At Progress Energy, we remain focused on meeting our commitments and living up to our responsibilities, even in these turbulent economic times. We are also adapting to new energy and environmental realities as our nation enters an era of transformational change in how we produce, deliver and use energy.

This is our company’s 101st year in the business of providing an essential service. So we have deep roots in the communities we serve and a long track record of outstanding performance. Millions of people depend on us – 3.1 million electricity customers in three states, more than 10,500 fellow employees, thousands of investors big and small, and the many communities where we do business.

Our customers and other stakeholders, including public officials at all levels, expect us to conduct our business with integrity, to act responsibly and to do what we say we will do. We agree. We set that high standard for ourselves and reinforce that culture within the company continuously.

Our company has an obligation to prepare wisely for the future in addition to taking care of daily business. We must make the strategic investments necessary to provide reliable electricity for a growing population while addressing global climate change and other environmental challenges. This long-range planning includes taking advantage of emerging technologies, including smart grid infrastructure and plug-in electric vehicles.

We hope this report gives you helpful insight into our company’s approach to doing business. We never forget that our future is built not only on strong operational and financial performance, but also on a solid foundation of transparency, accountability and earned trust.

William D. Johnson  
Chairman, President and Chief Executive Officer  
May 2009
At Progress Energy, we have a long history of commitment to our customers and communities, the environment, our employees and our investors. Today, we are building upon that strong foundation of stability and responsibility to develop new ways to meet those long-held commitments and ensure a bright future for all of us.

The past year has seen many challenges for our country and our industry. Despite the current economic recession, our company met our financial goals and remained unwavering in our commitment to the highest standards of transparency and ethics. In addition, we took significant steps to ensure the continued affordability of electricity for our customers and communities.

We also remained fully focused on our core value of environmental responsibility and stewardship, making substantial investments in emission reduction, conservation of resources and advancement of alternative energy sources. In 2008, we were named to the Dow Jones Sustainability North America Index for the fourth consecutive year.

Each of our more than 10,500 Progress Energy employees is keenly aware of our responsibility to our environment, our customers and our company. We know that millions of people are counting on us and we are determined to exceed those expectations today – and every day into the future.

We safely generate reliable and affordable electricity from a diverse fuel portfolio, including nuclear, coal, gas, oil and hydroelectric power, at 32 sites in the Carolinas and Florida. Our installed generation capacity includes 44 percent natural gas and oil, 35 percent coal, 20 percent nuclear, and 1 percent hydroelectric. This fuel diversity enables the company to minimize cost impacts from any one fuel source and ensures reliable power for our residential, commercial, industrial and wholesale customers.

**Progress Energy Customer Base**

**Progress Energy Carolinas:** Approx. 12,400 MW capacity, About 1.5M customers  
**Progress Energy Florida:** Approx. 9,300 MW capacity, About 1.6M customers
We are taking steps today to ensure reliable power for our growing service areas through a balanced strategy using energy-efficiency programs, alternative and renewable energy, and state-of-the-art power plants. The result is clean, reliable and affordable power for our customers today and tomorrow.

Safely providing affordable, reliable power is only the beginning of our responsibility to our customers. We also help them lower their electricity usage and costs during these tough economic times with easy, effective efficiency programs and no-cost tips.

Our Smart Grid Vision

1. Command center at Progress Energy
2. Baseload state-of-the-art power plants
3. Residential homes
4. Substations
5. Commercial, industrial and government (CIG) facilities
6. Utility-scale renewable energy generation
7. Distributed traditional generation
8. Distributed energy storage
9. Distributed renewable energy generation
10. Energy-efficient appliances
11. Electric vehicles
12. Real-time customer info
13. Demand-side management programs
14. Smart meters
15. Transmission lines
16. Distribution lines
Customers

■ Energy Efficiency and Demand-Side Management

Energy-efficiency programs and demand-side management (DSM) are critical components of our overall balanced strategy for meeting our customers’ long-term needs. In 2008, we established a new department, Efficiency and Innovative Technology, to help customers use energy responsibly, to expand the use of renewable energy and to pursue innovative energy technologies. We have established a robust DSM portfolio, launching several new programs in the Carolinas and expanding customer enrollment in our Florida programs last year. Since 1981, energy-efficiency and DSM programs have reduced usage by more than 29 billion kilowatt-hours (kWh) in the Carolinas and Florida. In addition, these programs have helped the company avoid 8 million tons of carbon dioxide emissions in Florida and almost 10 million tons in the Carolinas.

The company also continues to educate and engage customers about our available programs and other energy-saving resources on our popular Web site, savethewatts.com.

The final component of our energy-efficiency and DSM strategy is investment in new energy-delivery technologies. The company is focused on developing an advanced energy-delivery system, also known as a “smart grid” (see page 4), that will enable us to leverage communication capabilities and other emerging technologies for greater efficiency and collaboration with our customers.

■ Reliability and Customer Satisfaction

Ensuring reliable power for our customers means investing both in power plants and also in the transmission and distribution systems. In 2008, we invested nearly $100 million in preventive maintenance to ensure continued reliability to the homes and businesses we serve. Reliability trends for Progress Energy Carolinas and Progress Energy Florida were in the top quartile for the industry last year.

Along with reliable power, we are committed to providing our customers the highest level of customer service as reflected in our numerous national awards, such as the J.D. Power and Associates Founder’s Award, the Edison Electric Institute’s Edison Award, and PA Consulting Group’s Service One Award.

Progress Energy Carolinas also ranked first in the South and second in the nation for business customer satisfaction, as measured by J.D. Power’s business survey in 2008.

The System Average Interruption Duration Index (SAIDI) is the total average time that a customer is without power during the year (excluding hurricanes or other major storms). The Momentary Average Interruption Event Frequency Index (MAIFI) is the average frequency of events that a customer experiences in a year that result in zero voltage for a short duration. Note: In 2006, the Carolinas experienced a higher than average number of high-wind events that damaged transmission structures.
We believe there’s nothing more powerful than strong communities. For more than a century, we have maintained thriving relationships with the areas we serve, consistently giving our time and resources to make a real difference in the places we call home.

### Energy Neighbor Fund

In 2008, our communities, like many others across the country, felt the effects of the economic downturn. Our company responded by announcing it will double the Progress Energy Foundation match to $1 million to our Energy Neighbor Fund in 2009, which provides assistance for low-income families unable to pay their energy bills, regardless of the fuel source their homes utilize.

### Building Strong Communities

In addition, our company continued our strong support for community outreach in our four key areas: Education, Environment, Economic Vitality and Employee Involvement.

Employee giving is integral to the culture at Progress Energy. In 2008, employees pledged more than $2 million directly to organizations in their communities through our annual giving campaign.

### Progress Energy Community Investments*

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>$3,998,000</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$2,939,000</td>
</tr>
<tr>
<td>Health &amp; Human Services</td>
<td>$2,070,000</td>
</tr>
<tr>
<td>Environment</td>
<td>$1,190,000</td>
</tr>
<tr>
<td>Civic &amp; Community</td>
<td>$769,000</td>
</tr>
<tr>
<td>Other</td>
<td>$290,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$11,256,000</td>
</tr>
</tbody>
</table>

*Includes Progress Energy Foundation contributions
Communities

Employee Giving Campaign. The Progress Energy Foundation provided an additional $1 million in matching funds.

In addition, Progress Energy employees completed 182 community service projects in the Carolinas and Florida in the summer of 2008, as part of Progress Energy’s 100th anniversary celebration. This nearly doubled the company’s goal of 100 projects. All told, employees volunteered nearly 10,000 hours serving local communities during the 100-day initiative.

Economic Development

The company actively partnered with local leaders to recruit new businesses and boost our area economies. In South Carolina alone, we contributed $300,000 to economic development infrastructure projects. As a result of this and other efforts, we were able to help bring more than 11,000 new jobs and pump more than $2.5 billion in capital investments into our communities. Providing reliable and low-cost electricity is also important to economic development in our area.

Another important way we support our local economies is through our Supplier Diversity Program, providing equitable opportunities for small/diverse businesses to supply goods and services to our company. In 2008, we worked with 400 diverse suppliers to obtain 13 percent of our nonfuel procurements, significantly exceeding our goals for the year. In 2007, we spent 10 percent with diverse suppliers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
<th>Jobs created</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$777,250,000</td>
<td>6,898</td>
</tr>
<tr>
<td>2002</td>
<td>$653,101,000</td>
<td>4,956</td>
</tr>
<tr>
<td>2003</td>
<td>$694,502,000</td>
<td>9,339</td>
</tr>
<tr>
<td>2004</td>
<td>$933,910,000</td>
<td>10,051</td>
</tr>
<tr>
<td>2005</td>
<td>$1,536,727,000</td>
<td>14,048</td>
</tr>
<tr>
<td>2006</td>
<td>$1,417,012,000</td>
<td>7,711</td>
</tr>
<tr>
<td>2007</td>
<td>$951,145,000</td>
<td>10,405</td>
</tr>
<tr>
<td>2008</td>
<td>$2,563,632,000</td>
<td>11,131</td>
</tr>
</tbody>
</table>

Supplier Diversity:
Minority and Women Business Enterprise (MWBE) Paid Dollars

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minority-owned</td>
<td>4%</td>
<td>$58,108,290</td>
</tr>
<tr>
<td>Women-owned</td>
<td>7%</td>
<td>$120,344,765</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>$25,288,892</td>
</tr>
<tr>
<td>Large &amp; Small (nondiverse)</td>
<td>87%</td>
<td>$1,382,289,321</td>
</tr>
</tbody>
</table>

Collaborative Partnerships

We remain committed to our role as an active and involved corporate citizen. One example of this commitment is our transparent and cooperative process of working with various stakeholders in siting new transmission lines. We also work to maintain constructive legislative and regulatory climates by communicating with elected officials and community leaders on energy issues.
We have a responsibility to our customers and communities to be good stewards of the natural environment. That’s why we’re working to conserve natural resources, reduce emissions and increase efficiency, and develop advanced alternative and renewable energy solutions. Year after year, we strive for continual improvement on behalf of our customers, the environment and the future we share.

**A Companywide Commitment**

Everyone in our company is expected to be an active participant in our environmental mission. This means demonstrating a commitment to excellence in environmental stewardship in every aspect of our daily performance and assuring that environmental goals and commitments guide all planning, design, construction and operational decisions. In addition, we have a formal environmental management system (EMS) to manage the environmental aspects and impacts of our business. Our EMS follows international standards and establishes a process to identify and address environmental risks and to assure appropriate senior management oversight on a routine basis.

**Global Climate Change**

The overarching issue in the power industry today is how to address global climate change and demand growth while maintaining a secure electric supply, reliable service and affordable rates. We are preparing for a carbon-constrained future and actively working to shape effective policies to address the issue. We believe this issue requires a national policy framework — one that provides certainty and consistency for utilities and consumers alike. For our Global Climate Change Report to Shareholders, please visit progress-energy.com/environment.

**Renewable and Alternative Energy**

Renewable energy is a key component in our long-term balanced approach to meet growing energy demand. We are committed to increasing the use and development of cost-effective renewable energy technologies, including solar, wind, biomass and hydrogen.
Environment

In 2008, we purchased approximately 1 million megawatt-hours (MWh) of renewable energy from a variety of sources, including solar and biomass, in the Carolinas and Florida. We continued implementing the North Carolina renewable energy portfolio standard, which requires public utilities to purchase or generate 3 percent of their electricity from renewable resources and energy efficiency by 2012 and 12.5 percent by 2021. We worked with public officials to adopt this standard based on a scientific study of available resources. We also maintained our partnerships with NC GreenPower and Palmetto Clean Energy, giving our customers a convenient way to directly support renewable energy.

Alternative Transportation Technologies

We continue to be actively involved in the development and increased use of advanced transportation technologies, including electric and alternative-fuel vehicles. These technologies have tremendous potential to reduce greenhouse gases and lower our country’s dependence on foreign oil.

Our company currently owns 20 hybrid vehicles with plans to add 14 more to our fleet in 2009. We are also a national leader in researching plug-in hybrid electric vehicle (PHEV) technology, with a test fleet that includes seven Toyota Prius PHEVs, a Ford Escape PHEV and the Southeast’s first plug-in hybrid electric bucket truck. We are working with the Electric Power Research Institute, General Motors, Nissan, Ford and local universities to accelerate the integration of PHEVs into the nation’s electric grid.

Air Quality

We are actively improving air quality. We have been installing nitrogen oxide (NOx) emission controls on our coal-fired power plants since 1995. We brought our seventh “scrubber” online in North Carolina in early 2009 to reduce emissions of sulfur dioxide (SO2) and mercury significantly. We also announced plans in Florida to retire the coal-fired units at Crystal River 1 and 2 upon the successful completion of the first fuel cycle of the proposed carbon-free Levy Unit 2 nuclear power plant.
**Environment**

- **Water Resources**
  Water is a shared natural resource critical to the production of electricity and a sustainable environment. We are developing and implementing innovative, responsible, consensus-based solutions to assure the water resources necessary to our operations and our communities.

  We have also continued installing equipment in our corporate offices to reduce water usage, including new flush valves and low-flow aerators. In our Raleigh headquarters alone, these measures saved more than 2 million gallons of water in 2008.

  The scrubbers we have installed at coal-fired plants use water as part of the process to remove air contaminants. The resulting wastewater must be treated before the water can be reintroduced into the environment. We are using innovative technologies in the treatment process, including constructed wetlands. These wastewater-treatment systems use a combination of plants, microbes and soils to treat water in a sustainable and environmentally friendly manner while providing wildlife habitats for migratory species.

- **The Storage and Use of Coal Combustion Products**
  In the process of generating electricity, coal-fired plants also generate coal-combustion products (CCPs). As part of our ongoing commitment to the environment, Progress Energy seeks to handle these products in the safest, most responsible manner possible, either through storage or beneficial use.

  Our storage facilities include ash ponds. Our company performs thorough and frequent inspections of these ponds, including tests for water quality, structural integrity and environmental impact. An independent engineering firm inspects each of our ponds’ dams annually and conducts a thorough assessment every five years. We share the results of these studies with appropriate state agencies.

  We also reduce waste by providing CCPs for use in building products. Building products made with CCPs have proved even more durable and cost-effective than products made with natural materials. Concrete used to build the new Raleigh Convention Center was manufactured using fly ash from a Progress Energy power plant, thereby significantly reducing carbon emissions and conserving natural resources.

- **Research and Development**
  We are investing in the advancement of alternative energy. In 2009, we will invest $5.5 million in Electric Power Research Institute (EPRI) research programs. Of this, approximately $1.7 million will be related to global climate change policies and reduction options, renewable energy, end-use efficiency and electric transportation.
Everything we achieve as a company begins with our employees. Our diverse, collaborative workforce is committed to excellence in every aspect of our operations. As a company, we constantly seek new ways to nurture this strongly established culture through a continuing commitment to ethics, safety, diversity and performance.

**Health and Safety**

The first and most critical aspect of creating a positive workplace environment is ensuring the health and safety of our employees. In 2006, we launched our Zero in on Safety campaign with the goal of eliminating injuries and accidents by setting clear standards and expectations. Our safety record in 2008 was in the top 10 percent of the industry, but we are always committed to accomplish more.

![Progress Energy OSHA* Injury Rate](image)

Our Zero in on Safety campaign continued to be successful in 2008. Progress Energy remained in the top 10 percent of our industry for safety performance.

* OSHA – Occupational Safety and Health Administration
† EEI – Edison Electric Institute

**Diversity and Inclusion**

Diversity and inclusion are critical aspects of a positive, high-performing work environment. At Progress Energy, we recognize that employees bring their own unique experiences, talents, backgrounds and perspectives. Embracing that diversity increases our opportunities for success. To ensure that every employee understands the importance of diversity and inclusion, each business unit has its own diversity council – all overseen by the Corporate Diversity Council, led by Chairman, President and CEO Bill Johnson. We also have several Employee Network Groups, which bring together employees with mutual interests to share perspectives and gain from one another’s experiences.

**Employee Network Groups**

- African Americans in Progress
- Latin-American Employee Alliance for Diversity
- New Employee Opportunities Network
- Women’s Insight Network
Engaged Employees

Today, more than ever, our company needs talented, motivated employees able to meet the economic and energy-related challenges facing our industry and our country. To attract and retain these employees, we offer a challenging, high-performance environment that supports individual growth and development as well as a healthy, productive lifestyle.

More than 60 percent of our employees participated in our Healthy Progress Wellness program (voluntary health screenings) in 2008. We also seek new ways to engage and communicate openly with our employees, including our popular online video feature, “Ask Bill,” in which CEO Bill Johnson responds to employee questions about a range of topics.
We have a long history of integrity in all aspects of our business, consistently pursuing the highest standards of performance, ethics and accountability. We recognize that we have a responsibility to protect our shareholders’ trust through solid, sustainable business decisions and clear, transparent practices. One important indicator of our long-term commitment to our shareholders is our 21 consecutive years of dividend growth.

**Corporate Governance**

Progress Energy has a long-standing commitment to the highest standards of integrity, accountability and independence. Our board of directors oversees and directs our company on the shareholders’ behalf and considers the interests of customers, employees, regulators, elected officials and the communities we serve. We have adopted a set of governance measures, called Corporate Governance Guidelines, to document the board’s responsibilities, structure and internal practices.

The board of directors consists of 13 members and is chaired by CEO Bill Johnson. To view the full list of current directors, please visit our Web site at progress-energy.com/aboutus/board.

We benchmark the quality of our corporate governance practices relative to other publicly traded companies using ratings provided by The Corporate Library, RiskMetrics Group, Inc. and GovernanceMetrics International, Inc. Our corporate governance quotient is ranked in the top third of Standard & Poor’s 500.

**Ethics Program**

Our strong commitment to corporate governance does not stop with our board of directors. Acting with integrity is at the heart of our culture. Electric utilities comprise one of the nation’s most heavily regulated industries, and the laws and regulations that apply to our company can be complex. Regulators, elected officials, community leaders, customers, competitors, investors, the news media and advocacy groups all pay close attention to what we do and how we do it – and we strive to maintain the trust and confidence that they have in us. A key part of maintaining that confidence is building and sustaining a work culture that promotes accountability, transparency, high performance and a sense of pride and service among employees.

Employees have the opportunity to direct ethics-related questions and suspected violations of the company’s Code of Ethics to their supervisor, Human Resources or a confidential, 24-hour ethics phone line. The ethics staff maintain an ethics awareness program to ensure that employees receive adequate training regarding the company’s Code of Ethics and ongoing information regarding emerging ethics issues. In 2008, the ethics program received 306 allegations, of which 141 were substantiated through subsequent investigation.
Financial Highlights

The financial and operational results we are achieving—despite the current economic recession—indicate our company's resilience and resolve, and the strength of having a clear strategy focused on an essential service we know well. We successfully delivered our 2008 financial goals with full-year ongoing earnings per share of $2.98. As of May 2009, Progress Energy has paid a dividend for 251 consecutive quarters and has increased its dividend for 21 years in a row. That’s a strong record of consistency and reliability—qualities that stand out even more today in a business world filled with uncertainty and instability. Progress Energy is well positioned to weather the current economic challenges and make the strategic investments in new infrastructure that will benefit our customers, communities and shareholders.

Productivity and Efficiency

Progress Energy’s continuous business excellence (CBE) strategy is designed to address the new economic realities we face. Every business unit of the company is taking actions to increase productivity 3 to 5 percent every year. The goal is to introduce ongoing improvements that reduce cost and streamline processes for the long term.

CBE leaders across the company are collaborating on common methodologies, leveraging proven Lean and Six Sigma approaches, to gain process improvement efficiencies. Every group is focused on identifying and eliminating waste in our everyday business processes. Several efforts have already yielded positive results, and we are optimistic about our future with this ongoing effort. CBE represents a fundamental change in the way we manage our business.

The efficiencies gained are necessary for us to fund the investments that we must make in new plants, new transmission lines and continuing investments in our people. This strategy of continuous business excellence will allow Progress Energy to be more flexible, stronger and financially healthy, which will position the company for long-term success.
Corporate and personal responsibility is integral to the way we at Progress Energy work every day. We are committed to conducting every aspect of our business with integrity and transparency. This means being good stewards of the environment and the natural resources we share. It means valuing and respecting all stakeholders in our company – employees, customers, communities and shareholders. And it means investing in our service area through corporate giving and partnerships that improve the quality of life for all of us.

For more information and our full Corporate Responsibility Report, please visit progress-energy.com/aboutus. We want to know your thoughts about our corporate responsibility efforts. Please send your feedback to poweringthefuture@pgnmail.com.

Safe harbor for forward-looking statements
In this report, Progress Energy makes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The matters discussed throughout this report that are not historical facts are forward looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made, and Progress Energy undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Examples of factors that you should consider with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: the impact of fluid and complex laws and regulations, including those relating to the environment and the Energy Policy Act of 2005; the anticipated future need for additional baseload generation and associated transmission facilities in our regulated service territories and the accompanying regulatory and financial risks; the financial resources and capital needed to comply with environmental laws and renewable energy portfolio standards and our ability to recover related eligible costs under cost-recovery clauses or base rates; our ability to meet current and future renewable energy requirements; the inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, regulatory and financial risks; weather and drought conditions that directly influence the production, delivery and demand for electricity; recurring seasonal fluctuations in demand for electricity; fluctuations in the price of energy commodities and purchased power and our ability to recover such costs through the regulatory process; our ability to control costs, including operations and maintenance and large construction projects; the duration and severity of the current financial market distress that began in the third quarter of 2008; the ability to successfully access capital markets on favorable terms; the stability of commercial credit markets and our access to short- and long-term credit; and the impact that increases in leverage may have on us and our affiliates.

These and other risk factors are detailed from time to time in Progress Energy’s or its affiliates’ filings with the United States Securities and Exchange Commission. Many, but not all, of the factors that may impact actual results are discussed in Item 1A, “Risk Factors,” of Progress Energy’s Form 10-K, which you should carefully read. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can management assess the effect of each such factor on Progress Energy.