



POSITIONED FOR THE FUTURE  
POWERED FOR THE MOMENT

CAROLINA POWER & LIGHT COMPANY  
*1997 Annual Report*

**CP&L**

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*As a matter of habit and discipline,  
we maximize our resources and talent  
each and every day.*

*For 90 years, this effort  
has resulted in the ceaseless delivery of  
dependable service and value.*

*As a matter of vision and commitment,  
we continually prepare and strengthen  
ourselves for the years ahead.*

## Financial Highlights

<i>(Dollars in thousands except per share data)</i>	1997	1996
<i>Consolidated Financial Data</i>		
Operating revenues	\$3,024,089	\$2,995,715
Net income	388,317	391,277
Return on average common stock equity (percent)	13.89	14.44
<i>Operating Data</i>		
Energy sales (millions of kWh)	52,765	51,328
System peak demand (thousands of kW)	10,030	9,812
<i>Common Stock Data</i>		
Basic and diluted earnings per common share	\$ 2.66	\$ 2.66
Dividends paid per common share	1.88	1.82
Book value per common share	19.60	18.77
Market value per common share (closing)	42%	36%
Average common shares outstanding (thousands)	143,645	143,621
<i>Employee Data</i>		
Number of employees at year-end	6,884	6,701

*Carolina Power & Light stands out among the nation's top energy and technology companies. Our system generates nearly 10,000 megawatts of power through a flexible mix of fossil, nuclear and hydroelectric sources. In turn, we deliver electrical energy to more than a million customers across 30,000 square miles of North and South Carolina. We also operate a regional telecommunications business and provide energy services and lighting solutions for customers throughout North America. Since 1908, CP&L has put energy and technology to work for people, upholding our commitment to bring safe, reliable and cost-efficient service to our customers.*

# BUILDING ON EXISTING STRENGTH

We are pleased to report that Carolina Power & Light is well positioned for continued growth and fully capable of meeting the challenges and changes unfolding in our industry. That shouldn't be a surprise to anyone. For many years, CP&L has been attending to fundamentals and building a rock-solid foundation for growth.

Hard work got us to our current position. The ratio of our market price to book value is one of the highest in the industry. We've hit the \$6 billion mark in terms of market value. In terms of sheer size, that puts CP&L in the top 20% of the utility industry. We have a track record of providing solid service to the community and creating value for our shareholders. With 1997 revenues exceeding \$3 billion, we're poised to take our business to the next level.

As a matter of fact, Carolina Power & Light is entering the most exciting period in its history. We continue to emphasize our core business: generation, transmission and distribution of electricity. Reliability and operational excellence in both nuclear and fossil generation remain ongoing priorities. But we're also adding to existing strengths, creating within the Company a world-class marketing group to help extend our greatest asset: the ability to put technology to work for customers.

Through all the changes and a renewed vision of our business, we haven't lost sight of our bonds to the communities we serve. CP&L's commitments to education, economic development and environmental

stewardship have each been recognized throughout North and South Carolina. And as we grow, we'll refocus and enhance these programs to meet future needs.

Our strategic plan has been carefully conceived to leverage several key strengths. For example, we are fortunate to be located in the Carolinas, a region with a solid history of political and regulatory practices that attract and nurture businesses. It is also one of the fastest growing markets in America. Today, we reach customers in over 200 communities all around this area. But we have the technology and infrastructure to become "super-regional" tomorrow by expanding our range of services, our product offerings and, ultimately, our customer base. Most important, we have the right people in place, and throughout the organization we enjoy a sense of energetic optimism.

A cornerstone of our strategy is the ongoing effort to lower costs aggressively. We're proud of our people and the progress they've made on that commitment. In fact, few other utilities have reduced costs to the extent we have. Since 1994, we have lowered operating costs by \$100 million — a 13% reduction.

The significance of these cost-cutting measures was never more evident than in 1997. We added 32,000 new customers and grew total energy sales by 2.8%. But unusually mild weather had the potential to severely impact results. Instead, the combination of cost reduction programs and overall growth kept earnings level with 1996

*The message we've had for the last five years is that it's possible to be low cost and high quality.*

*For the next five years, we plan to grow by offering more products and services.*

*Frankly, we have a pretty good track record of doing what we say.*

figures. The strategy worked. Despite the challenges from Mother Nature, CP&L recorded solid results for the year.

As our customer base grows, so does demand on our system. CP&L will be prepared to meet that growth in sales through a combination of added generating capacity, economical power purchases and improvements to an already reliable generating system.

In 1997, we added 240 megawatts of peaking generation, and modifications to our Brunswick nuclear plant added another 110 megawatts of power. At the same time, our fossil units set a new record for dependability, achieving the lowest forced outage rate in 16 years and placing CP&L in the top quartile for reliability in the industry.

High operating standards and continual improvement are the norm at CP&L. Our nuclear plants have become benchmarks for the industry, achieving levels of excellence in operations, cost, reliability and safety that few others can match. In fact, 1997 marked the fourth consecutive year of record-breaking nuclear generation in the Company, highlighted by the Brunswick Plant setting a new world standard for continuous dual-unit operations of a boiling water reactor.

Clearly, the lines and infrastructure to serve new customers are in place. Yet we also maintain a vigilant commitment to customer service. Over the past few years, our investment of \$100 million in computer system upgrades and facilities improvements has been targeted to serve and satisfy our customers better. Ongoing improvements in this

area are vital, and will remain a central operational priority.

Success in the days ahead is based on a bold new course targeting ambitious goals for the new century. By the end of 2001, we will substantially grow our earnings and increase the size of the Company. And we'll do this while continuing to focus on plans that will dramatically enhance shareholder value.

How? By expanding our existing business through increased sales and new product offerings. We'll also develop new alliances and acquire new businesses. Natural gas marketing will be in our future as we build an organization with the potential to be a one-stop-shopping service for our customers.

Acquisitions are bound to happen, but the criteria for such purchases will center on creation of shareholder value. We see growth; certainly, but we must achieve growth by acquiring only those companies that offer profitable synergies with our own.

Our technology-based energy services company, Strategic Resource Solutions Corp. (SRS), is an excellent example of a strategic competitive advantage gained through acquisition. In 1997, we finalized the acquisition of its predecessor, Knowledge Builders, Inc., and renamed the business. Reborn on the Fourth of July as SRS, the new company has grown exponentially. At the heart of that growth was the recent acquisition of Parke Industries, the fourth largest lighting company in the United States. Now, SRS is engaged in a

*Our focus on technology and commitment to customer service is what differentiates us.  
That will give us a long-term strategic advantage in the effort to increase earnings and build our business.*

host of energy services efforts providing technology and information to customers in 49 states. SRS is also involved in a range of dynamic joint research and development projects and, on the government front, has earned a contract for services with the U.S. military.

There were also changes at CaroNet, our telecommunications subsidiary. In 1997, we renamed the company Interpath Communications and allocated \$200 million over the next three years for expansion of its data-focused communications network. Carolina Power & Light has one of the largest fiber-optic network systems owned by an electric utility in the United States. With low operational costs and a staff of highly qualified professionals, we believe there is a substantial niche for this business to meet the explosive growth of electronic commerce on the Internet.

Clearly, our culture is evolving, becoming more creative, entrepreneurial and strategically focused. To emphasize the shift from a traditional utility company to a responsive marketing and services company, we've reorganized into the following business units:

- Energy Supply produces electricity for retail and wholesale markets.
- Energy Delivery delivers electricity and other services to customers.
- Retail Sales & Services provides products and services for customers in targeted market segments.

We're focusing on results. Yet we're building from a

fundamentally strong employee base – a workforce that has embraced an environment that values and rewards high performance. Our business units are developing their own distinct cultures to successfully compete in the future. And to further transform and energize these business units, we're bringing more talent into the Company.

Over the past year, we have fundamentally changed the way we do business. That's essential given the evolving nature of the market we serve. Carolina Power & Light is actively involved in working to ensure that any transition to a deregulated utility market will be as fair and as smooth as possible. To minimize the effect of future deregulation on today's investments, we are working hard to accelerate depreciation and implement careful capital spending plans. Ultimately, we're working to ensure that electric power remains affordable and reliable into the next millennium.

We've set high goals, believing that Carolina Power & Light will be successful no matter what the future holds... no matter who our competitors are... no matter what the regulatory environment.

On behalf of the entire Company, we want to express our gratitude for your continued support and confidence. The future is bright.



WILLIAM CAVANAUGH III  
*President and Chief Executive Officer*



SHERWOOD H. SMITH, JR.  
*Chairman*



WILLIAM CAVANAUGH III



SHERWOOD H. SMITH, JR.



# ANTICIPATING GREATER DEMAND

The realities of our business are rapidly changing, challenging us to uncover new methods of reaching and satisfying customers. We continue to solidify our position as a powerful regional player in our core business – electricity. We will become a super-regional “enhanced” utility. We will be stronger, more diverse. Our growth strategy centers on increasing the size of our power marketing business by reaching out to win customers throughout the East. And we are rapidly streamlining our operations, reducing costs, managing inventory balances and improving our infrastructure. We’re also diversifying. Growth will come in part through leveraging our technology and expertise. We’ll serve more customers in more ways by expanding our capabilities to include an array of energy services, lighting solutions and telecommunications. We will also seek growth through mergers and acquisitions, possibly with other utilities. And natural gas will be one of our energy offerings to customers.

*Only a few utility companies have reduced costs to the extent we have. In fact, since 1994, we’ve lowered operating costs by \$100 million.*

*Our energy transmission and distribution costs are the lowest in the Southeast.*

*We gained 32,000 new customers in 1997 – a 2.9% increase from the previous year.*



# EXTENDING VALUABLE SERVICES

Our attention centers on customers. It's no longer enough just to provide low cost, reliable electric service. That's a common expectation. Now we must devise and deliver integrated solutions, enhanced services and new products. We have acquired the fourth largest lighting company in the United States. In the next three years, we will complete an Internet-focused communications network that will serve as the heart of our growing telecommunications business. Even more important is the ability to market these capabilities. Consequently, our entire organization is transforming itself to anticipate needs, coordinate and deploy specific capabilities and deliver precisely what customers have in mind. We are building an organization that will soon be a one-stop resource for a full range of utility-related services.

*To improve customer service,  
we've invested \$100 million since 1993 in computer system upgrades and facilities improvements.*

*We listened when Wachovia Bank asked for billing solutions.  
We produced information technology that consolidates utility bills for over 500 branches and  
renders one monthly statement to their corporate headquarters.*



# CREATING ENDLESS POSSIBILITIES

Our future is based firmly on the capability and organizational strength we've established today. In terms of market value, we're a \$6 billion company. On the cusp of unprecedented challenge and change, we're reordering how we do business. We've devised a winning strategy, and sharpened the organization's focus on customer satisfaction and value creation. We have the organizational structure in place to allow us to focus on customer segments and position ourselves as the provider of choice. Where and when appropriate, we will undertake mergers and acquisitions that add value to our portfolio, achieve greater synergies and expand our service offerings. We've set ambitious revenue and earnings growth goals. We will be successful no matter what the future holds, no matter who our competitors are, and no matter what the rules are.

*Legislators at the federal level and in the Carolinas are cautiously and thoughtfully evaluating industry restructuring. We are participating in North Carolina's debate about electric utility restructuring as a member of the state's blue ribbon task force.*

*With more than \$3 billion in revenues in 1997, we're poised to take our business to the next level.*



Seated from left to right: Sherwood H. Smith, Jr., William Cavanaugh III, Estell C. Lee  
 Standing from left to right: Leslie M. Baker, Jr., J. Tylee Wilson, Charles W. Coker, Robert L. Jones, Felton J. Capel, Richard L. Daugherty,  
 William O. McCoy, Edwin B. Borden, Walter Y. Elisha

*Board of Directors*

LESLIE M. BAKER, JR.  
 President and  
 Chief Executive Officer  
 WACHOVIA CORP.  
*(interstate bank holding company)*  
 Winston-Salem, NC  
 Elected to the board in 1995

EDWIN B. BORDEN  
 President  
 THE BORDEN MANUFACTURING CO.  
*(textiles management services)*  
 Goldsboro, NC  
 Elected to the board in 1985

FELTON J. CAPEL  
 President  
 CENTURY ASSOCIATES OF  
 NORTH CAROLINA  
*(distributors of cookware and  
 housewares)*  
 Pinebluff, NC  
 Elected to the board in 1972

WILLIAM CAVANAUGH III  
 President and  
 Chief Executive Officer  
 CAROLINA POWER & LIGHT CO.  
 Raleigh, NC  
 Elected to the board in 1993

CHARLES W. COKER  
 Chairman  
 SONOCO PRODUCTS CO.  
*(manufacturer of paperboard  
 and paper and plastic packaging  
 products)*  
 Hartsville, SC  
 Elected to the board in 1975

RICHARD L. DAUGHERTY  
 Executive Director  
 NCSU RESEARCH CORP.  
*(Centennial Campus  
 development)*  
 Raleigh, NC  
 Elected to the board in 1992

WALTER Y. ELISHA  
 Chairman  
 SPRINGS INDUSTRIES, INC.  
*(textile manufacturing firm)*  
 Fort Mill, SC  
 Elected to the board in 1997

ROBERT L. JONES  
 President  
 DAVIDSON AND JONES CORP.  
*(general contractors/  
 developers and operators of  
 real estate properties)*  
 Raleigh, NC  
 Elected to the board in 1990

ESTELL C. LEE  
 President  
 THE LEE COMPANY  
*(building supplies company)*  
 Wilmington, NC  
 Elected to the board in 1988

WILLIAM O. MCCOY  
 Vice President—Finance  
 UNIVERSITY OF NORTH CAROLINA  
 Chapel Hill, NC  
 Elected to the board in 1996

SHERWOOD H. SMITH, JR.  
 Chairman of the Board  
 CAROLINA POWER & LIGHT CO.  
 Raleigh, NC  
 Elected to the board in 1971

J. TYLEE WILSON  
 Retired Chairman and  
 Chief Executive Officer  
 RJR NABISCO, INC.  
 Ponte Vedra Beach, FL  
 Elected to the board in 1987

*Executive and Senior Officers*

WILLIAM CAVANAUGH III  
 President and  
 Chief Executive Officer

GLENN E. HARDER  
 Executive Vice President and  
 Chief Financial Officer—  
 Financial Services

WILLIAM S. ORSER  
 Executive Vice President and  
 Chief Nuclear Officer—  
 Energy Supply

JAMES M. DAVIS, JR.  
 Senior Vice President—  
 Power Operations

FRED N. DAY IV  
 Senior Vice President—  
 Energy Delivery

CECIL L. GOODNIGHT  
 Senior Vice President and  
 Chief Administrative Officer—  
 Administrative Services

JOHN E. MANCZAK  
 Senior Vice President—  
 Retail Sales and Services

ROBERT B. MCGEHEE  
 Senior Vice President and  
 General Counsel—Public and  
 Corporate Relations

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

## RESULTS OF OPERATIONS

## OPERATING REVENUES

Operating revenue fluctuations as compared to the prior year are due to the following factors (*in millions*):

	1997	1996
Customer growth/changes		
in usage patterns	\$124	\$ 87
Sales to other utilities	24	34
Weather	(55)	4
NCEMC load loss	—	(96)
Price	(39)	(36)
Sales to Power Agency	(26)	(4)
	\$ 28	\$(11)

The increase in the customer growth/changes in usage patterns component of revenue for both comparison periods is primarily a result of continued economic growth within the Company's service territory. Sales to other utilities increased in both comparison periods as a result of the Company's active pursuit of opportunities in the wholesale power market. The 1997 decrease in the weather component of revenue is the result of milder than normal temperatures in the current period. Both the customer growth/changes in usage patterns and weather components of revenue were affected by lost revenues caused by Hurricanes Fran and Bertha in 1996. Beginning in January 1996, the Company lost 200 megawatts of load from North Carolina Electric Membership Corporation (NCEMC), resulting in a \$96 million decrease in revenues. For 1997, the price-related decrease is primarily attributable to a combination of decreases in the fuel cost component of revenue and changes to the Power Coordination Agreement, which were effective January 1, 1997, between the Company and NCEMC. The 1996 price-related decrease is primarily attributable to decreases in the fuel cost component of revenue. The 1997 decrease in revenue related to sales to North Carolina Eastern Municipal Power Agency (Power Agency) is primarily due to the impacts of milder weather, along with the increased availability in the current period of generating units owned jointly by the Company and Power Agency.

## OPERATING EXPENSES

Fuel expense increased in 1997 primarily due to a 4.6% increase in generation. Fuel expense decreased in 1996 due to renegotiated coal contracts, spot market coal purchases at lower market prices and the refunding of over-recovered fuel costs. This decrease more than offset the increase in fuel expense related to a 3.9% increase in generation during 1996.

The decrease in purchased power in 1997 is primarily a result of amendments to electric purchase power agreements between

the Company and Cogentrix of North Carolina, Inc. and Cogentrix Eastern Carolina Corporation, which became effective in September 1996. This decrease is partially offset by increased purchases from other utilities due to the Company's more active participation in wholesale power marketing.

Other operation and maintenance expense decreased for both comparison periods reflecting the Company's continued cost reduction efforts. Also contributing to the decrease in 1997 were lower expenses resulting from one less nuclear refueling outage and fewer fossil outages. Other operation and maintenance expense in 1996 includes storm-related expenses of approximately \$6 million incurred as a result of severe ice storms experienced in early 1996 and the impact of Hurricane Bertha, which struck the Company's service territory in July 1996. Hurricane Fran struck significant portions of the Company's service territory in September 1996. In December 1996, the North Carolina Utilities Commission (NCUC) authorized the Company to defer operation and maintenance expenses associated with Hurricane Fran. See further discussion of Hurricane Fran below.

In December 1996, the NCUC authorized the Company to accelerate amortization of certain regulatory assets over a three-year period beginning January 1, 1997. In March 1997, the South Carolina Public Service Commission (SCPSC) approved a similar plan for the Company to accelerate the amortization of certain regulatory assets, including plant abandonment costs related to the Harris Plant, over a three-year period beginning January 1, 1997. Depreciation and amortization increased approximately \$68 million in 1997 as a result of the accelerated amortization of these regulatory assets. Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran of approximately \$12 million and \$4 million in 1997 and 1996, respectively.

Income tax expense decreased in 1997 primarily due to the impact of current and prior period tax provision adjustments recorded for potential audit issues in open tax years.

## OTHER INCOME

Interest income increased in 1997 primarily as a result of interest income of \$11 million related to an income tax refund.

Other income, net, decreased in 1997 primarily due to losses incurred on certain diversified investments which are in start-up phases. In 1996, other income, net, increased primarily due to an adjustment of \$22.9 million to the unamortized balance of abandonment costs related to the Harris Plant. In anticipation of approval by the SCPSC of the Company's December 1996 proposal to accelerate amortization of certain regulatory assets, the unamortized balance of plant abandonment costs related to the Harris Plant was adjusted in 1996 to reflect the present value

impact of the shorter recovery period. In March 1997, the SCPS approved the Company's accelerated amortization proposal.

#### INTEREST CHARGES

Interest charges on long-term debt have decreased since 1995 primarily due to reductions of long-term debt balances. Also contributing to the decrease in 1996 were refinancings of long-term debt with lower-interest commercial paper borrowings which are backed by the Company's long-term revolving credit facilities. See discussion of credit facilities in "Liquidity and Capital Resources."

#### LIQUIDITY AND CAPITAL RESOURCES

##### CASH FLOW AND FINANCING

The net cash requirements of the Company arise primarily from operational needs and support for investing activities, including replacement or expansion of existing facilities, construction to comply with pollution control laws and regulations, and diversified investments.

The Company has on file with the Securities and Exchange Commission (SEC) a shelf registration statement under which \$250 million principal amount of first mortgage bonds and \$125 million principal amount of first mortgage bonds and/or unsecured debt securities of the Company remain available for issuance. The Company can also issue up to \$180 million of additional preferred stock under a shelf registration statement on file with the SEC.

The Company's ability to issue first mortgage bonds and preferred stock is subject to earnings and other tests as stated in certain provisions of its mortgage, as supplemented, and charter. The Company has the ability to issue an additional \$4.3 billion in first mortgage bonds and an additional 32 million shares of preferred stock at an assumed price of \$100 per share and a \$6.05 annual dividend rate. The Company also has 10 million authorized preference stock shares available for issuance that are not subject to an earnings test.

In July 1997, the Company redeemed all 500,000 shares of \$7.72 Serial Preferred Stock and all 350,000 shares of \$7.95 Serial Preferred Stock, at a redemption price of \$101 per share. The redemptions were funded with additional commercial paper borrowings and/or internally generated funds.

In August 1997, the Company issued \$200 million of first mortgage bonds. The net proceeds from this issuance were used to reduce the outstanding balance of commercial paper and other short-term debt and for other general corporate purposes.

As of December 31, 1997, the Company's revolving credit facilities totaled \$515 million, substantially all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain a portion of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt \$245.9 million and \$350 million of commercial paper outstanding as of December 31, 1997 and 1996, respectively.

The proceeds from the issuance of commercial paper related to the credit facilities mentioned above, net cash inflow from the company-owned life insurance program, and/or internally generated funds, financed the retirement of long-term debt totaling \$103 million in 1997. External funding requirements, which do not include early redemptions of long-term debt or redemptions of preferred stock, are expected to approximate \$220 million, \$100 million and \$200 million in 1998, 1999 and 2000, respectively. These funds will be required for construction, mandatory retirements of long-term debt and general corporate purposes, including the repayment of short-term debt.

The Company's access to outside capital depends on its ability to maintain its credit ratings. The Company's first mortgage bonds are currently rated A2 by Moody's Investors Service, A by Standard & Poor's and A+ by Duff & Phelps. The Company's commercial paper is currently rated P-1, A-1 and D-1 by Moody's Investors Service, Standard & Poor's and Duff & Phelps, respectively.

The amount and timing of future sales of Company securities will depend upon market conditions and the specific needs of the Company. The Company may from time to time sell securities beyond the amount needed to meet capital requirements in order to allow for the early redemption of long-term debt, the redemption of preferred stock, the reduction of short-term debt or for other general corporate purposes.

In 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's common stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in both 1997 and 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994. The program was completed in 1997.

#### CAPITAL REQUIREMENTS

Estimated capital requirements for 1998 through 2000 primarily reflect construction expenditures that will be made to meet customer growth by adding generating, transmission and distribution facilities, as well as upgrading existing facilities. The

Company's capital requirements, excluding expenditures of diversified businesses, for those years are reflected in the following table (*in millions*).

	1998	1999	2000
Construction expenditures	\$398	\$494	\$526
Nuclear fuel expenditures	93	83	96
AFUDC	(6)	(5)	(7)
Mandatory retirements of long-term debt	208	53	197
Total	\$693	\$625	\$812

This table includes Clean Air Act expenditures of approximately \$32 million and generating facility addition expenditures of approximately \$405 million. The generating facility addition expenditures will primarily be used to construct new combustion turbine units, which are intended for use during periods of high demand. These units are scheduled to be placed in service during 1999 through 2002.

In addition, total projected cash requirements of diversified businesses for the years 1998 through 2000 approximate \$362 million. These expenditures include affordable housing investments, telecommunications infrastructure development, acquisitions and other capital requirements of the Company's diversified businesses. These projections are periodically reviewed and may change significantly.

The Company has two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement is with Duke Energy (Duke) for the purchase of 400 megawatts of firm capacity through mid-1999. The estimated minimum annual payments for power purchases under these agreements are approximately \$31 million for Rockport and \$48 million for Duke, representing capital-related capacity costs. In 1997, total purchases (including transmission use charges) under the Rockport and Duke agreements amounted to \$61.9 million and \$69.5 million, respectively.

In addition, pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Mayo and Harris Plants. For Mayo, the buyback period ended in 1997. The Harris Plant buyback period will continue through 2007. The estimated minimum annual payments for these purchases, representing capital-related capacity costs, total approximately \$26 million. Purchases under the agreement with Power Agency totaled \$36.2 million in 1997.

## OTHER MATTERS

### RETAIL RATE MATTERS

A petition was filed in July 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC, requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company. The petition alleged that the Company's return on equity (which was authorized by the NCUC in the Company's last general rate proceeding in 1988) and earnings are too high. In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. In January 1997, CIGFUR filed its Comments and Motion for Reconsideration, to which the Company responded. In February 1997, the NCUC issued an order denying CIGFUR's Motion for Reconsideration. CIGFUR filed a Notice of Appeal of the NCUC Order with the North Carolina Court of Appeals. The Company filed its brief in this matter in July 1997, and oral argument was held before the North Carolina Court of Appeals in November 1997. The Company cannot predict the outcome of this matter.

### ENVIRONMENTAL

The Company is subject to federal, state and local regulations addressing air and water quality, hazardous and solid waste management and other environmental matters.

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under various federal and state laws. There are several manufactured gas plant (MGP) sites to which the Company and certain entities that were later merged into the Company had some connection. In this regard, the Company, along with others, is participating in a cooperative effort with the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM), to establish a uniform framework for addressing these MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent between the DWM and the potentially responsible party or parties. The Company continues to investigate the identities of parties connected to individual MGP sites, the relative relationships of the Company and other parties to those sites and the degree to which the Company will undertake efforts with others at individual sites.

The Company has been notified by regulators of its involvement or potential involvement in several sites, other than MGP sites, that require remedial action. Although the Company cannot predict the outcome of these matters, it does not expect costs associated with these sites to be material to the results of operations of the Company.

The Company carries a liability for the estimated costs associated with remedial activities, except for MGP site remediation costs. This liability is not material to the financial position of the Company. The MGP site remediation costs are not currently determinable; however, the Company does not expect those costs to be material to the financial position of the Company.

The 1990 amendments to the Clean Air Act (Act) require substantial reductions in sulfur dioxide and nitrogen oxides emissions from fossil-fueled electric generating plants. The Act will require the Company to meet more stringent provisions effective January 1, 2000. The Company plans to meet the sulfur dioxide emissions requirements by utilizing the most economical combination of fuel-switching and sulfur dioxide emission allowances. Installation of additional equipment will be necessary to reduce nitrogen oxide emissions. The Company estimates that future capital expenditures necessary to meet the nitrogen oxide emission requirements will approximate \$32 million. Increased operation and maintenance costs, including emission allowance expense, and increased fuel costs are not expected to be material to the results of operations of the Company.

In addition, there are emerging regulatory requirements that may require utilities to install additional controls on nitrogen oxide emissions and controls on toxics and particulate matter. The Company cannot predict the outcome of these matters.

With regard to revisions to existing air quality standards, the Environmental Protection Agency issued final regulations revising the ozone standard and establishing a new fine-particulate standard in July 1997. These regulations may require the installation of additional control equipment at some of the Company's fossil-fueled electric generating plants. The Company is evaluating the impact of the new regulations on its facilities and cannot determine, at this time, the estimated costs of additional controls that may be required for compliance with the new standards. The Company cannot predict the outcome of this matter.

#### NUCLEAR

In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC and the SCPC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 8.5% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1993, using 1993 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1993 dollars, are \$257.7 million for Robinson Unit No. 2, \$235.4 million for Brunswick Unit No. 1, \$221.4 million for Brunswick Unit No. 2 and \$284.3 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to Power Agency, which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. It is uncertain when the final statement will be issued and what impacts it may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs.

As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to dispose of the Company's spent nuclear fuel. In December 1996, the DOE notified the Company and other similarly situated utilities that the agency anticipated that it would be unable to begin acceptance of spent nuclear fuel by January 31, 1998. In January 1997, the Company, together with 35 other utilities, filed a Joint Petition for Review with the United States Court of Appeals (the Court) requesting that the Court review the final decision of the DOE and the DOE's failure to meet its unconditional obligation under the Nuclear Waste Act. In November 1997, the Court found that the DOE had an unconditional obligation to begin disposal of spent nuclear fuel by January 31, 1998, and issued a writ of mandamus precluding the DOE from advancing any construction of the contract that would excuse the DOE's delinquency on the grounds that it has not yet established a permanent repository or an interim storage program. The DOE defaulted on its obligation to begin taking spent nuclear fuel by January 31, 1998, and a group of utilities, including the Company, is considering additional measures to force the DOE to take spent nuclear fuel or to

pay damages from monies other than the Nuclear Waste Fund. The Company cannot predict the outcome of this matter.

With certain modifications, the Company's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent nuclear fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary.

#### OTHER BUSINESS

In 1997, CaroCapital, Inc. (CaroCapital), a wholly owned subsidiary of the Company, acquired the remaining interest in Knowledge Builders, Inc. (KBI) and entered into a merger agreement under which KBI was merged into CaroCapital. KBI was an energy management software and control systems company in which CaroCapital purchased a 40% interest in 1996. Following the completion of the merger, CaroCapital's name was changed to Strategic Resource Solutions Corp. (SRS). SRS is a technology-based energy services company delivering facility-management and energy-management products and services to the educational, commercial, industrial and governmental markets nationwide. During the year, SRS purchased Diversified Control Systems, a building automation systems company, and made a minority investment in Remote Source Lighting International, Inc., a fiber optic lighting company. Also, in January 1998, SRS purchased Parke Industries, Inc., the fourth largest lighting company in the United States. These investments enhance SRS's ability to deliver energy-management solutions and value-added products to the marketplace.

In 1997, the Company created a new subsidiary, Interpath Communications, Inc. (Interpath). All of CaroNet, LLC's assets, liabilities and operating certificates are being transferred to this new subsidiary. Interpath has acquired Capitol Information Services, Inc., a regional Internet service provider based in Raleigh, North Carolina. Interpath will provide Internet retail telecommunications solutions and will expand services to include more telecommunications business solutions, including voice and data applications for small and medium-sized businesses.

Interpath also owns a 10% limited partnership interest in BellSouth Carolinas PCS, L.P. BellSouth Personal Communications, Inc. manages the partnership as the general partner. PCS is a wireless communications technology that provides high-quality mobile communications. The partnership serves PCS subscribers in North and South Carolina, and a small portion of Georgia, pursuant to a license issued by the Federal Communications Commission.

In 1995, the Company established CaroHome, LLC, a limited liability company, to further the Company's investments in

affordable housing. These investments are designed to earn tax credits while helping communities meet their needs for affordable housing. The Company, principally through CaroHome, LLC, has invested or committed to invest a total of \$58 million in affordable housing and anticipates investing up to a total of \$125 million in affordable housing by the year 2000.

#### COMPETITION

*General* In recent years, the electric utility industry has experienced a substantial increase in competition at the wholesale level, caused by changes in federal law and regulatory policy. Several states have also decided to deregulate aspects of retail electric service. The issue of retail deregulation and competition is being reviewed by a number of states and bills have been introduced in Congress that seek to introduce retail deregulation in all states.

Allowing increased competition in the generation and sale of electric power will require resolution of many complex issues. One of the major issues to be resolved is who will pay for stranded costs (those costs and investments made by utilities in order to meet their statutory obligation to provide electric service) if the market price of electricity following industry restructuring is not sufficient to cover those costs. The amount of such stranded costs the Company might experience would depend on the timing of, and the extent to which, direct competition is introduced, and the then-existing market price of energy. If electric utilities were no longer subject to cost-based regulation and it were not possible to recover stranded costs, the results of operations and financial position of the Company would be adversely affected.

*Wholesale Competition* Since passage of the National Energy Act of 1992 (Energy Act), competition in the wholesale electric utility industry has significantly increased due to greater participation by traditional electricity suppliers, wholesale power marketers and brokers, and due to the trading of energy futures contracts on various commodities exchanges. This increased competition could affect the Company's load forecasts, plans for power supply and wholesale energy sales and related revenues. The impact could vary depending on the extent to which additional generation is built to compete in the wholesale market, new opportunities are created for the Company to expand its wholesale load, or current wholesale customers elect to purchase from other suppliers after existing contracts expire.

To assist in the development of wholesale competition, the Federal Energy Regulatory Commission (FERC), in 1996, issued standards for wholesale wheeling of electric power through its rules on open access transmission and stranded costs and on information systems and standards of conduct (Orders 888 and 889). The rules require all transmitting utilities to have on file an open access transmission tariff, which contains provisions for the

recovery of stranded costs and numerous other provisions that could affect the sale of electric energy at the wholesale level. The Company filed its open access transmission tariff with the FERC in mid-1996. Shortly thereafter, Power Agency and other entities filed protests challenging numerous aspects of the Company's tariff and requesting that an evidentiary proceeding be held. The FERC set the matter for hearing and set a discovery and procedural schedule. In July 1997, the Company filed an offer of settlement in this matter. The administrative law judge certified the offer to the full FERC in September 1997. The offer is pending before the FERC. The Company cannot predict the outcome of this matter.

In November 1997, the Company applied to the FERC for authority to sell power at market-based rates. In January 1998, the FERC issued an order accepting the Company's application and permitting the Company to sell power at market-based rates.

*Retail Competition* The Energy Act prohibits the FERC from ordering retail wheeling – transmitting power on behalf of another producer to an individual retail customer. Several states, including California and Pennsylvania, have changed their laws and regulations to allow retail electric customers to buy power from suppliers other than the local utility. Other states are considering similar changes, and some have instituted experimental programs to allow a limited number of customers to select electric suppliers. These changes and proposals have taken differing forms and included disparate elements. The Company believes changes in existing laws in both North and South Carolina would be required to permit competition in the Company's retail jurisdictions.

*North Carolina Activities* Since 1995, the NCUC has been considering the impact of increased competition in the electric industry. In May 1996, the NCUC issued an order stating that FERC Orders 888 and 889 would provide a new focus for NCUC proceedings with respect to competition in the electric industry. As a result, the NCUC held Docket No. E-100, Sub 77, which concerned retail competition, in abeyance pending further order and established a new docket (Docket No. E-100, Sub 78) to address FERC Orders 888 and 889. The NCUC has received several rounds of comments in this docket; the Company filed its most recent comments and reply comments in November 1997 and December 1997, respectively. The Company cannot predict the outcome of this matter.

In April 1997, the North Carolina General Assembly (General Assembly) approved legislation establishing a 23-member study commission to evaluate the future of electric service in the state. The commission is comprised of 12 state legislators, two residential customers, two industrial customers, a commercial customer, a power marketer, an environmentalist and representatives from

each of the four major power suppliers in the state. The commission is examining a wide range of issues related to the cost and delivery of electric service. The commission will make an interim report to the 1998 General Assembly and a final report in 1999. The Company cannot predict the outcome of this matter.

*South Carolina Activities* In February 1997, representatives in the South Carolina General Assembly introduced a bill calling for a transition to full competition in the electric utility industry beginning in 1998. No action was taken on this bill. In addition, by letter dated May 6, 1997, the Speaker of the South Carolina House of Representatives requested that the SCSPSC prepare a proposal for the deregulation and restructuring of electricity in South Carolina. On February 3, 1998, the SCSPSC issued a report to the South Carolina General Assembly recommending caution and more study on the issue of deregulation. The report outlines a five-year transition plan that it recommends be followed if the South Carolina legislators decide to go forward with deregulation. The South Carolina General Assembly's Utility Subcommittee has completed six hearings around the state in order to receive citizen input on the deregulation issue. The subcommittee will continue to meet. The Company cannot predict the outcome of this matter.

*Federal Activities* Numerous bills were introduced in the 105th Congress concerning the restructuring of the electric utility industry. Key provisions of the bills vary widely. Committee Chairs have held workshops and hearings to discuss various aspects of restructuring. No legislation was passed during the 1997 session of Congress, and more restructuring-related bills are expected to be introduced in Congress during 1998. The Company cannot predict the outcome of this matter.

*Company Activities* The developments described above have created greater planning uncertainty and risks for the Company. The Company has been addressing these risks by securing long-term contracts with its wholesale customers and by continuing to work to meet the energy needs of its industrial customers. To position itself to better address these risks, the Company internally organized into separate business units in early 1998. The business units include Energy Supply, Energy Delivery and Retail Sales and Services. The focus of these business units will be to further the development of a corporate culture that is necessary to compete in a deregulated environment. Other elements of the Company's strategy to respond to the changing market for electricity include promoting economic development, implementing new marketing strategies, improving customer satisfaction, and increasing the focus on managing and reducing costs (and, consequently, avoiding future rate increases).

In late 1996, the Company and NCEMC entered into a revised Power Coordination Agreement (PCA) under which NCEMC will receive discounted capacity in exchange for long-term commitments to the Company for its supplemental power. As a result of this revised agreement, the Company provided 100 MW of baseload power to NCEMC in 1997, and will provide a block of 225 MW from 1998 to 2010, an additional block of 225 MW from 2000 to 2004 and a third block of 225 MW from 2001 to 2008. The remainder of the NCEMC capacity provided by the Company, not separately contracted for in the revised agreement, will be billed at fixed rates through the year 2003, rather than at the formula rates established in the original PCA. The FERC has accepted the revised PCA. When NCEMC seeks future supplies, the Company will respond and expects to remain competitive in the pursuit and retention of wholesale load.

In August 1996, Power Agency notified the Company of its intention to discontinue certain contractual purchases of power from the Company effective September 1, 2001. Power Agency's notice indicated that it intends to replace these contractual obligations through purchases of capacity and energy and related services in the open market, and that the Company will be considered as a potential supplier for those purchases. Under the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, Power Agency can reduce its purchases from the Company with an appropriate five-year notice. The Company and Power Agency have agreed on a process for determining the sufficiency of the August 1996 notice. The Company cannot predict the outcome of this matter.

As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-71). Accordingly, the Company records certain regulatory assets and liabilities resulting from the effects of the ratemaking process. These assets and liabilities would not be recorded under generally accepted accounting principles for unregulated entities. The Company's ability to continue to meet the criteria for application of SFAS-71 may be affected in the future by competitive forces, deregulation and restructuring in the electric utility industry. In the event that SFAS-71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

#### YEAR 2000 COMPUTER ISSUES

The Company initiated steps in 1994 to bring its computer systems into Year 2000 compliance. Only a few of the Company's core business applications remain to be brought into compliance. All remaining computer systems, including equipment and devices containing microprocessors, are being evaluated and will be brought into compliance or replaced if necessary. Estimated costs to be incurred will be determined as this evaluation is finalized.

The Year 2000 issue may affect other entities with which the Company transacts business. The Company cannot estimate or predict the potential adverse consequences, if any, that could result from such entities' failure to address this issue.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain market risks that are inherent in the Company's financial instruments, which arise from transactions entered into in the normal course of business. The Company's primary exposures are to earnings, cash flow and fair value risks due to changes in interest rates with respect to its long-term debt. The Company manages its interest rate risks through use of a combination of fixed and variable rate debt. Variable rate debt has rates that adjust in periods ranging from daily to monthly. For the Company's long-term debt obligations at December 31, 1997, including current portions, the table below presents principal cash flows and related weighted-average interest rates, by expected maturity date (*dollars in millions*).

	1998	1999	2000	2001
Fixed rate long-term debt	\$208	\$ 53	\$ 197	—
Average interest rate	5.57%	7.11%	5.92%	—
Variable rate long-term debt	—	—	—	—
Average interest rate	—	—	—	—

	2002	Thereafter	Total	Fair Value
Fixed rate long-term debt	\$100	\$1,219	\$1,777	\$1,846
Average interest rate	6.75%	7.41%	6.98%	
Variable rate long-term debt	—	\$ 620	\$ 620	\$ 622
Average interest rate	—	3.75%	3.75%	

The table above excludes commercial paper classified as long-term debt. Commercial paper does not have associated significant interest rate risk due to the short maturity of that instrument.

*Management Report*

The management of Carolina Power & Light Company is responsible for the information and representations contained in the financial statements and other sections of this annual report. The financial statements are prepared in conformity with generally accepted accounting principles, using informed judgments and estimates where appropriate. The information in other sections of this annual report is consistent with the financial statements.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and the financial statements are reliable. This system is augmented by a strong program of internal audit.

The Board of Directors pursues its oversight role for financial reporting and accounting through its audit committee. The committee, which is composed entirely of outside directors, meets periodically with management and the Company's internal auditors to review the work of each and to monitor the discharge by each of its responsibilities. The audit committee also meets periodically with the independent auditors, who have free access to the committee without management present, to discuss auditing, internal accounting control and financial reporting matters.

The independent auditors, Deloitte & Touche LLP, are engaged to express an opinion on the Company's financial statements. Their opinion is based on procedures believed by them to be sufficient to provide reasonable assurance that the financial statements do not contain material misstatements.



GLENN E. HARDER  
*Executive Vice President and Chief Financial Officer*  
*Financial Services*

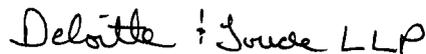
*Independent Auditors' Report*

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CAROLINA POWER & LIGHT COMPANY:

We have audited the accompanying consolidated balance sheets and schedules of capitalization of Carolina Power & Light Company and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, retained earnings, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the company and subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.



*February 9, 1998*  
*Raleigh, North Carolina*

## Consolidated Statements of Income

(In thousands except per share data)	Years ended December 31		
	1997	1996	1995
<i>Operating revenues</i>	\$3,024,089	\$2,995,715	\$3,006,553
<i>Operating expenses</i>			
Fuel	534,268	515,050	529,812
Purchased power	387,296	412,554	409,940
Other operation and maintenance	661,466	730,140	738,031
Depreciation and amortization	481,650	386,927	364,527
Taxes other than on income	139,478	140,479	144,043
Income tax expense	253,048	269,763	259,224
Harris Plant deferred costs, net	24,296	26,715	28,128
Total operating expenses	2,481,502	2,481,628	2,473,705
<i>Operating income</i>	542,587	514,087	532,848
<i>Other income</i>			
Allowance for equity funds used during construction	—	11	3,350
Income tax credit	19,332	13,847	18,541
Harris Plant carrying costs	4,626	7,299	8,297
Interest income	18,335	4,063	8,680
Other income, net	(19,275)	37,340	9,063
Total other income	23,018	62,560	47,931
<i>Income before interest charges</i>	565,605	576,647	580,779
<i>Interest charges</i>			
Long-term debt	163,468	172,622	187,397
Other interest charges	18,743	19,155	25,896
Allowance for borrowed funds used during construction	(4,923)	(6,407)	(5,118)
Total interest charges, net	177,288	185,370	208,175
<i>Net income</i>	\$ 388,317	\$ 391,277	\$ 372,604
<i>Preferred stock dividend requirements</i>	(6,052)	(9,609)	(9,609)
<i>Earnings for common stock</i>	\$ 382,265	\$ 381,668	\$ 362,995
<i>Average common shares outstanding</i>	143,645	143,621	146,232
<i>Basic and diluted earnings per common share</i>	\$ 2.66	\$ 2.66	\$ 2.48
<i>Dividends declared per common share</i>	\$ 1.895	\$ 1.835	\$ 1.775

See notes to consolidated financial statements.

## Consolidated Balance Sheets

<i>(In thousands)</i>	<i>December 31</i>	
ASSETS	1997	1996
<i>Electric utility plant</i>		
Electric utility plant in service	\$10,113,334	\$ 9,783,442
Accumulated depreciation	(4,181,417)	(3,796,645)
Electric utility plant in service, net	5,931,917	5,986,797
Held for future use	12,255	12,127
Construction work in progress	158,347	196,623
Nuclear fuel, net of amortization	190,991	204,372
Total electric utility plant, net	6,293,510	6,399,919
<i>Current assets</i>		
Cash and cash equivalents	14,426	10,941
Accounts receivable	406,872	384,318
Fuel	47,551	60,369
Materials and supplies	136,253	122,809
Deferred fuel cost (credit)	20,630	(4,339)
Prepayments	62,040	65,794
Other current assets	47,034	27,808
Total current assets	734,806	667,700
<i>Deferred debits and other assets (Note 6)</i>		
Income taxes recoverable through future rates	328,818	384,336
Abandonment costs	38,557	65,863
Harris Plant deferred costs	63,727	83,397
Unamortized debt expense	48,407	69,956
Nuclear decommissioning trust funds	245,523	145,316
Miscellaneous other property and investments	256,291	344,018
Other assets and deferred debits	211,089	204,357
Total deferred debits and other assets	1,192,412	1,297,243
<i>Total assets</i>	<i>\$ 8,220,728</i>	<i>\$ 8,364,862</i>
<b>CAPITALIZATION AND LIABILITIES</b>		
<i>Capitalization (see consolidated schedules of capitalization)</i>		
Common stock equity	\$ 2,818,807	\$ 2,690,454
Preferred stock – redemption not required	59,376	143,801
Long-term debt, net	2,415,656	2,525,607
Total capitalization	5,293,839	5,359,862
<i>Current liabilities</i>		
Current portion of long-term debt	207,979	103,345
Short-term debt	–	64,885
Accounts payable	290,352	375,216
Interest accrued	43,620	39,436
Dividends declared	72,266	73,469
Other current liabilities	116,609	74,668
Total current liabilities	730,826	731,019
<i>Deferred credits and other liabilities</i>		
Accumulated deferred income taxes	1,722,908	1,827,693
Accumulated deferred investment tax credits	222,028	232,262
Other liabilities and deferred credits	251,127	214,026
Total deferred credits and other liabilities	2,196,063	2,273,981
<i>Commitments and contingencies (Note 11)</i>		
<i>Total capitalization and liabilities</i>	<i>\$ 8,220,728</i>	<i>\$ 8,364,862</i>

See notes to consolidated financial statements.



## Consolidated Schedules of Capitalization

December 31

<i>(Dollars in thousands except per share data)</i>	1997	1996
<i>Common stock equity</i>		
Common stock without par value, authorized 200,000,000 shares, issued and outstanding 151,340,394 and 151,415,722 shares, respectively (Note 7)	\$1,371,520	\$1,366,100
Unearned ESOP common stock	(165,804)	(178,514)
Capital stock issuance expense	(790)	(790)
Retained earnings (Note 5)	1,613,881	1,503,658
<b>Total common stock equity</b>	<b>\$2,818,807</b>	<b>\$2,690,454</b>
<i>Cumulative preferred stock, without par value</i>		
(entitled to \$100 a share plus accumulated dividends in the event of liquidation; outstanding shares are as of December 31, 1997)		
Preferred stock – redemption not required:		
Authorized – 300,000 shares \$5.00 Preferred Stock; 20,000,000 shares		
Serial Preferred Stock		
\$5.00 Preferred – 237,259 shares outstanding (redemption price \$110.00)	\$ 24,376	\$ 24,376
4.20 Serial Preferred – 100,000 shares outstanding (redemption price \$102.00)	10,000	10,000
5.44 Serial Preferred – 250,000 shares outstanding (redemption price \$101.00)	25,000	25,000
7.95 Serial Preferred	–	35,000
7.72 Serial Preferred	–	49,425
<b>Total preferred stock – redemption not required</b>	<b>\$ 59,376</b>	<b>\$ 143,801</b>
<i>Long-term debt (interest rates are as of December 31, 1997)</i>		
First mortgage bonds:		
6.375% due 1997	\$ –	\$ 40,000
5.375% and 6.875% due 1998	140,000	140,000
6.125% due 2000	150,000	150,000
6.75% due 2002	100,000	100,000
5.875% and 7.875% due 2004	300,000	300,000
6.80% due 2007	200,000	–
6.875% to 8.625% due 2021–2023	500,000	500,000
First mortgage bonds – secured medium-term notes:		
7.75% due 1997	–	60,000
5.00% to 5.06% due 1998	65,000	65,000
7.15% due 1999	50,000	50,000
First mortgage bonds – pollution control series:		
6.30% to 6.90% due 2009–2014	93,530	93,530
3.80% and 4.00% due 2024	122,600	122,600
<b>Total first mortgage bonds</b>	<b>1,721,130</b>	<b>1,621,130</b>
Other long-term debt:		
Pollution control obligations backed by letter of credit, 3.70% to 5.40% due 2014–2017	442,000	442,000
Other pollution control obligations, 3.90% due 2019	55,640	55,640
Unsecured subordinated debentures, 8.55% due 2025	125,000	125,000
Commercial paper reclassified to long-term debt (Note 3)	245,900	350,000
Miscellaneous notes	53,486	56,858
<b>Total other long-term debt</b>	<b>922,026</b>	<b>1,029,498</b>
Unamortized premium and discount, net	(19,521)	(21,676)
Current portion of long-term debt	(207,979)	(103,345)
<b>Total long-term debt, net</b>	<b>\$2,415,656</b>	<b>\$2,525,607</b>
<b>Total capitalization</b>	<b>\$5,293,839</b>	<b>\$5,359,862</b>

See notes to consolidated financial statements.

## Consolidated Statements of Retained Earnings

<i>(In thousands except per share data)</i>	<i>Years ended December 31</i>		
	1997	1996	1995
<i>Retained earnings at beginning of year</i>	\$1,503,658	\$1,385,378	\$1,280,960
Net income	388,317	391,277	372,604
Preferred stock dividends at stated rates	(4,627)	(9,609)	(9,609)
Common stock dividends at annual per share rate of \$1.895, \$1.835 and \$1.775, respectively	(272,011)	(263,388)	(258,577)
Other adjustments	(1,456)	—	—
<i>Retained earnings at end of year</i>	\$1,613,881	\$1,503,658	\$1,385,378

## Consolidated Quarterly Financial Data (Unaudited)

<i>(In thousands except per share data)</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
<i>Year ended December 31, 1997</i>				
Operating revenues	\$716,084	\$666,023	\$906,841	\$735,141
Operating income	122,762	86,988	211,281	121,556
Net income	82,262	54,289	167,829	83,937
Common stock data:				
Basic and diluted earnings per common share	.56	.37	1.15	.58
Dividend paid per common share	.470	.470	.470	.470
Price per share – high	37 $\frac{1}{8}$	36 $\frac{1}{4}$	36 $\frac{1}{2}$	42 $\frac{1}{2}$
low	36 $\frac{1}{8}$	33	33 $\frac{1}{4}$	34 $\frac{1}{4}$
<i>Year ended December 31, 1996</i>				
Operating revenues	\$783,585	\$685,968	\$831,590	\$694,572
Operating income	154,428	94,966	164,125	100,568
Net income	118,346	62,656	129,159	81,116
Common stock data:				
Basic and diluted earnings per common share	.81	.42	.88	.55
Dividend paid per common share	.455	.455	.455	.455
Price per share – high	38 $\frac{1}{8}$	38	38 $\frac{1}{4}$	37
low	34 $\frac{1}{2}$	34 $\frac{1}{4}$	34 $\frac{1}{4}$	34 $\frac{1}{4}$

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

## 1. ORGANIZATION AND BASIS OF PRESENTATION

*a. Organization* Carolina Power & Light Company (the Company) is a public service corporation primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina. The Company has no other material segments of business.

*b. Basis of Presentation* The consolidated financial statements are prepared in accordance with generally accepted accounting principles. The accounting records of the Company are maintained in accordance with uniform systems of accounts prescribed by the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the South Carolina Public Service Commission (SCPSC). Certain amounts for 1996 and 1995 have been reclassified to conform to the 1997 presentation, with no effect on previously reported net income or common stock equity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*a. Principles of Consolidation* The consolidated financial statements include the activities of the Company and majority-owned subsidiaries. These subsidiaries have invested in areas such as communications technology, energy-management services and affordable housing. Significant intercompany balances and transactions have been eliminated.

*b. Use of Estimates and Assumptions* In preparing financial statements that conform with generally accepted accounting principles, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

*c. Electric Utility Plant* The cost of additions, including betterments and replacements of units of property, is charged to electric utility plant. Maintenance and repairs of property, and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense. The cost of units of property replaced, renewed or retired, plus removal or disposal costs, less salvage, is charged to accumulated depreciation. Generally, electric utility plant other than nuclear fuel is subject to the lien of the Company's mortgage.

The balances of electric utility plant in service at December 31 are listed below (*in millions*).

	1997	1996
Production plant	\$ 6,297	\$6,161
Transmission plant	952	940
Distribution plant	2,327	2,179
General plant and other	537	503
Electric utility plant in service	\$10,113	\$9,783

As prescribed in regulatory uniform systems of accounts, an allowance for the cost of borrowed and equity funds used to finance electric utility plant construction (AFUDC) is charged to the cost of plant. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the Company's utility rates to customers over the service life of the property. The equity funds portion of AFUDC is credited to other income and the borrowed funds portion is credited to interest charges. The composite AFUDC rate was 5.6% in 1997, 5.8% in 1996 and 8.0% in 1995.

*d. Depreciation and Amortization* For financial reporting purposes, depreciation of electric utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated net salvage. Depreciation provisions, including decommissioning costs (see Note 2e), as a percent of average depreciable property other than nuclear fuel, were approximately 3.9% in 1997 and 1996 and 3.8% in 1995. Depreciation expense totaled \$382.1 million, \$363.2 million and \$344.0 million in 1997, 1996 and 1995, respectively.

Depreciation and amortization expense also includes amortization of deferred operation and maintenance expenses associated with Hurricane Fran, which struck significant portions of the Company's service territory in September 1996. In December 1996, the NCUC authorized the Company to defer these expenses (approximately \$40 million) with amortization over a 40-month period.

In December 1996, the NCUC authorized the Company to accelerate amortization of certain regulatory assets over a three-year period beginning January 1, 1997. In March 1997, the SCPSC approved a similar plan for the Company to accelerate the amortization of certain regulatory assets, including plant abandonment costs related to the Harris Plant, over a three-year period beginning January 1, 1997. The accelerated amortization of these regulatory assets results in additional depreciation and amortization expenses of approximately \$68 million in each year of the three-year period. Depreciation and amortization expense also includes amortization of plant abandonment costs (see Note 6c).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE), is computed primarily on the unit-of-production method and charged to fuel expense. Costs related to obligations to the DOE for the decommissioning and decontamination of enrichment facilities are also charged to fuel expense.

*e. Nuclear Decommissioning* In the Company's retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC and the SCSPC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdiction, the provisions for nuclear decommissioning costs are based on amounts agreed upon in applicable rate agreements. Decommissioning cost provisions, which are included in depreciation and amortization expense, were \$33.2 million, \$33.1 million and \$31.2 million in 1997, 1996 and 1995, respectively.

Accumulated decommissioning costs, which are included in accumulated depreciation, were \$428.7 million and \$326 million at December 31, 1997 and 1996, respectively. These costs include amounts retained internally and amounts funded in an external decommissioning trust. The balance of the nuclear decommissioning trust was \$245.5 million and \$145.3 million at December 31, 1997 and 1996, respectively. Trust earnings increase the trust balance with a corresponding increase in the accumulated decommissioning balance. These balances are adjusted for net unrealized gains and losses. Based on the site-specific estimates discussed below, and using an assumed after-tax earnings rate of 8.5% and an assumed cost escalation rate of 4%, current levels of rate recovery for nuclear decommissioning costs are adequate to provide for decommissioning of the Company's nuclear facilities.

The Company's most recent site-specific estimates of decommissioning costs were developed in 1993, using 1993 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring shortly after operating license expiration. These estimates, in 1993 dollars, are \$257.7 million for Robinson Unit No. 2, \$235.4 million for Brunswick Unit No. 1, \$221.4 million for Brunswick Unit No. 2 and \$284.3 million for the Harris Plant. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in the Brunswick and Harris nuclear generating facilities. Operating licenses for the Company's nuclear units expire in the year 2010 for Robinson

Unit No. 2, 2016 for Brunswick Unit No. 1, 2014 for Brunswick Unit No. 2 and 2026 for the Harris Plant.

The Financial Accounting Standards Board has reached several tentative conclusions with respect to its project regarding accounting practices related to closure and removal of long-lived assets. It is uncertain when the final statement will be issued and what impacts it may ultimately have on the Company's accounting for nuclear decommissioning and other closure and removal costs.

*f. Other Policies* Customers' meters are read and bills are rendered on a cycle basis. Revenues are accrued for services rendered but unbilled at the end of each accounting period.

Fuel expense includes fuel costs or recoveries that are deferred through fuel clauses established by the Company's regulators. These clauses allow the Company to recover fuel costs and the fuel component of purchased power costs through the fuel component of customer rates.

Other property and investments are stated principally at cost. The Company maintains an allowance for doubtful accounts receivable, which totaled \$3.4 million and \$3.7 million at December 31, 1997 and 1996, respectively. Fuel inventory and materials and supplies inventory are carried on a first-in, first-out or average cost basis. Long-term debt premiums, discounts and issuance expenses are amortized over the life of the related debt using the straight-line method. Any expenses or call premiums associated with the reacquisition of debt obligations are amortized over the remaining life of the original debt using the straight-line method, except that December 31, 1996 balances are being amortized on a three-year accelerated basis (see Note 6a). The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**3. SHORT-TERM DEBT AND REVOLVING CREDIT FACILITIES**  
As of December 31, 1997, the Company's revolving credit facilities totaled \$515 million, substantially all of which are long-term agreements supporting its commercial paper borrowings. The Company is required to pay minimal annual commitment fees to maintain its credit facilities. Consistent with management's intent to maintain a portion of its commercial paper on a long-term basis, and as supported by its long-term revolving credit facilities, the Company included in long-term debt \$245.9 million and \$350 million of commercial paper outstanding as of December 31, 1997 and 1996, respectively. Also, at December 31, 1996, the Company had other short-term debt which totaled \$64.9 million. The weighted-average interest rates of these borrowings were 5.85% and 5.41% at December 31, 1997 and 1996, respectively, including commercial paper reclassified as long-term debt.

#### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents and short-term debt approximate fair value due to the short maturities of these instruments. The carrying amount of the Company's long-term debt was \$2.66 billion and \$2.67 billion at December 31, 1997 and 1996, respectively. The estimated fair value of this debt, as obtained from an independent pricing service, was \$2.71 billion and \$2.67 billion at December 31, 1997 and 1996, respectively. There are inherent limitations in any estimation technique, and these estimates are not necessarily indicative of the amount the Company could realize in current transactions.

External funds have been established, as required by the Nuclear Regulatory Commission, as a mechanism to fund certain costs of nuclear decommissioning (see Note 2e). These nuclear decommissioning trust funds are invested in U.S. stocks, bonds and cash equivalents. "Nuclear decommissioning trust funds" are presented at amounts that approximate fair value.

#### 5. CAPITALIZATION

In 1994, the Board of Directors of the Company authorized the repurchase of up to 10 million shares of the Company's common stock on the open market. Under this stock repurchase program, the Company purchased approximately 0.7 million shares in both 1997 and 1996, 4.2 million shares in 1995 and 4.4 million shares in 1994. The program was completed in 1997.

As of December 31, 1997, the Company had 20,163,180 shares of authorized but unissued common stock reserved and available for issuance, primarily to satisfy the requirements of the Company's stock plans. The Company intends, however, to meet the requirements of these stock plans with issued and outstanding shares presently held by the Trustee of the Stock Purchase-Savings Plan or with open market purchases of common stock shares, as appropriate.

The Company's mortgage, as supplemented, and charter contain provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. As of December 31, 1997, there were no significant restrictions on the use of retained earnings.

As of December 31, 1997, long-term debt maturities for the years 1998, 1999, 2000 and 2002 are \$208 million, \$53 million, \$197 million and \$100 million, respectively. There are no long-term debt maturities in 2001.

#### 6. REGULATORY MATTERS

*a. Regulatory Assets* As a regulated entity, the Company is subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS-71). See Note 11c for additional discussion of SFAS-71. Accordingly, the Company records certain assets resulting from the effects of the ratemaking process, which would not be recorded under generally accepted accounting principles for unregulated entities. At December 31, 1997, the balances of the Company's regulatory assets were as follows (*in millions*):

Income taxes recoverable through future rates*	\$329
Harris Plant deferred costs	64
Abandonment costs*	38
Loss on reacquired debt (included in unamortized debt expense)*	42
Deferred fuel	21
Items included in other assets and deferred debits:	
Deferred DOE enrichment facilities-related costs	49
Deferred hurricane-related costs	24
Emission allowance carrying costs*	8
<b>Total</b>	<b>\$575</b>

\*Beginning in 1997, all or certain portions of these regulatory assets are subject to accelerated amortization (see Note 2d).

*b. Retail Rate Matters* A petition was filed in July 1996 by the Carolina Industrial Group for Fair Utility Rates (CIGFUR) with the NCUC, requesting that the NCUC conduct an investigation of the Company's base rates or treat its petition as a complaint against the Company. The petition alleged that the Company's return on equity (which was authorized by the NCUC in the Company's last general rate proceeding in 1988) and earnings are too high. In December 1996, the NCUC issued an order denying CIGFUR's petition and stating that it tentatively found no reasonable grounds to proceed with CIGFUR's petition as a complaint. In January 1997, CIGFUR filed its Comments and Motion for Reconsideration, to which the Company responded. In February 1997, the NCUC issued an order denying CIGFUR's Motion for Reconsideration. CIGFUR filed a Notice of Appeal of the NCUC Order with the North Carolina Court of Appeals. The Company filed its brief in this matter in July 1997, and oral argument was held before the North Carolina Court of Appeals in November 1997. The Company cannot predict the outcome of this matter.

c. *Plant-related Deferred Costs* The Company abandoned efforts to complete Mayo Unit No. 2 in March 1987. The NCU and SCPS each allowed the Company to recover the cost of the abandoned unit over a 10-year period without a return on the unamortized balance. In the 1988 rate orders, the Company was ordered to remove from rate base and treat as abandoned plant certain costs related to the Harris Plant. Abandoned plant amortization related to the 1988 rate orders will be completed in 1998 for the North Carolina retail and wholesale jurisdictions and in 1999 for the South Carolina retail jurisdiction.

Amortization of plant abandonment costs is included in depreciation and amortization expense and totaled \$30.8 million, \$17.6 million and \$18.3 million in 1997, 1996 and 1995, respectively. The unamortized balances of plant abandonment costs are reported at the present value of future recoveries of these costs. The associated accretion of the present value was \$3.5 million, \$26.4 million and \$4.3 million in 1997, 1996 and 1995, respectively, and is reported in other income, net. The accretion for 1996 includes a \$22.9 million adjustment to the unamortized balance of plant abandonment costs related to the Harris Plant. This adjustment was made to reflect the present value impact of the shorter recovery period resulting from accelerated amortization of this asset (see Note 2d).

#### 7. EMPLOYEE STOCK OWNERSHIP PLAN

The Company sponsors the Stock Purchase-Savings Plan (SPSP) for which substantially all full-time employees and certain part-time employees are eligible. The SPSP, which has Company matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Company common stock and other diverse investments. The SPSP, as amended in 1989, is an employee stock ownership plan (ESOP) that can enter into acquisition loans to acquire Company common stock to satisfy SPSP common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the SPSP. Common stock acquired with the proceeds of an ESOP loan is held by the SPSP Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to participant contributions, Company matching and incentive contributions and/or reinvested dividends. Dividends paid on ESOP suspense shares and on ESOP shares allocated to participants are used to repay ESOP acquisition loans. These dividends are deductible for income tax purposes.

There were 7,536,600 ESOP suspense shares at December 31, 1997, with a fair value of \$319.4 million. ESOP shares allocated to plan participants totaled 13,252,988 at December 31, 1997. The Company has a long-term note receivable from the SPSP Trustee related to the purchase of common stock from the Company in 1989. The balance of the note receivable from the SPSP Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

#### 8. POSTRETIREMENT BENEFIT PLANS

The Company has a noncontributory defined benefit retirement (pension) plan for substantially all full-time employees, and funds the pension plan in amounts that comply with contribution limits imposed by law. Pension plan benefits reflect an employee's compensation, years of service and age at retirement.

The components of net periodic pension cost are (in thousands):

	1997	1996	1995
Actual return on plan assets	\$(110,346)	\$(76,347)	\$(103,381)
Variance from expected return, deferred	57,368	27,056	59,425
Expected return on plan assets	(52,978)	(49,291)	(43,956)
Service cost	18,643	19,257	16,344
Interest cost on projected benefit obligation	42,468	39,505	35,592
Net amortization	1,037	466	(3,580)
Net periodic pension cost	\$ 9,170	\$ 9,937	\$ 4,400

Reconciliations of the funded status of the pension plan at December 31 are (in thousands):

	1997	1996
ACTUARIAL PRESENT VALUE OF BENEFITS		
FOR SERVICES RENDERED TO DATE:		
Accumulated benefits based on salaries to date, including vested benefits of \$463.1 million for 1997 and \$415.1 million for 1996	\$ 497,517	\$ 452,552
Additional benefits based on estimated future salary levels	100,643	106,136
Projected benefit obligation	598,160	558,688
Fair market value of plan assets, invested primarily in equity and fixed-income securities	768,297	683,508
Funded status	170,137	124,820
Unrecognized prior service costs	10,916	8,023
Unrecognized actuarial gain	(212,419)	(155,145)
Unrecognized transition obligation, amortized over 18.5 years beginning January 1, 1987	793	899
Accrued pension costs	\$ (30,573)	\$ (21,403)

The weighted-average discount rate used to measure the projected benefit obligation was 7.75% in both 1997 and 1996. The assumed rate of increase in future compensation used to measure the projected benefit obligation was 4.20% in both 1997 and 1996. The expected long-term rate of return on pension plan assets used in determining the net periodic pension cost was 9.25% in both 1997 and 1996 and 9% in 1995.

In addition to pension benefits, the Company provides contributory postretirement benefits (OPEB), including certain health care and life insurance benefits, for substantially all retired employees.

The components of net periodic OPEB cost are (in thousands):

	1997	1996	1995
Actual return on plan assets	\$ (4,628)	\$ (2,656)	\$ (2,514)
Variance from expected return, deferred	2,186	726	1,420
Expected return on plan assets	(2,442)	(1,930)	(1,094)
Service cost	7,988	8,412	7,498
Interest cost on accumulated benefit obligation	11,065	10,629	10,595
Net amortization	5,889	5,889	5,530
Net periodic OPEB cost	\$22,500	\$23,000	\$22,529

Reconciliations of the funded status of the OPEB plans at December 31 are (in thousands):

	1997	1996
ACTUARIAL PRESENT VALUE OF BENEFITS		
FOR SERVICES RENDERED TO DATE:		
Current retirees	\$ 60,588	\$ 60,534
Active employees eligible to retire	23,009	19,607
Active employees not eligible to retire	97,727	84,346
Accumulated postretirement benefit obligation	181,324	164,487
Fair market value of plan assets, invested primarily in equity and fixed-income securities	33,427	28,799
Funded status	(147,897)	(135,688)
Unrecognized actuarial gain	(10,506)	(11,339)
Unrecognized transition obligation, amortized over 20 years beginning January 1, 1993	88,336	94,225
Accrued OPEB costs	\$ (70,067)	\$ (52,802)

The assumptions used to measure the accumulated postretirement benefit obligation are:

	1997	1996
Weighted-average discount rate	7.75%	7.75%
Initial medical cost trend rate for pre-Medicare benefits	7.20%	7.70%
Initial medical cost trend rate for post-Medicare benefits	7.00%	7.50%
Ultimate medical cost trend rate	5.25%	5.25%
Year ultimate medical cost trend rate is achieved	2005	2005

The expected long-term rate of return on plan assets used in determining the net periodic OPEB cost was 9.25% in both 1997 and 1996 and 9% in 1995. Assuming a 1% increase in the medical cost trend rates, the aggregate of the service and interest cost components of the net periodic OPEB cost for 1997 would increase by \$3.3 million, and the accumulated postretirement benefit obligation at December 31, 1997, would increase by \$20.8 million. In general, OPEB costs are paid as claims are incurred and premiums are paid; however, the Company is partially funding retiree health care benefits in a trust created pursuant to Section 401(h) of the Internal Revenue Code.

#### 9. INCOME TAXES

Deferred income taxes are provided for temporary differences between book and tax bases of assets and liabilities. Income taxes are allocated between operating income and other income based on the source of the income that generated the tax. Investment tax credits related to operating income are amortized over the service life of the related property.

Net accumulated deferred income tax liabilities at December 31 are (in thousands):

	1997	1996
Accelerated depreciation and property cost differences	\$1,676,505	\$1,734,001
Deferred costs, net	87,829	122,580
Miscellaneous other temporary differences, net	300	23
Net accumulated deferred income tax liability	\$1,764,634	\$1,856,604

Total deferred income tax liabilities were \$2.24 billion and \$2.30 billion at December 31, 1997, and 1996, respectively. Total deferred income tax assets were \$472 million at December 31, 1997, and \$439 million at December 31, 1996.

A reconciliation of the Company's effective income tax rate to the statutory federal income tax rate is as follows:

	1997	1996	1995
Effective income tax rate	37.5%	39.5%	39.2%
State income taxes, net of federal income tax benefit	(4.9)	(4.9)	(5.0)
Investment tax credit amortization	1.7	1.6	1.6
Other differences, net	0.7	(1.2)	(0.8)
Statutory federal income tax rate	35.0%	35.0%	35.0%

The provisions for income tax expense are comprised of (in thousands):

	1997	1996	1995
<i>Included in Operating Expenses</i>			
INCOME TAX EXPENSE (CREDIT)			
Current – federal	\$ 272,570	\$ 132,570	\$ 143,440
state	59,308	29,380	41,826
Deferred – federal	(59,618)	97,303	75,442
state	(8,980)	20,955	7,860
Investment tax credit	(10,232)	(10,445)	(9,344)
Subtotal	253,048	269,763	259,224
HARRIS PLANT DEFERRED COSTS			
Investment tax credit	(151)	(286)	(297)
Total included in operating expenses	252,897	269,477	258,927
<i>Included in Other Income</i>			
INCOME TAX EXPENSE (CREDIT)			
Current – federal	(14,520)	(22,382)	(20,669)
state	(2,561)	(4,025)	(4,251)
Deferred – federal	(1,766)	10,286	5,254
state	(485)	2,274	1,125
Total included in other income	(19,332)	(13,847)	(18,541)
Total income tax expense	\$ 233,565	\$ 255,630	\$ 240,386

#### 10. JOINT OWNERSHIP OF GENERATING FACILITIES

Power Agency holds undivided ownership interests in certain generating facilities of the Company. The Company and Power Agency are entitled to shares of the generating capability and output of each unit equal to their respective ownership interests. Each also pays its ownership share of additional construction costs, fuel inventory purchases and operating expenses. The Company's share of expenses for the jointly owned units is included in the appropriate expense category.

The Company's share of the jointly owned generating facilities is listed below with related information as of December 31, 1997 (dollars in millions):

Facility	Megawatt Capability	Company Ownership Interest	Plant Investment	Accumulated Depreciation	Under Construction
Mayo Plant	745	83.83%	\$ 450	\$180	\$ 1
Harris Plant	860	83.83%	\$3,014	\$933	\$16
Brunswick Plant	1,521	81.67%	\$1,420	\$910	\$ 4
Roxboro Unit No. 4	700	87.06%	\$ 231	\$104	\$ 4

In the table above, plant investment and accumulated depreciation, which includes accumulated nuclear decommissioning, are not reduced by the regulatory disallowances related to the Harris Plant.

## 11. COMMITMENTS AND CONTINGENCIES

*a. Purchased Power* Pursuant to the terms of the 1981 Power Coordination Agreement, as amended, between the Company and Power Agency, the Company is obligated to purchase a percentage of Power Agency's ownership capacity of, and energy from, the Mayo and Harris Plants. For Mayo, the buyback period ended in 1997. In 1993, the Company and Power Agency entered into an agreement to restructure portions of their contracts covering power supplies and interests in jointly owned units. Under the terms of the 1993 agreement, the Company increased the amount of capacity and energy purchased from Power Agency's ownership interest in the Harris Plant, and the buyback period was extended six years through 2007. The estimated minimum annual payments for these purchases, which reflect capital-related capacity costs, total approximately \$26 million. Contractual purchases from the Mayo and Harris plants totaled \$36.2 million, \$36.7 million and \$39.4 million for 1997, 1996 and 1995, respectively. In 1987, the NCUC ordered the Company to reflect the recovery of the capacity portion of these costs on a levelized basis over the original 15-year buyback period, thereby deferring for future recovery the difference between such costs and amounts collected through rates. In 1988, the SCPSA ordered similar treatment, but with a 10-year levelization period. At December 31, 1997, and 1996, the Company had deferred purchased capacity costs, including carrying costs accrued on the deferred balances, of \$63.7 million and \$69.7 million, respectively. Increased purchases (which are not being deferred for future recovery) resulting from the 1993 agreement with Power Agency were approximately \$17 million, \$13 million and \$10 million for 1997, 1996 and 1995, respectively.

The Company has two long-term agreements for the purchase of power and related transmission services from other utilities. The first agreement provides for the purchase of 250 megawatts of capacity through 2009 from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The second agreement is with Duke Energy (Duke) for the purchase of 400 megawatts of firm capacity through mid-1999. The estimated minimum annual payments for power purchases under these agreements are approximately \$31 million for Rockport and \$48 million for Duke, representing capital-related capacity costs. Total purchases (including transmission use charges) under the Rockport agreement amounted to \$61.9 million, \$60.9 million and \$61.8 million for 1997, 1996 and 1995, respectively. Total purchases (including transmission use charges) under the agreement with Duke amounted to \$69.5 million, \$65.4 million and \$63.8 million for 1997, 1996 and 1995, respectively.

*b. Insurance* The Company is a member of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, the Company is insured for \$500 million at each of its nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of \$1.4 billion on the Brunswick Plant, \$2 billion on the Harris Plant and \$800 million on the Robinson Plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. The Company is insured thereunder for six weeks (beginning 17 weeks after the outage begins) in the amount of \$3.5 million per week. For accidental outages extending beyond 23 weeks, the Company is covered for the next 52 weeks in weekly amounts of \$1.5 million at Brunswick Unit No. 1, \$1.45 million at Brunswick Unit No. 2, \$1.59 million at the Harris Plant and \$1.34 million at Robinson Unit No. 2. An additional 104 weeks of coverage is provided at 80% of the above weekly amounts. For the current policy period, the Company is subject to retrospective premium assessments of up to approximately \$15.5 million with respect to the primary coverage, \$20 million with respect to the decontamination, decommissioning and excess property coverage and \$6.1 million for the incremental replacement power costs coverage, in the event covered expenses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. These resources at present total more than \$3.9 billion. Pursuant to regulations of the Nuclear Regulatory Commission, the Company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. The Company is responsible to the extent losses may exceed limits of the coverage described above. Power Agency would be responsible for its ownership share of such losses and for certain retrospective premium assessments on jointly owned nuclear units.

The Company is insured against public liability for a nuclear incident up to \$8.9 billion per occurrence, which is the maximum limit on public liability claims pursuant to the Price-Anderson Act. In the event that public liability claims from an insured nuclear incident exceed \$200 million, the Company would be subject to a pro rata assessment of up to \$75.5 million, plus a 5% surcharge, for each reactor owned for each incident. Payment of such assessment would be made over time as necessary to limit the payment in any one year to no more than \$10 million per reactor owned. Power Agency would be responsible for its ownership share of the assessment on jointly owned nuclear units.

*c. Applicability of SFAS-71* The Company's ability to continue to meet the criteria for application of SFAS-71 (see Note 6a) may be affected in the future by competitive forces, deregulation and restructuring in the electric utility industry. In the event that SFAS-71 no longer applied to a separable portion of the Company's operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of electric utility plant assets as determined pursuant to Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of."

*d. Claims and Uncertainties* 1) The Company is subject to federal, state and local regulations addressing air and water quality, hazardous and solid waste management and other environmental matters.

Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under various federal and state laws. There are several manufactured gas plant (MGP) sites to which the Company and certain entities that were later merged into the Company had some connection. In this regard, the Company, along with others, is participating in a cooperative effort with the North Carolina Department of Environment and Natural Resources, Division of Waste Management (DWM) to establish a uniform framework for addressing these MGP sites. The investigation and remediation of specific MGP sites will be addressed pursuant to one or more Administrative Orders on Consent between the DWM and the potentially responsible party or parties. The Company continues to investigate the identities of parties connected to individual MGP sites, the relative relationships of the Company and other

parties to those sites and the degree to which the Company will undertake efforts with others at individual sites.

The Company has been notified by regulators of its involvement or potential involvement in several sites, other than MGP sites, that require remedial action. Although the Company cannot predict the outcome of these matters, it does not expect costs associated with these sites to be material to the results of operations of the Company.

The Company carries a liability for the estimated costs associated with remedial activities, except for MGP site remediation costs. This liability is not material to the financial position of the Company. The MGP site remediation costs are not currently determinable; however, the Company does not expect those costs to be material to the financial position of the Company.

2) As required under the Nuclear Waste Policy Act of 1982, the Company entered into a contract with the U.S. Department of Energy (DOE) under which the DOE agreed to dispose of the Company's spent nuclear fuel by January 31, 1998. The DOE defaulted on its January 31, 1998 obligation to begin taking spent nuclear fuel, and a group of utilities, including the Company, is considering measures to force the DOE to take spent nuclear fuel or to pay damages from monies other than the Nuclear Waste Fund. The Company cannot predict the outcome of this matter.

With certain modifications, the Company's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent nuclear fuel generated on the Company's system through the expiration of the current operating licenses for all of the Company's nuclear generating units. Subsequent to the expiration of these licenses, dry storage may be necessary.

3) In the opinion of management, liabilities, if any, arising under other pending claims would not have a material effect on the financial position, results of operations or cash flows of the Company.

## Selected Consolidated Financial and Operating Data

<i>(Dollars in thousands except per share data)</i>	1997	1996	1995	1994	1993	1992
<i>Results of operations</i>						
Operating revenues	\$ 3,024,089	\$ 2,995,715	\$ 3,006,553	\$ 2,876,589	\$ 2,895,383	\$ 2,766,821
Operating expenses	(2,481,502)	(2,481,628)	(2,473,705)	(2,432,269)	(2,427,013)	(2,224,861)
Other income	23,018	62,560	47,931	65,414	93,766	73,294
Interest charges, net	(177,288)	(185,370)	(208,175)	(196,567)	(215,640)	(235,619)
Net income	\$ 388,317	\$ 391,277	\$ 372,604	\$ 313,167	\$ 346,496	\$ 379,635
<i>Balance sheet data at year-end</i>						
Total electric utility plant, net	\$ 6,293,510	\$ 6,399,919	\$ 6,328,508	\$ 6,349,484	\$ 6,432,187	\$ 6,425,578
Total assets	8,220,728	8,364,862	8,227,150	8,211,163	8,184,191	7,706,201
Capitalization:						
Common stock equity	\$ 2,818,807	\$ 2,690,454	\$ 2,574,743	\$ 2,586,179	\$ 2,632,116	\$ 2,534,025
Preferred stock – redemption not required	59,376	143,801	143,801	143,801	143,801	143,801
Long-term debt, net	2,415,656	2,525,607	2,610,343	2,530,773	2,584,903	2,674,823
Total capitalization	\$ 5,293,839	\$ 5,359,862	\$ 5,328,887	\$ 5,260,753	\$ 5,360,820	\$ 5,352,649
<i>Other financial data</i>						
Return on average common stock equity ( <i>percent</i> )	13.89	14.44	13.87	11.55	13.03	15.38
Ratio of earnings to fixed charges	4.17	4.12	3.67	3.31	3.23	3.34
Common shares outstanding ( <i>in thousands</i> ) –						
year-end	143,804	143,301	143,406	147,067	160,737	160,737
average	143,645	143,621	146,232	149,614	160,737	160,737
Number of common shareholders of record	71,697	61,828	66,364	70,436	73,169	73,114
Book value per common share \$	19.60	\$ 18.77	\$ 17.95	\$ 17.59	\$ 17.75	\$ 17.27
Basic and diluted earnings per common share \$	2.66	\$ 2.66	\$ 2.48	\$ 2.03	\$ 2.10	\$ 2.36
Dividends declared per common share \$	1.895	\$ 1.835	\$ 1.775	\$ 1.715	\$ 1.655	\$ 1.595
Dividend payout ( <i>percent</i> )	71.2	69.0	71.6	84.5	78.8	67.6
<i>Energy supply (millions of kWh)</i>						
Generated –						
coal	25,545	24,859	23,517	21,001	25,807	25,196
nuclear	21,690	20,284	19,949	18,511	13,691	11,108
hydro	799	882	824	884	784	881
combustion turbines	189	68	56	67	84	54
Purchased	6,318	7,292	7,433	7,039	7,110	7,343
Total energy supply (Company share)	54,541	53,385	51,779	47,502	47,476	44,582
Power Agency share <sup>1</sup>	4,101	3,616	3,828	3,236	2,402	2,232
Total system energy supply	58,642	57,001	55,607	50,738	49,878	46,814

<sup>1</sup>Net of the Company's purchases from Power Agency.

*Investor Information***NOTICE OF ANNUAL MEETING**

CP&L's 1998 annual meeting of shareholders will be held on May 13 at 10 a.m. at the Grove Park Inn in Asheville, North Carolina. A formal notice of the meeting with a proxy statement and a form of proxy was mailed to all shareholders in late March.

**TRANSFER AGENT AND REGISTRAR**

For common and preferred stock:  
Wachovia Shareholder Services  
PO Box 8217  
Boston, MA 02266-8217

**INVESTOR INFORMATION AND SHAREHOLDER INQUIRIES**

Investor information is available 24 hours a day, seven days a week by calling CP&L's Shareholder Information Line. This automated system features earnings and dividend information, news releases and stock transfer information. Call 919-546-2300 or toll-free 800-718-3132, depending on your location.

Other questions concerning stock ownership may be directed to CP&L's Shareholder Relations Section. Call toll-free 800-662-7232 or write to the following address:

Carolina Power & Light Company  
Shareholder Relations Section  
PO Box 1551  
Raleigh, NC 27602

**SECURITIES ANALYST INQUIRIES**

Securities analysts, portfolio managers and representatives of financial institutions seeking information about CP&L should contact Robert F. Drennan, Jr., Manager—Investor Relations and Funds Management, at the corporate headquarters address, or call 919-546-7474.

**COMMON STOCK LISTING**

CP&L's common stock is listed and traded under the symbol CPL on the New York Stock Exchange and the Pacific Stock Exchange in addition to regional stock exchanges across the United States.

**SHAREHOLDER PROGRAMS**

CP&L offers an Automatic Dividend Reinvestment and Customer Stock Purchase Plan and direct deposit of cash dividends to bank accounts for the convenience of shareholders. For information on these programs, contact the Shareholder Relations Section at the above address or with the toll-free number listed above.

**ADDITIONAL INFORMATION**

CP&L files periodic reports with the Securities and Exchange Commission that contain additional information about the Company. Copies are available to shareholders upon written request to the Company's Treasurer at the corporate headquarters address.

This annual report is submitted for shareholders' information. It is not intended for use in connection with any sale or purchase of, or any offer or solicitation of offers to buy or sell, securities.

**SAFE HARBOR STATEMENT**

The matters discussed in this Annual Report that are not historical facts are forward-looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Examples of forward-looking statements include, but are not limited to, statements under the following headings in Management's Discussion and Analysis: 1) "Liquidity and Capital Resources" about estimated capital requirements through the year 2000 and 11) "Other Matters" about the effects of new environmental regulations, nuclear decommissioning costs, the effect of deregulation and the outcome of the Year 2000 compliance.

Any forward-looking statement speaks only as of the date on which such statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Examples of factors that should be considered with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: Governmental policies and regulatory actions (including those of the Federal Energy Regulatory Commission, the Environmental Protection Agency, the Nuclear Regulatory Commission, the Department of Energy, the North Carolina Utilities Commission and the South Carolina Public Service Commission); general industry trends; operation of nuclear power facilities; nuclear storage facilities; nuclear decommissioning costs; general economic growth; weather conditions and catastrophic weather-related damage; deregulation; market demand for energy; inflation; capital market conditions; unanticipated changes in operating expenses and capital expenditures; and legal and administrative proceedings. All such factors are difficult to predict, contain uncertainties that may materially affect actual results, and may be beyond the control of the Company. New factors emerge from time to time, and it is not possible for management to predict all of such factors, nor can it assess the effect of each such factor on the Company.