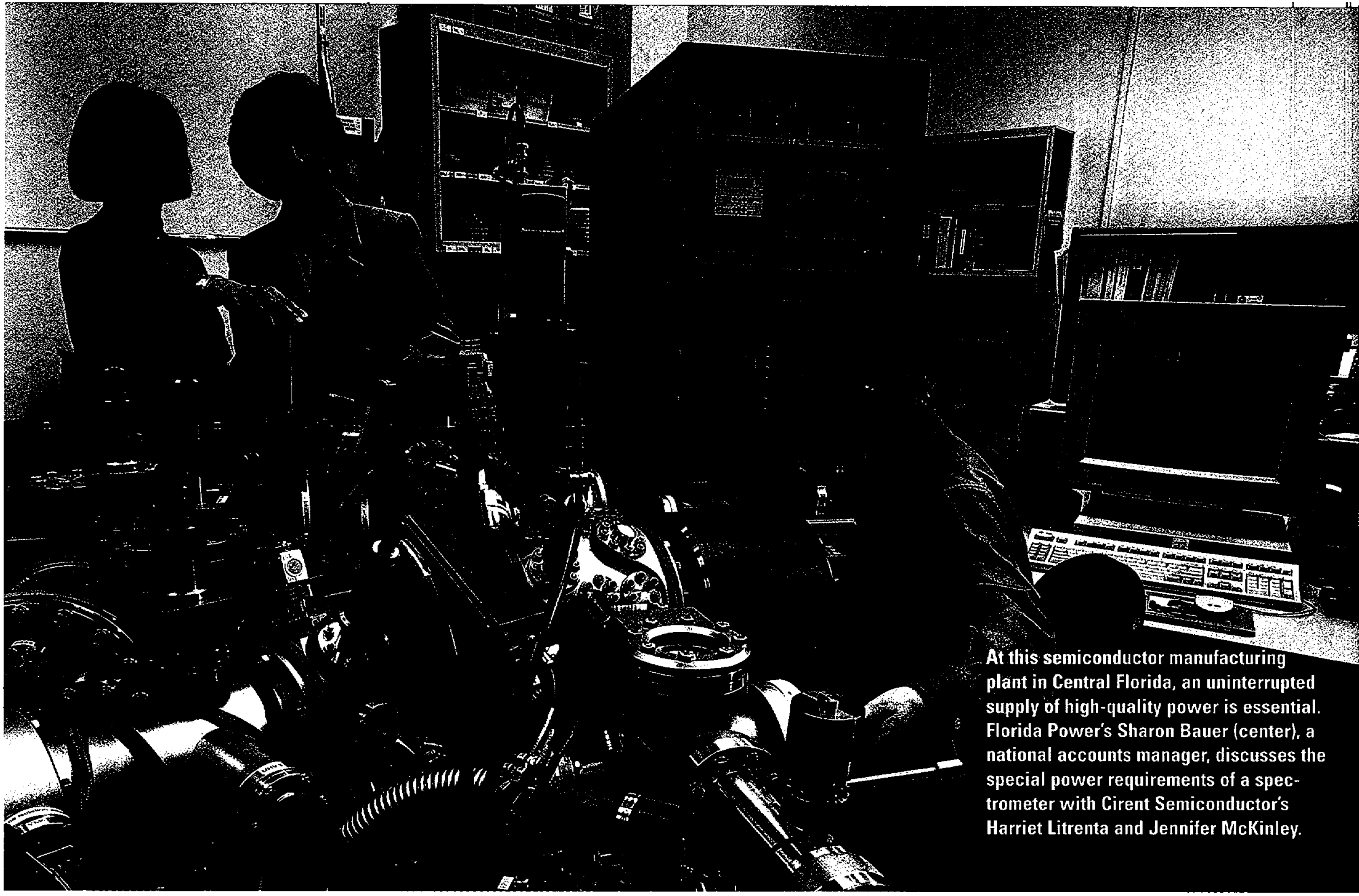
The unusual upside-down architecture of the WonderWorks™ museum makes it a popular tourist attraction along Orlando's I-Drive.

attractions, hotels and restaurants. The enormously high demand for reliable electricity makes it an important part of our service territory.

After new underground power lines were installed, a modern automated distribution system was added. The system, the first of its kind in the United States, includes automated switches and a fiber-optic network that provides significantly enhanced service reliability to customers along International Drive.

Today, the hundreds of customers served by the new system experience fewer service interruptions. Any outages that occur on the main distribution line last an average of only one-tenth of a second.

Also contributing to improved service reliability has been an effective tree-trimming program, as well as other preventive maintenance measures. In 1999, Florida Power completed a three-year cycle in which all trees along its distribution power lines were trimmed. Since 1996, Florida Power has reduced the average number of total minutes annually a customer is without power by 26 percent.



At this semiconductor manufacturing plant in Central Florida, an uninterrupted supply of high-quality power is essential. Florida Power's Sharon Bauer (center), a national accounts manager, discusses the special power requirements of a spectrometer with Cirent Semiconductor's Harriet Litrenta and Jennifer McKinley.

Building strong customer relationships

Providing excellent customer service has been a Florida Power hallmark for 100 years. Our reputation and the year-to-year dedication of our employees have earned us high satisfaction ratings from our customers.

Continuing to build strong relationships with our customers, current and future, is essential to our success in a competitive environment. It begins with understanding what customers want, and identifying which products and services are needed.

For example, in the production of semiconductors, our customers need the highest level of power quality. Any interruptions to the power supply could cost the manufacturer millions of dollars. In 1999, Lucent Technologies, the world leader in communications semiconductors, chose Florida Power to design, engineer and install three 2,000-kilowatt generators at its Cirent Semiconductor facility in Orlando — the largest plant of its kind in the Southeast U.S.

Lucent wanted the back-up generators in case of service-related problems caused by the Year 2000 transition or any outages caused by hurricanes. The company chose Florida Power for the project because of the close relationship established between the two companies.

Because Florida Power's customer base is primarily residential, many of the company's new products and services focus on this market segment.

Several of our newest products and services surpassed expectations in 1999. More than 30,000 customers during the year signed up for Florida Power's new Home Wiring Service for the repair and replacement of home electrical wiring and components.

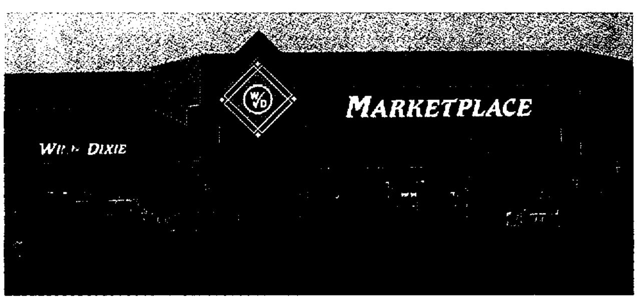
After a successful pilot program to test customer acceptance in six counties, the service was expanded in October to customers in all 32 counties the company serves. Florida Power is the first electric utility in the state to make available a home wire repair plan to its customers.

During the year, customer interest also was strong in the company's surge protection program, including increased sales of meter base and plug-in suppressors. Under the program, residential customers are able to protect their home appliances from lightning and other power surges. In 1999, Florida Power received an award for having the industry's best surge protection program.

Targeting new customer markets

Forming marketing alliances with other companies is an effective way to compete in today's growing retail services market. An example of this strategy is Cadence, a joint venture Florida Progress formed in 1997 with Cinergy Corporation and New Century Energies. Cadence's target market focuses on national commercial customers with multiple locations, such as restaurants, supermarkets and retail stores.

Cadence rapidly has emerged as a market leader by providing sophisticated utility cost reduction and information services that give these multi-site commercial customers the power to run their businesses better. Cadence provides customers with Internet-based energy data and rate analysis, bill audits and other custom services.



Cadence serves a variety of national chains including Winn-Dixie and Papa John's.

Cadence has captured more than 50 percent of the market growth in its target market and has connected over 60,000 individual customer locations in all 50 states, plus Canada. Among its customers are Blockbuster Video, Winn-Dixie, Service Merchandise, Motel 6 and Papa John's. Frost and Sullivan, an international market consulting company, selected Cadence to receive its 1999 Service Innovation Award for the "ability to adopt new technology and make significant contributions to the energy management services market in terms of service innovation."

Offering competitive electric rates

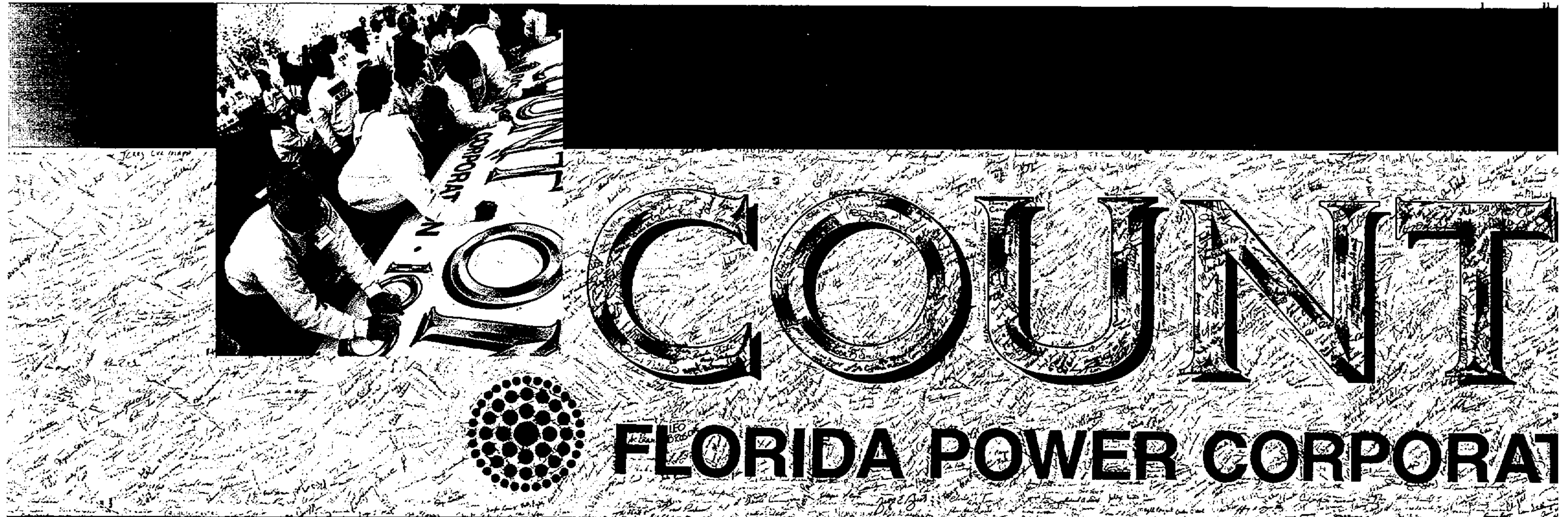
Florida Power's commitment to its customers is to maintain the lowest possible price while continuing to provide outstanding customer service and reliability.

Today, Florida Power's average retail electric rates are very competitive with other investor-owned utilities in Florida, and have been for many years. This comparison divides total retail revenues, less franchise fees, by total retail energy sales.

Florida Power reduced its residential rates in January 2000. This is the second consecutive year the company has lowered prices, resulting in the average residential customer paying about 2.3 percent less for electricity since April 1998.

The recent price decrease is due to several factors. A significant portion of the reduction can be attributed to the company's power marketing activities and the ability to sell available electricity to other utilities. Other factors include a cost reduction from a major power supplier and lower expenses for our energy management and conservation programs. All these factors resulted in cost savings that are passed on to our customers.

Most of the benefits from our power marketing operations are used to lower Florida Power's overall fuel costs. This helps reduce the rates we charge to our 1.4 million customers. In 1999, power marketing trading activities produced more than $14 million in customer savings.



A BANNER YEAR

As 1999 unfolded, Florida Power rolled out a unique icon of the company's 100-year anniversary: a 32-foot banner emblazoned with the anniversary theme, "Count On Us." The words reflected a service ethic built up by generations of Florida Power employees.

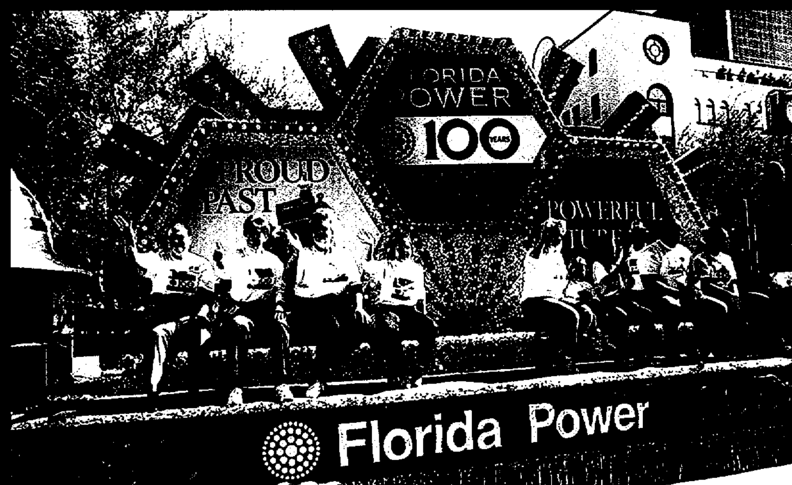
When the anniversary banner traveled to Florida Power facilities throughout its 32-county service area, nearly 4,700 past and present employees chose to add their individual signatures as a symbol of their personal commitment. During the year, employee volunteers delivered the "Count On Us" message in person at community parades, holiday festivals and numerous charitable events across the state.

Over the course of 1999, support for our communities reached an all-time high as corporate sponsorship and employee participation was greater than ever. Florida Progress has four areas of primary emphasis: education, environment, economic development and community involvement.

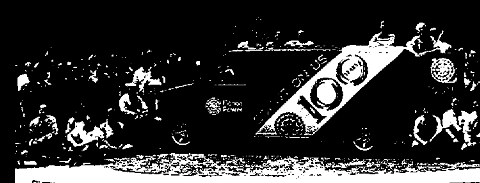
The company continues to light the way in its support for education of our youth. Take Stock In Children, a scholarship program for at-risk students, was co-founded by Florida Progress several years ago in Pinellas County. In 1999, we helped expand the program statewide. In November, our support for education continued with Florida Power's sponsorship and employee participation in the Great American Teach-In held at dozens of schools in its service territory.

ON US

ION · 100 YEARS OF SERVICE



In 1999, Florida Power increased its contribution to its Energy Neighbor Fund, which helps families with temporary financial difficulties to pay their energy bills. Each year, Florida Power raises community awareness for the fund and solicits donations from its customers. In 1999, the company added another $100,000 to its regular annual contribution of $150,000, an amount that is designed to match a portion of customer donations. Since the Energy Neighbor Fund was established in 1988, it has distributed more than $5 million to 40,000 needy families throughout Florida.



Florida Progress and its employees continue to provide leadership and support for many charities, including the United Way. Our employees are also actively involved in helping to advance economic development in communities throughout Florida. Our continued corporate support and employee volunteerism make it clear that our communities can Count On Us.

Leveraging assets to serve a growing telecommunications market

In October 1998, Florida Progress formed Progress Telecommunications Corporation (Progress teleCOM) to take advantage of business opportunities in the wholesale fiber-optic telecommunications market. The explosive growth of data and Internet traffic is driving telecommunications companies to need greater access to fiber-optic networks. Progress teleCOM supports our shareholder commitment to generate new sources of revenue and increase shareholder value.

Headquartered in St. Petersburg, Florida, Progress teleCOM serves Florida Power's entire service territory as well as other areas in Florida and in the Southeast U.S. Long distance telephone companies, local phone companies and Internet service providers count on Progress teleCOM to provide wholesale telecommunications services in first, second and third tier markets throughout Florida and parts of the Southeast. These services include broadband capacity, dark fiber and wireless services.

Progress teleCOM's marketing strategy focuses on providing wholesale telecommunications capacity to key business areas within cities, also known as Local Loop Access. The company also provides Long-Haul Capacity Transport between cities through its extensive statewide fiber-optic network, which consists of 1,100 route miles and 61,000 miles of fiber strands.

While Florida Power remains one of its largest customers, Progress teleCOM also serves such companies as MCI Worldcom, Level 3 Communications, Inc., UUNet Corporation, GTE Corporation, AT&T Wireless, Nextel, NewSouth Communications, Inc. and others.

Today, Progress teleCOM serves as an example of Florida Progress' application of strategies that leverage existing assets while expanding into related industries.

Progress teleCOM's Andrew Alcorn (standing), Robert Haines and Ray Signorelli monitor the company's Network Operations Center in St. Petersburg.

Progress teleCOM partners with Florida Power's Energy Delivery business unit to complete installation of a new telecommunications tower in St. Petersburg. Antennas on the 150-foot tower will serve such Progress teleCOM customers as AT&T Wireless and Nextel.

Employees on a maintenance crew demonstrate their enthusiasm while working at Electric Fuels' Kentucky Coal Terminal. The terminal is located near Catlettsburg, Kentucky, on the Big Sandy River.

ELECTRIC FUELS CORPORATION

Poised for continued profitable growth

For the past several years, Electric Fuels Corporation has achieved double-digit earnings growth. Earnings per share have grown more than 20 percent annually in the past five years. In 1999, that trend continued.

Formed in 1976 to supply Florida Power with high-quality, competitively priced coal, Electric Fuels embarked on an aggressive growth strategy in the early 1990s to enhance the overall earnings growth of Florida Progress.

Today, our energy and transportation subsidiary has operations in 25 states, Canada and Mexico. It is organized into three primary business groups:

- **Energy & Related Services** — includes energy operations (coal mining, natural gas and synthetic fuel production), terminal services and offshore marine transportation.
- **Rail Services** — one of the largest integrated providers of products and services to the railroad industry in North America.
- **Inland Marine Transportation** — a modern, efficient river barge and towboat fleet.

In 1999, revenues at Electric Fuels approached $1.5 billion — including sales to Florida Power — and earnings rose to more than $62 million. The company's contribution to Florida Progress' total earnings per share reached 20 percent in 1999. The growing production and sales from a coal-based synthetic fuel accounted for the majority of the earnings improvement during the year. Electric Fuels believes that this new synthetic fuel qualifies for alternative fuel tax credits. In 1999, Electric Fuels' Rail Services unit also contributed higher earnings.

Energy & Related Services

Electric Fuels' Energy & Related Services business unit is looking at a variety of diversified growth opportunities. The most significant growth is expected to come from synthetic fuel sales.

Electric Fuels owns a majority interest in three synthetic fuel plants located at company facilities in eastern Kentucky. In addition, Electric Fuels has a minority interest in two other synthetic fuel plants located at a company terminal on the Kanawha River in West Virginia.

In October 1999, Electric Fuels expanded its operations by purchasing four synthetic fuel plants. Two of the plants began operating in late 1999 at company coal mines in Kentucky and Virginia. The other two plants are expected to be operational during 2000.

These plants take various coal fines — and other byproducts of coal — and combine them with a petroleum-based binder to produce a synthetic fuel. The fuel, which Electric Fuels believes qualifies for tax credits, allows the company to offer utilities a competitively priced fuel for their power plants. The company plans to increase significantly its production of synthetic fuel in 2000 and in 2001.

(above) A control room operator monitors the synthetic fuel process at Electric Fuels' Kentucky Coal Terminal in eastern Kentucky.

Rail Services

Taking advantage of a trend among major railroads to outsource many services, Progress Rail Services Corporation, an Electric Fuels subsidiary, is positioned to serve three major business segments: mechanical (railcar, transit car and locomotive repair, and components and leasing); trackworks (rail and related components); and recycling (railcar dismantling as well as rail removal and disposal).

Significant growth opportunities lie in both acquisitions and internal expansion, not only to increase business and expand geographically, but to achieve efficiencies and a more competitive cost structure. In 1998, Progress Rail completed approximately $200 million in acquisitions.

Front-end loaders move coal fines to a hopper that feeds the synthetic fuel plant at Kentucky Coal Terminal.

A completed track turn-out unit is loaded onto a gondola railcar for shipment. These units, sometimes up to 200 feet in length, are transported by rail and installed as a single piece.

At this trackworks facility in Sherman, Texas, Progress Rail workers assemble a railroad track turn-out unit.

The principal focus during 1999 was to integrate these acquisitions into existing operations and to concentrate on internal expansion and additional growth opportunities.

In early 1999, the company opened a new trackworks plant in Sherman, Texas, north of Dallas, and in the fall began a major expansion of its railcar repair facility in Amarillo, Texas.

Progress Rail completed another $47 million in acquisitions in 1999, including the purchase of the assets and operations of CAE Vanguard, a unit of Toronto-based CAE Inc. CAE Vanguard is a leader in railroad maintenance technology and services for freight and transit railways in North America. It has facilities in Kentucky, Tennessee, Kansas, Nebraska, Idaho, California and in Montreal and Winnipeg, Canada.

With the CAE Vanguard acquisition, Progress Rail has facilities in 24 states, Canada and Mexico. Expanding geographically gives Progress Rail the strategic locations needed to serve all the North American railroads, and other customers, with a broader base of products and services. By locating its facilities close to its customers, Progress Rail can respond quickly and competitively to customer needs.

A full tow of 35 barges heads south on the Mississippi River to New Orleans, maneuvered by one of MEMCO's newest towboats, the *Patricia Gail.*

Inland Marine Transportation

MEMCO Barge Line Inc., Electric Fuels' Inland Marine Transportation subsidiary, owns the fifth largest barge fleet operating on the nation's inland waterway system. MEMCO transports coal and other dry bulk goods primarily along the Ohio, Illinois and lower Mississippi rivers.

In 1992, MEMCO launched an aggressive expansion plan to increase capacity along those waterways. With the purchase of approximately 100 new barges and one new towboat in 1999, the fleet today consists of about 1,200 barges and 21 river towboats.

MEMCO has the industry's youngest fleet on the U.S. inland waterway system. The average age of MEMCO's barge fleet is five years, about one-third the average age of most of its competitors' fleets. MEMCO's newer barges are designed to allow deeper draft loadings than older barges, which means 10 to 25 percent more tons of cargo can be carried per trip. The useful life of a new barge is approximately 30 years.

MEMCO's new barges are more efficient and require less maintenance, resulting in less down time than older barges. Sixty-five percent of MEMCO's barges have removable covers, which allow for greater flexibility to move from one commodity to another as demand warrants.

Electric Fuels' expansion into energy and transportation businesses has proven to be an excellent strategic fit for Florida Progress. Electric Fuels expects to continue posting strong results with its aggressive growth plans — through both acquisitions and internal expansion.

Introduction

Management's Discussion and Analysis includes a review of the operating results and financial condition of Florida Progress Corporation and focuses primarily on Florida Progress' two principal subsidiaries, Florida Power Corporation and Electric Fuels Corporation. Through this analysis we identify the key factors affecting revenues, earnings, cash flows, capital requirements and other financial data.

Florida Power provides electric service to approximately 1.4 million customers in west central Florida and serves a predominately retail customer base.

Progress Capital Holdings, Inc. is a holding company for Florida Progress' diversified operations led by Electric Fuels, an energy and transportation company.

Electric Fuels has three primary business segments: Rail Services, Inland Marine Transportation and Energy & Related Services.

Florida Progress' board of directors agreed to a combination with Carolina Power & Light Company (CP&L) and CP&L Holdings, Inc. (now CP&L Energy, Inc. (CP&L Energy)) and approved the related share exchange agreement. (See Current Issues: Share Exchange Agreement on page 27.)

EARNINGS PER SHARE

	1999	1998	1997
Florida Power Corporation	**$2.70**	$2.56	$1.38
Electric Fuels Corporation	**.64**	.44	.33
Other	**(.13)**	(.10)	(1.15)
Consolidated	**$3.21**	$2.90	$ .56

1999 vs. 1998 Highlights

- Florida Progress' 1999 earnings per share of $3.21 increased 10.7 percent over 1998's earnings of $2.90 per share. The increase was primarily driven by a 3.4-percent increase in kilowatt-hour sales at Florida Power and sales of a new coal-based synthetic fuel, which generates tax credits, by Electric Fuels.
- Florida Power's higher 1999 kilowatt-hour sales were driven largely by higher wholesale sales and the addition of 27,000 new customers. Annual customer growth at Florida Power averages about 2 percent, which is twice the national average.
- Florida Power's 1999 results include a $44.4 million deferral of revenues as authorized by the Florida Public Service Commission (FPSC).
- Electric Fuels' 1999 earnings per share of $.64 increased $.20 per share, or 45.5 percent, over 1998.
  - Earnings at the Energy & Related Services business unit were up due primarily to the sale of about 2 million tons of synthetic fuel. In addition, increased production of natural gas contributed to the higher earnings.
  - Earnings at the Rail Services unit were up 34 percent due primarily to continued demand for railroad related products and services, and improved earnings in its recycling operations.
  - Earnings at the Inland Marine Transportation business unit were flat compared with 1998 due to adverse water conditions during the year, which disrupted barge traffic.

1998 vs. 1997 Highlights

- Florida Progress' 1998 earnings per share of $2.90 increased substantially over 1997's earnings of $.56 per share, which included nonrecurring charges of $2.06 per share.
- Operating results for 1997 were negatively impacted by the extended outage of Florida Power's Crystal River nuclear plant and the provision for loss on the company's investment in Mid-Continent Life Insurance Company. These two events reduced Florida Progress' 1997 earnings by $200 million, or $2.06 per share. (See 1997 Extended Nuclear Outage Costs and Mid-Continent Life Insurance Company on pages 22 and 24, respectively.)
- Florida Progress' 1998 earnings per share increased 10.7 percent when compared with 1997's recurring earnings per share of $2.62. The increase was due to higher kilowatt-hour sales over 1997 at Florida Power and the expansion of its Electric Fuels operations, primarily the Rail Services and Inland Marine Transportation business units.
- Florida Power's 1998 earnings per share of $2.56 were up 3.2 percent over 1997, excluding nuclear outage costs of $1.10 per share, due to strong customer growth and usage growth. Demand for electricity during 1998 reached record levels as hotter-than-normal weather during much of the year resulted in record annual usage by residential and commercial customers.
- The effect of hotter-than-normal weather was offset by several items including the accelerated amortization of certain regulatory assets, additional spending for maintenance and reliability projects, and the deferral of $10.1 million of revenues as allowed by the FPSC.
- Electric Fuels' 1998 earnings per share were up 33 percent over 1997. This increase was driven by improved results from all three of its business units, including an expanded barge fleet, increased coal deliveries, increased demand for railcar and trackwork components and services, and sales of railcars from its lease portfolio.

OPERATING RESULTS

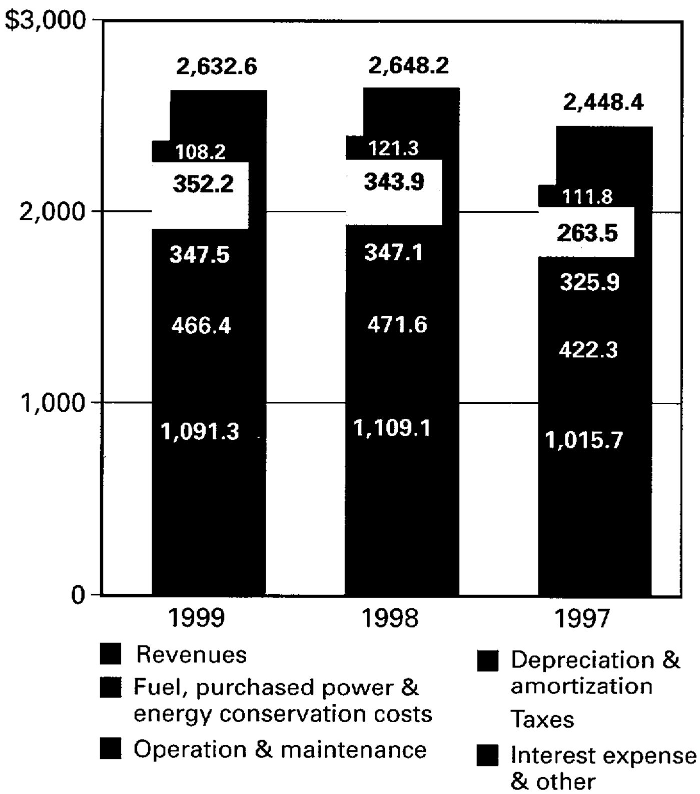
FLORIDA POWER CORPORATION

Florida Power's operating results are primarily influenced by customer demand for electricity, its ability to control costs and its authorized regulatory return on equity. Annual demand for electricity is based on the number of customers and their annual usage, with usage largely impacted by weather. Since Florida Power serves a predominately retail customer base, operating results are primarily influenced by the level of retail sales and the costs associated with those sales.

The FPSC oversees the retail sales of the state's investor-owned electric utilities and authorizes retail base rates. Base rates and the resulting base revenues are intended to cover all reasonable and prudent expenses of utility operations and provide investors with a fair rate of return.

Costs not covered by base rates include fuel, purchased power and energy conservation expenses. The FPSC allows electric utilities to recover these costs, referred to as "pass-

Utility Operating Revenues & Expenses
(In millions)



through" costs, through various cost recovery clauses to the extent those costs are prudent.

Pass-through costs represent about 40 percent of Florida Power's annual electric revenues and about 50 percent of its operating expenses. Due to the regulatory treatment of these expenses and the method allowed for recovery, changes from year to year have no material impact on operating results. (See 1997 Settlement Agreement on page 22 for a discussion of certain replacement power costs not recovered from customers.)

The FPSC has authorized a return on equity range for Florida Power of 11-13 percent and its retail base rates are based on the mid-point of that range — 12 percent. (See 1997 Settlement Agreement on page 22 for a discussion of that agreement's impact on Florida Power's base rates and allowed return on equity.)

In February of each year, Florida Power provides the FPSC with a forecast of the current year's earnings and regulatory return on equity. In 1999, in anticipation of higher-than-forecasted earnings due to higher kilowatt-hour sales and the timing of placing its new 530-megawatt plant into service, Florida Power obtained approval from the FPSC to defer revenues.

In 1998, Florida Power experienced higher-than-forecasted sales due to abnormally warm weather and, as a result, took several actions. Those actions included FPSC-approved accelerated write-offs of regulatory assets, deferral of revenues and other measures designed to improve the utility's overall quality of service to its customers.

Florida Power's retail regulatory return on equity for 1999 and 1998 was 12.4 percent and 12.3 percent, respectively.

Utility Sales

Florida Power's total kilowatt-hour sales increased 3.4 percent in 1999 compared with 1998 despite a return to more normal temperatures in 1999. The increase was due largely to higher kilowatt-hour sales to wholesale customers, primarily Seminole Electric Cooperative, Florida Power's largest wholesale customer.

Average usage in 1999 among residential customers, the utility's largest customer class, was about 4 percent lower than 1998 when hotter-than-normal temperatures caused residential customers to use more energy. Partially offsetting the lower usage per residential customer was the addition of 27,000 new customers, including 22,000 residential customers.

In addition to new customers, Florida Power's non-weather-related usage improved over 1998. Non-weather-related usage can increase due to favorable economic factors including higher personal income and low unemployment levels. Customer usage patterns, influenced by items such as the construction of larger homes and increased use of electronics, also drive additional non-weather-related sales.

Florida Power's total kilowatt-hour sales increased 11.9 percent in 1998 compared with 1997. The increase in sales was largely due to the hotter-than-normal weather experienced from May through October 1998. As a result of the unusually hot weather, usage by residential customers increased approximately 9 percent over 1997.

Florida Power's wholesale kilowatt-hour sales were up 57.2 percent in 1998, compared with 1997. The primary reason for the increase was, unlike 1997, the company's nuclear power plant was in service for most of 1998. This enabled Florida Power to sell generating capacity in the short-term wholesale energy market, after meeting the needs of its customers.

UTILITY REVENUES
(In millions)

	1999 Increase (Decrease)	1998 Increase (Decrease)
	from prior year	
Base revenues:		
Sales of electricity	$ 22.0	$ 78.7
Revenue deferral, net	(24.2)	(10.1)
Other operating revenues	9.7	5.3
Pass-through revenues	(23.1)	125.9
Total utility revenues	$(15.6)	$199.8

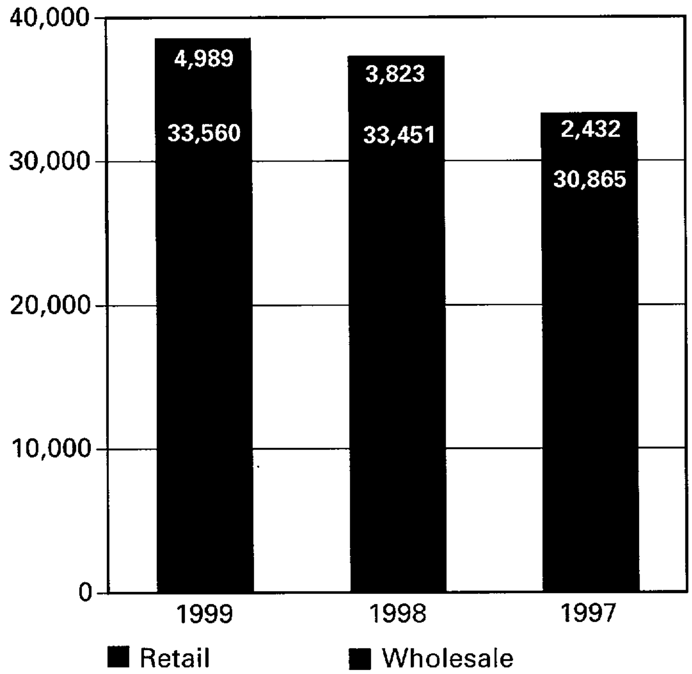
Growth in base revenues is a key factor contributing to the growth of Florida Power's earnings.

Florida Power's total utility revenues were down $15.6 million compared with 1998. A return to more normal weather in 1999 and an increase in the deferral of base revenues essentially offset the effect of customer growth and non-weather usage growth.

The increase in 1998's total utility revenues was due to customer and usage growth, hotter-than-normal weather when compared with 1997 and higher pass-through costs.

In 1999, Florida Power deferred $44.4 million of base revenues. Florida Power could have increased amortization of its Tiger Bay regulatory asset, however Florida Power obtained approval from the FPSC to defer recognition of those revenues to have more time to explore ways the retail customer could benefit

Sales of Electricity – Billed and Unbilled
(In millions of kilowatt-hours)



earlier than by accelerating the amortization of the Tiger Bay asset. (See 1997 Tiger Bay Buy-Out on page 22.)

The benefit to customers of accelerating the amortization of the Tiger Bay asset is a reduction in the amount collected through certain pass-through clauses once the regulatory asset is fully amortized, which is expected to be 2008.

Florida Power must inform the FPSC of its plan to use the deferred revenues by August 2000. If Florida Power does not file its plan or if the plan is not approved, Florida Power will use the deferred revenues to accelerate the amortization of the Tiger Bay asset.

In 1998, Florida Power deferred $10.1 million in revenues under circumstances similar to those in 1999, but later decided to use the additional revenues to accelerate the amortization of the Tiger Bay asset. In addition to the $10.1 million revenue deferral, Florida Power took several actions to better position itself for the future. The following items largely offset the increase in revenues attributable to the hotter-than-normal weather:

Accelerated the amortization of regulatory assets and write-off of related taxes	$21 million
Expenditures to enhance reliability	$17 million
Accelerated lump-sum pay increase	$ 7 million

Fuel, Purchased Power and Energy Conservation Costs

As previously discussed, fuel, purchased power and energy conservation costs are recovered primarily through recovery clauses established by state and/or federal regulators.

Factors influencing fuel and purchased power costs include demand for electricity, fuel prices, the availability of generating plants and the amount and price of electricity purchased from qualifying facilities (QFs) and other utilities.

Total fuel and purchased power expenses were $1 billion in 1999, or about 2 percent lower than 1998's costs despite a 3.7-percent increase in system requirements. System requirements are the total amount of energy either produced or purchased to meet total customer energy demand. The decrease was due largely to lower purchased power costs incurred in 1999 compared with 1998.

Fuel and purchased power expenses for 1998 were only up slightly over 1997, despite an 11.9-percent increase in total kilowatt-hours sold. This was due largely to the availability of Florida Power's Crystal River nuclear plant. The lack of nuclear generation throughout 1997 forced Florida Power to replace this generation with other, higher-cost replacement power.

A key factor influencing Florida Power's purchased power costs are the prices paid to QFs for electricity. Currently, Florida Power receives 831 megawatts of its total capacity from QFs.

In 1999, Florida Power spent $240.6 million for purchased power capacity payments under all QF contracts. Those payments represented approximately 24 percent of system fuel and purchased power expenses for the year. Costs associated with the contracts raised Florida Power's system average cost for generation in 1999 and 1998, and this trend is expected to continue based on the contracts currently in place and the escalating payment schedules associated with each contract.

Florida Power will continue its effort to mitigate the impact of escalating payments from its QF contracts. (See Fuel, Coal and Purchased Power Commitments on page 41.)

Factors affecting the level of energy conservation costs include the cost of implementing and maintaining various FPSC-approved conservation programs and credits issued to customers participating in programs where equipment is used to remotely control energy usage among those participants. Florida Power does not expect the level of energy conservation costs to vary materially in the future.

OTHER UTILITY OPERATING EXPENSES

(Dollars in millions)

	1999	Change	**1998**	Change	**1997**
Operation & maintenance	**$466.4**	(1.1)%	**$471.6**	11.7%	**$422.3**
Depreciation & amortization	**$347.5**	.1%	**$347.1**	6.5%	**$325.9**
Taxes other than income taxes	**$203.1**	(.2%)	**$203.6**	5.2%	**$193.6**

Operation and maintenance expenses for 1999 were down slightly compared with 1998, due primarily to the absence of additional costs incurred in 1998 for the acceleration of certain maintenance projects and a lump-sum employee pay increase.

Excluding those items, which totaled $24 million, 1999 operation and maintenance costs were up $19 million. The increase over 1998 was attributable to higher legal expenses associated with a pre-existing age discrimination lawsuit, environmental costs associated with a former plant site and higher employee-related benefits.

Utility operation and maintenance expenses increased by $49 million during 1998 compared with 1997. The increase was due to expenditures to enhance reliability, a lump-sum pay increase, and additional operation and maintenance costs related to the Tiger Bay plant acquired in July 1997. In addition, Florida Power wrote off $7 million of inventory deemed obsolete. (See 1997 Tiger Bay Buy-Out on page 22.)

Depreciation and amortization expense of $347.5 million in 1999 was essentially unchanged from 1998 before adjusting for $10 million of accelerated amortization of the Tiger Bay regulatory asset in 1999. Depreciation and amortization expense of $347.1 million for 1998 included $19 million of accelerated amortization of regulatory assets, $14 million of which was related to contract termination costs for the Tiger Bay buy-out.

Excluding the accelerated amortization of regulatory assets in 1999 and 1998, depreciation and amortization expense increased $9 million in 1999 compared with 1998. The increase was due primarily to higher plant balances resulting from the addition of Hines Unit 1, a new 530-megawatt generation plant, in April 1999.

Depreciation and amortization expense increased approximately $20 million in 1998 when compared with 1997. The increase over 1997 was due to higher plant balances and slightly higher depreciation rates.

Taxes other than income taxes includes revenue-related taxes, payroll taxes and property taxes. Revenue-related taxes comprise about half of these taxes and are collected monthly as a part of the customer's bill. As a result, changes in revenue-related taxes have no impact on operating results.

1997 Extended Nuclear Outage Costs

In September 1996, Florida Power's Crystal River nuclear plant was taken out of service to fix an oil pressure problem in the main turbine. When the repairs were completed in October 1996, Florida Power decided to keep the plant shut down to address certain backup safety system design issues.

The nuclear plant was returned to service in February 1998 after being out of service about 16 months. Florida Power's operating results for 1997 were significantly impacted by the costs associated with the extended outage. Those costs included $100 million in additional operation and maintenance expenses and approximately $173 million in replacement power costs. Replacement power costs were incurred to purchase energy that otherwise would have been generated by Florida Power's 850-megawatt nuclear plant. The purchases were necessary to meet the energy needs of Florida Power's customers. Capital expenditures related to the outage were $42 million in 1997. (See 1997 Settlement Agreement below and Extended Nuclear Outage on page 41.)

1997 Settlement Agreement

In June 1997, Florida Power entered into a settlement agreement with several parties, excluding the FPSC, which objected to Florida Power recovering replacement power costs resulting from the extended nuclear outage. Normally, all fuel and purchased power costs are recoverable from customers as previously discussed. The settlement agreement provided for recovery of $38 million of replacement power costs through the utility's fuel recovery clause, while $63 million was recorded as a regulatory asset and is being amortized over four years. The remaining replacement power costs were expensed in 1997 and 1998.

The settlement agreement also provided that the parties to the agreement, excluding Florida Power, would not seek or support any reduction in Florida Power's base rates or the authorized range of its return on equity during a four-year period that ends June 30, 2001. While the FPSC is not a party to the agreement, it unanimously approved the settlement agreement. (See Extended Nuclear Outage on page 41.)

1997 Tiger Bay Buy-Out

In July 1997, Florida Power bought out the purchased power contracts related to a 220-megawatt cogeneration facility (Tiger Bay) and also bought the facility. Costs associated with the termination of the purchased power contracts and the acquisition of the facility totaled $445 million.

The FPSC-approved purchase allowed Florida Power to record a regulatory asset of approximately $350 million for contract termination costs and add $75 million to its electric plant.

Florida Power continues to collect from customers an amount equal to what it would have been allowed to recover for capacity and energy payments made in accordance with the original Tiger Bay purchased power contract. Based on these payments, Florida Power is projected to recover enough revenues by the year 2008 to fully amortize the regulatory asset and related interest charges.

The regulatory asset balance as of December 31, 1999, was $297.8 million. (See Note 12 on page 41.)

DIVERSIFIED OPERATIONS

(In millions)

	1999	1998	1997
Revenues	$1,212.5	$972.1	$868.0
Net income	$ 62.5	$ 42.3	$ 32.1

Electric Fuels makes up the vast majority of Florida Progress' diversified operations. The increases in diversified revenues and net income over the last three years are due to the expansion of Electric Fuels.

The growth of Electric Fuels has come from all three of its business units and is an important part of Florida Progress' plan to grow its earnings per share at least 5 percent annually.

At Rail Services, most of the growth has come through acquisitions, in particular during 1998 when Progress Rail Services Corporation completed approximately $200 million in acquisitions across its various business segments. In 1999, acquisitions totaled about $47 million.

At its Inland Marine Transportation group, growth has come mostly through the expansion of its barge fleet. Since 1992, MEMCO's fleet of barges, which haul coal, agricultural products and other dry bulk products on the Ohio, Illinois and lower Mississippi rivers, has nearly tripled. In 1999, approximately 100 new barges were added, bringing the fleet size to about 1,200.

The Energy & Related Services business unit did not account for a significant amount of the growth at Electric Fuels during 1998 and 1997.

In late 1998, Electric Fuels began selling a coal-based synthetic fuel that the company believes qualifies for alternative fuel tax credits. In 1999, sales of the new coal-based synthetic fuel reached about 2 million tons, which accounted for most of the improvement in Energy & Related Services earnings in 1999 over 1998. In addition, Electric Fuels began producing natural gas from company-operated reserves in 1998.

Electric Fuels Corporation

EARNINGS PER SHARE SUMMARY

	1999	1998	1997
Rail Services	$.22	$.16	$.14
Inland Marine Transportation	.11	.11	.06
Energy & Related Services	.40	.21	.17
Corporate & Other	(.09)	(.04)	(.04)
Total	$.64	$.44	$.33

Results of Operations

Electric Fuels' operating results are influenced by several factors, unique to the various markets in which the three business units compete.

Rail Services — The key factor affecting operating results is the demand for railcar and trackwork components and services among the country's major railroads and fleet owners. Another factor is the supply and demand for scrap steel, which directly affects the operating margins of its recycling division.

Inland Marine Transportation — Demand for barge transportation and river conditions on the Mississippi, Illinois and Ohio rivers can significantly affect operating results. Low and high water levels as well as icing conditions can disrupt the flow of barge traffic, the number of barges each towboat can transport and the cargo carried per barge.

Energy & Related Services — This business unit's operating results are primarily affected by the supply and demand for low-sulfur coal, natural gas and the demand for its new coal-based synthetic fuel.

1999 compared with 1998

Most of the increase in 1999 earnings for Rail Services was due to strong demand for railcar parts, which was driven by new railcar production.

The business unit's recycling operations contributed to the increase as a result of an increase in tons sold and an improvement in the market price of scrap steel compared to the last quarter of 1998. The increase in tons of scrap sold was due primarily to 1998 acquisitions of certain recycling businesses.

Electric Fuels continued the expansion of its Rail Services business unit in 1999 through acquisitions, expanding a railcar repair facility and completion of a new trackworks plant in Sherman, Texas.

The Inland Marine Transportation business unit's earnings for 1999 were essentially the same as 1998 despite the addition of approximately 100 new barges. Icing conditions during the first quarter of 1999 and low water conditions later in the year disrupted barge traffic and limited tow capacity. In addition to difficult river conditions during parts of the year, cost increases in diesel fuel negatively impacted operating results in 1999.

Earnings at the Energy & Related Services business unit showed the most improvement over 1998. The increase was due to the sale of about 2 million tons of a new coal-based synthetic fuel and increased production of natural gas.

In 1998, Electric Fuels acquired a majority interest in three synthetic fuel plants that combine a petroleum-based product with coal fines to produce a synthetic fuel. Electric Fuels believes that this fuel qualifies for alternative fuel tax credits as allowed by section 29 of the Internal Revenue Code which expire in 2007. Total tax credits generated by synthetic fuel sales were $38.8 million and $2.7 million in 1999 and 1998, respectively.

In October 1999, Electric Fuels expanded its synthetic fuel operations through the purchase of four synthetic fuel plants. Two plants were operating in December 1999 and the other two plants are planned to be in operation by the end of 2000.

Electric Fuels' corporate and other costs increased $.05 per share in 1999 over 1998. The increase was primarily due to higher employee-related benefits.

1998 compared with 1997

In 1998, Rail Services' earnings improved due to increased demand for its railcar and trackwork components and services, sales of railcars from its lease portfolio and increases resulting from its 1997 acquisitions. Partially offsetting the higher earnings was the impact of a substantial decline in scrap steel prices during the second half of the year.

Earnings from the Inland Marine Transportation group improved due largely to the expansion of its barge fleet. In addition, this group's 1997 earnings were negatively impacted by flooding conditions on the Ohio and Mississippi rivers in March 1997.

Earnings from the Energy & Related Services business unit were up over 1997 due to improved productivity, higher coal deliveries and an increase in river terminal services.

In September 1997, Electric Fuels bought out its 50-percent partner in a coal mining joint venture and now recognizes 100 percent of the sales and earnings from that property. In the first half of 1998, Electric Fuels completed the expansion of a river terminal in West Virginia, increasing its capacity by 33 percent.

Interest Expense and Other

Florida Progress' total interest expense decreased $13.5 million in 1999 compared with 1998. The decrease was due primarily to lower debt balances and refinancing of higher cost debt at Florida Power. Partially offsetting those reductions were higher debt balances at Electric Fuels as a result of its expansion activities.

In addition, Florida Progress, through its indirect wholly owned subsidiary FPC Capital I, issued $300 million in preferred securities to reduce debt during 1999. Distributions paid on these securities totaled $15.2 million in 1999.

Interest expense in 1998 increased $28.4 million over 1997 due to higher debt balances at Florida Power and Electric Fuels. Florida Power's debt balances increased primarily due to the July 1997 Tiger Bay transaction as well as additional costs associated with the 1997 extended nuclear outage. Electric Fuels incurred higher debt balances in 1998 due to acquisitions in its Rail Services business unit.

Allowance for funds used during construction (AFUDC) is primarily influenced by the amount of construction work-in-progress outstanding during the year. In April 1999, a new 530-megawatt generation plant was placed in service, which reduced construction work-in-progress balances in 1999 compared with 1998. As a result, AFUDC was lower in 1999.

Other income increased $13.1 million compared with 1998. The increase was due primarily to a gain on the sale of property at Florida Power and higher earnings from non-regulated activities.

Income Taxes

Income taxes for 1999 decreased $56.9 million compared with 1998 due primarily to alternative fuel tax credits generated by the sale of Electric Fuels' synthetic fuels. (See Note 4 on page 36.)

Mid-Continent Life Insurance Company

In 1997, Florida Progress recorded a provision for a loss on its investment in Mid-Continent and accrued for estimated legal expenses, reducing 1997 earnings by $.96 per share. This action was prompted by Mid-Continent being placed in receivership in the spring of 1997 and subsequent events in 1997.

Mid-Continent remains in receivership today as Florida Progress continues to work with the Oklahoma Insurance Commissioner and others to develop a viable rehabilitation plan, including the divestiture of Mid-Continent, which would be acceptable to all parties.

In December 1999, Florida Progress accrued an additional provision for loss of $10 million related to a proposed rehabilitation plan that is expected to result in a contribution of that amount by Florida Progress. The loss was more than offset by the recognition of tax benefits of approximately $11 million, related to the 1997 write-off of Mid-Continent. (See Mid-Continent Life Insurance Company on page 44.)

Other

Florida Progress did not experience any significant Year 2000 (Y2K) problems. Expenditures for addressing Y2K issues totaled $15.6 million over the last four years, $12.2 million of which were expensed and the remainder were included in property additions. In 1999, Florida Progress incurred $7.3 million related to Y2K issues, all of which was expensed.

The Financial Accounting Standards Board issued Financial Accounting Standard No. 137 in 1999. (See New Accounting Standards on page 35.)

Florida Power and former subsidiaries of Florida Progress have been notified by the U.S. Environmental Protection Agency that each is or may be a potentially responsible party for the cleanup costs of several contaminated sites. (See Contaminated Site Cleanup on page 43.)

Florida Progress is involved in other litigation. (See Legal Matters on page 43.)

Even though the inflation rate has been relatively low during the last three years, inflation continues to affect Florida Progress by reducing the purchasing power of the dollar and increasing the cost of replacing assets used in the business. This has a negative effect on Florida Power because regulators generally do not consider this economic loss when setting utility rates. However, such losses are partly offset by the economic gains that result from the repayment of long-term debt with inflated dollars.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

Florida Progress' utility and diversified operations are capital-intensive businesses. As such, Florida Power's construction expenditures and Electric Fuels' capital expenditures and expansion activities largely influence cash requirements.

At Florida Power, cash from operations is the primary source of cash for its construction expenditures, which normally ranges from $300 million to $400 million annually. Over the last three years, Florida Power's cash flow from operations has averaged 170 percent of its construction expenditures.

Electric Fuels' cash requirements have been influenced by rail acquisitions, acquisitions of synthetic fuel plants and the expansion of the company's barge fleet. These requirements have been funded from cash from operations and debt financings.

Other sources of capital for both companies over the last three years include proceeds from the sale and leaseback of equipment, proceeds from the sale of properties and businesses, the issuance of debt, Florida Progress common stock and company obligated mandatorily redeemable preferred securities (preferred securities).

In addition to funding its construction commitments with cash from operations, Florida Power accesses the capital markets through the issuance of commercial paper and medium-term notes.

Florida Power's interim financing needs are funded primarily through its commercial paper program. The utility has a $200-million, 364-day revolving bank credit facility and a $200-million, long-term revolving bank credit facility expiring in 2003, which are used to back up commercial paper. (See Note 8 on page 38.)

Florida Power's medium-term note program provides for the issuance of either fixed or floating interest rate notes, with maturities that may range from nine months to 30 years. Florida Power has $250 million of medium-term notes available for issuance.

Progress Capital provides short- and long-term financing facilities for Florida Progress' diversified operations, primarily Electric Fuels. With the benefit of a guaranty and support agreement with Florida Progress, Progress Capital helps to lower the cost of capital of the diversified businesses.

Progress Capital funds diversified operations primarily through the issuance of commercial paper and medium-term notes. (See Note 8 on page 38.)

Progress Capital has two revolving bank credit facilities: a 364-day, $100-million facility and a $300-million long-term facility that expires in 2003. These facilities are used to back up commercial paper. (See Note 8 on page 38.) Progress Capital also has uncommitted bank bid facilities that authorize it to borrow and re-borrow, and have outstanding at any time, up to $300 million. As of December 31, 1999, there were no loans outstanding under the uncommitted facilities. The facilities were established to temporarily supplement commercial paper borrowings, as needed.

Progress Capital also has a medium-term note program for the issuance of either fixed or floating interest rate notes, with maturities that may range from nine months to 30 years. A balance of $135 million is available for issuance under this program.

As of December 31, 1999, Florida Progress also has 1.9 million shares of common stock registered with the Securities and Exchange Commission available for issuance through its Progress Plus Stock Plan and Employee Savings Plan (the Plans). Under the share exchange agreement with CP&L, Florida Progress is precluded from issuing new common stock, including stock issued under these Plans, without its consent.

Cash Flow From Operating Activities

Cash from operations of $687.1 million in 1999 decreased $190.8 million compared with 1998 due primarily to the absence of $106.3 million of tax benefits received in 1998. These tax benefits related to Florida Power's 1997 buy-out of the Tiger Bay purchased power contract. (See 1997 Tiger Bay Buy-Out on page 22.)

Cash from operations in 1998 increased $435.3 million over 1997 as a result of those 1998 tax benefits and the absence of costs associated with the 1997 extended nuclear outage.

Florida Power's most significant operating cash requirement is fuel and purchased power expense. Essentially all of the cash for these expenses is collected from electric customers through a fuel cost recovery clause. (See 1997 Extended Nuclear Outage Costs on page 22 for discussion of 1997 replacement power costs not recovered from customers.)

Electric Fuels' most significant operating cash requirement is related to the working capital needs of its rail services and energy operations. The operations of these businesses provide sufficient cash to meet their working capital requirements.

Cash Flow From Investing Activities

Cash requirements for investing activities for 1999 of $612.3 million were down $73.3 million compared with 1998. This was due primarily to fewer acquisitions by Electric Fuels' Rail Services business unit.

Cash requirements in 1998 were $345.1 million lower than 1997 due primarily to Florida Power's 1997 buy-out of the Tiger Bay purchased power contract and the purchase of the related 220-megawatt cogeneration facility.

Florida Power's construction expenditures totaled $357.7 million, $310.2 million and $387.2 million for 1999, 1998 and 1997, respectively. These expenditures are primarily for distribution lines and generating facilities necessary to meet the needs of the utility's growing customer base.

In planning for its future generation needs, Florida Power develops a forecast of annual demand for electricity, including a forecast of the level and duration of peak demands during the year.

These forecasts have historically been developed using a 15-percent reserve margin. The reserve margin is the difference between a company's net system generating capacity and the maximum demand on the system. In December 1999, the FPSC approved a joint proposal by Florida Power, Florida Power & Light and Tampa Electric Company to increase the reserve margin to 20 percent by 2004.

In response, Florida Power announced plans to accelerate construction of a planned second generating unit, Hines Unit 2, at its Hines Energy Complex. Hines Unit 2 would be a sister unit to the already operating Hines Unit 1 and would be capable of producing up to 570 megawatts. To be sure building Hines Unit 2 is the best option, Florida Power is seeking proposals from qualified bidders for new generating capacity to be available beginning in 2003. The bids received will be compared with the option of building Hines Unit 2 on the basis of location, price, reliability and other factors.

Florida Power has sufficient capital resources to accommodate the acceleration of Hines Unit 2. Construction of this plant is anticipated to begin in 2001.

Electric Fuels' capital expenditures during the same three-year period were $163 million, $217 million and $117 million, respectively. These capital expenditures have been primarily for the purchase of barges and towboats and the construction of a new rail car repair and trackworks facility.

Over the last three years, MEMCO has added approximately 500 barges and 3 towboats to its fleet, resulting in property additions of $190 million. In 1999 and 1998, proceeds from sale and lease back of $47 million and $153 million, respectively, relate to a synthetic lease financing transaction for $175 million in barges and $25 million in towboats.

Other capital expenditures for diversified operations are primarily for Progress Telecommunications Corporation and totaled $49 million in 1999.

Most of the cash requirements related to business acquisitions was due to the expansion of Electric Fuels' Rail Services business unit and synthetic fuel plants. Over the last three years, Electric Fuels has spent $295.2 million for acquisitions, of which $206.6 million was spent in 1998.

Other investing activities in 1999 decreased $70.8 million from 1998 due to lower contributions to supplementary retirement plans. Contributions to these plans were $8.2 million and $75.3 million in 1999 and 1998, respectively. There were no contributions in 1997.

Cash Flow From Financing Activities

Florida Progress' strong cash flow from operations reduced the need for debt financing in 1999 and 1998. In 1997, the buy-out of the Tiger Bay purchased power contract and the costs associated with the extended nuclear outage required the issuance of new debt.

In addition to strong cash flow from operations, the issuance of $300 million of preferred securities helped reduce Florida Progress' total debt by $162.1 million as of December 31, 1999, compared with 1998. The preferred securities were issued by FPC Capital I, an affiliated trust and are, in effect, fully and unconditionally guaranteed by Florida Progress. (See Note 7 on page 37.)

In 1999 and 1998, Progress Capital issued $50 million and $115 million of medium-term notes, respectively, with maturities ranging from two to 10 years. The proceeds were primarily used to repay maturing medium-term notes and for other corporate purposes.

In 1999, $75 million of Florida Power's 6 1/2 percent first mortgage bonds matured. The bonds were refinanced with commercial paper. In 1998, Florida Power redeemed $250 million of first mortgage bonds. The redemption of these bonds was principally funded through the issuance of $150 million of 30-year medium-term notes bearing an interest rate of 6 3/4 percent and commercial paper.

In July 1997, Florida Power issued $450 million of medium-term notes primarily to finance the buy-out of purchased power contracts associated with the 220-megawatt Tiger Bay cogeneration facility.

Capital Structure

As of December 31, 1999 and 1998:

	1999	1998
Common stock	41.7%	41.1%
Preferred stock	.7%	.8%
Preferred securities	6.2%	–
Debt	51.4%	58.1%

SECURITY CREDIT RATINGS

	STANDARD & POOR'S	MOODY'S	DUFF & PHELPS
Florida Power Corporation			
First mortgage bonds	AA-	Aa3	AA-
Medium-term notes	A+	A1	A+
Commercial paper	A-1+	P-1	D-1+
Progress Capital Holdings, Inc.			
Medium-term notes	A	A2	
Commercial paper	A-1	P-1	
FPC Capital I			
Preferred securities	BBB+	a2	

Due to the pending share exchange with CP&L, Standard & Poor's, Moody's and Duff & Phelps have announced they are reviewing the rated securities of Florida Power, Progress Capital and FPC Capital I for a possible ratings downgrade. (See Share Exchange Agreement on page 27.)

Future Cash Requirements

Florida Power's three-year construction program totals nearly $900 million for the 2000-2002 forecast period. It includes planned expenditures of about $300 million each year. These expenditures are primarily for the expansion of Florida Power's distribution system and generation capacity. Florida Power expects these construction expenditures to be financed primarily with cash from operations.

Electric Fuels' capital expenditures are expected to be approximately $160 million over the next three years and does not include an amount for acquisitions of businesses. However, Electric Fuels does intend to continue to seek opportunities to expand its businesses through acquisitions, which could result in additional capital expenditures.

The share exchange agreement with CP&L limits Florida Progress' total capital expenditures to those amounts noted above absent CP&L approval.

Dividend Policy and Earnings Outlook

Florida Progress evaluates its dividend policy on an annual basis to ensure that the dividend payout and dividend rate are appropriate given the business plan, projected earnings growth and outlook for the electric utility industry. Florida Progress' business plan forecasts sustained earnings per share growth, a key factor in determining dividend policy.

The share exchange agreement with CP&L precludes Florida Progress from paying dividends in excess of its 1999 dividend rate of $2.18 per share plus an annual dividend rate increase of 2 percent.

Forward-Looking Statements

In this report, Florida Progress has made forward-looking statements, including statements regarding the strength of the combination with CP&L and the expected annual synergies, Florida Progress' targeted long-term earnings per share growth rate of 5 percent or better, the future cash requirements of Florida Power and Electric Fuels and the source of funds to meet those requirements, and the period of time in which Electric Fuels expects to have its four new synthetic fuel plants operating.

These statements, and any other statements contained in this report that are not historical facts, are forward-looking statements that are based on a series of projections and estimates regarding the economy, the electric utility industry and the company's other businesses in general, actions of regulatory bodies and courts, and on key factors which impact the company directly.

The projections and estimates relate to the pricing of services, the actions of courts and regulatory bodies, the success of new products and services, and the effects of competition. The words "should", "estimates", "believes", "expects", "anticipates", "plans", "intends" and variations of such words, and similar expressions are intended to identify these forward-looking statements that involve risks and uncertainties.

Key factors that have a direct bearing on the company's ability to attain these projections include the actions of various regulatory bodies in approving various aspects of the share exchange with CP&L; continued annual growth in customers; economic and weather conditions affecting the demand for and supply of not only electricity but also Electric Fuels' barge, rail and other services; successful cost containment efforts; the time needed for synthetic fuel plants to be reassembled and become fully operational in a manner that qualifies the fuel for federal tax credits, market acceptance of synthetic fuel, competition from competing products, impacts of environmental regulations on potential buyers; and the efficient operation and/or construction of Florida Power's existing and planned generating units. Also, in developing its forward-looking statements, the company has made certain assumptions relating to productivity improvements and the favorable outcome of various commercial, legal and regulatory proceedings, and the lack of disruption to its markets.

If the company's projections and estimates regarding the economy, the electric utility industry and other key factors differ materially from what actually occurs, or if various legal and regulatory proceedings have unfavorable outcomes, the company's actual results could vary significantly from the performance projected.

Market Risks

Interest Rate Risk

Florida Progress is exposed to changes in interest rates primarily as a result of its borrowing activities.

A hypothetical 60 basis point increase in interest rates (10 percent of Florida Progress' weighted average interest rate) affecting its variable rate debt ($640.8 million as of December 31, 1999) would have an immaterial effect on Florida Progress' pre-tax earnings over the next fiscal year. A hypothetical 10-percent decrease in interest rates would also have an immaterial effect on the estimated fair value of Florida Progress' long-term debt and preferred securities as of December 31, 1999.

Equity Price Risk

Florida Power maintains a trust fund as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning. (See Decommissioning Costs on page 37.) As of December 31, 1999 and 1998, this fund was invested primarily in equity securities and fixed-rate debt securities. A 10-percent decrease in the market value of this fund would result in a reduction in both the fair value of the trust fund and the accumulated decommissioning for nuclear plant of $37.7 million and $33.2 million in 1999 and 1998, respectively. Based on the current regulatory treatment, the company's earnings would not be impacted by any fluctuations in the market value of the trust fund.

Commodity Price Risk

Currently at Florida Power, commodity price risk due to changes in market conditions for fuel and purchased power are recovered through the fuel cost recovery clause, with no effect on earnings.

Electric Fuels is exposed to commodity price risk through coal and natural gas sales, the scrap steel market and fuel for its marine transportation business. A 10-percent change in the market price of those commodities would have an immaterial effect on the earnings of Florida Progress.

Current Issues

Share Exchange Agreement

On August 22, 1999, Florida Progress entered into a share exchange agreement with CP&L and CP&L Energy. The agreement was amended on March 3, 2000. Under the terms of the agreement, all of the outstanding shares of Florida Progress will be acquired by CP&L Energy in a statutory share exchange.

The consummation of the share exchange with CP&L Energy is subject to certain conditions including the approval or regulatory review by certain state and federal governmental agencies, and is expected to be completed during the fall of 2000.

The principal regulatory agencies that will approve or review the transaction include the Securities and Exchange Commission, Federal Energy Regulatory Commission, Nuclear Regulatory Commission, Department of Justice and the Florida, North and South Carolina state public service commissions.

A joint proxy statement about the combination will be sent to shareholders of both companies. (See Note 2 on page 35.)

INDUSTRY RESTRUCTURING

OVERVIEW

The electric utility industry is undergoing changes designed to increase competition in the wholesale and retail electricity markets. The wholesale power market includes sales of electricity to utilities from other utilities and nonutility generators. This market is regulated by the FERC. The retail electricity market includes sales of electricity to end-use customers, i.e., residential, commercial and industrial customers, and is regulated by state public utility commissions.

As a result of the Public Utilities Regulatory Policies Act of 1978 (PURPA) and the Energy Policy Act of 1992 (EPA of 1992), competition in the wholesale electricity market has greatly increased, especially from nonutility generators of electricity. In 1996, FERC issued new rules on transmission service to facilitate competition in the wholesale market on a nationwide basis. The rules give greater flexibility and more choices to wholesale power customers.

On December 20, 1999, FERC issued its final rules on Regional Transmission Organizations (RTO) designated as "Order 2000." Order 2000 is intended to enhance competitive electricity markets through the establishment of independent regionally-operated transmission grids. All public utilities that own, operate or control interstate electric transmission lines must file with FERC by October 15, 2000, a proposal for an RTO or an explanation of efforts made by the utility to participate in an RTO. The order provides guidance and specifies minimum characteristics and functions required of an RTO and also states that all RTOs should be operational by December 15, 2001.

The effect of changes that improve the access to wholesale power markets has been a significant growth in nonutility generation capacity. The development of merchant plants, which are nonutility generating plants, without the benefit of a long-term contract for the sale of most of the plant's generating capacity, has contributed to the growth of capacity in this market.

To date, many states have adopted legislation that would give retail customers the right to choose their electricity provider (retail choice) and essentially every other state has, in some form, considered the issue.

In addition to restructuring activity in various states, there have been several industry restructuring bills introduced in Congress. During 1999, the House Commerce Subcommittee on Energy and Power introduced the latest electric utility restructuring bill, which was not considered by the House or the Senate in 1999.

Restructuring Issues — Impact on Florida Power

Retail Choice

Florida's legislature has not considered a bill to restructure the electric utility industry. The FPSC monitors, through a staff committee, the restructuring activities in other states.

In January 1999, the Florida House of Representatives' Utilities and Communications Committee heard presentations from the FPSC and other interested parties on the structure and issues concerning the electric industry in Florida.

In Florida, there has been less incentive to push forward legislative proposals concerning retail choice. This is due primarily to competitive rates for electricity in Florida compared with other states where restructuring legislation has been passed.

Regional Transmission Organizations

Florida Power filed its proposed plan for an RTO as part of its filing with FERC for the CP&L transaction. Florida Power's proposal involves the creation of a Florida Independent Scheduling Administrator (Florida ISA). The proposed Florida ISA will be a non-profit organization designed to provide independent oversight over the transmission facilities of Florida Power and other participants. Florida Power and other participants would continue to own, operate and maintain their transmission facilities but operating and maintenance scheduling would be coordinated by the Florida ISA.

Florida Power does not expect the participation in the proposed Florida ISA or other types of RTOs to have a significant impact on its operating results since transmission assets and revenues comprise a small portion of its total assets (10%) and total revenues (6%).

Merchant Plants

In August 1998, Duke Energy filed a petition to build Florida's first merchant power plant, a 514-megawatt facility to be located in Volusia County, Florida. The plant would provide 30 megawatts of energy to the Utilities Commission of the City of New Smyrna Beach and the remaining capacity would be available for wholesale sales.

In a move Florida Power believes is contrary to existing state law, the FPSC granted Duke Energy's petition. Florida Power and other Florida utilities filed an appeal of the FPSC's decision with the Florida Supreme Court.

Since Duke Energy's petition, several other companies have announced plans to build merchant power plants in Florida. The earliest date any of these merchant power plants are projected to be in service is 2002.

Florida Power does not expect the development of merchant power plants to have a significant impact on its operating results due primarily to its predominately retail customer base.

Franchise Agreements

A major portion of Florida Power's retail business, representing approximately 40 percent of total 1999 utility revenues, is covered under the terms of 111 franchise agreements with various municipalities.

Many of the franchise agreements contain a clause that gives the municipality the right to purchase Florida Power's distribution system within the municipality at the expiration of the franchise. The exercise of that right would require complex and extensive legal proceedings. In addition, Florida Power believes that quality service and competitive rates will continue to be important factors a municipality would consider before purchasing Florida Power's distribution system.

Stranded Costs

An important issue encompassed by industry restructuring is the recovery of "stranded costs." Stranded costs include the generation assets of utilities whose value in a competitive marketplace would be less than their current book value as well as above-market purchased power commitments to QFs. Thus far, all states that have passed restructuring legislation have provided for the opportunity to recover a substantial portion of stranded costs.

Assessing the amount of stranded costs for a utility requires various assumptions about future market conditions including the future price of electricity. For Florida Power, the single largest stranded cost exposure is its commitments to QFs.

Florida Power has taken a proactive approach to this industry issue. Since 1996, Florida Power has been seeking ways to address the impact of escalating payments from contracts it was obligated to sign under provisions of PURPA.

These efforts have resulted in Florida Power successfully mitigating, through buy-outs and buy-downs of these contracts, more than 20 percent of its purchased power commitments to QFs. (See Tiger Bay Buy-Out and Fuel, Coal and Purchased Power Commitments on page 41.)

QUARTERLY FINANCIAL DATA *(Unaudited)*

(In millions, except per share amounts)	Three Months Ended March 31	June 30	September 30	December 31
1999				
OPERATING RESULTS				
Revenues	**$820.4**	**$976.3**	**$1,107.3**	**$941.1**
Income from operations	**129.8**	**154.4**	**228.1**	**62.6**
Net income	**67.6**	**76.6**	**137.3**	**33.4**
DATA PER SHARE				
Earnings per common share (basic and diluted)	**.69**	**.78**	**1.40**	**.34**
Dividends per common share	**.545**	**.545**	**.545**	**.545**
Common stock price per share:				
High	**44¾**	**43¼**	**48**	**46 15/16**
Low	**36⅞**	**35⅞**	**39 9/16**	**41 3/16**
1998				
OPERATING RESULTS				
Revenues	$787.5	$903.1	$1,031.5	$898.2
Income from operations	118.2	167.7	228.1	86.3
Net income	50.5	77.8	117.3	36.1
DATA PER SHARE				
Earnings per common share (basic and diluted)	.52	.80	1.21	.37
Dividends per common share	.535	.535	.535	.535
Common stock price per share:				
High	42¼	42⅞	43 15/16	47⅛
Low	37 11/16	39	38 1/16	41

The business of Florida Power is seasonal in nature, and comparisons of earnings for the quarters do not give a true indication of overall trends and changes in the Company's operations. In the fourth quarter of 1999 and 1998, the FPSC approved the establishment of a regulatory liability for the purpose of deferring nonfuel revenues. The 1999 and 1998 deferrals were $44.4 million and $10.1 million, respectively. In the second quarter of 1999, Florida Power recognized the 1998 $10 million deferral in electric utility revenues and applied it to the amortization of the Tiger Bay regulatory asset, which resulted in no impact to 1999 earnings.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statements of Income

Florida Progress Corporation

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

(Dollars in millions, except per share amounts)

	1999	1998	1997
REVENUES:			
Electric utility	**$2,632.6**	$2,648.2	$2,448.4
Diversified	**1,212.5**	972.1	868.0
	3,845.1	3,620.3	3,316.4
EXPENSES:			
Electric utility:			
Fuel	**596.0**	595.7	458.1
Purchased power	**414.1**	433.8	490.6
Energy conservation costs	**81.2**	79.6	67.0
Operation and maintenance	**466.4**	471.6	422.3
Extended nuclear outage — O&M and replacement power costs	**–**	5.1	173.3
Depreciation and amortization	**347.5**	347.1	325.9
Taxes other than income taxes	**203.1**	203.6	193.6
	2,108.3	2,136.5	2,130.8
Diversified:			
Cost of sales	**1,072.3**	827.2	753.9
Loss related to life insurance subsidiary	**11.8**	–	97.6
Other	**77.8**	56.3	60.4
	1,161.9	883.5	911.9
INCOME FROM OPERATIONS	**574.9**	600.3	273.7
INTEREST EXPENSE AND OTHER:			
Interest expense	**173.6**	187.1	158.7
Allowance for funds used during construction	**(7.2)**	(16.9)	(9.7)
Distributions on company obligated mandatorily redeemable preferred securities	**15.2**	–	–
Other expense (income), net	**(13.3)**	(.2)	4.0
	168.3	170.0	153.0
INCOME FROM OPERATIONS BEFORE INCOME TAXES	**406.6**	430.3	120.7
Income taxes	**91.7**	148.6	66.4
NET INCOME	**$ 314.9**	$ 281.7	$ 54.3
AVERAGE SHARES OF COMMON STOCK OUTSTANDING	**98.1**	97.1	97.1
EARNINGS PER AVERAGE COMMON SHARE (BASIC AND DILUTED):	**$ 3.21**	$ 2.90	$ .56

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

Consolidated Balance Sheets

DECEMBER 31, 1999 AND 1998 *(Dollars in millions)*

	1999	1998
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric utility plant in service and held for future use	**$6,784.8**	$6,307.8
Less: Accumulated depreciation	**2,923.8**	2,716.0
Accumulated decommissioning for nuclear plant	**285.0**	254.8
Accumulated dismantlement for fossil plants	**132.5**	130.7
	3,443.5	3,206.3
Construction work in progress	**139.7**	378.3
Nuclear fuel, net of amortization of $401.0 in 1999 and $377.2 in 1998	**68.7**	45.9
Net electric utility plant	**3,651.9**	3,630.5
Other property, at cost, net of depreciation of $275.0 in 1999 and $234.6 in 1998	**703.4**	560.1
	4,355.3	4,190.6
CURRENT ASSETS:		
Cash and equivalents	**9.6**	2.5
Accounts receivable, less allowance for doubtful accounts of $5.8 in 1999 and $5.0 in 1998	**420.6**	413.4
Inventories, primarily at average cost:		
Fuel	**109.8**	69.8
Utility materials and supplies	**90.8**	83.3
Diversified operations	**175.9**	137.0
Deferred income taxes	**41.3**	55.9
Prepayments and other	**113.7**	92.2
	961.7	854.1
DEFERRED CHARGES AND OTHER ASSETS:		
Costs deferred pursuant to regulation:		
Deferred purchased power contract termination costs	**297.8**	321.0
Other	**94.0**	113.6
Investments in nuclear plant decommissioning fund	**377.2**	332.1
Goodwill	**171.1**	139.8
Joint ventures and partnerships	**66.2**	71.5
Other	**204.9**	138.1
	1,211.2	1,116.1
	$6,528.2	$6,160.8

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

(Dollars in millions)

CAPITAL AND LIABILITIES	**1999**	1998
COMMON STOCK EQUITY:		
Common stock without par value, 250,000,000 shares authorized, 98,454,089 shares outstanding in 1999 and 97,336,826 in 1998	**$1,267.3**	$1,221.1
Retained earnings	**741.8**	640.9
Other comprehensive income	**(.4)**	–
	2,008.7	1,862.0
PREFERRED SECURITIES:		
Cumulative preferred stock of Florida Power without sinking funds	**33.5**	33.5
Florida Progress-obligated mandatorily redeemable preferred securities of FPC Capital I holding solely Florida Progress guaranteed notes	**300.0**	–
LONG-TERM DEBT	**2,154.1**	2,250.4
TOTAL CAPITAL	**4,496.3**	4,145.9
CURRENT LIABILITIES:		
Accounts payable	**309.0**	279.1
Customers' deposits	**105.6**	104.1
Taxes payable	**10.3**	10.1
Accrued interest	**77.4**	70.4
Overrecovered utility fuel costs	**31.6**	22.2
Other	**112.4**	104.6
	646.3	590.5
Notes payable	**153.1**	236.2
Current portion of long-term debt	**163.2**	145.9
	962.6	972.6
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	**565.3**	595.4
Unamortized investment tax credits	**70.0**	77.8
Other postretirement benefit costs	**123.1**	116.1
Other	**310.9**	253.0
	1,069.3	1,042.3
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
	$6,528.2	$6,160.8

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

Consolidated Statements of Cash Flow

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

(Dollars in millions)

	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	**$314.9**	$281.7	$ 54.3
Adjustments for noncash items:			
Depreciation and amortization	**446.2**	424.6	364.2
Extended nuclear outage — replacement power cost	**–**	–	73.3
Provision for loss on investment in life insurance subsidiary	**11.8**	–	86.9
Deferred income taxes and investment tax credits, net	**(38.4)**	44.8	(30.7)
Accrued postretirement benefit costs	**7.0**	8.7	8.6
Changes in working capital, net of effects from sale or acquisition of businesses:			
Accounts receivable	**(16.9)**	(2.5)	(108.3)
Inventories	**(82.8)**	51.1	2.2
Overrecovered/underrecovered utility fuel costs	**9.4**	51.7	(33.1)
Accounts payable	**18.3**	17.8	58.3
Taxes payable	**16.0**	(8.2)	(47.1)
Prepayments and other	**(22.4)**	3.1	1.2
Other operating activities	**24.0**	5.1	12.8
	687.1	877.9	442.6
INVESTING ACTIVITIES:			
Property additions (including allowance for borrowed funds used during construction)	**(574.0)**	(543.3)	(513.6)
Acquisition of businesses	**(55.9)**	(206.6)	(32.7)
Cogeneration facility acquisition and contract termination costs	**–**	–	(445.0)
Proceeds from sale of properties and businesses	**29.1**	40.6	24.3
Proceeds from sale and leaseback	**47.0**	153.0	–
Other investing activities	**(58.5)**	(129.3)	(63.7)
	(612.3)	(685.6)	(1,030.7)
FINANCING ACTIVITIES:			
Issuance of long-term debt	**50.0**	259.1	482.8
Repayment of long-term debt	**(144.4)**	(275.1)	(34.9)
Increase (decrease) in commercial paper with long-term support	**(16.5)**	–	130.6
Issuance of company obligated mandatorily redeemable preferred securities	**300.0**	–	–
Sale of common stock	**43.2**	12.7	–
Dividends paid on common stock	**(214.0)**	(207.8)	(203.8)
Increase (decrease) in short-term debt	**(83.1)**	21.4	210.8
Other financing activities	**(2.9)**	(3.2)	.5
	(67.7)	(192.9)	586.0
Net increase (decrease) in cash and equivalents	**7.1**	(.6)	(2.1)
Beginning cash and equivalents	**2.5**	3.1	5.2
Ending cash and equivalents	**$ 9.6**	$ 2.5	$ 3.1
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	**$159.7**	$159.7	$ 142.7
Income taxes (net of refunds)	**$152.0**	$110.4	$ 141.7

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

Consolidated Statements of Common Equity and Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997 *(Dollars in millions, except per share amounts)*

	Total	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income
Balance, December 31, 1996	$ 1,924.2	$ 1,208.3	$ 716.5	$(.6)
Net income	54.3		54.3	
Reversal of unrealized loss on marketable securities due to deconsolidation	.6			.6
Comprehensive income	54.9	–	54.3	.6
Common stock issued — 55,772 shares	.7	.7		
Cash dividends on common stock ($2.10 per share)	(203.8)		(203.8)	
Balance, December 31, 1997	1,776.0	1,209.0	567.0	–
Net income	281.7		281.7	
Common stock issued — 273,872 shares	12.1	12.1		
Cash dividends on common stock ($2.14 per share)	(207.8)		(207.8)	
Balance, December 31, 1998	1,862.0	1,221.1	640.9	–
Net income	**314.9**		**314.9**	
Foreign currency translation adjustment	**(.4)**			**(.4)**
Comprehensive income	**314.5**	**–**	**314.9**	**(.4)**
Common stock issued — 1,117,263 shares	**46.2**	**46.2**		
Cash dividends on common stock ($2.18 per share)	**(214.0)**		**(214.0)**	
Balance, December 31, 1999	**$2,008.7**	**$1,267.3**	**$741.8**	**$(.4)**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General — Florida Progress Corporation (the Company) is an exempt holding company under the Public Utility Holding Company Act of 1935. Its two primary subsidiaries are Florida Power Corporation (Florida Power) and Electric Fuels Corporation (Electric Fuels).

Due to the geographical locations of Electric Fuels' Rail Services, Inland Marine Transportation, and non-Florida Power portion of its Energy & Related Services operations, it is necessary to report their results one month in arrears.

The consolidated financial statements include the financial results of the Company and its majority-owned operations. All significant intercompany balances and transactions have been eliminated. Investments in 20% to 50%-owned joint ventures are accounted for using the equity method.

Effective December 31, 1997, the Company deconsolidated the financial statements of Mid-Continent, and the investment in Mid-Continent is accounted for under the cost method.

Certain reclassifications have been made to prior-year amounts to conform to the current year's presentation.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This could affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. These estimates involve judgments with respect to various items including future economic factors that are difficult to predict and are beyond the control of the Company. Therefore actual results could differ from these estimates.

Regulation — Florida Power is regulated by the Florida Public Service Commission (FPSC) and the Federal Energy Regulatory Commission (FERC). The utility follows the accounting practices set forth in Financial Accounting Standard (FAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." This standard allows utilities to capitalize or defer certain costs or reduce revenues based on regulatory approval and management's ongoing assessment that it is probable these items will be recovered or refunded through the ratemaking process.

PROPERTY, PLANT AND EQUIPMENT

Electric Utility Plant — Utility plant is stated at the original cost of construction, which includes payroll and related costs such as taxes, pensions and other fringe benefits, general and administrative costs, and an allowance for funds used during construction. Substantially all of the utility plant is pledged as collateral for Florida Power's first mortgage bonds.

The allowance for funds used during construction represents the estimated cost of equity and debt for utility plant under construction. Florida Power is permitted to earn a return on these costs and recover them in the rates charged for utility services while the plant is in service. The average rate used in computing the allowance for funds was 7.8% for 1999, 1998 and 1997.

The cost of nuclear fuel is amortized to expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core.

Florida Power's annual provision for depreciation, including a provision for nuclear plant decommissioning costs and fossil plant dismantlement costs, expressed as a percentage of the average balances of depreciable utility plant, was 4.6% for 1999, 4.7% for 1998 and 4.8% for 1997.

The fossil plant dismantlement accrual has been suspended for a period of four years, effective July 1, 1997. (See Extended Nuclear Outage on page 41.)

Florida Power charges maintenance expense with the cost of repairs and minor renewals of property. The plant accounts are charged with the cost of renewals and replacements of property units. Accumulated depreciation is charged with the cost, less the net salvage, of property units retired.

In compliance with a regulatory order, Florida Power accrues a reserve for maintenance and refueling expenses anticipated to be incurred during scheduled nuclear plant outages.

Other Property — Other property consists primarily of railcar and recycling equipment, barges, towboats, land, mineral rights and telecommunications equipment.

Depreciation on other property is calculated principally on the straight-line method over the following estimated useful lives:

Railcar and recycling equipment	3 to 20 years
Barges and towboats	30 to 35 years
Telecommunications equipment	5 to 20 years

Electric Fuels owns, in fee, properties that contain estimated proven and probable coal reserves of approximately 185 million tons and controls, through mineral leases, additional estimated proven and probable coal reserves of approximately 30 million tons. Electric Fuels' reserves were evaluated and summarized by an independent consultant. Depletion is provided on the units-of-production method based upon the estimates of recoverable tons of clean coal.

Utility Revenues, Fuel and Purchased Power Expenses — Revenues include amounts resulting from fuel, purchased power and energy conservation cost recovery clauses, which generally are designed to permit full recovery of these costs. The adjustment factors are based on projected costs for a 12-month period. The cumulative difference between actual and billed costs is included on the balance sheet as a current regulatory asset or liability. Any difference is billed or refunded to customers during the subsequent period.

In December 1997, Florida Power ended a three-year test period for residential revenue decoupling, which was ordered by the FPSC and began in January 1995. Revenue decoupling eliminated the effect of abnormal weather from revenues and earnings. The regulatory asset at December 31, 1999, is currently being recovered from customers over a period ending in the year 2000, through the energy conservation cost recovery clause as directed by the FPSC decoupling order.

Florida Power accrues the nonfuel portion of base revenues for services rendered but unbilled.

Diversified Revenues — Revenues are recognized at the time products are shipped or as services are rendered. Leasing activities are accounted for in accordance with FAS No. 13, "Accounting for Leases."

Income Taxes — Deferred income taxes are provided on all significant temporary differences between the financial and tax basis of assets and liabilities using current tax rates.

Deferred investment tax credits, subject to regulatory accounting practices, are amortized to income over the lives of the related properties.

Accounting for Certain Investments — The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Dividend and interest income are recognized when earned.

Acquisitions — During 1999 and 1998, subsidiaries of Electric Fuels acquired 8 and 13 businesses, respectively, in separate transactions. The cash paid for the 1999 and 1998 acquisitions was $55.9 million and $206.6 million, respectively. The excess of the aggregate purchase price over the fair value of net assets acquired was approximately $24.0 million and $87.8 million in 1999 and 1998, respectively. The acquisitions were accounted for under the purchase method of accounting and, accordingly, the operating results of the acquired businesses have been included in the Company's consolidated financial statements since the date of acquisition. Each of the acquired companies conducted operations similar to those of the subsidiaries and has been integrated into Electric Fuels' operations. The pro forma results of consolidated operations for 1999 and 1998, assuming the 1999 acquisitions were made at the beginning of each year, would not differ significantly from the historical results.

Goodwill — Goodwill is being amortized on a straight-line basis over the expected periods to be benefited, generally 40 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Environmental — The Company accrues environmental remediation liabilities when the criteria of FAS No. 5, "Accounting for Contingencies," have been met. Environmental expenditures are expensed as incurred or capitalized depending on their future economic benefit. Expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed.

Liabilities for expenditures of a noncapital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated.

Loss Contingencies — Liabilities for loss contingencies arising from litigation are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. The amount of the liability recorded includes an estimate of outside legal fees directly associated with the loss contingency.

New Accounting Standards — In June 1999, the FASB issued FAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FAS No. 133," which deferred, for one year, the effective date for the implementation of FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." FAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities and requires that an entity recognize all derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair values. Florida Progress will be required to adopt this standard for financial statements issued beginning the first quarter of fiscal year 2001. Florida Progress is currently evaluating the effect the standard will have on its financial statements.

NOTE 2: PROPOSED SHARE EXCHANGE

On August 22, 1999, the Company entered into an Agreement and Plan of Exchange (the Agreement) with Carolina Power & Light Company (CP&L), and CP&L Holdings, Inc. (now CP&L Energy, Inc. (CP&L Energy)), a wholly owned subsidiary of CP&L. CP&L is in the process of restructuring whereby CP&L Energy will become the holding company of CP&L. All of the outstanding shares of Florida Progress would be acquired by CP&L Energy in a statutory share exchange. For each share of Florida Progress common stock, the Florida Progress shareholder will elect to receive either $54.00 in cash or shares of CP&L Energy common stock, subject to adjustment. The number of CP&L Energy shares to be exchanged for each Florida Progress share will be between 1.1897 and 1.4543, based on the value of CP&L Energy shares during a 20-day consecutive time period ending with the fifth trading day immediately preceding the share exchange. The total of Florida Progress shareholder elections are subject to the limitation that no more than 65 percent of the shares of Florida Progress stock will be exchanged for cash, and no more than 35 percent of the shares of Florida Progress stock will be exchanged for shares of CP&L Energy stock. The agreement was amended on March 3, 2000 to provide that Florida Progress shareholders would receive one contingent value obligation for each share of Florida Progress common stock they own. Each contingent value obligation will represent the right to receive contingent payments based upon the net after-tax cash flow to CP&L Energy generated by four synthetic fuel plants purchased by subsidiaries of Florida Progress in October 1999.

The transaction has been approved by the Boards of Directors of Florida Progress, CP&L Energy, and CP&L. The transaction is expected to close in the fall of 2000, shortly after all the conditions to the Agreement, including the approval of the shareholders of Florida Progress and CP&L, and the approval or regulatory review by certain state and federal government agencies are met. While there are no formal FPSC approvals for this transaction, Florida Progress will continue to work with the state regulators regarding the ongoing jurisdiction over Florida Power. Upon completion of the share exchange, CP&L Energy will be subject to regulation as a holding company registered under the Public Utility Holding Company Act of 1935.

The Boards of Directors of Florida Progress, CP&L Energy, and CP&L may terminate the Agreement under certain circumstances, including if the share exchange were not completed on or before December 31, 2000, or by June 30, 2001, if the necessary governmental approvals were not obtained by December 31, 2000, but all other conditions have been or could be satisfied by that time. In the event that Florida Progress or CP&L Energy terminate the Agreement in certain other limited circumstances, Florida Progress would be required to pay a $150 million termination fee, plus up to $25 million in fees and expenses.

In addition, Florida Progress' obligation to complete the share exchange is conditioned upon the average closing price of CP&L Energy common stock for the 20-day trading period ending five trading days before the share exchange, not being less than $30. If the average CP&L Energy stock price is less than $30, Florida Progress is not obligated to complete the share exchange.

Both CP&L Energy and Florida Progress have agreed to certain undertakings and limitations regarding the conduct of their respective businesses prior to the closing of the transaction.

NOTE 3: FINANCIAL INSTRUMENTS

Estimated fair value amounts have been determined by the Company using available market information. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates may be different than the amounts that the Company could realize in a current market exchange.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's marketable securities, long-term debt obligations and Company-obligated mandatorily redeemable preferred securities.

The Company held only securities classified as available for sale at both December 31, 1999 and 1998. At December 31, 1999 and 1998, the Company had the following financial instruments with estimated fair values and carrying amounts:

	1999		1998	
(In millions)	**CARRYING AMOUNT**	**FAIR VALUE**	CARRYING AMOUNT	FAIR VALUE
ASSETS:				
Investments in company-owned life insurance	**$ 89.8**	**$ 89.8**	$ 80.4	$ 80.4
Nuclear decommissioning fund	**377.2**	**377.2**	332.1	332.1
CAPITAL AND LIABILITIES:				
Company-obligated mandatorily redeemable preferred securities	**$ 300.0**	**$249.8**	$ –	$ –
Long-term debt:				
Florida Power Corporation	**1,555.6**	**1,512.3**	1,646.7	1,740.4
Progress Capital Holdings	**761.7**	**753.6**	749.6	763.9

The change in the cash surrender value of the company's investment in company-owned life insurance is reflected in other expense (income) in the accompanying consolidated statements of income.

The nuclear decommissioning fund consists primarily of equity securities and municipal, government, corporate, and mortgage-backed debt securities. The debt securities have a weighted average maturity of approximately 10 years. The fund had gross unrealized gains at December 31, 1999 and 1998 of $117.3 million and $97.1 million, respectively. Gross unrealized losses for the same periods were not significant. The proceeds from the sale of securities were $722.2 million, $231.7 million, and $496.2 million for the years ended December 31, 1999, 1998, and 1997, respectively. The cost of securities sold was based on specific identification and resulted in gross realized gains of $7.6 million, $1.5 million, and $1.9 million for the years ended December 31, 1999, 1998, and 1997, respectively. All realized and unrealized gains and losses are reflected as an adjustment to the accumulated provision for nuclear decommissioning.

NOTE 4: INCOME TAXES

(In millions)	**1999**	1998	1997
Components of income tax expense:			
Payable currently:			
Federal	**$109.6**	$ 85.8	$86.6
State	**20.5**	15.3	10.5
	130.1	101.1	97.1
Deferred, net:			
Federal	**(28.0)**	47.2	(22.4)
State	**(2.6)**	8.2	(.5)
	(30.6)	55.4	(22.9)
Amortization of investment tax credits, net	**(7.8)**	(7.9)	(7.8)
	$ 91.7	$148.6	$66.4

The primary differences between the statutory rates and the effective income tax rates are detailed below:

	1999	1998	1997
Federal statutory income tax rate	**35.0%**	35.0%	35.0%
State income tax, net of federal income tax benefits	**2.9**	3.5	5.4
Amortization of investment tax credits	**(1.9)**	(1.8)	(6.4)
Synthetic fuel income tax credits	**(9.5)**	(.6)	–
Other income tax credits	**(1.5)**	(1.3)	(2.7)
Provision for loss (benefit) on investment in life insurance subsidiary	**(2.7)**	–	24.9
Other	**.3**	(.3)	(1.8)
Effective income tax rates	**22.6%**	34.5%	54.4%

The following summarizes the components of deferred tax liabilities and assets at December 31, 1999 and 1998:

(In millions)	**1999**	1998
Deferred tax liabilities:		
Difference in tax basis of property, plant and equipment	**$604.9**	$621.2
Investment in partnerships	**25.5**	19.2
Deferred book expenses	**25.0**	23.4
Other	**21.2**	38.1
Total deferred tax liabilities	**$676.6**	$701.9
Deferred tax assets:		
Accrued book expenses	**105.9**	108.7
Unbilled revenues	**17.7**	17.6
Other	**29.0**	36.1
Total deferred tax assets	**$152.6**	$162.4

At December 31, 1999 and 1998, Florida Progress had net noncurrent deferred tax liabilities of $565.3 million and $595.4 million and net current deferred tax assets of $41.3 million and $55.9 million, respectively. The Company believes it is more likely than not that the results of future operations will generate sufficient taxable income to allow for the utilization of deferred tax assets.

NOTE 5: NUCLEAR OPERATIONS

Florida Power incurred $100 million in additional operation and maintenance expenses in 1997 as a result of Florida Power's Crystal River nuclear plant (CR3) experiencing an extended outage beginning in September 1996. In January 1998, the NRC granted Florida Power permission to restart the plant. On February 15, 1998, the plant returned to service. With the exception of a planned refueling outage in October 1999, CR3 has produced more than 100% of its rated capacity since its restart in February 1998. (See Note 12 on page 41.)

Jointly Owned Plant — In September 1999, Florida Power purchased the City of Tallahassee's 1.33% interest in the Crystal River nuclear plant, which was approved by regulatory authorities. The following information relates to Florida Power's 91.78% proportionate share of the nuclear plant at December 31, 1999, and 90.45% proportionate share at December 31, 1998:

(In millions)	**1999**	1998
Utility plant in service	**$773.6**	$708.9
Construction work in progress	**18.6**	44.2
Unamortized nuclear fuel	**68.7**	45.9
Accumulated depreciation	**400.6**	368.7
Accumulated decommissioning	**285.0**	254.8

Net capital additions for Florida Power were $39.2 million in 1999 and $30.0 million in 1998. Depreciation expense, exclusive of nuclear decommissioning, was $34.3 million in 1999 and $32.8 million in 1998. Each co-owner provides for its own financing of its investment. Florida Power's share of the asset balances and operating costs is included in the appropriate consolidated financial statements. Amounts exclude any allocation of costs related to common facilities.

Decommissioning Costs — Florida Power's nuclear plant depreciation expenses include a provision for future decommissioning costs, which are recoverable through rates charged to customers. Florida Power is placing amounts collected in an externally managed trust fund. The recovery from customers, plus income earned on the trust fund, is intended to be sufficient to cover Florida Power's share of the future dismantlement, removal and land restoration costs. Florida Power has a license to operate the nuclear unit through December 3, 2016, and contemplates decommissioning beginning at that time.

In November 1995, the FPSC approved the current site-specific study that estimates total future decommissioning costs at approximately $2 billion, which corresponds to $481.2 million in 1999 dollars. Florida Power's share of the total annual decommissioning expense is $21.7 million.

Florida Power is required to file a new site-specific study with the FPSC at least every five years, which will incorporate current cost factors, technology and radiological criteria. In November 1999, the FPSC approved Florida Power's request to defer the filing of its nuclear decommissioning cost study for one year, until December 2000.

Fuel Disposal Costs — Florida Power has entered into a contract with the U.S. Department of Energy (DOE) for the transportation and disposal of spent nuclear fuel. Disposal costs for nuclear fuel consumed are being collected from customers through the fuel adjustment clause at a rate of $.001 per net nuclear kilowatt-hour sold and are paid to the DOE quarterly. Florida Power currently is storing spent nuclear fuel on-site and has sufficient storage capacity in place for fuel consumed through the year 2011.

NOTE 6: PREFERRED AND PREFERENCE STOCK AND SHAREHOLDER RIGHTS

The authorized capital stock of the Company includes 10 million shares of preferred stock, without par value, including 2 million shares designated as Series A Junior Participating Preferred Stock. No shares of the Company's preferred stock are issued and outstanding. However, under the Company's Shareholder Rights Agreement, each share of common stock has associated with it approximately two-thirds of one right to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, subject to adjustment, which is exercisable in the event of certain attempted business combinations. If exercised, the rights would cause substantial dilution of ownership, thus adversely affecting any attempt to acquire the Company on terms not approved by the Company's Board of Directors. The rights have no voting or dividend rights and expire in December 2001, unless redeemed earlier by the Company or terminated pursuant to the CP&L share exchange. In connection with the CP&L share exchange, the Company executed an amendment to the Shareholder Rights Agreement which provides that the Rights will expire immediately prior to the effective time of the exchange, and the exchange will not cause a triggering event or the issuance of any preferred stock.

The authorized capital stock of Florida Power includes three classes of preferred stock: 4 million shares of Cumulative Preferred Stock, $100 par value; 5 million shares of Cumulative Preferred Stock, without par value; and 1 million shares of Preference Stock, $100 par value. No shares of Florida Power's Cumulative Preferred Stock, without par value, or Preference Stock are issued and outstanding.

Cumulative Preferred Stock, $100 par value, for Florida Power is detailed below:

Dividend Rate	Current Redemption Price	Shares Issued and Outstanding	Outstanding at December 31, 1999 & 1998
			(In millions)
4.00%	$104.25	39,980	**$ 4.0**
4.40%	$102.00	75,000	**7.5**
4.58%	$101.00	99,990	**10.0**
4.60%	$103.25	39,997	**4.0**
4.75%	$102.00	80,000	**8.0**
		334,967	**$33.5**

All Cumulative Preferred Stock series are without sinking funds and are not subject to mandatory redemption.

NOTE 7: FLORIDA PROGRESS-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF FPC CAPITAL I HOLDING SOLELY FLORIDA PROGRESS GUARANTEED NOTES

In April 1999, FPC Capital I (the Trust), an indirect wholly owned subsidiary of the Company, issued 12 million shares of $25 par cumulative Company-obligated mandatorily redeemable preferred securities ("Preferred Securities") due 2039, with an aggregate liquidation value of $300 million and a quarterly distribution rate of 7.10%. Currently, all 12 million shares of the Preferred Securities that were issued are outstanding. Concurrent with the issuance of the Preferred Securities, the Trust issued to Florida Progress Funding Corporation (Funding Corp.) all of the common securities of the Trust (371,135 shares), for $9.3 million. Funding Corp. is a direct wholly owned subsidiary of the Company.

The existence of the Trust is for the sole purpose of issuing the Preferred Securities and the common securities and using the proceeds thereof to purchase from Funding Corp. its 7.10% Junior Subordinated Deferrable Interest Notes ("subordinated notes") due 2039, for a principal amount of $309.3 million. The subordinated notes are the sole asset of the Trust. Funding Corp.'s proceeds from the sale of the subordinated notes were advanced to Progress Capital Holdings and used for general corporate purposes including the repayment of a portion of certain outstanding short-term bank loans and commercial paper.

The Company has fully and unconditionally guaranteed the obligations of Funding Corp. under the subordinated notes (the Notes Guarantee). In addition, the Company has guaranteed the payment of all distributions required to be made by the Trust, but only to the extent that the Trust has funds available for such distributions (Preferred Securities Guarantee). The Preferred Securities Guarantee, considered together with the Notes Guarantee, constitutes a full and unconditional guarantee by the Company of the Trust's obligations under the Preferred Securities.

The subordinated notes may be redeemed at the option of Funding Corp. beginning in 2004 at par value plus accrued interest through the redemption date. The proceeds of any redemption of the subordinated notes will be used by the Trust to redeem proportional amounts of the Preferred Securities and common securities in accordance with their terms. Upon liquidation or dissolution of Funding Corp., holders of the Preferred Securities would be entitled to the liquidation preference of $25 per share plus all accrued and unpaid dividends thereon to the date of payment.

NOTE 8: DEBT

The Company's long-term debt at December 31, 1999 and 1998 is detailed below:

	Interest Rate (a)	**1999**	1998
		(In millions)	
FLORIDA POWER CORPORATION:			
First mortgage bonds, maturing 2003-2023	6.94%	**$ 510.0**	$ 585.0
Pollution control revenue bonds, maturing 2014-2027	6.59%	**240.9**	240.9
Medium-term notes, maturing 2000-2028	6.64%	**607.9**	624.5
Commercial paper, supported by revolver maturing November 30, 2003	5.93%	**200.0**	200.0
Discount being amortized over term of bonds		**(3.2)**	(3.7)
		1,555.6	1,646.7
PROGRESS CAPITAL HOLDINGS:			
Medium-term notes, maturing 2000-2008	6.63%	**444.0**	444.0
Commercial paper, supported by revolver maturing November 30, 2003	6.09%	**283.5**	300.0
Other debt, maturing 2000-2006	6.88%	**34.2**	5.6
		2,317.3	2,396.3
Less: Current portion of long-term debt		**163.2**	145.9
		$2,154.1	$2,250.4

(a) Weighted average interest rate at December 31, 1999.

The Company's consolidated subsidiaries have lines of credit totaling $800 million, which are used to support the issuance of commercial paper. The lines of credit were not drawn on as of December 31, 1999. Interest rate options under the lines of credit arrangements vary from subprime or money market rates to the prime rate. Banks providing lines of credit are compensated through fees. Commitment fees on lines of credit vary between .08 and .12 of 1%.

The lines of credit consist of four revolving bank credit facilities, two each for Florida Power and Progress Capital Holdings, Inc. (Progress Capital). The Florida Power facilities consist of $200 million with a 364-day term and $200 million with a remaining four-year term. The Progress Capital facilities consist of $100 million with a 364-day term and $300 million with a remaining four-year term. In 1999, both 364-day facilities were extended to November 2000. Based on the duration of the underlying backup credit facilities, $483.5 million and $500 million of outstanding commercial paper at December 31, 1999 and 1998, respectively, are classified as long-term debt. As of December 31, 1999, Florida Power and Progress Capital had an additional $153.1 million and $0 million, respectively, of outstanding commercial paper classified as short-term debt.

Progress Capital has uncommitted bank bid facilities authorizing it to borrow and re-borrow, and have outstanding at any time, up to $300 million. As of December 31, 1999 and 1998, $0 million and $150 million, respectively, was outstanding under these bid facilities.

Florida Power has a public medium-term note program providing for the issuance of either fixed or floating interest rate notes. These notes may have maturities ranging from nine months to 30 years. A balance of $250 million is available for issuance at December 31, 1999.

In March 1998, Florida Power redeemed all of its $150 million principal amount of first mortgage bonds, 8 5/8% series due November 2021 at a redemption price of 105.17% of the principal amount thereof. Substantially all of this redemption was funded from the net proceeds of $150 million of medium-term notes issued in February 1998, which bear an interest rate of 6 3/4% and mature in February 2028. Florida Power also redeemed, in November 1998, an additional $100 million of first mortgage bonds. The entire $50 million principal amount of the 7 3/8% series was redeemed at a price of 100.93%, and the entire $50 million principal amount of the 7 1/4% series was redeemed at a price of 100.86%. Both issues were due in 2002. The redemption was funded from internally generated funds and commercial paper.

Florida Power has registered $370 million of first mortgage bonds, which are unissued and available for issuance.

Progress Capital has a private medium-term note program providing for the issuance of either fixed or floating interest rate notes, with maturities ranging from nine months to 30 years. A balance of $135 million is available for issuance under this program.

The combined aggregate maturities of long-term debt for 2000 through 2004 are $163.2 million, $185.9 million, $85.3 million, $762.3 million and $71.3 million, respectively.

Florida Progress has unconditionally guaranteed the payment of Progress Capital's debt.

NOTE 9: STOCK-BASED COMPENSATION

The Company's Long-Term Incentive Plan (LTIP) authorizes the granting of up to 2,250,000 shares of common stock to certain executives in various forms, including stock options, stock appreciation rights, restricted stock and performance shares. A Company subsidiary also grants performance units under a separate LTIP. Currently, only performance shares, performance units, and restricted stock have been granted. Upon achievement of certain criteria for a three-year performance cycle, the performance shares or units earned can range from 0% to 300% of the performance shares or units granted plus dividend equivalents, and are payable in the form of shares of common stock of Florida Progress or cash. If certain stock ownership requirements have been met, certain executives are also eligible to receive an additional award of restricted stock, which will only be awarded if the performance shares or units earned are taken in company stock. Restricted stock fully vests 10 years from the date of award, or upon change of control, or retirement after reaching age 62. The Company accounts for its LTIPs in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed under FAS No. 123, "Accounting for Stock Based Compensation." Performance shares, performance units and restricted stock granted with the fair value at the grant date is detailed below:

Year	Performance Shares/Units Granted	Restricted Stock Granted	Fair Value
1999	124,890	74,192	$8,841,740
1998	139,860	–	$5,375,869
1997	144,126	–	$4,559,258

Compensation costs for performance shares, performance units and restricted stock have been recognized at the fair market value of the Company's stock and are recognized over the performance cycle. Compensation costs related to the LTIPs for 1999, 1998, and 1997, were $19 million, $9 million, and $4 million, respectively. If the accounting under FAS No. 123 had been utilized, there would not have been any difference in the results of operations or earnings per share.

NOTE 10: BENEFIT PLANS

Pension Benefits — The Company and some of its subsidiaries have two noncontributory defined benefit pension plans covering most employees. The Company also has two supplementary defined benefit pension plans that provide benefits to higher-level employees. Effective January 1, 1998, one pension plan was split into two separate plans, one covering eligible bargaining unit employees and the other covering all other eligible employees. Plan assets were allocated to each plan in accordance with applicable law.

Other Postretirement Benefits — The Company and some of its subsidiaries also provide certain health care and life insurance benefits for retired employees that reach retirement age while working for the Company.

Shown below are the components of the net pension expense and net postretirement benefit expense calculations for 1999, 1998 and 1997:

	Pension Benefits			Other Postretirement Benefits		
(In millions)	**1999**	1998	1997	**1999**	1998	1997
Service cost	**$ 22.0**	$ 22.3	$ 18.7	**$ 3.5**	$ 3.5	$ 3.2
Interest cost	**39.4**	37.7	34.9	**10.4**	10.5	10.4
Expected return on plan assets	**(78.4)**	(68.5)	(58.4)	**(.4)**	(.3)	(.4)
Net amortization and deferral	**(15.1)**	(12.5)	(6.5)	**3.0**	3.2	3.4
Net cost/(benefit) recognized	**$(32.1)**	$(21.0)	$(11.3)	**$16.5**	$16.9	$16.6

The following weighted average actuarial assumptions at December 31 were used in the calculation of the year-end funded status:

	Pension Benefits			Other Postretirement Benefits		
	1999	1998	1997	**1999**	1998	1997
Discount rate	**7.50%**	7.00%	7.25%	**7.50%**	7.00%	7.25%
Expected long-term rate of return	**9.00%**	9.00%	9.00%	**5.00%**	5.00%	5.00%
Rate of compensation increase:						
Bargaining unit employees	**3.50%**	3.50%	4.50%	**3.50%**	3.50%	4.50%
Nonbargaining unit employees	**4.50%**	4.50%	4.50%	**4.50%**	4.50%	4.50%
Nonqualified plans	**4.50%**	4.00%	4.00%	**N/A**	N/A	N/A

The following summarizes the change in the benefit obligation and plan assets for both the pension plan and postretirement benefit plan for 1999 and 1998:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	**1999**	1998	**1999**	1998
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 574.2**	$523.9	**$ 161.5**	$153.2
Service cost	**22.0**	22.3	**3.5**	3.5
Interest cost	**39.4**	37.7	**10.4**	10.5
Plan amendment	**9.5**	–	**(2.4)**	–
Actuarial (gain)/loss	**(34.9)**	16.1	**(10.3)**	1.2
Benefits paid	**(28.0)**	(25.8)	**(8.2)**	(6.9)
Benefit obligation at end of year	**582.2**	574.2	**154.5**	161.5
Change in plan assets				
Fair value of plan assets at beginning of year	**885.0**	769.0	**8.1**	6.4
Return on plan assets (net of expenses)	**179.9**	140.2	**(.2)**	.4
Employer contributions	**–**	–	**1.3**	1.3
Benefits paid	**(25.9)**	(24.2)	**–**	–
Fair value of plan assets at end of year	**1,039.0**	885.0	**9.2**	8.1
Funded status	**456.8**	310.8	**(145.3)**	(153.4)
Unrecognized transition (asset) obligation	**(15.5)**	(20.5)	**45.4**	51.4
Unrecognized prior service cost	**12.0**	13.3	**–**	–
Unrecognized net actuarial gain	**(399.2)**	(283.5)	**(23.2)**	(14.1)
Prepaid (accrued) benefit cost	**$ 54.1**	$20.1	**$(123.1)**	$(116.1)

Between 1996 and 1999, the Company set assets aside in a rabbi trust for the purpose of providing benefits to the participants in the supplementary defined benefit retirement plans and certain other plans for higher level employees. The assets of the rabbi trust are not reflected as plan assets because the assets could be subject to creditors' claims. The assets and liabilities of the supplementary defined benefit retirement plans are included in Other Assets and Other Liabilities on the accompanying Consolidated Balance Sheets.

The assumed pre-medicare and post medicare health care cost trend rates for 2000 are 7.67% and 6.42%, respectively. Both rates ultimately decrease to 5.25% in 2005 and thereafter. A one-percentage point increase or decrease in the assumed health care cost trend rate would change the total service and interest cost by approximately $1 million and the postretirement benefit obligation by approximately $12 million.

Due to different retail and wholesale regulatory rate requirements, Florida Power began making quarterly contributions for the postretirement benefit plan in 1995 to an irrevocable external trust fund for wholesale ratemaking, while continuing to accrue postretirement benefit costs to an unfunded reserve for retail ratemaking.

NOTE 11: BUSINESS SEGMENTS

The Company's principal business segment is Florida Power, an electric utility engaged in the generation, purchase, transmission, distribution and sale of electricity primarily in Florida. The other reportable business segments are Electric Fuels' Energy & Related Services, Rail Services and Inland Marine Transportation units. Energy & Related Services includes coal and synthetic fuel operations, natural gas production and sales, river terminal services and off-shore marine transportation. Rail Services' operations include railcar repair, rail parts reconditioning and sales, railcar leasing and sales, providing rail and track material, and scrap metal recycling. Inland Marine provides transportation of coal, agricultural and other dry-bulk commodities as well as fleet management services. The other category consists primarily of the Company's investment in FPC Capital Trust, which holds the Preferred Securities, Progress Telecommunications Corp., the Company's telecommunications subsidiary, and the parent holding company, Florida Progress Corporation, which allocates a portion of its operating expenses to business segments.

The Company's business segment information for 1999, 1998 and 1997 is summarized below. The Company's significant operations are geographically located in the United States with limited operations in Mexico and Canada. The Company's segments are based on differences in products and services, and therefore no additional disclosures are presented. Intersegment sales and transfers consist primarily of coal sales from Electric Fuels to Florida Power. The price Electric Fuels charges Florida Power is based on market rates for coal procurement and for water-borne transportation under a methodology approved by the FPSC. Rail transportation is also based on market rates plus a return allowed by the FPSC on equity utilized in transporting coal to Florida Power. The allowed rate of return is currently 12%. No single customer accounted for 10% or more of unaffiliated revenues.

(In millions)	Utility	Energy & Related Services	Rail Services	Inland Marine Transportation	Other	Eliminations	Consolidated
1999							
Revenues	$2,632.6	$180.3	$880.2	$141.0	$ 6.4	$ 4.6	$3,845.1
Intersegment revenues	–	262.9	1.5	14.5	(8.9)	(270.0)	–
Depreciation and amortization	385.0	21.1	27.5	5.5	7.1	–	446.2
Interest expense	124.0	6.9	32.3	.6	26.6	(16.8)	173.6
Income tax expense/(benefit)	151.3	(39.2)	16.6	6.8	(43.3)	(.5)	91.7
Segment net income (loss)	265.5	38.9	21.3	10.7	(20.7)	(.8)	314.9
Total assets	5,002.5	390.5	815.0	106.5	720.1	(506.4)	6,528.2
Property additions	362.5	39.5	61.8	61.4	48.8	–	574.0
1998							
Revenues	$2,648.2	$173.8	$658.5	$124.6	$ 10.9	$ 4.3	$3,620.3
Intersegment revenues	–	273.9	1.3	14.0	–	(289.2)	–
Depreciation and amortization	382.7	14.4	19.4	4.5	3.6	–	424.6
Interest expense	136.5	5.8	21.3	4.4	20.8	(1.7)	187.1
Income tax expense/(benefit)	141.0	6.3	12.3	6.3	(17.3)	–	148.6
Segment net income (loss)	248.6	20.4	15.9	10.3	(13.5)	–	281.7
Total assets	4,928.1	316.5	680.0	99.5	334.0	(197.3)	6,160.8
Property additions	326.0	32.0	91.0	93.6	.7	–	543.3
1997							
Revenues	$2,448.4	$165.6	$477.1	$105.5	$115.7	$ 4.1	$3,316.4
Intersegment revenues	–	286.0	1.3	14.2	–	(301.5)	–
Depreciation and amortization	333.8	11.7	11.2	4.3	3.2	–	364.2
Interest expense	117.3	6.5	13.9	2.5	19.1	(.6)	158.7
Income tax expense/(benefit)	69.9	8.4	9.8	3.3	(25.0)	–	66.4
Segment net income (loss)	134.4	16.8	13.3	5.9	(116.1)	–	54.3
Total assets	4,900.8	299.2	385.3	138.9	210.4	(174.6)	5,760.0
Property additions	395.0	16.8	41.6	59.0	1.2	–	513.6

NOTE 12: REGULATORY MATTERS

Rates — Florida Power's retail rates are set by the FPSC, while its wholesale rates are governed by the FERC. Florida Power's last general retail rate case was approved in 1992 and allowed a 12% regulatory return on equity with an allowed range between 11% and 13%.

Regulatory Assets and Liabilities — Florida Power has total regulatory assets (liabilities) at December 31, 1999 and 1998 as detailed below:

(In millions)	**1999**	1998
Deferred purchased power contract termination costs	**$297.8**	$321.0
Replacement fuel (extended nuclear outage)	**23.6**	39.3
Overrecovered utility fuel costs	**(31.6)**	(22.2)
Unamortized loss on reacquired debt	**23.3**	25.2
Other regulatory assets/(liabilities), net	**(14.4)**	7.8
Net regulatory assets	**$298.7**	$371.1

The utility expects to fully recover these assets and refund the liabilities through customer rates under current regulatory practice.

If Florida Power no longer applied FAS No. 71 due to competition, regulatory changes or other reasons, the utility would make certain adjustments. These adjustments could include the write-off of all or a portion of its regulatory assets and liabilities, the evaluation of utility plant, contracts and commitments and the recognition, if necessary, of any losses to reflect market conditions.

Tiger Bay Buy-Out — In 1997, Florida Power bought out the Tiger Bay purchased power contracts for $370 million and acquired the cogeneration facility for $75 million, for a total of $445 million. Of the $370 million of contract termination costs, $350 million was recorded as a regulatory asset and the remaining $20 million was written off. Florida Power recorded $75 million as electric plant.

The regulatory asset is being recovered pursuant to an agreement between Florida Power and several intervening parties, which was approved by the FPSC in June 1997. The amortization of the regulatory asset is calculated using revenues collected under the fuel adjustment clause as if the purchased power agreements related to the facility were still in effect, less the actual fuel costs and the related debt interest expense. This will continue until the regulatory asset is fully amortized. Florida Power has the option to accelerate the amortization. Approximately $23 million and $27.2 million of amortization expense was recorded in 1999 and 1998, respectively.

In November 1999, Florida Power received approval from the FPSC to defer nonfuel revenues towards the development of a plan that would allow customers to realize the benefits earlier than if they are used to accelerate the amortization of the Tiger Bay regulatory asset. The request would require a plan to be submitted to the FPSC by August 1, 2000. If the plan is not filed by August 1, 2000, or filed but not approved by the FPSC, Florida Power would apply the deferred revenues of $44.4 million, plus accrued interest, to accelerate the amortization of the Tiger Bay regulatory asset.

A similar plan was approved by the FPSC in December 1998. Florida Power was unable to identify any rate initiatives that might allow its ratepayers to receive these benefits sooner and, in June 1999, recognized $10.1 million of revenue and recorded $10.1 million, plus interest, of amortization against the Tiger Bay regulatory asset.

Extended Nuclear Outage — In June 1997, a settlement agreement between Florida Power and all parties who intervened in Florida Power's request to recover replacement fuel and purchased power costs resulting from the extended outage of its nuclear plant was approved by the FPSC. The plant was kept off-line in October 1996 to address certain design issues related to its safety systems. In late January 1998, Florida Power notified the NRC that it had completed all of the requirements and was subsequently granted permission to restart the plant. The plant returned to service in February 1998.

Florida Power incurred approximately $5 million in 1998 and $174 million in 1997 in total system replacement power costs. In accordance with the settlement agreement, Florida Power recorded a charge of approximately $5 million in 1998 and $73 million in 1997 for retail replacement power costs incurred that will not be recovered through its fuel cost recovery clause. Florida Power recovered approximately $38 million through its fuel cost recovery clause. Approximately $63 million of replacement power costs were recorded as a regulatory asset in 1997. The regulatory asset is being amortized for a period of up to four years. The amortization is being recovered by the suspension of fossil plant dismantlement accruals during the amortization period.

The parties to the settlement agreement agreed not to seek or support any increase or reduction in Florida Power's base rates or the authorized range of its return on equity during the four-year amortization period. The settlement agreement also provided that for purposes of monitoring Florida Power's future earnings, the FPSC will exclude the nuclear outage costs when assessing Florida Power's regulatory return on equity. The agreement resolved all present and future disputed issues between the parties regarding the extended outage of the nuclear plant.

NOTE 13: COMMITMENTS AND CONTINGENCIES

Fuel, Coal and Purchased Power Commitments — Florida Power has entered into various long-term contracts to provide the fossil and nuclear fuel requirements of its generating plants and to reserve pipeline capacity for natural gas. In most cases, such contracts contain provisions for price escalation, minimum purchase levels and other financial commitments. Estimated annual payments, based on current market prices, for Florida Power's firm commitments for fuel purchases and transportation costs, excluding delivered coal and purchased power, are $63 million, $70 million, $60 million, $63 million and $64 million for 2000 through 2004, respectively, and $605 million in total thereafter. Additional commitments will be required in the future to supply Florida Power's fuel needs.

Electric Fuels has two coal supply contracts with Florida Power, the provisions of which require Florida Power to buy and Electric Fuels to supply substantially all of the coal requirements of four of Florida Power's power plants, two through 2002 and two through 2004. In connection with these contracts, Electric Fuels has entered into several contracts with outside parties for the purchase of coal. The annual obligations for coal purchases and transportation under these contracts are $75.8 million, $52.5 million and $26.5 million for 2000 through 2002, respectively, with no further obligations thereafter. The total cost incurred for these commitments was $125.3 million in 1999, $117.7 million in 1998 and $156.8 million in 1997.

Florida Power has long-term contracts for about 460 megawatts of purchased power with other utilities, including a contract with The Southern Company for approximately 400 megawatts of purchased power annually through 2010. This represents less than 5% of Florida Power's total current system capacity. Florida Power has an option to lower these Southern purchases to approximately 200 megawatts annually with a three-year notice. The purchased power from Southern is supplied by generating units with a capacity of approximately 3,500 megawatts and is guaranteed by Southern's entire system, totaling more than 30,000 megawatts.

As of December 31, 1999, Florida Power has ongoing purchased power contracts with certain qualifying facilities for 871 megawatts of capacity with expiration dates ranging from 2002 to 2025. The purchased power contracts provide for capacity and energy payments. Energy payments are based on the actual power taken under these contracts. Capacity payments are subject to the qualifying facilities meeting certain contract performance obligations. In most cases, these contracts account for 100% of the generating capacity of each of the facilities. Of the 871 megawatts under contract, 831 megawatts currently are available to Florida Power. All commitments have been approved by the FPSC.

The FPSC allows the capacity payments to be recovered through a capacity cost recovery clause, which is similar to, and works in conjunction with, energy payments recovered through the fuel cost recovery clause.

Florida Power incurred purchased power capacity costs totaling $240.6 million in 1999, $260.1 million in 1998 and $292.3 million in 1997. The following table shows minimum expected future capacity payments for purchased power commitments. Because the purchased power commitments have relatively long durations, the total present value of these payments using a 10% discount rate also is presented.

	Purchased Power Capacity Payments		
(In millions)	Utilities	Cogenerators	Total
2000	$ 54	$ 224	$ 278
2001	53	230	283
2002	53	236	289
2003	29	244	273
2004	29	255	284
2005-2025	159	5,300	5,459
Total	$377	$6,489	$6,866
Total net present value			$2,556

Leases — Electric Fuels has several noncancelable operating leases, primarily for transportation equipment, with varying terms extending to 2015, and generally require Electric Fuels to pay all executory costs such as maintenance and insurance. Some rental payments include minimum rentals plus contingent rentals based on mileage. Contingent rentals were not significant. The minimum future lease payments under noncancelable operating leases, with initial terms in excess of one year, including the synthetic lease described below, are $65.8 million, $59.8 million, $50.8 million, $48.5 million and $46.1 million for 2000 through 2004, respectively, with a $528.4 million total obligation thereafter. The total costs incurred under these commitments were $51.1 million, $30.9 million and $34.8 million during 1999, 1998 and 1997, respectively.

On August 6, 1998, MEMCO Barge Line, Inc. (MEMCO), a wholly owned subsidiary of Electric Fuels, entered into a synthetic lease financing, accomplished via a sale and leaseback, for an aggregate of approximately $175 million in inland river barges and $25 million in towboats (vessels). MEMCO sold and leased back $153 million of vessels as of December 31, 1998, and the remaining $47 million of vessels in May 1999. The lease (charter) is an operating lease for financial reporting purposes and a secured financing for tax purposes.

The term of the noncancelable charter expires on December 30, 2012, and provides MEMCO one 18-month renewal option on the same terms and conditions. MEMCO is responsible for all executory costs, including insurance, maintenance and taxes, in addition to the charter payments. MEMCO has options to purchase the vessels throughout the term of the charter, as well as an option to purchase at the termination of the charter. Assuming MEMCO exercises no purchase options during the term of the charter, the purchase price for all vessels totals to $141.8 million at June 30, 2014. In the event that MEMCO does not exercise its purchase option for all vessels, it will be obligated to remarket the vessels and, at the expiration of the charter, pay a maximum residual guarantee amount of $89.3 million.

The minimum future charter payments as of December 31, 1999, are $15.3 million, $15.4 million, $15.4 million, $15.8 million and $15.8 million for 2000 through 2004 and $156.4 million thereafter (excluding the purchase option payment). All MEMCO payment obligations under the transaction documents are unconditionally guaranteed by Progress Capital; those obligations are guaranteed by Florida Progress.

Construction Program — Substantial commitments have been made in connection with the Company's construction program. For the year 2000, Florida Power has projected annual construction expenditures of $291 million, primarily for electric plant. In 2000, Electric Fuels capital expenditures are expected to be approximately $84 million, which represents additional investment in the Rail Services, Inland Marine and Energy & Related Services units. For the year 2000, Progress Telecom has projected annual capital expenditures of $35 million primarily for expansion of the current fiber optic network.

Insurance — Florida Progress and its subsidiaries utilize various risk management techniques to protect certain assets from risk of loss, including the purchase of insurance. Risk avoidance, risk transfer and self-insurance techniques are utilized depending on the Company's ability to assume risk, the relative cost and availability of methods for transferring risk to third parties, and the requirements of applicable regulatory bodies.

Florida Power self-insures its transmission and distribution lines against loss due to storm damage and other natural disasters. Pursuant to a regulatory order, Florida Power is accruing $6 million annually to a storm damage reserve and may defer any losses in excess of the reserve. The reserve balance at December 31, 1999 and 1998 was $25.6 million and $24.1 million, respectively.

Under the provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, Florida Power, as an owner of a nuclear plant, can be assessed for a portion of any third-party liability claims arising from an accident at any commercial nuclear power plant in the United States. If total third-party claims relating to a single nuclear incident exceed $200 million (the amount of currently available commercial liability insurance), Florida Power could be assessed up to $88.1 million per incident, with a maximum assessment of $10 million per year.

Florida Power also maintains nuclear property damage insurance and decontamination and decommissioning liability insurance. Effective October 1, 1999, the total limit purchased for this type of insurance was reduced from $2.1 billion to $1.6 billion. The reduction was based on a review of the potential property damage exposure, the legal minimum required to be carried, and the amount of insurance being purchased by other owners of single unit nuclear sites. The first $500 million layer of insurance is purchased in the commercial insurance market with the remaining excess coverage purchased from Nuclear Electric Insurance Ltd. (NEIL). Florida Power is self-insured for any losses that are in excess of this coverage. Under the terms of the NEIL policy, Florida Power could be assessed up to a maximum of $5.3 million in any policy year if losses in excess of NEIL's available surplus are incurred.

Florida Power has never been assessed under these nuclear indemnities or insurance policies.

Contaminated Site Cleanup — The Company is subject to regulation with respect to the environmental impact of its operations. The Company's disposal of hazardous waste through third-party vendors can result in costs to clean up facilities found to be contaminated. Federal and state statutes authorize governmental agencies to compel responsible parties to pay for cleanup of these hazardous waste sites.

Florida Power and former subsidiaries of the Company, whose properties were sold in prior years, have been identified by the U.S. Environmental Protection Agency (EPA) as Potentially Responsible Parties (PRPs) at certain sites. Liability for the cleanup of costs at these sites is joint and several.

One of the sites that Florida Power previously owned and operated is located in Sanford, Florida. There are five parties, including Florida Power, that have been identified as PRPs at the Sanford site. A Participation Agreement was signed among the PRPs of the Sanford site to allocate $1.5 million to perform a Remedial Investigation, Baseline Risk Assessment and Feasibility Study ("RI/FS"). Florida Power is liable for approximately 40% of the costs for the RI/FS as agreed to in this Participation Agreement. In July 1999, the initial draft of the RI/FS was submitted to EPA. Discussions with EPA regarding future remedial action should commence in the first quarter 2000.

The PRP group is expected to negotiate a second Participation Agreement that will define and allocate Remedial Design and Remedial Action costs among the participants for Phase I of three potential phases of cleanup. Cleanup will be addressed in phases for project management purposes. Florida Power's future cost share allocation is expected to be identified by the second quarter 2000. The discussions and resolution of liability for cleanup costs could cause Florida Power to increase the estimate of its liability for those costs. Although estimates of any additional costs are not currently available, the outcome is not expected to have a material effect on Florida Progress' consolidated financial position, results of operations or liquidity.

In December 1998, the EPA conducted an Expanded Site Inspection (ESI) at a former Florida Power plant site near Inglis, Florida. Soil and groundwater samples were obtained from the Florida Power property, as well as sediment samples from the adjacent Withlacoochee River. A final copy of the report, along with a Request for Information under CERCLA was received in December 1999. Upon review of the Company's reply, EPA's conclusions may change the current hazard ranking and ultimately result in the Inglis site being placed on the National Priorities List (NPL). If this property were placed on the NPL, then EPA might conduct remediation actions at the site and seek repayment of those costs as well as investigative costs from any PRPs. Past costs currently exceed $3.5 million with FPC identified as the only major viable business associated with this site.

In addition to these designated sites, there are other sites where Florida Progress may be responsible for additional environmental cleanup. Florida Progress estimates that its share of liability for cleaning up all designated sites ranges from $9.0 million to $13.0 million. It has accrued $9.0 million against these potential costs. There can be no assurance that the Company's estimates will not change in the future.

LEGAL MATTERS

Age Discrimination Suit — Florida Power and Florida Progress have been named defendants in an age discrimination lawsuit. The number of plaintiffs remains at 116, but four of those plaintiffs have had their federal claims dismissed and 74 others have had their state age claims dismissed. While no dollar amount was requested, each plaintiff seeks back pay, reinstatement or front pay through their projected dates of normal retirement, costs and attorneys' fees. In October 1996, the federal Court approved an agreement between the parties to provisionally certify this case as a class action suit under the Age Discrimination in Employment Act. Florida Power filed a motion to decertify the class and in August 1999, the Court granted Florida Power's motion. In October 1999, the judge certified the question of whether the case should be tried as a class action to the Eleventh Circuit Court of Appeals for immediate appellate review. In December 1999, the Court of

Appeals agreed to review the judge's order decertifying the class.

In December 1998, during mediation in this age discrimination suit, plaintiffs alleged damages of $100 million. Company management, while not believing plaintiffs' claim to have merit, offered $5 million in an attempted settlement of all claims. Plaintiffs rejected that offer. Florida Power and the plaintiffs engaged in informal settlement discussions, which were terminated on December 22, 1998. As a result of the plaintiffs' claims, management has identified a probable range of $5 million to $100 million with no amount within that range a better estimate of probable loss than any other amount; accordingly, Florida Power has accrued $5 million. In December 1999, Florida Power also recorded an accrual of $4.8 million for legal fees associated with defending its position in these proceedings. There can be no assurance that this litigation will be settled, or if settled, that the settlement will not exceed $5 million. Additionally, the ultimate outcome, if litigated, cannot presently be determined.

Advanced Separation Technologies (AST) — In 1996, Florida Progress sold its 80% interest in AST to Calgon Carbon Corporation (Calgon) for net proceeds of $56 million in cash. In January 1998, Calgon filed a lawsuit against Florida Progress and the other selling shareholder and amended it in April 1998, alleging misstatement of AST's 1996 revenues, assets and liabilities, seeking damages and granting Calgon the right to rescind the sale. The lawsuit also accused the sellers of failing to disclose flaws in AST's manufacturing process and a lack of quality control. Florida Progress believes that the aggregate total of all legitimate warranty claims by customers of Advanced Separation Technologies for which it is probable that Florida Progress will be responsible for under the Stock Purchase Agreement with Calgon is approximately $3.2 million, and accordingly, accrued $3.2 million in the third quarter of 1999 as an estimate of probable loss.

Qualifying Facilities Contracts — Florida Power's purchased power contracts with qualifying facilities employ separate pricing methodologies for capacity payments and energy payments. Florida Power has interpreted the pricing provision in these contracts to allow it to pay an as-available energy price rather than a higher firm energy price when the avoided unit upon which the applicable contract is based would not have been operated.

The owners of four qualifying facilities filed suits against Florida Power in state court over the contract payment terms, and one owner also filed suit in federal court. Two of the state court suits have been settled, and the federal case was dismissed, although the plaintiff has appealed. Of the two remaining state court suits, the trial regarding NCP Lake Power ("Lake") concluded in December 1998. In April 1999, the judge entered an order granting Lake's breach of contract claim and ruled that Lake is entitled to receive "firm" energy payments during on-peak hours, but for all other hours, Lake is entitled to the "as-available" rate. The Court also ruled that for purposes of calculating damages, the breach of contract occurred at the inception of the contract. In August 1999, a Final Judgment was entered for Lake for approximately $4.5 million and Lake filed a Notice of Appeal. In September 1999, Florida Power filed a notice of cross appeal. Also in this case, in April 1998, Florida Power filed a petition with the FPSC for a Declaratory Statement that the contract between the parties limits energy payments thereunder to the avoided costs based upon an analysis of a hypothetical unit having the characteristics specified in the contract. In October 1998, the FPSC denied the petition, but Florida Power appealed to the Florida Supreme Court.

In the other remaining suit regarding Dade County, in May 1999, the parties reached an agreement in principle to settle their dispute in its entirety, including all of the ongoing litigation, except the Florida Supreme Court appeal of an FPSC ruling that is similar to the appeal of the FPSC decision in the Lake case. The settlement agreement was approved by the Dade County Commission in December 1999, but is subject to approval by the FPSC.

Management does not expect that the results of these legal actions will have a material impact on Florida Power's financial position, operations or liquidity. Florida Power anticipates that all fuel and capacity expenses, including any settlement amounts incurred as a result of the matters discussed above, will be recovered from its customers.

Mid-Continent Life Insurance Company (Mid-Continent) — As discussed below, a series of events in 1997 significantly jeopardized the ability of Mid-Continent to implement a plan to eliminate a projected reserve deficiency, resulting in the impairment of Florida Progress' investment in Mid-Continent. Therefore, Florida Progress recorded a provision for loss on investment of $86.9 million in 1997. Florida Progress also recorded an accrual at December 31, 1997, for legal fees associated with defending its position in current Mid-Continent legal proceedings.

In the spring of 1997, the Oklahoma State Insurance Commissioner ("Commissioner") received court approval to seize control as receiver of the operations of Mid-Continent. The Commissioner had alleged that Mid-Continent's reserves were understated by more than $125 million, thus causing Mid-Continent to be statutorily impaired. The Commissioner further alleged that Mid-Continent had violated Oklahoma law relating to deceptive trade practices in connection with the sale of its "Extra Life" insurance policies and was not entitled to raise premiums, a key element of Mid-Continent's plan to address the projected reserve deficiency. While sustaining the receivership, the court also ruled that premiums could be raised. Although both sides appealed the decision to the Oklahoma Supreme Court, those appeals were withdrawn in early 1999.

In December 1997, the receiver filed a lawsuit against Florida Progress, certain of its directors and officers, and certain former Mid-Continent officers, making a number of allegations and seeking access to Florida Progress' assets to satisfy policyholder and creditor claims. In April 1998, the court granted motions to dismiss the individual defendants, leaving Florida Progress as the sole remaining defendant in the lawsuit.

A new Commissioner was elected in November 1998 and has stated his intention to work with Florida Progress and others to develop a plan to rehabilitate Mid-Continent rather than pursue litigation against Florida Progress. Based on data through December 31, 1998, Florida Progress' actuarial estimate of the additional assets necessary to fund the reserve, after applying Mid-Continent's statutory surplus is in the range of $100 million. The amount put forth by the actuary hired by the former Commissioner was in the range of $350 million. Florida Progress believes that any estimate of the projected reserve deficiency would affect only the assets of Mid-Continent, because Florida Progress has legal defenses to any claims asserted against it. Florida Progress is working with the new Commissioner to develop a viable plan to rehabilitate Mid-Continent, which would include the sale of that company. An order agreed upon by both sides soliciting proposals for a plan of rehabilitation was filed on March 18, 1999. Proposals from a variety of parties were received and opened in June 1999.

In October 1999, the new Commissioner signed a Letter of Intent, subject to approval by the Oklahoma District Court, with Iowa-based Life Investors Insurance Company of America, a wholly owned subsidiary of AEGON USA, Inc., concerning the assumption of all policies of Mid-Continent. In a letter of intent in connection with the proposed plan of rehabilitation, Florida Progress agreed to assign all of Mid-Continent's stock to the receiver, and contribute $10 million to help offset future premium rate increases or coverage reductions, provided that, among other things, Florida Progress receives a full release from liability, and the receiver's action against Florida Progress is dismissed, with prejudice. The $10 million was proposed to be held in escrow by the Commissioner for a period of 10 years and invested for the benefit of the policyholders. Any proposed premium increases would have been offset by this fund until it was exhausted. The Mid-Continent plan was originally scheduled to be considered by the Oklahoma County District Court in December 1999, but the Court postponed its consideration and ruled that any party who wishes to submit an alternative proposal must identify themselves to the Commissioner and the Court no later than December 31, 1999. Four proposers have so identified themselves.

Florida Progress now believes that as part of any plan of rehabilitation, the Company will be required to contribute the aforementioned $10 million regardless of which party ultimately assumes the policies of Mid-Continent. Accordingly, Florida Progress accrued an additional provision for loss of $10 million in December 1999. The loss was more than offset by the recognition of tax benefits of approximately $11 million, related to the excess of the tax basis over the current book value of the investment in Mid-Continent, and thus, did not have a material impact on Florida Progress' consolidated financial position, operations, or liquidity. This benefit had not been recorded earlier due to uncertainties associated with the timing of the tax deduction.

In January 1999, five Mid-Continent policyholders filed a purported class action against Mid-Continent and the same defendants named in the case filed by the former Commissioner. The complaint contains substantially the same factual allegations as those made by the former Commissioner. The suit asserts "Extra Life" policyholders have been injured as a result of representations made in connection with the sale of that policy. The suit seeks actual and punitive damages. The defendants' motions to dismiss were granted in June, and again in October 1999. A hearing was held in January 2000 on the issue of whether the dismissal was with or without prejudice. At that hearing, the Court ruled that the dismissal was without prejudice and granted the policyholders leave to amend their complaint once again.

Although Florida Progress hopes to complete the negotiated resolution of these matters involving Mid-Continent, it will continue to vigorously defend itself against the two lawsuits, if that is required. Although there can be no assurance as to the outcome of the two lawsuits, Florida Progress believes they are without merit and that their outcomes would not have a material adverse effect on Florida Progress' consolidated financial position, results of operations or liquidity.

Share Exchange Litigation — In August 1999, Florida Progress announced that it entered into an Agreement and Plan of Exchange with Carolina Power & Light Company (CP&L), and CP&L Energy, Inc., a wholly owned subsidiary of CP&L. (See Note 2 on page 35.) A lawsuit was filed in September 1999, against Florida Progress and its directors seeking class action status, an unspecified amount of damages and injunctive relief, including a declaration that the agreement and plan of exchange was entered into in breach of the fiduciary duties of the Florida Progress board of directors, and enjoining Florida Progress from proceeding with the share exchange. The complaint also seeks an award of costs and attorney's fees. Florida Progress believes this suit is without merit, and intends to vigorously defend itself against this action. Accordingly, no provision for loss has been recorded pertaining to this matter.

Easement Litigation — In December 1998, Florida Power was served with this class action lawsuit seeking damages, declaratory and injunctive relief for the alleged improper use of electric transmission easements. The plaintiffs contend that the licensing of fiber optic telecommunications lines to third parties or telecommunications companies for other than Florida Power's internal uses along the electric transmission line right-of-way exceeds the authority granted in the easements. In June 1999, plaintiffs amended their complaint to add Progress Telecommunications Corporation as a defendant and add counts for unjust enrichment and constructive trust. In January 2000, the court conditionally certified the class statewide. Management does not expect that the results of these legal actions will have a material impact on Florida Progress' financial position, operations or liquidity. Accordingly, no provision for loss has been recorded pertaining to this matter.

Other Legal Matters — The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect upon the Company's consolidated financial position, results of operations or liquidity.

REPORTS FROM MANAGEMENT AND AUDITORS

Management's Report

To Our Shareholders:

Management is responsible for the integrity and objectivity of the financial and operating information contained in the consolidated financial statements and other sections of this Annual Report. These statements were prepared in accordance with generally accepted accounting principles and necessarily include amounts that are based on judgments and estimates by management.

Florida Progress Corporation maintains internal control systems and related policies and procedures designed to provide reasonable assurance that assets are safe-guarded, that transactions are executed as authorized and are properly recorded, and that accounting records may be relied upon for the preparation of consolidated financial statements and other financial information. These policies and procedures include a Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. The design, monitoring and revision of internal control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The company also maintains an internal auditing function that evaluates and formally reports on the adequacy and effectiveness of internal controls, policies and procedures.

In addition, the audit committee of the board of directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent auditors to review matters related to internal controls, audit results, financial statements and financial reporting. Annually, the audit committee recommends to the board of directors the selection of independent auditors. Both the independent auditors and the internal auditors periodically meet alone with the audit committee and have free access to the committee at any time.

For Management,

Edward W Moneypenny

Edward W. Moneypenny
Senior Vice President and Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Florida Progress Corporation:

We have audited the accompanying consolidated balance sheets of Florida Progress Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows, and common equity and comprehensive income for each of the years in the three-year period ended December 31, 1999. These financial statements are the responsibility of Florida Progress Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Progress Corporation and subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

St. Petersburg, Florida
January 20, 2000, except as to paragraph 1 of Note 2, which is as of March 3, 2000

SELECTED DATA 1994 - 1999

	Annual Growth (in percent) 1994-1999	**1999**	1998	1997	1996	1995	1994
FLORIDA PROGRESS CORPORATION							
Summary of operations (in millions):							
Utility revenues	4.8	**$2,632.6**	$2,648.2	$2,448.4	$2,393.6	$2,271.7	$2,080.5
Diversified revenues	13.5	**1,212.5**	972.1	868.0	764.3	736.1	644.8
Income from continuing operations	8.2	**314.9**	281.7	54.3 (1)	250.7	238.9	212.0
Loss from discontinued operations		**–**	–	–	(26.3) (4)	–	–
Net income	8.2	**314.9**	281.7	54.3 (1)	224.4	238.9	212.0
Balance sheet data (in millions):							
Total assets	3.7	**$6,528.2**	$6,160.8	$5,760.0	$5,348.4	$5,550.4	$5,453.1
Capitalization:							
Short-term capital	25.9	**$ 316.3**	$ 382.1	$ 230.0	$ 39.0	$ 173.7	$ 99.9
Long-term debt	3.3	**2,154.1**	2,250.4	2,377.8	1,776.9	1,662.3	1,835.2
Preferred stock	(25.2)	**33.5**	33.5	33.5	33.5	138.5	143.5
Company obligated mandatorily redeemable preferred securities	–	**300.0**	–	–	–	–	–
Common stock equity	.2	**2,008.7**	1,862.0	1,776.0	1,924.2	2,078.1	1,984.4
Total capitalization	3.4	**$4,812.6**	$4,528.0	$4,417.3	$3,773.6	$4,052.6	$4,063.0
Common stock data:							
Average shares outstanding (in millions)	1.1	**98.1**	97.1	97.1	96.8	95.7	93.0
Earnings per share (basic and diluted):							
Utility	5.7	**$2.70**	$2.56	$1.38 (2)	$2.40	$2.27	$2.05
Diversified continuing	17.3	**.51**	.34	(.82) (3)	.19	.23	.23
Consolidated continuing	7.1	**3.21**	2.90	.56 (1)	2.59	2.50	2.28
Discontinued operations		**–**	–	–	(.27)	–	–
Consolidated	7.1	**3.21**	2.90	.56 (1)	2.32	2.50	2.28
Dividends per common share	1.8	**2.18**	2.14	2.10	2.06	2.02	1.99
Dividend payout		**68.0%**	73.8%	375.3%	88.9%	81.0%	87.7%
Dividend yield (year-end)		**5.2%**	4.8%	5.4%	6.4%	5.7%	6.7%
Book value per share of common stock	(.4)	**$20.40**	$19.13	$18.30	$19.84	$21.55	$20.85
Return on common equity		**16.2%**	15.6%	2.9%	10.9%	11.8%	11.1%
Common stock price per share:							
High		**48**	47⅛	39¼	36½	35¾	33⅝
Low		**35⅞**	37 11/16	27¾	31½	29⅜	24¾
Close	7.1	**42 5/16**	44 13/16	39¼	32¼	35⅜	30
Price earnings ratio (year-end)		**13.2**	15.5	70.1	13.9	14.2	13.2
FLORIDA POWER CORPORATION							
Electric sales billed (millions of KWH):							
Residential	3.2	**16,244.8**	16,526.3	15,079.8	15,481.4	14,938.0	13,863.4
Commercial	4.6	**10,326.8**	9,999.3	9,257.3	8,848.0	8,612.1	8,252.1
Industrial	3.9	**4,333.7**	4,375.4	4,187.8	4,223.7	3,864.4	3,579.6
Total retail sales	3.9	**33,441.0**	33,386.6	30,850.3	30,784.8	29,499.5	27,675.2
Total electric sales	5.0	**38,297.3**	37,251.1	33,289.9	33,492.5	32,402.6	30,014.6
Residential service (average annual):							
KWH sales per customer	1.2	**13,387**	13,972	12,993	13,560	13,282	12,597
Revenue per customer	2.1	**$1,149**	$1,204	$1,115	$1,138	$1,114	$1,038
Ratio of earnings to fixed charges (SEC method)		**4.37**	3.87	2.75	4.80	4.41	3.90
Embedded cost of long-term debt	(1.2)	**6.7%**	6.8%	7.0%	7.2%	7.2%	7.1%
Embedded cost of preferred stock	(7.5)	**4.6%**	4.6%	4.6%	4.6%	6.8%	6.8%
Operating data:							
Net system capability (MW)	2.5	**8,267**	7,727	7,717	7,341	7,347	7,295
Net system peak load (MW)	3.6	**8,318**	8,004	8,066	8,807	7,722	6,955
Construction expenditures (in millions)	2.3	**$357.7**	$310.2	$387.2	$217.3	$283.4	$319.5
Net cash flow to capital expenditures	2.9	**119%**	169%	76%	175%	125%	103%
Average number of customers	2.0	**1,376,597**	1,340,853	1,314,508	1,292,075	1,271,784	1,243,891

(1) Includes charges for extended nuclear outage costs and a provision for loss on the Company's investment in Mid-Continent. (See Notes 12 and 13.)
(2) Includes charge for extended nuclear outage costs. (See Note 12.)
(3) Includes provision for loss on the Company's investment in Mid-Continent. (See Note 13.)
(4) Represents the charge to earnings associated wih the Company's divestiture of Echelon International, formerly Progress Credit Corporation.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Richard Korpan, 58, is Chairman of the Board, President and Chief Executive Officer of Florida Progress and Chairman of the Board of Florida Power Corporation. He was appointed Florida Progress Chairman July 1, 1998. He joined the company in 1989 as Executive Vice President and Chief Financial Officer. He is a director of SunTrust Bank of Tampa Bay. A company director since 1989, he is chairman of the Executive Committee.

W.D. (Bill) Frederick, Jr., 65, is a citrus grower and investor. He served as mayor of the city of Orlando from 1980 to 1992. He retired as a partner from the law firm of Holland & Knight in 1995. He is a director of Blue Cross/ Blue Shield of Florida and SunTrust Bank, Central Florida, N.A. A company director since 1995, he is chairman of the Compliance Committee and a member of the Compensation, and Nominating and Board Governance Committees.

Michael P. Graney, 56, is a partner in the law firm of Simpson Thacher & Bartlett in Columbus, Ohio. Specializing in utilities law, litigation and antitrust, he is a member of the American, District of Columbia, Ohio and Columbus Bar Associations and the Energy Bar Association. A company director since 1991, he is chairman of the Nominating and Board Governance Committee and a member of the Executive and Audit Committees.

Clarence V. McKee, 57, is Chairman and Chief Executive Officer of McKee Communications, Inc., a television and radio investment firm in Tampa, Florida. He is a director of Checkers Drive-In Restaurants, Inc. A company director since 1989, he is a member of the Audit, Compensation, and Nominating and Board Governance Committees.

Vincent J. Naimoli, 62, is Chairman, President and Chief Executive Officer of Anchor Industries International, Inc., an operating and holding company in Tampa, Florida. He is also Managing General Partner of the Tampa Bay Devil Rays, Ltd., a Major League Baseball Club. In conjunction with the business activities of Anchor Industries, he serves as a director of Russell Stanley Corp. and Players International, Inc. A company director since 1992, he is chairman of the Finance and Budget Committee, and a member of the Executive, and Nominating and Board Governance Committees.

Richard A. Nunis, 67, is a retired Chairman of Walt Disney Attractions in Orlando, Florida. He is a director of The Walt Disney Company and SunTrust Bank, Central Florida, N.A. in Orlando. A company director since 1989, he is chairman of the Compensation Committee and a member of the Executive, and Finance and Budget Committees.

Joan D. Ruffier, 60, is Chairman of Human Services Technologies, Inc., a computer software products company in Orlando, Florida. A certified public accountant, she is a director of Cyprus Equity Fund and INVEST, Inc. She is also President of the University of Florida Foundation. A company director since 1990, she is chairman of the Audit Committee, and a member of the Finance and Budget and Compliance Committees.

Robert T. Stuart, Jr., 67, is a rancher and investor in Dallas, Texas. He is a retired Chairman and Chief Executive Officer of Mid-Continent Life Insurance Company in Oklahoma City, which Florida Progress acquired in 1986. A company director since 1986, he is a member of the Audit Committee.

Jean Giles Wittner, 65, is President of Wittner & Co. and subsidiaries, St. Petersburg firms involved in real estate management, insurance brokerage, consulting, and third party administration of COBRA and related products. She is a director of Raymond James Bank, F.S.B. A company director since 1982, she is a member of the Executive, Compensation, and Compliance Committees.

OFFICERS

Richard Korpan
Chairman of the Board, President and Chief Executive Officer

Joseph H. Richardson
President and Chief Executive Officer, Florida Power Corporation

Richard D. Keller
President and Chief Executive Officer, Electric Fuels Corporation

Edward W. Moneypenny
Senior Vice President and Chief Financial Officer

Kenneth E. Armstrong
Vice President and General Counsel

Kathleen M. Haley
Vice President, Secretary and Compliance Officer

William G. Kelley
Vice President, Human Resources

John Scardino, Jr.
Vice President and Controller

James V. Smallwood
Vice President, Mergers and Acquisitions

Peter E. Toomey
Vice President, Corporate Development

Pamela A. Saari
Treasurer

INVESTOR INFORMATION

PROGRESS
STOCK PLAN

The company offers the Progress Plus Stock Plan as an economical, convenient and flexible way to purchase shares of Florida Progress common stock. Plan participants can purchase stock directly from the company and reinvest all or a portion of their quarterly dividends without paying typical brokerage fees. Those eligible for the plan are:

- Registered shareholders of Florida Progress.
- Nonshareholders who are Florida residents.
- Employees of the company and its subsidiaries.

The plan is offered only by means of a prospectus, which can be obtained by contacting the company's transfer agent and registrar.

Correspondence and inquiries concerning the plan, dividend checks, address changes, financial publications and the transfer of common stock certificates of Florida Progress or preferred stock certificates of Florida Power should be directed to the company's transfer agent and registrar:

BankBoston, N.A.
c/o Equiserve, L.P.
P. O. Box 8040
Boston, MA 02266-8040
(800) 352-1121

Common Stock Dividends

Record dates are normally on or about the fifth day of March, June, September and December. Quarterly dividend checks are mailed to reach shareholders on or about the 20th day of March, June, September and December.

Common Stock Listed

New York Stock Exchange
Pacific Stock Exchange
Ticker symbol: FPC
Newspaper listing: FlaPrg

1999 SEC Form 10-K

Copies of the company's 1999 SEC Form 10-K, without exhibits, will be supplied to shareholders without charge by directing requests to:

Investor Services
Florida Progress Corporation
P. O. Box 14042 (BT11B)
St. Petersburg, FL 33733
(800) 937-2640

Independent Auditors

KPMG LLP
St. Petersburg, FL

Analysts' Contact

Greg Beuris
Investor Relations
(727) 820-5734
Fax (727) 820-5869

Corporate Offices

Florida Progress Corporation
One Progress Plaza
St. Petersburg, FL 33701

Internet Address: www.fpc.com

The Florida Progress home page on the Internet's World Wide Web has information about the holding company and its subsidiaries; the company stock price, which is updated every 15 minutes; SEC filings, including the 1999 Annual Report; news releases and market performance.

FLORIDA PROGRESS CORPORATION
P.O. Box 33028 • St. Petersburg, Florida 33733-8028

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