Florida Progress Corporation **Annual Report 1985**

"The primary cornerstone of our diversification strategy is the State of Florida."

Andrew H. Hines, Jr.

Florida Progress Corporation is a holding company which combines non-utility operations with its primary electric utility business. This combination provides shareholders with a sound utility investment, along with the opportunity for earnings beyond the regulated utility business. Florida Power Corporation, the Company's largest subsidiary, is an electric utility that benefits from serving one of the fastest growing areas in the United States. The Company's non-utility operations are conducted by four business groups: Energy and Technology, Financial Services, Development and Business Services.

Consolidated Financial Highlights

(In millions, except per share amounts)

	1985	1984
Revenues Increased 18.6%	**$1,653.1**	$1,394.2
Earnings Were Up 38.9%	**$160.9**	$115.8
Average Common Shares Outstanding Increased 6.8%	**45.6**	42.7
Earnings Per Share Increased 30.3%	**$3.53**	$2.71
Dividends on Common Stock—Up 5.8%	**$2.19**	$2.07
Return on Average Common Equity	**16.8%**	13.6%
Book Value Per Share—Year End	**$21.63**	$20.03
Stock Price Range	**$23¼-31**	$18¾-24¼

Contents

Dear Fellow Shareholder:

It is a genuine pleasure to report to you on the results of your Company's operations in 1985. From a financial standpoint, this was the most successful year in our history. Earnings per share were \$3.53, up by 82¢ from \$2.71 in 1984. For the 33rd consecutive year, dividends paid per share increased. Your Board of Directors set a new annual rate of \$2.28 per share at the November meeting.

The outstanding performance of Florida Power Corporation was the major contributor to these results. Florida Power set records in the peak load met and in the earnings produced. The 1985 peak load was exceeded on January 28, 1986, when cold weather and the addition of new customers during 1985 caused a peak of 5,977,000 kilowatts.

In 1985, Florida Power was recognized as having the 10th most efficient electric generating system out of 100 analyzed by Electric Light and Power magazine. It was also recognized by the Edison Electric Institute with a safety award for low accident frequency.

Effective control of operating expenses played a major role in the improved financial results. Higher quality earnings and increased equity investment strengthened the balance sheet for Florida Power. Florida Progress sold one million shares of common stock in April and placed the net proceeds of \$25.1 million in the utility and its debt was reduced.

Florida Power met severe tests of system performance and employee response when separate hurricanes struck the Gulf Coast of Florida in early September and late November. The dedicated service of our utility employees restored electricity efficiently to thousands of customers who lost service. Outages affected more than 170,000 customers during the Labor Day storm, Hurricane Elena, and 16,000 customers during Hurricane Kate in November. Heavy winds, torrential rains and flooding created a major challenge. It was extremely heartening to see the response to this challenge at all levels. The service motivation continues strong and it is our objective to maintain this spirit.

Turning to our non-utility activities, these continued at an accelerating pace. You will recall that 5¢ per share were earned in 1984. In 1985 this source added 15¢ per share to the bottom line. We expect continued significant growth in this portion of the Company's earnings.

We believe it is extremely important for us to recognize reality and make our decisions in a timely manner. For several years, we funded a substantial program to develop coal-based alternative fuels for direct substitution in oil and gas-fired equipment. The program was technically successful. Declining prices in the petroleum and gas markets have made it necessary for us to drastically curtail this program. As a result, at the end of 1985 we wrote off assets and accrued commitments of \$5.7 million and sustained a one-time loss of 7¢ per share. We have "mothballed" this program because we do not expect the happy day of lower oil prices to continue indefinitely.

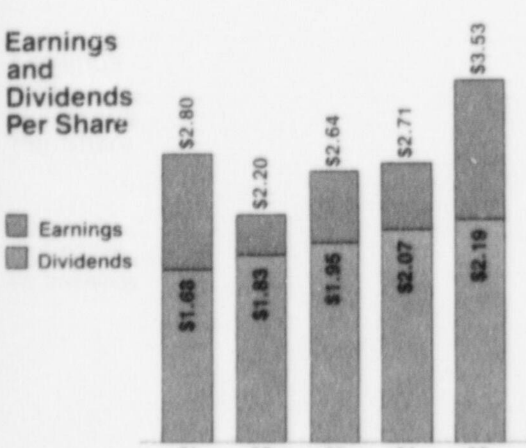
I believe it is appropriate in this report to discuss our perception of some of the major trends in the economic climate and business arena.

We are attempting to be pro-active with regard to these trends rather than accepting whatever fate may deal to us. In this regard, there are three separate subjects which I would like to discuss briefly.

1. The Economy

We believe that the overall national economy will, in effect, "slide sideways" — that is, there will be no drastic ups or downs, there will be a heterogeneous collection

Earnings and Dividends Per Share



of pockets of depression and outstanding success. Heavy manufacturing will not disappear, but will be restructured. America will not become solely a "service economy," but the "knowledge component" will continue to increase. We believe the movement toward a global economy is too strong and has progressed too far to arrest, nor would this be desirable.

The Sunbelt economy continues strong, and Florida's continues stronger. The population growth of our state is such that Florida can be expected to be the third largest state in the nation by the year 2000. The Florida market is a large one and becoming larger every day. Capitalizing on that market is our stock in trade. We are also steadily expanding our activities in the Southeast, which we believe has a very bright future.

2. Deregulation

Deregulation and uncertainty will become ever more significant factors in the electric utility business. It will be increasingly necessary to be among the lower cost suppliers. This means tight, efficient operation. It means close control over capital expenditures through maximum use of load management and highly selective marketing and sales decisions. It also means being extremely alert to technological developments which offer both threat and promise to the electric utility business.

3. Diversification

In an era of change in the economy it will become increasingly desirable to diversify assets and risks. Such diversification must produce both short and long-term benefits to the shareholder. We cannot concentrate solely on the short-term. Our strategy calls for acquiring assets which will appreciate in value and provide future earnings gains at such time as they are "cashed in." This same concept supports our research and development activities which are geared to building value for future payout. These programs are well underway. It is our belief that diversification requires a high degree of caution and a hedging of risks.

In preparing to cope with these trends, we have built a strong organization and have established the structure for our five business groups. The utility group is over 85 years old and doing very well. The other groups are younger but are showing great promise.

This Annual Report provides some detail on the activities of the various groups within Florida Progress Corporation. I urge you to spend a little time reviewing these increasingly important activities. This will help define the strategic plan which we are pursuing.

At the senior management level, Mr. Allen J. Keesler, Jr. was named Group Vice President in early 1986. Mr. Wilmer W. Bassett, Jr., who has been a faithful and highly effective Director since 1978, is retiring from the Board in April 1986. His wise counsel has been of great value and will be missed.

On behalf of the Board of Directors, I wish to thank you for the loyal support you have given to your Company and the confidence you have demonstrated in it. We plan to see that your faith is fully justified.

For the Board of Directors,

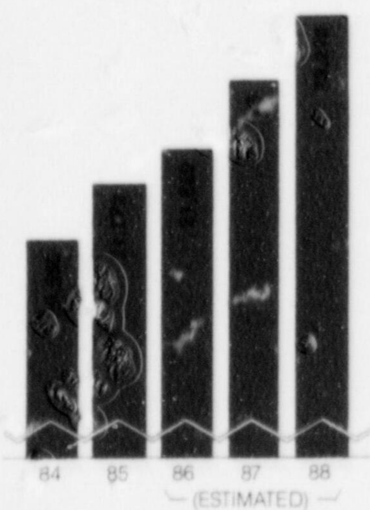
Andrew H. Hines Jr.

Chairman of the Board and President

February 21, 1986

Utility Group

Kilowatt-Hour Sales (Millions)



Use of Energy

For 1985, Florida Power Corporation's energy sales increased 3.3% compared to a decrease of 5.4% in 1984. The improvement is due primarily to customer growth and an expanding economy. Increased kilowatt-hour sales to residential, commercial and industrial customers offset the reduction in wholesale kilowatt-hour sales to Seminole Electric Cooperative, Inc. when it began generating power in February 1984.

Florida's unusual weather conditions during the year, including two hurricanes and a series of record temperatures, did not have a significant impact on relative billing degree days. Billing degree day calculations indicated the winter period had 20% less heating degree days and the long summer season had 13% more cooling degree days than the ten-year average.

Residential customers used 7.3% more energy in 1985 compared to a 6.8% increase in 1984. The increase is due principally to a positive economic environment during the year and a longer air conditioning season than in 1984. Residential customers increased 4.3%, while the average kilowatt-hour use per customer was up 2.8% during 1985.

Commercial energy sales increased 12.3% for 1985, while commercial customers increased 5.8% during 1985.

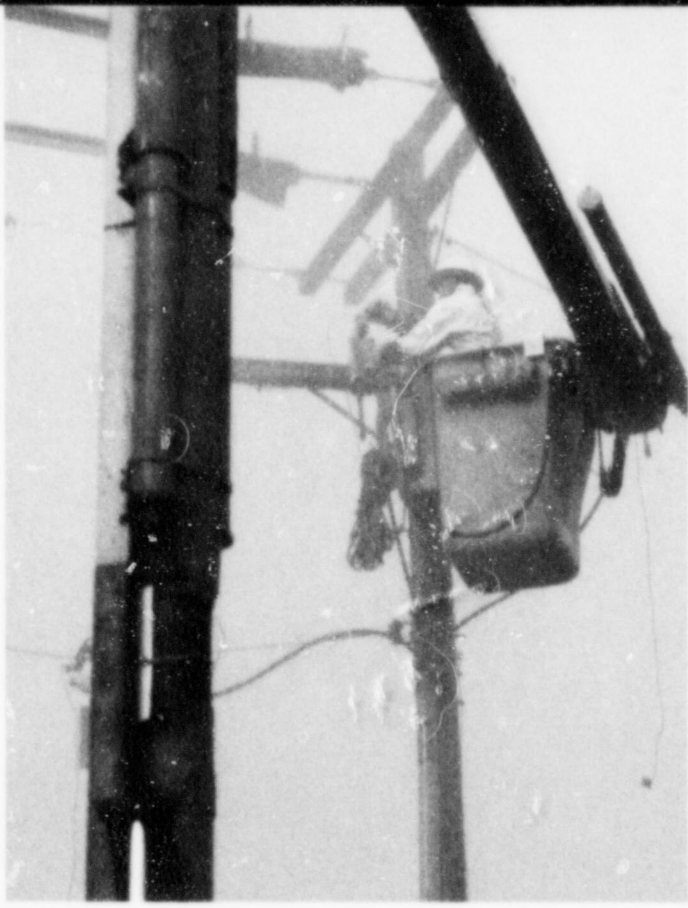
Energy sales to industrial customers increased 5.9% for 1985. This is the second consecutive year this category has shown an increase.

Hurricanes Elena and Kate

Florida Power's service area was threatened by two major hurricanes in 1985. Hurricane Elena hovered along the west coast of Florida during the Labor Day weekend. Over 170,000 customers were without electric service during the height of the storm. Employees of Florida Power and personnel provided by The Southern Company fully restored service to customers within 72 hours after the storm ended. There was significant damage to the distribution system in the affected beach areas. Damage to property and the cost of restoring service amounted to $2.6 million. In addition, there were a few scattered transmission line outages due to the storm bands spawned by the hurricane, but the lines were quickly repaired and returned to service with minimal damage and expense.

Hurricane Kate, however, caused extensive damage to transmission lines in the northwest area of Florida Power's system. The eye of the

Extensive modifications were completed at the Crystal River nuclear unit during the scheduled refueling outage.



When adverse weather conditions occur, electrical service is often interrupted. Florida Power employees work efficiently and safely to restore service.

The two hurricanes that struck Florida's Gulf Coast created a major challenge to repair the damaged transmission and distribution system.

hurricane came ashore on the evening of November 21st, just west of the city of Port St. Joe. The hurricane's destructive force left extensive damage in its path. All three transmission lines serving the city of Port St. Joe were damaged and the city was without electric service for nearly 40 hours. Over 300 Florida Power employees worked on restoring service, and all distribution lines were repaired and in service by November 26th. Much of the damage was due to trees being blown into the lines which required removal before the lines could be energized again. Damage to Florida Power's transmission system and the cost of restoring service was under $2 million. A hurricane of Kate's force has not hit the Atlantic coastline and Gulf Coast this late in the year in over 50 years.

System Operation

Florida Power ranked tenth among the nation's 100 largest investor-owned utilities in system power plant efficiency for the second consecutive year. The survey, based on heat rate comparisons, was published by the Electric Light and Power magazine. Heat rate is the amount of energy used to produce a kilowatt-hour of electricity. Florida Power also ranked sixth in the fossil fuel category which includes coal and oil-generating units.

Florida Power's request for permission to build a 500 kilovolt transmission line is in its final stage. Local residents have expressed concern regarding the route and safety of the line through their neighborhoods. A recommendation, favorable to Florida Power, was made to the Governor and his Cabinet and they are expected to make the final decision in early 1986. The 44-mile line will run from the Kathleen substation near Lakeland, Florida, to the Lake Tarpon substation in northern Pinellas County.

System Capacity

Florida Power's system generating capability at year end was 5,989,000 kilowatts. This consists of nineteen steam units with a capability of 4,906,000 kilowatts, and nineteen combustion turbine peaking units with a capability of 1,083,000 kilowatts. With a firm purchase power agreement of 200,000 kilowatts and 76,000 kilowatts of cogeneration available, the total capability is 6,265,000 kilowatts. This capability does not include units placed in extended cold shutdown in 1984 and 1985, totaling 662,000 kilowatts.

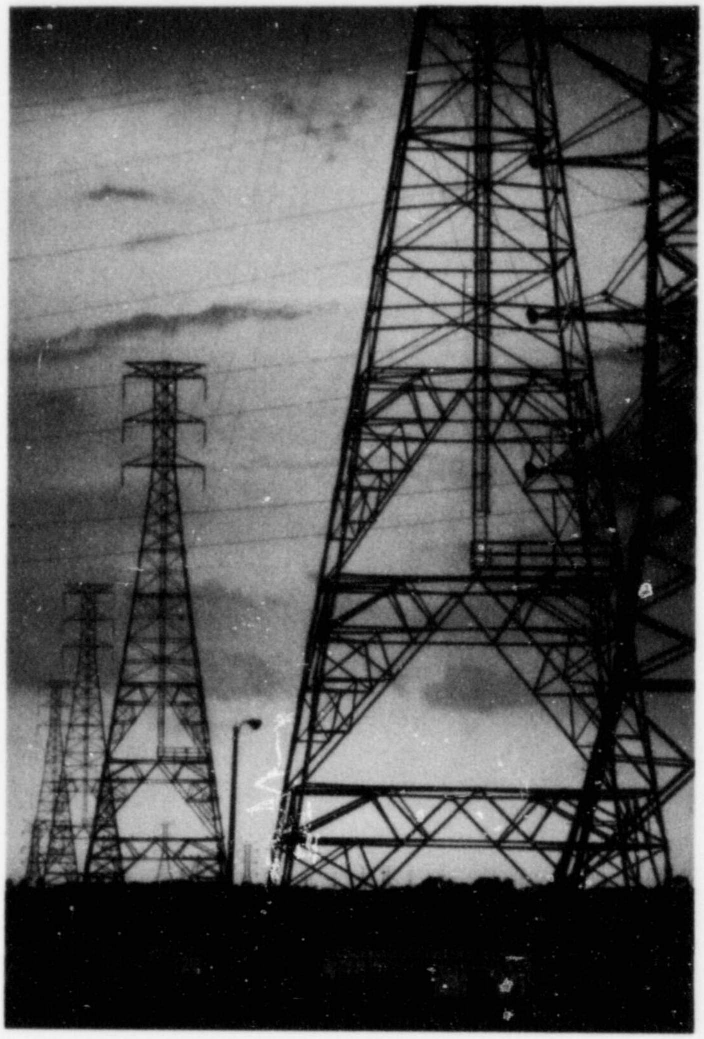
A system peak demand for 1985 of 5,813,000 kilowatts was recorded on January 22, 1985. This was the record high until January 28, 1986, when customer demand reached 5,977,000 kilowatts. At the time of both peaks, interruptible customers not purchasing emergency power were interrupted.

Florida Power maintains sufficient reserve capacity to provide reliable service to customers. Planned reserves are in the range of 15% to 20% over the peak demand. These reserves allow for scheduled maintenance on generating units as well as for such uncertainties as extreme weather conditions, unexpected outages and unanticipated demand growth. These uncertainties traditionally cause the actual reserves to be lower than the planned reserves. Even though a peak demand was anticipated in January 1986, the reserves on the day of peak were only 3.5%. However, winter peaks are usually only a couple of hours in duration.

Florida Public Service Commission Appointments

Florida's Governor Bob Graham appointed two new members to the five-member Florida Public Service Commission in 1985. Michael Wilson filled the vacancy created by Susan Leisner in April. His term ended on January 1, 1986, but Governor Graham reappointed Mr. Wilson to a new four-year term. Mr. Wilson previously served as Deputy Counsel in the Office of the Public Counsel.

Tom Herndon was appointed to the Commission due to a vacancy created by the resignation of Joe Cresse. Mr. Herndon's term ends January 1, 1987, after which he can



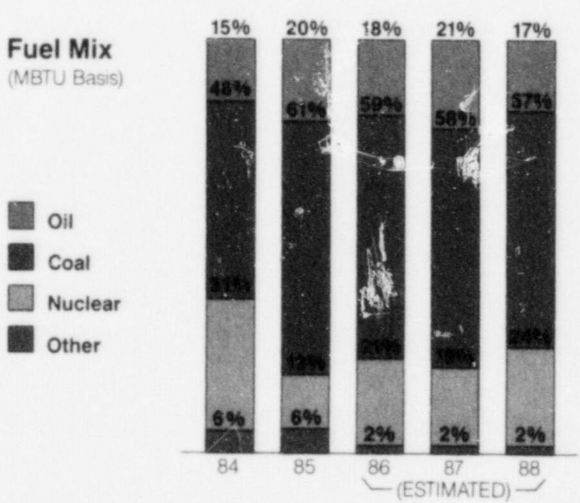
Florida Power's transmission towers support over 4,000 miles of transmission lines throughout the service area.

be reappointed to a new four-year term. Mr. Herndon was formerly Governor Graham's Chief of Staff. Governor Graham also reappointed Chairman John Marks to an additional four-year term.

Fuel

The oil embargoes of the 1970's made it clear that electric utilities should not depend on oil as a primary souce of fuel. Since that time, Florida Power has actively followed a course away from oil dependency. Florida Power's predominant fuel continues to be coal. All of the coal requirements are supplied by Electric Fuels Corporation. Florida Power plans to continue its policy of firm fuel contracts with multiple suppliers for its other fuels. This allows Florida Power to maintain a reliable supply of fuels and competitive prices.

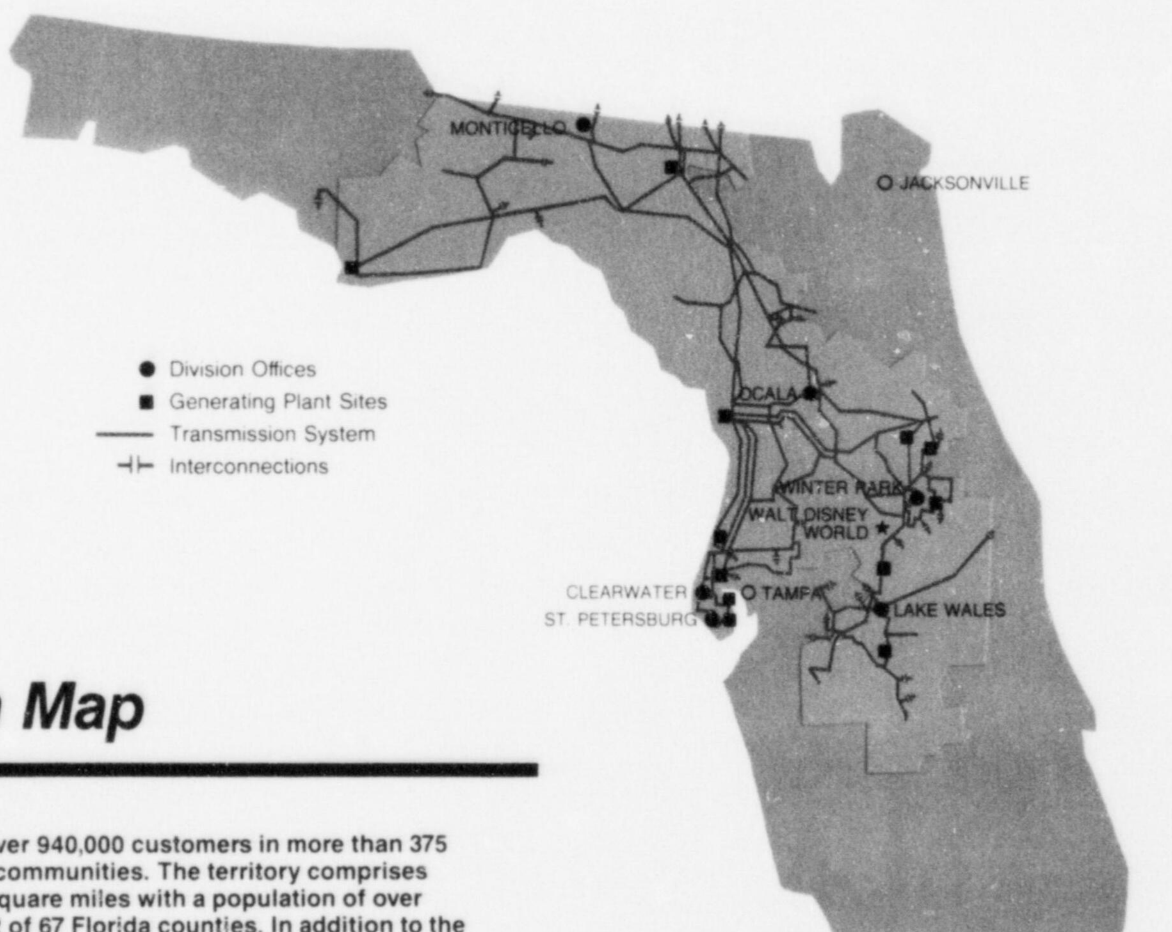
Florida Power's fuel mix for 1985 was 61% coal, 20% oil, 13% nuclear, 4% natural gas and 2% alternative fuels. For 1986, the fuel mix is estimated to be 59% coal, 18% oil, 21% nuclear and 2% gas. The lower percentage of nuclear generation in 1985 was due to the refueling outage.



Nuclear Unit

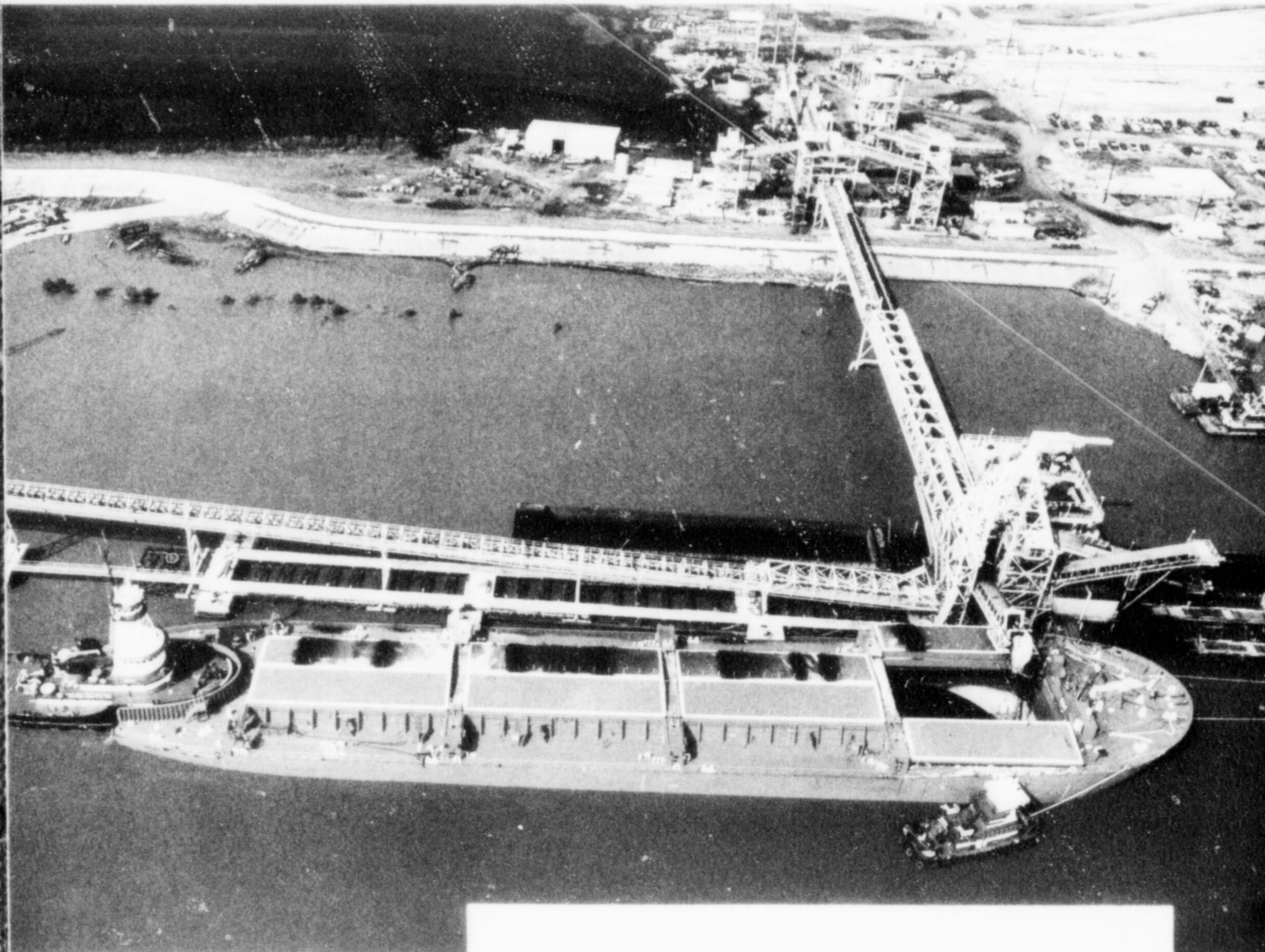
On August 20, 1985, the Crystal River nuclear unit returned to service following a scheduled maintenance and refueling outage. This outage, which lasted just over 23 weeks, was the most comprehensive outage ever experienced at the nuclear unit due primarily to the extensive modifications required by the Nuclear Regulatory Commission. In addition, it was discovered that certain bolts holding pipe supports were below NRC stress standards and had to be replaced. After returning to service, the unit operated at better than 71% capacity through year end.

On January 1, 1986, the nuclear unit tripped off line. This was due to a shaft failure during normal operation of one of the four reactor coolant pumps. During an inspection of the pump, a crack was found in the shaft of a second pump. The unit's remaining two pumps were also inspected and found to be without damage. The unit is expected to be out of service until late March or early April.



System Map

Florida Power serves over 940,000 customers in more than 375 cities, towns and rural communities. The territory comprises approximately 20,000 square miles with a population of over 3,800,000, located in 32 of 67 Florida counties. In addition to the generating plants indicated on the map, electric power can be supplied from interconnected electric utility systems throughout Florida and the Southeast.



Through an integrated coal handling system, Electric Fuels Corporation provides efficient delivery of coal.

Energy and Technology Group

The Energy and Technology Group continued to expand and diversify its operations with increased sales and new acquisitions during 1985.

Energy and Transportation

Electric Fuels Corporation's deliveries to Florida Power Corporation increased by approximately 20% to 4.9 million tons during 1985. The average price decreased by 6.4%, contributing to Florida Power's competitive position.

In December 1985, Electric Fuels acquired Kentucky May Coal Company, Inc. Kentucky May integrates well into Electric Fuels' coal supply network because it has high quality coal reserves, access to rail, barge, and truck transportation, and an industrial sales base. Kentucky May owns a 60% interest in Hatfield Terminals, Inc., which operates a bulk commodity transfer facility on the Ohio River and sells industrial and steam coal from facilities on the Ohio and Kanawha Rivers.

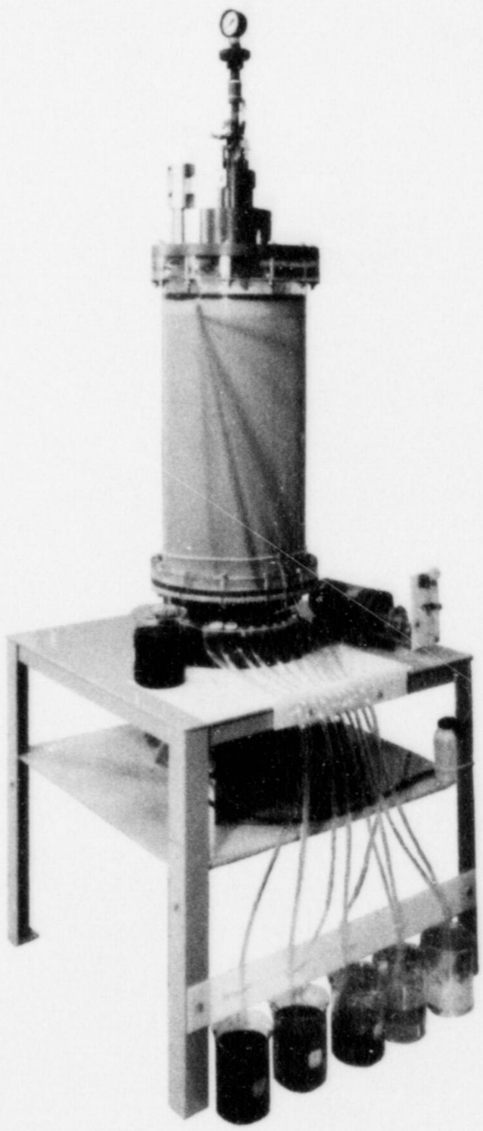
International Marine Terminals is an Electric Fuels partnership which operates a bulk commodities transfer facility south of New Orleans. During 1985, in excess of 5 million tons were transferred, representing an increasing market share in a highly competitive market. Electric Fuels' ocean-going fleet operated at capacity during 1985 with increased activity to South America and the Caribbean Basin.

Coal-Oil Mixture

COMCO of America, Inc., a wholly-owned subsidiary of Electric Fuels, supplied Florida Power with a coal-oil mixture as fuel for its Bartow Unit No. 1, located near St. Petersburg, Florida. The coal-oil mixture has been proven a viable source of alternative fuel. However, in December 1985, it was determined that the mixture was no longer economically feasible due to the continued decline of oil prices. COMCO indefinitely suspended its coal-oil mixture deliveries to Florida Power in accordance with the terms of its contract. Bartow Unit No. 1 will burn residual oil during the suspension.

Technology

In October 1985, Progress Technologies Corporation was formed to continue the development and commercialization of a number of new technologies. Progress Technologies' major emphasis during 1985 was to complete the development of an advanced separation technology for the continuous processing of chemical liquids and gases. Progress Technologies is also continuing technological investigation, development, and commercialization of certain waste and ash disposal processes.



Through the use of a chromatography process, Progress Technologies has developed advanced separation technologies to revolutionize chemical separations.

Financial Services Group

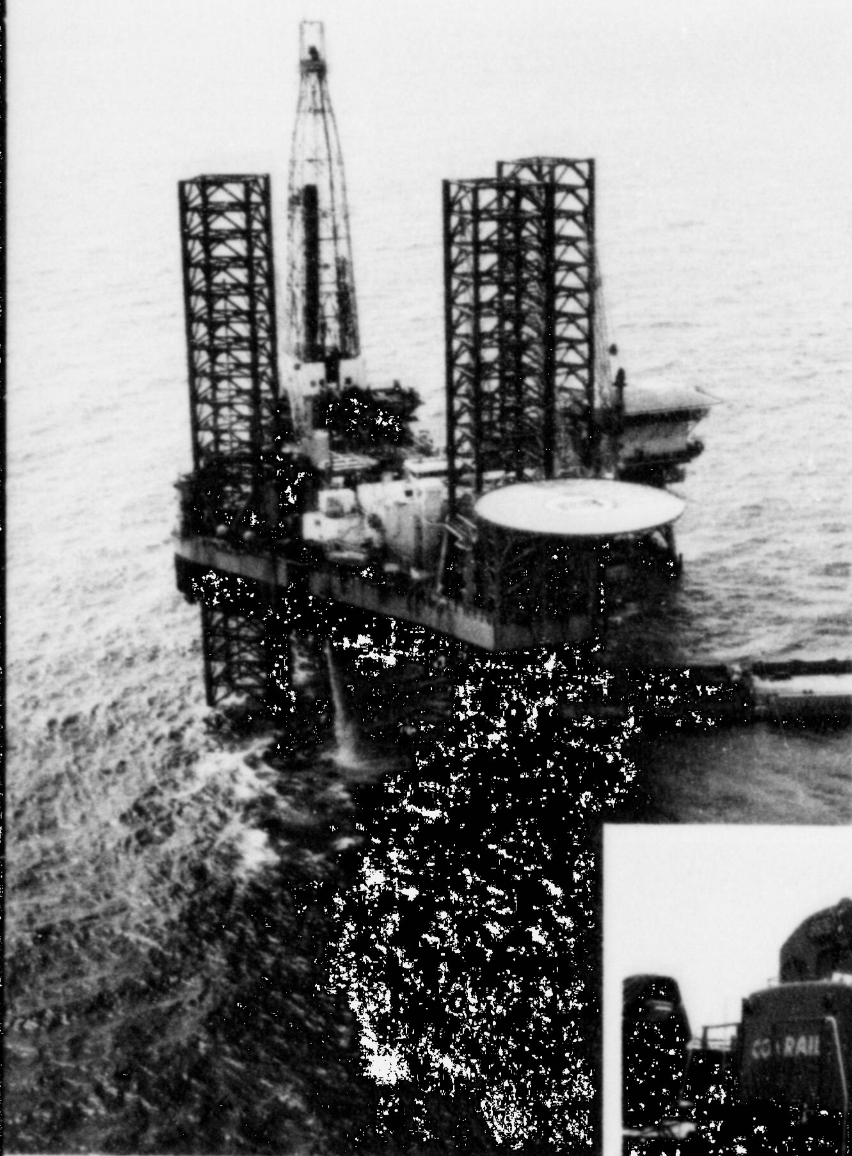
During 1985, Progress Financial Services Incorporated was actively engaged in seeking appropriate lines of business to complement its existing activities. These activities are in two areas — leveraged leasing and the management of a stock portfolio. While no additional businesses were added during the year, Progress Financial Services continues to consider opportunities.

Leveraged Leasing

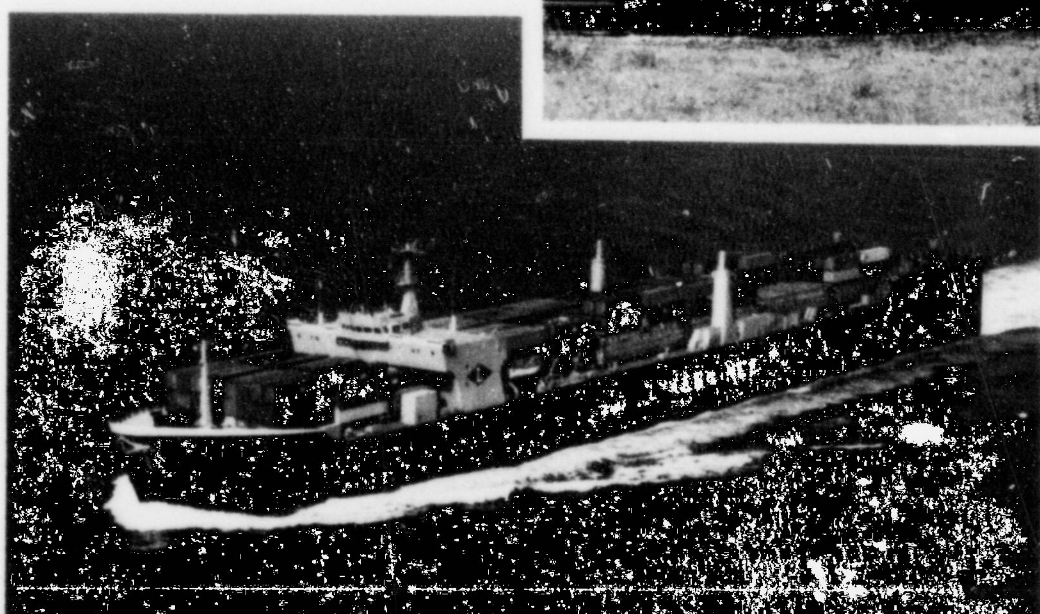
Progress Leasing Corporation, a joint undertaking between Progress Financial Services and Xerox Credit Corporation, funded $159 million of leases in 1985. This increased the lease portfolio to $378 million of leases funded at year-end.

The future of the leveraged equipment leasing business is uncertain due to current tax legislation proposed in the U.S. Congress. However, Progress Leasing is exploring the possibility of shifting its efforts to leveraged real estate leasing, and during 1985, the first real estate transaction was approved.

This Boeing 737 is one of six aircraft included in the Progress Leasing portfolio.

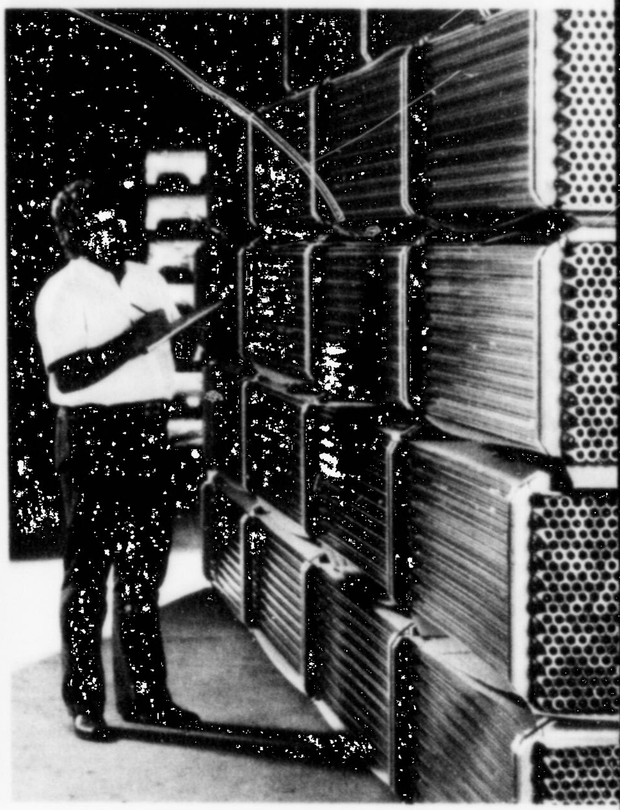


An oil drilling rig was added to the lease portfolio in 1984. Also included are 25 General Electric and 40 General Motors locomotives. Over 8,000 shipping containers are being leased to two shippers.



South Port Square, Port Charlotte, Florida, will provide a complete life-care community including a medical complex and independent living apartments.

A warehouse manager takes inventory of aluminum tubing ready for delivery to furniture manufacturers.



This door trimming process will trim and sand both interior and exterior doors. This process handles up to 3,000 doors a day.

Progress Center, The University of Florida Research and Technology Park in Alachua, Florida.

Development Group

The Development Group experienced significant expansion in 1985 through the acquisitions and operations of Talquin Corporation.

Building Materials

The Development Group entered the building material industry in 1985. In June, Talquin acquired Crown Industries, Inc. located in Tampa, manufacturer and distributor of building materials. Crown was listed on the American Stock Exchange and in 1985, had sales of $115 million. Through its operations from Texas to Virginia, Crown sells wooden doors, aluminum windows, extrusions and accessories. A new 180,000 square foot plant is being constructed in Tampa to increase production of aluminum windows.

To further strengthen its building materials division, Talquin signed an agreement in December to purchase Gorman Co., Inc., the state's second largest plumbing wholesaler. The Jacksonville-based company distributes plumbing, irrigation and swimming pool supplies and has operations in 25 Florida cities.

Construction

During the year, Talquin completed the first building at Progress Center, The University of Florida Research and Technology Park in Alachua. The building contains 59,000 square feet of research area and executive office space. Several research departments within the University's College of Engineering moved into the building in October.

In partnership with The Johnson Simmons Company, Talquin is constructing South Port Square, a 40 acre life-care community in Port Charlotte. The project's first phase, the medical complex, is nearly complete. The medical complex includes 100 assisted living units and a 120 bed skilled nursing facility. Construction of the 240 independent living apartments will begin in the first quarter of 1986.

Hunnicutt Equities, Inc., a real estate development subsidiary, continued its redevelopment of the McNulty Station block in downtown St. Petersburg. The last remaining property in the block was acquired in late November. In partnership with The Wilson Company of Tampa, Hunnicutt is developing Carillon, a 180 acre office park in the Gateway area of St. Petersburg. Carillon received final approval and was issued a development order to proceed.

In November, Talquin received approval from the city of St. Petersburg to proceed with a development plan on a key downtown block next to McNulty Station. Talquin proposes to build a major office and retail complex which will include a new corporate headquarters for Florida Progress Corporation.

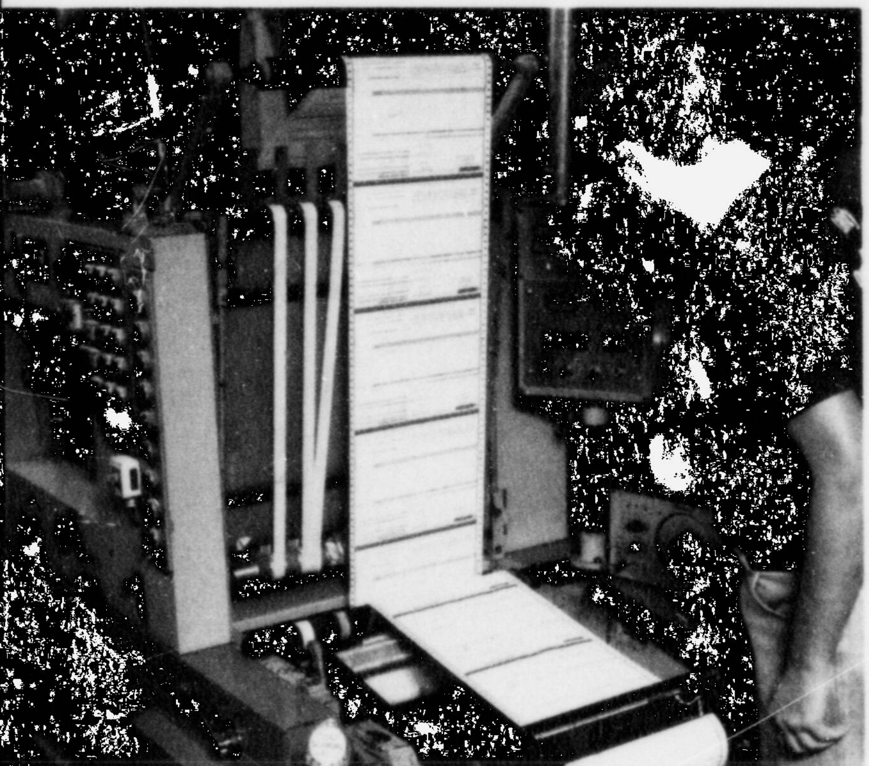
Horticulture

In 1985, Talquin's Indiantown grove enjoyed its best production year ever, yielding 900,000 boxes of oranges and grapefruit. Though citrus canker has been a major concern in Florida during the year, Talquin's grove remained unaffected. Also, the grove managed to avoid any major damage during the freezes of 1984, 1985 and 1986.

This operator is using a chop saw to cut aluminum for window and glass sliding door assemblies.

Business Services Group

Modern laser graphic equipment enables operators to initiate form design with precision previously unavailable within the industry.



Better Business Systems, Inc. is the nucleus for the Business Services Group, providing a wide variety of business products, supplies and services throughout the Southeast.

Better Business Systems, through its subsidiaries, maintains three manufacturing facilities, six warehouses, and thirteen sales offices in Florida, and additional offices in Alabama, Georgia and South Carolina. Better Business Systems and its subsidiaries currently employ over 500 and had 1985 revenues of approximately $50 million.

Business Forms and Supplies

Better Business Forms, Inc., the largest of the Better Business Systems subsidiaries, manufactures and sells custom and stock business forms and computer supplies. In 1985 Better Business Forms installed laser graphic equipment which provides computerized design with a 35% increase in composing productivity.

Expansion continued in 1985 with the December acquisition of the Dixie Data Processing Supplies division of National Computer Print, Inc. in Birmingham, Alabama. Dixie Data provides a strong foundation for forms and computer supplies sales growth in Alabama.

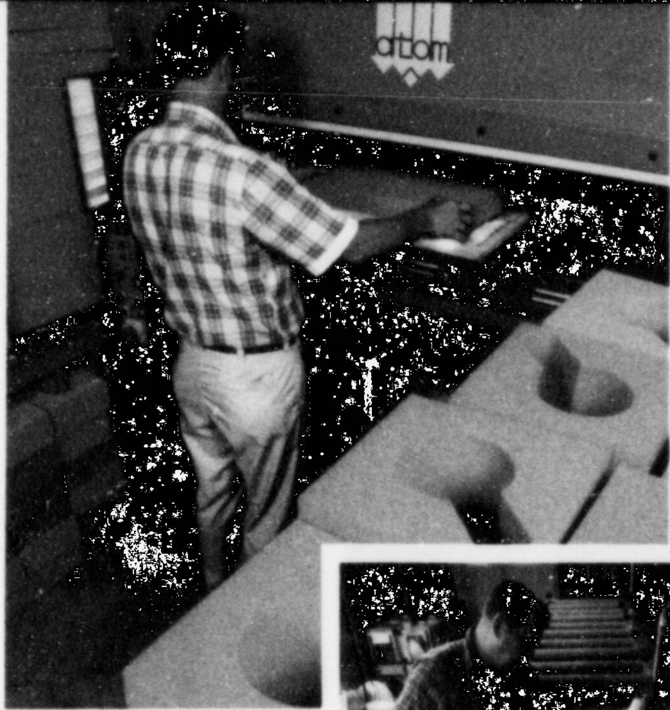
Variable-head presses allow high speed production of various size forms from a single unit, eliminating the necessity for costly additional equipment.

Packaging Products and Supplies

The packaging division was expanded in May 1985, when Better Business Systems acquired Cavalier Packaging Corporation of Tampa, Florida. In the fall of 1985, H&D Packaging, Inc., a subsidiary of Better Business Systems, was merged with Cavalier Packaging to form Progress Packaging Corporation. This merger will provide operating efficiencies and an expanded product line that will create greater marketing opportunities for Progress Packaging.

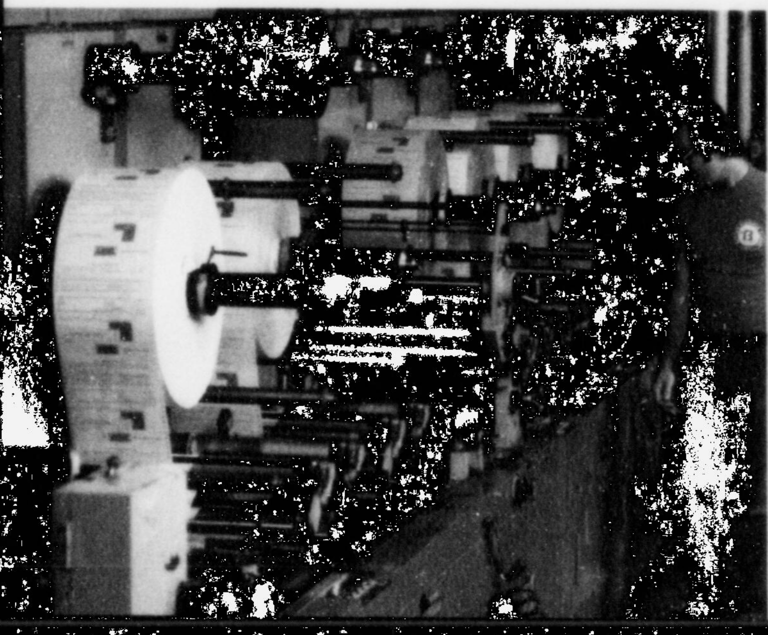
Retail Computer Supplies

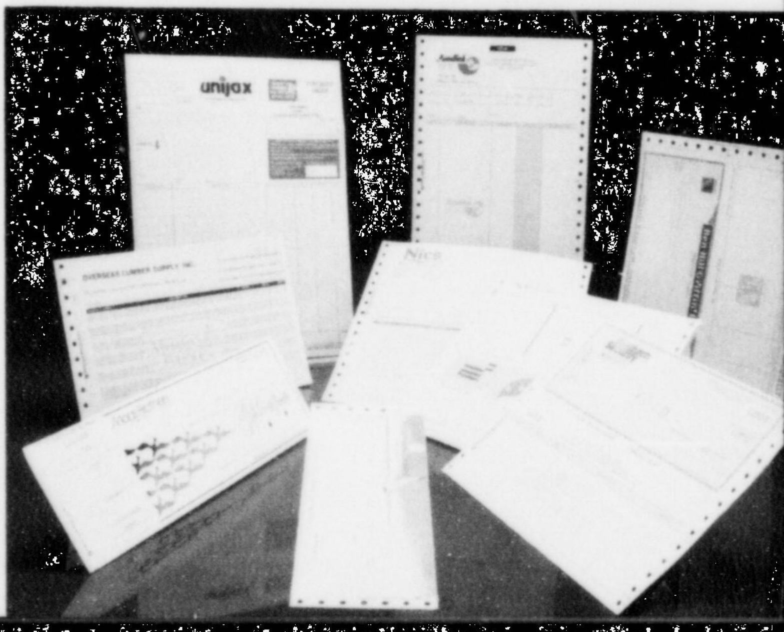
Computer Supply Mart, Inc., the retail outlet for computer supplies and accessories, provides Better Business Systems with the ability to penetrate the small business and home computer markets. With stores located in South Carolina and Florida, Computer Supply Mart will continue to expand locations and product line.



A die press produces precision cut foam pieces for use as a cushion in high-technology packaging.

State of the art label presses provide superior quality flexographic printing at high production speeds.





Efficient collators deliver high quality, functional forms which meet the exacting standards required by business and industry.

Financial Review–Management's Discussion

LIQUIDITY AND CAPITAL RESOURCES

Florida Progress Corporation has concentrated on improving its capital structure and providing appropriate sources of liquidity for non-utility operations. External sources of funds during 1985 included both common stock and debt financings. The Company received $41.2 million from the sale of its common stock through the dividend reinvestment plan and employee benefit plans. These funds were used to repay short-term debt incurred to finance non-utility operations and acquisitions. In addition, $25.1 million received from the public sale of one million shares of common stock was contributed to Florida Power to redeem high interest rate debt. Other long term non-utility debt increased $30.8 million in 1985 primarily due to business acquisitions.

The Company increased its line of credit arrangements with banks during 1985 by $22.5 million to $180.5 million. These lines, along with the Company's commercial paper facilities, provide short-term financing flexibility for both utility and non-utility operations. Unused commercial paper and line of credit facilities at the end of 1985 totaled approximately $97.3 million. In addition, the Company owns a stock portfolio with a market value at year-end of $30.8 million which could be a source of funds if needed.

During 1985, the Company increased its common equity ratio to 41.7% from 36.7% in 1984 and lowered its long-term debt ratio to 47.4% from 52.1% in 1984. This was achieved through the above-mentioned common stock sales, improved earnings, and the redemption and reclassification to current liabilities of certain long-term debt. No outside financing will be required in 1986 to meet current maturities of long-term debt.

During 1985, Florida Power refunded at par its $100 million 13⅝% First Mortgage Bonds due in 1987. This was funded by the equity contribution from Florida Progress and a $75 million 10.64% three-year bank loan. Florida Power also reduced its long-term debt by $41.1 million through redemptions and a defeasance. In addition, the interest rate on $108.6 million of Pollution Control Annual Tender Bonds was reduced to 6.125% from 7.5%. These reductions will save the Company approximately $7.3 million in interest expense during 1986 and further improve interest coverage ratios.

For the second consecutive year, Florida Power's funds from internal operations were sufficient to pay for virtually all of its construction expenditures, which totaled $194.1 million in 1985. This trend is expected to continue for the next several years while generation construction requirements remain low.

OPERATING RESULTS

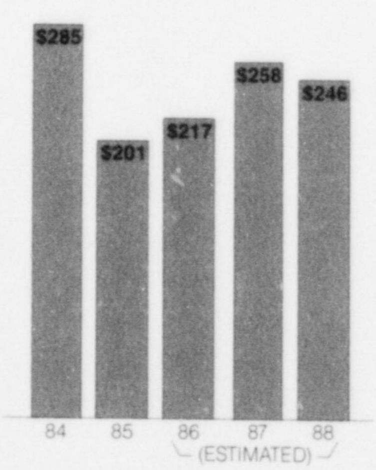
The Company's earnings per share for 1985 increased to $3.53 from $2.71 in 1984 and $2.64 in 1983. The return on average common equity was 16.8% in 1985, compared to a range of 13.6% — 13.7% in 1984 and 1983. Although better utility operating results in 1985 was the primary contributor to this improvement, the Company's diversification effort into non-utility industries is now beginning to show results — accounting for $.15 of the 1985 earnings per share. This was after absorbing write-offs and recognizing commitments totaling $.08 per share in non-utility operations from suspending our coal-oil based alternative fuels operation and the divestiture of Southeastern Computer Corporation. The higher utility earnings in 1985 include a full year of retail and wholesale rate increases obtained in late 1984. Also contributing to the improved earnings were residential and commercial customer growth, a longer than normal air-conditioning season and continued control of operating and maintenance expenses.

Revenues

Revenues increased 18.6%, 1.5% and 11.9% in the years 1985, 1984 and 1983, respectively.

Utility revenues increased $168.2 million in 1985 and $149.3 million in 1983 and decreased $35.1 million in 1984. Retail and wholesale base rate increases of $138.9 million in late 1982 and $102.4 million in late 1984 were the primary factors that caused increases in utility revenues. An increase in customers of 4.5% in 1985 and 4.6% in 1984 and increases in average residential energy usage of 2.8% in 1985 and 2.4% in 1984 also contributed to increases in utility revenues. The decline in utility revenues in 1984 resulted from lower fuel revenues due to additional nuclear generation and the loss of a significant load from Florida Power's then largest wholesale customer, Seminole Electric Cooperative, Inc., when it placed its 620,000 kilowatt unit into service in February 1984.

Florida Power Corporation Construction Program (In Millions)



Non-utility revenues increased to $148.2 million in 1985, from $57.5 million in 1984 and $1.9 million in 1983. The acquisitions of Better Business Systems in September 1984 and Crown Industries in June 1985 provided revenues of $104.7 million in 1985 and $35.8 million in 1984.

Expenses

Fuel and purchased power expenses, before cost recovery deferrals, increased $88.9 million in 1985 while 1984 decreased $135.4 million. The decrease in 1984 resulted from additional nuclear generation, a change in generation mix to one based on coal and reduced reliance on purchased power due to added generating capacity. The increase in 1985 was due to the replacement of nuclear generation with more expensive fossil fueled generation during a scheduled nuclear refueling outage. Because Florida Power recovers substantially all fuel costs through a fuel adjustment clause, these changes have little impact on net income.

Other operating and maintenance expenses increased $76.5 million in 1985 and $68.6 million in 1984. A substantial portion of the increase represents the additional cost of sales and operating expenses of Better Business and Crown which accounted for $60.9 million and $32.6 million of the 1985 and 1984 increases, respectively. Also contributing to the 1984 increase was the cost of meeting Nuclear Regulatory Commission requirements and provisions for scheduled maintenance and refueling at the Crystal River nuclear plant.

The increase in depreciation expense for each year 1983 through 1985 and the significant decrease in the allowance for funds used during construction in 1985 reflect the completion of the extensive utility construction program which ended when major generating units were placed into service in 1982 and 1984. In 1985, the allowance for funds used during construction represented 3.5% of consolidated net income, down from 25.2% in 1984 and 22.6% in 1983.

Inflation

The effects of inflation on the operations of the Company have been estimated on the basis prescribed by the Financial Accounting Standards Board. This information is included in Note 9 to the Consolidated Financial Statements.

FLORIDA PROGRESS CORPORATION

Consolidated Balance Sheets

DECEMBER 31, 1985 AND 1984

(In millions)

Assets	**1985**	**1984**
PROPERTY, PLANT AND EQUIPMENT:		
Electric utility plant in service and held for future use	**$3,602.3**	$3,430.8
Less—Accumulated depreciation	**915.9**	797.6
	2,686.4	2,633.2
Construction work in progress	**58.8**	60.9
Nuclear fuel, net of amortization of $118.3 in 1985 and $104.8 in 1984	**90.3**	91.0
Net electric utility plant	**2,835.5**	2,785.1
Other property, net of depreciation of $19.0 in 1985 and $11.5 in 1984	**154.7**	99.3
	2,990.2	2,884.4
CURRENT ASSETS:		
Cash and temporary cash investments, including restricted deposits of $1.2 in 1985 and $37.8 in 1984	**8.8**	48.8
Accounts receivable, less reserve of $3.9 in 1985 and $2.2 in 1984	**155.4**	114.8
Inventories, primarily at average cost—		
Fuel	**83.6**	111.6
Materials, supplies and other	**98.4**	54.2
Underrecovery of fuel cost	**37.1**	—
Prepayments	**8.7**	3.9
	392.0	333.3
OTHER ASSETS:		
Investment in and advances to an unconsolidated subsidiary and partnerships	**42.3**	45.0
Investments in marketable equity securities	**24.2**	23.3
Nuclear plant decommissioning fund	**11.2**	7.6
Other	**34.4**	21.7
	112.1	97.6
	$3,[illegible]94.3	$3,315.3

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

Capitalization and Liabilities

	1985	1984
CAPITALIZATION:		
Common stock equity	**$1,014.2**	$ 883.5
Florida Power Corporation cumulative preferred stock	**265.1**	268.2
Long-term debt	**1,151.1**	1,252.4
	2,430.4	2,404.1
CURRENT LIABILITIES:		
Accounts payable	**76.6**	60.9
Customers' deposits	**41.3**	37.9
Income taxes—		
Currently payable	**3.8**	11.3
Deferred	**36.7**	.4
Accrued other taxes	**8.4**	7.9
Accrued interest	**22.3**	22.4
Nuclear fuel disposal contract	**1.5**	25.0
Overrecovery of fuel cost	**—**	31.2
Other	**26.4**	21.2
	217.0	218.2
Notes payable	**86.2**	46.8
Current portion of long-term debt and preferred stock	**72.8**	14.3
	376.0	279.3
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	**473.3**	418.4
Unamortized investment tax credits	**190.4**	182.4
Nuclear refueling outage reserve	**6.1**	25.3
Other	**18.1**	5.8
	687.9	631.9
COMMITMENTS AND CONTINGENCIES (Note 8)		
	$3,494.3	$3,315.3

FLORIDA PROGRESS CORPORATION

Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983
(In millions, except per share amounts)

	1985	1984	1983
REVENUES	**$1,653.1**	$1,394.2	$1,373.7
EXPENSES:			
Operations—			
Fuel and purchased power	**586.8**	570.6	636.6
Other	**296.7**	214.1	162.8
	883.5	784.7	799.4
Maintenance	**100.4**	106.5	89.2
Depreciation	**135.8**	111.6	101.5
Taxes other than income taxes	**87.6**	76.7	71.1
	1,207.3	1,079.5	1,061.2
INCOME FROM OPERATIONS	**445.8**	314.7	312.5
INTEREST EXPENSE AND OTHER:			
Interest expense	**121.4**	122.0	119.3
Allowance for funds used during construction	**(7.1)**	(37.1)	(29.8)
Preferred dividend requirements of Florida Power Corporation	**25.2**	25.2	25.5
Other expense (income)	**2.3**	(8.1)	.9
	141.8	102.0	115.9
INCOME BEFORE INCOME TAXES	**304.0**	212.7	196.6
Income taxes	**143.1**	96.9	92.7
NET INCOME	**$ 160.9**	$ 115.8	$ 103.9
AVERAGE SHARES OF COMMON STOCK OUTSTANDING	**45.6**	42.7	39.3
EARNINGS PER AVERAGE COMMON SHARE	**$3.53**	$2.71	$2.64

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

Consolidated Statements of Capitalization

DECEMBER 31, 1985 AND 1984

(In millions, except share amounts)

		1985	1984
COMMON STOCK EQUITY:			
Common stock without par value, authorized 90,000,000 shares, outstanding 46,882,982 shares in 1985 and 44,104,164 shares in 1984		**$ 554.8**	$ 485.0
Retained earnings		**459.4**	398.5
		1,014.2	883.5
CUMULATIVE PREFERRED STOCK:			
Florida Power Corporation, $100 par value, authorized 4,000,000 shares—			
Without sinking funds	7.02% (a)	**133.5**	133.5
With sinking funds, less current sinking fund requirements	11.48% (a)	**131.6**	134.7
		265.1	268.2
LONG-TERM DEBT:			
Florida Power Corporation—			
First mortgage bonds—			
Maturing through 1990—			
July 1, 1986	3⅞%	**9.6**	10.0
April 1, 1987	13⅝%	**—**	100.0
July 1, 1988	4⅛%	**12.7**	13.2
October 1, 1990	4¾%	**14.0**	14.5
November 1, 1990	13.30%	**100.0**	100.0
Maturing 1991 through 2000	6.87%(a)	**163.5**	165.8
Maturing 2001 through 2006	7.90%(a)	**360.0**	360.0
Maturing 2012	13⅛%	**100.0**	100.0
Premium, being amortized over term of bonds		**4.1**	4.4
Par value of bonds reacquired to meet cash sinking fund requirements		**(3.7)**	(3.8)
		760.2	864.1
Guarantee of pollution control revenue bonds—			
Maturing 2000 through 2012	9.34% (a)	**132.8**	138.6
Annual tender bonds maturing in 2012 and 2013	6⅛% (a)	**108.6**	114.2
Variable rate bank term loans due December 15, 1986	8.77%	**50.0**	75.0
Bank term loan due June 1, 1988	10.64%	**75.0**	—
Other		**1.1**	9.3
Other subsidiaries, debt maturing 1986 through 2008	9.93% (a)	**93.2**	62.4
		1,220.9	1,263.6
Less—Current portion of long-term debt		**69.8**	11.2
		1,151.1	1,252.4
		$2,430.4	$2,404.1

(a) Weighted average dividend or interest rate at December 31, 1985.

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

FLORIDA PROGRESS CORPORATION

Consolidated Statements of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983

(In millions)

	1985	1984	1983
SOURCE OF AVAILABLE FUNDS:			
Funds retained in the business—			
Net income	**$160.9**	$115.8	$103.9
Add (deduct)—			
Depreciation and amortization	**159.4**	143.8	126.9
Deferred income taxes and investment tax credits, net	**62.8**	75.9	54.5
Allowance for funds used during construction	**(7.1)**	(37.1)	(29.8)
Other	**(29.3)**	26.0	(16.8)
Funds provided from operations	**346.7**	324.4	238.7
Less—Dividends on common stock	**100.0**	88.3	76.5
	246.7	236.1	162.2
Other funds provided, net—			
Overrecovery (underrecovery) of fuel cost	**(68.3)**	64.2	(50.9)
Other changes in working capital (excluding temporary cash investments and short-term debt)	**15.3**	(7.4)	54.1
Other	**12.9**	(4.6)	1.4
Internally generated funds	**206.6**	288.3	166.8
Funds provided by financing activities, net—			
Common stock	**69.8**	36.3	65.9
Long-term debt	**86.9**	64.9	106.5
Reduction in long-term debt and preferred stock	**(159.8)**	(21.3)	(90.6)
Temporary cash investments	**24.4**	(3.8)	8.3
Short-term debt	**29.7**	(9.9)	19.4
	51.0	66.2	109.5
	$257.6	$354.5	$276.3
USE OF FUNDS:			
Additions to electric plant and nuclear fuel	**$201.2**	$284.5	$285.8
Less—Allowance for funds used during construction	**7.1**	37.1	29.8
Net utility plant expenditures	**194.1**	247.4	256.0
Additions to other property, plant and equipment	**23.3**	57.0	25.8
Business acquisitions in 1985 —			
Working capital	**31.3**	—	—
Other property	**44.8**	—	—
Other assets and liabilities—net, including goodwill	**9.2**	—	—
Short-term debt	**(9.7)**	—	—
Long-term debt	**(28.1)**	—	—
Investment in and advances to an unconsolidated subsidiary and partnerships	**(7.4)**	26.8	(5.5)
Investment in marketable equity securities	**.1**	23.3	—
	$257.6	$354.5	$276.3

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

Consolidated Statements of Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 1985, 1984 AND 1983
(Dollars in millions, except per share amounts)

	Common Stock	Retained Earnings	Florida Power Corp. Preferred Stock Without Sinking Funds	Florida Power Corp. Preferred Stock With Sinking Funds
Balance, December 31, 1982	$382.8	$342.2	$133.5	$142.4
Net income		103.9		
3,417,677 common shares issued	65.9			
15,500 preferred shares redeemed				(1.6)
Cash dividends on common stock ($1.95 per share)		(76.5)		
Balance, December 31, 1983	448.7	369.6	133.5	140.8
Net income		115.8		
1,771,691 common shares issued	35.3			
61,372 preferred shares redeemed or reclassified to current				(6.1)
Company acquired for 613,637 common shares in a pooling of interests transaction	1.0	1.4		
Cash dividends on common stock ($2.07 per share)		(88.3)		
Balance, December 31, 1984	485.0	398.5	133.5	134.7
Net income		**160.9**		
2,778,818 common shares issued	**69.8**			
30,750 preferred shares redeemed or reclassified to current				**(3.1)**
Cash dividends on common stock ($2.19 per share)		**(100.0)**		
Balance, December 31, 1985	**$554.8**	**$459.4**	**$133.5**	**$131.6**

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

Notes to Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the financial results of Florida Progress Corporation and all subsidiaries other than its leasing subsidiary. The Company's largest subsidiary, representing 90.7% of total assets, is Florida Power Corporation, an operating public utility engaged in the production, transmission, distribution and sale of electric energy within Florida.

All significant intercompany balances and intercompany transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

The Company is exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935.

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

Utility Revenues, Fuel and Purchased Power Expenses—Florida Power accrues the non-fuel portion of base revenues for services rendered but unbilled.

Revenues include amounts resulting from fuel and conservation adjustment clauses which are designed to permit full recovery of these costs. The adjustment factors are based on costs projected by Florida Power for a six-month period. Revenues and expenses are adjusted for differences between recoverable fuel and conservation costs and amounts included in current rates. The cumulative fuel cost difference is shown in the balance sheet as overrecovery or underrecovery of fuel cost. Any overrecovery or underrecovery of costs plus an interest factor are to be refunded or billed to customers during the subsequent six-month period.

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

Depreciation and Maintenance—The Company provides for depreciation of the original cost of properties over their estimated useful lives primarily on a straight-line basis. The annual provision for depreciation, expressed as a percentage of the average balances of depreciable electric plant of Florida Power was 3.93%, 3.73% and 3.68% for 1985, 1984 and 1983, respectively.

Florida Power charges maintenance with the cost of repairs and minor renewals of property, the plant accounts with the cost of renewals and replacements of property units and accumulated depreciation with cost, less net salvage, of property units retired.

Allowance for Funds—The allowance for funds used during construction is a non-cash addition to income representing the estimated cost of funds applicable to utility plant under construction. Recognition of this item as a cost of utility plant under construction is appropriate because it constitutes an actual cost of construction and, under established regulatory rate practices, Florida Power is permitted to earn a return on these costs and to recover them in the rates charged for utility services while the plant is in service.

Similar treatment has been authorized by the Florida Public Service Commission for the cost of funds applicable to certain existing generating units held for future use. However, in compliance with Federal Energy Regulatory Commission requirements, the return accrued on these units of $3.4 million at December 31, 1985, is being deferred and will not be recognized as income until the units are returned to service.

The average rate used in computing the allowance for funds was 10.03% for 1985 and 1984, and 10.08% for 1983.

Marketable Equity Securities—Marketable equity securities are carried at the lower of aggregate cost or market value. At December 31, 1985, the market value of the securities was $30.8 million.

Pension Costs—The Company and certain of its subsidiaries have a retirement plan covering substantially all of their employees. The total pension costs under this plan for 1985, 1984 and 1983 were $9.6 million, $9.1 million and $6.9 million, respectively. The plan was amended, effective December 31, 1983, and again January 1, 1985, to provide increased benefits. The total unfunded prior service cost at January 1, 1985 of $9.3 million, after an increase in the interest rate assumption from 6½% to 7%, is being funded by the Company over a 20-year period.

A comparison of plan net assets with the actuarial present value of accumulated plan benefits based on an assumed rate of investment return of 8% a year is presented below:

	January 1, 1985	January 1, 1984
	(Millions)	
Actuarial present value of accumulated plan benefits:		
Vested	**$ 86.7**	$ 73.6
Nonvested	**15.2**	14.3
Total	**$101.9**	$ 87.9
Net assets available for benefits	**$193.9**	$177.2

The actuarial present value of accumulated plan benefits does not recognize any improvements in benefits and ignores the effects of future compensation increases on the benefits participants will receive for their past service. If this value is adjusted for projected compensation increases consistent with the assumed rate of investment return, the adjusted actuarial present value of accumulated plan benefits would be approximately $158.2 million and $137.4 million for 1985 and 1984, respectively.

During 1985, the Financial Accounting Standards Board issued new standards on employers' accounting for pensions. For U.S. plans, companies are required to adopt the new expense and disclosure standards no later than 1987. These new standards will be adopted prospectively, and thus the financial statements included herein will not be restated. Early adoption is permitted.

The Company has not decided when it will implement the new standards. However, based on a preliminary review, under existing conditions the Company expects that the new standards, when adopted, will result in reduced provisions for pension costs.

In addition to providing pension benefits, the Company and certain of its subsidiaries provide certain health care and life insurance benefits for retired employees. Employees become eligible for these benefits if they reach normal retirement age while working for the Company. The present value of retiree health care and life insurance benefits for current retirees is estimated at $6.9 million and is being recognized as an expense over a 5-year period beginning January 1, 1985.

Income Taxes—Deferred income taxes are provided on all significant book-tax timing differences. Investment tax credits used to reduce current federal income taxes are deferred and amortized to income over the lives of the related properties.

(2) INCOME TAX EXPENSE

(In millions)

	1985	**1984**	**1983**
Federal:			
Payable currently	**$36.1**	$55.1	$ .5
Deferred (a)	**81.0**	12.6	79.6
Investment tax credits, net of amortization	**8.2**	17.4	2.0
	125.3	85.1	82.1
State:			
Payable currently	**7.9**	10.7	1.1
Deferred (a)	**9.9**	1.1	9.5
	17.8	11.8	10.6
Income taxes	**$143.1**	$96.9	$92.7

(a) The components of deferred income tax are as follows:			
Federal—			
Excess of accelerated over straight-line tax depreciation	**$50.0**	$40.5	$38.9
Construction costs and other property related items deducted for tax purposes, net of book depreciation	**(3.4)**	10.6	9.5
Underrecovery (overrecovery) of fuel cost	**29.9**	(28.8)	22.2
Other	**4.5**	(9.7)	9.0
	$81.0	$12.6	$79.6
State—			
Excess of accelerated over straight-line tax depreciation	**$ 5.9**	$ 4.6	$ 4.3
Construction costs and other property related items deducted for tax purposes, net of book depreciation	**(.3)**	.8	1.6
Underrecovery (overrecovery) of fuel cost	**3.8**	(3.3)	2.6
Other	**.5**	(1.0)	1.0
	$ 9.9	$ 1.1	$ 9.5

Notes to Consolidated Financial Statements

The provision for income tax as a percent of income before taxes and preferred dividend requirements was less than the statutory federal income tax rate. The primary differences between the statutory rates and the effective income tax rates are detailed below:

	1985	1984	1983
Federal income tax statutory rates	**46.0%**	46.0%	46.0%
Amortization of investment tax credits	**(2.8)**	(4.0)	(3.3)
Allowance for equity funds	**(0.4)**	(3.7)	(3.3)
State income tax, net of federal income tax	**2.9**	2.7	2.6
Other	**(2.2)**	(.3)	(.3)
Effective income tax rates	**43.5%**	40.7%	41.7%

(3) BUSINESS ACQUISITIONS

Several businesses were acquired in 1985 for cash and notes and have been accounted for as purchases. Had these businesses been purchased at the beginning of the current or prior year, revenues and net earnings of the Company on a pro forma consolidated basis would not have been materially different from the amounts reported. In 1984, Better Business Systems, Inc. was acquired in exchange for shares of common stock. This transaction has been accounted for on a pooling of interests basis. As the effect of restating data relating to this acquisition would not materially affect previously issued financial statements, no restated or separate entity operating results are presented.

(4) NUCLEAR OPERATIONS

Jointly Owned Plant—Florida Power's 90% ownership share in the Crystal River nuclear unit as of December 31, 1985, amounted to $457.4 million of electric plant in service, $34.7 million of construction work in progress, $90.3 million of unamortized nuclear fuel, and $128.5 million of accumulated depreciation which includes $23.9 million of accumulated provisions for decommissioning costs. Each participant provides for its own financing. Florida Power's share of the operating costs are included in the appropriate expense captions in the statements of income.

Plant Decommissioning Costs—Florida Power's nuclear plant depreciation rates include a provision for future nuclear plant decommission costs which are recoverable through rates charged to customers. Florida Power is placing its collections in a funded reserve. The combined recovery from customers plus interest earned on the funded amounts is expected to provide for the future dismantling, removal and land restoration costs which are presently estimated to be $362 million in the year 2008.

Fuel Disposal Costs—Florida Power has entered into a contract with the Department of Energy (DOE) for the transportation and disposal of spent nuclear fuel. Disposal costs for nuclear fuel are being collected at a cost of .1¢ per kilowatt-hour through the fuel adjustment clause and paid to the DOE quarterly. Florida Power is currently storing spent nuclear fuel on site and has sufficient storage capacity for fuel burned through the year 2006.

Plant Refueling Outages—Florida Power accrues a reserve for maintenance and refueling expenses anticipated to be incurred during scheduled nuclear plant refueling outages. The 1985 outage, which included extensive modifications mandated by the Nuclear Regulatory Commission (NRC), lasted over 23 weeks and cost approximately $32.8 million. The next outage is scheduled for 1987 and is presently expected to cost approximately $24 million.

Insurance—The Price-Anderson Act currently limits the liability of an owner of a nuclear power plant to $640 million for a single nuclear incident. Florida Power has purchased the maximum available private insurance of $160 million and the balance is provided by indemnity agreements with the NRC. In the event of a nuclear incident, Florida Power could be assessed up to $5 million for the licensed reactor it owns with the maximum assessment of $10 million in a year. In addition to this liability insurance, Florida Power carries extra expense insurance with Nuclear Electric Insurance, Ltd. (NEIL) to cover the cost of replacement power during prolonged outages of the nuclear unit. Under this policy, Florida Power is subject to a retrospective premium assessment of up to $5.9 million in any year in which losses exceed accumulated funds available to NEIL.

Florida Power currently carries approximately $1 billion in property insurance provided by various underwriters through several different policies. One of these underwriters is NEIL, which provides $525 million of excess coverage. Under this policy, Florida Power is contingently liable to NEIL for a retrospective premium assessment of up to $6.9 million in any one policy year in the event NEIL's excess property losses exceed available funds.

(5) PREFERRED AND PREFERENCE STOCK—The combined aggregate amount of minimum preferred stock redemption requirements for 1986, 1987, 1988, 1989 and 1990 are $3.0 million, $5.1 million, $15.1 million, $15.1 million and $15.1 million, respectively. The

Company has 10 million shares of authorized but unissued preferred stock without par value. Florida Power has one million shares of authorized but unissued preference stock, $100 par value, and five million shares of authorized but unissued cumulative preferred stock, without par value.

(6) LONG-TERM DEBT

The interest rate on the Annual Tender Pollution Control Revenue Bonds will be adjusted on December 1 of each year and the bondholders may elect to tender their Bonds at that time. The Bonds are supported by a three-year line of credit arrangement in the amount of $100 million.

At December 31, 1985, Florida Power's convertible debentures in the outstanding principal amount of $1.1 million are convertible into 56,198 shares of common stock of the Company.

The combined aggregate maturities of long-term debt and cash sinking fund requirements for 1986, 1987, 1988, 1989 and 1990 are $69.8 million, $12.5 million, $104.0 million, $9.2 million and $120.8 million, respectively.

(7) SHORT-TERM DEBT

The Company and its consolidated subsidiaries have lines of credit totaling $180.5 million, of which $105 million is used to support commercial paper programs. The amount outstanding at December 31, 1985, and 1984, through both commercial paper and direct borrowings, totaled $86.2 million and $46.8 million, respectively. Interest rates under line of credit arrangements vary from sub-prime or money market rates to the prime rate. Banks providing lines of credit are compensated through balances or fees. Balance requirements are based on terms acceptable to the banks and, where specified, are based on 10% of the line or 15% of the amount borrowed, whichever is greater. Commitment fees on lines of credit vary between ¼ and ⅜ of 1%.

(8) COMMITMENTS AND CONTINGENCIES

Construction Program—Substantial commitments have been made in connection with Florida Power's construction program which is presently estimated to result in construction expenditures in 1986 of $209.0 million for electric plant and nuclear fuel.

Debt Guarantees—The Company has guaranteed debt of the unconsolidated subsidiary and certain partnerships and joint ventures totaling $126.9 million.

(9) SUPPLEMENTARY INFORMATION TO DISCLOSE THE EFFECTS OF CHANGING PRICES (Unaudited)

The following supplementary presentation is made consistent with Statement No. 33, as amended, of the Financial Accounting Standards Board and is intended to provide certain information regarding the effects of changing prices on the Company. It should be viewed as an estimate of the approximate effect of inflation, rather than as a precise measure.

Current cost amounts reflect the changes in specific prices of property, plant and equipment (plant) from the date the plant was acquired to the present. The current cost of utility plant is determined by indexing surviving plant by the Handy-Whitman Index of Public Utility Construction Costs. Since the plant is not expected to be replaced precisely in kind, current cost does not necessarily represent the replacement cost of Florida Power's productive capacity.

Amortization of nuclear fuel, an item included in operating and maintenance expense, and depreciation are determined by applying book amortization and depreciation rates to the average indexed plant amounts.

Since only historical costs are deductible for income tax purposes, the income tax expense in the historical cost financial statements is not adjusted.

Under the rate-making prescribed by the regulatory commissions to which Florida Power is subject, only the historical cost of plant is recoverable in revenues as amortization and depreciation. Therefore, the excess of the cost of plant stated in terms of current cost that exceeds the historical cost of plant is not presently recoverable in rates as amortization or depreciation, and is reflected as a reduction to net recoverable cost.

To properly reflect the economics of rate regulation in the statement of income, the reduction of Florida Power's net plant should be offset by the gain from the decline in purchasing power of net amounts owed. During a period of inflation, holders of monetary assets suffer a loss of general purchasing power while holders of monetary liabilities experience a gain. The gain from the decline in purchasing power of net amounts owed is primarily attributable to the substantial amount of debt which has been used to finance plant. Since the amortization and depreciation on this plant is limited to the recovery of historical costs, Florida Power does not have the opportunity to realize a holding gain on debt and is limited to recovery only of the embedded cost of debt capital.

CONSOLIDATED FIVE YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR CHANGING PRICES
(In millions, except per share amounts)

	Years Ended December 31,				
	1985	**1984**	**1983**	**1982**	**1981**
Revenues					
As reported	**$1,653.1**	$1,394.2	$1,373.7	$1,227.6	$1,302.6
Adjusted for general inflation (a)	**1,653.1**	1,443.9	1,483.3	1,368.1	1,540.8
Earnings on common stock					
As reported	**160.9**	115.8	103.9	82.1	95.1
Adjusted for specific price changes (excluding adjustment to net recoverable cost) (a)	**80.7**	22.1	14.7	(16.9)	16.9
Purchasing power gain from holding fixed money obligations (a)	**69.6**	80.1	73.4	77.8	137.8
Excess of increase in the general price level over increase in specific prices of assets (after adjustment to net recoverable cost) (a)	**26.3**	19.2	9.4	6.4	113.2
Common stock equity at year end at net recoverable cost					
As reported	**1,014.2**	883.5	818.3	725.0	681.2
Adjusted for specific price changes (a)	**1,010.6**	914.2	868.6	798.9	779.7
Per share information					
Earnings on common stock					
As reported	**3.53**	2.71	2.64	2.20	2.80
Adjusted for specific price changes (a)	**1.77**	.52	.37	(.45)	.50
Common stock dividends					
As reported	**2.19**	2.07	1.95	1.83	1.68
Adjusted for general inflation (a)	**2.19**	2.14	2.10	2.04	1.99
Market price at year end					
As reported	**30.75**	23.75	20.25	19.00	15.63
Adjusted for general inflation (a)	**30.23**	24.26	21.50	20.94	17.88
Average consumer price index	**322.2**	311.1	298.4	289.1	272.4

(a) In average 1985 dollars.

Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES
(In millions)

	For the Year Ended December 31, 1985	
	Historical Cost As Reported	Current Cost In Average 1985 Dollars
Revenues	$1,653.1	$1,653.1
Operating and maintenance expense and taxes other than income taxes	1,071.5	1,072.5
Depreciation expense	135.8	215.0
Income tax expense	143.1	143.1
Interest expense and other	141.8	141.8
	1,492.2	1,572.4
Earnings on common stock (excluding adjustment to net recoverable cost)	$ 160.9	$ 80.7
Decrease in specific prices (current cost) of plant held during the year		$ (63.8)
Less effect of increase in general price level		161.7
Excess of increase (decrease) in specific prices over general price level		(225.5)
Adjustment to net recoverable cost		199.2
		(26.3)
Gain from decline in purchasing power of net amounts owed		69.6
Net price level adjustment		$ 43.3

Report of Independent Certified Public Accountants

To the Shareholders of Florida Progress Corporation:

We have examined the consolidated balance sheets and statements of capitalization of Florida Progress Corporation (a Florida corporation) and subsidiaries as of December 31, 1985 and 1984, and the related consolidated statements of income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Florida Progress Corporation and subsidiaries as of December 31, 1985 and 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Tampa, Florida
January 27, 1986.

FLORIDA PROGRESS CORPORATION

Selected Consolidated Data 1981-1985

(Dollars in millions, except per share amounts)

	1985	1984	1983	1982	1981
Revenues (a)	**$1,653.1**	$1,394.2	$1,373.7	$1,227.6	$1,302.6
Net income	**$160.9**	$115.8	$103.9	$82.1	$95.1
Earnings per average common share	**$3.53**	$2.71	$2.64	$2.20	$2.80
Dividends per common share	**$2.19**	$2.07	$1.95	$1.83	$1.68
Total assets	**$3,494.3**	$3,315.3	$3,114.1	$2,914.9	$2,589.2
Capitalization:					
Long-term debt	**$1,151.1**	$1,252.4	$1,207.9	$1,195.1	$1,028.5
Preferred stock with sinking funds	**131.6**	134.7	140.8	142.4	94.0
	1,282.7	1,387.1	1,348.7	1,337.5	1,122.5
Preferred stock without sinking funds	**133.5**	133.5	133.5	133.5	133.5
Common stock equity	**1,014.2**	883.5	818.3	725.0	681.2
Total capitalization	**$2,430.4**	$2,404.1	$2,300.5	$2,196.0	$1,937.2
Capitalization Ratios:					
Long-term debt	**47.4%**	52.1%	52.5%	54.4%	53.1%
Preferred stock	**10.9**	11.2	11.9	12.6	11.7
Common stock equity	**41.7**	36.7	35.6	33.0	35.2
Number of employees	**7,208**	5,573	5,077	4,864	4,557
Number of common shareholders	**48,052**	48,933	48,712	43,887	41,724

(a) Revenues for 1981-1984 have been restated to conform with 1985 reporting of scheduled interchange sales of energy to other electric utilities as revenues instead of as a reduction to fuel and purchased power expense.

Quarterly Financial Data (Unaudited)

(In millions, except per share amounts)

	Three Months Ended			
	March 31	June 30	September 30	December 31
1985				
Revenues	**$378.1**	**$389.9**	**$472.0**	**$413.1**
Net income	**$42.0**	**$39.7**	**$50.1**	**$29.1**
Earnings per average common share	**$.95**	**$.87**	**$1.08**	**$.62**
1984				
Revenues	$351.9	$320.9	$396.9	$324.5
Net income	$33.4	$26.4	$32.5	$23.5
Earnings per average common share	$.80	$.62	$.76	$.54

Earnings per average common share as presented above may not equal the annual amounts reported in the Consolidated Statements of Income as a result of issuing additional shares of common stock during the periods.

The business of the Company's largest subsidiary, Florida Power Corporation, is seasonal in nature and it is management's opinion that comparisons of earnings for the quarters do not give a true indication of overall trends and changes in the Company's operations.

Common Stock Data

	Composite Price of Common Stock				Dividends Paid Per Share	
	1985		1984		1985	1984
	High	Low	High	Low		
First Quarter	**$25¾**	**$23¼**	$21⅜	$18¾	**$.54**	$.51
Second Quarter	**28¾**	**25⅜**	20¾	18¾	**.54**	.51
Third Quarter	**29⅛**	**24**	22¼	19	**.54**	.51
Fourth Quarter	**31**	**25⅜**	24¼	21⅝	**.57**	.54

Selected Data of Florida Power Corporation 1981-1985

	1985	1984	1983	1982	1981
Electric Sales (Millions of KWH):					
Residential	**9,175.0**	8,553.6	8,009.5	7,425.0	7,752.3
Commercial	**5,106.6**	4,547.7	4,118.6	3,895.2	3,735.2
Industrial	**3,166.0**	2,989.0	2,701.0	2,715.5	3,288.3
Sales for Resale (a)	**2,556.4**	3,317.3	5,802.0	4,739.3	4,322.2
Other	**1,268.4**	1,188.8	1,142.9	1,094.9	1,038.5
	21,272.4	20,596.4	21,774.0	19,869.9	20,130.5
Residential Service (Average Annual):					
KWH sales per customer	**10,940**	10,638	10,388	9,964	10,758
Revenue per customer	**$883**	$818	$783	$720	$763
Revenue per KWH	**8.07¢**	7.69¢	7.54¢	7.23¢	7.09¢
Capitalization Ratios:					
Long-term debt	**47.8%**	52.4%	52.6%	54.7%	53.0%
Preferred stock	**11.9**	11.8	12.2	12.7	11.8
Common equity	**40.3**	35.8	35.2	32.6	35.2
Operating Data:					
Net generating capability (MW)	**5,989**	5,927	5,993	5,899	5,255
Net system peak load (MW)	**5,813**	4,858	4,913	5,347	5,088
BTU per KWH of net output	**9,928**	10,074	10,082	10,383	10,357
Construction additions (millions)	**$201.2**	$284.5	$285.8	$385.3	$379.8
Percentage of construction expenditures generated internally	**100%**	99%	66%	39%	45%
Ratio of earnings to fixed charges	**3.81**	3.07	2.94	2.42	3.19
Fuel cost per million BTU	**$2.63**	$2.36	$2.85	$2.78	$3.12
Average number of customers	**940,976**	900,799	861,548	829,810	802,787
Number of employees	**5,215**	5,070	4,923	4,829	4,533

(a) Electric sales for 1981-1984 have been restated to conform with the 1985 reporting of scheduled interchange sales of energy as Sales for Resale.

Shareholder Statistics as of December 31, 1985

Geographic Distribution

Location	Number of Shareholders	Location	Number of Shareholders	Location	Number of Shareholders
Florida	15,443	Texas	803	Maine	340
New York	4,866	Georgia	748	Arizona	319
Illinois	2,420	Wisconsin	741	South Carolina	310
New Jersey	2,300	Missouri	733	Kentucky	307
California	1,959	North Carolina	528	Alabama	287
Pennsylvania	1,949	Indiana	521	Louisiana	269
Michigan	1,913	West Virginia	465	Washington	237
Ohio	1,765	Minnesota	414	Colorado	226
Massachusetts	1,505	Iowa	395	Kansas	200
Connecticut	1,417	Rhode Island	362	Other U.S. under 200 shareholders	1,599
Maryland	1,198	Tennessee	346		
Virginia	817	New Hampshire	342	Foreign	8
Total Number of Shareholders					48,052

Shareholder Ownership

Categories	Number of Holders	%	Number of Shares	%
100 shares or under	18,668	38.9	1,189,490	2.5
101 to 1,000 shares	27,498	57.2	9,879,943	21.1
1,001 to 10,000 shares	1,843	3.8	3,656,673	7.8
Over 10,000 shares	43	.1	32,156,876	68.6
Total	48,052	100.0	46,882,982	100.0

Shareholder Classification

Categories	Number of Holders	%	Number of Shares	%
Individuals				
Men	12,088	25.1	3,765,038	8.0
Women	15,081	31.4	4,430,587	9.4
Joint	14,441	30.1	4,087,072	8.7
Fiduciary	5,001	10.4	1,909,068	4.1
Nominee	275	.6	25,484,059	54.4
Institutional, Broker & Other	1,166	2.4	7,207,158	15.4
Total	48,052	100.0	46,882,982	100.0

Florida Progress Corporation

Directors

Robert C. Allen
Vice President
Walt Disney World Co.
Lake Buena Vista, Florida

Wilmer W. Bassett, Jr.
President
Bassett Brothers, Inc.
Monticello, Florida

Andrew H. Hines, Jr.
Chairman of the Board
and President

Frank M. Hubbard
Consultant to
Hubbard Construction Company
Orlando, Florida

Richard C. Johnson
Partner
Johnson & Co.
Seminole, Florida

P. Scott Linder
Chairman of the Board
Linder Industrial
Machinery Company
Lakeland, Florida

Charles P. Lykes
Chairman of the Board
Lykes Bros., Inc.
Tampa, Florida

Clarence W. McKee, Jr.
Executive Vice President

Corneal B. Myers
Partner
Peterson, Myers, Craig,
Crews, Brandon & Mann, P.A.
Lake Wales, Florida

George Ruppel
Vice President and Secretary
Modern Tool & Die
Company of Florida
Pinellas Park, Florida

Lee H. Scott
Group Vice President

Jean Giles Wittner
President
Centerbanc
St. Petersburg, Florida

Executive Officers

Andrew H. Hines, Jr.
Chairman of the Board
Florida Progress Corporation
Florida Power Corporation

Stanley A. Brandimore
Executive Vice President and
General Counsel
Florida Progress Corporation
President
Progress Equities Incorporated

Clarence W. McKee, Jr.
Executive Vice President
Florida Progress Corporation
President
Progress Financial Services
Incorporated

Allen J. Keesler, Jr.
Group Vice President
Florida Progress Corporation
President
Talquin Corporation

Lee H. Scott
Group Vice President
Florida Progress Corporation
President
Florida Power Corporation

Gus A. Stavros
Group Vice President
Florida Progress Corporation
Chairman of the Board
Better Business Systems, Inc.

Billy L. Griffin
Executive Vice President
Florida Power Corporation

H.G. Wells
President
Electric Fuels Corporation

Other Officers of Florida Progress Corporation

Jerry H. Joyce
Vice President and Treasurer

Thomas S. Krzesinski
Vice President, Planning
and Development

J.G. Loader
Vice President and Secretary

Ned B. Spake
Vice President, Technology

Dan R. Johnson
Controller

Joseph H. Richardson
Assistant Secretary and
Assistant General Counsel

Douglas M. Bagge
Assistant Secretary

Cynthia W. Biddle
Assistant Secretary

Cathleen P. Kortright
Assistant Secretary

L. John Lopez
Assistant Treasurer

INVESTOR INFORMATION

Investor Services Department

All dividend checks, shareholder reports, proxy material and tax forms are handled from our St. Petersburg General Office. All correspondence concerning address changes, dividend checks and related matters should be directed to:

Florida Progress Corporation
Investor Services Department
P.O. Box 33042
St. Petersburg, Florida 33733
Phone 813-895-1740

Inquiries concerning the transfer of stock certificates should be directed to our New York transfer agents.

Transfer Agents and Registrars

Common Stock

Manufacturers Hanover Trust Company
P.O. Box 24935, Church Street Station
New York, New York 10249

Florida Power Corporation
Preferred Stock

Harris Trust Company of New York
110 William Street
New York, New York 10038

Dividend Reinvestment Plan

The Company offers a Dividend Reinvestment Plan for shareholders of record. At the end of 1985, 42% of the Company's common shareholders participated in the Company's Dividend Reinvestment and Stock Purchase Plan. The price of shares purchased with reinvested dividends is at a 5% discount from the market price. Plan enrollments, withdrawals and other correspondence should be directed to the Investor Services Department at the address shown.

The dividend exclusion provided by the Economic Recovery Tax Act of 1981 expired on December 31, 1985.

Common Stock Dividends

Record dates are normally on or about the 5th day of March, June, September and December. Quarterly dividends are customarily mailed to reach shareholders on or about the 20th of March, June, September and December.

Common Stock Listed

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

Annual Reports on Form 10-K and Statistical Supplement

Upon request, the Company will furnish its shareholders without charge a copy of its 1985 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission. A Florida Power Corporation 1985 Form 10-K, without exhibits, and a detailed Ten-Year Statistical Report are also available. Requests should be addressed to the Investor Services Department at the address shown.

Auditors

Arthur Andersen & Co.
Tampa, Florida

Analysts' Contact

Clarence W. McKee, Jr. 813-895-1703
Executive Vice President

Jerry H. Joyce 813-895-1705
Vice President and Treasurer

Richard R. Champion 813-895-1733
Director, Investor Relations

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