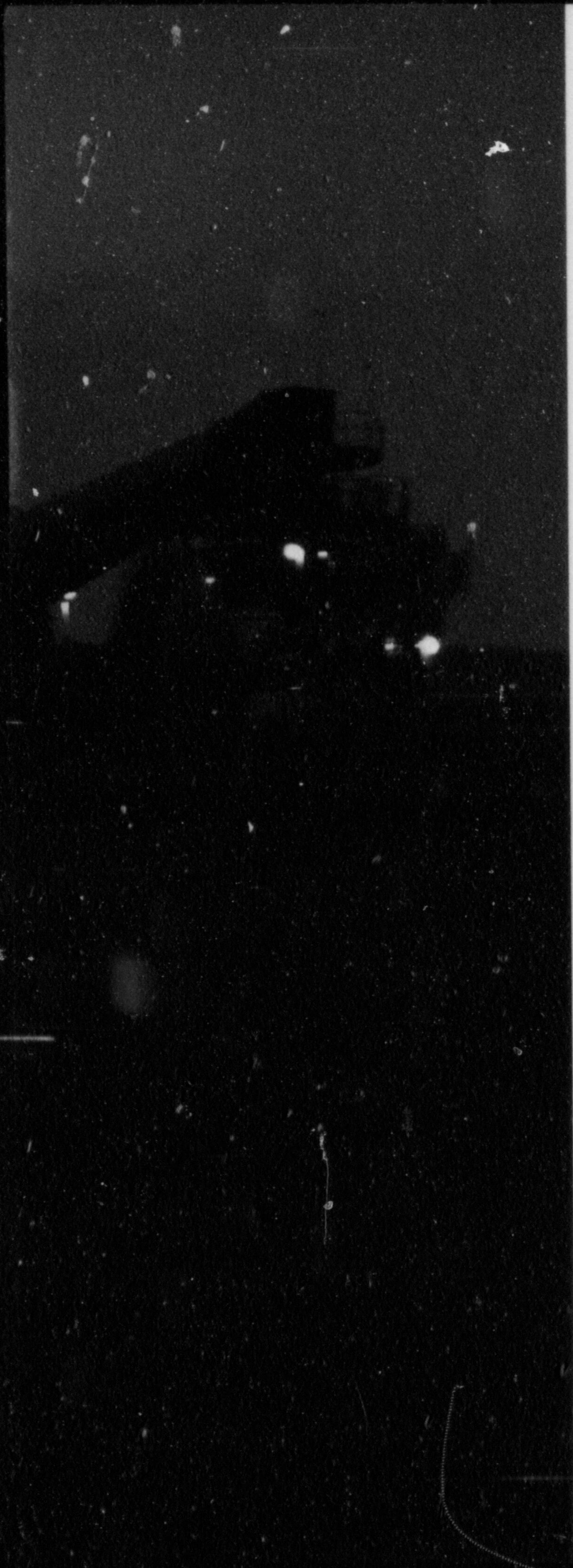
Florida Progress Corporation
Annual Report 1986



As represented by our Report cover, **Florida Progress Corporation** is a holding company which combines its primary electric utility business with non-utility operations. Florida Power Corporation, the Company's largest subsidiary, continues to build on a long history of quality service to one of the fastest growing areas in the country. Our philosophy for non-utility diversification has been to acquire or form entities in selected businesses and to develop these over time. This strategy emphasizes a commitment to steady, long-term growth. Our focus for the future is to manage our businesses for increasing benefits to our shareholders.

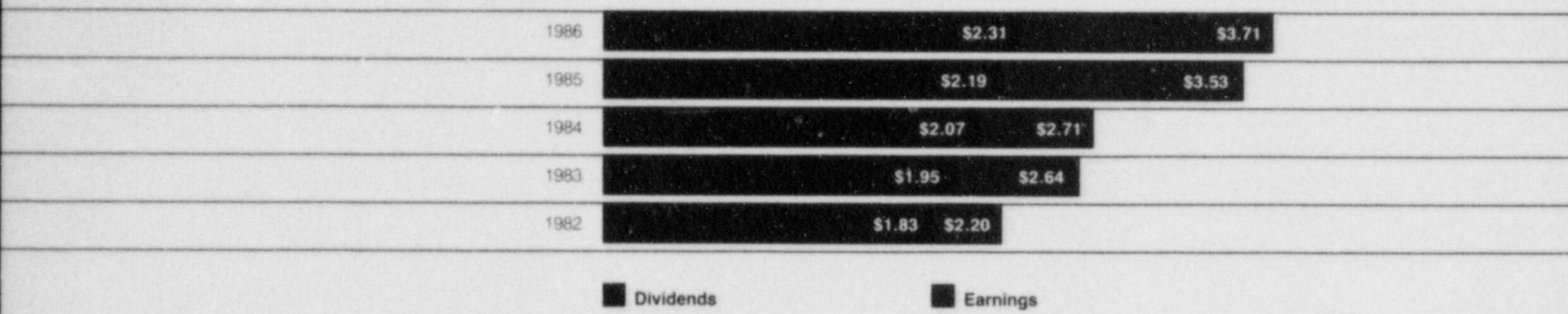
Consolidated Financial Highlights

(In millions, except per share amounts)

	1986	1985
Revenues Increased 13.4%	**$1,874.7**	$1,653.1
Earnings Were Up 12.6%	**$181.2**	$160.9
Average Common Shares Outstanding Increased 7.2%	**48.9**	45.6
Earnings Per Share Increased 5.1%	**$3.71**	$3.53
Dividends Paid per Common Share—Up 5.5%	**$2.31**	$2.19
Return on Average Common Equity	**16.4%**	16.8%
Book Value Per Share—Year End	**$23.26**	$21.63
Common Stock Price Range	**$30¼-47**	$23¼-31

Contents

Earnings and Dividends Per Share



our management in competitive environments.

Our primary focus is on steady, long-term growth and development. We believe this is a cautious and appropriate philosophy. We now have our business groups in place and in recent years, they have grown through acquisitions and new starts. The year ahead will be one of consolidation as we concentrate on managing and developing our businesses. We need to capitalize on the efficiencies and integration which is achievable.

For over 85 years, those who have owned Florida Progress and its predecessor companies have invested in Florida. It has proven to be a good strategy. Throughout war, depression, hurricane, recession, international crises and economic changes, the population of Florida has continued to grow. From a level of almost five million in 1960, the State reached a population of over 11 million in 1986. Every credible projection shows Florida as third in population in the United States in the year 2000. At that time, it is expected to trail only California and Texas.

We are a major participant in the Florida economy. The State has been the primary cornerstone of our strategy for growth. We will continue to focus on building on this strength as we invest in selected areas, specifically in the Southeast.

During the past year, a number of significant changes have been made in management responsibilities. On April 17, 1986, Mr. Lee H. Scott was elected Chief Executive Officer of Florida Power. Effective January 5, 1987, Dr. Jack B. Critchfield and Mr. Thomas S. Krzesinski were elected Group Vice Presidents of Florida Progress. Dr. Critchfield heads the Energy and Technology Group. Mr. Krzesinski heads the Financial Services Group.

In summing up a successful year, I express the deep appreciation of the Board of Directors and management for the fine performance of the over 8,000 employees who make Florida Progress run. Their accomplishments are commendable.

To you, our shareholders, I express our appreciation for your strong support and confidence. We will see that this confidence remains justified.

For the Board of Directors,

Andrew H. Hines, Jr.

Chairman of the Board
and President

February 20, 1987

Dear Fellow Shareholders:

The 1986 financial results confirm that Florida Progress Corporation's strategic plan is on track. Earnings per share rose from $3.53 to $3.71. Our non-utility earnings per share increased to $.34 from $.15 in 1985 and $.05 in 1984. The balance sheet of the Company continued to improve. The equity portion strengthened as the long-term debt ratio dropped to 45.7%.

For the 34th consecutive year, dividends paid per share increased. Your Board of Directors set a new annual rate of $2.40 per share at the November meeting. In financial terms, the year was an outstanding success.

It was a good year for our electric customers also. The price per kilowatt hour sold was 3.3% lower than 1985. Indeed, it reached the lowest level since 1983. Starting 1987, it is at an even lower level. Florida Power Corporation continues to benefit from Florida's growth. The customer growth rate was 4.2% in 1986. In fact, the Company reached the 1,000,000th customer milestone during the year. Florida Power continues to work to strengthen the utility fundamentals while emphasizing customer service, improved performance and cost control.

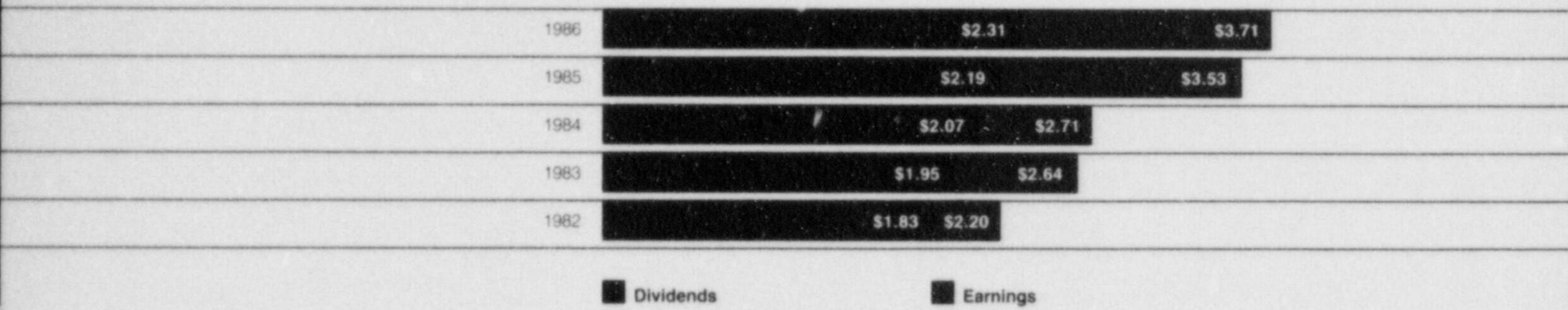
In the non-utility sector, we broadened the base of the Company through acquisition and expansion. The most significant of these was the addition of Mid-Continent Life Insurance Company in December 1986. This will strengthen our Financial Services Group. Mid-Continent, headquartered in Oklahoma City, was founded in 1909 and has for eight years maintained a rating of A+ (Superior) with A.M. Best Company. The company is licensed in 30 states, from Florida to California. Mr. R.T. Stuart, Jr., former chairman of Mid-Continent, joined the Florida Progress Board effective December 4, 1986.

Details on other acquisitions are presented elsewhere in this report.

We do business today in a changing environment. International competition has intensified. Uncertainty in the regulatory field increases. The trend toward deregulation in some areas is countered by increasing regulation and delay in others. We have witnessed in the United States the effect of governmental deregulation and activism in the communications business. This activity has removed old landmarks and left an industry and its customers with neither chart nor compass. These same forces are busy in the electric utility field. It is necessary that we maintain and increase the strength of our utility business to cope with this uncertainty and future change.

Diversification is a vital part of our strategy to deal with this future. We believe it spreads our risk and increases our opportunities. One important benefit is the development and strengthening of

Earnings and Dividends Per Share



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Andrew H. Hines Jr.

Chairman of the Board
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February 20, 1987

Highlights

(In millions, except earnings per share and employees)

	Utility			Non-Utility		
	1986	**1985**	**% Increase (Decrease)**	**1986**	**1985**	**% Increase (Decrease)**
Revenues	**$1,530.5**	$1,504.9	1.7%	**$344.2**	$148.2	132.3%
Percent of Total	**81.6%**	91.0%		**18.4%**	9.0%	
Earnings	**$164.6**	$153.9	7.0%	**$16.6**	$7.0	137.1%
Percent of Total	**90.8%**	95.6%		**9.2%**	4.4%	
Earnings per Share	**$3.37**	$3.38	(.3%)	**$.34**	$.15	126.7%
Assets	**$3,138.5**	$3,166.4	(.9%)	**$451.1**	$327.9	37.6%
Common Equity as a Percent of Capital	**42.7%**	40.3%	6.0%	**64.8%**	58.0%	11.7%
Return on Average Common Equity	**17.6%**	17.8%	(1.1%)	**9.8%**	7.7%	27.3%
Employees	**5,323**	5,215	2.1%	**2,707**	1,993	35.8%

Utility Group

FLORIDA POWER CORPORATION
A public utility in the business of generating, transmitting, distributing, purchasing and selling electric energy. Incorporated in 1899, the company has a generating capability of approximately 6,000,000 kilowatts and serves 32 counties along the Gulf Coast and central ridge sector of Florida.

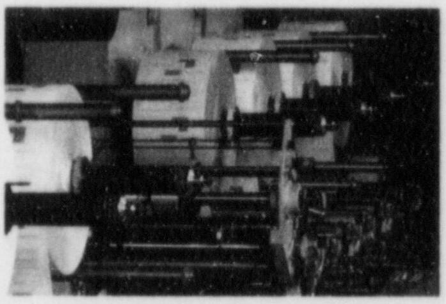
Energy and Technology Group

ELECTRIC FUELS CORPORATION
Organized in 1976, the company and its affiliates mine, procure and transport over seven million tons of high quality coal to major utility and industrial customers.

PROGRESS TECHNOLOGIES CORPORATION
Formed in 1985, the company is engaged in the development, licensing and marketing of new technology.

Business Services Group

BBS CORPORATION
Acquired in 1984, the company designs, manufactures and markets continuous forms, envelopes and computer-related supplies; and manufactures and distributes packaging systems and materials.



Financial Services Group

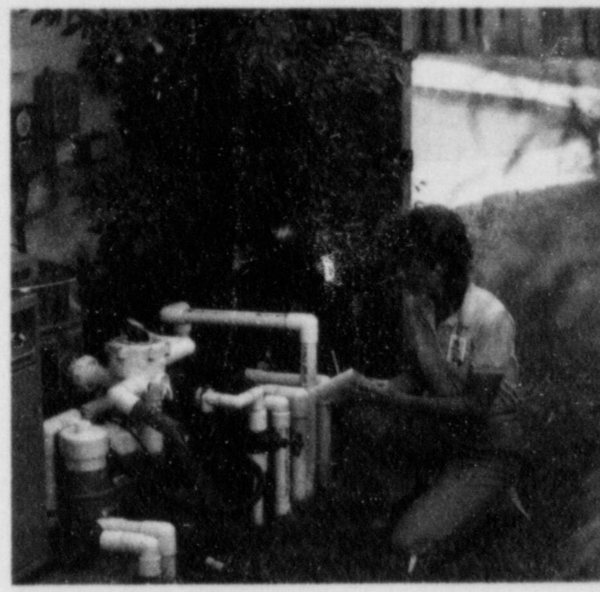
PROGRESS FINANCIAL SERVICES INCORPORATED
Formed in 1983, the company's activities include leveraged leasing of equipment and real estate; and money management.

MID-CONTINENT LIFE INSURANCE COMPANY
Acquired in 1986, the company is licensed in 30 states. The primary product is a unique life policy with a fixed amount of protection and a very low premium.

Development Group

TALQUIN CORPORATION
Organized in 1981, the company's operations are in real estate development and construction and the manufacture and distribution of building products.

Utility



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Florida Power Corporation continues its history of quality service to one of the fastest growing areas in the country. Whether meeting the demand of a growing population, the need for energy management, or the challenge to improve productivity, the emphasis is on service.

During 1986, Florida Power celebrated a significant milestone in its 87-year history by passing the 1,000,000th customer mark. The year was one of growth and solid performance.

Customer Operations

Energy sales in 1986 were up 8.9% compared to 3.3% for 1985. Residential sales increased 7% while commercial sales were up 9.1%. These increases more than offset a decrease in industrial sales of 1.4%. Industrial sales were down due primarily to a softening of the phosphate market.

The average customer growth rate for 1986 was 4.2%, down slightly from the 4.5% in 1985. Residential customers increased 4% during 1986, while commercial customer growth was 5.5%.

Installation of new services is an indicator of growth, both in energy sales and in customers. Over 54,000 new services were connected throughout the service area in 1986, the largest number since 1973.

Weather conditions play an important role in energy usage. The warm weather of the summer extended into the fall of 1986. The average kilowatt-hour use per residential customer was 11,255 kilowatt-hours, 2.9% more than 1985. This is the first year since 1973 that the average residential use per customer has been over 11,000 kilowatt-hours.

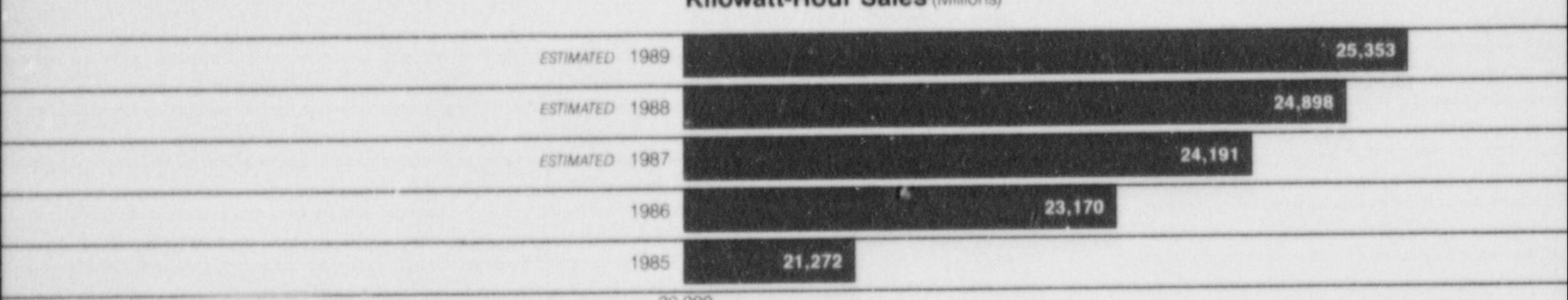
An electric utility is, in the most basic sense, a service company. Florida Power realizes that success is not only measured by growth rate and financial strength, but by the quality of customer service. The employees of Florida Power are dedicated to meeting the needs of customers. This dedication to quality is demonstrated each working day while connecting over 200 new services, handling thousands of customer contacts, reading over 50,000 meters using state-of-the-

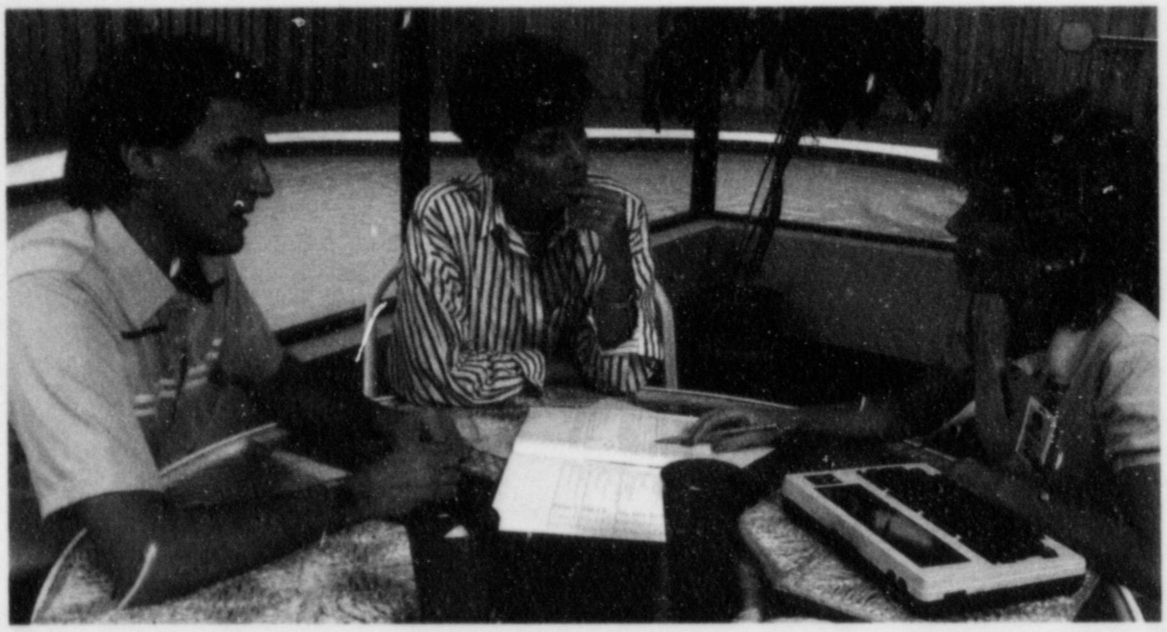
1. Energy Management has introduced various programs to provide quality and economical energy service to customers. At the end of 1986, the load management program included a total of 150,100 residential customers with load management control devices installed on their central heating and cooling units, water heaters and pool pumps.

2. The residential energy audit is another program offered by Florida Power Corporation. By recommending energy-saving measures to customers, the auditor provides a beneficial and cost-effective service.

3. Florida Power's new *Stedi-State* system provides our commercial customers protection from electric power surges. Florida Power has contracted with Publix Super Markets to install the surge suppressing devices in over 270 stores throughout Florida.

Kilowatt-Hour Sales (Millions)





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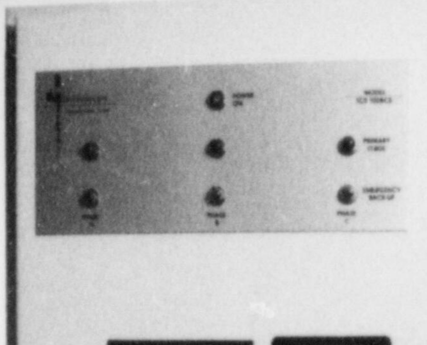


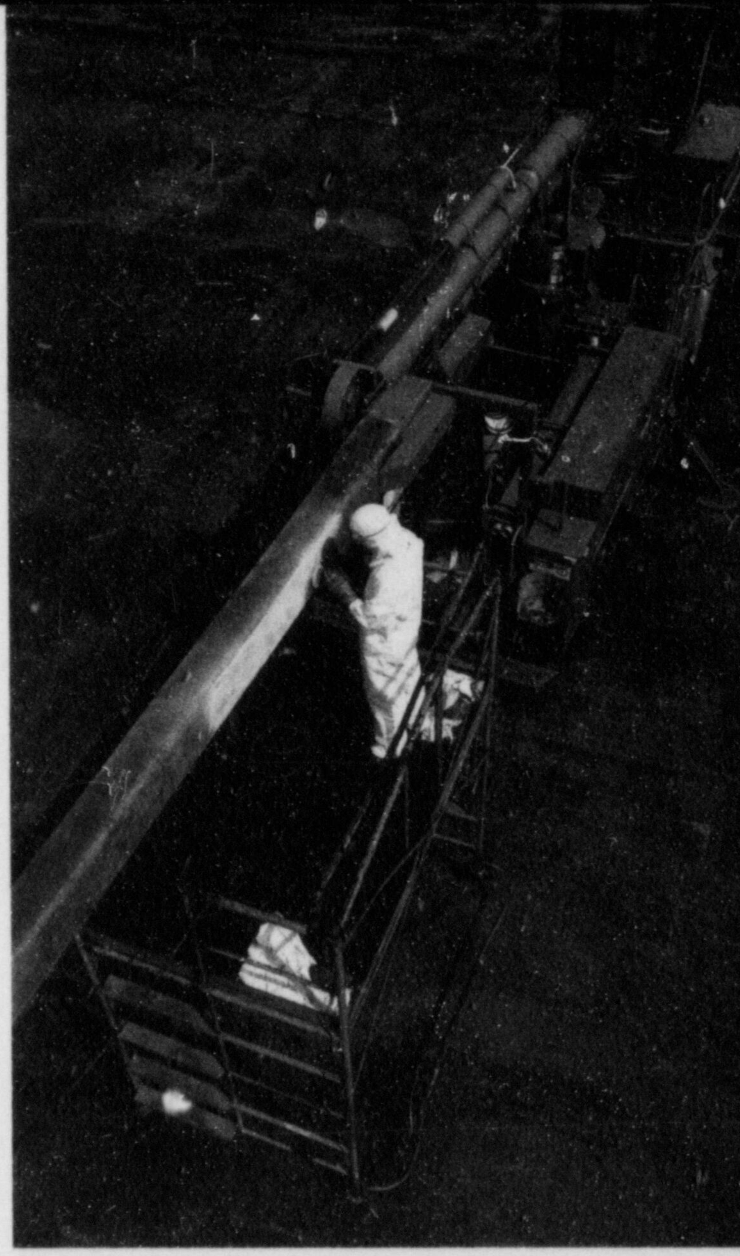
art electronic meter reading devices, and working through storms to restore power. The continuing commitment to service is also demonstrated by the new programs developed to address the special needs of our customers.

Energy Management

Formed in 1983, the Energy Management Department has grown and matured into an effective organization providing programs in load management, conservation, and marketing. By achieving aggressive goals to manage electric usage, Energy Management has maintained a posture of leadership in the industry.

The load management program continues to operate with success. During 1986, over 41,600 additional residential customers had load management radio-controlled devices installed in their homes. These devices, installed on major energy-using equipment, can be controlled during times of peak energy usage. The program levels the demand for electricity and helps reduce the need for costly new generating facilities. The peak reduction capability through direct control is projected to be between 8% and 10% by the early 1990's, or the equivalent of one conventional generating unit.

Through various conservation programs, Energy Management assists customers in using energy more efficiently. These programs include residential energy audits, home energy fixup and commercial energy inspections and audits.



The System Fleet Services PACE team, one of the eight original pilot teams, developed several recommendations to reduce maintenance expenses and improve the safety-related features of Florida Power bucket trucks. One recommendation facilitates compliance with the company's rigid safety standard for dielectric insulation and minimizes the deterioration of the fiberglass boom of the bucket trucks, caused by the intense ultra-violet rays of Florida's year-round sun. Applying two coats of white paint to the previously clear-coated boom surface enhances safety, reduces maintenance and extends the boom's life.

Other improvements include a new boom cable guard and a cover design which provide additional protection from electrical contact. The modification facilitates visual inspection and maintenance of the cable while doubling the cable's life.

These are only a few of hundreds of recommendations developed by PACE teams systemwide as part of the ongoing efforts to improve operations and productivity.

While an established outdoor lighting program continued to generate customer interest, surge suppression and lightning protection equipment were marketed to customers for the first time during 1986. Both the commercial program, *Stedi*-State, and the residential counterpart, FlashWARDEN, were established to meet the growing customer need to safeguard electronic equipment.

PACE

People Achieving Corporate Excellence, PACE, is a program designed to improve operations, productivity and the effective utilization of resources. The program is based on teams of 6 to 10 employees. These team members have first-hand knowledge and on-the-job experience to identify areas for improvement and make recommendations.

PACE was started on a test basis in 1985 with just eight teams. The innovative recommendations plus the enthusiasm of employees and management have led to the formation of over 55 teams throughout the company. The concept of employees joining with management to improve performance has proven successful both operationally and financially.

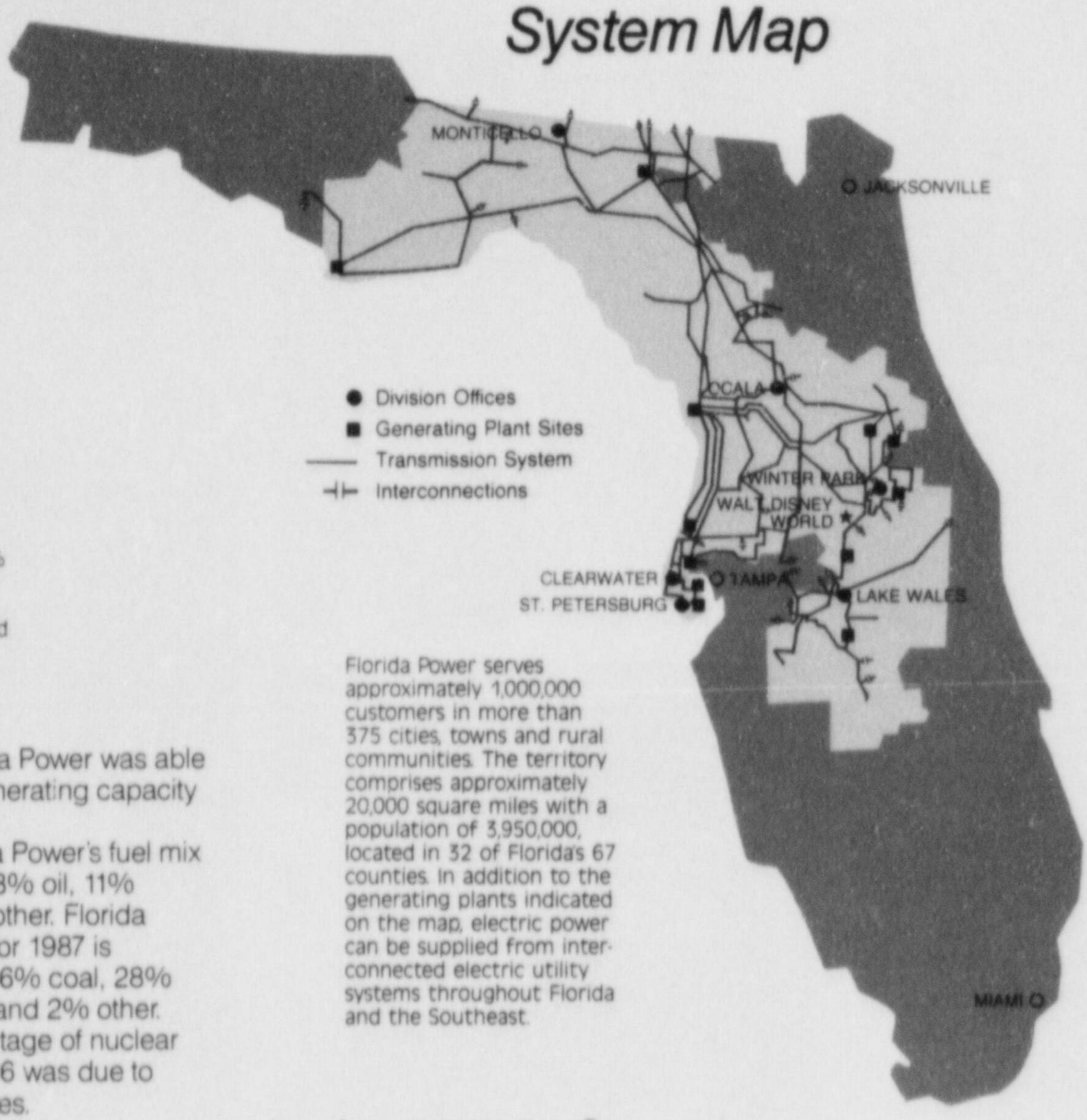
Fuel

The effective planning of Florida Power's generating capability has resulted in a mix of coal, oil and nuclear generation. The company has progressed from total dependency on oil and gas ten years ago to an era of fuel flexibility. This mix provides the flexibility necessary to respond to changes in the fuel market.

Due to the efficiency of the coal-fired generating units and competitive purchases on the spot markets, coal remains the primary fuel. Electric Fuels Corporation continues to supply all of Florida Power's coal requirements. With oil prices depressed throughout most


Fuel Mix (MBTU Basis)
ESTIMATED 1989
55%
26%
16%
3%
ESTIMATED 1988
56%
22%
20%
2%
ESTIMATED 1987
56%
28%
14%
2%
1986
60%
28%
11%
1%
1985
61%
20%
13%
6%
Coal
Oil
Nuclear
Other

System Map



Three oil-fired generating units, located at the Bartow Plant site in St. Petersburg, Florida, provide 437,000 kilowatts of winter capability. The company's oil-fired capability accounts for 50% of the system generating capability, compared to a total dependence on oil and gas 10 years ago.

Florida Power serves approximately 1,000,000 customers in more than 375 cities, towns and rural communities. The territory comprises approximately 20,000 square miles with a population of 3,950,000, located in 32 of Florida's 67 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.

of the year, Florida Power was able to sell oil-fired generating capacity to other utilities.

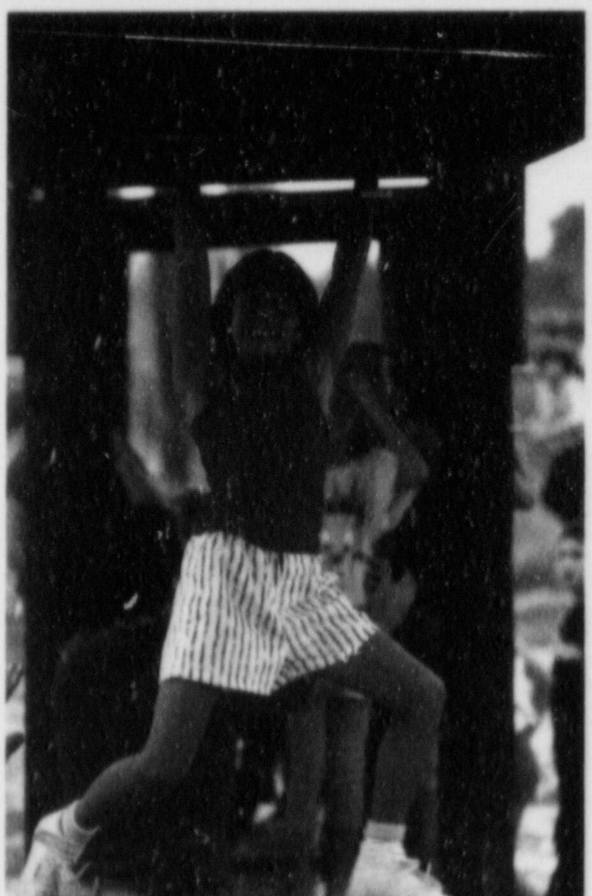
In 1986, Florida Power's fuel mix was 60% coal, 28% oil, 11% nuclear and 1% other. Florida Power's fuel mix for 1987 is estimated to be 56% coal, 28% oil, 14% nuclear and 2% other. The lower percentage of nuclear generation in 1986 was due to unplanned outages.

Nuclear Unit

On June 20, 1986, the Crystal River nuclear unit returned to service following a 24-week outage which began on January 1, 1986. The outage was the result of a crack in the shaft of a reactor coolant pump. During the outage, the shafts of all four of the unit's reactor coolant pumps were replaced.

After returning to service, the unit operated for 145 consecutive days of power production. On November 12, 1986, the unit was taken out of service to replace a control rod drive assembly motor. While bringing the unit back on line, leaks developed in two letdown coolers. After the replacement of the letdown coolers, the unit operated for a brief period when a failure was detected in one of the four reactor coolant pump seals. The four pump seals were replaced and the unit returned to service on January 23, 1987.

Florida Power employees have continually made personal commitments in the community. Recognizing these commitments, Florida Power established the I AM INVOLVED program, to organize volunteer opportunities for employees. A group of employees from the Tarpon Springs Engineering and Operations Center built a recreational facility for the Boys and Girls Club of Pasco County. They volunteered their time to build swings, chinning bars, a tetherball court, picnic tables and shelters from material donated to the Club.



System Operations

One of Florida Power's continuing objectives is to plan for sufficient generation to provide a reliable source of energy in future years. At year end, the system generating capability was 5,961,000 kilowatts, with 4,878,000 kilowatts provided by nineteen steam units. The balance, 1,083,000 kilowatts, was provided by nineteen combustion turbine peaking units. With an additional 110,000 kilowatts of cogeneration available, the total capability was 6,071,000 kilowatts. This total does not include 662,000 kilowatts placed in extended cold shutdown in 1984 and 1985.

A system peak demand of 5,977,000 kilowatts was recorded on January 23, 1986. At the time of the peak, the demand was met with current generating capacity, purchased power, and by controlling some interruptible customers and 180,000 kilowatts through load management.

Annually, Electric Light and Power magazine publishes a nationwide survey based on heat rate comparisons, the amount of energy used to produce a kilowatt-hour of electricity. For the past three years, Florida Power ranked in the top 10 among the nation's 100 largest investor-owned utilities in system power plant efficiency.

Reactivation of the 662,000 kilowatts of cold standby capacity is scheduled to begin in 1990, with the last unit reactivated around 1993. Current plans for additional generating capacity in the mid-1990's include combined cycle generation, capable of using coal, oil or gas. One combined cycle generating unit consists of two combustion turbines and a heat recovery steam generator. This unit will add over 200,000 kilowatts of capacity to the system.

I AM INVOLVED

At Florida Power, community involvement and volunteer activities are commitments the employees have always taken seriously. Florida Power supports these commitments through the I AM INVOLVED program, a corporate volunteer program developed to organize volunteer opportunities and recognition for employees.

Throughout 1986, employees volunteered over 50,000 hours of their time to a variety of worthwhile activities in their communities. Their work was as varied as the needs of the communities in which they live.

Individual employees became certified paramedics, served as volunteer fire fighters, and worked actively in United Way programs. Many employees participated as scout leaders and youth sports coaches.

Whether clearing brush for a new community center or improving non-profit health and child care facilities, the employees believe volunteer service is a responsibility that positively influences the quality of life.

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1. South Port Square's medical complex, completed in 1986, is the central point for the development of the 40-acre life-care community in Port Charlotte, Florida.

2. The Harborage at Bayboro offers high and dry boat storage, a specialty shop and boat sales and service. Initial plans for the Bayboro Harbor property include development of a 255-slip marina with construction to begin in 1987.

3. The medical complex consists of assisted-living units and a nursing center which provides skilled nursing services.

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Non-Utility

Recognizing that economic growth and opportunity are not guaranteed for any industry, Florida Progress began a diversification program in 1982. The philosophy for this diversification has been to acquire or form entities in selected businesses and to develop these over time. This philosophy and the commitment to steady, long-term growth minimizes the financial risk if things do not go as planned. It also balances the emphasis on short-term gains with acquiring assets which appreciate in value and build for the future. This diversification strategy is carried out by four business groups with a total equity investment of $201.3 million at December 31, 1986. The equity in each group is $62.1 million in Development, $86.3 million in Financial Services, $14.4 million in Business Services and $38.5 million in Energy and Technology.

Development Group

The Development Group expanded its building products business in 1986. In May, Talquin completed its acquisition of Gorman Co., Inc., Florida's second largest plumbing wholesaler. Later in the year, Talquin formed Gorman Air Conditioning Co., Inc., when it became the distributor for York air conditioning products for most of peninsular Florida. With these two additions, Talquin added 34 locations throughout Florida, establishing the foundation of a distribution network for building products.

Talquin Corporation's real estate development benefits from the combined activities of its building products and construction businesses.

Through its subsidiary, Crown Industries, Inc., Talquin added to its door manufacturing operations by acquiring the assets of Wes Dor, Inc., in Denver, Colorado, with a distribution outlet in Ogden, Utah. Crown also completed the construction of a new manufacturing plant in Tampa, Florida, significantly increasing the production capacity for aluminum windows and doors.

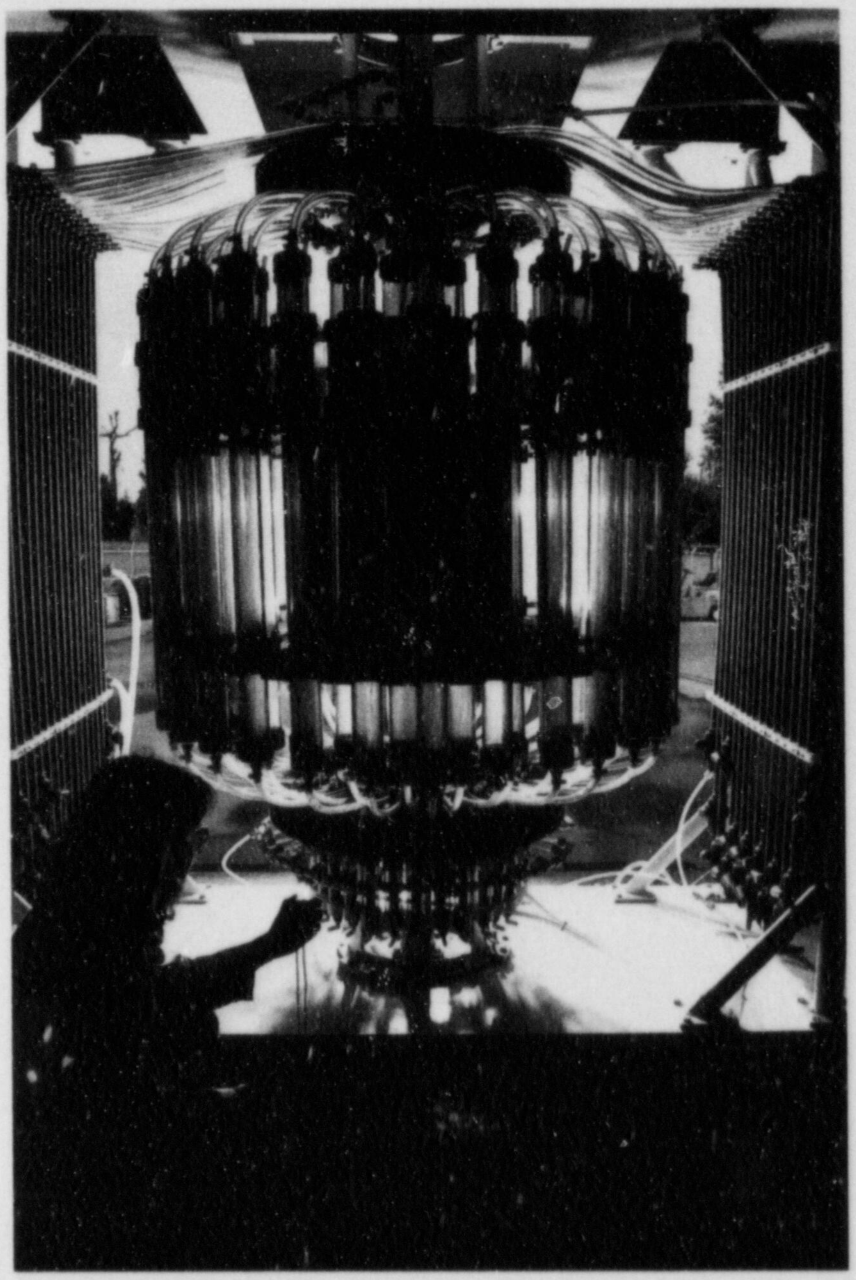
Through one of its partnerships, Talquin completed and opened the first phase of South Port Square, a life-care community in Port Charlotte, Florida. The 120-bed nursing center and 140-unit adult congregate living facility opened in June. Construction also began on the first of two 240-unit independent living buildings. Late in 1986, work began on a second life-care

1. A technician prepares an ISEP System for on-site process testing. The ISEP system is a continuous contacting device for ion exchange and absorption.

2. This Boeing 737 is one of three aircraft leased to Piedmont Aviation, Inc., by Progress Leasing Corporation during 1986.

3. Progress Packaging Corporation delivers corrugated boxes and foam packing to Home Shopping Network, the shop-at-home channel.

4. Mid-Continent Life Insurance Company's home office is located in Oklahoma City, Oklahoma. The building was built in 1926 and is listed in the National Register of Historic Places.



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community, Lake Port Square, in Leesburg, Florida.

Carillon, a planned 180-acre office park site in the Gateway area of St. Petersburg, Florida, is being developed in partnership with The Wilson Company of Tampa. During the year, two major corporations purchased sites and began constructing office buildings. Construction also started on an 80,000-square foot, multi-tenant office building. The partnership purchased an adjoining 252-acre tract for future expansion of the park. With this addition, the park now contains 432 acres.

Financial Services Group

During 1986, the Financial Services Group expanded its lines of business to include life insurance. In December, Florida Progress acquired Mid-Continent Life Insurance Company, headquartered in Oklahoma City, Oklahoma. Mid-Continent began operations as a stock life insurance company in 1909 and is licensed in 30 states. Its primary product is a life policy with a fixed amount of protection and a very low premium. The product is unique in that it focuses on providing death benefit life insurance at a low premium, as opposed to building high cash surrender value.

Mid-Continent markets its products through 13 branches with regional directors who act as liaisons to over 1900 independent general agents. For the last eight years, the company has been rated A+ (Superior) by A.M. Best Company, an independent analyst of the insurance industry.

Progress Financial Services Incorporated, as a result of its interest in money management, established Progress Investment Management, Inc. in 1986. Its primary function will be to serve as the advisor providing investment management and research to three mutual funds which were organized in June. The three funds are for common stock, fixed income, and tax exempt investments.

Progress Leasing Corporation, a joint undertaking between Progress Financial Services and Xerox Credit Corporation, continued to expand the leveraged leasing portfolio during 1986. Progress Leasing funded $292 million of leases increasing the lease portfolio to

approximately $670 million in asset cost at year end. The majority of the funding has been for equipment costing in the range of $10 to $50 million each. At year end, approximately 55% of the portfolio's cost consisted of commercial aircraft.

Business Services Group

The Business Services Group expanded its forms manufacturing business in 1986. BBS Corporation acquired Wesley's, Inc., in October. Wesley's is a forms manufacturer located near Winston-Salem, North Carolina. The company sells directly to customers in North Carolina and to distributors nationwide. Wesley's concentrates on specialty forms, specifically continuous letterheads and envelopes.

Wesley's joins Better Business Forms, Inc., the group's largest company, which manufactures and sells custom and stock business forms in Florida, Georgia and Alabama.

In addition to its forms companies, the group manufactures specialty packaging through Progress Packaging Corporation, and markets business products and services through Premier Business Services, Inc.

Energy and Technology Group

Electric Fuels delivered nearly 5.5 million tons of coal to Florida Power during 1986, an increase of 12% over 1985. The average price continued its downward trend decreasing by approximately 7% compared to 1985. Competitive purchases in the spot market, combined with the efficiency of Florida Power's coal-fired generating units, increased the utilization of coal as the primary component of Florida Power's fuel mix.

Approximately 20% of Electric Fuels' coal sales were to unaffiliated customers in 1986. This was the first full year of operations for Kentucky May Coal Company, Inc. as an Electric Fuels subsidiary. Its low sulfur coal, which is strip-mined by contract miners, is competitive even in the current depressed coal market. In 1986, Hatfield Terminals, Inc., an affiliate of Kentucky May, constructed a barge-loading terminal in Charleston, West Virginia, which complements its Ohio River facility.

The marine operations of Electric Fuels handled increased volumes during 1986. International Marine Terminals, an Electric Fuels partnership, which operates a bulk commodities transfer facility south of New Orleans, transferred in excess of six million tons of cargo during 1986, an increase of 12.2% over 1985. Electric Fuels' ocean-going fleet operated at capacity during 1986 including movements of grain to Africa and the Caribbean.

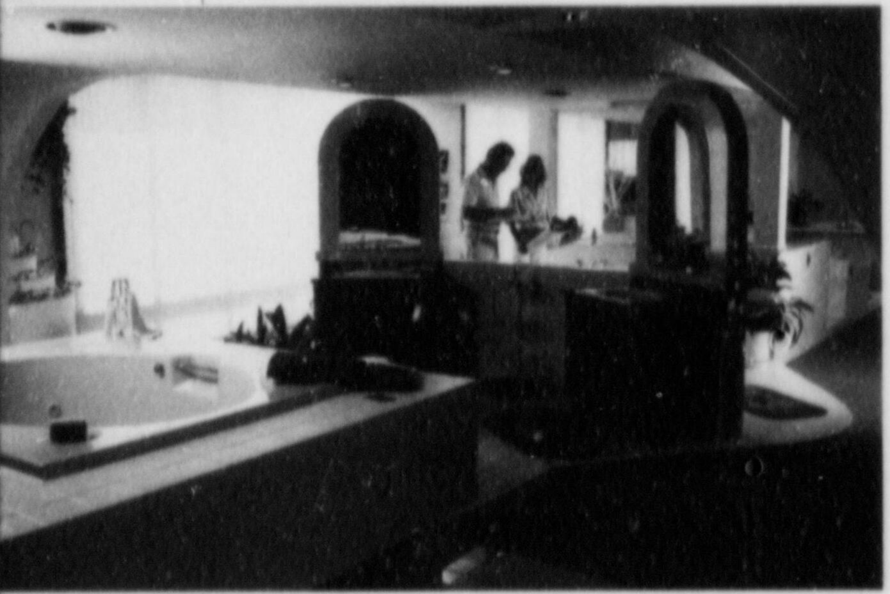
During its first year of operations, Progress Technologies Corporation, through its subsidiary, Advanced Separation Technologies Incorporated, introduced to the chemical industry, an advanced separation device and system called ISEP. The device permits the separation of various chemicals and gases on a continuous basis and is presently being developed for sale in the inorganic chemical, wastewater treatment and strategic metals recovery industries.

In June, Progress Technologies acquired a minority interest in GelTech, Inc., a company involved in the low-temperature production of various high-value optical components (lenses, filters and mirrors) from silicon-based liquid gels. This technology, referred to as "sol-gel," was acquired by GelTech, Inc., from the University of Florida, under the terms of an exclusive perpetual worldwide license.

The electric utility industry has passed the period when its product had a declining unit cost. The price of new generation and system maintenance has continued to rise, requiring a greater emphasis on energy management, cost control, and productivity. The future outlook indicates deregulation and increasing competition.

Investing in non-utility operations diversifies the risk and increases the opportunity for the future. Balanced and controlled diversification enhances the Company's earnings base and offers the opportunity to develop management in competitive environments. The combination of the utility and non-utility businesses is important preparation for managing the Company's future in the changing environment.

1. Gorman's modern showrooms offer the wholesale customer a display of the various lines of home plumbing supplies and fixtures.



1

2

2. Ocean-going barges deliver coal shipments from International Marine Terminals, an Electric Fuels Corporation partnership, to Florida Power's Crystal River generating site. The barges, owned by Dixie Fuels Limited, another Electric Fuels partnership, provide reliable marine transportation.

3. Electric Fuels controls approximately 160 million tons of coal reserves, of which about 50 million tons are located at Electric Fuels' Powell Mountain mining operation.

3

Financial Review — Management's Discussion

LIQUIDITY AND CAPITAL RESOURCES

Utility

During 1986, Florida Power's internally generated funds were sufficient to fund its $189.4 million of construction expenditures and to meet the $63.4 million of scheduled maturities of long-term debt and preferred stock sinking fund requirements. Florida Power also used funds from operations for the early redemption of several series of its Cumulative Preferred Stock with sinking funds. The $10 million of the 11% Series was redeemed in February at par, and in November, $26 million of the 10% Series and $44 million of the 10.50% Series were redeemed at $105 per share and $108 per share, respectively.

In November 1986, to partially replace the funds from operations used for these redemptions, Florida Power sold $50 million of 7.08% Cumulative Preferred Stock, through a public offering. The 7.08% Series has an annual 5% sinking fund requirement beginning in 1992.

Florida Power also received a $20 million equity contribution from Florida Progress in December 1986. Florida Power's common equity ratio at year end increased to 42.7% of capitalization and its long-term debt and preferred stock ratios were 47% and 10.3% respectively.

In December 1986, the annual interest rate on Florida Power's $108.6 million Pollution Control Annual Tender Bonds was adjusted from 6.125% to 4.5%. This interest rate reduction, along with the 1986 preferred stock changes and repayment of scheduled maturities of long-term debt, will reduce Florida Power's interest and preferred dividend requirements for 1987 by approximately $7.7 million.

Florida Power has no scheduled maturities of long-term debt or preferred stock in 1987, and expects to meet its budgeted construction expenditures of $213.9 million without additional long-term financing. However, it will have the opportunity, beginning on August 16, 1987, to redeem its $50 million 13.32% Cumulative Preferred Stock at $105.92 per share. Florida Power also has the right to redeem its $100 million 13.125% First Mortgage Bonds due 2012 at 109.72% beginning on October 1, 1987, and to redeem at par, beginning on November 1, 1987, its $100 million 13.30% First Mortgage Bonds due 1990. These optional redemptions will require refinancing.

Non-Utility

The financing requirements of non-utility subsidiaries are driven primarily by a need for working capital to carry accounts receivable and inventory. Capital expenditures for plant and equipment assume a much less significant role than with utility operations. The financial needs are financed through the internally generated funds of the non-utility subsidiaries, through borrowings from banks, and through equity contributions and advances from Florida Progress.

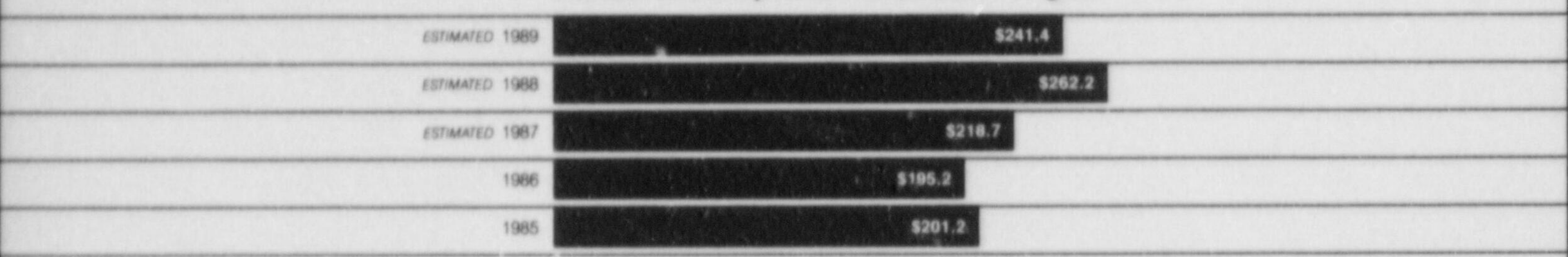
The source of Florida Progress equity funds to meet the requirements of its subsidiaries is the sale of common stock through the dividend reinvestment plan and employee benefit plans. During 1986, Florida Progress received $43.2 million from this source and anticipates receiving a similar amount in 1987. Effective January 1, 1987, the discount allowed on shares purchased with reinvested dividends was reduced to 3% from 5%.

Florida Progress also issued 1.6 million shares of its common stock in 1986 for the acquisitions of Gorman Co. and Mid-Continent Life Insurance Company. The acquisition of Mid-Continent also required the payment of $4.9 million in cash to former shareholders of Mid-Continent.

During 1986, non-utility long-term debt increased $18.2 million. Part of this increase was an $18 million bank loan to Talquin Corporation secured by its 3,000 acre citrus grove. The proceeds from this loan were used to pay off an existing $10.4 million purchase money mortgage loan and to repay short-term borrowings incurred to finance other Talquin projects. The non-utility subsidiaries also refinanced approximately $12.5 million in long-term debt during 1986 to take advantage of lower interest rates.

In connection with the unconsolidated leasing operations of Progress Leasing, two private placements of debt totalling $65 million were completed in 1986. Florida Progress supports this debt through cash deficiency agreements.

Florida Power Corporation Construction Program (in Millions)



Florida Progress requires funds for the payment of dividends on its outstanding common stock. These funds are provided by dividend payments from its subsidiaries, primarily Florida Power. It is anticipated that the proportionate share of dividends from non-utility subsidiaries will increase in future years.

Florida Progress has a cash management program whereby it invests the excess cash balances of its non-utility subsidiaries to optimize the Company's overall return. Through this program, funds are made available to subsidiaries that would otherwise borrow under their external lines of credit. Florida Progress has a $30 million commercial paper facility supporting the cash management program.

The Tax Reform Act of 1986

The recently enacted Tax Reform Act of 1986 (the Act) will have a substantial impact on the Company. The reduction to 34% as of July 1, 1987 of the 46% top corporate tax rate, the repeal as of January 1, 1986 of the investment tax credit, the modification of the current accelerated depreciation system, the alternative minimum tax, and, in regard to Florida Power, the requirement to include unbilled revenues in taxable income are the main provisions of the Act affecting the Company.

The Company is continuing to monitor the potential impact of the Act on net income, but any effect other than the possible reduction in income from leasing activities, is anticipated to be immaterial. Due to alternative minimum tax considerations, Progress Leasing may be limited as to the amount of tax-based leverage lease transactions that it could profitably conclude.

The Act is expected to significantly reduce internally generated funds which will require the Company to obtain additional external financing. For Florida Power, it is estimated that internally generated funds could be reduced by as much as $200 million over the 1987-1991 period.

OPERATING RESULTS

The Company's earnings per share for 1986 increased to $3.71 from $3.53 in 1985 and $2.71 in 1984. Utility earnings have continued to improve due in part to a customer growth rate ranging from 4.2% to 4.6% during the past three years, increases in residential and commercial customer usage and base rate increases obtained in late 1984. Non-utility earnings per share of $.34 in 1986 were up significantly from the $.15 per share reported in 1985. Contributing to the non-utility increase was continued growth in income from leveraged leasing and the acquisitions of Mid-Continent Life Insurance Company and Gorman Co. in 1986 and Kentucky May Coal Company in December 1985.

Utility

Utility revenues increased $25.6 million in 1986 and $168.2 million in 1985 and decreased $35.1 million in 1984. Steady customer growth combined with increases in residential and commercial usage of 3.5%, 4.4% and 3.3% in 1986, 1985 and 1984, respectively, contributed to utility revenue increases in each year. A major portion of the increase in utility revenues in 1985 resulted from retail and wholesale base rate increases totaling $102.4 million which became effective in late 1984. 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. Utility revenues are expected to drop in 1987 as Florida Power will provide credits totaling $54 million to retail customers during 1987, in compliance with a settlement agreement between the utility and the State Public Counsel's Office which was approved by the Florida Public Service Commission. These credits are intended to "pass through" the impact of lower federal income tax rates resulting from the Tax Reform Act of 1986, lower capital costs and the postponement of a planned increase in depreciation rates until 1988.

Fuel and purchased power expenses fluctuated during the years 1984 through 1986. These costs decreased $66 million in 1984 as a result of increased nuclear and coal generation and reduced reliance on oil and purchased power. A scheduled refueling and maintenance outage in 1985 and an unscheduled maintenance outage in 1986 reduced the availability of nuclear generation in those years. This resulted in an increase in the use of fossil fueled generation in 1985 while fuel and purchased power expenses in 1986 returned to 1984 levels as fossil fuel prices, particularly oil, became more economical. Because Florida Power recovers substantially all fuel costs through a fuel adjustment clause, these changes have little impact on net income.

Other utility operating and maintenance expenses increased $23.5 million in 1986 compared to an increase of $9.2 million in 1985. In 1986, $10.1 million of the increase was due to classifying the monthly credits given to utility customers who participate in the load management program as an expense rather than the past practice of classification as a reduction in revenues. Utility operating and maintenance expenses were higher than normal in 1984 due to the cost of meeting Nuclear Regulatory Commission requirements and additional provisions for scheduled maintenance and refueling outages at the Crystal River nuclear plant.

The increase in depreciation expense and the significant decrease in allowance for funds used during construction in 1985 resulted from the completion of a coal generating unit, Crystal River Unit No. 5, which was placed into service in late 1984.

Non-Utility

Non-utility revenues increased $196 million in 1986 and $90.7 million in 1985. Acquisitions which were not included in the prior year, or only included for part of the year, accounted for $183 million of the increase in 1986 and $63.3 million of the increase in 1985. Income from leveraged leasing was up by $2.6 million in 1986 and $3.3 million in 1985.

The cost of non-utility sales as a percent of non-utility revenue was 73.6%, 63% and 53.6% in 1986, 1985 and 1984, respectively. These increases were the result of acquisitions of wholesale building products and coal brokerage businesses, which are industries that have low gross profit margins.

Other non-utility operating and maintenance expenses increased $25.6 million in 1986 and $4.7 million in 1985. However, with the expansion of non-utility operations through both acquisitions and internal growth, these costs have decreased as a percent of non-utility revenues in each year.

Interest Expense and Income Taxes

Interest expense and preferred dividends decreased in 1985 and 1986 due to early redemptions and refinancings at more favorable rates in both years. The lower rates will have an additional favorable impact on 1987 expenses as well.

As a result of the Tax Reform Act of 1986, the effective federal income tax rate for 1987 will be lower than previous years. However, the reduction in rates is expected to have little effect on net income.

Impact of Inflation

Inflation reduces the purchasing power of the dollar and increases the cost of replacing assets used in the business. The utility is subject to rate regulation and income tax laws that are based on the recovery of historical cost only. Therefore, inflation creates an economic loss because the Company is recovering its cost of investments in dollars that have less purchasing power. Conventional accounting for historical cost does not recognize this economic loss or the partially offsetting gain that arises through financing facilities with fixed money obligations, such as long-term debt and preferred stock.

FLORIDA PROGRESS CORPORATION

Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 1986, 1985 AND 1984

(In millions, except per share amounts)

	1986	1985	1984
REVENUES:			
Electric utility	**$1,530.5**	$1,504.9	$1,336.7
Non-utility	**344.2**	148.2	57.5
	1,874.7	1,653.1	1,394.2
EXPENSES:			
Operations—			
Fuel and purchased power	**571.1**	586.8	570.6
Cost of non-utility sales	**253.4**	93.4	30.8
Other	**244.7**	203.3	183.3
	1,069.2	883.5	784.7
Maintenance	**108.1**	100.4	106.5
Depreciation	**136.5**	135.8	111.6
Taxes other than income taxes	**97.2**	87.6	76.7
	1,411.0	1,207.3	1,079.5
INCOME FROM OPERATIONS	**463.7**	445.8	314.7
INTEREST EXPENSE AND OTHER:			
Interest expense	**113.0**	121.4	122.0
Allowance for funds used during construction	**(5.8)**	(7.1)	(37.1)
Preferred dividend requirements of Florida Power	**23.2**	25.2	25.2
Other expense (income)	**(4.6)**	2.3	(8.1)
	125.8	141.8	102.0
INCOME BEFORE INCOME TAXES	**337.9**	304.0	212.7
Income taxes	**156.7**	143.1	96.9
NET INCOME	**$ 181.2**	$ 160.9	$ 115.8
AVERAGE SHARES OF COMMON STOCK OUTSTANDING	**48.9**	45.6	42.7
EARNINGS PER AVERAGE COMMON SHARE	**$3.71**	$3.53	$2.71

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

FLORIDA PROGRESS CORPORATION

Consolidated Balance Sheets

DECEMBER 31, 1986 AND 1985

(in millions)

Assets	**1986**	**1985**
PROPERTY, PLANT AND EQUIPMENT:		
Electric utility plant in service and held for future use	**$3,744.2**	$3,602.3
Less—Accumulated depreciation	**1,028.8**	915.9
	2,715.4	2,686.4
Construction work in progress	**48.1**	58.8
Nuclear fuel, net of amortization of $131.5 in 1986 and $118.3 in 1985	**107.9**	90.3
Net electric utility plant	**2,871.4**	2,835.5
Other property, net of depreciation of $29.1 in 1986 and $19.0 in 1985	**192.4**	154.7
	3,063.8	2,990.2
CURRENT ASSETS:		
Cash and temporary cash investments	**2.7**	8.8
Accounts receivable, less reserve of $4.2 in 1986 and $3.9 in 1985	**161.3**	155.4
Inventories, primarily at average cost—		
Fuel	**64.9**	83.6
Utility materials and supplies	**55.1**	53.4
Non-utility materials and finished products	**67.4**	45.0
Underrecovery of fuel cost	**—**	37.1
Prepayments	**9.0**	8.7
	360.4	392.0
OTHER ASSETS:		
Investments and advances—		
Unconsolidated subsidiaries and partnerships	**93.5**	42.3
Mutual funds and marketable equity securities	**33.7**	24.2
Nuclear plant decommissioning fund	**14.5**	11.2
Other	**23.7**	34.4
	165.4	112.1
	$3,589.6	$3,494.3

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

Capitalization and Liabilities	1986	1985
CAPITALIZATION:		
Common stock equity	**$1,156.4**	$1,014.2
Cumulative preferred stock of Florida Power	**233.5**	265.1
Long-term debt	**1,168.2**	1,151.1
	2,558.1	2,430.4
CURRENT LIABILITIES:		
Accounts payable	**84.0**	78.1
Customers' deposits	**49.3**	41.3
Income taxes—		
Currently payable	**23.1**	3.8
Deferred	**9.8**	36.7
Accrued other taxes	**8.3**	8.4
Accrued interest	**24.4**	22.3
Overrecovery of fuel cost	**11.5**	—
Other	**30.5**	26.4
	240.9	217.0
Notes payable	**43.5**	86.2
Current portion of long-term debt and preferred stock	**10.3**	72.8
	294.7	376.0
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	**520.3**	473.3
Unamortized investment tax credits	**185.7**	190.4
Nuclear refueling outage reserve	**14.0**	6.1
Other	**16.8**	18.1
	736.8	687.9
COMMITMENTS AND CONTINGENCIES (Note 9)		
	$3,589.6	$3,494.3

FLORIDA PROGRESS CORPORATION

Consolidated Statements of Changes in Financial Position

FOR THE YEARS ENDED DECEMBER 31, 1986, 1985 AND 1984
(In millions)

	1986	1985	1984
SOURCE OF AVAILABLE FUNDS:			
Funds retained in the business—			
Net income	**$181.2**	$160.9	$115.8
Add (deduct)—			
Depreciation and amortization	**155.8**	159.4	143.8
Deferred income taxes and investment tax credits, net	**41.2**	62.8	75.9
Allowance for funds used during construction	**(5.8)**	(7.1)	(37.1)
Other	**(1.2)**	(29.3)	26.0
Funds provided from operations	**371.2**	346.7	324.4
Less—Dividends on common stock	**111.2**	100.0	88.3
	260.0	246.7	236.1
Other funds provided, net—			
Overrecovery (underrecovery) of fuel cost	**48.6**	(68.3)	64.2
Other changes in working capital (excluding temporary cash investments and short-term debt)	**13.6**	15.3	(7.4)
Other	**31.7**	12.9	(4.6)
Internally generated funds	**353.9**	206.6	288.3
Funds provided by financing activities, net—			
Common stock, including pooling transactions	**77.0**	69.8	36.3
Preferred stock	**50.0**	—	—
Long-term debt	**46.7**	86.9	64.9
Reduction in long-term debt and preferred stock	**(180.2)**	(159.8)	(21.3)
Temporary cash investments	**(.5)**	24.4	(3.8)
Short-term debt	**(42.7)**	29.7	(9.9)
	(49.7)	51.0	66.2
	$304.2	$257.6	$354.5
USE OF FUNDS:			
Additions to electric plant and nuclear fuel	**$195.2**	$201.2	$284.5
Less—Allowance for funds used during construction	**5.8**	7.1	37.1
Net utility plant expenditures	**189.4**	194.1	247.4
Additions to other property	**42.6**	23.3	57.0
Business acquisitions —			
Working capital	**6.2**	31.3	—
Other property	**11.5**	44.8	—
Other assets, including goodwill, net of liabilities	**1.3**	9.2	—
Short-term debt	**—**	(9.7)	—
Long-term debt	**(1.9)**	(28.1)	—
Other investments and advances—			
Unconsolidated subsidiaries and partnerships	**45.1**	(7.4)	26.8
Mutual funds and marketable equity securities	**10.0**	.1	23.3
	$304.2	$257.6	$354.5

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

Consolidated Statements of Capitalization

DECEMBER 31, 1986 AND 1985
(In millions, except share amounts)

		1986	1985
COMMON STOCK EQUITY:			
Common stock without par value, authorized 90,000,000 shares, outstanding 49,711,969 shares in 1986 and 46,882,982 shares in 1985		**$ 600.6**	$ 554.8
Retained earnings		**555.8**	459.4
		1,156.4	1,014.2
CUMULATIVE PREFERRED STOCK OF FLORIDA POWER:			
$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	10.2% (a)	**100.0**	131.6
		233.5	265.1
LONG-TERM DEBT:			
Florida Power Corporation—			
First mortgage bonds—			
Maturing through 1991—			
July 1, 1986	3⅞%	**—**	9.6
July 1, 1988	4⅛%	**12.2**	12.7
October 1, 1990	4¾%	**13.6**	14.0
November 1, 1990	13.30%	**100.0**	100.0
Maturing 1992 through 2001	7.08% (a)	**211.0**	213.5
Maturing 2002 through 2006	7.92% (a)	**310.0**	310.0
Maturing 2012	13⅛%	**100.0**	100.0
Premium, being amortized over term of bonds		**3.8**	4.1
Par value of bonds reacquired to meet cash sinking fund requirements		**—**	(3.7)
		750.6	760.2
Guarantee of pollution control revenue bonds—			
Maturing 2000 through 2012	9.34% (a)	**132.9**	132.9
Annual tender bonds maturing in 2012 and 2013	4½% (a)	**108.6**	108.6
Bank term loan due June 1, 1988	10.64%	**75.0**	75.0
Other		**—**	51.0
Other subsidiaries, debt maturing 1987 through 2015	8.28% (a)	**111.4**	93.2
		1,178.5	1,220.9
Less—Current portion of long-term debt		**10.3**	69.8
		1,168.2	1,151.1
		$2,558.1	$2,430.4

(a) Weighted average dividend or interest rate at December 31, 1986.

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

FLORIDA PROGRESS CORPORATION

Consolidated Statements of Shareholders' Equity

FOR THE YEARS ENDED DECEMBER 31, 1986, 1985 AND 1984

(Dollars in millions, except per share amounts)

	Common Stock	Retained Earnings	Cumulative Preferred Stock of Florida Power: Without Sinking Funds	Cumulative Preferred Stock of Florida Power: With Sinking Funds
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)
613,637 common shares issued 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
Net income		**181.2**		
1,213,550 common shares issued	**44.1**			
500,000 preferred shares issued — 7.08% series				**50.0**
815,307 preferred shares redeemed	**(.7)**	**(4.1)**		**(81.6)**
1,615,437 common shares issued in pooling of interests transactions	**2.4**	**30.5**		
Cash dividends on common stock ($2.31 per share)		**(111.2)**		
Balance, December 31, 1986	**$600.6**	**$555.8**	**$133.5**	**$100.0**

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 combine the financial results of Florida Progress Corporation (the Company) and all subsidiaries other than its leasing and insurance subsidiaries, which are included on the equity basis of accounting. The Company's largest subsidiary, representing 87.4% of total assets, is Florida Power Corporation (Florida Power), a 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

Notes to Consolidated Financial Statements

electric plant is pledged as collateral for Florida Power's First Mortgage Bonds.

Electric 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 is 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. Florida Power's annual provision for depreciation, including a provision for nuclear plant decommissioning costs, expressed as a percentage of the average balances of depreciable electric plant was 3.8%, 3.9% and 3.7% for 1986, 1985 and 1984, respectively.

Florida Power charges maintenance expense 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 which represents 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 (FPSC) 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 $6.4 million at December 31, 1986, 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 9.72% for 1986 and 10.03% for 1985 and 1984.

Mutual Funds and Marketable Equity Securities— Mutual funds are carried at market value. Marketable equity securities are carried at the lower of aggregate cost or market value. At December 31, 1986, the market value of the securities exceeded cost by $12.9 million.

Pension Costs—The Company and certain of its subsidiaries have a non-contributory defined benefit pension plan covering substantially all of their employees. The benefits are based on years of service and the employee's compensation during the highest five of the last ten years of employment. The Company's policy is to contribute annually to the plan the amount necessary to fund the retirement benefits provided under the plan.

The Company plans to adopt the new Financial Accounting Standards Board (FASB) Standard No. 87 on accounting for pension costs in 1987. In preparing for the change, the Company adopted the actuarial cost method required by the FASB and revised most of the actuarial assumptions for the 1986 plan valuation. These changes reduced pension costs for 1986 by approximately $10.7 million and a further reduction is expected when the FASB standard is adopted in 1987. Total pension costs for the last three years included the following components:

	1986	1985	1984
		(In millions)	
Current service cost	**$ 7.7**	$ 8.7	$ 7.6
Amortization of past service cost (credit) over a 20-year period	**(7.7)**	.9	1.5
Total	**—**	$ 9.6	$ 9.1

The following summarizes the funded status of the pension plan at January 1, 1986 and 1985 based on an assumed annual rate of investment return of 9% and 8%, respectively:

	January 1, 1986	January 1, 1985
	(In millions)	
Actuarial present value of accumulated plan benefits:		
Vested	**$ 86.8**	$ 86.7
Non-vested	**14.1**	15.2
Total	**$100.9**	$101.9
Net assets available for benefits	**$245.0**	$193.9

Notes to Consolidated Financial Statements

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 $137.6 million and $158.2 million for 1986 and 1985, respectively.

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 $14.0 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.

Florida Power did not provide deferred income taxes for certain timing differences during periods when applicable regulatory authorities did not permit the recovery of such income taxes through rates charged to customers. The cumulative net amount of income tax timing differences for which deferred taxes have not been provided was approximately $115 million at December 31, 1986. As allowed under current regulatory practices, deferred taxes not previously provided are being collected in customers' rates as such taxes become payable.

(2) INCOME TAXES

(In millions)

	1986	**1985**	**1984**
Federal:			
Payable currently	**$124.5**	$ 36.1	$55.1
Deferred (a)	**16.9**	81.0	12.6
Investment tax credits, net of amortization	**(5.1)**	8.2	17.4
	136.3	125.3	85.1
State:			
Payable currently	**17.9**	7.9	10.7
Deferred (a)	**2.5**	9.9	1.1
	20.4	17.8	11.8
Income taxes	**$156.7**	$143.1	$96.9

(a) The components of deferred income tax are as follows:			
Federal—			
Excess of accelerated over straight-line tax depreciation	**$ 46.6**	$ 50.0	$40.5
Construction costs and other property related items deducted for tax purposes, net of book depreciation	**.7**	(3.4)	10.6
Underrecovery (overrecovery) of fuel cost	**(20.8)**	29.9	(28.8)
Other	**(9.6)**	4.5	(9.7)
	$ 16.9	$ 81.0	$12.6
State—			
Excess of accelerated over straight-line tax depreciation	**$ 6.1**	$ 5.9	$ 4.6
Construction costs and other property related items deducted for tax purposes, net of book depreciation	**.1**	(.3)	.8
Underrecovery (overrecovery) of fuel cost	**(2.6)**	3.8	(3.3)
Other	**(1.1)**	.5	(1.0)
	$ 2.5	$ 9.9	$ 1.1

Notes to Consolidated Financial Statements

The provision for income taxes 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:

	1986	1985	1984
Federal income tax statutory rates	**46.0%**	46.0%	46.0%
Amortization of investment tax credits	**(2.9)**	(2.8)	(4.0)
Allowance for equity funds	**(.3)**	(.4)	(3.7)
State income tax, net of federal income tax	**3.1**	2.9	2.7
Other	**(2.5)**	(2.2)	(.3)
Effective income tax rates	**43.4%**	43.5%	40.7%

The Tax Reform Act of 1986 will only have a minor impact on net income in 1987 since the resulting reduction in Florida Power's income taxes will be "passed through" to ratepayers in the form of monthly billing credits effective January 1, 1987 as indicated in Note 8.

(3) BUSINESS ACQUISITIONS

The acquisitions of Mid-Continent Life Insurance Company and Gorman Co., Inc. in 1986 and BBS Corporation in 1984 were accounted for on a pooling of interests basis. As the effect of restating data relating to these acquisitions would not materially affect previously issued financial statements, no restated prior year or separate entity operating results are presented. Several businesses were acquired in 1986 and 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.

(4) NUCLEAR OPERATIONS

Jointly Owned Plant—Florida Power's 90% ownership share in the Crystal River nuclear unit as of December 31, 1986, amounted to $492.5 million of electric plant in service, $12.7 million of construction work in progress, $107.9 million of unamortized nuclear fuel, and $143.1 million of accumulated depreciation which includes $30 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 consolidated statements of income.

Plant Decommissioning Costs—Florida Power's nuclear plant depreciation rates include a provision for future nuclear plant decommissioning costs which are recoverable through rates charged to customers. Florida Power is placing its collections in a funded reserve. The recovery from customers plus interest earned on the funded amounts provides coverage toward the future dismantling, removal and land restoration costs. Florida Power has been providing for its share of the decommissioning costs based on a 1980 study which anticipated decommissioning beginning in the year 2008. In early 1987, Florida Power completed a detailed decommissioning study which now contemplates decommissioning beginning in the year 2016. This study, which is currently pending before the FPSC, would result in an increase in annual depreciation expense from $5 million to $9.3 million beginning in 1987.

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 consumed are being collected from customers at a rate of .1¢ per kilowatt-hour through the fuel adjustment clause and are 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 next outage is scheduled for twelve weeks beginning in September 1987 and is presently expected to cost approximately $21 million.

Insurance—The Price-Anderson Act currently limits the liability of an owner of a nuclear power plant to $695 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 Nuclear Regulatory Commission. In the event of a nuclear incident, Florida Power could be assessed up to $5 million for the licensed reactor it owns, with a 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 $2.9 million in any year in which losses exceed accumulated funds available to NEIL.

Notes to Consolidated Financial Statements

Florida Power currently carries approximately $1.1 billion in property insurance provided through several different policies. One of these policies which is underwritten by NEIL, provides $575 million of excess coverage. Under this policy, Florida Power is contingently liable to NEIL for a retrospective premium assessment of up to $8.2 million in any one policy year in the event NEIL's excess property losses exceed available funds.

(5) PREFERRED AND PREFERENCE STOCK

The Company has 10 million shares of authorized but unissued Preferred Stock without par value. Florida Power has four million shares of authorized Cumulative Preferred Stock, $100 par value, of which 2.3 million shares are outstanding, 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. The combined amount of minimum preferred stock redemption requirements over the next five years is $10 million per year beginning in 1988.

(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 outstanding at any point in time are supported by a three-year line of credit arrangement in the amount of $100 million.

The combined aggregate maturities of long-term debt for 1987, 1988, 1989, 1990 and 1991 are $10.3 million, $95.4 million, $10.7 million, $126.2 million, and $17.6 million respectively. In addition, all but one of Florida Power's First Mortgage Bond issues have an annual 1% sinking fund requirement. These requirements, which total $7.2 million for 1987 and 1988, $7.0 million for 1989 and 1990, and $6.7 million for 1991, are expected to be satisfied with property additions.

(7) SHORT-TERM DEBT

The Company and its consolidated subsidiaries have lines of credit totaling $184.9 million, of which $105 million is used to support commercial paper programs. The amount outstanding at December 31, 1986, and 1985, through both commercial paper and direct borrowings, totaled $43.5 million and $86.2 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 ⅛ and ⅜ of 1%.

(8) FLORIDA POWER SETTLEMENT AGREEMENT

For calendar year 1987, Florida Power's retail customers will receive billing credits totaling approximately $54 million. The total credit is based on a "pass through" of lower federal income tax rates resulting from the Tax Reform Act of 1986, lower capital costs and the postponement of a planned increase in depreciation rates until 1988. Florida Power is providing the credit in compliance with a FPSC approved Settlement Agreement between Florida Power and the State Public Counsel's Office. Florida Power plans to determine during 1987 what adjustment will be necessary in order to continue "passing through" the impact of the lower federal income tax rates.

(9) 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 1987 of $213.9 million for electric plant and nuclear fuel.

Florida Power's current construction program does not include possible capital expenditures that could reach as high as $250 million in connection with an Environmental Protection Agency (EPA) proposed requirement for the construction of additional cooling towers at Florida Power's Crystal River facility. Management is vigorously opposing this action and has proposed less costly alternatives to lessen the environmental impact of the heated water discharge. These alternatives are presently being considered by the EPA.

Debt Support Agreements—The Company has agreed to support certain loan agreements of partnerships and joint ventures and the debt of an unconsolidated subsidiary. The total amount of these support agreements is $183.7 million of which $159.2 million are cash deficiency agreements and $24.5 million are guarantees.

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, 1986 and 1985, and the related consolidated statements of income, changes in financial position and shareholders' equity for each of the three years in the period ended December 31, 1986. 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, 1986 and 1985, 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, 1986, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Tampa, Florida
January 28, 1987

Quarterly Financial Data (Unaudited)

(In millions, except per share amounts)

	Three Months Ended			
	March 31	**June 30**	**September 30**	**December 31**
1986				
Revenues	**$429.6**	**$486.1**	**$532.2**	**$426.8**
Income from operations	**$115.9**	**$108.1**	**$156.8**	**$82.9**
Net income	**$45.5**	**$41.2**	**$63.6**	**$30.9**
Earnings per average common share	**$.94**	**$.85**	**$1.29**	**$.63**
1985				
Revenues	$378.1	$389.9	$472.0	$413.1
Income from operations	$111.8	$110.1	$129.1	$94.8
Net income	$42.0	$39.7	$50.1	$29.1
Earnings per average common share	$.95	$.87	$1.08	$.62

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 first three quarters of 1986 have been restated as a result of the pooling of Mid-Continent Life Insurance Company in December, 1986. This restatement resulted in a decrease in previously reported earnings per share of $.01 for the first quarter and $.02 for the third quarter. See Note 3 of Notes to Consolidated Financial Statements.

The business of the Company's largest subsidiary, Florida Power, 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.

FLORIDA PROGRESS CORPORATION

Selected Consolidated Data 1982-1986

(Dollars in millions, except per share amounts)

	1986	1985	1984	1983	1982
Revenues	**$1,874.7**	$1,653.1	$1,394.2	$1,373.7	$1,227.6
Income from operations	**$463.7**	$445.8	$314.7	$312.5	$224.7
Net income	**$181.2**	$160.9	$115.8	$103.9	$82.1
Earnings per average common share	**$3.71**	$3.53	$2.71	$2.64	$2.20
Dividends per common share	**$2.31**	$2.19	$2.07	$1.95	$1.83
Total assets	**$3,589.6**	$3,494.3	$3,315.3	$3,114.1	$2,914.9
Capitalization:					
Long-term debt	**$1,168.2**	$1,151.1	$1,252.4	$1,207.9	$1,195.1
Preferred stock with sinking funds	**100.0**	131.6	134.7	140.8	142.4
	1,268.2	1,282.7	1,387.1	1,348.7	1,337.5
Preferred stock without sinking funds	**133.5**	133.5	133.5	133.5	133.5
Common stock equity	**1,156.4**	1,014.2	883.5	818.3	725.0
Total Capitalization	**$2,558.1**	$2,430.4	$2,404.1	$2,300.5	$2,196.0
Capitalization Ratios:					
Long-term debt	**45.7%**	47.4%	52.1%	52.5%	54.4%
Preferred stock	**9.1**	10.9	11.2	11.9	12.6
Common stock equity	**45.2**	41.7	36.7	35.6	33.0
Number of employees	**8,030**	7,208	5,573	5,077	4,864
Number of common shareholders	**46,586**	48,052	48,933	48,712	43,887

Common Stock Data

	Composite Price of Common Stock				Dividends Paid Per Share	
	1986		1985		1986	1985
	High	Low	High	Low		
First Quarter	**$37⅛**	**$30¼**	$25¾	$23¼	**$.57**	$.54
Second Quarter	**39⅞**	**35¼**	28¾	25⅜	**.57**	.54
Third Quarter	**47**	**35½**	29⅛	24	**.57**	.54
Fourth Quarter	**43¾**	**38½**	31	25⅜	**.60**	.57

Selected Data of Florida Power Corporation 1982-1986

	1986	1985	1984	1983	1982
Electric Sales (Millions of KWH):					
Residential	**9,819.2**	9,175.0	8,553.6	8,009.5	7,425.0
Commercial	**5,573.0**	5,106.6	4,547.7	4,118.6	3,895.2
Industrial	**3,122.3**	3,166.0	2,989.0	2,701.0	2,715.5
Other	**1,319.3**	1,268.4	1,188.8	1,142.9	1,094.9
	19,833.8	18,716.0	17,279.1	15,972.0	15,130.6
Sales for resale (a)	**3,336.2**	2,556.4	3,317.3	5,802.0	4,739.3
Total Electric Sales	**23,170.0**	21,272.4	20,596.4	21,774.0	19,869.9
Residential Service (Average Annual):					
KWH sales per customer	**11,255**	10,940	10,638	10,388	9,964
Revenue per customer	**$914**	$883	$818	$783	$720
Revenue per KWH	**8.12¢**	8.07¢	7.69¢	7.54¢	7.23¢
Capitalization:					
Long-term debt	**$1,067.1**	$1,067.4	$1,196.5	$1,180.2	$1,184.5
Preferred stock with sinking funds	**100.0**	131.6	134.7	140.8	142.3
	1,167.1	1,199.0	1,331.2	1,321.0	1,326.8
Preferred stock without sinking funds	**133.5**	133.5	133.5	133.5	133.5
Common stock equity	**971.0**	899.3	816.9	789.5	705.2
Total Capitalization	**$2,271.6**	$2,231.8	$2,281.6	$2,244.0	$2,165.5
Capitalization Ratios:					
Long-term debt	**47.0%**	47.8%	52.4%	52.6%	54.7%
Preferred stock	**10.3**	11.9	11.8	12.2	12.7
Common stock equity	**42.7**	40.3	35.8	35.2	32.6
Operating Data:					
Net generating capability (MW)	**5,961**	5,989	5,927	5,993	5,899
Net system peak load (MW)	**5,977**	5,813	4,858	4,913	5,347
BTU per KWH of net output	**9,865**	9,928	10,074	10,082	10,383
Construction additions (millions)	**$195.2**	$201.2	$284.5	$285.8	$385.3
Percentage of construction expenditures generated internally	**100%**	100%	99%	66%	39%
Ratio of earnings to fixed charges	**4.29**	3.81	3.07	2.94	2.42
Fuel cost per million BTU	**$2.14**	$2.63	$2.36	$2.85	$2.78
Average number of customers	**980,427**	940,976	900,799	861,548	829,810
Number of employees	**5,323**	5,215	5,070	4,923	4,829

(a) The decline in sales for resale in 1984 is due primarily to Seminole Electric Cooperative placing its 620MW unit into service on February 1, 1984.

Florida Progress Corporation

Directors

Robert C. Allen
Vice President
Walt Disney World Co.
Lake Buena Vista, 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
The Johnson Simmons Company
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
and Chief Financial Officer

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

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

Lee H. Scott
Group Vice President
President
Florida Power Corporation

Robert T. Stuart, Jr.
Ranching and Investments
Oklahoma City, Oklahoma

Jean Giles Wittner
President
Wittner Securities, Inc.
St. Petersburg, Florida

Executive Officers

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

Stanley A. Brandimore
Executive Vice President
and General Counsel

Clarence W. McKee, Jr.
Executive Vice President
and Chief Financial Officer

Group Vice Presidents

Jack B. Critchfield
Energy and Technology Group

Allen J. Keesler, Jr.
Development Group

Thomas S. Krzesinski
Financial Services Group

Lee H. Scott
Utility Group

Gus A. Stavros
Business Services Group

Other Officers

Jerry H. Joyce
Vice President
and Treasurer

Jay G. Loader
Vice President
and Secretary

Dan R. Johnson
Controller

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 1986, approximately 40% of the Company's common shareholders participated in the Company's Dividend Reinvestment and Stock Purchase Plan. ***Effective January 1, 1987, the price of shares purchased with reinvested dividends is at a 3% discount from the market price.*** Plan enrollments, withdrawals and other correspondence should be directed to the Investor Services Department at the address shown.

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 1986 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission. A Florida Power Corporation 1986 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

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

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

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Florida Progress Corporation

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