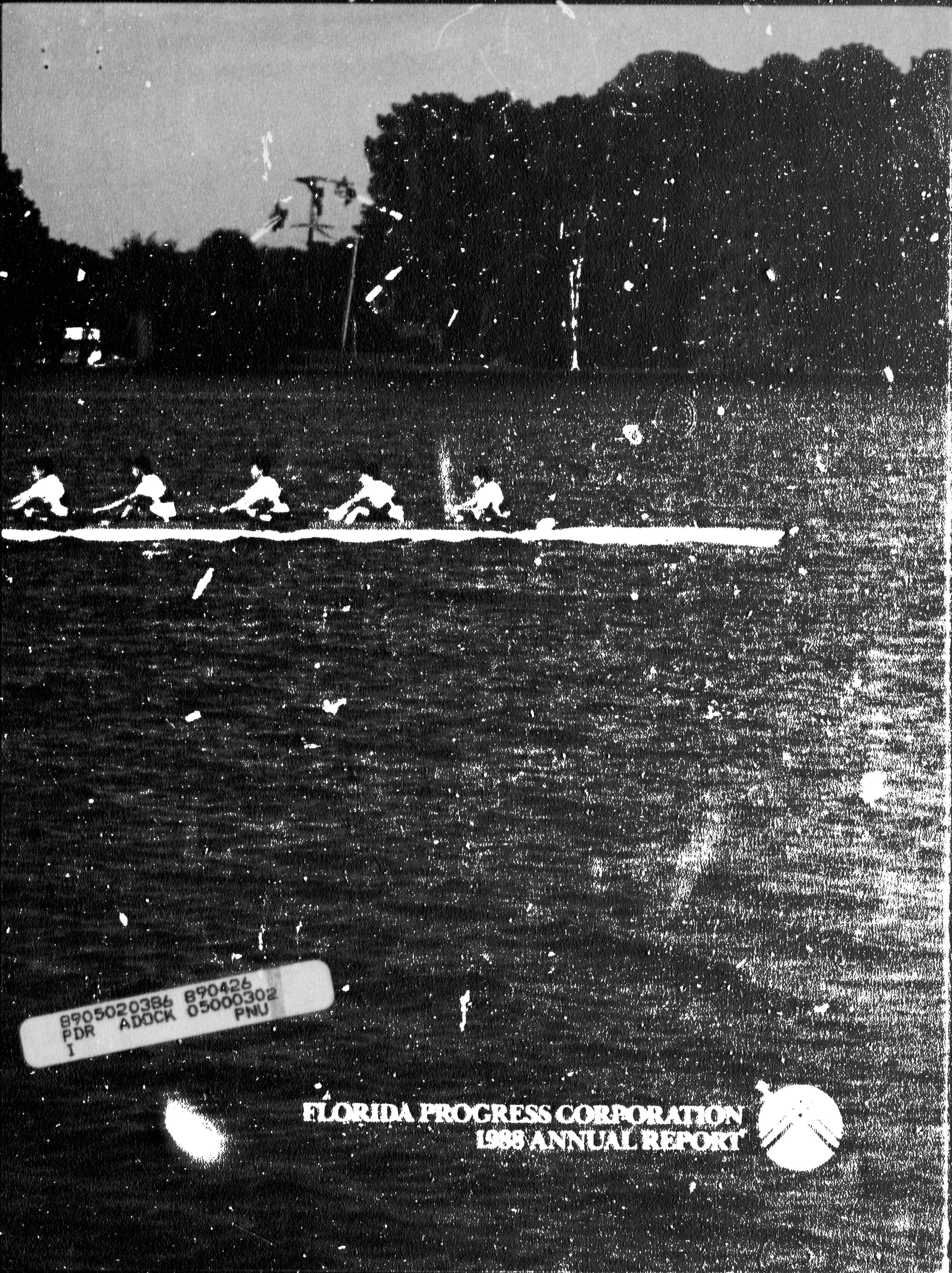
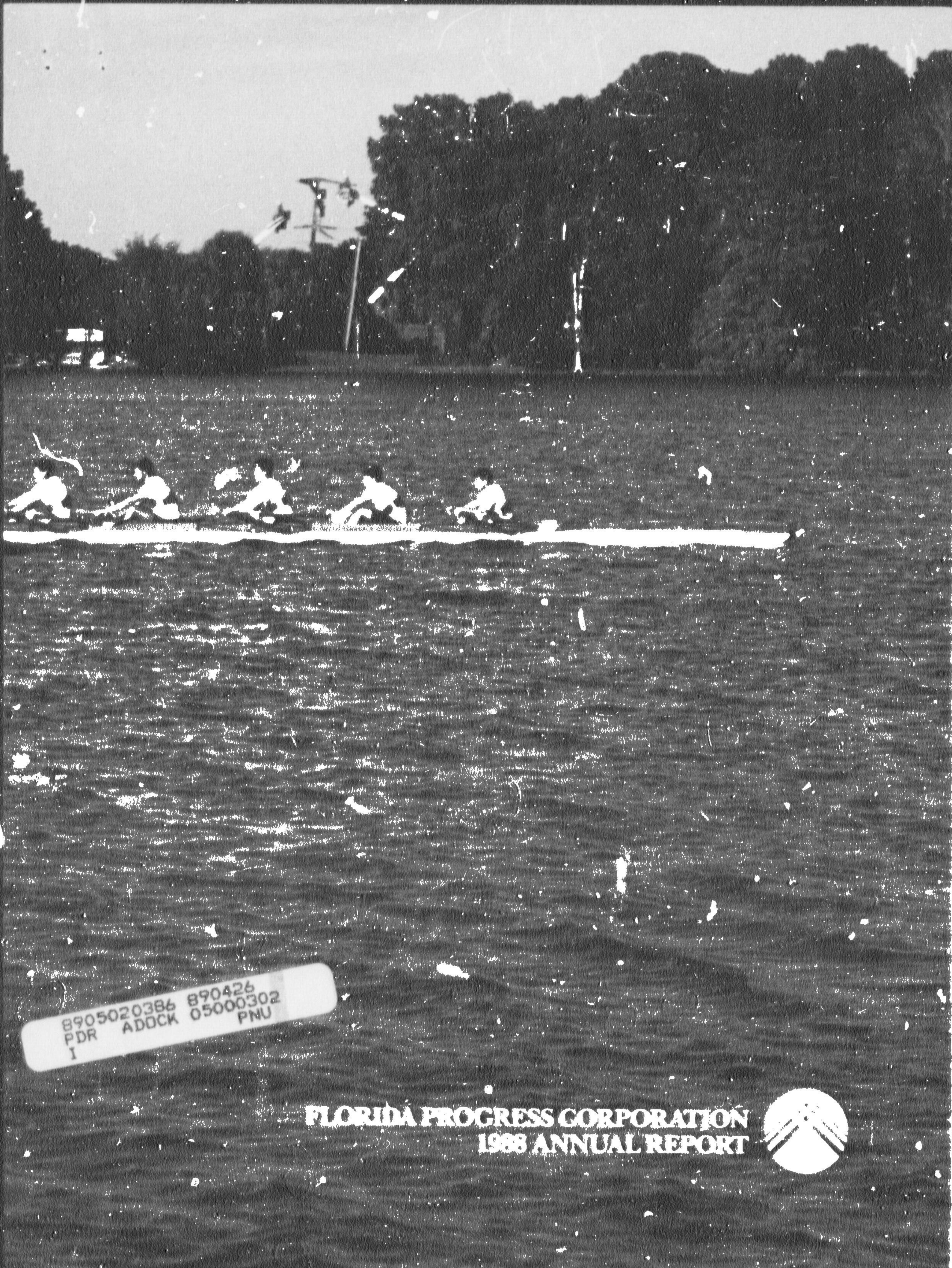


FLORIDA PROGRESS CORPORATION
1988 ANNUAL REPORT



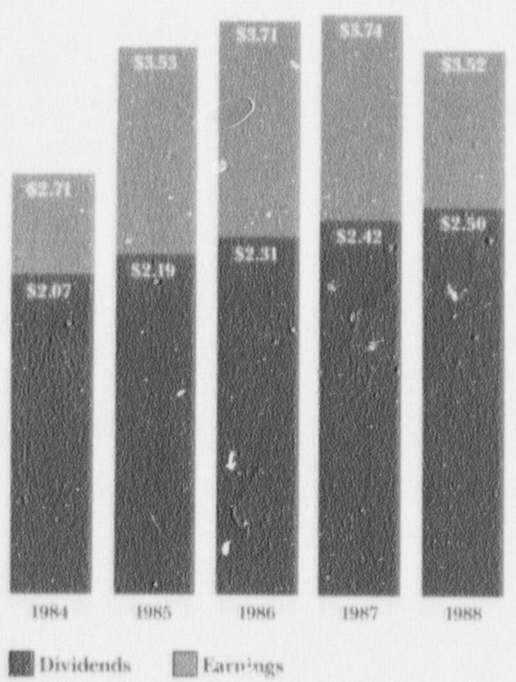
FLORIDA PROGRESS CORPORATION
1988 ANNUAL REPORT

CONSOLIDATED FINANCIAL HIGHLIGHTS

(In millions, except per share amounts)

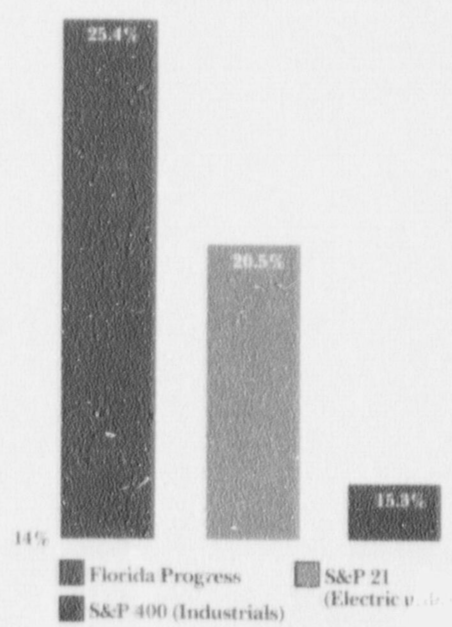
	1988	*1987*
Revenues Increased 2.3%	**$2,002.0**	$1,957.6
Earnings Were Down 4.3%	**$179.8**	$187.8
Average Common Shares Outstanding Increased 1.6%	**51.1**	50.3
Earnings Per Share Decreased 5.9%	**$3.52**	$3.74
Dividends Paid Per Common Share Were Up 3.3%	**$2.50**	$2.42
Return on Average Common Equity	**13.9%**	15.5%
Book Value Per Share—Year End	**$25.80**	$24.77
Common Stock Price Range	**$32-37¾**	$29⅝-43⅞

EARNINGS AND DIVIDENDS PER SHARE

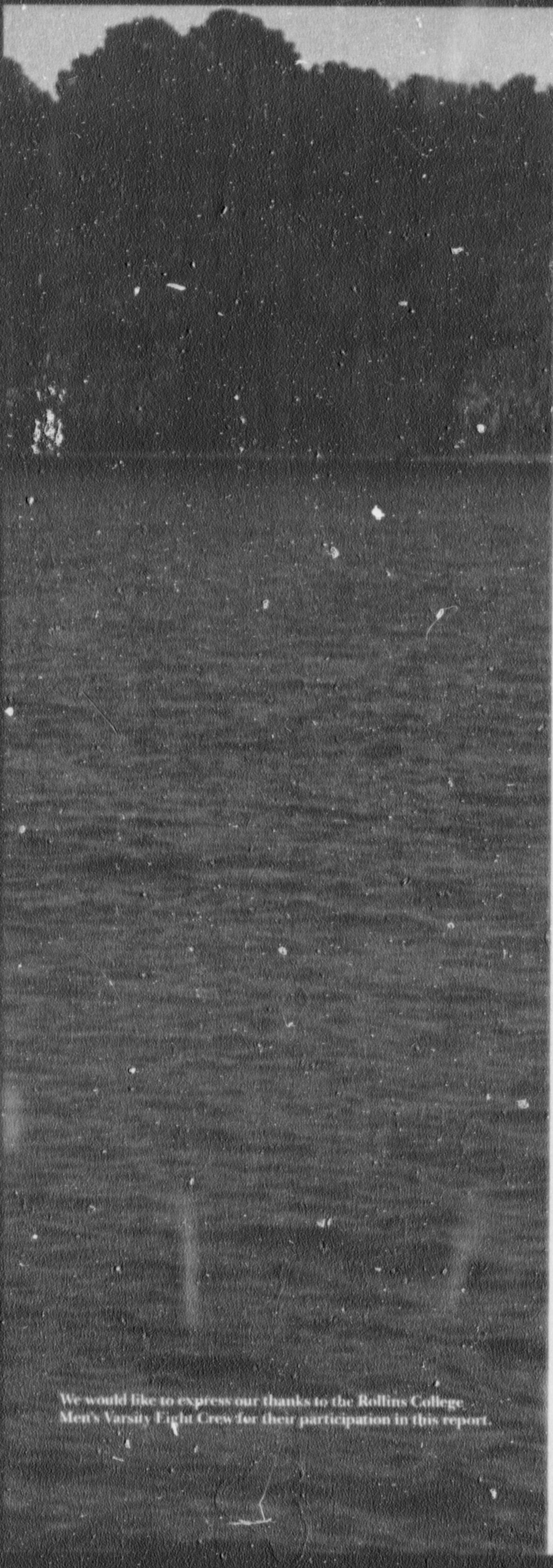


TOTAL INVESTMENT RETURN

Five-year Average Growth Rate 1983-1988



OPERATING HIGHLIGHTS
CONSOLIDATED FINANCIAL HIGHLIGHTS
UTILITY SERVICE AREA
NON-UTILITY OPERATING LOCATIONS
EARNINGS AND DIVIDENDS PER SHARE
TOTAL INVESTMENT RETURN



Florida Progress Corporation is a holding company which combines its primary electric utility business with other enterprises. The electric utility combines a tradition of quality service with low rates to customers, in serving one of the fastest growing areas of the country. Our strategy for dealing with a changing and uncertain environment is to invest in non-utility businesses to limit the financial risk of regulated operations. Through strategic planning and management of our businesses, we attempt to achieve better returns in our industries. In a changing environment, the combination of utility and non-utility businesses will allow us to increase long-term shareholder value.

FLORIDA PROGRESS CORPORATION

UTILITY

FLORIDA POWER CORPORATION
Electric utility serving more than 1,060,000 customers in 32 of Florida's 67 counties

ENERGY & TECHNOLOGY

ELECTRIC FUELS CORPORATION
Coal mining, procurement and transportation

Bulk commodities transportation

PROGRESS TECHNOLOGIES CORPORATION
Technology research and development

Marketing and production of technology

PROGRESS ENERGY CORPORATION
Development, ownership and operation of cogeneration and small power facilities

DEVELOPMENT

TALQUIN CORPORATION
Real estate development and construction

Manufacturing and distribution of building products

FINANCIAL SERVICES

PROGRESS FINANCIAL SERVICES INCORPORATED
Commercial asset financing

Investments and money management

MID-CONTINENT LIFE INSURANCE COMPANY
Unique low-premium life insurance sold by independent agents

BETTER BUSINESS SYSTEMS, INC.
Manufacturing and distribution of business forms

Florida Progress Corporation is a holding company which combines its primary electric utility business with other enterprises. The electric utility combines a tradition of quality service with low rates to customers, in serving one of the fastest growing areas of the country. Our strategy for dealing with a changing and uncertain environment is to invest in non-utility businesses to limit the financial risk of regulated operations. Through strategic planning and management of our businesses, we attempt to achieve better returns in our industries. In a changing environment, the combination of utility and non-utility businesses will allow us to increase long-term shareholder value.

FLORIDA PROGRESS CORPORATION

UTILITY

FLORIDA POWER CORPORATION
Electric utility serving more than 1,060,000 customers in 32 of Florida's 67 counties

ENERGY & TECHNOLOGY

ELECTRIC FUELS CORPORATION
Coal mining, procurement and transportation

Bulk commodities transportation

PROGRESS TECHNOLOGIES CORPORATION
Technology research and development

Marketing and production of technology

PROGRESS ENERGY CORPORATION
Development, ownership and operation of cogeneration and small power facilities

DEVELOPMENT

TALQUIN CORPORATION
Real estate development and construction

Manufacturing and distribution of building products

FINANCIAL SERVICES

PROGRESS FINANCIAL SERVICES INCORPORATED
Commercial asset financing

Investments and money management

MID-CONTINENT LIFE INSURANCE COMPANY
Unique low-premium life insurance sold by independent agents

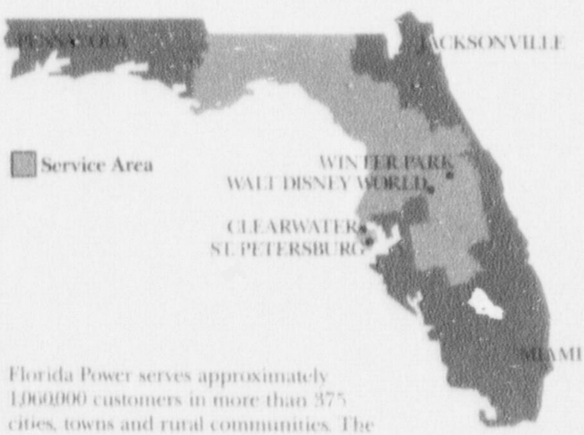
BETTER BUSINESS SYSTEMS, INC.
Manufacturing and distribution of business forms

OPERATING HIGHLIGHTS

(Dollars in millions, except earnings per share amounts)

	UTILITY			NON-UTILITY		
	1988	*1987*	*% Increase (Decrease)*	*1988*	*1987*	*% Increase (Decrease)*
Revenues	**$1,468.5**	$1,472.2	(.3%)	**$ 533.5**	$485.4	9.9%
Percent of Total	**73.4%**	75.2%		**26.6%**	24.8%	
Earnings	**$169.2**	$165.9	2.0%	**$10.6**	$21.9	(51.6%)
Percent of Total	**94.1%**	88.3%		**5.9%**	11.7%	
Earnings per Share	**$3.31**	$3.30	.3%	**$.21**	$.44	(52.3%)
Assets	**$3,285.3**	$3,219.6	2.0%	**$1,018.2**	$912.3	11.6%
Percent of Total	**76.3%**	77.9%		**23.7%**	22.1%	
Common Equity as a Percent of Capital	**50.2%**	46.6%	7.7%	**52.4%**	57.1%	(8.2%)
Return on Average Common Equity	**16.1%**	16.5%	(2.4%)	**4.4%**	10.6%	(58.5%)
Employees	**5,512**	5,395	2.2%	**2,462**	2,721	(9.5%)

UTILITY SERVICE AREA



Florida Power serves approximately 1,060,000 customers in more than 375 cities, towns and rural communities. The territory comprises about 20,000 square miles with a population of more than 4,200,000, located in 32 of Florida's 67 counties.

NON-UTILITY OPERATING LOCATIONS

South
Alabama
Florida
Georgia
Kentucky
Louisiana
North Carolina
Oklahoma
South Carolina
Tennessee
Texas
Virginia
West Virginia

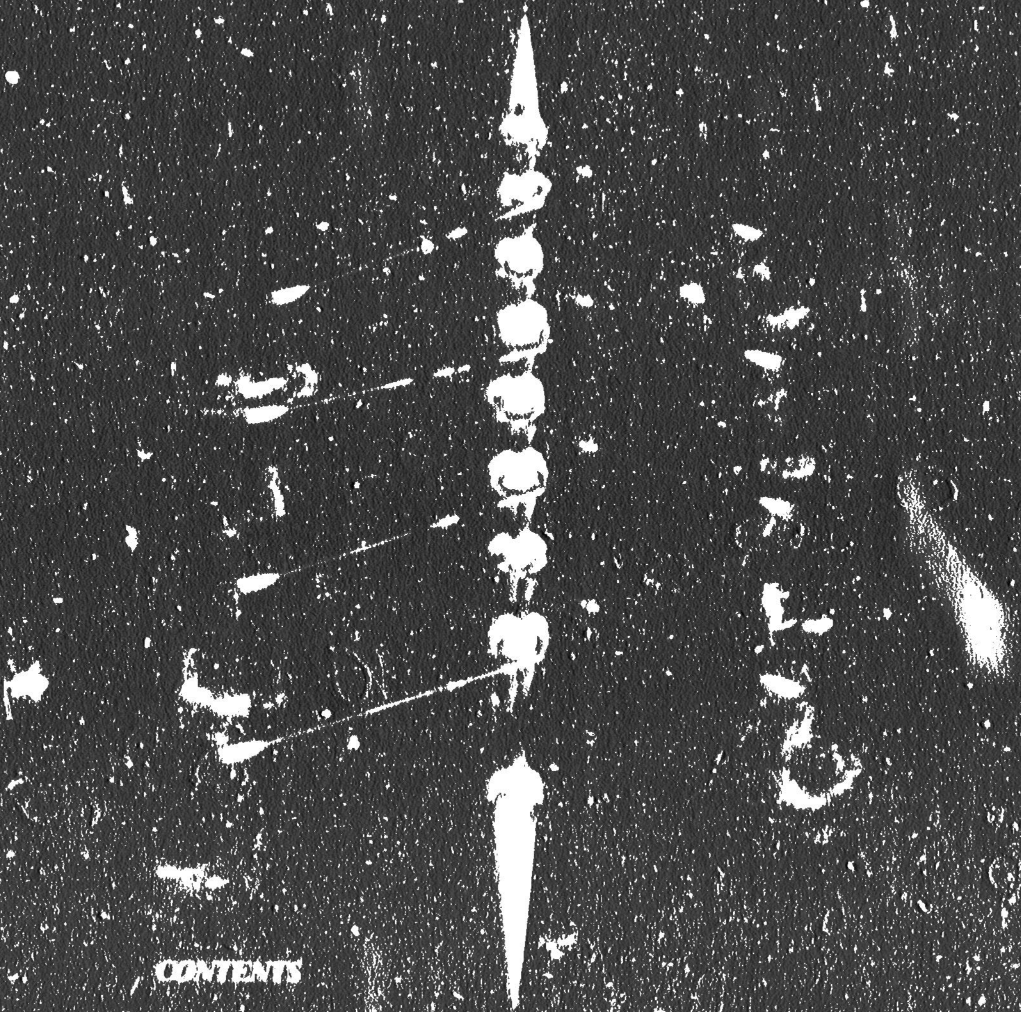
Midwest
Kansas
Minnesota
Missouri
Ohio

West
Arizona
California
Colorado

Northeast
Connecticut

Through the dedicated teamwork of our employees, Florida Progress Corporation continues to be a quality investment for its shareholders.

We accomplish this objective in the same way a skilled team of athletes succeeds in competition. Through daily effort, unity of purpose and dedication of spirit, our corporate team pulls in unison as we move forward to build value for our shareholders.



CONTENTS

Dear Fellow Shareholders:

A wise coach once said that the best way to make progress with a team is to concentrate efforts on its limits; that is, where it is strongest and where it is weakest. By overcoming the weaknesses, you reduce the losses. Building on the strengths enables even greater achievement where a team is already successful. For the past two years, we have concentrated on improving our strengths and overcoming weaknesses.

The theme of our Annual Report this year is teamwork. We will review our results and emphasize the teamwork which lies behind those results. This letter to you discusses the performance of our Company in 1988 and speaks to those objectives toward which we will strive in 1989 and the years which lie ahead.

From a financial standpoint, 1988 was a good year, although not as good as 1987. We earned $3.52 per share versus $3.74 per share in 1987. Our non-utility earnings, which had been quite favorable in 1987, suffered sharply this past year. In the face of a large rate reduction in 1988, Florida Power Corporation was able to improve its earnings slightly. This was accomplished through continued strong customer growth, careful attention to controlling expenses and a one-time earnings increment of $.15 per share associated with gas turbine generators which will be returning to service from extended cold shutdown.

For the 36th consecutive year, dividends paid per share increased. The Board of Directors set a new annual rate of $2.56 per share at the November meeting. Combining the dividend yield with stock appreciation over the last five years resulted in an annual average return of over 25%. Your team is committed to building on this record.

Let's review our strengths, where a considerable amount of attention and management effort have been invested. Florida Power has achieved levels of excellence by almost any set of standards. We are currently one of the low-cost electric suppliers in Florida and the Southeast. At the end of 1988, the residential rate was $65.74 per thousand kilowatt-hours while the national average was approximately $75.00. Our operations and maintenance expense per customer has declined over 20% during the past five years. This is substantially better than the industry average. The company again ranked in the top ten of the nation's 100 largest investor-owned utilities in overall system power plant efficiency.

Florida Power is also prepared to meet the increasing energy demands of a growing state. Sufficient energy resources are available through the mid-90s without building new large, baseload power plants.

Florida Power is not only strong operationally, but financially. Its solid financial strength was recognized by Moody's Investor Services in 1988 when Florida Power's first mortgage bond rating was raised to Aa3 from A1.

These results reflect the dedicated work of thousands of employees over a period of some years. The productivity and innovation which have made these achievements possible are a reflection of a "do it right" attitude among personnel at all levels. This kind of attitude is one of which you, as shareholders, can feel proud.

Florida Power is, and will remain for some time to come, our core business. It is the solid foundation on which we strive to build a diversified company.

The performance of our diversification program was mixed in 1988. Electric Fuels Corporation had a very good year. It continues to provide a reliable source of coal to Florida Power while holding down the costs. The coal sales to unaffiliated customers have grown to 31% and contribute significantly to Electric Fuels earnings.

In the Development Group, the good results from aluminum fabrication, sales of plumbing supplies and citrus operations were especially important this year, offsetting less favorable results in other areas.

Mid-Continent Life Insurance Company continued its steady performance in 1988. The company improved its contribution to earnings while expanding its regional sales efforts and maintaining its A+ (Superior) rating.

Following the coach's admonition, let's look at the weaker areas. We established a one-time loss reserve of $4.6 million due to the default of a lessee on an oil drilling rig lease. Our building materials business suffered heavily due to low margins in door manufacturing. We continue to work to develop promising technology into a profitable operating business. It is taking longer than we planned, increasing research and development costs. Primarily due to these factors, non-utility earnings declined from $21.9 million in 1987 to $10.6 million in 1988.

What are we doing about it? We have sold the door manufacturing and distribution business at a modest gain. We have divested our office furniture and packaging businesses, as well as our horticultural products companies. Eliminating these ventures, which included both slightly profitable and unprofitable businesses, will permit increased concentration on the winners, while removing the negative drain on earnings. We are optimistic that we will see appreciable improvement in our non-utility area in 1989.

After a year in which this sector produced disappointing results, there is a temptation to abandon the concept and cut back on efforts to diversify. We believe this would be a grave error. We have always held the view that this program would take some years to become effective, and we expected to have lows alongside highs. Our approach has always been directed toward the long view. In that vein, broadening the base of our business to reduce overall risk is more important than ever.

The national interest in deregulation and competition which was manifested in governmental treatment of the airlines, natural gas industry, savings and loan institutions and telephone companies is focusing increasingly on all aspects of the electric utility industry. As a result, the industry is entering an era of regulatory and competitive turmoil such as has not been seen for 50 years. There is a serious likelihood that regulation will increase in complexity, breadth and detail at the same time that competition is urged and mandated. We would face the worst of both worlds.

There is every reason for confidence in Florida Power's ability to compete, given a fair opportunity to do so. Its record speaks for itself. We must, however, hedge against the uncertainties which confront all utilities today. To fail to do so, in the face of the governmental track record, would not be wise. Diversification gives us such a hedge.

We continue to be pleased with the performance of the thousands of employees who make up the Progress team. Our transition in leadership is working well. We have had, for a long time, superior training and personnel development programs in place. This has proven valuable in providing a flow of capable candidates for the many opportunities which are occurring. The quality of leadership will always be critical to our Company's future. The men and women moving up are well-qualified. This will ensure stability in corporate values and ethics and fresh insights into dealing with evolving problems and opportunities.

During 1989, two Florida Progress officers who have served you well and faithfully for many years, will be retiring. Mr. Clarence W. McKee, Jr., steps aside as Executive Vice President and Chief Financial Officer at the end of July. Vice President and Secretary, Mr. Jay G. Loader, is retiring on February 28. Both of these individuals have been effective and efficient contributors to the success of your enterprise. Mr. Selby Sullivan is leaving the Board of Directors of Florida Progress at the time of the Annual Meeting, April 27, 1989. He has provided excellent counsel and penetrating review. He will be missed.

Our deep appreciation to you for your continued support and confidence.

Jack B Critchfield

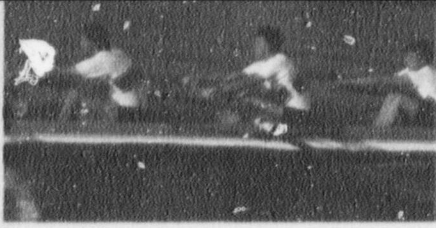
Dr. Jack B. Critchfield
President and Chief Operating Officer

Andrew H. Hines Jr.

Andrew H. Hines, Jr.
Chairman and Chief Executive Officer

February 10, 1989

A Florida Power crew installs an underground service line to a house under construction as residents move into their new home next door. Florida Power continues to benefit from strong customer growth.



Utilizing Our Strengths

Florida Progress Corporation uses its strengths and resources to meet challenges and capitalize on opportunities. Today, and in the future, management must balance the requirements of shareholders, customers and employees in the changing environment in which our businesses operate. This business review focuses on these aspects of our business and the achievements of our utility and non-utility operations.

Strong Population Growth

Florida's population growth is one of the highest in the nation, with more than 300,000 people moving into the State each year. Florida Power Corporation likewise has experienced a tremendous rate of growth over the last five years. Customer growth has averaged 4.3%, compared to the national average of 1.9%. During 1988 alone, customer growth was 3.7%, nearly twice the utility industry average.

Strong customer growth and an increase in average annual customer usage were the primary reasons for the 7.9% increase in retail energy sales in 1988. This increase offset much of the earnings impact from lower electric rates during the year.

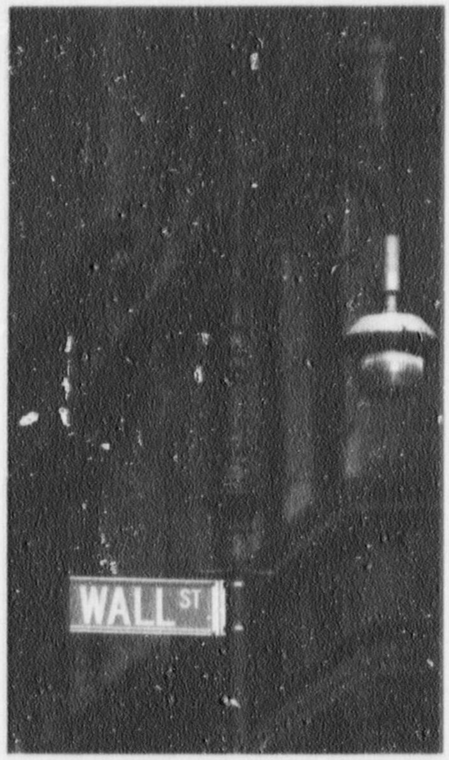
Sufficient Energy Resources

Customer growth is important to the success of any business and Florida Power has the energy resources to meet customer growth through the mid-90s without building large baseload power plants. Through existing generation, reactivation of standby peakers, the addition of new peaking units and purchased power, Florida Power will be able to meet the growth in demand.

In anticipation of future demand, Florida Power signed a long-term purchase contract in July 1988 with The Southern Company for 400,000 kilowatts of power that is scheduled to begin in 1994 and terminate in 2010.

Load Management Reduces Peak

Meeting the peak energy demand of its customers is a challenge for all electric utilities. Florida Power's highest peak demand normally occurs during the winter season and lasts a short duration of one to two hours.



The Company's financial strength continues to improve.

Florida Power's award-winning load management program is able to lower the peak demand through radio-controlled devices on selected appliances installed in customers' homes. With 230,000 customers participating in this program, Florida Power currently has the ability to reduce the peak demand by more than 445,000 kilowatts.

Financial Strength

Financial strength continued to improve as the consolidated long-term debt ratio declined from 53.2% in 1984 to 40.4% in 1988. The lower debt structure and market conditions also allowed Florida Power to reduce its embedded cost of long-term debt from 9.2% in 1984 to 8% in 1988.

Another indication of improving financial strength was a bond rating upgrade for the utility operations. In August 1988, Florida Power's first mortgage bonds were raised to Aa3 from A1 by Moody's Investors Service. The upgrade was based on strong customer growth and a manageable construction program that can be primarily funded from internally generated funds.

In August 1988, Progress Capital Holdings, Inc. was formed to consolidate the financial strength of the non-utility operations. This downstream holding company will help lower the cost of capital compared to the individual businesses financing their operations separately. Medium-term notes of Progress Capital Holdings are rated A2 by Moody's Investors Service and A by Standard & Poor's Corporation.

Competitive Electric Rates

Financial strength has improved during the past year, while Florida Power continued to offer very competitive electric rates. As a result of reductions in 1987 and 1988, Florida Power now offers some of the lowest rates in the Southeast. At the end of 1988, the residential rate was $65.74 per thousand kilowatt-hours as compared to the national average of approximately $75.00. Florida Power achieved this competitive position, while maintaining its financial integrity, by being a low-cost supplier.

Commitment to Customer Service

Success is not only measured by growth and financial strength, but also by the quality of customer service. This dedication to quality is demonstrated each working day as our employees connect more than 175 new services and handle thousands of customer contacts.

Florida Power's success in meeting its customers' needs is measured by a quarterly customer service survey. The most recent survey indicates that more than 97% of Florida Power's customers were satisfied with the level of service they received in 1988.

Providing quality products and customer service also extends to the non-utility businesses. Whether selling life insurance or developing real estate, a willingness to listen and respond to customers is a way to ensure business success.

Florida Power's Energy Control Center minimizes fuel and operating expenses and improves system reliability.

Focusing Our Energies

With the increasingly competitive nature of the utility industry, cost control must be continually emphasized by management. As a low-cost supplier, Florida Power has a favorable position on which to build.

Controlling Cost

Over the past few years, Florida Power has emphasized programs to control cost and manage the business more effectively. The largest and most controllable expense is operations and maintenance cost, which includes fuel and purchased power. In comparing Florida Power to the latest available industry data, the operations and maintenance expense per customer has declined 20.2% over the last five years. This compares favorably to a 4.3% increase for the utility industry over the same period.

A Balanced Fuel Mix Lowers Cost

Florida Power has achieved a flexible fuel mix that helps minimize the impact of fluctuations in the supply and price of individual fuels. In 1988, Florida Power's fuel mix was 57% coal, 20% oil, 22% nuclear and 1% gas.

Fuel is the largest operating expense. Florida Power has been able to consistently lower its fuel expense per customer from $595 in 1983 to $464 in 1988.

Electric Fuels Corporation has been a major contributor to lower fuel cost by taking advantage of market conditions. Electric Fuels has supplied coal to Florida Power since 1977 and reduced the delivered cost of coal on a BTU basis every year since 1983.

The Crystal River Nuclear Plant was a major factor in reducing fuel cost during the year. The use of nuclear fuel, versus coal and oil, saved customers approximately $75 million in fuel cost in 1988.

Energy Control Reduces Cost

The Energy Control Center is an excellent example of how Florida Power minimizes fuel and operating expenses and provides system reliability. Through an energy broker system, Florida Power's Energy Control Center and other Florida utilities continually monitor and control the use of resources to provide the most cost-efficient energy to customers. This energy broker system matches quotations of energy prices to buy and sell energy among the participating utilities. The Energy Control Center saved nearly $7.5 million in fuel cost in 1988 by using this system in conjunction with daily and weekly fuel commitments.

Non-Utility Operations

During 1988, we focused on restructuring the non-utility businesses that were not meeting our profit objectives. The non-utility operations earned $10.6 million in 1988, compared to $21.9 million in 1987. We were unable to satisfactorily improve the profitability of the door manufacturing, packaging and office furniture businesses. As a result, they were sold. Another factor affecting earnings was an after-tax loss provision of $4.6 million on an off-shore drilling rig lease in the leveraged lease portfolio of the Financial Services Group. The Energy and Technology and Financial Services Groups were the primary contributors to non-utility earnings.

Electric Fuels earned approximately $7.7 million. Its earnings are primarily derived from coal sales to both Florida Power and unaffiliated customers, as well as marine transportation operations. Sales to unaffiliated customers now account for 31% of Electric Fuels' coal sales.

The marine transportation operations include ocean- and river-going barges and bulk commodity transfer terminals. Marine Equipment Management Corporation has expanded its transportation network and now operates a fleet of approximately 350 barges, to take advantage of the profitable inland bulk cargo market.

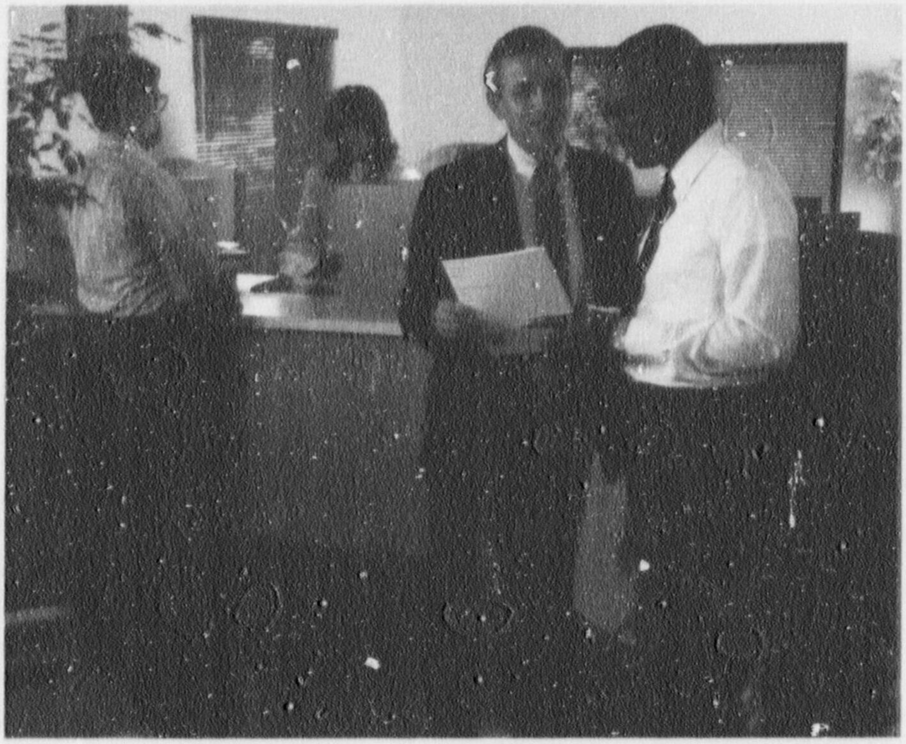
In 1988, the Financial Services Group contributed to earnings through commercial asset financing, life insurance and investments. Mid-Continent Life Insurance Company achieved a 21% increase in insurance-in-force and a 56% increase in earnings during 1988.

Electric Fuels acquired an inland bulk transportation company in 1986 and currently operates a fleet of approximately 350 barges. As shown above, the tow boat Noble C. Parsonage moves grain along the Mississippi.

Seeking an innovative solution to a unique problem, Florida Power's Central Division Line PACE team recommended using an all-terrain vehicle, the Marsh-Master, to service transmission rights-of-way in wetland areas.

Synchronizing Our Efforts

The most important element in our Company's success is the hard work of our employees. It is the commitment and diligent efforts of our people that enable us to utilize our strengths and focus our efforts to make our organization function effectively.



Management is committed to visiting the field and meeting directly with employees. (R-L) The Longwood District Office Manager, Keith Blanden, discusses operations with Pete Dagostino, Vice President, Eastern/Mid-Florida/Ridge Divisions.

Management Philosophy

Management, from first line supervisors to senior members, values each individual's contribution. Our Company has a tradition of leadership which recognizes that superior results are achieved when employees give their best efforts and work together as a team.

The Company encourages outstanding performance and teamwork through employee incentive programs, such as savings and profit-sharing plans. Most of the operating units establish annual corporate goals and reward their employees through Company contributions to a savings plan if the goals are reached. Progress toward reaching these goals is communicated to employees throughout the year.

Communicating the corporate strategy and goals within the organization is essential to achieving the best team effort. This communication objective can be a major challenge for a large, diversified organization. In an effort to meet this challenge, the Company has well-established employee newsletters, magazines and a monthly utility video news program called Access. Management's commitment to visit the field and meet directly with employees also is important to the communication process.

PACE Teams Improve Productivity

Florida Power challenges its employees to solve problems through the formation of quality circle teams.

People Achieving Corporate Excellence, PACE, was formed at Florida Power more than three years ago to improve operations, productivity and efficiency. The program is designed to operate with teams of six to ten employees. These teams have first-hand knowledge and on-the-job experience to identify areas for improvement and make recommendations. There are currently 80 active PACE teams functioning throughout the Florida Power system.

The Central Division Line PACE team is an excellent example of using employees to solve a unique problem. Transmission and distribution lines in the wetland areas of Florida Power's service territory are often difficult to reach and service. In the past, crews constructed temporary floating land bridges to avoid damaging the surrounding environment.

The PACE team researched and recommended the purchase of an all-terrain vehicle called the Marsh-Master, which allowed access and maintenance of rights-of-way. The purchase of the Marsh-Master provides a productive and cost-effective means to reach the wetland areas, which require maintenance, while preserving the environment.

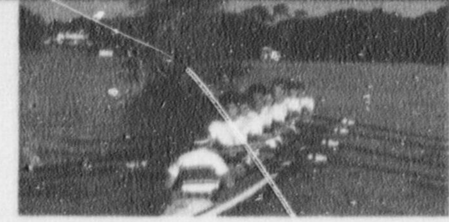
Strategic Management

Strategic management includes developing team members to successfully implement a business plan. To ensure continuity in leadership and direction for Florida Progress, a management succession plan was put in place in early 1988. With Andrew H. Hines, Jr. in a leadership role, our management team is planning and preparing for the future.

Each of the Group Vice Presidents reports to Dr. Jack B. Critchfield, President and Chief Operating Officer. Dr. Critchfield directs the strategic management of our operating units. Each Group's management team prepares and refines its strategic plan to utilize the resources allocated to its operations. The key to successful strategic management is in the complete involvement of all levels of management in both the formulation and development of the plan.

Through the use of strategic planning and teamwork, Florida Progress is putting the resources in place that will allow us to effectively meet our future challenges.

Waste-to-energy projects such as the Pinellas County Resource Recovery Center shown here, represent an environmentally desirable alternative to landfills, while meeting the growing need for energy.



Meeting The Challenges

Through Electric Fuels, Florida Progress controls large, low-sulphur coal reserves.

Florida Progress has the resources and commitment to meet the challenges of the 1990's. These challenges include solving the problems that rapid growth is creating for the State of Florida.

Seeking Solutions

While Florida's population and economic growth are creating a positive climate for doing business, they are also causing enormous infrastructure problems.

There is a continuing need for new and expanded highways, bridges and mass transit systems, as well as a demand for additional utility services—water, sewage, waste management and energy.

Florida is important to our future. We intend to continue a leadership role in the business and political arena as solutions to our State's infrastructure problems are developed.

A Changing Industry

The utility industry is in a period of transition due to increasing regulation and competition. Through the year 2000, a large part of new power requirements for the nation could be supplied by non-utility sources. Many of the non-utility generators will be competing for industrial users. Because of our large residential customer base and low rates, this form of competition for market share should not affect Florida Power as much as some utilities.

Investing in Cogeneration

All utilities are affected by regulations that require them to purchase excess energy from qualifying cogeneration and small power production projects. Cogenerators produce energy primarily for an industrial customer and sell the excess energy to the local utility. Small power producers generate energy from waste or renewable resources.

We are interested in this market because it offers an attractive business opportunity related to our core business. In January 1988, Progress Energy Corporation was formed to develop, own and operate cogeneration facilities throughout the United States. In December 1988, Progress Energy took its first ownership position in a 50,000 kilowatt cogeneration project located in New York State.

Waste-to-energy projects also are becoming more attractive as the nation's population increases. These projects represent a desirable alternative to landfills, while also producing energy.

The Pinellas County Resource Recovery plant, located within Florida Power's service area, is the largest operating waste-to-energy facility in the nation. The plant disposes of solid waste and provides low-cost energy to Florida Power.

Expanding Utility Market Share

Another way to face increasing competition is to market low rates to new businesses that are considering relocating to Florida. Florida Power is involved in attracting businesses and industries with high-load factors to its service area.

Florida Power also can use its low rates and financial strength to capitalize on purchase opportunities. Florida Power was invited to make an offer on one small municipally operated utility system within its service area.

Acid Rain Legislation

Another challenge for the utility industry is the potential for the 101st Congress to pass acid rain legislation. Congress is considering several versions with a range of provisions including a tax on fossil fuel generation, state tonnage capacity limits for sulfur dioxide emissions, lower sulfur dioxide and nitrogen oxide emission standards and mandatory scrubbers.

Unfortunately, the acid rain legislation previously proposed did not consider reductions already achieved in certain states. Florida has more stringent emission control guidelines than other parts of the country. Florida Power already uses low-sulphur coal at all of its coal-fired units. Through Electric Fuels, we control large, low-sulphur coal reserves that could be tapped to meet new emission requirements if scrubbers are not mandated.

While the impact of this legislation is uncertain, the effect on Florida Power's rates is expected to be much less than many others within the utility industry.

As investors in Florida Progress, the Frangipane family can reach its investment goals by investing in a high-quality utility stock. Shown here, the family enjoys an outing at The Hands On Museum in downtown St. Petersburg, Florida.

Building Shareholder Value

Through the teamwork of our employees, we can build on our strengths and focus our energies to provide better products and services. As a result, we will be better able to respond to our competition and improve the return to shareholders.

Return to Shareholders Averages 25.4%

Our Company has an impressive dividend track record, having increased annual dividends paid per share for 36 consecutive years. Over the past five years, a shareholder's investment in Florida Progress has earned an annual average return of 25.4%, which compares favorably to the electric utility industry. During this same period, Standard & Poor's Electric Utility index of 21 companies experienced an annual average return of 20.5%.

Through higher stock prices, the market rewards companies that can generate cash for consistent dividends and invest to build value. Over the last five years, our net cash flow from operating activities has been nearly two and a half times our reported earnings. Substantially, all of this cash flow was used to meet shareholder dividends, debt reductions and utility and non-utility capital expenditures. The remainder was reinvested in non-utility businesses.

Florida Progress remains committed to a goal of producing returns that exceed the electric utility industry average.

Florida Power is Our Core Business

Florida Power is, and will remain for some years to come, our primary business. It is a company with a tradition of generating and delivering economical power through quality, reliable service.

Generation planning has allowed us to obtain sufficient energy resources with a flexible fuel mix and a successful load management program. The planning and design of the transmission and distribution system allows us to continue to meet the demands of Florida's growth.

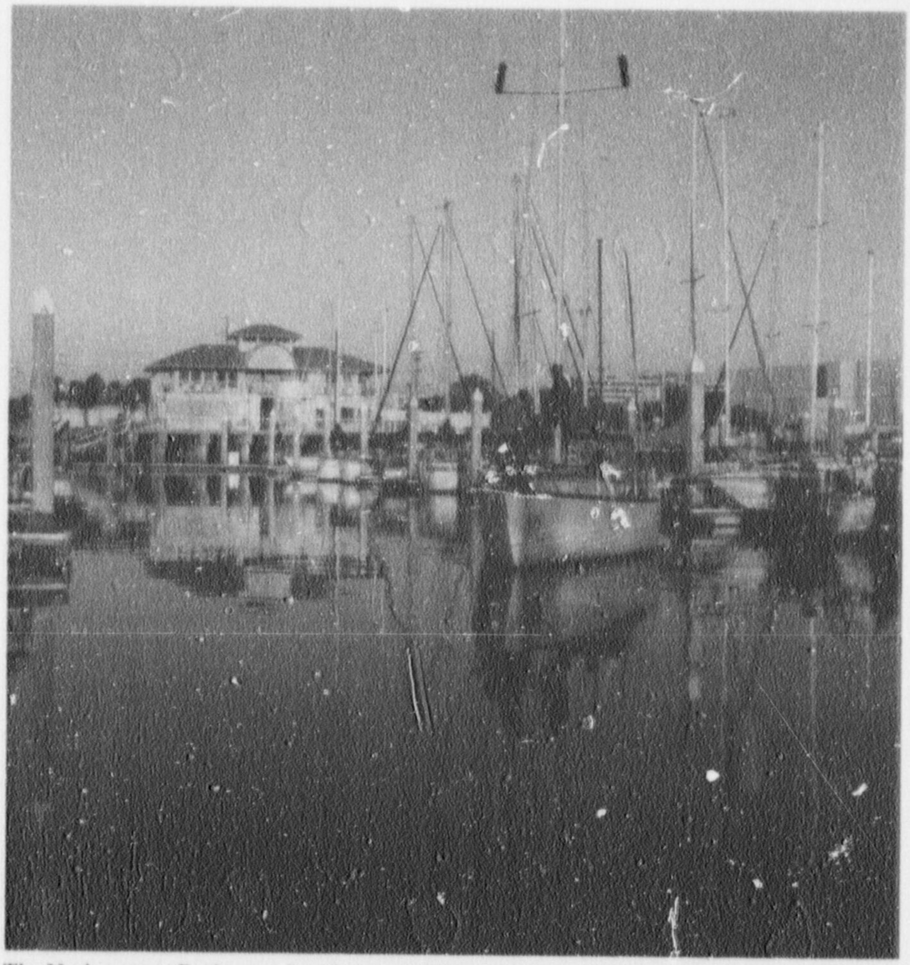
Cost-effective management of the key aspects of the business is essential in positioning ourselves as a low-cost supplier. To maximize shareholder value, Florida Power must be a top priority.

Using Diversification to Build Value

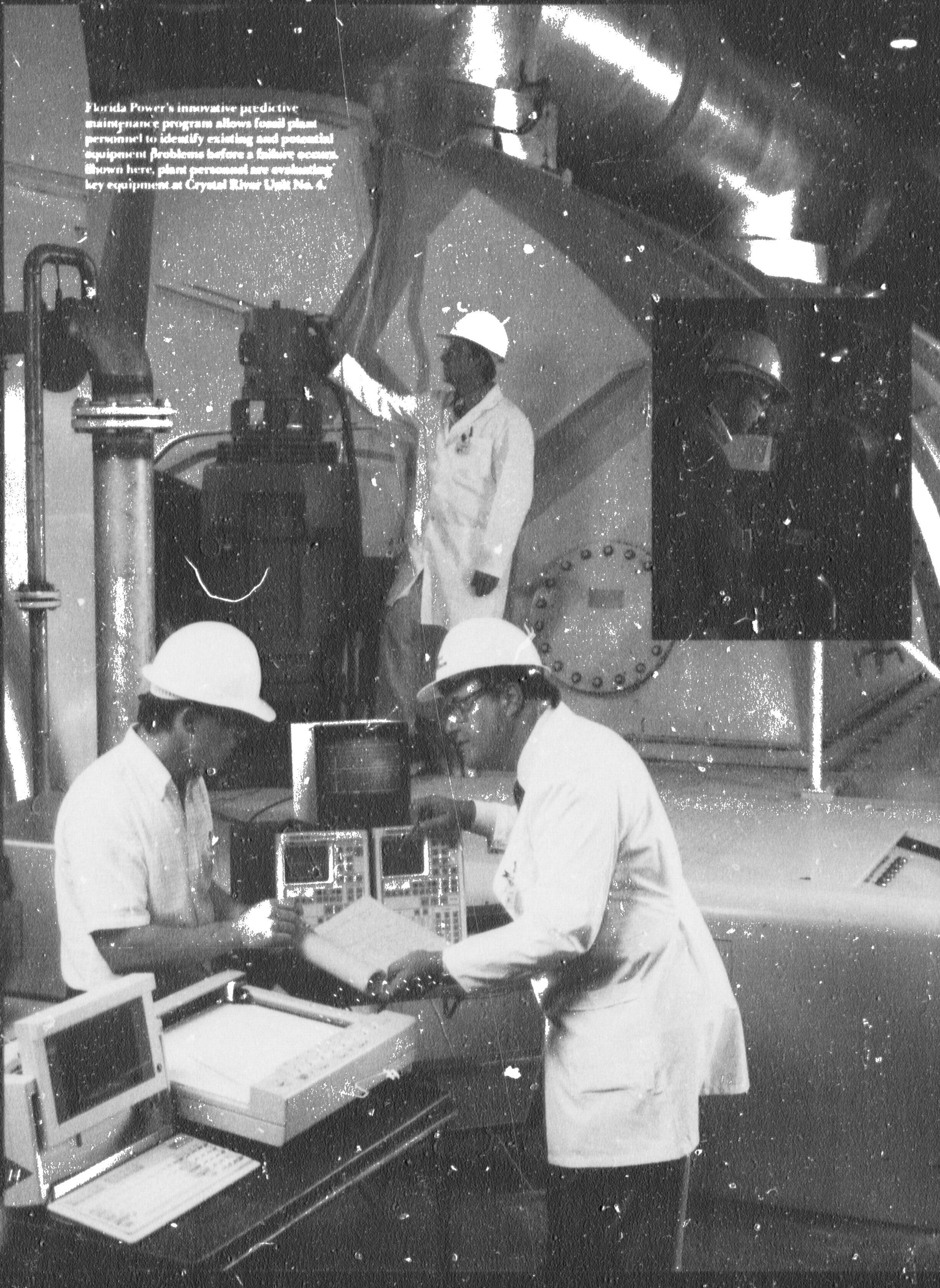
Florida Progress' diversification strategy represents an important preparation for meeting the challenge of change. Electric utilities are increasingly affected by regulation and competition. Diversification offers the opportunity to hedge this risk. Florida Progress began its diversification program in 1982 with the belief that diversification also was a risk and would not be an easy course. A successful strategy requires flexibility and a long-term commitment. While we selected diversification as a long-term strategy, we chose a conservative approach and limited the size of our acquisitions.

Our program was conceived to contribute to current earnings and to build value through appreciation. Our Development Group's real estate investments are examples of opportunities to realize appreciated value as needed.

Throughout our organization, the goal is to build long-term shareholder value. Most of the 8,000 employees of the Florida Progress family of companies are shareholders, too. For these men and women, working toward corporate excellence is more than a job, it is a way to invest in their future.



The Harborage at Bayboro, a Development Group project, features a floating concrete dock system and includes 235 private slips, 2,500 feet of dock space for visitors and a two-story dockmaster's office.



Florida Power's innovative predictive maintenance program allows fossil plant personnel to identify existing and potential equipment problems before a failure occurs. Shown here, plant personnel are evaluating key equipment at Crystal River Unit No. 4.

Today And Tomorrow

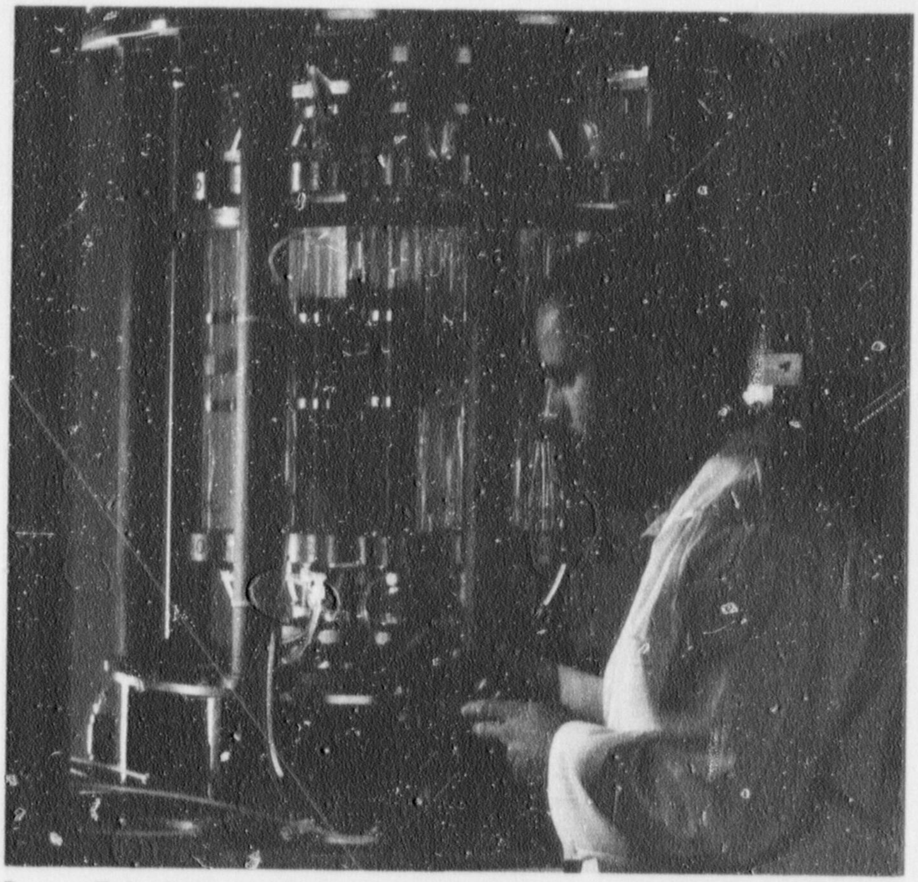
Although success is measured by past accomplishments, it is achieved by overcoming the challenges of today and tomorrow. A way to meet these challenges is through innovative problem-solving.

Innovative Ideas Solve Problems

The Fossil Operations Department at Florida Power established a predictive maintenance program to more effectively manage the power plants and further control costs. This program allows plant personnel to identify existing and potential equipment problems before a failure occurs. Problems can be evaluated as to urgency, and repair can be scheduled at the most beneficial time.

Progress Technologies Corporation is using research and development in testing and evaluating the feasibility of new technology for separating various elements from liquids and gases on a continuous basis. Progress Technologies has developed an advanced separation device called ISEP. In 1988, the company completed the design and construction of an ISEP system to recover plutonium from nuclear waste fluids. This system is being tested at a U.S. Department of Energy laboratory.

Both of these examples illustrate the importance of testing and using innovative products and ideas in solving business problems and remaining competitive.



Progress Technologies completed the design and construction of an ISEP system for recovering plutonium from nuclear waste fluids. The system is currently being tested at a U.S. Department of Energy laboratory.

Maintaining the Competitive Edge

We believe increased competition and regulatory decisions will continue to shape the utility industry in the 21st Century. Florida Power's strengths and resources have favorably positioned it in today's utility market. In looking to the future, we will expand the perspective toward becoming a full-service energy company.

Florida Power has taken some initial steps to expand its services in energy-related areas. The utility is marketing and selling other energy-related products for lighting, commercial and industrial power conditioning and residential surge protection. By expanding the traditional role of the utility and its products, we can maintain a competitive edge.

Building Our Diversification Program

Diversification offers current earnings, the potential for appreciated values and the prospect of future growth. Building a successful diversification program takes time, hard work, tough decisions and patience.

Our diversification program is still young and evolving. Over the last six years, we have acquired companies, formed partnerships and joint ventures, sold unprofitable companies and restructured operations. Managing an emerging diversification program requires using each of these strategies to be successful.

The ability of our non-utility operations to reach their potential will depend on the Company's ability to be flexible in our planning and decision-making to respond to changing economic, legal and political pressures.

Positioned for the Future

Florida Power is well-positioned to respond to Florida's growth with its continuing emphasis on fundamentals. Through productivity improvement programs, progressive leadership, new technology and quality products and services, Florida Power is reaching toward its vision of a full-service energy company.

The Company will continue to integrate and develop its non-utility businesses to improve profitability while building a diversification program for the future.

Florida Progress' continued success will result from innovative thinking, planning and decision-making. Through the dedicated teamwork of our employees, Florida Progress will continue to be a quality investment for its shareholders.

FINANCIAL REVIEW — MANAGEMENT'S DISCUSSION AND ANALYSIS

EARNINGS AND RETURN ON EQUITY

The Company's earnings per share for 1988 were $3.52, compared to $3.74 in 1987 and $3.71 in 1986. The key factors affecting this year's earnings decline were the establishment of a lease reserve, low margins in building products and increased technology research and development costs.

The utility earnings per share increased to $3.31 from $3.30 in 1987. As expected, the 1988 retail rate reduction was the primary factor limiting utility earnings growth. While the reduced rates lowered revenues by approximately $94 million, Florida Power's customer growth of 3.7% offset a portion of the impact.

Increased customer usage also reduced the impact of the rate settlement. In 1988, kilowatt-hour sales per residential customer increased 3.5%, which is 40% higher than the five-year average increase of 2.5%. Lower rates are believed to have influenced the increased usage.

While weather conditions have generally boosted sales for the electric utility industry in 1988, this was not a factor for Florida Power. Billing degree-days provide a good indication of the weather variations from year to year. In 1988, the billing degree-days were about 6% below Florida Power's five-year average and 4.6% below the prior year.

Utility earnings benefited by $.15 per share in 1988 from the one-time recognition of income associated with the allowance for funds for certain generating units in extended cold shutdown. Rate actions allowed these units to be included in the rate base and the units are scheduled to be returned to service by 1992.

Non-utility earnings per share were $.21, compared to $.44 in 1987 and $.34 in 1986. During 1988, the Company focused on the restructuring of the non-utility businesses that were not meeting profit objectives. As a result, the Company sold its door manufacturing, packaging and office furniture businesses. A summary of the non-utility group earnings per share is as follows:

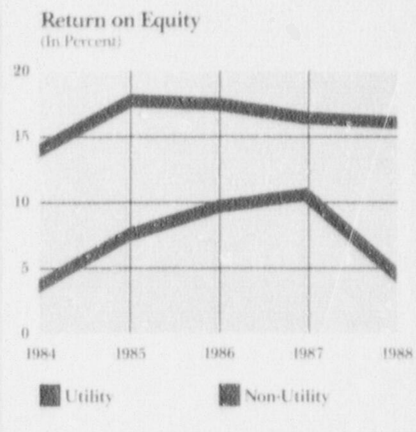
	1988	*1987*	*1986*
Energy & Technology	$.11	$.13	$.13
Development	—	.07	.01
Financial Services	.14	.24	.22
Business Services	—	.03	.02
Corporate	(.04)	(.03)	(.04)
Non-Utility EPS	$.21	$.44	$.34

Within the Energy and Technology Group, Electric Fuels Corporation achieved improved earnings over 1987. Progress Technologies Corporation was the primary cause for lower group earnings, as it continues to work on the development and marketing of several applications of its ISEP technology. The operation remained primarily involved in research and development.

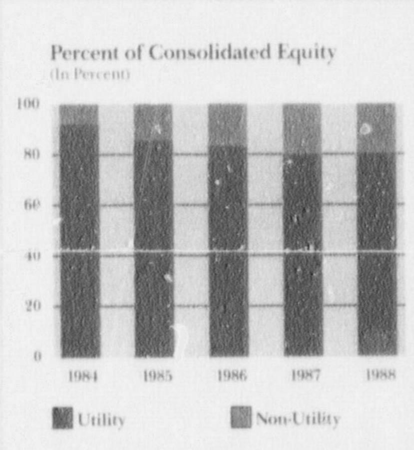
Lower Development Group earnings were primarily due to poor operating results in door manufacturing and in distribution of air conditioning products. The lower earnings also reflected no major real estate sales during the year. Strong performance in citrus operations, distribution of aluminum products and plumbing supplies along with a gain on the sale of the door manufacturing business offset the losses in the other Development businesses.

A loss reserve in leveraged leasing and reduced leveraged leasing activity due to tax law changes caused Financial Services Group's earnings per share to be lower than 1987. In September 1988, the Company established a reserve that reduced earnings for the default of an offshore drilling rig lease, which is the only oil industry investment within the lease portfolio.

The decline in earnings from the Business Services Group was primarily due to the poor operating results of the packaging and furniture businesses combined with a loss from the sale of these operations. To reduce overhead and consolidate operations, the remaining business forms operations were restructured as part of the Financial Services Group in 1989.



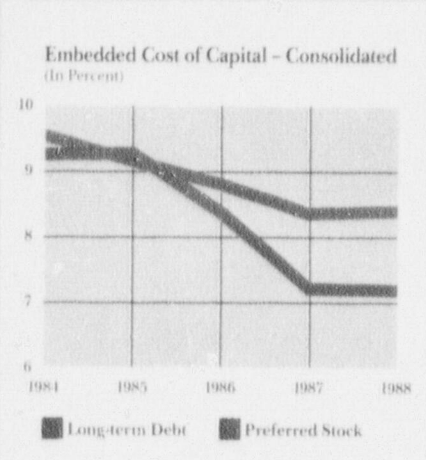
The return on equity chart highlights the relationship between utility and non-utility operations. The improvement in the 1985 utility return resulted from rate relief received by Florida Power in late 1984. The returns on utility common equity were 16.1% in 1988, 16.5% in 1987, and 17.6% in 1986. The declines in 1987 and 1988 were primarily attributable to the rate reductions given to retail customers under rate settlement agreements for each year.



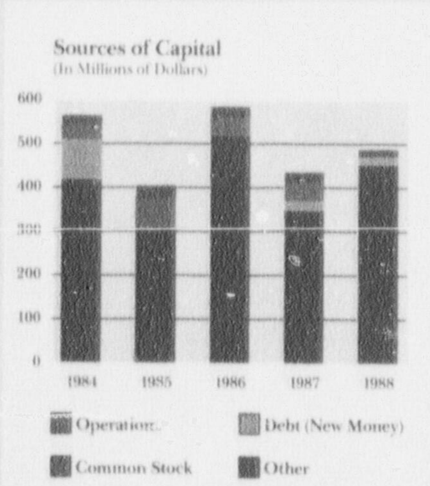
The percentage of equity investment in the non-utility operations has grown relatively slowly from 1984 to 1988, reflecting our conservative approach to diversification.

LIQUIDITY AND CAPITAL RESOURCES

Financing for the utility and non-utility groups is coordinated and managed at the holding company level. A cash management program at the holding company efficiently utilizes cash balances of the non-utility subsidiaries.



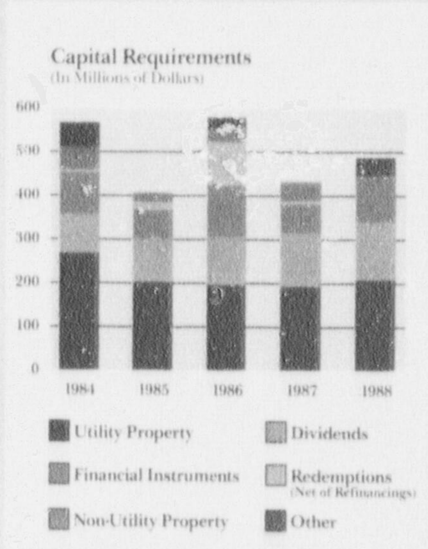
Redemptions of high-cost debt and preferred stock and favorable market conditions have allowed the Company to lower the embedded cost of capital. Florida Power's embedded cost of debt and preferred stock have been reduced to 8% and 7.2%, respectively, from 9.2% and 9.3% for 1984.



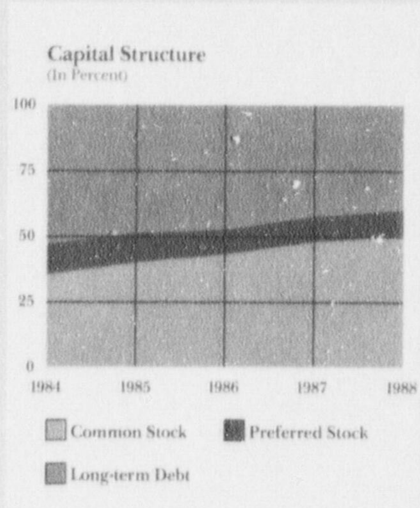
Over the last five years, cash from operations has been the primary source of capital for the Company.

The Company also raised equity capital through the Dividend Reinvestment Plan from 1984 through 1987. Other sources of capital have included proceeds from the sale of property and businesses.

The Company's capital requirements primarily consist of utility construction and property additions, dividend payments to common shareholders, investments in financial instruments, redemptions and non-utility property additions. Other capital requirements consist primarily of business acquisitions and joint ventures.



The Company's financial ratios continued to improve as the consolidated debt ratio declined from 53.2% in 1984 to 40.4% in 1988, and the common equity ratio increased to 50.6% in 1988 from 35.9% in 1984. The ability to fund utility construction expenditures with cash from operating activities over the past five years has contributed to the improved capital structure. In addition, equity funds were received through the issuance of new common stock shares under the Dividend Reinvestment Plan. Beginning in 1988, shares for the plan have been purchased in the open market, and it is the Company's intention to continue to purchase shares in the open market for 1989.



Utility

Florida Power's construction expenditures for 1988 were $197 million, consisting primarily of transmission and distribution expenditures to respond to customer growth. Actual construction expenditures were lower than the budgeted amount of $236.5 million, due to governmental delays in starting construction of helper cooling towers at the Crystal River Energy Complex and a transmission line connecting the Lake Tarpon and Kathleen substations. The construction program includes planned expenditures of $252.8 million, $310.6 million, and $277.8 million for 1989, 1990 and 1991. Future construction expenditures include $77 million budgeted over the next three years for helper cooling towers at the Crystal River Energy Complex.

Florida Power has not included any expenditures for acid rain legislation in its construction forecast. Since Congress is considering various bills containing different provisions, the final impact is not known. However, these legislative proposals could increase Florida Power's capital requirements and operating costs if enacted into law.

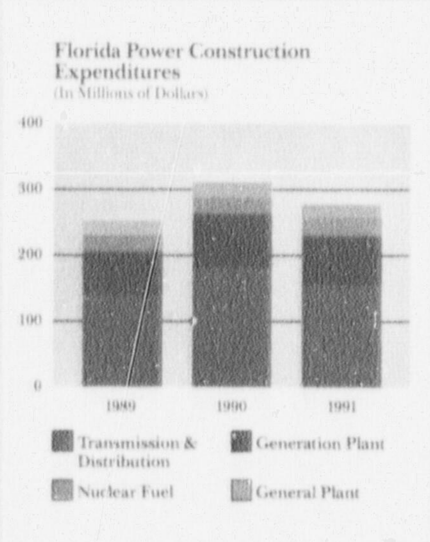
To improve long-term debt financing flexibility, Florida Power established a $200 million medium-term note program in 1988. Medium-term

notes totaling $40.5 million were issued with maturities of 1990 and 1991. The weighted average interest rate for these medium-term notes is 8.5%.

Florida Power also has registered with the Securities and Exchange Commission $150 million of first mortgage bonds that can be issued at any time. Florida Power's short-term financing needs are funded primarily through a $100 million commercial paper program. Utility construction expenditures for 1989 are expected to be funded primarily with internally generated funds and short-term debt.

Florida Power's only scheduled maturity of debt for 1989 is a $150 million bank loan due May 2, 1989. When this loan is refinanced, the flexibility of the financing program will allow us to take advantage of market conditions in determining whether to use first mortgage bonds, medium-term notes or bank financing.

An improved capital structure, continuing financial strength and above-average customer growth potential were the bases for Moody's Investors Service upgrading Florida Power's debt and preferred stock ratings in August 1988. The first mortgage bond rating was raised to Aa3 from A1. Standard & Poor's continues to rank Florida Power's senior debt at A+.



Non-Utility

Progress Capital Holdings, Inc. was formed in 1988 to consolidate the financial strength of the non-utility operations. This downstream holding company, having the benefit of a support agreement with the Company, will help lower the cost of capital to the individual businesses. The new organization also will enhance the consolidated financial planning for non-utility operations.

Initially, Progress Capital Holdings will finance its operations through a $200 million private placement medium-term note program and a $75 million commercial paper program. As the financing requirements for the diversification program grow, the company will consider public financings. Securities of Progress Capital Holdings are rated A2 by Moody's Investors Service and A by Standard & Poor's.

In 1988, total non-utility capital expenditures were $41.9 million, primarily due to additions in real estate projects. For 1988, investments in financial instruments increased $58.8 million, primarily from the commercial asset financing activities of the Financial Services Group.

For 1989, non-utility capital expenditures are anticipated to reach approximately $48 million. The majority of these expenditures are planned for real estate projects within the Development Group. These capital expenditures and any additional investment in asset-based loans or operating leases by the Financial Services Group in 1989 are to be financed primarily through commercial paper, medium-term notes and bank loans obtained by Progress Capital Holdings.

The Financial Services Group obtained $41 million in bank financing in 1988 to fund asset-based lending and a leveraged lease transaction.

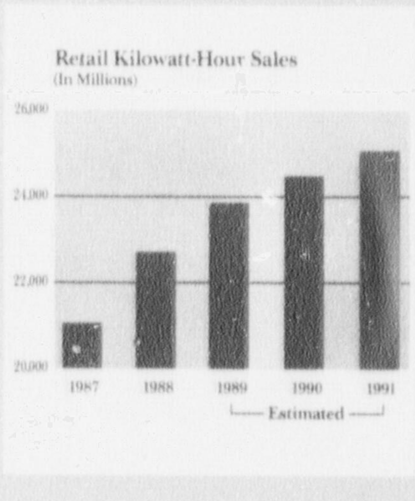
OPERATING RESULTS

Utility

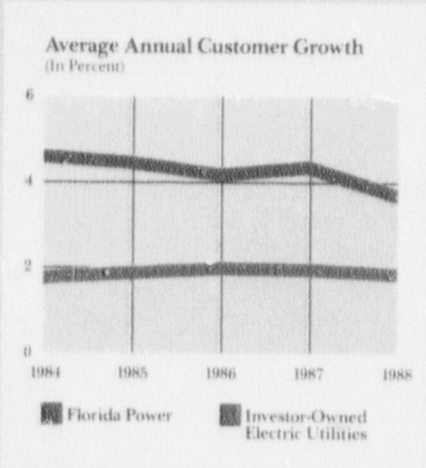
Utility revenues decreased $3.7 million in 1988 and $58.3 million in 1987. The 1988 retail rate settlement reduced utility revenues by approximately $94 million, as compared to 1987. Under the retail rate settlement, Florida Power reduced base rates by approximately $121.5 million, which included about $70 million resulting from lower tax rates. The settlement replaced billing credits, totaling $55.7 million, that retail customers received in 1987. Florida Power also agreed to a one-year rate reduction of $18.5 million in 1988 and $11.9 million in 1989 for "unprotected" deferred income taxes. In 1989, Florida Power will increase its rates by $10.7 million for depreciation and nuclear decommissioning expenses that were approved as part of the settlement. Effective January 1, 1989, these combined changes will increase rates by $17.3 million.

Florida Power gave reductions of $5.6 million in 1988 and $3.3 million in 1987 to its wholesale customers to provide rate treatment comparable to the retail rate settlements. For 1989, Florida Power plans to file an additional rate change for wholesale customers that will be comparable to the 1989 retail rate treatment.

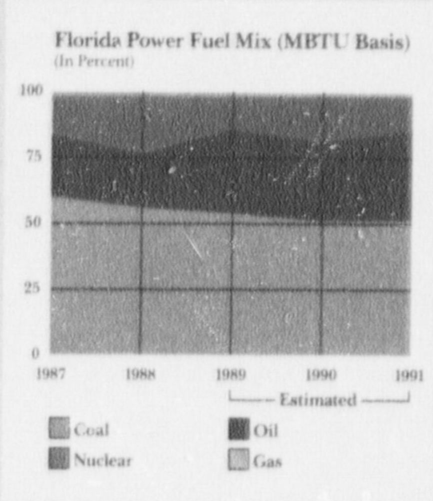
The 1987 decline in utility revenues resulted from a reduction of $46.1 million in recoverable fuel revenues and the billing credits, which were partially offset by an increase in kilowatt-hour sales.



Retail kilowatt-hour sales increased 7.9% in 1988 and 6.1% in 1987 primarily due to customer growth of 3.7% and 4.4%, respectively. Florida Power's lower electric rates also have helped to raise average customer usage. During 1988, the average residential usage increased about 3.5%. Florida Power has continued to benefit from Florida's growth, with the customer growth rate averaging 4.3% annually over the last five years, which is approximately twice the utility industry average.



Florida Power's strategy has been to develop a flexible fuel mix that reduces the risk to customers of fluctuations in the supply and price of individual fuels. In 1988, Florida Power's fuel mix was 57% coal, 20% oil, 22% nuclear and 1% gas. An underrecovery of fuel costs in 1987 combined with an overrecovery in 1988 caused an increase in fuel expenses in 1988. However, on an incurred basis, fuel expenses decreased in 1988 due to declining coal and oil prices and additional nuclear generation. Because Florida Power recovers substantially all of its fuel costs through a fuel adjustment clause and defers over or under recovery of fuel costs, these changes have little impact on net income.



Other utility operations and maintenance expenses increased in 1988 and 1987 primarily due to increases in employee health care benefit costs, recoverable energy conservation expenses and payroll costs. An additional increase in these expenses in 1987 was due to production expenses, which were lower in 1986 due to a six-month repair outage at the Crystal River Nuclear Plant.

Non-Utility

Total non-utility revenues increased $48.1 million or 9.9% in 1988 and $117 million or 31.8% in 1987. While the increases in non-utility revenues for 1988 and 1987 were primarily the result of growth in the existing operations, approximately $40 million of the 1987 increase was also related to acquisitions.

Gross margins on non-utility sales have remained relatively stable at 27%, 28.1% and 27.2% for 1988, 1987 and 198[illegible], respectively. Other non-utility expenses were higher in 1988 due to establishing a loss reserve on an offshore drilling rig lease currently in default.

Interest Expense and Other Factors

Interest expense and preferred dividend requirements have decreased in the last three years due to early redemptions and refinancings at more favorable rates.

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

Income Taxes

The provision for income taxes decreased in 1987 and 1988 primarily as a result of the reduction in federal income tax rates from 46% in 1986 to 40% in 1987 and 34% in 1988. The effective income tax rate also was reduced by 5.6% in 1988 as a result of the flow through of "unprotected" deferred income taxes to Florida Power's customers.

The Company expects to adopt Financial Accounting Standard No. 96, "Accounting for Income Taxes," in 1990. When adopted, the Company expects to realize a one-time cumulative benefit to income from reduction of deferred income taxes due to lower tax rates. The effect on net income for subsequent years is not expected to be material, except for years in which there is a change in tax rates.

FLORIDA PROGRESS CORPORATION

REPORTS FROM MANAGEMENT AND INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Management's Report

To Our Shareholders:

Management is responsible for the integrity and objectivity of the financial and operating information contained in this annual report, including the consolidated financial statements covered by the Auditors' Report. These statements were prepared in accordance with generally accepted accounting principles and necessarily include amounts that are based on judgments and estimates by management.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed as authorized and are properly recorded, and that accounting records may be relied upon for the preparation of consolidated financial statements and other financial information. The design, monitoring, and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

In addition, the Audit Committee of the Board of Directors, consisting solely of outside directors, meets periodically with management, the internal auditors and the independent certified public accountants to review internal accounting controls, audit results, financial statements and financial reporting matters, and annually recommends to the Board of Directors the selection of independent certified public accountants.

For Management,

Clarence W. McKee Jr.

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

Auditors' Report

To the Shareholders of Florida Progress Corporation:

We have audited the accompanying consolidated balance sheets and statements of capitalization of Florida Progress Corporation (a Florida corporation) and subsidiaries as of December 31, 1988 and 1987, and the related consolidated statements of income, cash flows and shareholder's equity for each of the three years ended December 31, 1988. These financial statements are the responsibility of Florida Progress Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Progress Corporation and subsidiaries as of December 31, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.

Tampa, Florida
January 30, 1989

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1988, 1987 AND 1986

(In millions, except per share amounts)

	1988	*1987*	*1986*
REVENUES:			
Electric utility	**$1,468.5**	$1,472.2	$1,530.5
Non-utility	**533.5**	485.4	368.4
	2,002.0	1,957.6	1,898.9
EXPENSES:			
Operations—			
Fuel and purchased power	**556.3**	526.0	571.1
Cost of non-utility sales	**389.7**	349.1	268.2
Other	**319.1**	283.4	252.1
	1,265.1	1,158.5	1,091.4
Maintenance	**117.8**	112.7	108.5
Depreciation	**148.9**	143.4	137.3
Taxes other than income taxes	**104.5**	99.4	97.2
	1,636.3	1,514.0	1,434.4
INCOME FROM OPERATIONS	**365.7**	443.6	464.5
INTEREST EXPENSE AND OTHER:			
Interest expense	**117.3**	120.1	122.4
Allowance for funds used during construction	**(4.1)**	(4.3)	(5.8)
Preferred dividend requirements of Florida Power	**16.8**	18.1	23.2
Other expense (income)	**(7.7)**	(.3)	(2.6)
	122.3	133.6	137.2
INCOME BEFORE INCOME TAXES	**243.4**	310.0	327.3
Income taxes	**63.6**	122.2	146.1
NET INCOME	**$ 179.8**	$ 187.8	$ 181.2
AVERAGE SHARES OF COMMON STOCK OUTSTANDING	**51.1**	50.3	48.9
EARNINGS PER AVERAGE COMMON SHARE	**$3.52**	$3.74	$3.71

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

FLORIDA PROGRESS CORPORATION

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1988 AND 1987

	(In millions) 1988	1987
ASSETS		
PROPERTY, PLANT AND EQUIPMENT:		
Electric utility plant in service and held for future use	**$4,013.3**	$3,860.9
Less—Accumulated depreciation	**1,252.4**	1,142.1
	2,760.9	2,718.8
Construction work in progress	**78.9**	8[illegible]
Nuclear fuel, net of amortization of $180.0 in 1988 and $149.3 in 1987	**90.3**	108.0
Net electric utility plant	**2,930.1**	2,906.9
Other property, net of depreciation of $75.6 in 1988 and $66.8 in 1987	**270.0**	262.7
	3,200.1	3,169.6
CURRENT ASSETS:		
Cash and equivalents	**13.1**	2.2
Accounts receivable, less reserve of $4.9 in 1988 and $4.6 in 1987	**178.7**	176.9
Inventories, primarily at average cost—		
Fuel	**82.5**	76.0
Utility materials and supplies	**72.0**	62.3
Non-utility materials and finished products	**66.3**	79.1
Underrecovery of fuel cost	**—**	24.5
Prepayments	**35.1**	13.0
	447.7	434.0
OTHER ASSETS:		
Investments—		
Financial instruments	**473.2**	414.4
Joint ventures and partnerships	**61.9**	27.8
Deferred insurance policy acquisition costs	**30.2**	24.7
Nuclear plant decommissioning fund	**28.8**	18.4
Other	**61.6**	43.0
	655.7	528.3
	$4,303.5	$4,131.9

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

	(In millions) 1988	1987
CAPITALIZATION AND LIABILITIES		
CAPITALIZATION:		
Common stock equity	$1,316.9	$1,264.7
Cumulative preferred stock of Florida Power	233.5	233.5
Long-term debt	1,050.0	1,117.1
	2,600.4	2,615.3
CURRENT LIABILITIES:		
Accounts payable	92.3	104.0
Customers' deposits	57.1	55.8
Deferred income taxes	—	19.8
Accrued other taxes	9.4	9.7
Accrued interest	25.3	17.8
Overrecovery of fuel cost	33.3	—
Other	47.6	50.7
	265.0	257.8
Notes payable	168.4	143.9
Current portion of long-term debt	204.2	138.8
	637.6	540.5
DEFERRED CREDITS AND OTHER LIABILITIES:		
Deferred income taxes	773.4	697.8
Unamortized investment tax credits	164.3	171.7
Insurance policy benefit reserves	78.8	72.6
Nuclear refueling outage reserve	11.0	.1
Other	38.0	33.9
	1,065.5	976.1
COMMITMENTS AND CONTINGENCIES (Note 10)		
	$4,303.5	$4,131.9

FLORIDA PROGRESS CORPORATION

CONSOLIDATED STATEMENTS OF CAPITALIZATION

DECEMBER 31, 1988 AND 1987

(In millions, except share information)

		1988	1987
COMMON STOCK EQUITY:			
Common stock without par value, authorized 90,000,000 shares, outstanding 51,051,200 shares		**$ 646.6**	$ 646.6
Retained earnings		**670.3**	618.1
		1,316.9	1,264.7
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	7.46% (a)	**100.0**	100.0
		233.5	233.5
LONG-TERM DEBT:			
Florida Power Corporation—			
First mortgage bonds—			
Maturing through 1993—			
July 1, 1988	4⅛%	**—**	12.2
October 1, 1990	4¾%	**13.6**	13.6
May 1, 1992	4¼%	**14.4**	14.4
Maturing 1994 through 2003	7.47% (a)	**426.6**	426.6
Maturing October 1, 2006	8¾%	**80.0**	80.0
Premium, being amortized over term of bonds		**3.2**	3.5
		537.8	550.3
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	6.38% (a)	**108.6**	108.6
Notes due—			
May 24, 1988	10.64%	**—**	75.0
May 2, 1989	9.04% (a)	**150.0**	150.0
1990-1991	8.53% (a)	**40.5**	—
Progress Leasing Corporation (All due within 5 years)	8.42% (a)	**99.9**	104.1
Other subsidiaries, debt maturing through 2007	10.32% (a)	**184.5**	135.0
		1,254.2	1,255.9
Less—Current portion of long-term debt		**204.2**	138.8
		1,050.0	1,117.1
		$2,600.4	$2,615.3

(a) Weighted average dividend or interest rate at December 31, 1988.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1988, 1987 AND 1986

		(In millions)	
	1988	*1987*	*1986*
OPERATING ACTIVITIES:			
Net income	**$179.8**	$187.8	$181.2
Adjustments for non-cash items:			
Depreciation and amortization	**190.4**	170.9	158.9
Deferred income taxes and investment tax credits, net	**36.4**	84.9	79.8
Allowance for equity funds used during construction	**(.8)**	(2.1)	(2.9)
Changes in working capital, net of effects from acquisition or sale of businesses:			
Accounts receivable	**(9.5)**	(12.2)	.1
Inventories	**(15.5)**	(30.0)	11.1
Overrecovery (underrecovery) of fuel cost	**57.8**	(36.0)	48.6
Accounts payable	**(8.6)**	20.3	.8
Income taxes payable	**(2.2)**	(17.9)	20.5
Other	**2.7**	6.7	23.1
Other operating activities	**23.3**	(22.7)	(1.1)
	453.8	349.7	520.1
INVESTING ACTIVITIES:			
Property additions (less allowance for equity funds used during construction)	**(247.9)**	(240.5)	(230.6)
Purchase of financial instruments	**(98.8)**	(91.8)	(133.1)
Proceeds from sale or collection of financial instruments	**31.5**	22.2	14.9
Proceeds from sale of properties	**13.6**	9.9	19.1
Acquisition of businesses (Note 2)	**—**	—	(15.5)
Proceeds from sale of businesses	**15.6**	—	—
Investments in joint ventures and partnerships	**(38.3)**	(4.9)	(6.3)
Other investing activities	**(11.2)**	(3.0)	.8
	(335.5)	(308.1)	(350.7)
FINANCING ACTIVITIES:			
Issuance of long-term debt	**167.9**	203.5	109.3
Repayment of long-term debt	**(170.0)**	(267.3)	(111.0)
Sale of preferred stock	**—**	49.1	50.0
Redemption of preferred stock	**—**	(53.0)	(89.4)
Sale of common stock	**—**	46.0	44.1
Dividends paid on common stock	**(127.6)**	(121.6)	(111.2)
Increase (decrease) in short-term debt	**24.5**	86.7	(62.8)
Other financing activities	**(2.2)**	2.7	3.5
	(107.4)	(53.9)	(167.5)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	**10.9**	(12.3)	1.9
Beginning cash and equivalents	**2.2**	14.5	12.6
ENDING CASH AND EQUIVALENTS	**$ 13.1**	$ 2.2	$ 14.5
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (net of amount capitalized)	**$109.8**	$128.4	$120.5
Income taxes (net of refunds)	**$ 30.7**	$ 54.7	$ 45.2

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, 1988, 1987 AND 1986 *(In millions, except share amounts)*

			Cumulative Preferred Stock of Florida Power	
	Common Equity	*Retained Earnings*	*Without Sinking Funds*	*With Sinking Funds*
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
Net income		187.8		
1,339,231 common shares issued	46.0			
500,000 preferred shares issued — 7.84% series				50.0
500,000 preferred shares redeemed		(3.9)		(50.0)
Cash dividends on common stock ($2.42 per share)		(121.6)		
Balance, December 31, 1987	646.6	618.1	133.5	100.0
Net income		**179.8**		
Cash dividends on common stock ($2.50 per share)		**(127.6)**		
Balance, December 31, 1988	**$646.6**	**$670.3**	**$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

General—Florida Progress Corporation (the Company) is exempt from regulation as a registered holding company under the Public Utility Holding Company Act of 1935. Its largest subsidiary, representing 76.3% of total assets, is Florida Power Corporation (Florida Power), a public utility engaged in the generation, transmission, distribution and sale of electric energy within Florida.

The consolidated financial statements combine the financial results of the Company and all majority-owned subsidiaries. All significant inter-company balances and inter-company transactions have been eliminated.

The Company adopted Financial Accounting Standard (FAS) No. 95, "Statement of Cash Flows," in 1988 and accordingly has restated prior year amounts presented for comparative purposes. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

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

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 projected costs for a six-month period. Revenues and expenses are adjusted for differences between recoverable fuel, purchased power 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.

Earned Income on Finance Leases—The Company uses the finance method for recognizing earned income from finance leases. Accordingly, earned income, including any residual values to be recognized, and the related deferred investment tax credits are amortized to revenues over the term of the transaction to provide an approximate level return on the positive net investment.

Income Taxes—Deferred income taxes have been provided on all significant book-tax timing differences, except during periods when applicable regulatory authorities did not permit the recovery of such taxes through rates charged to customers by Florida Power.

The cumulative net amount of income tax timing differences for which deferred taxes have not been provided was approximately $115 million at December 31, 1988. As allowed under current regulatory practices, deferred taxes not previously provided are being collected in customers' rates as such taxes become payable.

Investment tax credits used to reduce current federal income taxes and subject to regulatory accounting practices are deferred and amortized to income over the lives of the related properties. Additionally, investment tax credits associated with finance lease transactions are deferred and amortized to revenues as described above.

The Company plans to adopt the provisions of FAS No. 96, "Accounting for Income Taxes," in 1990. The new standard requires the use of the liability method under which the effects on deferred taxes of changes in tax rates and laws are recorded as a component of tax expense in the period of change. The Company expects to realize, in the year of adoption, a one-time cumulative benefit to income from reduction of deferred income taxes resulting from lower income tax rates. The effect on net income for subsequent years is not expected to be material, except for years in which there is a change in tax rates.

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 utility plant was 3.7% for 1988 and 1987, and 3.8% for 1986.

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

Allowance for Funds—The allowance for funds used during construction represents the estimated cost of capital funds (equity and debt) 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 the Federal Energy Regulatory Commission (FERC) requirements, the return accrued on these units of $9.7 million through December 31, 1987, was deferred. The FPSC and FERC allowed Florida Power to record $8.8 million in other income in 1988 for the deferred amounts associated with the units that are to be returned to service and which are now included in the rate base.

The average rate used in computing the allowance for funds was 8.0% for 1988 and 9.7% for 1987 and 1986.

Insurance Policy Acquisition Costs and Benefit Reserves—The Company defers recoverable costs in its insurance operations that directly relate to the production of new business. These costs are amortized over the expected premium paying period. Reserves are established out of each premium payment to provide for the present value of future insurance policy benefits using reasonable assumptions for future investment yield, mortality, morbidity, withdrawals and the risk of adverse deviation.

(2) BUSINESS ACQUISITIONS

The acquisitions of Mid-Continent Life Insurance Company and Gorman Co., Inc. in 1986 were accounted for on a pooling of interests basis without retroactively restating previously issued financial statements. Several businesses were acquired in 1986 for cash and notes and have been accounted for as purchases. In conjunction with these acquisitions, the Company received $135.6 million in assets, paid $15.5 million in cash, issued $32.9 million in common stock and assumed liabilities of $87.2 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) INCOME TAXES

		(In millions)	
	1988	*1987*	*1986*
Payable currently —			
Federal	**$20.3**	$ 29.9	$ 52.6
State	**6.9**	7.4	13.5
	27.2	37.3	66.1
Deferred, net (see below) —			
Federal	**32.8**	80.9	52.8
State	**8.2**	9.7	7.1
	41.0	90.6	59.9
Investment tax credits, net of amortization	**(4.6)**	(5.7)	20.1
Income taxes	**$63.6**	$122.2	$146.1

Components of deferred income tax —			
Difference between financial and tax accounting for leases	**$46.1**	$ 57.6	$ 40.0
Excess of accelerated over straight-line tax depreciation	**29.9**	36.7	52.7
Alternative minimum tax carryforward	**9.7**	(16.0)	—
Underrecovery (overrecovery) of fuel cost	**(22.8)**	10.7	(23.4)
Flow through of "unprotected" deferred income taxes	**(14.7)**	—	—
Other	**(7.2)**	1.6	(9.4)
	$41.0	$ 90.6	$ 59.9

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 for each of the above years. The primary differences between the statutory rates and the effective income tax rates are detailed below:

	1988	*1987*	*1986*
Federal statutory income tax rates	**34.0%**	40.0%	46.0%
Amortization of investment tax credits	**(4.0)**	(4.2)	(2.9)
State income tax, net of federal income tax	**3.8**	3.1	3.2
Flow through of "unprotected" deferred income taxes	**(5.6)**	—	—
Effect of 1986 tax rate changes on leveraged leases	**—**	—	(3.1)
Other	**(3.8)**	(1.7)	(1.5)
Effective income tax rates	**24.4%**	37.2%	41.7%

(4) 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 length of service, compensation during the highest five of the last ten years of employment and social security benefits. The companies make annual contributions to the plan based on an actuarial determination and in consideration of tax regulations and funding requirements under federal law.

Effective January 1, 1987, the Company adopted the provisions of FAS No. 87, "Employers' Accounting for Pensions." In preparing for the change, the Company adopted the actuarial cost method required by FAS No. 87 and revised most of the actuarial assumptions for the 1986 plan valuation. These changes reduced pension costs for 1986 by approximately $10.7 million.

Net pension costs included the following components:

(In millions)	1988	1987
Service cost	$ 10.2	$ 10.6
Interest cost	16.5	15.3
Actual return on plan assets	(44.7)	(20.0)
Net amortization and deferral	16.1	(6.2)
Net pension cost (benefit)	(1.9)	(.3)
Regulatory adjustment	1.7	—
Net pension cost (benefit) recognized	$ (.2)	$ (.3)

The following assumptions were used in the calculation of pension costs:

(In percent)	1988	1987
Discount rate	8.5%	8.0%
Expected long-term rate of return	9.0%	8.5%
Rate of compensation increase	7.0%	7.0%

The following summarizes the funded status of the pension plan at December 31, 1988 and 1987:

(In millions)	1988	1987
Accumulated benefit obligation:		
Vested	$122.3	$114.3
Non-vested	24.3	21.3
	146.6	135.6
Effect of projected compensation increases	73.1	65.9
Projected benefit obligation	219.7	201.5
Plan assets at market value	323.0	286.3
Plan assets in excess of projected benefit obligation	$103.3	$ 84.8
Consisting of the following components:		
Unrecognized transition asset	$ 70.1	$ 75.1
Effect of changes in assumptions and difference between actual and estimated experience	33.2	9.7
	$103.3	$ 84.8

The following actuarial assumptions were used in calculating the plan's year-end funded status:

(In percent)	1988	1987
Discount rate	8.25%	8.5%
Rate of compensation increase	6.75%	7.0%

In accordance with the provisions of FAS No. 87, pension cost has not been restated for prior years. Pension cost for 1986 was zero.

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 $31 million of which $9.9 million has been accrued at December 31, 1988. The Company's policy since January 1, 1985 has been to accrue for these costs at retirement along with amortization of past service costs.

(5) FINANCIAL INSTRUMENTS

At December 31, 1988 and 1987, investments in financial instruments were as follows:

(In millions)	1988	1987
Finance leases	$301.4	$285.4
Marketable securities	96.4	95.3
First mortgage loans on real estate	20.1	23.1
Commercial loans	45.2	—
Insurance policy loans	10.1	10.6
	$473.2	$414.4

The finance leases are primarily leveraged leases having terms of three to 25 years. Fixed income securities are carried at amortized cost and other marketable securities are carried at the lower of aggregate cost or market value. Loans are carried at the aggregate of the unpaid balances. At December 31, 1988, the market value of marketable securities exceeded cost by $6.4 million.

(6) NUCLEAR OPERATIONS

Jointly Owned Plant—Florida Power's 90% ownership share in the Crystal River nuclear unit, as of December 31, 1988, amounted to $516.0 million of utility plant in service, $24.3 million of construction work in progress, $90.3 million of unamortized nuclear fuel, and $182.6 million of accumulated depreciation, which includes $42.9 million of accumulated provisions for decommissioning costs. Each participant provides for its own financing. Florida Power's share of the operating costs is 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 decommissioning costs that 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 provide coverage toward Florida Power's share of the future dismantling, removal and land restoration costs. Florida Power has a license to operate the nuclear unit through December 3, 2016, and contemplates decommissioning beginning at that time. The FPSC and the FERC have approved an increase in annual decommissioning expense from $5.4 million to $9.9 million beginning in 1989.

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 $.001 per net 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 in place or under construction for fuel burned through the year 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 ten weeks beginning in March 1990 and is presently estimated to cost $22 million.

Insurance—The Price-Anderson Act currently limits the liability of an owner of a nuclear power plant for a single nuclear incident to $7.2 billion. Florida Power has purchased the maximum available commercial insurance of $160 million with the balance provided by indemnity agreements with the Nuclear Regulatory Commission. In the event of a nuclear incident at any U.S. nuclear power plant, Florida Power could be assessed up to $63 million per incident, with a maximum assessment of $10 million per 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 $3.2 million in any year in which NEIL losses exceed its accumulated funds.

Florida Power currently carries approximately $1.3 billion in property insurance provided through several different policies. One of these policies, which is also underwritten by NEIL, provides $825 million of excess coverage. Under this policy, Florida Power is subject to a retrospective premium assessment of up to $7.6 million in any policy year in which losses exceed funds available to NEIL.

(7) PREFERRED AND PREFERENCE STOCK

The Company has ten 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. In addition, 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.

Minimum preferred stock redemption requirements during the next five years are $2.5 million in 1992 and $12.5 million in 1993.

(8) LONG-TERM DEBT

The interest rate on the Annual Tender Pollution Control Revenue Bonds will be adjusted March 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 with money market based interest rate options, in the amount of $100 million.

The combined aggregate maturities of long-term debt for 1989, 1990, 1991, 1992 and 1993 are $204.2 million, $165.9 million, $52.7 million, $39.4 million and $7.7 million, respectively. In addition, all of Florida Power's First Mortgage Bond issues have an annual 1% sinking fund requirement. These requirements, which total $6.0 million for 1989 and 1990, $5.7 million for 1991 and 1992 and $5.5 million for 1993, are expected to be satisfied with property additions.

(9) SHORT-TERM DEBT

At December 31, 1988, the Company and its consolidated subsidiaries had lines of credit totaling $242 million, of which $150 million was used to support commercial paper programs. The short-term debt outstanding at December 31, 1988 and 1987, consisted of commercial paper of $135.5 million and $62.8 million, respectively, and bank borrowings of $32.9 million and $81.1 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 1/8 and 1/4 of 1%.

(10) COMMITMENTS AND CONTINGENCIES

Utility Construction Program—Substantial commitments have been made in connection with Florida Power's construction program, which are presently estimated to result in construction expenditures in 1989 of $252.8 million for electric plant and nuclear fuel.

Fuel and Purchased Power Commitments—To supply a portion of the fuel requirements of its generating plants, Florida Power has entered into various long-term commitments for the procurement of fossil and nuclear fuels. In most cases, such contracts contain provisions for price escalation, minimum purchase levels and other financial commitments. Additional commitments will be required in the future to supply Florida Power's fuel needs.

Florida Power also has entered into a long-term purchased power contract for 400,000 kilowatts of power with The Southern Company that is scheduled to begin as early as 1993 and terminate in 2010.

Debt Support Agreements—The Company has agreed to support certain loan agreements of partnerships and joint ventures. The total amount of these support agreements is $45.4 million of which $14.3 million are cash deficiency agreements and $31.1 million are guarantees.

Regulatory Hearing—In December 1988, the FPSC began hearings to consider contentions of Florida Power's largest industrial customer and others that certain procurement and transportation activities by Electric Fuels Corporation were imprudent. The customer alleges that these activities resulted in higher fuel costs totaling $129 million, including interest since January 1, 1984. Management disagrees with this claim and believes that the testimony presented by Florida Power supports the prudence of the activities and the reasonableness of the coal and transportation costs. A decision by the FPSC is anticipated in mid-1989.

(11) BUSINESS SEGMENTS

The Company defines its principal business segments as utility and non-utility. The utility is engaged in the generation, transmission, distribution and sale of electric energy. The non-utility segment includes the energy group's coal mining, procurement and transportation operations which have significant sales to the utility. Other non-utility operations include activities in building products distribution, real estate, technology development and financial services.

The Company's business segment information for 1988, 1987 and 1986 is summarized below. No single customer accounted for more than 10% of unrelated revenues. Intra-segment sales have been eliminated and the Company's equity in the earnings of partnerships and joint ventures has been included in revenues.

	1988	(In millions) 1987	1986
Revenues			
Utility	**$1,468.5**	$1,472.2	$1,530.5
Non-utility—			
Energy group—			
Coal sales to electric utility	**308.1**	308.8	301.8
External customers	**106.4**	92.1	73.6
Other non-utility	**427.1**	393.3	294.8
	2,310.1	2,266.4	2,200.7
Eliminations	**(308.1)**	(308.8)	(301.8)
Revenues from external customers	**$2,002.0**	$1,957.6	$1,898.9
Income from operations			
Utility	**$ 334.2**	$ 397.4	$ 438.5
Non-utility—			
Energy group	**16.0**	14.9	13.8
Other non-utility	**15.5**	31.3	12.2
	365.7	443.6	464.5
Interest and other expense	**122.3**	133.6	137.2
Income before income taxes	**$ 243.4**	$ 310.0	$ 327.3
Identifiable assets			
Utility	**$3,285.3**	$3,219.6	$3,130.9
Non-utility—			
Energy group	**187.7**	186.3	174.3
Other non-utility	**830.5**	726.0	610.0
	$4,303.5	$4,131.9	$3,915.7
Depreciation			
Utility	**$ 136.8**	$ 133.5	$ 129.6
Non-utility—			
Energy group	**3.4**	2.9	1.4
Other non-utility	**8.7**	7.0	6.3
	$ 148.9	$ 143.4	$ 137.3
Capital additions			
Utility	**$ 206.8**	$ 198.6	$ 200.2
Non-utility—			
Energy group	**8.7**	19.3	11.6
Other non-utility	**33.2**	24.7	28.6
	$ 248.7	$ 242.6	$ 240.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(12) RATES AND REGULATION

Retail Rates—Effective January 1, 1988, the FPSC approved a settlement with Florida Power to reduce base rates by approximately $121.5 million. The reduction included approximately $70.0 million resulting from lower income tax rates. The settlement replaced billing credits totaling $55.7 million that retail customers received in 1987. In addition, Florida Power agreed to a one-time refund of $18.5 million in 1988 for "unprotected" deferred income taxes. The settlement reduced utility revenues for 1988 by approximately $94 million as compared to 1987.

In December 1988, the FPSC approved a $17.3 million increase in base rates effective January 1, 1989. This increase in base rates includes an additional $10.7 million to cover increases in depreciation and nuclear decommissioning expenses and $6.6 million related to "unprotected" deferred income taxes. The adjustment for deferred income taxes results from substituting an $11.9 million additional refund in 1989 for the $18.5 million refund made in 1988.

Wholesale Rates — Florida Power gave reductions of $5.6 million in 1988 and $3.3 million in 1987 to its wholesale customers to provide rate treatment comparable to the retail rate settlements. For 1989, Florida Power plans to file an additional rate change for wholesale customers that will be comparable to the 1989 retail rate treatment.

QUARTERLY FINANCIAL DATA (Unaudited)

	(In millions, except per share amounts)			
	Three Months Ended			
	March 31	*June 30*	*September 30*	*December 31*
1988				
Revenues	**$489.7**	**$479.3**	**$560.2**	**$472.8**
Income from operations	**$93.9**	**$89.5**	**$117.7**	**$64.6**
Net income	**$43.9**	**$41.6**	**$60.0**	**$34.3**
Earnings per average common share	**$.86**	**$.81**	**$1.18**	**$.67**
1987				
Revenues	$437.1	$476.1	$563.6	$480.8
Income from operations	$100.2	$109.4	$156.1	$77.9
Net income	$41.2	$44.9	$72.2	$29.5
Earnings per average common share	$.83	$.90	$1.43	$.58

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.

SELECTED CONSOLIDATED DATA 1984-1988

(Dollars in millions, except per share amounts)

	1988	1987	1986	1985	1984
Summary of Operations					
Revenues	**$2,002.0**	$1,957.6	$1,898.9	$1,663.9	$1,400.1
Income from operations	**$365.7**	$443.6	$464.5	$457.3	$318.1
Net income	**$179.8**	$187.8	$181.2	$160.9	$115.8
Earnings per average common share	**$3.52**	$3.74	$3.71	$3.53	$2.71
Dividends per common share	**$2.50**	$2.42	$2.31	$2.19	$2.07
Balance Sheet Data					
Total assets	**$4,303.5**	$4,131.9	$3,915.7	$3,666.6	$3,432.8
Capitalization:					
Long-term debt	**$1,050.0**	$1,117.1	$1,266.0	$1,220.9	$1,310.7
Preferred stock with sinking funds	**100.0**	100.0	100.0	131.6	134.7
	1,150.0	1,217.1	1,366.0	1,352.5	1,445.4
Preferred stock without sinking funds	**133.5**	133.5	133.5	133.5	133.5
Common stock equity	**1,316.9**	1,264.7	1,156.4	1,014.2	883.5
Total capitalization	**$2,600.4**	$2,615.3	$2,655.9	$2,500.2	$2,462.4
Capitalization Ratios:					
Long-term debt	**40.4%**	42.7%	47.7%	48.8%	53.2%
Preferred stock	**9.0**	8.9	8.8	10.6	10.9
Common stock equity	**50.6**	48.4	43.5	40.6	35.9
Other Year-end Data					
Number of employees	**7,974**	8,116	8,030	7,208	5,573
Number of common shareholders	**44,929**	46,147	46,586	48,052	48,933

COMMON STOCK DATA

	Composite Price of Common Stock				*Dividends Paid Per Share*	
	1988		*1987*		*1988*	*1987*
	High	*Low*	*High*	*Low*		
First Quarter	**$37¾**	**$32**	$43⅞	$37⅝	**$.62**	$.60
Second Quarter	**35⅝**	**32**	38½	33¼	**.62**	.60
Third Quarter	**35⅛**	**33½**	39	34	**.62**	.60
Fourth Quarter	**36⅛**	**33⅜**	36¾	29⅝	**.64**	.62

FLORIDA PROGRESS CORPORATION

SELECTED DATA OF FLORIDA POWER CORPORATION 1978-1988

	Annual Growth Rates (In percent)				
	1983-1988	*1978-1988*	*1988*	*1987*	*1986*
Electric Sales (Millions of KWH):					
Residential	6.7	4.9	**11,065.6**	10,318.8	9,819.2
Commercial	9.5	5.6	**6,479.4**	6,016.4	5,573.0
Industrial	6.4	2.3	**3,680.6**	3,349.4	3,122.3
Other	5.1	11.3	**1,466.1**	1,355.0	1,319.3
	7.3	4.9	**22,691.7**	21,039.6	19,833.8
Sales for resale	(9.9)	.6	**3,439.2**	3,064.1	3,336.2
Total electric sales	3.7	4.2	**26,130.9**	24,103.7	23,170.0
Residential Service (Average annual):					
KWH sales per customer	2.5	.8	**11,754**	11,356	11,255
Revenue per customer	.8	4.6	**$814**	$827	$914
Revenue per KWH	(1.7)	3.8	**6.93¢**	7.28¢	8.12¢
Capitalization (In millions):					
Long-term debt	(7.0)	2.2	**$819.8**	$929.6	$1,067.1
Preferred stock with sinking funds	(6.6)	10.0	**100.0**	100.0	100.0
	(7.0)	2.8	**919.8**	1,029.6	1,167.1
Preferred stock without sinking funds			**133.5**	133.5	133.5
Common stock equity	6.1	7.5	**1,063.2**	1,015.7	971.0
Total capitalization	(1.2)	4.6	**$2,116.5**	$2,178.8	$2,271.6
Capitalization Ratios:					
Long-term debt			**38.8%**	42.7%	47.0%
Preferred stock			**11.0**	10.7	10.3
Common stock equity			**50.2**	46.6	42.7
Operating Data:					
Net generating capability (MW)	.3	2.1	**6,086**	5,966	5,961
Net system peak load (MW)	4.7	4.1	**6,188**	5,196	5,977
BTU per KWH of net output	(.2)	(.5)	**9,985**	9,954	9,865
Construction additions (in millions)	(6.8)	4.9	**$201.1**	$192.8	$195.2
Percentage of construction expenditures generated internally			**100%**	96%	100%
Ratio of earnings to fixed charges	5.2	(1.0)	**3.79**	4.08	4.29
Fuel cost per million BTU	(8.5)	.9	**$1.83**	$2.09	$2.14
Average number of customers	4.5	4.3	**1,060,971**	1,023,222	980,427
Number of employees	2.3	4.0	**5,512**	5,395	5,323

1985	1984	1983	1982	1981	1980	1979	1978
9,175.0	8,553.6	8,009.5	7,425.0	7,752.3	7,379.8	6,927.3	6,838.9
5,106.6	4,547.7	4,118.6	3,895.2	3,735.2	3,581.1	3,646.3	3,766.2
3,166.0	2,989.0	2,701.0	2,715.5	3,288.3	3,481.0	3,215.9	2,942.1
1,268.4	1,188.8	1,142.9	1,094.9	1,038.5	987.7	734.9	502.4
18,716.0	17,279.1	15,972.0	15,130.6	15,814.3	15,429.6	14,524.4	14,049.6
2,556.4	3,317.3	5,802.0	4,739.3	4,322.2	3,953.3	3,643.6	3,231.7
21,272.4	20,596.4	21,774.0	19,869.9	20,136.5	19,382.9	18,168.0	17,281.3
10,940	10,638	10,388	9,964	10,758	10,643	10,496	10,895
$883	$818	$783	$720	$763	$591	$540	$521
8.07¢	7.69¢	7.54¢	7.23¢	7.09¢	5.56¢	5.15¢	4.78¢
$1,067.4	$1,196.5	$1,180.2	$1,184.5	$1,024.7	$ 912.9	$ 682.6	$ 658.7
131.6	134.7	140.8	142.3	94.0	85.5	87.1	38.7
1,199.0	1,331.2	1,321.0	1,326.8	1,118.7	998.4	769.7	697.4
133.5	133.5	133.5	133.5	133.5	133.5	133.5	133.5
899.3	816.9	789.5	705.2	681.2	590.6	538.2	515.2
$2,231.8	$2,281.6	$2,244.0	$2,165.5	$1,933.4	$1,722.5	$1,441.4	$1,346.1
47.8%	52.4%	52.6%	54.7%	53.0%	53.0%	47.4%	48.9%
11.9	11.8	12.2	12.7	11.8	12.7	15.3	12.8
40.3	35.8	35.2	32.6	35.2	34.3	37.3	38.3
5,989	5,927	5,993	5,899	5,255	5,117	4,884	4,929
5,813	4,858	4,913	5,347	5,088	4,419	4,224	4,135
9,928	10,074	10,082	10,383	10,357	10,443	10,503	10,481
$201.2	$284.5	$285.8	$385.3	$379.8	$316.9	$193.1	$124.2
100%	99%	66%	39%	45%	10%	58%	100%
3.81	3.07	2.94	2.42	3.19	2.80	3.35	4.20
$2.63	$2.36	$2.85	$2.78	$3.12	$2.52	$2.01	$1.68
940,976	900,799	861,548	829,810	802,787	772,265	735,633	699,677
5,215	5,070	4,923	4,829	4,533	4,195	3,891	3,738

FLORIDA PROGRESS CORPORATION

DIRECTORS

Dr. Jack B. Critchfield
President and
Chief Operating Officer

Andrew H. Hines, Jr.
Chairman of the Board
and Chief Executive Officer

Frank M. Hubbard
Investor
Orlando, Florida

Richard C. Johnson
Partner
Johnson Simmons Company
Clearwater, Florida

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

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

Lee H. Scott
Vice Chairman of the Board

Robert T. Stuart, Jr.
Rancher and Investor
Dallas, Texas

Selby W. Sullivan
Chairman of the Board
Hubbard Construction Company
Orlando, Florida

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

Florida Progress Executive Officers (L-R), Dr. Jack B. Critchfield, Clarence W. McKee, Jr., Andrew H. Hines, Jr., Stanley A. Brandimore and Lee H. Scott.

EXECUTIVE OFFICERS

Andrew H. Hines, Jr.
Chairman of the Board
and Chief Executive Officer

Lee H. Scott
Vice Chairman of the Board

Dr. Jack B. Critchfield
President and
Chief Operating Officer

Stanley A. Brandimore
Executive Vice President
and General Counsel

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

GROUP VICE PRESIDENTS

Joseph F. Cronin
Development Group

Allen J. Keesler, Jr.
Utility Group

Thomas S. Krzesinski
Financial Services Group

OTHER OFFICERS

Gus A. Stavros
Senior Vice President
Community Relations

Jerry H. Joyce
Vice President
and Treasurer

Jay G. Loader
Vice President
and Secretary

Dan R. Johnson
Controller

INVESTOR INFORMATION

Investor Services
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
P.O. Box 33042
St. Petersburg, Florida 33733-8042
Phone (813) 895-1740

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

Transfer Agent and Registrar

Florida Progress Corporation
Common Stock

Florida Power Corporation
Preferred Stock

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

Dividend Reinvestment Plan
The Company offers a Dividend Reinvestment and Stock Purchase Plan (Plan) for shareholders of record. At the end of 1988, approximately 40% of the Company's common shareholders participated in the Plan. Under the Plan, at the Company's option, reinvested dividends, optional cash payments and payroll deductions are used to purchase shares which are either newly issued or purchased in the open market by an independent agent, at a nominal commission. The Company pays all of the costs of administering the Plan for shareholders. Plan enrollments, withdrawals and other correspondence should be directed to Investor Services 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 day 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
A copy of the Company's 1988 Form 10-K, without exhibits, will be supplied without charge to shareholders requesting it. A Florida Power Corporation 1988 Form 10-K, without exhibits, and a detailed Ten-Year Statistical Report also are available. Requests should be addressed to Investor Services at the address shown.

Auditors
Arthur Andersen & Co.
Tampa, Florida

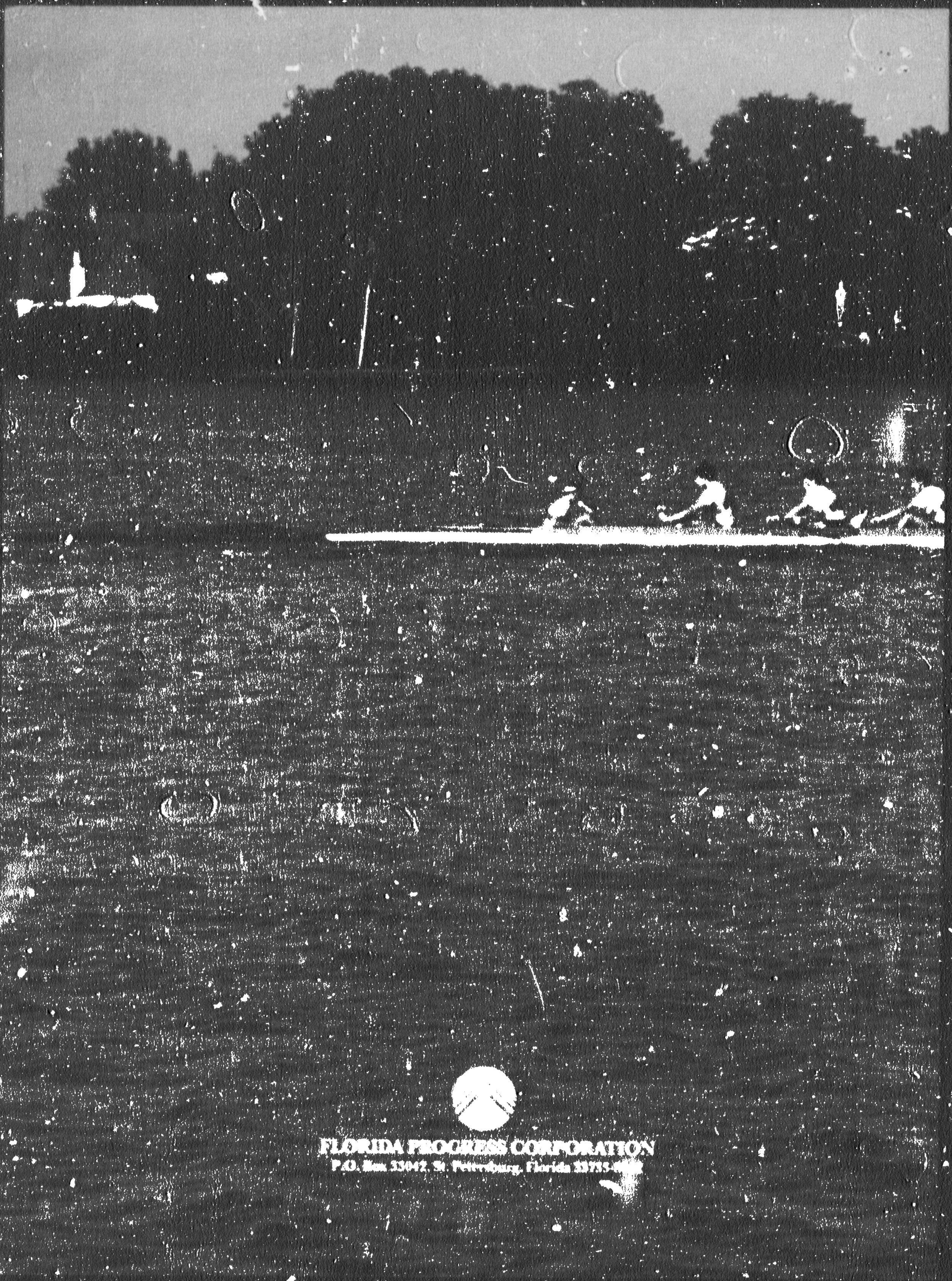
Analysts' Contacts
Clarence W. McKee, Jr. (813) 894-7192
Executive Vice President
and Chief Financial Officer

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

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

Corporate Offices
240 First Avenue South
St. Petersburg, Florida 33701
Telephone (813) 894-8141

Florida Progress provides a full-service Investor Services Office to respond to shareholder inquiries at its General Office in St. Petersburg.


FLORIDA PROGRESS CORPORATION
P.O. Box 33042, St. Petersburg, Florida 33733