UNDATED

DUKE POWER ANNUAL REPORT 1972

CONTENTS:

The Environment—Our Best Investment

"No utility can prosper by destroying the natural resources of the area it serves."

This principle has been a part of our corporate philosophy since 1923, the year Duke Power hired its first fulltime public health sanitarian. Today, there are more than 30 biologists, chemists, health physicists, limnologists, environmental engineers and others whose total efforts are devoted to protecting, and enhancing, the environment of our service area. Many others are involved in environmental work in their daily activities.

We're doing things like installing high-efficiency pollution control equipment at all our coal-burning plants to eliminate the problem of flyash emissions. Our scientists monitor the environment of our lakes to make sure that power operations are compatible with aquatic life. We're planting transmission rights-of-way with grasses and other low-growing vegetation that help prevent erosion and provide food and cover for wildlife. And in many residential areas, we're placing hundreds of miles of new distribution lines underground.

But perhaps our greatest contribution to environmental quality is the research—our environmental "homework"—that is performed long before a new plant is constructed. We test the design of equipment and the behavior of cooling water for proposed plants by building elaborate hydraulic models of our lakes in which anticipated temperature changes and other effects can be closely studied. The results of these studies, along with recorded data from existing operations, are incorporated into the design of future plants to assure protection of the environment.

To facilitate our expanding environmental surveillance program, a research laboratory is being built at the William B. McGuire Nuclear Station site on Lake Norman. From this central location, our scientists will monitor the effects of existing power operations throughout the Duke generating system and provide valuable data for future plant designs.

The Company and its consultants, in cooperation with faculty and graduate students from eight colleges and universities, are currently engaged in 23 separate environmental research projects. This work will help us do an even better job in protecting the environment of the Piedmont Carolinas while meeting the area's growing need for electric service.

By the time our air pollution control program is completed in 1973, we will have spent over $100 million to protect the environment of our service area. And we'll spend more in the years ahead. To keep the Piedmont great, it's one of the best investments we'll ever make.

Financing And Investor Activities

Construction expenditures for 1972 amounted to $453.8 million, consisting of $309.1 million for electrical generating facilities (including nuclear fuel), $66.7 million for transmission facilities, $70.4 million for distribution facilities and $7.6 million for other plant facilities. The construction program for 1973 is budgeted at $453 million. Construction expenditures for 1973-75 are projected at $1.4 billion, including $896 million for additional generating facilities.

Funds retained in the business, principally earnings, depreciation accruals and tax credits and deferrals, provided 19 per cent of the funds required for the 1972 construction program. These sources are expected to produce about 35 per cent of the construction expenditures for 1973-75.

The balance of funds required by the Company for 1972 was financed as follows:

Common stock—	
5,000,000 shares @ $22.75 public offering	$113,750,000
170,610 shares @ $22.62 issued to the Trustee of the Stock Purchase-Savings Program for Duke Power Employees	3,859,000
93,370 shares @ $23.19 for acquisition of coal properties	2,165,000
Total common stock	119,774,000
Preferred stock 7.80%, Series H—600,000 shares, par value $100	60,000,000
First and refunding mortgage bonds—	
7¾% Series due 2002	100,000,000
7⅜% Series B, due 2002	75,000,000
6½-7% promissory notes (Nuclear fuel) due 1975 to 1977	51,000,000
Retirement of sinking fund debentures	(1,250,000)
Cost of financing, net of discounts and premiums on sales	(4,110,000)
Reduction in short-term notes	(23,343,000)
Net proceeds from financing	$377,071,000

The issuance of 3,000,000 shares of common stock in January, 1973, resulted in proceeds to the Company of $66,900,000. Additional debt and equity securities are expected to be offered later in 1973.

The Company continued its efforts in 1972 to keep the investment community informed of the Company's affairs. Members of management appeared before utility analysts and members of the investment community in Chicago, Boston and on seven occasions in New York City. Presentations to similar groups in major cities are anticipated for 1973.

Duke Power's common stock continues to have a broad base of ownership with shareholders in every state and many foreign countries. The number of shareholders has increased from 3,600 in 1960 to over 46,700 at December 31, 1972. Duke's home states of North and South Carolina top the shareholder distribution list and account for 43 per cent of our shareholders.

Some 6,300 employees of the Company are shareholders through participation in Duke Power's Employee Stock Purchase-Savings Program.

President Carl Horn, Jr., (left) with W. S. O'B. Robinson Award winners J. A. Holcombe, James R. Price and German A. Figueroa.

Personnel

Company employees totaled 12,501 at year end, including 4,780 who were engaged in the design and construction of generating facilities. Duke Power is one of the few utilities in the nation which designs and constructs most of its generating plants.

The majority of Company employees continued to participate in the Stock Purchase-Savings Program established by the Company in 1959. Of the employees eligible, 65 per cent were sharing in Company operations through the purchase of common stock when the last class began on July 1, 1972. Since the plan's inception, employees have purchased 986,710 shares of stock through payroll deduction. Under a similar plan, 4,460 employees were purchasing U. S. Savings Bonds.

Training Programs

The Supervisory-Management Development Program provided training for 248 supervisors and management employees in 1972. This program has provided training for 2,311 employees since its inception. Review sessions for 1,548 employees also have been conducted.

One hundred forty-eight employees completed 252 courses of study under the Tuition Refund Program in 1972; 134 employees are currently enrolled in 201 classes which will contribute to their future job progress.

The Company continued its efforts to keep all employees abreast of current and new developments relating to Company business through its employee communications programs and publications.

Safety

Safe work practices resulted in an improved safety record in 1972. Retail Operations, Lee Steam Station, and the Anderson District each completed a million manhours without a disabling injury, and the Cliffside Steam Station completed more than two million safe manhours during the year. The Gastonia and High Point districts, which previously passed the million safe manhour mark, continued that distinction in 1972.

Recruiting

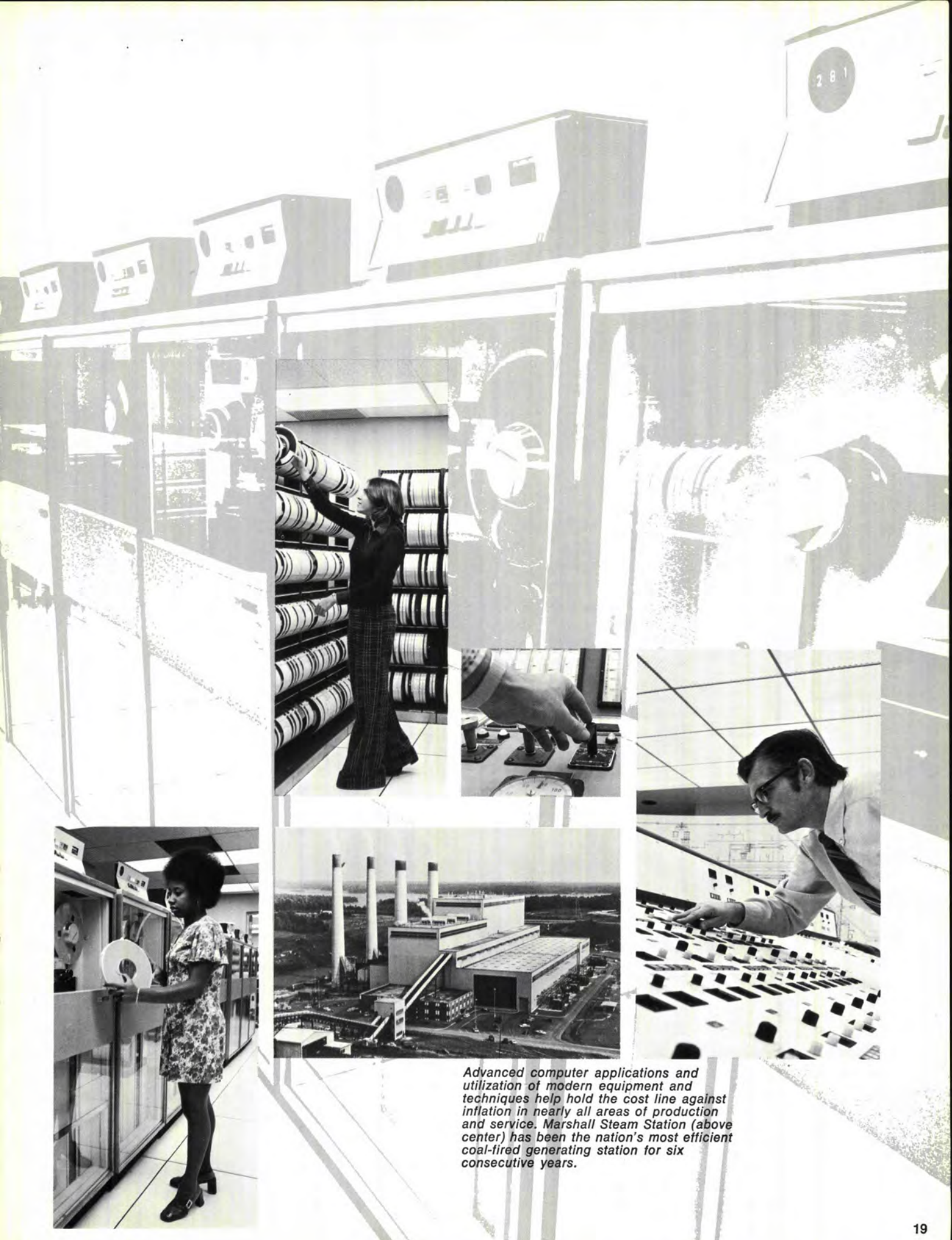
Recruiting activities during the year included visits to 48 colleges and universities and six technical schools. This "on campus" recruiting program resulted in the employment of 151 engineers and 15 technical school graduates. An estimated 35 per cent of these had participated in the Company's summer employment program. An additional 52 graduates with business administration, liberal arts, and other associate degrees joined the Company's professional ranks during 1972.

Robinson Awards

A life-saving deed and original design of equipment won W. S. O'B. Robinson Awards for three employees. These prized awards, given annually, recognize employees for outstanding service in several categories. The winners are nominated and selected by fellow employees.

The awards went to James R. Price, a steelworker at Jocassee Hydroelectric Station who saved the life of a fellow employee; to J. A. Holcombe, Marshall Steam Station, who devised and built a special grinding tool that enabled him to make quick repairs to a large discharge valve; and to German A. Figueroa, Riverbend Steam Station, who developed a test monitor set that greatly reduces the time in locating malfunctions in the electronic control system for combustion turbine units located at the Riverbend Station.


W.S.O.B. ROBINSON
AWARD
W.S.O.B. ROBINSON
AWARD



Advanced computer applications and utilization of modern equipment and techniques help hold the cost line against inflation in nearly all areas of production and service. Marshall Steam Station (above center) has been the nation's most efficient coal-fired generating station for six consecutive years.

Doing It Better

Improved operating efficiencies and increased productivity are continuing goals at Duke Power.

Although the Company has always enjoyed a reputation of cost-consciousness, these efforts have been intensified in recent years to help offset growing inflation in construction, capital and operating costs. No areas of Company activity are being overlooked.

Advanced computer applications, already an important factor in Duke's historically high efficiency ratings, are being utilized even more fully to reduce costs and increase productivity.

The Customer Information System, which provides great speed and accuracy in answering customer service inquiries, was expanded in 1972 to enable customer service offices to electronically record, control and execute all customer requests. This system eliminates over four million documents annually with built-in assurance that customer needs will be satisfied.

Duke's "financial model" assists management in planning the Company's future. This model is used to forecast financial and other analytical statements. Studies which would take weeks to prepare manually are done by the computer in minutes, making it practical for management to consider many cost-saving alternatives.

Computer systems also have been developed to assist in the laboratory testing of meters and other equipment prior to installation, to maintain current inventories of materials and supplies and for customer billing and payroll preparation. Other systems provide data for rate studies, load research, budget comparisons, work order and cost analyses.

Computerized operating reports provide monthly analyses of minor outages, assisting operating personnel in minimizing trouble and the cost of repairs.

A computer system also has been developed to help identify potentially overloaded transformers. This system permits the replacement of transformers prior to the winter or summer peaks, avoiding the loss of customer service and reducing unscheduled overtime associated with restoring power.

For major construction projects, the computer provides quality and cost control information and will monitor the status of major items of construction material and equipment from the initial order through installation at the plant site.

A new "Cash Flow System" is being developed to expedite the reporting of cash collections and to reduce or eliminate much of the clerical work associated with treasury activities.

While computer applications have helped reduce costs in these and many other areas, an equally determined effort is being exerted to increase productivity through utilization of new equipment and operating techniques.

A major cost-saving innovation in the installation of underground distribution lines came in 1972 with the development of direct cable burial equipment. Duke engineers contributed to the conceptual design of this new equipment, which promises to significantly reduce the cost of installing underground distribution lines in large projects. Duke became the first utility in the country to utilize the "vibratory cable plow," with two production models in service at year end.

Our engineers also are working to develop more efficient ways to string the huge conductors in extra-high voltage transmission lines and to develop improved safety, inspection and maintenance systems at our generating plants.

Federal Power Commission records show that Duke's electric generating system was the nation's most efficient in 1970, the latest year for which system efficiency records are available. This No. 1 ranking means that our coal-fired generating plants used less energy to produce given units of power than any other major utility system in the country.

It is particularly noteworthy that our Marshall Steam Station has been named the nation's most efficient coal-burning plant for six consecutive years. Marshall, completed at the lowest per-kilowatt cost of any such facility in the country, was designed and built by Duke's own engineering and construction forces.

completion of this project during a 10-year period. Our Executive Vice President and General Manager, Mr. B. B. Parker, currently serves as a director of the Breeder Reactor Corporation, an industry/ government management group formed in 1972 to oversee construction of the "breeder" plant. The facility will be built in Tennessee.

Through its participation in the Edison Electric Institute (EEI), the Company is contributing additional research funds for a broad spectrum of projects that will be undertaken by the newly-formed Electric Power Research Institute (EPRI). Although EPRI will receive funds from publicly-owned utilities, governmental agencies, foundations and manufacturers of electrical equipment, the bulk of its financing will be channeled through EEI by investor-owned utilities such as Duke Power.

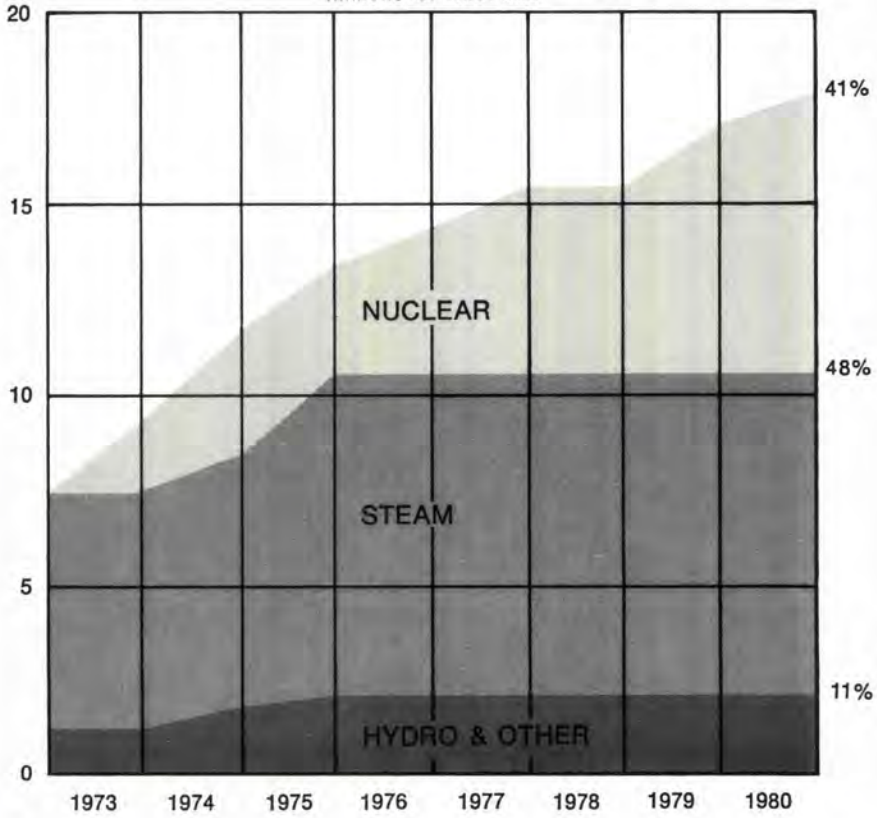
EPRI scientists will explore such potential energy sources as *magnetohydrodynamics* (MHD), the conversion of heat energy into direct current electricity through ionized gas plasma; *fusion,* a process that will use a form of hydrogen as the source of heat energy; and *fuel cells,* a possible energy system that will convert chemical energy into electricity. They're working to develop new types of lightweight batteries for electric vehicles; equipment and techniques for placing extra-high voltage transmission lines underground; plus research on a wide range of environmental concerns.

In cooperation with the Federal government, manufacturers and other utilities, the Company also is participating in research on coal gasification.

The industry will keep searching for that inexhaustible, pollution-free source of energy man eventually must have.

Planned Generating Capability By Type

Millions of Kilowatts



The two 1,143,200 coal-fired units at Belews Creek Steam Station are scheduled for completion in 1974 and 1975. They will be among the world's largest coal-fired electric generating units.

In July, 1972, the Company announced plans to build the Catawba Nuclear Station on Lake Wylie in York County, S.C. The two Catawba units, also rated at 1,180,000 kilowatts each, are scheduled for operation in 1979 and 1980. The Company has filed with the AEC the required Preliminary Safety Analysis Report, Environmental Impact Report and license application. Public hearings on the application for a construction permit are expected to be held in early 1974.

Upon completion of the Catawba Station in 1980, 41 per cent of the Company's total capability will be nuclear, which will produce about 57 per cent of the kilowatthour needs.

In cooperation with other utilities and government agencies, we are searching for even better ways to meet the nation's spiraling demand for power.

Indicative of this effort is the Company's financial participation in construction of the nation's first large "fast breeder" nuclear generating facility. This facility will produce, through a unique fissioning process, more fuel than it consumes. Duke will contribute more than $7 million toward

Above, work continues on the William B. McGuire Nuclear Station, a 2,360,000 kilowatt project. At right, workmen form the outside wall of the Jocassee Hydroelectric Station, a 610,000 kilowatt "pumped storage" facility.

Duke Power is one of the few utilities in the nation that designs and builds most of its own generating facilities.

Oconee Nuclear Station nears completion.

Serving Our Customers–Tomorrow

Sometimes overshadowed by the public's demand for a clean environment and concern over rising electric rates, a more basic—and perhaps more crucial—challenge now faces the electric utility industry:

Will there be enough power?

Can we build fast enough to provide the electricity that will be needed for tomorrow's world—electricity for expanded job opportunities, for homes, schools and hospitals, and for the energy-consuming challenge of protecting our environment?

Electric companies like Duke Power are working hard to find the answer to this question. While building today to meet the electrical requirements of the near future, we're exploring many new energy sources which may provide the power that will be needed several decades from now, and still others which may serve mankind for the years in between.

Our immediate challenge is to provide the electricity that will be needed by Piedmont Carolinians during the next 10 years, which forecasters predict as a period of unprecedented growth in this area of the country. To meet this challenge, Duke Power now has under construction, or announced, more than 10 million kilowatts of new generation. This expansion will more than double the Company's current generating capability.

An operating license for Unit 1 of Oconee Nuclear Station was issued by the Atomic Energy Commission (AEC) on February 6, 1973. Oconee 1, our first nuclear-fueled generating unit, is scheduled for commercial operation in the summer of 1973 following the loading of fuel and required testing. Oconee Unit 2 is expected to begin operation late in 1973; Unit 3 in 1974. The three units are rated at 886,300 kilowatts each for a total station capability of 2,658,900 kilowatts.

The Jocassee Hydroelectric Station, our first "pumped storage" facility, is scheduled to begin operation in 1974 with two units which will provide 305,000 kilowatts of instantaneous peaking power. Two identical units at Jocassee will join the Duke system in 1975.

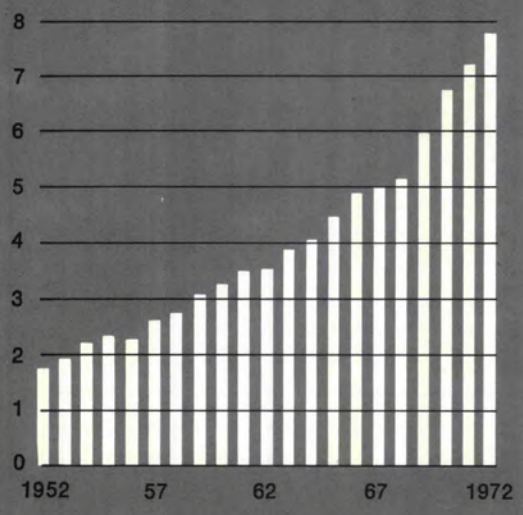
The first of two 1,143,200 kilowatt coal-fired units at the Belews Creek Steam Station also is scheduled for completion in 1974. Unit 2 will become operational a year later. When completed, they will be the largest coal-fired units on the Duke system and among the largest in the world.

Public hearings before an AEC Atomic Safety and Licensing Board were completed in November, 1972, on the Company's application for a permit to construct the William B. McGuire Nuclear Station on Lake Norman. Site preparation work is continuing under exemptions granted by the AEC. A formal construction permit is expected in early 1973. The two McGuire units, rated at 1,180,000 kilowatts each, are scheduled for operation in 1976 and 1977.

Youthful visitors view Oconee Nuclear Station from an enclosed overlook at the Keowee-Toxaway Visitors Center.

Generating Capability

Millions of Kilowatts

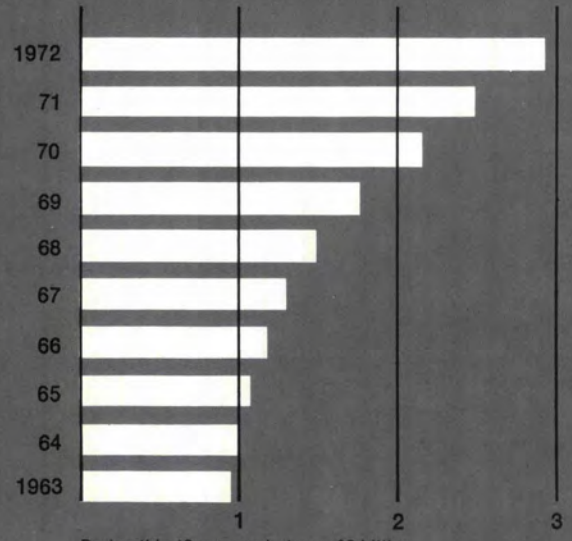


New and Expanded Industrial Plant Growth

Millions of Dollars

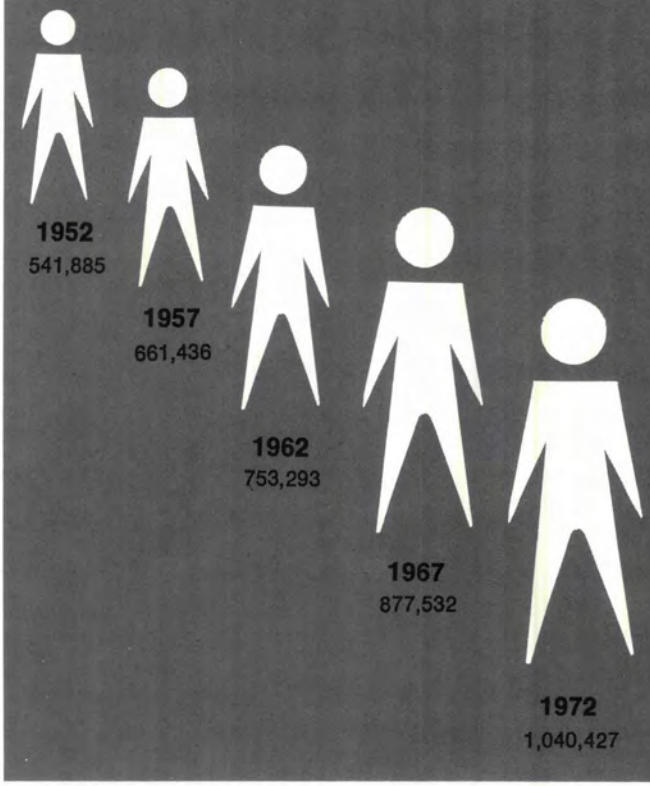
Gross Electric Plant Investment

Billions of Dollars



During this 10-year period over $2 billion was invested in electric plant and $1.4 billion is scheduled for the next three years.

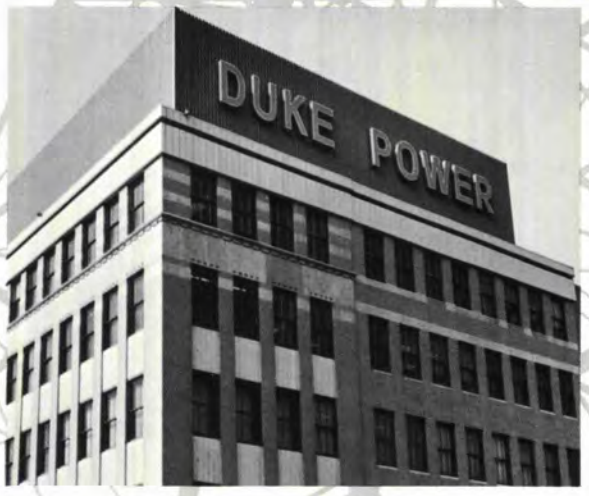
Total Number of Customers



The reliability of electric service in the Piedmont Carolinas also is strengthened by the Company's participation in the Virginia-Carolinas (VACAR) Reliability Group Agreement, which provides for reliability planning and transmission interconnections among participating electric suppliers in Virginia, North Carolina and South Carolina. The VACAR Group is one of several sub-regions within the Southeastern Electric Reliability Council (SERC), which coordinates planning for reliability of all bulk power supply systems in the Southeast. In addition to major interconnections and operating agreements with other utilities within SERC, the VACAR Group has power exchange arrangements with similar reliability groups in the mid-Atlantic and east-central sections of the country. SERC is one of nine regional coordinating councils which constitute the National Electric Reliability Council.

This "vibratory cable plow," which automaticaly installs underground distribution lines, promises to significantly reduce the cost of installing such lines in large projects (see Page 18).

Completion of the new 572,000 kilowatt coal-fired unit at Cliffside Steam Station brought the Company's rated generating capability to 7,651,789 kilowatts.



Above, left, customer representatives quickly respond to service requests and inquiries through the computerized Customer Information System. At right, one of two modern control rooms at Marshall Steam Station.

The Power Building in downtown Charlotte headquarters Duke Power Company's General Offices.

Serving Our Customers–Today

The Company's generating, transmission and distribution systems continued to expand in 1972 to meet the increasing demands of our customers for electricity.

The year saw 38,976 customers join Duke lines, bringing the number being served at year end to 1,040,427. This represents a 3.9 per cent increase over 1971 in total number of customers.

New customers include those previously served by The Electric Company of Fort Mill, S. C., a privately-owned distribution system purchased by Duke in October, 1972. The Electric Company, Duke's oldest wholesale customer, had purchased bulk power for resale to Fort Mill area customers since 1904.

In June, 1972, a new 572,000 kilowatt coal-fired unit was placed into service at the existing Cliffside Steam Station near Rutherfordton, N. C. The addition of Cliffside Unit 5 brought the Company's rated generating capability to 7,651,789 kilowatts.

Steam stations (including combustion-type units) produced 38.6 billion kilowatthours in 1972, while 2.0 billion kilowatthours came from hydro, and 2.6 billion kilowatthours were purchased from sources outside the Company.

The 1972 peak load of 7,449,500 kilowatts occurred on July 24, exceeding the 1971 peak of 6,622,125 kilowatts by 12.5 per cent. The Company had a generating and firm purchase capacity at the time of the 1972 peak of 8,168,164 kilowatts, providing a reserve margin of 9.6 per cent.

Two hundred eighty-eight circuit miles of new transmission lines were completed during the year, and 313 circuit miles of existing lines were uprated. On December 31, 1972, the Company had 10,276 circuit miles of transmission lines in service.

Service to new and existing customers in 1972 also required the addition of 1,706 miles of distribution lines, bringing the system total for these lines to 47,490 miles.

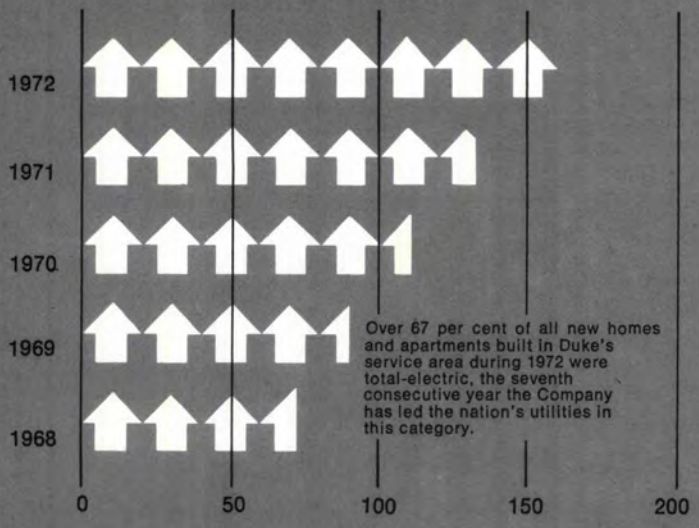
Duke's position as an industry leader in placing distribution lines underground continued during the year. Over 333 miles of underground lines serving 3,171 new and existing residential customers were installed.

Reliability

Transmission interconnections with neighboring utilities were improved during the year. At year end, more than 160 structure miles of a planned 550 mile, 500,000 volt transmission system had been completed. This extra-high voltage system will permit the transmission of huge blocks of power from generating plants to distant load centers and further strengthen the Company's interconnections with neighboring companies. The completed system will provide extra-high voltage interconnections with Carolina Power and Light Company, Appalachian Power Company and Georgia Power Company. This system was utilized extensively in 1972 for the exchange of power during periods of heavy load.

Number of All-Electric Residences

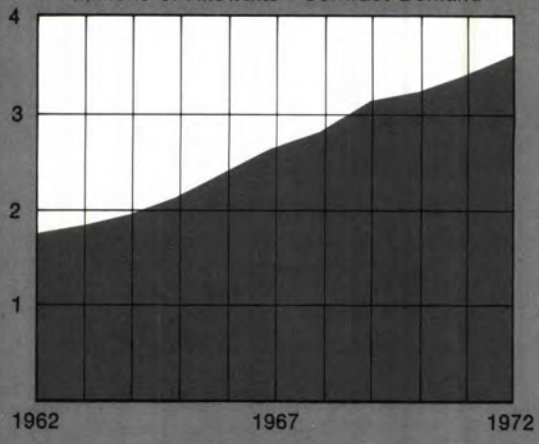
Thousands of Residences



Over 67 per cent of all new homes and apartments built in Duke's service area during 1972 were total-electric, the seventh consecutive year the Company has led the nation's utilities in this category.

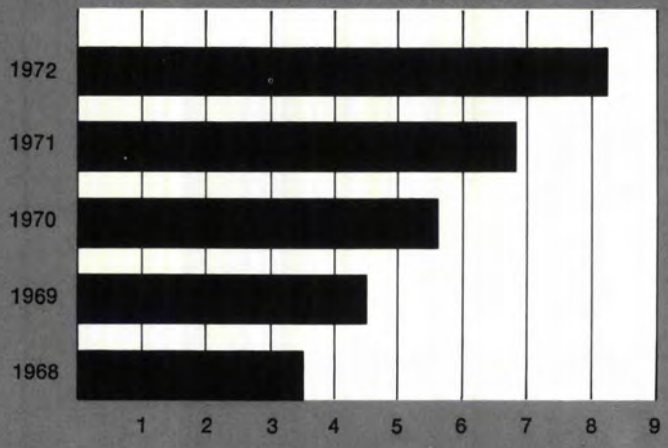
Industrial Load Growth

Millions of Kilowatts—Contract Demand



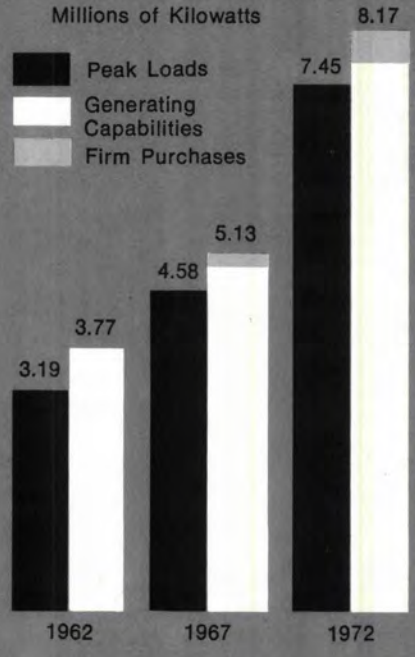
Growth in All-Electric Commercial Customers

Thousands of Customers



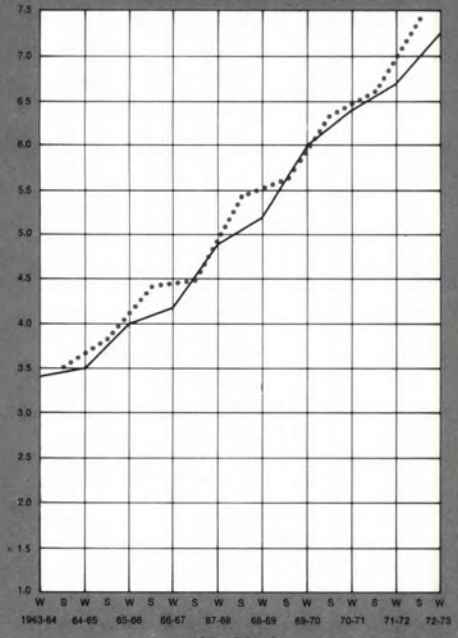
Peak Loads vs. Generating Capabilities and Firm Purchases at Time of Peak

Millions of Kilowatts



Balanced Load Building

Millions of Kilowatts



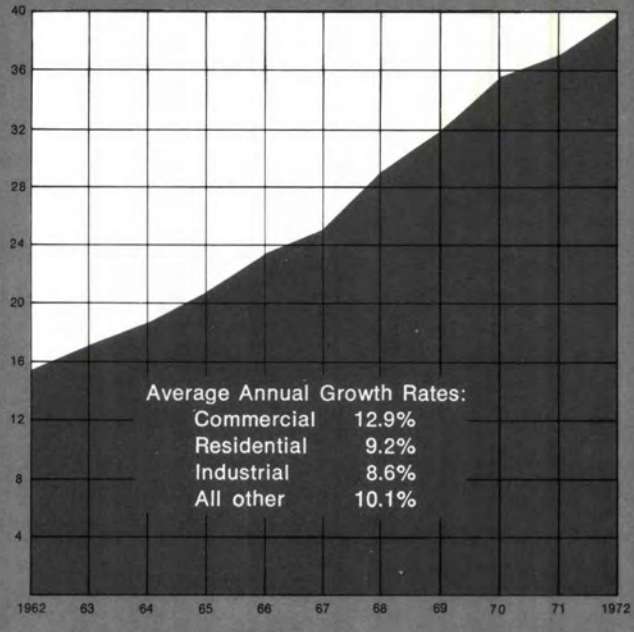
SEASONS

•••••• Summer Peak ——— Winter Peak (Oct.-Mar.)

The Company makes better year-round use of its generating facilities with well-balanced summer and winter peaks.

Electric Sales

Billions of Kilowatthours



Average Annual Growth Rates:

Commercial	12.9%
Residential	9.2%
Industrial	8.6%
All other	10.1%

General Electric Company completed a 300,000 square foot addition to its Greenville, S.C., Gas Turbine Plant in 1972.

Industrial and Large Power

Contracts were negotiated with large industrial, commercial and resale customers during the year for a net increase in contractual load of 272,965 kilowatts. Total industrial sales amounted to 17.8 billion kilowatthours, an 8.7 per cent increase over 1971.

Fifty-two total-electric industrial plants were added in 1972, bringing the number of such plants on the Duke system to 316.

Among Duke's new total-electric industrial customers are Benchmark, Inc. (upholstered furniture), Tridyn Industries, Inc. (plastic pipe), Rob-Lee, Inc. (ladies outerwear), Willis Seed & Oil Co. (mixed fertilizers), Alice Manufacturing Co. (knit fabrics), and Wallace Machinery Co. (textile machinery).

The new City Administration Building and Guilford County Courthouse in Greensboro, N.C. This total-electric complex contains 438,512 square feet of commercial space.

The 14-story Northwestern Bank Building in downtown Charlotte further enhances the city's "Total-Electric Skyline."

Sixty-seven per cent of all new apartments and houses completed within the Duke service area in 1972 utilized electric heating. This was the seventh straight year that Duke has led the nation as the dominant supplier of heating energy for new homes and apartments within its service area.

Total-electric homes and apartments joining the Duke system in 1972 numbered 27,485, including 1,980 homes and mobile homes which were converted from other heat sources. The Company now serves 160,080 total-electric dwelling units.

The growth in popularity of total-electric mobile homes continued during the year with the addition of 1,594 new all-electric mobile living units joining Duke lines. The Company now has 5,589 total-electric customers among its 70,409 mobile home customers.

Commercial

Commercial revenues in 1972 were up 14.6 per cent over the previous year on sales of 6.5 billion kilowatthours.

Over 2,000 total-electric commercial buildings joined Duke lines in 1972, bringing the system total to 10,377 such buildings. These customers added 121,601 kilowatts of commercial space heating, a 14.3 per cent increase over 1971. All-electric commercial customers continue to be the Company's fastest-growing category in both KWH sales and number of customers.

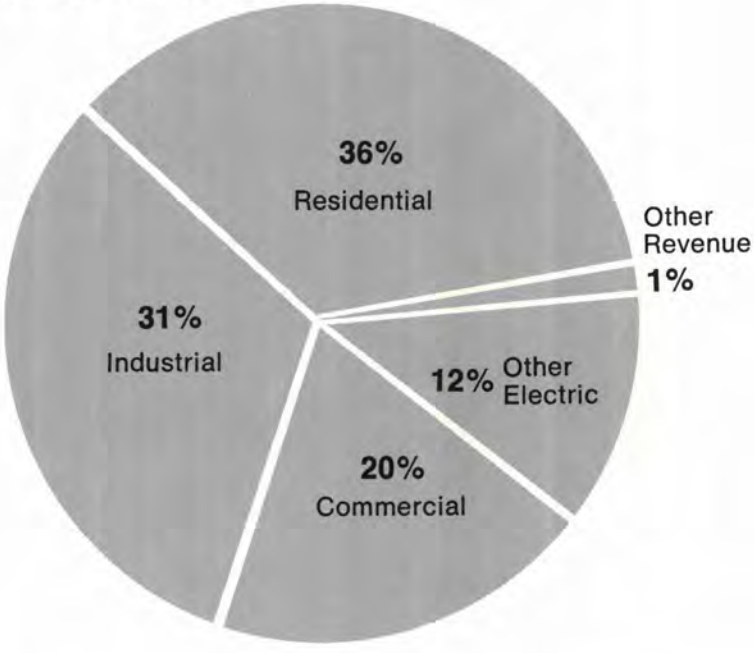
Some examples of new all-electric commercial buildings joining Duke lines in 1972 are the Greensboro City Administration Building and Guilford County Courthouse (438,512 square feet combined), the new IBM office building (130,962 square feet) in Charlotte, and the 225,000 square foot Laurens High School at Laurens, S.C. Charlotte's "Total-Electric Skyline" was further enhanced during the year by the new 14-story Northwestern Bank Building (203,476 square feet), the Cameron Brown Building (187,500 square feet), and Independence Tower (145,000 square feet). The 405,000 square foot city-owned Civic Center was well underway at year end.

The Company continued its long-time assistance to agriculture in the Piedmont Carolinas by supplying professional advice in converting labor-short farming operations to modern electrical methods. The Duke system now has 1,774 total-electric farms among its 32,706 farm classification customers.

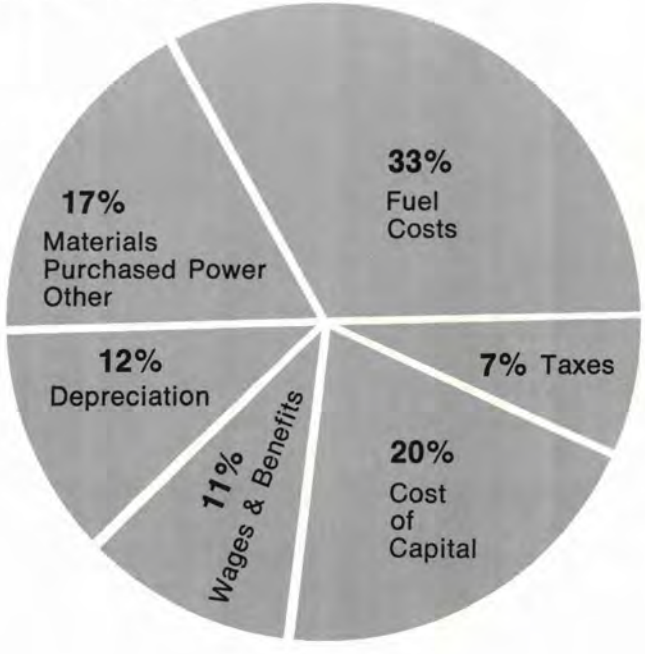
The new IBM Office Building in Charlotte, with 130,962 square feet of total-electric commercial space.

The 1972 Revenue Dollar

Where it came from:



How it was used:



Sales And Revenues

Energy sales during 1972 were 39.7 billion kilowatthours. Regular sales, which exclude sales under special interchange agreements, increased 8.2 per cent over 1971. This slight decline in our normal annual growth rate of about nine per cent is due to extremely mild weather conditions during the year.

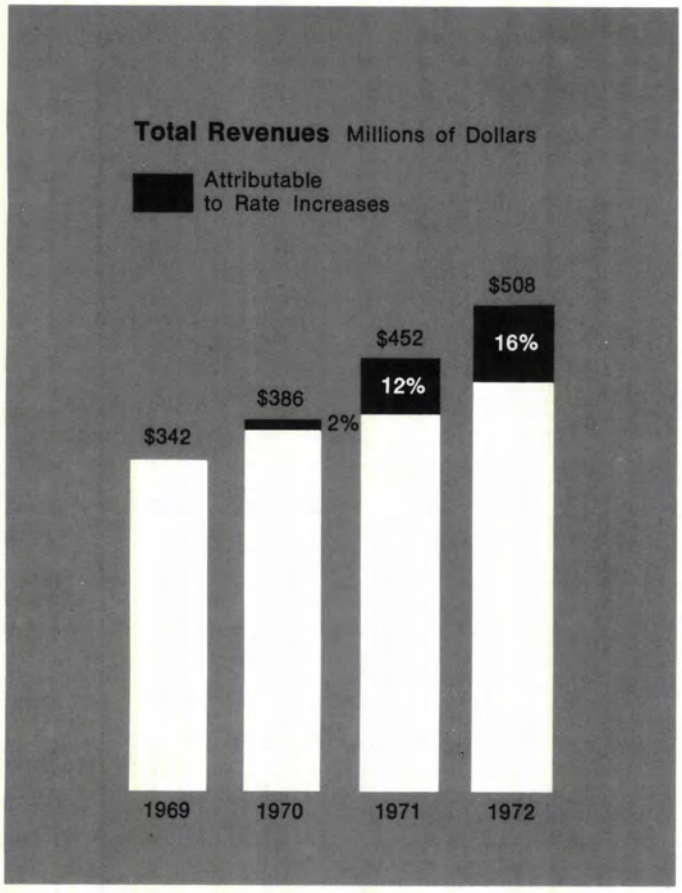
The demand for heating energy among all classifications of customers has enabled the Company to continue its balanced load growth and resulting high load factor. Generating facilities are utilized on a year-round basis, with winter heating energy offsetting the continued upsurge in summer air conditioning load. Marketing efforts are now directed almost entirely toward increasing winter usage of generation and other plant facilities.

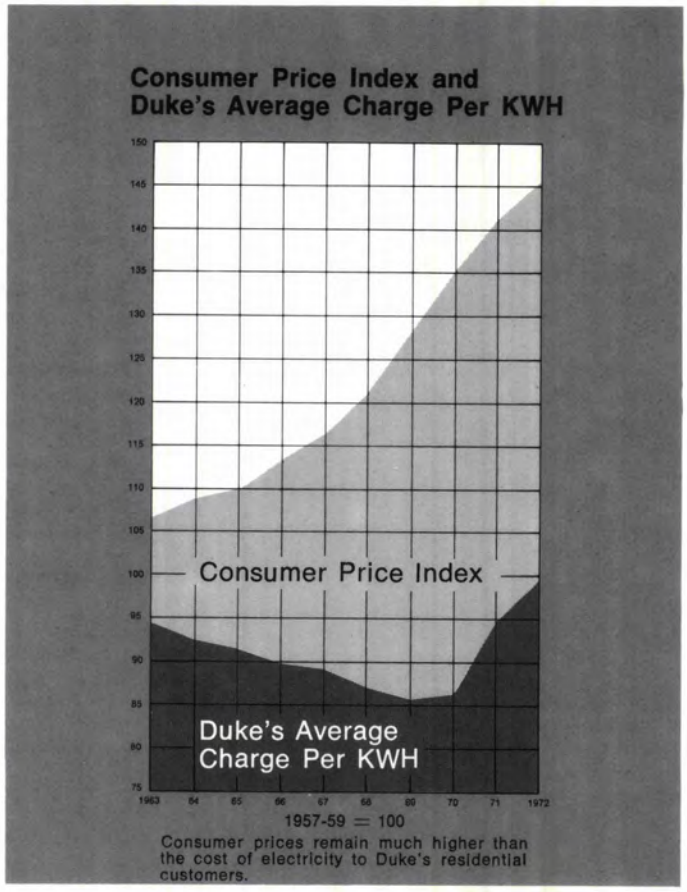
Also contributing to the balanced load growth is the continuing utilization by all classifications of customers of dusk-to-dawn lighting. The Company added 15,230 of these off-peak lights to the system in 1972, retaining its longtime national lead in dusk-to-dawn lighting. There are now 147,357 of these automatic lights on the Duke system.

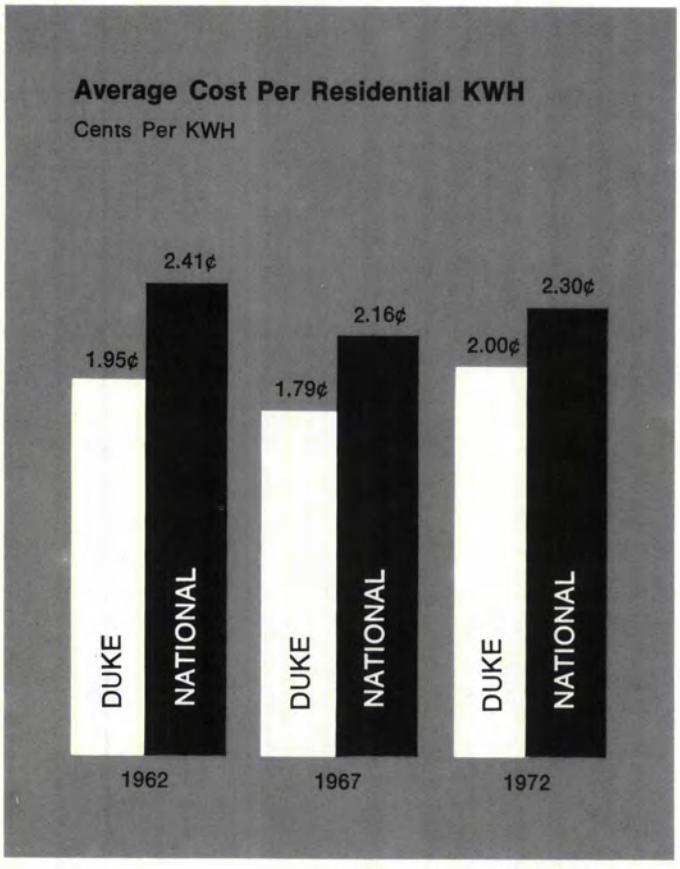
Residential

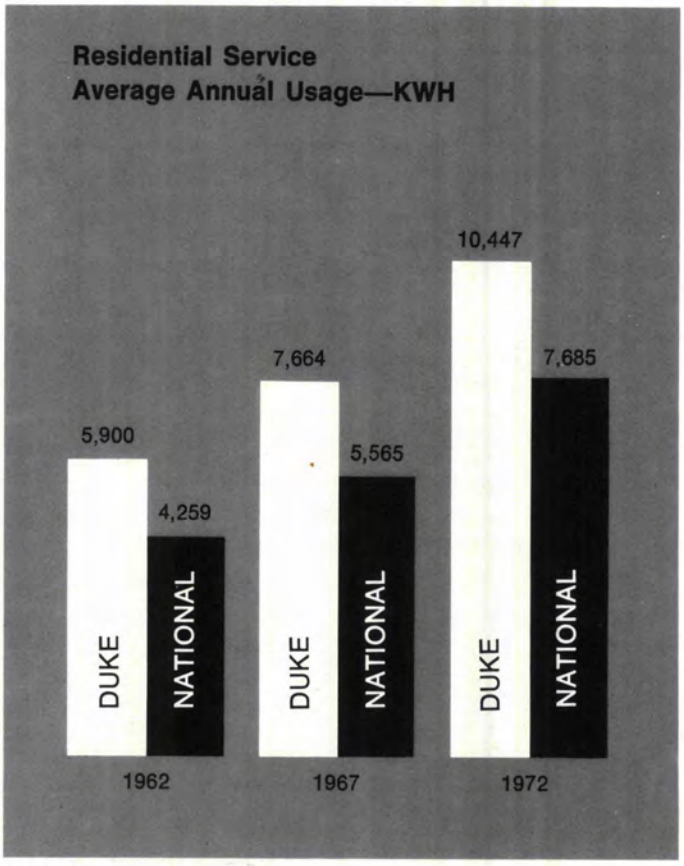
Residential sales in 1972 totaled 9.2 billion kilowatthours, accounting for 23.6 per cent of the Company's total regular sales.

The average annual usage per Duke residential customer was 10,447 kilowatthours in 1972, exceeding the national average for investor-owned companies by 2,762 kilowatthours, or 36 per cent.









Despite recent rate increases, Duke's rates are still appreciably below the national average and average consumption remains much higher.

Summary Of Rate Activities

	AMOUNT (in millions)	STATUS
BACKGROUND Additional requests for rate relief were necessary in 1972 due to the continuing high costs of capital, new plant facilities and operating expenses. Following is a summary of the Company's rate activities during the year, with estimated dollar amounts annualized on 1972 electric sales.		
NORTH CAROLINA On January 31, 1972, the N. C. Utilities Commission authorized an 8.93 per cent increase in rates to retail customers in North Carolina. This included and made permanent a 7.1 per cent increase that had been in effect on an interim basis since July 1, 1971. This decision was later allowed by the Price Commission for power sold on and after March 27, 1972.	$25.8	Approved
The Company applied to the N. C. Utilities Commission on May 31, 1972, for rate adjustments that would produce 9.2 per cent additional annual revenues. As permitted by law, the proposed rates were placed into effect on January 1, 1973, subject to refund. Public hearings on the proposed rates have been completed.	$31.0	In Effect, Subject to Refund
SOUTH CAROLINA On March 27, 1972, The S. C. Public Service Commission authorized an interim increase of 4.15 per cent for power sold on and after April 1, 1972.	$5.3	In Effect, Subject to Refund
A request for an additional 11 per cent increase in annual revenues was filed with The S. C. Public Service Commission on June 30, 1972. The proposed rates were placed into effect, subject to refund, on January 1, 1973. Public hearings on both applications were in progress at year end.	$15.0	In Effect, Subject to Refund
WHOLESALE RATES Pending a final determination, the Federal Power Commission has authorized the Company to amend its wholesale rates by including a fuel cost adjustment clause which would adjust rates either upward or downward as the cost of fossil fuels varies above or below 35.2¢ per million BTU. The fuel cost adjustment clause was placed into effect on power sold on and after August 23, 1972, subject to refund.	$5.5	In Effect, Subject to Refund
On December 18, 1972, the FPC authorized the Company to make permanent the total amount of a 17 per cent increase in wholesale rates that had been in effect on an interim basis since December 14, 1970. However, certain wholesale customers have subsequently filed a petition for rehearing before the FPC.	$5.6	Approved
(On January 23, 1973, the Company filed an application with the FPC for an additional increase in rates to wholesale customers and requested that the rates be put into effect on March 26, 1973. If granted, this increase would provide $10 million annually based on 1973 levels of business.)		

stock and the issuance of $51 million of intermediate term notes to finance nuclear fuel purchases.

On pages 14-17 of this Report is a summary of the Company's expansion plans for the remainder of the decade.

Of this planned new capacity (10,275,300 kw), nearly 72 per cent will come from nuclear-fueled generating stations. This growing commitment to nuclear power reflects management's continuing belief that nuclear fuel is the most economical means of meeting our customers' demands for electricity with the least impact on the environment. This conviction is fortified by the current high costs of fossil fuels and the declining availability of these fuels. In view of the current nuclear controversy, we have intensified our efforts to acquaint customers, students, environmental groups and others with the economic and environmental advantages of nuclear power.

On the following page is a summary of management's efforts during the year to increase revenues through rate relief. Approximately $81 million of 1972 revenues are directly attributable to rate increases previously granted. This includes $1.9 million collected since August 23, 1972, under a fuel adjustment clause in rates to wholesale customers.

Along with the continually rising costs of providing electric service, two additional factors have contributed most significantly to the recurring need for rate relief. The first is that proposed rates historically have been based on past operating costs rather than on projected costs for the period during which the rates are to be collected. Secondly, the regulatory process requires from six months to a year from the date a request for relief is filed to the final determination. During this period of escalating costs in nearly all phases of power operations, proposed rates are no longer adequate by the time they are approved and placed into effect.

It is particularly noteworthy that the Federal Power Commission (FPC) departed from historic costs in its decision of December 18, 1972, allowing the full amount of rates requested by the Company and pending before the FPC since August, 1970. This landmark decision followed the proposed change in FPC rate-making procedures requiring future test periods in requests for rate relief. An appeal for re-hearing before the FPC was filed by intervenors in January, 1973.

In the pending requests before the N. C. Utilities Commission and The S. C. Public Service Commission, the Company has asked that projected operations for 1973 be considered in determining revenue requirements. Management feels that this consideration would help produce revenues commensurate with current operating costs and help earn for our shareholders the rate of return determined by the regulatory commissions to be "fair and reasonable."

The proposed rates for both states were placed into effect, subject to refund, on January 1, 1973. Final decisions are expected near the end of the first quarter of 1973.

It is particularly noteworthy that even with the recent rate increases, the average unit cost of electricity to our customers has remained well below the national average. This accomplishment is due in large measure to the Company's continuing efforts to improve efficiencies and increase productivity in all areas of production and service. Many new programs to achieve even greater efficiencies are outlined in this Report.

We are especially proud that our steam-electric generating system has been named the nation's most efficient for 1970, the latest year for which FPC system efficiency records are available. In addition, Edison Electric Institute data shows that our Marshall Steam Station has been the nation's most efficient coal-burning plant for six consecutive years, a record unprecedented in the history of our industry.

We will continue in 1973 to work for the best interest of our shareholders, our customers and the communities we serve.

For the Board of Directors

Carl Horn, Jr., President
February 15, 1973

To Our Shareholders

Protecting the environment is more than a social responsibility. For an industry whose well-being must inevitably parallel that of its service area, it is also a matter of corporate prudence. We are convinced that pollution control efforts by Duke Power and other responsible industries in the Piedmont Carolinas have contributed measurably to our area's environmental quality and, therefore, to its economic health. This report of the Company's 1972 activities is dedicated to those accomplishments and to our commitment to help make the Piedmont's future even brighter.

In view of the complex problems and challenges facing our Company and the electric utility industry, this Report reflects an excellent performance by all employees in 1972.

While mild weather conditions during 1972 resulted in a below average increase in kilowatthour sales, 1972 electric revenues rose to $508.2 million, an increase of 12.6 per cent over the prior year. Earnings for common stock rose to $58.5 million in 1972, a 5.3 per cent increase, but earnings per share of common stock dropped to $1.69 compared with $1.88 for 1971.

Carl Horn, Jr., President

This 10 per cent decline in earnings per share is attributed to the dilutive effect from the sale in February, 1972, of 5,000,000 additional shares of common stock. Overall earnings were adversely affected by an increase in purchased power expenses and higher generating costs (resulting principally from the delay in startup of Unit 1 of the Oconee Nuclear Station) and greater depreciation and other expenses related to additional plant facilities, including pollution control equipment. The 1971 earnings per share included a five cent non-recurring gain.

The Company has paid cash dividends on its common stock in each year since 1926. A dividend of $1.40 per share was paid in 1972.

Previously scheduled for startup in the summer of 1972, Oconee Unit 1 was delayed by equipment difficulties incurred during pre-operational testing. These difficulties were corrected and an operating license for the unit was issued by the Atomic Energy Commission on February 6, 1973. All start-up testing is expected to be completed to permit commercial operation of Unit 1 by the Summer of 1973. Oconee Unit 2 is scheduled for startup late in 1973; Unit 3 in 1974.

Construction expenditures in 1972 reached an all-time high of $453.8 million. In addition to the issuance of 5,000,000 additional shares of common stock, financing was accomplished through the sale of $175 million in first and refunding mortgage bonds, the sale of 600,000 shares of preferred

about the cover:

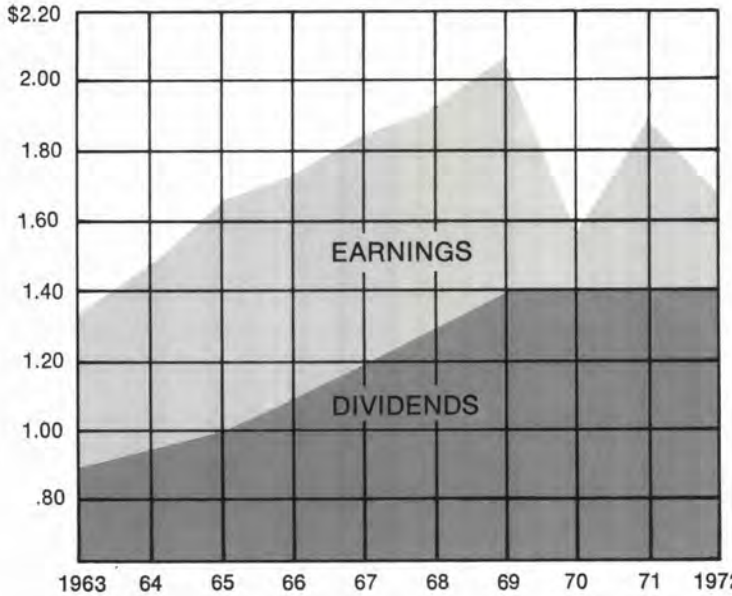
Lake Norman, created by Duke Power for the generation of electricity, also serves as a major recreational asset for Piedmont Carolinians. Its multiple uses are symbolized in this double-exposed photograph.

Highlights Of The Year

	1972	1971	Percent Increase (Decrease)
Electric Revenues:			
Total*	**$508,232,000**	$451,541,000	12.6
Regular Sales	**$497,095,000**	$441,461,000	12.6
Earnings for Common Stock	**$ 58,466,000**	$ 55,514,000	5.3
Per Share of Common Stock:			
Earnings	**$1.69**	$1.88	(10.1)
Dividends Paid	**$1.40**	$1.40	—
Plant Construction Expenditures	**$453,758,000**	$425,632,000	6.6
Kilowatthour Sales (thousands):			
Total*	**39,688,000**	36,913,000	7.5
Regular Sales	**39,228,000**	36,265,000	8.2
Peak Load (KW)	**7,449,500**	6,622,125	12.5
Customers	**1,040,427**	1,001,451	3.9

*Includes Interchange, Etc.

Earnings and Dividends Per Share Common Stock



	1963	64	65	66	67	68	69	70	71	1972
Earnings	$1.34	1.48	1.66	1.72	1.85	1.91	2.05	1.57	1.88	1.69
Dividends	.90	.95	1.00	1.10	1.20	1.30	1.40	1.40	1.40	1.40

Before extraordinary items and adjusted for stock split.

GENERAL OFFICES
422 South Church Street, Post Office Box 2178, Charlotte, North Carolina 28201.
TRANSFER AGENTS FOR COMMON STOCK
Morgan Guaranty Trust Company of New York; North Carolina National Bank, Charlotte.
REGISTRARS FOR COMMON STOCK
First National City Bank, New York; Wachovia Bank and Trust Company, Charlotte.

Statement of Source of Funds for Plant Construction Expenditures

Year Ended December 31	1972	1971
SOURCE OF FUNDS:		
Funds from operations—		
Net income	**$ 80,367,000**	$ 71,855,000
Non-cash items:		
Depreciation and amortization	**61,030,000**	54,238,000
Deferred income taxes	**17,097,000**	6,800,000
Other, net (deduction)	**(619,000)**	(941,000)
Funds from operations	**157,875,000**	131,952,000
Dividends on common stock	**(47,758,000)**	(40,763,000)
Dividends on preference and preferred stock	**(21,901,000)**	(16,341,000)
Funds retained in the business	**88,216,000**	74,848,000
Funds from financing—net proceeds—		
First mortgage bonds	**174,563,000**	138,946,000
Term notes	**50,935,000**	59,537,000
Preferred stock	**60,055,000**	59,142,000
Common stock	**116,111,000**	108,813,000
Decrease in notes payable	**(23,343,000)**	(70,463,000)
Retirement of sinking fund debentures	**(1,250,000)**	(1,250,000)
Sale and lease of combustion turbine generators	**—**	65,500,000
Funds from financing	**377,071,000**	360,225,000
Total available funds	**465,287,000**	435,073,000
Decrease (increase) in working capital, etc.—		
Inventories	**(10,703,000)**	1,172,000
Investments in and advances to subsidiaries	**4,477,000**	(4,486,000)
Other	**(5,303,000)**	(6,127,000)
PLANT CONSTRUCTION EXPENDITURES	**$453,758,000**	$425,632,000

See notes to financial statements

Accountants' Opinion

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

DUKE POWER COMPANY:

We have examined the balance sheet of Duke Power Company as of December 31, 1972 and 1971 and the related statements of income, retained earnings, and source of funds for plant construction expenditures for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of the Company at December 31, 1972 and 1971 and the results of its operations and its source of funds for plant construction expenditures for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis.

Charlotte, North Carolina
February 13, 1973

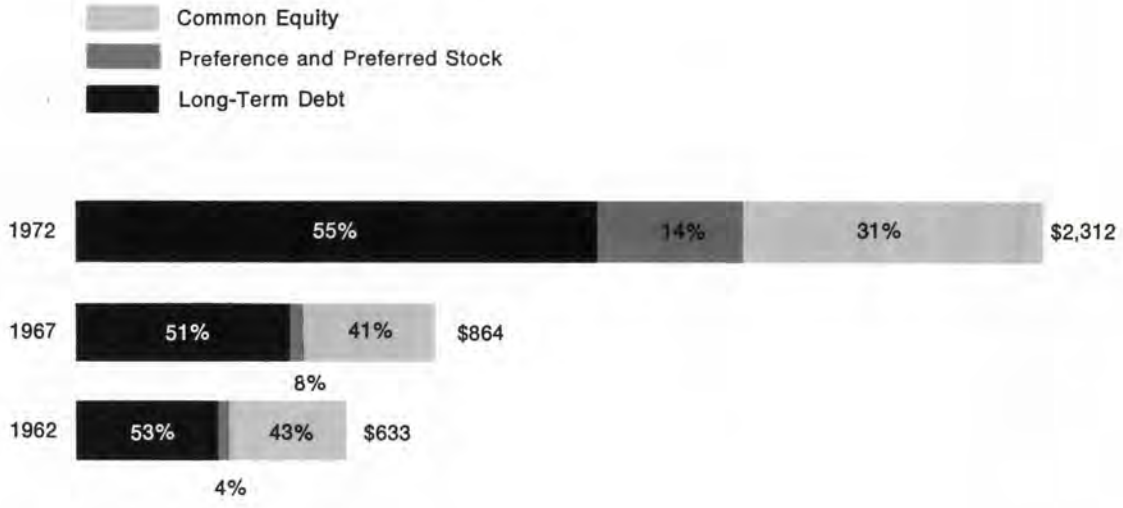
Haskins & Sells

Balance Sheet—ASSETS

December 31		1972	1971
ELECTRIC PLANT	At original cost (Note 1):		
	Electric plant in service	**$2,038,177,000**	$1,803,683,000
	Construction work in progress (includes in 1972 $451,989,000 of nuclear and $236,358,000 of other generating facilities)	**806,698,000**	616,127,000
	Total	**2,844,875,000**	2,419,810,000
	Less—accumulated depreciation (Note 1)	**584,748,000**	534,216,000
	Electric plant, net (excludes nuclear fuel) (Note 5)	**2,260,127,000**	1,885,594,000
	Nuclear fuel	**58,835,000**	39,762,000
	Electric plant, net	**2,318,962,000**	1,925,356,000
OTHER PROPERTY	At cost	**18,266,000**	17,154,000
	Less—accumulated depreciation	**2,806,000**	2,534,000
	Other property, net	**15,460,000**	14,620,000
INVESTMENTS	Investments in and advances to subsidiaries at equity (Note 3)	**30,551,000**	34,390,000
	Other securities—at cost or less	**8,332,000**	5,336,000
		38,883,000	39,726,000
CURRENT ASSETS	Cash	**16,021,000**	15,935,000
	Receivables, less allowance for losses	**51,463,000**	36,972,000
	Materials and supplies—at average cost:		
	Fuel	**36,591,000**	28,648,000
	Other	**33,522,000**	30,762,000
	Prepayments	**690,000**	290,000
		138,287,000	112,607,000
DEFERRED DEBITS	Debt discount, premium and expense, being amortized over terms of related debt	**5,460,000**	5,062,000
	Other	**4,545,000**	4,935,000
		10,005,000	9,997,000
		$2,521,597,000	$2,102,306,000

Capitalization

Millions of Dollars



Balance Sheet—LIABILITIES

	December 31	1972	1971
CAPITALIZATION	Capital stock and retained earnings (Note 4):		
	Common stock, no par	**$ 617,981,000**	$ 498,207,000
	Retained earnings (Note 3)	**88,918,000**	81,818,000
	Total common stock equity	**706,899,000**	580,025,000
	Preference stock—$100 par	**50,000,000**	50,000,000
	Preferred stock—$100 par	**285,000,000**	225,000,000
	Total capital stock and retained earnings	**1,041,899,000**	855,025,000
	Long-term debt (Notes 5 and 6)	**1,270,224,000**	1,040,891,000
	Total capitalization	**2,312,123,000**	1,895,916,000
CURRENT LIABILITIES	Accounts payable	**25,986,000**	22,917,000
	Customers' deposits	**2,299,000**	2,217,000
	Taxes accrued	**4,520,000**	5,867,000
	Interest accrued	**24,409,000**	21,444,000
	Other	**3,713,000**	2,616,000
		60,927,000	55,061,000
	Notes payable for construction—pending permanent financing (Note 7)	**96,000,000**	119,343,000
		156,927,000	174,404,000
DEFERRED CREDITS, ETC.	Accumulated deferred income taxes (Note 1)	**30,758,000**	8,612,000
	Investment tax credit (Note 1)	**7,706,000**	11,021,000
	Contributions in aid of construction	**10,414,000**	8,729,000
	Injuries and damages reserve	**2,262,000**	2,228,000
	Other deferred credits	**1,407,000**	1,396,000
	Commitments (Note 7)		
		52,547,000	31,986,000
		$2,521,597,000	$2,102,306,000

See notes to financial statements

Statement of Retained Earnings

	Year Ended December 31	1972	1971
RETAINED EARNINGS—Beginning of year		**$ 81,818,000**	$ 71,422,000
ADD—Net income		**80,367,000**	71,855,000
Total		**162,185,000**	143,277,000
DEDUCT:			
Cash dividends—			
Common stock ($1.40 per share)		**47,758,000**	40,763,000
Preference stock ($6.75 per share)		**3,375,000**	3,375,000
Preferred stock—			
Series C ($4.50 per share)		**1,575,000**	1,575,000
Series D ($5.72 per share)		**2,002,000**	2,002,000
Series E ($6.72 per share)		**2,352,000**	2,352,000
Series F ($8.70 per share)		**5,220,000**	5,220,000
Series G ($8.20 per share)		**4,920,000**	1,817,000
Series H (annual rate $7.80 per share)		**2,457,000**	—
Capital stock expense		**3,608,000**	4, 355,000
Total deductions		**73,267,000**	61,459,000
RETAINED EARNINGS—End of year		**$ 88,918,000**	$ 81,818,000

See notes to financial statements

Statement of Income

Year Ended December 31	1972	1971
ELECTRIC REVENUES (Note 2)	**$508,232,000**	$451,541,000
ELECTRIC EXPENSES AND TAXES:		
Operation—		
Fuel used in electric generation	**172,072,000**	161,087,000
Purchased power	**30,478,000**	18,510,000
Wages and benefits, materials, etc.	**67,801,000**	59,376,000
Maintenance of plant facilities — wages, materials, etc.	**26,408,000**	22,205,000
Depreciation	**59,923,000**	53,062,000
Taxes (Note 1)—		
General	**44,421,000**	39,226,000
Federal income	**3,277,000**	8,790,000
State income	**952,000**	1,850,000
Deferred income taxes	**17,097,000**	6,800,000
Investment tax credit:		
Tax credit deferred	**1,055,000**	2,763,000
Amortization of deferments (credit)	**(4,306,000)**	(4,183,000)
Total electric expenses and taxes	**419,178,000**	369,486,000
Electric operating income	**89,054,000**	82,055,000
OTHER INCOME:		
Allowance for funds used during construction (Note 1)	**51,185,000**	37,676,000
Earnings of subsidiaries	**1,204,000**	2,424,000
Dividends and interest	**1,347,000**	731,000
Other, net (deduction) (Note 8)	**(1,040,000)**	1,811,000
Income tax—credit	**13,035,000**	9,553,000
Total other income	**65,731,000**	52,195,000
Gross income	**154,785,000**	134,250,000
INTEREST DEDUCTIONS:		
Interest on long-term debt	**70,161,000**	54,912,000
Other interest	**3,990,000**	7,351,000
Amortization of debt discount, premium and expense	**267,000**	132,000
Total interest deductions	**74,418,000**	62,395,000
Net income	**80,367,000**	71,855,000
DIVIDENDS ON PREFERENCE AND PREFERRED STOCK	**21,901,000**	16,341,000
Earnings for common stock	**$ 58,466,000**	$ 55,514,000
AVERAGE COMMON SHARES OUTSTANDING	**34,592,000**	29,482,000
EARNINGS PER SHARE OF COMMON STOCK	**$1.69**	$1.88

See notes to financial statements

Notes to Financial Statements

1. **Summary of Significant Accounting Policies.**

A. *Additions to Electric Plant.* The Company charges to construction all direct labor and material, as well as related indirect construction costs including general engineering, research, development, taxes and the cost of money (allowance for funds used during construction).

Allowance for funds used during construction (ADC) is a cost accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress in the balance sheet and, accordingly, are capitalized in the same manner as construction labor and material costs. The amount of ADC transferred in recent years has increased as the balance of construction work in progress has grown and as interest rates and equity capital costs have increased. ADC has been calculated using a 7½% rate since 1969. Utilization of this accounting procedure increases earnings for common stock but, because of additional shares which are sold to finance construction, ADC is not designed from an accounting standpoint to increase earnings per share above that which would have been experienced without a construction program.

B. *Depreciation.* Provisions for depreciation are recorded using the straight-line method at annual rates which averaged 3.21% for 1972 and 3.17% for 1971.

C. *Income Taxes.* The Company provides deferred income taxes under normalization accounting for differences in book and tax depreciation arising from accelerated tax depreciation, except for certain plant additions in 1968 and 1969. As prescribed by regulatory accounting requirements, "flow through" accounting is utilized when certain capital expenditures are deducted currently for tax purposes (principally certain taxes and pension costs) and accordingly income tax expense was reduced by $5,779,000 in 1972 and $4,423,000 in 1971.

Income tax reductions arising from the 3% investment tax credit in effect until 1969 are being amortized, as approved by regulatory authorities, over a five-year period, and those arising from the 4% Job Development investment tax credit placed in effect during 1971 are being amortized over the depreciable lives of the related property. The Company has $4,218,000 of unused 1972 investment tax credits available for carryover to future years.

D. *Retirement Plan Cost.* The Company has a noncontributory Employees' Retirement Plan for the benefit of substantially all of its employees. The Company's policy is to fund pension cost accrued, which amounted to $5,285,000 in 1972 and $4,185,000 in 1971. Past service costs are funded in all material respects.

2. **Rate Matters.** During 1971 and 1972 the regulatory authorities granted certain rate increases which are included in Electric Revenues in the accompanying Statement of Income and are summarized in the table below.*

Also, the Federal Power Commission (FPC) has allowed a fuel cost adjustment clause, subject to refund with interest, effective August 23, 1972, which adjusts wholesale rates either upward or downward as the cost of fuel varies above or below 35.2¢ per million BTU, and has produced an increase in revenues of $1,900,000 for the year ended December 31, 1972. The Company estimates that such fuel clause would have produced approximately $5,500,000 in revenues had it been in effect throughout 1972.

On December 18, 1972, the FPC granted the full amount of a 17% increase in rates for wholesale customers which had been collected subject to refund since December 14, 1970. Such increase amounted to $5,600,000 in 1972 and $5,200,000 in 1971. Certain wholesale customers have filed a petition for rehearing before the FPC in this case.

See Page 4 under "Summary of Rate Activities" for additional rate increases and requests subsequent to December 31, 1972.

3. **Subsidiaries.** Cash dividends of $1,000,000 and $800,000 were received from subsidiaries during 1972 and 1971 respectively, and at December 31, 1972 retained earnings include $6,650,000 of undistributed subsidiary earnings.

4. **Capital Stock.** The Company's authorized capital stock consists of 1,500,000 shares of preference stock, 5,000,000 shares of preferred stock and 50,000,000 shares of common stock.

	December 31 1972	1971
Outstanding Capital Stock:		
Common stock, no par— 1972—35,493,443 shares 1971—30,229,463 shares	$617,981,000	$498,207,000
Preference Stock, $100 par— 6¾% Convertible Series AA (500,000 shares)	$ 50,000,000	$ 50,000,000
Preferred Stock, $100 par—		
4.50% Series C (350,000 shs.)	$ 35,000,000	$ 35,000,000
5.72% Series D (350,000 shs.)	35,000,000	35,000,000
6.72% Series E (350,000 shs.)	35,000,000	35,000,000
8.70% Series F (600,000 shs.)	60,000,000	60,000,000
8.20% Series G (600,000 shs.)	60,000,000	60,000,000
7.80% Series H (600,000 shs.)	60,000,000	—
Total	$285,000,000	$225,000,000

The changes in capital stock during 1972 are described under "Financing and Investor Activities" on Page 22. In 1971, 4,296,987 shares of common stock were issued for a consideration of $112,310,000 and 600,000 shares of 8.20% Series G preferred stock for $60,000,000. In January, 1973, the Company sold 3,000,000 additional shares of common stock for $23 per share, providing net proceeds of approximately $66,900,000.

*Rate Increases

Retail Rate Schedules	Per Cent Granted	Effective Date	Annualized on 1972 Sales	Year Ended December 31 1972	1971
North Carolina (1)	10.38	March 15, 1971	$27,300,000	$27,300,000	$22,200,000
North Carolina (1)	8.93	March 27, 1972	25,800,000	24,700,000	9,000,000
South Carolina (2)	4.15	April 1, 1972	5,300,000	4,100,000	—
Total			$58,400,000	$56,100,000	$31,200,000

(1) Includes amounts collected on an interim basis prior to the effective date of the permanent increase.
(2) Subject to refund with interest.

The outstanding Preference Stock, 6¾ % Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $30.77 per share, after the sale of additional common stock in January, 1973, each share of such preference stock being taken at $100 for such purposes. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. After the sale of additional common stock in January, 1973, 1,624,959 shares of common stock were reserved for conversion of such preference stock. At December 31, 1972, 1,013,290 shares of common stock were reserved for issuance under the Stock Purchase-Savings Program for Employees.

The outstanding preference and preferred capital stocks are callable at various redemption prices not exceeding $110 a share plus accumulated dividends to redemption date.

5. **Long-Term Debt:**

	December 31 1972	1971
First and Refunding Mortgage Bonds:		
3% Series due 1975	$ 40,000,000	$ 40,000,000
2.65% Series due 1977	40,000,000	40,000,000
2⅞ % Series due 1979	40,000,000	40,000,000
3¼ % Series due 1981	35,000,000	35,000,000
3⅝ % Series due 1986	30,000,000	30,000,000
4½ % Series due 1992	50,000,000	50,000,000
4¼ % Series B due 1992	50,000,000	50,000,000
4½ % Series due 1995	40,000,000	40,000,000
5⅜ % Series due 1997	75,000,000	75,000,000
6⅜ % Series due 1998	75,000,000	75,000,000
7% Series due 1999	75,000,000	75,000,000
8% Series B due 1999	75,000,000	75,000,000
8½ % Series due 2000	75,000,000	75,000,000
8⅝ % Series B due 2000	100,000,000	100,000,000
7½ % Series due 2001	100,000,000	100,000,000
7⅜ % Series B due 2001	40,000,000	40,000,000
7¾ % Series due 2002	100,000,000	—
7⅜ % Series B due 2002	75,000,000	—
Sinking Fund Debentures—		
4⅞ % due 1982	35,000,000	36,250,000
Term Notes:		
6.85% due 1978	60,000,000	60,000,000
Nuclear fuel, 6½ %-7% due 1975-1977	51,000,000	—
Turbine Generator Leases (Note 6)	9,224,000	4,641,000
Total	$1,270,224,000	$1,040,891,000

Substantially all electric plant is mortgaged at December 31, 1972.

The annual amounts of long-term debt maturities (including sinking fund requirements) through 1977 are $1,250,000 in 1973, $1,250,000 in 1974, $54,250,000 in 1975, $11,300,000 in 1976 and $69,200,000 in 1977.

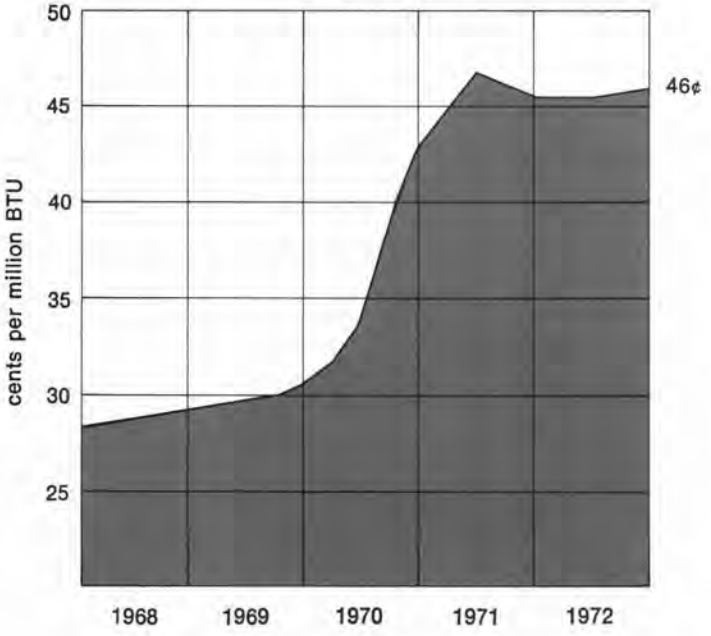
6. **Turbine Generator Leases.** In 1971 the Company entered into twenty-five year net leases for combustion turbine generators. The leases require annual payments of $5,731,000 for the first ten years and $7,924,000 for the remaining fifteen years of the term.

The Company is accruing as rent expense equal annual amounts which are required to satisfy the obligations of the leases, net of salvage, at the end of the estimated useful life of the generators. Such accruals for rent expense amounted to $8,796,000 in 1972 and $6,769,000 in 1971.

7. **Construction Program and Financing.** See Page 22.

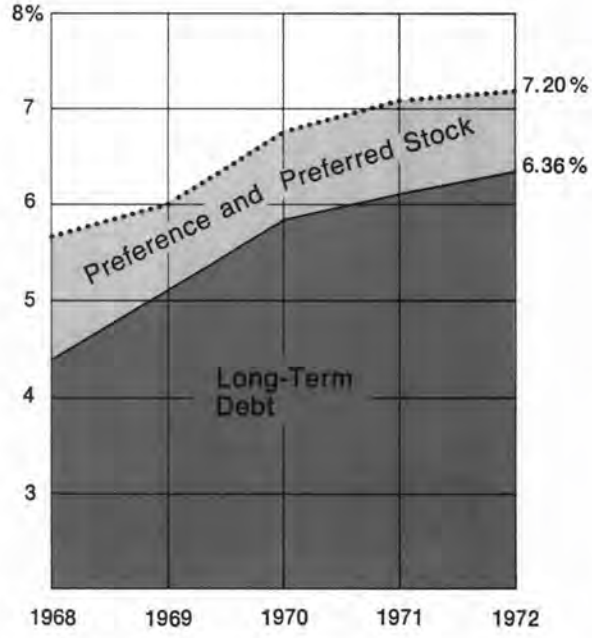
8. **Other Income.** In June, 1971, the Company sold its holdings of the capital stock of a non-affiliated company at a net gain of $1,594,000 or five cents per common share.

Cost of Fuel Used in Electric Generation



*Fuel comprised 58 per cent of operating expenses in 1972.

Embedded Cost of Money



During this period the embedded cost of long-term debt and preferred stock dividends increased 57 per cent and 41 per cent, respectively.

Financial and Statistical Summary

INCOME DATA (DOLLARS IN THOUSANDS)	**1972**	**1971**	**1970**	**1969**	**1968**	**1962**
Electric revenues:						
Residential sales	**$ 184,581**	$ 166,442	$ 140,281	$ 126,145	$ 114,576	$ 74,574
Commercial sales	**104,479**	91,183	75,951	66,378	59,650	34,550
Industrial sales	**157,407**	139,560	118,811	109,688	102,627	60,062
Other energy sales	**57,258**	49,796	47,565	36,576	32,255	18,605
Other revenues	**4,507**	4,560	3,530	3,455	3,138	1,886
Total electric revenues	**508,232**	451,541	386,138	342,242	312,246	189,677
Electric expenses and taxes:						
Operation and maintenance	**296,759**	261,178	222,307	162,404	140,097	78,082
Depreciation	**59,923**	53,062	48,427	41,934	38,075	25,063
Taxes	**62,496**	55,246	47,105	65,892	73,057	46,318
Total electric expenses and taxes	**419,178**	369,486	317,839	270,230	251,229	149,463
Electric operating income	**89,054**	82,055	68,299	72,012	61,017	40,214
Other income:						
Allowance for funds used during construction	**51,185**	37,676	24,342	15,711	9,667	2,430
Other income, net	**14,546**	14,519	10,094	5,639	4,000	927
Interest deductions	**(74,418)**	(62,395)	(51,557)	(38,945)	(25,543)	(13,574)
Net income (a)	**80,367**	71,855	51,178	54,417	49,141	29,997
Dividends on preference and preferred stock	**21,901**	16,341	11,177	6,969	4,970	1,360
Earnings for common stock	**58,466**	55,514	40,001	47,448	44,171	28,637
Dividends on common stock	**47,758**	40,763	35,271	32,478	30,069	19,410
Earnings retained for use in the business	**$ 10,708**	$ 14,751	$ 4,730	$ 14,970	$ 14,102	$ 9,227
COMMON STOCK DATA						
Shares of common stock—year end (thousands)	**35,493**	30,229	25,932	23,240	23,160	22,855(b)
Per share of common stock (a) (average shares):						
Earnings for common stock (a)	**$ 1.69**	$ 1.88	$ 1.57	$ 2.05	$ 1.91	$ 1.25
Dividends paid	**1.40**	1.40	1.40	1.40	1.30	.85
Market value—high-low	**25⅛-21**	27⅝-20¾	29½-20⅛	43½-27⅝	43¼-33⅛	30½-21½
—year end	**23¼**	23¾	24¾	29½	38¼	28⅛
BALANCE SHEET DATA (DOLLARS IN THOUSANDS)						
Electric plant (original cost)	**$2,903,710**	$2,459,572	$2,110,380	$1,735,861	$1,466,874	$ 854,968
Accumulated depreciation	**584,748**	534,216	492,083	451,802	418,298	256,194
Capitalization and short-term notes:						
Common stock equity	**706,899**	580,025	457,319	386,190	369,233	275,071
Preference stock	**50,000**	50,000	50,000	50,000	—	—
Preferred stock	**285,000**	225,000	165,000	105,000	105,000	25,284
Long-term debt	**1,270,224**	1,040,891	837,500	663,750	515,000	332,500
Short-term notes payable	**96,000**	119,343	189,806	128,817	100,340	—
ELECTRIC AND OTHER STATISTICS						
Kilowatthour sales (millions):						
Residential	**9,237**	8,780	8,126	7,340	6,547	3,832
Commercial	**6,515**	5,938	5,391	4,767	4,197	1,938
Industrial	**17,778**	16,357	15,140	14,593	13,634	7,778
Other	**6,158**	5,838	6,631	5,180	4,521	2,346
Total kilowatthour sales	**39,688**	36,913	35,288	31,880	28,899	15,894
Number of customers (year end):						
Residential	**895,488**	864,361	835,706	810,743	785,830	657,916
Other	**144,939**	137,090	129,871	124,496	119,959	95,377
Total customers	**1,040,427**	1,001,451	965,577	935,239	905,789	753,293
Residential customer data:						
Average annual KWH use	**10,447**	10,299	9,864	9,179	8,432	5,900
Average revenue per KWH	**2.00¢**	1.90¢	1.73¢	1.72¢	1.75¢	1.95¢
Number of employees (year end):						
Operating and maintenance	**7,721**	7,392	7,363	6,933	6,488	5,547
Generating plant construction and engineering	**4,780**	3,910	3,210	2,596	1,597	723
Source of energy (millions of KWH):						
Generated—Steam	**37,736**	35,393	34,212	30,591	28,019	15,378
—Hydro	**1,961**	2,028	1,491	1,784	1,521	1,515
—Combustion turbine generators	**869**	726	837	643	173	—
Purchased and net interchange	**2,607**	1,789	1,728	1,534	1,801	567
Loss and company use	**3,485**	3,023	2,979	2,672	2,615	1,566
% loss and company use	**8.1%**	7.5%	7.8%	7.7%	8.2%	9.0%
System average heat rate	**9,702**	9,728	9,784	9,738	9,700	9,490
System load factor	**65.7%**	68.2%	66.6%	68.9%	65.9%	62.4%

(a) Net income for 1969 has been increased by $5,125,000 ($.22 per common share) as a result of certain changes as follows: (i) $725,000 from reduction of depreciation rates for electric generating facilities to the Internal Revenue Service guideline rates ($1,629,000 reduction in depreciation less related income taxes); (ii) $2,650,000 from reduction of the amortization period of deferred investment tax credits from twenty-five to five years; and (iii) $1,750,000 from the adoption of "flow-through" income tax accounting in connection with the use for income tax purposes of accelerated depreciation on additions to electric generating, transmission and certain general plant facilities acquired in 1968 and 1969.

(b) The number of shares of common stock has been adjusted for 2 for 1 split in 1964.

Subsidiaries

Crescent Land & Timber Corporation

Crescent Land and Timber Corporation was organized as an operating subsidiary in 1963 to manage the Company's non-utility land resources. Some 280,000 acres of such non-utility lands are currently under Crescent's management.

While timber harvesting and reforestation continue as major functions of this subsidiary, increasing acreage is being devoted to planned resort-residential and recreational developments. Crescent is a stockholder in Carowinds, Inc., a theme amusement park on the North Carolina-South Carolina state line. Carowinds, which will be one of the nation's largest entertainment facilities, is scheduled to open in the spring of 1973.

In January, 1972, Crescent selected Realtec, Inc., a national resort developer, to develop the first resort-residential community on Lake Keowee, one of two lakes involved in Duke's Keowee-Toxaway Project. Crescent is currently participating in revenues from land sales, and will participate in revenues from future condominium sales.

Since 1939, Duke and its subsidiaries have harvested some 639 million board feet of timber and 1.3 million cords of pulpwood from Company lands. Nearly 43 million seedlings have been planted to date, and Crescent is currently planting new trees at the rate of 1.4 million per year.

Eastover Land Company—Eastover Mining Company

In the wake of a severe coal shortage in 1970, Duke announced the formation of two new subsidiaries to help assure an adequate supply of low-sulfur coal for its steam-electric generating stations. Eastover Land Company was organized to purchase coal properties and reserves, and Eastover Mining Company was organized to perform the actual mining of these reserves.

Eastover Land Company now owns approximately 11,000 acres of coal reserves in Harlan County, Kentucky, some 5,000 acres in Bell and Knox counties, Kentucky, and approximately 5,000 acres in Martin County, Kentucky. The reserves in Harlan, Bell and Knox counties are being mined and the coal shipped to Duke stations.

It is estimated that the Eastover properties and other Duke mining investments will produce more than five million tons of coal annually, or about a third of Duke's coal requirements, after mining operations reach full production. At year end, Eastover mines already in operation had reached an annual production level of almost two million tons.

In addition to planting grasses on areas affected by surface mining, as required by reclamation laws, Eastover will begin planting trees on these areas in the spring of 1973. The young trees will further contribute to soil stabilization and, when mature, provide a valuable timber resource. The reclaimed areas are being stocked with wildlife by the Kentucky Game Association.

Carowinds, a theme amusement park on the North Carolina-South Carolina state line, prepares for public opening in the spring of 1973.

Mill-Power Supply Company

Mill-Power, Duke's oldest operating subsidiary, was chartered on June 7, 1910, to buy, warehouse and sell electrical equipment to mills of the area that were converting to electrical energy. Since that time the subsidiary has become the authorized distributor for many of the largest electrical equipment manufacturers in the country.

Mill-Power purchases substantially all equipment, supplies and fuel required by the parent, along with selling items to Duke and others as a wholesale distributor. Duke pays Mill-Power an annual fee for this service based upon Mill-Power's actual costs.

To accommodate its steadily increasing inventories and sales, a new warehouse and office facility in Charlotte was occupied by this subsidiary in January, 1973. The new structure provides 66,000 square feet of warehouse space and 17,000 square feet for office use.

Subsidiaries–Financial Highlights

Financial highlights of the wholly-owned subsidiaries of Duke Power Company for the year ended December 31, 1972, are as follows:

EARNINGS	
Electrical wholesale distribution	$ 1,108,000
Forestry, rentals and land development	530,000
Coal mining—under development	—
Gross earnings	1,638,000
Intercompany profit elimination	(434,000)
Net earnings to parent company	$ 1,204,000
DIVIDENDS—Paid to parent company	$ 1,000,000
NET ASSETS	
Property and investments—at cost:	
Coal mining	$27,500,000
Real estate	20,000,000
Investments	3,700,000
Net current assets, principally receivables and inventories	9,951,000
Total assets	61,151,000
Long-term debt and coal production commitments	(24,600,000)
Deferred income taxes	(6,000,000)
Parent company investment and advances	30,551,000
Advances from parent at prime rate of interest	(5,945,000)
Net Assets	$24,606,000

Mill Power Supply Company's new warehouse and office building in Charlotte.

Management Changes

Two new members of the Board of Directors were elected at the annual shareholders meeting on April 26, 1972. William H. Grigg, Vice President and General Counsel, and Robert E. Frazer, Vice President-Finance, were named by the shareholders to help direct the Company's affairs during the coming year.

D. W. Jones, who had served as a member of the Board since 1959, retired on May 1, 1972, after nearly 52 years of service with the Company. Mr. Jones was formerly Executive Vice President-Retail Operations, and had served as Vice President and member of the Board since his retirement from active management in 1971.

The Board also elected J. Paul Lucas, Jr., to the new position of Vice President-Public Affairs, and W. J. Burton to Vice President-Public Relations, succeeding Lucas.

Other Board action in 1972 included the election of William R. Stimart to Treasurer, Porter A. Hauser to Controller, R. J. Ashmore to Assistant Vice President-Financial Administration, Richard R. Pierce to Assistant Vice President-Public Relations, William J. Wortman to Assistant Vice President-Relays, Meters and Communications, W. Bruce Shannon to Assistant Treasurer, Kenneth C. Stonebraker to Assistant Controller and Mrs. Dorothea Stroupe to Assistant Secretary.

R. L. Asbury, formerly Controller, retired May 1, 1972, after 46 years of service with the Company.

Duke Power Executive Staff

Carl Horn, Jr.*
President and Director
B.A., LL.B.—Duke University
Attorney
(51/19)

W. J. Burton
Vice President, Public Relations
B.S.E.E.—Clemson University
(58/39)

G. A. Coan
Vice President, Rates
B.S.M.E.—Purdue University
Professional Engineer
(64/41)

R. E. Frazer*
Vice President, Finance, and Director
B.S.—Central Michigan University
Certified Public Accountant
(44/12)

William H. Grigg*
Vice President, General Counsel and Director
A.B., LL.B.—Duke University
Attorney
(40/10)

John D. Hicks*
Vice President, Corporate Affairs and Director
B.S.—U.S. Naval Academy, Yale Law School, LL.B.
Attorney
(49/16)

J. P. Lucas, Jr.
Vice President, Public Affairs and Director
A.B.—Duke University
M.S.—N. C. State University
A.M.—Princeton University
(64/33)

J. S. Major
Vice President, Personnel
(52/35)

B. B. Parker*
Executive Vice President, General Manager and Director
B.S.E.E.—University of North Carolina
(58/37)

D. W. Booth*
Senior Vice President, Retail Operations and Director
B.S.E.E.—University of Alabama
(48/21)

W. S. Lee*
Senior Vice President, Engineering & Construction and Director
B.S.C.E.—Princeton University
Professional Engineer
(43/18)

A. C. Thies*
Senior Vice President, Production & Transmission and Director
B.S.M.E.—Georgia Tech
(51/26)

*Member of Executive Committee

Figures in Parenthesis
Denote Age and Length of Service

Other Directors

Thomas L. Perkins
Chairman of the Board
Chairman of the Trustees, The Duke Endowment
Counsel, Perkins, Daniels & McCormack
Director
American Cyanamid Company
Discount Corporation of New York
General Motors Corporation
Morgan Guaranty Trust Company

Robert C. Edwards
President, Clemson University
Director
Dan River, Inc.
Southern Regional Education Board
Federal Reserve Board of Richmond, Charlotte Branch

Richard B. Henney
Trustee, Executive Director and Secretary
The Duke Endowment

Howard Holderness
Chairman of the Board
Jefferson Standard Life Insurance Company and Jefferson Pilot Corporation
Director
Burlington Industries, Inc.
Carolina Telephone & Telegraph Company
Jefferson Standard Broadcasting Company
Pilot Life Insurance Company

Herman W. Lay
Chairman of the Executive Committee
PepsiCo Inc.
Director
Braniff International
Third National Bank of Nashville
First International Bancshares, Inc.
First National Bank of Dallas
Southwestern Life Insurance Company
Wilson Sporting Goods Company

Marshall I. Pickens
Trustee and Vice Chairman, The Duke Endowment

W. B. McGuire
Trustee
The Duke Endowment
Chairman, National Electric Reliability Council

Chas. B.Wade, Jr.
Senior Vice President
R. J. Reynolds Tobacco Co.
Director
R. J. Reynolds Tobacco Co.
R. J. Reynolds Industries, Inc.
Hennis Freight Lines
Atlantic & East Carolina Railway

Other Officers

R. J. Ashmore
Assistant Vice President
Financial Administration

S. F. Campbell
Assistant Treasurer

J. F. Day
Assistant Secretary

J. C. Goodman, Jr.
Assistant Secretary

L. P. Julian
Assistant Vice President
Operation

S. T. Lattimore
Assistant Vice President
Computer Services

J. W. Lawrence
Assistant Treasurer

R. R. Pierce
Assistant Vice President
Public Relations

E. D. Powell
Assistant Vice President
Steam Production

J. S. Sease
Assistant Secretary

W. Bruce Shannon
Assistant Treasurer

K. C. Stonebraker
Assistant Controller

Mrs. Dorothea Stroupe
Assistant Secretary

W. J. Wortman
Assistant Vice President
Relays, Meters and Communications

F. W. Beyer
Vice President, System Planning
B.A., B.E.E.—Ohio State University
(57/22)

Carl J. Blades
Vice President, Real Estate
M.F.F.—Michigan University
B.S.Ag.—Western Michigan University
(60/33)

R. L. Dick
Vice President, Construction
B.C.E.—N. C. State University
Professional Engineer
(45/23)

Steve C. Griffith, Jr.
Secretary and Associate General Counsel
B.S.—Clemson University
LL.B.—U. of South Carolina
Attorney
(39/8)

Porter A. Hauser
Controller
B.S.—High Point College
(55/33)

P. D. Huff
Vice President, Distribution Engineering
B.S.E.E.Clemson University
(59/36)

Frank A. Jenkins
Vice President, Transmission & Electrical Installations
B.E.E.—N. C. State University
Professional Engineer
(52/34)

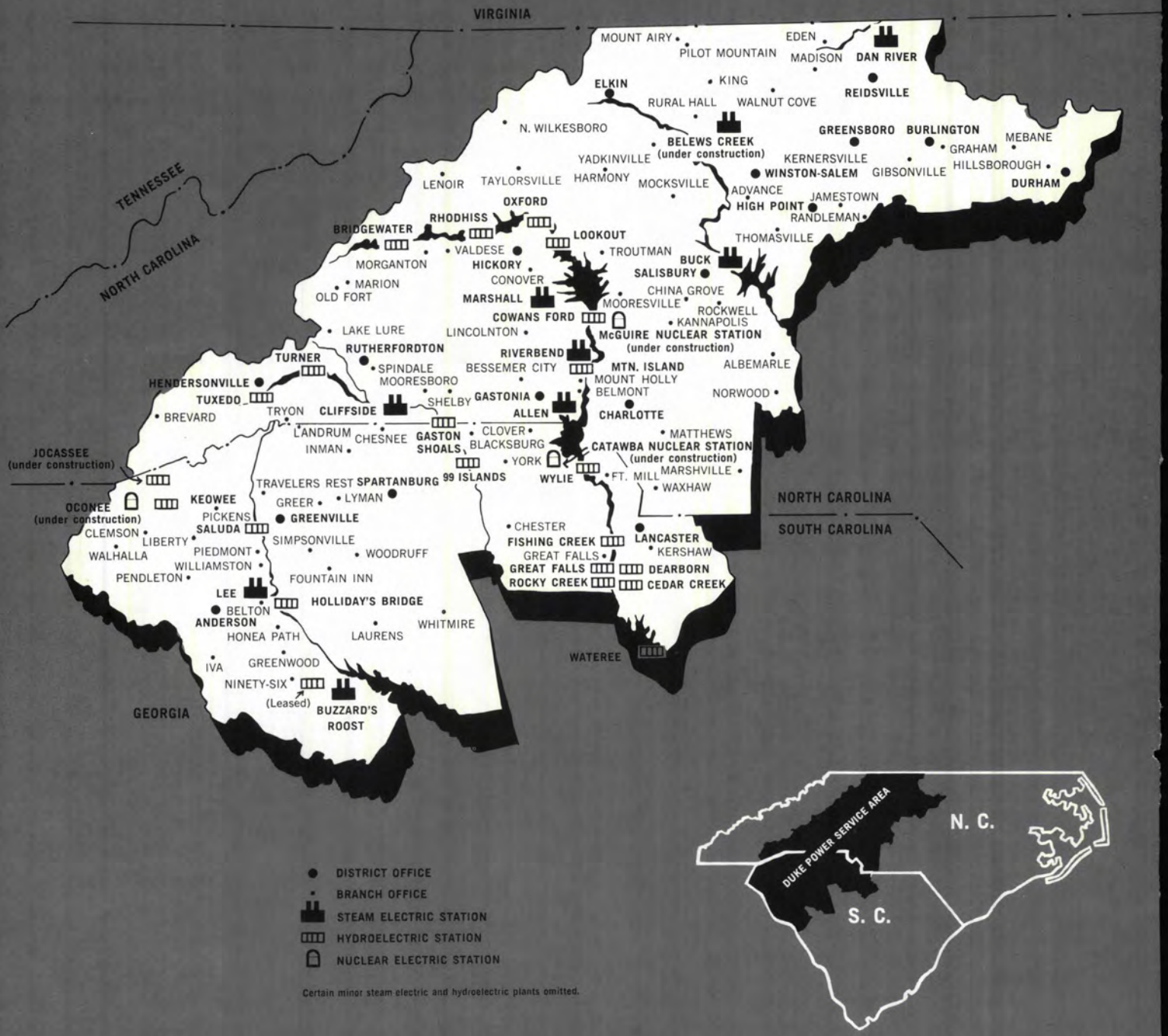
J. Wesley Lewis
Vice President, District Operations
B.S.E.E.—Clemson University
Professional Engineer
(57/35)

Henry H. Orr
Vice President, Marketing
The Citadel—X31
(63/39)

Warren H. Owen
Vice President, Design Engineering
B.M.E.—Clemson University
Professional Engineer
(45/24)

William R. Stimart
Treasurer
B.S.—University of Illinois
Certified Public Accountant
(42/2)

Duke Power Service Area



Certain minor steam electric and hydroelectric plants omitted.

Serving the Carolinas

The Piedmont.

The word is from Latin, meaning "foot of the mountains."

In North and South Carolina, "Piedmont" denotes the great sweep of gently rolling hills that lies between the coastal and mountain regions of the two states—the industrial heartland of the New South.

Although its 20,000 square miles represent only a fourth of the total land area of the Carolinas, the Piedmont is home for more than half of the states' populations.

For the five-year period ended 1972, the Piedmont had been chosen by 1,605 new and expanded industries requiring an investment of more than $2.8 billion. These new and expanded industries created 92,335 new jobs with an annual payroll of nearly $502 million.

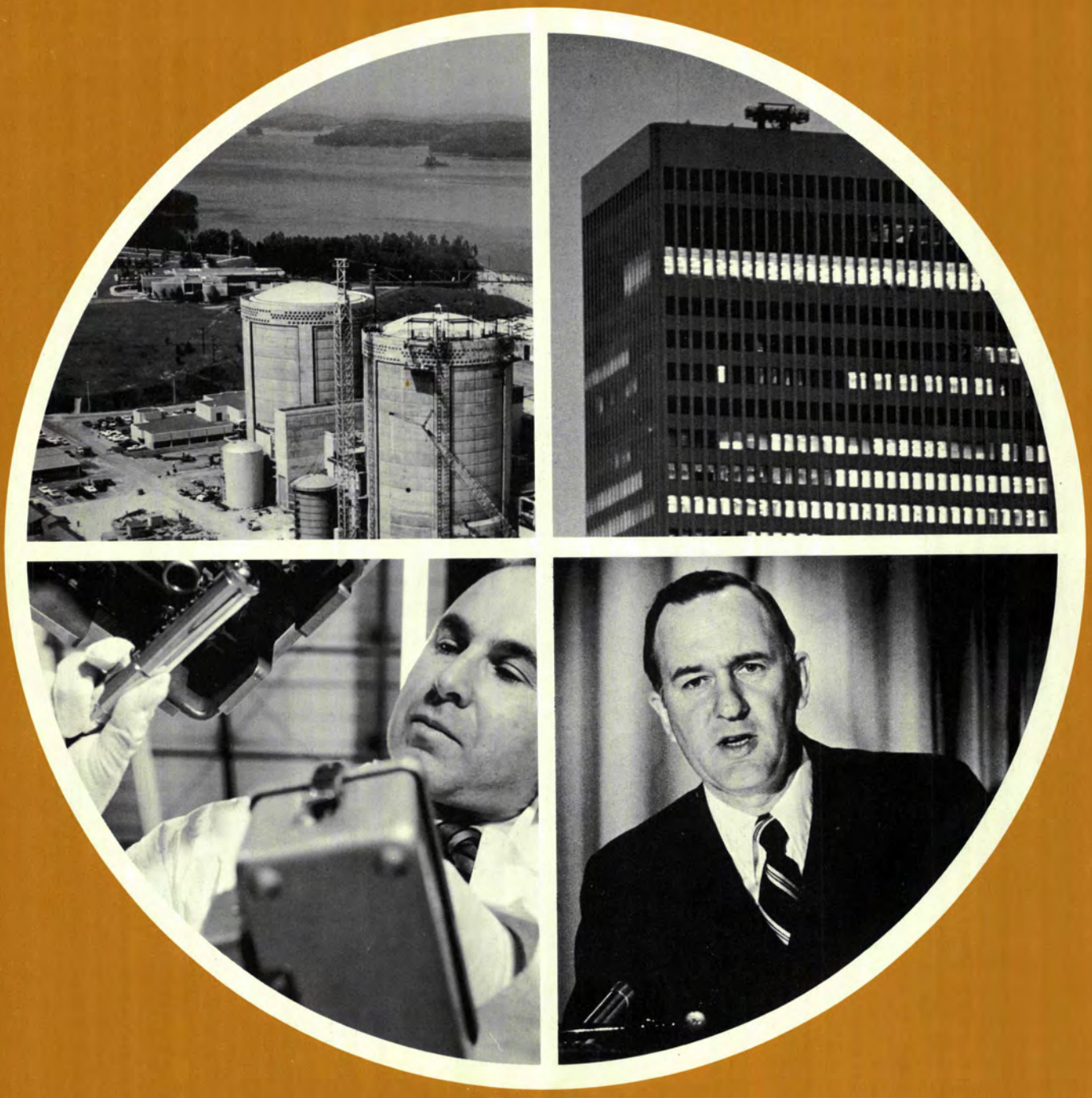
In terms of new investments in manufacturing, the Piedmont is one of the fastest growing areas of the country. While maintaining its standing as the world's leading manufacturer of wooden household furniture, tobacco products and household textiles, a growing percentage of new investments is being made in such diversified industries as pharmaceuticals, chemicals, rubber, electronics and heavy machinery.

Contributing to the Piedmont's growth is an educational system that responds to the needs of industry by providing training in many technical and specialized fields. Excellent highways, air and rail service also have played an important role in the area's progress.

But perhaps of greater significance to the Piedmont's dynamic growth is the place itself. Its moderate climate, extending through four distinct seasons, offers a variety of recreational opportunities—from fishing and boating on vast lakes to year-round golf on courses etched from piney woods and lush meadows.

It is a place where elegant homes that have grown old with grace and dignity provide a contrast to the contemporary architecture of modern industry. And it is this blend of old and new, of the man-made and the natural, that beckons invitingly to the industrialist, the businessman and the worker.

The Piedmont is growing because, above all, it is a place for people.



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Duke Power Company

General Offices: 422 South Church Street
Post Office Box 2178, Charlotte, North Carolina 28201

TRANSFER AGENTS FOR COMMON STOCK

Morgan Guaranty Trust Company of New York
North Carolina National Bank, Charlotte

REGISTRARS FOR COMMON STOCK

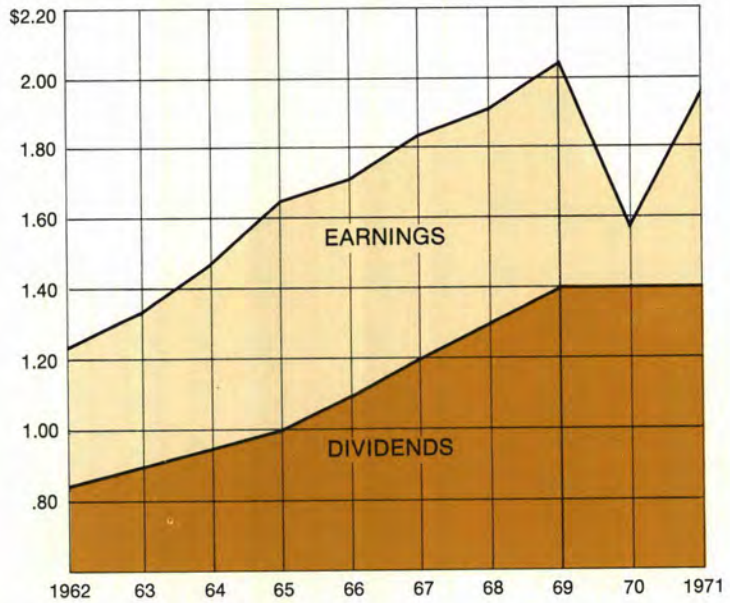
First National City Bank, New York
Wachovia Bank and Trust Company, Charlotte

Highlights of the Year

	1971	1970	Percent Increase
Electric Revenues:			
Total*	**$451,541,000**	$386,138,000	16.9%
Regular Sales	**$441,461,000**	$370,921,000	19.0
Earnings for Common Stock	**$ 55,514,000**	$ 40,001,000	38.8
Per Share of Common Stock:			
Earnings	**$1.88**	$1.57	19.7
Dividends Paid	**$1.40**	$1.40	—
Taxes—Federal, State and Local	**$ 46,504,000**	$ 42,773,000	8.7
Plant Construction Expenditures	**$425,632,000**	$384,755,000	10.6
Kilowatthour Sales (thousands):			
Total*	**36,913,000**	35,288,000	4.6
Regular Sales	**36,265,000**	33,399,000	8.6
Peak Load (KW)	**6,622,125**	6,283,915	5.4
Customers	**1,001,451**	965,577	3.7

* Includes Interchange, Etc.

Earnings and Dividends Per Share Common Stock



	1962	63	64	65	66	67	68	69	70	1971
Earnings	$1.25	1.34	1.48	1.66	1.72	1.85	1.91	2.05	1.57	1.88
Dividends	$ .85	.90	.95	1.00	1.10	1.20	1.30	1.40	1.40	1.40

Before extraordinary items and adjusted for stock split.

Contents

The President's Letter

While 1971 electric energy sales and operating revenues set records, inflationary pressures pushed the costs of doing business progressively higher and compelled the Company to seek further increases in its rates.

Sales of electricity totaled 36.9 billion kilowatthours, an increase of 5 per cent over 1970, and electric operating revenues were up 17 per cent to $451.5 million.

The continued high cost of interest and preferred dividends, with only a small reduction in the price of coal and the delay in commercial operation of Unit # 1 of the Oconee Nuclear Station, kept earnings per share from regaining their 1969 level. Earnings per share rose from $1.57 in 1970 to $1.88, a gain of 20 per cent, but still below the $2.05 per share earned in 1969. The shares of common stock outstanding increased to 30,229,463 during the year, due principally to the sale in February of 4 million shares. The Company now has over 36,000 shareholders.

The $1.88 per share earned in 1971 includes 5¢ per share gain realized from sale of capital stock of a non-affiliated company.

For each month that Unit # 1 of the Oconee Nuclear Station is delayed beyond its originally scheduled operating date (Summer 1971), net earnings will be adversely affected to an extent dependent upon the energy requirements of the Company.

Since July 1969, the Company has filed and conducted hearings on six applications for rate increases before three regulatory commissions. As a result of these six rate cases, the Company is currently collecting $66.4 million annually in increased rates. See page 20 for a more complete description of the rate cases. It will be necessary for the Company to seek additional rate relief in 1972, in order to continue its current construction program.

The Company undertook a program of TV and newspaper advertising designed to inform its customers of the specific reasons for this series of rate increases. Samples of some of the ads are enclosed with this report. Customer response has been generally good.

While the cost of coal purchased by the Company in recent months has declined somewhat, the average cost of coal burned in 1971 was 44.56 per million BTU, 10 per cent higher than in 1970. The Company has purchased three coal mines and has joined in the financing of a fourth. Substantial production is being achieved at these mines and, when fully developed in 1974, they are expected to furnish about one-third of the Company's coal requirements.

The Company's construction budget for new and improved electric plant facilities for 1972-1974 is $1.3 billion. Financing requirements in 1971 were accomplished by the sale and lease of combustion turbines in January ($65.5 million), the sale of 4 million shares of common stock in February ($105 million), the issuance of $100 million in First and Refunding Mortgage Bonds in March, the sale of 600,000 shares of Preferred Stock in August ($60 million) and the sale in December of $40 million in First and Refunding Mortgage Bonds and $60 million of Seven-Year Notes. (See Page 22).

Construction expenditures in 1971 amounted to $426 million and $436 million is budgeted for 1972. (See Page 22).

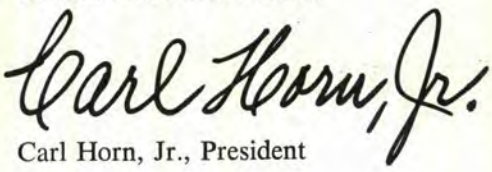
An additional $7 million has been allocated to system-wide stack emission control, bringing the cost of this expanded program to near $50 million. Target date for essentially clear stacks at all Duke Power fossil-fueled stations is mid-1973. Environmental quality is a foremost item in the design, construction and operation of all Company facilities.

A number of management changes were made during the year. You will find a summary of these changes on Page 30.

We wish to pay tribute to three of our senior officers who retired from active management during 1971. William B. McGuire served with distinction as President and Chief Executive Officer from January 1959 to April 28, 1971. D. W. Jones was Executive Vice President, Retail Operations from November 1, 1965 to April 28, 1971. G. G. Mattison was Senior Vice President, Electric Installations from January 1, 1967 to November 1, 1971. Together, these three gentlemen gave the Company an aggregate of 136 years of highly skilled, devoted service.

This report reflects an excellent performance by our employees and we are grateful to them, to our directors, and to our customers for general recognition that this Company provides efficient service at the lowest possible cost. Your support as a stockholder has been especially valuable in vital undertakings. This entire Company appreciates your confidence and will continue its endeavors to deserve it.

For the Board of Directors

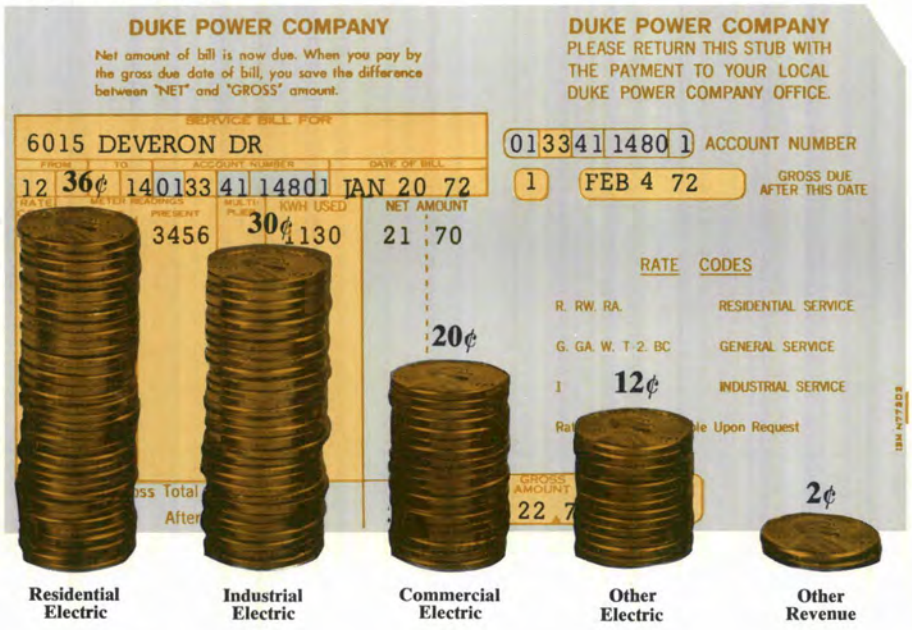


Carl Horn, Jr., President

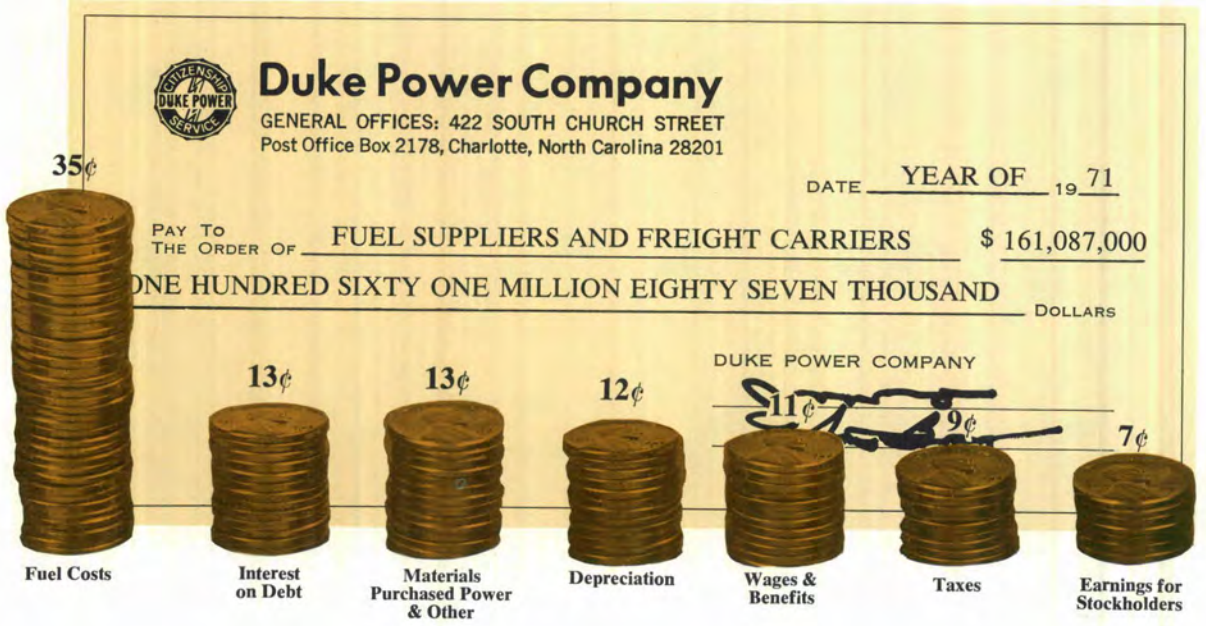
February 24, 1972

The 1971 Revenue Dollar

Where it came from



How it was used



Production and Construction

The Company placed 336,000 kilowatts of generation into service in 1971. This consisted of the Keowee Hydro Station, 140,000 kilowatts, and ten combustion turbine units totaling 196,000 kilowatts at Buzzards Roost, S. C. This brings the total number of quick-start combustion turbines to 29 with a total capacity of 638,000 kilowatts.

The first unit of the Oconee Nuclear Station was delayed beyond its early 1972 start-up date by vibrations experienced during tests of primary coolant pumps. These huge pumps, which are three stories high, were returned to the supplier for corrective measures and are now back at the site. Present plans call for the 886,300 kilowatt unit to begin operation in the summer of 1972, with similar size Units 2 and 3 to join the system in 1973.

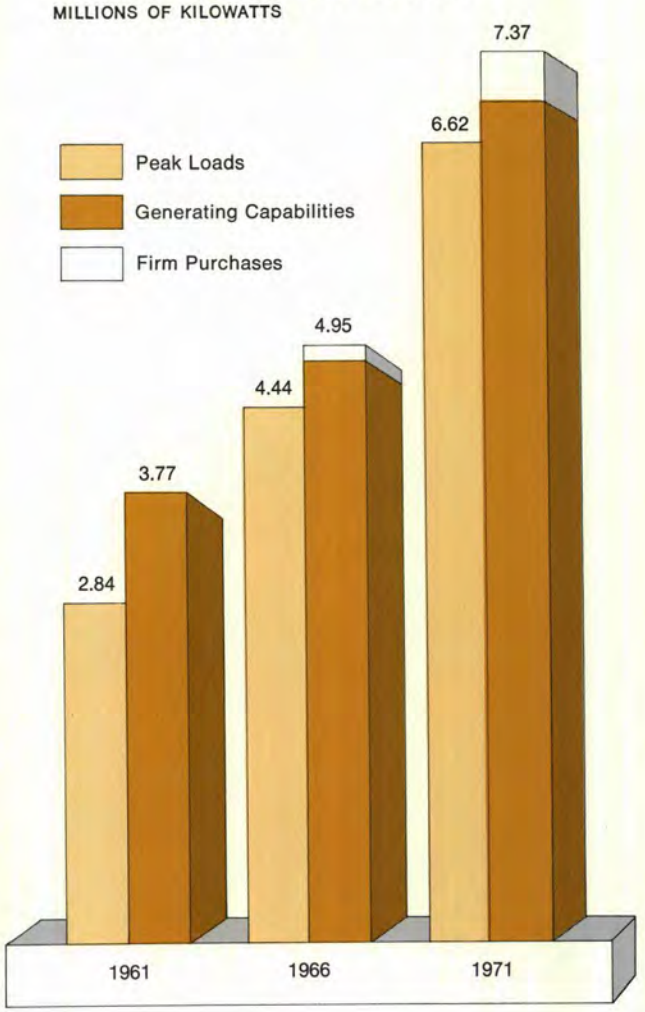
A new, 590,400 kilowatt coal-burning unit is nearing completion at the Company's Cliffside Station and is expected to begin operation by the summer peak of 1972.

The Jocassee Pumped Storage Hydro Station is ahead of its original schedule and is expected to be ready for service early in 1974 with a capacity of 305,000 kilowatts.

Work on the Belews Creek Steam Station, a 2,286,400 kilowatt coal-burning facility near Winston-Salem, is progressing as planned with the first unit scheduled in 1974 and the second unit a year later. The 2,300,000 McGuire Nuclear Station, near Charlotte, is in the early construction stage. The first McGuire unit is due in early 1976 and the second in 1977.

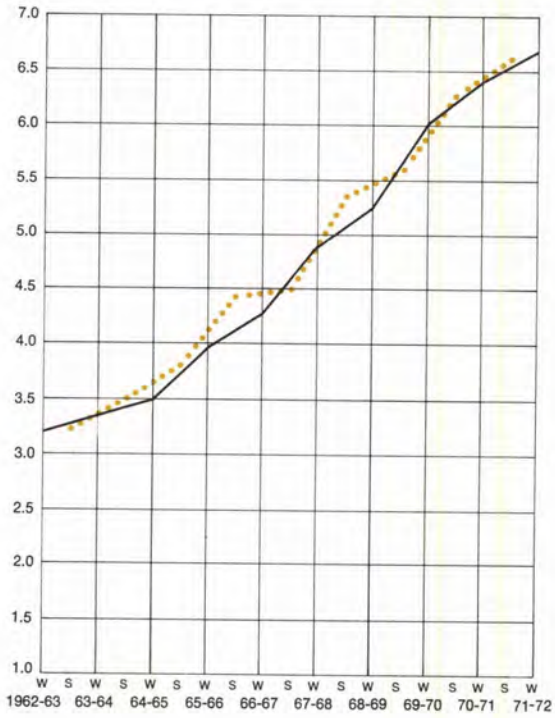
Peak Loads versus Generating Capabilities and Firm Purchases at Time of Peak

MILLIONS OF KILOWATTS



Balanced Load Building

MILLIONS OF KILOWATTS

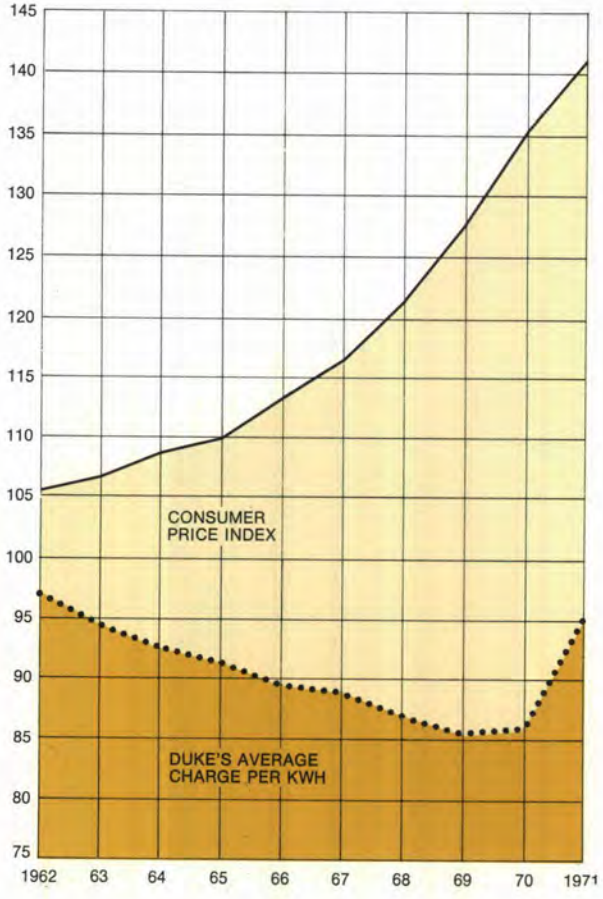


SEASONS

•••••• Summer Peak ——— Winter Peak (Oct.-Mar.)

The company makes better year-round use of its generating facilities with well-balanced summer and winter peaks.

Consumer Price Index and Duke's Average Charge Per KWH



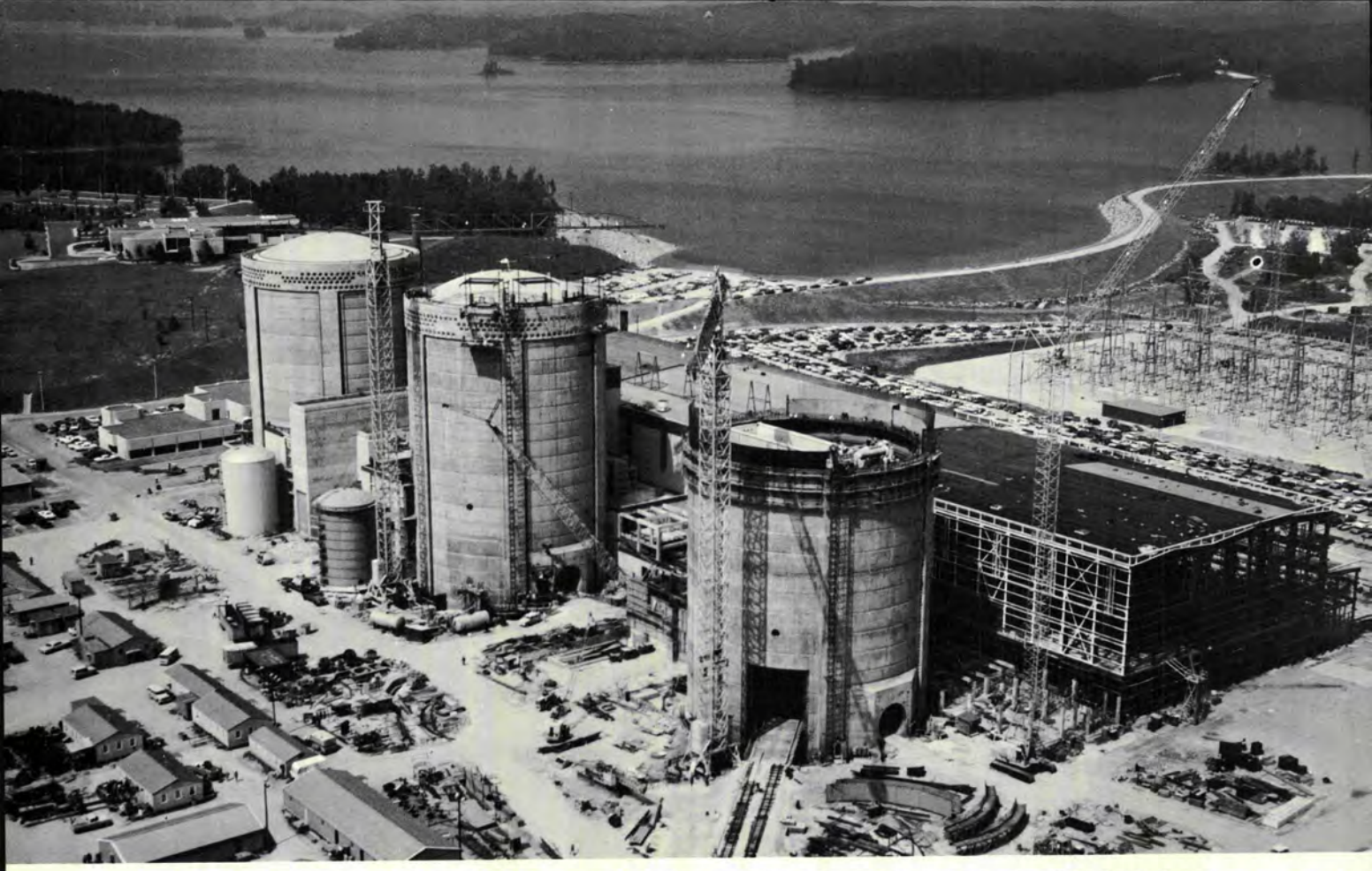
1957-59 = 100

Consumer prices remain much higher than the cost of electricity to Duke's customers.

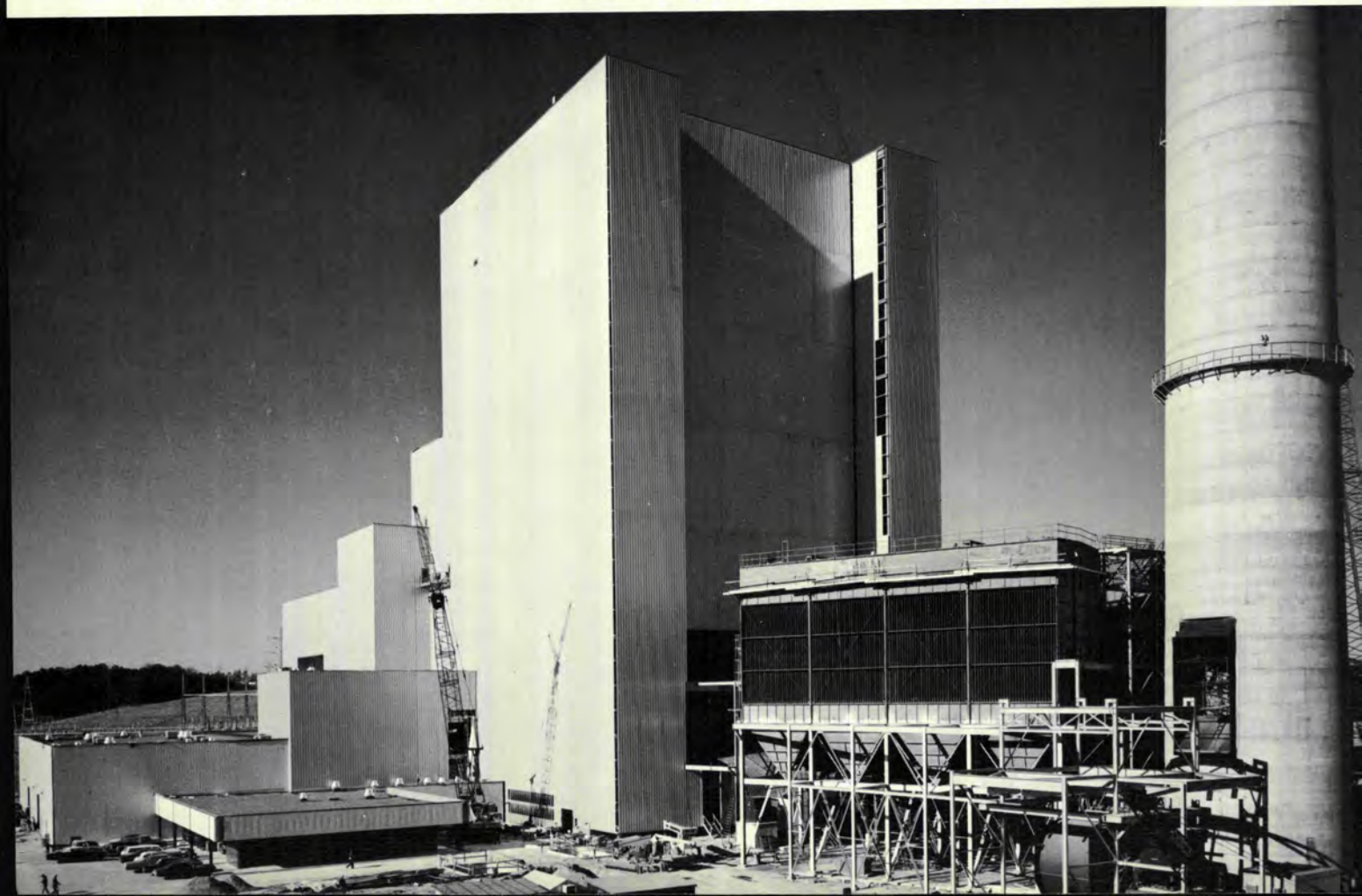
The 1971 peak load of 6,622,125 kilowatts occurred on June 28, exceeding the 1970 peak load of 6,283,915 kilowatts set on July 29 by 5.4 per cent. The Company had a generating and firm purchased capacity at the time of the 1971 peak load of 7,371,164 kilowatts. The Company's excellent balanced load (winter-summer) pattern continued during the year. The 1970-71 winter peak of 6,398,505 kilowatts, set on January 19, 1971, was exceeded on January 17, 1972, when the 1971-72 winter peak of 6,723,085 kilowatts was reached. Reserves at the time of the 1971-72 peak were 11.2 per cent.

The total energy requirement during 1971 was 39.9 billion kilowatthours. Steam plants (including combustion-type units) produced 36.1 billion kilowatthours, while 2 billion kilowatthours came from hydro, and 1.8 billion kilowatthours were purchased from sources outside the Company.

Duke purchased power in varying amounts during 1971 when needed for load and to achieve economies of operation. Interconnections with neighboring companies will continue to be strengthened for emergency capability.



The first 886,300 kilowatt unit of the Oconee Nuclear Station (left in top photo) is expected to join the Duke system in the summer of 1972, with Units 2 and 3 to begin operation in 1973. A 590,400 kilowatt coal-burning unit (lower photo) at the Cliffside Station is scheduled to begin operation by the summer peak of 1972.



The McGuire Substation, near Cowans Ford Dam in North Carolina, was activated in 1971. The McGuire Substation is the Company's largest and serves the 112.5 miles of 525,000 volt transmission line completed at year's end.

New and Expanded Industrial Plant Growth

MILLIONS OF DOLLARS

During 1971 Duke's service area experienced its third highest year of industrial investment in Company history.

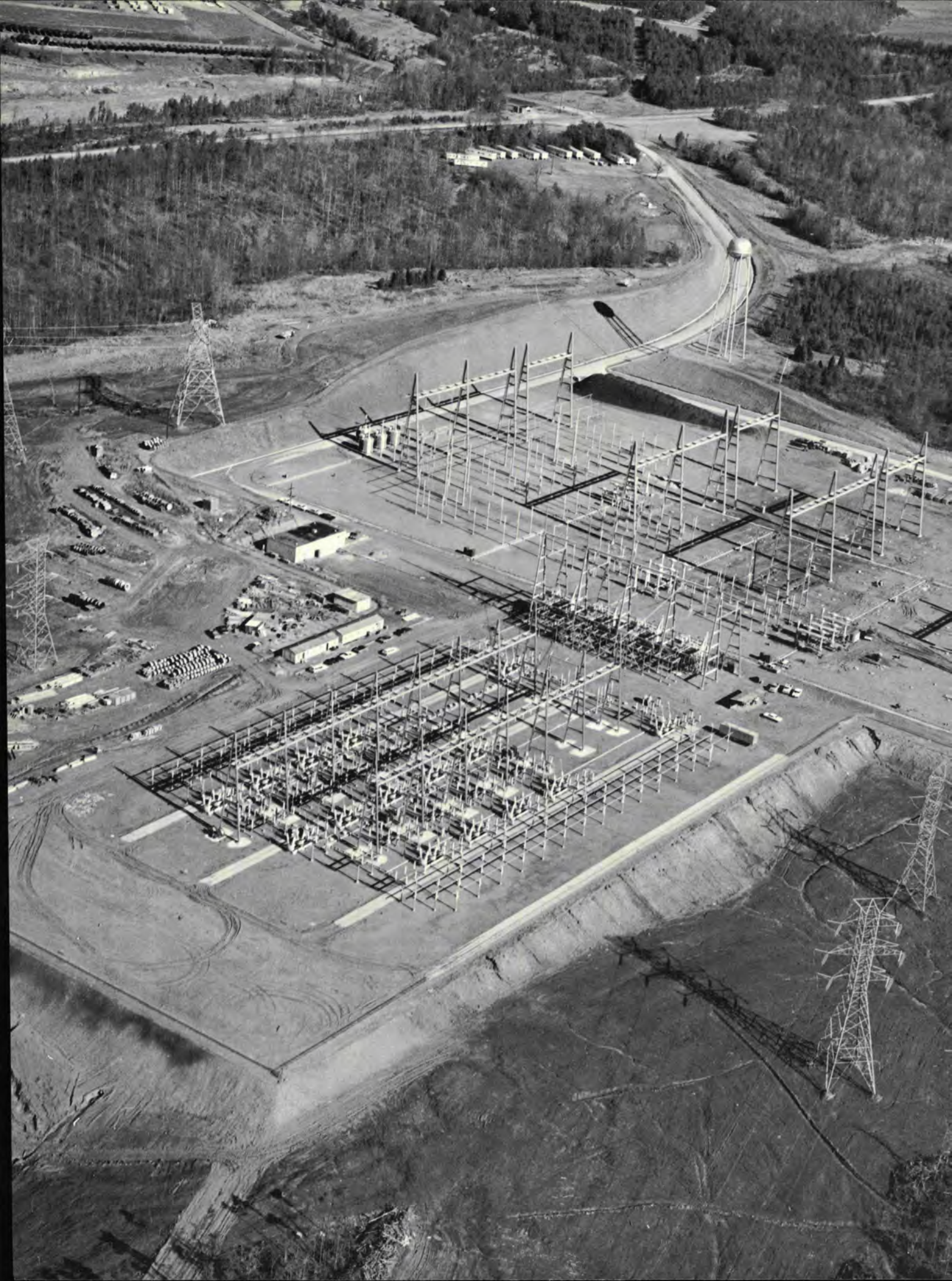
Transmission Growth

The first segment of the Company's planned 480 structure miles of 525,000 volt transmission circuit was placed in service in June. This segment, which interconnects the McGuire Substation near Charlotte with Appalachian Power Company in Virginia, is a little over 80 miles. An additional 32.5-mile segment was completed in 1971 between the McGuire Substation and Newport, S. C., and a 46-mile section from Newport to Rockingham, N. C., is 75 per cent complete. This latter section will interconnect with Carolina Power and Light Company.

Expenditures during 1971 for transmission lines, substations and related facilities totaled $78 million. This included 825 miles of new and uprated transmission circuits resulting in a net addition of 508 circuit miles.

Transformer capacity was increased by 3.6 million kva in 1971 with the addition of 169 new or uprated substation facilities. Planned expenditures for 1972 for transmission lines and substation additions of $73.1 million will connect the new generation to the system, contribute to area reliability and serve growing area loads.

Transmission Lines personnel seeded 5,000 acres of cleared rights-of-way in 1971, bringing the total number of acres seeded to 13,781. Wildlife conservationists of the Carolinas continue to praise this practice, which started in 1966, and the Company is now seeding all cleared rights-of-way.



An advertising series in 1971 placed emphasis on the Company's interests and efforts in protecting the environment. These ads and TV commercials showed Company specialists at their jobs. In the top photo is fisheries biologist Bill Adair. At lower left is Lionel Lewis, nuclear health physicist, and at lower right is George Swearingen, manager of environmental health programs, including mosquito control, on the Company's 14 lakes.

Environmental Advances

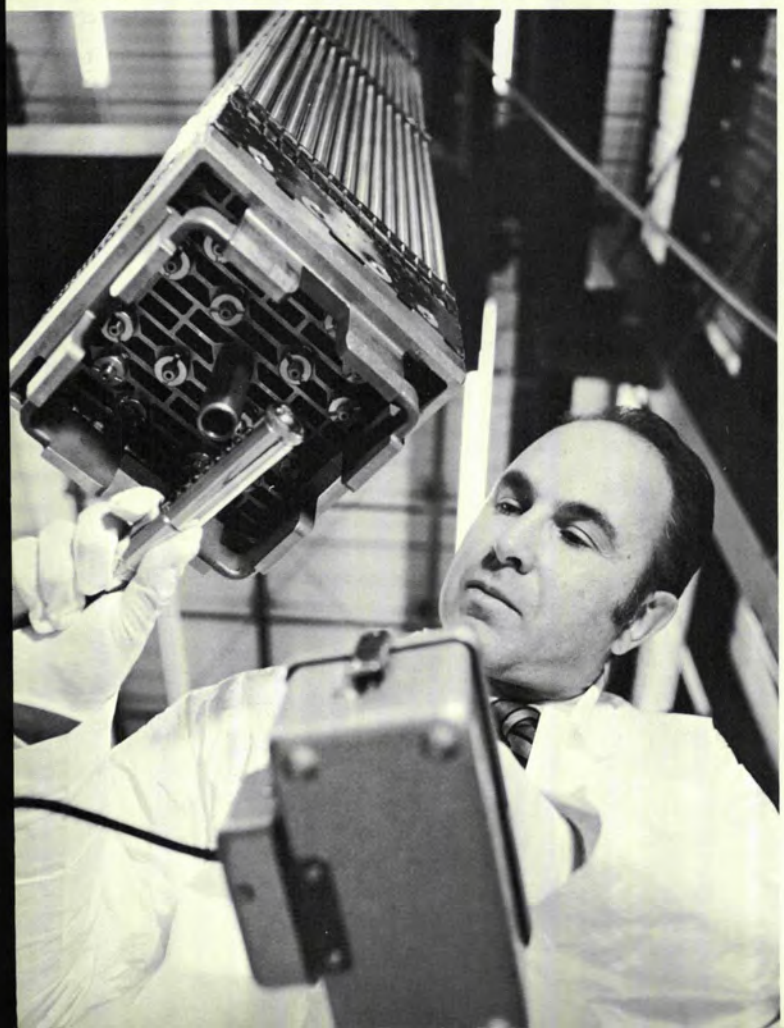
The Company's $50 million program to reduce flyash emissions at its steam stations began to show excellent results during the year. New electrostatic precipitators were installed on two units at Lee Steam Station, one at Marshall Steam Station, two at Dan River Steam Station and two at Allen Steam Station.

The flyash collection devices are to be installed or upgraded on all of the Company's coal-burning units on a scheduled basis. The program will be complete by mid-1973 with the objective of essentially clear stacks over the entire system.

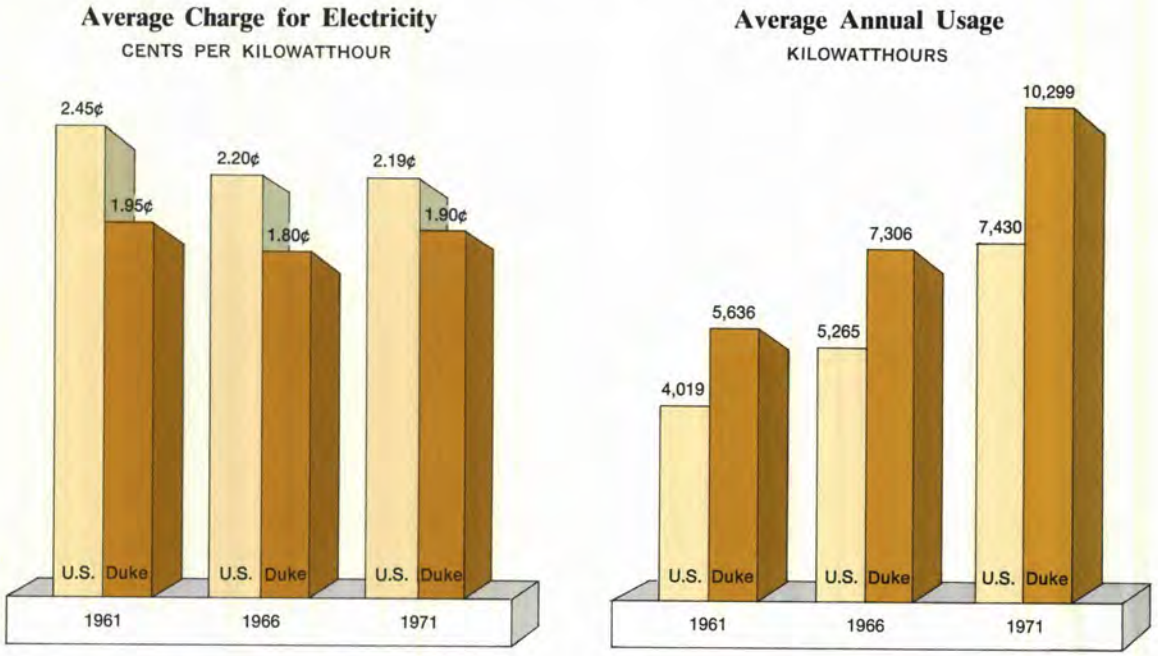
The Company's participation in Research Project 49 continued in 1971. This program is providing data as to the effect of the warmed-water discharge at Marshall Steam Station. A state agency, university consultants and Duke Power personnel have been collecting this data for four years and channeling it to Johns Hopkins University, which is conducting the research program for the Edison Electric Institute. To date, we believe that the study has shown a net beneficial effect on Lake Norman from the warmed discharge.

Institutional advertising during the year featured several of the Company's scientists involved in environmental duties. These ads and TV commercials stressed the Company's day-to-day concern with protecting the environmental resources necessary to the manufacture of electricity and that these resources are enhanced through Company efforts in many cases.

Following the widely publicized "Calvert Cliffs" decision, the AEC asked the Company to show cause why construction of Oconee Units 2 and 3 should not be halted pending a thorough environmental review. The depth of Duke Power's long-standing program of serious environmental study and research paid good dividends here. The show cause order was answered rapidly and effectively, and delay of these two major generating additions was avoided.



Residential Service



Despite recent rate increases, Duke's rates are still appreciably below the national average and average consumption remains much higher.

Serving Our Customers

The Company reached a significant milestone in November 1971, when it exceeded the million mark in total number of customers. The year saw 35,874 customers join Duke lines, bringing the number being served at year's end to 1,001,451.

The Company's Piedmont Carolinas service area continued to attract new and expanded industry, and for the eleventh straight year more than half of new industries and expansions occuring in the Carolinas chose the Piedmont area. The Duke area, which is but one-fourth of the land area of the Carolinas, received $589 million or slightly over 50 per cent of the 1971 investment.

For the five-year period ended 1971, Duke Power's service area has been chosen by 1,624 new and expanded industries requiring an investment by those industries of almost $3 billion. Over 96,000 new jobs have been created by this investment, resulting in an annual payroll increase of $500 million.

Service to new customers and more efficient service to existing customers required the addition of 1,509 miles of distribution lines in 1971, bringing the system total for these lines to 45,783 miles.

Duke's position as an industry leader in placing distribution lines underground continued in 1971 as over 208 miles of underground lines serving over 7,400 new residential customers were installed.

Personal contact with the consumer over the Company's 20,000 square mile service area was provided by all employees in 98 offices serving customers.

Duke Power's longtime national lead in dusk-to-dawn lighting was retained in 1971 as 15,633 of these automatic lights were added to the system. The Company now has 131,172 of these off-peak lights, exceeding by far the 94,654 municipal street lights in service at year's end.

Sixty-three per cent of all new apartments and houses completed within the Duke service area during the year utilized electric heating. This was the sixth straight year that Duke has led the nation as the dominant supplier of heating energy for new homes and apartments within its service area.

Total-electric homes and apartments joining the Duke system in 1971 numbered 22,337 including 2,216 homes which were converted from other heat sources to electricity. The Company now serves 132,595 total-electric dwelling units accounting for over 2.5 billion kilowatthours annually.

Noteworthy industrial expansions completed or announced in 1971 include Charlotte Pipe and Foundry Co. (plastic pipe), Abbott Laboratories (rubber goods), Collins & Aikman Corp. (knitted fabrics), General Tire and Rubber Co. (tires), General Electric (large gas turbines), Celanese Plastics Company (polyester film), Teledyne, Inc. (metals) and Union Carbide Corp. (electrical products).

The growth in popularity of total-electric mobile homes continued during 1971 when 1,433 of these single-energy mobile living units joined Duke's lines. The Company now has 3,762 total-electric customers among its 61,780 mobile home customers.

The average annual usage per Duke residential customer was 10,299 kilowatthours in 1971, exceeding the national average for investor-owned companies by 2,869 kilowatthours. The average usage per Duke customer was 83 per cent greater than it was 10 years ago.

LARGE POWER SALES

The Company's Large Power Sales Group negotiated power contracts with large industrial, commercial and resale customers, most of which were for contract demands of 500 kilowatts or more, for a net increase of contractual load of 338,195 kilowatts in 1971, an all-time record. There also was an increase on a contractual basis of 22,050 kilowatts for industrial customers contracting for as much as 100 kilowatts and less than 500 kilowatts.

Fifty total-electric industrial plants were added in 1971, bringing the net number of such plants on the Duke system to 276, and once again placing the Company No. 1 in the country in this category.

Industrial sales amounted to 16.4 billion kilowatthours during the year.

Some examples of larger total-electric plants beginning operation during the year include Cone Mills Corporation (synthetic foam), Queen City Plastics, Inc. (electrical conduit), Hamco, Inc. (paper converters), Southland Authorized Rebuilders, Inc. (motor vehicle parts) and Unifi, Inc. (textiles).

The continuing diversification of industry joining Duke lines is emphasized by these new companies: Lenoir Chair Company (particle board), Stork Inter-America Corp. (galvano plating), Gould, Inc. (batteries), Hancor, Inc. (plastics), Stroupe Mirror Co., Inc. (mirrors), Diamond Shamrock Corp. (chemicals), Crompton & Knowles Corporation (textile machinery) and Colonial Stores (milk processing).

The tallest office building in the Carolinas, the 32-story Jefferson First Union Tower, opened in Charlotte in 1971. The tower contains 542,000 square feet and its annex 226,000 square feet, adding up to 768,000 square feet of total-electric commercial space.

Examples of the more than 1,400 total-electric commercial buildings joining Duke's lines in 1971 are the Knight Publishing Company (top) in Charlotte, 340,000 square feet, and the Burlington Industries, Inc., headquarters building in Greensboro, 380,000 square feet.

COMMERCIAL

Over fourteen hundred total-electric commercial buildings joined Duke lines in 1971, bringing the system total to 7,672 such buildings. These buildings added 106,000 kilowatts of commercial heating space, which was a 14 per cent increase over 1970.

Commercial revenues in 1971 were up 20 per cent over the previous year on sales of 5.9 billion kilowatthours.

One of the Southeast's tallest office buildings, Jefferson First Union Tower, opened in Charlotte, N. C., during the year. This is a 32-story building containing 542,000 square feet and is heated entirely by electricity. Its annex, containing 226,000 square feet, was converted to electric heat.

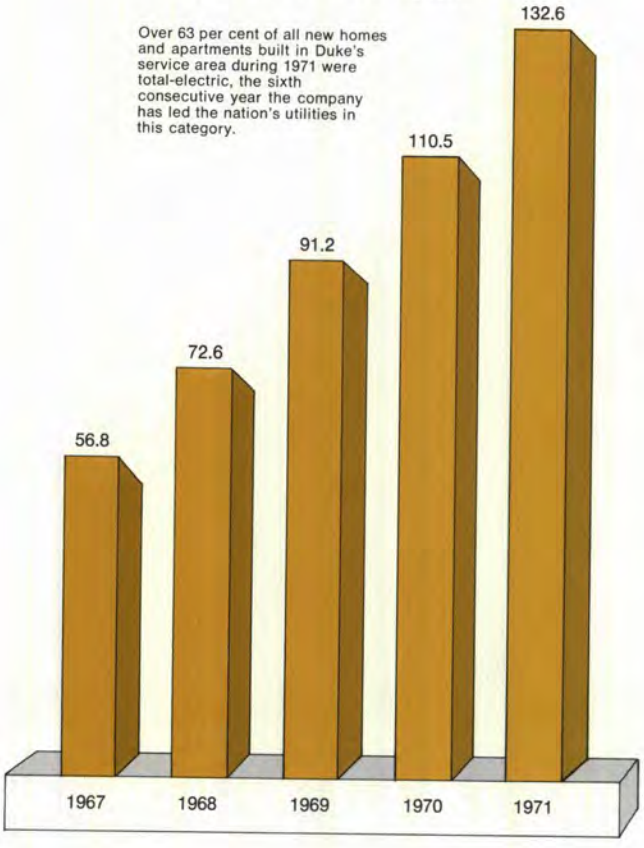
Charlotte's "Total-Electric Skyline" was further enhanced by a new Merchandise Mart (516,000 square feet), North Carolina National Bank Computer Center (124,000 square feet) and the Knight Publishing Company building (340,000 square feet). A 14-story all-electric office building, being built by Northwestern Bank, is well underway, as well as a 405,000 square foot city-owned Civic Center.

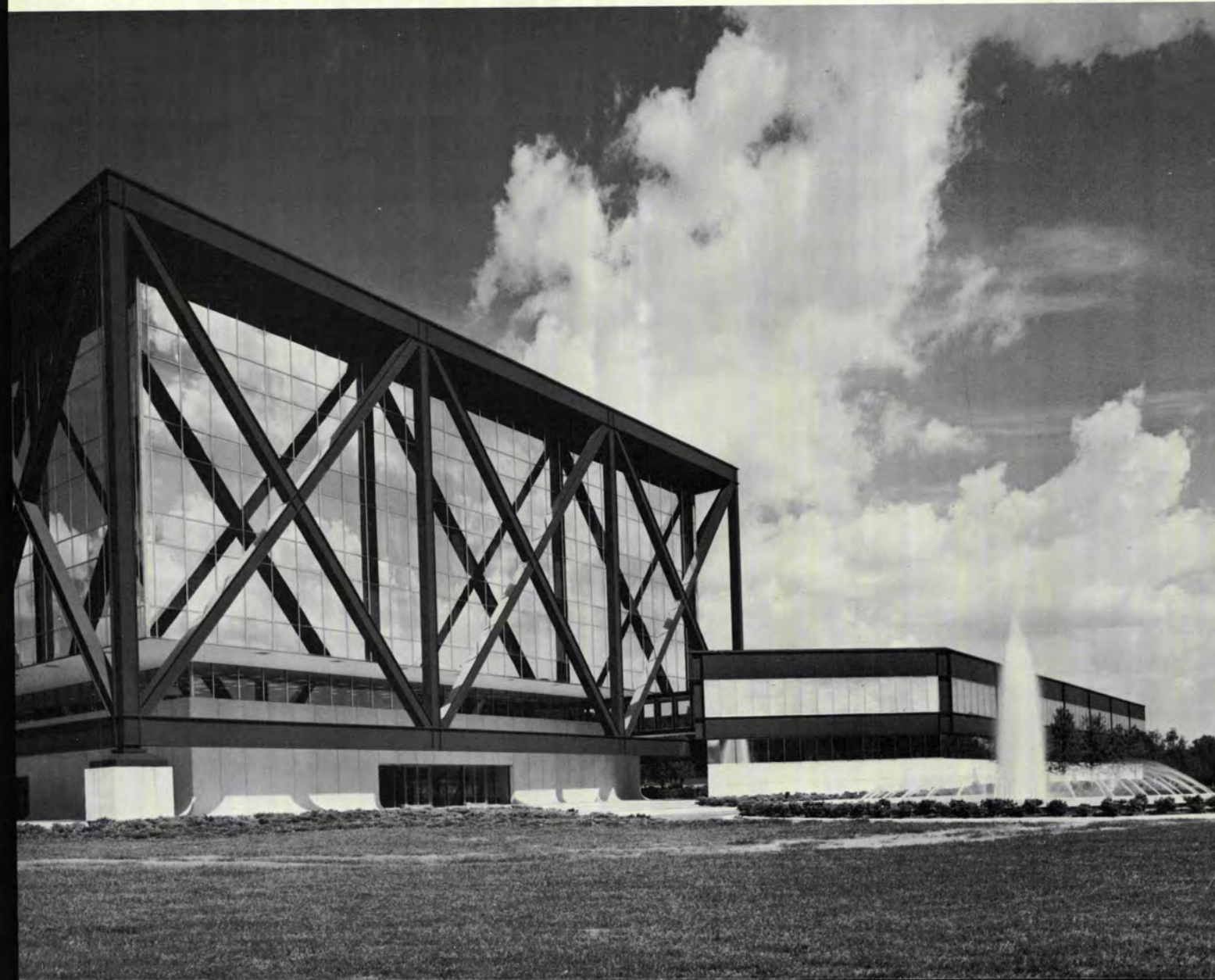
Burlington Industries, Inc. occupied its new 380,000 square foot headquarters building in Greensboro during the year, and Wachovia Bank and Trust Company began full use of its new 300,000 square foot home office building in Winston-Salem. Both of these buildings are total-electric.

The Company continued its longtime assistance to agriculture in the Piedmont Carolinas by supplying professional advice in converting labor-short farming operations to modern electrical methods. The Duke system now has 1,774 total-electric farms among its 33,226 farm classification customers.

The demand for heating energy among all classifications of Duke customers has enabled the Company to continue its balanced-load growth and resulting high load factor. Generating facilities are now utilized on a year-round basis, with winter heating energy offsetting the continued upsurge in summer air conditioning load. The Company's marketing efforts have been directed almost entirely toward increasing winter usage of its generating and distribution facilities, resulting in well-balanced summer-winter loads.

Number of Total Electric Residences





Joe S. Major, Vice President-Personnel (right), congratulates three Duke Power employees who won 1971 Robinson Awards for outstanding company contributions. Left to right are James L. Davis, Olin G. Drake and Jimmy A. Hardin.

Personnel

Company employees totaled 11,302 at year end, including 3,910 who are engaged in the design and construction of generating facilities. Duke Power is one of the few utilities in the nation which designs and constructs most of its generating plants.

The majority of Company employees continued to participate in the Stock Purchase-Savings Program established by the Company in 1959. Of the employees eligible, 72 percent were sharing in Company operations through the purchase of common stock when the last class began on July 1, 1971. Since the plan's inception, employees have purchased 816,100 shares of stock through payroll deduction through 1971. Under a similar plan, 3,965 employees are purchasing U. S. Savings Bonds.

The Company continued its effort to keep all employees abreast of new developments affecting Company business through its employee communications programs and publications.

TRAINING PROGRAMS

The Supervisory-Management Development Program provided training for 233 supervisors and middle-management employees in 1971. This program has provided training for 2,098 such employees since its inception, review sessions for 1,151 of these, and one additional review session for 362 supervisors. Departmental training efforts also contributed to the overall training program.

Eighty-eight employees completed 161 courses under the Tuition Refund Program in 1971, and 121 employees are currently enrolled in classes which will contribute to their future job progress under this system.

SAFETY

The efforts of the work force to reduce accidents continued within our Company. As a result, the Greensboro Operating Division completed more than a million hours without a disabling injury. The Gastonia District, the Cliffside Steam Station and the High Point District continued their safe work practices through the year 1971 and are now working toward the 2 million man-hour goal. These achievements were cited by the Edison Electric Institute and by state organizations.

Safe vehicle operation continues within the Company. A highlight of this was achieving the lowest accident frequency rate in the Southeastern Electric Exchange Fleet Accident Prevention Contest.

The effects of the new Occupational Safety and Health Act are not fully known. The Company believes that it is in compliance, but will continue to follow this closely.

ROBINSON AWARDS

Judgement and action in emergencies and original design and production of special equipment won 1970 Robinson Awards for three employees. These prized awards, given annually, recognize employees for outstanding service in several categories. The winners are nominated and selected by fellow employees.

The 1970 awards went to James L. Davis, Utility Operator at the Lee Steam Station near Williamston, S. C.; Olin G. Drake, Lineman A in the Greenville , S. C., District; and Jimmy A, Hardin, Line Foreman in Transmission Line Construction, Charlotte, N. C.

Davis' award was for exceptional action and bravery during a transformer fire at the Lee Station. Drake was honored for aiding the recovery of a fellow employee who was injured in an on-the-job accident, and Hardin's award resulted from his design and production of equipment used in the construction of a 525,000 volt transmission line through rough mountain terrain.


W. S. O'B. ROBINSON
AWARD
J. L. Davis
In recognition of outstanding achievement representative of Duke Power Company's principles of citizenship & service
W. S. O'B. ROBINSON
AWARD
Olin G. Drake
W. S. O'B. ROBINSON

Crescent Land & Timber Corp. announced in January 1972, that it had selected Realtec Inc. from a number of excellent proposals to develop the first resort-residential community on the shores of Lake Keowee. In the photo Stanley P. Whitcomb, Jr., Executive Vice President, Realtec (left) and Herman Hermelink, President, Crescent Land & Timber Corp., field questions from newsmen and area officials at the announcement.

Subsidiaries

CRESCENT LAND & TIMBER CORP.

Crescent Land & Timber Corp. owns approximately 300,000 acres of nonutility lands which are being utilized for scientific forestry operations, game reserves and real estate development.

In April 1971, Crescent announced it had adopted a long-range plan to develop its Keowee-Toxaway lands in South Carolina through private developers. The concept called for quality development of the Lake Keowee shore areas—including resorts, marinas, campgrounds of several types, restaurant and motel facilities, and residential areas.

This concept received endorsement from all state, county and area agencies consulted, and in late 1971 Crescent reviewed a number of plans submitted by developers and selected Realtec, Inc. to initially develop a 1,600-acre site into a quality residential and commercial area. Realtec, a nationally known land development company, has had other recreation and resort projects in nearby North Carolina.

The financing of all of Crescent's activities is being obtained independently of Duke Power.

Crescent is a stockholder in Carowinds, Inc., which is developing a $24 million Disney-type amusement park on the North Carolina-South Carolina State line and Interstate I-77. This park is expected to begin operation in 1973.

Crescent has recently sold its holdings in two apartment complexes to joint-venture partners.

In 1971, Crescent, in carrying out the Forestry Program begun by Duke Power in 1939, planted 1.5 million trees on 2,900 acres, bringing these totals to over 41 million trees planted on 55,000 acres. Sawtimber sales amounted to 33 million board feet and pulpwood sales exceeded 65,000 cords, producing revenue of about $1,300,000.

EASTOVER LAND AND MINING COMPANIES

In an effort to assure an adequate supply in the future, the Company has purchased three coal properties which are presently under development and are currently producing in excess of one million tons of coal on an annual basis. These properties are located in the Harlan, Kentucky area.

The present capital investment in the Eastover operation is about $15 million, representing primarily coal reserves and mining equipment. Eastover's recoverable reserves in the Harlan area are estimated at about 225 million tons.

Production for the year 1972 is expected to be 2¼ million tons. Full production is expected by 1974, and at that time the Eastover properties and other Duke Power mining investments will be producing approximately one-third of the Company's coal requirements.

The coal reserves are owned by Eastover Land Company, while the mine development and operations are conducted by another subsidiary, Eastover Mining Company.

MILL-POWER SUPPLY COMPANY

Mill-Power Supply Company, a Duke Power subsidiary for 61 years, will move its sales offices and warehouse operations to new and larger quarters in 1972 in order to meet its growing needs as an electrical wholesale distributor serving the Carolinas.

Mill-Power also purchases, as agent for Duke and in Duke's name, fuel used in electric generation and electrical equipment and supplies. Duke pays Mill-Power an annual purchase fee based on its actual cost of providing this service.

Robert E. Frazer, Vice President-Finance and Treasurer, discusses the Company's financial affairs with The New York Society of Security Analysts.

Rate Matters

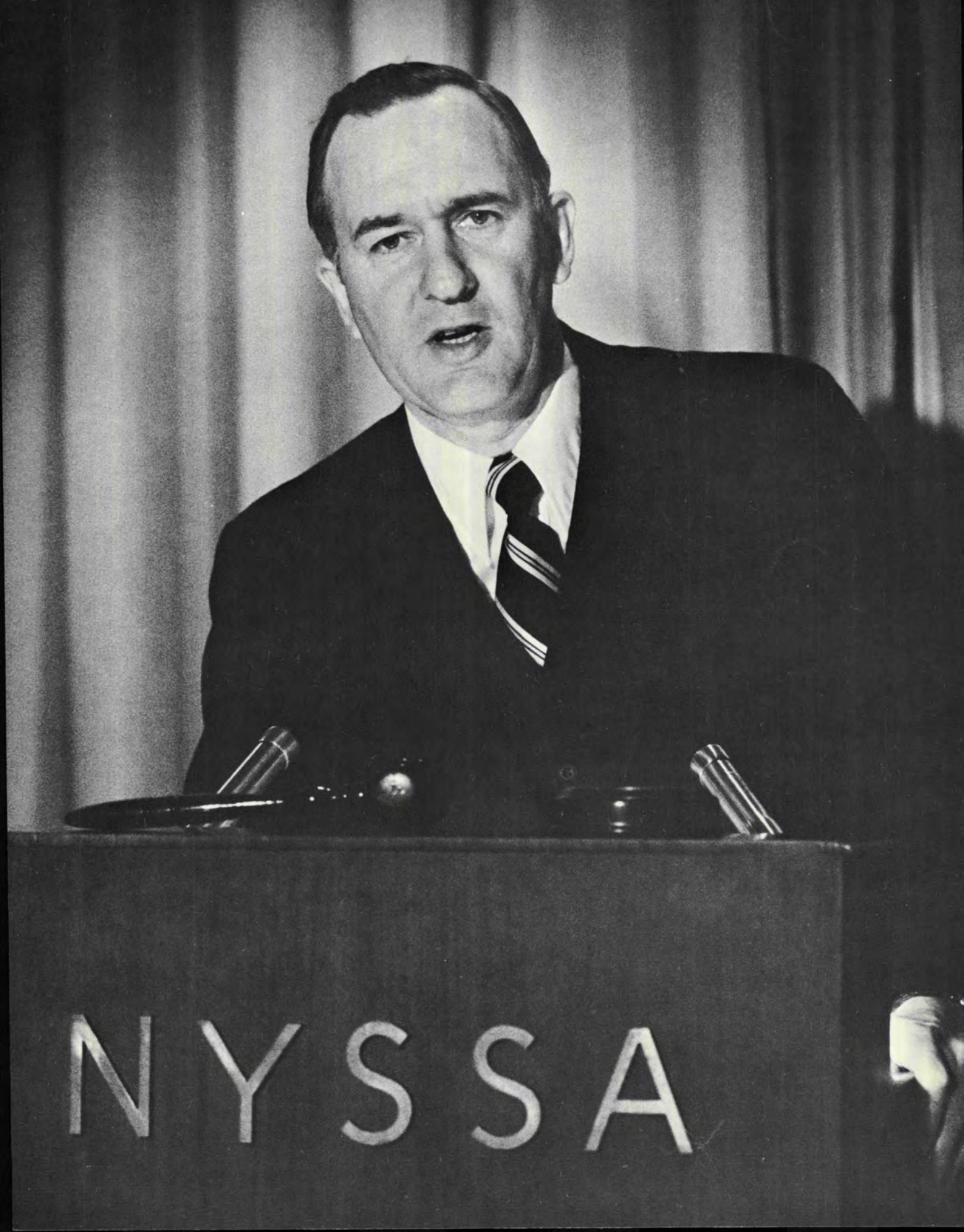
On January 31, 1972 the North Carolina Utilities Commission approved an increase in rates to retail customers in North Carolina of 8.93% or $24.4 million annually based on 1971 sales. The Commission's action grants 76% of the 11.75% rate increase requested by the Company in August 1971 and affirms the interim 7.1% increase placed in effect on an interim basis on July 1, 1971. The increase to become effective on electric bills rendered on and after March 15, 1972 for energy sold after February 15, 1972 may be postponed as a result of an announcement by the Price Commission on February 10, 1972 affecting price increases by privately owned public utilities. The Company will continue to collect the interim 7.1% increase which became effective on July 1, 1971 but it may have to delay putting into effect the additional 1.83% authorized by the North Carolina Utilities Commission.

The interim increase of 7.1% provided $9,000,000 for the year 1971.

The Public Service Commission of South Carolina, after a public hearing, authorized the Company on December 2, 1970 to increase, effective January 1, 1971, its rates to retail customers in South Carolina by 15 per cent, which included and made permanent an emergency interim 4.2 per cent increase effective on June 1, 1970. These rate increases provided additional revenues of $16,100,000 in 1971.

A Federal Power Commission Hearing Examiner issued on February 2, 1972, an initial decision that would grant the Company a substantial portion of the rate increase on its wholesale business that had been previously granted on an interim basis. The decision, which is subject to review by the Commission, grants a major part of the 17 per cent increase initially requested, an overall rate of return of 7.75 per cent on Duke's wholesale business, and an 11.16 per cent allowance on equity. Should the decision be upheld, the Company estimates that the amount to be refunded will not exceed 15 per cent of the amount collected.

The Company's operating expenses and capital costs are continuing to rise, and management plans to file early in 1972 for additional rate relief with the North Carolina Utilities Commission, The Public Service Commission of South Carolina and the Federal Power Commission. The amount of such relief to be requested has not yet been determined.


NYSSA

Financing and Investor Activities

The Company is engaged in a continuous construction program to meet the increasing electrical energy needs of its more than one million customers. Construction expenditures for 1971 amounted to $426 million consisting of $271 million for electrical generating facilities (including $145 million for nuclear plants and nuclear fuel assemblies), $78 million for transmission facilities, $66 million for distribution facilities and $11 million for other plant facilities. The construction program for 1972 is budgeted at $436 million and $1.3 billion is budgeted for 1972-1974, including $835 million for additional generating facilities.

Funds generated from internal operations of the Company, principally retained earnings and depreciation accruals, provided 17 per cent of the cash requirements for the 1971 construction program and are expected to produce about 30 per cent of the construction expenditures for the years 1972-1974. The balance of construction funds for 1971 was obtained from the following sources:

Common stock—	
4,000,000 shares @ $26.25— Public offering	$105,000,000
152,417 shares @ $23.54 issued to the Trustee of the Stock Purchase-Savings Program for Duke Power Employees	3,588,000
144,570 shares @ $25.75 for acquisition of coal properties	3,722,000
Preferred stock 8.20%, Series G— 600,000 shares @ par of $100	60,000,000
First and refunding mortgage bonds—	
7½% Series due 2001	100,000,000
7⅜% Series B, due 2001	40,000,000
6.85% Notes due 1978	60,000,000
Sale and lease of combustion turbines	65,500,000
Retirement of sinking fund debentures	(1,250,000)
Cost of financing less premium on sales	(5,872,000)
Reduction in short-term notes	(70,463,000)
Net proceeds from financing	$360,225,000

Financing plans for the first quarter of 1972 include the issuance of 5,000,000 shares of common stock and $100,000,000 principal amount of first mortgage bonds. Additional debt and equity securities are expected to be offered later in 1972.

The Company endeavors to keep its stockholders and the investment community informed of the Company affairs. On January 5, 1972, members of management appeared before The New York Society of Security Analysts to discuss the financial affairs of Duke Power, and copies of the Company's presentation were mailed to all stockholders. Plans are under way to visit other security analysts and institutional investment groups in several major cities in the nation.

Duke Power's common stock continues to have a broad base of ownership with shareholders located in every state and many foreign countries. The number of shareholders has increased from 3,600 in 1960 to over 36,000 today. As might be expected, Duke's home states of North and South Carolina top the shareholder distribution list.

Over 6,400 employees of the Company have become shareholders by participating in Duke Power's Employee Stock Purchase-Savings Program.

Statement of Source of Funds for Plant Construction Expenditures

Year Ended December 31	1971	1970
SOURCE OF FUNDS:		
Funds from operations—		
Net income	$ 71,855,000	$ 51,178,000
Non-cash charges:		
Depreciation and amortization	54,238,000	49,377,000
Other, net	5,859,000	303,000
Funds from operations	131,952,000	100,858,000
Dividends on common stock	(40,763,000)	(35,271,000)
Dividends on preference and preferred stock	(16,341,000)	(11,177,000)
Funds retained in the business	74,848,000	54,410,000
Funds from financing—net proceeds—		
First mortgage bonds	138,946,000	173,401,000
6.85% notes due 1978	59,537,000	—
Preferred stock	59,142,000	59,127,000
Common stock	108,813,000	64,174,000
Increase (decrease) in notes payable	(70,463,000)	60,989,000
Retirement of sinking fund debentures	(1,250,000)	(1,250,000)
Sale and lease of combustion turbines	65,500,000	—
Funds from financing	360,225,000	356,441,000
Total available funds	435,073,000	410,851,000
Changes in working capital, etc.—		
Inventories	1,172,000	(26,591,000)
Investments in and advances to subsidiaries	(4,486,000)	(2,021,000)
Other	(6,127,000)	2,516,000
PLANT CONSTRUCTION EXPENDITURES	$425,632,000	$384,755,000

See notes to financial statements

Accountants' Opinion

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

DUKE POWER COMPANY:

We have examined the balance sheet of Duke Power Company as of December 31, 1971 and 1970 and the related statements of income, retained earnings, and source of funds for plant construction expenditures for the two years ended December 31, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

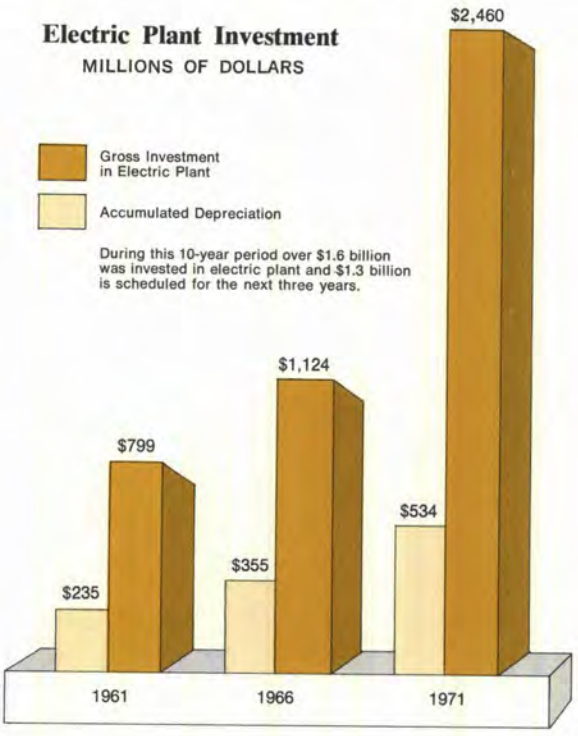
In our opinion, subject to final settlement of the rate matters referred to in note 1 to the financial statements, the accompanying financial statements present fairly the financial position of the Company at December 31, 1971 and 1970 and the results of its operations and its source of funds for plant construction expenditures for the two years ended December 31, 1971, in conformity with generally accepted accounting principles applied on a consistent basis.

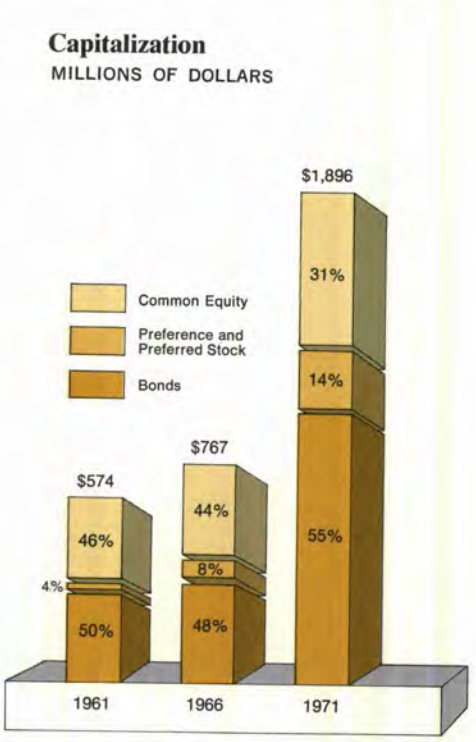
Haskins & Sells

Charlotte, North Carolina
February 15, 1972

Balance Sheet - ASSETS

December 31	1971	1970
ELECTRIC PLANT		
At original cost—		
Electric plant in service	**$1,803,683,000**	$1,647,206,000
Construction work in progress (includes in 1971 $321,474,000 of nuclear and $202,023,000 of other generating facilities)	**616,127,000**	462,588,000
Total	**2,419,810,000**	2,109,794,000
Less—Accumulated depreciation (Note 2)	**534,216,000**	492,083,000
Electric plant, net (excludes nuclear fuel assemblies)	**1,885,594,000**	1,617,711,000
Nuclear fuel assemblies	**39,762,000**	586,000
Electric plant, net	**1,925,356,000**	1,618,297,000
OTHER PROPERTY		
At cost	**17,154,000**	15,859,000
Less—Accumulated depreciation	**2,534,000**	2,291,000
Other property, net	**14,620,000**	13,568,000
INVESTMENTS		
Investments in and advances to subsidiaries at equity	**34,390,000**	27,885,000
Other securities—at cost or less	**5,336,000**	1,076,000
	39,726,000	28,961,000
CURRENT ASSETS		
Cash	**15,935,000**	15,147,000
Receivables, less allowance for losses	**36,972,000**	34,880,000
Materials and supplies—at average cost:		
Fuel	**28,648,000**	33,086,000
Other	**30,762,000**	27,496,000
Prepayments	**290,000**	344,000
	112,607,000	110,953,000
DEFERRED DEBITS		
Debt discount, premium and expense, being amortized	**5,062,000**	3,662,000
Other	**4,935,000**	2,600,000
	9,997,000	6,262,000
	$2,102,306,000	$1,778,041,000





Balance Sheet – LIABILITIES

December 31

		1971	1970
CAPITALIZATION	Capital stock and retained earnings(Note3):		
	Common stock, no par	**$ 498,207,000**	$ 385,897,000
	Retained earnings	**81,818,000**	71,422,000
	Total common stock equity	**580,025,000**	457,319,000
	Preference stock—$100 par	**50,000,000**	50,000,000
	Preferred stock—$100 par	**225,000,000**	165,000,000
	Total capital stock and retained earnings	**855,025,000**	672,319,000
	Long-term debt (Notes 4 and 5)	**1,040,891,000**	837,500,000
	Total capitalization	**1,895,916,000**	1,509,819,000
CURRENT LIABILITIES	Accounts payable	**22,917,000**	21,438,000
	Customers' deposits	**2,217,000**	2,732,000
	Taxes accrued	**5,867,000**	9,287,000
	Interest accrued	**21,444,000**	18,500,000
	Other	**2,616,000**	1,660,000
		55,061,000	53,617,000
	Notes payable for construction—pending permanent financing (Note 6)	**119,343,000**	189,806,000
		174,404,000	243,423,000
DEFERRED CREDITS, ETC.	Investment tax credit, being amortized	**11,021,000**	12,524,000
	Contributions in aid of construction	**8,729,000**	7,230,000
	Accumulated deferred income taxes (Note 8)	**8,612,000**	1,812,000
	Injuries and damages reserve	**2,228,000**	2,266,000
	Other deferred credits	**1,396,000**	967,000
	Commitments (Note 7)		
		31,986,000	24,799,000
		$2,102,306,000	$1,778,041,000

See notes to financial statements

Statement of Retained Earnings

Year Ended December 31

	1971	1970
RETAINED EARNINGS—Beginning of year	**$ 71,422,000**	$ 66,941,000
ADD:		
Net income	**71,855,000**	51,178,000
Undistributed earnings of subsidiaries at January 1, 1970	**—**	3,098,000
Total	**143,277,000**	121,217,000
DEDUCT:		
Cash dividends—		
Common stock ($1.40 per share)	**40,763,000**	35,271,000
Preference stock ($6.75 per share)	**3,375,000**	3,375,000
Preferred stock—		
Series C ($4.50 per share)	**1,575,000**	1,575,000
Series D ($5.72 per share)	**2,002,000**	2,002,000
Series E ($6.72 per share)	**2,352,000**	2,352,000
Series F ($8.70 per share)	**5,220,000**	1,873,000
Series G (annual rate $8.20 per share)	**1,817,000**	—
Capital stock expense	**4,355,000**	3,347,000
Total deductions	**61,459,000**	49,795,000
RETAINED EARNINGS—End of year	**$ 81,818,000**	$ 71,422,000

See notes to financial statements

Statement of Income

Year Ended December 31	1971	1970
ELECTRIC REVENUES (Note 1)	**$451,541,000**	$386,138,000
ELECTRIC EXPENSES AND TAXES:		
Operation—		
Fuel used in electric generation	**161,087,000**	140,526,000
Purchased power	**18,510,000**	13,874,000
Wages and benefits, materials, etc.	**59,376,000**	49,119,000
Maintenance of plant facilities — wages, materials, etc.	**22,205,000**	18,788,000
Depreciation	**53,062,000**	48,427,000
Taxes (Note 8) —		
General	**39,226,000**	35,163,000
Federal income	**8,790,000**	8,516,000
State income	**1,850,000**	2,387,000
Provision for deferred income taxes	**6,800,000**	1,812,000
Investment tax credit:		
Tax credit deferred	**2,763,000**	3,134,000
Amortization of deferments (credit)	**(4,183,000)**	(3,907,000)
Total electric expenses and taxes	**369,486,000**	317,839,000
Electric operating income	**82,055,000**	68,299,000
OTHER INCOME:		
Allowance for funds used during construction	**37,676,000**	24,342,000
Earnings of subsidiaries	**2,424,000**	1,763,000
Dividends and interest	**731,000**	133,000
Other, net (Note 10)	**1,811,000**	(49,000)
Income tax-credit	**9,553,000**	8,247,000
Total other income	**52,195,000**	34,436,000
Gross income	**134,250,000**	102,735,000
INTEREST DEDUCTIONS:		
Interest on long-term debt	**54,912,000**	42,291,000
Other interest	**7,351,000**	9,131,000
Amortization of debt discount, premium and expense	**132,000**	135,000
Total interest deductions	**62,395,000**	51,557,000
Net income	**71,855,000**	51,178,000
DIVIDENDS ON PREFERENCE AND PREFERRED STOCK	**16,341,000**	11,177,000
Earnings for common stock	**$ 55,514,000**	$ 40,001,000
AVERAGE COMMON SHARES OUTSTANDING	**29,482,000**	25,413,000
EARNINGS PER SHARE OF COMMON STOCK	**$1.88**	$1.57

See notes to financial statements

Notes to Financial Statements

1. **Rate Increases.** During 1970 and 1971, the Company received permanent rate increases from the North Carolina Utilities Commission and The Public Service Commission of South Carolina for customers served under retail rate schedules. These rate increases and those referred to in the following paragraph produced additional revenues of $8,600,000 in 1970 and $52,500,000 (including revenues subject to refund) in 1971.

The Federal Power Commission in December 1970 allowed an increase (subject to refund with interest) in rates for wholesale customers which produced $5,200,000 of revenues in 1971; under an initial decision of a Federal Power Commission hearing examiner dated February 2, 1972, a major portion of this increase would be granted permanently; such decision is subject to review by the Federal Power Commission. In 1971, the Company received a 7.1% interim rate increase (subject to refund with interest) from the North Carolina Utilities Commission for customers served under retail rate schedules, which produced $9,000,000 of revenues in that year; the Commission's order dated January 31, 1972 granted a permanent 8.93% increase (including such interim increase) which has been submitted to the Price Commission. (See page 20 under "Rate Matters".)

2. **Depreciation of Electric Plant.** Provisions for depreciation are recorded using the straight-line method at annual rates which average 3.17% for 1971 and 3.24% for 1970.

3. **Capital Stock.** The Company's authorized capital stock consists of 1,500,000 shares of preference stock, 2,250,000 shares of preferred stock and 50,000,000 shares of common stock.

	December 31 1971	1970
Outstanding Capital Stock:		
Common stock, no par— (1971—30,229,463 shs. 1970—25,932,476 shs.)	$498,207,000	$385,897,000
Preference stock, $100 par— 6¾% Convertible Series AA (500,000 shs.)	$ 50,000,000	$ 50,000,000
Preferred stock, $100 par—		
4.50% Series C (350,000 shs.)	$ 35,000,000	$ 35,000,000
5.72% Series D (350,000 shs.)	35,000,000	35,000,000
6.72% Series E (350,000 shs.)	35,000,000	35,000,000
8.70% Series F (600,000 shs.)	60,000,000	60,000,000
8.20% Series G (600,000 shs.)	60,000,000	—
Total	$225,000,000	$165,000,000

The changes in capital stock during 1971 are described under "Financing and Investor Activities" on page 22. In 1970, 2,692,737 shares of common stock were issued for a consideration of $66,648,000.

The outstanding Preference Stock, 6¾% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $32.95 per share, effective February 1971, each share of such preference stock being taken at $100 for such purposes. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution and will change upon the issuance of 5,000,000 additional shares of common stock planned for the first quarter of 1972. At December 31, 1971, 1,517,451 shares of the common stock were reserved for the conversion of the Series AA Preference Stock and an additional 183,900 shares were reserved for issuance under the Stock Purchase-Savings Program for Employees.

The outstanding preference and preferred capital stocks are callable at various redemption prices not exceeding $110 a share plus accumulated dividends to redemption date.

4. **Sale and Lease of Combustion Turbines.** In January 1971, the Company entered into net lease transactions with respect to twenty-five dual-fuel combustion turbines either owned by the Company or under purchase orders for delivery during 1971. Such transactions involved the assignment of the Company's rights under the purchase orders and the sale of the turbines owned by it, for which the Company received $65,500,000. The leases required an initial payment of about $3,200,000 in October 1971, and annual payments of $5,731,000 for the first ten years and $7,924,000 for the remaining fifteen years of the term. Also, the Company pays all expenses in connection with the leased turbines including taxes, operating costs and maintenance. The Company has options to repurchase the turbines at stipulated purchase prices after the first ten years.

The Company is accruing amounts representing ratable portions of the deferred lease payments net of salvage over the estimated useful life of the turbines as rent expense and long-term debt. Such accounting treatment is presently under consideration by regulatory authorities and no determination has yet been made with respect thereto.

5. **Long-Term Debt:**

	December 31 1971	1970
First and Refunding Mortgage Bonds:		
3% Series due 1975	$ 40,000,000	$ 40,000,000
2.65% Series due 1977	40,000,000	40,000,000
2⅞% Series due 1979	40,000,000	40,000,000
3¼% Series due 1981	35,000,000	35,000,000
3⅝% Series due 1986	30,000,000	30,000,000
4½% Series due 1992	50,000,000	50,000,000
4¼% Series B due 1992	50,000,000	50,000,000
4½% Series due 1995	40,000,000	40,000,000
5⅜% Series due 1997	75,000,000	75,000,000
6⅜% Series due 1998	75,000,000	75,000,000
7% Series due 1999	75,000,000	75,000,000
8% Series B due 1999	75,000,000	75,000,000
8½% Series due 2000	75,000,000	75,000,000
8⅝% Series B due 2000	100,000,000	100,000,000
7½% Series due 2001	100,000,000	—
7⅜% Series B due 2001	40,000,000	—
4⅞% Sinking Fund Debentures due 1982	36,250,000	37,500,000
6.85% Notes due 1978	60,000,000	—
Turbine Leasing (Note 4)	4,641,000	—
Total	$1,040,891,000	$837,500,000

Notes to Financial Statements—continued

6. **Financing.** See page 22 under "Financing and Investor Activities" for information concerning debt and equity securities issued during 1971 and to be issued during the first quarter of 1972.

7. **Commitments.** Capital expenditures for property additions for 1972-1974 are estimated at $1.3 billion of which $436 million is expected to be spent in 1972.

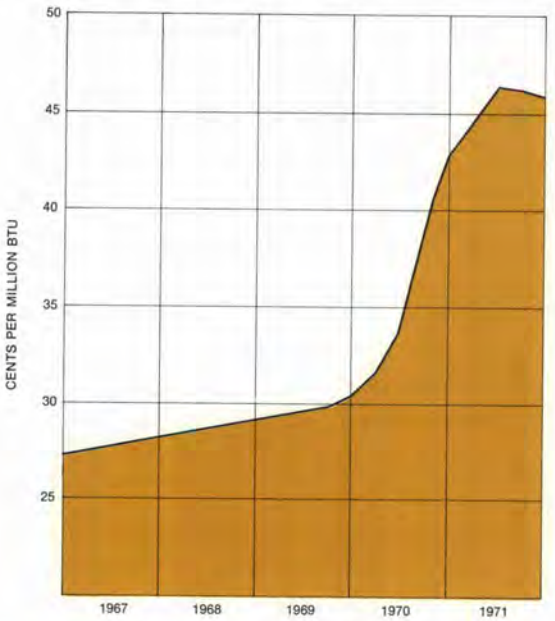
8. **Income Taxes.** The Company depreciates property acquired after 1969 on an accelerated basis for income tax purposes and provides for deferred income taxes under normalization accounting as permitted by the Federal Tax Reform Act of 1969, using the "class lives" provided in the Revenue Act of 1971 for 1971 additions. The Revenue Act of 1971 also provides for the restoration of the investment tax credit at a rate of 4%. For 1971 such investment credits amounted to $1,242,000 and is being deferred and amortized on the books of the Company over the depreciable lives of the related property.

Income taxes reflect tax benefits of approximately $6,592,000 for 1971 and $6,385,000 for 1970 resulting from the deduction for income tax purposes of items capitalized for book purposes in connection with the expanding construction program (principally certain taxes and pension costs) and of accelerated depreciation with "flow through" accounting for certain electric plant additions in 1968 and 1969.

9. **Retirement Plan Cost.** The Company has a non-contributory Employees' Retirement Plan for the benefit of substantially all of its employees. The Company's policy is to fund pension cost accrued. Costs for 1971 and 1970 were $4,185,000 and $4,443,000, respectively.

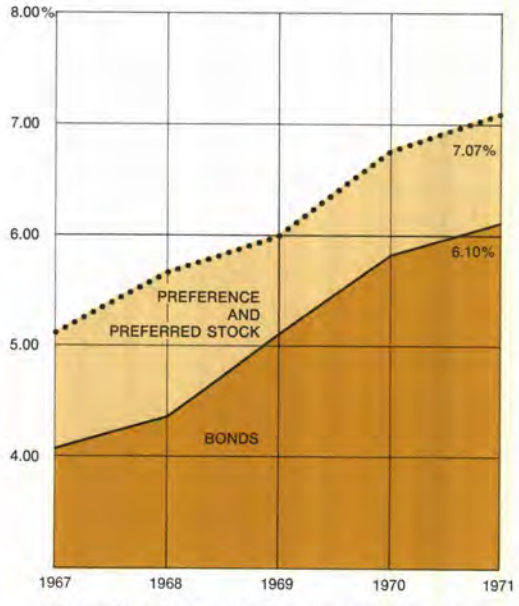
10. **Other Income.** In June 1971, the Company sold its holdings of the capital stock of a non-affiliated company at a net gain of $1,594,000 or $.05 per common share.

Cost of Fuel Used in Electric Generation



Fuel comprised 62 per cent of operating expenses in 1971.

Embedded Cost of Money



During this period the embedded cost of long-term debt and preferred stock dividends increased 61 per cent and 40 per cent, respectively.

Financial and Statistical Summary

	1971	1970	1969	1968	1967	1961
INCOME DATA (DOLLARS IN THOUSANDS)						
Electric revenues:						
Residential sales	$ 166,442	$ 140,281	$ 126,145	$ 114,576	$ 103,127	$ 71,972
Commercial sales	91,183	75,951	66,378	59,650	52,490	31,616
Industrial sales	139,560	118,811	109,688	102,627	93,730	54,331
Other energy sales	49,796	47,565	36,576	32,255	30,036	16,647
Other revenues	4,560	3,530	3,455	3,138	2,939	1,758
Total electric revenues	451,541	386,138	342,242	312,246	282,322	176,324
Electric expenses and taxes:						
Operation and maintenance	261,178	222,307	162,404	140,097	123,121	73,069
Depreciation	53,062	48,427	41,934	38,075	34,544	23,604
Taxes	55,246	47,105	65,892	73,057	65,571	44,945
Total electric expenses and taxes	369,486	317,839	270,230	251,229	223,236	141,618
Electric operating income	82,055	68,299	72,012	61,017	59,086	34,706
Other income:						
Allowance for funds used during construction	37,676	24,342	15,711	9,667	4,245	2,025
Other income, net	14,519	10,094	5,639	4,000	2,067	1,611
Interest deductions	(62,395)	(51,557)	(38,945)	(25,543)	(19,205)	(11,108)
Income before extraordinary item	71,855	51,178	54,417	49,141	46,193	27,234
Extraordinary item	—	—	—	—	854	—
Net income (a)	71,855	51,178	54,417	49,141	47,047	27,234
Dividends on preference and preferred stock	16,341	11,177	6,969	4,970	3,514	1,360
Earnings for common stock	55,514	40,001	47,448	44,171	43,533	25,874
Dividends on common stock	40,763	35,271	32,478	30,069	27,676	18,088
Earnings retained for use in the business	$ 14,751	$ 4,730	$ 14,970	$ 14,102	$ 15,857	$ 7,786
COMMON STOCK DATA						
Shares of common stock—year end (thousands)	30,229	25,932	23,240	23,160	23,094	22,812(b)
Per share of common stock (a) (average shares):						
Earnings before extraordinary item (a)	$ 1.88	$ 1.57	$ 2.05	$ 1.91	$ 1.85	$ 1.15
Extraordinary item, net of related income taxes	—	—	—	—	.04	—
Earnings for common stock (a)	1.88	1.57	2.05	1.91	1.89	1.15
Dividends paid	1.40	1.40	1.40	1.30	1.20	.80
Market value—high-low	27⅝-20¾	29½-20⅛	43½-27⅝	43¼-33⅛	43¼-30	31½-25⅜
—year end	23¾	24¾	29½	38¼	37	27¼
BALANCE SHEET DATA (DOLLARS IN THOUSANDS)						
Electric plant (original cost)	$2,459,572	$2,110,380	$1,735,861	$1,466,874	$1,281,135	$ 798,849
Accumulated depreciation	534,216	492,083	451,802	418,298	387,959	234,986
Capitalization and short-term notes:						
Common stock equity	580,025	457,319	386,190	369,233	353,150	264,656
Preference stock	50,000	50,000	50,000	—	—	—
Preferred stock	225,000	165,000	105,000	105,000	70,000	25,284
Long-term debt	1,040,891	837,500	663,750	515,000	441,250	283,750
Short-term notes payable	119,343	189,806	128,817	100,340	81,400	14,800
ELECTRIC AND OTHER STATISTICS						
Kilowatthour sales (millions):						
Residential	8,780	8,126	7,340	6,547	5,777	3,690
Commercial	5,938	5,391	4,767	4,197	3,579	1,737
Industrial	16,357	15,140	14,593	13,634	12,337	6,995
Other	5,838	6,631	5,180	4,521	4,223	2,087
Total kilowatthour sales	36,913	35,288	31,880	28,899	25,916	14,509
Number of customers (year end):						
Residential	864,361	835,706	810,743	785,830	762,658	638,117
Other	137,090	129,871	124,496	119,959	114,874	91,537
Total customers	1,001,451	965,577	935,239	905,789	877,532	729,654
Residential customer data:						
Average annual KWH use	10,299	9,864	9,179	8,432	7,664	5,636
Average revenue per KWH	1.90¢	1.73¢	1.72¢	1.75¢	1.79¢	1.95¢
Number of employees (year end):						
Operating and maintenance	7,392	7,363	6,933	6,488	6,150	5,459
Generating plant construction and engineering	3,910	3,210	2,596	1,597	1,046	1,101
Source of energy (millions of KWH):						
Generated—Steam	35,393	34,212	30,591	28,019	26,276	13,854
—Hydro	2,028	1,491	1,784	1,521	1,315	1,643
—Combustion turbines	726	837	643	173	2	—
Purchased and net interchange	1,789	1,728	1,534	1,801	546	350
Loss and company use	3,023	2,979	2,672	2,615	2,223	1,488
% loss and company use	7.5%	7.8%	7.7%	8.2%	7.8%	9.4%
System average heat rate	9,728	9,784	9,738	9,700	9,691	9,546
System load factor	68.2%	66.6%	68.9%	65.9%	70.1%	63.8%

(a) Net income for 1969 has been increased by $5,125,000 ($.22 per common share) as a result of certain changes as follows: (i) $725,000 from reduction of depreciation rates for electric generating facilities to the Internal Revenue Service guideline rates ($1,629,000 reduction in depreciation less related income taxes); (ii) $2,650,000 from reduction of the amortization period of deferred investment tax credits from twenty-five to five years; and (iii) $1,750,000 from the adoption of "flow-through" income tax accounting in connection with the use for income tax purposes of accelerated depreciation on additions to electric generating, transmission and certain general plant facilities acquired in 1968 and 1969.

(b) The number of shares of common stock has been adjusted for 2 for 1 split in 1964.

Management Changes

The Board of Directors elected Carl Horn, Jr., to serve as President of the Company on April 28, 1971, replacing W. B. McGuire, who retired as President after 12 years. Mr. Horn, 50, had been serving as Executive Vice President and General Counsel. Mr. McGuire continues as a director of the Company.

In other Board action of the same date, B. B. Parker was named Executive Vice President and General Manager; D. W. Booth was elevated to Senior Vice President-Retail Operations; and W. S. Lee was named Senior Vice President-Engineering and Construction.

Booth replaced D. W. Jones, who retired from active management but remains a vice president and member of the Board.

William H. Grigg was named Vice President and General Counsel; John D. Hicks, Vice President-Corporate Affairs; P. D. Huff, Vice President-Distribution-Engineering; J. W. Lewis, Vice President-District Operations; Henry H. Orr, Vice President-Marketing; Warren H. Owen, Vice President-Design Engineering; Steve C. Griffith, Jr., Secretary and Associate General Counsel.

In July the Board named Austin C. Thies and Chas. B. Wade, Senior Vice President and Director of R. J. Reynolds Tobacco Co. and a Director of R. J. Reynolds Industries, to directorships. Thies, previously Vice President-Power Operations, was named Senior Vice President-Production and Transmission at the same time, replacing G. G. Mattison, who retired after 47 years service, including nine years as a director.

Other July Board action named Robert E. Frazer, Vice President-Finance in addition to his duties as Treasurer and Frank A. Jenkins, Vice President-Transmission and Electric Installations.

In October the Board named R. L. Dick, Vice President-Construction, replacing C. E. Watkins who retired after 43 years of service, and Joe S. Major, Jr., Vice President-Personnel, replacing Kenneth Austin who retired after serving the Company 37 years.

The average age of the Executive Committee of the Company is 47 years.

Duke Power Executive Staff

Carl Horn, Jr.*
President and Director
B.A., LL.B.—Duke University
Attorney
(50/18)

G. A. Coan
Vice President, Rates
B.S.—Purdue University
Mechanical Engineer
Professional Engineer
(63/40)

R. E. Frazer*
Vice President, Finance, and Treasurer
B.S.—Central Michigan University
Certified Public Accountant
(43/11)

William H. Grigg*
Vice President and General Counsel
A.B., LL. B.—Duke University
Attorney
(39/9)

John D. Hicks*
Vice President, Corporate Affairs and Director
B.S.—U.S. Naval Academy, Yale Law School, LL.B.
Attorney
(48/15)

J. P. Lucas, Jr.
Vice President, Public Relations and Director
A.B.—Duke University
M.S.—N. C. State
A.M.—Princeton University
(63/32)

J. S. Major
Vice President, Personnel
(51/34)

B. B. Parker*
Executive Vice President, General Manager and Director
B.S.—University of North Carolina
Electrical Engineer
(57/36)

D. W. Booth*
Senior Vice President Retail Operations and Director
B.S.—University of Alabama
Electrical Engineer
(47/20)

W. S. Lee*
Senior Vice President Engineering & Construction and Director
B.S.—Princeton University
Civil Engineer
Professional Engineer
(42/17)

A. C. Thies*
Senior Vice President Production & Transmission and Director
B.S.—Georgia Tech
Mechanical Engineer
(50/25)

*Member of Executive Committee

Figures in Parenthesis
Denote Age and Length of Service

Other Directors

Thomas L. Perkins
Chairman of theBoard
Chairman of the Trustees, The Duke Endowment
Counsel, Perkins, Daniels & McCormack
Director
American Cyanamid Company
Discount Corporation of New York
General Motors Corporation
Morgan Guaranty Trust Company

Robert C. Edwards
President, Clemson University
Director
Dan River, Inc.
Southern Regional Education Board
Federal Reserve Board of Richmond, Charlotte Branch

Richard B. Henney
Trustee, Executive Director and Secretary
The Duke Endowment

Howard Holderness
Chairman of the Board
Jefferson Standard Life Insurance Company and Jefferson Pilot Corporation
Director
Burlington Industries, Inc.
Carolina Telephone & Telegraph Company
Jefferson Standard Broadcasting Company
Pilot Life Insurance Company

Herman W. Lay
Chairman of the Board
PepsiCo, Inc.
Director
Braniff International
Third National Bank of Nashville
First National Bank of Dallas
Southwestern Life Insurance Company
Wilson Sporting Goods Company

Marshall I. Pickens
Vice Chairman, The Duke Endowment

D. W. Jones
Vice President
President, Southeastern Electric Exchange
Director
J. P. Stevens & Co., Inc.

W. B. McGuire
Trustee
Duke Endowment
Chairman, National Electric Reliability Council

Chas. B. Wade, Jr.
Senior Vice President
R. J. Reynolds Tobacco Co.
Director
R. J. Reynolds Tobacco Co.
R. J. Reynolds Industries, Inc.
Hennis Freight Lines
Atlantic & East Carolina Railway

Other Officers

W. J. Burton
Assistant Vice President
Public Relations

L. P. Julian
Assistant Vice President
Operation

S. T. Lattimore
Assistant Vice President
Computer Services

E. D. Powell
Assistant Vice President
Steam Production

S. F. Campbell
Assistant Treasurer

J. W. Lawrence
Assistant Treasurer

W. R. Stmart
Assistant Treasurer

R. J. Ashmore
Assistant Controller

P. A. Hauser
Assistant Controller

J. F. Day
Assistant Secretary

J. C. Goodman, Jr.
Assistant Secretary

J. S. Sease
Assistant Secretary

R. L. Asbury
Controller
B.S.—University of North Carolina
(66/46)

F. W. Beyer
Vice President
System Planning
B.A., B.E.E.—Ohio State University
(56/21)

Carl J. Blades
Vice President
Real Estate
M.F.F.—Michigan University
B.S.Ag.—Western Michigan University
(59/32)

R. L. Dick
Vice President
Construction
B.C.E.—N. C. State University
(44/22)

Steve C. Griffith, Jr.
Secretary and Associate General Counsel
B.S.—Clemson University
LL.B.—U. of South Carolina
(38/7)

P. D. Huff
Vice President
Distribution Engineering
B.E.E.—Clemson University
(58/35)

Frank A. Jenkins
Vice President
Transmission & Electrical Installations
B.E.E.—N. C. State University
(51/33)

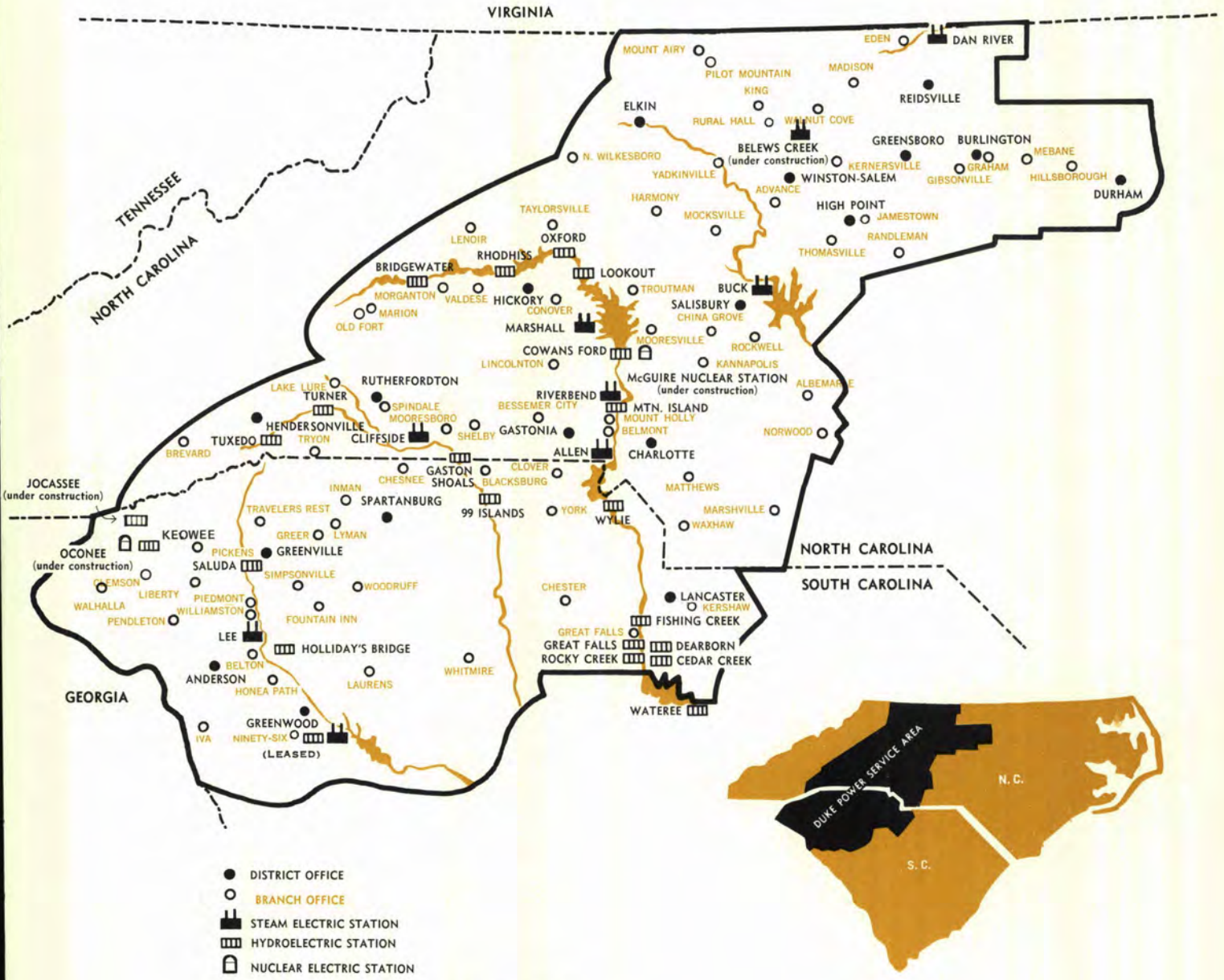
J. Wesley Lewis
Vice President
District Operations
(56/34)

Henry H. Orr
Vice President
Marketing
(61/37)

Warren H. Owen
Vice President
Design Engineering
B.M.E.—Clemson University
(44/23)

Figures in Parenthesis
Denote Age and Length of Service

Duke Power Service Area



Certain minor steam-electric and hydroelectric plants omitted.

Duke Power

INTERIM FINANCIAL STATEMENTS
SECOND QUARTER
1972

DUKE POWER COMPANY
422 South Church Street - P. O. Box 2178
Charlotte, N. C. 28201

Telephone: 704-374-4574

These Financial Statements are intended to provide information to present shareholders about the Company and its operations. They are not a representation with respect to any securities of the Company, nor are they to be used in connection with any sale or purchase of any securities.

DUKE POWER COMPANY

BALANCE SHEET

(Subject To Audit)
(Thousands of Dollars)

ASSETS	June 30 1972	June 30 1971
Electric Plant (at original cost):		
Electric plant in service	$1,942,224	$1,730,539
Construction work in progress (1972 - includes $396,639 of nuclear and $178,278 of other generating facilities)	694,036	514,908
Total	2,636,260	2,245,447
Less accumulated depreciation	558,114	511,098
Electric plant, net (excluding nuclear fuel assemblies)	2,078,146	1,734,349
Nuclear fuel assemblies	54,028	14,970
Electric plant, net	2,132,174	1,749,319
Other Property and Investments:		
Other property - at cost (less accumulated depreciation)	14,689	14,369
Investments in and advances to subsidiaries - at equity	19,213	27,093
Other securities - at cost or less	7,331	2,089
Total other property and investments	41,233	43,551
Current Assets:		
Cash	14,787	14,629
Receivables (less allowance for losses)	40,064	34,824
Materials and supplies - at average cost:		
Fuel	35,659	36,006
Other	32,768	30,605
Prepayments	256	429
Total current assets	123,534	116,493
Deferred Debits:		
Debt discount, premium and expense, being amortized	5,520	3,915
Other	4,877	4,684
Total deferred debits	10,397	8,599
Total	$2,307,338	$1,917,962
LIABILITIES		
Capitalization:		
Capital stock and retained earnings:		
Common stock, no par (authorized 50,000,000 shares; outstanding 1972 - 35,311,153 shares)	$ 613,851	$ 496,392
Retained earnings	83,627	73,047
Total common stock equity	697,478	569,439
Preference stock - $100 par (authorized 1,500,000 shares; outstanding 500,000 shares - 6 3/4% Convertible Series AA)	50,000	50,000
Preferred stock - $100 par (authorized 5,000,000 shares):		
4.50% Series C (outstanding - 350,000 shares)	35,000	35,000
5.72% Series D (outstanding - 350,000 shares)	35,000	35,000
6.72% Series E (outstanding - 350,000 shares)	35,000	35,000
8.70% Series F (outstanding - 600,000 shares)	60,000	60,000
8.20% Series G (outstanding - 600,000 shares)	60,000	—
7.80% Series H (outstanding - 600,000 shares)	60,000	—
Premium on preferred stock - 7.80% Series H	937	—
Total capital stock and retained earnings	1,033,415	784,439
Long-term debt (Note 5)	1,144,895	938,487
Total capitalization	2,178,310	1,722,926
Current Liabilities:		
Accounts payable	26,155	20,425
Customers' deposits	2,497	2,859
Taxes accrued	9,370	5,480
Interest accrued	23,319	21,048
Other	3,729	4,453
Total	65,070	54,265
Notes payable for construction - pending permanent financing	24,100	111,723
Total current liabilities	89,170	165,988
Deferred Credits, etc.:		
Investment tax credit, being amortized	12,080	12,457
Injuries and damages reserve	2,324	2,303
Contributions in aid of construction	9,645	7,955
Accumulated deferred income taxes	14,659	5,157
Other deferred credits	1,150	1,176
Total deferred credits, etc.	39,858	29,048
Total	$2,307,338	$1,917,962

See notes to financial statements.

DUKE POWER COMPANY

STATEMENT OF INCOME

(Subject To Audit)
(Thousands of Dollars)

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended June 30	
	1972	1971	1972	1971	1972	1971
Electric Revenues (Note 1)	$120,799	$106,547	$243,242	$216,813	$477,970	$419,777
Electric Expenses:						
Operation:						
Fuel used in electric generation	38,415	39,183	80,781	80,589	161,280	161,752
Purchased power	7,264	4,079	12,587	7,273	23,824	17,138
Wages and benefits, materials, etc.	16,582	14,440	33,331	28,906	63,800	52,734
Maintenance	6,215	5,356	12,175	10,821	23,559	20,730
Depreciation	14,111	12,573	29,544	25,786	56,820	50,628
Taxes: (Note 3)						
General	11,009	9,976	21,592	19,938	40,880	37,755
Federal income	2,392	705	2,248	1,665	9,372	2,725
State income	531	(355)	852	713	1,989	1,514
Provision for deferred income taxes	2,781	1,839	6,047	3,345	9,502	4,327
Investment tax credit:						
Tax credit deferred	1,205	1,217	3,337	2,372	3,728	3,510
Amortization (credit)	(1,102)	(1,217)	(2,237)	(2,388)	(4,032)	(4,327)
Total electric expenses	99,403	87,796	200,257	179,020	390,722	348,486
Electric operating income	21,396	18,751	42,985	37,793	87,248	71,291
Other Income:						
Allowance for funds used during construction	12,772	8,628	24,696	17,090	45,282	30,635
Earnings of subsidiaries	353	431	540	610	2,354	1,904
Dividends and interest	136	78	273	114	889	180
Other, net (Note 4)	(183)	2,248	(479)	1,935	(603)	2,057
Income tax-credit	3,280	1,257	6,295	3,986	11,862	8,972
Total other income	16,358	12,642	31,325	23,735	59,784	43,748
Gross income	37,754	31,393	74,310	61,528	147,032	115,039
Interest Deductions:						
Interest on long-term debt	17,178	14,050	32,978	26,496	61,393	49,852
Other interest	726	842	2,132	2,953	6,531	7,521
Amortization of debt discount, premium and expense	64	34	128	65	195	123
Total interest deductions	17,968	14,926	35,238	29,514	68,119	57,496
Net income	19,786	16,467	39,072	32,014	78,913	57,543
Dividends on Preference and Preferred Stock	4,978	3,631	9,839	7,262	18,919	13,787
Earnings for common stock	$ 14,808	$ 12,836	$ 29,233	$ 24,752	$ 59,994	$ 43,756
Average Common Shares Outstanding (thousands)	35,288	30,128	33,745	28,777	31,966	27,313
Per Share of Common Stock:						
Earnings for common stock	$0.42	$0.43	$0.86	$0.86	$1.88	$1.60
Dividends paid	$0.35	$0.35	$0.70	$0.70	$1.40	$1.40

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

1 - In 1970-1972 the Company filed applications for rate increases with the regulatory commissions that have authority over its rates to wholesale and retail customers. The following tabulation sets forth the effects on revenues of rate increases granted to date:

Rate Schedules	% Granted	Effective Date	Estimated Revenue Increases (thousands) Annualized on 1972 Sales	Calendar 1972	Period Ended June 30, 1972 3 Months	6 Months	12 Months
Wholesale*	17%	Dec. 14, 1970	$ 6,000	$ 6,000	$ 1,300	$ 2,700	$ 5,400
S. C. Retail (Permanent)	15%	Jan. 1, 1971	18,200	18,200	4,200	8,400	16,600
N. C. Retail (Permanent)	10.38%	Mar. 15, 1971	28,800	28,800	6,500	13,300	26,300
N. C. Interim Retail (Terminated 3-26-72)	7.1%	July 1, 1971	–	4,600	–	4,600	13,600
N. C. Retail (Permanent)	8.93%	Mar. 27, 1972	27,300	21,500	6,200	6,900	6,900
S. C. Retail (Interim)*	4.15%	Apr. 1, 1972	5,600	4,200	1,300	1,300	1,300
Revenues Applicable to 1972			$85,900	$83,300	$19,500	$37,200	$70,100
Revenues Applicable to 1971					$11,200	$19,600	$27,000

*Subject to refund with interest.

2 - In 1971 the Company entered into a sale and lease-back agreement for twenty-five dual-fuel combustion turbines which requires annual payments of $5,731,000 for the ten years beginning in 1972 and $7,924,000 for the remaining 15 years of the term. Also the Company pays all the expenses in connection with the leased turbines and has options to repurchase the turbines at stipulated purchase prices after the first ten years. The Company is accruing amounts representing ratable portions of the deferred lease payments net of salvage over the estimated useful life of the turbines as rent expense and long-term debt. Such accounting treatment is presently under consideration by regulatory authorities, and no determination has yet been made with respect thereto.

3 - For income tax purposes the Company depreciates property acquired after 1969 on an accelerated basis with normalization accounting using the shorter "class lives" as provided by the Internal Revenue Code. In accordance with the Revenue Act of 1971, the Company receives the 4% investment tax credit on qualifying property additions which is being deferred and amortized on the Company's books over the depreciable lives of the related property.

4 - In June 1971 the Company sold its holdings of the capital stock of a non-affiliated company at a gross gain of $2,383,000 or $1,594,000 after income taxes (5¢ per share of common stock).

5 - Long-Term Debt:	June 30 1972	1971
	(Thousands of Dollars)	
First and Refunding Mortgage Bonds:		
3% Series due 1975	$ 40,000	$ 40,000
2.65% Series due 1977	40,000	40,000
2 7/8% Series due 1979	40,000	40,000
3 1/4% Series due 1981	35,000	35,000
3 5/8% Series due 1986	30,000	30,000
4 1/2% Series due 1992	50,000	50,000
4 1/4% Series B due 1992	50,000	50,000
4 1/2% Series due 1995	40,000	40,000
5 3/8% Series due 1997	75,000	75,000
6 3/8% Series due 1998	75,000	75,000
7% Series due 1999	75,000	75,000
8% Series B due 1999	75,000	75,000
8 1/2% Series due 2000	75,000	75,000
8 5/8% Series B due 2000	100,000	100,000
7 1/2% Series due 2001	100,000	100,000
7 3/8% Series B due 2001	40,000	–
7 3/4% Series due 2002	100,000	–
Sinking Fund Debentures:		
4 7/8% due 1982	36,250	37,500
Notes:		
6.85% due 1978	60,000	–
7% due 1977	1,000	–
Turbine Leasing (Note 2)	7,645	987
Total	$1,144,895	$938,487

DUKE POWER COMPANY
STATEMENT OF SOURCE OF FUNDS FOR PLANT CONSTRUCTION EXPENDITURES
SIX MONTHS ENDED JUNE 30, 1972

(Subject To Audit)
(Thousands of Dollars)

SOURCE OF FUNDS:	
Funds from operations–	
Net income	$ 39,072
Non-cash charges:	
Depreciation and amortization	30,126
Other, net	8,598
Funds from operations	77,796
Dividends on common stock	(22,941)
Dividends on preference and preferred stock	(9,839)
Funds retained in the business	45,016
Financing–	
Common stock (5,081,690 shares)	111,970
First mortgage bonds - 7 3/4% Series due 2002	99,565
Preferred stock - 7.80% Series H	60,127
Promissory notes - nuclear fuel	1,000
Decrease in notes payable	(95,243)
Funds from financing	177,419
Total available funds	222,435
Changes in working capital, etc.–	
Inventories	(9,017)
Investments in and advances to subsidiaries	15,368
Other	6,834
Plant construction expenditures	$235,620
SUMMARY OF PLANT CONSTRUCTION EXPENDITURES:	
Electric production	$149,366
Nuclear fuel	14,265
Electric transmission	35,411
Electric distribution	33,246
Electric general	4,354
Other construction, net of salvage	(1,022)
Total plant construction expenditures	$235,620

STATEMENT OF RETAINED EARNINGS
SIX MONTHS ENDED JUNE 30, 1972

(Subject To Audit)
(Thousands of Dollars)

Balance, December 31, 1971		$ 81,818
Add:		
Net income for the period		39,072
Total		120,890
Deduct:		
Cash dividends on preference and preferred stock	$ 9,839	
Cash dividends on common stock	22,941	
Capital stock expense	4,483	37,263
Balance, June 30, 1972		$ 83,627

See notes to financial statements.

HIGHLIGHTS

	Six Months Ended June 30			%
	1972	1971	Increase	Increase
Kilowatthour Sales (thousands):				
Total*	19,026,831	18,153,213	873,618	4.8
Regular Sales	18,967,260	17,668,549	1,298,711	7.4
Electric Revenues:				
Total*	$243,242,000	$216,813,000	$26,429,000	12.2
Regular Sales	$239,387,000	$210,177,000	$29,210,000	13.9
Residential	$ 91,505,000	$ 81,501,000	$10,004,000	12.3
Commercial	$ 49,336,000	$ 41,908,000	$ 7,428,000	17.7
Industrial	$ 75,366,000	$ 65,402,000	$ 9,964,000	15.2
Earnings for Common Stock	$ 29,233,000	$ 24,752,000	$ 4,481,000	18.1
Per Share of Common Stock:				
Earnings	$ 0.86	$ 0.86	—	—
Dividends paid	$ 0.70	$ 0.70	—	—
Plant Construction Expenditures	$235,620,000	$208,644,000	$26,976,000	12.9
Customers	1,024,620	985,938	38,682	3.9

*Includes Interchange, Etc.

Peak Load (calendar year):

	1972	1971
Summer –KW	6,440,335	6,622,125
–Date	June 6	June 28
Winter –KW	6,723,085	6,459,790
–Date	January 17	December 3

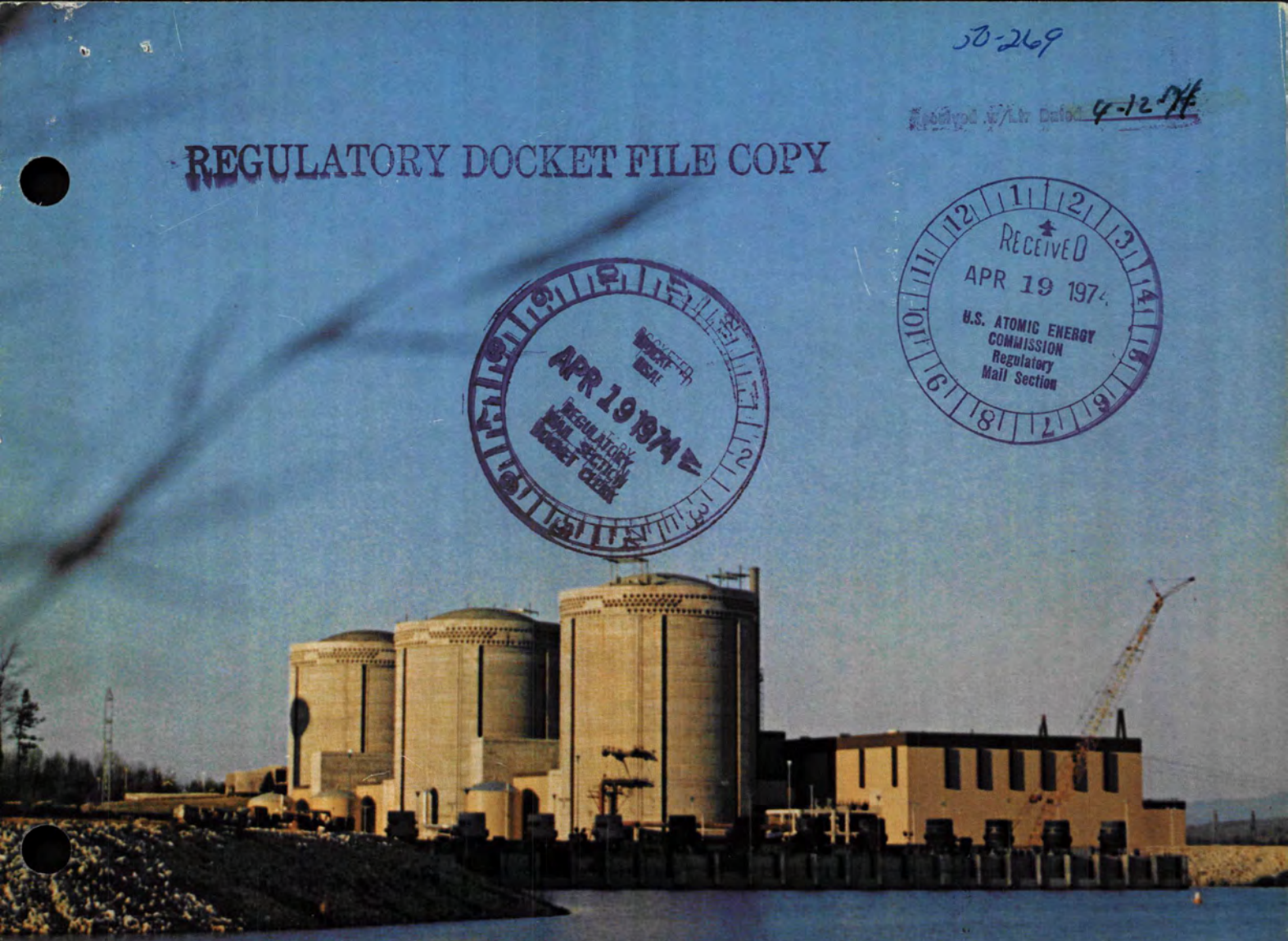
The 1972 summer peak load, to date, of 7,448,000 KW occurred on July 24, 1972.

OFFICER'S CERTIFICATE

I hereby certify that the accompanying financial statements were prepared under my control and direction and that, in my opinion, such financial statements present fairly the financial position of Duke Power Company as of the respective dates shown and the results of its operations for the respective periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

R. E. Frazer
Vice President, Finance

July 26, 1972



Duke Power Annual Report 1973

To Our Shareholders:

While nearly all financial statistics for 1973 showed marked improvement over the prior year, the return which the Company earned on the stockholders' equity investments has not returned to an adequate level. Earnings for common stock were $72 million, up 23 per cent over the prior year, and represented a return on stockholders' equity of 9.6 per cent. This compares with the 12 per cent average return earned by the industry in recent years.

Earnings per share of common stock in 1973 were $1.87, an 11 per cent increase over the $1.69 earnings of 1972.

Electric revenues for 1973 were up 18 per cent to $601 million on sales of 43 billion kilowatthours. Net investment in new plant facilities increased $479 million, of which $90 million was derived from retained earnings and proceeds from common stock issues.

The increase in earnings for 1973 is due largely to the effect of rate increases, and we are continuing our efforts to bring rates in line with current costs. We are especially encouraged by recent decisions of regulatory agencies, particularly those occurring late in the year, which will affect future earnings. For the first time since the 1950's state regulatory commissions have allowed the Company to automatically adjust retail rates as the cost of coal increases or declines. These decisions will permit the recovery of expected increases in coal costs during this period of fuel shortages.

In 1973-74, the Company plans to place into service more than $1 billion in new plant facilities, adding 4.1 million kilowatts of generating capability. Although these facilities are being built at costs substantially below current industry averages, the investment in these facilities is at much higher costs than existing electric plant in service. As a consequence, further rate relief will be necessary in 1974 to support the increase in the embedded cost of in-service facilities.

A summary of management's efforts in 1973 to increase revenues through rate relief is found on page 2 of this report, and efforts to reduce expenses are described on page 6.

As concern over world energy resources continued to mount in 1973, our Company marks the year as a milestone in the colossal effort to assure an abundant supply of electricity for the Piedmont Carolinas, one of the nation's fastest-growing areas. Our first commercial nuclear unit, Oconee unit 1, began operations in July, 1973, and 14 additional steam units are scheduled to join the Duke system during the period 1974-1984. These new facilities will add over 16 million kilowatts of generating capability and, upon their completion, will boost the total system generating capability to over 24 million kilowatts.

In view of anticipated shortages of fossil fuels, it is particularly noteworthy that over 14 million kilowatts, or 86 per cent, of the planned new capability will come from nuclear-fueled steam supply systems. This nuclear capability will greatly reduce the Company's dependence on fossil fuels, thereby contributing to the conservation of those fuels, and will serve as a hedge against expected further increases in the cost of fossil fuels. The economic advantages of nuclear over fossil fuels are outlined on page 16 of this report.

The new steam and hydro units brought into service in 1973 and those planned for operation in 1974 will greatly reduce outside purchases of power and the use of internal combustion turbines fired by oil and natural gas. Both sources are expensive and tend to raise the system's overall operating costs.

We are participating in the nationwide effort to conserve fuels through the dissemination to our customers of information encouraging the efficient uses of electricity, and through continued progress in improving our own generating and transmission efficiencies. In this regard, we are especially proud that our steam-electric generating system has been named the nation's most efficient for the second straight year. Contributing to this distinction was the unprecedented achievement of our Marshall Steam Station being named the most efficient steam-electric station in the country for the seventh consecutive year.

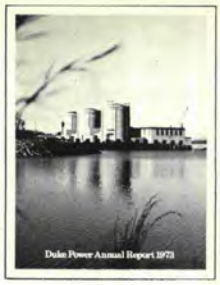
Other major achievements during the year included the completion of a $50 million air pollution control program that has virtually eliminated the emissions of flyash from our coal-burning plants, successful operation of our first pumped-storage hydroelectric facility, and receipt of The Edison Award, the electric utility industry's highest honor, for planning and executing the Keowee-Toxaway development.

The Company was saddened by the passing on June 21, 1973, of Thomas L. Perkins, chairman of the Duke Power Board of Directors since April 24, 1961. Mr. Perkins' influence on the policies and decisions of this Company are reflected in the dedication to citizenship and service that has come to characterize Duke Power.

The accomplishments of 1973 reflect an outstanding performance by all employees during the year, and we are grateful to them for their continued good work. We also are grateful to our directors for their leadership in vital undertakings, and to our customers for their recognition and understanding of the Company's activities in their behalf. We are especially grateful to those who have demonstrated their support and confidence in our Company by investing in its future.

For the Board of Directors
Carl Horn, Jr. President
February 15, 1974

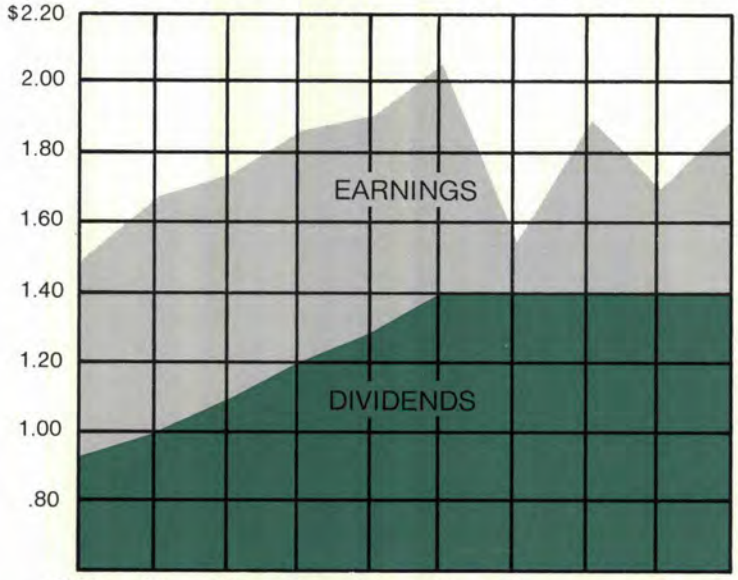
Highlights of the Year



THE COVER:
Oconee Nuclear Station, focal point of the Keowee-Toxaway Project.

	1973	1972	Percent Increase
Electric Revenues:			
Total	**$600,681,000**	$508,232,000	18.2
Regular Sales	**$593,570,000**	$497,095,000	19.4
Earnings for Common Stock	**$ 72,106,000**	$ 58,466,000	23.3
Per Share of Common Stock:			
Earnings	**$1.87**	$1.69	10.7
Dividends Paid	**$1.40**	$1.40	—
Plant Construction Costs	**$478,953,000**	$453,758,000	5.6
Kilowatthour Sales (thousands):			
Total	**43,159,000**	39,688,000	8.7
Regular Sales	**42,669,000**	39,228,000	8.8
Peak Load (KW)	**8,235,585**	7,449,500	10.6
Customers	**1,083,152**	1,040,427	4.1

Earnings and Dividends Per Share Common Stock



	1964	65	66	67	68	69	70	71	72	1973
Earnings	1.48	1.66	1.72	1.85	1.91	2.05	1.57	1.88	1.69	1.87
Dividends	.95	1.00	1.10	1.20	1.30	1.40	1.40	1.40	1.40	1.40

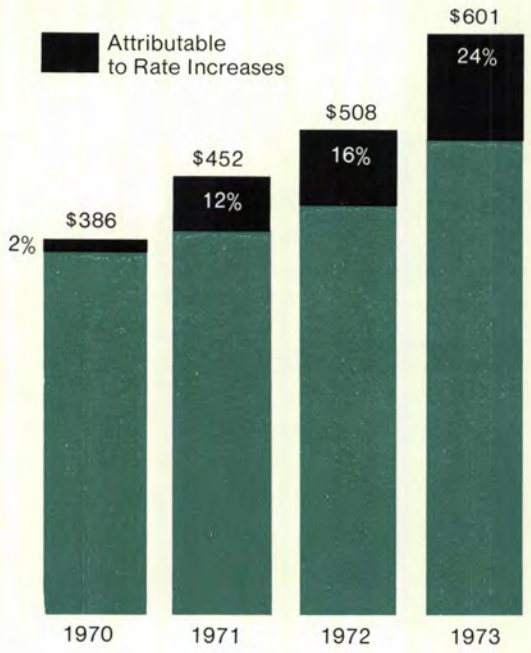
Before extraordinary items and adjusted for stock split.

Contents:

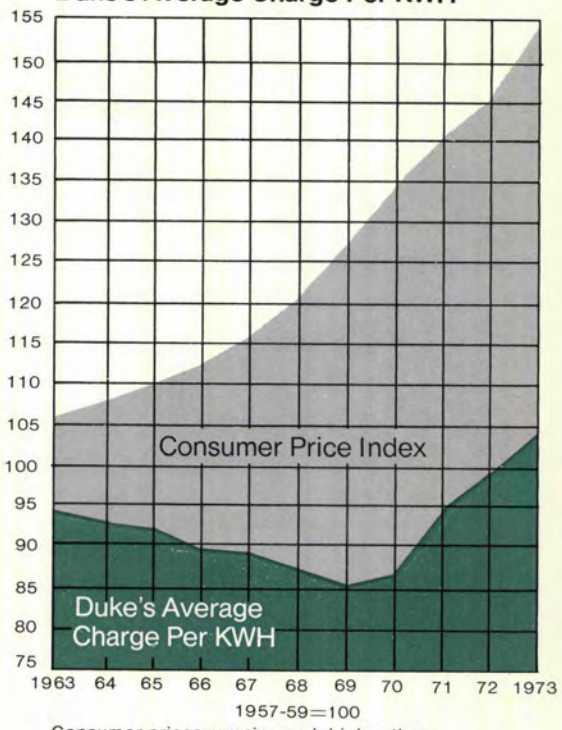
Summary of Rate Activities

	AMOUNT (in millions)	STATUS
Background Continued high costs of capital and new plant facilities, together with higher operating expenses (particularly the rapid increase in cost of fossil fuels) required the Company to seek additional rate relief in 1973. Following is a summary of rate activities during the year, with estimated dollar amounts annualized on 1973 electric sales.		
North Carolina Retail On June 21, 1973, the N. C. Utilities Commission issued an order granting the Company 72 per cent of the retail rate increase being collected subject to refund in that state since January 1, 1973.	**$23.6**	Approved
The Company applied to the North Carolina Commission on September 14, 1973, for additional rate relief of 16.8 per cent and asked that 12 per cent be placed into effect on an interim basis. The Commission approved an eight per cent interim increase, and increased the amount to 10.25 per cent, effective January 19, 1974, after the Company amended its request. Public hearings on the request for permanent relief before the North Carolina Commission will begin May 28, 1974. On April 15, 1974, the Company plans to place into effect, subject to refund, the full 16.8 per cent ($61.1 million annually) increase.	**$36.8**	10.25 Per Cent Increase in Effect, Subject to Refund.
On November 30, the Company asked the North Carolina Commission for approval of a coal cost adjustment clause that would allow Duke to adjust automatically retail rates as coal costs increase or decline. The clause was authorized by the Commission on December 20, 1973, to be reflected on bills rendered on and after January 19, 1974. The clause is based on Duke's cost of coal burned for the month of October, 1973 (.4745 cents per kwh). Although revenues collected under the clause are not subject to refund, the Commission will conduct public hearings beginning May 28, 1974, to determine if the clause will remain in effect.	Varies with Coal Costs	In Effect
South Carolina Retail On July 31, 1973, The Public Service Commission of South Carolina issued an order granting the Company 83 per cent of the retail rate increases being collected subject to refund in that state.	**$19.1**	Approved
Additional rate relief of 16.7 per cent was sought in an application filed with the South Carolina Commission on September 19, 1973. The Company placed an eight per cent interim increase into effect on November 15 and later was allowed to amend the figure to 10.25 per cent, effective January 19, 1974. The Company plans to place into effect, subject to refund, the full 16.7 per cent increase ($26.4 million annually) on April 15, 1974. Public hearings on this request are expected to be held in 1974.	**$16.0**	10.25 Per Cent Increase in Effect, Subject to Refund.
The South Carolina Commission also has approved the Company's undertaking to place into effect a coal cost adjustment clause similar to that approved for North Carolina retail operations. Revenues collected in South Carolina as a result of this clause are subject to refund, pending the Commission's final determination. Public hearings on the clause also are expected in 1974.	Varies with Coal Costs	In Effect, Subject to Refund.
Wholesale Rates On January 23, 1973, the Company filed an application with the Federal Power Commission (FPC) to increase wholesale rates 18.5 per cent and subsequently received approval to place the rates into effect, subject to refund, on April 26, 1973. The new rates update the fuel cost adjustment clause that has been in effect, subject to refund, since August 23, 1972. Hearings before the FPC were completed in December, 1973. A determination is expected in 1974.	**$10.2**	In Effect, Subject to Refund.

Total Revenues Millions of Dollars

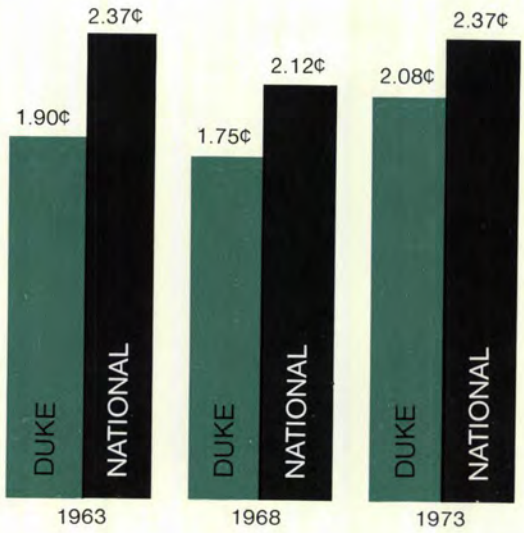


Consumer Price Index and Duke's Average Charge Per KWH

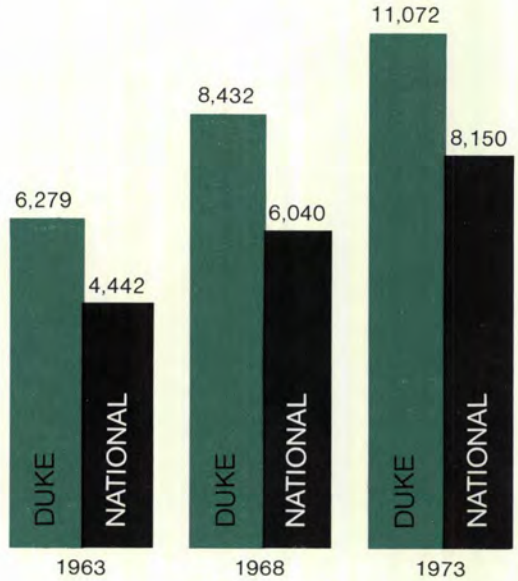


Consumer prices remain much higher than the cost of electricity to Duke's residential customers.

Average Cost Per Residential KWH
Cents Per KWH



Residential Service Average Annual Usage—KWH



Despite recent rate increases, Duke's rates are still appreciably below the national average and average consumption remains much higher.

Serving Our Customers

The steady growth which has become characteristic of the Piedmont Carolinas continued in 1973 with 42,725 new customers joining Company lines. The number brought to 1,083,152 the total number of customers served by Duke Power at year end, an increase of 4.1 per cent over 1972.

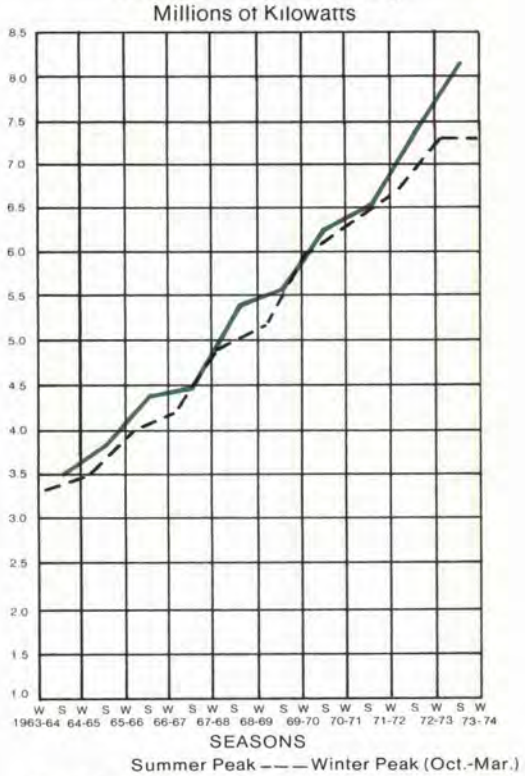
This growth, together with efforts to improve service to existing customers, required the addition of 1,443 miles of distribution lines during the year, bringing the system total for these lines to 48,933 miles.

The Company continued its position as a national leader in placing distribution lines underground during the year. Over 329 miles of underground lines serving more than 14,000 new and existing residential customers were installed.

Also completed during 1973 were the construction of 402 circuit miles of new transmission lines and the upgrading of 481 circuit miles of existing lines. The total circuit miles of transmission lines in service at year end was 10,758.

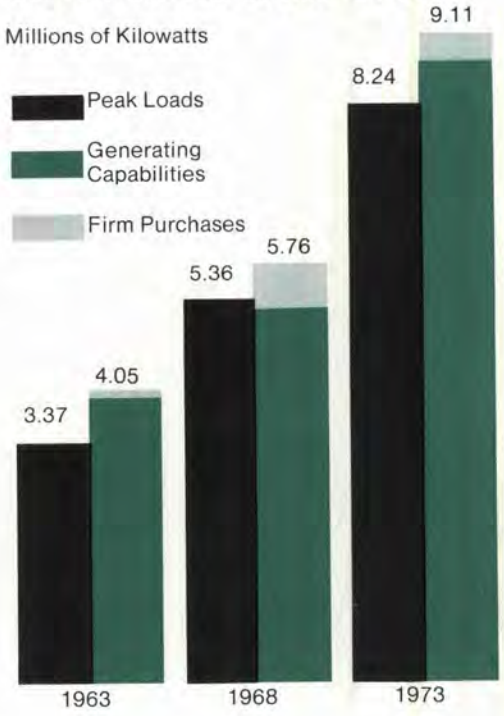
Efforts also continued during the year to improve transmission interconnections with neighboring utilities. Approximately 275 structure miles of a planned 560 mile, 525,000 volt transmission system had been completed at year end. This extra-high voltage system, which was utilized extensively during the year for power exchanges, will give Duke stronger interconnections with Appalachian Power Company, Carolina Power & Light Company, and Georgia Power Company. The system also permits the transmission of bulk power from generating plants to distant load centers within the Duke service area.

Balanced Load Building



The Company makes better year-round use of its generating facilities with well-balanced summer and winter peaks.

Peak Loads vs. Generating Capabilities and Firm Purchases at Time of Peak

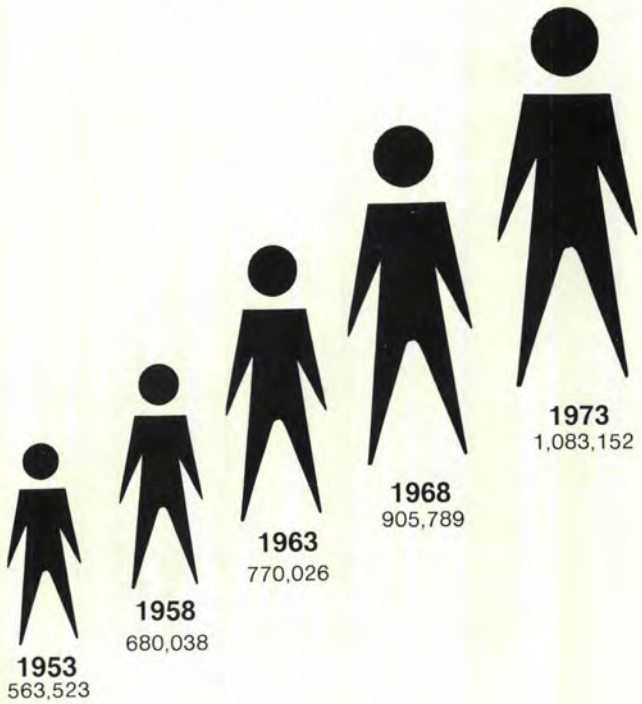


In addition to these interconnections, reliability is further insured by the Company's participation in the Virginia-Carolinas (VACAR) Reliability Group Agreement. VACAR provides for reliability planning and transmission interconnections with participating electric companies in Virginia, North Carolina and South Carolina. One of several sub-regions within the Southeastern Electric Reliability Council (SERC), which coordinates planning for reliability of all bulk power systems in the Southeast, VACAR has power coordinating agreements with similar groups in the mid-Atlantic and east-central regions.

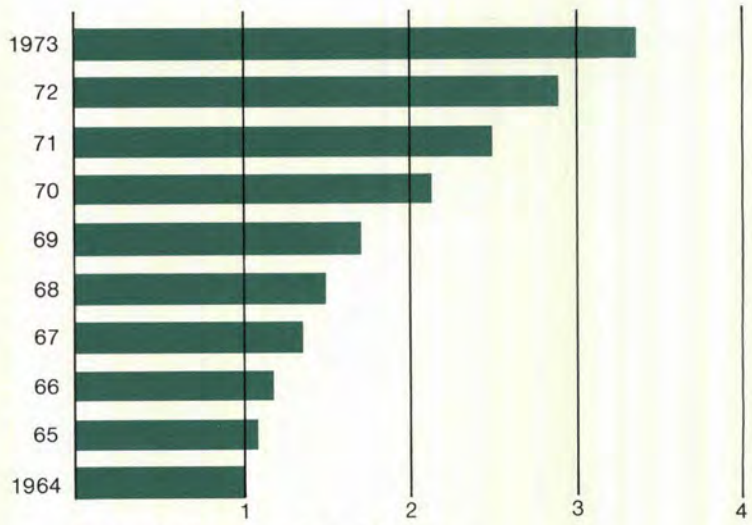
The 1973 peak load of 8,235,585 kilowatts occurred on August 29, and was 11 per cent higher than the 1972 peak of 7,449,500 kilowatts. At the time of peak load, the Company's generating and firm purchase capacity was 9,110,164 kilowatts, providing an 11 per cent margin of reserve.

It was the second straight year that Duke Power was named the most efficient steam-electric generating system in the country, and our largest generating plant —Marshall Steam Station—earned the unprecedented distinction of being the nation's most efficient steam-electric station for the seventh consecutive year. The efficiency ratings are based on operating reports filed with the Federal Power Commission by U. S. operating companies. Most of the Company's generating plants, including Marshall, were designed and built by our own engineering and construction forces.

Total Number of Customers



Gross Electric Plant Investment
Billions of Dollars



During this 10-year period over $2.4 billion was invested in electric plant and $1.6 billion is scheduled for the next three years.

Inflation: Meeting the Challenge

Rampant inflation that has caused construction, operating and maintenance costs to soar in recent years has not gone unchallenged by Duke Power. In all areas of Company activity, innovative management techniques are being employed and new programs developed to achieve maximum efficiency and cost effectiveness.

In the construction of power lines and generating plants, work productivity is measured against pre-established goals and trend lines are given close review to maximize efficiency in manpower and material resources. As a result, new plants and related facilities, which are designed and built by Duke's own engineering and construction forces, are brought into service at costs substantially below the industry average.

The efficient operation of these facilities is assured by modern computer techniques which constantly monitor equipment performance. At Marshall Steam Station, the nation's most efficient steam-electric generating station for seven consecutive years, computers provide information on current performance of major equipment components and compare the performance with an optimized standard. With this information updated every three minutes, the plant operators can make incremental adjustments to assure that each component makes its best contribution to overall efficiency.

These operating standards, together with the high quality of workmanship in plant design and construction, have made our generating system the most efficient in the nation for the latest two years for which Federal Power Commission data is available.

Major cost-saving programs also have been implemented in such areas as customer service and distribution.

One such example is the new "On-Line Customer Order System," an extension of the electronic Customer Information System. This new system permits rapid processing of changes affecting a customer's account, including connection and disconnection of service, meter changes and miscellaneous charges, and automatically processes work instructions to field personnel. It eliminates over four million customer "paper" records and some two million customer files.

A new Construction Management System also has been implemented to further maximize material and manpower resources in the distribution area. In addition to planning long-range construction schedules, this system automatically estimates material and manpower requirements for specific jobs and schedules daily work assignments to assure maximum efficiency. The system has a built-in work performance program which evaluates actual costs against goals and automatically adjusts these goals on the basis of the latest, most efficient costs of actual construction.

A computer system also has been developed to help identify potentially overloaded transformers, an historic source of high maintenance costs. The Transformer Load Management Program monitors the loads on each transformer on the distribution system and enables the Company to replace faulty transformers during regular working hours, reducing unscheduled overtime, and avoids the loss of customer service which might otherwise be experienced without such a monitoring program.

A major new operating center, completed during the year at Greensboro, will help reduce costs by consolidating a number of activities previously performed at scattered locations in the northern portion of the Company's service area. In addition to serving as a base of electric operations for the Greensboro District, the center includes a computerized power dispatching facility, laboratories for testing meters and other equipment, and serves as an equipment and materials support facility for the northern region.

Advanced computer applications also are being employed in quality control programs, customer billing, payroll preparation, rate studies, load research, inventory maintenance, and monitoring of distribution and retail substation components.

Significant savings in the installation of underground distribution lines are being realized through the use of direct cable burial equipment. Duke engineers contributed to the conceptual design of this new equipment.

Activities to improve efficiencies and increase productivity are continuing in all areas of the Company's operations. While efforts must continue to bring rates in line with current costs, the Company has committed its full resources to holding those costs to a minimum.

Saving the Resources

While the need to conserve natural resources has become a matter of public concern only in recent years, that need has been recognized by Duke Power for many decades. In addition to the savings realized by our customers through the efficiencies previously mentioned in this report, those efficiencies also have contributed measurably to the conservation of fossil fuels required in the generation of electricity. The need to conserve such fuels was a prime motive in the Company's current emphasis on nuclear and hydroelectric development.

Other energy-conserving activities include:

- The use of shunt capacitors to reduce wasteful electrical load on distribution circuits, substation transformers, transmission lines and generators, resulting in less generation requirement and lower fuel usage.
- Development of computer programs to analyze distribution circuits, with particular emphasis on reducing distribution system losses.
- Development of computer programs to permit utilization of the most efficient plants for base load, minimizing (and in many instances eliminating entirely) the use of generating equipment requiring fuel oil and natural gas.
- The design of residential rate schedules to encourage greater home insulation (in the pending rate case before the N. C. Utilities Commission, the Company has requested permission to increase the emphasis on proper insulation).
- The design of industrial rates to encourage limitations on peak electrical demands, which tends to improve the load factor and utilization of fuels.

The Company also has undertaken an extensive program to educate its customers in the efficient uses of electricity.

This program includes:

- Promotion of "heat recovery" energy systems for commercial and industrial uses. These systems, which redistribute heat created by lighting, machines, people, etc., provide the ultimate in energy conservation. Additional programs have been initiated with builders in the residential field, with consulting architects and engineers in the commercial and industrial areas, and in the industrial field with in-house design groups of large organizations.
- Initiation of educational and demonstration programs by our Home Service Department on the efficient and economic uses of electricity.
- Through direct-mail and mass media advertising, the dissemination of information designed to help customers reduce wasteful usage of electricity in the home.

The Company also has initiated an in-house conservation program which includes reduction of the maximum speed limit for Company vehicles; elimination of decorative and office lighting where practical; lowering of thermostats during the heating season; and increased emphasis on car pools, both in Company and privately-owned vehicles.

While efforts are continuing to encourage prudence in the end use of electricity, we realize that substantial savings of fuels can best be realized through improved efficiencies in the generation, transmission and distribution of power. Additional programs to improve generating efficiencies even further and to reduce system losses in the transmission and distribution of electricity are now being developed.

We're also participating through the Electric Power Research Institute (EPRI) in research to develop new sources of energy. EPRI scientists are exploring such potential energy sources as fusion, a process that will use a form of hydrogen as the source of heat energy; fuel cells, which involve the direct conversion of chemical energy into electricity; magnetohydrodynamics (MHD), the conversion of heat energy into direct current electricity through ionized gas plasma; solar energy and others.

Our Company also will contribute more than $7 million over a 10-year period toward construction of the nation's first large "fast breeder" fission reactor. By producing more nuclear fuel than it consumes, the breeder will substantially extend the available sources of fissionable materials.

1974-1984: Era of Promise and Challenge

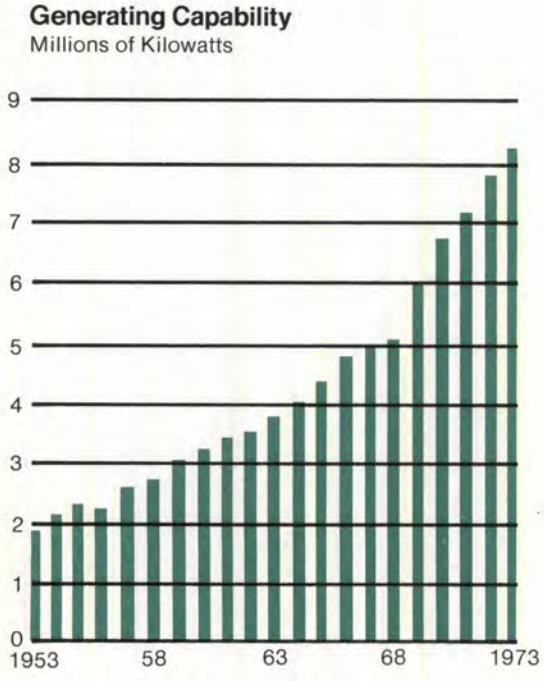
Completion of unit 1 of the Oconee Nuclear Station and early operation of our first pumped-storage hydroelectric facility brought the Company's generating capability to 8,259,700 kilowatts at year end.

Oconee unit 1 began commercial operations in July, 1973, and 14 additional steam units are scheduled to join the Duke system in the eleven years from 1974-1984. Total capability of the new units will be over 16 million kilowatts, which will boost the system generating capability at the end of 1984 to 24.1 million kilowatts.

As new steam units are brought into service, the use of oil and gas-fired internal combustion turbines, which carry extremely high operating costs, will be greatly reduced. It is expected that these units will be used only in emergency situations by the end of 1974.

Of the planned generating capability, over 14 million kilowatts, or 86 per cent of the total, will be nuclear. Upon completion of the units in 1984, 62 per cent of the system's total capability will come from nuclear-fueled generating units.

The first two units of the Jocassee Hydroelectric Station were placed into service in 1973, and two identical units are scheduled for operation in 1975. Total capability of the pumped-storage facility upon completion will be 610,000 kilowatts.

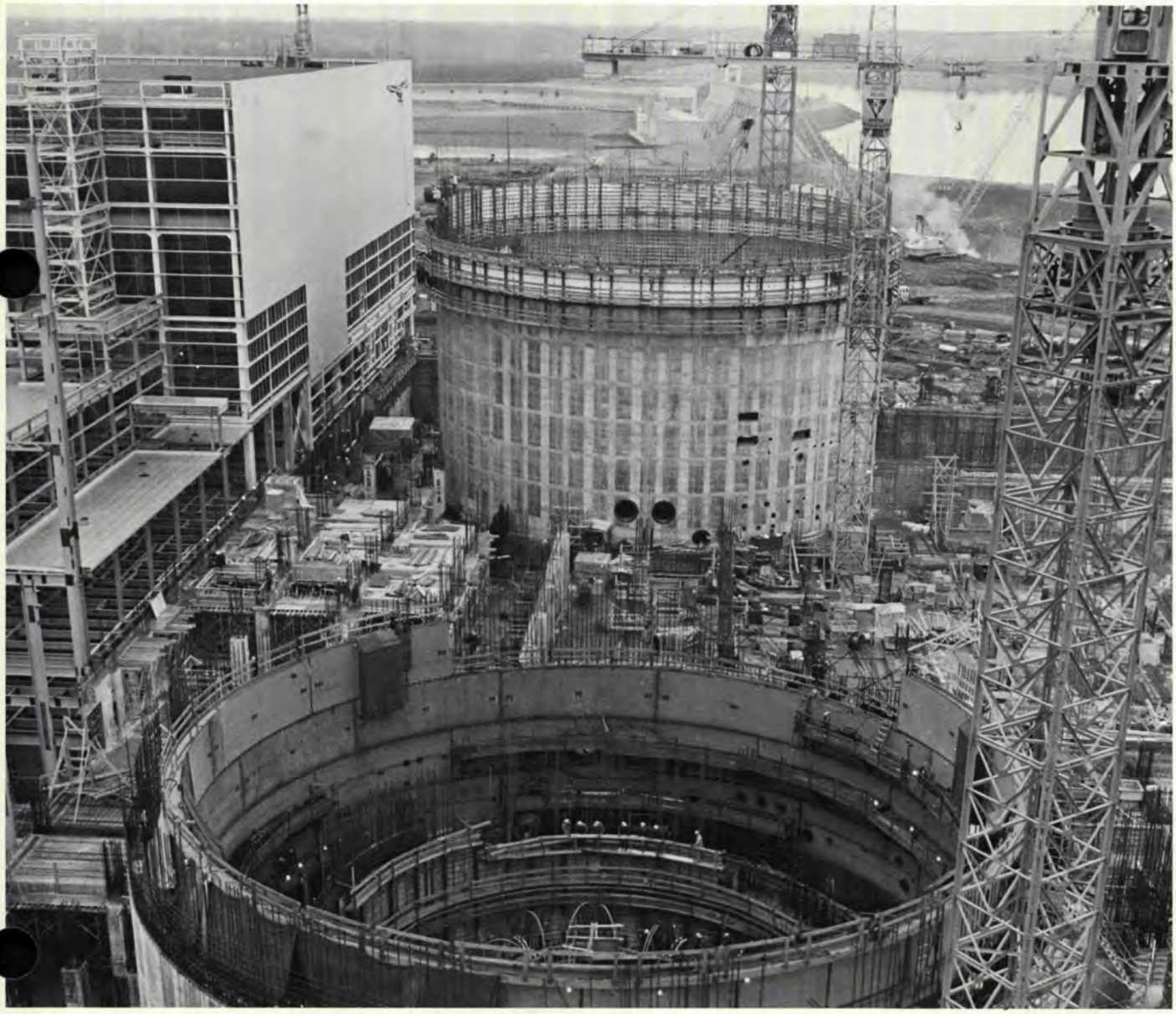


Oconee unit 1 began commercial operations in July, 1973. Output of the 886,300 kilowatt nuclear unit is regulated and the unit's operations monitored from this computerized control room.

Oconee unit 2 has operated at 75 per cent of capability during testing and is scheduled for commercial operation in spring 1974. Unit 3 is scheduled for operation in late summer 1974. The three Oconee units are rated at 886,300 kilowatts each.

Units 1 and 2 of the Jocassee Hydroelectric Station were placed into service on December 19, 1973, adding 305,000 kilowatts of pumped-storage hydro generation. Two identical pumped-storage units are scheduled for operation in 1975. The two operating units at Jocassee had been scheduled for completion in 1974, but were brought into service ahead of schedule to assure further the reliability of service during the 1973-74 winter peak. They brought to 1,147,000 kilowatts the Company's total capability from hydroelectric stations, which are used almost exclusively as "peaking" power.

The first of two 1,145,000 kilowatt coal-fired units at the Belews Creek Steam Station also is scheduled for completion in the summer of 1974. Unit 2 will become operational a year later. (continued)



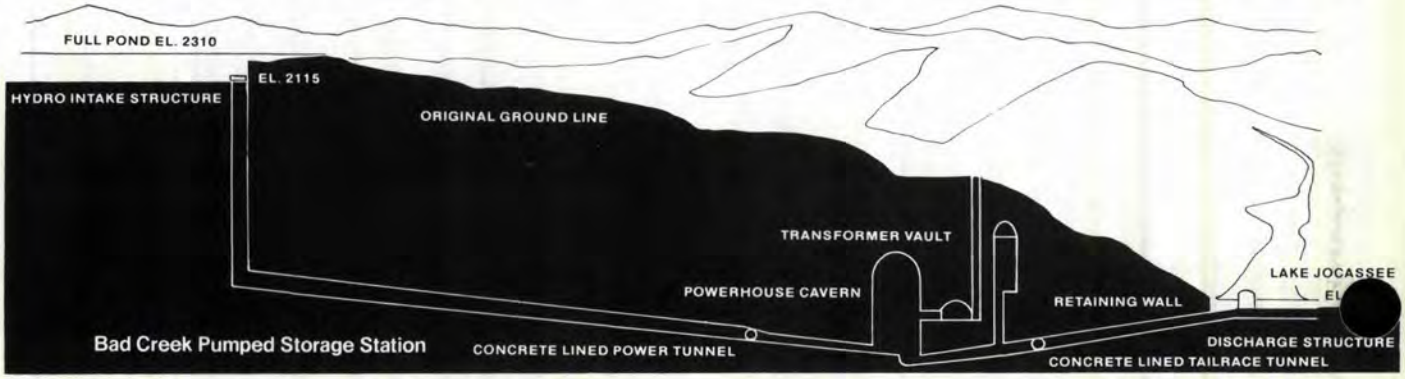
Work progresses on the two 1,180,000 kilowatt units at the William B. McGuire Nuclear Station on Lake Norman, scheduled for operation in 1976 and 1977.

Era of Promise and Challenge (continued)

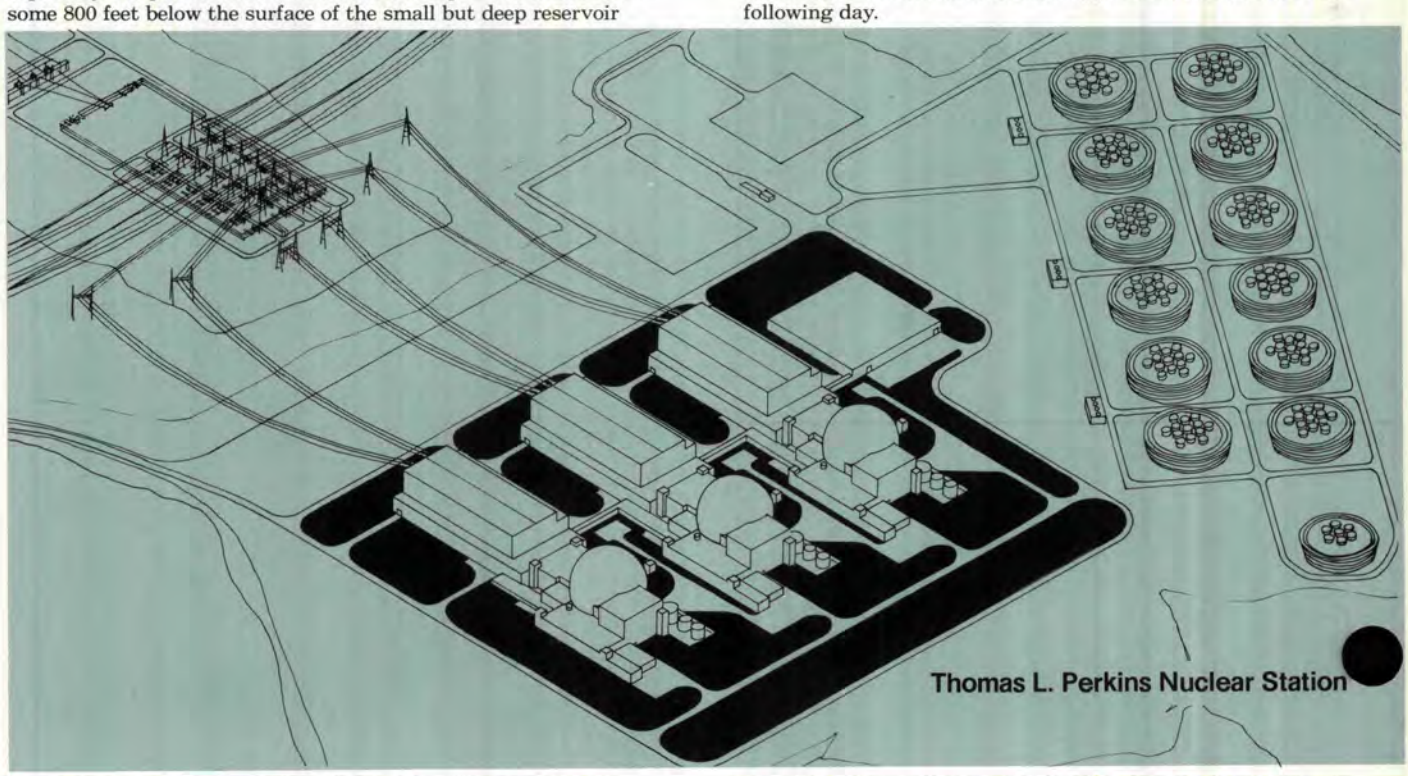
Work on the William B. McGuire Nuclear Station near Charlotte was accelerated following the issuance in February of a construction permit by the Atomic Energy Commission (AEC). Some construction had been completed earlier under exemptions previously granted by the AEC. The two McGuire units, rated at 1,180,000 kilowatts each, are now scheduled for operation in 1976 and 1977.

In 1979, the Company expects to complete the first of two nuclear units at the Catawba Nuclear Station on Lake Wylie in York County, S. C. The second unit is scheduled for operation in 1980. Public hearings on the Company's application for a construction permit for this station will be held in early 1974. The two Catawba units will be rated at 1,153,000 kilowatts each.

Also during 1973, the Company announced orders for six additional nuclear units that are tentatively scheduled for operation in the 1980's. Three of the 1,280,000 kilowatt nuclear units will comprise the Thomas L. Perkins Nuclear Station (named for the late



The Bad Creek Hydroelectric Station, scheduled for operation in the mid 1980's, will provide 1,000,000 kilowatts of pumped-storage capability. Its powerhouse will be located deep inside a mountain some 800 feet below the surface of the small but deep reservoir that will be built as part of the Keowee-Toxaway Project. During off-peak hours, the water will be pumped from Lake Jocassee, the receiving reservoir, back into the upper reservoir for reuse the following day.



Six additional nuclear units have been ordered for operation in the 1980's. Three of the 1,280,000 kilowatt units will comprise the Thomas L. Perkins Nuclear Station in Davie County, N. C.; the remaining three will comprise the Cherokee Nuclear Station in Cherokee County, S. C.

Thomas L. Perkins, former chairman of the Duke Power Board of Directors) at a site on the Yadkin River in Davie County, N. C., and three identical units will be located at the Cherokee Nuclear Station on the Broad River in Cherokee County, S. C. The Perkins units are tentatively scheduled for operation in 1981 and 82; the Cherokee units in 1982, 83 and 84.

The Bad Creek Hydroelectric Station, the second pumped-storage facility at Keowee-Toxaway, is scheduled to begin operation in the mid 1980's. This unique project will incorporate a small (312 surface acres) but deep reservoir that will be located at a high elevation overlooking Lake Jocassee. The four 250,000 kilowatt generators will be located some 800 vertical feet inside the mountain. Work on the Bad Creek project is scheduled to start in 1977.

The two 1,145,000 kilowatt coal-fired units at the Belews Creek Steam Station are scheduled for completion in 1974 and 1975.

KEOWEE-TOXAWAY: "Channeling the forces of nature into the blessings of a better future."

The dedication of Keowee-Toxaway last fall was a tribute to thousands of Duke Power people whose professional abilities and loyalty made the development possible.

The October 20 ceremonies expressed clearly both the fact and spirit of employee achievement, and came nearly nine years after announcement of this comprehensive development.

The occasion, festive as it was with music, banners and barbecue, sounded a somber note which, for the utility industry and the entire nation, has proved prophetic.

In all three dedication addresses, the energy crisis was a specter casting its shadow over the future of the industry. And now, predictions of speakers John Nassikas, (Chairman, Federal Power Commission), Chet Holifield (Chairman, House Government Operations Committee), and South Carolina Governor John West, are sober realities.

Obviously, warnings of an energy crisis didn't begin with the dedication of Keowee-Toxaway. Years ago leaders of industry and government foresaw current problems. Our 1965 commitment to nuclear technology was an early indication that Duke recognized expanding energy requirements and diminishing availability of fossil fuels. Nowhere has that realization been more

conspicuous than at Keowee-Toxaway, where by 1975 the combined power of hydro and nuclear stations will bring over 3.4 million kilowatts to the people of the Piedmont Carolinas.

Despite the gloomy energy outlook, it was this technological achievement that dominated the dedication ceremonies. Representative Holifield, former chairman of the Joint Committee on Atomic Energy, said: "We're here to dedicate this great device which will produce new sources of energy to replace failing sources. With this new force we will move forward toward the fulfillment of the needs of more and more people . . . We're here to compliment the people of this great and progressive

(continued)

THE EDISON AWARD

The Edison Award, the electric utility industry's highest honor, has been presented to Duke Power for its accomplishments in planning and executing the Keowee-Toxaway development. The citation presented to Duke President Carl Horn, Jr., at the annual Edison Electric Institute convention on April 4, 1973 reads:

"For its outstanding engineering accomplishments in the integrated hydro-thermal development of the Keowee-Toxaway Project, fully utilizing the area and its natural resources for electric generation and at the same time protecting and enhancing the environment of the Keowee Valley, Duke Power is declared recipient of the Edison Award for 1972."

In accepting the Award, Mr. Horn said the accomplishments of Duke employees involved in the project had "earned not only the respect of the power industry, but also of the people they serve."

KEOWEE-TOXAWAY (continued)

region—people who are wise to modern needs and who are supporting the move to channel the forces of nature into the blessings of a better future . . . "

During the ceremonies Oconee unit 1 was operating at 75 per cent capacity and Oconee unit 2 was being readied for commercial operation in 1974.

In building Keowee-Toxaway at a cost of about $600 million, the Company created two lakes. Lake Keowee, with 18,500 surface acres and a 300-mile shoreline, is the lower impoundment; Jocassee Dam, located 11 miles upstream, rises 385 feet to form the 7,600-acre Jocassee reservoir.

Governor West gave special attention to the new lakes as valuable recreational resources. He said, "In addition to the commercial and environmental elements at Keowee-Toxaway, considerable attention has been given to the recreational potential involved in the creation of two lakes . . . You know, we live in an era of new leisure time . . . As a result there is an increasing demand for recreational land. Duke's recognition here of the opportunity and potential for such usage at Keowee-Toxaway is of enormous benefit to our state, and greatly enhances the overall quality of life in this part of South Carolina."

As one of the world's most impressive power developments, Keowee-Toxaway has an expanding

1

2

3

4

ure, and is someday expected to have a generating capability of over 10 million kilowatts.

But it should be remembered that this technological progress is the result of planning and building through successive generations. In this regard, perhaps no other industry has a greater impact on the lives of people to follow.

In his dedication remarks, Chairman Nassikas spoke about that impact. "There is a great deal of hope that we're going to resolve it (the energy crisis) because it's a question of survival . . . survival as the number one nation in the world with social values and the dignity of the individual."

1. Part of dedication audience.
2. Senior Vice President D. W. Booth, Executive Vice President B. B. Parker and Senior Vice President A. C. Thies with U. S. Senator Strom Thurmond (R-SC).
3. Senior Vice President W. S. Lee with Director Marshall I. Pickens.
4. From left, former S. C. Governor Robert E. McNair, Duke President Carl Horn, Jr., Chairman Chet Holifield, House Government Operations Committee, Babcock & Wilcox President George G. Zipf, and Chairman John Nassikas, Federal Power Commission.
5. South Carolina Governor John C. West.
6. U. S. Congressman William Jennings Bryan Dorn (D-SC) with Chairman Holifield.

(The following letter to employees appeared in a special issue of the Duke Power Magazine commemorating the dedication of Keowee-Toxaway. It is reprinted here in part to recognize further the outstanding achievements of the more than 5,000 employees who were involved in the project's design and construction.)

Dear Fellow Employees:

This issue of your magazine is dedicated to Keowee-Toxaway and the dedication held October twentieth which officially recognized the achievements made there.

As most of you know, the project won the 1972 Edison Award, an honor which is a source of pride for all of us.

As we approach a new year, I believe each of us should understand fully the implications of the Keowee-Toxaway performance, accomplished during a period of stress on Duke Power people.

Midway into construction of the project, our business was jarred by an almost overnight escalation of operating costs which you know about. Concurrently, the demand for electricity vaulted at a rate that no one in the industry had predicted. We found ourselves seriously short of reserve capacity.

The problems didn't stop there. We experienced delays in bringing Oconee unit 1 on the line—the worst among them resulted from damages to steam generator tube endings which alone postponed operation of the plant a full year—at a time when we desperately needed the added capacity of this new unit.

Under this extended pressure, employee morale has been put to the test. Your response to that test is marked by the fact that this Company has achieved outstanding results in the face of serious adversity.

Nowhere has this employee response been more visible than at Keowee-Toxaway. All of the people connected with that project, regardless of their individual tasks, have demonstrated the ability, the confidence and commitment which are vital to this Company and the people of the Piedmont Carolinas.

The accomplishments of Duke Power through difficult times have not gone unnoticed. Many of our customers have taken the time to write me about the extra effort being made under trying circumstances.

But the challenges facing us are more demanding than ever. We want everyone to know that this Company will fulfill its obligation to provide electricity, and at the same time, that we will demonstrate a spirit of goodwill that shows we have not grown too big or too busy to care about the people we serve.

I want to thank each of you for helping your Company take an important step forward toward its continuous goal of citizenship and service.

Carl Horn, Jr.

Carl Horn, Jr.

Technicians load fuel into core of Oconee unit 2 reactor. The unit is scheduled for commercial operation in spring 1974.

Why Nuclear?

In the early 1960's Duke Power set as one of its chief goals the development of a generating system that would rely heavily on the power of the atom. Since this decision, our Company has invested more than $700 million in nuclear generating facilities, and $6.4 billion more has been committed to the fulfillment of that goal in the eleven years through 1984.

Although predicated largely on economic and environmental considerations, the impact of such a decision on conservation of fossil fuels was not to be felt until more than a decade later when concern over world energy resources reached crisis proportion. Duke now has one nuclear unit in operation, and twelve additional nuclear units are scheduled to join the system during the period 1974-1984.

In addition to conserving fossil fuels, nuclear power plants have other advantages over conventional coal-fired generating plants. They're more compatible with the environment. There are no emissions of "flyash" or other products of combustion to the atmosphere. The small quantities of radioactive waste from a nuclear plant can be handled with less environmental impact than can the millions of cubic feet of waste particulates that are collected annually in a modern coal-burning plant.

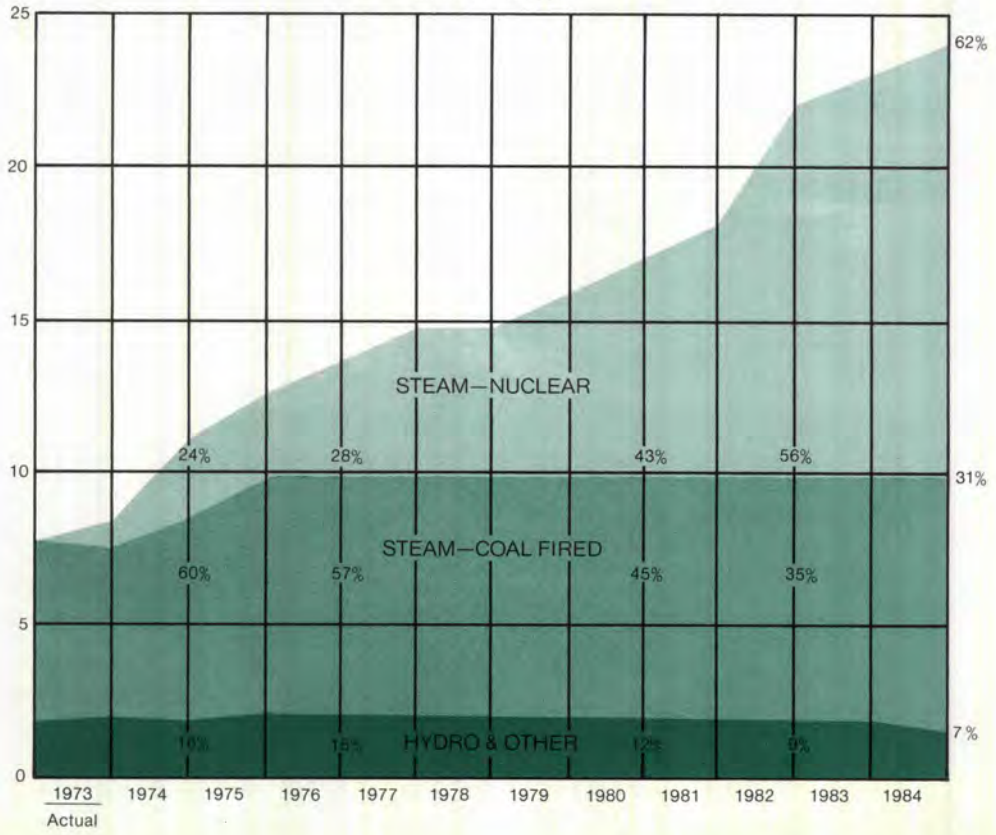
Nuclear plants also have a distinct economic advantage over coal-burning plants and, we believe, will help hold down the amount of future increases in power costs. The cost of constructing a nuclear plant on the Duke system (where construction costs are substantially below the current industry averages) is about 40 per cent greater than the construction costs of a comparable size coal-burning plant. While the initial cost of a nuclear plant is higher than that of a coal plant, these costs are only one of many factors involved in determining the cost of electricity produced by these plants. The cost of fuel also is a big factor.

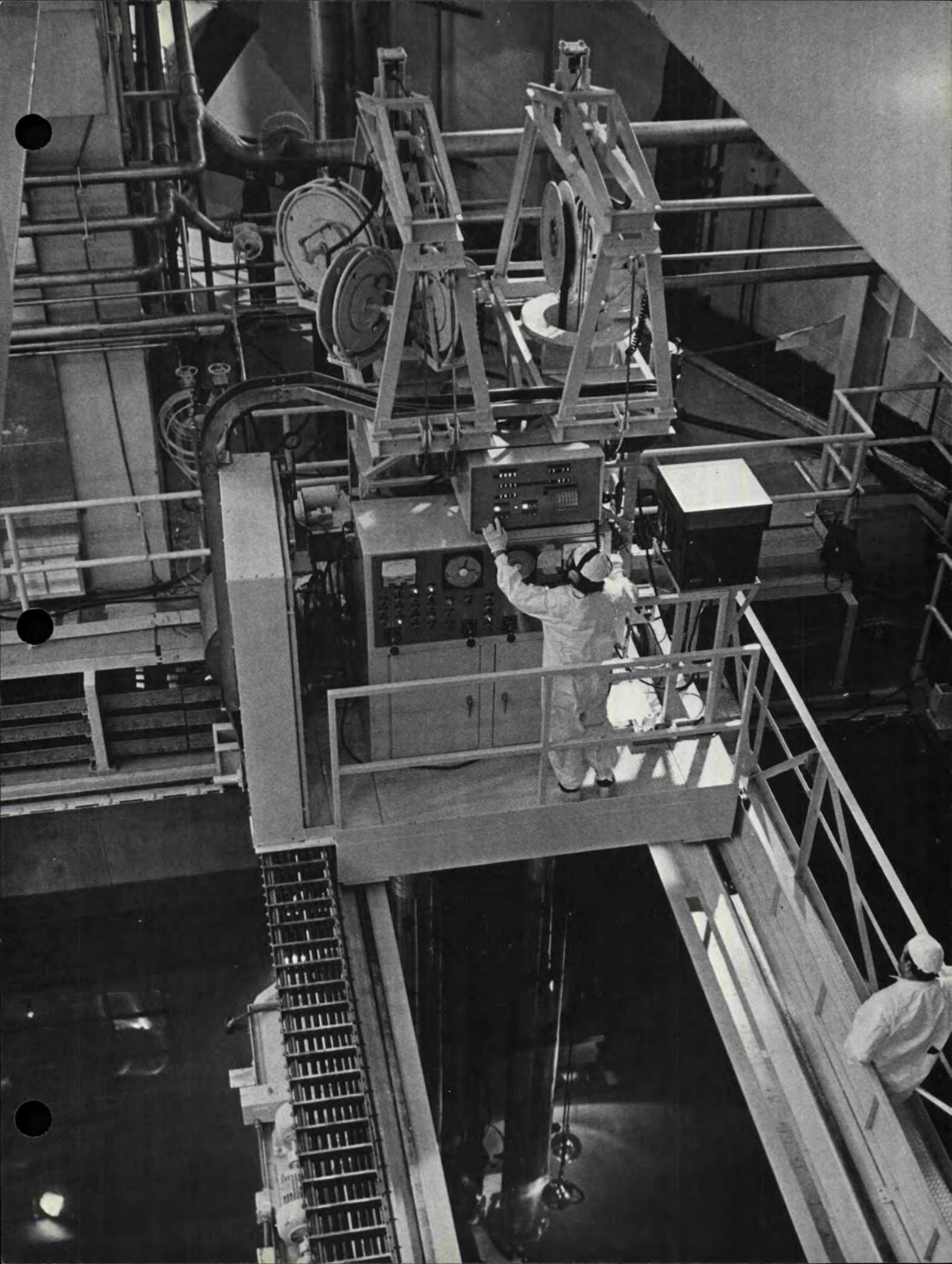
The economic advantage of nuclear over fossil fuels can be seen readily by comparing the projected operating costs of our Oconee Nuclear Station with that of a comparable size coal-fired plant built and operated during the same period. This comparison takes into consideration the higher capital cost of the Oconee station. Assuming that both stations would operate at the same level of capability over their lifetimes, and assuming that fuel costs remain at current levels, electricity produced by the Oconee nuclear units would cost about 25 per cent less than that produced by the coal-burning plant. Of course, the cost of both fuels is expected to increase in the years ahead, with the increase in coal costs outstripping the rise in nuclear fuel costs by a substantial margin.

In summary, nuclear power has many advantages both from the environmental and economic standpoint. Our customers will have the benefit of a cleaner environment as well as lower rates than would have been the case if all our generation were from fossil plants.

Planned Generating Capability By Type

Millions of Kilowatts





Personnel

The number of Company employees totaled 13,063 at year end, including 5,125 who were engaged in the design and construction of generating facilities.

Of the eligible employees, 5,933 were sharing in the Company's operations through the Stock Purchase-Savings Program for Employees. Since the plan's inception in 1959, employees have purchased 1,188,589 shares of common stock through payroll deduction.

Training Programs

The Supervisory Management Development Program provided training for 329 supervisors and management employees in 1973. This program has provided training for 2,640 employees since its inception in 1959. Review sessions for 1,548 employees also have been conducted.

One hundred thirty-five employees completed 276 courses of study under the Tuition Refund Program. One hundred forty-seven employees are currently enrolled in 240 classes which are contributing to their future job progress.

Safety

Accident prevention continues to be an important objective at Duke Power. Both the Gastonia District and Cliffside Steam Station completed more than two million manhours of work without a disabling injury during 1973. The million manhour mark was reached by the Greenville District, which joins the High Point District in pursuit of the two million manhour goal. Altogether, some 99 locations received safety achievement awards for completing ten or more years of operation without a disabling injury.

Recruiting

Recruiting efforts during the year included visits to 25 colleges and universities and six technical schools. The recruiting program resulted in the employment of 141 engineers and 15 technical school graduates. An estimated 35 per cent of these had participated in the Company's summer employment program. An additional 32 graduates with accounting, mathematics, computer sciences and other degrees joined the Company's professional ranks during the year.

Robinson Awards

W. S. O'B. Robinson Awards were presented to three employees in 1973. These awards, given annually, recognize employees for outstanding service in several categories. The winners are nominated and selected by fellow employees.

Receiving the awards in 1973 were Ralph W. Bostian, Steam Production Department, for his efforts in coordinating the construction and starting schedule for Cliffside unit No. 5; Mrs. Sharon Edwards, Greenville, for her contribution to human relations in helping enlist community support for a resident suffering from an incurable kidney ailment; and David McAvoy, Distribution Department, for saving the life of a man who had been buried by a ditch cave-in.

B. B. Parker, Executive Vice President and General Manager, with W. S. O'B. Robinson Award winners David McAvoy, Mrs. Sharon Edwards, and Ralph W. Bostian.


W.S.O.B. ROBINSON
AWARD

"Back to the Good Old Ways"

A major advertising and employee motivation program was launched in 1973 to help improve customer relations and bring about greater public awareness of the Company's power supply and financial challenges and to demonstrate the Company's commitment to the quality of life in the Piedmont Carolinas.

The "Back to the Good Old Ways" program was launched after customer opinion studies revealed that public acceptance of the Company's activities, including rate increases and nuclear plant construction, was best in areas where Duke's work in such fields as recreation, wildlife protection, forestry and community service is well known.

The studies also showed a higher degree of acceptance of these activities in the smaller cities and towns where it has been practical to maintain personal contact with customers. Through the "Back to the Good Old Ways" program, the Company is attempting to establish the same rapport with customers in the larger urban areas where, because of growing transient populations, the Company and its commitments to community service are less known.

Embracing the theme, "Your friendly, neighborhood power company," the new informational advertising program portrays Duke employees performing both on and off-the-job services which improve the quality of life in the Company's service area. The messages tell how Duke employees take part in civic and charitable organizations and how the company improves the quality of life by protecting the environment, creating recreation areas and teaching young homemakers to conserve electricity. They point our that " . . . most of us grew up here, and we know the people. That's why serving you doesn't really seem like work. It's more like helping a neighbor."

In addition to the basic advertising materials, the program includes the distribution of newspaper supplements and bill inserts devoted to energy conservation and other subjects of interest to Duke's customers. Attention also is given to such special problem areas as rate increases, nuclear power and the environment.

The 1973 Revenue Dollar

Where it came from:

35% Residential

31% Industrial

20% Commercial

12% Other Electric

2% Other Revenue

How it was used:

31% Fuel costs

21% Cost of Capital

17% Materials Purchased Power Other

13% Depre-ciation

10% Wages & Benefits

8% Taxes

Financing and Investor Activities

Construction costs reached an all-time high of $479 million in 1973 as the Company continued to build to meet the growing electrical requirements of the Piedmont Carolinas. These costs included $343 million for electric generating facilities (including nuclear fuel), $49 million for transmission facilities, $73 million for distribution facilities and $14 million for other plant facilities. The construction program for 1974 is budgeted at $486 million. Construction costs for the three-year period 1974-76 are estimated at $1.4 billion.

Funds retained in the business, principally earnings, depreciation accruals and tax credits and deferrals, provided 20 per cent of the funds required for the 1973 construction program. These sources are expected to produce about 40 per cent of construction costs for 1974-76.

The balance of construction funds for 1973 was obtained from the following sources:

Common stock—	
3,000,000 shares @ $23.00 public offering	$ 69,000,000
201,879 shares @ average $20.51 issued to the Trustee of the Stock Purchase-Savings Program for Employees	4,141,000
55,350 shares @ average $17.67 issued under the Dividend Reinvestment and Stock Purchase Plan	978,000
Total common stock	74,119,000
Preferred stock 7.35%, Series I—600,000 shares, par value $100	60,000,000
First and refunding mortgage bonds—	
7 3/4% Series due 2003	100,000,000
8 1/8% Series B due 2003	100,000,000
Term notes, nuclear fuel, rates based on floating prime, due 1975	30,500,000
Retirement of sinking fund debentures	(1,250,000)
Cost of financing, net of discounts and premiums on sales	(3,537,000)
Reduction in short-term notes	(26,704,000)
Net proceeds from financing	$333,128,000

The Company launched in 1973 a new Dividend Reinvestment and Stock Purchase Plan that allows common shareholders to purchase limited additional shares directly from the Company. The Plan, which benefits shareholders by eliminating brokerage commissions and service charges, permits shareholders to (1) have their quarterly cash dividends automatically reinvested in common stock, (2) continue to receive cash dividends and invest in additional shares by making optional cash payments up to $500 per quarter, or (3) invest both their cash dividends and make quarterly cash purchases up to $500. Approximately 10 per cent of the total common stockholders were enrolled in the Plan at year end.

Efforts to keep the investment community informed of the Company's financial affairs continued in 1973. Members of management appeared before analyst groups in New York on four occasions during the year, including an appearance in October before the New York Society of Security Analysts. The Company also was host to New York analysts during their tour in February of major electric suppliers in Virginia and the Carolinas. On January 2, 1973, the Company's financial affairs were discussed before analysts and members of the investment community in the Company's headquarters city of Charlotte, N. C. Presentations to similar groups in major cities are anticipated for 1974.

The number of common shareholders has increased in the five years since January 1, 1969, from 12,059 to over 51,600 at December 31,1973. Holders of Duke Power common stock reside in each of the 50 states and many foreign countries. The Company's home states of North and South Carolina account for about 42 per cent of the Duke shareholders.

Statement of Source of Funds for Plant Construction Costs

Year Ended December 31	1973	1972
SOURCE OF FUNDS:		
Funds from operations—		
Net income	$ 99,562,000	$ 80,367,000
Non-cash items (decrease):		
Depreciation and amortization	76,300,000	61,030,000
Deferred income taxes, net	25,272,000	17,097,000
Common equity component of the allowance for funds used during construction	(29,492,000)	(27,026,000)
Other, net	(797,000)	(619,000)
Funds from operations	170,845,000	130,849,000
Dividends on common stock	(54,036,000)	(47,758,000)
Dividends on preference and preferred stock	(27,456,000)	(21,901,000)
Funds retained in the business	89,353,000	61,190,000
Funds from financing—net proceeds—		
First mortgage bonds	198,823,000	174,563,000
Common stock	72,001,000	116,111,000
Preferred stock	59,759,000	60,055,000
Term notes (nuclear fuel)	30,499,000	50,935,000
Decrease in notes payable	(26,704,000)	(23,343,000)
Decrease in sinking fund debentures	(1,250,000)	(1,250,000)
Funds from financing	333,128,000	377,071,000
Total available funds	422,481,000	438,261,000
Decrease (increase) in working capital, etc.—		
Materials and supplies	6,578,000	(10,703,000)
Investments in and advances to subsidiaries	62,000	4,477,000
Current liabilities	22,399,000	5,867,000
Other	(2,059,000)	(11,170,000)
PLANT CONSTRUCTION EXPENDITURES	449,461,000	426,732,000
Common equity component of the allowance for funds used during construction	29,492,000	27,026,000
Plant construction costs	$478,953,000	$453,758,000

See notes to financial statements.

Auditors' Opinion

HASKINS & SELLS
Certified Public Accountants

DUKE POWER COMPANY:

We have examined the balance sheet and the statement of capitalization of Duke Power Company as of December 31, 1973 and 1972 and the related statements of income, retained earnings, and source of funds for plant construction costs for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

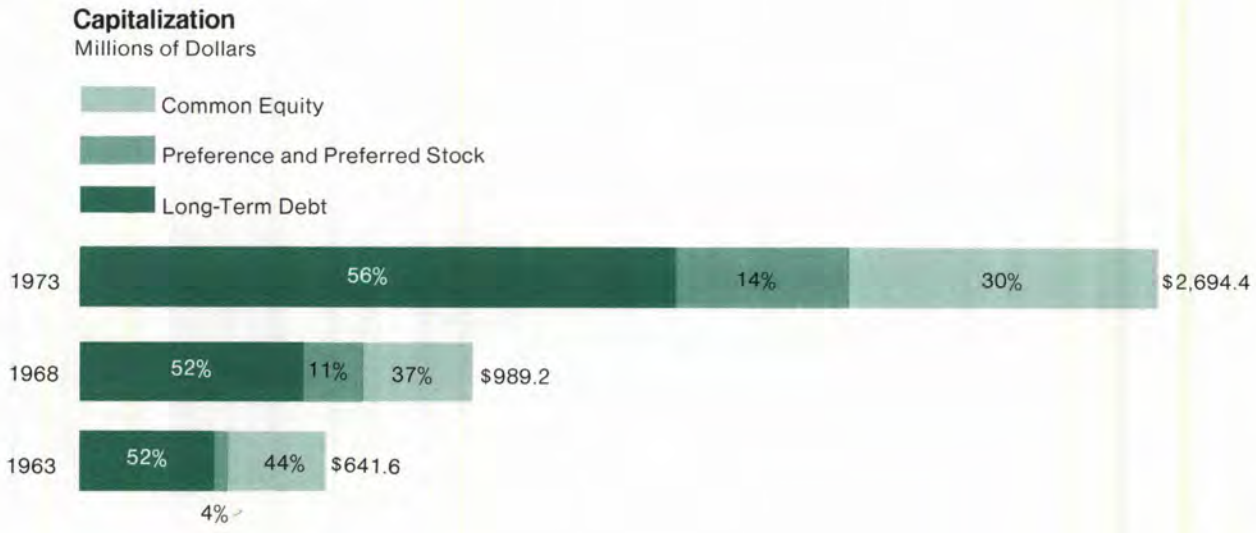
In our opinion, subject for 1973 to final settlement of the rate matters referred to in Note 2 to the financial statements, the accompanying financial statements present fairly the financial position of the Company at December 31, 1973 and 1972 and the results of its operations and the source of its funds for plant construction costs for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

Charlotte, North Carolina
February 15, 1974

Balance Sheet – Assets

	December 31	1973	1972
ELECTRIC PLANT	At original cost (Note 1):		
	Electric plant in service	**$2,500,520,000**	$2,038,177,000
	Construction work in progress (includes in 1973 $492,808,000 of nuclear and $268,278,000 of other generating facilities)	**866,021,000**	865,533,000
	Total	**3,366,541,000**	2,903,710,000
	Less—accumulated depreciation and amortization (Note 1)	**652,652,000**	584,748,000
	Electric plant, net (Note 5)	**2,713,889,000**	2,318,962,000
OTHER PROPERTY	At cost	**24,367,000**	18,266,000
	Less—accumulated depreciation	**3,106,000**	2,806,000
	Other property, net	**21,261,000**	15,460,000
INVESTMENTS	Investments in and advances to subsidiaries at equity (Note 3)	**30,626,000**	30,551,000
	Other securities—at cost or less	**8,328,000**	8,332,000
		38,954,000	38,883,000
CURRENT ASSETS	Cash	**14,563,000**	16,021,000
	Receivables, less allowance for losses	**60,148,000**	51,463,000
	Materials and supplies—at average cost:		
	Fuel	**24,611,000**	36,591,000
	Other	**38,925,000**	33,522,000
	Prepayments	**489,000**	690,000
		138,736,000	138,287,000
DEFERRED DEBITS	Debt discount, premium and expense, being amortized over terms of related debt	**5,466,000**	5,460,000
	Other	**5,029,000**	4,545,000
		10,495,000	10,005,000
		$2,923,335,000	$2,521,597,000



Balance Sheet–Liabilities

December 31

		1973	1972
CAPITALIZATION	Common stock equity (Note 4)	**$ 796,730,000**	$ 706,899,000
	Preference and preferred stock (Note 4)	**395,000,000**	335,000,000
	Long-term debt (Note 5)	**1,502,630,000**	1,270,224,000
	Total capitalization	**2,694,360,000**	2,312,123,000
CURRENT LIABILITIES	Accounts payable	**39,128,000**	25,986,000
	Interest accrued	**27,288,000**	24,409,000
	Taxes accrued	**8,181,000**	4,520,000
	Customers' deposits	**2,383,000**	2,299,000
	Other	**6,346,000**	3,713,000
		83,326,000	60,927,000
	Notes payable for construction—pending permanent financing (Notes 8 and 9)	**69,296,000**	96,000,000
		152,622,000	156,927,000
DEFERRED CREDITS, ETC.	Accumulated deferred income taxes (Note 1)	**56,438,000**	30,758,000
	Contributions in aid of construction	**11,861,000**	10,414,000
	Investment tax credit (Note 1)	**3,746,000**	7,706,000
	Injuries and damages reserve	**2,250,000**	2,262,000
	Other deferred credits	**2,058,000**	1,407,000
	Commitments (Note 9)		
		76,353,000	52,547,000
		$2,923,335,000	$2,521,597,000

See notes to financial statements.

Statement of Retained Earnings

Year Ended December 31

	1973	1972
RETAINED EARNINGS—Beginning of year	**$ 88,918,000**	$ 81,818,000
ADD—Net income	**99,562,000**	80,367,000
Total	**188,480,000**	162,185,000
DEDUCT:		
Cash dividends—		
Common stock ($1.40 per share)	**54,036,000**	47,758,000
Preference stock ($6.75 per share)	**3,375,000**	3,375,000
Preferred stock—		
Series C ($4.50 per share)	**1,575,000**	1,575,000
Series D ($5.72 per share)	**2,002,000**	2,002,000
Series E ($6.72 per share)	**2,352,000**	2,352,000
Series F ($8.70 per share)	**5,220,000**	5,220,000
Series G ($8.20 per share)	**4,920,000**	4,920,000
Series H ($7.80 per share)	**4,680,000**	2,457,000
Series I (annual rate $7.35 per share)	**3,332,000**	—
Capital stock expense	**2,359,000**	3,608,000
Total deductions	**83,851,000**	73,267,000
RETAINED EARNINGS—End of year	**$104,629,000**	$ 88,918,000

See notes to financial statements.

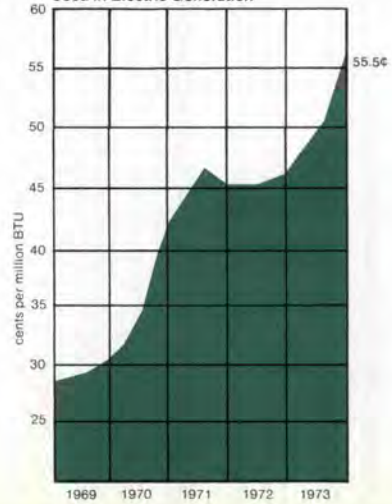
Statement of Income

Year Ended December 31

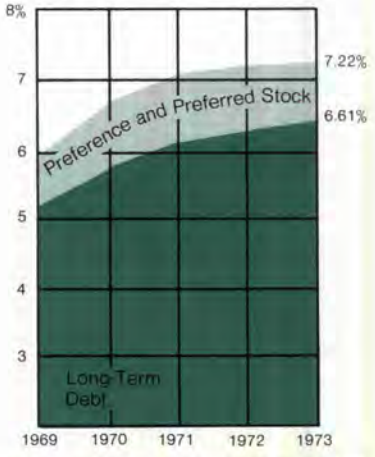
	1973	1972
ELECTRIC REVENUES (Note 2)	$600,681,000	$508,232,000
ELECTRIC EXPENSES AND TAXES:		
Operation—		
Fuel used in electric generation	191,861,000	172,072,000
Purchased power	28,575,000	30,478,000
Wages and benefits, materials, etc.	78,580,000	67,801,000
Maintenance of plant facilities—wages, materials, etc.	28,886,000	26,408,000
Depreciation	70,459,000	59,923,000
Taxes (Notes 1 and 7) —		
General	50,054,000	44,421,000
Federal income	13,900,000	3,277,000
State income	1,969,000	952,000
Deferred income taxes, net	25,272,000	17,097,000
Investment tax credit:		
Tax credit deferred	178,000	1,055,000
Amortization of deferments (credit)	(4,058,000)	(4,306,000)
Total electric expenses and taxes	485,676,000	419,178,000
Electric operating income	115,005,000	89,054,000
OTHER INCOME:		
Allowance for funds used during construction (Note 1)	59,459,000	51,185,000
Earnings of subsidiaries, net	586,000	1,204,000
Dividends and interest	1,616,000	1,347,000
Other, net (deduction)	(1,109,000)	(1,040,000)
Income tax—credit	15,406,000	13,035,000
Total other income	75,958,000	65,731,000
Income before interest deductions	190,963,000	154,785,000
INTEREST DEDUCTIONS:		
Interest on long-term debt	85,659,000	70,161,000
Other interest	5,465,000	3,990,000
Amortization of debt discount, premium and expense	277,000	267,000
Total interest deductions	91,401,000	74,418,000
Net income	99,562,000	80,367,000
DIVIDENDS ON PREFERENCE AND PREFERRED STOCK	27,456,000	21,901,000
Earnings for common stock	$ 72,106,000	$ 58,466,000
AVERAGE COMMON SHARES OUTSTANDING	38,465,000	34,592,000
EARNINGS PER SHARE OF COMMON STOCK	$1.87	$1.69

See notes to financial statements.

Cost of Fossil Fuels Used in Electric Generation



Embedded Cost of Money



During this period the embedded cost of long-term debt and preferred stock dividends increased 51 per cent and 28 per cent, respectively.

Statement of Capitalization

December 31

		1973	Per Cent of Capitalization	1972	Per Cent of Capitalization
Common Stock Equity:					
Common stock, no par, 50,000,000 shares authorized; 38,750,672 and 35,493,443 shares outstanding for 1973 and 1972, respectively		$ 692,101,000		$ 617,981,000	
Retained earnings (Note 3)		104,629,000		88,918,000	
Total common stock equity		796,730,000	29.6%	706,899,000	30.6%
Preference and Preferred Stock:					
Preference stock, $100 par, 6 3/4% Convertible Series AA, 1,500,000 shares authorized, 500,000 shares outstanding		50,000,000		50,000,000	
Preferred stock, $100 par, 5,000,000 shares authorized:					
Series	**Shares outstanding**				
4.50% C	350,000	35,000,000		35,000,000	
5.72% D	350,000	35,000,000		35,000,000	
6.72% E	350,000	35,000,000		35,000,000	
8.70% F	600,000	60,000,000		60,000,000	
8.20% G	600,000	60,000,000		60,000,000	
7.80% H	600,000	60,000,000		60,000,000	
7.35% I	600,000	60,000,000		—	
Total preference and preferred stock		395,000,000	14.7%	335,000,000	14.5%
Long-Term Debt:					
First and refunding mortgage bonds:					
Series	**Year Due**				
3%	1975	40,000,000		40,000,000	
2.65%	1977	40,000,000		40,000,000	
2 7/8%	1979	40,000,000		40,000,000	
3 1/4%	1981	35,000,000		35,000,000	
3 5/8%	1986	30,000,000		30,000,000	
4 1/2%	1992	50,000,000		50,000,000	
4 1/4% B	1992	50,000,000		50,000,000	
4 1/2%	1995	40,000,000		40,000,000	
5 3/8%	1997	75,000,000		75,000,000	
6 3/8%	1998	75,000,000		75,000,000	
7%	1999	75,000,000		75,000,000	
8% B	1999	75,000,000		75,000,000	
8 1/2%	2000	75,000,000		75,000,000	
8 5/8% B	2000	100,000,000		100,000,000	
7 1/2%	2001	100,000,000		100,000,000	
7 3/8% B	2001	40,000,000		40,000,000	
7 3/4%	2002	100,000,000		100,000,000	
7 3/8% B	2002	75,000,000		75,000,000	
7 3/4%	2003	100,000,000		—	
8 1/8% B	2003	100,000,000		—	
Sinking fund debentures, 4 7/8%	1982	33,750,000		35,000,000	
Term notes:					
6.85%	1978	60,000,000		60,000,000	
Nuclear fuel, 6 1/2%-7%	1975-1977	51,000,000		51,000,000	
Nuclear fuel, rates based on floating prime	1975	30,500,000		—	
Turbine generator leases (Note 6)		12,380,000		9,224,000	
Total long-term debt		1,502,630,000	55.7%	1,270,224,000	54.9%
Total capitalization		$2,694,360,000	100.0%	$2,312,123,000	100.0%

See notes to financial statements.

Notes to Financial Statements

1. **Summary of Significant Accounting Policies.**

A. *Additions to Electric Plant.* The Company charges to construction all direct labor and materials, as well as related indirect construction costs including general engineering, research, development, taxes and the cost of money (allowance for funds used during construction).

Allowance for funds used during construction (ADC) is a cost accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress in the balance sheet and, accordingly, are capitalized in the same manner as construction labor and material costs. This item is recognized as a cost of Electric Plant, with an offsetting credit to Other Income, because, under established regulatory rate practices, a utility is permitted to include a fair return on, and the recovery of, these capital costs through their inclusion in the rate base and in the provision for depreciation. The amount of ADC transferred in recent years has increased as the balance of construction work in progress has grown and as interest rates and equity capital costs have increased. ADC has been calculated using a rate of 7 1/2%, net of applicable income taxes. The common equity component of ADC is not determinable without arbitrary cost allocations and has been estimated.

B. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method at annual rates which averaged 3.20% in 1973 and 3.21% in 1972. Provisions for amortization of nuclear fuel are recorded using the unit of production method.

C. *Income Tax Provisions.* The Company provides deferred income taxes under normalization accounting for differences in book and tax depreciation arising from the use of accelerated tax depreciation, except for certain plant additions in 1968 and 1969. Income tax reductions arising from the 4% Job Development investment tax credit placed in effect during 1971 are being amortized over the depreciable lives of the related property, and those arising from the 3% investment tax credit in effect until 1969 are being amortized, as approved by regulatory authority, over a five-year period. The Company has $17,944,000 of unused 1972 and 1973 investment tax credits available for carryover to future years.

D. *Retirement Plan Cost.* The Company has a non-contributory retirement plan for the benefit of its employees. The Company's policy is to fund pension costs accrued, which amounted to $5,783,000 in 1973 and $5,285,000 in 1972. During 1973 the Plan was amended, raising the level of benefits for employees and retirees, and the assumed earnings rate was increased from 3 1/2% to 4 1/4%. The changes had no material effect on annual costs for the Plan. The unfunded prior service cost of $4,319,000 at December 31, 1973, is being amortized over a ten-year period.

2. **Rate Matters.** During 1972 and 1973 the regulatory authorities granted certain rate increases which are included in Electric Revenues in the accompanying Statement of Income and are summarized in the table below:

	Rate Increases		Approximate Revenue Increases		
Rate Schedules	Per Cent Granted	Effective Date	Annualized on 1973 Sales	Year Ended December 31 1973	1972
North Carolina Retail	8.93%	March 27, 1972	$ 27,900,000	$27,900,000	$24,700,000
North Carolina Retail	6.90	January 1, 1973	23,600,000	23,600,000	—
South Carolina Retail (1)	13.29	January 1, 1973	19,100,000	19,100,000	4,100,000
Wholesale (2)	18.50	April 26, 1973	10,200,000	6,800,000	—
North Carolina Retail (3)	10.25	November 15, 1973	36,800,000	3,800,000	—
South Carolina Retail (3)	10.25	November 15, 1973	16,000,000	1,800,000	—
Total			$133,600,000	$83,000,000	$28,800,000

(1) Includes amounts collected on an interim basis prior to the effective date of the permanent increase.
(2) Subject to refund with interest.
(3) The 10.25% increase is an interim increase, subject to refund with interest, pending the outcome of the Company's request for a permanent increase of 16.8%. Included in the 10.25% increase is an 8% interim increase which was put into effect November 15, 1973, and later increased by 2.25% effective January 19, 1974.

Since August 23, 1972, the Company has collected, subject to refund with interest, revenues under a fuel cost adjustment clause applicable to wholesale customers. Such revenues amounted to $7,500,000 in 1973 and $1,900,000 in 1972.

See page 2 under "Summary of Rate Activities" for additional rate developments subsequent to December 31, 1973.

3. **Subsidiaries.** Cash dividends of $1,000,000 were received from subsidiaries during 1973 and 1972, and at

December 31, 1973, retained earnings included $6,786,000 of undistributed subsidiary earnings.

4. **Capital Stock.** See Statement of Capitalization on page 27. The changes in capital stock during 1973 are described under "Financing and Investor Activities" on page 22. In 1972, 5,263,980 shares of common stock were issued for a consideration of $119,774,000 and 600,000 shares of 7.80% Series H Preferred Stock for $60,000,000.

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $30.77 per share, each share of such Preference Stock being taken at $100 for such purpose. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution.

At December 31, 1973, certain shares of common stock were reserved for issuance as follows:

	Shares
Conversion of Preference Stock	1,624,959
Stock Purchase-Savings Program for Employees	811,411
Dividend Reinvestment and Stock Purchase Plan	244,650
Total	2,681,020

The outstanding preference and preferred capital stocks are callable at various redemption prices not exceeding $110 a share plus accumulated dividends to redemption date.

5. **Long-Term Debt.** See Statement of Capitalization on page 27. Substantially all electric plant is mortgaged at December 31, 1973. The annual amounts of long-term debt maturities (including sinking fund requirements) through 1978 are $1,250,000 in 1974, $84,750,000 in 1975, $11,300,000 in 1976, $69,200,000 in 1977 and $61,250,000 in 1978.

6. **Leases.** Rentals incurred in 1972 and 1973, and rental commitments at December 31, 1973, under all non-cancelable leases (principally combustion turbine generator leases) are as follows:

Period	Non-capitalized Financing Leases	Other Leases	Total
Rentals incurred:			
1972	$11,373,000	$ 743,000	$12,116,000
1973	11,752,000	1,315,000	13,067,000
Rental commitments:			
1974	11,770,000	1,316,000	13,086,000
1975	11,340,000	734,000	12,074,000
1976	11,051,000	434,000	11,485,000
1977	10,891,000	151,000	11,042,000
1978	10,574,000	59,000	10,633,000
1979-1983	49,125,000	83,000	49,208,000
1984-1988	26,266,000	—	26,266,000
1989-1993	1,250,000	—	1,250,000
Remainder	3,000,000	—	3,000,000

Amounts in 1972 and 1973 include $10,623,000 and $11,147,000, respectively, charged to operating expenses.

Substantially all leases require the Company to pay taxes and operation and maintenance expenses. Rentals and rental commitments under certain combustion turbine generator leases include accruals in excess of current payments in amounts required to equalize annual rent expense and satisfy the obligations of the leases, net of salvage, at the end of the estimated useful life of the generators. Such leases contain options to purchase beginning in 1981 at the lessors' unrecovered cost.

7. **Income Tax Expense.** Income taxes differ from amounts computed by applying the statutory tax rates to adjusted pre-tax income as follows:

	1973	1972
Net income	$99,562,000	$80,367,000
Income tax expense (income taxes and credits and investment tax credits, net)	21,855,000	5,040,000
Allowance for funds used during construction	(59,459,000)	(51,185,000)
Total adjusted pre-tax income	$61,958,000	$34,222,000
Income taxes on the above at the composite statutory Federal and state rate of 51.12%	$31,673,000	$17,494,000
Increases (decreases) attributable to:		
Pensions and taxes capitalized on books	(5,779,000)	(5,779,000)
Amortization of investment tax credit deferrals	(4,058,000)	(4,306,000)
Adjustment of prior accruals	—	(1,060,000)
Other items, net	19,000	(1,309,000)
Income tax expense	$21,855,000	$ 5,040,000
Effective tax rate on adjusted pre-tax income	35%	15%

8. **Short-Term Borrowings.** The Company maintains bank lines of credit with 69 commercial banks aggregating $122 million and uses these lines and also commercial paper to finance its current cash requirements. During 1973 the maximum outstanding short-term borrowings, including commercial paper, were $121 million, and the average was $54 million. Bank loans are for 90 days or less and are at the commercial prime interest rate. The daily average interest rate of all short-term borrowings during the year was 8%.

At December 31, 1973 the notes payable for construction consisted of $51.0 million of bank loans at prime interest rates ranging from 9 3/4% to 10% and $18.3 million of commercial paper at 9 7/8%.

The Company's practice is to maintain bank balances with all banks providing services, including those with lines of credit. Balances are maintained without formal or informal agreements.

9. **Construction Program and Financing.** See page 22.

Financial and Statistical Summary

INCOME DATA (DOLLARS IN THOUSANDS)	1973	1972	1971	1970	1969	1963
Electric revenues:						
Residential sales	$ 212,213	$ 184,581	$ 166,442	$ 140,281	$ 126,145	$ 79,27
Commercial sales	122,788	104,479	91,183	75,951	66,378	37,177
Industrial sales	189,879	157,407	139,560	118,811	109,688	64,357
Other energy sales	72,629	57,258	49,796	47,565	36,576	20,381
Other revenues	3,172	4,507	4,560	3,530	3,455	2,185
Total electric revenues	600,681	508,232	451,541	386,138	342,242	203,372
Electric expenses and taxes:						
Operation and maintenance	327,902	296,759	261,178	222,307	162,404	85,450
Depreciation	70,459	59,923	53,062	48,427	41,934	26,199
Taxes	87,315	62,496	55,246	47,105	65,892	51,743
Total electric expenses and taxes	485,676	419,178	369,486	317,839	270,230	163,392
Electric operating income	115,005	89,054	82,055	68,299	72,012	39,980
Other Income:						
Allowance for funds used during construction	59,459	51,185	37,676	24,342	15,711	2,983
Other income, net	16,499	14,546	14,519	10,094	5,639	1,761
Interest deductions	(91,401)	(74,418)	(62,395)	(51,557)	(38,945)	(12,801)
Income before extraordinary items	99,562	80,367	71,855	51,178	54,417	31,923
Extraordinary items	—	—	—	—	—	(1,244)
Net income (a)	99,562	80,367	71,855	51,178	54,417	30,679
Dividends on preference and preferred stock	27,456	21,901	16,341	11,177	6,969	1,360
Earnings for common stock	72,106	58,466	55,514	40,001	47,448	29,319
Dividends on common stock	54,036	47,758	40,763	35,271	32,478	20,576
Earnings retained for use in the business	$ 18,070	$ 10,708	$ 14,751	$ 4,730	$ 14,970	$ 8,743
COMMON STOCK DATA						
Shares of common stock—year end (thousands)	38,751	35,493	30,229	25,932	23,240	22,896(b)
Per share of common stock (a) (average shares):						
Earnings before extraordinary items (a)	$ 1.87	$ 1.69	$ 1.88	$ 1.57	$ 2.05	$ 1.34
Extraordinary items, net of related income taxes	—	—	—	—	—	(.05)
Earnings for common stock	1.87	1.69	1.88	1.57	2.05	1.29
Dividends paid	1.40	1.40	1.40	1.40	1.40	.90
Market value—high-low	23¼-16	25⅛-21	27⅝-20¾	29½-20⅛	43½-27⅝	33-26¾
—year end	17¼	23¼	23¾	24¾	29½	31⅝
BALANCE SHEET DATA (DOLLARS IN THOUSANDS)						
Electric plant (original cost)	$3,366,541	$2,903,710	$2,459,572	$2,110,380	$1,735,861	$ 916,79
Accumulated depreciation	652,652	584,748	534,216	492,083	451,802	280,58
Capitalization and short-term notes:						
Common stock equity	796,730	706,899	580,025	457,319	386,190	285,058
Preference stock	50,000	50,000	50,000	50,000	50,000	—
Preferred stock	345,000	285,000	225,000	165,000	105,000	25,273
Long-term debt	1,502,630	1,270,224	1,040,891	837,500	663,750	331,250
Short-term notes payable	69,296	96,000	119,343	189,806	128,817	14,000
ELECTRIC AND OTHER STATISTICS						
Kilowatthour sales (millions):						
Residential	10,186	9,237	8,780	8,126	7,340	4,175
Commercial	7,287	6,515	5,938	5,391	4,767	2,131
Industrial	18,848	17,778	16,357	15,140	14,593	8,390
Other	6,838	6,158	5,838	6,631	5,180	2,589
Total kilowatthour sales	43,159	39,688	36,913	35,288	31,880	17,285
Number of customers (year end):						
Residential	931,020	895,488	864,361	835,706	810,743	671,508
Other	152,132	144,939	137,090	129,871	124,496	98,518
Total customers	1,083,152	1,040,427	1,001,451	965,577	935,239	770,026
Residential customer data:						
Average annual KWH use	11,072	10,447	10,299	9,864	9,179	6,279
Average revenue per KWH	2.08¢	2.00¢	1.90¢	1.73¢	1.72¢	1.90¢
Number of employees (year end):						
Operating and maintenance	7,938	7,721	7,392	7,363	6,933	5,613
Generating plant construction and engineering	5,125	4,780	3,910	3,210	2,596	693
Source of energy (millions of KWH):						
Generated—Steam—Fossil	38,604	37,736	35,393	34,212	30,591	17,206
—Steam—Nuclear	2,402	—	—	—	—	—
—Hydro	2,377	1,961	2,028	1,491	1,784	1,125
—Combustion turbine generators	650	869	726	837	643	—
Purchased and net interchange	2,469	2,607	1,789	1,728	1,534	583
Loss and company use	3,343	3,485	3,023	2,979	2,672	1,629
% loss and company use	7.7%	8.1%	7.5%	7.8%	7.7%	8.6%
System average heat rate	9,713	9,702	9,728	9,784	9,738	9,578
System load factor	64.2%	65.7%	68.2%	66.6%	68.9%	64.1%

(a) Net income for 1969 has been increased by $5,125,000 ($.22 per common share) as a result of certain changes as follows: (i) $725,000 from reduction of depreciation rates for electric generating facilities to the Internal Revenue Service guideline rates ($1,629,000 reduction in depreciation less related income taxes); (ii) $2,650,000 from reduction of the amortization period of deferred investment tax credits from twenty-five to five years; and (iii) $1,750,000 from the adoption of "flow-through" income tax accounting in connection with the use for income tax purposes of accelerated depreciation on additions to electric generating, transmission and certain general plant facilities acquired in 1968 and 1969

(b) The number of shares of common stock has been adjusted for 2 for 1 split in 1964

Subsidiaries

Crescent Land & Timber Corp.

In managing over 280,000 acres of non-utility land, Crescent Land & Timber Corp. is devoting more and more of its acreage to planned residential and resort developments.

Timber harvesting and reforestation remain the number one activity of this subsidiary, however, and Crescent continues to plant new trees at a rate of 1.4 million per year.

Since 1939, Duke and its subsidiaries have harvested over 664 million board feet of timber and 1.4 million cords of pulpwood. Nearly 44 million seedlings have been planted on Company lands.

Crescent has an equity interest in Carowinds, Inc., a theme amusement park and land development company. The theme park is located on the North Carolina-South Carolina state line and is one of the nation's largest family entertainment facilities. The park opened its gates for the first time last spring and while its attendance for the first year was excellent with over 1.2 million people, the first year start-up costs resulted in a loss for the year. The park looks forward to a successful 1974 season.

Realtec, Inc., a national resort firm selected by Crescent to develop the first resort-residential community on Lake Keowee in South Carolina (one of two lakes in Duke's Keowee-Toxaway project) has announced the sale of 349 lots.

Eastover Mining Company
Eastover Land Company

The Eastover companies were organized in 1970 in the wake of a severe coal shortage that threatened Duke's supply of low-sulphur coal. Eastover Land Company was organized to acquire coal properties and reserves; Eastover Mining Company was organized to perform the actual mining of these reserves.

On January 31, 1974, Eastover Land owned or had controlling interest in approximately 30,600 acres of coal reserves in eastern Kentucky and Virginia. These reserves are estimated to contain up to 250,000,000 tons of recoverable coal.

The 1973 production from operating mines was approximately 1,300,000 tons. The production was lower than forecast due to a strike which has idled the Brookside mine since July 26, 1973. A strike settlement had not been reached at year end.

The total annual output of these mining investments is expected to reach seven million tons when all mines reach full production in 1975.

Mill-Power Supply Company

Mill-Power Supply Company moved into its new, 83,000 square foot warehouse and office facility in Charlotte during January, 1973. The new structure, built to accommodate the company's steadily increasing inventory and sales, provides 66,000 square feet of warehouse space and 17,000 square feet for offices.

The oldest of Duke's subsidiaries, Mill-Power was chartered on June 7, 1910, to buy, warehouse and sell electrical equipment to mills and other industries that were converting to electricity from other sources of energy. Today, it is the authorized distributor for many of the largest electrical equipment manufacturers in the country.

In addition to selling items to Duke and others as a wholesale distributor, Mill-Power purchases virtually all supplies, equipment and fuel required by the parent company.

Subsidiaries-Financial Highlights

Financial highlights of subsidiaries of Duke Power Company for the year ended December 31, 1973, are as follows:

EARNINGS	
Electrical wholesale distribution	$ 1,120,000
Forestry, recreational and land developments	(42,000)
Coal mining—under development	—
Gross earnings	1,078,000
Intercompany profit elimination	(492,000)
Earnings to parent company, net	$ 586,000
DIVIDENDS—Paid to parent company	$ 1,000,000
NET ASSETS	
Property and investments—at cost:	
Real estate, recreational and land development	$61,350,000
Coal mining	45,273,000
Net current assets, principally receivables and inventories	3,976,000
Total assets	110,599,000
Long-term debt—	
Life insurance company	(7,000,000)
Bank, etc.— secured by recreational facilities ($16.1 million guaranteed by Crescent)	(28,185,000)
Coal production commitments	(25,793,000)
Deferred income taxes	(18,995,000)
Parent company investment and advances	30,626,000
Advances to parent at prime rate of interest	2,022,000
Net assets	$32,648,000

Duke Power Executive Staff

Carl Horn, Jr.*
President and Director
B.A., LL.B.—Duke University
Attorney
(52/20)

W. J. Burton
Vice President, Public Relations
B.S.E.E.—Clemson University
(60/39)

M. T. Hatley, Jr.
Manager, Rates
B.S.E.E.—Duke University
Professional Engineer
(51/23)

R. E. Frazer*
Vice President, Finance and Director
B. S.—Central Michigan University
Certified Public Accountant
(45/13)

William H. Grigg*
Vice President
General Counsel and Director
A.B., LL.B.—Duke University
Attorney
(41/11)

John D. Hicks*
Vice President
Corporate Affairs and Director
B.S.—U.S.Naval Academy, Yale Law School, LL.B.
Attorney
(50/17)

J. S. Major
Vice President
Personnel
(53/36)

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Executive Vice President, General Manager and Director
B.S.E.E.—University of North Carolina
(59/38)

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Senior Vice President
Retail Operations and Director
B.S.E.E.—University of Alabama
(49/22)

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Engineering & Construction and Director
B.S.C.E.—Princeton University
Professional Engineer
(44/19)

A. C. Thies*
Senior Vice President
Production & Transmission and Director
B.S.M.E.—Georgia Tech
(52/27)

*Director and Member of Executive Committee

Figures in Parentheses Denote Age and Length of Service

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Clemson University
Director
Dan River, Inc.
Southern Regional
Education Board
Federal Reserve Board of
Richmond, Charlotte Branch

Richard B. Henney
Trustee and Executive
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The Duke Endowment

Howard Holderness
Chairman of the Board
Jefferson Standard
Life Insurance Company
and Jefferson Pilot
Corporation
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Carolina Telephone &
Telegraph Company
Jefferson Pilot
Corporation
Pilot Life
Insurance Company

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Third National Bank
of Nashville
First International
Bancshares, Inc.
First National Bank
of Dallas
Southwestern Life
Insurance Company
Wilson Sporting
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Vice President, Public Affairs
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A.B.—Duke University
M.S.—N.C. State
University
A.M.—Princeton
University
(65/34)

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The Duke Endowment

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Senior Vice President
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Director
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Other Officers

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System Planning
B.A., B.E.E.—Ohio State University
(58/23)

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Real Estate
M.F.F.—Michigan University
B.S.Ag.—Western Michigan University
(61/34)

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Construction
B.C.E.—N.C. State University
Professional Engineer
(46/24)

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Associate General Counsel
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LL.B.—U. of South Carolina
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(40/9)

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B.S.—High Point College
(56/34)

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(60/37)

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B.S.E.E.—Clemson University
Professional Engineer
(58/36)

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Vice President
Marketing
(64/40)

Warren H. Owen
Vice President
Design Engineering
B.M.E.—Clemson University
Professional Engineer
(47/26)

William R. Stimart
Treasurer
B.S.—University of Illinois
Certified Public Accountant
(43/3)

R. J. Ashmore
Assistant Vice President
Financial Administration

S. F. Campbell
Assistant Treasurer

J. F. Day
Assistant Secretary

J. C. Goodman, Jr.
Assistant Secretary

L. P. Julian
Assistant Vice President
Operation

S. T. Lattimore
Assistant Vice President
Computer Services

W. O. Parker, Jr.
Assistant Vice President
Steam Production

R. R. Pierce
Assistant Vice President
Public Relations

E. D. Powell
Assistant Vice President
Production and Transmission

W. Bruce Shannon
Assistant Treasurer

K. C. Stonebraker
Assistant Controller

Mrs. Dorothea Stroupe
Assistant Secretary

W. J. Wortman
Assistant Vice President
Relays, Meters and Communications

Vice Presidents-Retail Divisions

Keith A. Arledge
Vice President, Western Division
B.S.E.E.—Tri-State College
(56/34)

A. M. Doolittle
Vice President, Southern Division
B.S.E.E.—Clemson University
(47/25)

J. G. Mann
Vice President, Northern Division
B.S.E.E.—Clemson University
Professional Engineer
(50/21)

T. M. Patrick, Jr.
Vice President, Eastern Division
(53/35)

J. D. Sloan
Vice President, Central Division
B.S.E.E.—Clemson University
(66/43)

Management Changes

At its regular meeting on February 27, 1973, the Board of Directors approved reorganization of the Company's retail district operations into five geographical divisions and named a new vice president to head each division. The reorganization will allow the Company closer contact with its more than one million customers. The new divisions are headquartered in Greenville, S. C., and in the North Carolina cities of Charlotte, Greensboro, Hickory and Winston-Salem.

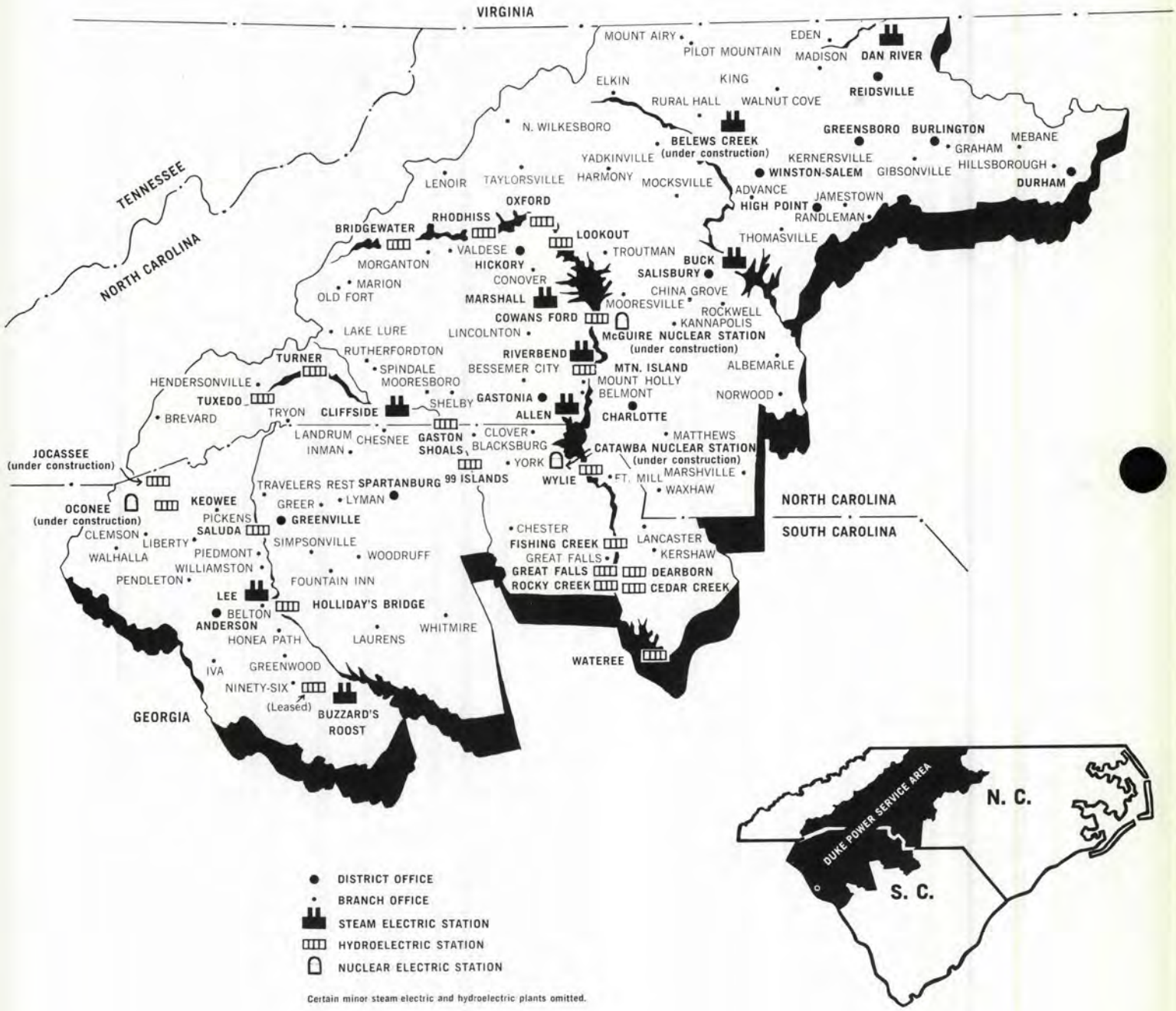
Elected vice presidents for the five retail divisions were **A. Mell Doolittle,** Southern Division; **James D. Sloan,** Central Division; **Keith Arledge,** Western Division; **Joseph G. Mann,** Northern Division; and **Thomas M. Patrick, Jr.,** Eastern Division. They report to J. Wesley Lewis, Vice President, Division Operations, who had previously served as vice president, district operations.

Other board action during the year included the election of **William O. Parker, Jr.,** to Assistant Vice President, Steam Production. **M. T. Hatley, Jr.,** was named Manager of the Rate Department, succeeding **Glen A. Coan,** Vice President, Rates, who retired after 41 years of service with the Company.

Also retiring during the year was **James W. Lawrence,** Assistant Treasurer, who had served the Company since 1929.

The Company was saddened by the death on October 4, 1973, of **James S. Sease,** Assistant Secretary. Mr. Sease had served Duke Power 54 years, longer than any employee in the Company's history.

Duke Power Service Area



Serving the Piedmont Carolinas

The Piedmont Carolinas, the area served by Duke Power, is the industrial heartland of the New South and one of the fastest-growing areas of the country.

Its 20,000 square miles, extending in a broad swath from Virginia to the Georgia state line, are characterized by contrasting scenes of bustling cities and towns and the rolling, pine-forested hills that separate the coastal and mountain regions of the two Carolinas.

Because of its moderate climate, its excellent educational system and its long history of abundant energy, the Piedmont has become a mecca for expanding industries. While maintaining its worldwide lead in the manufacture of wooden household furniture, tobacco products and household textiles, a growing percentage of new investments is being made in such diversified industries as pharmaceuticals, chemicals, rubber, electronics and heavy machinery.

For the five-year period ended 1973, the Duke Power service area had been chosen by 1,467 new and expanded industries requiring an investment of more than $2.7 billion. This industrial expansion created 79,544 new jobs with an annual payroll of $443 million.

Economic forecasters predict that the Piedmont's growth, in both industrial expansion and population, will continue during the coming decade. The Company's construction program outlined in this Report will provide the electricity for new industries, businesses and homes that will result from the area's progress.

NOTICE OF 1974 ANNUAL MEETING

The Annual Meeting of holders of common stock of Duke Power Company will be held at the principal office of the Company, 422 S. Church Street, Charlotte, N. C., on Tuesday, April 30, 1974, at 10 a.m. (Eastern Daylight Savings Time).

GENERAL OFFICES
422 South Church Street, Post Office Box 2178, Charlotte, North Carolina 28242.
TRANSFER AGENTS FOR COMMON STOCK
Morgan Guaranty Trust Company of New York; North Carolina National Bank, Charlotte.
REGISTRARS FOR COMMON STOCK
First National City Bank, New York; Wachovia Bank and Trust Company, Charlotte.

DUKE POWER ANNUAL REPORT 1974

To Our Shareholders:

Although the year 1974 may be remembered by many as a time of doubt and disillusionment, the lessons it offered should now provide the foundation for rational solutions to the challenges which confront our Company and the electric utility industry.

Throughout this report, we will be discussing some of those challenges, their causes and the realities we believe must be faced to overcome them.

Among the realities . . .

To Our Shareholders (from the cover)

. . . brought into focus by the events of 1974 are many directly related to our industry's efforts to meet the nation's growing energy requirements. Here are a few which will be discussed in detail later in this report:

• The national goal of energy self-sufficiency demands an immediate relaxation of unreasonable domestic restrictions which limit the availability of our own energy resources.

• In view of the anticipated diversion of coal to other industries for conversion to petroleum products, nuclear power represents the best alternative for meeting the nation's long-range energy requirements.

• The consumer must not be further burdened by environmental expenditures which do not offer compensating environmental benefits.

• Utilities charged with the responsibility of assuring a reliable source of electric power must not be deprived of the economic means by which to meet that responsibility.

The emphasis of this report on problem-solving, rather than operations, is not without basis. While we realize that management's objective is to produce and sell electricity for the highest benefit of shareholders and customers, we also realize that successful management depends largely on its ability to interpret and respond to changing social, political and economic conditions.

Following this summary of 1974 operations, we will explore some of those conditions, their impact on our Company and how we're responding to meet the

Highlights of the Year	1974	1973	Percent Increase (Decrease)
Electric Revenues:			
Total	**$822,921,000**	$600,681,000	37.0
Regular Sales	**$810,209,000**	$593,570,000	36.5
Earnings for Common Stock	**$ 76,562,000**	$ 72,106,000	6.2
Per Share of Common Stock:			
Earnings	**$1.80**	$1.87	(3.7)
Dividends Paid	**$1.40**	$1.40	—
Average Common Shares Outstanding	**42,618,000**	38,465,000	10.8
Plant Construction Costs	**$510,752,000**	$478,953,000	6.6
Kilowatthour Sales (thousands):			
Total	**42,344,000**	43,159,000	(1.9)
Regular Sales	**41,678,000**	42,669,000	(2.3)
Peak Load (KW)	**8,057,625**	8,235,585	(2.2)
Customers	**1,105,680**	1,083,152	2.1

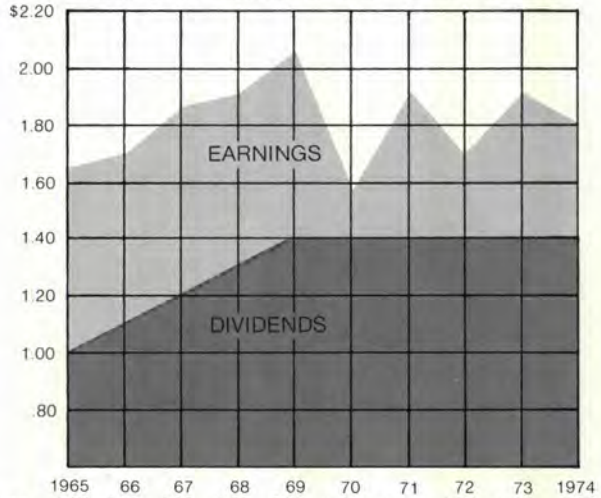
challenges.

Financial Operations

Many of the challenges facing our Company are reflections of the broader national dilemma. Double-digit inflation remains the critical issue and continues to offset major gains in revenues.

Electric revenues for 1974 were $823 million, an increase of $222 million or 37 per cent over 1973. It should be noted, however, that $151 million of 1974 revenues was recorded through fuel cost adjustment charges which, by allowing the Company to pass directly to customers increases in fuel costs without markup, resulted in no additional earnings.

Earnings and Dividends Per Share Common Stock



	1965	66	67	68	69	70	71	72	73	1974
Earnings	1.66	1.72	1.85	1.91	2.05	1.57	1.88	1.69	1.87	1.80
Dividends	1.00	1.10	1.20	1.30	1.40	1.40	1.40	1.40	1.40	1.40

Before extraordinary items and adjusted for stock split

Earnings for common stock rose to $77 million in 1974, a six per cent increase over 1973, while earnings per share declined from $1.87 to $1.80.

Among the factors adversely affecting earnings in 1974 was a February 3, 1975, order by the North Carolina Utilities Commission temporarily limiting to 75 per cent the amount of fuel cost adjustment charges that can be passed on to the Company's retail residential customers in that state. Under that order, the Company was not permitted to bill approximately $1,123,000 of revenues which had been accrued on an estimated basis for December, 1974, thereby reducing 1974 net income and earnings for common stock by about $526,000 and earnings per share of common stock by one cent. The effects of the order will be discussed further in this letter under *Rate Activities.*

Earnings also were adversely affected by (1) a two per cent decline in kilowatthour sales, resulting primarily from mild weather conditions, energy conservation efforts and the general slowdown of the economy, and (2) higher actual costs than the historic costs on which 1974 rates were based, including the addition of $682 million in new facilities placed in service in 1974 but not yet included in rates. Retail rates under which customers were billed in 1974 were based on the Company's operations in 1973. The problem of "regulatory lag" will be discussed later in this report.

Earnings per share were further affected by dilution resulting from the sale of over nine million additional shares of common stock at levels below book value. The increase in common equity without a compensating increase in earnings reduced the return on common equity to 8.8 per cent, far short of what regulatory agencies have found to be just and reasonable in the Company's rate cases. The return on total capitalization in 1974 was 7.6 per cent.

For the sixth straight year, the annual cash dividend on common stock has remained at $1.40 per share. All

of the 1974 dividend is considered a return of capital and is non-taxable for Federal income tax purposes. However, dividends on preference and preferred stock are fully taxable.

Financing

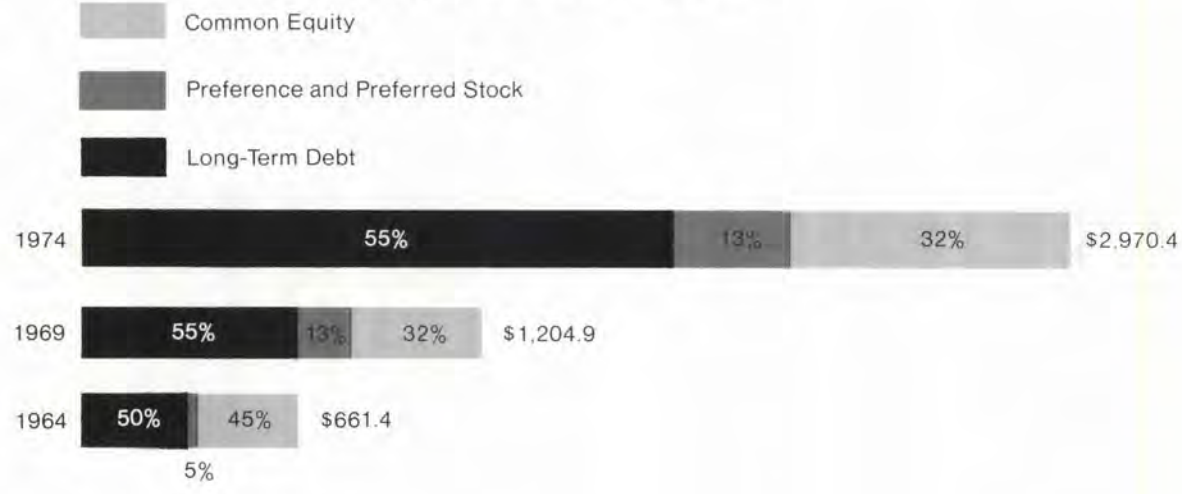
Intermediate and long-term financing in 1974 included the sale of $100 million in first and refunding mortgage bonds (9 3/4%), $100 million in five-year notes (13%), and two common stock issues totaling 8,500,000 shares. The first public offering of 4,500,000 shares was priced at $16.875 per share and resulted in proceeds to the Company of $72 million; the second offering, of 4,000,000 shares, was priced at $11.625 per share and resulted in proceeds of $43 million. An additional 585,387 shares of common stock were issued through the Company's Dividend Reinvestment and Stock Purchase Plan and the Stock Purchase-Savings Program for employees, with total proceeds of $7.6 million.

In addition, the Company received $16 million from bond anticipation notes for certain pollution control facilities at the Oconee Nuclear Station, $18.5 million from nuclear term notes, and approximately $56 million from the sale and sale-lease-back of certain assets.

In 1975, the Company plans to sell approximately $100 million in assets, including certain non-utility assets, to help reduce capital requirements from conventional outside sources. The sale of non-utility assets will help reduce the dilutive effect on earnings per share of issuing new common stock at levels below book value.

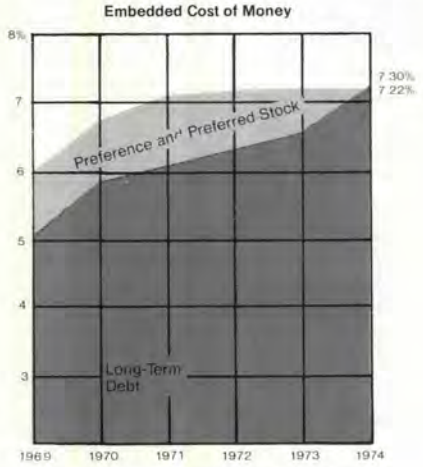
Although the issuance of new shares at below book value creates a dilutive effect within itself, periodic issues are required to maintain a favorable debt-equity ratio while financing the Company's construction program. Of long-term financing, first mortgage bonds are the most economical. If the debt portion of the capital structure

Capitalization Millions of Dollars



becomes excessive, the Company's bond credit rating could be reduced, forcing interest rates up even further. In addition to increasing the cost of financing, such a reduction could seriously jeopardize the Company's ability to sell bonds and impair its ability to meet future capital requirements.

Since the cost of financing is a direct function of the market's rigorous demands for adequate earnings, it is not surprising that Duke's embedded cost of long-term debt has risen sharply since 1969. With increasingly higher interest rates, the embedded cost of long-term debt has increased from 5.09 per cent in 1969 to 7.30 per cent in 1974. The embedded cost of preference and preferred stock has climbed from 6.00 per cent to 7.22 per cent. At the same time, the return on average common equity has declined from 12.6 per cent to 8.8 per cent.



During this period the embedded cost of long-term debt and preferred stock dividends increased 43 per cent and 20 per cent, respectively.

Improved earnings, of course, are a necessary ingredient in any formula to hold capital costs down and to restore investor confidence in utility common stock. In addition, changes in the Federal tax laws are needed to remove built-in penalties against the formation of new capital. Notable among the needed changes are elimination of the double taxation of dividends and reduction of the corporate income tax rate.

Plant Additions

System generating capability on January 1, 1975, was 10,923,000 kilowatts, boosted in 1974 by completion of Units 2 and 3 of the Oconee Nuclear Station, and the first unit of the coal-fired Belews Creek Steam Station.

Each of the three Oconee units is rated at 871,000 kilowatts, giving the station a total capability of 2,613,000 kilowatts, or 24 per cent of the system's capability at year end. In 1975, the first year all three Oconee units will be operating at full capability, the station is expected to account for 31 per cent of total system production.

The completed Belews Creek unit is rated at 1,060,000 kilowatts. An identical unit is scheduled for completion in late 1975. Also scheduled for completion in 1975 are the final two units of the Jocassee Hydroelectric Station, which will add 305,000 kilowatts of pumped-storage capability. Two identical units at Jocassee became operational in December, 1973.

Construction Cutback

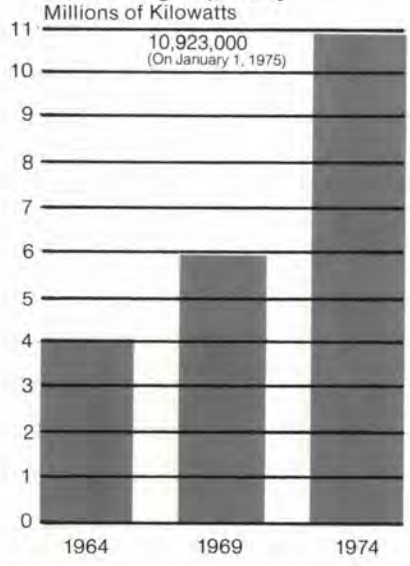
The current economic situation has placed a particularly heavy burden on the capital-intensive electric utility industry. Charged by law with the responsibility of providing a reliable source of power for their customers, many companies now find themselves in the position of being economically deprived of the means by which to meet that responsibility.

Duke Power was one of many utilities forced to make significant cutbacks in expansion efforts during the year. After thoroughly investigating all available means of financing, we concluded that critical conditions existing in the financial markets made it impossible to maintain the former construction schedule.

The revised construction schedule reduced Duke's

capital expenditures by about $150 million through 1975 and resulted in a total capital reduction of almost $1.5 billion through 1979. The construction program for 1975 is now budgeted at $502 million. Construction costs for the period 1975-79 are estimated at $3 billion. Under the new schedule, the two units of the William B. McGuire Nuclear Station, previously planned for operation in 1976 and 1977, will become operational in 1978 and 1979. Work on the Catawba Nuclear Station has been delayed and the two units have been rescheduled for operation in 1981 and 1982, two years later than previously scheduled. Start of construction on the Perkins Nuclear Station and Cherokee Nuclear Station, each consisting of three identical units, has been moved back two years. The first unit of the six, originally planned for operation in 1981, is now scheduled for completion in 1983 with the five remaining units to follow at one-year intervals.

Generating Capability



Load Management

Although load growth forecasts have been revised downward to reflect current energy conservation efforts and the general slowdown of the economy, the reduced construction schedule would, by the early 1980's, result in a level of generating reserves below that which we consider necessary for reliability.

To help offset possible future problems in meeting demands, the Company has launched a comprehensive program of load management directed toward further reducing the growth of peak demand. This program has as its goal the achievement of a 16 to 17 per cent margin of reserves in the early 1980's instead of the 12 to 13 per cent reserve that would result from unmanaged load growth.

A partial list of activities in this area includes:

- Encouraging higher levels of insulation in existing and new homes in order to reduce air-conditioning loads.
- Assisting commercial and industrial design teams in achieving task-oriented lighting levels, with a consequent reduction in air-conditioning requirements.
- Assisting large industrial customers in the development of in-house load management programs, for the purpose of shifting certain power requirements from on-peak to off-peak times.
- Promoting heat recovery energy systems.
- Working with architects and engineers in optimizing energy utilization by use of computer techniques.

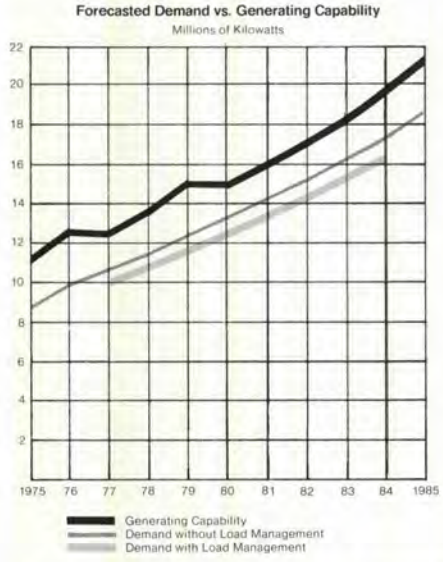
Among other possibilities being explored are various pricing incentives which could potentially further reduce the peak by shifting portions of the peak-causing demand to off-peak hours.

We're also studying the feasibility of installing electronic controls which would permit the shedding of water-heating and air-conditioning loads during high peak conditions as an alternative to building expensive new generating equipment.

While working to reduce the peak in accordance with the cutback in planned generating additions, we are convinced that the demand for electricity will, by the mid-1980's, continue its steady climb upward despite the best conservation and energy utilization efforts. Indeed,

electricity **must** supply a growing proportion of the nation's energy requirements if the national goal of energy self-sufficiency is to be reached.

To reduce the nation's dependence on petroleum products, whose price and availability are dictated largely by foreign governments, we believe that many users of these products must develop the necessary technology for converting to electrical energy systems. When these systems are developed, the electricity to power them must be available.



Project Independence

One of the realities which must be accepted is that the goal of energy self-sufficiency cannot be reached so long as domestic restrictions limit the availability of our own energy resources.

Only two basic fuels—coal and uranium—are available in sufficient quantities to fuel the generation of the vast amounts of electricity that will be required to help meet this goal.

Although Duke's future generating additions will be primarily nuclear (with some hydro additions for increased peaking capability), our system will rely heavily on coal for some time as the main source of energy for generating electricity. Both the availability and cost of coal have been severely affected by well-intentioned safety and environmental regulations which, if unaltered, may seriously jeopardize the reliability of service and place additional hardships on both utility investors and utility customers.

In December, 1973, Duke's average price per ton of coal burned was $12.56. A year later, in December, 1974, the price had increased to $27.64. At a time when utilities and other industries were requiring more coal, safety and environmental restrictions were making less coal obtainable. With the demand up and supply down, costs have soared.

The supply of coal has been drastically affected by stringent reclamation laws which have forced the shutdown of some mines and curtailment of operations at others. New mine safety regulations have been the major factor in reducing underground coal production from 16 tons per man-day in 1969 to 11 tons in 1974.

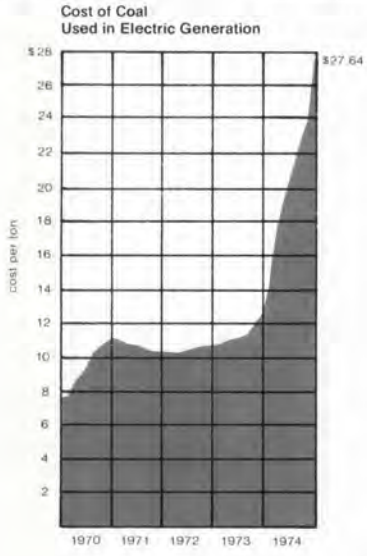
At the same time, there has been increased competition for the limited supply of low-sulfur coal resulting from environmental restrictions which prohibit burning of normal sulfur coal. Competition also has been accelerated by economic and political pressures which have forced many utilities that previously burned oil to switch to coal.

Over the long run, it seems inevitable that coal costs will go even higher as additional restrictions become effective. Roughly one-third of the nation's coal supply contains too much sulfur to be used by utilities under proposed new environmental regulations. Another 20 to 30 million tons may be lost annually by the shutdown of additional mines as a result of new health and safety requirements for underground mining. Although the President has vetoed a bill which would have further reduced the available supply of coal from surface mining, efforts to revive the measure have already resumed in the new Congress.

While Duke expects to supply about half of its 1975-

1979 coal requirements from its own mines and other mining operations in which Duke has investments, the same factors which have forced production down and costs up on the national scene also affect the production and cost of coal from our own mines.

If the goals of "Project Independence" are to be realized, and the cost of electricity is to remain within the means of the ordinary citizen, the nation's coal reserves must be fully utilized. To achieve these goals, we need reasonable laws that will strike a balance between the need for environmental protection and the need of society for more energy.



The Role of Nuclear

Although coal will remain a vital fuel for many decades, we are convinced that the best solution to the energy problem lies in nuclear power. Despite its impeccable safety record, however, development of the nuclear industry continues to be blunted by mounting regulation, intervention, and problems of financing.

Due primarily to the staggering proliferation of regulations, the lead time from initial design to start-up of nuclear units has now increased to ten years. That time must be reduced if future units are to become operational in time to meet the predicted, if not inevitable, increases in electric consumption.

The environmental advantages of nuclear power are self-evident. Since no combustion products are involved, there are no releases of smoke or other combustion gases to the atmosphere. The minute amounts of radioactivity routinely released to the environment are well below the levels of radioactivity found in the natural environment. Insofar as radioactivity is concerned, the most sensitive monitoring devices have been unable to detect any increases in radioactivity at the Oconee Nuclear Station site above that which existed before the plant was built.

The safety record of the nuclear industry is just as impressive. During an accumulated 250 reactor years of successful operations, no employee nor any member of the public has ever received a radiation injury from a licensed nuclear power plant in this country.

Nuclear power has two additional advantages which make it clearly the best choice of available energy sources.

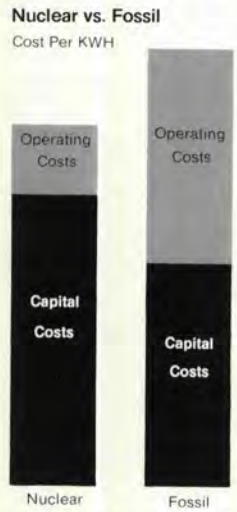
First are its favorable effects on both current and future operating costs. In 1974, the spiraling cost of fossil fuels was painfully felt by our customers in the form of a fuel cost adjustment charge which, at year-end, amounted to about a half-cent per kilowatthour. If the Oconee Nuclear Station, which accounted for 15 per cent of generation, had been a coal-burning plant, an additional $27 million in charges to customers would have been required in 1974 to recover the higher fuel costs. These hypothetical charges take into consideration the lower capital costs of a coal-burning plant of the same size and vintage.

An even more vivid illustration of the economics of nuclear is the comparison of the projected capital and operating costs for the Cherokee and Perkins stations. Although the capital investments in these plants are expected to be around $841 million higher than comparably-sized coal-burning plants, their lower operating costs are

expected to result in a net savings to customers of $8 billion over the 25-30 years useful lives of the plants. These projections are based on early 1974 estimates of anticipated capital and operating costs.

What should be the convincing argument for nuclear is its vital role in achieving the goals of "Project Independence." For utilities which rely heavily on oil, increased utilization of nuclear power results in a direct reduction of oil consumption. In our own case, the use of nuclear makes possible the diversion of coal to utilities currently dependent on oil, and to other industries for conversion to a number of petroleum-based products historically derived from oil.

With the three units of the Oconee Nuclear Station operating at full capability, the nuclear generation displaces roughly 24,000 tons of coal per day—the equivalent of 100,000 barrels of oil.



Based on projections for the Perkins and Cherokee nuclear stations vs. coal-fired units of comparable size and vintage.

Environmental Costs

Duke Power has long recognized its responsibility to protect the environment, and over the years has spent millions of dollars on pollution control equipment and related activities. This work has included a $70 million air pollution control program, completed in 1973, that has virtually eliminated flyash emissions from our coal-burning plants.

We believe these expenditures have been justified and we consider them a necessary expense involved in meeting our customers' requirements for electricity.

However, we are particularly concerned over recent Environmental Protection Agency (EPA) actions which, we feel, would place an unnecessary additional financial burden on Duke Power customers. In recently-issued discharge permits for a number of Duke steam stations, the EPA has set standards for thermal discharges which, if not modified, would either severely restrict the operation of these plants or require the construction of expensive cooling towers.

In either case, the cost of electricity produced by the affected plants would rise sharply.

We have asked for public hearings before the EPA and, in the event the permits are upheld, intend to take whatever legal recourse that is available to avoid these unnecessary expenditures.

Our resistance to the EPA permits should in no way be interpreted as an effort by Duke Power to avoid its environmental responsibilities. On the contrary, we feel that in most cases the installation of cooling towers would have greater adverse impact on the environment than lake or river cooling.

While we fully recognize that thermal discharges may alter (and in some cases, enhance) the lake ecology in the discharge areas, our long experience with operating steam stations on the lakes and rivers of the Piedmont Carolinas has given no indication that such alterations warrant the vast expenditures required to comply with the EPA permits. This belief is supported by years of environmental studies by our own scientists and by consulting scientists from leading colleges and universities.

In addition to requiring the unnecessary expenditure of millions of additional dollars, the construction of cooling towers would essentially nullify the capital invest-

ments already made in certain of our lakes which, in addition to providing a valuable water resource and recreational asset, are already providing the necessary cooling.

Cooling towers also would substantially reduce the efficiency of the plants, which would be plainly contrary to the national effort to conserve basic energy resources.

Even in the best of times, environmental expenditures without compensating environmental benefits must be avoided. In view of the financial burden already placed on consumers by the rising costs of virtually all necessities, such expenditures must now be fully resisted by industries which provide those necessities.

Rate Activities

In a period of continuing inflation, the most crucial problem facing a growth utility is achieving rates that will produce revenues sufficient to offset increases in expenses. This is the issue upon which all other activity hinges. Solutions to the problems of financing, service and even the rising cost of electricity all depend on the Company's ability to maintain financial stability.

The matching of revenues with current expenses has been hampered largely by the problem of regulatory lag. Traditionally, requests for rate relief have been based on historic expenses. By the time the requests are compiled, heard, studied and acted upon by the regulatory agencies, the requested rates, even if approved in their entirety, are no longer sufficient to recover the higher expenses brought on by inflationary pressures.

Under a new state law permitting the use of forward test periods in rate filings, the Company in late November, 1974, asked the North Carolina Utilities Commission (NCUC) for permission to increase rates approximately $131 million based on projected operations for the test period ending December 31, 1975. The Company subsequently amended a pending request in South Carolina to coincide with the test period of the North Carolina filing. The South Carolina request would produce additional annual revenues of approximately $57 million.

The North Carolina filing also requested that $108 million in interim relief be granted, but hearings previously scheduled for mid-February have been delayed.

Essentially, the use of a forward test period makes it possible to design rates that will reflect expenses anticipated to be incurred at the time the requested rates become effective.

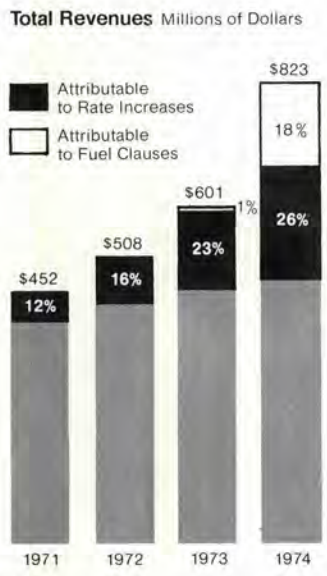
Decisions on previous filings were handed down by both state agencies during the year. Both commissions granted 100 per cent of rate requests in effect on an interim basis since April, 1974, which together would produce additional annual revenues of about $87.9 million based on 1974 levels of business. In both orders, the Company was directed to restructure the retail rate design, shifting more of the increase to industrial customers and lessening the impact of the increase on residential customers.

Both agencies also gave final approval to a "coal cost adjustment charge" that had been in effect in both states since January, 1974, and which accounted for $120 million of 1974 revenues ($81 million applicable to N.C.). The North Carolina commission altered the charge to include all fossil fuels, and a request for a similar alteration is included in the pending South Carolina case. An additional $31 million was recorded during the year through a fuel cost adjustment charge on wholesale business.

The North Carolina decision, however, has been appealed by the State Attorney General, who contends that automatic rate adjustments violate the statutory requirement of advance approval of rate increases. The appeal also contends that refunds should be made in accordance with the new rate design included in the NCUC's order approving the general rate increases.

On February 3, 1975, the Company received a new order

from the NCUC which temporarily limited to 75 per cent the amount of fuel cost adjustment charges that can be passed on to retail residential customers in North Carolina. The order, which was to remain in effect a maximum 60 days beginning February 1, 1975, followed public hearings on fuel cost adjustment charges previously granted to Duke and two other electric utilities serving North Carolina. The hearings were to be resumed on February 18, 1975, at which time the companies would be given the opportunity to present evidence in support of the fuel cost adjustment charges.



The February 3 order affected 1974 operations because of the 60-day lag between the time fuel costs are incurred and the time such increases are actually billed to customers. To properly match increased fuel costs and revenues, the Company accrues monthly the estimated revenues that will be subsequently billed. In this case, the limiting of fuel charges reduced the amount of revenues the Company had accrued on an estimated basis for December, 1974, with the previously mentioned effect on net income, earnings for common stock and earnings per share of common stock.

In a separate order, the commission approved the Company's accounting procedures related to unbilled revenues resulting from fuel cost adjustment charges.

With the average cost per kilowatthour climbing steadily to reflect higher operating and capital costs, it is not surprising that rate increases are the dominant cause of customer discontent. While the interests of the Company and its customers may seem at cross-purposes over the matter of rates, basic utility economics prove the interests to be mutual.

Successful opposition to rate increases could result in an immediate and direct savings to the rate-payer, thus satisfying his short-term interest of keeping the size of his power bill down. Over the long run, however, this would have potentially disastrous effects on the customer, the least of which is even higher electric bills than he otherwise would have experienced.

As mentioned previously, inadequate earnings could seriously jeopardize the Company's ability to market securities and impair its ability to meet future electrical requirements. A power shortage, of course, would weaken the economy of the region we serve and result ultimately in a loss of income for those whose jobs would be affected by reduced productivity.

Inadequate earnings also tend to have a greater detrimental effect on the cost of electricity than the rate increases necessary to achieve adequate earnings. As shown earlier, inadequate earnings generally result in higher financing costs. These costs, like the cost of labor, materials and equipment, are a necessary expense associated with providing electric service and an expense which eventually must be borne by the rate-payers. For example, debt expenses in 1974 amounted to $111 million, or nearly half of the Company's income before interest deductions.

Unlike fuel and other variable costs, the cost of debt capital, once incurred, remains constant and has the same influence on rates for the life of the securities on which the costs were incurred.

A failure on our part to vigorously pursue adequate

earnings would, consequently, result in even higher costs to the consumer.

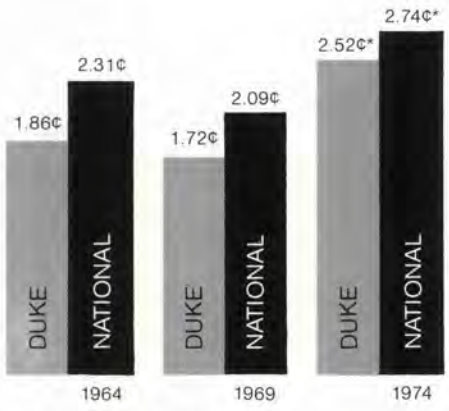
Cost Cutting

Additional rate increases are inevitable to help offset continued inflation in the cost of power production. The Company, however, is not relying solely on rate relief in the fight against inflation. Every effort to reduce costs is being made to help reduce the size and frequency of rate requests.

A reduction of about 1,400 employees was made in the latter half of 1974, with most of the layoffs occurring as a natural adjunct to the cutback in construction. Further reductions are expected through attrition.

Average Cost Per Residential KWH

Cents Per KWH



*12 months ended October 31, 1974

Distribution costs have been substantially lowered by a reduction in the number of people performing this work by over 400.

The construction of transmission lines has been sharply curtailed, and we have reduced the use of older, less efficient generating units to help lower operating costs.

Expenses also have been reduced by such actions as the temporary closing of training facilities, the discontinuance of media advertising and reductions in travel expenses and overtime.

While these efforts have direct cost-savings benefits, the greatest savings continue to be realized through improved efficiency and increased productivity. In all areas of Company operations, innovative management techniques and advanced computer applications are being employed to help hold the cost line against inflation.

Indicative of the Company's commitment to efficiency is the unprecedented operating record of Marshall Steam Station, recently declared the nation's most efficient coal-burning plant for the eighth consecutive year. An even higher level of efficiency was achieved by Unit 1 of the new Belews Creek Steam Station during the first six months of the unit's operating life.

While we will continue to look for ways to blunt the effects of inflation, we realize that the only real solution lies with a curbing of deficit government spending.

In this report, we have attempted to give you a straight-forward appraisal of the problems and challenges facing our Company. Overall, we believe the future to be bright. This optimism is based on the most significant reality of all — the increasingly important role of electricity in meeting the nation's energy requirements.

To successfully meet the challenges, however, we will need the continued support and understanding of the public, the government, our dedicated employees, and our shareholders. Your support is essential to the task.

Carl Horn Jr.

For the Board of Directors
Carl Horn, Jr. President
February 17, 1975

State of the Union—
The President's Recommendations

In his State of the Union message to Congress on January 15, 1975, President Ford spoke to many of the problems and challenges outlined in this report. His recommendations to the Congress included:

- Completion of 200 major new nuclear power plants and 150 major new coal-fired power plants by 1985.
- Licensing and financial reforms to speed up siting and construction of nuclear plants.
- Amendments to the Energy Supply and Environmental Coordination Act to greatly increase the number of power plants, now fueled by oil or natural gas, that can be converted to burn coal.
- Amendments to the Clean Air Act to allow greater use of the nation's coal reserves.

In an outline of energy questions and answers accompanying the President's message, the Administration said proposed legislation would require state regulatory agencies to permit utilities to generate sufficient revenues "to cover costs during a period of rapid inflation and heavy capital expansion requirements." The Administration also rejected public ownership as a solution to the problems of utility financing, pointing out that "there is no consensus that publicly owned power is cheaper than privately owned power . . . except to the extent that it receives subsidization through cheaper capital and lower taxes."

We applaud the President's recommendations and urge their prompt approval by Congress.

Statement of Source of Funds for Plant Construction Costs

Year Ended December 31

	1974	1973
SOURCE OF FUNDS:		
Funds from operations—		
Net income	**$105,096,000**	$ 99,562,000
Non-cash items (decrease):		
Depreciation and amortization	**96,846,000**	76,300,000
Deferred income taxes, net	**43,885,000**	25,272,000
Common equity component of the allowance for funds used during construction	**(29,644,000)**	(29,492,000)
Other, net	**7,187,000**	(797,000)
Funds from operations	**223,370,000**	170,845,000
Dividends paid on common stock	**(59,263,000)**	(54,036,000)
Dividends paid on preference and preferred stock	**(28,534,000)**	(27,456,000)
Funds retained in the business	**135,573,000**	89,353,000
Funds from financing—net proceeds—		
Common stock	**122,658,000**	72,001,000
Term notes	**116,982,000**	30,499,000
First mortgage bonds	**97,730,000**	198,823,000
Sale of assets	**53,784,000**	—
Preferred stock	**—**	59,759,000
Increase (decrease) in notes payable	**72,790,000**	(26,704,000)
Decrease in long-term debt	**(4,190,000)**	(1,250,000)
Funds from financing	**459,754,000**	333,128,000
Total available funds	**595,327,000**	422,481,000
Decrease (increase) in working capital, etc.—		
Materials and supplies	**(61,460,000)**	6,578,000
Other current assets	**(56,426,000)**	(7,227,000)
Current liabilities	**34,612,000**	22,399,000
Investments in and advances to subsidiaries	**(13,437,000)**	62,000
Other, net	**(17,508,000)**	5,168,000
PLANT CONSTRUCTION EXPENDITURES	**481,108,000**	449,461,000
Common equity component of the allowance for funds used during construction	**29,644,000**	29,492,000
Plant construction costs	**$510,752,000**	$478,953,000

See notes to financial statements.

Statement of Retained Earnings

Year Ended December 31

	1974	1973
RETAINED EARNINGS—Beginning of year	**$104,629,000**	$ 88,918,000
ADD—Net income	**105,096,000**	99,562,000
Total	**209,725,000**	188,480,000
DEDUCT:		
Cash dividends—		
Common stock ($1.40 per share)	**59,263,000**	54,036,000
Preference stock ($6.75 per share)	**3,375,000**	3,375,000
Preferred stock—		
Series C ($4.50 per share)	**1,575,000**	1,575,000
Series D ($5.72 per share)	**2,002,000**	2,002,000
Series E ($6.72 per share)	**2,352,000**	2,352,000
Series F ($8.70 per share)	**5,220,000**	5,220,000
Series G ($8.20 per share)	**4,920,000**	4,920,000
Series H ($7.80 per share)	**4,680,000**	4,680,000
Series I ($7.35 per share)	**4,410,000**	3,332,000
Capital stock expense	**7,355,000**	2,359,000
Total deductions	**95,152,000**	83,851,000
RETAINED EARNINGS—End of year	**$114,573,000**	$104,629,000

See notes to financial statements.

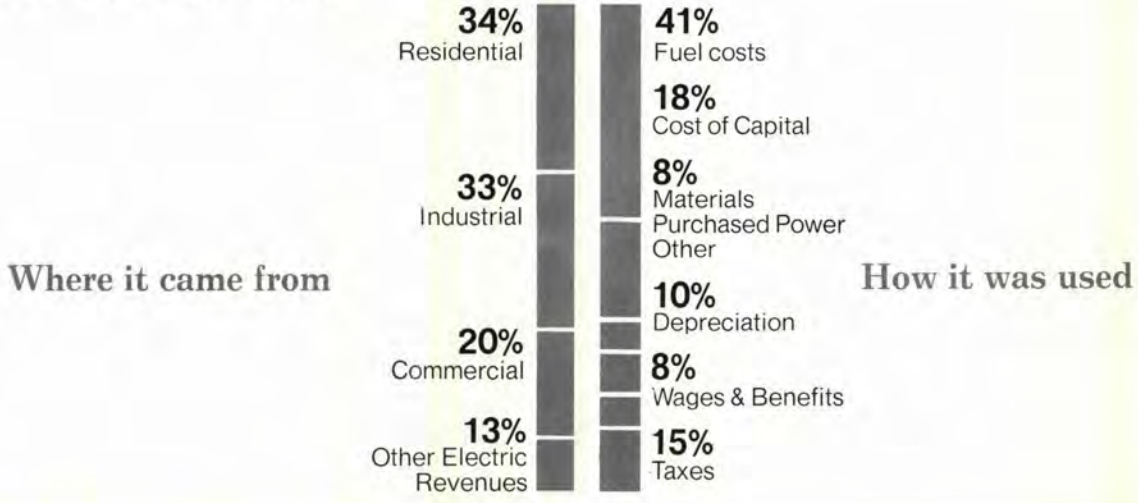
Statement of Income

Year Ended December 31

	1974	1973
ELECTRIC REVENUES (Note 2)	**$822,921,000**	$600,681,000
ELECTRIC EXPENSES AND TAXES:		
Operation—		
Fuel used in electric generation	**333,399,000**	191,861,000
Purchased power	**8,495,000**	28,575,000
Wages, benefits and materials	**92,732,000**	78,580,000
Maintenance of plant facilities—wages and materials	**33,527,000**	28,886,000
Depreciation	**83,914,000**	70,459,000
Taxes (Notes 1 and 7)—		
General	**64,871,000**	50,054,000
Federal income	**13,021,000**	13,900,000
State income	**1,732,000**	1,969,000
Deferred income taxes, net	**43,885,000**	25,272,000
Investment tax credit:		
Tax credit deferred	—	178,000
Amortization of deferments (credit)	**(949,000)**	(4,058,000)
Total electric expenses and taxes	**674,627,000**	485,676,000
Electric operating income	**148,294,000**	115,005,000
OTHER INCOME:		
Allowance for funds used during construction (Note 1)	**62,159,000**	59,459,000
Earnings of subsidiaries from operations, net	**299,000**	586,000
Dividends and interest	**2,406,000**	1,616,000
Other, net (deduction) (Note 10)	**2,381,000**	(1,109,000)
Income tax—credit	**16,094,000**	15,406,000
Total other income	**83,339,000**	75,958,000
Income before interest deductions	**231,633,000**	190,963,000
INTEREST DEDUCTIONS:		
Interest on long-term debt	**110,777,000**	85,659,000
Other interest	**15,407,000**	5,465,000
Amortization of debt discount, premium and expense	**353,000**	277,000
Total interest deductions	**126,537,000**	91,401,000
Net income	**105,096,000**	99,562,000
DIVIDENDS ON PREFERENCE AND PREFERRED STOCK	**28,534,000**	27,456,000
Earnings for common stock	**$ 76,562,000**	$ 72,106,000
AVERAGE COMMON SHARES OUTSTANDING	**42,618,000**	38,465,000
EARNINGS PER SHARE OF COMMON STOCK	**$1.80**	$1.87

See notes to financial statements.

The 1974 Revenue Dollar



Balance Sheet

December 31

		1974	1973
	Assets		
ELECTRIC PLANT (At original cost—Note 1)	Electric plant in service	**$3,146,529,000**	$2,489,371,000
	Less—accumulated depreciation and amortization	**727,878,000**	652,922,000
	Electric plant in service, net	**2,418,651,000**	1,836,449,000
	Construction work in progress (includes in 1974 $547,274,000 of generating facilities)	**637,248,000**	866,021,000
		3,055,899,000	2,702,470,000
OTHER PROPERTY AND INVESTMENTS	Other property — at cost (less depreciation: 1974-$3,395,000; 1973-$3,106,000)	**22,043,000**	20,819,000
	Investments in and advances to subsidiaries at equity (Note 3)	**39,633,000**	30,626,000
	Other securities—at cost or less	**8,330,000**	8,328,000
		70,006,000	59,773,000
CURRENT ASSETS	Cash	**18,643,000**	14,563,000
	Receivables, less allowance for losses	**76,255,000**	60,148,000
	Fuel clause revenues accrued (Note 1)	**36,239,000**	—
	Materials and supplies—at average cost:		
	Fuel	**68,428,000**	24,611,000
	Other	**56,568,000**	38,925,000
		256,133,000	138,247,000
DEFERRED DEBITS, ETC.	Debt expense, being amortized over terms of related debt	**10,964,000**	8,010,000
	Other	**19,017,000**	5,518,000
		29,981,000	13,528,000
		$3,412,019,000	$2,914,018,000
	Liabilities		
CAPITALIZATION	Total capitalization	**$2,970,438,000**	$2,696,904,000
CURRENT LIABILITIES	Accounts payable	**64,957,000**	39,128,000
	Interest accrued	**33,755,000**	27,288,000
	Taxes accrued	**9,258,000**	8,181,000
	Other	**9,968,000**	8,729,000
		117,938,000	83,326,000
	Notes payable for construction—pending permanent financing (Notes 8 and 9)	**142,092,000**	69,296,000
	Current portion of long-term debt	**83,500,000**	—
		343,530,000	152,622,000
DEFERRED CREDITS, ETC.	Accumulated deferred income taxes (Note 1)	**90,073,000**	56,438,000
	Investment tax credit (Note 1)	**2,796,000**	3,746,000
	Other	**5,182,000**	4,308,000
		98,051,000	64,492,000
		$3,412,019,000	$2,914,018,000

See notes to financial statements.

Statement of Capitalization

December 31

	1974	Per Cent of Capitalization	1973	Per Cent of Capitalization
Common Stock Equity (Notes 3 and 4):				
Common stock, no par, 70,000,000 shares authorized; 47,836,059 and 38,750,672 shares outstanding for 1974 and 1973, respectively	$ 822,113,000		$ 692,101,000	
Retained earnings	114,573,000		104,629,000	
Total common stock equity	936,686,000	31.5	796,730,000	29.5
Preference and Preferred Stock (Note 4):				
Preference stock, $100 par, 6 3/4% Convertible Series AA, 1,500,000 shares authorized, 500,000 shares outstanding	50,000,000		50,000,000	
Preferred stock, $100 par, 5,000,000 shares authorized:				
Series / Shares outstanding				
4.50% C — 350,000	35,000,000		35,000,000	
5.72% D — 350,000	35,000,000		35,000,000	
6.72% E — 350,000	35,000,000		35,000,000	
8.70% F — 600,000	60,000,000		60,000,000	
8.20% G — 600,000	60,000,000		60,000,000	
7.80% H — 600,000	60,000,000		60,000,000	
7.35% I — 600,000	60,000,000		60,000,000	
Preferred stock A, $25 par, 10,000,000 shares authorized, none outstanding	—		—	
Total preference and preferred stock	395,000,000	13.3	395,000,000	14.7
Long-Term Debt (Note 5):				
First and refunding mortgage bonds:				
Series / Year Due				
3% — 1975	40,000,000		40,000,000	
2.65% — 1977	40,000,000		40,000,000	
2 7/8% — 1979	40,000,000		40,000,000	
3 1/4% — 1981	35,000,000		35,000,000	
3 5/8% — 1986	30,000,000		30,000,000	
4 1/2% — 1992	50,000,000		50,000,000	
4 1/4% B — 1992	50,000,000		50,000,000	
4 1/2% — 1995	40,000,000		40,000,000	
5 3/8% — 1997	75,000,000		75,000,000	
6 3/8% — 1998	75,000,000		75,000,000	
7% — 1999	75,000,000		75,000,000	
8% B — 1999	75,000,000		75,000,000	
8 1/2% — 2000	75,000,000		75,000,000	
8 5/8% B — 2000	100,000,000		100,000,000	
7 1/2% — 2001	100,000,000		100,000,000	
7 3/8% B — 2001	40,000,000		40,000,000	
7 3/4% — 2002	100,000,000		100,000,000	
7 3/8% B — 2002	75,000,000		75,000,000	
7 3/4% — 2003	100,000,000		100,000,000	
8 1/8% B — 2003	100,000,000		100,000,000	
9 3/4% — 2004	100,000,000		—	
Sinking fund debentures, 4 7/8% — 1982	32,500,000		33,750,000	
Term notes: 6 1/2%—7% — 1975-1978	111,000,000		111,000,000	
Floating prime — 1975-1976	49,000,000		30,500,000	
13% — 1979	100,000,000		—	
Turbine generator leases (Note 6)	12,626,000		12,380,000	
Unamortized debt discount and premium, net	2,126,000		2,544,000	
Less current portion of long-term debt	(83,500,000)		—	
Total long-term debt	1,638,752,000	55.2	1,505,174,000	55.8
Total capitalization	$2,970,438,000	100.0	$2,696,904,000	100.0

See notes to financial statements.

Notes to Financial Statements

1. **Summary of Significant Accounting Policies.**

A. *Additions to Electric Plant.* The Company charges to construction all direct labor and materials, as well as related indirect construction costs including general engineering, taxes and the cost of money (allowance for funds used during construction).

Allowance for funds used during construction (ADC) is an accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress in the balance sheet and, accordingly, are capitalized in the same manner as construction labor and material costs. This item is recognized as a cost of "Electric Plant", with an off-setting credit to "Other Income", because, under established regulatory rate practices, a utility is permitted to include a fair return on, and the recovery of, these capital costs through their inclusion in the rate base and in the provision for depreciation. ADC has been calculated using the rates, net of applicable income taxes, of 7 1/2% through June 30, 1974 and 8% thereafter.

B. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year end composite average rate was 3.25% for 1974 and 3.20% for 1973. Provisions for amortization of nuclear fuel, which are included in "Fuel used in electric generation," are recorded using the unit of production method.

C. *Income Taxes.* The Company provides deferred income taxes under normalization accounting for differences in book and tax depreciation arising from the use of accelerated tax depreciation, except for certain plant additions in 1968 and 1969. The Company accrues the future income tax benefits attributable to the carry-forward of income tax operating losses arising from such accelerated tax depreciation and other book-tax differences. At December 31, 1974, $11,394,000 of such benefits for the years 1973 and 1974 have been recorded by reducing the accumulated deferred income tax liability.

Income taxes are allocated to electric operating expense and to non-electric operations under "Other Income." The income tax-credit classified under "Other Income" results principally from the tax deductions related to interest expense arising from investments in non-utility properties, mainly construction work in progress.

Income tax reductions arising from the 4% Job Development investment tax credit placed in effect during 1971 are being amortized over the depreciable lives of the related property, and those arising from the 3% investment tax credit in effect until 1969 are being amortized, as approved by regulatory authority over a five-year period. The unused investment tax credits available for carryover to future years were $35,739,000 and $17,944,000 at December 31, 1974 and 1973, respectively.

D. *Retirement Plan Cost.* The Company has a non-contributory retirement plan for the benefit of its employees. The Company's policy is to fund pension costs accrued which amounted to $6,040,000 in 1974 and $5,783,000 in 1973. During 1973 the plan was amended, raising the level of benefits for employees and retirees, and the assumed earnings rate was increased from 3 1/2% to 4 1/4%. The changes had no material effect on annual costs for the plan. The unfunded prior service cost, which is being amortized over a ten-year period, was $4,152,000 at December 31, 1974. Amendment of the retirement plan to comply with the Employee Retirement Income Security Act of 1974 will not significantly affect the ultimate cost of the plan; however, it is expected to have some impact on the initial funding requirement.

E. *Fuel Clause Revenue Accrued.* The Company has fuel cost adjustment clauses pertaining to both wholesale and retail business. These clauses provide for a 60-day time lag from the date increases in fuel costs are incurred until the date such increases are billed to customers. To properly match increased fuel costs and revenues, the Company, beginning in 1974, is accruing monthly the estimated revenues that will be subsequently billed. The amounts involved prior to January 1, 1974 were immaterial and no accruals were recorded (See Note 2).

2. **Rate Matters.** Rate increases granted since January 1, 1973, which are included in "Electric Revenues" in the accompanying Statement of Income are summarized in the table below:

Rate Increases

Rate Schedules	Per Cent Increase	Effective Date	Approximate Revenue Increases		
			Annualized on 1974 Sales	Year Ended December 31 1974	1973
Wholesale (1)	18.50	April 26, 1973	$10,900,000	$10,900,000	$ 6,800,000
North Carolina Retail (2)	16.80	April 15, 1974	60,700,000	55,400,000	3,800,000
South Carolina Retail (2)	16.70	April 15, 1974	27,200,000	24,000,000	1,800,000
Total			$98,800,000	$90,300,000	$12,400,000

(1) Subject to refund with interest.

(2) These increases consist of an 8% interim increase effective November 15, 1973, an additional 2.25% effective January 19, 1974 and the remainder effective April 15, 1974, all approved by orders dated October 10, 1974, for North Carolina and November 8, 1974, for South Carolina.

In addition, fossil fuel cost adjustment clauses applicable to wholesale customers since August 23, 1972, and to retail customers since January 19, 1974, have been granted by the regulatory authorities. Total revenues accrued under these fuel clauses have amounted to $151,500,000 and $7,500,000 for the years 1974 and 1973, respectively. Included in the above amount for the year 1974 is $36,200,000 which is accrued but unbilled.

The revenues from the rate increase and fuel cost adjustment clause applicable to wholesale customers, all of which are subject to refund with interest, amounted to $42,500,000 in 1974, $14,300,000 in 1973 and $1,900,000 in 1972. See "Rate Activities" on page 8 concerning other revenue contingencies.

3. **Subsidiaries.** At December 31, 1974, retained earnings included $2,356,000 of undistributed subsidiary earnings. Cash dividends of $1,000,000 were received from subsidiaries during the year 1973.

4. **Capital Stock.** See Statement of Capitalization on page 15. In 1974, 9,085,387 shares of common stock were issued for a consideration of $130,012,000. In 1973, 3,257,229 shares of common stock were issued for a consideration of $74,119,000, and 600,000 shares of 7.35% Series I Preferred Stock for $60,000,000. In February 1975, the Company sold 2,400,000 shares of 10.76% Preferred Stock A, 1975 Series for $60,000,000.

The outstanding Preference Stock, 6 3/4% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $27.73 per share, each share of such Preference Stock being taken at $100 for such purpose. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution.

At December 31, 1974 certain shares of common stock were reserved for issuance as follows:

	Shares
Conversion of Preference Stock	1,803,101
Stock Purchase-Savings Program for Employees	403,527
Dividend Reinvestment and Stock Purchase Plan	67,147
Total	2,273,775

The outstanding preference and preferred capital stocks are callable at various redemption prices not exceeding $110 a share plus accumulated dividends to redemption date.

5. **Long-Term Debt.** See Statement of Capitalization on page 15. Substantially all electric plant is mortgaged at December 31, 1974. The annual amounts of long-term debt maturities (including sinking fund requirements) through 1979 are $84,750,000 in 1975, $29,800,000 in 1976, $69,200,000 in 1977, $61,250,000 in 1978 and $141,250,000 in 1979. In February 1975 the Company sold $100,000,000 of First and Refunding Mortgage Bonds, 9-1/2% Due 2005.

6. **Leases.** Rentals incurred in 1974 and 1973, and rental commitments at December 31, 1974, under all non-cancelable leases (substantially all non-capitalized financing leases) are as follows:

Period	Total
Rentals incurred:	
1973	$13,067,000
1974	14,005,000
Rental commitments:	
1975	30,107,000
1976	26,963,000
1977	26,270,000
1978	13,118,000
1979	12,928,000
1980-1984	60,197,000
1985-1989	28,450,000
1990-1994	12,569,000
Remainder	38,971,000

Amounts in 1974 and 1973 include $11,765,000 and $11,147,000, respectively, charged to operating expenses.

Substantially all leases require the Company to pay taxes and operation and maintenance expenses. Rentals and rental commitments under certain combustion turbine generator leases include accruals in excess of current payments in amounts required to equalize annual rent expense and satisfy the obligations of the leases, net of salvage, at the end of the estimated useful life of the generators. Such leases contain options to purchase beginning in 1981 at the lessors' unrecovered cost. Rentals under nuclear fuel leases are based on usage. Other leases generally contain options to purchase at the lessors' unrecovered cost or fair market value.

7. **Income Tax Expense.** Income taxes differ from amounts computed by applying the statutory tax rates to adjusted pre-tax income as follows:

Income taxes on income	1974	1973
before income tax at the composite statutory Federal and state tax rate of 51.12%	$74,988,000	$62,068,000
Adjustments to above:		
Allowance for funds used during construction	(31,776,000)	(30,395,000)
Pensions and taxes capitalized on books	(5,201,000)	(5,779,000)
Amortizations of investment tax credit deferrals	(949,000)	(4,058,000)
Other items, net	4,533,000	19,000
Recorded income tax expense (Federal, state, deferred income taxes, investment tax credit, and income tax credit)	$41,595,000	$21,855,000

8. **Short-Term Borrowings.** The Company has bank lines of credit with 69 commercial banks and uses these lines plus commercial paper to finance its current cash requirements. At December 31, 1974, the aggregate lines of credit were $163 million.

During 1974, the maximum outstanding short-term borrowings, including commercial paper, were $193 million, and the average was $124 million. Bank loans are for 90 days or less and are at the lending banks' commercial prime interest rate. The daily weighted average interest rate of all short-term borrowings during the year was 11%.

At December 31, 1974, the notes payable for construction consisted of $55 million of bank loans at interest rates ranging from 10% to 10 1/2% and $71 million of commercial paper at 9 3/4% to 10 3/4%. Additionally, at December 31, 1974, notes payable for construction included $16 million of pollution control bond anticipation notes at 5 3/4% maturing March 11, 1975.

The Company's practice is to maintain bank balances with all banks providing services to it, including those with lines of credit. At December 31, 1974, there were agreements requiring compensating balances of $3.5 million. The average daily bank balance during 1974, as determined from bank statements, was approximately $19 million.

9. **Commitments.** See page 4 for the Company's commitments under its construction program.

10. **Other Income, net.** The Company is disposing of certain properties to augment its sources of funds. Gains and losses on such transactions to date are included in "Other income, net". The transactions for 1974 resulted in aggregate gains of $9,000,000 (related income taxes of $4,500,000 have been included in the "Income tax-credit") and a provision for loss of $5,000,000 (on an equity basis, net of income taxes) in connection with the disposition of a subsidiary project.

11. **Reclassifications.** As prescribed by the Uniform System of Accounts, "Contributions in Aid of Construction" has been reclassified to "Electric Plant" and "Unamortized Debt Discount and Premium" has been reclassified to "Long-Term Debt". Certain other immaterial amounts have been reclassified to conform with the current year's presentation.

Auditors' Opinion

HASKINS & SELLS
Certified Public Accountants

DUKE POWER COMPANY:

We have examined the balance sheet and the statement of capitalization of Duke Power Company as of December 31, 1974 and 1973 and the related statements of income, retained earnings, and source of funds for plant construction costs for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in Note 2 to the financial statements, electric revenues include amounts allowed subject to refund pending final settlement of certain rate matters.

In our opinion, subject to final settlement of the rate matters referred to in the preceding paragraph, the accompanying financial statements present fairly the financial position of the Company at December 31, 1974 and 1973 and the results of its operations and the source of its funds for plant construction costs for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charlotte, North Carolina
February17, 1975

Haskins + Sells

Subsidiaries

Crescent Land & Timber Corp.

Crescent Land & Timber Corp. is a land-management subsidiary organized in 1963 to manage the Company's non-utility land. Timber harvesting and reforestation are the primary activities of this subsidiary.

In 1974, Crescent harvested over 25 million board feet of timber and 56,000 cords of pulpwood. Nearly 46 million seedlings have been planted on Company land since the beginning of the reforestation program in 1939. Crescent is currently planting new trees at the rate of 1.5 million per year.

Crescent's equity interest in Carowinds, a theme amusement park on the North Carolina-South Carolina line, will be terminated in 1975 with the park's sale to Family Leisure Centers, Inc. Crescent will continue to have an equity interest in adjacent land which will be devoted to industrial development.

Eastover Mining Company
Eastover Land Company

The Eastover companies were organized in 1970 to purchase and develop coal properties and reserves in Virginia and eastern Kentucky. On December 31, 1974, Eastover owned or had controlling interest in approximately 30,600 acres of coal reserves with an estimated 250,000,000 tons of recoverable coal.

The 1974 production from operating mines was approximately 1,200,000 tons. Production was restricted during the year due to a UMWA strike which had idled the Brookside Mine from July, 1973, until settlement of the strike in August, 1974. Excessive loss of production was avoided, however, by transferring much of the Brookside mining equipment to other Eastover mines.

When the mines being developed by Eastover reach full production, they are expected to provide three and a half to four million tons of coal a year to Duke Power's steam-electric generating stations.

Duke also has made capital investments in two additional mining properties now being developed by other coal companies. These are expected to provide an additional three to four million tons of coal per year when full production is reached.

Mill-Power Supply Company

The oldest of Duke's subsidiaries, Mill-Power Supply Company, was chartered on June 7, 1910, to buy, warehouse and sell electrical equipment to mills and other industries that were converting to electricity from other sources of energy. Today, it is the authorized distributor for many of the largest electrical equipment manufacturers in the country.

In addition to selling items to Duke and others as a wholesale distributor, Mill-Power purchases virtually all supplies, equipment and fuel required by the Company.

Subsidiaries—Financial Highlights

Financial highlights of subsidiaries of Duke Power Company for the year ended December 31, 1974, are as follows:

EARNINGS FROM OPERATIONS	
Electrical wholesale distribution	$ 1,145,000
Forestry, recreational and land developments	(574,000)
Coal mining—under development	—
Gross earnings from operations	571,000
Intercompany profit elimination	(272,000)
Earnings from operations to parent company, net	$ 299,000
NET ASSETS	
Property and investments—at cost:	
Real estate, recreational and land development	$ 55,330,000
Coal mining	67,000,000
Net current assets, principally receivables and inventories	10,555,000
Total assets	132,885,000
Long-term debt—	
Life insurance company	(6,222,000)
Bank, etc.—secured by recreational facilities ($16.1 million guaranteed by Crescent)	(26,188,000)
Coal production commitments	(34,000,000)
Deferred income taxes	(26,842,000)
Parent company investment and advances	39,633,000
Advances from parent at prime rate of interest	(10,855,000)
Net assets	$ 28,778,000

Summary of Operations

CONDENSED STATEMENT OF INCOME ($000)	1974	1973	1972	1971	1970	1964
Electric revenues:						
Residential sales	$ 279,724	$ 212,213	$ 184,581	$ 166,442	$ 140,281	$ 83,757
Commercial sales	162,775	122,788	104,479	91,183	75,951	41,317
Industrial sales	267,723	189,879	157,407	139,560	118,811	68,983
Other energy sales	109,294	72,629	57,258	49,796	47,565	19,986
Other revenues	3,405	3,172	4,507	4,560	3,530	2,730
Total electric revenues	822,921	600,681	508,232	451,541	386,138	216,773
Electric expenses and taxes:						
Fuel	333,399	191,861	172,072	161,087	140,526	45,288
Operation and maintenance	134,754	136,041	124,687	100,091	81,781	43,775
Depreciation	83,914	70,459	59,923	53,062	48,427	27,693
Taxes-income	57,689	37,261	18,075	16,020	11,942	35,078
Taxes-general	64,871	50,054	44,421	39,226	35,163	19,984
Total electric expenses and taxes	674,627	485,676	419,178	369,486	317,839	171,818
Electric operating income	148,294	115,005	89,054	82,055	68,299	44,955
Other income:						
Allowance for funds used during construction	62,159	59,459	51,185	37,676	24,342	2,488
Other income, net	5,086	1,093	1,511	4,966	1,847	1,823
Income tax-credit	16,094	15,406	13,035	9,553	8,247	(129)
Interest deductions	(126,537)	(91,401)	(74,418)	(62,395)	(51,557)	(13,594)
Net income	105,096	99,562	80,367	71,855	51,178	35,543
Dividends on preference and preferred stock	28,534	27,456	21,901	16,341	11,177	1,553
Earnings for common stock	76,562	72,106	58,466	55,514	40,001	33,990
Dividends on common stock	59,263	54,036	47,758	40,763	35,271	21,768
Earnings retained for use in the business	$ 17,299	$ 18,070	$ 10,708	$ 14,751	$ 4,730	$ 12,222
COMMON STOCK DATA						
Shares of common stock—year end (thousands)	47,836	38,751	35,493	30,229	25,932	22,935
—average (thousands)	42,618	38,465	34,592	29,482	25,413	22,915
Per share of common stock (average shares):						
Earnings for common stock	$ 1.80	$ 1.87	$ 1.69	$ 1.88	$ 1.57	$ 1.48
Dividends declared and paid	1.40	1.40	1.40	1.40	1.40	.95
Market value—high-low	20¾-10	23¼-16	25⅛-21	27⅞-20¾	29½-20⅛	37-31¼
—year end	10⅝	17¼	23¼	23¾	24¾	36½
BALANCE SHEET DATA ($000)						
Electric plant (original cost) (a)	$3,783,777	$3,355,392	$2,903,710	$2,459,572	$2,110,380	$973,121
Accumulated depreciation	727,878	652,922	584,748	534,216	492,083	302,251
Capitalization and short-term notes:						
Common stock equity	936,686	796,730	706,899	580,025	457,319	296,404
Preference stock	50,000	50,000	50,000	50,000	50,000	—
Preferred stock	345,000	345,000	285,000	225,000	165,000	35,000
Long-term debt (a)	1,638,752	1,505,174	1,270,224	1,040,891	837,500	330,000
Short-term notes payable	142,092	69,296	96,000	119,343	189,806	30,700
ELECTRIC AND OTHER STATISTICS						
Kilowatthour sales (millions):						
Residential	10,325	10,186	9,237	8,780	8,126	4,503
Commercial	7,053	7,287	6,515	5,938	5,391	2,509
Industrial	17,881	18,848	17,778	16,357	15,140	9,041
Other	7,085	6,838	6,158	5,838	6,631	2,536
Total kilowatthour sales	42,344	43,159	39,688	36,913	35,288	18,589
Number of customers (year end):						
Residential	951,459	931,020	895,488	864,361	835,706	691,492
Other	154,221	152,132	144,939	137,090	129,871	103,715
Total customers	1,105,680	1,083,152	1,040,427	1,001,451	965,577	795,207
Residential customer data:						
Average annual KWH use	10,927	11,072	10,447	10,299	9,864	6,590
Average revenue per KWH	2.61¢	2.08¢	2.00¢	1.90¢	1.73¢	1.86¢
Number of employees (year end):						
Operating and maintenance	8,103	7,938	7,721	7,392	7,363	5,671
Generating plant construction and engineering	4,240	5,125	4,780	3,910	3,210	756
Source of energy (millions of KWH):						
Generated—Steam—Fossil	35,538	38,604	37,736	35,393	34,212	17,736
—Steam—Nuclear	6,761	2,402	—	—	—	—
—Hydro	2,320	2,377	1,961	2,028	1,491	2,126
—Combustion turbine generators	508	650	869	726	837	—
Purchased and net interchange	503	2,469	2,607	1,789	1,728	461
Loss and company use	3,286	3,343	3,485	3,023	2,979	1,734
% loss and company use	7.2%	7.2%	8.1%	7.5%	7.8%	8.5%
System average heat rate	9,780	9,713	9,702	9,728	9,784	9,649
System load factor	64.1%	64.2%	65.7%	68.2%	66.6%	65.7%

(a) The amounts in 1973 and 1974 have been adjusted to conform with revisions in the FPC chart of accounts.

Management's Discussion and Analysis of the Summary of Operations

The following factors had a significant effect upon the Company's results of operations during the years 1970 through 1974:

(a) Electric revenues increased primarily because of rate increases, including a fuel adjustment clause with respect to wholesale customers placed into effect beginning August 23, 1972, and fuel adjustment clauses with respect to North Carolina and South Carolina retail customers placed into effect beginning January 19, 1974 (see Note 2 to the Financial Statements). Electric revenues also were affected by increases in kilowatthour sales during 1970, 1971, 1972 and 1973. As a result of reduced industrial and commercial activity, energy conservation and mild weather conditions, kilowatthour sales declined about 2% in 1974 from those in 1973. The decline in kilowatthour sales has been most pronounced in the textile industry, which accounted for approximately 55% of electric industrial revenues in 1974.

(b) Earnings during the years 1970 through 1974 were adversely affected by increasing fuel costs to the extent that such increases were not offset by fuel adjustment clauses referred to in (a) above. Fuel expenses have risen significantly as system generation has increased and as fuel costs have risen. The cost per million BTU of coal burned by the Company increased during the period 1970-1974 as follows: 1970—40.52¢; 1971—44.56¢; 1972—43.92¢; 1973—47.27¢, and 1974—91.69¢.

(c) As a result of delays in the start-up of the Oconee Nuclear Station, purchased power expense reached a high of $30.5 million in 1972. The addition of new generating units since 1972 has reduced the need for purchased power.

(d) Inflationary pressures on wages and material costs have resulted in increases in electric operation and maintenance expenses. Because of regulatory lag in obtaining adequate and timely rate relief, these increasing costs have had an adverse impact on earnings.

(e) Depreciation increased as additional facilities were placed in service.

(f) The Company's annual construction costs have increased to their present level of approximately $500 million, requiring substantial external financing through the sale of debt and equity securities. While these financings resulted in significant increases in both interest expense and preferred dividends, a substantial amount of such costs has been capitalized through allowance for funds used during construction (see Note 1 to the Financial Statements).

(g) Earnings per share of common stock have fluctuated due primarily to regulatory lag in granting rates necessary to produce revenue levels sufficient to offset rising capital and operating costs.

The price range of Duke Power Common Stock and the dividends paid on Common Stock for each quarter of 1974 and 1973 are shown below:

	1974			
	1st	2nd	3rd	4th
Price Range	$20¾ - 16¾	$17½ - 12¼	$13⅜ - 10	$13⅞ - 10⅛
Dividends	$ .35	$ .35	$ .35	$ .35

	1973			
	1st	2nd	3rd	4th
Price Range	$23¼ - 20⅞	$22¾ - 20¼	$21¼ - 18⅛	$20¾ - 16
Dividends	$ .35	$ .35	$ .35	$ .35

Directors

CARL HORN, JR.*
President
Duke Power Company

B. B. PARKER*
Executive Vice President
and General Manager
Duke Power Company

DOUGLAS W. BOOTH*
Senior Vice President
Retail Operations
Duke Power Company

WILLIAM H. GRIGG*
Senior Vice President
Legal and Finance
Duke Power Company

WILLIAM S. LEE*
Senior Vice President
Engineering and Construction
Duke Power Company

AUSTIN C. THIES*
Senior Vice President
Production and Transmission
Duke Power Company

JOHN D. HICKS*
Vice President-Corporate Affairs
Duke Power Company

ROBERT C. EDWARDS†
President
Clemson University

RICHARD B. HENNEY†
Trustee and Executive
Director
The Duke Endowment

HOWARD HOLDERNESS†
Chairman of the Board
Jefferson Standard Life
Insurance Company and
Jefferson Pilot Corporation

HERMAN W. LAY†
Chairman of the Executive
Committee
PepsiCo, Inc. (a)

J. PAUL LUCAS, JR.
Vice President-Public Affairs
Duke Power Company

WILLIAM B. McGUIRE†
Trustee
The Duke Endowment

MARSHALL I. PICKENS†
Chairman of the Trustees
The Duke Endowment

ADDISON H. REESE
Chairman of the Finance Committee
North Carolina National Bank
and NCNB Corporation

CHAS. B. WADE, JR.†
Senior Vice President
R. J. Reynolds Industries, Inc. (b)

* Member of the Executive Committee

†Member of the Audit Committee

(a) Mfg. and dist. of soft drinks, snack foods, sporting goods; transportation and leasing service

(b) Mfg. and dist. of tobacco, food, aluminum and petroleum products; containerized shipping

Officers

CARL HORN, JR.
President

B. B. PARKER
Executive Vice President
and General Manager

DOUGLAS W. BOOTH
Senior Vice President,
Retail Operations

WILLIAM H. GRIGG
Senior Vice President,
Legal and Finance

WILLIAM S. LEE
Senior Vice President,
Engineering and Construction

AUSTIN C. THIES
Senior Vice President,
Production and Transmission

FRANZ W. BEYER
Vice President,
System Planning

CARL J. BLADES
Vice President,
Real Estate

WILLIAM J. BURTON
Vice President,
Corporate Communications

E. ROBERT DAVIS
Vice President
Marketing

ROBERT L. DICK
Vice President,
Construction

JOHN D. HICKS
Vice President,
Corporate Affairs

PATRICK D. HUFF
Vice President,
Distribution Engineering

FRANK A. JENKINS
Vice President,
Transmission and
Electric Installations

J. WESLEY LEWIS
Vice President,
Division Operations

J. PAUL LUCAS, JR.
Vice President,
Public Affairs

JOE S. MAJOR, JR.
Vice President,
Personnel

WARREN H. OWEN
Vice President,
Design Engineering

WILLIAM O. PARKER, JR.
Vice President,
Steam Production

KEITH ARLEDGE
Vice President,
Western Division

HENRY L. CRANFORD
Vice President,
Central Division

A. MELL DOOLITTLE
Vice President,
Southern Division

JOSEPH G. MANN
Vice President
Northern Division

THOMAS M. PATRICK, JR.
Vice President,
Eastern Division

LLOYD P. JULIAN
Assistant Vice President,
Operation

SAMUEL T. LATTIMORE
Assistant Vice President,
Computer Services

ROBERT J. ASHMORE
Assistant to the Senior
Vice President,
Legal and Finance

RICHARD R. PIERCE
Assistant Vice President
Corporate Communications

EDWARD D. POWELL
Assistant Vice President,
Production and Transmission

STEVE C. GRIFFITH, JR.
General Counsel

WILLIAM R. STIMART
Treasurer

STEWART F. CAMPBELL
Assistant Treasurer

W. BRUCE SHANNON
Assistant Treasurer

PORTER A. HAUSER
Controller

KENNETH C. STONEBRAKER
Assistant Controller

GEORGE W. FERGUSON, JR.
Secretary and
Associate General Counsel

JOHN F. DAY
Assistant Secretary

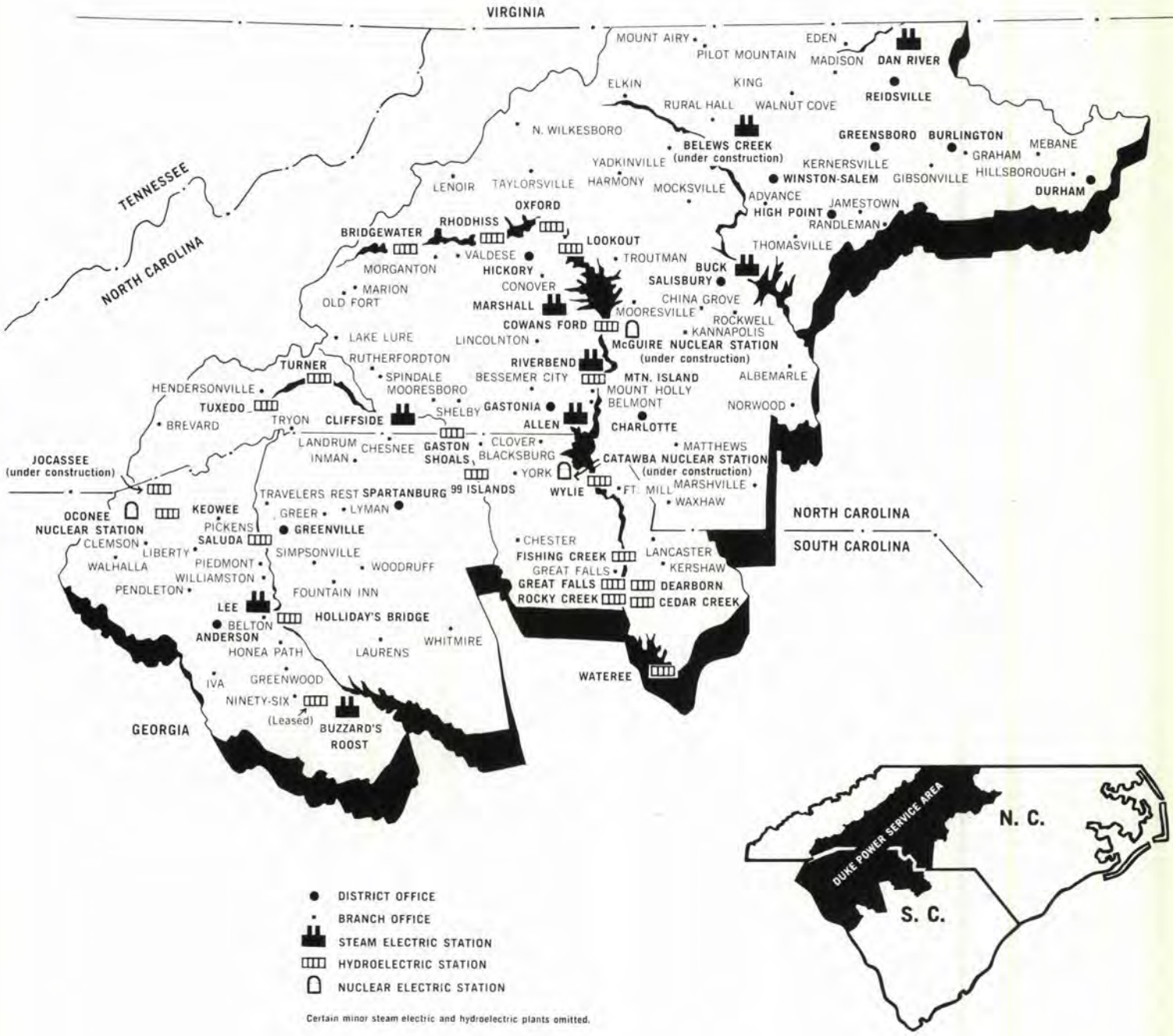
JOHN C. GOODMAN, JR.
Assistant Secretary

DOROTHEA B. STROUPE
Assistant Secretary

Management Changes

Addison H. Reese, former chairman of the board and chief executive officer of the NCNB Corporation, was elected to the Duke Power Board of Directors on October 29, 1974. Mr. Reese currently serves as chairman of the Finance Committee of the NCNB Corporation and of its major subsidiary, North Carolina National Bank. On December 2, 1974, the Board approved major changes in the legal and financial administration of the Company to coincide with the departure on January 1, 1975, of Robert E. Frazer, director and vice president-finance, who resigned to become president of The Dayton Power and Light Company of Dayton, Ohio. William H. Grigg, formerly vice president and general counsel, was elected Senior Vice President-Legal and Finance, with responsibilities encompassing both legal and financial activities of the Company. Steve C. Griffith, Jr., formerly secretary and associate general counsel, was elected General Counsel. Mr. Griffith was succeeded as Secretary by George W. Ferguson, Jr., who also remains an associate general counsel. Also in 1974, Henry L. Cranford was elected Vice President-Central Division, succeeding J. D. Sloan, who retired; E. Robert Davis was elected Vice President-Marketing, succeeding Henry H. Orr, who also retired; and William O. Parker, Jr., was elected to the new position of Vice President-Steam Production. Also retiring during the year was W. J. Wortman, Assistant Vice President, Relay, Meters and Communications, who had served the Company for more than 40 years.

The Company was saddened by the death on November 2, 1974, of former Duke President Norman A. Cocke. Mr. Cocke served as president of the Company from 1953 to 1959.



Duke Power Service Area

Duke Power Company is an investor-owned electric utility serving approximately 1,100,000 customers in North and South Carolina. Its 56-county service area encompasses some 20,000 square miles through the industrial Piedmont sections of the two states. Generating capability on January 1, 1975, of 10,923,000 kilowatts was comprised of 6,555,000 kilowatts from fossil-fueled steam stations, 2,613,000 from nuclear-fueled steam stations, 1,147,000 kilowatts from hydroelectric stations, and 608,000 kilowatts from combustion turbines and other sources. Retail customers are served locally through 98 district and branch offices.

Transfer Agents for Common Stock

Morgan Guaranty Trust Company,
New York, N. Y.

North Carolina National Bank,
Charlotte, N. C.

Registrars for Common Stock

First National City Bank,
New York, N. Y.

Wachovia Bank and Trust Company,
Charlotte, N. C.

Stock Exchange Listing and Trading

Duke Power Common Stock
is listed on the New York
Stock Exchange.

The trading symbol of Duke Power
Common Stock is DUK.

General Offices

422 South Church Street
P. O. Box 2178
Charlotte, N. C. 28242
(704/373-4011)

Notice of 1975 Annual Meeting

The Annual Meeting of holders of
Duke Power Common Stock will be
held at the principal office of
the Company, 422 S. Church Street,
Charlotte, N. C., on April 29, 1975,
at 10 a.m. (Eastern Daylight Savings
Time).

Upon written request, the Company will provide without charge a copy of its 1974 annual report Form 10-K as filed with the Securities and Exchange Commission. Please direct such requests to Mr. J. C. Goodman, Duke Power Co., Investor Relations Dept., P. O. Box 2178, Charlotte, N. C. 28242.

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NOTICE

NOTICE

DEADLINE RETURN DATE

MARY JINKS, CHIEF
CENTRAL RECORDS STATION

Duke Power Annual Report 1975

The energy crisis
for America, a matter of survival

Notice of Annual Meeting

The 1976 meeting of holders of Duke Power Company Common Stock will be held in the O. J. Miller Auditorium of The Electric Center, 526 S. Church Street, Charlotte, N. C., on April 27, 1976, at 10 a.m. (Eastern Daylight Savings Time).

Contents

About the Cover

As we celebrate the Bicentennial, it's important to remember that the use of energy helped make America great. Without an adequate energy supply, America's greatness is threatened. Our view of today's energy crisis begins on page 12.

HIGHLIGHTS	1975	1974	*Per Cent Increase (Decrease)*
Electric Revenues	$ 954,414,000	$ 818,803,000*	16.6
Earnings for Common Stock	$ 93,891,000	$ 74,269,000*	26.4
Return on Average Book Common Equity	9.6%	8.6%*	11.6
Per Share of Common Stock			
Earnings	$1.84	$1.74*	5.7
Dividends Paid	$1.40	$1.40	—
Average Common Shares Outstanding	51,020,000	42,618,000	19.7
Plant Construction Costs	$ 438,952,000	$ 510,752,000	(14.1)
Electric Plant, Net	$3,366,419,000	$3,055,899,000	10.2
Kilowatthour Sales (thousands)	42,138,000	42,344,000	(0.5)
Peak Load (kw)	8,421,960	8,057,625	4.5

**Restated — See Note 2 to financial statements.*

1975
The turning point

To Our Shareholders:

In view of the tremendous financial pressures under which our Company has operated during the past six years, our report to you this year is devoted to those influences which we feel now offer very real hope for recovery.

We are optimistic, in fact, that our Company has finally reached the turning point in its long struggle to overcome the effects of inflation and inadequate rate levels.

Financial results for the second half of 1975 were particularly encouraging. Combined earnings per share for the third and fourth quarters more than doubled those of the first half, boosting total earnings per share for 1975 to $1.84, a six per cent increase over the restated $1.74 earnings per share for 1974.

Based on those results, the Board of Directors at its January, 1976, meeting voted to increase the quarterly common dividend to 37½ cents per share. The dividend is payable on March 15, 1976, to shareholders of record on February 20, 1976.

Prior to that decision, the quarterly dividend on Duke Power common stock had remained constant at 35 cents per share since reaching that level in the third quarter of 1968. One of our primary concerns throughout this period has been the inability to increase the dividend to keep pace with increases in interest rates and returns on other securities.

Since 1969, the year that costs associated with our industry began their dramatic climb, Duke Power has not earned the allowed level of return on shareholders' investments. The primary reason for this failure has been delays in obtaining rate increases to offset spiraling costs in nearly all areas of the Company's operations. Inadequate rate levels resulting from those delays caused revenues to trail actual expenses by a year and more.

This pricing dilemma existed through the first half of 1975, during which earnings per share fell below the common dividend rate for the first time in the Company's history. Efforts to achieve adequate earnings during this period were further hampered by a severe recession in the textile industry, which contributed to an overall 2.6 per cent decline in kilowatthour sales compared to the first half of 1974. Earnings per share for the first two quarters of 1975 amounted to only 57 cents.

In contrast to first half results, earnings per share for the second half of 1975 totaled $1.27. This improvement resulted from a reversal of the declining sales trend which existed during the first half of the year and, to an even greater extent, from rate increases placed into effect in mid-year.

Total kilowatthour sales for 1975 were only one-half per cent below those of the previous year, reflecting a marked improvement in the textile industry's level of operations during the second half.

Interim rate increases of approximately 20 per cent were placed into effect on all the Company's retail and wholesale operations in mid-year. Subsequent regulatory decisions on requests for permanent increases in retail rates provide a realistic opportunity for the Company to earn a more adequate level of return on shareholders' investments.

On October 3, 1975, the North Carolina Utilities Commission granted 91 per cent of the requested $123 million increase in revenues and affirmed over $21 million collected since June 30 under the interim increase. In addition, the Commission raised the allowed return on common equity to 13.5 per cent, adjusted on a fair value basis as required by North Carolina statute.

On January 13, 1976, The Public Service Commission of South Carolina granted 88 per cent of the requested $54 million increase in retail revenues in that state. The South Carolina order also affirmed all revenues

collected under the interim increase, which in this case amounted to approximately $21 million. The Commission said the approved additional revenues would have provided the Company a 13.5 per cent return on common equity for the test year.

The decisions by both state agencies were based on 1974 levels of business.

Hearings before the Federal Power Commission on a requested 22.9 per cent permanent increase in wholesale rates were scheduled to begin in May, 1976. The increase in wholesale rates has been in effect on an interim basis since July 1, 1975.

Two additional factors lend hope to the prospect of now earning the allowed level of return on shareholders' equity. One is that current rates in all three regulatory jurisdictions include the necessary means for recovering increases in fuel costs. While these mechanisms do not result in any additional earnings for the Company, they do respond to fluctuations in fuel costs so as to minimize their impact on earnings.

The second factor is that no additional generating units will be placed into service prior to 1978 when Unit 1 of the McGuire Nuclear Station is scheduled for commercial operation. Although additional rate increases may be required to offset increased expenses in other areas of the Company's operations, the magnitude of those increases would be far less than that necessary to cover the higher incremental costs of new plants.

The management of your Company realizes, of course, that total recovery and stable earnings for this or any company will remain an elusive goal so long as inflation and recession continue in the national economy. Efforts to improve efficiency must continue. When necessary, rate increases to offset rising costs must be vigorously pursued. More than ever before, management must take the long view in planning for growth.

Some of the major actions taken by your Board of Directors in 1975 to help assure future stability are discussed elsewhere in this report.

Much of the credit for the successes outlined in this report belongs to many thousands of people who have steadfastly supported the Company throughout one of the most challenging periods of its history.

We are especially grateful to the nearly 12,000 Duke Power employees who have remained loyal and dedicated to the objective of making our Company the best electric utility in the nation, and to the more than 82,000 shareholders of Duke Power who have demonstrated their confidence in our Company by investing in it.

Credit also belongs to the many shareholders and customers of Duke Power who spoke out loudly and clearly in support of free enterprise electric service when unwise legislation was introduced in the legislatures of our service area.

Through all the years ahead, the management of your Company will continue working to deserve the confidence of its shareholders, the loyalty of its employees and the respect of the communities it serves.

For the Board of Directors

Carl Horn, Jr.
Chairman of the Board and Chief Executive Officer

B. B. Parker
President and Chief Operating Officer

February 11, 1976

1975 Year in review

Plant additions

The third phase of the Keowee-Toxaway Project was completed on May 1 when Units 3 and 4 of the Jocassee Hydroelectric Station were placed into commercial operation. Jocassee's 610,000 kilowatts of pumped-storage capability brought Keowee-Toxaway's maximum generating capability to 3,363,000 kilowatts. The Project also includes the Oconee Nuclear Station and the Keowee Hydroelectric Station.

Unit 2 of the Belews Creek Steam Station was declared in commercial operation on December 13. The completed Belews Creek station is rated at 2,200,000 kilowatts, making it the largest coal-fired generating station on the Duke system.

Duke's total generating capability on December 31 was 12,361,000 kilowatts.

Keowee-Toxaway Honored

The Keowee-Toxaway Project, which combines nuclear, pumped-storage and conventional hydroelectric generation, was honored as the nation's outstanding civil engineering achievement for 1975. The selection was made by the American Society of Civil Engineers over such notable engineering feats as the San Francisco Bay Area Rapid Transit System, the Dallas-Fort Worth Airport, the Chesapeake Bay Bridge Parallel Span, and New York's Bruckner Interchange.

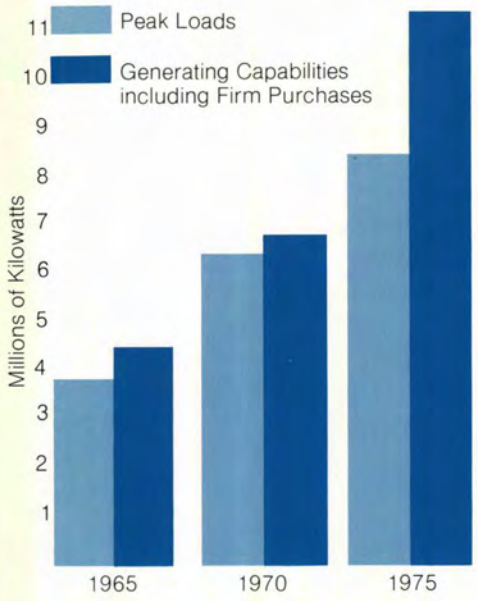
Construction Progress

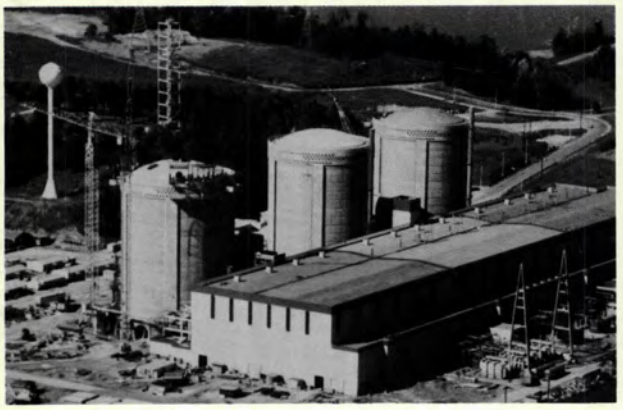
At year-end, Unit 1 of the McGuire Nuclear Station was approximately 64 per cent completed, and Unit 2 was about 48 per cent completed. The two 1,180,000 kilowatt nuclear units are scheduled for operation in 1978 and 1979.

Full-scale construction of the Catawba Nuclear Station is underway following receipt of the required Nuclear Regulatory Commission construction permits. The issuance of these permits, however, has been appealed by intervenors in the licensing proceeding. The two Catawba units, rated at 1,153,000 kilowatts each, are scheduled for operation in 1981 and 1982.

Completion dates of the six units of the proposed Perkins and Cherokee nuclear stations have been pushed back one year. The first of the six identical units is now scheduled for completion in 1984, with the remaining five to follow at one-year intervals.

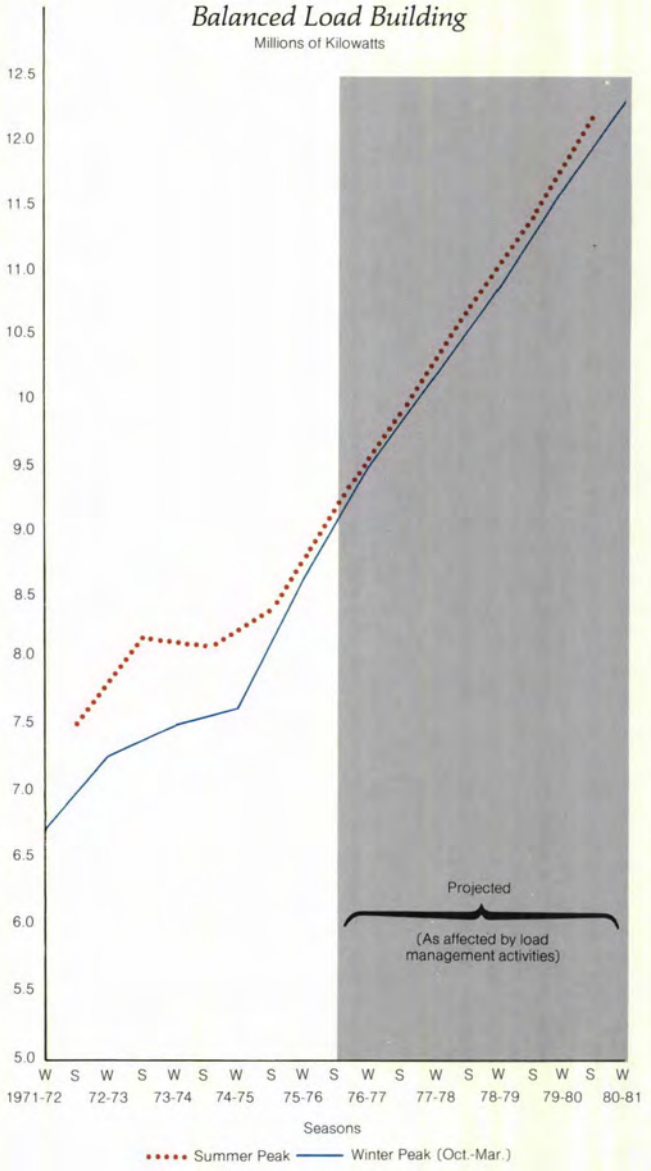
Peak Loads vs. Generating Capabilities





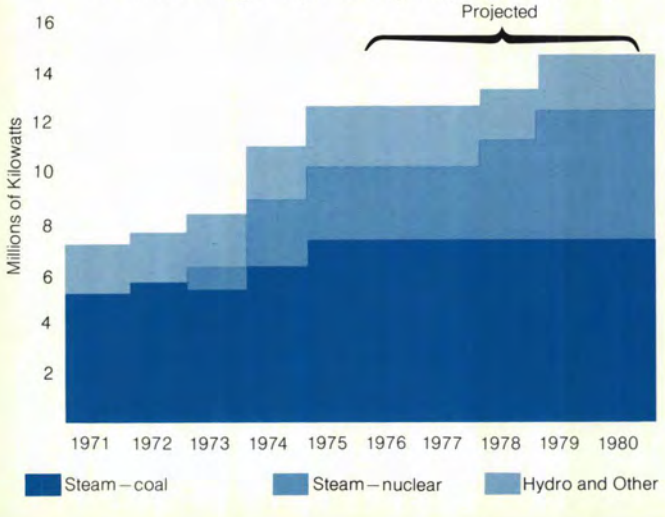
Keowee-Toxaway
1975's Outstanding Civil Engineering Achievement

Balanced Load Building

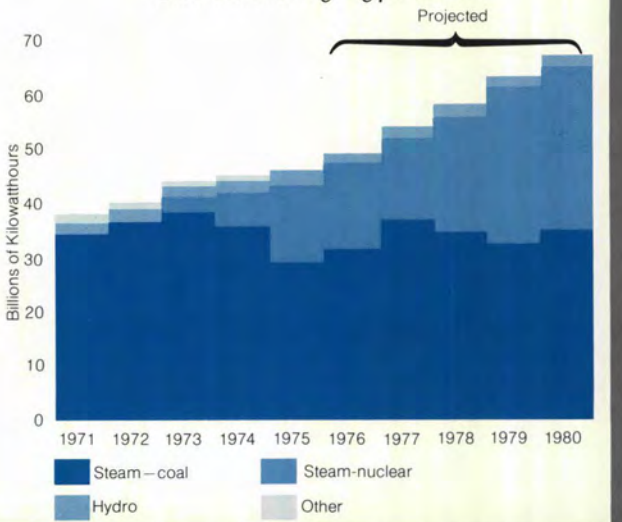


The Company makes better year-round use of its generating facilities with well-balanced summer and winter peaks.

Generating Capability By Type Fuels



Generation By Type Fuels



1975 Year in review

Rate Increases

On October 3, the North Carolina Utilities Commission granted 91 per cent of a requested $123 million increase in retail revenues, and on January 13, 1976, The Public Service Commission of South Carolina granted 88 per cent of a requested $54 million increase in revenues from retail operations in that state. Both agencies affirmed all revenues collected under interim rate hikes placed into effect on June 30, and raised the allowed return on common equity to 13.5 per cent. Decisions by both agencies were based on a 1974 test year. The Company also has been collecting revenues, subject to refund, under a 22.9 per cent interim increase in wholesale rates placed into effect on July 1.

Efficiency Record

According to the Edison Electric Institute, Duke's Marshall Steam Station has been the nation's most efficient steam-electric generating station for nine consecutive years. Company operating figures for 1975, however, show that Marshall's efficiency was narrowly exceeded in that year by our own Belews Creek Steam Station. During the most recent four years for which Federal Power Commission statistics are available, Duke's total generating system was the most efficient for two of those years and second most efficient for the other two.

Nuclear Generation

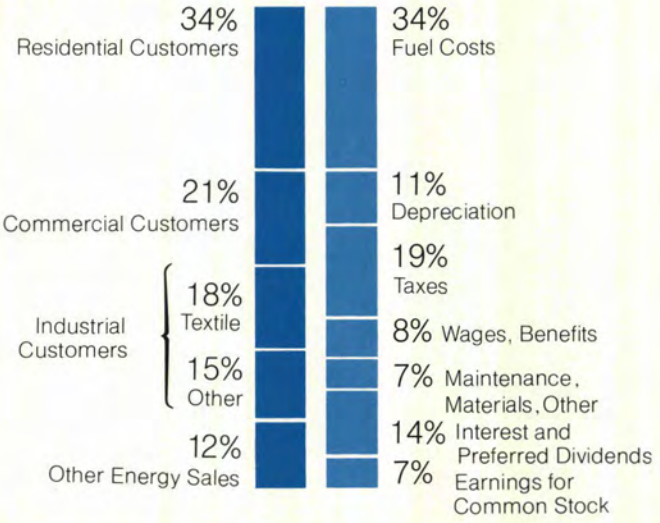
Output of the Oconee Nuclear Station represented 33 per cent of Duke's total generation in 1975. Oconee, the world's largest operating nuclear station, generated 15.3 billion kilowatthours of electricity during the year, compared with the system total of 46.3 billion kilowatthours.

Financing

Public financing in 1975 included the sale of 2,400,000 shares of $25 par value 10.76% preferred stock; $100 million in first and refunding mortgage bonds, 9½%, due 2005; and 5,000,000 shares of common stock at $13.75 per share.

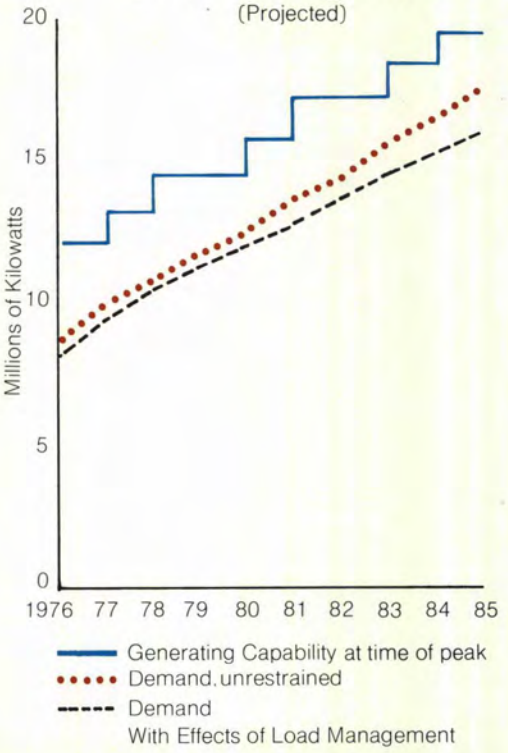
The Company negotiated the private placement of $125 million in 11% first and refunding mortgage bonds, due 1994, of which $105.7 million was issued in 1975 and the balance in January, 1976. Sale and sale/lease-back transactions of approximately $61 million in assets also were consummated during the year.

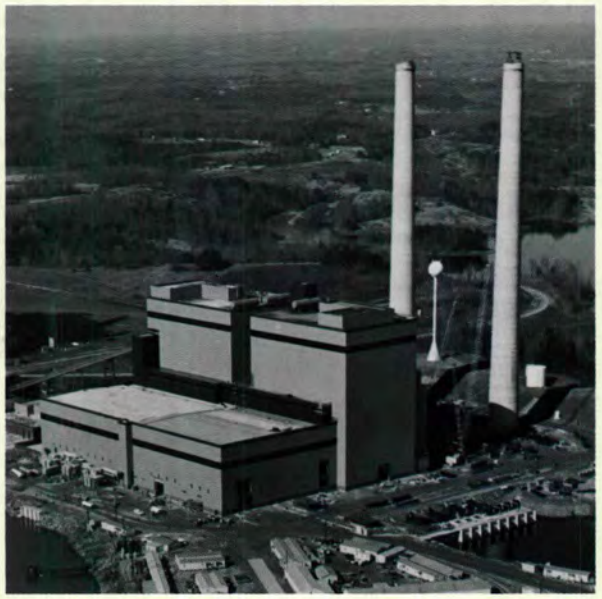
The Revenue Dollar — 1975
Where it came from/How it was used



Load Management

(Projected)

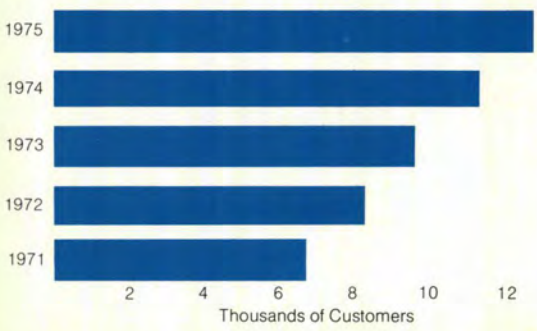




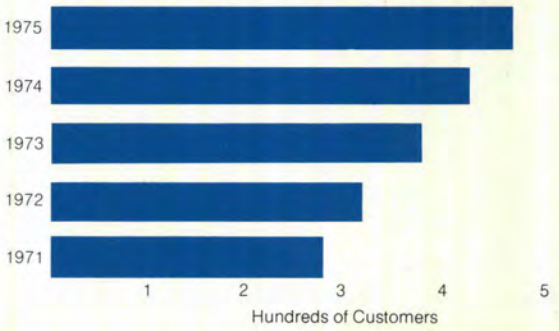
Belews Creek challenges Marshall's efficiency record.

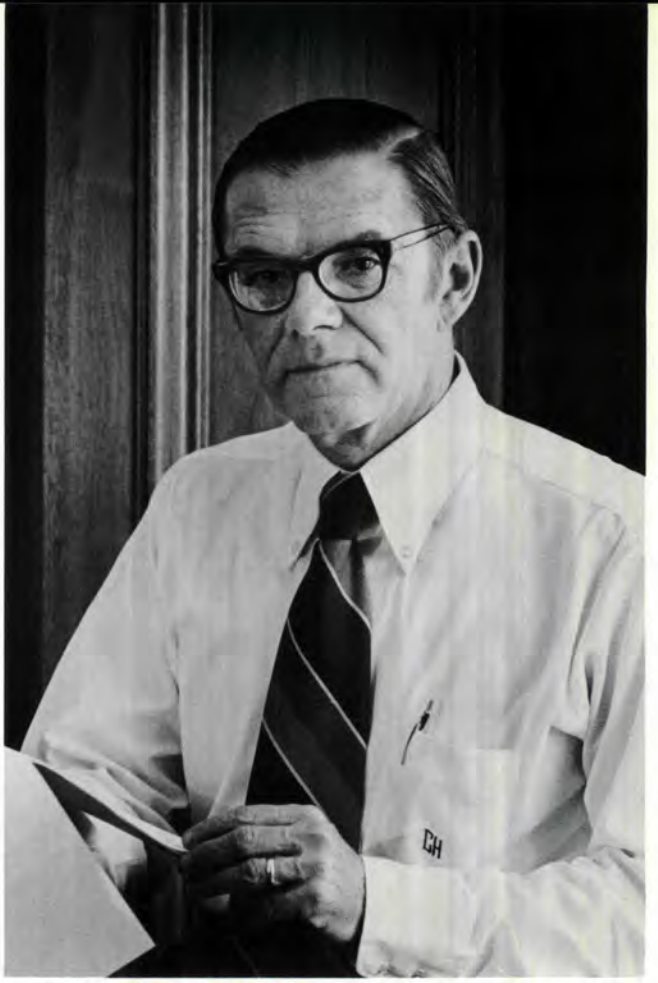
Number of All-Electric Residences

Number of All-Electric Commercial Customers



Number of All-Electric Industrial Customers





1975
Year of decision

A number of major decisions that will have long-term effects on the Company were made by the Board of Directors in 1975. One such decision involved the possible sale of the yet-to-be-completed Catawba Nuclear Station to a group of wholesale customers. Another delayed for an additional year the scheduled completion dates of each of the six units of the Perkins and Cherokee nuclear stations. A new marketing strategy was developed to restrain the growth in the peak demand for electricity. Why were these decisions made? What will they mean to Duke's shareholders and customers? The answers to these questions, along with an appraisal of Duke Power's future, are contained in the following interview with Carl Horn, Jr., Chairman of the Board of Directors and Chief Executive Officer.

Mr. Horn, why would Duke Power consider selling the Catawba Nuclear Station to its own municipal and cooperative customers?

The decision to offer this station for sale was based on the same corporate objectives that have governed every major decision this Company has made in the 22 years I've been associated with it. Those objectives are to earn a fair and reasonable return for our shareholders, to provide our customers dependable electric service, and to keep the cost of that service at the lowest possible level. Purely and simply, the proposal to sell the Catawba station to our wholesale customers is a financing alternative to help us achieve those objectives.

Duke has been building power plants for a long time and never before considered selling one as a financing alternative. Why would you consider it now?

Ten years ago, when we were a declining cost industry, there was never any doubt about our being able to attract the necessary capital to build new plants. Today, we're in a completely different situation. New units are being built at higher incremental costs. At the same time, the cost of operating the plants once they're built has more than doubled in just the past five years. Delays in obtaining rate increases to recover those costs have resulted in depressed earnings, a reduction in bond ratings from triple-A to single-A, and a decline in the market price of our common stock. Under these conditions, no company can pursue a long-term construction program under the assumption that it can attract all the capital it needs.

Does that mean Duke Power couldn't build and finance the Catawba station?

No, it doesn't mean that at all. We can, and will, build and operate the station if the sale is not consummated. In fact, we made it clear to the wholesale customers that we might withdraw the offer if the market price of our common stock were to rise to a level above book value and maintain some stability above that level. You have to remember, though, that utility financing is a continuing proposition. We can't be concerned only with how we're going to raise capital this year or next year. We have to be concerned with what we're going to do five and ten years from now, and even further into the future. We know, for example, that because of the tremendous increases in construction costs, the electric utility industry is going to require over $100 billion in new investments during the next five years alone.

Companies which are not financially healthy will find it very difficult, if not impossible, to raise the capital they need. Relieving ourselves of the immediate need to finance the Catawba station, particularly at a time when our common stock has been selling below book value, is one way of helping to rebuild our financial strength during the next few years.

What does the market price of common stock have to do with it?

Any company that hopes to compete for capital in the 1980's will have to have a good record of growth in earnings and dividends and the potential to continue that growth. It's a mathematical fact that if a company earns a constant level of return, and sells common stock below book value, earnings per share are automatically diluted. Our common stock was selling below book value for most of 1974 and 1975, and recently has been selling only slightly above book value.

But Duke was able to finance in 1974 and 1975 when its common stock was selling below book value.

That's just partly true. In fact, there were a number of occasions during that period when we were unable to sell the desired amounts of first mortgage bonds or preferred stock because of inadequate earnings coverage of fixed charges. This is one of the reasons why, in August of 1974, we deferred virtually all of the major generating units that were under construction or on the drawing boards.

Is that when you first began looking into the possibility of offering the Catawba station for sale?

Yes, after we announced the deferral of our construction schedule, certain of our North Carolina cooperative customers and municipal customers approached us on whether Duke would be willing to consider selling generating facilities to them. After studying the economic benefits that might result from such a sale, we put together the proposal to sell the Catawba station. To be fair to all our wholesale customers, we issued invitations to participate in the negotiations to all our wholesale customers in both North Carolina and

South Carolina.

Is this offer, in effect, fostering public ownership in the electric utility industry?

Both the cooperatives and the municipalities already have the authority to build and operate their own generating plants. If we can make an arrangement that benefits our Company by selling them the Catawba station, we would be simply taking advantage of an opportunity that is already available to those customers.

Since Duke has offered to sell the Catawba station, does that mean the plant won't really be needed?

No. it doesn't mean that at all. Since we're proposing to sell the station to our own customers, its output will be used in the Duke service area, regardless of who owns and operates it. If those customers reject the offer, or if we withdraw it, we will still have to build the Catawba station to serve the total requirements of our service area. It is not a question of whether the Catawba station will be needed. The only issues are who will finance it and who will own and operate it once it is built.

What if there isn't enough capital available to meet your forecasts?

That's where load management comes in. In the past, power companies increased their generating capability to meet an unrestrained growth in peak load. Marketing efforts were directed almost entirely toward improving system efficiency by encouraging uses of electricity during the off-peak periods. Today, if a company feels it may have difficulty in meeting an unrestrained peak demand, then it has to influence that peak to bring it within the limits of its generating capability. This can be done by promoting higher levels of insulation, by encouraging customers to shift certain peak loads that are not time-sensitive to off-peak, and if necessary, by installing equipment that would allow the Company to shed certain loads for brief periods during peak emergencies. You have to keep in mind, though, that load management can restrain the growth in peak just so much. It can't halt the growth in peak demand, and it can't eliminate the eventual need to build new generating plants.

What effects would load management have on the Company's financial operations?

The effects should be beneficial both to the Company and our customers. For one thing, load management reduces the amount of new peaking capability that has to be added. Since the cost of new units is climbing higher every day, each delay in new plant construction represents a definite saving. Another important aspect of load management is its effect on the system load factor. While we would be building fewer peaking plants, the shifting of peak loads to off-peak would automatically improve the load efficiency of operating plants that will be in service.

I should point out, however, that the economic benefits of load management are long-range. We do not anticipate any immediate effects on either earnings or rates.

Getting back to Catawba — is the Company relying on that proposal alone to rebuild its financial strength?

Absolutely not. Construction and operations must be comprehensively integrated with the Company's financing plans. To tie these three crucial aspects together, we have recently developed a ten-year financial plan which assumes that Duke Power will own and operate the Catawba station. As I pointed out earlier, we may withdraw the offer to sell the plant if certain conditions exist before it is accepted. And there is the possibility that the offer may not be accepted. The primary objective of the ten-year financial plan is to strengthen the Company's capital structure and thereby improve our financing flexibility. Our immediate goal in this respect is to regain double-A ratings on our senior securities as soon as possible. To put ourselves in contention for double-A ratings, we intend to raise our coverage ratio[1] to three times fixed charges. We plan to attain capitalization ratios of 52 per cent debt, 13 per cent preferred equity and 35 per cent common equity. We also plan for internal cash generation to remain above 40 per cent of our total cash requirements.

How do you plan to achieve those objectives?

First of all, we'll take advantage of every possible opportunity to reduce expenses and to improve efficiency in all areas of the Company's operations. Secondly,

[1] *The ratio determined by dividing earnings, before interest charges and income taxes, by interest charges.*

we'll continue to pursue timely rate relief when necessary to recover increases in those expenses over which we have no control.

One of the keys to the success of this financial plan is fair regulation. Based on recent rate orders, we believe the agencies which regulate our Company have a better grasp of our needs and will act fairly in their judgments. This doesn't mean, of course, that we can expect to get rate increases without first proving that they're needed and that the Company itself has done everything possible to keep costs down.

Was the decision to defer the Perkins and Cherokee stations influenced by this financial plan?

To some extent, yes. We were looking for a way to reduce our construction budget by about two hundred million dollars over the next five years, and the ability to defer these units provided that opportunity. At the time the decision was made, we had just completed a new peak load study which showed, in effect, that the recession had caused us to lose about a year's growth in the peak demand for electricity. So instead of completing the first of these six units in 1983, we're now scheduled to complete it in 1984.

What effect will this have on the Company's reserve margin?

As I mentioned before, a company can influence its future reserve margin by actively restraining the growth in peak load through a program of load management. Our own load management program is well underway, and through this program we're expecting to have a reserve margin of around 15 per cent in 1983. When you talk about reserve margins, however, it's important to keep in mind that projecting electric demands has never been an exact science, and it's probably more difficult today than ever before. Some of the factors which will influence future demands for electricity — particularly those associated with energy conservation, the effects of pricing, and the substitution of electricity for other energy sources — are very difficult to quantify. Still, we have to make the best possible evaluation of all the factors involved and plan our expansion efforts accordingly.

Mr. Horn, as you see it, what's ahead for Duke Power?

I'm sure anyone who has followed our Company recognizes that we've been involved in an uphill struggle for the past six years. Frankly, we feel that we've finally begun to reach the crest of the hill. One of the things that put so much pressure on earnings in the early 1970's was our inability to recover increases in fuel costs on a timely basis. Today we have that ability in all jurisdictions.

In the early 1970's, we were a net purchaser of power from other companies at amounts sometimes exceeding $30 million a year. Today, we're net seller of power to other companies.

An improved regulatory environment is evidenced by recent rate decisions which provide the first opportunity since 1969 for the Company to earn a fair and reasonable return on investment.

Another factor which we feel places Duke Power in an enviable position is our fuel mix. Some utilities are very heavily committed to oil and natural gas as boiler fuels. Both these fuels are in tight supply, and there are projections that we may run out of them by the end of this century. Our generating units, of course, are almost totally dependent on coal and nuclear fuel. These are the world's most abundant, and least exploited, energy resources. So when it comes to the availability of fuels, we think Duke Power has a very definite edge on many other companies.

Our service area is growing and diversifying. The Company itself is leaner and more efficient than ever before.

Considering all these factors, we're more confident about the future of our Company than at any time since 1969.

The energy crisis

for America, a matter of survival

America faces an energy shortage in the midst of plenty.

This apparent contradiction defines one of the nation's most frustrating, and frightening, dilemmas.

No civilization, even one which has sent men to the moon and rockets into the sun, can prosper without an adequate energy supply. Energy is the fundamental currency of human development.

Suggesting the collapse of this civilization seems a preposterous notion. Yet, while great resources of energy lie buried beneath the earth's surface, millions of Americans face each winter uncertain that enough energy will be available to protect them from the cold.

Human achievement has advanced to the point of releasing and controlling the energy of atoms. Yet, America's industries, strapped by a recession that has left nearly one in ten of our work force without employment, have no assurance that sufficient energy will be available to effect the recovery.

An Energy Imbalance

The energy crisis that faces our nation is largely the product of a drastic imbalance between known energy resources and actual energy usage.

Approximately 75 per cent of the energy used in this country comes from oil and natural gas, which combined represent less than ten per cent of our domestic energy resources. And even these limited resources have fallen far short of their potential due to price controls which, by discouraging exploration for new reserves, have caused the U.S. to depend on imports for about 35 per cent of its oil needs.

The Arab oil embargo of 1973 and its crippling effects on America's economy clearly show that the U.S. must somehow become independent of foreign sources for its energy needs. Yet, by relying solely on domestic resources, we could run out of oil and natural gas early in the next century.

Most experts agree that the United States must sharply reduce its dependence on oil and natural gas by shifting to the domestic energy resources which are the most plentiful: coal and uranium. Currently, these energy resources account for more than 90 per cent of our energy reserves, but supply only 20 per cent of the energy consumed in this country.

Coal and uranium have one thing in common: to be viable energy sources, they must be converted to electricity. In other words, more electricity must be used to meet much of the energy needs now being fulfilled by oil and natural gas.

But agreement among experts does not always result in solutions.

Most of the nation's coal reserves remain untapped. And despite dire predictions of crippling blackouts unless coal production is doubled from its current 600 million ton level by 1985, the likelihood of reaching that goal, under existing regulatory constraints, is barely short of fantasy.

The Obstacles

Efforts to develop the nation's extensive coal resources have been severely hampered by a few excesses in an otherwise worthwhile effort to protect the environment. For example, the federal Clean Air Act of 1970 has forced electric utilities to find a substitute for 300 million tons a year of high-sulfur coal. Low-sulfur coal is plentiful in some areas, but restrictive surface mining legislation now threatens the use of even that valuable resource.

Appeals to Congress for an energy policy that would strike a balance between the need for environmental protection and the need for more energy have, for the most part, been unproductive. In fact, nearly all energy bills now under active consideration would impose even greater restraints on the development of domestic energy resources.

Presidential veto appears to have only delayed one such bill which would prohibit strip-mining on slopes of more than 20 degrees and require that all land subjected to strip-mining be restored essentially to its original contour. Efforts to revive the measure are already underway in the present Congress. Such legislation fails to recognize that sound reclamation practices carried out under existing laws (49 of the 50 states now have effective reclamation laws) have already demonstrated that strip-mined land can be converted to a higher use than before.

Proposed further amendments to the Clean Air Act would prohibit *any* deterioration in air quality, even if such deterioration resulted in no adverse effects on society. Since the necessary technology for compliance is not available, and may never be, these amendments would prevent the future construction of economically-sized coal-burning plants and severely restrict the operations of existing plants. They also would prohibit industrial and commercial development in the most underdeveloped areas of the U. S.

Nuclear Opposition

Ironically, many of those who oppose further development of coal resources also oppose the only major alternative to coal – nuclear power. Nuclear power plants are a proven success. They are environmentally compatible, and their lower operating costs offer definite economic benefits to the consumer. Yet, the work of environmental obstructionists has delayed plant after plant.

Their intervention and the proliferation of state and federal regulations governing nuclear plant construction have extended to an average of 10 years the lead time from initial design to commercial operation of nuclear

units. Much of this time is taken up in the licensing process. In Western Europe and Japan, a nuclear station can be planned and built in about half that time.

In the case of the Oconee Nuclear Station, it was necessary to obtain licenses, permits, agreements and other approvals from 68 separate governmental entities. In one instance, it was necessary to obtain 30 approvals from a single agency.

Start of construction of the Catawba Nuclear Station was delayed while intervenors in the licensing proceeding were allowed to reiterate arguments that had been presented, and satisfactorily answered, in a previous proceeding involving the almost identical McGuire Nuclear Station.

Energy's Price

It is not enough, however, to simply recognize that development of coal and uranium resources must be accelerated. Reclaiming the land once it has yielded its energy, providing the necessary safeguards for protecting the environment when the energy is used, building the power plants in which basic energy resources are converted to electricity — all these factors affect the cost of energy.

To have the energy we need, we must be willing to pay for it.

Resistance to higher electric rates has been no less vigorous than the movement to protect the environment. Organized opposition to rate increases has, in many cases, successfully stalled rate proceedings and jeopardized companies' efforts to maintain the necessary financial strength to finance plant construction.

Understanding—The Key

If the nation's priorities appear to be at cross purposes, it is only for lack of understanding. Environmentalists work feverishly to restrict development of energy resources so that the environment can be protected. Yet, adequate protection of the environment will never be possible without more energy to operate pollution control equipment. Consumer groups lobby in local, state and federal agencies for stricter control of energy producing companies. Their concern is mainly intended to relieve the burden of higher electric rates on the poor and disadvantaged, and on people with fixed incomes. Yet, the hopes of these people for a better life will never be realized unless additional energy is provided. And to provide that energy, companies must be able to increase rates as necessary to cover their increasing expenses.

The key to solving the energy crisis is understanding. As people become aware of the reasons for our energy failures and their potential consequences, they can press for action to eliminate crippling roadblocks. They can support the balancing of energy needs with the protection of the environment. They can recognize that the price which must be paid for an adequate energy supply is far less than the cost in human suffering that would result from an inadequate supply.

Americans already understand that the environment must be protected. And they eventually will know that even in this worthy cause there is a point of diminishing return. To have air that is 99 per cent clean is both economically feasible and environmentally beneficial. We should have it. But the cost of achieving additional purity is multiplied many times, perhaps beyond the realm of affordability, while resulting in little, if any, additional environmental benefits.

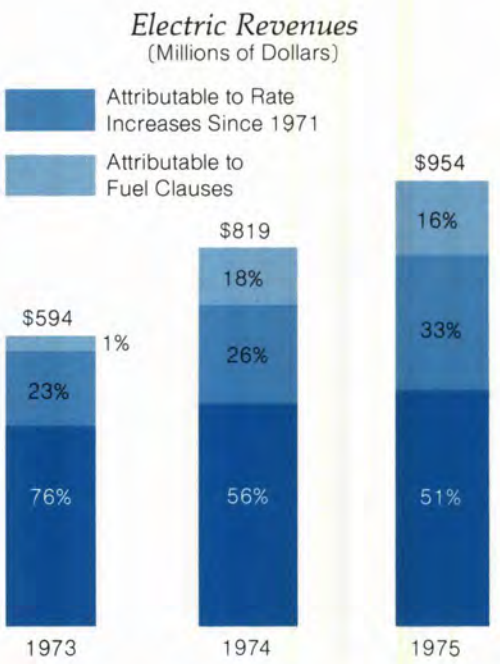
Man must continue to insure that his environment is not abused. But his existence upon the planet requires that the environment be used — for food, for shelter, for industry, and for energy. The challenge is to understand the difference.

Understanding is essential.

Financial report

Electric Revenues

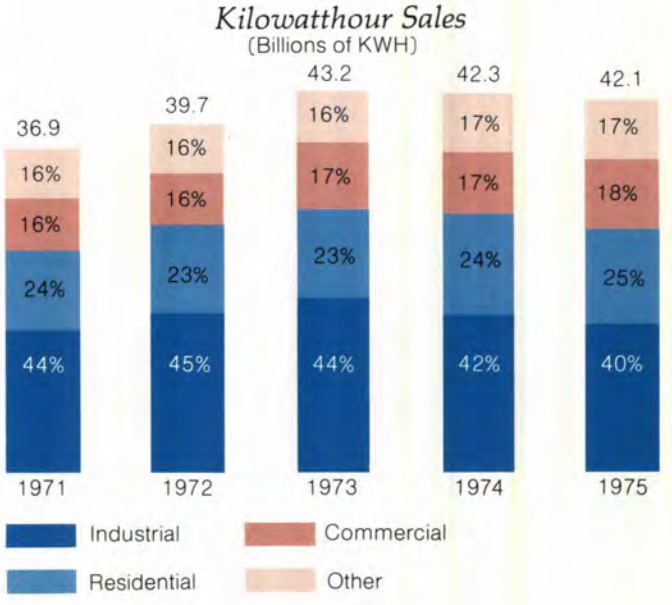
Electric revenues increased 17% and 38% for 1975 and 1974 over the respective previous years principally because of general rate increases and revenues from fuel adjustment clauses. Of the increases in revenues for 1975 and 1974, 33% and 42%, respectively, were attributable to fuel adjustment clauses which only allowed the Company to recover increases in fuel costs during those periods. For further information on revenues and rate matters, see the Notes to the Financial Statements.



Kilowatthour Sales

Primarily as a result of the economic recession and of energy conservation efforts, kilowatthour sales in 1975 and 1974 did not maintain their historical growth pattern. Sales for 1975 approximated levels of the previous year while 1974's sales were 2% below those of 1973.

The deviation from the growth pattern in sales was most pronounced in the textile industry which accounted for 22% and 24% of total sales for 1975 and 1974, respectively.



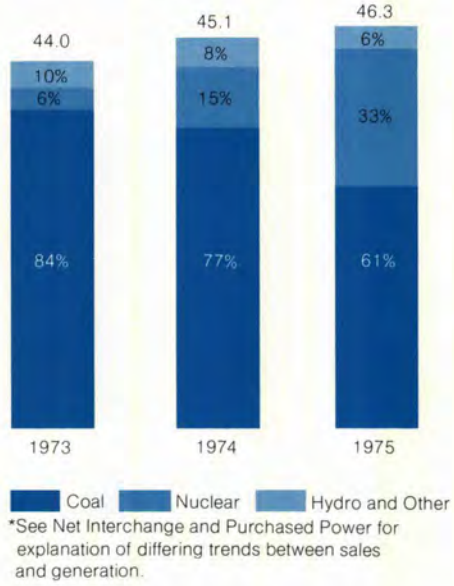
Fuel Used in Electric Generation

The total cost of fuel in 1975 increased only 1.4% over 1974. In 1975, the types of fuel used in generation changed significantly, resulting in a more favorable mix. A major contributing factor to the more favorable mix in fuels was the high operating level of the Company's Oconee Nuclear Station in 1975. The system average fuel cost was 79.55¢ per million BTU for 1975 and 81.79¢ per million BTU for 1974.

Fuel expenses increased 74% in 1974 over the previous year. This increase was due to higher coal prices which, on a burned basis, rose from a yearly average cost of 47.27¢ per million BTU in 1973 to 91.69¢ per million BTU for 1974.

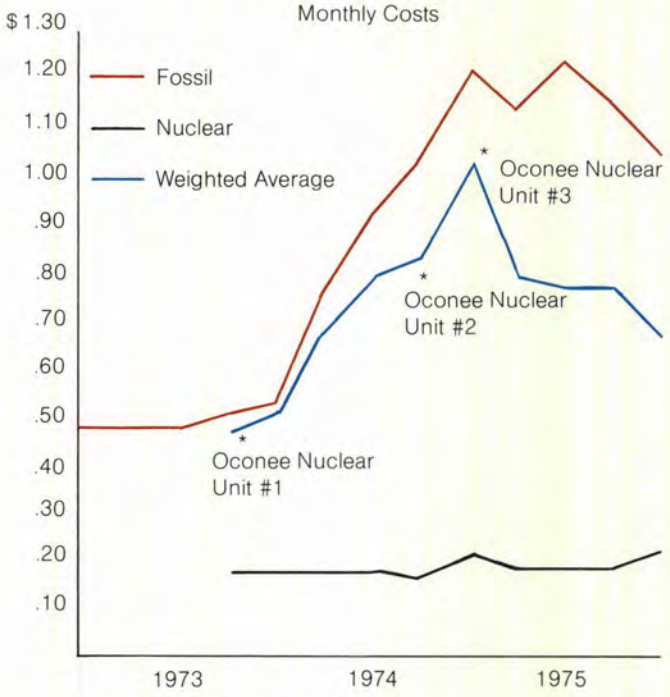
Essentially all these fuel costs increases in 1975 and 1974 were recovered through rate relief.

Generation *
(Billions of KWH)



*See Net Interchange and Purchased Power for explanation of differing trends between sales and generation.

Cost of Fuel Used in Electric Generation
(Cents Per MBTU)
Monthly Costs



*Time of initial commercial operation

Net Interchange and Purchased Power

New generating plants brought into service in 1974 reduced the Company's need for purchased power in 1974, and eliminated it in 1975.

The Company in 1975 was able to arrange interchange transactions with neighboring utilities resulting in a net interchange and purchased power credit.

Net interchange and purchased power amounted to a credit of $11,588,000 for 1975 and costs of $8,495,000 for 1974.

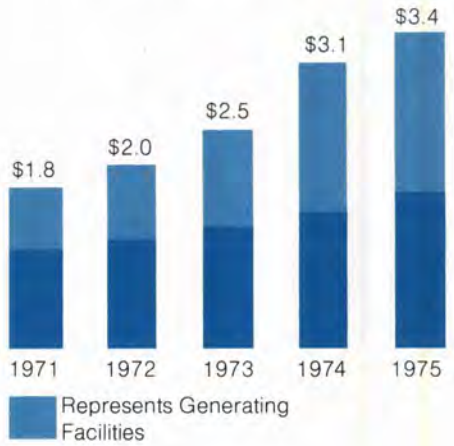
Net Interchange and Purchased Power
(Millions of Dollars)

Other Operation, Maintenance and Depreciation Expenses

Other operation and maintenance expenses increased 16% and 17% for 1975 and 1974 over the respective previous years. These increases were due principally to the addition of new generating units, and continuing inflation in wages, materials and supplies.

Depreciation expense showed annual increases of 20% and 19% for 1975 and 1974, respectively, as a result of additions to plant in service.

Electric Plant in Service
(Billions of Dollars)



Taxes

Gross receipts taxes, which represent approximately 54% of total general taxes, increased 17% for 1975 and 37% for 1974, rising proportionately with the increases in revenues.

Property taxes, which represent approximately 33% of total general taxes, increased 27% and 22% for 1975 and 1974, respectively, generally reflecting the increases in the Company's electric plant.

As a result of higher pre-tax income, the current federal and state income tax provision, including the income tax-credit, increased $35,201,000 in 1975. (See Notes to Financial Statements.)

Increases in deferred income tax expense of $7,323,000 in 1975 and $18,613,000 in 1974 were due to higher accelerated tax depreciation resulting from additions to plant in service, and to normalization of tax effects of certain capitalized overhead items.

Allowance for Funds Used During Construction (ADC)

ADC for 1975 was $7,365,000 below the 1974 level. This resulted from a decline in the average investment on which ADC was calculated when certain generating units were placed in service.

Interest Deductions and Preference and Preferred Dividends

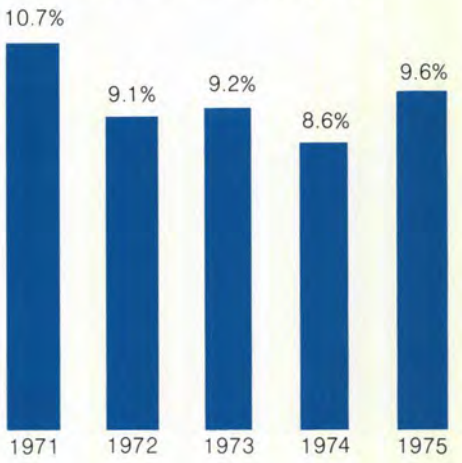
Total interest deductions and preferred dividends increased $24,395,000 and $36,725,000 for 1975 and 1974, respectively. These increases were primarily due to the issuance of additional securities to finance the Company's construction program and the higher cost of capital. See "Financing."

Other interest declined in 1975 with the reduction in the average level of short-term debt outstanding and lower short-term interest rates.

Return on Average Book Common Equity

In 1975 the return on average book common equity did not reach the level authorized by the Company's regulatory agencies. However, with the rate relief implemented in the second half of the year, the return on average book common equity for 1975 increased to 9.6%, compared to 8.6% for 1974.

Return on Average Book Common Equity



1975 Quarterly Results

Earnings per share of common stock for the first half of 1975 reflect the lag in obtaining needed rate relief. The substantially higher earnings in the last half of 1975 result from rate increases implemented at mid-year.

Earnings and Dividends Per Share of Common Stock—1975

Financing

To meet its capital requirements, the Company has financed extensively with debt and equity securities and has raised additional capital through the sale and sale/lease-back of certain assets. Net proceeds are summarized below:

	1975		1974	
	Shares	Amount	Shares	Amount
Common stock				
Public sales	5,000,000	$ 64,935,000	8,500,000	$115,083,000
Stock Purchase-Savings Program for Employees	504,241	7,407,000	407,884	5,436,000
Dividend Reinvestment and Stock Purchase Plan	180,968	2,846,000	177,503	2,139,000
Total common stock	5,685,209	75,188,000	9,085,387	122,658,000
Preferred stock				
Preferred stock A, 10.76%, $25 par	2,400,000	57,450,000		–
Bonds and term notes				
First mortgage bonds				
9½% Series 2005		98,419,000		–
11% Series 1994		105,213,000		–
9¾% Series 2004		–		97,730,000
Term notes				
Floating prime		–		18,500,000
13%		–		98,482,000
Total bonds and term notes		203,632,000		214,712,000
Sale and sale/lease-back transactions				
Capitalized construction equipment lease		14,694,000		–
Nuclear fuel leases		24,894,000		34,702,000
Other		21,841,000		19,082,000
Total sale and sale/lease-back transactions		61,429,000		53,784,000
Total		$397,699,000		$391,154,000

Stock Market Information

At December 31, 1975 and 1974, the Company had approximately 82,300 and 75,200 holders of common stock, respectively. During 1975 approximately 10,075,000 shares of common stock were traded as compared to 5,575,000 in the previous year.

Common Stock	Dividend Per Share	Stock Price Range High	Low
1974 by Quarter			
First	$0.35	$20¾	$16¾
Second	0.35	17½	12¼
Third	0.35	13⅜	10
Fourth	0.35	13⅞	10⅛
Total	$1.40		
1975 by Quarter			
First	$0.35	$15	$10¾
Second	0.35	17	12¾
Third	0.35	16⅞	15
Fourth	0.35	19⅝	15⅞
Total	$1.40		

Statement of Income — *Duke Power Company*

(dollars in thousands)	Year Ended December 31 1975		1974*	
ELECTRIC REVENUES (Notes 2, 3 and 10)		$954,414		$818,803
ELECTRIC EXPENSES				
Operation				
Fuel used in electric generation	$338,024		$333,399	
Net interchange and purchased power (credit)	(11,588)		8,495	
Wages, benefits and materials	105,890		92,732	
Maintenance of plant facilities	40,968		33,527	
Depreciation	100,995		83,914	
Taxes (Notes 1 and 7)				
General	77,095		64,710	
Federal income	46,599		10,905	
State income	6,741		1,539	
Deferred income, net	51,208		43,885	
Investment tax credit amortization (credit)	(406)		(949)	
Total electric expenses		755,526		672,157
Electric operating income		198,888		146,646
OTHER INCOME				
Allowance for funds used during construction	54,794		62,159	
Earnings of subsidiaries from operations, net	197		299	
Other, net (deduction) (Note 9)	(1,666)		4,787	
Income tax—credit (Notes 1 and 7)	21,789		16,094	
Total other income		75,114		83,339
Income before interest deductions		274,002		229,985
INTEREST DEDUCTIONS				
Interest on long-term debt	134,431		110,777	
Other interest	10,478		16,052	
Amortization of debt discount, premium and expense	858		353	
Total interest deductions		145,767		127,182
NET INCOME		128,235		102,803
Dividends on preference and preferred stock		34,344		28,534
EARNINGS FOR COMMON STOCK		$ 93,891		$ 74,269
COMMON STOCK DATA				
Average shares outstanding (thousands)		51,020		42,618
Earnings per share		$1.84		$1.74
Dividends per share		$1.40		$1.40

**Restated—See Note 2.*

See notes to financial statements.

Balance Sheet

Assets

(dollars in thousands)

	December 31 1975		1974	
ELECTRIC PLANT				
(At original cost—Notes 1 and 5)				
Electric plant in service	$3,427,933		$3,146,529	
Less accumulated depreciation and amortization	826,627		727,878	
Electric plant in service, net	2,601,306		2,418,651	
Construction work in progress	765,113		637,248	
Total electric plant, net		$3,366,419		$3,055,899
OTHER PROPERTY AND INVESTMENTS				
Other property—at cost (less accumulated depreciation: 1975 - $3,748; 1974 - $3,395)	22,024		22,043	
Investments in and advances to subsidiaries—at equity	45,071		39,633	
Other investments—at cost or less	8,840		8,330	
Total other property and investments		75,935		70,006
CURRENT ASSETS				
Cash (Note 8)	21,288		18,643	
Receivables (less allowance for losses: 1975 - $2,394; 1974 - $963)	79,897		76,255	
Fuel clause revenues accrued (Notes 1 and 10)	21,644		36,239	
Materials and supplies—at average cost				
Coal	101,078		64,558	
Other	49,818		60,438	
Total current assets		273,725		256,133
DEFERRED DEBITS				
Debt expense, being amortized over terms of related debt	11,651		10,964	
Other	13,069		19,017	
Total deferred debits		24,720		29,981
TOTAL ASSETS		$3,740,799		$3,412,019

See notes to financial statements.

Capitalization and Liabilities

(dollars in thousands)

	December 31 1975		1974	
CAPITALIZATION				
(See Statement of Capitalization)				
Common stock equity	$1,026,729		$ 931,150*	
Preference and preferred stock	455,000		395,000	
Long-term debt	1,827,562		1,638,752	
Total capitalization		$3,309,291		$2,964,902
CURRENT LIABILITIES				
Accounts payable	64,641		64,957	
Interest accrued	41,600		33,755	
Taxes accrued	27,213		9,258	
Other	10,735		9,968	
Total	144,189		117,938	
Notes payable for construction— pending permanent financing (Note 8)	85,043		142,092	
Current maturities of long-term debt	30,649		83,500	
Total current liabilities		259,881		343,530
ACCUMULATED DEFERRED INCOME TAXES (Note 1)		150,880		84,356*
DEFERRED CREDITS				
Investment tax credits (Note 1)	2,390		2,796	
Other (Note 2)	18,357		16,435*	
Total deferred credits		20,747		19,231
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 6 and 10)				
TOTAL CAPITALIZATION AND LIABILITIES		$3,740,799		$3,412,019

**Restated—See Note 2.*

See notes to financial statements.

Statement of Source of Funds For Plant Construction Costs

Duke Power Company

(dollars in thousands)	Year Ended December 31 1975		1974*	
FUNDS FROM OPERATIONS				
Net income	$128,235		$102,803	
Non-fund items				
Depreciation and amortization	110,327		96,846	
Deferred income taxes, net	51,208		43,885	
Less common equity component of the allowance for funds used during construction	(25,331)		(29,644)	
Other, net	3,667		7,187	
Funds from operations		$268,106		$221,077
Dividends paid on common stock		(70,949)		(59,263)
Dividends paid on preference and preferred stock		(34,075)		(28,534)
Funds retained in the business		163,082		133,280
FUNDS FROM FINANCING – NET PROCEEDS				
First mortgage bonds	203,632		97,730	
Common stock	75,188		122,658	
Preferred stock	57,450		–	
Sale and sale/lease-back transactions	61,429		53,784	
Term notes	–		116,982	
Increase (decrease) in current notes payable	(57,049)		72,790	
Retirement of long-term debt	(87,225)		(4,190)	
Funds from financing		253,425		459,754
Total available funds		416,507		593,034
DECREASE (INCREASE) IN WORKING CAPITAL, ETC.				
Materials and supplies	(44,670)		(61,460)	
Other current assets	8,308		(56,426)	
Other current liabilities	25,982		34,612	
Investment in and advances to subsidiaries	(5,183)		(13,437)	
Other, net	12,677		(15,215)	
Decrease (increase) in working capital, etc.		(2,886)		(111,926)
Plant construction expenditures		413,621		481,108
Common equity component of the allowance for funds used during construction (see above)		25,331		29,644
PLANT CONSTRUCTION COSTS		$438,952		$510,752

**Restated – See Note 2.*

See notes to financial statements.

(dollars in thousands)			December 31 1975	1974
COMMON STOCK EQUITY (Note 4)				
Common stock, no par, authorized 70,000,000 shares; 53,521,268 and 47,836,059 shares outstanding for 1975 and 1974, respectively			$ 901,116	$ 822,113
Retained earnings			125,613	109,037*
Total common stock equity			1,026,729	931,150
Percent of capitalization			31.0%	31.4%
PREFERENCE AND PREFERRED STOCK (Note 4)				
	Series	Shares Outstanding		
Preference stock, $100 par, authorized 1,500,000 shares	Convertible 6¾%AA	500,000	50,000	50,000
Preferred stock, $100 par, authorized 5,000,000 shares	4.50% C	350,000	35,000	35,000
	5.72% D	350,000	35,000	35,000
	6.72% E	350,000	35,000	35,000
	8.70% F	600,000	60,000	60,000
	8.20% G	600,000	60,000	60,000
	7.80% H	600,000	60,000	60,000
	7.35% I	600,000	60,000	60,000
Preferred stock A, $25 par, authorized 10,000,000 shares	10.76%, 1975	2,400,000	60,000	—
Total preference and preferred stock			455,000	395,000
Percent of capitalization			13.8%	13.3%
LONG-TERM DEBT (Note 5)	Rate	Due		
First and refunding mortgage bonds	2.65%-11%	1975-2005	1,580,750	1,415,000
Sinking fund debentures	4⅞%	1982	30,000	32,500
Term notes	6½-7%	1975-1978	98,000	111,000
	Floating Prime	1975-1976	18,500	49,000
	13%	1979	100,000	100,000
Turbine generator leases (Note 6)			15,853	12,626
Capitalized construction equipment lease			13,610	—
Unamortized debt discount and premium, net			1,498	2,126
Current maturities of long-term debt			(30,649)	(83,500)
Total long-term debt			1,827,562	1,638,752
Percent of capitalization			55.2%	55.3%
TOTAL CAPITALIZATION			$3,309,291	$2,964,902

**Restated—See Note 2.*

See notes to financial statements.

Statement of Retained Earnings — *Duke Power Company*

(dollars in thousands)	Year Ended December 31 1975		1974	
BALANCE—Beginning of year (as previously reported)	$114,573		$104,629	
Prior period portion of wholesale revenue refund, net of taxes (Note 2)	(5,536)		(3,243)	
BALANCE—Beginning of year (as restated)	109,037		101,386	
ADD—Net income	128,235		102,803	
Total		$237,272		$204,189
DEDUCT				
Cash dividends				
Common stock	70,949		59,263	
Preference and preferred stock	34,344		28,534	
Capital stock expense	6,366		7,355	
Total deductions		111,659		95,152
BALANCE—End of year		$125,613		$109,037

See notes to financial statements.

Auditors' Opinion

HASKINS & SELLS
Certified Public Accountants

DUKE POWER COMPANY:

We have examined the balance sheet and the statement of capitalization of Duke Power Company as of December 31, 1975 and 1974 and the related statements of income, retained earnings, and source of funds for plant construction costs for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As explained in paragraph (D) of Note 10 to the financial statements, the Attorney General of North Carolina has appealed the North Carolina Utility Commission order of August 27, 1975, which authorized the Company to replace its fuel clause effective September 1, 1975 with a corresponding increase in base rates and to collect revenues attributable to unbilled fuel charges accrued at September 1, 1975. The ultimate outcome of this matter cannot be presently determined.

In our opinion, subject to the effects, if any, of the ultimate resolution of the matter referred to in the preceding paragraph, the above mentioned financial statements present fairly the financial position of the Company at December 31, 1975 and 1974 and the results of its operations and the source of its funds for plant construction costs for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Charlotte, North Carolina
February 11, 1976

Haskins & Sells

1. Summary of Significant Accounting Policies

A. *Additions to Electric Plant.* The Company capitalizes all direct labor and materials, as well as related indirect construction costs including general engineering, taxes and the cost of money (allowance for funds used during construction).

Allowance for funds used during construction (ADC) is an accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are transferred from the income statement to construction work in progress in the balance sheet and, accordingly, are capitalized in the same manner as construction labor and material costs. This item is recognized as a cost of "Electric Plant," with an off-setting credit to "Other Income," because, under established regulatory rate practices, a utility is permitted to include a fair return on, and the recovery of, these capital costs through their inclusion in the rate base and in the provision for depreciation. ADC has been calculated using the rates, net of applicable income taxes, of 7½% through June 30, 1974, and 8% thereafter.

B. *Depreciation and Amortization.* Provisions for depreciation are recorded using the straight-line method. The year-end composite average rate was 3.26% for 1975 and 3.25% for 1974. Provisions for amortization of nuclear fuel, which are included in "Fuel used in electric generation" are recorded using the unit of production method.

C. *Income Taxes.* The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on the taxable income or loss of each.

The Company's income taxes are allocated to electric operating expense and to non-electric operations under "Other Income." The income tax-credit classified under "Other Income" results principally from tax deductions for interest costs relating to investments in non-utility properties, mainly construction work in progress.

The Company has provided deferred income taxes under normalization accounting for differences in book and tax depreciation arising from the use of accelerated tax depreciation, except for certain plant additions in 1968 and 1969. In 1975, the Company expanded its normalization to include capitalized overhead items currently deducted for income tax purposes as now allowed by regulatory authorities. The effect of the change on the financial statements is immaterial.

Income tax reductions arising from the 4% Job Development Investment Tax Credit placed in effect during 1971 are being amortized over the depreciable lives of the related property; those arising from the 3% investment tax credit in effect until 1969 have been amortized, as approved by regulatory authorities, over a five-year period. At December 31, 1975, the unused investment tax credits, including the 10% investment tax credit effective for 1975, available for carry-over to future years are $50,308,000. Of this amount $17,371,000 is available for use through 1980, $15,089,000 through 1981, and $17,848,000 through 1982.

D. *Retirement Plan Costs.* The Company has a non-contributory retirement plan for the benefit of its employees. The Company's policy is to fund pension costs accrued which amounted to $6,493,000 in 1975 and $6,040,000 in 1974.

The plan was amended effective September 1, 1975, to provide for increased survivor benefits, early retirement benefits without penalty at age 62 with 10 years service, and to comply with the "Employee Retirement Income Security Act of 1974," principally by permitting employee participation at an earlier age and vesting rights with lesser service. In addition, the assumed earnings rate was increased from 4¼% to 5%, and the period of funding was increased from ten to 20 years. These changes increased the approximate total unfunded prior service costs of the plan from $3,600,000 to $19,100,000, and commencing in 1976 will increase the annual costs of the plan by approximately $3,600,000.

The actuarially computed value of vested benefits under the plan exceeded the assets of the plan by $6,500,000 as of the date of the latest available actuarial reports.

E. *Fuel Clause Revenue Accrued.* The Company accrues, where permitted, the estimated revenues recoverable under its fuel adjustment clauses for increases in fuel costs from the date such costs are incurred until the date billed to customers. At December 31, 1974, such accruals provided for a 60-day time lag on all wholesale and retail business.

Effective September 1, 1975, the North Carolina retail fuel adjustment clause was terminated, alternative procedures for the recovery of increases in fuel costs were adopted and provision was made for the Company to recover the accrued revenues unbilled through a temporary surcharge over twelve months. Accordingly, at December 31, 1975, fuel clause revenues accrued included amounts applicable to the 60-day time lag for wholesale customers and South Carolina retail customers, and the unbilled portion of the September 1, 1975 North Carolina accrual.

2. Restatement of Financial Statements—Wholesale Revenue Refund

The Company and certain of its wholesale customers have entered into a settlement agreement dealing, among other things, with certain rate increases and the fuel adjustment clause. The agreement provides for refunding $11,682,000 over a 36 month period from September 30, 1975. This amount represents revenues collected subject to refund from April 26, 1973, to June 30, 1975, plus interest thereon to September 30, 1975. The financial statements of prior years have been restated to reflect the agreement. The amounts to be refunded and the decreases in net income and earnings per common share were as follows (dollars in thousands):

	1975	1974	1973
Amounts to be refunded	$430	$4,763	$6,489
Net income	$214	$2,293	$3,243
Earnings per common share	—	$0.06	$0.08

3. Rate Matters

Rate increases granted since January 1, 1974, which are included in "Electric Revenues" in the accompanying Statement of Income, are summarized below:

			Approximate Revenue Increases (dollars in thousands)		
Rate Schedule	Per Cent Revenue Increase	Effective Date	Annualized on 1975 Sales	Year Ended December 31 1975	1974
N. C. Retail (1)	16.8	April 15, 1974	$ 62,400	$ 62,400	$55,400
S. C. Retail (1)	16.7	April 15, 1974	26,900	26,900	24,000
N. C. Retail (2)	23.6	October 3, 1975	109,900	47,800	—
S. C. Retail (2)	22.8	January 13, 1976	49,000	21,200	—
Wholesale (3)	22.9	July 1, 1975	23,600	10,400	—
			$271,800	$168,700	$79,400

(1) These increases consist of an 8% interim increase effective November 15, 1973, an additional 2.25% effective January 19, 1974, and the remainder effective April 15, 1974.

(2) Includes interim revenue increases of approximately 20% placed into effect on June 30, 1975.

(3) Subject to refund with interest.

The Company recovers increased fuel costs in all three of its regulatory jurisdictions through fuel cost adjustment clauses or alternative procedures. Total revenues accrued under such clauses and procedures amounted to $156,500,000 and $151,500,000 for 1975 and 1974, respectively.

In its wholesale and South Carolina retail jurisdictions, the Company has automatic fuel cost adjustment clauses that provide for a 60-day lag from the time increased costs are incurred and such increases are billed to customers. Billings under these clauses began on August 23, 1972, and January 19, 1974, respectively.

Until August 31, 1975, the Company had essentially the same fuel clause operating in North Carolina as it did for its other businesses. From September 1, 1975 to October 3, 1975, alternate procedures having substantially the same effect were in force. On October 3, 1975, the North Carolina Utilities Commission adjusted the level of fuel costs in base rates to current fuel costs. Subsequent to this date, adjustments in base rates to reflect fluctuations in fuel costs require Commission action which must occur within 90 days.

4. Capital Stock

In 1975, 5,685,209 shares of common stock were issued for a consideration of $79,003,000 and 2,400,000 shares of 10.76% Preferred Stock A, 1975 Series were issued for $60,000,000. In 1974, 9,085,387 shares of common stock were issued for a consideration of $130,012,000.

At December 31, 1975, certain shares of common stock were reserved for issuance as follows:

	Shares
Conversion of Preference Stock	1,897,533
Stock Purchase-Savings Program for Employees	899,286
Dividend Reinvestment and Stock Purchase Plan	586,179
Total	3,382,998

The outstanding Preference Stock, 6¾% Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $26.35 per share, each share of such preference stock being taken at $100 for such purpose. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution.

The call provisions for the outstanding preference and preferred capital stocks specify various redemption prices not exceeding 111% of par value plus accumulated dividends to redemption date.

No part of the Company's retained earnings at December 31, 1975 and 1974 was restricted with respect to the declaration or payment of dividends.

5. Long-Term Debt

First and refunding mortgage bonds outstanding at December 31, 1975 and 1974 were as follows (dollars in thousands):

Series	Year Due	1975	1974
3%	1975	$ –	$40,000
2.65%	1977	40,000	40,000
2⅞%	1979	40,000	40,000
3¼%	1981	35,000	35,000
3⅝%	1986	30,000	30,000
4½%	1992	50,000	50,000
4¼%B	1992	50,000	50,000
4½%	1995	40,000	40,000
5⅜%	1997	75,000	75,000
6⅜%	1998	75,000	75,000
7%	1999	75,000	75,000
8% B	1999	75,000	75,000
(Continued)			
8½%	2000	75,000	75,000
8⅝%B	2000	100,000	100,000
7½%	2001	100,000	100,000
7⅜%B	2001	40,000	40,000
7¾%	2002	100,000	100,000
7⅜%B	2002	75,000	75,000
7¾%	2003	100,000	100,000
8⅛%B	2003	100,000	100,000
9¾%	2004	100,000	100,000
9½%	2005	100,000	–
11%	1994	105,750*	–
Total		$1,580,750	$1,415,000

*An additional $19,250 of these bonds was issued on January 13, 1976.

Substantially all electric plant was mortgaged at December 31, 1975. The annual amounts of long-term debt maturities (including sinking fund requirements) through 1980 are $30,649,000 in 1976, $76,799,000 in 1977, $70,099,000 in 1978, $150,099,000 in 1979 and $10,099,000 in 1980.

6. Leases

Rentals incurred in 1975 and 1974, and rental commitments at December 31, 1975, under all non-cancelable leases (substantially all non-capitalized financing leases as defined by the Securities and Exchange Commission) were as follows (dollars in thousands):

	Combustion Turbines	Real Estate	Nuclear Fuel	Other	Total
Rentals Incurred:					
1974	$ 8,546	$ 999	$ 361	$4,099	$14,005
1975	8,587	2,475	23,517	3,484	38,063
Rental Commitments:					
1976	8,587	2,747	22,768	2,828	36,930
1977	8,586	2,723	16,603	2,047	29,959
1978	8,587	2,723	7,893	1,742	20,945
1979	8,587	2,723	–	1,594	12,904
1980	8,586	2,706	–	1,472	12,764
1981 – 1985	42,932	12,569	–	3,234	58,735
1986 – 1990	6,798	12,569	–	386	19,753
1991 – 1995	–	12,569	–	–	12,569
Remainder	–	36,457	–	–	36,457

Amounts in 1975 and 1974 include $34,593,000 and $11,765,000, respectively, charged to operating expenses.

Substantially all leases require the Company to pay taxes and operation and maintenance expenses. Rentals incurred and rental commitments under combustion turbine generator leases include accruals in excess of current payments in amounts required to equalize annual rent expense and satisfy the obligations of the leases, net of salvage, at the end of the estimated useful life of the generators. Such leases contain options to purchase beginning in 1981 at the lessors' unrecovered cost. Rentals under nuclear fuel leases are based on usage. Other leases generally contain options to purchase at the lessors' unrecovered cost or fair market value.

7. *Income Tax Expense*

Income tax expense is made up of the following components (dollars in thousands):

	1975		1974	
Tax expense applicable to electric operations				
Federal	$46,599		$10,905	
State	6,741		1,539	
		$53,340		$12,444
Tax credit applicable to other income				
Federal	(19,232)		(14,250)	
State	(2,557)		(1,844)	
		(21,789)		(16,094)
Income taxes currently payable (credit)		31,551*		(3,650)
Deferred taxes, net (timing differences)				
Excess tax over book depreciation	42,756		38,459	
Repair allowance and cost of removal	4,091		5,426	
All other items	4,361		—	
		51,208		43,885
Amortization of investment tax credit deferrals		(406)		(949)
Total recorded income tax expense		$82,353		$39,286

*For consolidated income tax return purposes, only a negligible amount of income taxes is payable for 1975 due to utilization of tax loss carry-overs of the parent and certain subsidiaries.

Deferred taxes, net, include state income taxes of $5,511,000 for 1975 and $5,151,000 for 1974.

Income taxes differ from amounts computed by applying the statutory tax rate to pre-tax income as follows (dollars in thousands):

	1975	1974
Income taxes on pre-tax income at the statutory federal rate of 48%	$101,082	$68,203
Adjustments to above at 48%		
Allowance for funds used during construction (ADC)	(26,301)	(29,836)
Pensions and taxes capitalized on books	(2,797)	(4,884)
Amortization of investment tax credit deferrals	(406)	(949)
Amortization of nuclear fuel book-tax basis differences (principally ADC)	1,845	—
Other items, net	3,889	4,232
State income taxes, net of federal income tax benefit	5,041	2,520
Recorded income tax expense (see above)	$ 82,353	$39,286

8. Short-Term Borrowing

	1975	1974
	(dollars in thousands)	
Amount outstanding at year end	$ 85,043	$142,092
Maximum amount outstanding during the year	214,813	208,169
Average amount outstanding during the year	87,791	134,989
Lines of credit at year end	246,698	163,757
Average daily bank balances	23,000	19,000
Weighted average interest rate at year end		
Bank notes payable	7.79%	10.35%
Commercial paper	5.90	10.63
Weighted average interest rate for the year — computed on a daily basis	7.60	10.61

The Company has lines of credit with 79 commercial banks and uses these lines plus commercial paper to finance its current cash requirements. Bank loans are for 90 days or less. At December 31, 1975, "Notes payable for construction" consisted of $52,000,000 of bank loans at interest rates ranging from 7.250% to 8.225%, $21,800,000 of commercial paper at rates of 5⅞% to 6⅛% and $11,243,000 of pollution control bond anticipation notes at 6⅝% maturing on March 10, 1976. At December 31, 1974, "Notes payable for construction" consisted of $55,100,000 of bank loans at interest rates ranging from 10% to 10½%, $71,150,000 of commercial paper at 9¾% to 10¾% and $15,842,000 of pollution control bond anticipation notes at 5¾% maturing on March 11, 1975.

At December 31, 1975, $189,198,000 of the Company's bank lines of credit required compensating balances of approximately $18,920,000. The remaining lines of credit (principally non-daily depository accounts) were on a fee basis calculated in general to equate to the cost of balances. Borrowings are principally at the lending banks' commercial prime interest rate. Many of the Company's bank line arrangements require additional balances equal to 10% of the borrowings on an annual average ($1,250,000 at December 31, 1975).

9. Other Income

The Company has disposed of certain properties to augment its sources of funds. Gains and losses on such transactions are included in "Other, net." Aggregate gains amounted to $9,000,000 (related income taxes of $4,500,000 have been included in the "Income tax-credit") for the year 1974. In connection with the disposition of a subsidiary project, the Company has recorded provisions for losses of $1,414,000 and $5,000,000 (on an equity basis, net of income taxes) for the years 1975 and 1974, respectively.

10. Commitments and Contingent Liabilities

A. The Company is engaged in a long range construction program for which substantial commitments have been made. Costs under the program for the years 1976 through 1980 are currently estimated at $3.3 billion.

B. Certain wholesale revenues are being collected subject to refund as mentioned in Note 3.

C. The Company has recorded revenues pursuant to a fuel cost adjustment clause applicable to its North Carolina retail business totaling $69,100,000 for 1975 and $81,200,000 for 1974. The Attorney General of North Carolina appealed the order of the North Carolina Utilities Commission (NCUC) allowing such clause, contending, among other things, that the clause was improperly allowed in that no advance public hearing was held by the NCUC. On August 6, 1975, the North Carolina Court of Appeals affirmed the NCUC decision. The case has been appealed to the North Carolina Supreme Court.

D. The Attorney General has appealed to the North Carolina Court of Appeals the NCUC order of August 27, 1975, which authorized the Company (a) to collect the revenues attributable to unbilled fuel charges accrued at September 1, 1975, amounting to $18,500,000 at that date, and (b) to replace its fuel clause effective September 1, 1975, with a corresponding increase in its base rates. The increase in base rates during the period such order was in effect, from September 1, 1975, to October 3, 1975, resulted in revenues of $14,400,000. The appeal contends that the NCUC exceeded its statutory authority under recently enacted legislation. Upon motion of the Attorney General, the NCUC reconsidered its order and determined that the Attorney General's exceptions were without merit. However, in the absence of a judicial decision, the ultimate outcome of this matter is not presently determinable.

Summary of Operations — Duke Power Company

	1975	1974(a)	1973(a)	1972	1971	1965
CONDENSED STATEMENT OF INCOME (thousands)						
Electric revenues						
Residential sales	$324,437	$269,105	$212,213	$184,581	$166,442	$ 88,591
Commercial sales	200,292	156,562	122,788	104,479	91,183	45,867
Industrial sales	315,286	254,999	189,879	157,407	139,560	75,003
Other energy sales	124,692	98,493	66,274	57,258	49,796	22,337
Other revenues	(10,293)	39,644	3,172	4,507	4,560	2,567
Total electric revenues	954,414	818,803	594,326	508,232	451,541	234,365
Electric expenses						
Fuel	338,024	333,399	191,861	172,072	161,087	51,283
Net interchange and purchased power (credit)	(11,588)	8,495	28,575	30,478	18,510	1,717
Operation and maintenance	146,858	126,259	107,466	94,209	81,581	43,344
Depreciation	100,995	83,914	70,459	59,923	53,062	28,855
Taxes-income	104,142	55,380	34,293	18,075	16,020	37,585
Taxes-general	77,095	64,710	49,776	44,421	39,226	21,185
Total electric expenses	755,526	672,157	482,430	419,178	369,486	183,969
Electric operating income	198,888	146,646	111,896	89,054	82,055	50,396
Other income						
Allowance for funds used during construction	54,794	62,159	59,459	51,185	37,676	2,215
Other income, net (deduction)	(1,469)	5,086	1,093	1,511	4,966	1,696
Income tax-credit	21,789	16,094	15,406	13,035	9,553	249
Interest deductions	(145,767)	(127,182)	(91,535)	(74,418)	(62,395)	(14,794)
Income before extraordinary item	128,235	102,803	96,319	80,367	71,855	39,762
Extraordinary item	—	—	—	—	—	1,067 (b)
Net income	128,235	102,803	96,319	80,367	71,855	40,829
Dividends on preference and preferred stock	34,344	28,534	27,456	21,901	16,341	1,575
Earnings for common stock	93,891	74,269	68,863	58,466	55,514	39,254
Dividends on common stock	70,949	59,263	54,036	47,758	40,763	22,957
Earnings retained for use in the business	$ 22,942	$ 15,006	$ 14,827	$ 10,708	$ 14,751	$ 16,297
COMMON STOCK DATA						
Shares of common stock – year end (thousands)	53,521	47,836	38,751	35,493	30,229	22,979
– average (thousands)	51,020	42,618	38,465	34,592	29,482	22,955
Per share of common stock						
Earnings before extraordinary item	$1.84	$1.74	$1.79	$1.69	$1.88	$1.66
Extraordinary item, net of related income taxes	—	—	—	—	—	.05 (b)
Earnings for common stock	$1.84	$1.74	$1.79	$1.69	$1.88	$1.71
Dividends	$1.40	$1.40	$1.40	$1.40	$1.40	$1.00
Market value – high-low	19⅝-10¾	20¾-10	23¼-16	25⅛-21	27⅝-20¾	44-35
– year end	19½	10⅝	17¼	23¼	23¾	42⅞
BALANCE SHEET DATA (thousands)						
Electric plant (original cost)	$4,193,046	$3,783,777	$3,355,392	$2,903,710	$2,459,572	$1,038,386
Accumulated depreciation	826,627	727,878	652,922	584,748	534,216	327,166
Capitalization and short-term notes						
Common stock equity	1,026,729	931,150	793,487	706,899	580,025	314,985
Preference stock	50,000	50,000	50,000	50,000	50,000	—
Preferred stock	405,000	345,000	345,000	285,000	225,000	35,000
Long-term debt	1,827,562	1,638,752	1,505,174	1,270,224	1,040,891	368,750
Short-term notes payable	85,043	142,092	69,296	96,000	119,343	18,000
ELECTRIC AND OTHER STATISTICS						
Kilowatthour sales (millions)						
Residential	10,806	10,325	10,186	9,237	8,780	4,817
Commercial	7,567	7,053	7,287	6,515	5,938	2,955
Industrial	16,736	17,881	18,848	17,778	16,357	10,032
Other	7,029	7,085	6,838	6,158	5,838	2,878
Total kilowatthour sales	42,138	42,344	43,159	39,688	36,913	20,682
Number of customers (year end)						
Residential	969,863	951,459	931,020	895,488	864,361	711,942
Other	156,396	154,221	152,132	144,939	137,090	107,560
Total customers	1,126,259	1,105,680	1,083,152	1,040,427	1,001,451	819,502
Residential customer data						
Average annual KWH use	11,237	10,927	11,072	10,447	10,299	6,856
Average revenue per KWH	3.00¢	2.61¢	2.08¢	2.00¢	1.90¢	1.84¢
Number of employees (year end)						
Operating and maintenance	8,077	8,103	7,938	7,721	7,392	5,641
General plant construction and engineering	3,729	4,240	5,125	4,780	3,910	594
Source of energy (millions of KWH)						
Generated – Steam – Fossil	28,231	35,538	38,604	37,736	35,393	20,386
– Steam – Nuclear	15,290	6,761	2,402	—	—	—
– Hydro	2,736	2,320	2,377	1,961	2,028	1,862
– Combustion turbine generators	28	508	650	869	726	—
Net interchange and purchased power	(776)	503	2,469	2,607	1,789	401
Loss and company use	3,371	3,286	3,343	3,485	3,023	1,967
% loss and company use	7.4%	7.2%	7.2%	8.1%	7.5%	8.7%
System average heat rate	9,777	9,780	9,713	9,702	9,728	9,557
System load factor	61.6%	64.1%	64.2%	65.7%	68.2%	67.6%

(a) Restated – See Note 2 to financial statements.
(b) Undistributed earnings of a subsidiary recorded upon its liquidation.

Subsidiaries

Crescent Land & Timber Corp.

Timber harvesting and reforestation continue to be the primary activities of this land-management subsidiary.

In 1975, Crescent harvested nearly 32 million board feet of timber and 51,366 cords of pulpwood. More than 46 million seedlings have been planted on Company land since the beginning of the reforestation program in 1939. Crescent is currently planting new trees at the rate of 1.6 million per year.

Also in 1975, Crescent initiated a sales program that will allow qualified lease-holders to purchase recreational lots on Duke reservoirs. An estimated 6,000 lots are expected to be offered for sale through this program.

Crescent's equity interest in Carowinds, a theme amusement park on the North Carolina-South Carolina line, was terminated in 1975 with the park's sale to Family Leisure Centers, Inc. Crescent also terminated its land sales contract with Lake Keowee Development Company, developers of resort-residential properties on Lake Keowee.

Eastover Mining Company
Eastover Land Company

The Eastover companies were organized in 1970 to help assure an adequate supply of coal for Duke Power's coal-fired generating stations. On December 31, 1975, Eastover owned or had controlling interest in approximately 30,600 acres of coal reserves with an estimated 250,000,000 tons of recoverable coal. Those reserves are located in Virginia and eastern Kentucky.

The 1975 production from operating mines was approximately two million tons. It is estimated that the mines being developed by Eastover will reach full annual production level of approximately three and one-half million tons in late 1977.

In addition to those mining properties owned or controlled by Eastover, Duke has made capital investments in two additional properties being developed by other coal companies. These are expected to provide an additional three to four million tons of coal annually when full production is reached.

Mill-Power Supply Company

In addition to selling items to Duke and others as a wholesale distributor of electrical equipment, this subsidiary purchases virtually all supplies, equipment and fuel required by Duke.

The earnings of this subsidiary were particularly affected in 1975 by the economic recession. A decline in new construction work, coupled with an increasingly competitive market, resulted in a decrease in total sales.

Subsidiary Investments

(dollars in thousands)

	December 31, 1975		December 31, 1974	
Property and investments—at cost				
Real estate, recreational and land development	$ 32,865		$55,330	
Coal mining	86,000		67,000	
Net current assets, principally receivables and inventories	20,605		10,555	
Total assets		$139,470		$132,885
Long-term debt				
Life insurance company	(5,800)		(6,220)	
Bank, etc.	(10,800)		(26,188)	
Coal production commitments	(50,000)		(34,000)	
Deferred income taxes	(27,799)		(26,842)	
Parent company investment and advances		45,071		39,633
Advances from parent		(16,936)		(10,855)
Net assets of subsidiaries		$ 28,135		$ 28,778

Executive Committee of the Board of Directors

*CARL HORN, JR.
Chairman of the Board
and Chief Executive Officer

*B. B. PARKER
President and
Chief Operating Officer

DOUGLAS W. BOOTH
Executive Vice President

WILLIAM S. LEE
Executive Vice President

*WILLIAM H. GRIGG
Senior Vice President
Legal and Finance

AUSTIN C. THIES
Senior Vice President
Production and Transmission

JOHN D. HICKS
Vice President
Corporate Affairs

Member of the Finance Committee

HORN

PARKER

LEE

THIES

BOOTH

HICKS

GRIGG

Management Changes

Effective January 1, 1976, Carl Horn, Jr., who had served as President and Chief Executive Officer of the Company since 1971, became Chairman of the Board and Chief Executive Officer. B. B. Parker, formerly Executive Vice President and General Manager, was elected President and Chief Operating Officer.

The position of Chairman of the Board of Directors has been vacant since the death of Thomas L. Perkins in June, 1973.

At the same time, the Board elevated Douglas W. Booth, formerly Senior Vice President-Retail Operations, and William S. Lee, formerly Senior Vice President-Engineering and Construction, to positions of Executive Vice Presidents.

Three new members were elected to the Board of Directors in 1975. The new directors are Dr. Naomi Gertrude Albanese, Dean of the School of Home Economics, University of North Carolina at Greensboro; John Sylvester Stewart, President of Mutual Savings and Loan Association, Durham, N. C.; and William L. Watkins, member of the Anderson, S. C., law firm of Watkins, Vandiver, Kirven, Long and Gable. They replace William B. McGuire and John Paul Lucas, Jr., who retired, and Richard B. Henney, who did not stand for reelection.

Also in 1975, Donald H. Denton, Jr., formerly General Sales Manager, was elected Vice President-Marketing He succeeded E. Robert Davis, who retired.

Outside Directors+

DR. NAOMI G. ALBANESE
Dean, School of Home Economics
University of North Carolina at Greensboro

DR. ROBERT C. EDWARDS
President
Clemson University

*HOWARD HOLDERNESS
Chairman of the Board
Jefferson Standard Life Insurance Company and Jefferson Pilot Corporation

*HERMAN W. LAY
Chairman of the Executive Committee
PepsiCo, Inc. (a)

*MARSHALL I. PICKENS
Trustee
The Duke Endowment

*ADDISON H. REESE
Chairman of the Finance Committee
North Carolina National Bank and NCNB Corporation

*JOHN S. STEWART
President
Mutual Savings and Loan Association, Durham

CHAS. B. WADE, JR.
Senior Vice President
R.J. Reynolds Industries, Inc. (b)

WILLIAM L. WATKINS
Partner in the law firm of Watkins, Vandiver, Kirven, Long and Gable


ALBANESE


EDWARDS


HOLDERNESS


LAY


PICKENS


REESE


STEWART


WADE


WATKINS

* *Member of the Finance Committee*
\+ *All outside directors are members of the Audit Committee.*
(a) Mfg. and dist. of soft drinks, snack foods, sporting goods; transportation and leasing service.
(b) Mfg. and dist. of tobacco, food, aluminum and petroleum products; containerized shipping.

Other Officers

KEITH ARLEDGE
Vice President
Western Division

FRANZ W. BEYER
Vice President
System Planning

CARL J. BLADES
Vice President
Real Estate

WILLIAM J. BURTON
Vice President
Corporate Communications

HENRY L. CRANFORD
Vice President
Central Division

DONALD H. DENTON, JR.
Vice President
Marketing

ROBERT L. DICK
Vice President
Construction

A. MELL DOOLITTLE
Vice President
Southern Division

PATRICK D. HUFF
Vice President
Distribution Engineering

FRANK A. JENKINS
Vice President
Transmission and Electric Installations

J. WESLEY LEWIS
Vice President
Division Operations

JOE S. MAJOR, JR.
Vice President
Personnel

JOSEPH G. MANN
Vice President
Northern Division

WARREN H. OWEN
Vice President
Design Engineering

WILLIAM O. PARKER, JR.
Vice President
Steam Production

THOMAS M. PATRICK, JR.
Vice President
Eastern Division

STEVE C. GRIFFITH, JR.
General Counsel

GEORGE W. FERGUSON, JR.
Secretary and
Associate General Counsel

PORTER A. HAUSER
Controller

WILLIAM R. STIMART
Treasurer

ROBERT J. ASHMORE
Assistant to the Senior Vice President
Legal and Finance

LLOYD P. JULIAN
Assistant Vice President
Operation

SAMUEL T. LATTIMORE
Assistant Vice President
Computer Services

RICHARD R. PIERCE
Assistant Vice President
Corporate Communications

EDWARD D. POWELL
Assistant Vice President
Production and Transmission

LEWIS F. CAMP
Assistant Secretary and
Assistant General Counsel

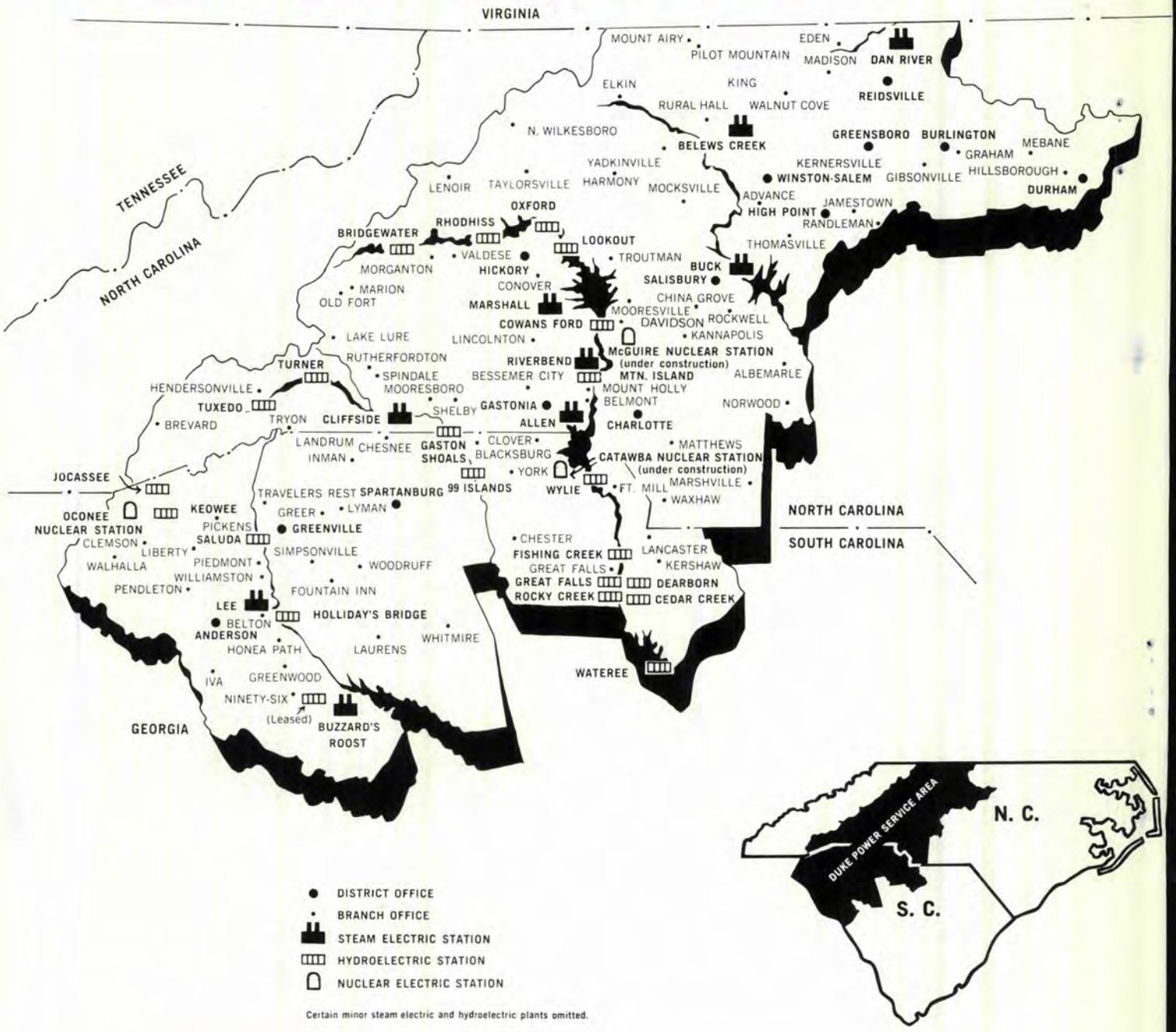
JOHN C. GOODMAN, JR.
Assistant Secretary

W. BRUCE SHANNON
Assistant Treasurer

KENNETH C. STONEBRAKER
Assistant Controller

DOROTHEA B. STROUPE
Assistant Secretary

Duke Power Service Area



About Our Company

Duke Power Company is an investor-owned electric utility serving approximately 1,125,000 customers in North Carolina and South Carolina. Its service area encompasses approximately 20,000 square miles through the Piedmont sections of the two states. Retail customers are served locally through 91 district and branch offices.

Generating capability on December 31, 1975, of 12,361,000 kilowatts was comprised of 7,612,000 kilowatts from coal-fired steam stations, 2,613,000 kilowatts from nuclear-fueled steam stations, 1,452,000 kilowatts from hydroelectric stations, and 684,000 kilowatts from combustion turbines and other sources.

During the 12 months ended December 31, 1975, the Company's electric revenues amounted to approximately $954 million, of which approximately 70 per cent was derived from sales in North Carolina and 30 per cent from sales in South Carolina.

Transfer Agents for Common Stock

Morgan Guaranty Trust Company of New York
New York, N. Y.

North Carolina National Bank
Charlotte, N. C.

Registrars for Common Stock

First National City Bank
New York, N. Y.

Wachovia Bank and Trust Company
Charlotte, N. C.

Stock Exchange Listing and Trading

Duke Power Company Common Stock is listed on the New York Stock Exchange.

The trading symbol of Duke Power Company Common Stock is DUK.

General Offices

422 South Church Street
P. O. Box 2178
Charlotte, N. C. 28242
(704/373-4011)

SEC Form 10-K

Upon written request, the Company will provide without charge a copy of its 1975 annual report on Form 10-K as filed with the Securities and Exchange Commission. Please direct requests to Richard R. Babcock, Investor Relations Dept., P. O. Box 2178, Charlotte, N. C. 28242.

Duke Power Company
P. O. Box 2178
Charlotte, N. C. 28242