Duke Power
1981 Annual Report

About the Cover

Pictured on the cover is the McGuire Nuclear Station, the newest generating plant on the Duke Power system. The completion and commercial operation of McGuire Unit 1 in 1981 culminated more than a decade of dedication and determination by Duke Power. This achievement is described in more detail in a feature article beginning on page 11.

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Notice of Annual Meeting

The 1982 meeting of holders of Duke Power Company common stock will be held at 10 a.m. Friday, April 30, 1982, in the O.J. Miller Auditorium of the Electric Center, 526 South Church Street, Charlotte, N.C.

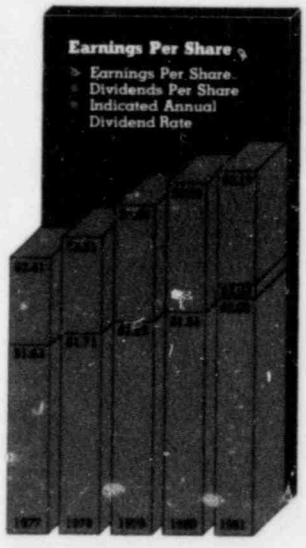
A cassette recording of selected highlights from this annual report is available upon request by writing Corporate Communications Department, Duke Power Company, P.O. Box 33189, Charlotte, N.C. 28242.

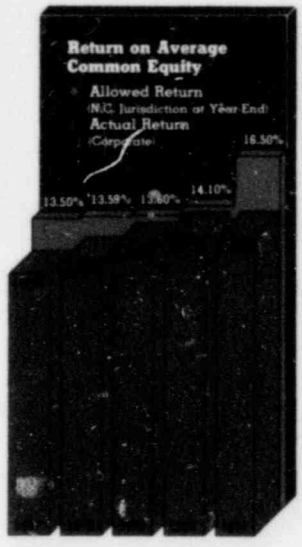
Highlights

DUKE POWER COMPANY

	1981	1980	Percent Increase (Decrease)
Kilowatt-hour sales	**53,547,929,000**	52,311,276,000	2.4
Electric revenues	**$1,908,454,000**	$1,682,822,000	13.4
Earnings for common stock	**$ 278,356,000**	$ 252,479,000	10.2
Common stock data			
Average shares outstanding	**87,313,000**	81,985,000	6.5
Earnings per share	**$ 3.19**	$ 3.08	3.6
Dividends per share	**$ 2.08**	$ 1.95	6.7
Book value per share (year-end)	**$23.83**	$22.82	4.4
Return on average common equity	**13.7%**	13.7%	—
Plant construction costs	**$ 804,371,000**	$ 853,015,000	(5.7)
Total electric plant, net	**$5,998,307,000**	$5,904,850,000	1.6
Peak load (Kw)*			
Summer	**10,602,000**	10,364,000	2.3
Winter	**10,530,000**	9,892,000	6.4

*A new peak of 11,145,000 Kw occurred on January 11, 1982.





To Our Shareholders:

1981 was a year of major achievements for Duke Power.

- After more than 10 years of construction, Unit 1 of the McGuire Nuclear Station was completed and placed into commercial operation. It brings to the Duke system the cleanest, safest, most economical new source of base load generation available.

- The sale of a 75 percent interest in Unit 1 of the Catawba Nuclear Station was finalized, enabling the Company to forego long-term financing for the first time in more than 10 years.

- The North Carolina Utilities Commission authorized a significantly higher rate of return than previously allowed.

- The three-unit Oconee Nuclear Station, which began operation in 1973, became the first nuclear plant in the nation to generate 100 billion net kilowatt-hours of electricity.

- The Company's coal-fired generating system once again was named the nation's leader in fuel efficiency.

Carl Horn, Jr. (left), William S. Lee (right)

The significance of these accomplishments is not fully reflected in our year-end financial results. Return on common equity was flat at 13.7 percent. Earnings per share rose only modestly to $3.19 from $3.08 in 1980. The higher earnings and the prospects for future earnings growth, however, enabled the board of directors to raise the indicated annual dividend to $2.20 from $2.04.

Substantial rate increases recognizing McGuire Unit 1 as a productive asset promise to enhance both the quality of future earnings and the level of cash flow. The al-

lowed rate of return on common equity in North Carolina, 16.5 percent, is a significant improvement over the 14.1 percent previously allowed, although still below the level the Company believes necessary in today's economic environment.

The 13.0 percent allowed return on common equity authorized in our most recent South Carolina rate case, however, is clearly inadequate. A request for a more realistic rate of return on common equity will be filed in South Carolina in early 1982.

Despite cutbacks in the Company's planned construction program, large amounts of additional capital will be required over the next decade if we are to continue to provide adequate, reliable service to our customers. It is management's objective to attract these new investment dollars without jeopardizing the Company's financial integrity or sacrificing the interests of existing shareholders.

To strengthen its financial structure, the Company exchanged 3.7 million shares of new common stock for outstanding first mortgage bonds in early 1982. This transaction will enable the Company to finance its 1982 capital requirements without the public sale of additional common shares.

We also are maintaining an active investor relations program. Senior management made formal presentations in 1981 to various groups of securities analysts and institutional investors, including the New York Society of Security Analysts, the Public Utility Securities Club of Chicago and the Atlanta Society of Financial Analysts. We are encouraged by the interest in Duke Power exhibited at these presentations.

To broaden our financial base, initial steps were taken in 1981 to explore additional unregulated business opportunities. The design of a waste facility for another utility was undertaken as a pilot project.

Our resources for diversified activities include engineering and construction expertise; Crescent Land & Timber Corp., a subsidiary possessing considerable natural resources and extensive land holdings; and Mill-Power Supply Company, a subsidiary engaged in the sale of electrical supplies and equipment.

We approach diversification with caution. We do not expect unregulated activities to constitute a significant portion of operations in the foreseeable future. As opportunities arise, we will pursue them prudently while working to maintain our high standards of electric service.

The completion of Unit 1 of the McGuire Nuclear Station is a major accomplishment. As reflected in a feature article in this annual report, the construction, financing and licensing of McGuire Unit 1 was often a trying experience. Its completion and commercial operation are a tribute to the professional talents of our dedicated employees.

The spirit that brought McGuire Unit 1 from concept to reality has been renewed and the Company is poised to take advantage of future opportunities.

In response to a new incentive program, our 20,000 employees reached or exceeded targets in safety, conservation and load management, affirmative action, engineering and construction, generation efficiency and reliability of service to customers.

We thank you for your support and encourage your interest as we pursue our ambitious goals in the future.

For the board of directors,

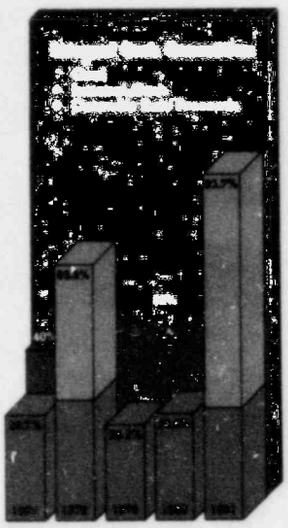
Carl Horn, Jr.

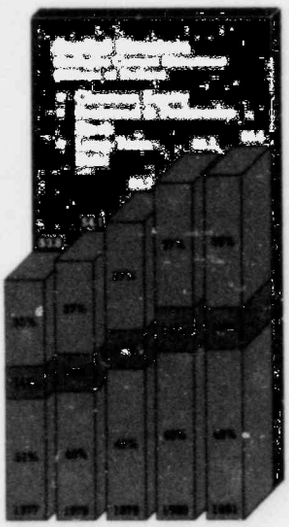
Carl Horn, Jr.
Chairman of the Board and
Chief Executive Officer

William S. Lee

William S. Lee
President and
Chief Operating Officer

February 15, 1982





Year In Review

Financial Results

Earnings per share rose to $3.19 from $3.08 in 1980. Earnings for common stock totaled $278.4 million, 10.3 percent above the $252.5 million earned in 1980.

Earnings for the year were favorably affected by rate increases implemented in late 1980 and in the fourth quarter of 1981, income from investing the proceeds from the sale of a portion of the Catawba Nuclear Station, greater allowance for funds used during construction and a 2.4 percent increase in kilowatt-hour sales.

These factors were offset to a large extent by high fuel and purchased power costs in the fourth quarter due primarily to an extended outage of Unit 1 of the Oconee Nuclear Station and the unanticipated additional time required to bring Unit 1 of the McGuire Nuclear Station into full-power production. The higher fuel costs are expected to be reflected in fuel cost adjustment procedures in 1982.

The Company's 1981 earnings provided a 13.7 percent return on common equity, unchanged from 1980.

The quarterly cash dividend on common stock was raised to 55 cents per share from its previous level of 51 cents per share, effective with dividends paid in the fourth quarter. The higher quarterly dividend increases the Company's indicated annual dividend to $2.20 from its previous level of $2.04.

Sale of Assets

The Company completed the sale of 75 percent of Unit 1 of the Catawba Nuclear Station and 37½ percent of the plant's support facilities to groups of its North Carolina and South Carolina rural electric cooperative customers in February 1981.

Proceeds received at the time of closing totaled $521 million. In addition, the purchasers make monthly progress payments to finance the continued construction of their portions of this 1,145,000-kilowatt generating unit, scheduled for commercial operation in 1984. Duke will operate the facility and will retain ownership of the remaining 25 percent of Catawba Unit 1.

A group of North Carolina municipalities purchased 75 percent of Catawba Unit 2 in 1978. The sale of the remaining 25 percent of this unit to the Piedmont Municipal Power Agency (PMPA), representing a group of Duke's South Carolina municipal customers, could take place by mid-1982. The sale is contingent, however, upon a favorable ruling by the Supreme Court of South Carolina on the constitutionality of the legislation permitting the transaction and the arrangement of necessary financing by the purchasers.

If the pending sale is consummated in mid-1982, the Company would receive approximately $250 million. In addition, PMPA would make monthly progress payments to finance continued construction of its portion of the unit, scheduled for commercial operation in 1985.

Financing

The February 1981 sale of a portion of the Catawba Nuclear Station enabled the Company to fund its entire 1981 construction program without any external long-term financing.

The issuance of 1.9 million shares of common stock through the Stock Purchase-Savings Program for Employees, the Employees' Stock Ownership Plan, and the Dividend Reinvestment and Stock Purchase Plan provided $36 million.

The Company generated 94 percent of its 1981 capital requirements from internal sources. Without proceeds from the Catawba sale, however, the level of internal cash available for capital requirements would have been well below 50 percent, the level management feels is prudent.

To strengthen the capital structure without the dilutive effect of selling new shares of

After about six years of intense negotiations, Duke completed the sale of 75 percent of Unit 1 of the Catawba Nuclear Station (left), scheduled for commercial operation in 1984. Proceeds from the sale allowed the Company to forego all external long-term financing in 1981.

common stock at prices below their book value, the Company issued 3.7 million shares ($73.5 million market value) of new common stock for an equivalent market value of several series of outstanding first mortgage bonds on January 7, 1982. These bonds had a face amount of $119.9 million.

An extraordinary gain of $48.3 million will be recognized in 1982 through the exchange. The improved capital structure will reduce the financial risk of all Duke Power securities and should make new capital more readily available at a lower cost than it otherwise would be. It will also tend to mitigate the negative effect of high interest rates on fixed charges coverage.

As of December 31, 1981, the Company had strengthened its capitalization to 48 percent long-term debt, 13 percent preferred and preference stocks, and 39 percent common equity, excluding the effects of the exchange transaction.

Earnings coverage of fixed charges by the SEC method was 2.73 times in 1981, an improvement over the 2.65 times coverage achieved in 1980. Management's long-range objective is to achieve and maintain a fixed charges coverage ratio of at least 3.50 times.

Rate Increases

Rates were raised in 1981 to reflect increased operating costs, the commercial operation of Unit 1 of the McGuire Nuclear Station, and a higher allowed rate of return on common equity.

A 14.99 percent retail rate increase was approved by the North Carolina Utilities Commission (NCUC) on December 17, 1981. This increase is designed to generate $166.4 million in electric operating revenues annually and allows for a 16.5 percent return on common equity.

The Company had requested a 19.7 percent, or $211 million, rate increase and an allowed rate of return on common equity of 17.5 percent.

A 9 percent interim increase was implemented, subject to refund, in North Carolina on October 18. The remaining portion of the proposed increase was implemented, subject to refund, on December 1. Appropriate refunds are being credited to customers reflecting the rates granted by the NCUC.

A 13.0 percent retail rate increase was approved by The Public Service Commission of South Carolina (PSC) on January 28, 1982. This increase is designed to generate $57.0 million annually in electric operating revenues and allows for a 13.0 percent return on common equity.

The Company had re-

quested a 23.5 percent increase in its South Carolina retail rates based on an allowed 17.5 percent return on common equity.

To bring South Carolina rates to levels in effect in North Carolina, the Company implemented a 4 percent interim increase, subject to refund, on January 28, 1981. An additional 9 percent interim increase was placed into effect on October 18 and the remaining portion of this request on December 1, subject to refund. Appropriate refunds are being credited to customers reflecting the rates granted by the PSC.

As this order represents only 55 percent of the requested amount, the Company intends to file a new rate case in South Carolina early in 1982.

Rates to the Company's wholesale customers were increased 9 percent on October 19 and by another 9 percent on December 1, subject to refund. These wholesale rate increases are designed to generate $46.9 million annually. For several years, Duke and its wholesale electric customers have agreed to maintain parity between wholesale and North Carolina retail industrial rates. Negotiations are under way regarding maintaining this parity concept.

Unit 1 of the McGuire Nuclear Station (below) generated its first electricity on September 12, 1981. By year-end, McGuire Unit 1 had contributed nearly 500 million kilowatt-hours to Duke's production.

Electric Sales

Sales of electricity rose to 53.5 billion kilowatt-hours in 1981, representing a modest 2.4 percent increase over 1980.

Despite a 1.8 percent increase in the Company's residential customer base, residential sales rose by only 0.7 percent over 1980 due to mild seasonal weather and energy conservation efforts.

Sales to commercial and general service customers increased 3.6 percent.

Sales to non-textile industrial customers accounted for the most significant gain, climbing 6.7 percent over 1980, and for the first time exceeded total sales to the textile industry. Sales to textile customers declined 0.5 percent, reflecting economic conditions in the textile industry.

Wholesale and other energy sales rose 2.2 percent over 1980.

Residential customers accounted for 26 percent of the Company's total electric sales in 1981, general service and commercial customers 18 percent, non-textile industrial customers 20 percent and textile customers 19 percent. Wholesale and other energy sales accounted for the remaining 17 percent.

Continued economic growth and development throughout the Piedmont Carolinas resulted in a 1.7 percent increase in the Company's total customer base in 1981, bringing the number of customers served to 1.3 million as of December 31, 1981.

Generation and Capacity

The Company continued to rely on a fuel mix of coal and nuclear for the bulk of its generation in 1981.

Coal plants contributed 74 percent to total generation, nuclear units 25 percent and hydroelectric facilities 1 percent. No significant amounts of oil or natural gas were used.

Unit 1 of the Oconee Nuclear Station was out of service for six months of 1981. During a scheduled outage for refueling and required 10-year inspection procedures, the Company discovered that some bolts securing the thermal shield in the reactor vessel had failed. Although this was not of immediate safety concern,

the redesign and replacement of the bolting system extended the outage six weeks, with the unit returning to service in December.

Unit 1 of the McGuire Nuclear Station generated its first kilowatt-hours of electricity on September 12 and by year-end had contributed nearly 500 million kilowatt-hours to the Company's production. The unit is expected to contribute more than four billion kilowatt-hours of electricity during 1982, increasing the level of nuclear generation to about 30 percent of total generating output.

The 1,180,000-kilowatt McGuire unit is temporarily operating at less than full capacity since the Company learned that vibrations had been experienced by units of similar design. The Company is evaluating this problem and it is expected to be resolved by mid-1982.

As of December 31, 1981, the Company's generating capability totaled 13,234,000 kilowatts, consisting of 7,423,000 kilowatts in coal-burning units, 3,760,000 kilowatts in nuclear units, 1,452,000 kilowatts in hydroelectric facilities and 599,000 kilowatts in combustion turbine units.

Peak Demand

Peak demand for electricity reached record levels during both the summer and winter of 1981.

A new summer peak was set on August 5, 1981, when customer demand reached 10,602,000 kilowatts, 2.3 percent above the previous summer peak of 10,364,000 kilowatts on July 16, 1980.

A new winter peak was established on January 12, 1981, when customer demand reached 10,530,000 kilowatts, 6.4 percent above the previous winter peak of 9,892,000 kilowatts on February 5, 1980.

(A new system peak of 11,145,000 kilowatts was set on January 11, 1982.)

Efficiency

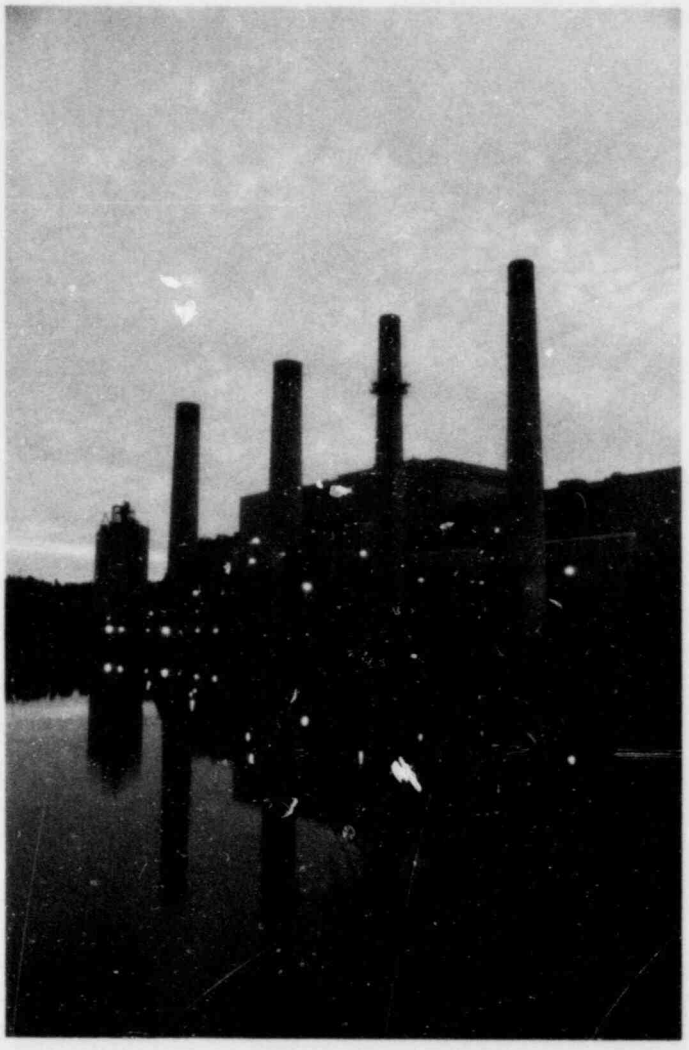
The Company's steam generating system again led the nation in fuel efficiency in 1980, according to *Electric Light and Power* magazine.

In its annual nationwide survey of power plant performance, the magazine ranked Duke Power's combined nuclear and fossil generating system first in efficiency. In addition, the Company's fossil generating system was named the most efficient in the nation.

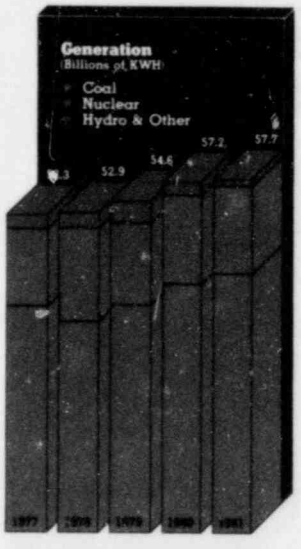
The magazine's survey was based on 1980 heat rates, the latest year for which industry operating statistics are available. A generating system's heat rate is determined by the number of British Thermal Units required to generate a net kilowatt-hour of electricity.

In addition to claiming first place honors for both overall and fossil-system performance, Duke generating units captured six of the top seven spots in the magazine's unit-by-unit rankings of fossil units. Unit 2 of the Belews Creek Steam Station was named the most efficient single generating unit in the nation in 1980.

Based on data from the Nuclear Regulatory Commission, Oconee Unit 1 was the most efficient pressurized water reactor in the United States in 1980.

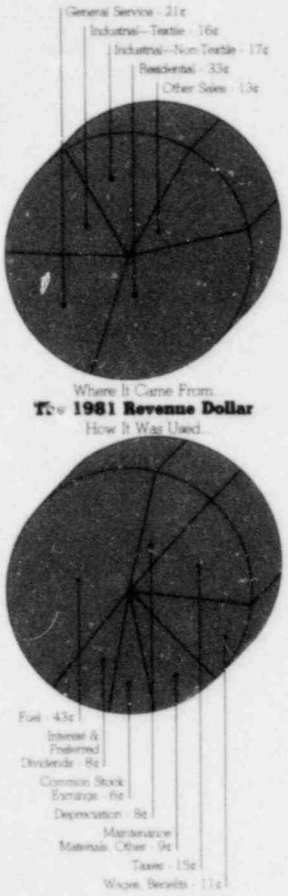


The Marshall Steam Station (above) was the most efficient Duke plant in 1981. A Duke plant has been the most efficient in the nation for 13 of the past 15 years.



Plant Additions and Construction Progress

After more than 10 years under construction, Unit 1 of the McGuire



Favorable tax law changes enacted by Congress multiplied shareholder interest in the Company's Dividend Reinvestment and Stock Purchase Plan (below).

Nuclear Station near Charlotte, N.C. was awarded a full-power operating license by the Nuclear Regulatory Commission on July 8 and was placed into commercial service on December 1, 1981.

McGuire Unit 1 is the first new generating unit to be added to Duke's system since 1975.

Work on McGuire Unit 2 was about 96 percent complete as of December 31, 1981. Commercial operation of this 1,180,000-kilowatt unit is scheduled for 1983.

Construction continues to move forward on the Catawba Nuclear Station near Rock Hill, S.C. Work on Catawba Unit 1 was about 89 percent complete as of December 31, 1981, with commercial operation scheduled for 1984. Work on Catawba Unit 2 was about 39 percent complete, with commercial operation scheduled for 1985.

Construction on the Cherokee Nuclear Station near Gaffney, S.C. has been substantially reduced as a result of the board of directors' decision on February 24, 1981, to indefinitely delay completion due to difficulties in attracting capital on reasonable terms. No new completion dates have been established for the two Cherokee units, which had been scheduled for completion in the early 1990s. Work on Cherokee Unit 1 is continuing at a substantially reduced level, and work on Cherokee Unit 2 remains interrupted. As of December 31, 1981, Cherokee was about 17 percent complete.

Resumption of normal work levels on the Cherokee plant depends upon several factors. These include the ability to achieve sufficient rates of return to enable the Company to attract new capital on reasonable terms; a more stable economic environment permitting regular sales of securities with maturities that match the lives of the Company's assets; more realistic and consistent nuclear power regulation to provide a predictable schedule for construction and operation; and a more moderate rate of inflation.

Current demand forecasts indicate the reduction of work on the Cherokee plant likely will result in inadequate reserve margins and serious capacity shortages in the 1990s.

The Company is beginning preliminary work on the Bad Creek Hydroelectric Station, a four-unit, 1,000,000-kilowatt pumped storage facility to be located above Lake Jocassee in Oconee County, S.C. All required state and federal permits and licenses for this generating facility have been obtained. Site preparation work was initiated in July 1981. Construction will continue, however, only to the extent that the Company is able to raise sufficient capital on reasonable terms. No timetable has been established for completion of the Bad Creek project.

Plant construction and nuclear fuel costs totaled $804 million in 1981, compared with $853 million in 1980.

(The management of Duke Power intends to recommend to the board of directors at its February board meeting the withdrawal of the Company's application for a construction permit for the proposed Perkins Nuclear Station. If the recommendation is approved, the Company intends to request permission in each of its regulatory jurisdictions to recover costs related to the proposed facility. The Company has incurred no materi-

al costs and has no commitments the cancellation of which would result in any material costs with respect to the facility.)

Nuclear Fuel Regulation

After more than two years of regulatory delay, the Company was issued a license by the Nuclear Regulatory Commission on August 10, 1981, to store 300 spent fuel assemblies from the Oconee Nuclear Station at the McGuire Nuclear Station.

Shipment of the assemblies to the McGuire plant for storage has begun and will occur over a five-year period, extending the useful life of existing storage facilities at the Oconee plant through 1989.

The Company proposed the shipment and storage plan in 1978 in anticipation of a potential shortage of storage capacity at the Oconee plant following former President Carter's 1977 decision to ban commercial reprocessing of spent fuel.

Employees

The Company employed 20,077 people as of December 31, 1981, compared with 19,612 people on December 31, 1980. About 7,950 of these employees were involved primarily in the design and construction of generating facilities.

Each spent fuel assembly shipped to the McGuire Nuclear Station for storage is packaged in a specially designed steel and lead container weighing 50,000 pounds (above) in compliance with stringent federal safety regulations.

Dividend Reinvestment

Legislation enacted by Congress as part of the Economic Recovery Tax Act of 1981 is expected to bolster participation in the Company's Dividend Reinvestment and Stock Purchase Plan in 1982. Under this legislation, taxes on as much as $1,500 of dividends reinvested will not become payable in most cases until shares purchased through the plan are sold. If the shares are held for more than one year, the income will be taxed as long-term capital gain. Though scheduled to expire in 1985, this tax deferral provision makes participation in the Company's program a more attractive investment option.

Participation in the program continued to grow in 1981. During the fourth quarter of 1981, 23,065 shareholders participated in the plan, representing about 18.4 percent of the total eligible shareholders. By enrolling in the plan, shareholders are able to have their dividends automatically reinvested in additional shares of common stock and make optional cash payments of up to $3,000 per quarter toward the purchase of additional common stock without payment of commissions.

More than $45 million has been invested in common stock through the plan since its inception in 1973, including $10 million in 1981.

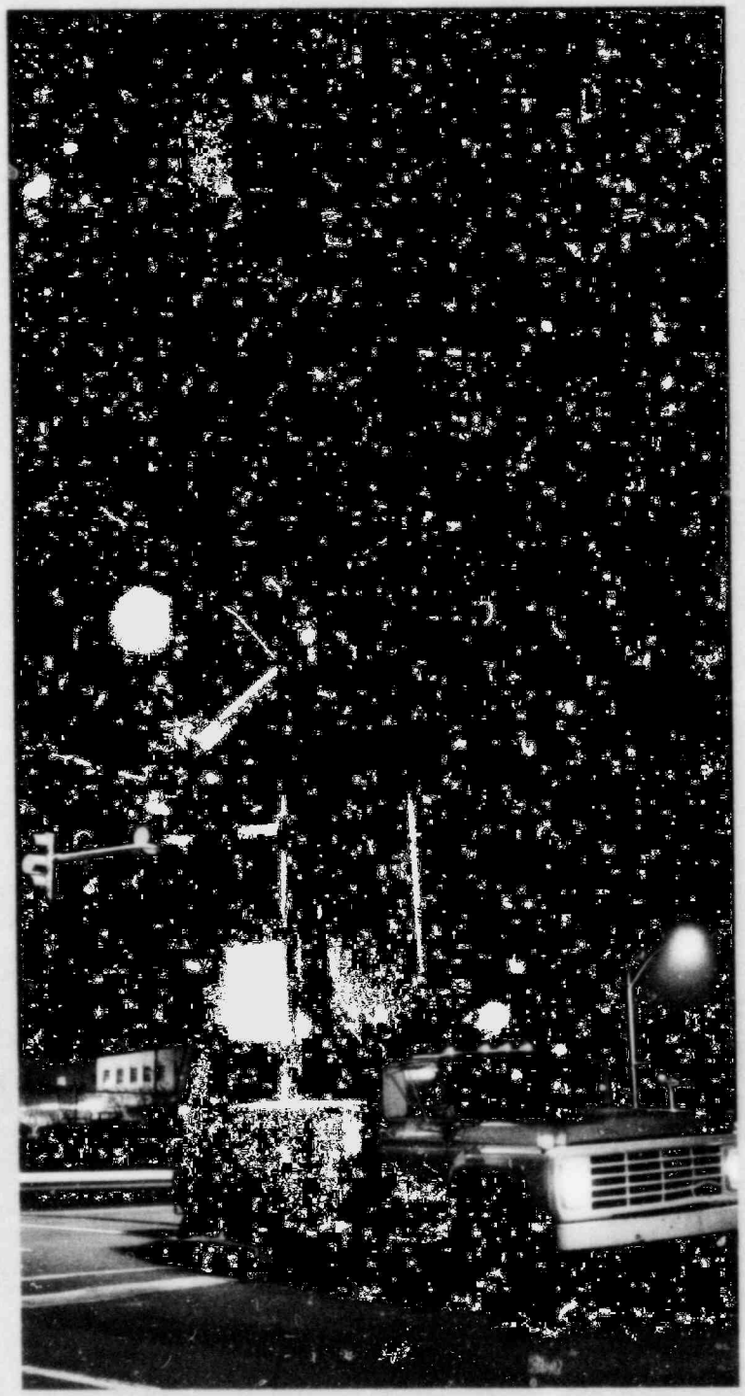
Inquiries concerning the plan and how it works should be directed to the Investor Relations Department, Duke Power Company, P. O. Box 33189, Charlotte, N.C. 28242.

EMPLOYEE INCENTIVE PROGRAM

In early 1981, Duke Power's 20,000 employees were challenged to improve on their past performance through a Corporate Goals Program. In nine of 11 categories, Duke people exceeded the established goals designed to improve profitability while safely rendering reliable service.

- In efficiency, the Duke system heat rate was further improved from its award-winning 1980 level.
- In plant design and construction, employees at the Catawba Nuclear Station and at McGuire Unit 2 completed more work units than the established goal. (Work units are a measure of production used in Duke's construction program.)
- In safety, disabling injuries were reduced 60 percent from the average over the past five years; vehicle accidents and injuries requiring medical attention also were substantially reduced from past levels.
- In service reliability, power outages were held to a total of 59 minutes per customer from an average of 68 minutes per customer over the past three years.
- In load management, the goal was achieved for restraining growth in both summer and winter peak demand.

Duke Power line crews (right) successfully reduced the length of power outages by 13 percent.



Achievement of these goals will be rewarded by the Company with an additional 50 percent contribution to the Employee Stock-Purchase Savings Program.

Some new goals already have been set for 1982. Included in 1982's package are specific goals related to safety, service reliability, affirmative action, load management, plant design and construction, nuclear production, generating efficiency and profitability.

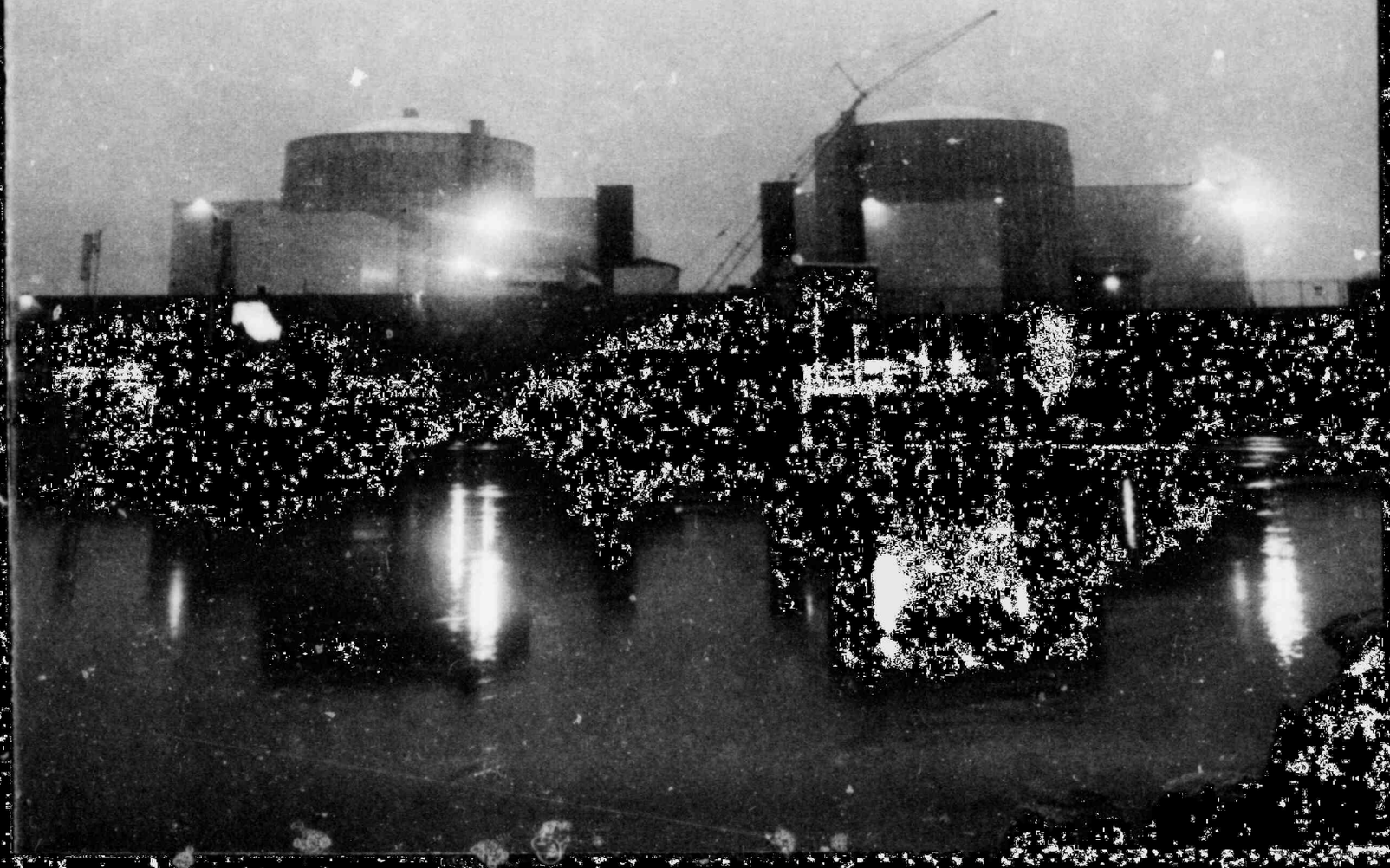
The success of this program is another example of Duke Power's determination and ability to "make it happen."

1981 was marked for Duke Power by the commercial operation of the first unit of the McGuire Nuclear Station. In future years, McGuire Unit 1 will contribute billions of kilowatt-hours of electricity to homes, businesses, hospitals and industries throughout the Piedmont Carolinas.

McGuire represents the culmination of more than a decade of perseverance, adaptation and innovation in overcoming the severe problems the utility industry faced in the 1970s. Capital costs reached unprecedented heights; regulatory and licensing hearings bogged down in tangential issues; and criteria for safety systems changed virtually overnight, particularly in the emotionally charged atmosphere that arose following the accident at Three Mile Island.

Despite these obstacles, the McGuire unit was brought on line in less time — about 10 years — and at a lower cost — approximately $830 per installed kilowatt of capacity — than other comparable units. The anticipated time span necessary to bring new nuclear facilities into operation in the United States today often exceeds 12 years with an average cost of more than $1,500 per kilowatt.

Many of the problems that were encountered and overcome in bringing McGuire Unit 1 into operation persist in varying degrees today and promise to continue in years to come. In meeting these future challenges, Duke Power will be guided by the same principles of dedication, imagination and cooperation that took McGuire from design to reality.



The Engineering Challenge

Moving the McGuire Nuclear Station from the drawing board to a power-producing complex capable of meeting the electricity needs of 350,000 homes consumed more than 40,000,000 hours of work by Duke Power's engineering, construction and operating forces.

The plant structure contains enough concrete to build a sidewalk from the 191-acre site to Montreal, Canada, and enough steel to build nearly 10,000 compact cars. The elaborate network of interconnecting pipes and valves that weaves through the plant could provide plumbing to more than 2,100 homes. And the multiple monitoring and state-of-the-art safety systems are linked by more than 600 miles of cable.

The immense physical dimensions and technical sophistication of McGuire represented an ambitious engineering and construction challenge. The project was made even more formidable by a staggering level of exacting regulations and a host of mandated design and construction modifications both before and after the Three Mile Island accident.

As the only investor-owned electric utility in the nation that designs and builds power plants with its own forces, Duke Power has created a unique working environment. This made it possible to capitalize on cooperative efforts, close lines of communication and shared technical expertise.

Meeting the Challenge

More than 300 new regulatory guidelines and revisions were issued for nuclear facilities between 1969 and 1978. This upsurge in regulatory requirements added an estimated $590 per installed kilowatt of capacity to the average cost of nuclear plants in the United States.

Changes in seismic regulations, for example, required review of the design and installation of more than 30,000 piping supports and hangers for McGuire Unit 1.

To minimize the impact of changing criteria on both the completion and total cost of McGuire, on-site teams of design engineers were dispatched to work side by side with field construction forces to develop workable solutions to difficult and complex problems. Sophisticated computer systems were installed at the site to provide immediate access to design data.

Additional manpower and scheduling teams were assigned to the project to assure that required modifications were incorporated with minimal delay and to maintain an orderly sequence of construction progress.

McGuire Unit 1 was nearly 80 percent complete when the Three Mile Island accident occurred in March 1979. As a direct result, numerous modifications to existing hardware, monitoring systems and control displays were mandated. Many new safety systems were developed and incorporated without disrupting essential systems and equipment already in place.

Duke's engineering, construction and operating forces, working aggressively through established channels, incorporated virtually all of these modifications within only 18 months.

Achieving the Goal

At 2:46 a.m. on Monday, September 12, 1981, the first kilowatt-hours of electricity from McGuire Unit 1 were transmitted to Duke's 1.3 million customers.

Today, McGuire Unit 1 is in commercial operation, supplying needed electricity to meet the growing energy demands of the Piedmont Carolinas.

Elaborate controls for McGuire Unit 1 required the installation of sophisticated electrical equipment and display panels (left).

The Financial Challenge

The McGuire Nuclear Station represents an investment of $1,800,000,000 — the equivalent of spending $500,000 every day for almost 10 years.

Raising this enormous sum of capital in an economic environment plagued by spiraling regulatory costs, unprecedented interest rates, record inflation and inadequate rates severely threatened Duke Power's financial integrity in the 1970s.

To overcome these adverse financial forces and complete McGuire, management took steps to strengthen the Company's capital structure, reduce both operating and capital costs, restrain growth in peak demand and obtain more responsive regulation and rate increases.

As a result, the Company is far stronger today. The financial goals that were brought into focus during construction of McGuire remain an integral part of the Company's financial planning.

Meeting the Challenge

In the early 1970s, rapid increases in operating costs and interest rates, new environmental requirements and escalating construction costs combined with inadequate revenues to undermine earnings and fixed charges coverage. In 1973, the Company's first mortgage bonds were downrated from double-A to single-A and the market price of its common stock fell to as low as $10 per share — about 60 percent of book value.

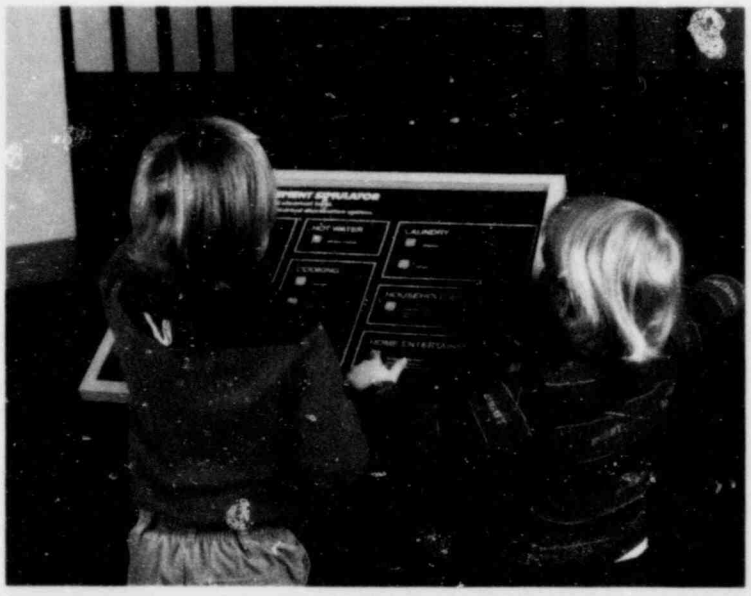
To restore the Company's financial strength, a long-range financial plan was adopted to strengthen its capital structure, increase internal cash generation, and improve the level of fixed charges coverage. Both intermediate and long-term steps were taken:

- Construction budgets were cut back by deferring scheduled operation of new facilities, including a two-year postponement of McGuire.
- Negotiations were opened for the sale of major portions of the Catawba Nuclear Station to groups of the Company's wholesale customers.
- A comprehensive load management program was implemented to restrain growth in peak demand as an alternative to constructing new generating facilities.

The Company also sought improved earnings through more efficient operations, more aggressive rate applications, more timely recovery of rising fuel costs through standardized fuel cost adjustment procedures, and the inclusion of construction work in progress in rate base.

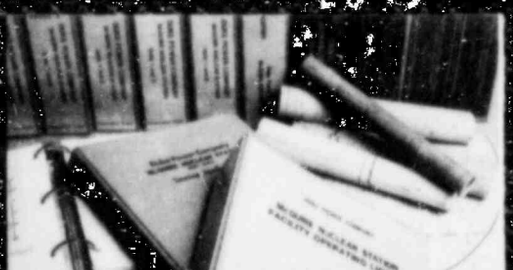
Achieving the Goal

Through these efforts, Duke Power not only successfully financed McGuire but also regained much of its financial strength. Management is committed to building even greater financial stability and financing flexibility upon the foundations which have been laid.



Duke is using educational displays and video games (left) at Charlotte's new science and technology museum, Discovery Place, to promote public understanding of the Company's Load Management Program.

The administrative cost of obtaining a full-power operating license (right) for McGuire Unit 1 totaled more than $5 million.



The Licensing Challenge

Obtaining the necessary government licenses to build and operate the McGuire Nuclear Station required more than 10,000 hours of legal work and the preparation of more than 50 tons of documents.

Throughout the lengthy process, a series of obstacles was encountered: concentrated efforts by anti-nuclear activists to block both construction and operation of the plant; indecisiveness on the part of regulatory authorities; and a 17-month freeze on the issuance of all new nuclear plant licenses resulting from the Three Mile Island accident.

Despite these difficulties, McGuire Unit 1 became the first contested nuclear facility in the nation to be granted a full-power operating license by the Nuclear Regulatory Commission following the Three Mile Island accident.

Meeting the Challenge

Duke Power had never faced formal, organized opposition to the construction of a power plant prior to McGuire. Indeed, no objections were raised when plans for the Oconee Nuclear Station were announced in 1966. Construction permits were issued for Oconee in less than a year, and the plant was built, licensed and put into operation within seven years.

When plans for McGuire were made public in the early 1970s, however, several residents near the Lake Norman site voiced concerns about the environmental impact of the plant. The Company's initial response was one of developing dialogue, recognizing that the technical complexities of nuclear power are often misunderstood.

Some opponents remained unconvinced, organized into a formal association and used every available legal maneuver over the ensuing 10 years in an attempt to block construction and, later, operation of McGuire.

To counter the claims of opponents and expedite regulatory action on McGuire, Duke prepared and submitted voluminous reports detailing the various design features of the plant. This material was supplemented with extensive environmental reports on the existing geological, meteorological, biological and aquatic conditions of the McGuire site. Independent scientists confirmed Duke's findings, as did regulatory staff members.

Opponents also filed federal lawsuits challenging the constitutionality of congressionally established limits on liability claims resulting from a nuclear accident. After four years of extended proceedings, the lawsuits were decided in Duke's favor by the United States Supreme Court.

Regulatory authorities also ultimately ruled in Duke's favor on all issues. But shortly before the final operating license for McGuire Unit 1 was issued, the Three Mile Island accident occurred, resulting in a 17-month moratorium on the issuance of all new nuclear plant licenses.

Achieving the Goal

On July 8, 1981, McGuire Unit 1 was finally granted a full-power operating license.

The experience that was gained in dealing with opposition and in meeting the extensive demands of regulatory authorities will prove invaluable in obtaining licenses for future power plants.

To meet the demands of regulatory authorities, Duke prepared more than 100,000 pounds of documents and studies (left) showing McGuire would have no significant adverse impact on the surrounding area.

OPERATING READINESS

The McGuire Nuclear Station is staffed by more than 500 highly trained professionals to assure safe, reliable and efficient operation in years to come.

The men and women who work at the plant have undergone years of intensive training specifically for McGuire in such specialized fields as health physics, chemistry and power plant operations.

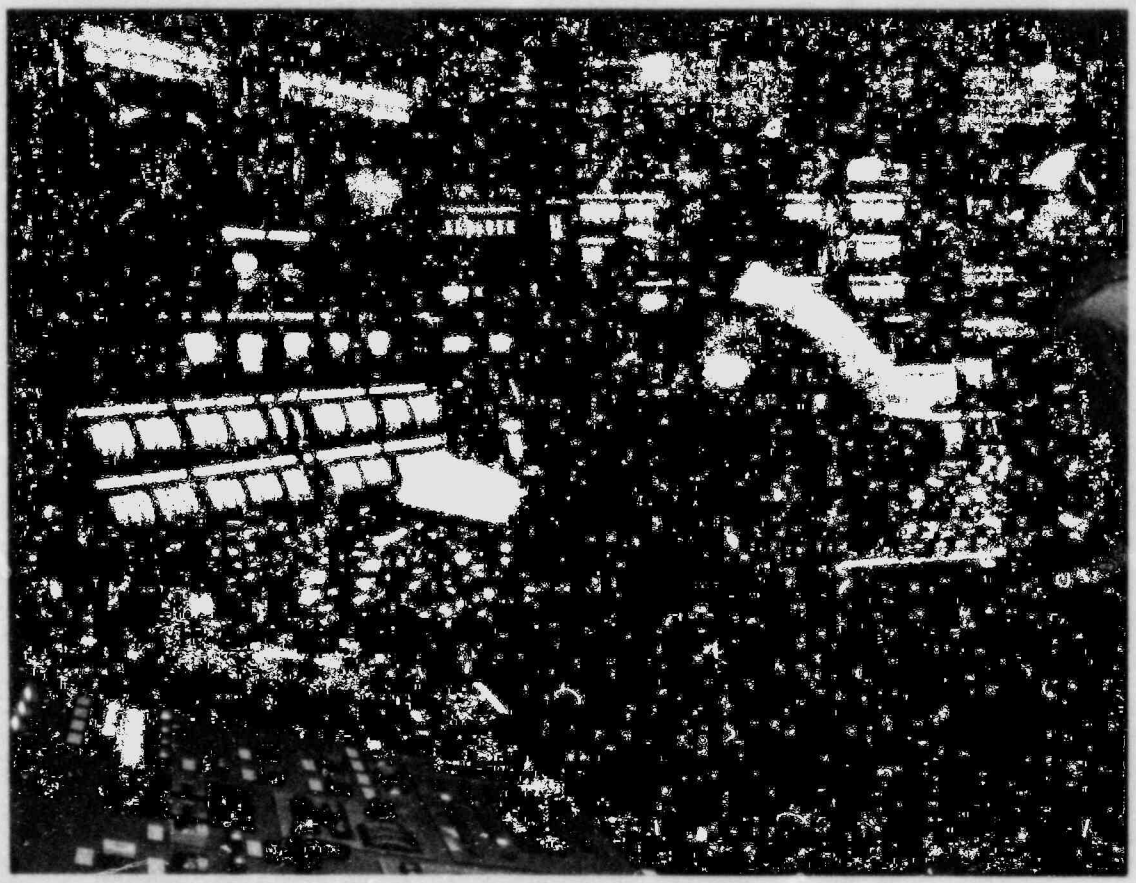
Each control room operator, for example, is given more than 3,000 hours of exhaustive classroom and in-plant training and must successfully pass a rigorous series of written and oral tests. At least two licensed operators, a licensed supervisor and a technical advisor are on duty at all times to monitor the plant's multiple, redundant safety systems.

Duke Power recruits and trains its own nuclear power operators and technicians to maintain consistently high levels of competence in all areas.

Much of the training is conducted at the McGuire Technical Training Center. This advanced facility is equipped with chemistry and health physics laboratories as well as a specially designed control room simulator to give prospective operators first-hand, practical experience in plant procedures and operations.

As construction work on the plant moved toward completion, these nuclear specialists worked closely with construction forces and design engineers to coordinate final design enhancements and develop operating procedures. When construction was completed, they performed the delicate task of loading the unit with more than 200,000 pounds of nuclear fuel and conducted extensive equipment and safety system tests, ultimately bringing the plant into operation.

Additional training of these professionals continues on a regular basis throughout their careers. This assures that employees retain a state-of-the-art knowledge as long as they work at McGuire.



Duke conducts its own training course for nuclear plant operators. Operator trainees are exposed to actual control room conditions on a $3 million simulator (right) at the McGuire Technical Training Center.

LOAD MANAGEMENT UPDATE

When Duke Power embarked on its Load Management Program in the mid-1970s, the initial goal was to reduce projected peak demand 1,300,000 kilowatts by 1990.

The goal today has been expanded to reduce projected winter peak demand more than 6,000,000 kilowatts by 1996.

The Company is seeking through its load management activities to eliminate the need for six additional generating units, avoiding more than $10 billion in new plant investment.

More than 40 different programs for residential, commercial and industrial customers have been developed and are being actively promoted to achieve the 1996 goals. One leading New York securities firm has labeled Duke's load management efforts the "most aggressive" in the nation.

The extent of the Company's success in load management was exemplified in 1981 by its work with IBM in minimizing the energy consumption of its recently completed one-million-square-foot manufacturing plant for bank computer equipment in Charlotte, N.C.

Duke's technical specialists, working closely with IBM's management, helped reduce the electric demand of the facility from an initial estimate of 14,000 kilowatts to an actual load of 8,000 kilowatts. IBM will save an estimated $420,000 in its annual power bill and reduce the building's annual energy consumption by more than 14 million kilowatt-hours.

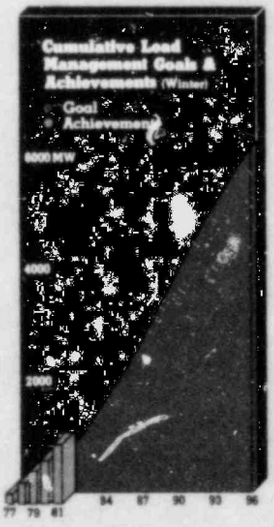
These efforts earned the IBM facility a citation from the Southeastern Electric Exchange as the most outstanding example of energy efficiency in the industrial sector in 1981.

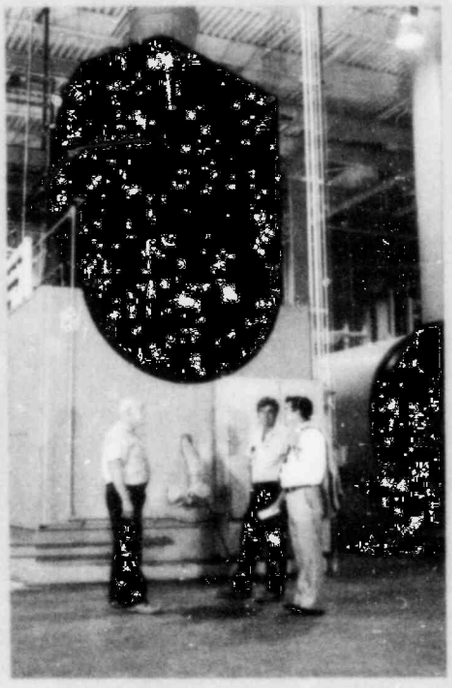
Duke also introduced the most ambitious element of its residential load management program in 1981: the Residential Conservation Service. This program offers the Company's 1.1 million residential customers personalized and comprehensive energy analyses of their homes to help find ways to reduce energy consumption and lower power bills. Initial response has been greater than anticipated and is expected to grow in 1982.

Established programs use rate incentives to encourage customers to upgrade the insulation of their homes, to shift many daily activities from on-peak to off-peak hours, and to allow the Company to interrupt service to electric water heaters and central air conditioners during emergency periods.

These activities continue to be expanded. In 1982, for example, residential customers in North Carolina will be offered help in financing energy-efficiency improvements with a program to absorb a portion of the interest on privately arranged loans.

The comprehensive effort is on schedule with an accumulated reduction in projected peak load of more than 1,000,000 kilowatts at the end of 1981.





Working with Duke Power's load management experts, IBM reduced the estimated annual energy consumption of its new bank computer equipment manufacturing plant (left) in Charlotte, N.C. by 14 million kilowatt-hours.

About Your Company

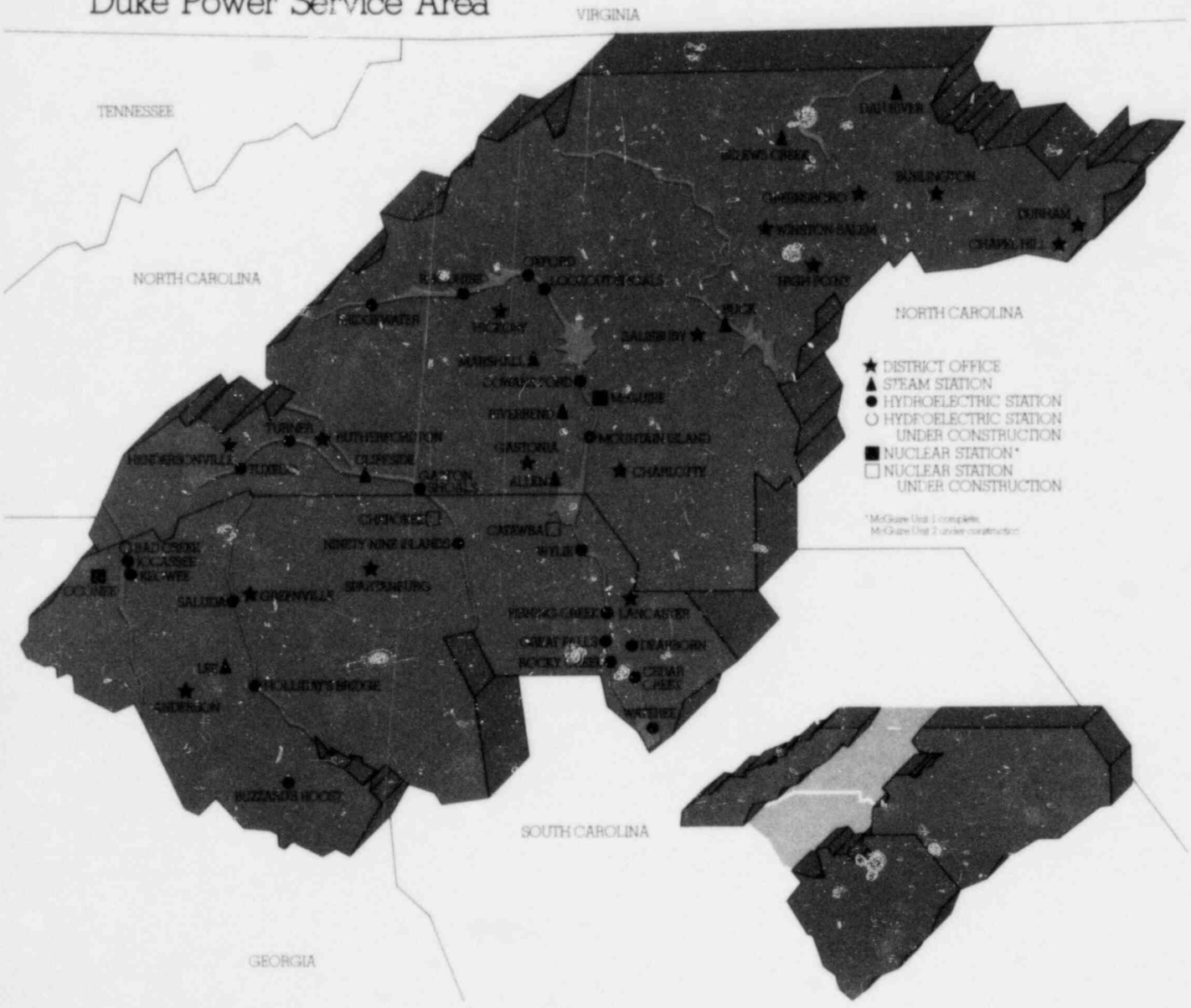
Duke Power Company is an investor-owned electric utility serving approximately 1.3 million customers in North Carolina and South Carolina. The Company's service area encompasses about 20,000 square miles through the Piedmont sections of the two states. Retail customers are served locally through 96 district and branch offices.

In addition to selling electricity directly to its own retail customers, the Company sells bulk electricity to 55 major wholesale customers, primarily municipal electric systems and rural electric cooperative systems.

During the 12 months ended December 31, 1981, Duke's electric revenues were $1.9 billion, of which approximately 70 percent was derived from sales in North Carolina and 30 percent from sales in South Carolina.

Duke Power has five active subsidiaries — Crescent Land & Timber Corp. (land management); Mill-Power Supply Company (wholesale distributor of electrical equipment and purchasing agent for Duke); Eastover Land Company (coal property management); Eastover Mining Company (coal mining); and Western Fuel, Inc. (exploration and development of uranium ore deposits).

Duke Power Service Area



Responsibility for Financial Statements

The financial statements of Duke Power Company were prepared by management which is responsible for their integrity and objectivity. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions that should be included and the other information in the annual report is consistent with those statements. In preparing the financial statements, management makes informed judgements and estimates of the expected effects of events and transactions that are currently being reported.

The Company's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected by employees within a timely period in the normal course of performing their assigned functions. The Company's accounting controls are continually reviewed for effectiveness and are augmented by written policies, standards and procedures, and a strong program of internal audit.

The board of directors pursues its oversight role for the financial statements through the audit committee, composed solely of directors who are not officers or employees of the Company. The audit committee meets with management and internal auditors periodically to review the work of each and to monitor the discharge by each of their responsibilities. The audit committee also meets periodically with the Company's independent auditors, Deloitte Haskins & Sells, who have free access to the audit committee or the board, without management present, to discuss internal accounting control, auditing and financial reporting matters.

Porter A. Hauser
Vice President & Controller

Auditors' Opinion

Duke Power Company:

We have examined the balance sheets and the statements of capitalization of Duke Power Company as of December 31, 1981 and 1980 and the related statements of income, retained earnings, and source of funds for plant construction costs for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of the Company at December 31, 1981 and 1980 and the results of its operations and the source of its funds for plant construction costs for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells
Certified Public Accountants

Charlotte, North Carolina
February 15, 1982

Statements of Income

DUKE POWER COMPANY

(dollars in thousands)	Year Ended December 31 1981	1980	1979
Kilowatt-Hour Sales (thousands)	**53,547,929**	52,311,276	50,323,175
Electric Revenues (Notes 1 and 2)	**$1,908,454**	$1,682,822	$1,492,557
Electric Expenses			
Operation			
Fuel used in electric generation	**790,967**	680,693	589,402
Net interchange and purchased power (credit)	**25,068**	(12,908)	(17,254)
Wages, benefits and materials	**264,488**	211,014	180,338
Maintenance of plant facilities	**131,670**	114,597	94,598
Depreciation and amortization (Note 1)	**142,899**	131,441	125,437
General taxes	**139,140**	124,422	112,655
Income taxes (Notes 1 and 7)	**137,872**	153,463	153,504
Total electric expenses	**1,632,104**	1,402,722	1,238,680
Electric operating income	**276,350**	280,100	253,877
Other Income (Notes 1, 7 and 10)			
Allowance for equity funds used during construction	**159,285**	150,846	121,701
Earnings of subsidiaries, net	**14,562**	3,418	10,447
Other, net (deduction)	**28,791**	(3,299)	(20,314)
Income taxes—other, net (deduction)	**(9,442)**	(982)	16,320
Income taxes—credit	**60,747**	58,382	40,458
Total other income	**254,043**	208,365	168,612
Income before interest deductions	**530,393**	488,465	422,489
Interest Deductions			
Interest on long-term debt	**245,070**	220,271	179,363
Other interest	**11,694**	17,287	9,752
Allowance for borrowed funds used during construction (credit) (Note 1)	**(62,622)**	(60,184)	(41,386)
Total interest deductions	**194,142**	177,374	147,729
Net Income	**336,251**	311,091	274,760
Dividends on preferred and preference stocks	**57,895**	58,612	52,562
Earnings for Common Stock	**$ 278,356**	$ 252,479	$ 222,198
Common Stock Data			
Average shares outstanding (thousands)	**87,313**	81,985	77,168
Earnings per share	**$3.19**	$3.08	$2.88
Dividends per share	**$2.08**	$1.95	$1.83

See notes to financial statements.

Statements of Source of Funds for Plant Construction Costs

DUKE POWER COMPANY

(dollars in thousands)	Year Ended December 31 1981	1980	1979
Funds from Operations			
Net income	**$336,251**	$311,091	$274,760
Non-fund items			
Depreciation and nuclear fuel amortization	**224,675**	210,600	190,110
Deferred income taxes and investment tax credit, net of amortization	**109,572**	68,198	91,991
Equity component of the allowance for funds used during construction	**(159,285)**	(150,846)	(121,701)
Other, net	**(13,146)**	2,989	(5,854)
Funds from operations	**498,067**	442,032	429,306
Dividends paid	**(239,598)**	(217,618)	(193,585)
Funds retained in the business	**258,469**	224,414	235,721
Funds from Financing and Sale of Assets—Net Proceeds			
Sale of an interest in the Catawba Nuclear Station (Note 10)	**520,562**	—	—
Nuclear fuel trusts	**42,248**	30,664	76,254
Common stock	**35,954**	105,829	131,561
First mortgage bonds	—	271,150	295,768
Preferred stock	—	49,323	49,251
Term note	—	10,000	—
Increase (decrease) in notes payable for construction	**(25,650)**	85,000	112,000
Funds from financing and sale of assets	**573,114**	551,966	664,834
Total available funds	**831,583**	776,380	900,555
Increase in Working Capital Requirement	**(92,946)**	(31,000)	(43,536)
Retirements of Long-Term Debt and Preferred Stock	**(93,551)**	(43,211)	(150,412)
Plant Construction Expenditures	**645,086**	702,169	706,607
Equity component of the allowance for funds used during construction	**159,285**	150,846	121,701
Plant Construction Costs	**$804,371**	$853,015	$828,308
Summary of Plant Construction Costs			
Production	**$504,292**	$590,420	$571,023
Transmission	**36,233**	51,300	42,566
Distribution	**112,073**	92,990	89,841
General	**22,557**	25,000	26,812
Subtotal	**675,155**	759,710	730,242
Nuclear fuel	**129,216**	93,305	98,066
Plant Construction Costs	**$804,371**	$853,015	$828,308

See notes to financial statements.

Balance Sheets

DUKE POWER COMPANY

Assets

(dollars in thousands)

	December 31 1981	1980
Electric Plant (at original cost - Notes 1, 6 and 11)		
Electric plant in service	**$5,662,674**	$4,419,152
Less accumulated depreciation and amortization	**1,842,831**	1,629,109
Electric plant in service, net	**3,819,843**	2,790,043
Construction work in progress	**2,178,464**	3,114,807
Total electric plant, net	**5,998,307**	5,904,850
Other Property and Investments		
Other property - at cost (less accumulated depreciation: 1981 - $6,781; 1980 - $4,551)	**26,444**	22,447
Investments in and advances to subsidiaries (Note 1)	**54,981**	34,373
Other investments - at cost or less (Note 10)	**22,592**	8,845
Total other property and investments	**104,017**	65,665
Current Assets		
Cash (Note 9)	**4,526**	1,835
Receivables (less allowance for losses: 1981 - $3,998; 1980 - $4,064)	**189,036**	128,549
Materials and supplies - at average cost		
Coal	**126,581**	133,156
Other	**93,457**	79,552
Prepayments	**6,172**	5,334
Total current assets	**419,772**	348,426
Deferred Debits		
Debt expense, being amortized over terms of related debt	**3,113**	3,282
Other	**5,835**	5,951
Total deferred debits	**8,948**	9,233
Total Assets	**$6,531,044**	$6,328,174

See notes to financial statements.

Capitalization and Liabilities

(dollars in thousands)

	December 31 1981	1980
Capitalization (see Statements of Capitalization)		
Common stock equity	**$2,108,935**	$1,969,140
Preferred and preference stocks without sinking fund requirements	**388,610**	395,858
Preferred stocks with sinking fund requirements	**308,674**	316,559
Long-term debt	**2,545,694**	2,594,008
Total capitalization	**5,351,913**	5,275,565
Current Liabilities		
Accounts payable	**87,290**	61,127
Interest accrued	**71,615**	71,056
Taxes accrued	**59,958**	45,610
Other	**26,872**	24,282
Total	**245,735**	202,075
Notes payable for construction - pending permanent financing (Note 9)	**171,350**	197,000
Current maturities of long-term debt and preferred stock	**79,646**	74,110
Total current liabilities	**496,731**	473,185
Accumulated Deferred Income Taxes (Notes 1 and 7)	**419,958**	374,684
Deferred Credits		
Investment tax credit (Notes 1 and 7)	**249,208**	193,276
Other	**13,234**	11,464
Total deferred credits	**262,442**	204,740
Commitments and Contingencies (Note 11)		
Total Capitalization and Liabilities	**$6,531,044**	$6,328,174

See notes to financial statements.

Statements of Capitalization and Retained Earnings

DUKE POWER COMPANY

Capitalization

(dollars in thousands)	December 31 1981	1980
Common Stock Equity (Note 3)		
Common stock, no par, 150,000,000 and 100,000,000 shares authorized and 88,482,596 and 86,294,416 shares outstanding for 1981 and 1980, respectively	**[illegible]3**	$1,535,895
Retained earnings	**[illegible]842**	433,245
Total common stock equity	**[illegible]8,935**	1,969,140
Preferred and Preference Stocks Without Sinking Fund Requirements (N		
Preferred stock	**375,000**	375,000
Preference stock	**13,610**	20,858
Total preferred and preference stocks without sinking fund requirements	**388,610**	395,858
Preferred Stocks With Sinking Fund Requirements (Note 5)	**308,674**	316,559
Long-Term Debt (Note 6)		
First and refunding mortgage bonds	**2,376,250**	2,418,000
Sinking fund debentures, 4 7/8%—due 1982	**25,000**	25,000
Term note, 9.025%—due 1985	**8,500**	10,000
Pollution control obligations, 75% of prime rate—due 1983	**2,500**	2,500
Capitalized leases	**101,579**	103,862
Nuclear fuel trusts	**125,000**	125,000
Unamortized debt discount and premium, net	**(15,489)**	(16,244)
Current maturities of long-term debt	**(77,646)**	(74,110)
Total long-term debt	**2,545,694**	2,594,008
Total Capitalization	**$5,351,913**	$5,275,565

Retained Earnings

(dollars in thousands)	Year Ended December 31 1981	1980	1979
Balance—Beginning of year	**$432,245**	$343,225	$266,173
Add—Net income	**336,251**	311,091	274,760
Total	**769,496**	654,316	540,933
Deduct			
Dividends			
Common stock	**181,703**	159,240	141,035
Preferred and preference stocks	**57,895**	58,612	52,562
Capital stock expense	**56**	3,219	4,111
Total deductions	**239,654**	221,071	197,708
Balance—End of year	**$529,842**	$433,245	$343,225

See notes to financial statements.

1. Summary of Significant Accounting Policies

A. Additions to Electric Plant. The Company capitalizes all construction-related direct labor and materials, as well as indirect construction costs, including general engineering, taxes and the cost of money (allowance for funds used during construction). The cost of renewals and betterments of units of property is capitalized; the cost of repairs and replacements representing less than a unit of property is charged to electric expenses. The original cost of property retired, together with removal costs less salvage value, is charged to accumulated depreciation.

B. Allowance for Funds Used During Construction (ADC). ADC is an accounting procedure whereby the net composite interest and equity costs of capital funds used to finance construction are capitalized in the same manner as construction labor and material costs. ADC, a non-cash, non-operating item, is recognized as a cost of "Electric Plant" with offsetting credits to "Other Income" and "Interest Deductions" 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 rate base and in the provision for depreciation.

ADC, which is compounded semi-annually, was calculated on average embedded rates (net of applicable income taxes) of 8.67 percent, 8.10 percent and 8.01 percent for 1981, 1980 and 1979, respectively.

North Carolina statutes require that capital expenditures for construction work in progress (CWIP), incurred on or after July 1, 1979 and requested in rate applications after such date, be included in rate base for ratemaking purposes. Under such statutes, utilities are permitted to continue capitalizing ADC with respect to CWIP not included in rate base but are not permitted to do so with respect to CWIP included in rate base. At December 31, 1981, $144,841,000 of CWIP was included in North Carolina rate base and therefore excluded for purposes of capitalizing ADC.

C. Depreciation and Amortization. Provisions for depreciation are recorded using the straight-line method. The year-end composite weighted average depreciation rates were 3.44 percent for 1981 and 3.33 percent for 1980 and 1979. All coal-fired generating units are depreciated at the rate of 3.57 percent. Beginning October 1979, the depreciation rate on nuclear plant was revised from 3.57 percent to 4.00 percent. This rate includes an allowance for decommissioning costs. However, the Company is continuing to evaluate the impact of such costs. Provisions for amortization of nuclear fuel, which are included in "Fuel used in electric generation," are recorded using the unit of production method. Because of the present unavailability of reprocessing facilities, nuclear fuel amortization includes an estimate of disposal costs.

D. Subsidiaries. The Company accounts for investments in its subsidiaries, all of which are wholly-owned, using the equity method. See "Subsidiaries" on page 42. Retained earnings include $41,234,000 of undistributed earnings of subsidiaries at December 31, 1981. Dividends received from subsidiaries were $981,302 in 1981, $1,675,000 in 1980 and $5,800,000 in 1979.

E. Income Taxes. The Company and its subsidiaries file a consolidated federal income tax return. Income taxes are allocated to each company based on its taxable income or loss.

Income taxes are allocated to electric operating expense and to non-electric operations under "Other Income." The "Income taxes-credit" classified under "Other Income" results from tax deductions of interest costs relating to investments in non-utility properties, mainly CWIP not included in rate base.

Deferred income taxes are provided for timing differences between book and tax income, principally resulting from accelerated tax depreciation, capitalized taxes and employee benefits, cost of removal, and nuclear fuel disposal costs.

Investment tax credit is deferred and amortized over the useful lives of the related properties. At December 31, 1981, the Company had unused investment tax credit approximating $60 million, which will be available for use through 1996.

F. Fuel Cost Adjustment Procedures. The Company has procedures in all three of its regulatory jurisdictions to adjust rates for fluctuations in fuel costs. Procedures for North and South Carolina retail jurisdictions provide for periodic reviews of fuel costs with provision for changing such costs in base rates. With respect to South Carolina, the Company continues to reflect in revenues the difference between actual fuel costs incurred and fuel costs recovered through base rates. Procedures for the wholesale jurisdiction provide for monthly fuel cost adjustments.

2. Rate Matters

General rate increases since January 1, 1979 are as follows (dollars in thousands):

Jurisdiction and Date Implemented	Percent Increase	Annualized on 1981 Sales	Approximate Revenue Recorded 1981	1980	1979
N.C. Retail					
October 8, 1979	3.20	$ 32,900	$ 32,900	$30,900	$ 6,800
October 3, 1980	6.03	66,700	66,700	14,800	—
December 1, 1981	14.99 (a)	169,900	13,400	—	—
S.C. Retail					
October 8, 1979	6.02	24,500	24,500	25,200	4,900
December 1, 1981	13.00 (b)	55,400	21,600	—	—
Wholesale					
October 8, 1979	3.45	5,700	5,700	6,500	1,400
October 3, 1980	6.71	13,700	13,700	3,300	—
January 23, 1981	2.10	4,600	4,100	—	—
December 1, 1981	18.04 (a)	41,500	2,700 (c)	—	—
		$414,900	$185,300	$80,700	$13,100

(a) These increases were implemented in two stages, on October 18 and on December 1, the last of which was to reflect the commercial operation of McGuire Unit 1.

(b) This increase was implemented in three stages, on January 28, October 18, and December 1, the last of which was to reflect the commercial operation of McGuire Unit 1.

(c) Subject to refund with interest.

3. Common Stock and Retained Earnings

Common Stock

In 1981, 1980 and 1979, the Company received $35,954,000, $108,361,000 and $134,924,000 from the issuance of 1,884,944 shares, 6,278,820 shares and 6,999,292 shares of common stock, respectively (see Note 12).

At December 31, 1981, certain shares of common stock were reserved for issuance as follows:

	Shares
Stock Purchase-Savings Program for Employees	5,254,078
Conversion of Preference Stock	581,627
Dividend Reinvestment and Stock Purchase Plan	510,066
Employees' Stock Ownership Plan	2,901,998
Total	9,247,769

Retained Earnings

None of the Company's retained earnings as of December 31, 1981 were restricted with respect to the declaration or payment of dividends.

4. Preferred and Preference Stocks Without Sinking Fund Requirements

At December 31, 1981 and 1980, 10,000,000 shares of preferred stock ($100 par value) were authorized and issuable with or without sinking fund requirements. In addition, 1,500,000 shares of preference stock ($100 par value) were authorized at December 31, 1981 and 1980.

The outstanding Preference Stock, 6 3/4 percent Convertible Series AA, is convertible into shares of common stock at the adjusted conversion price of $23.89 per share, each share of preference stock being valued at $100 par for such purpose. The conversion price is subject to certain adjustments designed to protect the conversion privilege against dilution. In 1981, 1980 and 1979, 72,477 shares, 127,476 shares and 88,405 shares were converted into 303,236 shares, 526,657 shares and 357,418 shares of common stock, respectively.

Preferred and preference stocks without sinking fund requirements at December 31, 1981 and 1980 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1981	1980
4.50% C	1964	350,000	$ 35,000	$ 35,000
5.72% D	1966	350,000	35,000	35,000
6.72% E	1968	350,000	35,000	35,000
8.70% F	1970	600,000	60,000	60,000
8.20% G	1971	600,000	60,000	60,000
7.80% H	1972	600,000	60,000	60,000
8.28% K	1977	500,000	50,000	50,000
8.84% M	1978	400,000	40,000	40,000
6 3/4%, AA Convertible	1969	136,109	13,610	—
		208,586	—	20,858
Total			$388,610	$395,858

5. Preferred Stocks With Sinking Fund Requirements

At December 31, 1981 and 1980, 10,000,000 shares of preferred stock ($100 par value) were authorized and issuable with or without sinking fund requirements. In addition, 10,000,000 shares of preferred stock A ($25 par value) were authorized at December 31, 1981 and 1980.

Preferred stocks with sinking fund requirements at December 31, 1981 and 1980 were as follows (dollars in thousands):

Rate/Series	Year Issued	Shares Outstanding	1981	1980
7.35% I	1973	600,000	$ 60,000	$ 60,000
8.20% J	1977	500,000	50,000	50,000
8.375% L	1978	500,000	50,000	50,000
8.84% N	1979	500,000	50,000	50,000
11.00% O	1980	500,000	50,000	50,000
10.76% A	1975	2,280,000	57,000	—
		2,340,000	—	58,500
Less: Preferred shares reacquired for current and future sinking fund requirements—at cost				
		Shares Reacquired		
10.76% A		119,998	(2,660)	—
		83,000	—	(1,941)
8.84% N		32,500	(2,430)	—
11.00% O		13,750	(1,236)	—
Current sinking fund requirement 8.20% J			(2,000)	—
Total			$308,674	$316,559

The annual sinking fund requirements through 1986, net of amounts previously acquired, are $2,000,000 in 1982, $4,000,050 in 1983, $7,900,000 in 1984, $7,900,000 in 1985 and $9,525,000 in 1986, with some additional redemptions permitted at the Company's option.

The call provisions for the outstanding preferred and preference stocks specify various redemption prices not exceeding 111 percent of par values plus accumulated dividends to the redemption date.

6. Long-Term Debt

First and refunding mortgage bonds outstanding at December 31, 1981 and 1980 were as follows (see Note 12) (dollars in thousands):

Series	Year Due	1981	1980
3 1/4%	1981	$ —	$ 35,000
3 5/8%	1986	30,000	30,000
14 3/8%	1987	50,000	50,000
12%	1990	75,000	75,000
4 1/2%	1992	50,000	50,000
4 1/4%B	1992	50,000	50,000
11%	1994	91,250	98,000
4 1/2%	1995	40,000	40,000
5 3/8%	1997	75,000	75,000
6 3/8%	1998	75,000	75,000
7%	1999	75,000	75,000
8%B	1999	75,000	75,000
8 1/2%	2000	75,000	75,000
8 5/8%B	2000	100,000	100,000
7 1/2%	2001	100,000	100,000
7 3/8%B	2001	40,000	40,000
7 3/4%	2002	100,000	100,000
7 3/8%B	2002	75,000	75,000
7 3/4%	2003	100,000	100,000
8 1/8%B	2003	100,000	100,000
9 3/4%	2004	100,000	100,000
9 1/2%	2005	100,000	100,000
8 3/8%	2006	100,000	100,000
8 1/8%	2007	125,000	125,000
9 3/8%	2008	125,000	125,000
10 1/8%	2009	150,000	150,000
10 7/8%B	2009	150,000	150,000
14 7/8%	2010	100,000	100,000
13 1/8%B	2010	50,000	50,000
Total		$2,376,250	$2,418,000

Substantially all electric plant was mortgaged at December 31, 1981.

The annual maturities of long-term debt (including sinking fund requirements and capitalized lease principal payments) through 1986 are $77,646,000 in 1982, $62,510,000 in 1983, $49,353,000 in 1984, $12,085,000 in 1985 and $40,392,000 in 1986.

Included in the annual maturities are amounts relating to $125,000,000 in outstanding obligations under two nuclear fuel trusts. Such maturities are based on estimated nuclear fuel consumption. The Company intends to transfer title to additional nuclear fuel to the trusts to replace such amounts as fuel is consumed.

7. Income Tax Expense

Income tax expense consisted of the following (dollars in thousands):

	1981	1980	1979
Electric Expenses			
Current income taxes			
Federal	$ 30,244 (a)	$ 69,134	$ 61,698
State	11,183	16,121	14,580
	41,427	85,255	76,278
Deferred taxes, net			
Excess tax over book depreciation	49,353 (b)	25,114	27,594
Capitalized taxes, employee benefits, etc.	16,672	17,680	16,545
Revenues refundable	(8,281)	—	—
Repair allowance and cost of removal	(38) (b)	5,872	7,369
Nuclear fuel disposal costs	(12,336)	(12,263)	(10,800)
	45,370	36,403	40,708
Investment tax credit			
Deferred	56,146	36,854	41,196
Amortization of deferments (credit)	(5,071)	(5,049)	(4,678)
	51,075	31,805	36,518
Total electric expenses	137,872	153,463	153,504
Other Income			
Income taxes—other, net (deduction)	51,592 (c)	982	(16,320)
Income taxes—credit	(60,747)	(58,382)	(40,458)
Total other income	(9,155)	(57,400)	(56,778)
Total income tax expense	$128,717	$ 96,063	$ 96,726

Total current income taxes were $24,002,000, $30,037,000 and $19,500,000 of which state income taxes were $11,086,000, $10,753,000 and $8,917,000 for 1981, 1980 and 1979, respectively.

Total deferred income taxes were $53,641,000, $34,221,000 and $40,708,000 of which deferred state income taxes were $7,899,000, $3,896,000 and $4,399,000 for 1981, 1980 and 1979, respectively.

(a) Electric federal income tax reflects substantial investment tax credit utilization related to the tax gain on sale of assets in February 1981.

(b) Reflects changes attributable to the Economic Recovery Tax Act of 1981. Deferred taxes on depreciation also reflect Unit 1 of the McGuire Nuclear Station coming in service December 1, 1981.

(c) Includes $42,150,000 resulting from the sale of assets in February 1981 and nominal amounts thereafter (see Note 10). Such income taxes, which are included in "Other, net (deduction)" on the Statements of Income, reflect a taxable gain in excess of book gain resulting principally from the treatment of ADC.

Income taxes differ from amounts computed by applying the statutory tax rate to pretax income as follows (dollars in thousands):

	1981	1980	1979
Income taxes on pretax income at the statutory federal rate of 46%	$213,885	$187,291	$170,884
Increase (reduction) in tax resulting from:			
Allowance for all funds used during construction (ADC)	(102,077)	(97,074)	(75,020)
Amortization of electric investment tax credit deferrals	(5,071)	(5,049)	(4,688)
State income taxes, net of federal income tax benefits	13,595	9,044	7,483
Increase in tax expense primarily due to excess of tax gain over book profit on sale of assets	12,468	—	—
Other items, net	(4,083)	1,851	(1,933)
Total income tax expense (see above)	$128,717	$ 96,063	$ 96,726

8. Retirement Plan

The Company and two of its subsidiaries have a non-contributory, defined benefit retirement plan covering substantially all their employees. The Company's policy is to fund pension costs accrued. Total pension expense amounted to $31,896,000 in 1981, $26,782,000 in 1980 and $23,844,000 in 1979. Effective September 1, 1980 the plan was amended to provide for certain plan changes including increased benefits for active and retired employees. Also, in 1981, the actuarial cost method and certain actuarial assumptions were changed. The effect of these changes did not significantly increase the Company's pension cost for 1981.

A comparison of accumulated plan benefits and plan net assets at December 31, 1980, the date of the latest actuarial report, and December 31, 1979 is as follows (dollars in thousands):

	1980	1979
Actuarial present value of accumulated plan benefits		
Vested	$202,851	$126,757
Non-Vested	60,332	13,090
Total	$263,183	$139,847
Net assets available for benefits	$244,008	$176,840

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.3 percent in 1980 and 7.5 percent in 1979.

9. Short-Term Borrowings

The Company has lines of credit with 77 commercial banks and uses these lines, plus the sale of commercial paper, to finance its current cash requirements.

At December 31, 1981, the lines of credit were on either a fee basis and/or compensating balance basis, with average annual balance requirements of $1,748,000. Bank loans, normally for 90 days or less, are principally at the lending bank's commercial prime interest rate. Certain of the Company's bank line arrangements may require additional balances or fees related to annual average borrowings.

A summary of short-term borrowings and credit arrangements is as follows (dollars in thousands):

	1981	1980	1979
Amount outstanding at year-end—average rates of 11.69%, 17.74% and 14.09% respectively	$171,350	$197,000	$112,000
Maximum amount outstanding during the year	$250,398	$197,000	$125,400
Average amount outstanding during the year	$ 38,829	$ 84,466	$ 33,894
Weighted average interest rate for the year—computed on a daily basis	15.39%	12.91%	11.93%
Lines of credit at year-end	$305,400	$280,400	$280,000

10. Other Income

In February 1981, the Company sold a 75 percent interest in Unit 1 of the Catawba Nuclear Station (Catawba) and 37.5 percent of the station's support facilities to groups of North Carolina and South Carolina rural electric cooperative customers. At closing, $521 million and two notes totaling $76 million were received. The notes are non-interest bearing until 10 years after the first Catawba unit begins commercial operation, after which, interest and principal payments commence. The Company has discounted the notes and recorded the present value ($13.8 million at December 31, 1981) under "Other investments." The implicit interest on the notes is accrued monthly. The net of tax profit from the sale was $4 million. At December 31, 1981, "Construction work in progress" included $401,502,000 representing the Company's investment in its remaining interest in Catawba.

In 1979, the Company made a provision to write down the carrying value of an investment made pursuant to the terms of a certain coal supply contract. A charge was recorded of approximately $13,564,000 (after giving effect to income taxes of $12,264,000).

11. Commitments and Contingencies

A. Construction Program. The Company is engaged in a long-range construction program for which substantial commitments have been made. Projected construction and nuclear fuel costs for the years 1982 through 1984 are $2.02 billion and $514 million, respectively. The program is subject to periodic review and revision, and actual construction costs incurred may vary from such estimates. This is due to various factors including changing levels of inflation, revised load estimates, the cost and availability of capital, and the outcome of licensing and environmental matters.

On February 24, 1981, the Board of Directors, because of the uncertainty of the availability of funds on reasonable terms, indefinitely delayed completion of Cherokee Unit 1 and interrupted work on Unit 2. This status remains unchanged.

The management of the Company intends to recommend to the Board of Directors at its February meeting the withdrawal of the Company's application for a construction permit for the proposed Perkins Nuclear Station. If such recommendation is approved, the Company intends to request permission in each of its regulatory jurisdictions to recover costs related to such proposed facility. The Company has incurred no material costs and has no commitments the cancellation of which would result in any material costs with respect to such facility.

B. Nuclear Insurance. The Company's public liability for claims resulting from any nuclear incident is limited to $560 million under provisions of the Price-Anderson Act which provides for nuclear liability insurance up to that amount. A portion of this insurance is provided through Nuclear Regulatory Commission regulations pursuant to which the Company could be assessed up to $5 million for each of its licensed reactors in the event there is a nuclear incident involving any licensed facility in the nation with a maximum of $10 million a year for each of its licensed reactors in the event of more than one incident. At December 31, 1981, the Company had four licensed reactors.

Property damage coverage for certain of the Company's nuclear facilities is provided through membership in Nuclear Mutual Limited (NML). If NML's losses were to exceed its reserves, the Company could be liable, on a pro rata basis, for additional assessments of up to $72 million, representing 14 times the Company's current annual premium to NML.

The Company is a member of Nuclear Electric Insurance Limited (NEIL) which provides insurance for the increased cost of generation or purchased power resulting from the accidental outage of a nuclear unit. If losses were to exceed the accumulated funds available to NEIL, the Company would be liable for a retrospective premium adjustment of up to five times the regular annual premium. Maximum potential liability per incident currently is estimated to be $26 million.

The Company anticipates purchasing from NEIL, through its Excess Property Insurance Program, $500 million of property damage insurance. This is in addition to the $450 million of coverage provided by the Company's underlying property damage policies issued through the commercial market. If losses were to exceed the accumulated funds available to NEIL for the Excess Property Insurance Program, the Company would be liable for a retrospective premium adjustment of up to 7.5 times the regular annual premium, in the policy year in which the loss is incurred.

C. Leases. Minimum lease commitments as of December 31, 1981 under all capital and operating leases are not material.

12. Subsequent Events

On January 7, 1982, the Company issued 3,727,544 shares of common stock with a market value of $73,489,000 in exchange for portions of several series of outstanding first and refunding mortgage bonds with a face value of $119,902,000. A nontaxable gain of $48,304,000 on the retirement of the bonds was recorded in 1982 as an extraordinary item.

Management's Discussion and Analysis of Financial Condition and Results of Operations

DUKE POWER COMPANY

Liquidity and Capital Needs and Resources

Since January 1, 1977, additions to property of $4.0 billion (including nuclear fuel) and retirements of $800 million have resulted in a net increase in gross plant of $3.2 billion. In 1981 the net increase in gross plant of $300 million was due to property additions of $800 million and retirements of $500 million. The amount of retirements was unusually large primarily due to the sale, in February 1981, of a portion of the Catawba Nuclear Station. Projected construction and nuclear fuel costs for the period 1982 through 1984 are $2.02 billion and $514 million, respectively. Included in the projected construction costs are nominal amounts related to the Bad Creek Hydroelectric Station. This pumped storage facility will have a net capability of 1,000,000 KW consisting of four 250,000 KW units, although construction completion has not been definitely scheduled.

On February 24, 1981, the Board of Directors, because of the uncertainty of the availability of funds on reasonable terms, indefinitely delayed completion of Cherokee Unit 1 and interrupted work on Unit 2. This status remains unchanged.

The management of the Company intends to recommend to the Board of Directors at its February meeting the withdrawal of the Company's application for a construction permit for the proposed Perkins Nuclear Station. If such recommendation is approved, the Company intends to request permission in each of its regulatory jurisdictions to recover costs related to such proposed facility. The Company has incurred no material costs and has no commitments the cancellation of which would result in any material costs with respect to such facility.

The construction program currently requires expenditures greater than cash generated internally from operations. The Company initially funds the excess with short term bank borrowings and commercial paper. While the Company prefers to limit short-term debt to about $150 million, it presently has bank lines of credit of $305 million. Since 1977 the Company has refunded all of its short-term debt at least once each year. In early 1982 approximately $190 million will be obtained from long-term financings to reduce short-term debt, which was $171 million as of December 31, 1981.

During the past five years, financings have included $1.0 billion in long-term debt (principally first and refunding mortgage bonds), $290 million in preferred stock and $530 million in common stock. Since November 1978 sales of interests in the Catawba Nuclear Station have provided $781 million.

In February 1981 the Company sold a 75 percent interest in Unit 1 of the Catawba Nuclear Station (Catawba) and 37.5 percent of the station's support facilities to groups of the Company's North Carolina and South Carolina rural electric cooperative customers. Cash proceeds of $521 million were received from the sale. The Catawba sale, coupled with funds from operations, enabled the Company to generate 94 percent of its capital requirements internally, precluding the need for long-term financing in 1981.

An agreement to sell 25 percent of Unit 2 of Catawba to a group of South Carolina municipalities was reached in August 1981. The sale may be consummated by mid-1982. It would provide cash proceeds of approximately $250 million.

To further minimize capital expenditures, the Company has initiated a comprehensive load management program. The program is designed to limit future construction costs by encouraging consumers to reduce demands on the system without restricting the continued economic development of the Company's service area.

The Company is committed to improving its financial strength to provide increased financing flexibility. The Company believes that in the current economic environment, it is important to seek a stronger capital structure and to maintain manageable levels of long-term debt.

At year-end the Company attained a level of capitalization of 48 percent long-term debt, 13 percent preferred stocks and 39 percent common equity. On January 7, 1982 the Company issued 3,727,544 shares of common stock with a market value of $73,489,000 in exchange for

portions of several series of first and refunding mortgage bonds having a face value of $119,902,000. A non-taxable gain of $48,304,000 on the retirement of bonds was recorded in 1982 as an extraordinary item. This enabled the Company to increase its common equity ratio from 39.4 percent at December 31, 1981 to 41.7 percent. The Company plans to continue to evaluate opportunities to increase its financial strength without diluting existing shareholders' equity.

From 1977 to 1981, funds from operations provided 29 percent of capital requirements, not including cash generated from the two Catawba sales. It is the Company's long-range objective to generate at least 50 percent of its capital requirements from internal sources. The inclusion of construction work in progress and completed generating units in rate base and a higher rate of return on investment will aid in increasing the level of internal cash generation. These matters were considered in recent rate applications in the Company's three rate jurisdictions. In December 1981 the North Carolina Utilities Commission issued a rate order allowing a 16.5 percent return on common equity, inclusion in rate base of McGuire Unit 1, which was placed in commercial operation on December 1, 1981, as well as certain construction work in progress. In January 1982 The Public Service Commission of South Carolina issued a rate order allowing a 13.0 percent return on common equity and the inclusion in rate base of McGuire Unit 1. The June 1981 wholesale request is under consideration by the Federal Energy Regulatory Commission. Since inflation has continued to increase costs in 1981, the Company expects to file further requests for increased rates in early 1982.

Fixed charge coverage, using the Securities and Exchange Commission (SEC) method, has not changed significantly because of the increasingly high level of embedded costs. During 1981 this coverage increased to 2.73 times, compared with 2.71 times in 1977; this indicator continues to remain below the Company's goal of 3.5 times.

Results of Operations

Net Income and Dividends

From 1977 to 1981, earnings per share (EPS) increased 32 percent from $2.41 to $3.19. The earned return on common equity increased from 12.0 percent in 1977 to 13.7 percent in 1981. Dividends per share increased 28 percent from $1.63 in 1977 to $2.08 for 1981.

Revenues

Revenues increased by 51 percent over the 1977-81 period. Increases in rates charged to customers and in kilowatt-hour sales were the major contributors to the higher revenues. The rate increases were necessitated by the effects of inflation, the inclusion of construction work in progress in rate base and the need for a higher return on investment. Primarily because of growth in the number of customers, total kilowatt-hour sales increased from 48.8 billion in 1977 to 53.5 billion in 1981, an increase of 10 percent.

Operating Expenses

Increases in total electric expenses have substantially offset the increase in revenues during the 1977-81 period. The most significant increase is in operating and maintenance expense, which rose 74 percent. Inflation (see "Selected Financial Data - Effects of Changing Prices"), increased generation from fossil-fired stations, decreased hydroelectric generation and increased requirements by the Nuclear Regulatory Commission were the key factors.

Other

Over the five-year period allowance for funds used during construction (included in both other income and interest deductions) increased, primarily as a result of higher construction work in progress and higher embedded cost of funds. Interest income increased $19 million from 1980 to 1981, largely through the investment of proceeds from the Catawba sale. Earnings of subsidiaries amounted to $15 million in 1981. The Company actively seeks to improve the rate of return on investment in its subsidiaries, the earnings of which are reflected in other income. Interest deductions and dividends on preferred and preference stocks have increased since 1977 because of higher interest rates during the subsequent period and the need for additional capital.

Long-Term Financing and Sale of Assets

DUKE POWER COMPANY

To meet its capital requirements, the Company has financed extensively with long-term debt and equity securities and has raised additional capital through other types of financing plus the sale of certain assets (dollars in thousands).

	Price Per Share	1981 Net Proceeds	1980 Net Proceeds	1979 Net Proceeds
Financing				
Common stock				
Public sales				
(4,000,000 shares; August 26)	$17.375		$ 66,968	
(5,500,000 shares; March 21)	19.50			$103,887
Stock Purchase-Savings Program for Employees				
(1,236,180 shares)	18.88*	**$ 23,344**		
(1,104,545 shares)	17.03*		18,815	
(819,308 shares)	18.43*			15,103
Dividend Reinvestment and Stock Purchase Plan				
(534,151 shares)	19.49*	**10,412**		
(552,000 shares)	16.67*		9,201	
(357,462 shares)	18.57*			6,639
Employees' Stock Ownership Plan				
(114,613 shares)	19.18*	**2,198**		
(622,275 shares)	17.43*		10,845	
(322,522 shares)	18.39*			5,932
Total common stock		**35,954**	105,829	131,561
Preferred stock, $100 par				
11% Series O (500,000 shares; February 14)			49,323	
8.84% Series N (500,000 shares; June 14)				49,251
Total preferred stock			49,323	49,251
Long-term debt				
First mortgage bonds				
14 7/8% Series due 2010 (March 19)			98,410	
14 3/8% Series due 1987 (March 19)			49,533	
12% Series due 1990 (August 26)			73,857	
13 1/8% Series B due 2010 (August 26)			49,350	
10 1/8% Series due 2009 (June 14)				147,647
10 7/8% Series B due 2009 (October 10)				148,121
Total first mortgage bonds			271,150	295,768
Other financing				
Nuclear fuel trusts		**42,248**	30,664	76,254
Term note - due 1985		—	10,000	—
Total other financing		**42,248**	40,664	76,254
Total long-term debt		**42,248**	311,814	372,022
Total financing		**78,202**	466,966	552,834
Sale of assets				
Sale of an interest in the Catawba Nuclear Station		**520,562**	—	—
Total long-term financing and sale of assets		**$598,764**	$466,966	$552,834

* Average

Selected Financial Data

DUKE POWER COMPANY

	1981	1980	1979	1978	1977
Condensed Statements of Income (thousands)					
Electric revenues	**$1,908,454**	$1,682,822	$1,492,557	$1,396,720	$1,266,974
Electric expenses	**1,632,104**	1,402,722	1,238,680	1,159,719	1,037,088
Electric operating income	**276,350**	280,100	253,877	237,001	229,886
Other income	**254,043**	208,365	168,612	131,899	96,955
Income before interest deductions	**530,393**	488,465	422,489	368,900	326,841
Interest deductions	**194,142**	177,374	147,729	138,299	134,492
Net income	**336,251**	311,091	274,760	230,601	192,349
Dividends on preferred and preference stocks	**57,895**	58,612	52,562	46,632	38,879
Earnings for common stock	**$ 278,356**	$ 252,479	$ 222,198	$ 183,969	$ 153,470
Common Stock Data					
Shares of common stock—year-end (thousands)	**88,483**	86,294	79,489	72,132	65,430
—average (thousands)	**87,313**	81,985	77,168	70,367	63,630
Per share of common stock					
Earnings	**$3.19**	$3.08	$2.88	$2.61	$2.41
Dividends	**$2.08**	$1.95	$1.83	$1.74	$1.63
Book value—year-end	**$23.83**	$22.82	$22.12	$21.31	$20.53
Market price—high-low	**$22½-15⅞**	$19¼-14⅛	$20⅝-16¼	$22-18⅛	$23½-19⅞
—year-end	**$20⅝**	$18⅛	$17¼	$19⅜	$22
Balance Sheet Data (thousands)					
Total assets	**$6,531,044**	$6,328,174	$5,615,372	$4,984,621	$4,610,706
Long-term debt	**$2,545,694**	$2,594,008	$2,300,488	$1,974,209	$1,948,081
Preferred stocks with sinking fund requirements	**$ 308,674**	$ 316,559	$ 268,500	$ 220,000	$ 170,000
Electric and Other Statistics					
Kilowatt-hour sales (millions)					
Residential	**13,861**	13,765	12,832	12,959	12,462
General service	**9,731**	9,395	8,778	8,920	8,623
Industrial	**20,667**	20,060	20,260	19,523	19,188
Wholesale and other energy sales	**9,289**	9,091	8,453	8,537	8,575
Total kilowatt-hour sales	**53,548**	52,311	50,323	49,939	48,848
Number of customers—year-end					
Residential	**1,125,371**	1,105,035	1,078,419	1,049,543	1,024,712
Other	**181,331**	179,370	175,258	172,626	168,351
Total customers	**1,306,702**	1,284,405	1,253,677	1,222,169	1,193,063
Residential customer data					
Average annual KWH use	**12,392**	12,560	12,013	12,469	12,260
Average revenue billed per KWH	**4.51¢**	4.11¢	3.90¢	3.62¢	3.40¢
Number of employees—year-end					
Operating and maintenance	**11,892**	11,463	10,758	9,895	8,816
Engineering and construction	**8,185**	8,149	9,372	7,839	6,782
Source of energy (millions of KWH)					
Generated—Coal	**42,513**	40,984	37,404	34,598	37,184
—Nuclear	**14,229**	14,213	14,228	15,905	13,008
—Hydro	**843**	1,820	2,809	1,941	1,852
—Oil and gas	**146**	203	163	484	303
Net interchange and purchased power	**494**	(472)	(512)	1,016	31
System average heat rate	**9,633**	9,675	9,742	9,769	9,743
System load factor	**61.9%**	61.6%	62.3%	62.9%	62.0%

Quarterly Financial Data

A summary of quarterly financial data for 1981 and 1980 is as follows (dollars in thousands except per share data):

	Electric Revenues	Electric Operating Income	Net Income	Earnings Per Common Share
1981 by Quarter*				
Fourth	$484,782	$64,388	$79,626	$0.74
Third	499,216	64,188	83,740	0.79
Second	426,200	70,397	80,111	0.76
First	498,256	77,377	92,774	0.90
1980 by Quarter*				
Fourth	425,219	76,760	76,764	0.72
Third	450,861	66,433	77,877	0.77
Second	367,987	57,658	68,987	0.67
First	438,755	79,249	87,463	0.92

*Quarterly earnings generally fluctuate with seasonal weather conditions, timing of rate increases (including fuel cost adjustment procedures) and maintenance of electric generating units, especially nuclear-fueled units.

Stock Market Information

At December 31, 1981 and 1980, the Company had approximately 123,900 and 129,000 holders of common stock, respectively. During 1981 approximately 30,610,000 shares of common stock were traded compared to 20,666,000 during the previous year. The Company's common stock is traded on the New York Stock Exchange.

Common Stock	Dividend Per Share	Stock Price Range High	Stock Price Range Low
1981 by Quarter			
Fourth	$0.55	$22 1/2	$19 5/8
Third	0.51	21 1/4	18 3/4
Second	0.51	20 1/8	17 1/8
First	0.51	19 1/4	15 7/8
1980 by Quarter			
Fourth	0.51	18 3/4	15 1/2
Third	0.48	18 7/8	16 7/8
Second	0.48	19 1/4	15 7/8
First	0.48	18 3/8	14 1/8

Effects of Changing Prices

In recent years, the impact of general inflation and changes in specific prices has caused distortions in traditional accounting measurements of income and capital. In response to this problem, the Financial Accounting Standards Board (FASB) issued Statement No. 33 requiring disclosure of the effects of inflation on a company's operations and financial position.

Because the accompanying supplementary information involves various assumptions and approximations, it should be viewed as an estimate of the effects of inflation, rather than a precise measurement.

Constant Dollar Accounting. Constant dollar accounting reflects the overall decline in the purchasing power of the dollar by restating historical costs in terms of dollars of equal purchasing power.

Constant dollar amounts for electric plant in service were determined by indexing surviving historical costs of plant with the Consumer Price Index for all Urban Consumers (CPI-U). Historical depreciation rates were applied to the restated amounts of plant thereby trending the provision for depreciation to reflect the impact of general inflation.

Current Cost Accounting. Current cost accounting reflects changes in specific prices of the property used in the Company's operations from the date the property was acquired to the present. This method differs from constant dollar accounting to the extent that costs of specific utility property have increased more or less rapidly than the rate of general inflation. The current cost amounts of plant in service represent the estimated cost for replacing existing plant facilities and were determined by indexing surviving plant costs by internally generated indices or the Handy-Whitman Index of Public Utility Construction Costs. Since plant facilities are not expected to be replaced precisely in kind, "current cost" does not necessarily represent the replacement cost of existing productive capacity. Current cost depreciation is computed by applying the same rates used in the historical cost and constant dollar statements to the current cost plant amounts.

Effects of Rate Regulation. Under the Company's present ratemaking procedures, only the historical cost of plant in service is recoverable in rates as depreciation. Therefore, the excess of the cost of plant stated in terms of constant dollars or current costs over the historical cost of plant, resulting from inflation in the current year, is not presently recoverable in rates as depreciation, and is reflected as a reduction to net recoverable cost.

The reduction is offset by the Company having significant amounts of long-term debt outstanding, as well as other net monetary liabilities, which will be paid back in dollars of less purchasing power. Thus, the gain from decline in purchasing power of net amounts owed in the accompanying schedules results from inflation's effect on obligations to pay cash at a future date.

Other. Income statement items other than depreciation have not been adjusted. The Company's operation and maintenance expenses already include the average effects of changing prices during the period and, therefore, no adjustments have been made to them.

No adjustments to income tax expense have been made in computing the impact of inflation since only historical costs are deductible for income tax purposes.

Supplementary Statement of Earnings for Common Stock Adjusted for Changing Prices

DUKE POWER COMPANY

(dollars in thousands)	Year Ended December 31, 1981 Historical $	Constant Dollar	Current Cost
Electric revenues	$1,908,454	$1,908,454	$1,908,454
Operating expenses	1,080,523	1,080,523	1,080,523
Maintenance of plant facilities	131,670	131,670	131,670
Depreciation	142,899	314,177	334,419
Taxes	277,012	277,012	277,012
Total operating expenses	1,632,104	1,803,382	1,823,624
Operating income	276,350	105,072	84,830
Other income	254,043	254,043	254,043
Income before interest	530,393	359,115	338,873
Interest expense	194,142	194,142	194,142
Net income	336,251	164,973	144,731
Dividends on preferred and preference stocks	57,895	57,895	57,895
Earnings for common stock	$ 278,356	$ 107,078*	$ 86,836
Increase in specific prices (current cost) of utility plant held during the year**			$ 784,633
Reduction to net recoverable cost		$ (284,665)	(239,004)
Effect of increase in general price level			(810,052)
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost			(264,423)
Gain from decline in purchasing power of net amounts owed		326,916	326,916
Net		$ 42,251	$ 62,493

* If the reduction to net recoverable cost of $284,665,000 were reflected, and no recognition were given to the $326,916,000 purchasing power gain, earnings for common stock on a constant dollar basis would have been a loss of $177,587,000.

** At December 31, 1981, current cost of electric plant, net of accumulated depreciation was $10,055,578,000.

Five Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Changing Prices

DUKE POWER COMPANY

(In thousands of average 1981 dollars, except per share figures)	**1981**	1980	1979	1978	1977
Electric revenues					
In historical dollars	**$1,908,454**	$1,682,822	$1,492,557	$1,396,720	$1,266,974
In constant dollars	**1,908,454**	1,857,377	1,870,159	1,947,116	1,901,508
Income from continuing operations					
In historical dollars	**336,251**	311,091	274,760		
In constant dollars	**164,973**	185,808	203,721		
In current cost	**144,731**	167,222	177,978		
Earnings per share for common stock					
In historical dollars	**3.19**	3.08	2.88		
In constant dollars	**1.23**	1.48	1.79		
In current cost	**0.99**	1.25	1.45		
Common stock dividends per share					
In historical dollars	**2.08**	1.95	1.83	1.74	1.63
In constant dollars	**2.08**	2.15	2.29	2.43	2.45
Market price per common share at year-end					
In historical dollars	**20.625**	18.125	17.25	19.375	22.00
In constant dollars	**19.96**	19.11	20.44	26.01	32.20
Net assets at year-end					
In historical dollars	**2,108,935**	1,969,140	1,758,016		
In constant dollars	**2,040,760**	2,075,827	2,083,008		
In current cost	**2,040,760**	2,075,827	2,083,008		
Purchasing power gain on net monetary items	**326,916**	455,029	484,947		
Decrease in the current cost of electric plant in service, net of inflation, after reduction to net recoverable cost	**264,423**	494,057	550,817		
Average Consumer Price Index	**272.4**	246.8	217.4	195.4	181.5

Subsidiaries

DUKE POWER COMPANY

Subsidiary Investments

(dollars in thousands)	December 31 1981	1980
Property and investments - at cost		
Real estate, recreational and land development	**$ 32,057**	$ 31,780
Coal mining	**89,457**	89,104
Net current assets, principally receivables and inventories	**7,165**	4,951
Total assets	**128,679**	125,835
Long-term notes	**(61)**	(281)
Coal production commitments	**(37,272)**	(42,272)
Deferred income taxes	**(36,365)**	(48,909)
Total liabilities	**(73,698)**	(91,462)
Investments in and advances to subsidiaries	**$ 54,981**	$ 34,373

Crescent Land & Timber Corp.

Formed in 1969, this subsidiary manages approximately 270,000 acres of "non-utility" property consisting primarily of timber lands surrounding Duke's hydro-electric facilities, but also including recreational, industrial and commercial sites.

Crescent is instituting new programs to search for other natural resources which may exist on its properties, including oil, gas and various minerals. Additional programs are under way to determine the best use for properties, which may lead to expanded industrial, commercial and residential development.

In 1981, Crescent harvested 29.9 million board feet of timber and 64,000 cords of pulpwood. Approximately 1.8 million new trees are being planted each year. Since Duke initiated its reforestation activities in 1939, some 55 million seedlings have been planted on 80,000 acres.

The Eastover Companies

Eastover Mining Company and Eastover Land Company were founded in the early 1970s to help assure Duke an adequate supply of quality coal for its fossil-fueled generating stations.

In 1981, Eastover Mining Company produced and shipped 2.0 million tons of coal to Duke plants, representing about 12 percent of the system's total annual requirements. The completion of the processing plant modernization program in late 1980 allowed Eastover to ship a consistent quality product to Duke during 1981.

The development of two additional deep seams of coal was completed in 1981 with five working sections. Eastover anticipates the start-up of an additional working section in the newly developed seam at Arjay Mine, thus increasing that mine's production capability.

Eastover now has the facilities and trained personnel to complete major overhauls of its mining equipment on site as opposed to previously relying on outside sources. This provides for a better means of controlling cost.

As of December 31, 1981 Eastover Land Company owned or had controlling interest in an estimated 186 million tons of recoverable coal reserves in eastern Kentucky and southwest Virginia.

Mill-Power Supply Company

Mill-Power Supply, Duke's oldest active subsidiary, was organized in 1910 to supply electrical equipment to textile mills and other industries that were converting to electricity. After 70 years of being one of the largest single-house electrical equipment distributors, Mill-Power Sales Division opened a new warehouse and city counter in Greensboro, N.C. in 1981. In 1981, sales to Duke were $11.5 million, a decline of about 20 percent from 1980 as the result of the deferral of Duke's construction program. Sales to customers other than Duke totaled $24.1 million, an increase of about 8 percent over 1980.

Since 1910, this subsidiary has acted as the purchasing agent for Duke Power. In this capacity, Mill-Power purchases virtually all supplies, equipment, fuel and services required by Duke and contracted for more than $1 billion dollars on Duke's behalf in 1981.

Western Fuel, Inc.

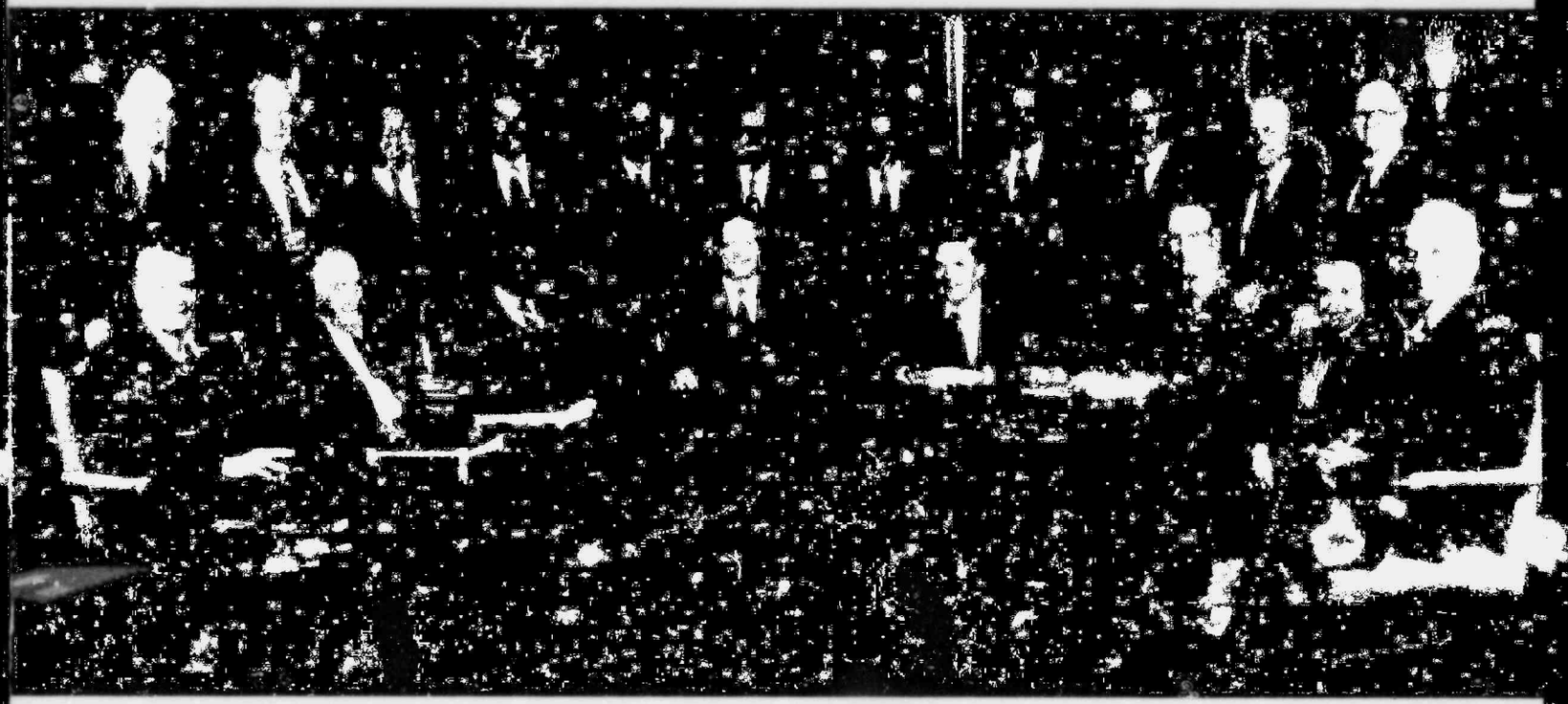
This subsidiary was formed in June 1978 to participate in a uranium exploration and mining venture with Ogle Petroleum Inc. of California.

In June 1980, the joint venture completed construction of the first phase of a commercial processing plant in the Red Desert of Wyoming. With the issuance of a federal source materials license in May 1981, well field development efforts were escalated and the joint venture was able to commence commercial mining operations in August 1981. The joint venture anticipates completing an expansion of its facilities by the summer of 1982, which will double the current plant capacity.

The mining operations that are now underway are on leased lands using an in-situ mining process in which a chemical solution is pumped into wells to bring uranium to the earth's surface. Because this process requires very little earth disturbance, it is an environmentally attractive alternative to conventional mining methods. In pilot tests conducted in 1979, this process met all of the environmental requirements of the Wyoming Department of Environmental Quality.

Board of Directors

DUKE POWER COMPANY



Standing (left to right): Grigg, Pickens, Edwards, Fraley, Furman, Overcash, Hicks, Mickel, Henson, Herbert, Owen. Sitting (left to right): Thies, Holderness, Sloan, Lee, Horn, Watkins, Albanese, Booth. Not pictured: Davis.

Carl Horn, Jr. ◄■★
Chairman and
Chief Executive Officer
Duke Power Company

Naomi G. Albanese ●
Dean, School of
Home Economics
University of North Carolina
at Greensboro

Douglas W. Booth ■
Executive Vice President
Duke Power Company

Thomas H. Davis ●
Chairman of the Board
and Treasurer
Piedmont Aviation, Inc.

Robert C. Edwards ◄
Chairman of the Board
Textile Hall Corporation

John L. Fraley ●
Vice Chairman and
Chief Executive Officer
Carolina Freight Carriers
Corporation

Alester G. Furman, III ★
Chairman of the Board
Furman Realty Co., Inc.

William H. Grigg ■★
Senior Vice President
Legal and Finance
Duke Power Company

Paul H. Henson ●
Chairman and
Chief Executive Officer
United Telecommunications, Inc.

George R. Herbert ●
President
Research Triangle Institute
(diversified research for corporations and government agencies)

John D. Hicks ■
Senior Vice President
Public Affairs
Duke Power Company

Howard Holderness ★
Vice President
Holderness & Co.
(a personal holding company)

William S. Lee ■★
President and
Chief Operating Officer
Duke Power Company

Buck Mickel ◄
Chairman of the Board
Daniel International Corporation
(industrial and commercial construction)

Reece A. Overcash, Jr. ★
Chairman of the Board and
Chief Executive Officer
Associates Corporation of
North America
(finance-consumer lending, commercial lending and insurance)

Warren H. Owen ■
Senior Vice President
Engineering and Construction
Duke Power Company

Marshall I. Pickens ◄★
Honorary Chairman of Trustees
The Duke Endowment

Maceo A. Sloan ★
Executive Vice President and
Chief Operating Officer
North Carolina Mutual Life
Insurance Company

Austin C. Thies ■
Senior Vice President
Production and Transmission
Duke Power Company

William L. Watkins ●
Partner in the law firm of
Watkins, Vandiver, Kirven,
Gable & Gray

● Member of Audit Committee
◄ Member of Compensation Committee
■ Member of Executive Committee
★ Member of Finance Committee

Carl Horn, Jr., Marshall I. Pickens and **Howard Holderness** will be retiring from the board of directors of Duke Power Company on April 30, 1982.

Horn is the senior member of the board with more than 22 years of service. He has been chairman of the board since 1976 and has been chief executive officer of Duke Power Company since 1971.

Pickens was elected to the board in 1964. Over the past 18 years, he has served on the finance, audit and compensation committees.

Holderness has been a member of the board since 1966. During his tenure, he has served on the audit committee and as both chairman and vice chairman of the finance committee.

These three members of the board have rendered distinguished service and leadership to the Company. Their invaluable contributions and counsel will be sorely missed.

Officers

Carl Horn, Jr.
Chairman of the Board and
Chief Executive Officer

William S. Lee
President and
Chief Operating Officer

Douglas W. Booth
Executive Vice President

William H. Grigg
Senior Vice President
Legal and Finance

John D. Hicks
Senior Vice President
Public Affairs

Warren H. Owen
Senior Vice President
Engineering and Construction

Austin C. Thies
Senior Vice President
Production and Transmission

Thomas C. Berry
Vice President
Southern Division

J. Kenneth Clark
Vice President
Corporate Communications

Henry L. Cranford
Vice President
Division Operations

Linwood C. Dail
Vice President
Design Engineering

Donald H. Denton, Jr.
Vice President
Marketing

Robert L. Dick
Vice President
Construction

George W. Ferguson, Jr.
Vice President
Governmental Affairs

Steve C. Griffith, Jr.
Vice President and General Counsel

M. Thomas Hatley, Jr.
Vice President
Rates

Porter A. Hauser
Vice President and Controller

E. N. Hedgepeth, Jr.
Vice President
Distribution Engineering,
Construction and Operations

Frank A. Jenkins
Vice President
Transmission

Samuel T. Lattimore
Vice President
Computer Services

John F. Lomax
Vice President
Western Division

Joe S. Major, Jr.
Vice President
Personnel

Joseph G. Mann
Vice President
Northern Division

Paul H. Mann, Jr.
Vice President
Operation

Dwight B. Moore
Vice President
Central Division

William O. Parker, Jr.
Vice President
Steam Production

Thomas M. Patrick, Jr.
Vice President
Eastern Division

Richard R. Pierce
Assistant to the
Chairman of the Board

William R. Stimart
Vice President
Regulatory Affairs

Fred E. West, Jr.
Vice President
Charlotte Division

James W. White
Vice President
General Services

Lewis F. Camp, Jr.
Secretary and
Associate General Counsel

Richard J. Osborne
Treasurer

Robert J. Ashmore
Assistant Vice President
Finance Administration

C. Joe Sherrill
Assistant Vice President
Transmission-Substation Division

E. Bruce Shuler
Assistant Vice President
Transmission-Line Division

Carolyn R. Duncan
Assistant Secretary

John C. Goodman, Jr.
Assistant Secretary

Charles A. Markel
Assistant Treasurer

Norman P. Morrow
Assistant Controller

W. Bruce Shannon
Assistant Treasurer

Eugene C. Sites
Assistant Controller

H. D. Whitley
Assistant Controller

Subsidiaries

Richard C. Ranson
President
Crescent Land & Timber Corp.

W. T. Robertson, Jr.
President
Mill-Power Supply Company
and Western Fuel, Inc.

Robert M. Moore
President
Eastover Land Company

Norman Yarborough
President
Eastover Mining Company

Management Changes

The board of directors has elected **William S. Lee** to succeed **Carl Horn, Jr.** as Chairman of Duke Power Company. **Douglas W. Booth** will succeed Lee as President. These changes will become effective on April 30, 1982.

The following management changes were made in 1981:

Richard C. Ranson was elected President, Crescent Land & Timber Corp.;

J. Kenneth Clark was elected Vice President-Corporate Communications;

Fred E. West, Jr. was elected Vice President-Charlotte Division;

Richard J. Osborne was elected Treasurer;

Charles A. Markel was elected Assistant Treasurer; and

H. D. Whitley was elected Assistant Controller.

(Effective February 1, 1982, **Paul G. Martin** succeeded **Thomas M. Patrick, Jr.** as Vice President-Eastern Division.)

Transfer Agents and Registrars for Common Stock

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015

North Carolina National Bank
P.O. Box 120
Charlotte, NC 28255

Transfer Agent and Registrar for Preferred and Preference Stocks

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, NY 10015

Stock Exchange Listing

Duke Power Company common stock is listed and traded on The New York Stock Exchange. The trading symbol for the stock is DUK.

General Offices

422 South Church Street
P.O. Box 33189
Charlotte, NC 28242
(704/373-4011)

SEC Form 10-K and Statistical Supplement

Upon written request, the Company will provide, without charge, a copy of its 1981 annual report on Form 10-K as filed with the Securities and Exchange Commission. Also available without charge is a Statistical Supplement to the 1981 Annual Report to Shareholders. Requests for such documents should be directed to Sue H. Cannon, Investor Relations Department, Duke Power Company, P.O. Box 33189, Charlotte, NC 28242.

Duke Power Company
P.O. Box 33189
Charlotte, N.C. 28242

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