

THE STATE OF SOUTH CAROLINA
In The Court of Appeals

APPEAL FROM THE ADMINISTRATIVE LAW COURT

Ralph K. Anderson III, Administrative Law Judge

Case No. 10-ALJ-17-0270-CC

Duke Energy Corporation.....Appellant,

v.

South Carolina Department of Revenue.....Respondent.

RECORD ON APPEAL

VOLUME XVI

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INDEX

ORDERS

1.	Consent Order, dated August 8, 2003	9
2.	Order Granting Summary Judgment in Part and Denying Summary Judgment in Part, dated August 9, 2012	11
3.	Suspension Notice, dated August 29, 2012	47
4.	Amended Order Granting Summary Judgment in Part and Denying Summary Judgment in Part, dated October 11, 2012	49
5.	Order Denying Motion for Reconsideration in Part and Granting Reconsideration in Part, dated October 11, 2012	85
6.	Final Order and Decision, dated November 2, 2012	93
7.	Amended Final Order and Decision, dated December 4, 2012	120
8.	Reconsideration Order, dated December 4, 2012	147

PLEADINGS

9.	Department of Revenue's Motion for Summary Judgment and Memorandum In Support, dated April 20, 2012	166
10.	Duke Energy's Cross-Motion for Summary Judgment and Memorandum, dated May 21, 2012.....	371
11.	Department of Revenue's Memorandum in Reply to the Response of Duke Energy Opposing the Motion for Summary Judgment by the Department of Revenue and Memorandum Objecting to the Grant of the Cross-Motion for Summary Judgment by Duke Energy, with all Attachments & Exhibits, dated June 4, 2012.....	825
12.	Duke Energy's Post-Hearing Memorandum of Law, dated June 28, 2012	978
13.	Department of Revenue's Response to Duke Energy's Post-Hearing Memorandum of Law, dated July 9, 2012.....	1022
14.	SCDOR Response to Questions by Court, dated July 17, 2012	1030
15.	Duke Energy's Motion for Reconsideration of the Court's Order Granting the Department of Revenue's Motion for Summary Judgment and Memorandum of Authorities, dated August 20, 2012	1034

16.	Department of Revenue's Pre-Trial Memorandum, dated August 27, 2012	1153
17.	Duke Energy Corporation's Pre-Trial Brief, dated August 27, 2012	1180
18.	Stipulations of Facts and Issues, dated September 4, 2012	1815
19.	Department of Revenue's Memorandum Opposing Duke Energy's Motion for Reconsideration of the Order Granting Partial Summary Judgment to the Department, dated September 14, 2012	1820
20.	Duke Energy Corporation's Responses to the Inquiries Presented by the ALC on September 19, 2012	1835
21.	Department of Revenue's September 21, 2012 letter in response to ALC's inquiries regarding statement made by Duke Energy in its Motion for Reconsideration	1877
22.	Notice of Appeal, dated October 9, 2012	1879
23.	Amended Notice of Appeal, dated October 23, 2012	1926
24.	Duke Energy's Motion for Reconsideration of the Court's Final Order and Decision, dated November 12, 2012	1975
25.	Notice of Appeal, dated January 2, 2013	2020
26.	Amended Notice of Appeal, dated January 3, 2013	2075
27.	Duke Energy's Motion to Consolidate, dated January 14, 2013	2368

TRANSCRIPTS

28.	Trial Transcript, dated September 5-6, 2012	2380
29.	Excerpts from the Motion for Summary Judgment Hearing Transcript, dated June 26, 2012	2796
30.	Excerpts from the Deposition Transcript of Sherwood Lee Love, dated November 22, 2011	2983
31.	Excerpts from Deposition Transcript of Joe Southard, dated December 2, 2011	3135
32.	Excerpts from Deposition Transcript of Jan Urban, dated December 21, 2011	3335
33.	Excerpts from Deposition Transcript of Glenn J. Robinson, dated January 4, 2012	3539
34.	Excerpts from Deposition Transcript of Dr. Ioannis "John" Papapolymerou, dated January 11, 2012	3872

35.	Excerpts from Deposition Transcript of Dhiaa M. Jamil, dated January 17, 2012.....	3983
36.	Excerpts from Deposition Transcript of Ronald W. Urban, dated March 14, 2012 ...	4042
37.	Excerpts from the Deposition Transcript of Sarah G. Major, dated March 14, 2012	4127

EXHIBITS AND OTHER MATERIALS

38.	Pet.'s Trial Ex. 1 (Duke's Amended South Carolina Tax Returns for 1978)	4183
39.	Pet.'s Trial Ex. 2 (Duke's Amended South Carolina Tax Returns for 1979)	4201
40.	Pet.'s Trial Ex. 3 (Duke's Amended South Carolina Tax Returns for 1980)	4257
41.	Pet.'s Trial Ex. 4 (Duke's Amended South Carolina Tax Returns for 1981)	4275
42.	Pet.'s Trial Ex. 5 (Duke's Amended South Carolina Tax Returns for 1982)	4321
43.	Pet.'s Trial Ex. 6 (Duke's Amended South Carolina Tax Returns for 1983)	4371
44.	Pet.'s Trial Ex. 7 (Duke's Amended South Carolina Tax Returns for 1984)	4393
45.	Pet.'s Trial Ex. 8 (Duke's Amended South Carolina Tax Returns for 1985)	4413
46.	Pet.'s Trial Ex. 9 (Duke's Amended South Carolina Tax Returns for 1986)	4435
47.	Pet.'s Trial Ex. 10 (Duke's Amended South Carolina Tax Returns for 1987)	4455
48.	Pet.'s Trial Ex. 11 (Duke's Amended South Carolina Tax Returns for 1988)	4483
49.	Pet.'s Trial Ex. 12 (Duke's Amended South Carolina Tax Returns for 1989)	4567
50.	Pet.'s Trial Ex. 13 (Duke's Amended South Carolina Tax Returns for 1990)	4601
51.	Pet.'s Trial Ex. 14 (Duke's Amended South Carolina Tax Returns for 1991)	4667
52.	Pet.'s Trial Ex. 15 (Duke's Amended South Carolina Tax Returns for 1992)	4701
53.	Pet.'s Trial Ex. 16 (Duke's Amended South Carolina Tax Returns for 1993)	4759
54.	Pet.'s Trial Ex. 17 (Duke's Amended South Carolina Tax Returns for 1994)	4787
55.	Pet.'s Trial Ex. 18 (Duke's Amended South Carolina Tax Returns for 1995)	4867
56.	Pet.'s Trial Ex. 19 (Duke's Amended South Carolina Tax Returns for 1996)	4936

57.	Pet.'s Trial Ex. 20 (Duke's Amended South Carolina Tax Returns for 1997)	5004
58.	Pet.'s Trial Ex. 21 (Duke's Amended South Carolina Tax Returns for 1998)	5072
59.	Pet.'s Trial Ex. 22 (Duke's Amended South Carolina Tax Returns for 1999)	5188
60.	Pet.'s Trial Ex. 23 (Duke's Amended South Carolina Tax Returns for 2000)	5368
61.	Pet.'s Trial Ex. 24 (Duke's Amended South Carolina Tax Returns for 2001)	5422
62.	Pet.'s Trial Ex. 25 (Letter dated February 12, 2003 from the Department of Revenue to Duke denying refund claims)	5532
63.	Pet.'s Trial Ex. 26 (Letter dated March 13, 2003 from Duke protesting denial)	5533
64.	Pet.'s Trial Ex. 27 (Letter dated April 30, 2003 from Jan Steensen Crangle to Craig Fields re appeal of Department of Revenue's findings).....	5543
65.	Pet.'s Trial Ex. 28_1 (Cooper Monroe's field notes for audit December 1-5, 2003)	5544
66.	Pet.'s Trial Ex. 28_2 (State Audit Tracker for Duke Energy State Income Tax, dated February 18, 2003).....	5545
67.	Pet.'s Trial Ex. 29 (Department of Revenue's Determination, dated February 4, 2010).....	5546
68.	Pet.'s Trial Ex. 30 (Duke's Notice of Request for Contested Case Hearing, dated March 4, 2010)	5558
69.	Pet.'s Trial Ex. 31 (Department of Revenue's Prehearing Statement, dated March 31, 2010)	5582
70.	Pet.'s Trial Ex. 32 (Department of Revenue's Amended Prehearing Statement, dated November 30, 2010).....	5588
71.	Pet.'s Trial Ex. 33 (Duke's Products and Services).....	5594
72.	Pet.'s Trial Ex. 34 (Dhiaa Jamil's CV)	5598
73.	Pet.'s Trial Ex. 35 (Duke's 10-K for fiscal year ending December 31, 2001)	5599
74.	Pet.'s Trial Ex. 36 (Public Service Commission Report for 2010-2012)	5767
75.	Pet.'s Trial Ex. 37 (Service Commission of SC Proposed Order, dated October 25, 1991)	5801

76.	Pet.'s Trial Ex. 38 (PSC Direct Testimony of Dhiaa M. Jamil, dated 2009).....	5897
77.	Pet.'s Trial Ex. 43 (Dr. Papapolymerou's CV).....	5923
78.	Pet.'s Trial Ex. 49_B-1 (Duke Power 10-K for FYE 12/31/78)	5927
79.	Pet.'s Trial Ex. 49_B-2 (Duke Power 10-K for FYE 12/31/79)	5975
80.	Pet.'s Trial Ex. 49_B-3 (Duke Power 10-K for FYE 12/31/80)	6027
81.	Pet.'s Trial Ex. 49_B-4 (Duke Power 10-K for FYE 12/31/81)	6081
82.	Pet.'s Trial Ex. 49_B-5 (Duke Power 10-K for FYE 12/31/82)	6133
83.	Pet.'s Trial Ex. 49_B-6 (Duke Power 10-K for FYE 12/31/83)	6187
84.	Pet.'s Trial Ex. 49_B-7 (Duke Power 10-K for FYE 12/31/84)	6239
85.	Pet.'s Trial Ex. 49_B-8 (Duke Power 10-K for FYE 12/31/85)	6293
86.	Pet.'s Trial Ex. 49_B-9 (Duke Power 10-K for FYE 12/31/86)	6347
87.	Pet.'s Trial Ex. 49_B-10 (Duke Power 10-K for FYE 12/31/87)	6401
88.	Pet.'s Trial Ex. 49_B-11 (Duke Power 10-K for FYE 12/31/88)	6491
89.	Pet.'s Trial Ex. 49_B-12 (Duke Power 10-K for FYE 12/31/89)	6583
90.	Pet.'s Trial Ex. 49_B-13 (Duke Power 10-K for FYE 12/31/90)	6673
91.	Pet.'s Trial Ex. 49_B-14 (Duke Power 10-K for FYE 12/31/91)	6689
92.	Pet.'s Trial Ex. 49_B-15 (Duke Power 10-K for FYE 12/31/92)	6789
93.	Pet.'s Trial Ex. 49_B-16 (Duke Power 10-K for FYE 12/31/93)	6901
94.	Pet.'s Trial Ex. 49_B-17 (Duke Power 10-K for FYE 12/31/94)	6963
95.	Pet.'s Trial Ex. 49_B-18 (Duke Power 10-K for FYE 12/31/95)	7025
96.	Pet.'s Trial Ex. 49_B-19 (Duke Power 10-K for FYE 12/31/96)	7045
97.	Pet.'s Trial Ex. 49_B-20 (Duke Power 10-K for FYE 12/31/97)	7271
98.	Pet.'s Trial Ex. 49_B-21 (Duke Power 10-K for FYE 12/31/98)	7311
99.	Pet.'s Trial Ex. 49_B-22 (Duke Power 10-K for FYE 12/31/99)	7467

100.	Pet.'s Trial Ex. 49_B-23 (Duke Power 10-K for FYE 12/31/00)	7703
101.	Pet.'s Trial Ex. 49_B-24 (Duke Power 10-K for FYE 12/31/01)	7733
102.	Pet.'s Trial Ex. 50 (Dr. Pomp's responses to interrogatories, dated September 23, 2011)	7889
102.	Respondent's Trial Exhibit 1 (Income Tax Division, Foreign Corporate Training Manual)	7893
103.	Respondent's Trial Exhibit 2 (Restated Charter of Duke Power Company, dated July 25, 1977)	7938
104.	Respondent's Trial Exhibit 3 (Restated Articles of Incorporation of Duke Power Company, dated October 6, 1993)	7969
105.	Respondent's Trial Exhibit 4 (Related Articles of Incorporation of Duke Energy Corporation, dated June 18, 1997)	8030
106.	Waiver Forms FS-43	8086
107.	Department of Revenue's requests to extend the audit, 1989 – 2001	8108
108.	IRS' Final Determination with respect to tax years 1984 and 1986 through 1989, dated September 23, 1992	8157
109.	IRS' Final Determination with respect to tax years 1990 and 1991, dated May 11, 2001	8161
110.	IRS' Final Determination with respect to tax years 1992 and 1993, dated July 17, 2001	8165
111.	Correspondence between Duke Energy and the Department of Revenue re: Duke's intention to file amended tax returns, March and July 2002	8166
112.	Department of Revenue's Report of Field Audit, dated August 8, 2002	8176
113.	Form SC870AD - Offer of Waiver of Restrictions on Assessment and Collection of Additional Tax or Acceptance of Over Assessment, dated August 13, 2002	8177
114.	Duke Energy's Protest / Application for Appeal, dated April 18, 2008	8178
115.	Duke Energy's Prehearing Statement, dated April 1, 2010	8194
116.	Department of Revenue's Responses to Petitioner's Request for Production of Documents	8201
117.	Affidavit of Sherwood Love, dated December 31, 2010	8211

118.	Affidavit of Rickey McCarver, dated January 7, 2011	8218
119.	Affidavit of Marvin N. Davant, dated May 16, 2012	8222
120.	Affidavit of Robert K. Anderson, dated May 17, 2012	8226
121.	Affidavit of T. Cooper Monroe, III, dated June 28, 2012.....	8229
122.	Return File Date Chart.....	8233
123.	Waivers Schedule.....	8234
124.	IRS Notice.....	8235
125.	Certificate of Counsel	8236

Grandfathered Early, Early, Normal or Late Retirement Date, or Disability Distribution Date and continue for the period indicated in Article 4 hereof.

1.55 Retirement Plan Committee shall mean the Employer's administrative committee for the Plan, as described in Article 10.

1.56 Severance from Service Date shall mean the date a Participant terminates employment with the Company.

1.57 Spouse shall mean the individual to whom a Participant is legally married as of the earlier of such Participant's date of death or the date of retirement to the Participant, or any former Spouse or surviving Spouse of the Participant treated as his Spouse under Code Section 414(p).

1.58 Termination Benefit shall mean the benefit payable to a Participant who has separated from employment with the Company with a right to receive a vested benefit under Section 5.1 of the Plan.

13

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1.59 Top Heavy Plan shall mean, for Plan Years beginning after December 31, 1983, any plan under which, as of any determination date, the present value of the cumulative accrued benefits for Key Employees exceeds sixty percent (60%) of the present value of the cumulative accrued benefits under the plan for all employees. The accrued benefit of any employee other than a Key Employee shall be determined under the method which is used for accrual purposes for all plans of the Company or Affiliate, or, if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rule of Code Section 411(b)(1)(C). For purposes of this Section, the following definitions shall apply.

(a) If such plan is a Defined Contribution Plan, the present value of cumulative accrued benefits shall be deemed to be the market value of all employee accounts under the plan, other than voluntary deductible employee contributions. If such plan is a Defined Benefit Plan, the present value of cumulative accrued benefits shall be the lump sum present value determined pursuant to actuarial assumptions adopted by the Employer for purposes of determining if this Plan is a Top Heavy Plan. Moreover, the present value of the cumulative accrued benefits shall be increased by the

amount of all Plan distributions made with respect to an employee during the five (5) year period ending on the determination date, including distributions under a terminated plan which is a part of a Required Aggregation Group.

- (b) A plan shall be considered a Top Heavy Plan for any Plan Year if, on the last day of the preceding Plan Year (the determination date), the above criteria were met. For the first Plan Year that the Plan shall be in effect, the determination of whether said Plan is a Top Heavy Plan shall be made as of the last day of such Plan Year.
- (c) Each plan of the Company or Affiliate required to be included in a Required Aggregation Group shall be treated as a Top Heavy Plan if such Group is a top heavy Group.
- (d) With respect to a Participant or former Participant who has not performed any service for the Employer at any time during the five (5) year period ending on the determination date, and with respect to a Participant or former Participant who was formerly a Key Employee, but who is not a Key Employee on the determination date, the present value of the cumulative accrued benefit for such Participant or former Participant shall not be taken into account for the purposes of determining whether this Plan is a Top Heavy Plan.
- (e) This definition shall be interpreted consistent with Code Section 416 and rules and regulations issued thereunder. Further, such law and regulations shall be

14

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controlling in all determinations under this definition inclusive of any provisions and requirements stated thereunder but hereinabove absent.

1.60 Total and Permanent Disability or Totally and Permanently Disabled shall mean a physical or mental condition arising after the date on which an Employee first completes an Hour of Service for the Employer which totally prevents him from engaging in any occupation or employment for remuneration or profit, except for the purpose of rehabilitation not incompatible with a finding of Total and Permanent Disability. The determination of a Total and Permanent Disability shall be made on evidence that the Participant is either eligible for disability benefits under

the Federal Social Security Act or is considered fully disabled under the Duke Power Company Disability Plan (or other long-term disability plan maintained by the Company for the purpose of providing long-term disability benefits) and is receiving long-term disability payments from such plan.

- 1.61 Trust Fund shall mean all cash, securities, life insurance and/or annuity contracts, real estate, or any other property held by the Trustee pursuant to the terms of the Trust Agreement, together with income thereon.
- 1.62 Trust Agreement shall mean the trust agreement entered into between the Company and the Trustee, as adopted by the Company and as amended from time to time.
- 1.63 Trustee shall mean the person or persons acting from time to time as the trustee of the Trust in accordance with the Trust Agreement.
- 1.64 Vesting Service shall mean the number of Plan Years in which an Employee has been credited with one thousand (1,000) Hours of Service with the Company or Affiliate. Notwithstanding the preceding sentence, the following years shall not be included as years of Vesting Service:
- (a) Any year of employment prior to January 1, 1976, that would have been disregarded because of an Employee's termination of employment under a Plan provision in effect and adopted before January 1, 1976.
 - (b) Any Plan Year before the Plan Year in which the Employee reached Attained Age eighteen (18).
 - (c) Any Plan Year preceding a Participant's initial Break in Service if such Participant's vested Accrued Benefit before such Break in Service was zero (0) and the Participant incurred five (5) or more consecutive Breaks in Service, the number of which equaled or exceeded the number of his years of Vesting Service prior to such consecutive Breaks in Service.

15

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Notwithstanding any other provision to the contrary, Vesting Service shall also include service credited to the extent necessary to comply with the Family and Medical Leave Act, the Uniformed Services Employment and Reemployment Rights Act and other applicable law.

16

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ARTICLE 2

PARTICIPATION

2.1 Grandfathered Participation

Each person who is an Employee and a Participant on December 31, 1996, and who continues as an Employee after that date shall continue as a Participant as of January 1, 1997, without further action on his part.

2.2 Participation upon Employment or Reemployment

An Employee who is not a Participant as of the Effective Date shall become a Participant on his Employment Commencement Date or, if later, the date immediately following the date he reaches Attained Age twenty-one (21). An Employee who was a former Participant shall resume participation in the Plan on his Employment Commencement Date coincident with or following his date of reemployment by the Employer.

2.3 Limitations on Participation

Notwithstanding any provision of the Plan to the contrary, no Employee shall participate in this Plan as long as he is a Leased Employee or a non-resident alien with no U.S. source income.

2.4 Plan Binding

Upon becoming a Participant, a Participant shall be bound then and thereafter by the terms of the Plan and the Trust Agreement, including all amendments to the Plan and the Trust Agreement made in the manner herein authorized.

17

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ARTICLE 3

RETIREMENT BENEFITS

3.1 General

Retirement Benefits and Termination Benefits payable under the terms of the Plan shall be subject to the restrictions and limitations of Article 7, and elsewhere in this Plan and shall be

paid by the Trustee only by or at the direction of the Retirement Plan Committee. Neither the Employer, the Retirement Plan Committee nor the Trustee shall be under any obligation to pay Retirement Benefits or Termination Benefits other than from Trust.

3.2 Normal Retirement

- (a) A Participant whose employment terminates, for any reason other than death or Total and Permanent Disability, on his Normal Retirement Date, shall be entitled to receive a Retirement Benefit. The amount of such Retirement Benefit shall be the Participant's Accrued Benefit, determined in accordance with Section 3.6, as of his Annuity Starting Date coincident with his Normal Retirement Date.
- (b) The Annuity Starting Date of any Participant who is to receive his benefit pursuant to this Section shall be his Normal Retirement Date.

3.3 Early Retirement

- (a) A Participant whose employment terminates at his Early Retirement Date or Grandfathered Early Retirement Date, for any reason other than death or Total and Permanent Disability, shall be entitled to receive a Retirement Benefit. The amount of such Retirement Benefit shall be the Participant's Accrued Benefit as of his Annuity Starting Date coincident with or following his Early Retirement Date or Grandfathered Early Retirement Date.
- (b) The Annuity Starting Date of any Participant who is to receive his benefit pursuant to this Section shall be his Normal Retirement Date. Notwithstanding anything contained herein to the contrary, a Participant who retires at an Early Retirement Date or his Grandfathered Early Retirement Date shall have the right to elect in writing to receive his Retirement Benefit commencing as of his Early Retirement Date, his Grandfathered Early Retirement Date, or the first day of any month thereafter which precedes his Normal Retirement Date.

3.4 Late Retirement

- (a) A Participant who remains employed after his Normal Retirement Date shall be entitled to receive a Retirement Benefit. The amount of such Retirement

Benefit shall be the Participant's Accrued Benefit as of his Annuity Starting Date following his Normal Retirement Date.

- (b) The Annuity Starting Date of any Participant who is to receive his benefit pursuant to this Section shall be his Late Retirement Date.

3.5 Disability Distribution

- (a) An Active Participant who becomes Totally and Permanently Disabled shall be entitled to receive a Disability Benefit equal to his Accrued Benefit, as modified by Section 3.7(c). The amount of such Disability Benefit shall be the Participant's Accrued Benefit as of his Annuity Starting Date.
- (b) The Annuity Starting Date of any Participant who is to receive his benefit pursuant to this Section shall be his Disability Distribution Date.

3.6 Cash Balance Account

As of the Effective Date or, if later, the first day after the Effective Date that an Employee becomes an Active Participant, a Cash Balance Account shall be established for the participant. The Cash Balance Account shall have an opening balance as determined under Section 3.7, and shall be credited with Contribution Credits and Interest Credits as provided under Sections 3.8 and 3.9. The Cash Balance Accounts shall be bookkeeping accounts only, and neither the maintenance of, nor the crediting of amounts to, such Accounts shall be treated as an allocation of assets of the Plan to, or a segregation of such assets in, any such Account or as otherwise creating a right in any person to receive specific assets of the Plan.

Notwithstanding the foregoing or any other provision of the Plan, any benefit computed in the manner set forth under this Section is contingent upon the express or implicit approval of the Internal Revenue Service of such benefit as having satisfied the requirements of the Code for Plan Years beginning on or after the Effective Date.

3.7 Opening Balance

The opening balance of a Participant's Cash Balance Account shall be established in accordance with the rules of this Section.

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- (a) In the case of a Participant who was not a

Participant in the Prior Plan or a predecessor to the Prior Plan, or whose Vesting Service was disregarded under Section 1.62(c), the Participant shall have an opening Cash Balance Account of zero (0).

(b) In the case of a Participant in the Prior Plan on December 31, 1996, who becomes an Active Participant in this Plan on the Effective Date, the Participant's opening balance shall be determined as follows:

- (1) For an Employee who has reached Attained Age 60 or older and who is eligible for an immediate pension benefit under the Prior Plan, the present value of the immediate benefit for which the Employee is eligible as of the Effective Date. Present value is determined using a 7% interest rate and the blended (50/50) 1983 Group Annuity Mortality Table.
- (2) For an Employee who is not eligible for an immediate pension benefit under the terms of the Prior Plan, or who is eligible for an immediate pension benefit under the Prior Plan, but has not yet reached Attained Age 60, the opening balance identified for the Participant in the Duke Power Company Retirement Cash Balance Plan Schedule of Opening Cash Balance Accounts which is herein incorporated in the Plan by this reference
- (3) For a Participant who has reached Attained Age 70 1/2 or older and who is receiving an immediate unreduced pension benefit under the Prior Plan, the Participant shall have an opening Cash Balance Account of zero (0).

(c) In the case of a Participant in the Prior Plan on or before December 31, 1996, who terminates employment with the Employer and later becomes an Active Participant in this Plan after the Effective Date, the Participant shall have an opening Cash Balance Account of zero (0).

(d) In the case of a Participant in the Plan on or after the Effective Date, who terminates employment with the Employer and later becomes an Active Participant in the Plan, the Participant's opening balance following his Reemployment Commencement Date shall be determined as follows:

- (1) For an Employee who is not vested at his Severance from Service Date and is rehired prior to incurring five consecutive Breaks in Service, his Cash Balance Account that was forfeited at his prior Severance from

20

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Service Date under the rules provided in Section 4.5, will be restored upon rehire with applicable Interest Credits for

intervening years.

- (2) For an Employee who was vested in his Accrued Benefit as of his Severance from Service Date but who did not receive a distribution of his Accrued Benefit, such Participant's Cash Balance Account shall equal his Cash Balance Account upon his Reemployment Commencement Date, including applicable Interest Credits.
- (3) For an Employee who was vested in his Accrued Benefit at his Severance from Service Date and who began receiving a distribution of his Accrued Benefit, such Participant's Cash Balance Account shall equal zero (0) upon his Reemployment Commencement Date.

3.8 Contribution Credits

- (a) Contribution Credits shall be added to an Active Participant's Cash Balance Account as of the end of each calendar month in which the Active Participant is an Employee for any part of the month.
- (b) The Contribution Credit for a given month shall equal the sum of (1) and (2) below, determined as follows:

- (1) The applicable Contribution Credit Percentage determined under the table as follows, multiplied by the Active Participant's Compensation paid during such month.

Points	Contribution Credit Percentage
Less than 35	4%
At least 35, but not more than 49	5%
At least 50, but not more than 64	6%
65 or more	7%

A Participant's points for any month during a calendar year shall be the sum of (i) the Participant's Attained Age as of January 1 of such year (or as of the most recent January in the case of a Break in Service), expressed in whole years, and days divided by 365, plus (ii) the Participant's Creditable Service as of January 1 of such year, expressed in whole years, and days divided by 365, and the sum shall be truncated to delete less than whole points.

- (2) 4%, multiplied by the Participant's

Compensation paid during such month that, when combined with Compensation paid during the Plan Year, is Compensation in excess of the Social Security Taxable Wage Base for the Plan Year.

(c) For purpose of this Section, Contribution Credits for disabled Employees shall be determined as follows:

- (1) An Active Participant who becomes Totally and Permanently Disabled shall be considered an Employee during the period following his Disability Date and preceding his Disability Distribution Date during which he remains Totally and Permanently Disabled. Such a Participant shall be credited with Creditable Service and Compensation during such period of disability. Compensation credited under this Section shall be equal to the Participant's most recent full monthly rate of pay that was paid to him preceding his Disability Date, plus the average monthly overtime and incentive pay (to the extent included in the definition of Compensation) paid to him for the twelve (12) month period preceding his Disability Date. If the Participant recovers from his Total and Permanent Disability and is rehired by the Employer while suffering a Partial Disability, the Participant shall be credited with monthly Compensation during his period of Partial Disability as an Employee, equal to the greater of the Participant's actual Compensation paid during such month or the Compensation credited to him under the Plan while he was considered Totally and Permanently Disabled.
- (2) An Active Participant who becomes Partially Disabled and remains an Employee shall be credited with monthly Compensation during his period of Partial Disability as an Employee, equal to the greater of the Participant's actual Compensation paid during such month or the Participant's most recent full monthly rate of pay that was paid to him preceding his Partial Disability, plus the average monthly overtime and incentive pay (to the extent included in the definition of Compensation) paid to him for the twelve (12) month period preceding his Partial Disability.

3.9 Interest Credits

Interest Credits shall be added to a Participant's Cash Balance Account as of the end of each calendar month ending prior to the Participant's Annuity Starting Date.

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The amount of Interest Credits added to a Participant's Cash Balance Account shall equal the balance of the Participant's Cash Balance Account as of the end of the prior month (after adding Contribution Credits and Interest Credits for the prior month), multiplied by the monthly interest rate for the month. The monthly interest rate for a particular month is equal to one (1) plus the interest factor for the month raised to the one-twelfth (1/12th) power, minus one (1). The interest factor for a particular month shall be the average yield on 30-year Treasury bonds published in the Federal Reserve Statistical Release H.15 for the end of the third full business week prior to the beginning of the calendar quarter preceding the first day of the calendar quarter in which the particular month occurs, but not more than an annual percentage rate of nine percent (9%) and not less than an annual percentage rate of four percent (4%).

3.10 Termination of Cash Balance Account

A Participant's Cash Balance Account shall be terminated as follows:

- (a) If distributions commence under Article 4, the Participant's Cash Balance Account shall be terminated as of the Participant's Annuity Starting Date.
- (b) If a Participant dies prior to the Annuity Starting Date at a time when the Participant was fully vested, the Participant's Cash Balance Account shall cease to exist upon the commencement of the Death Benefit.
- (c) A Participant's Cash Balance Account shall be eliminated if the Participant is deemed to have received a distribution under the third sentence of Section 4.5, the Participant's entire vested Accrued Benefit as of the Participant's Severance from Service Date provided that the Cash Balance Account shall be restored if the Participant has a Reemployment Commencement Date prior to when the Participant incurs five (5) consecutive Breaks in Service. If applicable, the Cash Balance Account shall be restored to the same balance it would have had if it had never been eliminated.

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ARTICLE 4

PAYMENT OF RETIREMENT BENEFITS

4.1 Benefit Forms

- (a) The Retirement Benefit and Termination Benefit from the Plan shall be a Life Annuity equal to the Actuarial Value of a Participant's Accrued Benefit commencing on the Participant's Early, Grandfathered Early, Normal, Late or Disability Distribution Date, and continuing for his and/or her lifetime thereafter, if applicable. If the Participant is married on his Annuity Starting Date, his Retirement Benefit shall be payable in the Form of a Qualified Joint and Survivor Annuity, except as provided in Section 4.1(b) and 4.5 below.
- (b) At any time during an applicable election period, a Participant may elect, in a written application provided by the Retirement Plan Committee, and with Spouse consent, if applicable, to receive his Retirement Benefit or Termination Benefit payable after age fifty five (55) in one of the alternative forms listed below, which shall each be the Actuarial Equivalent of his Retirement Benefit or Termination Benefit payable under the Plan. An election period shall mean a period during which a Participant and Spouse are provided a written explanation to the effect of benefit forms payable under the Plan, beginning at least thirty (30) days and no more than ninety (90) days immediately prior to a Participant's Annuity Starting Date begins, and ending on that Participant's Annuity Starting Date. However, a Participant's Annuity Starting Date may begin before the end of such 30 day period, provided the election period is waived by the Participant with the Consent of his Spouse and his Annuity Starting Date begins at least seven (7) days following the date such explanation is provided. Any election under this Section may be revoked and a new election may be made at any time prior to the commencement of benefits. Pre-age fifty five (55) distributions may not be taken in the form of a lump sum payment. Once a Participant's Annuity Starting Date has begun, no further revocation or election (including the designation of an alternate Beneficiary) may be made.
- (1) Life Annuity. A monthly income payable for the Participant's lifetime.
- (2) Joint and 50% or 100% Survivor Annuity. A monthly income payable for the Participant's lifetime and continuing thereafter in an amount equal to either fifty percent (50%) or one hundred percent (100%) of the benefit payable to the Participant, that is payable to a Spouse designated in writing by the Participant. Should

the Spouse named by the Participant die prior to

24

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the Participant's Annuity Starting Date, the election shall be void and the Participant may elect another form of benefit identified in Section 4.1(b).

- (3) Life or Survivor Annuity with 3 1/2% Adjustment. A Life Annuity, or a Joint and 50% or 100% Survivor Annuity (determined in accordance with Sections 4.1(b)(1) or (2)) with payments increasing at three and one-half percent (3 1/2%) each year.
- (4) 15-Year Certain and Continuous Annuity. A monthly income payable for the Participant's lifetime with one hundred and eighty (180) payments guaranteed.
- (5) Lump Sum Payment. A lump sum payment equal to the Participant's Cash Balance Account provided under the Plan and directly rolled over to an eligible retirement plan in accordance with Section 4.4.
- (6) Lump Sum and Annuity Payment. A combination of a Lump Sum Payment with the remainder payable as a Life Annuity or Joint and 50% Survivor Annuity (determined in accordance with Sections 4.1(b)(1) or (2)), except that the amount payable as an annuity may not have an Actuarial Equivalent value of less than thirty five hundred dollars (\$3,500).
- (c) If the Participant's Beneficiary is other than his Spouse, the Retirement Benefit or Termination Benefit payable to the Participant shall comply with the provisions of Code Section 401(a)(9), and regulations thereunder, including any incidental benefit requirements, for the benefits payable to the Participant and his beneficiary or survivor.

4.2 Proof of Entitlement

Each Participant entitled to receive benefits under this Article shall complete such forms and furnish such proofs as the Retirement Plan Committee shall require.

4.3 Nonforfeitable Right at Normal Retirement

Participant who reaches Normal Retirement Age while in the employ of the Company shall have a non-forfeitable right, upon actual retirement, to receive a Retirement Benefit determined in accordance with Article 3.

25

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4.4 Direct Rollovers

Any Participant, Spouse or alternate payee who is a spouse or former spouse under a qualified domestic relations order entitled to receive an eligible rollover distribution in an amount equal to at least two hundred dollars (\$200) from the Plan may elect to have all or some portion of such amount rolled over directly to an eligible retirement plan, in which case such person shall specify to the Employer, in such form and manner as the Plan Administrator may require, the eligible retirement plan to which the eligible rollover distribution is to be rolled over. If the Participant, Spouse or alternate payee makes such an election, the distribution shall be made by the Trustee in the form of a direct rollover to the eligible retirement plan.

For purposes of the preceding paragraph, an eligible rollover distribution is a distribution of all or any portion of the balance to the credit of the Participant, Spouse or alternate payee spouse or former spouse in the Plan, excluding (a) any distribution which is one of a series of substantially equal periodic payments (made not less frequently than annually) made (i) for the life or life expectancy of the individual or the joint lives or joint life expectancies of the individual and his designated beneficiary; or (ii) for a specified period of ten (10) years or more; (b) any distribution which is required to be made under Code Section 401(a)(9); and (c) any portion of a distribution that is not includible in the individual's gross income.

An eligible retirement plan is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b) (other than an endowment contract), a qualified plan described in Code Section 401(a) that is exempt from tax under Code Section 501(a) or an annuity plan described in Code Section 403(a).

In the event a Participant, Spouse or alternate payee spouse or former spouse does not elect within the time period prescribed by law to have his eligible rollover distribution rolled over directly, he will be deemed to have elected not to make a direct rollover. The individual's distribution will be paid directly to

him with Federal income tax withheld from such eligible rollover distribution at the rate of at least twenty percent (20%)

pursuant to Code Section 3405(c), provided that nothing in this section shall give rise to a right to a lump sum distribution if it is not otherwise provided in the Plan.

4.5 Lump Sum Distributions less than \$3,500

If the vested Accrued Benefit or lump sum value of the Death Benefit with respect to a Participant or Beneficiary is less than or equal to three thousand five hundred dollars (\$3,500), the Plan Administrator shall direct that the vested Accrued Benefit or Death Benefit as calculated at the Participant's Severance from Service Date be paid as soon as reasonably possible in a lump sum to such terminated Participant or his Beneficiary. Such benefit shall be considered to fully satisfy the Plan's obligation to such former Participant and no other benefits of any type shall be payable under the Plan. If the Participant terminates without being vested in his Accrued Benefit, he shall

26

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be deemed to have received a distribution pursuant to this Section as of the date of his Severance from Service Date. If a Participant receives or is deemed to have received a distribution pursuant to this Section, the portion of his Accrued Benefit that is not vested shall be forfeited as of the date he receives or is deemed to have received the distribution.

4.6 Reemployment of a Retired Participant

Payment of a Retirement Benefit shall be suspended for a calendar month during which a reemployed Participant has at least eighty-five (85) Hours of Service with an Employer commencing after the second such month in a period of reemployment. The suspension may be effected by deduction from future benefit payments, except that no more than twenty-five percent (25%) of any benefit may be so reduced, in accordance with the requirements described in Department of Labor Regulations Section 2530.203-3(c)(1). The reemployed Participant shall be personally notified in the first calendar month during which such suspension is effected of the basis for the suspension, including the method of deduction, if any, from future Retirement Benefit payments.

27

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ARTICLE 5

BENEFITS UPON TERMINATION OF EMPLOYMENT

Deferred Vested Benefit

- (a) If a Participant's employment with an Employer terminates for reasons other than the Participant's death, Total and Permanent Disability, or Retirement (including Early, Grandfathered Early, Normal, or Late and Disability Distribution), either voluntarily or involuntarily, such Participant shall cease to be an Active Participant in the Plan. Subject to the limitations and restrictions in this Plan, if the Participant has been credited with Creditable Service under the Plan, he shall be entitled at Normal Retirement Date to receive a Termination Benefit equal to his Accrued Benefit as of his Annuity Starting Date in accordance with the following vesting schedule:

Years of Vesting Service	Vested %
less than 5	0%
5 or more	100%

- (b) In lieu of the Termination Benefit payable at Normal Retirement Date provided above, a terminated Participant who reaches his Early Retirement Date or Grandfathered Early Retirement Date may elect the immediate commencement of benefits. Commencing on the first day of the month coincident with or otherwise immediately following such election, the Participant shall be entitled to a Termination Benefit which shall be equal to his Accrued Benefit calculated as of the date payment of the Termination Benefit begins.
- (c) Subject to Spouse consent, if applicable, a terminated Participant may elect before his Annuity Starting Date to receive his Termination Benefit in an alternative form provided in Section 3.1. However, if the Participant dies prior to the commencement of his Termination Benefit, his Spouse will be entitled to the Death Benefit provided under Section 6.1 of the Plan.

ARTICLE 6

BENEFITS UPON DEATH

Death Benefit for Married Participants

(a) The Death Benefit described herein shall only be payable with respect to a Participant who dies after August 22, 1984, and either (i) completed at least one (1) Hour of Service with the Employer after August 22, 1984, or (ii) separated from service with at least ten (10) years of Vesting Service and completed at least one (1) Hour of Service with the Employer in a Plan Year beginning on or after January 1, 1976.

(b) If an Active Participant, Disabled Participant, or a former Participant (including a terminated Participant or retired Participant whose benefit is being deferred) should die prior to commencement of benefits and be survived by a Spouse to whom he was married on his date of death, such Spouse shall be entitled to a Death Benefit as hereinafter provided. Such Death Benefit shall be a monthly income, payable for the life of the Spouse, that is equal to the Actuarial Value of the Participant's Accrued Benefit as of the Annuity Starting Date. In no event will the Death Benefit be less than the benefit that would have been payable to such Spouse if the Participant had retired or terminated pursuant to the appropriate Section of the Plan on his date of death and elected to receive his Retirement Benefit or Termination Benefit in the form of a Joint and 50% Survivor Annuity under Section 4.1(b)(2).

(c) The Death Benefit shall commence as soon as practicable following the Participant's death, unless the Spouse elects later commencement. A Spouse may elect to postpone payment of the Death Benefit but not beyond the date the Participant would have reached Attained Age seventy and one-half (70-1/2).

(d) The Death Benefit shall be payable in the form as provided in Section 6.1(b). However, the Spouse may elect to receive the Death Benefit in an alternative form provided in Section 4.1(b)(5), but without regard to the limitation for the commencement of benefits before a Participant reached Attained Age fifty-five (55).

6.2 Death Benefit for Participants Who Are Not Married

If an Active Participant, Disabled Participant, or a former Participant (including a terminated Participant or retired Participant whose benefit is being deferred) should die and the Participant is

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not married as of his date of death, a Death Benefit will be payable on his behalf, to his designated beneficiary equal to the Participant's Accrued Benefit as of his death. Such Death Benefit shall be distributed in the form of a lump sum payment to the Participant's designated Beneficiary as soon as practicable following the Participant's death. If the Participant has not designated a Beneficiary, or if his Beneficiary has predeceased him, the Death Benefit shall be payable to the Participant's estate.

6.3 Death of a Retired Participant

When a Participant who is receiving Retirement Benefits or Termination Benefits hereunder shall die, his Beneficiary (or Spouse, if applicable) shall be entitled to any benefits due under the form of payment elected by the Participant. Should all periods of payments be exhausted at the death of the Participant, no additional Death Benefit shall be payable.

30

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ARTICLE 7

RESTRICTIONS ON BENEFITS AND DISTRIBUTION

7.1 Benefit Commencement Limitations

Unless the Participant otherwise elects, any payment of benefits to the Participant shall commence not later than sixty (60) days after the close of the Plan Year in which occurs the latest of:

- (a) the Participant's reaching Attained Age sixty-five (65); and
- (b) termination of service of the Participant.

7.2 Minimum Distribution Rules

Effective January 1, 1997, the Accrued Benefit of any Participant who was a five percent (5%) owner at any time after reaching Attained Age sixty-five and one-half (65-1/2) must commence to be distributed no later than the April 1 following the calendar year in which such individual reaches Attained Age seventy and one-half (70-1/2). If the Participant was not a five percent (5%) owner in any Plan Year after reaching Attaining Age sixty-five and one-half (65-1/2) and had attained age seventy and one-half (70-1/2), distributions must commence no later than the April 1 following the calendar year in which the later of his Termination from Service Date or reaching age seventy and one-half

(70-1/2) occurs, or until the individual becomes a five percent (5%) owner. If a Participant does not elect a form of payment, a minimum distribution shall be made on his behalf. If the Participant is not married, the minimum distribution shall be made in the form of a Life Annuity, determined in accordance with Section 4.1(b)(1). If the Participant is married, the minimum distribution shall be made in the form of a Joint and 50% Survivor Annuity, determined in accordance with Section 4.1(b)(2).

If a Participant is required to commence benefits pursuant to this Section while remaining employed by the Employer, he shall continue to accrue benefits under the Plan. The monthly benefit due a Participant pursuant to this Section shall be recalculated annually, as provided in Code Section 401(a)(9) and the regulations thereunder. Upon his actual retirement, his Retirement Benefit shall be reduced by the Actuarial Value of the Retirement Benefit he received prior to his retirement; provided, however, that the reduction shall not result in a Retirement Benefit, payable under the basic form, of less than the amount he received prior to his retirement.

Minimum distributions shall not be made to any other Participants who become age seventy and one-half (70-1/2) after the Effective Date and remain Employees, except to the extent required in accordance with Section 411(d) of the Code and other applicable law or regulations.

31

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7.3 Required Distribution Periods

Notwithstanding the forms of payment provided in Article 4, distributions of benefits may only be made over one of the following periods (or a combination thereof):

- (a) the life of the Participant;
- (b) the life of the Participant and a designated Beneficiary;
- (c) a period certain not extending beyond the life expectancy of the Participant; or
- (d) a period certain not extending beyond the joint and last survivor life expectancy of the Participant and a designated Beneficiary.

Upon the death of the Participant, the following distribution provisions shall take effect:

- (e) If the Participant dies after distribution of his interest has commenced, the remaining portion of such interest will continue to be distributed at least as rapidly as under the method of distribution in effect prior to the Participant's death.
- (f) If the Participant dies before distribution of his interest commences, the Participant's entire interest will be distributed no later than five (5) years after the Participant's death except to the extent that an election is made to receive distributions in accordance with (1) or (2) below:
- (1) If any portion of the Participant's interest is payable to a designated Beneficiary, distributions may be made in substantially equal installments over the life or life expectancy of the designated beneficiary commencing no later than one (1) year after the Participant's death.
- (2) If the designated Beneficiary is the Participant's surviving Spouse, the date distributions are required to begin in accordance with (1) above shall not be earlier than the date on which the Participant would have reached Attained Age seventy and one-half (70-1/2), and, if the Spouse dies before payments begin, subsequent distributions shall be made as if the Spouse had been the Participant.
- (g) If the Participant's entire interest is to be distributed in other than a lump sum, the amount to be distributed each year must be at least an amount equal to the quotient obtained by dividing the Participant's entire interest by the Participant's life expectancy or the joint and last survivor life expectancy of the Participant and

the designated beneficiary. Life expectancies are computed by the use of the return multiples contained in Section 1.72-9 of the Treasury Regulations. For purposes of this calculation, a Participant's life expectancy or a spouse's life expectancy may be recalculated no more frequently than annually; however, the life expectancy of a non-spouse beneficiary may not be recalculated. If the form of payment includes a life contingency, life expectancy may not be recalculated.

Limitation on Annual Benefits

The total annual benefit (as defined hereinafter) of any Participant shall not, at any time during any Limitation Year, exceed the limitations set forth in this Section and its provisions.

- (h) For purposes of this Section, the term "annual benefit" means a benefit payable in the form of a straight life annuity with no ancillary benefits, under a plan to which employees do not contribute and under which no rollover contributions (as defined in Sections 402(a)(5), 403(a)(4) and 408(d)(3) of the Code) are made.
- (i) The total annual benefit shall not exceed the lesser of
- (1) ninety thousand dollars (\$90,000) or the specific amount, determined by the Commissioner of Internal Revenue as of January 1 of each calendar year, to apply to the Limitation Year ending with or within that calendar year, or
 - (2) one hundred percent (100%) of the Participant's average compensation for his/her high three (3) years (as defined in Section (e) of this Section).

When retirement benefits under this Plan are payable in any form other than the form described in Section (a) of this Section or if the Participants contribute to the Plan or make rollover contributions, the determination as to whether the limitation described in this Section has been satisfied shall be made, in accordance with regulations prescribed by the Secretary of the Treasury or his/her delegate, by adjusting such benefit so that it is equivalent to the benefit described in Section (a) of this Section, provided that the interest rate used to determine such equivalence shall be not be less than five percent (5%).

For purposes of this Section, any ancillary benefit which is not directly related to retirement income benefits shall not be taken into account, and that portion of any joint and survivor annuity which constitutes a qualified joint and survivor annuity (as defined in Section 417(b) of the Internal Revenue Code) shall not be taken into account.

If the retirement income benefit under this

Plan begins before the Social Security normal retirement age, the determination as to whether the dollar limitation set forth in clause (1) of Section (b) of this Section has been satisfied shall be made, in accordance with regulations prescribed by the Secretary of the Treasury or his/her delegate, by reducing the dollar limitation so that such limitation (as so reduced) equals an annual benefit (beginning when such retirement income benefit begins) which is equivalent to a ninety thousand dollar (\$90,000) annual benefit beginning at Social Security normal retirement age. The reductions required by this paragraph for determining equivalent maximum benefits which commence between age sixty-two (62) and the Social Security normal retirement age under the Social Security Act shall be consistent with the reductions provided by the Social Security Act for benefits commencing during that period. The factors used to determine the equivalent maximum benefit for benefits that commence prior to age sixty-two (62) shall be the reductions provided by the Social Security Act, but in no event less than five percent (5%).

- (1) For purposes of this Section, a Participant's high three (3) years shall be the period of consecutive calendar years (not more than three (3)) during which the Participant both was an active Participant in the Plan and had the greatest aggregate compensation from the Company. In the case of a Participant who is an "employee" within the meaning of Section 401(c)(1) of the Code, the preceding sentence shall be applied by substituting "the Participant's earned income (within the meaning of Section 401(c)(2) of the Code but determined without regard to any exclusion under Section 911 of the Code)," for "compensation from the Company."

Compensation, for purposes of this Section, shall mean the Participant's earned income, wages, salaries, fees for professional services actually rendered in the course of employment with the Employer (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips and bonuses.) For purposes of this Section, compensation shall not include:

- (1) Employer contributions to a plan of deferred compensation to the extent the contributions are not included in the gross income of the Participant for the taxable year in which contributed, on behalf of a Participant to a simplified employee pension plan to the extent such contributions are deductible by the Participant, and any distributions from a plan of deferred compensation, regardless of whether such

amounts are includible in the gross income of the Participant;

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- (2) Amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by a Participant either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
 - (3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and
 - (4) Other amounts that receive special tax benefits, such as premiums for group term life insurance (but only to the extent that the premiums are not includible in the gross income of the Participant), or contributions made by the Employer (whether or not under a salary reduction agreement) toward the purchase of any annuity contract described in Code Section 403(b) (whether or not the contributions are excludable from the gross income of the Participant).
- (m) Notwithstanding the preceding provisions of this Section, the benefits payable with respect to a Participant under this Plan shall be deemed not to exceed the limitations of this Section if:
- (1) the retirement benefits payable with respect to such Participant under this Plan and under all other Defined Benefit Plans to which the Company contributes do not exceed ten thousand dollars (\$10,000) for the applicable Limitation Year and for any prior Limitation Year, and
 - (2) the Company has not at any time maintained a Defined Contribution Plan in which the Participant participated.
- (n) In the case of a Participant who has fewer than ten (10) years of participation in the Plan, the limitation referred to in clause (1) of Section (b) of this Section shall be multiplied by a fraction, the numerator of which is the number of years (or part thereof) of participation in the Plan and the denominator of which is ten (10).

In the case of a Participant who has fewer than ten (10) years of employment with the Company, the limitation referred to in clause (2) of Section (b) of this Section (or in Section (f) of this Section, if applicable) shall be multiplied by a fraction, the numerator of which is the number of years (or parts thereof) of employment with the Company and the denominator of which is ten (10).

In no event shall this Section reduce the limitation referred to in Section (b) of this Section (or in Section (f) of this Section, if applicable) to an amount less than one-tenth (1/10) of such limitation (determined without regard to this Section).

35

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To the extent provided in regulations under the Code, this Section shall be applied separately with respect to each change in the benefit structure of the Plan.

- (o) In the case of a Participant who is separated from service with the Company, the one hundred percent (100%) limitation in clause (2) of Section (b) of this Section shall be automatically adjusted to reflect any regulations issued by the Secretary of the Treasury pursuant to Section 415(d) of the Code, concerning cost-of-living adjustments.
- (p) If the Retirement Benefit under this Plan begins after the Social Security normal retirement age, the determination as to whether the dollar limitation set forth in clause (1) of Section (b) of this Section has been satisfied shall be made, in accordance with regulations prescribed by the Secretary of the Treasury, by increasing the dollar limitation so that such limitation (as so increased) equals an annual benefit (beginning when such retirement income benefit begins) which is equivalent to a ninety thousand dollar (\$90,000) annual benefit beginning at the Social Security normal retirement age.
- (q) If the current accrued benefit of a Participant on October 31, 1987, exceeds the limitation referred to in Section (b) of this Section as modified by the applicable provisions of the other Sections of this Section, then, with respect to such Participant, the limitation described in clause (1) of Section (b) of this Section shall be equal to such current accrued benefit.

For purposes of this Section, "current accrued benefit" means a Participant's Accrued Benefit determined as if the Participant had separated from service with the Company as of October 31, 1987, expressed as an annual benefit within the meaning of Code Section 415(b)(2). In determining the amount of a Participant's current accrued benefit, (1) any change in the terms and conditions of the Plan after May 5, 1986, and (2) any cost of living adjustment occurring after May 5, 1986, shall be disregarded.

(r) This Section is effective as of November 1, 1987.

7.5 Combined Benefit Limitations

If a Participant is a participant in one or more Defined Benefit Plans and one or more Defined Contribution Plans maintained by the Company, the sum of his/her defined benefit plan fraction and his/her defined contribution plan fraction shall not exceed unity (1.0) during any Limitation Year.

36

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If the sum of the defined benefit plan fraction and the defined contribution plan fraction would exceed unity (1.0) for any Limitation Year, the Company shall adjust the rate of benefit accrual for purposes of a Defined Benefit Plan on behalf of the Participant so that the sum of such fractions shall not exceed unity (1.0).

For purposes of determining maximum annual additions to Defined Contribution Plans and maximum annual benefits payable from Defined Benefit Plans, all Defined Contribution Plans and all Defined Benefit Plans, whether or not terminated, shall be combined and treated as one plan.

(a) The term "defined benefit plan fraction" shall mean a fraction the numerator of which is the Participant's projected annual benefit (as defined in the said Defined Benefit Plan) determined as of the close of the Limitation Year, and the denominator of which is the lesser of:

- (1) the product of one and twenty-five hundredths (1.25) multiplied by the dollar limitation described in clause (i) of Section 0 for such Limitation Year; or
- (2) the product of one and four-tenths (1.4) multiplied by the amount, described in clause (ii)

of Section 0, which may be taken into account with respect to each individual under the Plan for such Limitation Year.

) The term "defined contribution plan fraction" shall mean a fraction the numerator of which is the sum of all of the annual additions to the Participant's individual account under the Defined Contribution Plan as of the close of the Limitation Year and the denominator of which is the sum of the lesser of the following amounts determined for such Limitation Year and for each prior Limitation Year of employment with the Company:

- (1) the product of one and twenty-five hundredths (1.25) multiplied by the dollar limitation in effect in Code Section 415(c)(1)(A) for such Limitation Year; and
- (2) the product of one and four-tenths (1.4) multiplied by the amount which may be taken into account pursuant to Code Section 415(c)(1)(B) with respect to each individual under the Defined Contribution Plan for such Limitation Year. If the Plan satisfied the applicable requirements of Section 415 of the Code as in effect for all Limitation Years prior to November 1, 1987, the numerator of the defined contribution plan fraction shall be adjusted by permanently subtracting therefrom an amount equal to the product of the amount by which the sum of the defined benefit plan fraction and the defined contribution plan fraction exceeds one (1), times

37

<PAGE>

the denominator of the defined contribution plan fraction as of October 31, 1987.

- (c) The limitation on aggregate benefits from a Defined Benefit Plan and a Defined Contribution Plan which is contained in Section 2004 of ERISA as amended shall be complied with by a reduction (if necessary) in the Participant's benefits under this Defined Benefit Plan before a reduction in benefits in the Defined Contribution Plan.
- (d) This Section is effective for the period January 1, 1987 through December 31, 1999, unless otherwise required under applicable law.

Corrective Adjustments

In the event that corrective adjustments are required pursuant to Section 7.4 or Section 7.5, the Participant's annual benefit will be reduced by an amount, determined by the Actuary, adequate to ensure compliance with Section 7.4 and Section 7.5.

7.7 Benefit Offset

If any Participant is or becomes, or upon proper application would become, entitled to a pension or other benefits under any other "qualified" defined benefit pension plan of which the Employer has borne, or is required to bear, any part of the cost, the Retirement Benefit payable to such Participant under the provisions of this Plan shall be reduced to reflect the value of such other plan to the extent that credit is granted under both plans for the same period of service. The term "other 'qualified' defined benefit pension plan" shall not include any plan or program under which benefits are provided wholly or in part by public funds, state or Federal.

7.8 Top-25 Highest Paid Limitation

In any year, the payment of Retirement Benefits or Termination Benefits to or on behalf of any Participant who is a Restricted Participant (as hereinafter defined) shall not exceed the amount that would be payable as a single life annuity that is the Actuarial Equivalent of the Participant's Accrued Benefit and his other benefits (loans in excess of the amounts set forth in Code Section 72(p)(2)(A), any periodic income, any withdrawal values payable to a living employee, and any death benefit not provided through insurance on the Participant's life) under the Plan. A Restricted Participant is any Highly Compensated Employee or former Highly Compensated Employee; provided, however, that such a Highly Compensated Employee or former Highly Compensated Employee shall not be a Restricted Participant in the current year if the Highly Compensated Employee or former Highly Compensated Employee is not one of the twenty-five (25) non-excludable employees and former employees of the Company or Affiliate with the largest compensation in the current or any prior year.

38

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The restrictions set forth in the preceding paragraph shall not apply if (i) after taking into account payment to or on behalf of the Restricted Participant of all benefits payable to or on behalf of that Restricted Participant, the value of Plan assets equals or exceeds one hundred and ten percent (110%) of the value of current Plan liabilities as defined in Code Section 412(l)(7), (ii) the value of the benefits payable to or on behalf of the Restricted Participant is less than one percent (1%) of the Plan's current liabilities as defined in Code Section 412(l)(7) before distribution, or (iii) the value of the benefits payable

to or on behalf of the Restricted Participant does not exceed the amount described in Code Section 411(a)(11)(A).

Qualified Domestic Relations Orders

Notwithstanding any other provision to the contrary in this Plan, the Accrued Benefit of a Participant shall be distributed as soon as reasonably possible to an alternate payee at the time and in the manner specified in a Qualified Domestic Relations Order (as defined in Code Section 414(p)) to the extent that such distribution is permitted under the Plan, the Code, ERISA and other applicable law. No distribution shall be paid to an alternate payee in a form of payment or at a time not otherwise available to a Participant under the Plan.

39

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ARTICLE 8

SPECIAL PROVISIONS APPLICABLE TO MERGERS, ACQUISITIONS, AND RELATED EMPLOYERS

8.1 Prior Service as an Employee of Vectra Technologies, Inc.

In the case of an Employee who was employed by Vectra Technologies, Inc. immediately prior to the date on which he becomes an Employee, the Retirement Benefit under this Plan shall be equal to the greater of:

- (a) the Participant's Accrued Benefit under this Plan, determined using an opening Cash Balance Account calculated as of the Effective Date in accordance with Section 3.8, and Vesting Service and Creditable Service in accordance with the terms of this Plan for the period of service while an Employee, or
- (b) the Actuarial Value of the Participant's 1996 Plan Benefit, plus Contribution Credits and Interest Credits determined in accordance with Section 8.1(a) above. In this case, such Participant shall be credited with Vesting Service for his employment with Vectra Technologies, Inc., in addition to his service as an Employee.

8.2 Prior Service as an Employee of DE&S Northwest, Inc. or Intera, Inc.

In the case of an Employee who is employed by DE&S Northwest, Inc. or was employed by Intera, Inc. immediately prior to the date on which he becomes an Employee, the Retirement Benefit under this Plan shall be equal to the Participant's Accrued Benefit under this Plan, determined

using an opening Cash Balance Account calculated as of the Effective Date in accordance with Section 3.8, and Vesting Service and Creditable Service in accordance with the terms of this Plan for his service as an Employee, plus any continuous employment service with DE&S Northwest, Inc. (including prior service with Westinghouse Hanford, Inc.) or Intera, Inc.

40

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ARTICLE 9

MEDICAL BENEFITS

9.1 Medical Benefits for Retired Employees

Sickness, accident, hospitalization and medical expenses for certain retired employees and their eligible dependents shall be provided under this Plan in accordance with Code Section 401(h). Unless otherwise provided, the other provisions of this Plan shall not apply to Medical Benefits under this Article.

9.2 Eligible Individuals

Medical Benefits, as defined in Section 9.3, shall be provided to the following eligible individuals:

- (a) An Employee who terminated employment on or after January 1, 1992 following his Normal, Early or Disability Distribution Date and is eligible for coverage under the Duke Power Company Retiree Medical Plan,
- (b) An Employee who terminated employment before January 1, 1992 following his Normal, Early or Disability Distribution Date and is eligible for coverage under the Duke Power Company Retiree Medical Plan as of January 1, 1999, and
- (c) A Spouse or other dependent of an individual who meets the conditions described in (a) or (b) above, who also meets the eligibility requirements for receiving medical benefits under the Duke Power Company Retiree Medical Plan.

Notwithstanding the preceding terms of this paragraph, Medical Benefits shall not be payable under this Plan for any Key Employee as defined in Section 416 of the Code.

This Article defines the extent to which medical benefits will be funded under the 401(h) provision of the Plan. The level of

medical benefits provided shall be determined in accordance with the Duke Power Company Retiree Medical Plan.

Medical Benefits

Medical Benefits shall mean any medical expense properly reimbursable as retiree medical benefits under the Duke Power Company Retiree Medical Plan, as in effect on January 1, 1997, whether insured or self-funded, and maintained or sponsored by the Company to provide medical coverage to former employees, their Spouses and dependents.

41

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9.4 Separate Account

A separate account shall be maintained for record-keeping purposes for contributions made to fund the Medical Benefits, which shall hereinafter be referred to as the "Medical Account." The funds deposited in the Medical Account need not be separately invested; however, if funds in the Medical Account are not separately invested, any earnings on such funds shall be allocated to the funds in the Medical Account on a reasonable and consistent basis.

Contributions

Amounts contributed by the Employer to fund the Medical Account shall be both reasonable and ascertainable, and such contributions shall be conditioned on their deductibility under the Code. The Employer shall designate the portion of each contribution to the Plan that is allocable to the Medical Account. In no event shall aggregate contributions to the Medical Account, when added to actual contributions, if any, for life insurance protection under the Plan, exceed twenty-five percent (25%) of the total actual contributions to the Plan (other than contributions to fund past service credits) after the date on which the Medical Account is established. For purposes of this Section, life insurance protection includes any benefit paid under the Plan on behalf of a Participant as a result of the death of the Participant to the extent such payment exceeds the amount of the reserve to provide retirement benefits for the Participant existing at his death. No contributions to the Medical Account shall be accepted from Employees or retired Participants.

9.6 Payment of Benefits

An amount shall be paid for any year from the Medical Account to the Duke Power Company equal to the actual cost of coverage (including administrative cost) under the Duke Power Company

Retiree Medical Plan, for those eligible individuals described in Section 9.2. In the event that the cost of coverage for any year exceeds the value of the assets in the Medical Account, the amount required to be paid from the Medical Account shall be the value of the assets in the Medical Account to the extent such value exceeds a de minimis amount. For this purpose, a de minimis amount shall be deemed to be twenty-five thousand dollars (\$25,000) or less. In no event shall the Employer be required to make additional contributions to the Medical Account because the cost of coverage for a year exceeds the value of the assets in the Medical Account.

9.7 Discrimination

No benefit from the Medical Account shall be paid in a manner that discriminates in favor of highly compensated employees as defined in Section 414(q) of the Code.

42

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9.8 Impossibility of Diversion

No amount contributed to the Medical Account and no income thereon may be used for or diverted to any purpose other than providing Medical Benefits under the Plan, unless all liabilities of the Employer under the Duke Power Company Retiree Medical Plan or any successor welfare benefit plan have been satisfied. Amounts that are contributed to the Medical Account, and any earnings thereon, may be returned to the Employer upon the satisfaction of all liabilities under the Duke Power Company Retiree Medical Plan or any successor welfare benefit plan. If Federal law is amended after the Effective Date of the Plan, to provide for governmental provision of post-retirement medical expenses, mandatory payment or reimbursement by employers, or other sources of post-retirement medical expenses in a manner that substantially provides for the post-retirement medical expenses of eligible individuals described in Section 9.2, the preceding provisions of this Section 9.8 shall cease to apply to the extent that payment of Medical Benefits would duplicate payment of medical expenses provided for by such amendment to the law.

9.9 Forfeitures

To the extent, if any, that individual contributions are accepted, in the event an individual's interest in the Medical Account is forfeited prior to termination of the Medical Account, an amount equal to the forfeiture shall be applied as soon as possible to reduce Employer Contributions.

9.10 Right To Terminate Benefits

The Employer reserves the right, in its sole and absolute discretion, to amend or terminate the Medical Benefits provided hereunder or under the Duke Power Company Retiree Medical Plan at any time, subject to the requirements of Section 9.8.

43

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ARTICLE 10

PLAN ADMINISTRATION

10.1 Plan Administrator

The Company shall be the Plan Administrator for purposes of ERISA and for purposes of satisfying any requirement now or hereafter imposed through Federal or state legislation to report and disclose to any Federal or state department or agency, or to any Participant, Spouse or Beneficiary, any information respecting the establishment or maintenance of this Plan.

10.2 Appointment

The Company may appoint a Retirement Plan Committee which shall perform the duties as Plan Administrator. Any individual, including but not limited to Employees and Participants, may be appointed to the Retirement Plan Committee serving on behalf of the Company as Plan Administrator.

10.3 Term and Compensation

The Plan Administrator or the Retirement Plan Committee members performing the duties of the Plan Administrator shall serve on the Retirement Plan Committee until their resignation or dismissal by the Company. Vacancies shall be filled in the same manner as the original appointments. Members shall serve as such without compensation.

10.4 Claims Review

The Plan Administrator shall interpret this Plan and shall make all determinations with regard to the administration and application of this Plan. All such determinations shall be final, conclusive and binding except to the extent that they are appealed with regard to benefit claims under the following procedure. In the event that the claim of any person to all or any part of any payment or benefit under this Plan shall be denied, the Plan Administrator shall provide to the claimant, within sixty (60) days after receipt of such claim, a written

notice setting forth, in a manner calculated to be understood by the claimant:

- (a) the specific reason or reasons for the denial;
- (b) specific references to the pertinent Plan provision or provisions on which the denial is based;

44

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- (c) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation as to why such material or information is necessary; and
- (d) an explanation of the Plan's claim procedure.

Within sixty (60) days after receipt of the material described above, the claimant shall have a reasonable opportunity to appeal the claim denial to the Plan Administrator for a full and fair review. The claimant or his duly authorized representative may request a review upon written notice to the Plan Administrator, review pertinent documents; and submit issues and comments in writing.

Within twenty (20) days of receiving a request for review, the Plan Administrator shall notify the claimant of a date for a hearing, which shall be within thirty (30) days of receiving such request. Following such hearing, regardless of whether the claimant or his representative elects to be present or to make an oral or written presentation at such hearing, and not later than sixty (60) days after receipt of a request for review, a decision by the Plan Administrator shall be made unless special circumstances require an extension of time for processing, in which event a decision shall be rendered as soon as possible, but in no event later than one hundred twenty (120) days after such receipt.

The Plan Administrator's decision on review shall be written and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, with specific references to the pertinent Plan provision or provisions on which the decision is based.

10.5 Plan Administrator Actions

Except as otherwise specifically provided in the Plan, every decision and action of the Plan Administrator shall be by a majority vote of the Retirement Plan Committee taken at a meeting, or without a formal meeting by the written consent of a majority of the members of the Retirement Plan Committee then in

office. The Plan Administrator shall select a Secretary and any other officers deemed necessary who shall be authorized to bind Retirement Plan Committee members by their signatures, and all adopt rules governing its procedures consistent with the terms of this Plan. The Plan Administrator shall keep a permanent record of its meeting and actions.

10.6 Benefit Payment Directions

The Plan Administrator shall direct the Trustee or shall cause the Trustee to be directed in writing to make benefit payments from the Trust to Participants, Spouses or Beneficiaries who qualify for such payments under the Plan. Such written order to the Trustee shall specify the name of each

45

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such recipient, his address, his Social Security number, and the amount and frequency of such payments.

10.7 Nondiscrimination

The Plan Administrator shall act and shall direct the Trustee to act or cause such action with respect to any Plan benefits or any other matter under the powers of the Plan Administrator under the Plan in a uniform and nondiscriminatory manner toward all Participants and Employees under substantially similar sets of facts and shall not permit discrimination in favor of any officers, owners or Highly Compensated Employees of the Employer.

10.8 Agents

The Plan Administrator may employ such counsel (who may be counsel for the Employer), consultants, accountants, and other agents as it shall deem advisable. All costs and expenses of the Plan Administrator and the fees of legal counsel, consultants, accountants, and other agents shall be paid by the Employer, or the Employer shall cause such costs and expenses to be paid by the Trustee out of the Trust Fund.

10.9 Records and Reports

The Plan Administrator shall keep all records relating to Participants (including former Participants) and obtain annual reports from the Trustee and any Investment Manager and collect from the Trustee and any such Investment Manager and other sources any such records as are necessary for proper operation of the Plan. The Plan Administrator shall make an annual report of the assets and liabilities of the Plan and a brief description of the Plan's operation for the immediately preceding Plan Year to the Employer and shall make such report and any other such

records available to the Employer, or any Participant, Spouse or Beneficiary for examination during business hours except that a Participant, Spouse or Beneficiary shall examine only such records as pertain exclusively to the examining Participant, Spouse or Beneficiary and the Plan and Trust Agreement as currently in effect or hereafter amended.

10.10 Indemnification

The Employer shall indemnify and hold harmless the Plan Administrator, any member thereof and any Employee who may act on behalf of the Employer in the administration of this Plan from and against any liability, loss, cost or expense (including reasonable attorneys' fees) incurred by it at any time as a result of or in connection with any claims, demands, actions or causes of action of any Participants, any person claiming through or under any of them, or any other person, party or authority claiming to have an interest in this Plan or Trust or standing to act for any persons or groups having an interest in this Plan or Trust, for or on account of, any of the acts or omissions

46

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(or alleged acts or omissions) of any member of the Plan Administrator or any such employee, except to the extent resulting from such person's willful misconduct.

10.11 Funding Policy

The Plan Administrator shall be responsible for establishing a policy to carry out the objectives of the Plan and a method to determine the liquidity and investments needed under that policy. At least annually, the Plan Administrator shall communicate information concerning the short- and long-term liquidity and investment needs of the Plan to the Trustee and any Investment Managers, so that the investment policy for the Trust Fund can be appropriately coordinated with Plan needs. In investing and reinvesting the Trust, the Trustee and any Investment Managers shall have due regard for the funding policy and method of the Plan as communicated to it by the Plan Administrator, but the Trustee and every Investment Manager each shall be fully responsible for the selection and retention or disposition of the investments or reinvestments of the assets of the Trust in its possession to fulfill such funding policy and method.

10.12 Powers and Duties of the Plan Administrator

The Plan Administrator shall supervise the administration and enforcement of the Plan according to the terms and provisions of the Plan and shall have all powers necessary to accomplish these purposes, including, without limitation and in addition to any

other powers described in this Article, the right, power, authority and duty:

- a) to make rules, regulations and bylaws for the administration of the Plan which are not inconsistent with the terms and provisions of this Plan, provided such rules, regulations and bylaws are evidenced in writing and copies thereof are delivered to the Trustee and to the Employer;
- (b) to construe all terms, provisions, conditions and limitations of the Plan (in all cases, the construction necessary for the Plan to qualify under the applicable provisions of the Code shall control);
- (c) to correct any defect or supply any omission or reconcile any inconsistency that may appear in the Plan, in such manner and to such extent as it shall deem expedient to carry the Plan into effect for the greatest benefit of all interested parties;
- (d) to determine all questions relating to eligibility;
- (e) to determine the amount, manner and time of payment of any Plan benefits and to prescribe procedures to be followed by distributees in obtaining benefits;

47

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- (f) to prepare, file and distribute, in such manner as the Plan Administrator determines to be appropriate, such information and material as is required by the reporting and disclosure requirements of ERISA;
- (g) to make a determination as to the right of any person to a benefit under the Plan;
- (h) to receive and review reports from the Trustee and any Investment Manager as to the financial condition of the Trust, including its receipts and disbursements; and
- (i) to delegate, in its sole discretion, any of its powers or duties to subcommittees, task forces or study groups at such times and in such manner as it shall deem expedient to administer and enforce the Plan in a uniform and nondiscriminatory manner for the benefit of all interested parties.

13 Employer to Supply Information

The Employer shall supply full and timely information to the Plan Administrator relating to the Compensation of all Participants, their ages, their retirement, death or other cause for termination of employment and such other pertinent facts as the Administrator may require. The Employer also shall supply such information to the Trustee and every Investment Manager as necessary for the Trustee and each Investment Manager to carry out its duties. When making a determination in connection with the Plan, the Plan Administrator shall be entitled to rely upon information furnished by the Employer provided that the Plan Administrator shall resolve any factual dispute under this Plan by giving weight to all information available to it.

10.14 Self-Interest

Neither the Plan Administrator nor any member of the Retirement Plan Committee shall have any right to vote or decide upon any matter related directly to him or any right of his to claim any benefit under the Plan. In any case in which a Retirement Plan Committee member is so disqualified to act, and the remaining members cannot agree, the Board may appoint a temporary substitute member to exercise all the powers of the disqualified member concerning the matter in which he is disqualified.

48

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ARTICLE 11

CONTRIBUTIONS BY THE EMPLOYER

11.1 Employer Contributions

The Employer intends but it does not guarantee to make contributions to the Trust Fund in such amount and at such times as are required to maintain the Plan and Trust Fund for Participants in compliance with the provisions of ERISA and regulations issued thereunder. All such contributions made to the Trust Fund shall be used to fund benefits under the Plan or to pay expenses of the Plan and shall be irrevocable, except as otherwise provided in Section 13.5 or Section 15.5. Employees and Participants are neither required nor permitted to make contributions to the Plan.

11.2 Expenses

The Employer may pay all costs, expenses and fees incurred in providing services to the Plan and all other costs and expenses of administering and operating the Plan. The Employer shall direct the Trustee to pay from the Trust Fund any expenses that the Employer does not pay or for which the Employer may not be liable, such as real and personal property taxes, income taxes,

excise taxes, transfer taxes, and any and all expenses of a similar nature that may be levied or chargeable on account of the Trust, other than expenses for services rendered on behalf of the Plan or the Trust Fund in connection with the establishment or termination of such Plan or Trust Fund. Such expenses, until they are paid, shall constitute a charge against the Trust to be satisfied before any distribution upon Plan termination.

11.3 Actuary

The Actuary shall perform period valuations of the Plan, no less than annually. The Actuary in the actuarial valuation shall apply all gains arising in the operation of the Plan, including but not necessarily limited to gains arising from terminations of employment of Participants prior to qualifying for benefits hereunder, to reduce the contributions of the Employer pursuant to the funding method and actuarial tables then in use.

11.4 Funding Standard Account

The Plan Administrator shall cause the Plan to establish and maintain a funding standard account so that it may be determined whether or not the Plan has complied with minimum funding standards.

49

PAGE

ARTICLE 12

THE TRUST FUND AND TRUSTEE

12.1 Trust Agreement

The Company has entered into a Trust Agreement with the Trustee to hold the funds necessary to provide the benefits set forth in the Plan. The Trust Agreement shall be deemed to form a part of the Plan and all rights of Participants or others under the Plan shall be subject to the provisions of the Trust Agreement to the extent such provisions are not contradicted by specific provisions of the Plan. The Trust Agreement may contain provisions granting authority to the Employer to settle the accounts of the Trustee on behalf of all persons having or claiming an interest in the Trust Fund.

12.2 Trust Fund

The Trust Fund shall be received, held in Trust, and disbursed by the Trustee in accordance with the provisions of the Trust Agreement and the provisions as set forth in this Plan. No part of the Trust Fund shall be used for or diverted to purposes other

than the exclusive benefit of Participants and their beneficiaries under this Plan, prior to the satisfaction of all liabilities hereunder with respect to them, except as provided in Section 13.5 and except as provided in Section 15.5 hereof at the time of termination of the Plan and Trust. No person shall have an interest in or right to the Trust Fund or any part thereof, except as specifically provided for in this Plan and/or the Trust Agreement.

12.3 Appointment of Trustee

The Trustee may be any individual, corporation or other legal person qualified to serve as a trustee under ERISA. The Company may remove the Trustee at any time upon notice required by the terms of the Trust Agreement and, upon such removal or upon the resignation of the Trustee, the Company shall designate and appoint a successor Trustee and direct the transfer of the Trust Fund as provided in the Trust Agreement.

12.4 Investment Managers

The Company may appoint, in writing and from time to time, one (1) or more Investment Managers to manage and/or invest and reinvest the Trust Fund or any part thereof. Any such Investment Manager shall be certified as such to the Trustee by the Company, and the Trustee shall not be liable for the acts or omissions of any such Investment Manager or be under any obligation to manage or invest the assets of the Trust Fund that are subject to management by such Investment Manager. Each such Investment Manager shall at all times be a person or

50

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organization qualified to act as an "investment adviser" under the Investment Advisers Act of 1940 and regulations issued thereunder, and shall acknowledge in writing acceptance of its fiduciary status under this Plan.

The Company may remove any Investment Manager at any time upon written notice and, upon such removal or upon the resignation of any Investment Manager, the Company may designate and appoint a successor Investment Manager and shall direct the former Investment Manager to transfer the assets of the Trust Fund in its possession to the Trustee or the successor Investment Manager. The Trustee shall not be responsible for assets of the Trust Fund while they are in the possession of an Investment Manager, except as provided in the Trust Agreement.

12.5 Powers

The Trustee and any Investment Manager shall have such powers to purchase insurance on the lives of Participants and to hold,

invest, reinvest, control, and disburse funds as shall be set forth at that time in the Trust Agreement or written appointment, respectively.

12.6 Plan a Part of Trust Agreement

The Trust Agreement shall be deemed to form a part of this Plan and all rights of Participants or others under this Plan shall be subject to the provisions of the Trust Agreement to the extent such provisions are not contradicted by specific provisions of this Plan.

12.7 Settlement of Accounts

The Trust Agreement may contain provisions granting authority to the Company to settle the accounts of the Trustee on behalf of all persons having or claiming an interest in the Trust Fund.

51

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ARTICLE 13

RESERVATION OF AND LIMITATIONS ON RIGHTS

13.1 Benefits

Although it is the intention of the Employer that this Plan shall be continued and its contributions made regularly each year, this Plan is entirely voluntary on the part of the Employers and the continuance of the Plan and the payments thereunder are not assumed as a contractual obligation of the Employer. The Employer does not guarantee or promise to pay or cause to be paid any of the benefits provided by the Plan.

13.2 Contributions

The Employer specifically reserves the right, in its sole and uncontrolled discretion and by official and authorized act, to modify, suspend, in whole or in part, at any time or from time to time, and for any period or periods, or to discontinue at any time, the contributions specified in Article 11 of this Plan.

13.3 No Employment Contract

This Plan shall not be deemed to constitute a contract between the Employer and any Participant or to be a consideration or an inducement for the employment of any Participant or Employee. Nothing contained in this Plan shall be deemed to give any Participant or Employee the right to be retained in the service

of the Employer or to interfere with the right of the Employer to discharge any Participant or Employee at any time regardless of the effect which such discharge shall have upon him as a Participant in the Plan.

13.4 Spendthrift Clause

None of the benefits provided under this Plan are subject to the claims of creditors of Participants, Retired Participant or their beneficiaries and will not be subject to attachment, garnishment or any other legal process. Neither a Participant nor a retired Participant nor his Beneficiaries may assign, sell, borrow on or otherwise encumber any of his beneficial interest in this Plan nor shall any such benefits be in any manner liable for or subject to the deeds, contracts, liabilities, engagements, or torts of any Participant, retired Participant or Beneficiary. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined by the Plan Administrator to be a qualified domestic relations order, as defined in Code Section 414(p).

52

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13.5 Return of Contributions

It is intended that this Plan shall be approved and qualified by the Internal Revenue Service as meeting the requirements of the Code and regulations issued thereunder:

- (a) so as to permit the Employer to deduct for Federal income tax purposes the amounts of its contributions to the Trust Fund;
- (b) so that the contributions so made and the income of the Trust Fund will not be taxable to Participants as income until received; and
- (c) so that the income of the Trust Fund shall be exempt from Federal income tax.

The Employer's contributions under this Plan are conditioned on their being deductible under Code Section 404. In the event the Commissioner of Internal Revenue or his delegate rules that a deduction for all or a part of the Employer's contribution is not allowed, the Employer will recover, within one (1) year of the disallowance of the deduction, that portion or all of its contribution for which no deduction is allowed. The Employer reserves the right to recover that portion or all of any contribution made by a mistake of fact, provided such recovery is

made within one (1) year of the payment of the contribution to the Trustee. No earnings on a contribution shall be returned to the Employer and losses on the contribution will reduce the amount to be returned.

53

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ARTICLE 14

AMENDMENTS

14.1 Amendment of the Plan

The Company reserves the right, at any time and from time to time, to modify or amend, in whole or in part, any or all of the provisions of this Plan, without the consent of the Employer, Participant, Spouse, Beneficiary, or any other person or persons claiming through them, by action of the Board through resolutions duly adopted by the Board, including specifically the right to make any such modifications or amendments effective retroactively, if necessary; provided that no such modification or amendment shall make it possible for any part of the assets of this Plan to be used for or diverted to purposes other than the exclusive benefit of Participants and their Spouses and Beneficiaries under this Plan, prior to the satisfaction of all liabilities with respect to such Participants, Spouses, and Beneficiaries, except as indicated in Section 13.5 and Section 15.5.

14.2 Limitations on Right to Amend

No amendment to the Plan (including this restatement of the Prior Plan) shall be effective to the extent that it has the effect of decreasing a Participant's Accrued Benefit, or otherwise violating Section 411(d)(6) of the Code. Notwithstanding the preceding sentence, a Participant's Accrued Benefit may be reduced to the extent permitted by Code Section 412(c)(8). For purposes of this paragraph, a Plan amendment that has the effect of (1) eliminating or reducing an early retirement benefit or a retirement-type subsidy, or (2) eliminating an optional form of benefit, with respect to benefits attributable to Creditable Service earned before the amendment, shall be treated as reducing Accrued Benefits. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a Participant who satisfies the pre-amendment conditions for the subsidy. In general, a retirement-type subsidy is a subsidy that continues after retirement, but does not include a qualified disability benefit, a medical benefit, a Social Security supplement, a death benefit (including life insurance), or a plant shutdown benefit (that does not continue after retirement age.) Furthermore, no

amendment to the Plan shall have the effect of decreasing a Participant's vested interest determined without regard to such amendment as of the later of the date such amendment is adopted, the date it becomes effective.

54

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ARTICLE 15

TERMINATION OR TEMPORARY DISCONTINUANCE OF THE PLAN

15.1 Termination

The Company, by action of the Management Committee of the Board through resolutions duly adopted by the Board, may suspend payments to the Trust Fund for any year and may terminate the Plan at any time.

15.2 Apportionment of Trust Fund

If the Company terminates the Plan or permanently suspends contributions, the Trustee shall compute the value of the Trust Fund held for the benefit of Participants, retired Participants, qualified terminated Participants, Spouses, and Beneficiaries otherwise eligible to receive Retirement or Termination Benefits from the Plan. The Plan Administrator, based upon the certification of the Actuary, shall apportion the amount so valued to all such Participants, Retired Participants, qualified terminated Participants, and/or their Spouses and Beneficiaries in shares as determined in Section 15.3, but subject to the provisions of Section 15.6.

15.3 Allocation of Trust Fund

The value of the Trust Fund computed above remaining after providing for the expenses of administration of the Plan and the Trust shall be allocated for the purposes of paying Retirement Benefits, Termination Benefits and Death Benefits in the order of precedence indicated and in the amounts indicated in Section 4044 of ERISA as amended, and including any regulations issued thereunder.

The allocation of the Trust Fund in accordance with this Section shall be based on the method of payment of Retirement Benefits, Termination Benefits or Death Benefits specified in the Plan. In the event that the Trust Fund assets on or after the date of termination are insufficient to fund all benefits within any class, the benefits of all higher order of precedence shall be funded, the benefits of all lower order of precedence shall be unfunded, and the assets remaining shall be allocated among

members of that class on the basis of their respective actuarial reserves, subject to the provisions of Section 4044 of ERISA.

4 Distribution of Trust Fund

The application of the Trust Fund on the foregoing basis shall be calculated by the Actuary and certified to the Trustee as of the date on which the Plan terminated. Subject to the restrictions of ERISA, when the calculations shall be completed, the interest of each Participant, Retired

55

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Participant, Spouse, and Beneficiary shall continue to be held in the Trust Fund pursuant to the terms of Section 15.3 hereof, or, at the direction of the Plan Administrator, the Trust Fund shall be liquidated and each of their interests distributed to them in the form of annuity contracts, annuity payments, installments or in a lump sum as determined by the Plan Administrator. Subject to the limitations of Section 4044(d)(2) of ERISA, any funds remaining after the satisfaction of all liabilities to such Participants, Retired Participants, Spouses, Beneficiaries and Contingent Beneficiaries under the Plan due to erroneous actuarial computation shall be returned to the Company.

5 Limitations on Benefits

In the event of termination of the Plan, the benefit of any Highly Compensated Employee (including a former employee who is a Highly Compensated Employee) who is among the twenty-five (25) non-excludable employees and former employees of the Company with the largest amount of compensation in the current or any prior year is limited to a benefit that is non-discriminatory under Code Section 401(a)(4).

15.6 Nonforfeatability

Notwithstanding any other provision herein to the contrary, except the provisions of Section 15.6, should the Plan terminate or partially terminate, the rights of all affected past or present Participants to benefits accrued to the date of such termination or partial termination, to the extent then funded, or to the amounts then credited to the Participants' accounts, shall be nonforfeitable. A partial termination shall be deemed to have occurred in accordance with a determination to that effect by the Federal regulatory agency (the Department of Treasury, the Department of Labor or the Pension Benefit Guaranty Corporation) having jurisdiction so to determine under ERISA.

ARTICLE 16

ACTUARY

16.1 Duties

The Actuary shall make all actuarial calculations and perform all actuarial duties required of him under the terms of the Plan. In making an actuarial valuation of the Plan from time to time, the Actuary may rely upon information provided by the Trustee concerning the assets in the Trust and shall not be required to make any independent calculations with respect to such information. The Actuary shall certify to the Company in writing the results of the calculations required of him hereunder and the Employers may rely thereon. In making all calculations hereunder, the Actuary shall use such actuarial tables as he deems appropriate but he shall use the same tables in making all his calculations during a specified period. The Actuary shall employ actuarial assumptions and methods each of which are reasonable (taking into account the experience of the Plan and reasonable expectations) or which, in the aggregate, result in a total contribution equivalent to that which would be determined if each such method and assumption were reasonable, and which, in combination, offer the Actuary's best estimate of anticipated experience under the Plan. The Actuary may from time to time change the actuarial tables and other assumptions used by him hereunder.

16.2 Information

The Company shall furnish the Actuary such information on employees, payrolls, and other related data as the Actuary may require from time to time.

16.3 Reliance

The Actuary may rely upon any information furnished him by the Company or by the Trustee.

16.4 Actuarial Determinations

All actuarial determinations necessary in the administration of this Plan shall be made by the Actuary. The Plan Administrator shall be free to consult the Actuary at any time and neither the Plan Administrator nor the Company shall be liable for the actuarial correctness of any determination made by the Actuary.

ARTICLE 17

PLAN FIDUCIARIES

17.1 Named Fiduciaries

For purposes of Part 4 of Title I of ERISA, the Plan Administrator, the Company, the Retirement Plan Committee and those parties to whom any duties are allocated pursuant to the Plan or the Trust Agreement, as such provisions may hereafter be amended, shall each be named fiduciaries. All actions by named fiduciaries shall be in accordance with the terms of this Plan and of the Trust Agreement insofar as such documents are consistent with the provisions of Title I of ERISA. Each named fiduciary while discharging his/her duties under this Plan shall act solely in the interest of Participants and beneficiaries and for the exclusive purpose of providing benefits and defraying reasonable administrative expenses. Each named fiduciary shall discharge his/her duties hereunder with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Without limiting the generality of the above, it is specifically provided that the appointment and retention of the Retirement Plan Committee is a duty of the Company for purposes of this Section.

17.2 Allocation of Duties of Fiduciaries

The Company, as Plan Administrator, shall be responsible for the administration and management of the Plan except for those duties specifically allocated to the Trustee. The Trustee shall have exclusive responsibility for the management and control of the assets of the Plan (but may, pursuant to the Plan and the Trust Agreement, delegate all or a portion of such responsibility).

58

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ARTICLE 18

ENTRY AND WITHDRAWAL OF A PARTICIPATING EMPLOYER

18.1 Adopting Employers

If approved by the written resolution of the Board, any Employer may participate in this Plan as an Employer and include its employees as Employees under this Plan by executing, as authorized by a written resolution of its board of directors, an

adoption agreement with the Company to be bound by all of the provisions of this Plan, as in effect on the date of such adoption, which shall become a part of this Plan. Such adoption agreement shall include, without limitation, provisions regarding counting of Vesting Service and Creditable Service prior to the effective date of such agreement. The Employer need not execute the original or amended Plan. The sole authority of the Company to amend the Plan and any authority of the Board under this Plan or the Trust Agreement to appoint or remove the Trustee, Plan Administrator members shall not be diminished by the adoption of this Plan by any Employer under this Section and any such amendments, appointments, removals or other changes shall be binding on any such Employer and its employees. Successors to such Employers may adopt this Plan only in accordance with the provisions of Section 17.2 and upon approval by written resolution of the Board. An Employer may withdraw from this Plan only under the terms and conditions as established or approved by the Board.

18.2 Successor Companies

In the event of a merger or consolidation of the Company or any other Employer or transfer of all or substantially all of its assets to any other corporation, partnership or association, provision may be made by such successor corporation, partnership or association at its election for the continuance of this Plan. Such successor shall upon its election to continue this Plan, be substituted in place of the Company or such other Employer by an instrument duly authorizing such substitution and duly executed by the Company, such Employer, if applicable, and such successor. Upon the delivery to the Trustee of notice of such substitution accompanied by a copy of such instrument and a certified copy of the resolutions of the Board and the boards of directors of any such Employer and such successor authorizing such substitution, the Trustee and all Participants shall be authorized to recognize such successor in the place of the Company or such Employer.

59

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18.3 Withdrawal of an Employer.

An Employer that is withdrawing from this Plan and the Trust Agreement shall deliver to the Board a resolution of its board of directors evidencing its withdrawal. Notice of withdrawal must be submitted to the Plan Administrator at least six (6) months prior to the date the withdrawal is to be effective unless such time requirement is waived in writing by the Plan Administrator.

- 1) Upon the withdrawal of an Employer, the provisions of Article 15, with the exception of the provision

concerning erroneous actuarial computation, shall apply to such Employer's withdrawal as if the withdrawal were a part of the complete termination of this Plan, but the participation of other Employers hereunder shall not be affected nor shall the continuation of the Plan with respect to the participation therein by other Employers be affected by such withdrawal of an Employer.

- (b) Notwithstanding the terms of Section (a) above, if employees of the withdrawing Employer who are covered by this Plan will, immediately upon withdrawal of the Employer from this Plan, be covered by a different retirement plan, and if the Employer and the sponsor of that different retirement plan agree and deem it desirable, the Plan Administrator, upon being furnished evidence of the terms of such retirement plan and that such plan has been approved by the Internal Revenue Service as qualified under Section 401(a) of the Code as now in effect or hereafter amended, shall direct the Trustee (1) to establish the value of the portion of the Trust Fund necessary to provide the accrued benefits of the Participants attributable to such Employer, with the withdrawing Employer funding any asset shortfall attributable to its liabilities under the Plan, and (2) to transfer the value of the portion of the Trust Fund so determined to the trustee or trustees of the different retirement plan or to the insurance company which is to hold the funds of that retirement plan. The Plan Administrator in its sole discretion shall have the right to direct the Trustee to transfer the appropriate portion of the Trust Fund to the trustee or trustees or to the designated insurance company in the form of installments, in cash or in cash and securities over a period of time not to exceed six (6) months following the effective date of the Employer's withdrawal.

The application of the withdrawing Employer's interest in the Trust Fund pursuant to the terms of this Section shall constitute a complete discharge of the responsibility of remaining Employers, the Plan Administrator and the Trustee, without any responsibility on their part collectively or individually to see to the application thereof.

ARTICLE 19

TOP HEAVY RULES

1 Generally

Notwithstanding anything contained in the Plan to the contrary, in the event that this Plan is part of a Required Aggregation Group and is a Top Heavy Plan for any Plan Year, this Article shall become operative with respect to such Plan Year.

19.2 Vesting

In the event the vesting schedule set forth in Section 5.1 is less liberal than the vesting schedule hereinafter provided, the following vesting schedule shall be substituted for such vesting schedule to the extent the following schedule is more favorable:

Years of Vesting Service	Vested Percentage
Less than 2 years	0%
2 years	20%
3 years	40%
4 years	60%
5 years	80%
6 years or more	100%

Should the Plan cease to be a Top Heavy Plan, the vesting schedule in Section 5.1 shall be put back into effect. However, the vested percentage of any Participant cannot be decreased as a result of the return to the prior vesting schedule and any Participant with three (3) or more years of Vesting Service may elect, within the later of (i) sixty (60) days after the Plan ceases to be a Top Heavy Plan, or (ii) sixty (60) days after the date the Participant is issued written notification of the change in the vesting schedules, to remain under the special vesting rules described in this Section.

19.3 Minimum Benefit

For the first Plan Year that the Plan shall be a Top Heavy Plan, and all future Plan Years during which the Plan is a Top Heavy Plan, there shall be a minimum accrued benefit applicable to each Participant who is not a Key Employee who earns a year of Creditable Service during the Plan Year equal to the lesser of two percent (2%) of Top Heavy Compensation multiplied by the Participant's years of Top Heavy Service up to a maximum of ten (10) years.

61

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19.4 Top Heavy Compensation

"Top Heavy Compensation" means one-twelfth (1/12) of a Participant's average annual Full Compensation during that period of five (5) consecutive Testing Years for which his aggregate

Full Compensation was the greatest. If he shall have fewer than five (5) consecutive Testing Years, his Top Heavy Compensation shall mean his average annual Full Compensation during that period containing the largest number of consecutive Testing Years; provided that, if there shall be more than one (1) such period, Top Heavy Compensation shall be calculated on the basis of such period for which such average is the greatest.

19.5 Testing Year

"Testing Year" means a Plan Year which begins prior to the end of the last Plan Year for which the Plan was a Top Heavy Plan, but excluding Plan Years beginning before 1984.

19.6 Full Compensation

"Full Compensation" means, for any Participant for any Plan Year, his compensation (as such term is defined in section 1.415-2(d) of the regulations issued under the Code) from the Company for the calendar year which ends with such Plan Year.

19.7 Top Heavy Service

"Top Heavy Service" means a year of Creditable Service for a Plan Year in which the Plan is a Top Heavy Plan, with the exception that Creditable Service earned under this Plan or a predecessor plan for Plan Years beginning prior to January 1, 1984, shall be excluded.

19.8 Combined Limitation of Benefits

In the event the Plan is a Top Heavy Plan for the Plan Year, the multiplier of one and twenty-five hundredths (1.25) in Sections 7.5(a) and (b) shall be reduced to one (1.0) unless:

- (a) The Required Aggregation Group and any Permissive Aggregation Group, if applicable, are ninety percent (90%) or less top heavy; and
- (b) The minimum accrued benefit referenced in Section 19.3 is modified by substituting for such minimum accrued benefit a minimum accrued benefit applicable to all Participants who are not Key Employees equal to the lesser of three percent (3%) of the Participant's Top Heavy Compensation multiplied by his years of Top Heavy Service, or twenty percent (20%) of the Participant's Top Heavy Compensation

increased by one percent (1%) for each Plan Year (up to ten percent

(10%)) taken into account under Section 19.7.

63

AGE>

ARTICLE 20

MISCELLANEOUS

20.1 Interpretation by Plan Administrator

Any rules, regulations, or procedures that may be necessary for the proper administration or functioning of this Plan that are not covered in this Plan or the Trust Agreement shall be promulgated and adopted by the Plan Administrator.

20.2 Headings

Any headings or subheadings in this Plan are inserted for convenience of reference only and are to be ignored in the construction of any provisions hereof.

20.3 Governing Law

This Plan shall be construed in accordance with the laws of the State of North Carolina, except where such laws are superseded by USA, in which case such Act shall control.

20.4 Benefits to Minors and Incompetents

In making any distribution to or for the benefit of any person who is a minor or incompetent, the Plan Administrator, in its sole, absolute and uncontrolled discretion, may, but need not, make such distribution to a legal or natural guardian or other relative of such minor or court-appointed committee of such incompetent, or to any adult with whom such minor or incompetent temporarily or permanently resides, and any such guardian, committee, relative or other person shall have full authority and discretion to expend such distribution for the use and benefit of such minor or incompetent. The receipt of such guardian, committee, relative or other person shall be a complete discharge to the Plan Administrator, without any responsibility on its part to see to the application thereof.

20.5 Severability

In case any provision of this Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of this Plan and this Plan shall be construed and enforced as if such illegal and invalid provisions never been inserted herein.

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20.6 Misstatement of Facts

A misstatement in the age, sex, length of service, date of employment or birth, or compensation of a Participant, or any other such matter, shall be corrected when it becomes known that any such misstatement of fact has occurred.

20.7 Benefits on Merger or Consolidation to Successor Plan

In the case of any merger or consolidation with or transfer of assets or liabilities of the Plan to any other plan, such merger, transfer or consolidation shall, by its terms, provide that each Participant in the Plan would, if the Plan then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he/she would have been entitled to receive immediately before the merger, consolidation, or transfer if this Plan had then terminated.

20.8 Unclaimed Benefits

Any benefits payable to, or on behalf of, a Participant or former Participant which are not claimed shall not bear Interest Credit under Section 3.10, but shall be deemed abandoned or relinquished only if the Participant or beneficiary cannot be located after reasonable efforts at the time of termination of the Plan.

20.9 Exclusive Benefit

The Employer shall not be entitled to any part of the corpus or income of the Trust Fund and no part thereof shall be used for or diverted to purposes other than the exclusive benefit of the Participants and beneficiaries hereunder, except as otherwise specified in this Plan.

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SIGNATURES

IN WITNESS WHEREOF, the Company, duly authorized to execute this Plan on behalf of the Employer as specified in this Plan, has caused its duly authorized officers to execute and seal this Plan as of this 23rd day of December, 1996, to be effective as of the first day of January, 1997.

DUKE POWER COMPANY

By William H. Grigg
Title Chairman of the Board and
Chief Executive Officer

(CORPORATE SEAL)

Attest Ellen T. Ruff

Title Secretary

66

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EXHIBIT NO. 10-Z

DUKE POWER COMPANY
EXECUTIVE SAVINGS PLAN

PURPOSE

The purpose of this Plan is to provide deferred compensation to a select group of management or highly compensated Employees. This Plan replaces the Supplementary Defined Contribution Plan, the Compensation Deferral Plan and the Incentive Deferral Plan, all of which were formerly maintained by the Company.

ARTICLE I
TITLE AND EFFECTIVE DATE

1.1 This Plan shall be known as the Duke Power Company Executive Savings Plan (hereinafter referred to as "Plan").

1.2 The effective date of this Plan is January 1, 1997.

ARTICLE II DEFINITIONS

2.1 "Account" shall mean the record of deferrals and contributions and adjustments thereto maintained with respect to each Participant pursuant to Article VI.

2.2 "Base Pay" shall mean, for each Participant, the amount received during a Plan Year for services actually rendered in the course of employment with the Company to the extent that such amounts are includable in the Participant's gross income as wages required to be reported under Code Sections 6041, 6051 and 6052 (Box 1 of Form W-2), without regard to limits on wages under Code Section 3401, such as the exemption for agricultural labor. Base Pay shall include any amount which is contributed by the Company pursuant to a salary reduction agreement and which is not includable in the gross income of the Participant under Code Sections 125 or 401(k). Also, Base Pay shall not include expense reimbursements and allowances, cash or noncash fringe benefits, moving expenses, the receipt of compensation previously deferred, severance pay, pay for unused vacation, excellence awards, welfare benefits, or amounts received pursuant to Incentive Plans or other incentive pay.

2.3 "Beneficiary" means the person or persons designated by a Participant, or by another person entitled to receive benefits hereunder, to receive benefits following the death of such person.

2.4 "CDP" shall mean the Duke Power Company Compensation Deferral Plan, first effective as of July 1, 1983.

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2.5 "CDP Subaccounts" shall mean the subaccounts established pursuant to Section 5.3 and maintained pursuant to Section 6.4.

2.6 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

2.7 "Compensation Committee" shall mean the Compensation Committee of the Board of Directors of Duke Power Company.

2.8 "Common Stock" shall mean shares of the common stock of Duke Power Company.

2.9 "Company" shall mean Duke Power Company and its affiliates.

2.10 "Company-matching Subaccount" shall mean the subaccount established and maintained pursuant to Section 6.3.

2.11 "Duke Common Stock Fund" shall mean the RSP Investment Option that invests primarily in Common Stock.

2.12 "Effective Date" shall mean January 1, 1997.

2.13 "Eligible Earnings" shall have the same meaning as under the Retirement Savings Plan.

2.14 "Election Date" shall mean a date that is at least 367 days prior to the last day of the performance period during which executive incentive compensation is earned pursuant to one of the Incentive Plans.

2.15 "Employee" shall mean any individual who is in the regular, full-time employment of the Company as determined by the personnel rules and practices of the Company.

2.16 "Fair Market Value" of Common Stock shall be the closing price on the composite tape of the New York Stock Exchange on the most recently completed trading day.

2.17 "General Account" shall mean that portion of a Participant's Account that is not in a Subaccount.

2.18 "IDP" shall mean the Duke Power Company Incentive Deferral Plan, first effective as of October 29, 1991.

2.19 "IDP Subaccounts" shall mean the accounts established and maintained pursuant to Section 6.5.

2

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2.20 "Incentive Plans" shall mean the executive incentive compensation plans designated on Schedule 2.20 or that were designated as "Incentive Plans" pursuant to the IDP.

2.21 "Management Committee" shall mean the Management Committee of the Board of Directors of Duke Power Company.

2.22 "Participant" shall mean any Employee for whom an account is maintained under the Plan.

2.23 "Plan" shall mean the Duke Power Company Executive Savings Plan.

2.24 "Plan Year" shall mean the calendar year.

2.25 "RSP" shall mean the Duke Power Company Retirement Savings Plan.

2.26 "RSP Investment Options" shall mean the various mutual funds and investment funds in which participants in the RSP can elect to have their RSP account balances invested.

2.27 "Stock Purchase-Savings Program Committee" means the Stock Purchase-Savings Program Committee of Duke Power Company.

2.28 "SDCP" shall mean the Supplementary Defined Contribution Plan for

Employees of Duke Power Company and Subsidiaries, first adopted as of January 1, 1978.

2.29 "Stock Unit" shall mean a unit of measure which is equal in Fair Market Value to one share of Common Stock. Stock Units will accrue amounts equal to the dividends paid on shares of Common Stock and such imputed dividends will be converted into additional Stock Units based upon Fair Market Value on the allocation date.

2.30 "Subaccounts" shall mean the CDP Subaccounts, the Company-matching Subaccount, and the IDP Subaccounts.

2.31 "Termination of Employment" shall mean the date of a Participant's severance from employment with the Company by reason of death, retirement, resignation, discharge or otherwise.

2.32 "Valuation Date" shall mean, with respect to a Participant, the last business day of the month during which such Participant's Termination of Employment occurs.

3

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ARTICLE III ELIGIBILITY

3.1 Only those management or highly compensated Employees selected by the Management Committee shall be eligible to become Participants in the Plan, except that any Employee whose annualized rate of Base Pay is \$125,000 or higher and who becomes entitled to a contribution under Section 4.3 shall become a Participant without action by the Management Committee, but only with respect to the benefit provided under Section 4.3. An Employee must be admitted to participation by the Management Committee in order to defer compensation under Sections 4.1 and 4.2.

ARTICLE IV PARTICIPANT DEFERRALS

4.1 Salary Deferrals. Each eligible Participant may irrevocably elect to defer in accordance with the terms of this Plan, a percentage (such percentage to be a multiple of 1%) of such Participant's Base Pay for the Plan Year, not to exceed 25%. Such election must be made by the Participant before the beginning of such Plan Year. Base Pay deferred pursuant to this Section shall be credited to the Participant's Account on a monthly basis.

4.2 Incentive Plan Deferrals. Each eligible Participant may irrevocably elect to defer, in accordance with the terms of this Plan a percentage (such percentage to be a multiple of 5%) of the amount payable with respect to a Plan Year to such Participant as an award under any of the incentive plans listed on Schedule 4.2. Such election must be made by the Participant not later than the applicable Election Date with respect to the final Plan Year with respect to

which the incentive awards under such incentive plans are awarded (or, for a newly eligible Employee, not later than 30 days after the Committee determines such Employee to be eligible). Such amounts will be credited to the Participant's Account as of the dates that awards under the Incentive Plans become payable.

4.3 Retirement Savings Plan - Excess Deferrals and Matching

Contribution. The Company maintains a Retirement Savings Plan pursuant to which Employees are permitted to elect to defer up to 6% of Eligible Earnings and pursuant to which the Company makes certain matching contributions, based on the Employee's deferral election. To the extent that (i) the application of Section 401(a)(17) of the Code, (ii) the application of Section 402(g) of the Code or (iii) the application of Section 415 of the Code result in such Participant's actual deferral being less than 6% of Eligible Earnings, then the amount of such Participant's deferrals and corresponding Company-matching contributions that are not contributed to the RSP on account of such limitations shall be credited to the Participant's Account hereunder to the extent necessary to bring deferrals under this Section and under the RSP up to a total of 6%. To the extent that a Participant elects to defer an amount of Base Pay under Section 4.1 and/or an amount of short-term incentive pay under Section 4.2, the Company shall credit to the Participant's Account a matching contribution under this Plan equal in amount to 4.5% of such deferrals.

4

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4.4 Crescent Resources, Inc. Certain officers of Crescent Resources, Inc. who on January 1, 1983, first participated in a certain incentive compensation arrangement implemented by Crescent Resources, Inc. on January 1, 1983, and any officer who first participated in such arrangement by employment agreement signed on December 3, 1987, shall be eligible to elect to defer up to 6% of such incentive compensation and the Company shall credit their Account under this Plan with such amounts and with a matching contribution equal to 4.5% of the incentive compensation.

4.5 Elections. An election to defer Base Pay or incentive pay will remain in effect until revoked, except that no revocation will be effective unless it is made prior to the beginning of the plan year to which it relates, or in the case of incentive pay, prior to the applicable Election Date.

ARTICLE V COORDINATION WITH FORMER PLANS

5.1 Supplementary Defined Contribution Plan. As of the Effective Date of the Plan, the Participant's Account shall be credited with Stock Units, if any, equal to the number of "SDCP Units" in such Participant's Account in the Company's SDCP as of December 31, 1996.

5.2 Incentive Deferral Plan. As of the Effective Date of this Plan, the Participant's Account shall be credited with Stock Units, if any, equal to the number of "Phantom Shares" in such Participant's Account under the IDP as of

December 31, 1996.

5.3 Compensation Deferral Plan. As of the Effective Date of this Plan, Participant's Account shall be credited with the amount, if any, that the participant has deferred into the CDP, plus interest compounded at the Benefit Rate applicable to such deferred amounts through December 31, 1996. Pursuant to the terms of the CDP, accounts maintained under the CDP have been credited with interest at one of two fixed rates, depending on the periods during which deferrals were credited to such accounts. With respect to each Participant, the amounts credited to such Participant's Account pursuant to this Section 5.3 will be maintained in one or two separate subaccounts, (the "CDP Subaccounts") and amounts therein will continue to be credited with interest at the rate formerly applicable to such accounts under the CDP.

ARTICLE VI ACCOUNTS

6.1 Maintenance of Participant Accounts. An Account shall be established and maintained with respect to each Participant. Each Account shall reflect the amounts or Stock Units credited thereto pursuant to Article IV and V, plus or minus adjustments, made in accordance with the provisions of this Article VI.

5

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6.2 "Investment Options" Generally.

(a) Pursuant to the terms of the RSP, employees who are participants in the RSP must direct their account balances thereunder into one or more of the RSP Investment Options available to them pursuant to the RSP. Each Participant hereunder shall from time to time specify one or more of the RSP Investment Options (or such other investment options that may be made available from time to time) and direct that specified portions of his or her Account (but not the Subaccounts maintained pursuant to Sections 6.4 and 6.5) hereunder be automatically adjusted (on a monthly basis), upward or downward, in proportion to the total percentage return experienced on funds invested in such investment options. Investments linked to the performance of Common Stock shall be credited in the form of Stock Units.

(b) Notwithstanding the foregoing, as of the Effective Date the Company will be in the process of reviewing the current RSP Investment Options and deciding on changes to such options. Until the Company notifies Participants that it has completed the process of changing the RSP Investment Options, then the Participant shall direct that specified portions of his or her General Account hereunder shall either (i) be credited as Stock Units which are automatically adjusted (on a monthly basis), upward or downward, in proportion to the total return (including dividends) experienced by a holder of shares of Common Stock, or (ii) be credited (on a monthly basis) with simple

interest at a rate determined by using the average yield on 30-year Treasury Bonds as published in the Federal Reserve Statistical Release H. 15 for the third full business week of the month prior to the beginning of the quarter for which the monthly accrual is being applied.

6.3 Company-matching Contributions Subaccount. Amounts contributed to a Participant's Account as a Company-matching contribution, pursuant to Sections 4.3 or 4.4, and amounts credited to a Participant's Account as of the Effective Date pursuant to Section 5.1 (the Participant's account under the SDCP) that are in the SDCP as a result of Company-matching contributions, shall be held in a subaccount within such Participant's Account (the "Company-matching Subaccount"). The amounts in the Company-matching Subaccount shall be credited as Stock Units. At any time after the date on which Company-matching contributions were credited to the Participant's Account hereunder such amounts may, at the election of the Participant, be transferred out of Stock Units and transferred to an investment linked to the performance of other funds that may be made available from time to time.

6.4 CDP Subaccounts. The amounts credited to a Participant's Account pursuant to Section 5.3 will be maintained in separate subaccounts hereunder (the "CDP Subaccounts"), and will continue to be credited with interest at the rate(s) formerly applicable to such accounts under the CDP. At any time the Participant may elect to transfer any amount from such CDP Subaccount(s) and into the Participant's General Account, but no amount so removed from the CDP Subaccount(s) may be transferred back to such CDP Subaccounts.

6

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6.5 Certain IDP Subaccounts. Pursuant to the terms of the IDP and elections made thereunder, or under the terms of the Incentive Plans, Participants are currently entitled to receive payment of certain deferred amounts at certain times. Amounts that, pursuant to elections made pursuant to the IDP, are to be paid to a Participant upon his or her Termination of Employment, or thereafter, shall be held in the Participant's General Account pursuant to Section 6.2 and paid to the Participant pursuant to the payment option specified in accordance with Section 7.2. Amounts that are to be paid to a Participant on a date certain shall be held in subaccounts hereunder (the "IDP Subaccounts"), and the amounts in these IDP Subaccounts shall be automatically adjusted (on a monthly basis), upward or downward, in proportion to the total percentage return (including dividends) experienced by a holder of shares of Common Stock, and shall be paid to the Participant on such date certain. Notwithstanding the foregoing, if the date certain applicable to a deferred amount is on or after January 1, 1998, then the Participant may, pursuant to an election filed before the Effective Date, elect to have any such deferred amount deferred until such Participant's Termination of Employment, in which case such deferred amount will be held in the Participant's General Account and paid pursuant to the payment option specified in accordance with Section 7.2.

6.6 Monthly Transfer Election. A Participant may elect to transfer amounts out of Subaccounts (pursuant to Sections 6.3, 6.4 and 6.5) or to make

changes to his or her designation of investment options pursuant to Section 6.2, only on a monthly basis. Each such election to transfer or change shall be effective as of the end of the last day of the month during which the Participant gives the Duke Power Company notice of such election in accordance with procedures established by the Compensation Committee from time to time. Participants or Beneficiaries who are receiving installment payments may elect to transfer monies between funds on a monthly basis. All transfers must be in increments of 1%.

6.7 Calculation of Total Return. The Fair Market Value of Common Stock shall be used for purposes of calculating the total return on Stock Units during any period.

ARTICLE VII BENEFITS

7.1 Termination of Employment. Upon the Participant's Termination of Employment, for any reason, the amount in the Participant's Account will be paid to the Participant (or to the Beneficiary designated pursuant to Section 8.1) in accordance with the terms of the payment option elected by the Participant, except that a Participant who has a Termination of Employment for any reason except death, layoff or disability prior to becoming eligible for early retirement under the defined benefit pension plan in which he or she participates and who has elected term payments of 10 years or 15 years, shall be paid instead over a 3-year period.

7.2 Election of Payment Option. Each Participant shall, before the Effective Date (or, with respect to Employees who become Participants after the Effective Date, before becoming a

7

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Participant), elect from among the payment options specified in Section 7.3, the manner in which such Participant's Account will be paid following Termination of Employment. The Stock Purchase-Savings Program Committee, in its sole discretion, may change or modify the payment option in any case where a Participant has a Termination of Employment within 367 days following his or her election under this Section 7.2.

7.3 Payment Options. The payment options are:

(a) LUMP SUM. Payment of the full amount of the Participant's Account on the last business day of the month following the month in which Termination of Employment occurs.

(b) TERM PAYMENTS. Payments over a term of years, which shall be either 3 years, 10 years or 15 years, as follows: The Company will determine the amount of the Participant's Account on the Valuation Date, and as of the last business day of each month thereafter. The Participant will receive on the last business day of each month during the term, beginning with the last day of the month following the

Valuation Date, an amount determined pursuant to the following formula:

$$\text{amount} = V / N$$

where

N represents the number of months remaining in the term (including the month for which the payment is being calculated) and

V represents the amount of the Participant's Account as of the last day of the preceding month.

Any balance in the Participant's Account shall be paid to the Participant on the last day of the last month of the term.

7.4 Payments After Death. If a Participant (or a Beneficiary previously designated by a deceased Participant) dies before receiving all amounts payable hereunder, then the remaining amounts payable will be paid to the specified Beneficiary of such deceased person; provided, however, that (i) if such deceased person has failed to specify a surviving Beneficiary then the person's estate will be considered to be the Beneficiary, and (ii) if a person receiving payments over a term of years dies and an estate is such person's Beneficiary, then such term payments will cease and the amount in the Account will be paid to such estate in lump sum.

7.5 Form of Payment. All amounts due under the Plan shall be paid in sh.

8

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ARTICLE VIII BENEFICIARY

8.1 Designation of Beneficiary. A Participant shall designate a Beneficiary to receive benefits under the Plan by submitting to the Stock Purchase-Savings Program Committee a Designation of Beneficiary in the form provided by the Stock Purchase-Savings Program Committee. If more than one Beneficiary is named, the share and precedence of each Beneficiary shall be indicated. A Participant shall have the right to change the Beneficiary by submitting to the Stock Purchase-Savings Program Committee a Change of Beneficiary in the form provided, but no change of Beneficiary shall be effective until acknowledged in writing by the Duke Power Company.

8.2 Designation by Beneficiary. A Beneficiary who has become entitled to receive benefits shall designate a Beneficiary.

8.3 Discharge of Obligations. Any payment made by the Company, in good sh and in accordance with this Plan, shall fully discharge the Company from and further obligations with respect to that payment. If the Company has any

doubt as to the proper Beneficiary to receive payments hereunder, the Company shall have the right to withhold such payments until the matter is finally adjudicated.

8.4 Payment to Minors, Etc. In making any payment to or for the benefit of any minor or an incompetent Beneficiary, the Stock Purchase-Savings Program Committee, in its sole and absolute discretion, may make a distribution to a legal or natural guardian or other relative of a minor or court-appointed committee of such incompetent. It may also make a payment to any adult with whom the minor or incompetent temporarily or permanently resides. The receipt by a guardian, committee, relative or other person shall be a complete discharge to the Company. Neither the Stock Purchase-Savings Program Committee nor the Company shall have any responsibility to see to the proper application of any payments so made.

ARTICLE IX NATURE OF COMPANY'S OBLIGATION

9.1 Unsecured Promise. The Company's obligation to the Participant under this Plan shall be an unfunded and unsecured promise to pay. The rights of a Participant or Beneficiary under this Plan shall be solely those of an unsecured general creditor of the Company. The Company shall not be obligated under any circumstances to set aside or hold assets to fund its financial obligations under this Plan.

9.2 No Right to Specific Assets. Any assets which the Company may set aside, acquire or hold to help cover its financial liabilities under this Plan shall remain general assets of the Company subject to the claims of its creditors. The Company does not give, and the Plan does not give, any

9

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beneficial ownership interest in any assets of the Company to a Participant or Beneficiary. All rights of ownership in any assets are and remain in the Company. Any general asset used or acquired by the Company in connection with the liabilities it has assumed under this Plan shall not be deemed to be held under any trust for the benefit of the Participant or any Beneficiary, and no general asset shall be considered security for the performance of the obligations of the Company. Any asset shall remain a general, unpledged, and unrestricted asset of the Company.

9.3 Plan Provisions. The Company's liability for payment of benefits shall be determined only under the provisions of this Plan, as it may be amended from time to time.

ARTICLE X TERMINATION, AMENDMENT, MODIFICATION OR SUPPLEMENTATION OF PLAN

10.1 Right to Terminate. The Compensation Committee retains the sole and unilateral right to terminate, amend, modify or supplement this Plan, in whole or in part, at any time. No such action shall adversely affect a Participant's right to receive amounts then in a Participant's account.

ARTICLE XI RESTRICTIONS ON ALIENATION OF BENEFITS

11.1 No Assignment. No right or benefit under the Plan shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge. Any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge these benefits shall be void. No right or benefit under this Plan shall in any manner be liable for or subject to the debts, contracts, liabilities, or torts of the person entitled to the benefit. If any Participant or Beneficiary under the Plan should become bankrupt or attempt to anticipate, alienate, sell, assign, pledge, encumber or charge any right to a benefit hereunder, then the right or benefit, in the discretion of the Stock Purchase-Savings Program Committee, shall cease. In these circumstances, the Stock Purchase-Savings Program Committee may hold or apply the benefit payment or payments, or any part of it, for the benefit of the Participant or his Beneficiary, the Participant's spouse, children, or other dependents, or any of them, in any manner and in any portion that the Stock Purchase-Savings Program Committee may deem proper.

ARTICLE XII ADMINISTRATION

12.1 The Company is the plan sponsor under section 3(16)(B) of ERISA.

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12.2 The Stock Purchase-Savings Program Committee is the named fiduciary of the Plan and as such shall have the authority to control and manage the operation and administration of such the Plan except as otherwise expressly provided in this plan document. The named fiduciary may designate persons other than the named fiduciary to carry out fiduciary responsibilities under the Plan. Any such allocation or designation must be in writing and must be accepted in writing by any such other person.

12.3 The Stock Purchase-Savings Program Committee is the administrator of the Plan within the meaning section 3(16)(A) of ERISA. As administrator, the Stock Purchase-Savings Program Committee has the authority (without limitation as to other authority) to delegate its duties to agents and to make rules and regulations that it believes are necessary or appropriate to carry out the Plan. The Stock Purchase-Savings Program Committee has the discretion as a Plan fiduciary (i) to interpret and construe the terms and provisions of the Plan (including any rules or regulations adopted under the Plan), (ii) to determine questions of eligibility to participate in the Plan and (iii) to make factual determinations in connection with any of the foregoing. A decision of the Stock Purchase-Savings Program Committee with respect to any matter pertaining to the

Plan including without limitation the Employees determined to be Participants, the benefits payable, and the construction or interpretation of any provision thereof, shall be conclusive and binding upon all interested persons. No Stock Purchase-Savings Program Committee member shall participate in any decision of the Stock Purchase-Savings Program Committee that would directly and specifically affect the timing or amount of his benefits under the Plan, except to the extent that such decision applies to all Participants under the Plan.

ARTICLE XIII CLAIMS PROCEDURE

13.1 Claim. A person with an interest in the Plan shall have the right to file a claim for benefits under the Plan and to appeal any denial of a claim for benefits. Any request for a Plan benefit or to clarify the claimant's rights to future benefits under the terms of the Plan shall be considered to be a claim.

13.2 Written Claim. A claim for benefits will be considered as having been made when submitted in writing by the claimant to the Stock Purchase-Savings Program Committee. No particular form is required for the claim, but the written claim must identify the name of the claimant and describe generally the benefit to which the claimant believes he is entitled. The claim may be delivered personally during normal business hours or mailed to the Committee.

13.3 Committee Determination. The Stock Purchase-Savings Program Committee will determine whether, or to what extent, the claim may be allowed or denied under the terms of the Plan. If the claim is wholly or partially denied, the claimant shall be so informed by written notice within 90 days after the day the claim is submitted unless special circumstances require an extension of time for

11

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processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. Such extension may not exceed an additional 90 days from the end of the initial 90-day period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan expects to render the final decision. If notice of denial of a claim (in whole or in part) is not furnished within the initial 90-day period after the claim is submitted (or, if applicable, the extended 90-day period), the claimant shall consider that his claim has been denied just as if he had received actual notice of denial.

13.4 Notice of Determination. The notice informing the claimant that his claim has been wholly or partially denied shall be written in a manner calculated to be understood by the claimant and shall include:

- (1) The specific reason(s) for the denial.

- (2) Specific reference to pertinent Plan provisions on which the denial is based.
- (3) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary.
- (4) Appropriate information as to the steps to be taken if the Participant or Beneficiary wishes to submit his claim for review.

13.5 Appeal. If the claim is wholly or partially denied, the claimant (or his authorized representative) may file an appeal of the denied claim with the Stock Purchase-Savings Program Committee requesting that the claim be reviewed. The Stock Purchase-Savings Program Committee shall conduct a full and fair review of each appealed claim and its denial. Unless the Stock Purchase-Savings Program Committee notifies the claimant that due to the nature of the benefit and other attendant circumstances he is entitled to a greater period of time within which to submit his request for review of a denied claim, the claimant shall have 60 days after he (or his authorized representative) receives written notice of denial of his claim within which such request must be submitted to the Stock Purchase-Savings Program Committee.

13.6 Request for Review. The request for review of a denied claim must be made in writing. In connection with making such request, the claimant or his authorized representative may:

- (1) Review pertinent documents.
- (2) Submit issues and comments in writing.

13.7 Determination of Appeal. The decision of the Stock Purchase-Savings Program Committee regarding the appeal shall be promptly given to the claimant in writing and shall normally be

12

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given no later than 60 days following the receipt of the request for review. However, if special circumstances (for example, if the Stock Purchase-Savings Program Committee decides to hold a hearing on the appeal) require a further extension of time for processing, the decision shall be rendered as soon as possible, but no later than 120 days after receipt of the request for review. However, if the Stock Purchase-Savings Program Committee holds regularly scheduled meetings at least quarterly, a decision on review shall be made by no later than the date of the meeting which immediately follows the Plan's receipt of a request for review, unless the request is filed within 30 days preceding the date of such meeting. In such case, a decision may be made by no later than the date of the second meeting following the Plan's receipt of the request for review. If special circumstances (for example, if the Stock Purchase-Savings Program Committee decides to hold a hearing on the appeal) require a further extension of time for processing, the decision shall be rendered as soon as

possible, but no later than the third meeting following the Plan's receipt of the request for review. If special circumstances require that the decision will be made beyond the initial time for furnishing the decision, written notice of extension shall be furnished to the claimant (or his authorized representative) prior to the commencement of the extension. The decision on review shall be in writing and shall be furnished to the claimant or to his authorized representative within the appropriate time for the decision. If a decision on review is not furnished within the appropriate time, the claim shall be deemed to have been denied on appeal.

13.8 Hearing. The Stock Purchase-Savings Program Committee may, in its sole discretion, decide to hold a hearing if it determines that a hearing is necessary or appropriate in order to make a full and fair review of the appealed claim.

13.9 Decision. The decision on review shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent Plan provisions on which the decision is based.

13.10 Exhaustion of Appeals. A Participant must exhaust his rights to file a claim and to request a review of the denial of his claim before bringing any civil action to recover benefits due to him under the terms of the Plan, to enforce his rights under the terms of the Plan, or to clarify his rights to future benefits under the terms of the Plan.

13.11 Committee's Authority. The Stock Purchase-Savings Program Committee shall exercise its responsibility and authority under this claims procedure as a fiduciary and, in such capacity, shall have the discretionary authority and responsibility (1) to interpret and construe the Plan and any rules or regulations under the Plan, (2) to determine the eligibility of Employees to participate in the Plan, and the rights of Participants to receive benefits under the Plan, and (3) to make factual determinations in connection with any of the foregoing.

13

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ARTICLE XIV GENERAL PROVISIONS

14.1 No Right to Employment. Nothing in this Plan shall be deemed to give any person the right to remain in the employ of the Company, its subsidiaries or affiliates or affect the right of the Company to terminate any Participant's employment with or without cause.

14.2 Withholding. Any amount required to be withheld under applicable Federal, state and local tax laws (including any amounts required to be withheld under Section 3121(v)) will be withheld in such manner as the Stock Purchase-Savings Program Committee will determine and any payment under the Plan will be reduced by the amount so withheld.

14.4 Governing Law. This Plan shall be construed and administered in accordance with the laws of the State of North Carolina to the extent that such laws are not preempted by Federal law.

TEST:

Ellen T. Ruff **W.H. Grigg**
Secretary and Deputy General Counsel Chairman of the Board and Chief
Executive Officer

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SCHEDULE 2.20
INCENTIVE PLANS

Duke Power Company Long-term Incentive Plan

AEG Short-term Incentive Plan

AEG Annual Bonus Plan

Fluor Daniel EMT Plan

DCI Short-term Incentive Plan

DE&S Incentive Plan

INEL Incentive Plan

Duke Energy Incentive Plan

Duke Merchandising Profit Bonus Plan

15

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EXHIBIT NO. 10-AA
DUKE POWER COMPANY

EXECUTIVE CASH BALANCE PLAN

SECTION 1

ESTABLISHMENT AND PURPOSE OF PLAN

The Duke Power Company Executive Cash Balance Plan (the "Plan") is hereby established by Duke Power Company. The purpose of the Plan is to provide additional retirement benefits for a select group of management or highly compensated employees. The Plan is effective as of January 1, 1997.

SECTION 2

DEFINITIONS

Wherever used herein, a pronoun or adjective in the masculine gender includes the feminine gender, the singular includes the plural, and the following terms have the following meanings unless a different meaning is clearly required by the context:

2.1 "Board of Directors" means the Board of Directors of Duke Power Company.

2.2 "Cash Balance Account" means a bookkeeping account in which a participant's Make-Whole Benefits and Supplemental Benefits will be recorded. The balance will be denominated in dollars which may be credited with Pay

Credits and/or Interest Credits.

2.3 "Compensation" means, for all Participants, all amounts received for services actually rendered in the course of employment with the Company, to the extent that such amounts are includable in the Participant's gross income as wages required to be reported under Internal Revenue Code ss.ss. 6041, 6051 and 6052 (box 1 of Form W-2), without regard to limits on wages under Internal Revenue Code ss. 3401, such as the exemption for agricultural labor. Compensation shall also include (a) any amount which is contributed by the Company, pursuant to salary reduction agreement and which is not includable in the gross income of the Participant under

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Internal Revenue Code ss.ss. 125 or 401(k), and (b) Deferred Compensation. However, Compensation shall not include expense reimbursements or allowances, cash or non-cash fringe benefits, moving expenses, the receipt of compensation previously deferred, severance pay, pay for unused vacation, excellence awards, welfare benefits, long-term incentive payments (incentive pay attributable to multi-year performance periods for which no incentive pay is earned until the end of the multi-year period) or distributions from the Duke Power Company Executive Savings Plan. Compensation shall include certain incentive compensation, whether or not deferred, payable to certain officers of Crescent Resources, Inc., who on January 1, 1983, first participated in a certain incentive compensation arrangement implemented by Crescent on January 1, 1983, and any officer who first participated in such arrangement by employment agreement signed on December 3, 1987. Such incentive compensation, whether or not deferred, shall not be considered as Compensation to the extent it is treated as creditable compensation under the Retirement Cash Balance Plan or where it would result in a duplication of benefits. Personal, short-term incentive pay, including participation in equity awards, that is paid to employees of Crescent Resources, Inc. will not constitute "Compensation" unless it is paid from the Crescent Resources Employee Goal Program.

2.4 "Compensation Committee" means the Compensation Committee of the Board of Directors.

2.5 "Company" means Duke Power Company and its affiliates.

2.6 "Deferred Compensation" means amounts deferred under the Duke Power Company Executive Savings Plan, but excluding amounts deferred under such plan that are attributable to long-term incentive awards.

2.7 "Effective Date" means January 1, 1997.

2.8 "Employee" means a person employed by the Company or an affiliate.

2.9 "Interest Credit" means the amount determined by multiplying the balance of a Cash Balance Account by the Interest Factor for a month.

2

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2.10 "Interest Factor" means the interest rate determined by the formula $(1 + i)^{1/12} - 1$, where "i" equals the yield on 30-year Treasury Bonds as published in the Federal Reserve Statistical Release H.15 for the end of the third full business week of the month prior to the beginning of the calendar

quarter for which the monthly accrual is being applied, but not more than an annual percentage rate of nine percent (9%) and not less than an annual percentage rate of four percent (4%).

2.11 "Make-Whole Benefit" means the benefit provided under Section 4.3 of the Plan.

2.12 "Make-Whole Cash Balance Account" means the portion of a Participant's Cash Balance Account that is attributable to a Make-Whole Benefit.

2.13 "Management Committee" means the Management Committee of the Board of Directors.

2.14 "Pay Credit" means the percentage of Compensation that is added to a Cash Balance Account under Section 4.3(d).

2.15 "Participant" means an Employee who is entitled to receive benefits from the Plan.

2.16 "Retirement Cash Balance Plan" means the Duke Power Company Retirement Cash Balance Plan as in effect from time to time.

2.17 "Retirement Plan Committee" means the Retirement Plan Committee of Duke Power Company.

2.18 "Supplemental Cash Balance Account" means the portion of a Participant's Cash Balance Account that is attributable to a Supplemental Benefit.

2.19 "Supplemental Benefit" means the benefit provided under Section 4.3 of the Plan.

2.20 "Supplemental Retirement Plan" means the Supplemental Retirement Plan for Employees of Duke Power Company as it existed on December 31, 1996.

2.21 "Supplemental Security Plan" means the Duke Power Company Supplemental Security Plan as it existed on December 31, 1996.

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SECTION 3 ELIGIBILITY

3.1 Active Employees participating in the Supplemental Retirement Plan or Supplemental Security Plan on December 31, 1996 will become participants in the Plan effective January 1, 1997, except for any individual whose eligibility to participate in the Supplemental Security Plan had been withdrawn effective on December 31, 1996. These Employees will not receive any benefits under the Supplemental Security Plan or the Supplemental Retirement Plan.

3.2 The Management Committee, in its sole discretion, will determine whether, and at what time, an Employee who is not described in Section 3.1 will be eligible to participate in the Plan, except that those management or highly compensated employees who are entitled to a benefit under Section 4.2 and whose annualized rate of base pay is \$125,000 or more shall become Participants without action by Management Committee, but only with respect to benefits provided under Section 4.2.

3.3 Former Employees, who on December 31, 1996 have accrued benefits under the Supplemental Retirement Plan or Supplemental Security Plan will receive payment, or will continue to receive payment, of their benefits from these plans. Such former Employees will not participate in this Plan.

SECTION 4

BENEFITS

4.1 As explained below, the Plan provides a Make-Whole Benefit and a Supplemental Benefit. The Management Committee will determine whether a Participant will receive a Supplemental Benefit; however, any Employee of the Company for whom a Cash Balance Account has been established under this Plan and whose benefit under the Retirement Cash Balance Plan is reduced on account of one or more of the limitations described in Section 4.2 shall be eligible for a Make-Whole Benefit. Other Employees shall be eligible for a Make-Whole Benefit in the discretion of the Management Committee or if their annualized rate of base pay is

4

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\$125,000 or more.

4.2(a) The Make-Whole Benefit provides a benefit reflected as monthly allocations to the Cash Balance Account equal to the excess, if any, of (a) the monthly allocations that would have been made under the Retirement Cash Balance Plan if (i) the Retirement Cash Balance Plan considered Deferred Compensation and other types of excludable pay (as determined by the Compensation Committee from time to time) as eligible compensation; and (ii) if the Retirement Cash Balance Plan did not include limitations on eligible pay that are imposed by Section 401(a)(17) of the Code and the limitations on benefits imposed by Section 415 of the Code, over (b) the monthly allocations that are actually made under the Retirement Cash Balance Plan. A Make-Whole Cash Balance Account will be established to reflect a Participant's Make-Whole Benefit, if any, for any Employee whose annualized rate of base pay is \$125,000 or more. If the value of the benefit which a Participant had accrued under the Supplemental Retirement Plan as of December 31, 1996 is greater than the value of the Participant's Make-Whole Cash Balance Account on the date the Participant retires, he or she shall be paid such higher value.

4.2(b) In addition, the Compensation Committee, in its sole discretion, may establish an opening balance for a Participant in the Make-Whole Cash Balance Account that is designed to provide a transition strategy comparable to that employed in establishing opening account balances under the Retirement Cash Balance Plan as of January 1, 1997.

4.3(a) The Supplemental Benefit provides a benefit reflected as a balance in the Cash Balance Account. As of the Effective Date or, if later, the first day after the Effective Date that an Employee becomes a Participant, a Supplemental Cash Balance Account will be established for the Participant. The Supplemental Cash Balance Account is a bookkeeping account. The Supplemental Cash Balance Account will have an opening balance as determined under Sections 4.3(b) and 4.3(c), and will be credited with Pay Credits to the extent provided in Section 4.3(d).

4.3(b) For a Participant who did not participate in the Supplemental Security Plan, the Participant's opening Supplemental Cash Balance Account will be zero (0). However, the Compensation Committee, in its sole discretion, may approve an opening balance for such a

5

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Participant.

4.3(c) For a Participant who participated in the Supplemental Security Plan, the Compensation Committee in its sole discretion will establish the Participant's opening Supplemental Cash Balance Account. The amount to be credited to a Participant's opening Cash Balance Account shall be based on factors which include (i) the Participant's Position Classification (I, II or III) under the Supplemental Security Plan, (ii) whether the Participant has reached the earliest retirement age under the Retirement Cash Balance Plan, (iii) a comparison of the values of the Participant's "Alternate Early Retirement Benefit" and "Retirement Benefit" under the Supplemental Security Plan, and (iv) the extent to which the Participant will receive Pay Credits, if any, on and after the date on which the opening Supplemental Cash Balance Account is established.

4.3(d) Pay Credits will be added to a Participant's Supplemental Cash Balance Account as of the end of each calendar month in which the Participant is an Employee for any part of a month. The Pay Credit for a month will be two percent (2%) of a Participant's Compensation paid during such month, or such other percentage which may be determined from time to time by the Compensation Committee. Pay Credits will continue to be made on behalf of a Participant who is determined by the Retirement Plan Committee to be disabled; shall continue for the period of time during which such credits are continued under the Retirement Cash Balance Plan; and shall be calculated in a manner similar to the Retirement Cash Balance Plan but utilizing the definition of Compensation set forth in this Plan. The Compensation Committee may establish different Pay Credit levels for different business units or employee groups. Notwithstanding the above, Employees who were in Position Classification III under the Supplemental Security Plan will not receive any Pay Credits under this Plan.

4.3(e) In the case of a Participant for whom an initial balance in the Supplemental Cash Balance Account was calculated by assuming that Pay Credits would be allocated to the Participant's account under Section 4.3(d), a Minimum Benefit will be determined in the event such a Participant should terminate employment with the Company prior to attaining eligibility for

6

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retirement under the Retirement Cash Balance Plan. The Minimum benefit shall be an amount that is calculated in accordance with Section 4.3(c), except that Pay Credits will be excluded from consideration in determining the initial balance. Interest Credits will be allocated to the Minimum Benefit from the Effective Date until the date on which the Participant terminates employment with the Company. Interest Credits will recommence when the Participant commences his or her benefit under this Plan. The Minimum Benefit will become the Supplemental Benefit where it is greater than the balance in the Supplemental Cash Balance Account on the date the Participant terminates employment with the Company.

4.4 Interest Credits will be added to a Participant's Supplemental Cash Balance Account as of the end of each calendar month ending prior to the month in which a Participant receives the entire balance in his or her Cash Balance Account. The amount of Interest Credits added to these will equal the balance of the accounts as of the end of the prior month (after adding Pay Credits, if any, and Interest Credits for the prior month) multiplied by the Interest Factor for the month. Notwithstanding the foregoing, Interest Credits will not be added to the Supplemental Cash Balance Account of a Participant who terminates employment

with the Company before attaining the earliest retirement age under the Retirement Cash Balance Plan between the date on which a Participant terminates employment and the date on which the Participant commences receipt of his or her Supplemental Benefit.

SECTION 5.

VESTING

Unless the Management Committee provides otherwise for a particular Participant at the time the Participant initially becomes eligible to participate in the Plan, the benefits of a Participant under the Plan will vest after the Participant has accrued five years of vesting service under the Retirement Cash Balance Plan. Notwithstanding the foregoing, no Supplemental Benefit shall be payable under this Plan if the Participant's employment is terminated for cause. For purposes of the Plan, the Company shall have "cause" to terminate the Participant's employment upon (a) the

7

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willful and continued failure by the Participant to substantially perform his employment duties (other than any such failure resulting from the Participant's incapacity due to physical or mental illness) after demand for substantial performance is delivered by the Company, specifically identifying the manner in which the Company believes the Participant has not substantially performed his duties, or (b) the willful engaging by the Participant in misconduct which is materially injurious to the Company, monetarily or otherwise. For purposes of this section, no act, or failure to act, on the Participant's part shall be considered "willful" unless done, or omitted to be done, by him not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

SECTION 6.

PAYMENT OF BENEFITS

6.1 A Participant who terminates employment prior to his earliest retirement age under the Retirement Cash Balance Plan will receive, or will begin to receive, payment of his benefits under this Plan at the age of 55. A Participant who terminates employment after reaching his earliest retirement age under the Retirement Cash Balance Plan will receive, or will begin to receive, payment of his benefits under this Plan at the time his employment terminates. A Participant who terminates employment on account of a disability, as defined under the Retirement Cash Balance Plan, will receive, or will begin to receive benefits under this Plan at the same time benefits commence under the Retirement Cash Balance Plan.

6.2(a) A Participant who is eligible to participate in the Plan on the Effective Date must elect his form of benefit payment prior to the Effective Date by completing a form provided by the Plan manager. Other Participants must elect a form of benefit payment within 30 days after the Management Committee approves their participation in the Plan or after they first become entitled to a Make Whole Benefit, if earlier. The Retirement Plan Committee, in its sole discretion, may change or modify the payment option in any case where a Participant has a Termination of Employment within 367 days following his or her termination under this Section 6.2(a).

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6.2(b) The alternative forms of benefit payment under the Plan are:

- (1) single sum payment;
- (2) monthly payments for three years;
- (3) monthly payments for ten years;
- (4) monthly payments for fifteen years.
- (5) life annuity (for an unmarried Participant)
- (6) joint and 50% or 100% survivor annuity (for a married Participant)

Notwithstanding any election of another form of benefit payment, an account with a present value of less than \$3,500 shall be paid as a single sum.

6.2(c) If a Participant elects a single sum payment, the Participant will receive a single cash payment equal to the sum of the Participant's Make-Whole Cash Balance Account and Supplemental Cash Balance Account as of the end of the calendar month prior to the month in which the payment is made.

6.2(d) If a Participant elects monthly payments for either three, ten or fifteen years, then the amount of each monthly payment will be determined as follows: The Company will determine the sum of the Participant's Make-Whole Cash Balance Account and Supplemental Cash Balance Account as of the end of the preceding calendar month after both Pay Credits (if any) and Interest Credits have been allocated. Interest Credits, but not Pay Credits, will be allocated after the date on which a Participant terminates employment with the Company; however, where a Participant terminates employment prior to becoming eligible for retirement under the Retirement Cash Balance Plan, Interest Credits will not be allocated to the Supplemental Cash Balance Account until distributions commence. The Participant will receive on the last day of each month for which a payment is due an amount determined pursuant to the following formula:

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$$\text{Monthly amount} = V / N$$

where

N represents the number of months remaining in the term and

V represents the sum of the Participant's Make-Whole and Supplemental Cash Balance Accounts as of the end of the preceding month

Installment payments shall be recalculated each month and paid on a pro rata basis across all Cash Balance Accounts.

6.2(e) If Participant elects a life annuity or a joint and 50% or 100% survivor annuity, the benefit shall be an annual annuity equal to the actuarial value, determined on the basis of the assumptions set forth in the Retirement Cash Balance Plan, of the sum of the Participant's Make-Whole Cash Balance Account and Supplemental Cash Balance Account as of the date of the Participant's

termination of employment. If a Participant who has elected a joint and survivor annuity should die before commencing benefits under this Plan, the surviving spouse shall be entitled to a life annuity of equivalent actuarial value to the sum of the Participant's Make-Whole Cash Balance Account and the Supplemental Cash Balance Account (or the benefit calculated under Section 7.5 if greater than the Supplemental Cash Balance Account). If an unmarried Participant who has elected a life annuity should die before commencing benefits under this Plan, the balances shall be paid to the estate or other named beneficiary in lump sum.

6.3 Any amount required to be withheld under applicable Federal, state and local income tax laws will be withheld and any payment under the Plan will be reduced by the amount so withheld.

6.4 All payments under the Plan will be made from the general funds of the Company. The Company may, at its discretion, establish a trust, commonly known as a "Rabbi" trust, to hold assets from which benefit payments may be made. The Plan is intended in all events to be

10

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unfunded within the meaning of ERISA.

SECTION 7. DEATH BENEFITS

7.1 The amount in the Cash Balance Accounts shall be paid to the beneficiary or beneficiaries of a Participant who dies while still having an account balance under the Plan. The Plan manager will provide each Participant with a form whereby the Participant may designate a beneficiary or beneficiaries.

7.2 If the Participant does not name a beneficiary, or if the beneficiary who is named should predecease the Participant, the death benefit of the Participant shall be paid to the estate of the Participant in a single cash payment.

7.3 If a Participant should die while still employed by the Company and before benefits have commenced, payments will be made to his or her beneficiary in the same alternate form selected by the Participant under Section 6.2(b), except in a case where his estate is designated as beneficiary or where Section 7.2 would be applicable.

7.4 If a Participant should die after benefits have commenced, payments will continue to be made to the beneficiary or beneficiaries in the alternate form selected by the Participant, except in a case where Section 7.2 would be applicable.

7.5 If a Participant should die while still employed by the Company and if the Supplemental Cash Balance Account is less than two point five (2.5) multiplied by the annualized base rate of pay of the Participant on the date of death, the death benefit attributable to the Supplemental Benefit shall be equal to the amount determined by multiplying two point five (2.5) times such annualized base rate of pay. The death benefit payable under this Section 7.5 shall be in lieu of the amount in the Supplemental Cash Balance Account and shall be paid in the alternate

11

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form selected by the Participant, except in a case where Section 7.2 would be applicable. This Section 7.5 shall only apply in the case of an Employee who was an active participant in the Supplemental Security Plan on December 31, 1996.

SECTION 8. AMENDMENT AND TERMINATION

The Compensation Committee may:

- (a) terminate the Plan with respect to future Participants or future benefit accruals for current Participants; and
- (b) amend the Plan in any respect, at any time.

SECTION 9. ADMINISTRATION

9.1 The Company is the plan sponsor under section 3(16)(B) of ERISA.

9.2 The Retirement Plan Committee is the named fiduciary of the Plan and as such shall have the authority to control and manage the operation and administration of the Plan except as otherwise expressly provided in this plan document. The named fiduciary may designate persons other than the named fiduciary to carry out fiduciary responsibilities under the Plan. Any such allocation or designation must be in writing and must be accepted in writing by any such other person.

9.3 The Retirement Plan Committee is the administrator of the Plan within the meaning section 3(16)(A) of ERISA. As administrator, the Retirement Plan Committee has the authority (without limitation as to other authority) to delegate its duties to agents and to make rules and regulations that it believes are necessary or appropriate to carry out the Plan. The Retirement Plan Committee has the discretion as a Plan fiduciary (i) to interpret and construe the terms and provisions of the Plan (including any rules or regulations adopted under the Plan), (ii) to determine questions of eligibility to participate in the Plan and (iii) to make factual determinations

12

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in connection with any of the foregoing. A decision of the Retirement Plan Committee with respect to any matter pertaining to the Plan including without limitation the Employees determined to be Participants, the benefits payable, and the construction or interpretation of any provision thereof, shall be conclusive and binding upon all interested persons. No Retirement Plan Committee member shall participate in any decision of the Retirement Plan Committee that would directly and specifically affect the timing or amount of his benefits under the Plan, except to the extent that such decision applies to all Participants under the Plan.

SECTION 10. CLAIMS PROCEDURE

10.1 A person with an interest in the Plan shall have the right to file a claim for benefits under the Plan and to appeal any denial of a claim for benefits. Any request for a Plan benefit or to clarify the claimant's rights to

future benefits under the terms of the Plan shall be considered to be a claim.

10.2 A claim for benefits will be considered as having been made when submitted in writing by the claimant (or by such claimant's authorized representative) to the Retirement Plan Committee. No particular form is required for the claim, but the written claim must identify the name of the claimant and describe generally the benefit to which the claimant believes he is entitled. The claim may be delivered personally during normal business hours or mailed to the Retirement Plan Committee.

10.3 The Retirement Plan Committee will determine whether, or to what extent, the claim may be allowed or denied under the terms of the Plan. If the claim is wholly or partially denied, the claimant shall be so informed by written notice within 90 days after the day the claim is submitted unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. Such extension may not exceed an additional 90 days from the end of the initial 90-day period. The extension notice

13

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shall indicate the special circumstances requiring an extension of time and the date by which the Plan expects to render the final decision. If notice of denial of a claim (in whole or in part) is not furnished within the initial 90-day period after the claim is submitted (or, if applicable, the extended 90-day period), the claimant shall consider that his claim has been denied just as if he had received actual notice of denial.

10.4 The notice informing the claimant that his claim has been wholly or partially denied shall be written in a manner calculated to be understood by the claimant and shall include:

- (1) The specific reason(s) for the denial.
- (2) Specific reference to pertinent Plan provisions on which the denial is based.
- (3) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary.
- (4) Appropriate information as to the steps to be taken if the claimant wishes to submit his claim for review.

10.5 If the claim is wholly or partially denied, the claimant (or his authorized representative) may file an appeal of the denied claim with the Retirement Plan Committee requesting that the claim be reviewed. The Retirement Plan Committee shall conduct a full and fair review of each appealed claim and its denial. Unless the Retirement Plan Committee notifies the claimant that due to the nature of the benefit and other attendant circumstances he is entitled to a greater period of time within which to submit his request for review of a denied claim, the claimant shall have 60 days after he (or his authorized representative) receives written notice of denial of his claim within which such request must be submitted to the Retirement Plan Committee.

10.6 The request for review of a denied claim must be made in writing. In connection with making such request, the claimant or his authorized

representative may:

- (1) Review pertinent documents.
- (2) Submit issues and comments in writing.

14

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10.7 The decision of the Retirement Plan Committee regarding the appeal shall be promptly given to the claimant in writing and shall normally be given no later than 60 days following the receipt of the request for review. However, if special circumstances (for example, if the Retirement Plan Committee decides to hold a hearing on the appeal) require a further extension of time for processing, the decision shall be rendered as soon as possible, but no later than 120 days after receipt of the request for review. However, if the Retirement Plan Committee holds regularly scheduled meetings at least quarterly, a decision on review shall be made by no later than the date of the meeting which immediately follows the Plan's receipt of a request for review, unless the request is filed within 30 days preceding the date of such meeting. In such case, a decision may be made by no later than the date of the second meeting following the Plan's receipt of the request for review. If special circumstances (for example, if the Retirement Plan Committee decides to hold a hearing on the appeal) require a further extension of time for processing, the decision shall be rendered as soon as possible, but no later than the third meeting following the Plan's receipt of the request for review. If special circumstances require that the decision will be made beyond the initial time for furnishing the decision, written notice of the extension shall be furnished to the claimant (or authorized representative) prior to the commencement of the extension. The decision on review shall be in writing and shall be furnished to the claimant or to his authorized representative within the appropriate time for the decision. If a decision on review is not furnished within the appropriate time, the claim shall be deemed to have been denied on appeal.

10.8 The Retirement Plan Committee may, in its sole discretion, decide to hold a hearing if it determines that a hearing is necessary or appropriate in order to make a full and fair review of the appealed claim.

10.9 The decision on review shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent Plan provisions on which the decision is based.

10.10 A person must exhaust his rights to file a claim and to request a review of the

15

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denial of his claim before bringing any civil action to recover benefits due to him under the terms of the Plan, to enforce his rights under the terms of the Plan, or to clarify his rights to future benefits under the terms of the Plan.

10.11 The Retirement Plan Committee shall exercise its responsibility and authority under this claims procedure as a fiduciary and, in such capacity, shall have the discretionary authority and responsibility (1) to interpret and

construe the Plan and any rules or regulations under the Plan, (2) to determine the eligibility of Employees to participate in the Plan, and the rights of Participants to receive benefits under the Plan, and (3) to make factual terminations in connection with any of the foregoing.

SECTION 11.
GENERAL PROVISIONS

11.1 Nothing in this Plan shall be deemed to give any person the right to remain in the employ of the Company, its subsidiaries or affiliates or affect the right of the Company to terminate any Participant's employment with or without cause.

11.2 No right or interest of any person entitled to a benefit under the Plan shall be subject to voluntary or involuntary alienation, assignment, or transfer of any kind.

11.3 This Plan shall be construed and administered in accordance with the laws of the State of North Carolina to the extent that such laws are not preempted by Federal law.

16

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This plan document has been executed on behalf of the Company this
1st day of December, 1996.

ATTEST:

DUKE POWER COMPANY

Ellen T. Ruff

Secretary and Deputy General Counsel

W. H. Grigg

Chairman of the Board and Chief
Executive Officer

17

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EXHIBIT NO. 10-BB
DUKE POWER COMPANY

DIRECTORS' SAVINGS PLAN

ARTICLE I

ESTABLISHMENT AND PURPOSE OF PLAN

The Duke Power Company Directors' Savings Plan (the "Plan") is hereby established by Duke Power Company. The purpose of the Plan is to provide retirement benefits and investments linked to the performance of Duke Power Company common stock for the Nonemployee Directors of the Board. The Plan is effective as of January 1, 1997 (the "Effective Date").

ARTICLE II

DEFINITIONS

Wherever used herein, a pronoun or adjective in the masculine gender includes the feminine gender, the singular includes the plural, and the following terms have the following meanings unless a different meaning is clearly required by the context.

2.1 "Board of Directors" means the Board of Directors of Duke Power Company.

2.2 "Change in Control" of the Company will be deemed to have occurred as of the first day any one (1) or more of the following paragraphs shall have been satisfied:

- (a) Any person (other than the Company or a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company) becomes the beneficial owner, directly or indirectly, of securities of the Company, representing more than twenty-five percent (25%) of the combined voting power of the Company's then outstanding securities; or
- (b) During any period of two (2) consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board of Directors (and any new Directors, whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was so approved) cease for any reason (except for death, disability or voluntary retirement) to constitute a majority thereof; or
- (c) The stockholders of the Company approve: (i) a plan of complete

liquidation of the Company; or (ii) an agreement for the sale or disposition of all or substantially all the Company's assets; or (iii) a merger, consolidation, or

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reorganization of the Company with or involving any other corporation, other than a merger, consolidation, or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least seventy-five percent (75%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization.

However, in no event shall a Change in Control be deemed to have occurred, with respect to a Participant, if that Participant is "part of a purchasing group" which consummates the Change-in-Control transaction. The Participant shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Participant is an equity participant or has agreed to become an equity participant in the purchasing company or group (except for (i) passive ownership of less than three percent (3%) of the voting equity securities of the purchasing company or (ii) ownership of equity participation in the purchasing company or group which is otherwise deemed not to be significant, as determined prior to the Change in Control by a majority of the nonemployee continuing Directors).

2.3 "Company" means Duke Power Company and its affiliates.

2.4 "Company Stock Portion of Compensation" means that portion of "Compensation" that must be taken as Duke Power Company stock or Restricted Stock Units.

2.5 "Compensation" means all retainers, Committee chair fees and meeting/committee fees received by Nonemployee Directors for services actually rendered in conjunction with service on the Board of Directors.

2.6 "Compensation Committee" means the Compensation Committee of the Board of Directors.

2.7 "Compensation Deferral Plan (CDP)" means the Compensation Deferral Plan for Outside Directors as it existed December 31, 1996.

2.8 "Deferred Compensation" or "Deferrals" mean amounts deferred under the Duke Power Company Directors' Savings Plan.

2.9 "Director" means a member of the Board of Directors of Duke Power Company.

2.10 "Director Stock Ownership Plan (DSOP)" means the Stock Ownership Plan for nonemployee Directors of Duke Power Company as it existed December 31, 1996.

2.11 "Effective Date" means January 1, 1997.

2.12 "Fair Market Value" means the last price at which shares of Duke Power Company common stock were sold on the New York Stock Exchange as indicated in Composite Transactions.

2.13 "Fixed Interest Account" means the account bearing interest at the fixed rates applicable under the CDP.

2.14 "Interest Credit" means the amount determined by multiplying the balance in a Variable Interest Account by the Interest Factor for a month.

2.15 "Interest Factor" means the monthly rate of interest, such that when compounded, is equivalent to the yield on 30 year Treasury Bonds as published in the Federal Reserve Statistical

2

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Release H.15 for the end of the third full business week of the month prior to the beginning of the calendar quarter.

2.16 "Nonemployee Director" means a member of the Board of Directors, not employed by Duke Power Company.

2.17 "Participant" means a Nonemployee Director who is eligible to participate in the Plan.

2.18 "Retirement Plan" means the Duke Power Company Retirement Plan for Outside Directors as it existed December 31, 1996.

2.19 "Restricted Stock Fund" means the fund crediting Restricted Stock Units as defined in 2.20.

2.20 "Restricted Stock Unit" means a unit of measure which is equal in value to one share of Duke Power Company common stock, restricted until a specified age or event. Restricted Stock Units will accrue amounts equal to the dividends paid on shares of Duke Power Company common stock, and such imputed dividends shall be converted into additional Restricted Stock Units based upon Fair Market Value on the allocation date.

2.21 "Stock Grants" means the Duke Power Stock Units granted semi-annually, restricted until termination of service on the Board of Directors.

2.22 "Variable Interest Account" means the account earning a variable Interest Rate calculated with the Interest Factor defined in 2.15.

ARTICLE III

ELIGIBILITY

3.1 Active nonemployee members of the Board of Directors participating in the Retirement Plan, DSOP or CDP on December 31, 1996 will become participants in the Plan effective January 1, 1997.

3.2 Any new Nonemployee Directors of the Board will become a participant in the Plan on the first day of the month in which the Nonemployee Director begins to serve as a member of the Board of Directors.

ARTICLE IV

BENEFITS

4.1 A subaccount will be established for any Participant who has a balance in the Compensation Deferral Plan as of December 31, 1996. This subaccount, the Fixed Interest Account, shall continue to be credited with interest in the same manner as and at the rates applicable under the Compensation Deferral Plan; however, no additional allocations of principal shall be made to the Fixed Interest Account except to the extent required under the terms of a previous election for a CDP period which does not end until after the Effective Date. Amounts credited under this subsection shall be payable upon termination of service on the Board of Directors.

3

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4.2 A subaccount will be established for any Participant who participated in the Retirement Plan as of December 31, 1996. This subaccount, within the Restricted Stock Fund, shall be credited with Restricted Stock Units with a Fair Market Value comparable to the value of the benefit that had accrued for a Participant under the Retirement Plan as of December 31, 1996. Amounts credited under this section will be payable upon the earlier of (i) death or disability, (ii) retirement from the Board of Directors after attaining age 62, or (iii) termination of service on the Board of Directors prior to the age of 62 on account of a Change in Control.

4.3 A subaccount will be established for any Participant who participated in the Directors' Stock Ownership Plan as of December 31, 1996. This subaccount, within the Restricted Stock Fund, shall be credited with Restricted Stock Units equal in amount to the number of stock units credited to the Participant's account under the Directors' Stock Ownership Plan as of December 31, 1996. Amounts credited under this subsection shall be payable upon termination of service on the Board of Directors.

4.4 A subaccount will be established for any Participant who elects to defer as Restricted Stock Units all or a portion of his or her Compensation paid on or after January 1, 1997. This subaccount, within the Restricted Stock Fund, shall be credited with Restricted Stock Units with a Fair Market Value equal to the Participant's Deferred Compensation. No payment shall be made with respect to Restricted Stock Unit until the later of six months after such Restricted Stock Unit is credited to a Participant's account or termination of such

Participant's service on the Board of Directors.

4.5 A subaccount will be established for any Participant who elects to defer all or a portion (not to exceed 50 percent) of his or her Compensation paid on or after January 1, 1997, in the Variable Interest Account. Amounts credited to the variable Interest Account will be payable upon termination of service on the Board of Directors.

4.6 A subaccount will be established for any Participant who serves on the Board of Directors on and after January 1, 1997. This subaccount, within the Restricted Stock Fund, shall be credited with 100 Restricted Stock Units on January 1st of each year and 100 Restricted Stock Units on July 1st of each year, provided the Participant continues to serve on the Board of Directors on the allocation date. Amounts credited under this subsection will be payable upon termination of service on the Board of Directors.

4.7 Accounts and subaccounts established under this Section 4 may be combined as may be necessary or desirable for record keeping purposes.

ARTICLE V

VESTING

5.1 Amounts credited pursuant to subsections 4.1, 4.3, 4.4, 4.5 and 4.6 are 100 percent vested.

4

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5.2 Amounts credited pursuant to subsection 4.2 shall vest upon the earlier of (i) death, (ii) disability, (iii) termination of service on the Board of Directors after attaining age 62, or (iv) termination of service on the Board of Directors prior to age 62 on account of a Change in Control.

ARTICLE VI

PAYMENT OF BENEFITS

6.1 A Participant who terminates or retires from service on the Board of Directors will receive, upon such termination or such retirement, or will begin to receive, payment of his benefits under this Plan.

6.2(a) A Nonemployee Director who is eligible to participate in the Plan on the Effective Date must elect his form of benefit payment prior to the Effective Date by completing a form provided by the plan administrator.

6.2(b) The alternative forms of benefit under the Plan are:

(1) Single lump sum payment;

(2) Five annual installments;

(3) Ten annual installments.

(c) If the participant elects a single lump sum payment, the participant will receive a single cash payment equal to the balance of the Participant's investment in the Fixed Interest Account and/or the Variable Interest Account. The balance in the Restricted Stock Fund will be paid in whole shares with any fractional share paid in cash. Payments will be calculated as of the close of business on the last business day of the calendar month prior to the month in which payment is made.

6.2(d) The Board of Directors may, in its sole direction, shorten or lengthen the time period over which a benefit is to be paid or to provide for periodic payment of a benefit that otherwise would be paid in lump sum or for lump-sum payment of a benefit that otherwise would be paid periodically.

6.2(e) If a Participant elects either five or ten annual installments, the amount of each annual payment will be determined as follows: The Company will determine the closing balance of the Fixed Interest Account and/or the Variable Interest Account as of the retirement anniversary month after Interest Credits and/or interest credited at the fixed rate(s) have been allocated. The closing balance amount will be divided by the number of remaining installments to obtain the annual payment from the Fixed Interest Account and/or the Variable Interest Account. Deferrals invested in the Restricted Stock Fund will be paid in whole shares with any fractional share paid in cash based on the closing balance as of the retirement anniversary month after dividends have been allocated. Payments will be calculated as of the end of the calendar month prior to the month in which payment is made.

6.3 All payments under the Plan will be made from the general funds of the Company. The Company may, at its discretion, establish a trust, commonly known as a "Rabbi" trust, to hold assets from which benefit payments may be made. In lieu of some of all of the Stock Units, the

5

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Company may at its discretion credit and hold within the "Rabbi" trust shares of Duke Power Company common stock for the benefit for the Participants in the Plan.

6

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ARTICLE VII

DEATH BENEFITS

Death benefits shall be paid to the beneficiary or beneficiaries of a

Participant who dies while still having an account balance under the Plan. The plan administrator will provide each Participant with a form whereby the Participant may designate a beneficiary or beneficiaries.

If the Participant does not name a beneficiary, or if the beneficiary who is named should predecease the Participant, the death benefit of the Participant shall be paid to the estate of the Participant in a single cash payment.

7.3 If a Participant should die while still employed by the Company and before benefits have commenced, payments will be made to his or her beneficiary in the same alternate form selected by the Participant under Section 6.2(b), except where Section 7.2 would be applicable.

7.4 If a Participant should die after benefits have commenced, payments will continue to be made to the beneficiary or beneficiaries in the alternate form selected by the Participant, except where Section 7.2 would be applicable.

ARTICLE VIII

AMENDMENT AND TERMINATION

The Board of Directors may:

- (1) Terminate the Plan with respect to future Participants or future benefit accruals for current Participants; and
- (2) Amend the Plan in any respect, at any time. No such termination or amendment may reduce the amount of any then accrued benefit of any Participant and any such purported termination or amendment shall be void.

ARTICLE IX

ADMINISTRATION

9.1 The Company is the Plan sponsor.

9.2 The Compensation Committee is the named fiduciary of the Plan and as such shall have the authority to control and manage the operation and administration of the Plan except as otherwise expressly provided in this Plan document. The named fiduciary may designate persons other than the named fiduciary to carry out fiduciary responsibilities under the Plan. Any such allocation or designation must be in writing and must be accepted in writing by any such other person.

9.3 The Compensation Committee is the administrator of the Plan. As administrator, the Compensation Committee has the authority (without limitation to other authority) to delegate

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...duties to agents and to make rules and regulations that it believes are necessary or appropriate to carry out the Plan. The Compensation Committee has the discretion as a Plan fiduciary (i) to interpret and construe the terms and provisions of the Plan (including any rules or regulations adopted under the Plan), (ii) to determine questions of eligibility to participate in the Plan and (iii) to make factual determinations in connection with any of the foregoing. A decision of the Compensation Committee with respect to any matter pertaining to the Plan including without limitation the individuals determined to be Participants, the benefits payable, and the construction or interpretation of any provision thereof, shall be conclusive and binding upon all interested persons. No Compensation Committee member shall participate in any decision of the Compensation Committee that would directly and specifically affect the timing or amount of his or her benefits under the Plan, except to the extent that such decision applies to all Participants under the Plan.

ARTICLE X

CLAIMS PROCEDURE

10.1 A person with an interest in the Plan shall have the right to file a claim for benefits under the Plan and to appeal any denial of a claim for benefits. Any request for a Plan benefit or to clarify the claimant's rights to future benefits under the terms of the Plan shall be considered to be a claim.

10.2 A claim for benefits will be considered as having been made when submitted in writing by the claimant (or by such claimant's authorized representative) to the Compensation Committee. No particular form is required for the claim, but the written claim must identify the name of the claimant and describe generally the benefit to which the claimant believes he is entitled. The claim may be delivered personally during business hours or mailed to the Compensation Committee.

10.3 The Compensation Committee will determine whether, or to what extent, the claim may be allowed or denied under the terms of the Plan. If the claim is wholly or partially denied, the claimant shall be so informed by written notice 90 days after the day the claim is submitted unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Plan expects to render the final decision. If notice of denial of a claim (in whole or in part) is not furnished within the initial 90-day period after the claim is submitted (or, if applicable, the extended 90-day period), the claimant shall consider that his claim has been denied just as if he had received actual notice of denial.

10.4 The notice informing the claimant that his claim has been wholly or partially denied shall be written in a manner calculated to be understood by the

claimant and shall include:

- (1) The specific reason(s) for the denial.
- (2) Specific reference to pertinent Plan provisions on which the denial is based.
- (3) A description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary.

8

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- (4) Appropriate information as to the steps to be taken if the claimant wishes to submit his claim for review.

10.5 If the claim is wholly or partially denied, the claimant (or his authorized representative) may file an appeal of the denied claim with the Compensation Committee requesting that the claim be reviewed. The Compensation Committee shall conduct a full and fair review of each appealed claim and its denial. Unless the Compensation Committee notifies the claimant that due to the nature of the benefit and other attendant circumstances he is entitled to a greater period of time within which to submit his request for review of a denied claim, the claimant shall have 60 days after he (or his authorized representative) receives written notice of denial of his claim within which such request must be submitted to the Compensation Committee.

10.6 The request for review of a denied claim must be made in writing. In connection with making such request, the claimant or his authorized representative may:

- (1) Review pertinent documents.
- (2) Submit issues and comments in writing.

10.7 The decision of the Compensation Committee regarding the appeal shall be promptly given to the claimant in writing and shall normally be given no later than 60 days following the receipt of the request for review. However, if special circumstances (for example, if the Compensation Committee decides to hold a hearing on the appeal) require a further extension of time for processing, the decision shall be rendered as soon as possible, but no later than 120 days after receipt of the request for review. However, if the Compensation Committee holds regularly scheduled meetings at least quarterly, a decision on review shall be made by no later than the date of the meeting which immediately follows the Plan's receipt of a request for review, unless the request is filed within 30 days preceding the date of such meeting. In such case, a decision may be made by no later than the date of the second meeting following the Plan's receipt of the request for review. If special circumstances (for example, if the Compensation Committee decides to hold a hearing on the appeal) require a further extension of time for processing, the decision shall be rendered as soon as possible, but no later than the third meeting following

the Plan's receipt of the request for review. If special circumstances require that the decision will be made beyond the initial time for furnishing the decision, written notice of the extension shall be furnished to the claimant (or his authorized representative) prior to the commencement of the extension. The decision on review shall be in writing and shall be furnished to the claimant or his authorized representative within the appropriate time for the decision. If a decision on review is not furnished within the appropriate time, the claim shall be deemed to have been denied on appeal.

10.8 The Compensation Committee may, in its sole discretion, decide to hold a hearing if it determines that a hearing is necessary or appropriate in order to make a full and fair review of the appealed claim.

10.9 The decision on review shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent Plan provisions on which the decision is based.

10.10 A person must exhaust his rights to file a claim and to request a review of the denial of his claim before bringing any civil action to recover benefits due to him under the terms of the Plan, to enforce his rights under the terms of the Plan, or to clarify his rights to future benefits under the terms of the Plan.

9

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10.11 The Compensation Committee shall exercise its responsibility and authority under this claims procedure as a fiduciary and, in such capacity, shall have the discretionary authority and responsibility (1) to interpret and construe the Plan and any rules or regulations under the Plan, (2) to determine the eligibility of Nonemployee Directors to participate in the Plan, and the rights of Participants to receive benefits under the Plan, and (3) to make factual determinations in connection with any of the foregoing.

ARTICLE XI

GENERAL PROVISIONS

11.1 No right or interest of any person entitled to a benefit under the Plan shall be subject to voluntary or involuntary alienation, assignment, or transfer of any kind.

11.2 No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities, or torts of the person entitled to benefits under this Plan.

11.3 The Company's obligations under this Plan shall be as unfunded and unsecured promise to pay. The Company shall not be obligated under any circumstances to fund its financial obligations under this Plan. The Company may establish a grantor trust to assist it in meeting its obligations under this

a. The Company shall not be obligated to establish such a trust, and if established, the Company shall not be obligated to make contributions to the

1.4 This Plan shall be construed and administered in accordance with the laws of the State of North Carolina to the extent that such laws are not preempted by federal law.

ATTEST: DUKE POWER COMPANY

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EXHIBIT NO. 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-19274, 33-50543, 33-50715, 33-50617, 333-02571 and 333-14209 of Duke Power Company on Form S-3, Registration Statement No. 2-72172 of Duke Power Company on Form S-8 and Registration Statement No. 333-23227 on Form S-4 of our report dated February 7, 1997, appearing in this Form 10-K of Duke Power Company for the year ended December 31, 1996.

DELOITTE & TOUCHE LLP

Charlotte, North Carolina
March 24, 1997

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EXHIBIT NO. 24(A)

DUKE POWER COMPANY

POWER OF ATTORNEY

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1996
(Annual Report)

The undersigned DUKE POWER COMPANY, a North Carolina corporation and certain of its officers and/or directors, do each hereby constitute and appoint H. Grigg, Richard J. Osborne, Ellen T. Ruff, Jeffrey L. Boyer, and each of them, to act as attorneys-in-fact for and in the respective names, places, and stead of the undersigned, to execute, seal, sign, and file with the Securities and Exchange Commission the Annual Report of said Duke Power Company on Form 10-K and any and all amendments thereto, hereby granting to said attorneys-in-fact, and each of them, full power and authority to do and perform all and every act and thing whatsoever requisite, necessary, or proper to be done in and about the premises, as fully to all intents and purposes as the undersigned, or any of them, might or could do if personally present, hereby ratifying and approving the acts of said attorneys-in-fact.

Executed the 25th day of February, 1997.

DUKE POWER COMPANY

By W. H. Grigg
Chairman and Chief Executive Officer

(Corporate Seal)

ATTEST:

Robert T. Lucas III
Assistant Secretary

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W. H. Grigg Chairman and Chief Executive Officer
W. H. Grigg (Principal Executive Officer and Director)

Richard J. Osborne Senior Vice President and Chief Financial
Richard J. Osborne Officer (Principal Financial Officer)

Jeffrey L. Boyer Controller (Principal Accounting Officer)
Jeffrey L. Boyer

G. Alex Bernhardt (Director)
G. Alex Bernhardt

Robert J. Brown (Director)
Robert J. Brown

William A. Coley (Director)
William A. Coley

Steve C. Griffith, Jr. (Director)
Steve C. Griffith, Jr.

Paul H. Henson (Director)

George Dean Johnson, Jr. (Director)
George Dean Johnson, Jr.

W. W. Johnson (Director)
W. W. Johnson

Max Lennon (Director)
Max Lennon

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James G. Martin (Director)
James G. Martin

Buck Mickel (Director)
Buck Mickel

Richard B. Priory (Director)
Richard B. Priory

Russell M. Robinson, II (Director)
Russell M. Robinson, II

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EXHIBIT NO. 24(B)

CERTIFIED COPY OF RESOLUTIONS FROM THE MINUTES OF
A REGULAR MEETING OF THE BOARD OF DIRECTORS OF
DUKE POWER COMPANY HELD ON FEBRUARY 25, 1997

Upon motion duly made and seconded, it was
RESOLVED, That the Form 10-K Annual Report, as
presented to the meeting, with such changes therein as may be
deemed necessary or advisable by the officers of the Company
be and hereby is in all respects approved; and

FURTHER RESOLVED, That the Power of Attorney as
presented to the meeting and executed by all the Directors
present be and hereby is approved in form and content for
purposes of filing the Form 10-K Annual Report with the
Securities and Exchange Commission.

I, Ellen T. Ruff, Secretary of Duke Power Company, do hereby certify
that the above is a full, true and complete extract from the Minutes of the
regular meeting of the Board of Directors of Duke Power Company held on February
25, 1997, at which meeting a quorum was present; as taken from and compared with
the original Minutes of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the
Corporate Seal of said Duke Power Company this 20th day of March, 1997.

Ellen T. Ruff
Secretary

[SEAL]

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF INCOME, CONSOLIDATED STATEMENTS OF CASH FLOWS, CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF RETAINED EARNINGS FOR THE 12 MONTHS ENDED 12/31/96 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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FORMER COMPANY:

FORMER CONFORMED NAME: DUKE POWER CO /NC/

DATE OF NAME CHANGE: 19920703

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 1997 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 1-4928

DUKE ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of incorporation or organization)

56-0205520

(I.R.S. Employer Identification No.)

422 South Church Street, Charlotte, North Carolina
(Address of principal executive offices)

28202-1904
(Zip Code)

704-594-6200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange, Inc.
6.375% Preferred Stock A, 1993 Series, par value \$25	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 5 7/8% Due 2001	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 5 7/8% Series C Due 2003	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 5 1/4% Series B Due 2004	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 3/8% Due 2008	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 5 5/8% Series B Due 2003	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 3/4% Due 2025	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 7/8% Series B Due 2023	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Due 2000	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Series B Due 2008	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Due 2005	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Due 2033	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7 3/8% Due 2023	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7 1/2% Series B Due 2025	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7 7/8% Due 2024	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 8% Series B Due 1999	New York Stock Exchange, Inc.
7.20% Quarterly Income Preferred Securities issued by Duke Energy Capital Trust I and guaranteed by Duke Energy Corporation	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

Title of class

Preferred Stock, par value \$100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item



405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 27, 1998 \$20,010,800,000
 Number of shares of Common Stock, without par value, outstanding at February 27, 1998 360,149,391

Documents incorporated by reference:

The registrant is incorporating herein by reference certain sections of the proxy statement relating to the 1998 annual meeting of shareholders to provide information required by Part III, Items 10, 11, 12 and 13 of this annual report.

DUKE ENERGY CORPORATION

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997

TABLE OF CONTENTS

Item	Page
PART I.	
1. Business	1
General	1
Electric Operations	1
Natural Gas Transmission	4
Energy Services	6
Other Operations	9
Environmental Matters	9
Other Matters	10
Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995	10
Operating Statistics	11
Executive Officers of the Corporation	12
2. Properties	12
3. Legal Proceedings	14
4. Submission of Matters to a Vote of Security Holders	14
PART II.	
5. Market for Registrant's Common Equity and Related Stockholder Matters	15
6. Selected Financial Data	15
7. Management's Discussion and Analysis of Results of Operations and Financial Condition	16
7A. Quantitative and Qualitative Disclosures About Market Risk	26
8. Financial Statements and Supplementary Data	27
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	61
PART III.	
10. Directors and Executive Officers of the Registrant	61
11. Executive Compensation	61
12. Security Ownership of Certain Beneficial Owners and Management	61
13. Certain Relationships and Related Transactions	61
PART IV.	
14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	62
Signatures	63
Exhibit Index	64

PART I.

Item 1. Business.

GENERAL

On June 18, 1997, Duke Power Company (Duke Power) changed its name to Duke Energy Corporation (the Corporation) in accordance with the terms of a merger agreement with PanEnergy Corp (PanEnergy), pursuant to which the Corporation issued 158.3 million shares of its common stock in exchange for all of the outstanding common stock of PanEnergy (the merger). PanEnergy was involved in

the gathering, processing, transportation and storage of natural gas, the production of natural gas liquids and the marketing of natural gas, electricity, liquefied petroleum gases and related energy services. Pursuant to the merger, each share of PanEnergy common stock outstanding was converted into the right to receive 1.0444 shares of the Corporation's common stock. In addition, each outstanding option to purchase PanEnergy common stock became an option to purchase common stock of the Corporation, adjusted accordingly. The merger was accounted for as a pooling of interests.

As a result of the merger, the Corporation is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and abroad. The Corporation provides these services through four business segments: Electric Operations, Natural Gas Transmission, Energy Services, and Other Operations.

The Electric Operations segment is engaged in the generation, transmission, distribution and sale of electric energy in central and western North Carolina and the western portion of South Carolina. These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSCSC).

The Natural Gas Transmission segment is involved in interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic, New England and Midwest states. The interstate natural gas transmission and storage operations are also subject to the rules and regulations of the FERC.

The Energy Services segment is comprised of several separate business units: Field Services gathers and processes natural gas, produces and markets natural gas liquids (NGLs) and transports and trades crude oil; Trading and Marketing markets natural gas, electricity and other energy-related products; Global Asset Development develops, owns and operates energy-related facilities worldwide; and Other Energy Services provides engineering consulting, construction and integrated energy solutions.

Other Operations include the real estate operations of Crescent Resources, Inc. (Crescent Resources) and communications services. Corporate costs and intersegment eliminations are also reflected in the financial results of this segment.

A discussion of the current business and operations of each of the Corporation's segments follows. The Corporation expects moderate growth in its Electric Operations segment, consistent with historical trends. In the Natural Gas Transmission segment, relatively slow growth is expected due to increased competition. The Corporation is seeking to significantly grow its Energy Services segment through acquisition, construction and expansion opportunities. For further discussion of the operating outlook of the Corporation and its segments, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Operations Outlook." For financial information concerning the Corporation's business segments, see Note 4 to the Consolidated Financial Statements, "Business Segments."

The Corporation is a North Carolina corporation with its principal executive offices located at 422 South Church Street, Charlotte, NC 28202-1904. The telephone number is 704-594-6200.

ELECTRIC OPERATIONS

Service Area and Customers

The Electric Operations service area, approximately two-thirds of which lies in North Carolina, covers about 20,000 square miles with an estimated population of 5.1 million and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville and Spartanburg in South Carolina. Electric Operations supplies electric service directly to approximately two million residential, commercial and industrial customers in more than 200 cities, towns and unincorporated communities. Electricity is sold at wholesale to incorporated municipalities and to several public and private utilities. In addition, sales are made through contractual agreements to municipal or cooperative customers who purchased portions of the Catawba Nuclear Station. For statistics related to gigawatt-hour sales

1

by customer type, see "Business, Operating Statistics." For further discussion of the Catawba Nuclear Station joint ownership, see Note 6 to the Consolidated Financial Statements, "Joint Ownership of Generating Facilities."

The Electric Operations service area is undergoing increasingly

diversified industrial development. The textile industry, machinery and equipment manufacturing, and chemical and chemical-related industries are of major significance to the economy of the area. Other industrial activities include rubber and plastic products, paper and allied products, and various other light and heavy manufacturing and service businesses. The largest industry served is the textile industry, which accounted for approximately \$457 million of the revenues of the Electric Operations segment for 1997, representing 10% of electric revenues and 38% of industrial revenues. Electric Operations normally experiences seasonal peak loads in summer and winter which are relatively in balance.

Shown below is the Electric Operations service area, in which business is conducted under the name "Duke Power" and by Nantahala Power and Light Company, a subsidiary of the Corporation.

[Map of North and South Carolina depicting
Electric Operations Service Area appears here]

Capability and Resources of Energy

Electric energy required to supply the needs of the customers of Electric Operations is primarily generated through three nuclear generating stations with a combined net capability of 5,078 MW (Oconee Nuclear Station -- 2,538 MW, McGuire Nuclear Station -- 2,258 MW and Catawba Nuclear Station -- 282 MW, which represents Electric Operations' 12.5% ownership share in the Catawba Nuclear Station), eight coal-fired stations with a combined capability of 7,699 MW, twenty hydroelectric stations with a combined capability of 2,685 MW and six combustion turbine stations with a combined capability of 1,784 MW. Energy and capacity are also supplied through contracts with other generators of electricity and purchased on the open market. Electric Operations has interconnections and arrangements with its neighboring utilities, which are considered adequate for planning, emergency assistance, exchange of capacity and energy and reliability of power supply. Future increased energy requirements of Electric Operations' customers are expected to be supplied through open market purchases. For statistics regarding sources of electric energy see "Business, Operating Statistics."

Fuel Supply

Electric Operations presently relies principally on coal and nuclear fuel for the generation of electric energy. Electric Operations reliance on oil and gas is minimal. Information regarding the utilization of sources of power and cost of fuels for each of the three years in the period ended December 31, 1997 is set forth in the following table:

2

	Generation by Source (Percent)			Cost of Fuel per Net Kilowatt-hour Generated (Cents)		
	1997	1996	1995	1997	1996	1995
Coal	59.3	54.0	43.7	1.30	1.40	1.56
Nuclear (a)	38.8	44.0	53.7	0.48	0.53	0.57
Oil and gas (b)	.4	.3	.3	5.98	6.74	5.06
All fuels (cost based on weighted average) (a)	98.5	98.3	97.7	0.99	1.02	1.03
Hydroelectric (c)	1.5	1.7	2.3			
	100.0	100.0	100.0			
	=====	=====	=====			

(a) Statistics related to nuclear generation and all fuels reflect the Electric Operations' 12.5% ownership interest in the Catawba Nuclear Station.

(b) Cost statistics include amounts for light-off fuel at the Electric Operations' coal-fired stations.

(c) Generating figures are net of output required to replenish pumped storage units during off-peak periods.

Coal. Electric Operations obtains a large amount of its coal under supply

contracts with mining operators utilizing both underground and surface mining. Electric Operations currently has an adequate supply of coal. Electric Operations' supply contracts, all of which have price adjustment provisions, have expiration dates ranging from 1998 to 2003. The Corporation believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers for the quantities and qualities of coal required. The coal purchased under these supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia. Coal requirements not met by supply contracts have been and are expected to be fulfilled with spot market purchases.

The average sulfur content of coal being purchased by Electric Operations is approximately 1%. Such coal satisfies the current emission limitation for sulfur dioxide for existing facilities. See also "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Environmental, Air Quality Control" for additional information regarding particulate matter.

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. After a region (approximately one-third of the nuclear fuel assemblies in the reactor at any time) of spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. Electric Operations has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet Electric Operations' requirements through the following years:

Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
Oconee	1998	1998	2000	2006
McGuire	1998	1998	2000	2009
Catawba	1998	1998	2000	2009

Uranium material requirements will be met through various supplier contracts, with uranium material produced primarily in the United States and Canada. The Corporation believes that it will be able to renew contracts as they expire or to enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services. Requirements not met by long-term supply contracts have been and are expected to be fulfilled with uranium spot market purchases.

Under provisions of the Nuclear Waste Policy Act of 1982, the Corporation entered into contracts with the Department of Energy (DOE) for the disposal of spent nuclear fuel. The DOE delayed in accepting the waste materials on the contract date of January 31, 1998. The Corporation has joined with 35 other utilities in a lawsuit attempting to force the DOE to meet its obligations as called for in the contract. The Corporation has satisfactory plans in place to provide storage of spent nuclear fuel if the DOE cannot accept it.

3

Competition

Competition for retail electric customers is not generally allowed in the Electric Operations' service territory. However, there are discussions and events at the national level and within certain states regarding retail competition which are resulting in changes in the industry. For further discussion, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Electric Competition."

Electric Operations is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, from other private utilities. Currently, statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSCSC, respectively, of all areas outside municipalities in such states to regulated electric utilities and rural electric cooperatives. Substantially all of the territory comprising the Electric Operations' service area has been so assigned. The remaining areas have been designated as unassigned and in such areas Electric Operations remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to

be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSCSC. In addition, Electric Operations is engaged in continuing competition with various natural gas providers.

Regulation

The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves the Electric Operations' rates for electric sales to wholesale customers. For further discussion of rate matters and fuel and purchased power cost adjustment procedures, see Note 5 to the Consolidated Financial Statements, "Regulatory Matters -- Electric Operations." The FERC, the NCUC and the PSCSC also have authority over the construction and operation of the Electric Operations' facilities. Electric Operations holds certificates of public convenience and necessity issued by the FERC, the NCUC and the PSCSC, authorizing it to construct and operate the electric facilities now in operation for which certificates are required, and to sell electricity to retail and wholesale customers.

The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities permit the FERC to order transmission access for third parties to transmission facilities owned by another entity. EPACT does not, however, permit the FERC to issue orders requiring transmission access to retail customers. The FERC has issued orders for third-party transmission service and a number of rules of general applicability, including Orders 888 and 889. Pursuant to the FERC's final rules, Electric Operations obtained from the FERC open-access rights to sell at market-based rates up to 2,500 megawatts (MW) of capacity and energy from its own assets. For further discussion, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Electric Competition."

The Electric Operations segment is subject to the jurisdiction of the Nuclear Regulatory Commission (NRC) as to the design, construction and operation of its nuclear stations. For discussions of nuclear decommissioning costs and nuclear insurance regulatory requirements and coverages, see Note 12 to the Consolidated Financial Statements, "Nuclear Decommissioning Costs & Spent Nuclear Fuel" and Note 15 to the Consolidated Financial Statements, "Commitments and Contingencies -- Nuclear Insurance," respectively.

The hydroelectric generating facilities of Electric Operations are licensed by the FERC under Part I of the Federal Power Act, with license terms expiring from 2008 to 2036. The nuclear generating facilities of the Electric Operations are licensed by the NRC with license terms expiring from 2013 to 2026. The FERC has authority to grant extensions of hydroelectric generating licenses, and the NRC has authority to grant extensions of nuclear generating licenses.

The Electric Operations segment is subject to the jurisdiction of the Environmental Protection Agency (EPA) and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters."

NATURAL GAS TRANSMISSION

During 1997, the Natural Gas Transmission segment completed the organization of its operations into the Northeast Pipelines, which includes Texas Eastern Transmission Corporation (TETCO) and Algonquin Gas Transmission Company (Algonquin), and the Midwest Pipelines, which includes Panhandle Eastern Pipe Line Company (PEPL) and Trunkline Gas Company (Trunkline).

4

In 1997, consolidated natural gas deliveries by the Natural Gas Transmission segment's interstate pipelines totaled 2,862 TBTU (Trillion British thermal units), compared to 2,939 TBTU in 1996, which represented approximately 12% of the natural gas consumed in the United States. A substantial majority of the delivered volumes of the Natural Gas Transmission segment's interstate pipelines represents gas transported under long-term firm service agreements with local distribution company (LDC) customers in the pipelines' market areas. Firm transportation services are also provided under contract to gas marketers, producers, other pipelines, electric power generators and a variety of end-users. In addition, the pipelines offer interruptible transportation to customers on a short-term or seasonal basis. See natural gas deliveries statistics under "Business, Operating Statistics." Demand for gas transmission of the Natural Gas Transmission segment's interstate pipeline systems is seasonal, with the highest throughput occurring during the colder periods in the first and fourth quarters.

The Natural Gas Transmission segment's 37,500 mile interstate pipeline system is fully interconnected and can receive natural gas from most major North American producing regions for delivery to markets throughout the Northeast and Midwest states, as shown in the map below.

[Map of United States depicting the Natural Gas Transmission segment Interstate Pipelines and Storage Fields appears here]

Northeast Pipelines

TETCO's major customers are located in Pennsylvania, New Jersey and New York, and include LDCs serving the Pittsburgh, Philadelphia, Newark and New York City metropolitan areas. Algonquin's major customers include LDCs and electric power generators located in the Boston, Hartford, New Haven, Providence and Cape Cod areas.

TETCO also provides firm and interruptible open-access storage services. Since the implementation of the FERC Order 636 restructuring, storage is offered as a stand-alone unbundled service or as part of a no-notice bundled service. TETCO's storage services utilize two joint venture storage facilities in Pennsylvania and one wholly owned and operated storage field in Maryland. TETCO also leases storage capacity. TETCO's certificated working capacity in these three fields is 70 Billion cubic feet (Bcf), and the combined working gas in storage was 55 Bcf on December 31, 1997. Algonquin owns no storage fields. For further discussion of Order 636, see "Business, Natural Gas Transmission -- Regulation."

Midwest Pipelines

PEPL's market volumes are concentrated among approximately 20 utilities located in the Midwest market area that encompasses large portions of Michigan, Ohio, Indiana, Illinois and Missouri. Trunkline's major customers include eight utilities located in portions of Tennessee, Missouri, Illinois, Indiana and Michigan.

PEPL also owns and operates three underground storage fields located in Illinois, Michigan and Oklahoma. Trunkline owns and operates one storage field in Louisiana. The combined maximum working gas capacity of the four fields is 44

5

Bcf. Additionally, PEPL, through a subsidiary, Pan Gas Storage Company (Pan Gas), is the owner of a storage field in Kansas with an estimated maximum capacity of 26 Bcf. PEPL is the operator of the field. Since the implementation of Order 636, each of PEPL, Trunkline and Pan Gas offer firm and interruptible storage on an open-access basis. In addition to owning and operating storage fields, PEPL also leases storage capacity. PEPL and Trunkline have retained the right to use up to 15 Bcf and 10 Bcf, respectively, of their storage capacity for system needs. See further discussion of Order 636 in "Business, Natural Gas Transmission -- Regulation."

Competition

The Corporation's interstate pipeline subsidiaries compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service and flexibility and reliability of service. The Corporation's pipelines continue to offer selective discounting to maximize revenues from existing capacity and to advance projects that provide expanded services to meet the specific needs of customers.

In the Mid-Atlantic and New England markets, TETCO competes directly with Transcontinental Gas Pipe Line Corporation, Tennessee Gas Pipeline Company (TGPC), Iroquois Gas Transmission System (Iroquois), CNG Transmission Corporation and Columbia Gas Transmission Corporation. Algonquin competes directly in certain market areas with TGPC and Iroquois. PEPL and Trunkline compete directly with ANR Pipeline Company, Natural Gas Pipeline Company of America and Texas Gas Transmission Corporation in the Midwest market area.

Natural gas competes with other forms of energy available to the Corporation's customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in the areas served by the Corporation.

Regulation

The FERC has authority to regulate rates and charges for natural gas transported in or stored for interstate commerce or sold by a natural gas

company in interstate commerce for resale. For further discussion of rate matters, see Note 5 to the Consolidated Financial Statements, "Regulatory Matters -- Natural Gas Operations." The FERC also has authority over the construction and operation of pipeline and related facilities utilized in the transportation and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. TETCO, Algonquin, PEPL, Trunkline and Pan Gas hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate the pipelines, facilities and properties now in operation for which such certificates are required, and to transport and store natural gas in interstate commerce.

The Natural Gas Transmission segment's pipelines operate as open-access transporters of natural gas. In 1992, the FERC issued Order 636, which requires open-access pipelines to provide firm and interruptible transportation services on an equal basis for all gas supplies, whether purchased from the pipeline or from another gas supplier. To implement this requirement, Order 636 provided, among other things, for mandatory unbundling of services that have historically been provided by pipelines into separate open-access transportation, sales and storage services. Order 636 allows pipelines to recover eligible costs, known as "transition costs," resulting from the implementation of Order 636. For further discussion of Order 636, see Note 5 to the Consolidated Financial Statements, "Regulatory Matters -- Natural Gas Operations."

The Natural Gas Transmission segment is subject to the jurisdiction of the EPA and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters." The Natural Gas Transmission segment is also subject to the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline safety requirements, and to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

ENERGY SERVICES

The Energy Services segment is comprised of several separate business units: Field Services, Trading and Marketing, Global Asset Development and Other Energy Services. See certain operating statistics of the Energy Services segment under "Operating Statistics." Activities of the Energy Services segment can fluctuate in response to the seasonality affecting both electricity and natural gas.

6

Field Services

Field Services owns and operates approximately 17,000 miles of natural gas gathering systems, including intrastate pipelines, and 27 natural gas processing plants in the United States. Field Services also has ownership interests in 11 other natural gas processing plants in the United States.

Field Services' gathering systems are located in 10 states, which serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and Gulf Coast (offshore and onshore) areas. Field Services' gathering operations also include several intrastate pipeline systems and two natural gas storage facilities.

Field Services' NGL processing operations involve the extraction of NGLs from natural gas and, at certain facilities, the fractionation of the NGLs into their individual components (ethane, propane, butane and natural gasoline). The natural gas used in Field Services' processing operations is generally gathered on its own gathering system or from the natural gas stream on the Corporation's transmission system. Field Services also operates approximately 450 miles of NGL pipelines in the Texas Gulf Coast area which transport NGLs received from 12 processing plants in South Texas. NGLs are sold by Field Services to a variety of customers ranging from large multi-national petrochemical and refining companies to small family-owned retail propane distributors. NGL sales are based upon current market-related prices. Field Services also provides, on a more limited basis, processing services to producers and others for a stipulated fee and produces helium at the National Helium facility.

Field Services also operates approximately 1,500 miles of intrastate crude oil pipelines in the Mid-Continent and South Texas areas. The crude oil pipeline system provides gathering and mainline transportation service, for a volumetric fee, based on published tariffs. Crude oil is also purchased from producers and sold to end users.

Trading and Marketing

The Corporation's energy marketing operations are conducted through Duke Energy Trading and Marketing L.L.C. in the United States, Duke Energy Marketing Limited Partnership in Canada (collectively, DETM) and Duke/Louis Dreyfus L.L.C. (D/LD).

DETM was formed in August 1996 as a natural gas and power marketing joint venture with Mobil Corporation (Mobil). All of Mobil's United States and Canadian natural gas production is committed to be marketed through DETM for at least a 10-year period. The Corporation, through its affiliates, operates the joint venture and owns a 60% interest, with Mobil owning a 40% minority interest.

In June 1997, a wholly owned subsidiary of the Corporation acquired the remaining 50% ownership interest in D/LD not already owned from affiliates of Louis Dreyfus Corp. A substantial portion of the Corporation's trading and marketing of electricity is conducted through D/LD.

Trading and Marketing markets natural gas primarily to LDCs, electric power generators, municipalities, industrial end-users and energy marketing companies and markets electricity to investor owned utilities, municipal power generators and other power marketers. Operations are primarily in the United States and, to a lesser extent, in Canada, and are serviced through 13 offices or operating centers.

Natural gas marketing operations encompass both on-system and off-system sales. With respect to on-system sales, Trading and Marketing generally purchases natural gas from the Corporation's Field Services facilities and delivers the gas to an intrastate or interstate pipeline for redelivery to another customer. The Corporation's Natural Gas Transmission pipelines are utilized for deliveries when prudent. With respect to off-system sales, Trading and Marketing purchases natural gas from producers, pipelines and other suppliers not connected with the Corporation's facilities for resale to customers.

Trading and Marketing has a portfolio of short-term and long-term sales agreements with customers, the vast majority of which incorporate market-sensitive pricing terms. Long-term gas purchase agreements with producers, principally entered into in connection with on-system sales, also generally include market-sensitive pricing provisions. Purchases and sales of off-system gas and electricity supply are normally made under short-term contracts. Purchase and sales commitments involving significant price and location risk are generally hedged with commodity futures, swaps and options. For information concerning the Corporation's risk-management activities, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Information About Market Risk -- Commodity Price Risk" and Note 8 to the Consolidated Financial Statements, "Financial Instruments and Risk Management -- Commodity Derivative Instruments."

7

Trading and Marketing also provides energy management services, such as supply and market aggregation, peaking services, dispatching, balancing, transportation, storage, tolling, contract negotiation and administration, as well as energy commodity risk management products and services.

Global Asset Development

Global Asset Development is an active participant in competitive power markets worldwide and has ownership interests in more than 6,500 megawatts of generation worldwide, including projects under construction and under contract. Global Asset Development is comprised of three units: Duke Energy Power Services (DEPS), Duke Energy Industrial Asset Development, and Duke Energy International.

DEPS develops, owns and operates electric generation projects for customers in the United States and Canada. DEPS focuses on acquisitions of existing energy production facilities, greenfield opportunities and operating energy assets. Domestic investments include a 32.5% indirect ownership interest in American Ref-Fuel Company, which owns five waste to energy facilities in New York, New Jersey, Massachusetts and Connecticut. Such facilities process about 4 million tons of municipal solid waste per year and have an aggregate generating capacity of 286 megawatts. DEPS projects under construction include an ownership interest in the Bridgeport Energy Project, a 520 megawatt combined cycle natural gas fired merchant generation plant which will be Connecticut's largest non-nuclear power plant.

On November 18, 1997, DEPS entered into an agreement with Pacific Gas & Electric Company (PG&E) for the purchase of three electric generating plants in California for approximately \$500 million. The plants have a combined net operating capacity of 2,645 megawatts. The sale is expected to close during 1998. Pursuant to California's electric restructuring law, DEPS must contract with PG&E to operate and maintain the facilities for two years following the sale. Energy and capacity from the plants will be sold into the California power exchange and under separate contracts.

Duke Energy Industrial Asset Development was formed in July 1997 to develop, own, manage and operate on-site, inside-the-fence electric generation and energy conversion facilities for industrial customers. Its market focus is the United States and Canada. This unit is currently working with prospective customers from the textile, pulp and paper, petrochemical, agricultural, food and automotive industries and the federal privatization sector.

Duke Energy International develops, owns and operates energy projects worldwide. This unit focuses on projects involving natural gas exploration, production, processing, transportation and supply. Additionally, projects include generation, delivery and marketing of electric power and thermal energy. Its ownership interests include investments in Argentina, Chile, Peru, Indonesia and Saudi Arabia.

Other Energy Services

Other Energy Services provides engineering consulting, construction and integrated energy solutions, primarily through Duke Engineering & Services, Inc. (DES), Duke/Flour Daniel and DukeSolutions, Inc. (DukeSolutions).

DES specializes in energy and environmental projects and provides comprehensive engineering, quality assurance, project and construction management and operating and maintenance services for all phases of hydroelectric, nuclear and renewable power generation projects worldwide.

Duke/Flour Daniel, operating through several entities, provides full service siting, permitting, licensing, engineering, procurement, construction, start-up, operating and maintenance services for fossil-fired plants, both domestically and internationally.

DukeSolutions provides integrated energy solutions to industrial, commercial, institutional, governmental and wholesale customers and focuses on increasing customers' efficiency, productivity and profitability through energy cost savings.

Competition

Field Services and Trading and Marketing compete with major integrated oil companies, major interstate pipelines and their marketing affiliates, national and local natural gas gatherers, brokers, marketers and distributors and electric utilities and other electric power marketers for natural gas supplies, in gathering and processing natural gas and in marketing and transporting natural gas, electricity, NGLs and crude oil. Competition for natural gas supplies is primarily based on efficiency, reliability, availability of transportation and the ability to obtain a satisfactory price for the producer's natural gas. Competition for customers is based primarily upon reliability and price of delivered natural gas, NGLs and crude oil. Competition in the energy marketing business is driven by the price of commodities and services delivered, along with the quality and reliability of services provided.

6

The Global Asset Development and Other Energy Services business units experience substantial competition in their fields from utility companies in the United States or abroad and from independent companies.

Regulation

The intrastate pipelines owned by the Field Services group are subject to state regulation and, to the extent they provide services under Section 111 of the Natural Gas Policy Act of 1978 (NGPA), are also subject to FERC regulation. The natural gas gathering activities of the Field Services group are generally not subject to regulation by the FERC, but are subject to state regulation.

The energy marketing activities of the Trading and Marketing group may, in certain circumstances, be subject to the jurisdiction of the FERC. Current FERC policies permit the Trading and Marketing entities subject to the FERC jurisdiction to market natural gas and electricity at market-based rates.

The NCUC, PSCSC and FERC have implemented regulations governing access to regulated electric customer data by non-regulated entities and services provided between regulated and non-regulated affiliated entities. These regulations affect Energy Services' activities with the Corporation's Electric Operations segment.

The Energy Services segment is subject to the jurisdiction of the EPA and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters." The Energy Services segment is also subject to the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline

and LNG plant safety requirements, and to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

OTHER OPERATIONS

The Other Operations segment includes the Corporation's non-energy related subsidiaries, including Crescent Resources and DukeNet Communications, Inc. (DukeNet).

Crescent Resources develops high quality commercial and residential real estate projects and manages substantial forest holdings. At December 31, 1997, Crescent Resources owned 3.5 million square feet of commercial space, of which 75% of the operating space was leased. Crescent Resources' portfolio included 2.1 million square feet of warehouse space, 1.1 million square feet of office space and .3 million square feet of retail space. In 1997, Crescent Resources sold 884 residential developed lots compared to 869 lots in 1996. At December 31, 1997, Crescent Resources also had approximately .2 million acres of land under its management.

DukeNet develops and manages communications systems, including fiber optic and wireless digital network services. DukeNet provides a network for communications and other services to commercial, industrial and residential markets.

ENVIRONMENTAL MATTERS

The Corporation is subject to federal, state and local regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Certain environmental regulations affecting the Corporation include:

- o The Clean Air Act Amendments of 1990, which require a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000;
- o State Implementation Plans (SIP), which were issued by the EPA to 22 states related to existing and new national ambient air quality standards for ozone;
- o The Federal Water Pollution Control Act Amendments of 1987, which require permits for facilities that discharge treated wastewater into the environment; and
- o The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), which can require any individual or entity which may have owned or operated a disposal site, as well as transporters or generators of hazardous wastes which were sent to such site, to share in remediation costs for the site.

For further discussion of environmental matters involving the Corporation, including possible liability and capital costs, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Environmental" and Note 15 to the Consolidated Financial Statements, "Commitments and Contingencies -- Environmental." Except as set

9

forth therein, compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise protecting the environment, is not expected to have a material adverse effect on the consolidated results of operations or financial position of the Corporation.

OTHER MATTERS

The Corporation is exempt from regulation as a holding company under the Public Utility Holding Company Act of 1935 (PUHCA), except with respect to the acquisition of the securities of other public utilities. The issuance of debt or equity securities by the Corporation is subject to the regulation of the NCUC and the PSCSC.

Foreign operations and export sales are not material to the Corporation's business as a whole. For a discussion of risks associated with the Corporation's foreign operations, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk -- Foreign Operations Risk."

At December 31, 1997, the Corporation had approximately 23,000 employees.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

From time to time, the Corporation may make statements regarding its expectations, intent or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. The Corporation cautions that assumptions, projections and expectations about future events may and often do vary from actual results, the differences between assumptions, projections and expectations and actual results can be material, and there can be no assurance that the forward-looking statements will be realized. For a discussion of some factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Forward-Looking Statements."

10

OPERATING STATISTICS

	Years Ended December 31				
	1997	1996	1995	1994	1993
Electric Operations					
Sources of Electric Energy, GWh (a)					
Generated -- net output:					
Coal	45,234	40,649	32,389	32,714	34,097
Nuclear	29,569	33,177	39,836	35,587	34,390
Hydro	1,129	1,319	1,685	1,460	1,582
Oil and gas	301	199	255	35	43
Total generation	76,233	75,344	74,165	69,786	70,112
Purchased power and net interchange	3,776	3,587	1,175	1,276	1,750
Total output	80,009	78,931	75,340	71,072	71,862
Plus: Purchases from other Catawba joint owners	2,316	2,662	6,070	9,046	8,810
Total sources of energy	82,325	81,593	81,410	80,118	80,672
Less: Line loss and company usage	4,784	4,741	4,673	4,555	4,614
Total GWh sales	77,541	76,852	76,737	75,563	76,058
Electric Energy Sales, GWh					
Residential	20,005	20,982	19,659	18,870	19,465
General service	19,368	19,269	18,160	17,289	16,904
Industrial					
Textile	11,950	11,599	12,151	12,285	11,954
Other	18,253	18,021	17,631	17,005	16,344
Other energy and wholesale	7,555	7,028	8,310	10,274	11,337
Total GWh sales billed	77,131	76,909	75,941	75,723	75,904
Unbilled GWh sales	410	(57)	796	(160)	154
Total GWh sales	77,541	76,852	76,737	75,563	76,058
Natural Gas Transmission					
Throughput Volumes, TBtu (b):					
Northeast Pipelines					
TETCO	1,309	1,349	1,234	1,194	1,115
Algonquin	341	327	331	288	245
Total Northeast Pipelines	1,641	1,676	1,565	1,482	1,360
Midwest Pipelines					
FEPL	659	607	663	626	607
Trunkline	620	612	519	560	633
Total Midwest Pipelines	1,279	1,319	1,182	1,186	1,240
Intercompany eliminations	(59)	(56)	(44)	(91)	(125)
Total Natural Gas Transmission	2,862	2,939	2,703	2,577	2,475
Energy Services					
Field Services Natural Gas Gathered/Processed, TBtu/d (c)	3.4	2.9	1.9	1.6	1.4

Field Services NGL Production, MBbl/d (d)	103.9	76.5	54.8	49.4	42.0
Trading and Marketing Natural Gas Marketed, Tbtu/d	6.9	5.5	3.6	2.7	2.1
Trading and Marketing Electricity Marketed, GWh	64,650	4,229	513	--	--

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- (a) Gigawatt-hour
(b) Trillion British thermal units
(c) Trillion British thermal units per day
(d) Thousand barrels per day

11

Executive Officers of the Corporation

RICHARD B. PRIORY, 51, Chairman of the Board and Chief Executive Officer. Mr. Priory served as President and Chief Operating Officer from 1994 until he assumed his present position in 1997. He was Executive Vice President, Power Generation Group, from 1991 to 1994.

PAUL M. ANDERSON, 52, President and Chief Operating Officer. Mr. Anderson served as Chairman of the Board, President and Chief Executive Officer of PanEnergy prior to the merger, when he assumed his present position. Mr. Anderson was elected Chairman of the Board of PanEnergy in 1997, Chief Executive Officer in 1995 and President in 1993. He was Executive Vice President of PanEnergy from 1991 to 1993.

WILLIAM A. COLEY, 54, Group President, Duke Power. Mr. Coley served as President, Associated Enterprises Group, from 1994 to 1997 when he assumed his present position following the merger. Mr. Coley served as Executive Vice President, Customer Group, from 1991 to 1994.

FRED J. FOWLER, 52, Group President, Energy Transmission. Mr. Fowler served as Group Vice President of PanEnergy from 1996 until the merger, when he assumed his present position. He was President of TETCO from 1994 to 1996, President of ISource Corporation from 1993 to 1994 and President of Trunkline Gas Company from 1991 to 1993.

JAMES T. HACKETT, 44, Group President, Energy Services. Mr. Hackett served as Executive Vice President of PanEnergy from 1996 until the merger, when he assumed his present position. Prior to joining PanEnergy, Mr. Hackett served as Senior Vice President of NCC Corporation (formerly Natural Gas Clearinghouse) from 1990 to 1995.

RICHARD W. BLACKBURN, 55, Executive Vice President and General Counsel. Mr. Blackburn was named to his present position in October 1997. Prior to joining the Corporation, he served as President and Group Executive of NYNEX Corporation's Worldwide Communications and Media Group from 1995 to 1997. He was Chief Operating Officer, Worldwide Communications and Media Group, of NYNEX from 1993 to 1995 and Senior Vice President for Business Development and General Counsel of NYNEX from 1991 to 1993.

RICHARD J. OSBORNE, 46, Executive Vice President and Chief Financial Officer. Mr. Osborne served as Senior Vice President and Chief Financial Officer from 1994 until he assumed his present position in 1997 following the merger. Mr. Osborne served as Vice President and Chief Financial Officer from 1991 to 1994.

RUTH G. SHAW, 50, Executive Vice President and Chief Administrative Officer. Ms. Shaw served as Senior Vice President, Corporate Resources, from 1994 until she assumed her present position following the merger. Ms. Shaw was Vice President, Corporate Communications, from 1992 to 1994, and prior to joining the Corporation, she served as President of Central Piedmont Community College from 1986 to 1992.

JEFFREY L. BOYER, 41, Vice President and Corporate Controller. Mr. Boyer served as Controller from 1994 to 1997, when he assumed his present position following the merger. He was Director of Corporate Accounting from 1992 to 1994.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

Item 2. Properties.

ELECTRIC OPERATIONS

At December 31, 1997, the Corporation's Electric Operations segment operated three nuclear generating stations with a combined net capability of

5,078 MW (which includes Electric Operations' 12.5% ownership share in the Catawba Nuclear Station), eight coal-fired stations with a combined capability of 7,699 MW, twenty hydroelectric stations with a combined capability of 2,685 MW and six combustion turbine stations with a combined capability of 1,784 MW, all of which are located in North Carolina or South Carolina.

In addition, the Corporation owned, as of December 31, 1997, approximately 12,800 conductor miles of electric transmission lines, including 600 conductor miles of 500 kilovolts, 2,600 conductor miles of 220 kilovolts, 6,400 conductor miles of 100 kilovolts, and 3,200 conductor miles of 13 to 66 kilovolts. The Corporation also owned approximately 75,000 conductor miles of electric distribution lines, including 47,300 conductor miles of rural overhead lines, 15,000 conductor miles of urban overhead lines, 7,000 conductor miles of rural underground lines and 5,700 conductor miles of urban underground

12

lines. At December 31, 1997, the Corporation's electric transmission and distribution systems comprised approximately 1,600 substations with an installed transformer capacity of approximately 84,100,000 kVA (kilovolt-ampere).

Substantially all electric plant is mortgaged under the Indenture relating to the First and Refunding Mortgage Bonds of the Corporation.

NATURAL GAS TRANSMISSION

TETCO's gas transmission system extends approximately 1,700 miles from producing fields in the Gulf Coast region of Texas and Louisiana to Ohio, Pennsylvania, New Jersey and New York. It consists of two parallel systems, one consisting of three large-diameter parallel pipelines and the other consisting of from one to three large-diameter pipelines over its length. TETCO's system, including its gathering systems, has 73 compressor stations. The TETCO system connects with the PEPL and Trunkline systems in Lebanon, Ohio.

TETCO also owns and operates two offshore Louisiana gas supply systems, which extend over 100 miles into the Gulf of Mexico and consist of 490 miles of pipeline.

Algonquin's transmission system connects with TETCO's facilities in New Jersey, and extends through New Jersey, New York, Connecticut, Rhode Island and Massachusetts. The system consists of approximately 250 miles of pipeline with 6 compressor stations.

PEPL's transmission system, which consists of four large-diameter parallel pipelines and 13 mainline compressor stations, extends a distance of approximately 1,300 miles from producing areas in the Anadarko Basin of Texas, Oklahoma and Kansas through the states of Missouri, Illinois, Indiana and Ohio into Michigan.

Trunkline's transmission system extends approximately 1,400 miles from the Gulf Coast areas of Texas and Louisiana through the states of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border. The system consists principally of three large-diameter parallel pipelines and 18 mainline compressor stations.

Trunkline also owns and operates two offshore Louisiana gas supply systems consisting of 337 miles of pipeline extending approximately 81 miles into the Gulf of Mexico.

For information concerning natural gas storage properties, see "Business, Natural Gas Transmission."

ENERGY SERVICES

For information regarding the properties of Field Services, see "Business, Energy Services -- Field Services."

Global Asset Development owns two liquid natural gas (LNG) ships, each with a transportation capacity of 125,000 cubic meters of LNG. Both vessels have been chartered to Nigeria LNG Limited (Nigeria LNG) for 22 years starting in 1999. Under the terms of the charter, Nigeria LNG will have the right to purchase the vessels.

Global Asset Development also owns a marine terminal, storage and regasification facility for LNG located in Louisiana. This LNG facility has a design output capacity of approximately 700 million cubic feet per day (MMcf/d) and a storage capacity of approximately 1.8 million barrels, which approximates 6 Bcf.

Other generation, transmission and distribution properties of Global Asset

Development are owned primarily through joint ventures in which the Corporation's ownership interest is 50% or less.

Properties of Trading and Marketing and Other Energy Services are not considered material to the Corporation's operations as a whole.

OTHER OPERATIONS

None of the other properties used in connection with the Corporation's other business activities are considered material to the Corporation's operations as a whole.

13

Item 3. Legal Proceedings.

See Note 15 to the Consolidated Financial Statements, "Commitments and Contingencies" and "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Environmental" for a discussion of legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of the Corporation's security holders during the last quarter of 1997.

14

PART II.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The common stock of the Corporation is listed for trading on the New York Stock Exchange. At February 27, 1998, there were approximately 155,619 holders of record of such common stock.

The following table sets forth for the periods indicated the dividends paid per share of common stock and the high and low sales prices of such shares reported by the New York Stock Exchange Composite Transactions:

1997	Dividends	Stock Price Range	
	Per Share (a)	High	Low
First Quarter ..	\$.40	\$ 48	\$ 43 3/8
Second Quarter ..	.40	48	42 1/8
Third Quarter ..	.55	51 1/8	47 11/16
Fourth Quarter ..	.55	56 3/16	45 3/4

1996	Dividends	Stock Price Range	
	Per Share (a)	High	Low
First Quarter ...	\$.38	\$53	\$46 7/8
Second Quarter ..	.39	51 1/2	45 3/4
Third Quarter ...	.40	51 3/8	45 3/4
Fourth Quarter ..	.40	49 1/8	43 3/8

(a) Financial information reflects accounting for the merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1996.

Item 6. Selected Financial Data.

	1997 (a)	1996 (a)	1995 (a)	1994 (a)	1993 (a)
In Millions (except per share amounts)					
Income Statement					
Operating Revenues	\$ 16,308.9	\$ 12,302.4	\$ 9,694.7	\$ 9,115.0	\$ 8,784.3
Operating Expenses	14,338.9	10,143.8	7,626.4	7,305.0	7,068.6
Operating Income	1,970.0	2,158.6	2,068.3	1,806.0	1,715.7
Other Income and Expenses	138.1	125.6	122.2	101.0	137.5
Earnings Before Interest and Taxes	2,108.1	2,284.2	2,190.5	1,907.0	1,853.2
Interest Expense	471.8	499.2	508.2	484.5	526.3
Minority Interests	23.0	6.2	--	--	--
Earnings Before Income Taxes	1,613.3	1,788.8	1,682.3	1,422.5	1,326.9
Income Taxes	638.9	697.8	664.2	558.4	528.9
Income Before Extraordinary Item	974.4	1,091.0	1,018.1	864.1	798.0
Extraordinary Item	--	16.7	--	--	--
Net Income	974.4	1,074.3	1,018.1	864.1	798.0
Dividends and Premiums on Redemptions of Preferred and Preference Stock	72.8	44.2	48.9	49.7	52.4
Earnings for Common Stockholders	\$ 901.6	\$ 1,030.1	\$ 969.2	\$ 814.4	\$ 745.6
Common Stock Data					
Shares of common stock					
Year-end	359.8	359.4	361.8	360.6	359.1
Average	359.8	361.2	361.2	360.2	353.6
Basic earnings per share (before extraordinary item)	\$ 2.51	\$ 2.90	\$ 2.68	\$ 2.26	\$ 2.11
Basic earnings per share	\$ 2.51	\$ 2.85	\$ 2.68	\$ 2.26	\$ 2.11
Dividends per share	\$ 1.90	\$ 1.57	\$ 1.50	\$ 1.44	\$ 1.39
Balance Sheet					
Total Assets	\$ 24,028.8	\$ 22,366.2	\$ 20,867.9	\$ 20,251.2	\$ 19,717.4
Long-term Debt	\$ 6,530.0	\$ 5,485.1	\$ 5,803.0	\$ 5,930.8	\$ 5,170.9
Preferred Stock with Sinking Fund Requirements	\$ 149.0	\$ 234.0	\$ 234.0	\$ 279.5	\$ 281.0

(a) Financial information reflects accounting for the merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1993.

15

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

INTRODUCTION

On June 18, 1997, Duke Power Company (Duke Power) changed its name to Duke Energy Corporation (the Corporation) in accordance with the terms of a merger agreement with PanEnergy Corp (PanEnergy), pursuant to which the Corporation issued 158.3 million shares of its common stock in exchange for all of the outstanding common stock of PanEnergy (the merger). PanEnergy was involved in the gathering, processing, transportation and storage of natural gas, the production of natural gas liquids and the marketing of natural gas, electricity, liquefied petroleum gases and related energy services. Pursuant to the merger, each share of PanEnergy common stock outstanding was converted into the right to receive 1.0444 shares of the Corporation's common stock. In addition, each outstanding option to purchase PanEnergy common stock became an option to purchase common stock of the Corporation, adjusted accordingly.

As a result of the merger, the Corporation is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and abroad. The Corporation provides these services through four business segments: Electric Operations, Natural Gas Transmission, Energy Services, and Other Operations.

The Electric Operations segment is engaged in the generation, transmission, distribution and sale of electric energy in central and western North Carolina and the western portion of South Carolina. These electric

operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSCSC).

The Natural Gas Transmission segment is involved in interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic, New England and Midwest states. The interstate natural gas transmission and storage operations are also subject to the rules and regulations of the FERC.

The Energy Services segment is comprised of several separate business units: Field Services gathers and processes natural gas, produces and markets natural gas liquids and transports and trades crude oil; Trading and Marketing markets natural gas, electricity and other energy-related products; Global Asset Development develops, owns and operates energy-related facilities worldwide; and Other Energy Services provides engineering consulting, construction and integrated energy solutions.

Other Operations include the real estate operations of Crescent Resources, Inc. (Crescent Resources), communications services, corporate costs and intersegment eliminations.

The merger was accounted for as a pooling of interests and, accordingly, the Consolidated Financial Statements included in this Annual Report are presented as if the merger was consummated as of the beginning of the earliest period presented. Portions of the following discussion provide information related to material changes in the Corporation's consolidated results of operations and financial condition between the periods presented, based on the combined historical information of Duke Power and PanEnergy.

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements of the Corporation.

RESULTS OF OPERATIONS

Earnings available for common stockholders of the Corporation decreased 12% in 1997 as compared to 1996, from \$1,030.1 million or \$2.85 per share in 1996 to \$901.6 million or \$2.51 per share in 1997. The decrease was due primarily to increases in non-recurring merger related costs, a provision for non-recurring severance costs associated with the work force reduction in Electric Operations, premiums associated with the redemption and tender offer for ten issues of preferred stock and higher expenses as a result of increased outages at the Electric Operations' nuclear stations. Partially offsetting the decrease were lower expenses in 1997 as compared to 1996 when major storms affected the Electric Operations' distribution costs.

In 1996, earnings available for common stockholders increased 6% over 1995, from \$959.2 million or \$2.68 per share in 1995 to \$1,030.1 million or \$2.85 per share in 1996. Contributing to the increase were Electric Operations' customer growth, business expansion projects placed in service in both the Natural Gas Transmission and the Energy Services segments and increased volumes in Energy Services due primarily to the joint venture formed with Mobil Corporation (Mobil).

16

in August 1996. Partially offsetting the increase were expenses related to major storms in 1996, which affected the Electric Operations' distribution costs, non-recurring merger related costs and an extraordinary item related to the early retirement of debt in 1996.

Operating income of the Corporation for 1997 was \$1,970 million compared to \$2,158.6 million in 1996 and \$2,068.3 million in 1995. Earnings before interest and taxes (EBIT) were \$2,108.1 million, \$2,294.2 million and \$2,190.5 million for 1997, 1996 and 1995, respectively. Operating income and earnings before interest and taxes are not materially different, and are affected by the same fluctuations for the Corporation and each of its business segments. Earnings before interest and taxes by business segment are summarized below, and the explanation of these results by business segment are discussed thereafter.

Earnings Before Interest and Taxes by Business Segment is as follows:

	1997	1996	1995

	In Millions		
Electric Operations			

Duke Power	\$ 1,266.1	\$ 1,404.8	\$ 1,370.9
Nantahala Power and Light Company	15.7	14.7	10.3
Total Electric Operations	1,281.8	1,419.5	1,381.2
Natural Gas Transmission			
Northeast Pipelines	420.5	399.4	370.5
Midwest Pipelines	203.9	196.1	197.1
Total Natural Gas Transmission	624.4	595.5	567.6
Energy Services			
Field Services	157.0	151.6	106.1
Trading and Marketing	44.4	57.9	17.1
Global Asset Development	4.5	--	26.8
Other Energy Services	18.2	20.0	23.7
Total Energy Services	224.1	229.5	173.7
Crescent Resources	97.6	87.7	64.0
Other Operations	(119.8)	(38.0)	4.0
Consolidated EBIT	\$ 2,108.1	\$ 2,294.2	\$ 2,190.5

Net income for 1997 is net of a full year of the minority interests associated with the August 1996 joint venture with Mobil in the Trading and Marketing operations of the Energy Services segment (see Note 3 to the Consolidated Financial Statements).

Included in the amounts discussed below are intercompany transactions that do not have a material impact on consolidated earnings before interest and taxes.

Electric Operations

	1997	1996	1995
Dollars in Millions			
Revenue	\$ 4,401.7	\$ 4,498.4	\$ 4,512.4
Operating Expenses	3,221.4	3,194.8	3,203.7
Operating Income	1,180.3	1,303.6	1,308.7
Other Income, Net of Expenses	101.5	125.9	72.5
EBIT	\$ 1,281.8	\$ 1,419.5	\$ 1,381.2
Volumes, GWh Sales (a)	77,541	76,852	76,737

(a) Gigawatt-hour sales

In 1997, earnings before interest and taxes for the Electric Operations segment declined 10% as compared to 1996 primarily as a result of the provision for non-recurring severance costs associated with the work force reduction and the increase in nuclear expenses, due primarily to increased outage days. Also contributing to the decrease were lower electric revenues,

17

which were due primarily to mild weather and to the South Carolina rate reduction, which was effective June 1, 1996. Partially offsetting the decrease in earnings were lower expenses in 1997 as compared to 1996 when major storms affected distribution costs.

Although the unusually mild weather reduced residential sales during the year, general service and industrial sales continued to show strong growth. Residential kilowatt-hour sales, the most sensitive to weather, declined 4.7% during the year. Textile sales increased 3.0% and other industrial sales were up 1.3%, for a total growth in industrial sales of 2.0%. Sales to general service customers increased 0.5%. The number of customers in the Electric Operations' service territory increased 2.7% over 1996.

In 1996, earnings before interest and taxes for Electric Operations increased 3% over 1995 due to growth in the number of residential and general

service customers and increased retail kilowatt-hour sales to weather-sensitive customer classes. Increased retail sales were partially offset by the South Carolina rate reduction, which was effective June 1, 1996 and by a 16% decrease in wholesale sales primarily due to a decrease of 24% in supplemental sales requirements to the other joint owners of the Catawba Nuclear Station (Catawba). The effect on earnings before interest and taxes of the decrease in supplemental sales was partially offset by declines in purchased power expense from the other joint owners.

For more information on the Catawba joint ownership, see Note 6 to the Consolidated Financial Statements.

Natural Gas Transmission

	1997	1996	1995
	Dollars in Millions		
Revenue	\$ 1,572.1	\$ 1,556.3	\$ 1,533.4
Operating Expenses	964.4	972.5	971.1
Operating Income	607.7	583.8	562.3
Other Income, Net of Expenses	16.7	11.7	5.3
EBIT	\$ 624.4	\$ 595.5	\$ 567.6
Volumes, Tbtu (a)	2,862	2,919	2,703

(a) Trillion British thermal units

During 1997, the Natural Gas Transmission segment completed the organization of its operations into the Northeast Pipelines, which includes Texas Eastern Transmission Corporation (TETCO) and Algonquin Gas Transmission Company (Algonquin), and the Midwest Pipelines, which includes Panhandle Eastern Pipe Line Company (PEPL) and Trunkline Gas Company (Trunkline). Earnings before interest and taxes for the Natural Gas Transmission segment increased 5% in 1997 over the prior year, with increases in earnings at Northeast Pipelines and Midwest Pipelines of 5% and 4%, respectively. Earnings before interest and taxes increased primarily due to market-expansion projects placed in service and the favorable resolution of regulatory matters in 1997 in amounts in excess of those resolved in 1996. The resolution of regulatory matters was reflected as additional revenue and other income. The increases were partially offset by certain litigation expenses recorded in 1997.

In 1996, earnings before interest and taxes for the Natural Gas Transmission segment increased 5% over 1995. This was primarily due to a 9% increase in throughput resulting from new pipeline expansion projects placed in service in late 1995 and due to colder weather, which increased revenues. Operating expenses in 1995 included a charge for higher Order 636 transition cost estimates, partially offset by the benefit of lower-than-projected PCB (polychlorinated biphenyl) clean-up costs (see Note 5 to the Consolidated Financial Statements).

Energy Services

Earnings before interest and taxes for the Energy Services segment in 1997 decreased slightly as compared to 1996, which was 32% higher than 1995 earnings before interest and taxes. During 1997, 1996 and 1995, these fluctuations were driven primarily by the results of operations of Field Services and Trading and Marketing.

18

Field Services

	1997	1996	1995
	Dollars in Millions		
Revenue	\$ 3,054.6	\$ 2,636.5	\$ 1,791.4
Operating Expenses	2,897.9	2,487.1	1,694.6

Operating Income	156.7	149.4	96.8
Other Income, Net of Expenses	0.3	2.2	9.3
EBIT	\$ 157.0	\$ 151.6	\$ 106.1
Volumes			
Natural Gas Gathered/Processed, TBtu/d (a)	3.4	2.9	1.9
NGL Production, MBbl/d (b)	103.9	76.5	54.8

(a) Trillion British thermal units per day

(b) Thousand barrels per day

Field Services' earnings before interest and taxes increased 4% for 1997 over 1996 primarily due to higher volumes as a result of acquisitions in 1996. Natural gas gathered and processed volumes increased 17% and natural gas liquids (NGL) production increased 36%. Partially offsetting these increases were higher natural gas prices, which increased operating expenses, and a decrease in NGL prices of 8%, which decreased revenues.

Earnings before interest and taxes for Field Services increased 43% in 1996 as compared with 1995. Strong processing margins and increased gathering and processing volumes related to expansion projects and asset acquisitions, primarily the acquisition of assets from Mobil, contributed to the increase in revenues. Average NGL prices increased 30%, while NGL production increased 40%. These improvements were partially offset by increased operating expenses and depreciation as a result of the Mobil asset acquisition and other projects placed in service. A gain on the sale of an investment in Seagull Shoreline System in 1995 caused a comparative reduction in other income.

Trading and Marketing

	1997	1996	1995
	Dollars in Millions		
Revenue	\$ 7,488.7	\$ 3,814.0	\$ 1,866.7
Operating Expenses	7,446.0	3,757.7	1,846.7
Operating Income	42.7	56.3	20.0
Other Income, Net of Expenses	1.7	1.6	(2.9)
EBIT	\$ 44.4	\$ 57.9	\$ 17.1
Volumes			
Natural Gas Marketed, TBtu/d	6.9	5.5	3.6
Electricity Marketed, Gwh (a)	64,650	4,229	513

(a) Gigawatt-hours

A wholly owned subsidiary of the Corporation acquired the remaining 50% ownership interest in the Duke/Louis Dreyfus, L.L.C. (D/LD) joint venture in June 1997. This acquisition, coupled with a full year of operations of the joint venture with Mobil formed in August 1996, accounted for the significant increases in Trading and Marketing revenues, related operating expenses and volumes in 1997 over 1996. Natural gas marketed volumes increased 25%, in addition to increases in natural gas margins from trading activities, which were largely offset by the emerging electric power trading and marketing activities. Higher operating expenses, driven mainly by increased personnel levels and system development costs to provide the necessary infrastructure for growth in the trading and marketing business, resulted in a decrease in earnings before interest and taxes in 1997 as compared to 1996.

In 1995, Trading and Marketing's earnings before interest and taxes increased \$40.8 million as compared to 1995 primarily as a result of expanded operations due to the joint venture with Mobil formed in August 1996. The increase resulted primarily from higher gas volumes, improved margins resulting from colder weather and gas price volatility, and higher trading margins. Total gas volumes marketed increased 53%. The increase in margins was partially offset by higher operating expenses related to the joint venture with Mobil.

Other Operations

Earnings before interest and taxes for Crescent Resources increased 11t in 1997 over 1996. The increase is primarily due to gains associated with bulk land sales in 1997. In 1996, earnings before interest and taxes for Crescent Resources increased 37t over 1995 resulting from increased developed lot sales as well as bulk land sales.

Earnings before interest and taxes for Other Operations, excluding Crescent Resources, declined \$81.8 million in 1997 as compared to 1996. Contributing to the decrease were merger related expenses of \$71.2 million in 1997, compared to 1996 merger expenses of \$13.9 million, and the 1997 amortization of goodwill associated with the purchase of the remaining 50t ownership interest of the D/LD joint venture. This decline was partially offset by the sale of the Corporation's ownership interest in the Midland Cogeneration Venture in 1997.

In 1996, earnings before interest and taxes for Other Operations, excluding Crescent Resources, decreased \$42 million as compared to 1995 primarily as a result of 1996 expenses related to the merger and losses related to the start-up activities of a wireless communications joint venture.

Other Impacts on Earnings Available for Common Stockholders

In 1997, interest expense decreased \$27.4 million, or 5t, as compared to 1996 as a result of lower interest rates. Interest expense in 1996 decreased 2t compared with 1995 as a result of lower average interest rates and lower average debt balances outstanding.

Minority interests in 1997 and 1996 relate primarily to the joint venture with Mobil formed in August 1996.

On October 1, 1996, a subsidiary of the Corporation redeemed its \$150 million, 10t debentures and its \$100 million, 10 1/8t debentures both due 2011. The Corporation recorded a non-cash extraordinary item of \$16.7 million (net of income tax of \$10.3 million) related to the unamortized discount on this early retirement of debt.

In December 1997, the Corporation redeemed four issues of preferred stock and commenced a tender offer to purchase a portion of an additional six issues of preferred stock. Premiums related to these redemptions were included in Dividends and Premiums on Redemptions of Preferred and Preference Stock in the Consolidated Statements of Income.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING CASH FLOW. Operating cash flows decreased \$195.1 million from 1996 to 1997. This decrease primarily reflects the cash impact of costs associated with the merger and natural gas transition cost recoveries.

Operating cash flows increased \$563 million from 1995 to 1996. This increase primarily reflects the cash impact of purchased capacity levelization and natural gas transition cost recoveries. Additionally, improved working capital caused cash flows from operations to increase in 1996.

Assets and liabilities recorded in the Consolidated Balance Sheets related to purchased capacity levelization and the natural gas transition cost recoveries and the related cash flow impacts are effected by state and federal regulatory initiatives and specific agreements. For more information on the purchased capacity levelization and the natural gas transition cost recoveries, see Notes 6 and 5, respectively, to the Consolidated Financial Statements.

INVESTING CASH FLOW. Capital and investment expenditures were approximately \$2.0 billion in 1997 compared with approximately \$1.6 billion in 1996. Increased capital and investment expenditures were partially due to the acquisition of the remaining 50t ownership interest in the D/LD joint venture and the acquisition of an ownership interest in American Ref-Fuel Company. Additionally, increased Electric Operations' construction costs, primarily due to steam generator replacements at certain of the Corporation's nuclear plants and increased distribution line construction and business expansion for the Natural Gas Transmission segment caused expenditures to increase. These increases were partially offset by the 1996 acquisition of certain assets from Mobil.

The Corporation participated in the marketing of electric power and natural gas through its 50t ownership interest in D/LD. On June 17, 1997, the Corporation, through one of its subsidiaries, acquired the remaining 50t ownership interest in D/LD from affiliates of Louis Dreyfus Corp. for \$247 million. The purchase price substantially represents goodwill, which will be amortized over 10 years.

Also in June 1997, the Corporation signed a letter of intent to build a \$265 million, 520-megawatt combined cycle natural gas fired merchant generation plant in Bridgeport, Connecticut. The Corporation will be majority owner, with the first phase of the project scheduled to provide power in mid-1998. The

project is currently under construction.

20

During December 1997, a wholly owned subsidiary of the Corporation formed a joint venture with UAE Ref-Fuel L.L.C. (UAE), a wholly owned subsidiary of United American Energy Corp. The Corporation owns a 65% interest in the joint venture, with UAE owning a 35% minority interest. The joint venture acquired a 50% ownership interest in American Ref-Fuel Company, a waste-to-energy firm, with operations primarily in New York and New Jersey. Thus, the Corporation has an indirect 32.5% ownership interest in American Ref-Fuel Company and provided \$237 million of investment and financing to the venture.

During 1997, the Corporation sold its ownership in trading and marketing operations in the United Kingdom and its equity interest in certain affiliates. Proceeds from these sales were \$87 million.

Capital and investment expenditures in 1996 included the acquisition of certain assets of Mobil for approximately \$300 million by Field Services. The increase in capital and investment expenditures in 1996 over 1995 was a result of this acquisition and other Energy Services expansion projects, partially offset by decreased Electric Operations' construction costs as a result of the completion of certain generating facilities in 1995.

The Corporation plans to maintain its regulated facilities and pursue business expansion of its regulated operations as opportunities arise. Projected 1998 capital and investment expenditures for the Electric Operations and the Natural Gas Transmission segments, including allowance for funds used during construction, are approximately \$700 million and \$300 million, respectively. These projections are subject to periodic review and revisions. Actual expenditures incurred may vary from such estimates due to various factors, including revised electric load estimates, business expansion opportunities, environmental matters and cost and availability of capital.

The Energy Services segment plans to spend approximately \$100 million in 1998 for required capital expenditures at its existing facilities. In addition, the Corporation is seeking to significantly grow its Energy Services businesses, primarily through the Global Asset Development business unit. One expansion opportunity includes the 520-megawatt combined cycle natural gas fired merchant generation plant in Bridgeport, Connecticut already under construction. Another growth opportunity includes the recently announced agreement to purchase from Pacific Gas & Electric Company three power plants in California. The power plants have a combined capacity of 2,645 megawatts. The purchase price is estimated at approximately \$500 million and the transaction is expected to close during 1998. Other similar initiatives in 1998 will likely require significant capital and investment expenditures, which will be subject to periodic review and revision and may vary significantly depending on the value-added opportunities presented.

Projected capital and investment expenditures for 1998 of the Other Operations segment are approximately \$200 million. These projected capital and investment expenditures are subject to periodic review and revision and may vary significantly depending on the value-added opportunities presented.

FINANCING CASH FLOW. The Corporation's consolidated capital structure at December 31, 1997, including short-term debt, was 45% debt, 3% preferred stock, 50% common equity and 2% other capitalization. Fixed charges coverage, using the SEC method, was 4.1 times for 1997 compared to 4.3 and 4.0 times for 1996 and 1995, respectively.

Subsequent to the merger, several rating agencies reviewed and in some cases revised their debt ratings for the Corporation and its subsidiaries PanEnergy, PEPL, and TETCO. As of December 31, 1997, Duke Energy Corporation's senior indebtedness ratings were as follows: AA- by Standard & Poor's Group and Fitch Investors Service; Aa1 by Moody's Investors Service; and AA by Duff & Phelps. The Corporation's intent is to maintain these current credit ratings.

During August 1997, the Corporation instituted a new commercial paper program, increasing its available commercial paper facilities to \$2.5 billion. The commercial paper facilities consist of \$1.25 billion for the Corporation and \$1.25 billion for Duke Capital Corporation (Duke Capital), a wholly owned subsidiary of the Corporation. Duke Capital serves as the parent for the Corporation's business segments except the Electric Operations and certain other operations. The Corporation's total commercial paper facilities were \$780 million at December 31, 1996. These facilities are supported by various bank credit agreements which totaled \$2.7 billion and \$1.5 billion at December 31, 1997 and 1996, respectively. As a result of the revised commercial paper program and the related credit facilities, the Corporation terminated the prior commercial paper program and related bank facilities held by the Corporation and PanEnergy. At December 31, 1997, \$1.7 billion of commercial paper and \$93 million of bank borrowings were outstanding.

On December 8, 1997, Duke Energy Capital Trust I (the Trust), a business

trust which is treated as a subsidiary of the Corporation for financial reporting purposes, issued \$350 million of its 7.2% trust preferred securities, at an \$11 million discount, representing preferred undivided beneficial interests in the assets of the Trust. Payment of distributions on such preferred securities is guaranteed by the Corporation, but only to the extent the Trust has funds legally and immediately available to make such distributions.

21

Since December 31, 1996, \$647.6 million of the Corporation's first and refunding mortgage bonds and \$114.5 million of the Corporation's medium term notes matured or were redeemed. These retirements were funded primarily through the Corporation's commercial paper facilities.

During July 1996, the Corporation began purchasing shares of its common stock. In 1996, the Corporation repurchased approximately 1.3 million shares of common stock for \$159 million. On January 28, 1997, the Board of Directors amended the program to expressly limit the number of shares authorized for repurchase under the program, from the initiation of the program through a date two years after the consummation of the merger, to an amount not to exceed 15 million shares. No repurchases of common stock were made in 1997, and none are anticipated in the future.

The Corporation plans to use authorized but unissued shares of its common stock to meet 1998 employee benefit plan contribution requirements instead of purchasing shares on the open market.

The Corporation and its subsidiaries have authority to issue up to \$1.3 billion aggregate principal amount of debt and other securities under shelf registration statements filed with the Securities and Exchange Commission. Such securities may be issued as First and Refunding Mortgage Bonds, Senior Notes, Subordinated Debentures, or Preferred Stock.

Dividends and debt repayments, along with operating and investing requirements, are expected to be funded by cash from operations, debt and commercial paper issuances and available credit facilities. As noted previously, the Corporation is seeking to significantly grow its Energy Services businesses, which will likely require significant additional financing.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK. The Corporation is exposed to changes in interest rates as a result of significant financing through its issuance of variable-rate debt, fixed-rate debt, commercial paper and auction market preferred stock, as well as fixed-to-floating interest rate swaps. The Corporation manages its interest rate exposure by limiting its variable-rate exposure to a certain percentage of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates. (See Notes 11 and 14 to the Consolidated Financial Statements.)

If market interest rates average 1% more in 1998 than in 1997, the Corporation's interest expense, after considering the effect of the interest rate swap agreements, would increase, and income before taxes would decrease by approximately \$23.6 million. This amount has been determined by considering the impact of the hypothetical interest rates on the Corporation's variable-rate debt balances, commercial paper balances, auction market preferred stock balances and interest rate swap agreements as of December 31, 1997. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. In the event of a significant change in interest rates, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in the Corporation's financial structure.

COMMODITY PRICE RISK. The Corporation, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price and transportation costs of natural gas, electricity and petroleum products marketed and employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including futures, swaps and options. (See Note 8 to the Consolidated Financial Statements.) The Corporation measures the risk in its commodity derivative portfolio on a daily basis utilizing a Value-at-Risk (VAR) model to determine the maximum potential one-day favorable or unfavorable impact on its earnings and monitors its risk in comparison to established thresholds. The Corporation also utilizes other measures to monitor the risk in its commodity derivative portfolio on a monthly, quarterly and annual basis. The VAR computations are based on an historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the favorable or unfavorable impact of one-day's price movement on the

existing portfolio. The VAR computations utilize several key assumptions, including the confidence level for the resultant price movement and the holding period chosen for the calculation. The Corporation's calculation includes commodity derivative instruments held for trading purposes and excludes the effects of written and embedded physical options in the trading portfolio. At December 31, 1997, the Corporation's estimated potential one-day favorable or unfavorable impact on income before taxes, as measured by VAR, related to its commodity derivatives held for trading purposes was approximately \$2 million. Changes in markets inconsistent with historical trends could cause actual results to exceed predicted limits. Market risks associated with commodity derivatives held for purposes other than trading were not material at December 31, 1997.

Subsidiaries of the Corporation are also exposed to market fluctuations in the price of natural gas liquids (NGLs) related to their ongoing gathering and processing operating activities. Because the Corporation generally does not maintain an

22

inventory of NGLs or actively trade commodity derivatives related to NGLs, the Corporation was not exposed to this risk at December 31, 1997. However, the Corporation closely monitors the risks associated with NGL price changes on its future operations.

EQUITY PRICE RISK. The Corporation maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning. (See Note 12 to the Consolidated Financial Statements.) As of December 31, 1997, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed income securities and cash and cash equivalents. By maintaining a portfolio that includes long-term equity investments, the Corporation is maximizing the returns to be utilized to fund nuclear decommissioning, which in the long-term will better correlate to inflationary increases in decommissioning costs. However, the equity securities included in the Corporation's portfolio are exposed to price fluctuation in equity markets, and the fixed-rate, fixed income securities are exposed to changes in interest rates. The Corporation actively monitors its portfolio by benchmarking the performance of its investments against certain indexes and by maintaining, and periodically reviewing, established target allocation percentages of the assets in its trusts to various investment options. Because the accounting for nuclear decommissioning recognizes that costs are recovered through the Corporation's Electric Operations' rates, fluctuations in equity prices or interest rates do not affect the earnings of the Corporation.

FOREIGN OPERATIONS RISK. The Corporation has investments in several international operations, many of which are joint ventures. At December 31, 1997, the Corporation had investments in international affiliates of \$230.1 million. These investments represent primarily investments in affiliates which own energy-related production, generation and transmission facilities.

The Corporation is exposed to foreign currency risk, sovereign risk and other foreign operations risks, primarily through investments in affiliates of \$42.6 million in Asia and \$100.7 million in South America. In order to mitigate risks associated with foreign currency fluctuations, the majority of contracts entered into by the Corporation or its affiliates are denominated in or indexed to the U.S. dollar. Other exposures to foreign currency risk, sovereign risk or other foreign operations risk are periodically reviewed by management and were not material to the Corporation's consolidated results of operations or financial position during the period.

CURRENT ISSUES

OPERATIONS OUTLOOK. The Electric Operations segment is expected to grow moderately, consistent with historical trends. Expansion will be primarily as a result of continued economic growth in its service territory. In 1997, as a result of the merger, the Corporation signed various agreements with the NCUC, PSCSC and the FERC in which the Corporation agreed to cap base rates to retail and wholesale electric customers at existing levels through 2000. In addition, the Corporation signed agreements with the other joint owners of Catawba providing for a cap on certain rates charged under interconnection agreements. In response to these rate agreements and competitive pressures, the Electric Operations segment is striving to maintain low costs and competitive rates for its customers and to provide high quality customer service. The Corporation does not expect a negative impact as a result of such agreements on its results of operations or financial position. (See further discussion in the Electric Competition section below.)

Due to increased competition, especially for the Midwest Pipelines, relatively slow growth is expected for future operations of the Corporation's Natural Gas Transmission segment. The Natural Gas Transmission segment continues to offer selective discounting to maximize revenues from existing capacity and to advance projects that provide expanded services to meet the

specific needs of customers. Several projects have been announced that position the Natural Gas Transmission segment to meet increasing demand for gas in northeast markets by providing continuous paths from new supplies in both eastern and western Canada in addition to traditional domestic supply basins.

The Corporation is seeking to significantly grow its Energy Services segment. Deregulation of energy markets in the U.S. and abroad is providing substantial opportunities for the Energy Services business units to capitalize on their broad capabilities. Growth is expected to be achieved through acquisitions, construction of greenfield projects and expansion of existing facilities as value-added opportunities present themselves.

The strong real estate market in the southeast continues to present substantial growth opportunities for Crescent Resources. In 1997, Crescent Resources initiated development of significant office and industrial facilities in each of its established markets to capitalize on market conditions.

ELECTRIC COMPETITION. The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities are major drivers towards a more competitive market for electric operations. EPACT amended provisions of the Public Utility

23

Holding Corporation Act of 1935 (PUHCA) and Part II of the Federal Power Act to remove certain barriers to electric competition. EPACT permits utilities to participate in the development of independent electric generating plants for sales to wholesale customers, and also permits the FERC to order transmission access for third parties to transmission facilities owned by another entity. It does not, however, permit the FERC to issue an order requiring transmission access to retail customers. The FERC, responsible in large measure for implementation of the EPACT, has moved vigorously to implement its mandate, interpreting the statute broadly and issuing orders for third-party transmission service and a number of rules of general applicability, including Orders 888 and 889.

Open-access transmission for wholesale customers as defined by the FERC's final rules provides energy suppliers, including the Corporation, with opportunities to sell and deliver capacity and energy at market-based prices. The Corporation and several of the Corporation's non-regulated subsidiaries were granted authority by the FERC to act as power marketers in late 1995. The Electric Operations obtained from the FERC open-access rights to sell at market-based rates up to 2,500 megawatts of capacity and energy from its own assets. Open-access provides another supply option through which the Corporation can purchase at attractive rates a portion of capacity and energy requirements resulting in lower overall costs to customers and thus improving the Corporation's competitive position. Open-access also provides the Corporation's existing wholesale customers with competitive opportunities to seek other suppliers for their capacity and energy requirements.

Wholesale sales represented approximately 9.4 percent of the Corporation's total gigawatt-hour sales for the Electric Operations segment in 1997. Supplemental sales to the other joint owners of Catawba comprised the majority of wholesale sales. Such supplemental sales will continue to decline in 1998 as a result of the retention of larger portions of ownership entitlement by the other joint owners. Two of the Catawba joint owners gave notice of their intent to end their supplemental capacity requirements on January 1, 2001 and January 1, 2002, respectively. In addition, as a result of the merger, the other joint owners have the right to end their supplemental capacity requirements as of January 1, 2001 with written notice to the Corporation due by December 31, 1999. Another joint owner gave notice of its intent to end its interconnection agreement with the Corporation effective January 1, 2006 (see Note 6 to the Consolidated Financial Statements).

Competition for retail electric customers is not generally allowed in the Corporation's service territory. However, there are discussions and events at the national level and within certain states regarding retail competition which are resulting in changes in the industry. Such changes will impact all entities owning electric generating assets. During 1997, both North and South Carolina have taken steps to address retail competition among electric utilities.

In May 1997, North Carolina passed a bill that created a study commission to assess deregulation of electric utilities in the state. The commission's report to the state General Assembly is expected to be completed by early 1999. Members of the study commission include legislators, utility representatives, customers and a member of an environmental group.

South Carolina has considered several proposals during 1997 to restructure the electric industry, the most significant of which would have provided retail customers with a choice of suppliers by January 1, 1998. None of these proposals has been approved. However, in May 1997, the PSCSC requested interested parties to file restructuring proposals for the electric industry. On June 30, 1997, the Corporation filed its proposal for introducing electric competition in South Carolina with the PSCSC. The Corporation's plan proposes

that electric generation be deregulated while transmission and distribution continue to be regulated by the FERC and the PSCSC, respectively, providing for an orderly transition to competition that takes all stakeholders into consideration. The Corporation's plan also provides for recovery of stranded investment. The PSCSC held hearings on August 19, 1997 on the various restructuring proposals it received and presented its report to the state legislature on February 3, 1998. The report proposes a five year transition period before starting full-fledged electric competition. In addition, customers could receive two separate electric bills, one from the distribution company, and one from the generator or supplier of electricity. The report leaves the final decisions to the General Assembly of South Carolina.

Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to its customers. If cost-based regulation were to be discontinued in the industry, for any reason, including competitive pressure on the cost-based prices of electricity, profits could be reduced and electric utilities might be required to reduce their asset balances to reflect a market basis less than cost. Discontinuance of cost-based regulation would also require affected utilities to write off their associated regulatory assets. The regulatory assets of the Corporation are included in the Consolidated Balance Sheets. The portion of these regulatory assets related to electric operations is \$1.7 billion, including primarily purchased capacity costs, debt expense, and deferred taxes related to regulatory assets. Currently, the Corporation is recovering substantially all of these regulatory assets through its wholesale and retail electric rates and would attempt to continue to recover these assets should cost-based regulation be discontinued. In addition, the Corporation would seek to recover the costs of its electric generating facilities in excess of the market price of power at the time of transition.

24

The Corporation seeks to move toward an orderly transition to retail competition that provides for consideration of the interests of all stakeholders in the retail electric sales arena. Management cannot predict the potential impact, if any, of these competitive forces on the Corporation's future financial position and consolidated results of operations.

NUCLEAR DECOMMISSIONING COSTS. The Corporation's estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately \$1.3 billion stated in 1994 dollars based on decommissioning studies completed in 1994. In order to fund these costs, the Corporation contributes to an external decommissioning trust fund and maintains an internal reserve.

The balance of the external funds as of December 31, 1997 and 1996, was \$471.1 million and \$362.6 million respectively. The balance of the internal reserve as of December 31, 1997 and 1996, was \$210.8 million and \$207.8 million, respectively, and is reflected in Accumulated Depreciation and Amortization in the Consolidated Balance Sheets.

Both the NCUC and the PSCSC have granted the Corporation recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of the Corporation's nuclear plants. Management is of the opinion that funding of the decommissioning costs will not have a material adverse effect on the consolidated results of operations and financial position of the Corporation. (See Note 12 to the Consolidated Financial Statements.)

ENVIRONMENTAL. The Corporation is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

Manufactured Gas Plants and Superfund Sites. The Corporation was an operator of manufactured gas plants until the early 1950s. The Corporation has entered into a cooperative effort with the State of North Carolina and other owners of certain former manufactured gas plant sites to investigate and, where necessary, remediate these contaminated sites. The State of South Carolina has expressed interest in entering into a similar arrangement. The Corporation is considered by regulators to be a potentially responsible party and may be subject to future liability at nine federal Superfund sites and one state Superfund site. While the cost of remediation of the remaining sites may be substantial, the Corporation will share in any liability associated with remediation of contamination at such sites with other potentially responsible parties. Management is of the opinion that resolution of these matters will not have a material adverse effect on the consolidated results of operations or financial position of the Corporation.

PCB (Polychlorinated Biphenyl) Assessment and Clean-up Programs. TETCO, a wholly owned subsidiary of the Corporation, is currently conducting PCB assessment and clean-up programs at certain of its compressor station sites under conditions stipulated by a U.S. Consent Decree. The programs include on- and off-site assessment, installation of on-site source control equipment and groundwater monitoring wells, and on- and off-site clean-up work. TETCO expects

to complete these clean-up programs during 1998. Groundwater monitoring activities will continue at several sites beyond 1998.

In 1987, the Commonwealth of Kentucky instituted a suit in state court against TETCO, alleging improper disposal of PCBs at TETCO's three compressor station sites in Kentucky. This suit is still pending. In 1996, TETCO completed clean-up of these sites under the U.S. Consent Decree.

The Corporation has also identified environmental contamination at certain sites on the PEPL and Trunkline systems and is undertaking clean-up programs at these sites. The contamination resulted from the past use of lubricants containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. The Corporation has communicated with the Environmental Protection Agency (EPA) and appropriate state regulatory agencies on these matters. Environmental clean-up programs are expected to continue until 2002.

At December 31, 1997 and 1996, the Corporation had accrued liabilities for remaining estimated clean-up costs on the TETCO, PEPL and Trunkline systems, which were included in Environmental Clean-up Liabilities in the Consolidated Balance Sheets. These cost estimates represent gross clean-up costs expected to be incurred, have not been discounted or reduced by customer recoveries and do not include fines, penalties or third-party claims. Costs expected to be recovered from customers are included in the Consolidated Balance Sheets as of December 31, 1997 and 1996, as Regulatory Assets and Deferred Debits.

The federal and state clean-up programs are not expected to interrupt or diminish the Corporation's ability to deliver natural gas to customers. Based on the Corporation's experience to date and costs incurred for clean-up operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on the consolidated results of operations or financial position of the Corporation.

25

Air Quality Control. The Clean Air Act Amendments of 1990 require a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000. The Corporation currently meets all requirements of Phase I. The Corporation supports the national objective of protecting air quality in the most cost-effective manner, and has already reduced emissions by operating plants efficiently, using nuclear and hydroelectric generation and implementing various compliance strategies. To meet Phase II requirements by 2000, the Corporation's current strategy includes using low-sulfur coal, purchasing sulfur dioxide emission allowances, and installing low-nitrogen oxide burners and emission monitoring equipment. Construction activities needed to comply with Phase II requirements are substantially complete, and future one-time capital costs associated with meeting Phase II requirements range from \$14 million to \$24 million. Additional annual operating expenses of approximately \$25 million for low-sulfur coal premiums, emission allowance purchases and other compliance activities will occur after 2000. This strategy is contingent upon developments in future markets for emission allowances, low-sulfur coal, future regulatory and legislative actions, and advances in clean air technologies.

Additionally, the Corporation would be affected by a proposed call for new State Implementation Plans (SIP) issued by the EPA to 22 states related to existing and new national ambient air quality standards for ozone. Costs to the Corporation related to the SIP call may range from \$123 million to \$517 million, depending on final EPA implementation plans and schedules.

In 1994, the State of Missouri issued a Notice of Violation to PEPL alleging violations of Missouri air pollution regulations at the Corporation's Houstonia compressor station. The Corporation is in negotiations with the State to resolve this matter. The State is seeking a penalty and correction of the alleged violations.

In December 1997, the United Nations held negotiations in Kyoto, Japan to determine how to achieve worldwide stabilization of greenhouse gas emissions, including carbon dioxide emissions from fossil-fired generating facilities. Because this matter is in the early stages of discussion, the Corporation cannot estimate the effects on future consolidated results of operations or financial position of the Corporation.

LITIGATION AND CONTINGENCIES. For information concerning litigation and other commitments and contingencies, see Note 15 to the Consolidated Financial Statements.

COMPUTER SYSTEMS CHANGES FOR THE YEAR 2000. The Corporation is incurring incremental costs to modify existing computer systems to accommodate the year 2000 and beyond. The Corporation is currently making modifications to its programs and is of the opinion that remaining modifications will be completed

before they become problematic. Management is of the opinion that the costs associated with these modifications will not have a material adverse effect on the consolidated results of operations or financial position of the Corporation.

FORWARD-LOOKING STATEMENTS. From time to time, the Corporation may make statements regarding its expectations, intent or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. The Corporation cautions that assumptions, projections and expectations about future events may and often do vary from actual results, the differences between assumptions, projections and expectations and actual results can be material, and there can be no assurance that the forward-looking statements will be realized. The following are some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements: state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed and degree to which competition enters the electric and natural gas industries; industrial, commercial and residential growth in the service territories of the Corporation and its subsidiaries; the weather and other natural phenomena; the timing and extent of changes in commodity prices and interest rates; changes in environmental and other laws and regulations to which the Corporation and its subsidiaries are subject or other external factors over which the Corporation has no control; the results of financing efforts; growth in opportunities for the Corporation's subsidiaries and diversified operations; and the effect of the Corporation's accounting policies, in each case during the periods covered by the forward-looking statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk."

26

Item 8. Financial Statements and Supplementary Data.

DUKE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	1997	1996	1995
	(In Millions, except per share amounts)		
Operating Revenues			
Natural gas and petroleum products (Notes 2 and 5)			
Sales, trading and marketing of natural gas and petroleum products	\$ 8,150.7	\$ 5,848.0	\$ 3,397.2
Transportation and storage of natural gas	1,503.5	1,522.9	1,500.6
Electric (Notes 2 and 5)			
Generation, transmission and distribution	4,334.5	4,436.6	4,454.6
Trading and marketing of electricity	1,664.9	77.8	9.8
Other (Note 9)	655.3	417.1	332.5
Total operating revenues	16,308.9	12,302.4	9,694.7
Operating Expenses			
Natural gas and petroleum products purchased (Note 2)	7,705.2	5,414.3	3,119.3
Fuel used in electric generation (Note 2)	742.8	758.5	744.2
Net interchange and purchased power (Notes 2, 5 and 6)	1,960.2	456.8	480.2
Other operation and maintenance (Notes 5, 12 and 15)	2,720.9	2,382.8	2,209.0
Depreciation and amortization (Notes 2 and 6)	841.0	789.4	737.1
Property and other taxes	368.8	342.0	336.6
Total operating expenses	14,338.9	10,143.8	7,626.4
Operating Income	1,970.0	2,158.6	2,068.3
Other Income and Expenses			
Deferred returns and allowance for funds used during construction (Note 2)	109.4	104.8	113.9
Other, net	28.7	30.8	8.3

Total other income and expenses	138.1	135.6	122.2
Earnings Before Interest and Taxes	2,108.1	2,294.2	2,190.5
Interest Expense (Notes 8 and 11)	471.8	499.2	508.2
Minority Interests (Note 3)	23.0	6.2	--
Earnings Before Income Taxes	1,613.3	1,788.8	1,682.3
Income Taxes (Notes 2 and 7)	638.9	697.8	664.2
Income Before Extraordinary Item	974.4	1,091.0	1,018.1
Extraordinary Item (net of tax)	--	16.7	--
Net Income	974.4	1,074.3	1,018.1
Dividends and Premiums on Redemptions of Preferred and Preference Stock (Note 14)	72.8	44.2	48.9
Earnings Available for Common Stockholders	\$ 901.6	\$ 1,030.1	\$ 969.2
Common Stock Data (Note 2)			
Average shares outstanding	359.8	361.2	361.2
Earnings per share (before extraordinary item)			
Basic	\$ 2.51	\$ 2.90	\$ 2.68
Dilutive	\$ 2.50	\$ 2.88	\$ 2.67
Earnings per share			
Basic	\$ 2.51	\$ 2.65	\$ 2.68
Dilutive	\$ 2.50	\$ 2.83	\$ 2.67
Dividends per share	\$ 1.90	\$ 1.57	\$ 1.50

See Notes to Consolidated Financial Statements.

27

DUKE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	1997	1996	1995
	(In Millions)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$ 974.4	\$ 1,074.3	\$ 1,018.1
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	982.5	964.9	953.8
Deferred income taxes and investment tax credit amortization	105.7	74.7	115.2
Purchased capacity levelization	56.4	73.5	(33.1)
Transition cost recoveries	(35.6)	90.9	(85.2)
(Increase) Decrease in			
Receivables	(266.5)	(645.6)	(286.0)
Inventory	(6.6)	45.1	(26.2)
Other current assets	(18.4)	16.7	90.5
Increase (Decrease) in			
Accounts payable	(72.1)	576.7	53.5
Taxes accrued	50.0	(11.0)	25.7
Interest accrued	(13.1)	(18.5)	5.6
Other current liabilities	326.2	(10.0)	17.7
Other, net	57.2	103.5	(17.4)
Net cash provided by operating activities	2,140.1	2,335.2	1,832.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,323.2)	(1,393.9)	(1,223.0)
Investment expenditures	(704.4)	(156.1)	(67.7)
Decommissioning, retirements and other	31.9	(18.2)	(26.9)
Net cash used in investing activities	(1,993.7)	(1,568.2)	(1,317.6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of			
Long-term debt	1,617.6	362.8	421.5
Guaranteed preferred beneficial interests in Corporation's subordinated notes	339.0	--	--
Common stock and stock options	14.9	11.8	16.5
Payments for the redemption of			

Long-term debt	(868.5)	(527.0)	(480.9)
Common stock	(25.4)	(159.0)	--
Preferred stock	(223.6)	--	(100.5)
Net change in notes payable and commercial paper	(290.2)	159.3	193.2
Dividends paid	(726.4)	(609.3)	(590.5)
Other	(40.4)	(12.1)	(4.8)
Net cash used in financing activities	(203.0)	(773.5)	(545.5)
Net decrease in cash and cash equivalents	(56.6)	(6.5)	(30.9)
Cash and cash equivalents at beginning of year	166.0	172.5	203.4
Cash and cash equivalents at end of year	\$ 109.4	\$ 166.0	\$ 172.5
Supplemental Disclosures			
Cash paid for interest (net of amount capitalized)	\$ 475.9	\$ 493.1	\$ 481.6
Cash paid for income taxes	\$ 469.8	\$ 549.9	\$ 519.9

See Notes to Consolidated Financial Statements.

28

DUKE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31	
	1997	1996
	(In Millions)	
ASSETS		
Current Assets (Note 2)		
Cash and cash equivalents (Note 8)	\$ 109.4	\$ 166.0
Receivables (Note 8)	2,280.8	1,888.0
Inventory	440.1	433.5
Current portion of natural gas transition costs	66.9	67.9
Current portion of purchased capacity costs	76.2	51.3
Unrealized gains on mark to market transactions (Note 8)	551.3	397.2
Other (Note 8)	160.5	142.1
Total current assets	3,685.2	3,146.0
Investments and Other Assets		
Investments in affiliates (Notes 9 and 15)	585.9	502.9
Nuclear decommissioning trust funds (Notes 8 and 12)	471.1	362.6
Pre-funded pension costs (Note 18)	337.5	360.6
Goodwill, net (Notes 2, 3 and 7)	503.6	222.1
Notes receivable	239.6	63.5
Other	209.9	108.0
Total investments and other assets	2,447.6	1,619.7
Property, Plant and Equipment (Notes 2, 6, 10, 11, 12 and 15)		
Cost	25,448.1	24,468.2
Less accumulated depreciation and amortization	9,712.2	9,199.1
Net property, plant and equipment	15,735.9	15,269.1
Regulatory Assets and Deferred Debits (Note 2)		
Purchased capacity costs (Note 6)	759.4	840.7
Debt expense	253.1	244.0
Regulatory asset related to income taxes	511.0	493.5
Natural gas transition costs	193.7	250.0
Environmental clean-up costs	103.6	153.2
Other	339.3	350.0
Total regulatory assets and deferred debits	2,160.1	2,331.4
Total Assets	\$ 24,028.8	\$ 22,366.2

See Notes to Consolidated Financial Statements.

29

DUKE ENERGY CORPORATION

CONSOLIDATED BALANCE SHEETS -- (Continued)

	December 31	
	1997	1996
	(In Millions)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,358.7	\$ 1,286.5
Notes payable and commercial paper (Notes 8 and 11)	169.5	459.7
Taxes accrued (Note 2)	124.6	74.8
Interest accrued	111.2	124.3
Current portion of natural gas transition liabilities (Note 2)	35.0	84.4
Current portion of environmental clean-up liabilities (Notes 2 and 15)	26.4	32.4
Current maturities of long-term debt (Note 11)	77.3	350.6
Unrealized losses on mark to market transactions (Notes 2 and 8)	537.6	388.5
Other (Note 2)	834.5	508.3
Total current liabilities	3,275.2	3,309.5
Long-term Debt (Notes 8 and 11)	6,530.0	5,485.1
Deferred Credits and Other Liabilities (Note 2)		
Deferred income taxes (Note 7)	3,706.5	3,568.5
Investment tax credit (Note 7)	238.9	250.1
Nuclear decommissioning costs externally funded (Notes 8 and 12)	471.1	362.6
Natural gas transition liabilities	78.4	121.9
Environmental clean-up liabilities (Note 15)	157.6	188.9
Other	1,035.1	971.0
Total deferred credits and other liabilities	5,887.6	5,463.0
Minority Interests (Note 3)	168.3	83.4
Guaranteed Preferred Beneficial Interests in Corporation's Subordinated Notes (Notes 8 and 13)	339.0	-
Preferred and Preference Stock (Notes 8 and 14)		
Preferred and preference stock with sinking fund requirements	149.0	234.0
Preferred and preference stock without sinking fund requirements	340.0	450.0
Total preferred and preference stock	489.0	684.0
Commitments and Contingencies (Notes 6, 12 and 15)		
Common Stockholders' Equity (Notes 16 and 17)		
Common stock, no par, 500 million shares authorized; 359.8 million and 359.4 million shares outstanding at December 31, 1997 and 1996, respectively	4,283.7	4,289.1
Retained earnings	3,256.0	3,051.9
Total common stockholders' equity	7,539.7	7,341.2
Total Liabilities and Stockholders' Equity	\$ 24,028.8	\$ 22,366.2

See Notes to Consolidated Financial Statements.

30

DUKE ENERGY CORPORATION

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

Years Ended December 31		
1997	1996	1995

	(In Millions)		
Common Stock			
Balance at beginning of year	\$ 4,289.3	\$ 4,296.8	\$ 4,275.8
Stock issued for purchase of assets	--	--	2.5
Stock repurchased (Note 16)	--	(30.8)	--
Dividend reinvestment and employee benefits	(9.9)	23.3	19.5
Other capital stock transactions, net	4.3	--	--
Balance at end of year	4,283.7	4,289.3	4,296.8
Retained Earnings			
Balance at beginning of year	3,051.9	2,715.7	2,292.2
Net income	974.4	1,074.3	1,018.1
Common stock dividends	(682.2)	(565.6)	(542.2)
Preferred and preference stock dividends and premiums on redemptions (Note 14)	(72.8)	(44.2)	(48.9)
Other capital stock transactions, net	(15.3)	(128.3)	(3.5)
Balance at end of year	3,256.0	3,051.9	2,715.7
Total Common Stockholders' Equity	\$ 7,539.7	\$ 7,341.2	\$ 7,012.5

See Notes to Consolidated Financial Statements.

31

DUKE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For The Years Ended December 31, 1997, 1996 and 1995

NOTE 1. NATURE OF OPERATIONS

On June 18, 1997, Duke Power Company (Duke Power) changed its name to Duke Energy Corporation (the Corporation) in accordance with the terms of a merger agreement with PanEnergy Corp (PanEnergy), pursuant to which the Corporation issued 158.3 million shares of its common stock in exchange for all of the outstanding common stock of PanEnergy (the merger). PanEnergy was involved in the gathering, processing, transportation and storage of natural gas, the production of natural gas liquids, and the marketing of natural gas, electricity, liquefied petroleum gases and related energy services. Pursuant to the merger, each share of PanEnergy common stock outstanding was converted into the right to receive 1.0444 shares of the Corporation's common stock. In addition, each outstanding option to purchase PanEnergy common stock became an option to purchase common stock of the Corporation, adjusted accordingly. The merger was accounted for as a pooling of interests and, accordingly, the consolidated financial statements for periods prior to the combination were restated to include the operations of PanEnergy.

Operating revenues and net income previously reported by the separate companies and the combined amounts presented in the accompanying consolidated financial statements for the years ended December 31, 1996 and 1995 are as follows:

	Duke Power	PanEnergy	Adjustments	Combined
	In Millions			
1996				
Operating revenues	\$ 4,758.0	\$ 7,505.6	\$ 38.8	\$ 12,302.4
Net income before extraordinary item	\$ 729.9	\$ 361.1	--	\$ 1,091.0
Net income	\$ 729.9	\$ 344.4	--	\$ 1,074.3
1995				
Operating revenues	\$ 4,676.6	\$ 4,967.5	\$ 50.6	\$ 9,694.7
Net income	\$ 714.5	\$ 303.6	--	\$ 1,018.1

The adjustment to operating revenues reflects a reclassification of PanEnergy's equity in earnings of unconsolidated affiliates from other income to revenues to be consistent with the Corporation's financial statement presentation.

The Corporation is an integrated energy and energy services provider with

the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and abroad. The Corporation provides these services through its four business segments:

Electric Operations -- Generation, transmission, distribution and sale of electric energy in central and western North Carolina and the western portion of South Carolina. Duke Energy Corporation (doing business as Duke Power) and its wholly owned subsidiary Nantahala Power and Light Company serve this area. These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and The Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission -- Interstate transportation and storage of natural gas for customers in the Mid-Atlantic, New England and Midwest states. The interstate natural gas transmission and storage operations of the Corporation's wholly owned subsidiaries Texas Eastern Transmission Corporation (TETCO), Algonquin Gas Transmission Company (Algonquin), Panhandle Eastern Pipe Line Company (PEPL), and Trunkline Gas Company (Trunkline) are also subject to the rules and regulations of the FERC.

Energy Services -- Comprised of several separate business units: Field Services -- gathers and processes natural gas, produces and markets natural gas liquids and transport and trades crude oil; Trading and Marketing -- markets natural gas, electricity and other energy-related products; Global Asset Development -- develops, owns and operates energy-related facilities worldwide; and Other Energy Services -- provides engineering consulting, construction and integrated energy solutions.

Other Operations -- Real estate operations of Crescent Resources, Inc., communications services, corporate costs and intersegment eliminations.

32

DUKE ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION. The consolidated financial statements reflect consolidation of all of the Corporation's majority-owned subsidiaries after the elimination of intercompany transactions. Investments in other entities that are not majority owned and where the Company has significant influence over operations are accounted for using the equity method.

The consolidated financial statements are prepared in conformity with generally accepted accounting principles appropriate in the circumstances to reflect in all material respects the substance of events and transactions which should be included. In preparing these statements, management makes informed judgments and estimates of the expected effects of events and transactions that are currently being reported. However, actual results could differ from these estimates.

CASH AND CASH EQUIVALENTS. All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents.

INVENTORY. Inventory consists primarily of materials and supplies, gas held for transmission, processing and sales commitments and coal held for electric generation. Inventory is recorded at the lower of cost or market, primarily using the average cost method.

COMMODITY DERIVATIVE INSTRUMENTS. The Corporation, primarily through its subsidiaries, holds and issues instruments that reduce exposure to market fluctuations in the price and transportation costs of natural gas, petroleum products and electric power marketed. The Corporation uses futures, swaps and options to manage and hedge price and location risk related to market exposures. In order to qualify as a hedge, the price movements in the commodity derivatives must be highly correlated with the underlying hedged commodity. Gains and losses related to commodity derivatives which qualify as hedges of commodity commitments are recognized in income when the underlying hedged physical transaction closes (the deferral method) and are included in Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power in the Consolidated Statements of Income. Gains and losses related to such instruments, to the extent not yet settled in cash, are reported as Current Assets or Liabilities, as appropriate, in the Consolidated Balance Sheets until recognized in income. If the derivative instrument is no longer sufficiently correlated to the underlying commodity, or if the underlying commodity transaction closes earlier than anticipated, the deferred gains or losses are recognized in income.

In addition to non-trading activities, the Corporation also engages in the trading of commodity derivatives and therefore experiences net open positions. Gains and losses on derivatives utilized for trading are recognized in income

on a current basis (the mark to market method) and are also included in Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power.

GOODWILL AMORTIZATION. The Corporation amortizes goodwill related to the purchases of Duke/Louis Dreyfus, L.L.C. (D/LC) and Texas Eastern Corporation (TEC), and certain other natural gas gathering, transmission and processing facilities and engineering consulting businesses on a straight-line basis over 10 years, 40 years, and 15 years, respectively. Accumulated amortization of goodwill at December 31, 1997 and 1996 was \$123.6 million and \$99.7 million, respectively.

PROPERTY, PLANT AND EQUIPMENT. Property, plant and equipment is stated at original cost. The Corporation capitalizes all construction-related direct labor and materials, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money. The cost of renewals and betterments that extend the useful life of property is also capitalized. The cost of repairs and replacements is charged to expense. Depreciation is generally computed using the straight-line method. The Corporation's composite weighted-average depreciation rates, excluding nuclear fuel, were 1.67, 3.77 and 3.97 percent for 1997, 1996, and 1995, respectively.

At the time property, plant and equipment maintained by the Corporation's regulated operations are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire regulated operating units are sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced and any gain or loss is recorded in income, unless otherwise required by the FERC.

33

DUKE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE. Expenses incurred in connection with the issuance of presently outstanding long-term debt, and premiums and discounts relating to such debt, are amortized over the terms of the respective issues. Also, any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of these items.

ENVIRONMENTAL EXPENDITURES. Expenditures that relate to an existing condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. Certain of these environmental assessments and clean-up costs have been deferred and are included in Regulatory Assets and Deferred Debits as they are expected to be recovered from Natural Gas Transmission customers.

COST-BASED REGULATION. The regulated operations of the Corporation are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, the Corporation records certain assets and liabilities that result from the effects of the ratemaking process that would not be recorded under generally accepted accounting principles for non-regulated entities. The regulatory assets and regulatory liabilities of the Corporation are classified as Regulatory Assets and Deferred Debits and Deferred Credits and Other Liabilities, respectively, in the Consolidated Balance Sheets. The Corporation regularly evaluates the continued applicability of SFAS No. 71, considering such factors as regulatory changes and the impact of competition. Discontinuance of cost-based regulation or increased competition might require entities to reduce their asset balances to reflect a market basis less than cost and would also require entities to write off their associated regulatory assets. Management cannot predict the potential impact, if any, of discontinuance of cost-based regulation or increased competition on the Corporation's future financial position and results of operations. However, the Corporation continues to position itself to effectively meet these challenges by maintaining prices that are competitive.

COMMON STOCK OPTIONS. The Corporation follows the intrinsic value method of accounting for common stock options and awards issued to employees.

REVENUES. The Corporation recognizes revenues on sales of electricity and transportation and storage of natural gas as service is provided and on sales of natural gas and petroleum products in the period of delivery. Receivables on the Consolidated Balance Sheets included \$231.6 million and \$216 million as of December 31, 1997 and 1996, respectively, for electric service that has been

provided but not yet billed to customers. When rate cases associated with the transportation of natural gas are pending final FERC approval, a portion of the revenues collected by the interstate natural gas pipelines is subject to possible refund. The Corporation has established reserves where required for such cases.

NUCLEAR FUEL. Amortization of nuclear fuel is included in Fuel Used in Electric Generation in the Consolidated Statements of Income. The amortization is recorded using the units-of-production method.

DEFERRED RETURNS AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC). Deferred returns represent the estimated financing costs associated with funding certain regulatory assets. These regulatory assets primarily arose from the Corporation's funding of purchased capacity costs above levels collected in rates. Deferred returns are non-cash items and are primarily recognized as an addition to Purchased Capacity Costs with an offsetting credit to Other Income and Expenses.

AFUDC represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. AFUDC is a non-cash item and is recognized as a cost of Property, Plant and Equipment, with offsetting credits to Other Income and Expenses and to Interest Expense. After construction is completed, the Corporation is permitted to recover these costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

Rates used for capitalization of deferred returns and AFUDC by the Corporation's regulated operations are calculated in compliance with FERC rules.

DERIVATIVE FINANCIAL INSTRUMENTS. The Corporation uses interest rate swaps to manage the interest rate characteristics of its outstanding debt. Interest rate differentials to be paid or received as interest rates change are accrued and recognized.

34

DUKE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

as an adjustment of interest expense related to the designated debt (the accrual method). The amount payable to or receivable from counterparties related to the interest rate differential is included in Regulatory Assets and Deferred Debits in the Consolidated Balance Sheets. The fair values of interest rate swaps are not recognized in the financial statements.

INCOME TAXES. Prior to the merger, Duke Power and PanEnergy filed separate consolidated federal income tax returns. Subsequent to the merger, the Corporation and its subsidiaries file a consolidated federal income tax return. Federal income taxes have been provided by the Corporation on the basis of its separate company income and deductions in accordance with established practices of the consolidated group.

Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in different periods. Duke Power's investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

EARNINGS PER COMMON SHARE. The Financial Accounting Standards Board issued SFAS No. 128, "Earnings per Share" which replaces the presentation of primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share is computed by dividing net earnings available for common stockholders by the weighted average number of common shares outstanding for the year. Basic earnings per share in the Consolidated Statements of Income is identical to the primary earnings per share previously presented for all periods. Diluted earnings per share reflects the potential dilution that could occur if securities or other agreements to issue common stock were exercised or converted into common stock. Dilutive earnings per share is computed based upon the weighted average number of common shares and dilutive common equivalent shares outstanding. Common stock options, which are common stock equivalents, had a dilutive effect on earnings per share and increased the weighted average number of common shares by 1.9 million, 2.3 million and 2.6 million shares for 1997, 1996, and 1995, respectively. The weighted average number of common shares, for dilutive purposes, was 361.7 million, 363.5 million and 363.8 million shares for 1997, 1996 and 1995, respectively.

RECLASSIFICATIONS. Certain amounts have been reclassified in the consolidated financial statements to conform to the current presentation.

NOTE 3. BUSINESS COMBINATIONS AND ACQUISITIONS

DUKE/LOUIS DREYFUS, L.L.C. (D/LD). On June 17, 1997, a wholly owned subsidiary of the Corporation acquired the remaining 50% ownership interest in D/LD from affiliates of Louis Dreyfus Corp. for \$247 million. D/LD markets electric power, natural gas and energy-related services to utilities, municipalities and other large energy users in North America. The acquisition was accounted for by the purchase method, and the assets and liabilities and results of operations of D/LD have been consolidated in the Corporation's financial statements since the date of purchase. The purchase price substantially represents goodwill.

DUKE/UAE L.L.C. During December 1997, a wholly owned subsidiary of the Corporation formed a joint venture with UAE Ref-Fuel L.L.C. (UAE), a wholly owned subsidiary of United American Energy Corp. The Corporation owns a 65% interest in the joint venture, with UAE owning a 35% minority interest. The joint venture acquired a 50% ownership interest in American Ref-Fuel Company, a waste-to-energy firm with operations primarily in New York and New Jersey. Thus, the Corporation has an indirect 32.5% ownership interest in American Ref-Fuel Company and provided \$237 million of investment and financing to the venture.

DUKE ENERGY TRADING AND MARKETING, L.L.C. On August 1, 1996, a wholly owned subsidiary of the Corporation formed a natural gas and power marketing joint venture with Mobil Corporation (Mobil) affiliates. The marketing company (DETM) conducts business as Duke Energy Trading and Marketing, L.L.C. (formerly PanEnergy Trading and Market Services, L.L.C.) in the United States and as Duke Energy Marketing L.P. (formerly PanEnergy Marketing L.P.) in Canada. The Corporation operates the joint venture and owns a 60% interest, with Mobil owning a 40% minority interest.

35

DUKE ENERGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 4. BUSINESS SEGMENTS

Business segment financial information follows for each of the three years in the period ended December 31, 1997. Other Operations include intersegment eliminations.

	Unaffiliated Revenues	Intersegment Revenues	Total Revenues
1997	In Millions		
Electric Operations	\$ 4,401.7	\$ --	\$ 4,401.7
Natural Gas Transmission	1,467.8	104.3	1,572.1
Energy Services			
Trading and Marketing	7,411.0	77.7	7,488.7
Field Services	2,480.5	574.1	3,054.6
Global Asset Development	109.2	14.2	123.4
Other Energy Services	342.8	32.6	375.6
Energy Services' Eliminations	--	(655.1)	(655.1)
Total Energy Services	10,343.5	43.7	10,387.2
Other Operations	95.9	(148.0)	(52.1)
Total Consolidated	\$ 16,308.9	\$ --	\$ 16,308.9
1996			
Electric Operations	\$ 4,498.4	\$ --	\$ 4,498.4
Natural Gas Transmission	1,470.2	86.1	1,556.3
Energy Services			
Trading and Marketing	3,773.5	40.5	3,814.0
Field Services	2,215.6	420.9	2,636.5
Global Asset Development	65.0	6.6	71.6
Other Energy Services	182.8	21.4	204.2
Energy Services' Eliminations	--	(456.5)	(456.5)
Total Energy Services	6,236.9	32.9	6,269.8
Other Operations	96.9	(119.0)	(22.1)
Total Consolidated	\$ 12,302.4	\$ --	\$ 12,302.4
1995			

Electric Operations	\$ 4,512.4	\$ --	\$ 4,512.4
Natural Gas Transmission	1,480.3	53.1	1,533.4
Energy Services			
Trading and Marketing	1,838.3	28.4	1,866.7
Field Services	1,607.1	184.3	1,791.4
Global Asset Development	75.3	4.0	79.3
Other Energy Services	94.5	0.8	95.3
Energy Services' Eliminations	--	(216.9)	(216.9)
Total Energy Services	3,615.2	0.6	3,615.8
Other Operations	86.8	(53.7)	33.1
Total Consolidated	\$ 9,694.7	\$ --	\$ 9,694.7

	Operating Income	Earnings Before Interest & Taxes	Depreciation & Amortization
In Millions			
1997			
Electric Operations	\$ 1,180.3	\$ 1,281.8	\$ 497.8
Natural Gas Transmission	607.7	524.4	229.6
Energy Services			
Trading and Marketing	42.7	44.4	7.0
Field Services	156.7	157.0	71.4
Global Asset Development	(6.4)	4.5	8.7
Other Energy Services	23.2	18.2	5.8
Energy Services' Eliminations	--	--	--
Total Energy Services	216.2	224.1	92.9
Other Operations	(34.2)	(22.2)	20.7
Total Consolidated	\$ 1,970.0	\$ 2,106.1	\$ 841.0
1996			
Electric Operations	\$ 1,303.6	\$ 1,419.5	\$ 481.1
Natural Gas Transmission	583.8	595.5	228.2
Energy Services			
Trading and Marketing	56.3	57.9	3.8
Field Services	149.4	151.6	58.7
Global Asset Development	(1.2)	--	6.9
Other Energy Services	19.9	20.0	3.5
Energy Services' Eliminations	--	--	--
Total Energy Services	224.4	229.5	72.9
Other Operations	46.8	49.7	7.2
Total Consolidated	\$ 2,158.6	\$ 2,294.2	\$ 789.4
1995			
Electric Operations	\$ 1,308.7	\$ 1,381.2	\$ 451.2
Natural Gas Transmission	562.3	567.6	228.5
Energy Services			
Trading and Marketing	20.0	17.1	2.3
Field Services	96.8	106.1	40.3
Global Asset Development	24.9	26.8	6.8
Other Energy Services	23.6	23.7	0.8
Energy Services' Eliminations	--	--	--
Total Energy Services	165.3	173.7	50.2
Other Operations	32.0	66.0	7.2
Total Consolidated	\$ 2,068.3	\$ 2,190.5	\$ 737.1

36

DUKE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 4. BUSINESS SEGMENTS -- Continued

Capital and Investment Expenditures			Identifiable Assets	
1997	1996	1995	1997	1996

In Millions					
Electric Operations	\$ 742.6	\$ 609.8	\$ 704.0	\$ 12,956.5	\$ 12,625.2
Natural Gas Transmission	247.3	194.0	230.5	5,086.9	5,216.4
Energy Services					
Trading and Marketing	17.9	6.6	15.3	1,657.3	1,403.5
Field Services	156.5	530.8	187.2	1,979.8	1,769.4
Global Asset Development	348.3	34.8	53.5	987.6	522.3
Other Energy Services	47.2	39.1	1.0	223.2	130.1
Energy Services' Eliminations	--	--	--	(169.1)	(247.0)
Total Energy Services	569.9	611.3	257.0	4,878.9	3,578.3
Other Operations	467.6	134.9	99.2	1,102.6	946.3
Total Consolidated	\$ 2,027.6	\$ 1,550.0	\$ 1,290.7	\$ 24,028.8	\$ 22,366.2

NOTE 5. REGULATORY MATTERS

Electric Operations. The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves the Corporation's rates for electric sales to wholesale customers. Electric sales to the other joint owners of the Catawba Nuclear Station (Catawba), which represent a substantial majority of the Corporation's electric wholesale revenues, are set through contractual agreements.

In 1997, the Corporation signed stipulation agreements with the NCUC and the PSCSC as a result of the merger in which the Corporation agreed to cap the base electric rates at existing levels through 2000, with very limited exceptions, for retail customers. The Corporation also signed an agreement with the FERC to freeze rates, except for the market-based rates, for the Corporation's transmission and wholesale electric sales. In addition, the Corporation signed agreements with the other joint owners of Catawba providing for a cap on the rates charged under interconnection agreements and on the reimbursement of certain costs related to administration and general expenses and general plant costs under operation and fuel agreements. Management is of the opinion that these agreements will not have a material adverse effect on the consolidated results of operations or financial position of the Corporation.

Fuel costs are reviewed semiannually in the wholesale jurisdiction and annually in the South Carolina retail jurisdiction, with provisions for changing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings. All jurisdictions allow the Corporation to adjust electric rates for past over- or under-recovery of fuel costs. Therefore, the Corporation reflects in revenues the difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates. The stipulation agreements related to the merger do not apply to the fuel cost adjustments.

The PSCSC, on May 7, 1996, ordered a rate reduction in the form of a decrement rider of 0.432 cents per kilowatt-hour, or an average of approximately 8 percent, affecting South Carolina retail customers. South Carolina retail sales represent approximately 30 percent of the Corporation's total regulated electric sales. The rate reduction was reflected on bills rendered on or after June 1, 1996. This net decrement rider reflects an interim true-up decrement adjustment associated with the levelization of Catawba purchased capacity costs and an interim true-up increment associated with amortization of the demand-side management deferral account. The rate adjustment was made because, in the South Carolina retail jurisdiction, cumulative levelized revenues associated with the recovery of Catawba purchased capacity costs had exceeded purchased capacity payments and accrual of deferred returns, and certain demand-side costs had exceeded the level reflected in rates.

Certain of the Corporation's electric wholesale customers, excluding the other Catawba joint owners, initiated proceedings in 1995 before the FERC concerning rate related matters. The Corporation and nine of its eleven wholesale customers entered into a settlement in July 1996 which reduced the customers' electric rates by approximately 9 percent and renewed their contracts with the Corporation through 2000. Both of the customers that did not enter into the settlement have signed

DUKE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 5. REGULATORY MATTERS -- Continued

agreements and have begun purchasing electricity from other suppliers in 1997. Early in 1998, the Corporation reached agreements, subject to FERC approval, with both of these former customers to recover the stranded costs incurred to serve these customers. Management is of the opinion that these agreements will not have a material adverse impact on the consolidated results of operations or financial position of the Corporation.

Natural Gas Operations.

FERC Order 636 and Natural Gas Transition Costs. The Corporation's interstate natural gas pipelines primarily provide transportation and storage services pursuant to FERC Order 636. Order 636 allows pipelines to recover eligible costs resulting from implementation of the order (transition costs). In 1994, the FERC approved TETCO's settlement resolving regulatory issues related primarily to Order 636 transition costs and a number of other issues related to services prior to Order 636. TETCO's liability for transition costs is estimated based on the amount of producers' natural gas reserves and other factors. TETCO's final and nonappealable settlement provides for the recovery of certain of these transition costs from customers through volumetric and reservation charges through 2002 and beyond, if necessary. Pursuant to the settlement, TETCO will absorb a certain portion of the transition costs, the amount of which continues to be subject to change dependent upon natural gas prices and deliverability levels. In 1995, based upon producers' discoveries of additional natural gas reserves, TETCO increased the estimated liabilities for transition costs by \$125.5 million. Under the terms of the existing settlement, regulatory assets were increased \$85.8 million for amounts expected to be collected from customers and TETCO recognized a \$40 million charge to operating expenses (\$26 million after tax).

On July 16, 1996, the U.S. Court of Appeals for the District of Columbia upheld, in general, all aspects of Order 636 and remanded certain issues for further explanation. One of the issues remanded for further explanation is whether pipelines should be entitled to recover 100% of gas supply realignment (GSR) costs. This matter is substantially mitigated by TETCO's transition cost settlements.

The Corporation believes the exposure associated with gas purchase contract commitments is substantially mitigated by transition cost recoveries pursuant to customer settlements, Order 636 and other mechanisms, and that this issue will not have a material adverse effect on consolidated results of operations or financial position of the Corporation.

Jurisdictional Transportation and Sales Rates. On April 1, 1992 and November 1, 1992, PEPL placed into effect, subject to refund, general rate increases. On February 26, 1997, the FERC approved PEPL's settlement agreement which provided final resolution of refund matters and established prospective rates. The agreement terminated other actions relating to these proceedings as well as PEPL's restructuring of rates and transition cost recoveries related to FERC Order 636. The settlement will not have a material impact on future operating revenues or financial position of the Corporation.

As a result of the resolution of these and certain other proceedings, PEPL recorded earnings before interest and taxes of \$32.7 million, \$8 million, and \$20.6 million in 1997, 1996, and 1995, respectively.

NOTE 6. JOINT OWNERSHIP OF GENERATING FACILITIES

The Corporation previously sold interests in both units of Catawba. The other owners of portions of Catawba and supplemental information regarding their ownership are as follows:

Owner	Ownership Interest in the Station
North Carolina Municipal Power Agency Number 1 (NCMPA) ..	37.5%
North Carolina Electric Membership Corporation (NCEMC) ..	28.125%
Piedmont Municipal Power Agency (PMPA) ..	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River) ..	9.375%

Each owner has provided its own financing for its ownership interest in Catawba.

The Corporation retains a 12.5 percent ownership interest in Catawba. As of December 31, 1997, \$507.8 million of Property, Plant and Equipment represented the Corporation's investment in Units 1 and 2. Accumulated depreciation and

DUKE ENERGY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- Continued

NOTE 6. JOINT OWNERSHIP OF GENERATING FACILITIES -- Continued

amortization of \$198.3 million associated with Catawba was recorded as of year-end 1997. The Corporation's share of operating costs of Catawba is included in the Consolidated Statements of Income.

In connection with the joint ownership, the Corporation has entered into contractual interconnection agreements with the other joint owners to purchase declining percentages of the generating capacity and energy from the plant. These purchased power agreements were effective beginning with the commercial operation of each unit. Units 1 and 2 began commercial operation in June 1985 and August 1986, respectively. The purchased power agreements were established for 15 years for NCMPA and PMPA and 10 years for NCEMC and Saluda River. While the purchased power agreements with NCMPA and PMPA extend for 15 years, a significant decrease in the percentage of capacity and energy the Corporation is obligated to purchase occurs in the 11th calendar year of operation for each unit. This significant decrease occurred in 1995 for Unit 1 and 1996 for Unit 2.

The interconnection agreements also provide for supplemental power sales by the Corporation to the other joint owners. Such power sales are to satisfy capacity and energy needs of the other joint owners beyond the capacity and energy which they retain from Catawba or potentially acquire in the form of other resources. The agreements further provide the other joint owners the ability to secure such supplemental requirements outside of these contractual agreements following an appropriate notice period. NCEMC and Saluda River have given appropriate notice that they intend to acquire their supplemental capacity requirements outside of these agreements effective January 1, 2001 and January 1, 2002, respectively, thus relieving the Corporation of the obligation to serve this portion of load. In addition, as a result of the merger, the other joint owners of Catawba have the right to end their supplemental capacity requirements as of January 1, 2001 with written notice to the Corporation due by December 31, 1999. As the joint owners retain more capacity and energy from Catawba or a third party, supplemental power sales are expected to decline. Management is of the opinion that this will not have a material adverse effect on the consolidated results of operations or the financial position of the Corporation.

The interconnection agreements with each of the other joint owners include provisions that the Corporation will provide generating reserves to backstand the other joint owners' retained capacity in the Catawba plant at the system average cost of installed capacity. Additionally, the agreements include certain reliability exchanges designed to manage outage-related risks by exchanging energy entitlements between Catawba and the McGuire Nuclear Station, impacting the Corporation as well as all the other joint owners. The agreements also provide the other joint owners the ability to terminate the interconnection agreements in their entirety upon eight years written notice to the Corporation. PMPA has rendered such notice effective January 1, 2006. This termination will relieve the Corporation of the obligation to serve this portion of load as well as provide the reserves associated with PMPA's retained capacity. Management is of the opinion that this will not have a material adverse effect on the consolidated results of operations or the financial position of the Corporation.

Purchased energy cost payments are based on variable operating costs and are a function of the generation output of Catawba. Purchased capacity payments are based on the fixed costs of the plant and include the capital costs and fixed operating and maintenance costs. Actual purchased capacity costs for 1997 and projected obligations through 2000, the last year of the purchase buy-backs, are \$99.8 million, \$72 million, \$52.9 million and \$6.6 million, respectively.

Effective in its November 1991 rate order, the NCUC reaffirmed the Corporation's recovery from retail electric customers, on a levelized basis, of the capital costs and fixed operating and maintenance costs of capacity purchased from the other joint owners. The PSCSC in its November 1991 rate order reaffirmed the Corporation's recovery on a levelized basis of the capital costs of capacity purchased from the other joint owners. Levelization was reaffirmed through inclusion in rates approved in March 1992 by the FERC. The portion of purchased capacity subject to levelization not currently recovered in rates is being deferred, and the Corporation is recording a deferred return on the accumulated balance. The Corporation is recovering the accumulated balance, including the deferred return, when the sum of the declining purchased capacity payments and accrual of deferred returns for the current period drops below the levelized revenues. Jurisdictional levelizations are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. The Corporation recovers the costs of purchased energy and the non-levelized portion of purchased capacity on a current basis.

<SEQUENCE>1

<DESCRIPTION>DUKE ENERGY CORPORATION 10-K

<TEXT>

AGE>

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange
Act of 1934

For the fiscal year ended December 31, 1998 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from ----- to -----

Commission file number 1-4928

DUKE ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

<TABLE>

<S>

<C>

North Carolina	56-0205520
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
526 South Church Street, Charlotte, North Carolina	28202-1904
(Address of principal executive offices)	(Zip Code)

</TABLE>

704-594-6200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<TABLE>

<CAPTION>

Title of each class	Name of each exchange on which registered

<S>

<C>

Common Stock, without par value	New York Stock Exchange, Inc.
6.375% Preferred Stock A, 1993 Series, par value \$25	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 5 7/8% Due 2001	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 5 7/8% Series C Due 2003	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 1/4% Series B Due 2004	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 3/8% Due 2008	New York Stock Exchange, Inc.



First and Refunding Mortgage Bonds, 6 5/8% Series B Due 2003	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 3/4% Due 2025	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6 7/8% Series B Due 2023	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Due 2000	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Series B Due 2000	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Due 2033	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7 1/2% Series B Due 2025	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7 7/8% Due 2024	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 8% Series B Due 1999	New York Stock Exchange, Inc.
7.20% Quarterly Income Preferred Securities issued by Duke Energy Capital Trust I and guaranteed by Duke Energy Corporation	New York Stock Exchange, Inc.
Preference Stock Purchase Rights	New York Stock Exchange, Inc.
Series C 6.60% Senior Notes Due 2038	New York Stock Exchange, Inc.

</TABLE>

Securities registered pursuant to Section 12(g) of the Act:

Title of class

Preferred Stock, par value \$100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Estimated aggregate market value of the voting stock held by nonaffiliates of the registrant at February 26, 1999.....\$20,121,000,000
Number of shares of Common Stock, without par value, outstanding at February 26, 1999.....363,472,398

Documents incorporated by reference:

The registrant is incorporating herein by reference certain sections of the proxy statement relating to the 1999 annual meeting of shareholders to provide information required by Part III, Items 10, 11, 12 and 13 of this annual report.

<PAGE>

DUKE ENERGY CORPORATION

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998

TABLE OF CONTENTS

Item	Page
PART I.	
1. Business	1
General	1
Electric Operations	3
Natural Gas Transmission	6
Field Services	9
Trading and Marketing	10
Global Asset Development	11
Other Energy Services	13
Real Estate Operations	13
Environmental Matters	13
Foreign Operations and Export Sales	14
Employees	14
Operating Statistics	15
Executive Officers of Duke Energy	16
2. Properties	16
3. Legal Proceedings	18
4. Submission of Matters to a Vote of Security Holders	18
PART II.	
5. Market for Registrant's Common Equity and Related Stockholder Matters	18
6. Selected Financial Data	19
7. Management's Discussion and Analysis of Results of Operations and Financial Condition	19
7A. Quantitative and Qualitative Disclosures About Market Risk	33
8. Financial Statements and Supplementary Data	34
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	71
PART III.	
10. Directors and Executive Officers of the Registrant	71
11. Executive Compensation	71
12. Security Ownership of Certain Beneficial Owners and Management	71
13. Certain Relationships and Related Transactions	71
PART IV.	
14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K	72
Signatures	73
Exhibit Index	74

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

From time to time, Duke Energy may make statements regarding its assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Duke Energy cautions that

assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results, and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that the actual results will not differ materially from those expressed or implied by the forward-looking statements. For a discussion of some factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Forward-Looking Statements."

<PAGE>

PART I.

Item 1. Business.

GENERAL

Duke Energy Corporation (collectively with its subsidiaries, "Duke Energy") is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and abroad. Duke Energy provides these and other services through seven business segments:

- o Electric Operations
- o Natural Gas Transmission
- o Field Services
- o Trading and Marketing
- o Global Asset Development
- o Other Energy Services
- o Real Estate Operations

These segments were defined as a result of Duke Energy adopting Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission, through its Northeast Pipelines, provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the expected sale of the Midwest Pipelines in early 1999, Natural Gas Transmission also provides interstate transportation and storage services in the Midwest states. See further discussion of the proposed sale of the Midwest Pipelines in Note 14 to the Consolidated Financial Statements. The interstate natural gas transmission and storage operations are also subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces and markets natural gas liquids (NGL). Field Services operates

gathering systems in ten states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's operations, with Mobil Corporation owning a 40% minority interest.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy Power Services, LLC (Duke Energy Power Services) and Duke Energy International, LLC (Duke Energy International).

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc. (Duke Engineering & Services), Duke/Fluor Daniel and DukeSolutions, Inc. (DukeSolutions).

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages forest holdings in the southeastern United States.

The 1997 merger of Duke Power Company (Duke Power) and PanEnergy Corp (Pan Energy) was accounted for as a pooling of interests; therefore all financial information included in this annual report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy. (See Note 2 to the Consolidated Financial Statements.)

Certain terms used to describe Duke Energy's business are explained below.

Base Load. The minimum amount of electric power or natural gas delivered or required over a given period of time at a steady rate. The minimum continuous load or demand in a power system over a given period of time usually not temperature sensitive.

British Thermal Unit (Btu). A standard unit for measuring thermal energy or heat commonly used as a gauge for the energy content of natural gas and other fuels.

1

<PAGE>

Brownfield Development. The development of a new power generating facility on a site with existing industrial assets, typically power generating assets.

Cogeneration Facility. A facility that produces electric energy and useful thermal energy for industrial, commercial, heating or cooling purposes.

Combined Cycle. The combination of one or more gas turbines and steam turbines in an electric generation plant. An electric generating technology in which electricity is produced from otherwise lost waste heat exiting from one or more gas turbines.

Cubic Foot (cf). The most common unit of measurement of gas volume; the amount

of natural gas required to fill a volume of one cubic foot under stated conditions of temperature, pressure and water vapor.

Distribution. The system of lines, transformers and switches that connect the electric transmission system to customers.

Federal Energy Regulatory Commission (FERC). The agency that regulates the transportation of electricity and natural gas in interstate commerce and authorizes the buying and selling of energy commodities at market-based rates.

Gathering System. Pipeline, processing and related facilities that access production and other sources of natural gas supplies for delivery to mainline transmission systems.

Generation. The process of transforming other forms of energy, such as nuclear or fossil fuels, into electricity. Also, the amount of electric energy produced, expressed in megawatt-hours.

Greenfield Development. The development of a new power generating facility.

Independent System Operator (ISO). Ensures non-discriminatory access to a regional transmission system, providing all customers access to the power exchange and clearing all bilateral contract requests for use of the electric transmission system. Also responsible for maintaining bulk electric system reliability.

Jurisdictional. Facilities and activities subject to the primary regulatory oversight of FERC or state regulatory agencies.

Liquefied Natural Gas (LNG). Natural gas that has been converted to a liquid by cooling it to -260 degrees Fahrenheit.

Merchant Plant. A power plant that sells directly to wholesale customers without its output necessarily being committed to long-term power sales agreements.

Natural Gas. A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in porous geological formations beneath the earth's surface, often in association with petroleum. The principal constituent is methane.

Natural Gas Liquids (NGLs). Liquid hydrocarbons extracted during the processing of natural gas. Principal commercial NGLs include butanes, propane, natural gasoline and ethane.

Natural Gas/Power Marketer. An entity which buys and sells a commodity or commodities at either fixed or index prices. More sophisticated trader/marketing entities also provide comprehensive energy management services, such as capacity, supply, storage and price risk management.

Peak Load. The amount of electricity required during periods of highest demand. Peak periods fluctuate by season, generally occurring in the morning hours in winter and in late afternoon during the summer.

Throughput. The amount of natural gas transported through a pipeline system.

Transmission System (Electric). An interconnected group of electric transmission lines and related equipment for moving or transferring electric energy in bulk between points of supply and points at which it is transformed for delivery over a distribution system to customers, or for delivery to other electric transmission systems.

Transmission System (Natural Gas). An interconnected group of natural gas pipelines and associated facilities for transporting natural gas in bulk between points of supply and delivery points to industrial customers, local distribution companies, or for delivery to other natural gas transmission systems.

A discussion of the current business and operations of each of Duke Energy's segments follows. Duke Energy expects moderate growth in its Electric Operations segment, consistent with historical trends. The Northeast Pipelines are an essential part of Natural Gas Transmission's strategy to advance projects that provide expanded services to meet the specific needs of customers. The proposed sale of the Midwest Pipelines allows Natural Gas Transmission to focus on regions, such as the northeastern U.S., with increasing demand for gas. Duke Energy plans to significantly grow several of its other business

2

<PAGE>

segments: Field Services, Trading and Marketing, Global Asset Development and Other Energy Services. For further discussion of the operating outlook of Duke Energy and its segments, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Operations Outlook." For financial information concerning Duke Energy's business segments, see Note 3 to the Consolidated Financial Statements, "Business Segments."

Duke Energy is a North Carolina corporation with its principal executive offices located at 526 South Church Street, Charlotte, NC 28202-1904. The telephone number is 704-594-6200.

ELECTRIC OPERATIONS

Service Area and Customers

Electric Operations' service area, approximately two-thirds of which lies in North Carolina, covers about 22,000 square miles with an estimated population of 5.2 million and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina and Greenville and Spartanburg in South Carolina. Electric Operations supplies electric service directly to approximately two million residential, commercial and industrial customers in more than 200 cities, towns and unincorporated communities. Electricity is sold at wholesale to incorporated municipalities and to several public and private utilities. In addition, sales are made through contractual agreements to municipal or cooperative customers who purchased portions of the Catawba Nuclear Station. For statistics related to kilowatt-hour sales by customer type, see "Business, Operating Statistics." For

further discussion of the Catawba Nuclear Station joint ownership, see Note 5 to the Consolidated Financial Statements, "Joint Ownership of Generating Facilities."

Electric Operations' service area is undergoing increasingly diversified industrial development. The textile industry, machinery and equipment manufacturing, and chemical and chemical-related industries are of major significance to the economy of the area. Other industrial activities include rubber and plastic products, paper and allied products, and various other light and heavy manufacturing and service businesses. The largest industry served is the textile industry, which accounted for approximately \$456 million of Electric Operations' revenues for 1998, representing 10% of total electric revenues and 37% of industrial revenues. Electric Operations normally experiences seasonal peak loads in summer and winter.

(A map appears here depicting Duke Energy's 100kV Electric Lines, 230kV Electric Lines, 500kV Electric Lines, Nuclear Facilities, Fossil Facilities, Hydro Facilities, and Combustion Turbine Facilities)

3

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Capability and Resources of Energy

Electric energy required to supply the needs of Electric Operations' customers is primarily generated by three nuclear generating stations with a combined net capability of 5,020 MW (Oconee Nuclear Station -- 2,538 MW, McGuire Nuclear Station -- 2,200 MW and Catawba Nuclear Station -- 282 MW, which represents Electric Operations' 12.5% ownership share in the Catawba Nuclear Station), eight coal-fired stations with a combined capability of 7,699 MW, thirty-one hydroelectric stations with a combined capability of 2,797 MW and six combustion turbine stations with a combined capability of 1,784 MW. Energy and capacity are also supplied through contracts with other generators of electricity and purchased on the open market. Electric Operations has interconnections and arrangements with its neighboring utilities, which are considered adequate for planning, emergency assistance, exchange of capacity and energy and reliability of power supply. Future increased energy requirements of Electric Operations' customers are expected to be supplied through purchased power contracts and open market purchases. For statistics regarding sources of electric energy see "Business, Operating Statistics."

Fuel Supply

Electric Operations presently relies principally on coal and nuclear fuel for the generation of electric energy. Electric Operations' reliance on oil and gas is minimal. Information regarding the utilization of sources of power and cost of fuels for each of the three years in the period ended December 31, 1998 is set forth in the following table:

<TABLE>

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	Cost of Fuel per Net Generation by Source	Kilowatt-hour Generated

	(Percent) (d)			(Cents)				
	1998	1997	1996	1998	1997	1996		
	<C>	<C>	<C>	<C>	<C>	<C>		
Coal	50.7	59.0	53.6	1.32	1.30	1.40		
Nuclear (a)	46.2	38.5	43.7	0.44	0.48	0.53		
Oil and gas (b)	1.0	.4	.3	4.01	5.58	6.74		
All fuels (cost based on weighted average) (a)			97.9	97.9	97.6	0.93	0.99	1.02
Hydroelectric (c)	2.1	2.1	2.4					
	100.0	100.0	100.0					

</TABLE>

(a) Statistics related to nuclear generation and all fuels reflect Electric Operations' 12.5% ownership interest in the Catawba Nuclear Station.

(b) Cost statistics include amounts for light-off fuel at Electric Operations' coal-fired stations.

(c) Generating figures are net of output required to replenish pumped storage units during off-peak periods.

(d) Years prior to 1998 have been restated to include Nantahala Power and Light.

Coal. Electric Operations obtains a large amount of its coal under supply contracts with mining operators utilizing both underground and surface mining. Electric Operations currently has an adequate supply of coal. Its supply contracts, all of which have price adjustment provisions, have expiration dates ranging from 1999 to 2003. Duke Energy believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers for the quantities and qualities of coal required. The coal purchased under these supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia. Coal requirements not met by supply contracts have been and are expected to be fulfilled with spot market purchases.

The average sulfur content of coal being purchased by Electric Operations is approximately 1%. Such coal satisfies the current emission limitation for sulfur dioxide for existing facilities. See also "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Environmental, Air Quality Control" for additional information regarding particulate matter.

Nuclear. Generally, the supply of fuel for nuclear generating units involves the mining and milling of uranium ore to produce uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel embliies. After a region (approximately one-third of the nuclear fuel embliies in the reactor at any time) of spent fuel is removed from a nuclear

reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. Electric Operations has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear stations. Based upon current projections, these contracts will meet Electric Operations' requirements through the following years:

4

<PAGE>

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Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
<S>	<C>	<C>	<C>	<C>
Oconee	1999	1999	2001	2006
McGuire	1999	1999	2001	2009
Catawba	1999	1999	2001	2009

</TABLE>

Uranium material requirements will be met through various supplier contracts, with uranium material produced primarily in the United States and Canada. Duke Energy believes that it will be able to renew contracts as they expire or to enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services. Requirements not met by long-term supply contracts have been and are expected to be fulfilled with uranium spot market purchases. Duke Energy, in cooperation with other companies, submitted a proposal to the Department of Energy (DOE) to use mixed oxide fuel at its McGuire and Catawba nuclear stations. The mixed oxide fuel is very similar to conventional uranium fuel, but it utilizes plutonium from the government's surplus. Before using the mixed oxide fuel, a contract must be executed with the DOE and Duke Energy must apply for and receive amendments to their respective facility operating licenses from the Nuclear Regulatory Commission (NRC). Mixed oxide is currently not expected to be available prior to 2007.

Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by Duke Energy's contract with the DOE. On June 8, 1998, Duke Energy filed with the United States Court of Federal Claims a claim against the DOE for damages in excess of \$1 billion arising out of the DOE's failure to begin accepting commercial spent nuclear fuel by January 31, 1998. Damages claimed in the suit are intended to recover costs that Duke Energy is incurring and will continue to incur as a result of the DOE's partial material breach of its contract with Duke Energy, including costs associated with securing additional spent fuel storage capacity. Duke Energy will continue to safely manage its spent nuclear fuel until the DOE accepts it.

Competition

Electric industry restructuring is being addressed in all 50 states and in District of Columbia which is resulting in changes in the industry. For

further discussion, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Electric Competition."

Electric Operations is subject to competition in some areas from government-owned power systems, municipally-owned electric systems, rural electric cooperatives and, in certain instances, other private utilities. Currently, statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSCSC, respectively, of all areas outside municipalities in such States to regulated electric utilities and rural electric cooperatives. Substantially all of the territory comprising the Electric Operations' service area has been so assigned. The remaining areas have been designated as unassigned and in such areas Electric Operations remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSCSC. In addition, Electric Operations is engaged in continuing competition with various natural gas providers.

Regulation

The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Electric Operations' rates for electric sales to wholesale customers. For further discussion of rate matters and fuel and purchased power cost adjustment procedures, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters -- Electric Operations." The FERC, the NCUC and the PSCSC also have authority over the construction and operation of Electric Operations' facilities. Electric Operations holds certificates of public convenience and necessity issued by the FERC, the NCUC and the PSCSC, authorizing it to construct and operate the electric facilities now in operation for which certificates are required, and to sell electricity to retail and wholesale customers. Prior approval from the NCUC and the PSCSC is required to issue securities.

The NCUC, PSCSC and FERC have implemented regulations governing access to regulated electric customer data by non-regulated entities and services provided between regulated and non-regulated affiliated entities. These regulations affect the activities of Trading and Marketing, Global Asset Development, and Other Energy Services with the Electric Operations segment.

The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities permit the FERC to order transmission access for third parties to transmission facilities owned by another entity. EPACT does not, however, permit

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the FERC to issue orders requiring transmission access to retail customers. The FERC has issued orders for third-party transmission service and a number of rules of general applicability, including Orders 888 and 889. Pursuant to the FERC's final rules, Electric Operations obtained from the FERC open-access rule

the rights to sell capacity and energy at market-based rates from its own assets. For further discussion, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Electric Competition."

The Electric Operations segment is subject to the jurisdiction of the NRC as to the design, construction and operation of its nuclear stations. For discussions of nuclear decommissioning costs and nuclear insurance regulatory requirements and coverages, see Note 11 to the Consolidated Financial Statements, "Nuclear Decommissioning Costs" and Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies -- Nuclear Insurance," respectively.

The hydroelectric generating facilities of Electric Operations are licensed by the FERC under Part I of the Federal Power Act, with license terms expiring from 2001 to 2036. The nuclear generating facilities of Electric Operations are licensed by the NRC with license terms expiring from 2013 to 2026. The FERC has authority to grant extensions of hydroelectric generating licenses, and the NRC has authority to grant extensions of nuclear generating licenses. Duke Energy has applied for a 20-year renewal of its operating license for the Oconee Nuclear Station. The license renewal process could take three to five years to complete.

The Electric Operations segment is subject to the jurisdiction of the Environmental Protection Agency (EPA) and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters."

NATURAL GAS TRANSMISSION

Natural Gas Transmission consists of the Northeast Pipelines, which includes Texas Eastern Transmission Corporation (TETCO) and Algonquin Gas Transmission Company (Algonquin), and the Midwest Pipelines, which includes Panhandle Eastern Pipe Line Company (PEPL) and Trunkline Gas Company (Trunkline). PEPL and Trunkline, along with additional storage related to those systems, are expected to be sold to CMS Energy Corporation in early 1999. See further discussion of the sale in "Management's Discussion and Analysis of Results of Operations and Financial Condition, Liquidity and Capital Resources."

For 1998, consolidated natural gas deliveries by Natural Gas Transmission's interstate pipelines totaled 2,593 TBtu (Trillion British thermal units), compared to 2,862 TBtu in 1997, which represented approximately 12% of the natural gas consumed in the United States. The Northeast Pipelines and the Midwest Pipelines natural gas deliveries were 1,459 TBtu and 1,141 TBtu, respectively, in 1998, with 7 TBtu of intercompany transportation. A substantial majority of the delivered volumes of Natural Gas Transmission's interstate pipelines represents gas transported under long-term firm service agreements with local distribution company (LDC) customers in the pipelines' market areas. Firm transportation services are also provided under contract to gas marketers, producers, other pipelines, electric power generators and a variety of end-users. In addition, the pipelines provide both firm and interruptible transportation to customers on a short-term or seasonal basis. See natural gas deliveries statistics under "Business, Operating Statistics."

Demand for gas transmission of Natural Gas Transmission's interstate pipeline systems is seasonal, with the highest throughput occurring during the colder periods in the first and fourth quarters.

In 1998, Natural Gas Transmission's fully interconnected interstate pipeline system consisted of approximately 20,700 miles and received natural gas from most major North American producing regions for delivery to markets throughout the Northeast and Midwest states. The proposed sale of the Midwest Pipelines would result in a reduction of approximately 10,400 miles in Duke Energy's interstate pipeline systems.

6

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(A map appears here depicting Duke Energy's storage.)

Northeast Pipelines

TETCO's major customers are located in Pennsylvania, New Jersey and New York, and include LDCs serving the Pittsburgh, Philadelphia, Newark and New York City metropolitan areas. Algonquin's major customers include LDCs and electric power generators located in the Boston, Hartford, New Haven, Providence and Cape Cod areas.

TETCO also provides firm and interruptible open-access storage services. Storage is offered as a stand-alone unbundled service or as part of a no-notice bundled service. TETCO's storage services utilize two joint venture storage facilities in Pennsylvania and one wholly owned and operated storage field in Maryland. TETCO also leases storage capacity. TETCO's certificated working capacity in these three fields is 70 Billion cubic feet (Bcf), and the combined working gas in storage was 61 Bcf on December 31, 1998. Algonquin owns no storage fields.

Investments include a 37.5% ownership interest in Maritimes & Northeast Pipeline and a 9.8 % ownership interest in Alliance Pipeline. Maritimes & Northeast pipelines is expected to be completed in late 1999 and will deliver natural gas to markets in the Canadian Maritimes provinces and the northeastern United States from a supply basin offshore Nova Scotia. The 1,900 mile Alliance Pipeline project will deliver Canadian gas from Fort St. John, British Columbia into the Chicago area by mid- to late 2000.

7

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Midwest Pipelines

PEPL's major customers include 20 utilities located in the Midwest market area that encompasses large portions of Michigan, Ohio, Indiana, Illinois and Missouri. Trunkline's major customers include eight utilities located in portions of Tennessee, Missouri, Illinois, Indiana and Michigan.

PEPL also owns and operates three underground storage fields located in Illinois, Michigan and Oklahoma with working gas capacity of 31 Bcf. PEPL has

received FERC approval to transfer these storage fields to its subsidiary, Pan Gas Storage Company (Pan Gas) and has filed for an effective date of April 1, 1999. Pan Gas is also the owner and operator of a 26 Bcf. storage field in Kansas. Trunkline owns and operates one 13 Bcf. storage field in Louisiana. Since the implementation of Order 636, each of PEPL, Trunkline and Pan Gas provide firm and interruptible storage on an open-access basis. In addition to owning and operating storage fields, PEPL also leases storage capacity. PEPL and Trunkline have retained the right to use up to 15 Bcf and 10 Bcf, respectively, of their storage capacity for system needs. See further discussion of Order 636 in "Business, Natural Gas Transmission -- Regulation."

Competition

Duke Energy's interstate pipeline subsidiaries compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service.

In the Mid-Atlantic and New England markets, TETCO competes directly with Transcontinental Gas Pipe Line Corporation, Tennessee Gas Pipeline Company (TGPC), Iroquois Gas Transmission System (Iroquois), CNG Transmission Corporation and Columbia Gas Transmission Corporation. Algonquin competes directly in certain market areas with TGPC and Iroquois. PEPL and Trunkline compete directly with ANR Pipeline Company, Natural Gas Pipeline Company of America and Texas Gas Transmission Corporation in the Midwest market area.

Natural gas competes with other forms of energy available to Duke Energy's customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in the areas served by Duke Energy.

Regulation

The FERC has authority to regulate rates and charges for natural gas transported in or stored for interstate commerce or sold by a natural gas company in interstate commerce for resale. For further discussion of rate matters, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Liquidity and Capital Resources -- Operating Cash Flows" and Note 4 to the Consolidated Financial Statements, "Regulatory Matters -- Natural Gas Transmission." The FERC also has authority over the construction and operation of pipeline and related facilities utilized in the transportation and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. TETCO, Algonquin, PEPL, Trunkline and Pan Gas hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate the pipelines, facilities and properties now in operation for which such certificates are required, and to transport and store natural gas in interstate commerce.

Natural Gas Transmission's pipelines operate as open-access transporters

of natural gas. In 1992, the FERC issued Order 636, which requires open-access pipelines to provide firm and interruptible transportation services on an equal basis for all gas supplies, whether purchased from the pipeline or from another supplier. To implement this requirement, Order 636 provided, among other things, for mandatory unbundling of services that historically had been provided by pipelines into separate open-access transportation, sales and storage services. Order 636 allows pipelines to recover eligible costs, known as "transition costs," resulting from the implementation of Order 636. For further discussion of Order 636, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters -- Natural Gas Transmission."

Natural Gas Transmission is subject to the jurisdiction of the EPA and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters." Natural Gas Transmission is also subject to the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline and LNG plant safety requirements, and to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

8

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FIELD SERVICES

Field Services gathers, processes, transports and markets natural gas and produces and markets NGLs. Field Services owns and operates approximately 20,000 miles of natural gas gathering systems, including intrastate pipelines, and 32 natural gas processing plants in the United States. Field Services also has ownership interests in 12 other natural gas processing plants in the United States.

Field Services gathers natural gas from production wellheads through gathering systems located in ten states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and Gulf Coast (offshore and onshore) areas. Field Services' gathering operations also include several intrastate pipeline systems and two natural gas storage facilities.

(A map appears here depicting Field Services' gathering and processing facilities, offices and supply areas.)

9

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Field Services' NGL processing operations involve the extraction of NGLs from natural gas and, at certain facilities, the fractionation of the NGLs into their individual components (ethane, propane, butane and natural gasoline). The natural gas used in Field Services' processing operations is generally gathered on its own gathering system or from the natural gas stream on Duke Energy's transmission system. NGLs are sold by Field Services to a variety of customers ranging from large, multi-national petrochemical and refining companies to small, family-owned retail propane distributors. NGL sales are based upon current market-related prices. Field Services also produces helium at the National Helium Corporation facility in Liberal, Kansas.

Field Services' operating results are significantly impacted by changes in NGL prices, which declined approximately 25.7% in 1998 compared to 1997. See "Management's Discussion and Analysis of Results of Operations and Financial Condition -- Qualitative and Quantitative Disclosures About Market Risk" for a discussion of Field Services' exposure to changes in commodity prices.

In 1998, Field Services sold assets related to its crude oil gathering and marketing business, including 1,800 miles of intrastate crude oil pipelines in the Mid-Continent and South Texas areas and 450 miles of intrastate NGL pipelines in the Texas Gulf Coast area, to TEPPCO Partners, L.P. (TEPPCO) in exchange for an additional ownership interest in TEPPCO. As a result of the sale, Duke Energy now has a 2% general partner interest and a 19.1% limited partner interest in TEPPCO, a publicly owned master limited partnership that transports refined products and liquefied petroleum gases through a 4,300 mile pipeline system.

Field Services expects to complete the \$1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business of Union Pacific Resources including its natural gas and NGL marketing activities on or about March 31, 1999.

See certain operating statistics of Field Services under "Business, Operating Statistics." Activities of Field Services can fluctuate in response to the seasonality affecting natural gas.

Competition

Field Services competes with major integrated oil companies, major interstate pipelines, national and local natural gas gatherers, brokers, marketers and distributors for natural gas supplies, in gathering and processing natural gas and in marketing and transporting natural gas and NGLs. Competition for natural gas supplies is primarily based on efficiency, reliability, availability of transportation and the ability to obtain a satisfactory price for the producer's natural gas. Competition for customers is based primarily upon reliability and price of delivered natural gas and NGLs.

Regulation

The intrastate pipelines owned by the Field Services group are subject to state regulation and, to the extent they provide services under Section 311 of the Natural Gas Policy Act of 1978 (NGPA), are also subject to FERC regulation. The natural gas gathering activities of the Field Services group are generally not subject to regulation by the FERC, but are subject to state regulation.

Field Services is subject to the jurisdiction of the EPA and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters." Certain operations of Field Services are subject to the jurisdiction of the Department of Transportation and certain similar state agencies whose regulations have incorporated certain provisions of the Natural Gas Pipeline Safety Act of 1968, the Hazardous Liquid Pipeline Safety Act of 1979, and subsequent amendments.

TRADING AND MARKETING

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's operations, with Mobil Corporation (Mobil) owning a 40% minority interest.

Trading and Marketing was formed in August 1996 as a natural gas and power marketing joint venture with Mobil. Operations were expanded in June 1997 when a wholly owned subsidiary of Duke Energy acquired from affiliates of Louis Dreyfus Corp. the remaining 50% ownership interest in Duke/Louis Dreyfus, L.L.C. (D/LD), which Duke Energy did not already own.

10

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Trading and Marketing markets natural gas primarily to local distribution companies, electric power generators, including Global Asset Development's generation facilities, municipalities, industrial end-users and energy marketing companies. Trading and Marketing markets electricity to investor owned utilities, municipal power generators and other power marketers. Operations are primarily in the United States and, to a lesser extent, in Canada, and are serviced through 16 offices or operating centers.

Natural gas marketing operations encompass both on-system and off-system sales. With respect to on-system sales, Trading and Marketing generally purchases natural gas from Field Services' facilities and delivers the gas to intrastate or interstate pipeline for redelivery to another customer. Natural Gas Transmission's pipelines are utilized for deliveries when prudent. With respect to off-system sales, Trading and Marketing purchases natural gas from producers, pipelines and other suppliers not connected with Duke Energy's facilities for resale to customers. Substantially all of Mobil's United States and Canadian natural gas production is committed to be marketed through Trading and Marketing through 2006.

With respect to electricity marketing operations, Trading and Marketing purchases electricity from third-party suppliers and from Global Asset Development's generation facilities in California and Connecticut for resale to customers.

Trading and Marketing has a portfolio of short-term and long-term sales agreements with customers, the vast majority of which incorporate market-sensitive pricing terms. Long-term gas purchase agreements with producers, principally entered into in connection with on-system sales, also generally include market-sensitive pricing provisions. Purchases and sales of off-system gas and electricity supply are normally made under short-term contracts. Purchase and sales commitments involving significant price and location risk are generally hedged with commodity futures, swaps and options. For information concerning Trading and Marketing's risk-management activities, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Qualitative and Quantitative Disclosures About Market Risk -- Commodity Price Risk" and Note 7 to the Consolidated Financial Statements, Risk Management and Financial Instruments -- Commodity Instruments --

Trading."

Trading and Marketing also provides energy management services, such as supply and market aggregation, peaking services, dispatching, balancing, transportation, storage, tolling, contract negotiation and administration, as well as energy commodity risk management products and services.

See certain operating statistics of Trading and Marketing under "Business, Operating Statistics." Activities of Trading and Marketing can fluctuate in response to the seasonality affecting both electricity and natural gas.

Competition

Trading and Marketing competes with major integrated oil companies, major interstate pipelines and their marketing affiliates, brokers, marketers and distributors and electric utilities and other electric power marketers for natural gas supplies and in marketing natural gas, electricity and other energy commodities. Competition in the energy marketing business is driven by the price of commodities and services delivered, along with the quality and reliability of services provided.

Regulation

The energy marketing activities of Trading and Marketing may, in certain circumstances, be subject to the jurisdiction of the FERC. Current FERC policies permit Trading and Marketing entities subject to FERC jurisdiction to market natural gas and electricity at market-based rates.

GLOBAL ASSET DEVELOPMENT

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy Power Services and Duke Energy International.

Deregulation of energy markets in the United States and abroad is providing substantial opportunities for Global Asset Development to capitalize on its broad capabilities. Global Asset Development is an active participant in competitive power markets worldwide. Global Asset Development owns and operates approximately 4,100 megawatts of generation, including projects under construction, and has ownership interests in approximately 3,800 megawatts of generation, including projects under construction. Global Asset Development also owns and operates approximately 900 miles of pipeline systems in Australia, including projects planned for construction, and has ownership interests in approximately 1,000 miles of pipeline systems, including projects under construction.

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Duke Energy Power Services

Duke Energy Power Services develops, owns and operates largely unregulated electric generation projects across the United States. Duke Energy Power

Services focuses on acquisitions of existing energy production facilities, greenfield and brownfield development opportunities and operating energy assets throughout North America.

In 1998, Duke Energy Power Services completed the purchase of three electric generating plants in California from Pacific Gas & Electric Company (PG&E). Two of these electric generating plants sell electricity under the terms of Reliability Must Run Agreements with the California Independent System Operator, which purchases electricity at FERC regulated rates. The plants have a combined net operating capacity of 2,645 megawatts. Pursuant to California's electric restructuring law, Duke Energy Power Services entered into a contract with PG&E to operate and maintain the facilities for two years following the sale. Energy and capacity from the plants is being sold into the California power exchange and under separate contracts.

Other investments include a 32.5% indirect ownership interest in American Ref-Fuel Company, which owns five waste-to-energy facilities in New York, New Jersey, Massachusetts and Connecticut. Such facilities process about 4 million tons of municipal solid waste per year and have an aggregate generating capacity of 286 megawatts.

Projects under construction include: the second phase of the Bridgeport Energy Project, a 520-megawatt combined cycle natural gas-fired merchant generation plant in Connecticut; the Maine Independence Station, a 520-megawatt combined cycle natural gas-fired merchant generation plant in Maine which is scheduled to begin producing power in the summer of 2000; and the Hidalgo project, a 510-megawatt power plant to be built in south Texas, which is targeted to begin producing power in mid-2000.

In January 1999, Duke Energy Power Services agreed to a ten-year lease with the Port of San Diego to operate and eventually replace the 706-megawatt South Bay Power plant. The Port of San Diego will acquire this facility from San Diego Gas & Electric Company. Duke Energy Power Services expects to close on the lease valued at over \$110 million by mid-1999. This plant's capacity is excluded from the generation amounts previously discussed above.

Duke Energy International

Duke Energy International develops, owns and operates energy projects worldwide. Projects involve natural gas exploration, production, processing, transportation and supply. Additionally, projects include generation, delivery and marketing of electric power and thermal energy. Duke Energy International's regional target areas are Asia Pacific, South America and Europe.

In 1998, Duke Energy International completed the purchase of the Queensland Pipeline, a 389-mile pipeline in southeast Queensland, Australia. Additional opportunities in Australia include the purchase of the rights to develop and operate the 500-mile Eastern Gas Pipeline project in eastern Australia. Construction of this pipeline project is scheduled to begin in July 1999 and completion is expected by mid-2000. Also, Duke Energy International purchased power generation and transmission assets in western Australia and New Zealand, including an ownership interest in a pipeline in western Australia. This acquisition also includes a development proposal for a cogeneration plant

and a portfolio of international and Australian-based projects. This transaction closed on January 22, 1999.

Duke Energy International's investments include a 25% indirect ownership interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) plant in Saudi Arabia, and a 42.86% indirect ownership interest in PT Puncakjaya, a 389-megawatt power generation facility in Indonesia. Investments in South America include, among others: a 9.76% indirect ownership interest in Hidroelectrica Piedra del Aguila S.A., a 1,400-megawatt hydroelectric generating facility in Argentina; a 51.5% indirect ownership interest in Electroquil, S.A., a 168-megawatt diesel-fired generating facility in Ecuador; a 24% indirect ownership interest in Sociedad Electrica de Santiago S.A., a 370-megawatt gas-fired generating facility in Chile; a 21.9% indirect ownership interest in Aguaytia Energy LLC, an integrated natural gas and power project in Peru; and a 99% indirect ownership interest in PanEnergy Exploration and Production (Peru) Ltd. Duke Energy International also operates two liquified natural gas (LNG) ships which have been chartered to Nigeria LNG Limited for 22.5 years starting in 1999.

In February 1999, Duke Energy, through its wholly owned subsidiary Duke Energy International, commenced a concurrent cash tender offer in Chilean pesos in Chile and the United States for 51% of the outstanding shares of Empresa Nacional de Electricidad S.A. (Endesa-Chile). The estimated total cash outlay is approximately \$2.1 billion based on current exchange rates. The tender offers are contingent upon, among other things, certain Endesa-Chile shareholder approvals. If all approvals are obtained and the other conditions to the tender offers are satisfied or waived, the transactions are expected

12

PAGE

to be completed during the second quarter of 1999. Endesa-Chile controls 10,247 megawatts of generating capacity in Argentina, Brazil, Chile, Colombia and Peru.

Competition and Regulation

Global Asset Development experiences substantial competition from utility companies in the United States and abroad and from independent companies.

Global Asset Development is subject to the Natural Gas Pipeline Safety Act of 1968, which regulates LNG plant safety requirements.

Global Asset Development is subject to international, federal, state and local environmental regulations. For a discussion of environmental regulation, see "Business, Environmental Matters."

OTHER ENERGY SERVICES

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Duke/Fluor Daniel and DukeSolutions.

Duke Engineering & Services specializes in energy and environmental projects and provides comprehensive engineering, quality assurance, project and construction management and operating and maintenance services for all phases hydroelectric, nuclear and renewable power generation projects worldwide.

Duke/Fluor Daniel, operating through several entities, provides full service siting, permitting, licensing, engineering, procurement, construction, start-up, operating and maintenance services for fossil-fired plants, both domestically and internationally. Subsidiaries of Duke Energy and Fluor Daniel, Inc. each own 50% of Duke/Fluor Daniel.

DukeSolutions provides integrated energy solutions to industrial, commercial, institutional, governmental and wholesale customers and focuses on increasing customers' efficiency, productivity and profitability through energy cost savings.

Other Energy Services experiences substantial competition from utility companies in the United States and abroad and from independent companies.

Other Energy Services is subject to the jurisdiction of the EPA and international, state and local environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters."

REAL ESTATE OPERATIONS

Real Estate Operations conducts its business through Crescent Resources, which develops commercial and residential real estate projects and manages forest holdings in the southeastern United States. At December 31, 1998, Real Estate Operations owned 4.2 million square feet of commercial space, of which 76% was leased, with an additional 1.7 million square feet under construction. At December 31, 1998, the commercial portfolio included 2.3 million square feet of warehouse space, 1.8 million square feet of office space and 0.1 million square feet of retail space. In 1998, commercial buildings totaling 1.3 million of square feet and 850 residential developed lots were sold. At December 31, 1998, Real Estate Operations had approximately 200,000 acres of land under its management.

ENVIRONMENTAL MATTERS

Duke Energy is subject to international, federal, state and local regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Certain environmental regulations affecting Duke Energy include:

- o The Clean Air Act Amendments of 1990, which require a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000;
- o State Implementation Plans, which were issued by the EPA to 22 states and the District of Columbia related to existing and new national ambient air quality standards for ozone;

- o The Federal Water Pollution Control Act Amendments of 1987, which require permits for facilities that discharge treated wastewater into the environment; and

- o The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), which can require any individual or entity which may have owned or operated a disposal site, as well as transporters or generators of hazardous wastes which were sent to such site, to share in remediation costs for the site.

13

<PAGE>

For further discussion of environmental matters involving Duke Energy, including possible liability and capital costs, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Environmental" and Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies -- Environmental." Compliance with international, federal, state and local provisions, regulating the discharge of materials into the environment, or otherwise protecting the environment, is not expected to have a material adverse effect on the competitive position, consolidated results of operations or financial position of Duke Energy.

FOREIGN OPERATIONS AND EXPORT SALES

Foreign operations and export sales are currently not material to Duke Energy's business as a whole. For a discussion of risks associated with Duke Energy's foreign operations, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Qualitative and Quantitative Disclosures About Market Risk -- Foreign Operations Risk" and Note 19 to the Consolidated Financial Statements.

EMPLOYEES

At December 31, 1998, Duke Energy had approximately 22,000 employees. Approximately 1,600 operating and maintenance employees are represented by the International Brotherhood of Electrical Workers in two collective bargaining agreements. An additional 77 employees are represented by the United Steelworkers and Rubberworkers of America. New agreements for each of these units were negotiated during 1998. Approximately 500 employees are represented by the Oil, Chemical and Atomic Workers International Union, AFL-CIO. Approximately 300 of these employees and their bargaining unit will transfer to CMS Energy upon the sale of the Midwest Pipelines in early 1999. The remaining employees represented by the Oil, Chemical and Atomic Workers International Union, AFL-CIO are in a separate bargaining unit. Terms of their contract are still being negotiated.

14

<PAGE>

OPERATING STATISTICS

<TABLE>
<PTION>

Years Ended December 31,

	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Electric Operations (a)					
Sources of Electric Energy, GWh (b)					
Generated -- net output:					
Coal	42,164	45,234	40,649	32,389	32,714
Nuclear	38,366	29,569	33,177	39,836	35,587
Hydro	1,714	1,633	1,802	2,117	2,025
Oil and gas	846	301	199	255	35
Total generation	83,090	76,737	75,827	74,597	70,361
Purchased power and net interchange		2,659	3,781	3,885	1,239
Total output	85,749	80,518	79,712	75,836	71,660
Plus: Purchases from other Catawba joint owners		1,656	2,316	2,662	6,070
Total sources of energy	87,405	82,834	82,374	81,906	80,706
Less: Line loss and company usage		5,394	4,899	4,827	4,780
Total GWh sales	82,011	77,935	77,547	77,126	76,054

Electric Energy Sales, GWh

Residential	22,002	20,483	21,484	20,124	19,306
General service	21,093	19,687	19,593	18,461	17,577
Industrial					
Textile	11,981	11,955	11,603	12,155	12,289
Other	18,668	18,376	18,131	17,738	17,108
Other energy and wholesale	8,933	7,029	6,781	7,852	9,934
Total GWh sales billed	82,677	77,530	77,592	76,330	76,214
Unbilled GWh sales	(666)	405	(45)	796	(160)
Total GWh sales	82,011	77,935	77,547	77,126	76,054

Natural Gas Transmission

Throughput Volumes, TBtu (c):

Northeast Pipelines

TETCO	1,148	1,300	1,349	1,234	1,194
Algonquin	311	341	327	331	288
Total Northeast Pipelines	1,459	1,641	1,676	1,565	1,482
Midwest Pipelines					
PEPL	560	659	687	663	626
Trunkline	581	620	632	519	560

Total Midwest Pipelines	1,141	1,279	1,319	1,182	1,186
Intercompany eliminations	(7)	(58)	(56)	(44)	(91)
Total Natural Gas Transmission	2,593	2,862	2,939	2,703	2,577
Other Operating Statistics					
Natural Gas Gathered and Processed/Transported, TBtu/d (d)	3.6	3.4	2.9	1.9	1.6
NGL Production, MBbl/d (e)	110.2	108.2	78.5	54.8	49.4
Average Natural Gas Price per MMBtu (f).....	\$ 2.11	\$ 2.59	\$ 2.59	\$ 1.64	\$ 1.90
Average NGL Price per Gallon	\$ 0.26	\$ 0.35	\$ 0.39	\$ 0.33	\$ 0.31
Natural Gas Marketed (g), TBtu/d	8.4	7.3	6.0	3.7	2.7
Electricity Marketed, GWh	98,991	64,650	4,229	513	--

- </TABLE>
-
- (a) Years prior to 1998 have been restated to include Nantahala Power and Light
(b) Gigawatt-hour
(c) Trillion British thermal units
(d) Trillion British thermal units per day
(e) Thousand barrels per day
(f) Million British thermal units
(g) Includes volumes of Trading and Marketing and Field Services

15

<PAGE>

EXECUTIVE OFFICERS OF DUKE ENERGY

RICHARD B. PRIORY, 52, Chairman of the Board, President and Chief Executive Officer. Mr. Priory served as President and Chief Operating Officer from 1994 until he assumed his present position in 1997 following the merger. He was Executive Vice President, Power Generation Group, from 1991 to 1994.

WILLIAM A. COLEY, 55, Group President, Duke Power. Mr. Coley served as President, Associated Enterprises Group, from 1994 to 1997 when he assumed his present position following the merger. Mr. Coley served as Executive Vice President, Customer Group, from 1991 to 1994.

FRED J. FOWLER, 53, Group President, Energy Transmission. Mr. Fowler served as Group Vice President of PanEnergy from 1996 until the merger, when he assumed his present position. He was President of TETCO from 1994 to 1996, and President of 1Source Corporation from 1993 to 1994.

HARVEY J. PADEWER, 51, Group President, Energy Services. Mr. Padewer assumed his present position on January 1, 1999. From 1995 through 1998, he served as Senior Vice President and General Manager of Utilicorp Energy Group, where he was President, Aquila Energy; President, Utilico Group; and Vice Chairman of the Board, Aquila Pipeline Corporation. From 1989 through 1995, he served in executive positions at ABB Power Generation, Inc., first as Vice President, Sales and Marketing and later as President, Turbine Power Division.

RICHARD W. BLACKBURN, 56, Executive Vice President, General Counsel and Secretary. Mr. Blackburn was named to his present position in October 1997. Prior to joining Duke Energy, he served as President and Group Executive of

NYNEX Corporation's Worldwide Communications and Media Group from 1995 to 1997. He was Chief Operating Officer, Worldwide Communications and Media Group, of NYNEX from 1993 to 1995.

RICHARD J. OSBORNE, 48, Executive Vice President and Chief Financial Officer. Mr. Osborne served as Senior Vice President and Chief Financial Officer from 1994 until he assumed his present position in 1997 following the merger. Mr. Osborne served as Vice President and Chief Financial Officer from 1991 to 1994.

RUTH G. SHAW, 51, Executive Vice President and Chief Administrative Officer. Ms. Shaw served as Senior Vice President, Corporate Resources, from 1994 until she assumed her present position following the merger. Ms. Shaw was Vice President, Corporate Communications, from 1992 to 1994.

JEFFREY L. BOYER, 42, Vice President and Corporate Controller. Mr. Boyer served as Controller from 1994 to 1997, when he assumed his present position following the merger. He was Director of Corporate Accounting from 1992 to 1994.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

Item 2. Properties.

ELECTRIC OPERATIONS

At December 31, 1998, Electric Operations operated three nuclear generating stations with a combined net capability of 5,020 MW (which includes 12.5% ownership in the Catawba Nuclear Station), eight coal-fired stations with a combined capability of 7,699 MW, thirty-one hydroelectric stations with a combined capability of 2,797 MW and six combustion turbine stations with a combined capability of 1,784 MW, all of which are located in North Carolina or South Carolina.

In addition, Electric Operations owned, as of December 31, 1998, approximately 13,000 conductor miles of electric transmission lines, including 600 conductor miles of 525 kilovolts, 2,600 conductor miles of 230 kilovolts, 6,500 conductor miles of 100 kilovolts, and 3,300 conductor miles of 13 to 66 kilovolts. Electric Operations also owned approximately 90,100 conductor miles of electric distribution lines, including 61,400 conductor miles of rural overhead lines, 15,500 conductor miles of urban overhead lines, 7,200 conductor miles of rural underground lines and 6,000 conductor miles of urban underground lines. At December 31, 1998, the electric transmission and distribution systems comprised approximately 1,600 substations with an installed transformer capacity of approximately 83,900,000 kVA (kilovolt-ampere).

Substantially all electric plant is mortgaged under the Indenture relating

to First and Refunding Mortgage Bonds.

16

AGE>

NATURAL GAS TRANSMISSION

TETCO's gas transmission system extends approximately 1,700 miles from producing fields in the Gulf Coast region of Texas and Louisiana to Ohio, Pennsylvania, New Jersey and New York. It consists of two parallel systems, one consisting of three large-diameter parallel pipelines and the other consisting of from one to three large-diameter pipelines over its length. TETCO's system, including its gathering systems, has 73 compressor stations.

TETCO also owns and operates two offshore Louisiana gas supply systems, which extend over 100 miles into the Gulf of Mexico and consist of 490 miles of pipeline.

Algonquin's transmission system connects with TETCO's facilities in New Jersey, and extends through New Jersey, New York, Connecticut, Rhode Island and Massachusetts. The system consists of approximately 250 miles of pipeline with six compressor stations.

PEPL's transmission system, which consists of four large-diameter parallel pipelines and 13 mainline compressor stations, extends a distance of approximately 1,300 miles from producing areas in the Anadarko Basin of Texas, Oklahoma and Kansas through the states of Missouri, Illinois, Indiana and Ohio to Michigan.

Trunkline's transmission system extends approximately 1,400 miles from the Gulf Coast areas of Texas and Louisiana through the states of Arkansas, Mississippi, Tennessee, Kentucky, Illinois and Indiana to a point on the Indiana-Michigan border. The system consists principally of three large-diameter parallel pipelines, 18 mainline compressor stations and one offshore compressor platform.

Trunkline also owns and operates two offshore Louisiana gas supply systems consisting of 337 miles of pipeline extending approximately 81 miles into the Gulf of Mexico.

The PEPL and Trunkline properties are included in the proposed sale of the Midwest Pipelines, which is expected to close in early 1999.

For information concerning natural gas storage properties, see "Business, Natural Gas Transmission."

FIELD SERVICES

For information regarding the properties of Field Services, see "Business, Field Services."

GLOBAL ASSET DEVELOPMENT

Duke Energy Power Services owns several electric generating stations, including three in California and one in Connecticut (95.9% ownership) currently under expansion. These power plants have a combined capacity of 3,165 MW. For more information regarding electric generating stations, see "Business, Global Asset Development -- Duke Energy Power Services."

A subsidiary of Duke Energy owns a marine terminal, storage and regasification facility for LNG located in Louisiana. This LNG facility is operated by Duke Energy International and is included in the proposed sale of the Midwest Pipelines as previously discussed. The design output capacity of the facility is approximately 700 million cubic feet per day and its storage capacity is approximately 1.8 million barrels, which approximates 6 Bcf. See further information regarding the properties of Duke Energy International at "Business, Global Asset Development -- Duke Energy International."

REAL ESTATE OPERATIONS

For information regarding the properties of Real Estate Operations, see "Business, Real Estate Operations."

OTHER

None of the properties used in connection with Duke Energy's other business activities are considered material to Duke Energy's operations as a whole.

17

<PAGE>

Item 3. Legal Proceedings.

On January 8, 1999, a subsidiary of Duke Energy agreed to a Compliance Order on Consent (Consent Order) with the Colorado Department of Public Health and Environment concerning alleged air quality permit reporting and record-keeping violations at the Greeley Natural Gas Processing Plant and several other Colorado facilities. This Consent Order superseded an earlier Compliance Order and Assessment of Civil Penalty for the Greeley Natural Gas Processing Plant. This Consent Order assesses a civil and noncompliance penalty of \$54,000 and requires supplemental environmental projects of \$525,000 that involve implementing additional air emission controls to reduce air emissions below standards.

The Illinois Environmental Protection Agency has indicated to a subsidiary of Duke Energy that it intends to initiate an environmental enforcement proceeding relating to alleged air quality permit violations at a natural gas compressor station. This proceeding could result in a penalty in excess of \$100,000.

Management believes that the resolution of these matters will not have a material adverse effect on consolidated results of operations or financial position.

See Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies" and "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues -- Environmental" for further discussion of legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of Duke Energy's security holders during the last quarter of 1998.

PART II.

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The common stock of Duke Energy is listed for trading on the New York Stock Exchange. At February 26, 1999, there were approximately 153,633 holders of record of such common stock.

COMMON STOCK DATA BY QUARTER

<TABLE>

<CAPTION>

1998	Dividends Per Share	Stock Price Range	

	High	Low

<S>	<C>	<C>	<C>
First Quarter ...	\$.55	\$ 60 5/8	\$ 53 7/16
Second Quarter ..	1.10	62 9/16	55 1/8
Third Quarter ...	--	66 3/16	57 1/16
Fourth Quarter ..	.55	70 11/16	60 1/16

</TABLE>

<TABLE>

<CAPTION>

1997	Dividends Per Share	Stock Price Range	

	High	Low

<S>	<C>	<C>	<C>
First Quarter ...	\$.40	\$ 48	\$ 43 3/8
Second Quarter ..	.40	48	42 1/8
Third Quarter ...	.55	51 1/8	47 11/16
Fourth Quarter ..	.55	56 3/16	45 3/4

</TABLE>

(a) Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred on January 1, 1997.

On December 17, 1998, Duke Energy's Board of Directors adopted a shareholder rights plan, which was subsequently approved by the North Carolina Utilities Commission and the Public Service Commission of South Carolina. Under the terms of the plan, holders of record of outstanding common stock on February 12, 1999 received one right for each share of common stock owned. The plan is intended to assure fair and equal treatment for all shareholders in the event of a hostile takeover attempt and to encourage a potential acquirer to negotiate with the Board of Directors a fair price for all shareholders before attempting a takeover. The adoption of the plan was not in response to any takeover offer or threat.

18

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Item 6. Selected Financial Data.

<TABLE>
<CAPTION>

	1998	1997(a)	1996(a)	1995(a)	1994(a)
In millions, except per share amounts					
	<C>	<C>	<C>	<C>	<C>
Income Statement					
Operating revenues	\$17,610	\$ 16,309	\$12,302	\$ 9,694	\$ 9,115
Operating expenses	15,177	14,339	10,143	7,626	7,309
Operating income	2,433	1,970	2,159	2,068	1,806
Other income and expenses	214	138	135	122	101
Earnings before interest and taxes	2,647	2,108	2,294	2,190	1,907
Interest expense	514	472	499	508	485
Minority interests	96	23	6	--	--
Earnings before income taxes	2,037	1,613	1,789	1,682	1,422
Income taxes	777	639	698	664	558
Income before extraordinary item	1,260	974	1,091	1,018	864
Extraordinary loss, net of tax	(8)	--	(17)	--	--
Net income	1,252	974	1,074	1,018	864
Dividends and premiums on redemptions of preferred and preference stock	21	72	44	49	50
Earnings available for common stockholders	\$1,231	\$ 902	\$ 1,030	\$ 969	\$ 814
Common Stock Data					
Shares of common stock outstanding					
Year-end	363	360	359	362	361

Weighted average	361	360	361	361	360
Earnings per share (before extraordinary item)					
Basic	\$ 3.43	\$ 2.51	\$ 2.90	\$ 2.68	\$ 2.26
Dilutive	\$ 3.42	\$ 2.50	\$ 2.88	\$ 2.67	\$ 2.25
Earnings per share					
Basic	\$ 3.41	\$ 2.51	\$ 2.85	\$ 2.68	\$ 2.26
Dilutive	\$ 3.40	\$ 2.50	\$ 2.83	\$ 2.67	\$ 2.25
Dividends per share	\$ 2.20	\$ 1.90	\$ 1.57	\$ 1.50	\$ 1.44
Balance Sheet					
Total assets	\$26,806	\$ 24,029	\$22,366	\$20,868	\$20,254
Long-term debt	\$6,272	\$ 6,530	\$ 5,485	\$ 5,803	\$ 5,931
Preferred stock with sinking fund requirements		\$ 124	\$ 149	\$ 234	\$ 234 \$ 280

<TABLE>

(a) Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred on January 1, 1994.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

INTRODUCTION

Duke Energy Corporation (collectively with its subsidiaries, "Duke Energy") is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and abroad. Duke Energy provides these and other services through seven business segments:

- o Electric Operations
- o Natural Gas Transmission
- o Field Services
- o Trading and Marketing
- o Global Asset Development
- o Other Energy Services
- o Real Estate Operations

19

<PAGE>

These segments were defined as a result of Duke Energy adopting Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (CUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission, through its Northeast Pipelines, provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the expected sale of the Midwest pipelines in early 1999, Natural Gas Transmission also provides interstate transportation and storage services in the midwest states. See further discussion of the proposed sale of the Midwest Pipelines in the Liquidity and Capital Resources section of Management's Discussion and Analysis. The interstate natural gas transmission and storage operations are also subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces and markets natural gas liquids (NGL). Field Services operates gathering systems in ten states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's operations, with Mobil Corporation owning a 40% minority interest.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy Power Services, LLC (Duke Energy Power Services) and Duke Energy International, LLC (Duke Energy International).

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc. (Duke Engineering & Services), Duke/Fluor Daniel and DukeSolutions, Inc. (DukeSolutions).

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages forest holdings in the southeastern United States.

The 1997 merger of Duke Power Company (Duke Power) and PanEnergy Corp (PanEnergy) was accounted for as a pooling of interests; therefore, the Consolidated Financial Statements and other financial information included in this Annual Report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy. (See Note 2 to the Consolidated Financial Statements.)

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

RESULTS OF OPERATIONS

In 1998, earnings available for common stockholders increased 36.5% over 1997, to \$1,231 million, or \$3.41 per basic share, net of an extraordinary loss of \$8 million, or \$0.02 per basic share. The increase in earnings available for common stockholders was primarily due to increased electric sales and energy marketing activities, expansions and acquisitions, gains on sales of assets and absence of 1997 non-recurring merger costs. These increases were partially offset by decreased NGL prices and increased interest expense and minority

interests.

Earnings available for common stockholders decreased 12.4% in 1997 compared to 1996, to \$902 million or \$2.51 per basic share in 1997 from \$1,030 million or \$2.85 per basic share in 1996. The decrease was due primarily to non-recurring 1997 merger costs, 1997 severance costs, premiums associated with the redemption and tender offer for ten issues of preferred stock and increased nuclear expenses. Partially offsetting the decrease were lower expenses in 1997 as compared to 1996, when major storms affected Electric Operations' distribution costs, and an extraordinary loss related to the early retirement of debt in 1996.

Operating income for 1998 was \$2,433 million compared to \$1,970 million in 1997 and \$2,159 million in 1996. Earnings before interest and taxes (EBIT) were \$2,647 million, \$2,108 million and \$2,294 million for 1998, 1997 and 1996, respectively. Operating income and earnings before interest and taxes, excluding the effect of gains on asset sales of \$34 million by Field Services in 1998, are affected by the same fluctuations for Duke Energy and each of its business segments. Earnings before interest and taxes by business segment are summarized below and are discussed by business segment thereafter.

20

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Earnings Before Interest and Taxes by Business Segment

<TABLE>
<CAPTION>

Years Ended December 31,

1998 1997 1996

In millions

<S>	<C>	<C>	<C>
Electric Operations	\$1,513	\$1,282	\$1,419
Natural Gas Transmission	702	624	595
Field Services	76	157	152
Trading and Marketing	122	44	58
Global Asset Development	80	5	--
Other Energy Services	10	18	20
Real Estate Operations	142	98	88
Other Operations	2	(120)	(38)

Consolidated EBIT \$2,647 \$2,108 \$2,294

</TABLE>

Other Operations primarily includes communication services, water services and certain unallocated corporate costs. Included in the amounts discussed below are intercompany transactions that are eliminated in the Consolidated Financial Statements.

Electric Operations

<TABLE>
<CAPTION>

Years Ended December 31,			
	1998	1997	1996
Dollars in millions			
<S>	<C>	<C>	<C>
Operating Revenues	\$4,626	\$4,401	\$4,498
Operating Expenses	3,228	3,221	3,195
Operating Income	1,398	1,180	1,303
Other Income, Net of Expenses	115	102	116
EBIT	\$1,513	\$1,282	\$1,419
Volumes, Sales -- GWh (a)	82,011	77,935	77,547

</TABLE>

(a) Gigawatt-hour

In 1998, earnings before interest and taxes for Electric Operations increased 18.0% to \$1,513 million from \$1,282 million in 1997, primarily due to a 5.2% increase in gigawatt-hour sales. The increase in earnings before interest and taxes due to the absence of 1997 severance costs was substantially offset by 1998 severance and other costs related to the shut-down of Electric Operations' merchandising business.

Sales to weather-sensitive customers increased significantly in 1998 compared to 1997, which was a mild weather year, with sales to residential and general service customers up 7.5% and 7.1%, respectively, primarily due to warmer spring and summer weather conditions. On July 21, 1998, Electric Operations customers set the third record demand of the summer, reaching a peak of 15,812 megawatts. Sales to industrial customers increased slightly in 1998 over 1997, with sales to textile customers relatively flat. The number of customers in the Electric Operations service territory increased 2.5% in 1998 over 1997 due to economic growth in the region.

In 1997, earnings before interest and taxes for Electric Operations declined 9.7% as compared to 1996, primarily as a result of severance costs and increased nuclear outage expenses. Also contributing to the decrease were lower electric revenues, which were due primarily to mild weather and to the South Carolina rate reduction, which was effective June 1, 1996. Partially offsetting the decrease in earnings were lower expenses in 1997 as compared to 1996, when major storms affected distribution costs.

<PAGE>

Natural Gas Transmission

<TABLE>

<CAPTION>

Years Ended December 31,				
	1998	1997	1996	
Dollars in millions				
<S>	<C>	<C>	<C>	
Operating Revenues	\$1,528	\$1,572	\$1,556	
Operating Expenses	864	964	973	
Operating Income	664	608	583	
Other Income, Net of Expenses	38	16	12	
EBIT	\$ 702	\$ 624	\$ 595	
Volumes, Throughput -- TBtu (a)	2,593	2,862	2,939	

</TABLE>

(a) Trillion British thermal units

Earnings before interest and taxes for Natural Gas Transmission increased \$78 million in 1998 over 1997. Earnings before interest and taxes for Northeast Pipelines increased \$56 million to \$476 million in 1998 compared to 1997, primarily as a result of the favorable resolution of regulatory issues related to gas supply realignment costs, favorable state property tax rulings and increased market expansion projects. These increases were partially offset by a decrease in throughput primarily as a result of mild winter weather.

In 1998, earnings before interest and taxes for Midwest Pipelines increased 10.8% compared to 1997, primarily due to a gain on the sale of the general partner interests in Northern Border Partners, L.P. and non-recurring 1997 litigation expenses. These increases were partially offset by the favorable resolution of certain regulatory matters in 1997, which was reflected as additional revenue and other income. See the Liquidity and Capital Resources - -- Investing Cash Flows section of Management's Discussion and Analysis for a discussion of the expected sale of the Midwest Pipelines in early 1999. (See also Note 14 to the Consolidated Financial Statements.)

Earnings before interest and taxes for Natural Gas Transmission increased 4.9% in 1997 over 1996, with increases in earnings at Northeast Pipelines and Midwest Pipelines of 5.3% and 4.0%, respectively. Earnings before interest and taxes for the Northeast Pipelines increased primarily due to market-expansion projects placed in service.

For the Midwest Pipelines, earnings before interest and taxes increased primarily due to the favorable resolution of certain regulatory matters in 1997 in amounts in excess of those resolved in 1996, which was reflected as additional revenue and other income. This increase was partially offset by 1997 litigation expenses.

Old Services

<TABLE>
<CAPTION>

Years Ended December 31,				
	1998	1997	1996	
Dollars in millions				
<S>	<C>	<C>	<C>	
Operating Revenues	\$ 2,639	\$ 3,055	\$ 2,637	
Operating Expenses	2,598	2,898	2,487	
Operating Income	41	157	150	
Other Income, Net of Expenses		35	--	2
EBIT	\$ 76	\$ 157	\$ 152	
Volumes				
Natural Gas Gathered and Processed/Transported, TBtu/d (a)		3.6	3.4	2.9
Natural Gas Marketed, TBtu/d		0.4	0.4	0.5
NGL Production, MBbl/d (b)		110.2	108.2	78.5

(a) Trillion British thermal units per day

(b) Thousand barrels per day

In 1998, earnings before interest and taxes for Field Services decreased 1 million compared to 1997, primarily due to a decrease in average NGL prices of approximately \$0.09 per gallon, or 25.7%. The decrease in earnings before interest and taxes was partially offset by \$34 million of gains on sales of assets which are included in other income.

22

<PAGE>

Earnings before interest and taxes for Field Services increased 3.3% in 1997 over 1996, primarily due to higher volumes as a result of acquisitions in 1996. Natural gas gathered and processed volumes increased 17.2%, and NGL production increased 37.8% in 1997 compared to 1996. Partially offsetting these increases were lower NGL prices of approximately \$0.04 per gallon, or 8%, and higher natural gas prices.

Trading and Marketing

<TABLE>
<CAPTION>

Years Ended December 31,		
1998	1997	1996
Dollars in millions		

<S>	<C>	<C>	<C>
Operating Revenues	\$8,785	\$7,489	\$3,814
Operating Expenses	8,665	7,446	3,758
Operating Income	120	43	56
Other Income, Net of Expenses	2	1	2
EBIT	\$ 122	\$ 44	\$ 58
Volumes			
Natural Gas Marketed, TBtu/d	8.0	6.9	5.5
Electricity Marketed, GWh	98,991	64,650	4,229

</TABLE>

In 1998, earnings before interest and taxes for Trading and Marketing increased \$78 million over 1997. The increase resulted primarily from increased financial trading margins and electricity margins, partially offset by increased expenses due to business growth. Electricity volumes marketed increased primarily as a result of acquiring the remaining 50% ownership interest in the Duke/Louis Dreyfus, L.L.C. (D/LD) joint venture in June 1997.

Earnings before interest and taxes for Trading and Marketing decreased \$14 million in 1997 compared to 1996. The acquisition of the remaining 50% ownership interest in the D/LD joint venture in 1997, coupled with a full year of operations of the joint venture with Mobil Corporation formed in August 1996, accounted for the significant increases in Trading and Marketing revenues, related operating expenses (including increased purchased power expense) and volumes in 1997 over 1996. Increased natural gas volumes marketed 25.5% in 1997, in addition to increased natural gas margins from trading activities, were largely offset by the emerging electric power trading and marketing activities. Higher operating expenses, due primarily to increased personnel levels and system development costs to provide the necessary infrastructure for growth in the trading and marketing business, resulted in a decrease in earnings before interest and taxes in 1997 as compared to 1996.

Global Asset Development

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
	In millions		
<S>	<C>	<C>	<C>
Operating Revenues	\$ 319	\$ 123	\$ 72
Operating Expenses	261	129	73
Operating Income	58	(6)	(1)
Other Income, Net of Expenses	22	11	1
EBIT	\$ 80	\$ 5	\$ --

<TABLE>

In 1998, earnings before interest and taxes for Global Asset Development increased \$75 million over 1997. The increase results primarily from business expansion and acquisitions, including Duke Energy Power Services' July 1, 1998 acquisition of three electric generating stations in California from Pacific Gas & Electric Company (PG&E) and December 1997 acquisition of an indirect 32.5% ownership interest in American Ref-Fuel Company. Duke Energy International also contributed to the increase in earnings before interest and taxes in 1998 compared to 1997 through an expansion to the PT Puncakjaya power generation facility in Indonesia. This increase was partially offset by decreased earnings resulting from lower prices at National Methanol, a methanol and MTBE (methyl tertiary butyl ether) plant in Saudi Arabia.

In 1997, earnings before interest and taxes increased slightly compared to 1996, due primarily to business expansion and acquisitions, including the December 1997 acquisition of an ownership interest in American Ref-Fuel Company, and a gain on the sale of an investment. These increases were partially offset by increased expenses due to business growth.

23

<PAGE>

Other Energy Services

<TABLE>

<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
	In millions		
<S>	<C>	<C>	<C>
Operating Revenues	\$ 521	\$ 376	\$ 204
Operating Expenses	511	353	184
Operating Income	10	23	20
Other Income, Net of Expenses	--	(5)	--
EBIT	\$ 10	\$ 18	\$ 20

</TABLE>

In 1998, earnings before interest and taxes for Other Energy Services decreased \$8 million compared to 1997, primarily due to decreased earnings of Duke Engineering & Services. Earnings before interest and taxes for Other Energy Services decreased \$2 million in 1997 compared to 1996, primarily as a result of start-up expenses of DukeSolutions partially offset by increased earnings of Duke Engineering & Services due to growth.

Real Estate Operations

<TABLE>

<CAPTION>

Years Ended December 31,

	1998	1997	1996
In millions			
<S>	<C>	<C>	<C>
Operating Revenues	\$ 181	\$ 124	\$ 114
Operating Expenses	39	26	26
Operating Income	142	98	88
Other Income, Net of Expenses	--	--	--
EBIT	\$ 142	\$ 98	\$ 88

</TABLE>

In 1998, earnings before interest and taxes for Real Estate Operations increased 44.9% compared to 1997, primarily as a result of increased project and lake lot sales and a gain on land sales in the Jocassee Gorges region of South Carolina. Earnings before interest and taxes for Real Estate Operations increased 11.4% in 1997 over 1996, primarily due to gains associated with bulk land sales in 1997.

Other Operations

Earnings before interest and taxes for Other Operations increased in 1998 compared to 1997, primarily as a result of the absence of \$71 million of non-recurring 1997 merger-related costs and the favorable resolution of certain contingent items in 1998. The increase in earnings before interest and taxes was partially offset by a 1997 gain on the sale of the ownership interest in the Midland Cogeneration Venture.

Earnings before interest and taxes for Other Operations declined \$82 million in 1997 compared to 1996. Contributing to the decrease were increased merger-related expenses of \$57 million in 1997 compared to 1996 and the 1997 amortization of goodwill associated with the purchase of the remaining 50% ownership interest in the D/LD joint venture. This decline was partially offset by the sale of the ownership interest in the Midland Cogeneration Venture in 1997.

Other Impacts on Earnings Available for Common Stockholders

Interest expense increased 8.9% in 1998 over 1997 due to higher average debt balances outstanding. In 1997, interest expense decreased \$27 million, or 5.4%, as compared to 1996 as a result of lower interest rates.

In 1998, minority interests increased \$73 million compared to 1997. This increase includes 1998 dividends for trust preferred securities, of which \$350 million were issued in December 1997 and \$600 million were issued in 1998. See further discussion of the 1998 issuances of trust preferred securities in the Liquidity and Capital Resources section of Management's Discussion and Analysis. Excluding these dividends, minority interests relate primarily to the

trading and marketing joint venture with Mobil Corporation formed in August 1996.

In January 1998, TEPPCO Partners, L.P., in which a subsidiary of Duke Energy has a 2% general partner interest and a 19.1% limited partner interest, redeemed certain First Mortgage Notes. A non-cash extraordinary loss of \$8 million, net of income tax of \$5 million, was recorded related to costs of the early retirement of that debt.

24

<PAGE>

On October 1, 1996, a subsidiary of Duke Energy redeemed its \$150 million, 10% debentures and its \$100 million, 10 1/8% debentures, both due 2011. A non-cash extraordinary loss of \$17 million, net of income tax of \$10 million, was recorded related to the unamortized discount on this early retirement of debt.

In December 1997, Duke Energy redeemed four issues of preferred stock and commenced a tender offer to purchase a portion of an additional six issues of preferred stock. Premiums related to these redemptions were included in the Consolidated Statements of Income in 1997 as Dividends and Premiums on Redemptions of Preferred and Preference Stock.

LIQUIDITY AND CAPITAL RESOURCES

Operating Cash Flows. Assets and liabilities recorded in the Consolidated Balance Sheets related to purchased capacity levelization and natural gas transition cost recoveries and the related cash flow impacts are affected by state and federal regulatory initiatives and specific agreements. For more information on the purchased capacity levelization and the natural gas transition cost recoveries, see Notes 5 and 4, respectively, to the Consolidated Financial Statements.

On August 29, 1998, the FERC approved a settlement from Texas Eastern Transmission Corporation (TETCO), a subsidiary of Duke Energy, which will accelerate recovery of natural gas transition costs and reduce depreciation expense to more appropriately reflect the estimated useful lives of its facilities, principally interstate natural gas pipelines. The order was effective October 1, 1998 and includes a rate moratorium until 2004. Cash flows from operations are not expected to change for the first two years after implementation due to the offsetting effect on customer rates of the reduced depreciation expense and increased recovery of natural gas transition costs. When the natural gas transition costs are fully recovered, cash flows from operations are expected to decrease during 2001 through 2003 by an estimated total of \$270 million. For more information concerning the settlement, see Note 4 to the Consolidated Financial Statements.

Investing Cash Flows. Capital and investment expenditures were approximately \$2.5 billion in 1998 compared to approximately \$2.0 billion in 1997. This increase was primarily due to business expansion by Global Asset Development, which included Duke Energy Power Services' \$501 million purchase of three electric generating stations in California from PG&E and the

completion of the first phase of Bridgeport Energy, a \$265 million, 520-megawatt combined cycle natural gas-fired merchant generation plant. Business expansion for Natural Gas Transmission and Field Services also contributed to the increase in capital and investment expenditures. The increase was partially offset by decreased expenditures for Electric Operations, primarily as a result of steam generator replacements at certain of its nuclear plants in 1997, and by the acquisition of the remaining 50% ownership of the D/LD joint venture in June 1997.

Capital and investment expenditures in 1997 included the acquisition of the remaining 50% ownership interest in the D/LD joint venture for \$247 million, which substantially represented goodwill, and Global Asset Development's acquisition of an ownership interest in American Ref-Fuel Company for \$237 million. The increase in capital and investment expenditures in 1997 over 1996 also included increased Electric Operations construction costs, primarily due to steam generator replacements at certain of its nuclear plants and increased distribution line construction, and business expansion for the Natural Gas Transmission segment. These increases were partially offset by the 1996 acquisition of certain assets from Mobil Corporation.

Duke Energy plans to maintain its regulated electric operations facilities in the Carolinas and pursue business expansion as opportunities arise. Projected 1999 capital and investment expenditures for Electric Operations, including allowance for funds used during construction, are approximately \$900 million. These projections include expenditures for existing plants, including refurbishment and upgrades related to the Oconee Nuclear Station's application for a 20-year renewal of its operating license. The license renewal process could take three to five years to complete. All projections are subject to periodic review and revisions. Actual expenditures incurred may vary from such estimates due to various factors, including industry restructuring, weather, economic growth, regulatory constraints and environmental regulation.

Projected 1999 capital and investment expenditures for Natural Gas Transmission, including allowance for funds used during construction, are approximately \$400 million which do not include projections related to the Midwest Pipelines which are expected to be sold in early 1999. These projections include the completion of the Maritimes & Northeast Pipeline project, which will deliver natural gas to markets in the Canadian Maritimes provinces and the northeastern United States from a supply basin offshore Nova Scotia. These projections also include other market expansion projects and costs relating to existing assets.

Duke Energy plans to continue to significantly grow several of its business segments: Field Services, Global Asset Development, Trading and Marketing and Other Energy Services. Expansion opportunities for Field Services include the planned \$1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business of Union

Pacific Resources along with its natural gas and NGL marketing activities. The transaction is expected to close in the first half of 1999 and is contingent on completion of due diligence and receipt of clearances under the

Hart-Scott-Rodino Act.

Expansion opportunities for Global Asset Development's international division, Duke Energy International, include the \$315 million purchase of power generation and transmission assets in western Australia and New Zealand, including an ownership interest in a pipeline in western Australia. This acquisition also includes a development proposal for a cogeneration plant and a portfolio of international and Australian-based projects. This transaction closed on January 22, 1999.

Also, Duke Energy International recently purchased the rights to develop and operate the 500-mile Eastern Gas Pipeline project in eastern Australia. Construction of this \$270 million pipeline project is scheduled to begin in July 1999 and completion is expected by the middle of 2000.

Expansion opportunities for Global Asset Development's domestic division, Duke Energy Power Services, include the continuation of greenfield projects, such as the Bridgeport Energy project and the Maine Independence Station, a 520-megawatt combined cycle natural gas-fired merchant generation plant in Maine which is scheduled to begin producing power in the summer of 2000. Other expansion opportunities include the Hidalgo project, a 510-megawatt power plant to be built in south Texas, which is targeted to begin producing power in mid-2000. Other similar initiatives in 1999 for both Duke Energy International and Duke Energy Power Services will likely require significant capital and investment expenditures, which will be subject to periodic review and revision and may vary significantly depending on the value-added opportunities presented.

Projected 1999 capital and investment expenditures for Trading and Marketing, Other Energy Services and Real Estate Operations are approximately \$30 million, \$90 million and \$300 million, respectively. All projected capital and investment expenditures are subject to periodic review and revision and may vary significantly depending on acquisition opportunities, market volatility, economic trends and the value-added opportunities presented.

In October 1998, Duke Energy, through its wholly owned subsidiaries, PanEnergy and Texas Eastern Corporation, entered into an agreement to sell Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, which substantially comprise the Midwest Pipelines, along with Trunkline LNG Company, to CMS Energy Corporation. The sales price of \$2.2 billion involves cash proceeds of \$1.9 billion and the assumption of existing PEPL debt of approximately \$300 million. The sale is expected to close in early 1999 and will result in an after-tax gain of approximately \$700 million. The sale is contingent upon receipt of clearances under the Hart-Scott-Rodino Act.

Financing Cash Flows. Duke Energy's consolidated capital structure at December 31, 1998, including short-term debt, was 43.3% debt, 5.5% trust preferred securities, 2.0% preferred stock and 49.2% common equity. Fixed charges coverage, calculated using the Securities and Exchange Commission method, was 4.7 times, 4.1 times and 4.3 times for 1998, 1997 and 1996, respectively.

Duke Energy plans to continue to significantly grow several of its

business segments: Field Services, Trading and Marketing, Global Asset Development and Other Energy Services. These growth opportunities, along with dividends, debt repayments and operating and investing requirements, are expected to be funded by cash from operations, external debt financing and the proceeds from the sale of the Midwest Pipelines.

Securities Ratings

<TABLE>

<CAPTION>

Duke Energy Corporation	S&P		Moody's	Fitch	Duff & Phelps
<S>	<C>	<C>	<C>	<C>	
First and Refunding Mortgage Bonds			AA-	Aa3	AA-
Senior Unsecured	A	A1	A+	AA-	AA
Preferred Stock	A	a1	A+	A+	
Trust Preferred Securities	A	a1	A+	A+	
Commercial Paper	A-1	P-1	F-1+	D-1+	

</TABLE>

To maintain financial flexibility and reduce the amount of financing needed for growth opportunities, Duke Energy's Board of Directors adopted a dividend policy in June 1998 that targets 50% of earnings paid out in dividends on common stock. Prior to the adoption of the policy, approximately 65% of earnings were paid out in dividends. The Board of Directors intends to maintain dividends at the current quarterly rate of \$0.55 per share until the target payout ratio is reached.

26

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In February 1998, Duke Energy completed its tender offer for a maximum of 50% of the outstanding shares of six of its preferred stock issues, purchasing two million shares of its preferred stock for \$180 million.

Duke Capital Corporation (Duke Capital) is a wholly owned subsidiary of Duke Energy and serves as the parent for Duke Energy's business segments except Electric Operations and certain other operations. In July 1998, Duke Capital issued \$400 million of Senior Unsecured Notes. Also, during 1998, Duke Capital's business trusts, which are treated as indirect wholly owned subsidiaries of Duke Energy for financial reporting purposes, issued \$600 million of trust preferred securities. (See Note 12 to the Consolidated Financial Statements.)

In December 1998, Duke Energy issued \$300 million of Senior Unsecured Notes. The proceeds, along with \$200 million in commercial paper, were used to redeem \$500 million of First and Refunding Mortgage Bonds, which were called on December 31, 1998. In January 1999, Duke Energy issued \$200 million of Senior Notes.

Under its commercial paper facilities, Duke Energy had the ability to borrow up to \$2.8 billion and \$2.5 billion as of December 31, 1998 and 1997, respectively. At December 31, 1998, the commercial paper facilities consisted of \$1.25 billion for Duke Energy and \$1.55 billion for Duke Capital. At

December 31, 1997, the commercial paper facilities consisted of \$1.25 billion each for Duke Energy and Duke Capital. At December 31, 1998 and 1997, Duke Energy's various bank credit facilities totaled approximately \$2.9 billion and \$2.7 billion, respectively. At December 31, 1998, \$1.9 billion was outstanding under the commercial paper facilities and \$100 million was outstanding under the bank credit facilities.

As of December 31, 1998, Duke Energy and its subsidiaries, excluding PEPL, had authority to issue up to \$1.2 billion aggregate principal amount of debt and other securities under shelf registrations filed with the Securities and Exchange Commission. Such securities may be issued as First and Refunding Mortgage Bonds, Senior Notes, Subordinated Notes or Preferred Stock. On January 27, 1999, Duke Capital filed a \$1 billion shelf registration statement, which was declared effective by the Securities and Exchange Commission on February 10, 1999.

Duke Energy used authorized but unissued shares of its common stock to meet 1998 employee benefit plan contribution requirements instead of purchasing shares on the open market. This practice is expected to be continued in 1999.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Policies. Duke Energy is exposed to market risks associated with commodity prices, interest rates, equity prices and foreign exchange rates. Comprehensive risk management policies have been established by the Corporate Risk Management Committee (CRMC) to monitor and control these market risks. The CRMC is chaired by the Chief Financial Officer and primarily comprises senior executives. The CRMC has responsibility for overseeing all corporate energy risk management and recommending energy financial exposure limits, as well as responsibility for oversight of interest rate risk, foreign currency risk and credit risk.

Interest Rate Risk. Duke Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt, fixed-rate debt and trust preferred securities, commercial paper and auction market preferred stock, as well as fixed-to-floating interest rate swaps and interest rate lock agreements. Duke Energy manages its interest rate exposure by limiting its variable-rate and fixed-rate exposure to a certain percentage of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates. (See Notes 1, 7, 10, 12 and 13 to the Consolidated Financial Statements.)

If market interest rates average 1% higher (lower) in 1999 than in 1998, interest expense would increase (decrease), and earnings before income taxes would decrease (increase) by approximately \$23 million. Comparatively, had interest rates averaged 1% higher (lower) in 1998 than in 1997, interest expense would have increased (decreased), and earnings before income taxes would have decreased (increased) by approximately \$24 million. These amounts were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of December 31, 1998 and 1997. In the event of a significant change in interest rates, management would likely take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible

effects, the sensitivity analysis assumes no changes in Duke Energy's financial structure.

Commodity Price Risk. Duke Energy, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price and transportation costs of natural gas, electricity and petroleum products marketed. Duke Energy employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including futures, swaps and options. (See Notes 1 and 7 to the Consolidated Financial Statements.) The risk in the commodity trading portfolio is measured on a daily basis utilizing a Value-at-Risk model to determine the maximum potential one-day favorable or unfavorable Daily Earnings at Risk (DER). The DER is monitored in comparison

27

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to established thresholds. Other measures are also utilized to monitor the risk in the commodity trading portfolio on a monthly and annual basis.

The DER computations are based on a historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the favorable or unfavorable impact of one-day's price movement on the existing portfolio. The historical simulation emphasizes the most recent market activity, which is considered the most relevant predictor of future market movements for natural gas, electricity and petroleum products. The DER computations utilize several key assumptions, including a 95% confidence level for the resultant price movement and the holding period specified for the calculation. Duke Energy's calculation includes commodity derivative instruments and forwards held for trading purposes and excludes the effects of embedded physical options in the trading portfolio. At December 31, 1998 and 1997, the estimated potential one-day favorable or unfavorable impact on earnings before income taxes related to commodity instruments held for trading purposes was approximately \$10 million and \$2 million, respectively. During 1998, the average estimated potential one-day favorable or unfavorable impact on earnings before income taxes related to commodity instruments held for trading purposes was approximately \$5 million. The increase in 1998 compared to 1997 is a result of an increase in the authorized energy financial exposure limit, which was approved by the CRMC. Changes in markets inconsistent with historical trends could cause actual results to exceed predicted limits. Market risks associated with commodity derivatives held for purposes other than trading were not material at December 31, 1998 and 1997.

Subsidiaries of Duke Energy are also exposed to market fluctuations in the prices of NGLs related to their ongoing gathering and processing operating activities. Duke Energy closely monitors the risks associated with NGL price changes on its future operations, and where appropriate, uses crude oil and natural gas commodity instruments to hedge NGL prices. If NGL prices averaged one cent per gallon less in 1998, earnings before income taxes would have decreased by approximately \$8 million. Duke Energy generally does not maintain a material inventory of NGLs or actively trade commodity derivatives related to NGLs.

Equity Price Risk. Duke Energy maintains trust funds, as required by the

Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning. (See Note 11 to the Consolidated Financial Statements.) As of December 31, 1998 and 1997, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Management believes that its exposure to fluctuations in equity prices or interest rates will not affect consolidated results of operations. See further discussion in the Current Issues, Nuclear Decommissioning Costs section of Management's Discussion and Analysis.

Foreign Operations Risk. Duke Energy is exposed to foreign currency risk, sovereign risk and other foreign operations risks arising from equity investments in international affiliates and businesses owned and operated in foreign countries. At December 31, 1998 Duke Energy had more than \$100 million invested in Australia. Investments in other foreign countries were not material at December 31, 1998 or 1997. In order to mitigate risks associated with foreign currency fluctuations, the majority of contracts entered into by Duke Energy or its affiliates are denominated in or indexed to the U.S. dollar or may be hedged through issuance of debt denominated in the foreign currency. Duke Energy also uses foreign currency swaps, where appropriate, to manage its risk related to foreign currency fluctuations. Other exposures to foreign currency risk, sovereign risk or other foreign operations risk are periodically reviewed by management and were not material to consolidated results of operations or financial position during 1998 or 1997.

CURRENT ISSUES

Operations Outlook. Duke Energy's business strategy is to develop regional centers of energy assets involving gas, electric generation and marketing in the United States and internationally. In the United States, Duke Energy is aggressively investing in new pipelines and power plants in the Northeast, Gulf Coast and West. Internationally, Duke Energy is focusing on opportunities in Asia Pacific, South America and Europe.

Electric Operations is expected to grow moderately, consistent with historical trends. Expansion will primarily result from continued economic growth in its service territory. In 1997, as a result of the merger with PanEnergy, Duke Energy signed various agreements with the NCUC, PSCSC and the FERC capping base rates to retail and wholesale electric customers at existing levels through 2000. In addition, Duke Energy signed agreements with the other joint owners of the Catawba Nuclear Station providing for a cap on certain rates charged under interconnection agreements. In response to these rate agreements and competitive pressures, Electric Operations continues to strive to maintain low costs and competitive

28

<PAGE>

rates for its customers and to provide high quality customer service. Duke Energy does not expect a negative impact as a result of such agreements on its results of operations or financial position. (See further discussion in the Electric Competition section below.)

The Northeast Pipelines are an essential part of Natural Gas Transmission's strategy to advance projects that provide expanded services to

meet the specific needs of customers. The proposed sale of the Midwest Pipelines allows Natural Gas Transmission to focus on regions, such as the northeastern U.S., with increasing demand for gas. Northeast pipeline projects will provide transportation from new supplies in both eastern and western Canada in addition to traditional domestic supply basins.

Duke Energy plans to significantly grow several of its business segments: Field Services, Trading and Marketing, Global Asset Development and Other Energy Services. Deregulation of energy markets in the United States and abroad is providing substantial opportunities for these segments to capitalize on their broad capabilities. Field Services will expand through the purchase of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources along with its natural gas and NGL marketing activities.

Global Asset Development expects to continue strong growth through acquisitions, construction of greenfield projects and expansion of existing facilities as value-added opportunities present themselves. Duke Energy's combination of assets and capabilities that span the energy value chain have contributed to Global Asset Development's successful combination of natural gas pipeline capabilities, power generation, energy marketing and other services. This demonstrated domestic strategy is now being deployed internationally in the Asia Pacific area and in South America. Other Energy Services seeks to grow with types of services including comprehensive energy efficiencies in food, textile and government facilities.

The strong real estate market in the Southeast continues to present substantial growth opportunities for Real Estate Operations. In 1998, Real Estate Operations initiated development of significant office and industrial facilities in each of its established markets to capitalize on market conditions.

While the proposed sale of the Midwest Pipelines will provide an opportunity to deploy capital into areas of higher growth, Duke Energy expects to experience some near-term earnings pressure as a result of the sale. Duke Energy believes that its strategy of developing regional centers of energy assets will return long-term growth and increase shareholder value. Duke Energy continues to target long-term annual growth in earnings per share of eight to ten percent.

Electric Competition. Wholesale Competition. The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities have established the regulatory framework to open the wholesale energy market to competition. EPACT amended provisions of the Public Utility Holding Company Act of 1935 and the Federal Power Act to remove certain barriers to a competitive wholesale market. EPACT permits utilities to participate in the development of independent electric generating plants for sales to wholesale customers, and also permits the FERC to order transmission access for third parties to transmission facilities owned by another entity. It does not, however, permit the FERC to issue an order requiring transmission access to retail customers. The FERC, responsible in large measure for implementation of the EPACT, has moved vigorously to implement its mandate, interpreting the statute broadly and issuing orders for third-party transmission service and a number of rules of general applicability, including Orders 888 and 889.

Open-access transmission for wholesale customers as defined by the FERC's final rules provides energy suppliers, including Duke Energy, with opportunities to sell and deliver capacity and energy at market-based prices. Duke Energy and several of its non-regulated subsidiaries were granted authority by the FERC to act as power marketers in 1995. In 1998, an additional non-regulated subsidiary was granted power marketer authority. Electric Operations obtained from the FERC open-access rule the rights to sell capacity and energy at market-based rates from its own assets. Open access provides another supply option through which Electric Operations can purchase at attractive rates a portion of capacity and energy requirements resulting in lower overall costs to customers. Open access also provides Electric Operations' existing wholesale customers with competitive opportunities to seek other suppliers for their capacity and energy requirements.

Wholesale sales represented approximately 11.3% of total gigawatt-hour sales for Electric Operations in 1998. Supplemental power sales to the other joint owners of Catawba Nuclear Station comprised the majority of wholesale sales. Such supplemental power sales will continue to decline in 1999 as the joint owners retain more capacity and energy from Catawba Nuclear Station or purchase from a third party. (See Note 5 to the Consolidated Financial Statements.)

Retail Competition. Currently, Electric Operations operates as a vertically integrated, investor-owned utility with exclusive rights to supply electricity in a franchised service territory -- a 20,000-square-mile service territory in the Carolinas. In its retail business, the NCUC and the PSCSC regulate Electric Operations' service and rates.

29

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Electric industry restructuring is being addressed in all 50 states and in the District of Columbia which is resulting in changes in the industry. These changes will likely impact all entities owning electric generating assets. The NCUC and the PSCSC are studying the merits of restructuring the electric utility industry in the Carolinas. Although the North Carolina and South Carolina legislatures have not made a final decision on this matter, initiatives are underway to determine whether it is in the best interests of all parties to deregulate the electric industry.

In May 1997, North Carolina passed a bill that established a study commission to examine whether competition should be implemented in the state. The commission's report to the state General Assembly is expected to be completed by early 2000. Duke Energy is a member of the study commission along with other utility representatives, legislators, customers and a member of an environmental group.

On February 3, 1998, the PSCSC presented its report to the South Carolina House of Representatives on how to deregulate the electric industry. The report leaves the final decisions to the General Assembly of South Carolina. The Public Utility Subcommittee of the House of Representatives Committee on Labor, Commerce and Industry has been conducting hearings regarding electric industry restructuring during the past year.

Late in 1998, a task force was formed by the South Carolina Senate to examine issues related to deregulation of the state's electric utility business. This task force will prepare a report for review, discussion and possible legislative action by the Senate Judiciary Committee and the General Assembly as a whole.

Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to customers. If cost-based regulation were to be discontinued in the industry for any reason, including competitive pressure on the cost-based prices of electricity, profits could be reduced and electric utilities might be required to reduce their asset balances to reflect a market basis less than cost. Discontinuance of cost-based regulation would also require affected utilities to write off their associated regulatory assets. Duke Energy's regulatory assets are included in the Consolidated Balance Sheets. The portion of these regulatory assets related to Electric Operations is approximately \$1.5 billion, including primarily purchased capacity costs, debt expense and deferred taxes related to regulatory assets. Currently, Duke Energy is recovering substantially all of these regulatory assets through its wholesale and retail electric rates and would attempt to continue to recover these assets during a transition to competition. In addition, Duke Energy would seek to recover the costs of its electric generating facilities in excess of the market price of power at the time of transition.

Duke Energy supports a properly managed and orderly transition to competitive generation and retail services in the electric industry. However, transforming the current regulated industry into efficient, competitive generation and retail electric markets is a complex undertaking, which will require a carefully considered transition to a restructured electric industry. The key to effective retail competition is fairness among customers, service providers and investors. Duke Energy intends to work with customers, legislators and regulators to address all the important issues. Management cannot predict the potential impact, if any, of these competitive forces on future consolidated results of operations or financial position.

Natural Gas Competition. Wholesale Competition. On July 29, 1998, the FERC issued a Notice of Proposed Rulemaking (NOPR) on short-term natural gas transportation services, which proposed an integrated package of revisions to its regulations governing interstate natural gas pipelines. "Short term" has been defined in the NOPR as all transactions of less than one year. Under the proposed approach, cost-based regulation would be eliminated for short-term transportation and replaced by regulatory policies intended to maximize competition in the short-term transportation market, mitigate the ability of companies to exercise residual monopoly power and provide opportunities for greater flexibility providing pipeline services. The proposed changes include initiatives to revise pipeline scheduling procedures, receipt and delivery point policies and penalty policies, and require pipelines to auction short-term capacity. Other proposed changes would improve the FERC's reporting requirements, permit pipelines to negotiate rates and terms of services, and revise certain rate and certificate policies that affect competition.

In conjunction with the NOPR, the FERC also issued a Notice of Inquiry (OI) on its pricing policies in the existing long-term market and pricing

policies for new capacity. The FERC seeks comments on whether its policies are biased toward either short-term or long-term service, provide accurate price signals and the right incentives for pipelines to provide optimal transportation services and construct facilities that meet future demand and do not result in over building and excess capacity. Comments on the NOPR and NOI are due in April, 1999.

Because these notices are at a very early stage and ultimate resolution is unknown, management cannot estimate the effects of these matters on future consolidated results of operations or financial position.

Retail Competition. Duke Energy currently does not provide retail natural gas service, but changes in regulation to allow retail competition could affect Duke Energy's natural gas transportation contracts with local distribution companies.

30

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Natural gas retail deregulation is in the very early stages of development and management cannot estimate the effects of this matter on future consolidated results of operations or financial position.

Nuclear Decommissioning Costs. Duke Energy's estimated site-specific nuclear decommissioning costs total approximately \$1.3 billion stated in 1994 dollars based on decommissioning studies completed in 1994. This estimate includes the cost of decommissioning plant components not subject to radioactive contamination. Duke Energy contributes to an external decommissioning trust fund and maintains an internal reserve to fund these costs.

The balance of the external funds as of December 31, 1998 and 1997, was \$580 million and \$471 million, respectively. The balance of the internal reserve as of December 31, 1998 and 1997, was \$217 million and \$211 million, respectively, and is reflected in the as Accumulated Depreciation and Amortization.

Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of its nuclear plants. Management believes that funding of the decommissioning costs will not have a material adverse effect on consolidated results of operations or financial position. (See Note 11 to the Consolidated Financial Statements.)

As of December 31, 1998 and 1997, the external decommissioning trust fund was invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Maintaining a portfolio that includes long-term equity investments maximizes the returns to be utilized to fund nuclear decommissioning, which in the long-term will better correlate to inflationary increases in decommissioning costs. However, the equity securities included in Duke Energy's portfolio are exposed to price fluctuations in equity markets, and the fixed-rate, fixed-income securities are exposed to changes in interest rates.

Duke Energy actively monitors its portfolio by benchmarking the performance of its investments against certain indexes and by maintaining, and periodically reviewing, established target allocation percentages of the assets of its trusts. Because the accounting for nuclear decommissioning recognizes that costs are recovered through the Electric Operations segment's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations.

Environmental. Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

Manufactured Gas Plants and Superfund Sites. Duke Energy was an operator of manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of certain former manufactured gas plant sites to investigate and, where necessary, remediate these contaminated sites. The State of South Carolina has expressed interest in entering into a similar arrangement. Duke Energy is considered by regulators to be a potentially responsible party and may be subject to future liability at seven federal Superfund sites and three state Superfund sites. While the cost of remediation of the remaining sites may be substantial, Duke Energy will share in any liability associated with remediation of contamination at such sites with other potentially responsible parties. Management believes that resolution of these matters will not have a material adverse effect on consolidated results of operations or financial position.

PCB (Polychlorinated Biphenyl) Assessment and Clean-up Programs. TETCO, a wholly owned subsidiary of Duke Energy, is currently conducting PCB assessment and clean-up programs at certain of its compressor station sites under conditions stipulated by a U.S. Consent Decree. The programs include on- and off-site assessment, installation of on-site source control equipment and groundwater monitoring wells, and on- and off-site clean-up work. TETCO completed the soil clean-up programs during 1998, subject to regulatory approval. Groundwater monitoring activities will continue at several sites beyond 1999.

In 1987, the Commonwealth of Kentucky instituted a suit in state court against TETCO, alleging improper disposal of PCBs at TETCO's three compressor station sites in Kentucky. This suit is still pending. In 1996, TETCO completed clean-up of these sites under the U.S. Consent Decree.

Duke Energy has also identified environmental contamination at certain sites on the PEPL and Trunkline systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. Duke Energy has communicated with the Environmental Protection Agency (EPA) and appropriate state regulatory agencies on these matters. Under the terms of the agreement with CMS Energy Corporation, Duke Energy is obligated to complete the PEPL and Trunkline clean-up programs at certain agreed-upon sites. These clean-up programs are expected to continue until 2001.

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At December 31, 1998 and 1997, remaining estimated clean-up costs on the TCO, PEPL and Trunkline systems were accrued and included in the Consolidated Balance Sheets as Environmental Clean-up Liabilities. These cost estimates represent gross clean-up costs expected to be incurred, have not been discounted or reduced by customer recoveries and generally do not include fines, penalties or third-party claims. Costs expected to be recovered from customers have been deferred and are included in the Consolidated Balance Sheets as Environmental Clean-up Costs.

The federal and state clean-up programs are not expected to interrupt or diminish Duke Energy's ability to deliver natural gas to customers. Based on Duke Energy's experience to date and costs incurred for clean-up operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations or financial position.

Air Quality Control. The Clean Air Act Amendments of 1990 require a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000. Duke Energy currently meets all requirements of Phase I. Duke Energy supports the national objective of protecting air quality in the most cost-effective manner, and has already reduced emissions by operating plants efficiently, using nuclear and hydroelectric generation and implementing various compliance strategies. To meet Phase II requirements by 2000, Duke Energy's current strategy includes using low-sulfur coal, purchasing sulfur dioxide emission allowances and installing low-nitrogen oxide burners and emission monitoring equipment. Construction activities needed to comply with Phase II requirements are substantially complete. Additional annual operating expenses of approximately \$25 million for low-sulfur coal premiums, emission allowance purchases and other compliance activities will occur after 2000. This strategy is contingent upon developments in future markets for emission allowances, low-sulfur coal, future regulatory and legislative actions and advances in clean air technologies.

In October 1998, the EPA issued a final ruling on regional ozone control which requires revised State Implementation Plans for 22 eastern states and the District of Columbia. This EPA ruling is being challenged in court by various states, industry and other interests, including the states of North Carolina and South Carolina and Duke Energy. Depending on the resolution of this matter, costs to Duke Energy may range from approximately \$100 million to \$500 million.

In December 1997, the United Nations held negotiations in Kyoto, Japan to determine how to achieve worldwide stabilization of greenhouse gas emissions, including carbon dioxide emissions from fossil-fired generating facilities and methane from natural gas operations. Further negotiations in November 1998 in Buenos Aires, Argentina, resulted in a work plan to complete the operational details of the Kyoto agreement by late 2000. Duke Energy is taking steps to prepare for possible action on greenhouse gas emissions and has completed a greenhouse gas emissions inventory. Implications of greenhouse gas emissions are being integrated into planning processes. Because this matter is in the early stages of discussion, management cannot estimate the effects on future

consolidated results of operations or financial position.

Litigation and Contingencies. For information concerning litigation and other commitments and contingencies, see Note 14 to the Consolidated Financial statements.

Year 2000 Readiness Program. State of Readiness. Duke Energy initiated its Year 2000 Readiness Program in 1996 and began a formal review of computer-based systems and devices that are used in its business operations both domestically and internationally. These systems and devices include customer information, financial, materials management and personnel systems; as well as components of natural gas production, gathering, processing and transmission, and electric generation, distribution and transmission.

Duke Energy is using a three-phase approach to address year 2000 issues: 1) inventory and preliminary assessment of computer systems, equipment and devices; 2) detailed assessment and remediation planning; and 3) conversion, testing and contingency planning. Duke Energy is employing a combination of systems repair and planned systems replacement activities to achieve year 2000 readiness for its business and process control systems, equipment and devices. Duke Energy has substantially completed the first two phases throughout its business operations, and is in various stages of the third and final phase. Duke Energy's goal is to have its critical systems, equipment and devices year 2000 ready by mid-1999. Business acquisitions routinely involve an analysis of year 2000 readiness and are incorporated into the overall program as necessary.

Duke Energy is actively evaluating and tracking year 2000 readiness of external third parties with which it has a material relationship. Such third parties include vendors, customers, U.S. governmental agencies, foreign governments and agencies, and other business associates. While the year 2000 readiness of third parties cannot be controlled, Duke Energy is attempting to assess the readiness of third parties and any potential implications to its operations. Alternate suppliers of critical products, goods and services are being identified, where necessary.

Costs. Management believes it is devoting the resources necessary to achieve year 2000 readiness in a timely manner. Current estimates for total costs of the program, including internal labor as well as incremental costs such as consulting and

32

<PAGE>

contract costs, are approximately \$65 million, of which approximately \$41 million had been incurred as of December 31, 1998. These costs exclude replacement systems that, in addition to being year 2000 ready, provide significantly enhanced capabilities which will benefit operations in future periods.

Risks. Management believes it has an effective program in place to manage the risks associated with the year 2000 issue in a timely manner. Nevertheless, since it is not possible to anticipate all future outcomes, especially when third parties are involved, there could be circumstances in which Duke Energy

would temporarily be unable to deliver energy or energy services to its customers. Management believes that the most reasonably likely worst case scenario would be small, localized interruptions of service, which likely would rapidly restored. In addition, there could be a temporary reduction in energy needs of customers due to their own year 2000 problems. In the event that such a scenario occurs, it is not expected to have a material adverse impact on consolidated results of operations or financial position.

Contingency Plans. Year 2000 contingency planning is currently underway to assure continuity of business operations for all periods during which year 2000 impacts may occur. Duke Energy is participating in multiple industry efforts to assure effective year 2000 contingency plans, and intends to complete its own year 2000 contingency plans by mid-1999. These plans address various year 2000 risk scenarios that cross departmental, business unit and industry lines as well as specific risks from various internal and external sources, including supplier readiness.

Based on assessments completed to date and compliance plans in process, management believes that year 2000 issues, including the cost of making critical systems, equipment and devices ready, will not have a material adverse effect on Duke Energy's business operation or consolidated results of operations or financial position. Nevertheless, achieving year 2000 readiness is subject to risks and uncertainties, including those described above. While management believes the possibility is remote, if Duke Energy's internal systems, or the internal systems of external parties, fail to achieve year 2000 readiness in a timely manner, Duke Energy's business, consolidated results of operations or financial condition could be adversely affected.

New Accounting Standard. In September 1998, Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy is required to adopt this standard by January 1, 2000. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative. Duke Energy is currently reviewing the expected impact of SFAS No. 133 on consolidated results of operations and financial position.

Subsequent Event. On February 18, 1999, Duke Energy announced its intent to make a concurrent cash tender offer in Chilean pesos in Chile and the United States for 51% of the outstanding shares of Endesa-Chile. The estimated total cash outlay is approximately \$2.1 billion based on current exchange rates. The offer will be contingent upon, among other things, certain Endesa-Chile shareholder approvals. If all approvals are obtained, the transactions are expected to be completed during the second quarter of 1999. Endesa-Chile controls and operates 10,247 megawatts of generating capacity in Argentina, Brazil, Chile, Colombia and Peru.

Forward-Looking Statements. From time to time, Duke Energy may make statements regarding its assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Duke Energy cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results and the

differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. Factors that could cause actual results and events to differ materially from those expressed or implied in such forward-looking statements include state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree to which competition enters the electric and natural gas industries; industrial, commercial and residential growth in the service territories of Duke Energy and its subsidiaries; the weather and other natural phenomena; the timing and extent of changes in commodity prices and interest rates; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject or other external factors over which Duke Energy has no control; the results of financing efforts; growth in opportunities for Duke Energy's business units; achievement of year 2000 readiness; and the effect of accounting policies issued periodically by accounting standard-setting bodies.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition, Qualitative and Quantitative Disclosures About Market Risk."

33

<PAGE>

Item 8. Financial Statements and Supplementary Data.

DUKE ENERGY CORPORATION

Consolidated Statements of Income

<TABLE>

<CAPTION>

Years Ended December 31,

1998 1997 1996

In millions, except per share amounts

<C> <C> <C>

<S>

Operating Revenues

Sales, trading and marketing of natural gas and petroleum products

(Notes 1 and 4) \$ 7,854 \$ 8,151 \$ 5,848

Transportation and storage of natural gas (Notes 1 and 4) 1,450 1,504 1,523

Generation, transmission and distribution of electricity (Notes 1 and 4) 4,586 4,334 4,436

Trading and marketing of electricity (Notes 1 and 4) 2,788 1,665 78

Other (Note 8) 932 655 417

Total operating revenues 17,610 16,309 12,302

Operating Expenses

Natural gas and petroleum products purchased (Note 1)	7,497	7,705	5,414
Fuel used in electric generation (Notes 1 and 11)	767	743	758
Net interchange and purchased power (Notes 1, 4 and 5)	2,916	1,960	457
Other operation and maintenance (Notes 4, 11 and 14)	2,738	2,721	2,383
Depreciation and amortization (Notes 1 and 5)	909	841	789
Property and other taxes	350	369	342

Total operating expenses	15,177	14,339	10,143

Operating Income	2,433	1,970	2,159

Other Income and Expenses

Deferred returns and allowance for funds used during construction (Note 1)	88	109	105
Other, net	126	29	30

Total other income and expenses	214	138	135

Earnings Before Interest and Taxes	2,647	2,108	2,294
Interest Expense (Notes 7 and 10)	514	472	499
Minority Interests (Notes 2 and 12)	96	23	6

Earnings Before Income Taxes	2,037	1,613	1,789
Income Taxes (Notes 1 and 6)	777	639	698

Income Before Extraordinary Item	1,260	974	1,091
Extraordinary Loss, net of tax	(8)	--	(17)

Net Income	1,252	974	1,074

Dividends and Premiums on Redemptions of Preferred and Preference Stock
(Note 13)

Earnings Available for Common Stockholders	\$ 1,231	\$ 902	\$ 1,030

Common Stock Data (Note 1)

Weighted average shares outstanding	361	360	361
Earnings per share (before extraordinary item)			
Basic	\$ 3.43	\$ 2.51	\$ 2.90
Dilutive	\$ 3.42	\$ 2.50	\$ 2.88
Earnings per share			
Basic	\$ 3.41	\$ 2.51	\$ 2.85
Dilutive	\$ 3.40	\$ 2.50	\$ 2.83
Dividends per share	\$ 2.20	\$ 1.90	\$ 1.57

</TABLE>

See Notes to Consolidated Financial Statements

34

<PAGE>

DUKE ENERGY CORPORATION

Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

Years Ended December 31,

1998 1997 1996

In millions

<S>

<C> <C> <C>

Cash Flows from Operating Activities

Net Income	\$ 1,252	\$ 974	\$ 1,074
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,055	983	965
Deferred income taxes	(35)	99	94
Purchased capacity levelization	88	56	73
Transition cost (payments) recoveries, net	(28)	(36)	91
(Increase) decrease in			
Receivables	(18)	(266)	(646)
Inventory	(104)	(7)	45
Other current assets	(39)	(18)	17
Increase (decrease) in			
Accounts payable	72	239	577
Taxes accrued	(6)	50	(11)
Interest accrued	(2)	(13)	(18)
Other current liabilities	84	15	(10)
Other, net	12	64	84
Net cash provided by operating activities	2,331	2,140	2,335

Cash Flows from Investing Activities

Capital expenditures	(2,159)	(1,323)	(1,394)
Investment expenditures	(341)	(705)	(156)
Decommissioning, retirements and other	24	34	(18)
Net cash used in investing activities	(2,476)	(1,994)	(1,568)

Cash Flows from Financing Activities

Proceeds from the issuance of			
Long-term debt	1,357	1,618	363
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy Corporation or subsidiaries	581	339	--
Common stock and stock options	176	15	12
Payments for the redemption of			
Long-term debt	(698)	(869)	(527)
Common stock	--	(25)	(159)
Preferred and preference stock	(180)	(224)	--
Net change in notes payable and commercial paper		(350)	(290)
Dividends paid	(814)	(726)	(609)
Other	6	(41)	(12)
Net cash provided by (used in) financing activities	78	(203)	(773)
Net decrease in cash and cash equivalents	(67)	(57)	(6)

Cash received from business acquisitions	38	--	--
Cash and cash equivalents at beginning of year	109	166	172
Cash and cash equivalents at end of year	\$ 80	\$ 109	\$ 166

Supplemental Disclosures

Cash paid for interest, net of amount capitalized	\$ 490	\$ 476	\$ 493
Cash paid for income taxes	\$ 733	\$ 470	\$ 550

</TABLE>

See Notes to Consolidated Financial Statements

35

<PAGE>

DUKE ENERGY CORPORATION

Consolidated Balance Sheets

<TABLE>

<CAPTION>

December 31,

1998 1997

In millions

<C> <C>

<S>

ASSETS

Current Assets (Note 1)

Cash and cash equivalents (Note 7)	\$ 80	\$ 109
Receivables (Note 7)	2,318	2,281
Inventory	543	440
Current portion of natural gas transition costs (Note 4)	100	67
Current portion of purchased capacity costs (Note 5)	99	76
Unrealized gains on mark to market transactions (Note 7)	1,457	551
Other (Note 7)	228	161

Total current assets	4,825	3,685

Investments and Other Assets

Investments in affiliates (Notes 8 and 14)	902	686
Nuclear decommissioning trust funds (Notes 7 and 11)	580	471
Pre-funded pension costs (Note 17)	332	337
Goodwill, net (Notes 1, 2 and 6)	495	504
Notes receivable	244	240
Unrealized gains on mark to market transactions (Notes 1 and 7)	396	66
Other	283	144

Total investments and other assets	3,232	2,448

Property, Plant and Equipment (Notes 1, 5, 9, 10, 11 and 14)

Cost	27,128	25,448
Less accumulated depreciation and amortization	10,253	9,712

Net property, plant and equipment	16,875	15,736
Regulatory Assets and Deferred Debits (Note 1)		
Purchased capacity costs (Note 5)	648	759
Debt expense	253	253
Regulatory asset related to income taxes	506	511
Natural gas transition costs (Note 4)	80	194
Environmental clean-up costs	87	104
Other	300	339
Total regulatory assets and deferred debits	1,874	2,160
Total Assets	\$ 26,806	\$ 24,029

</TABLE>

See Notes to Consolidated Financial Statements

36

<PAGE>

DUKE ENERGY CORPORATION

Consolidated Balance Sheets -- Continued

<TABLE>
<CAPTION>

December 31,

1998 1997

In millions

<C> <C>

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Accounts payable	\$ 1,754	\$ 1,670		
Notes payable and commercial paper (Notes 7 and 10)			209	170
Taxes accrued (Note 1)	119	125		
Interest accrued	109	111		
Current maturities of long-term debt and preferred stock (Notes 10 and 13)			707	77
Unrealized losses on mark to market transactions (Notes 1 and 7)			1,387	538
Other (Notes 1 and 14)	642	584		

Total current liabilities	4,927	3,275		

Long-term Debt (Notes 7 and 10)	6,272	6,530		

Deferred Credits and Other Liabilities (Note 1)

Deferred income taxes (Note 6)	3,733	3,707		
Investment tax credit (Note 6)	242	257		
Nuclear decommissioning costs externally funded (Notes 7 and 11)			580	471
Natural gas transition liabilities (Note 4)	4	78		
Environmental clean-up liabilities (Note 14)	148	158		

Unrealized losses on mark to market transactions (Note 7)	362	50
Other	903	967
Total deferred credits and other liabilities	5,972	5,688
Minority Interests (Note 2)	253	168
Guaranteed Preferred Beneficial Interests in Subordinated Notes of Duke Energy Corporation or Subsidiaries (Notes 7 and 12)	919	339
Preferred and Preference Stock (Notes 7 and 13)		
Preferred and preference stock with sinking fund requirements	104	149
Preferred and preference stock without sinking fund requirements	209	340
Total preferred and preference stock	313	489
Commitments and Contingencies (Notes 5, 11 and 14)		
Common Stockholders' Equity (Notes 15 and 16)		
Common stock, no par, 500 million shares authorized; 363.0 million and 359.8 million shares outstanding at December 31, 1998 and 1997, respectively	4,449	4,284
Retained earnings	3,701	3,256
Total common stockholders' equity	8,150	7,540
Total Liabilities and Stockholders' Equity	\$ 26,806	\$ 24,029

<TABLE>

See Notes to Consolidated Financial Statements

37

<PAGE>

DUKE ENERGY CORPORATION

Consolidated Statements of Common Stockholders' Equity

<TABLE>

<CAPTION>

	Years Ended December 31,		
	1998	1997	1996
	In millions		
<S>	<C>	<C>	<C>
Common Stock			
Balance at beginning of year	\$ 4,284	\$ 4,289	\$ 4,297
Stock repurchased (Note 15)	--	--	(31)
Dividend reinvestment and employee benefits	165	(9)	23
Other capital stock transactions, net	--	4	--
Balance at end of year	4,449	4,284	4,289

Retained Earnings			
Balance at beginning of year	3,256	3,052	2,716
Net income	1,252	974	1,074
Common stock dividends	(794)	(682)	(566)
Preferred and preference stock dividends and premiums			
on redemptions (Note 13)	(21)	(72)	(44)
Other capital stock transactions, net	8	(16)	(128)
	-----	-----	-----
Balance at end of year	3,701	3,256	3,052
	-----	-----	-----
Total Common Stockholders' Equity	<u>\$ 8,150</u>	<u>\$ 7,540</u>	<u>\$ 7,341</u>

</TABLE>

See Notes to Consolidated Financial Statements

38

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the Years Ended December 31, 1998, 1997 and 1996

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation. The consolidated financial statements include the accounts of all of Duke Energy Corporation's majority-owned subsidiaries after the elimination of significant intercompany transactions and balances. Investments in other entities that are not controlled by Duke Energy Corporation, but where it has significant influence over operations, are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current and expected future events, actual results could differ from those estimates.

"Duke Energy" is used from time to time herein as a collective reference to Duke Energy Corporation and its subsidiaries.

Cash and Cash Equivalents. All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents.

Inventory. Inventory consists primarily of materials and supplies, gas held for transmission, processing and sales commitments and coal held for electric generation. Inventory is recorded at the lower of cost or market, primarily using the average cost method.

Commodity Derivatives. Duke Energy, primarily through its subsidiaries, manages its exposure to risk from existing contractual commitments and provides risk management services to its customers and suppliers through forward contracts, futures, over-the-counter swap agreements and options.

Commodity derivatives and certain forward contracts utilized for trading purposes are accounted for using the mark-to-market method. Under this methodology, these instruments are adjusted to market value, and the gains and losses are recognized in current period income and are included in the Consolidated Statements of Income as Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power. Unrealized gains and losses are recorded in the Consolidated Balance Sheets as Unrealized Gains or Losses on Mark to Market Transactions.

Futures, over-the-counter swap agreements and options are also utilized for non-trading purposes to hedge the impact of market fluctuations in the price and transportation costs of natural gas, electricity and other energy-related products. In order to qualify as a hedge, the price movements in the commodity derivatives must be highly correlated with the underlying hedged commodity. Under the deferral method of accounting, gains and losses related to commodity derivatives which qualify as hedges of commodity commitments are recognized in income when the underlying hedged physical transaction closes and are included in the Consolidated Statements of Income as Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power. Deferred gains and losses related to such instruments are reported in the Consolidated Balance Sheets as Current Assets or Liabilities until recognized in income. If the commodity derivative is no longer sufficiently correlated to the underlying commodity, or if the underlying commodity transaction closes earlier than anticipated, the deferred gains or losses are recognized in income.

Derivative Financial Instruments. Duke Energy uses interest rate swaps, accounted for under the accrual method, to manage the interest rate characteristics associated with outstanding debt. Interest rate differentials to be paid or received as interest rates change are accrued and recognized as an adjustment to interest expense. The amount accrued as either a payable to or receivable from counterparties is included in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits.

Duke Energy also utilizes interest rate lock agreements to hedge interest rate risk associated with new debt issuances. Under the deferral method of accounting, gains or losses on such agreements, when settled, are deferred in the Consolidated Balance Sheets as Long-term Debt and are amortized in the Consolidated Statements of Income as an adjustment to interest expense.

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

Duke Energy enters into foreign currency swap agreements to manage foreign

currency risks associated with energy contracts denominated in foreign currencies. These agreements are accounted for under the mark-to-market method. See previous discussion of the mark-to-market method in the Commodity Derivatives section.

Goodwill Amortization. Goodwill related to the purchases of Duke/Louis Dreyfus, L.L.C. (D/LD), Texas Eastern Corporation (TEC) and other natural gas gathering, transmission and processing facilities and engineering consulting businesses is amortized on a straight-line basis over 10 years, 40 years and 15 years, respectively. See Note 2 for a description of the D/LD acquisition. Goodwill recorded as of December 31, 1998 and 1997 related to the 1989 TEC acquisition was \$245 million. Accumulated amortization of goodwill at December 31, 1998 and 1997 was \$166 million and \$124 million, respectively.

Property, Plant and Equipment. Property, plant and equipment are stated at original cost. Duke Energy capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs and replacements is charged to expense as incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates, excluding nuclear fuel, were 3.82%, 3.67% and 3.77% for 1998, 1997 and 1996, respectively.

When property, plant and equipment maintained by Duke Energy's regulated operations are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire regulated operating units are sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced, and any gain or loss is recorded in income, unless otherwise required by the Federal Energy Regulatory Commission (FERC).

Impairment of Long-Lived Assets. The recoverability of long-lived assets and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flow projections.

Unamortized Debt Premium, Discount and Expense. Premiums, discounts and expenses incurred in connection with the issuance of presently outstanding long-term debt are amortized over the terms of the respective issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of those items.

Environmental Expenditures. Environmental expenditures that relate to an existing condition caused by past operations and do not contribute to current or future revenue generation are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. Certain of these environmental assessments and clean-up costs are expected to be recovered from Natural Gas Transmission customers and have, therefore, been deferred and are included in the Consolidated Balance Sheets as Environmental Clean-up Costs.

Cost-Based Regulation. Duke Energy's regulated operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain assets and liabilities that result from the regulated ratemaking process are recorded that would not be recorded under generally accepted accounting principles for non-regulated entities. These regulatory assets and liabilities are classified in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits and Deferred Credits and Other Liabilities, respectively. The applicability of SFAS No. 71 is routinely evaluated, and factors such as regulatory changes and the impact of competition are considered. Discontinuing cost-based regulation or increasing competition might require companies to reduce their asset balances to reflect a market basis less than cost and to write off their associated regulatory assets. Management cannot predict the potential impact, if any, of discontinuing cost-based regulation or increasing competition on future financial position or results of operations. However, Duke Energy continues to position itself to effectively meet these challenges by maintaining competitive prices.

Common Stock Options. The intrinsic value method of accounting is used for common stock options issued to employees.

40

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

Revenues. Revenues on sales of electricity and transportation and storage of natural gas are recognized as service is provided. Revenues on sales of natural gas and petroleum products are recognized in the period of delivery. Receivables on the Consolidated Balance Sheets included \$193 million and \$232 million as of December 31, 1998 and 1997, respectively, for electric service that has been provided but not yet billed to customers. When rate cases are pending final approval, a portion of the revenues is subject to possible refund. Reserves have been established where required for such cases.

Nuclear Fuel. Amortization of nuclear fuel is included in the Consolidated Statements of Income as Fuel Used in Electric Generation. The amortization is recorded using the units-of-production method.

Deferred Returns and Allowance for Funds Used During Construction (AFUDC). Deferred returns represent the estimated financing costs associated with funding certain regulatory assets. These regulatory assets primarily arose from the funding of purchased capacity costs above levels collected in rates. Deferred returns are non-cash items and are primarily recognized as an addition to Purchased Capacity Costs with an offsetting credit to Other Income and Expenses.

AFUDC represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. AFUDC is a

non-cash item and is recognized as a cost of Property, Plant and Equipment, with offsetting credits to Other Income and Expenses and to Interest Expense. After construction is completed, Duke Energy is permitted to recover these costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

Rates used for capitalization of deferred returns and AFUDC by Duke Energy's regulated operations are calculated in compliance with FERC rules.

Income Taxes. Duke Energy and its subsidiaries file a consolidated federal income tax return. Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in different periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

Earnings Per Common Share. Basic earnings per share is based on a simple weighted average of common shares outstanding. Dilutive earnings per share reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, were exercised or converted into common stock. The numerator for the calculation of basic and dilutive earnings per share is earnings available for common stockholders.

Denominator for Earnings per Share

<TABLE>

<CAPTION>

	1998	1997	1996

	In millions		
<S>	<C>	<C>	<C>
Denominator for basic earnings per share (weighted average shares outstanding)	361	360	361
Assumed exercise of dilutive stock options	1	2	2
	---	---	---
Denominator for dilutive earnings per share	362	362	363
	==	==	==

</TABLE>

Extraordinary Items. In January 1998, TEPPCO Partners, L.P. (TEPPCO), in which a subsidiary of Duke Energy has a 2% general partner interest and a 19.1% limited partner interest, redeemed certain First Mortgage Notes. A non-cash extraordinary loss of \$8 million, net of income tax of \$5 million, was recorded related to costs of the early retirement of debt. Earnings per common share for 1998 were reduced by \$0.02 as a result of this charge.

On October 1, 1996, Texas Eastern Transmission Corporation (TETCO), a subsidiary of Duke Energy, redeemed \$150 million, 10% debentures and \$100 million, 10 1/8% debentures due 2011. TETCO recorded a non-cash extraordinary item of \$17 million, net of income tax of \$10 million, related to the unamortized discount on this early retirement of debt. Earnings per common share for 1996 were reduced \$0.05 as a result of this charge.

Reclassifications. Certain amounts have been reclassified in the

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- Continued

New Accounting Standard. In September 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy is required to adopt this standard by January 1, 2000. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative. Duke Energy is currently reviewing the expected impact of SFAS No. 133 on consolidated results of operations and financial position.

NOTE 2. BUSINESS COMBINATIONS

PanEnergy Corp (PanEnergy). On June 18, 1997, Duke Power Company (Duke Power) changed its name to Duke Energy Corporation and completed a stock-for-stock merger with PanEnergy (the merger). PanEnergy was involved in the gathering, processing, transportation and storage of natural gas; the production of natural gas liquids (NGL); and the marketing of natural gas, electricity and other energy-related products. Pursuant to the merger agreement, Duke Energy issued 158.3 million shares of its common stock in exchange for all of the outstanding common stock of PanEnergy. Accordingly, each share of PanEnergy common stock outstanding was converted into the right to receive 1.0444 shares of Duke Energy's common stock. In addition, each outstanding option to purchase PanEnergy common stock became an option to purchase common stock of Duke Energy, adjusted accordingly. The merger was accounted for as a pooling of interests; therefore, the Consolidated Financial Statements and other financial information included in this Annual Report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy.

Operating revenues and net income previously reported by the separate companies and the combined amounts presented in the accompanying Consolidated Statements of Income are as follows:

<TABLE>
<CAPTION>

Year Ended December 31, 1996

Duke Power PanEnergy Adjustments Combined

In millions

<C>	<C>	<C>	<C>	
Operating revenues	\$ 4,758	\$ 7,505	\$ 39	\$ 12,302
Income before extraordinary item	\$ 730	\$ 361	--	\$ 1,091

Net income \$ 730 \$ 344 -- \$ 1,074

<TABLE>

The adjustment to operating revenues is a reclassification of PanEnergy's equity in earnings of unconsolidated affiliates from other income to revenues to be consistent with Duke Energy's financial statement presentation.

Duke/Louis Dreyfus, L.L.C. On June 17, 1997, a wholly owned subsidiary of Duke Energy acquired the remaining 50% ownership interest in D/LD from affiliates of Louis Dreyfus Corp. for \$247 million. D/LD markets electric power, natural gas and energy-related services to utilities, municipalities and other large energy users in North America. The acquisition was accounted for by the purchase method, and the assets and liabilities and results of operations of D/LD have been consolidated in Duke Energy's financial statements since the date of purchase. The purchase price substantially represents goodwill.

Duke/UAE L.L.C. During December 1997, a wholly owned subsidiary of Duke Energy formed a joint venture with UAE Ref-Fuel L.L.C. (UAE), a wholly owned subsidiary of United American Energy Corp. Duke Energy owns a 65% interest in the joint venture, with UAE owning a 35% minority interest. The joint venture acquired a 50% ownership interest in American Ref-Fuel Company, a waste-to-energy firm with operations primarily in New York and New Jersey. Thus, Duke Energy has an indirect 32.5% ownership interest in American Ref-Fuel Company and provided \$237 million of investment and financing to the venture.

Duke Energy Trading and Marketing, L.L.C. On August 1, 1996, a wholly owned subsidiary of Duke Energy formed a natural gas and power marketing joint venture with Mobil Corporation affiliates. The marketing company conducts business as Duke Energy Trading and Marketing, L.L.C. in the United States and as Duke Energy Marketing L.P. in Canada. Duke Energy operates the joint venture and owns a 60% interest, with Mobil Corporation owning a 40% minority interest.

42

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 3. BUSINESS SEGMENTS

Duke Energy is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and abroad. Duke Energy provides these and other services through seven business segments:

- o Electric Operations
- o Natural Gas Transmission
- o Field Services
- o Trading and Marketing
- o Global Asset Development

o Other Energy Services

o Real Estate Operations

These segments were defined as a result of Duke Energy adopting SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information."

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the FERC, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission, through its Northeast Pipelines, provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the expected sale of the Midwest Pipelines in early 1999, Natural Gas Transmission also provides interstate transportation and storage services in the midwest states. See further discussion of the proposed sale of the Midwest Pipelines in Note 14 to the Consolidated Financial Statements. The interstate natural gas transmission and storage operations are also subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces and markets NGLs. Field Services operates gathering systems in ten states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's operations, with Mobil Corporation owning a 40% minority interest.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy Power Services, LLC (Duke Energy Power Services) and Duke Energy International, LLC (Duke Energy International).

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc., Duke/Fluor Daniel and DukeSolutions, Inc.

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages forest holdings in the southeastern United States.

Business Segment Data

TABLE
<CAPTION>

	Unaffiliated Revenues	Intersegment Revenues	Depreciation Total Revenues	Capital and EBIT Amortization	Investment Expenditures	Segment Assets
In millions						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Year Ended December 31, 1998						
Electric Operations	\$ 4,626	\$ --	\$ 4,626	\$ 1,513	\$ 522	\$ 586
Natural Gas Transmission	1,426	102	1,528	702	215	290
Field Services	2,094	545	2,639	76	80	304
Trading and Marketing	8,614	171	8,785	122	11	8
Global Asset Development	237	82	319	80	31	1,027
Other Energy Services	436	85	521	10	12	41
Real Estate Operations	181	--	181	142	6	217
Other Operations	(4)	26	22	2	32	27
Eliminations	--	(1,011)	(1,011)	--	--	--
Total Consolidated	\$ 17,610	\$ --	\$ 17,610	\$ 2,647	\$ 909	\$ 2,500
Year Ended December 31, 1997						
Electric Operations	\$ 4,401	\$ --	\$ 4,401	\$ 1,282	\$ 498	\$ 743
Natural Gas Transmission	1,468	104	1,572	624	229	247
Field Services	2,481	574	3,055	157	71	157
Trading and Marketing	7,411	78	7,489	44	7	18
Global Asset Development	109	14	123	5	9	348
Other Energy Services	343	33	376	18	6	47
Real Estate Operations	124	--	124	98	4	223
Other Operations	(28)	--	(28)	(120)	17	245
Eliminations	--	(803)	(803)	--	--	--
Total Consolidated	\$ 16,309	\$ --	\$ 16,309	\$ 2,108	\$ 841	\$ 2,028
Year Ended December 31, 1996						
Electric Operations	\$ 4,498	\$ --	\$ 4,498	\$ 1,419	\$ 481	\$ 610
Natural Gas Transmission	1,470	86	1,556	595	228	194
Field Services	2,216	421	2,637	152	59	531
Trading and Marketing	3,773	41	3,814	58	4	7
Global Asset Development	65	7	72	--	7	35
Other Energy Services	183	21	204	20	3	39
Real Estate Operations	114	--	114	88	4	115
Other Operations	(17)	--	(17)	(38)	3	19
Eliminations	--	(576)	(576)	--	--	--
Total Consolidated	\$ 12,302	\$ --	\$ 12,302	\$ 2,294	\$ 789	\$ 1,550

TABLE>

Duke Energy's reportable segments are strategic business units that offer

different products and services and are each managed separately. Management evaluates segment performance based on earnings before interest and taxes (EBIT). Segment earnings before interest and taxes, presented in the accompanying table, includes intersegment sales accounted for at prices representative of unaffiliated party transactions. Segment assets are provided as additional information in the accompanying table and are net of intercompany advances, intercompany notes receivable and investments in subsidiaries.

Other Operations primarily includes communication services, water services and certain unallocated corporate costs.

44

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 4. REGULATORY MATTERS

Electric Operations. The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Electric Operations' rates for electric sales to wholesale customers. Electric sales to the other joint owners of the Catawba Nuclear Station, which represent a substantial majority of Electric Operations' electric wholesale revenues, are set through contractual agreements.

In 1997, in conjunction with the merger, Duke Energy agreed to cap the base electric rates for retail customers at existing levels through 2000, with very limited exceptions. Duke Energy also agreed to freeze rates, except for the market-based rates, for transmission and wholesale electric sales. In addition, Duke Energy agreed to a cap on the rates charged to the other joint owners of Catawba Nuclear Station under the interconnection agreements and on the reimbursement of certain costs related to administration and general expenses and general plant costs under operation and fuel agreements. Management believes that these agreements will not have a material adverse effect on consolidated results of operations or financial position.

Fuel costs are reviewed semiannually in the wholesale jurisdiction and annually in the South Carolina retail jurisdiction, with provisions for reviewing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings. All jurisdictions allow Duke Energy to adjust electric rates for past over- or under-recovery of fuel costs. Therefore, the difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues. The stipulation agreements related to the merger do not apply to the fuel cost adjustments.

The PSCSC, on May 7, 1996, ordered a rate reduction in the form of a decrement rider of 0.432 cents per kilowatt-hour, or an average of approximately 8%, affecting South Carolina retail customers. South Carolina retail sales represent approximately 30% of Electric Operations' total regulated electric sales. The rate reduction was reflected on bills rendered on or after June 1, 1996. This net decrement rider reflects an interim true-up decrement adjustment associated with the levelization of Catawba Nuclear Station purchased capacity costs and an interim true-up increment associated with amortization of the demand-side management deferral account. The rate

adjustment was made, in part, because cumulative levelized revenues associated with the recovery of Catawba Nuclear Station purchased capacity costs had exceeded purchased capacity payments and associated deferred returns.

Certain of Electric Operations' electric wholesale customers, excluding the other Catawba Nuclear Station joint owners, initiated proceedings in 1995 before the FERC concerning rate related matters. Duke Energy and nine of its eleven wholesale customers entered into a settlement in July 1996 which reduced the customers' electric rates by approximately 9% and renewed their contracts with Duke Energy through 2000. Both of the customers that did not enter into the settlement signed agreements and began purchasing electricity from other suppliers in 1997. Early in 1998, Duke Energy reached agreements, which were approved by the FERC in September 1998, with both of these former customers to recover the stranded costs incurred to serve these customers. Management believes that these agreements will not have a material adverse impact on consolidated results of operations or financial position.

In December 1997, Duke Energy filed applications with the FERC, NCUC and PSCSC for authority to combine Nantahala Power and Light (a wholly owned subsidiary) and Duke Power. Duke Energy received the necessary approvals in June, April and February 1998, respectively. Nantahala Power and Light began operations as a division of Duke Power effective August 3, 1998.

Natural Gas Transmission. Duke Energy's interstate natural gas pipelines primarily provide transportation and storage services pursuant to FERC Order 636. Order 636 allows pipelines to recover eligible costs resulting from implementation of the order (transition costs). In 1994, the FERC approved TETCO's settlement resolving regulatory issues related primarily to Order 636 transition costs and a number of other issues related to services prior to Order 636. Under the 1994 settlement, TETCO's liability for transition costs was estimated based on the amount of producers' natural gas reserves and other factors. This settlement provided for the recovery of certain of these transition costs from customers through volumetric and reservation charges. In 1995, based upon producers' discoveries of additional natural gas reserves, TETCO increased the estimated liabilities for transition costs by \$126 million, increased regulatory assets by \$86 million for amounts expected to be collected from customers and recognized a \$40 million charge to operating expenses (\$26 million after tax). In 1998, TETCO favorably resolved all remaining gas purchase contracts, recognizing \$39 million of income (\$24 million after tax).

45

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 4. REGULATORY MATTERS -- Continued

On August 29, 1998, the FERC approved a settlement filed by TETCO, which accelerates recovery of natural gas transition costs and reduces depreciation expense to more appropriately reflect the estimated useful lives of its facilities, principally interstate natural gas pipelines. Prior to the settlement, Duke Energy reviewed the condition of its natural gas pipeline facilities and current maintenance practices, and concluded that extension of

the useful lives was appropriate. These facilities have a book value of approximately \$1.8 billion, net of accumulated depreciation of \$2.6 billion. The new weighted average rate of depreciation for storage and transportation is approximately 1.25%. Implementation of the settlement began October 1, 1998, and a rate moratorium will be in effect until 2004. The settlement reduces customer rates as a result of the reduced depreciation expense offset through 2001 by the accelerated recovery of natural gas transition costs. The settlement is not expected to have a material effect on the net results of operations or financial position of Duke Energy.

GLOBAL ASSET DEVELOPMENT. Two California electric generating plants, Moss Landing and Oakland, sell electricity under the terms of Reliability Must Run (RMR) Agreements with the California Independent System Operator (ISO), which purchases electricity at FERC regulated rates. Duke Energy has not received final approval from the FERC with respect to the electric rates charged by the two plants, and, therefore, the rates are subject to partial refund. Management believes that the final resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position.

NOTE 5. JOINT OWNERSHIP OF GENERATING FACILITIES

Joint Ownership of Catawba Nuclear Station

<TABLE>

<CAPTION>

Owner

Ownership Interest

<C>	
North Carolina Municipal Power Agency Number 1 (NCMPA) ...	37.5 %
North Carolina Electric Membership Corporation (NCEMC) ...	28.125%
Duke Energy Corporation	12.5 %
Piedmont Municipal Power Agency (PMPA)	12.5 %
Saluda River Electric Cooperative, Inc. (Saluda River) ...	9.375%

100%	

<TABLE>

As of December 31, 1998, \$516 million of Property, Plant and Equipment, net of \$219 million of accumulated depreciation and amortization, represented Duke Energy's investment in Catawba Nuclear Station Units 1 and 2. Duke Energy's share of operating costs is included in the Consolidated Statements of Income.

Duke Energy entered into contractual interconnection agreements with the other joint owners of Catawba Nuclear Station to purchase declining percentages of the generating capacity and energy from the station. These purchased power agreements were effective beginning with the commercial operation of each unit. Units 1 and 2 began commercial operation in June 1985 and August 1986, respectively. The purchased power agreements were established for fifteen years for NCMPA and PMPA and ten years for NCEMC and Saluda River. While the purchased power agreements with NCMPA and PMPA extend for fifteen years, a significant decrease in the percentage of capacity and energy Duke Energy is obligated to purchase occurs in the eleventh calendar year of operation for each unit. This significant decrease occurred in 1995 for Unit 1 and 1996 for

Unit 2.

The interconnection agreements also provide for supplemental power sales to Duke Energy to the other joint owners of Catawba Nuclear Station to satisfy their capacity and energy needs beyond the capacity and energy which they retain from the station or potentially acquire in the form of other resources. The agreements further provide the other joint owners the ability to secure such supplemental requirements outside of these contractual agreements following an appropriate notice period. NCEMC and Saluda River have given such appropriate notice effective January 1, 2001 and January 1, 2002, respectively. In addition, as a result of the merger, the other joint owners have the right to end their supplemental capacity requirements as of January 1, 2001 upon notice to Duke Energy by December 31, 1999. As the other joint owners retain more capacity and energy from the station, or obtain additional capacity and energy from a third party, supplemental power sales are expected to decline. Management believes this will not have a material adverse effect on consolidated results of operations or financial position.

46

<PAGE>

DUKE ENERGY CORPORATION Notes to Consolidated Financial Statements -- Continued

NOTE 5. JOINT OWNERSHIP OF GENERATING FACILITIES -- Continued

The interconnection agreements with the other joint owners include provisions that Duke Energy will provide generating reserves to backstand the other joint owners' retained capacity in the station at the system average cost of installed capacity. Additionally, the agreements include certain reliability exchanges designed to manage outage-related risks by exchanging energy entitlements between the Catawba and McGuire Nuclear Stations, impacting Duke Energy as well as all the other joint owners. The agreements also provide the other joint owners the ability to terminate the interconnection agreements in their entirety upon eight years written notice to Duke Energy. Such notice was submitted by PMPA in December, 1997, and by Saluda River in May, 1998. Both PMPA and Saluda River will provide the reserves associated with their respective retained capacity. Management believes this will not have a material adverse effect on consolidated results of operations or financial position.

Purchased energy cost payments are based on variable operating costs and are a function of the generation output of the station. Purchased capacity payments are based on the fixed costs of the station and include capital costs and fixed operating and maintenance costs. Actual purchased capacity costs for 1998 and projected obligations through 2000, the last year of the purchase buy-backs, are approximately \$73 million, \$53 million and \$7 million, respectively.

The portion of purchased capacity subject to levelization not currently recovered in rates is being deferred, and a deferred return is recorded on the accumulated balance. Duke Energy is recovering the accumulated balance, including the deferred return, when the sum of the declining purchased capacity payments and accrual of deferred returns for the current period drops below the

levelized revenues. Jurisdictional levelizations are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. The costs of purchased energy and the non-levelized portion of purchased capacity is recorded on a current basis.

The current levelized revenues approved in the last general rate proceedings are approximately \$211 million, \$94 million and \$7 million for North Carolina retail, South Carolina retail and Other Wholesale (FERC), respectively. Purchased power costs, subject to levelization, are deferred based on allocation factors of approximately 62%, 26% and 2% for North Carolina retail, South Carolina retail and Other Wholesale (FERC), respectively. The PSCSC, on May 7, 1996, ordered a rate reduction in the form of a decrement rider for an interim true-up adjustment. Deferred amounts related to two former wholesale customers have been recovered separately and are no longer collected through wholesale rates. An allocated amount of purchased power costs in the pricing of supplemental sales made to the other joint owners is also recovered on a current basis.

For the years ended December 31, 1998, 1997 and 1996, purchased capacity and energy costs from the other joint owners was approximately \$88 million, \$120 million and \$151 million, respectively. These amounts, after adjustments for the costs of capacity purchased not reflected in current rates, are included in the Consolidated Statements of Income as Net Interchange and Purchased Power. As of December 31, 1998 and 1997, \$747 million and \$836 million, respectively, associated with the cost of capacity purchased but not reflected in current rates have been accumulated in the Consolidated Balance Sheets as Purchased Capacity Costs and Current Portion of Purchased Capacity Costs.

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 6. INCOME TAXES
Income Tax Expense

<TABLE>
<CAPTION>

For the Years Ended December
31,

1998 1997 1996

In millions

<S>	<C>	<C>	<C>
Current income taxes			
Federal	\$ 673	\$ 433	\$ 514
State	138	100	109
Total current income taxes	811	533	623
Deferred income taxes, net			
Federal	(15)	112	73

State	(4)	9	13
Total deferred income taxes, net	(19)	121	86
Investment tax credit amortization	(15)	(15)	(11)
Total income tax expense	\$ 777	\$ 639	\$ 698

<TABLE>

Income Tax Expense Reconciliation to Statutory Rate

<TABLE>

<CAPTION>

For the Years Ended December 31,

1998 1997 1996

In millions

<S>	<C>	<C>	<C>
Income tax, computed at the statutory rate of 35% ..	\$ 713	\$ 565	\$ 626
Adjustments resulting from:			
State income tax, net of federal income tax effect	90	71	79
Other items, net	(26)	3	(7)
Total income tax expense	\$ 777	\$ 639	\$ 698
Effective tax rate	38.1%	39.6%	39.0%

<TABLE>

Net Deferred Income Tax Liability Components

<TABLE>

<CAPTION>

December 31,

1998 1997

In millions

<S>	<C>	<C>
Deferred credits and other liabilities	\$ 268	\$ 409
Alternative minimum tax credit carryforward (a)	30	30
Other	36	46
Total deferred income tax assets	334	485
Valuation allowance	(52)	(47)
Net deferred income tax assets	282	438
Investments and other assets	(207)	(263)
Property, plant and equipment	(2,405)	(2,358)
Regulatory assets and deferred debits	(542)	(623)
Regulatory asset related to restating to pre-tax basis	(435)	(438)

Other	(69)	(99)
Total deferred income tax liabilities	(3,658)	(3,781)
State deferred income tax, net of federal tax effect	(357)	(364)
Net deferred income tax liability	<u>\$ (3,733)</u>	<u>\$ (3,707)</u>

<TABLE>

(a) The alternative minimum tax credit carryforward can be carried forward indefinitely.

48

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 6. INCOME TAXES -- Continued

In 1990, PanEnergy established a provision for certain tax issues related to the purchase of TEC, which resulted in an increase in goodwill and deferred income tax liability. If tax benefits relating to the valuation allowance for deferred income tax assets and other tax reserves are recognized subsequent to December 31, 1998, approximately \$29 million will be allocated as an adjustment to goodwill.

NOTE 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Duke Energy, primarily through Trading and Marketing, manages its exposure to risk from existing contractual commitments and provides risk management services to its customers through forward contracts, futures, over-the-counter swap agreements and options (collectively, "commodity instruments"). Energy commodity forward contracts involve physical delivery of an energy commodity. Energy commodity futures involve the buying or selling of natural gas, electricity or other energy-related commodities at a fixed price. Over-the-counter swap agreements require Duke Energy to receive or make payments based on the difference between a specified price and the actual price of the underlying commodity. Energy commodity options held to mitigate price risk provide the right, but not the requirement, to buy or sell energy-related commodities at a fixed price.

Commodity Instruments -- Trading. Duke Energy engages in the trading of commodity instruments, and therefore experiences net open positions. Duke Energy manages open positions with strict policies which limit its exposure to market risk and require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement. The weighted-average life of Duke Energy's commodity risk portfolio was approximately 11 months at December 31, 1998. During 1998, 1997 and 1996, net gains of \$114 million, \$34 million and \$25 million, respectively, were

recognized from trading natural gas commodity derivatives. During 1998, net gains of \$14 million were recognized from trading electricity commodity instruments. Net gains related to trading electricity commodity instruments were not material during 1997 and 1996. As of December 31, 1998 and 1997, the absolute notional contract quantity of natural gas commodity derivatives held for trading purposes was 11,149 billion cubic feet (Bcf) and 5,408 Bcf, respectively. As of December 31, 1998, the absolute notional contract quantity of electricity commodity instruments held for trading purposes was 112,867 gigawatt hours (GWh). As of December 31, 1997, outstanding electricity commodity instruments were not material. At December 31, 1998 and 1997, other outstanding energy-related commodity derivatives held for trading purposes were not material.

Commodity Instruments -- Trading

<TABLE>
<CAPTION>

	1998		1997	
	Assets	Liabilities	Assets	Liabilities

	In millions			
<S>	<C>	<C>	<C>	<C>
Fair value at December 31	\$ 1,853	\$ 1,749	\$ 617	\$ 588
Average fair value for the year	685	646	384	369

</TABLE>

Commodity Derivatives -- Non-Trading. At December 31, 1998 and 1997, Duke Energy held or issued several derivatives that reduce exposure to market fluctuations relative to price and transportation costs of natural gas, electricity and petroleum products. Duke Energy's market exposure arises from natural gas storage inventory balances and fixed-price purchase and sale commitments that extend for periods of up to eight years. Futures, swaps and options are used to manage and hedge price and location risk related to these market exposures. Futures and swaps are also used to manage margins on underlying fixed-price purchase or sale commitments for physical quantities of natural gas, electricity and other energy-related commodities. Options are utilized to manage margins and to limit overall price risk exposure. The gains, losses and costs related to those commodity derivatives that qualify as a hedge are not recognized until the underlying physical transaction closes. At December 31, 1998, Duke Energy had deferred net gains of \$10 million related to commodity derivative hedges. As of December 31, 1998, the absolute notional contract quantity of commodity derivatives held for non-trading purposes was 218 Bcf of natural gas and 10,618 GWh of electricity. Commodity derivatives held for non-trading purposes were not material at December 31, 1997.

<PAGE>

NOTE 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS -- Continued

Interest Rate Derivatives. In order to obtain variable rate financing at attractive cost, Duke Energy entered into interest rate swap agreements in which \$200 million of 8% Series B First and Refunding Mortgage Bonds were effectively exchanged for floating rate debt at the three-month London Interbank Offered Rate (LIBOR) plus a 0.074% margin and \$100 million of 7.5% Series B First and Refunding Mortgage Bonds were effectively exchanged for floating rate debt at three-month LIBOR plus a 1.1272% margin. The interest rate swaps expire in 1999 and 2000, respectively, and rates are reset quarterly. As a result of the interest rate swap contracts, interest expense on the Consolidated Statements of Income is recognized at the weighted average LIBOR rate for the year plus the applicable margins.

Weighted Average Rates for Interest Rate Swaps

<TABLE>

<CAPTION>

For the Years Ended December 31,

	1998	1997	1996
<S>	<C>	<C>	<C>
8% Series B Swap	5.69%	5.78%	5.64%
7.5% Series B Swap	6.74%	6.83%	6.69%

</TABLE>

The fair value of interest rate swaps was approximately \$8 million and \$10 million at December 31, 1998 and 1997, respectively. These amounts represent estimated amounts that Duke Energy would have received if the swaps had been settled at current market rates on the respective dates.

In connection with the January 1999 issuance of \$200 million Senior Notes, Duke Energy entered into Treasury Rate Lock Agreements in December 1998 to hedge its interest rate risk. The agreements, with a notional principal amount of \$200 million, were settled on January 7, 1999, and resulted in a deferred gain of approximately \$2 million, which will be amortized to interest expense over the life of the underlying debt issuance. The fair value of the lock agreements was not material at December 31, 1998.

Foreign Currency Derivatives. Trading and Marketing enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies. The agreements, with a notional contract amount of approximately \$120 million, begin in the year 2000 and extend to the year 2005. The weighted average fixed exchange rate for the agreements is 1.472 Canadian dollars to U.S. dollars. The fair value of these agreements was not material at December 31, 1998.

Market and Credit Risk. New York Mercantile Exchange (Exchange) traded futures and option contracts are guaranteed by the Exchange and have nominal credit risk. On all other transactions previously described, Duke Energy is exposed to credit risk in the event of nonperformance by the counterparties. For each counterparty, Duke Energy analyzes the financial condition prior to entering into an agreement, establishes credit limits and monitors the

appropriateness of these limits on an ongoing basis. The change in market value of exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Swap contracts and most other over-the-counter instruments are generally settled at the expiration of the contract term and may be subject to margin requirements with the counterparty.

Financial Instruments. In 1996, TETCO received \$99 million from the financing of the right to collect certain Order 636 natural gas transition costs, with limited recourse. At December 31, 1998 and 1997, \$17 million and \$53 million, respectively, remained outstanding related to the transition cost recovery rights and were included in the Consolidated Balance Sheets as Other Current Liabilities and Deferred Credits and Other Liabilities. Management believes the probability that Duke Energy will be required to perform under the recourse provisions is remote.

The fair value of financial instruments is summarized below. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 1998 and 1997 are not necessarily indicative of the amounts Duke Energy could have realized in current market exchanges. The majority of the estimated fair value amounts were obtained from independent parties.

50

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS -- Continued

Financial Instruments

<TABLE>
<CAPTION>

	1998		1997	
	Approximate		Approximate	
	Book Value	Fair Value	Book Value	Fair Value
	In millions			
<S>	<C>	<C>	<C>	<C>
Long-term debt (a)	\$ 6,959	\$ 7,240	\$ 6,607	\$ 6,843
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	919	937	339	356
Preferred stock (a)	333	346	489	530

</TABLE>

(a) Includes current maturities.

The fair value of cash and cash equivalents, notes receivable, notes payable and commercial paper and nuclear decommissioning trust funds are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market

rates.

Guarantees made to affiliates or recourse provisions from affiliates and sales agreement for Order 636 natural gas transition cost recovery have no book value associated with them, and there are no fair values readily determinable since quoted market prices are not available.

NOTE 8. INVESTMENT IN AFFILIATES

Investments in domestic and international affiliates which are not controlled by Duke Energy but where it has significant influence over operations are accounted for by the equity method. These investments include undistributed earnings of \$5 million and \$21 million in 1998 and 1997, respectively. Duke Energy's share of net income from these affiliates are reflected in the Consolidated Statements of Income as Other Operating Revenues.

Natural Gas Transmission. Investments primarily include ownership interests in natural gas pipeline joint ventures which transport gas from Canada to the United States. Investments include a 37.5% ownership interest in Maritimes & Northeast Pipeline and a 9.8% ownership interest in Alliance Pipeline.

Field Services. Investments primarily include a 37% interest in a partnership which owns natural gas gathering systems in the Gulf of Mexico (Dauphin Island Gathering Partners) and a 21.1% interest in TEPPCO.

Global Asset Development. Global Asset Development has investments in various natural gas and electric generation and transmission facilities worldwide. Significant investments include a 32.5% indirect interest in American Ref-Fuel Company, a 9.76% indirect interest in Hidroelectrica Piedra del Aguila S.A. and a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) plant in Jubail, Saudi Arabia.

Other Energy Services. Investments include the participation in various construction and support activities for fossil-fueled generating plants.

Real Estate Operations. Investments include various real estate development projects.

Other Operations. Investments include a 20% interest in the BellSouth PCS L.P. joint venture, which provides wireless personal communication services.

51

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 8. INVESTMENT IN AFFILIATES -- Continued

Investment in Affiliates

<TABLE>
<CAPTION>

December 31, 1998				December 31, 1997			
Domestic	International	Total		Domestic	International	Total	
In millions							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Natural Gas Transmission	\$ 104	\$ 37	\$ 141	\$ 67	\$ --	\$ 67	
Field Services	303	--	303	160	--	160	
Global Asset Development	171	223	394	174	208	382	
Other Energy Services	19	23	42	16	10	26	
Real Estate Operations	5	--	5	2	--	2	
Other Operations	17	--	17	36	13	49	
Total	\$ 619	\$ 283	\$ 902	\$ 455	\$ 231	\$ 686	

<CAPTION>

December 31, 1996			
Domestic	International	Total	
In millions			
<S>	<C>	<C>	<C>
Natural Gas Transmission	\$ 46	\$ --	\$ 46
Field Services	130	--	130
Global Asset Development	14	184	198
Other Energy Services	50	1	51
Real Estate Operations	5	--	5
Other Operations	60	13	73
Total	\$ 305	\$ 198	\$ 503

</TABLE>

Equity in Earnings of Investment

<TABLE>
<CAPTION>

December 31, 1998				December 31, 1997			
Domestic	International	Total		Domestic	International	Total	
In millions							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Natural Gas Transmission	\$ 14	\$ 3	\$ 17	\$ 8	\$ --	\$ 8	
Field Services	9	--	9	19	--	19	
Global Asset Development	50	18	68	8	21	29	
Other Energy Services	1	13	14	4	8	12	

Real Estate Operations	--	--	--	--	--	--
Other Operations	(29)	--	(29)	(30)	--	(30)
Total	\$ 45	\$ 34	\$ 79	\$ 9	\$ 29	\$ 38

<CAPTION>

December 31, 1996

	Domestic	International	Total
In millions			
<S>	<C>	<C>	<C>
Natural Gas Transmission	\$ 5	\$ --	\$ 5
Field Services	12	--	12
Global Asset Development	6	19	25
Other Energy Services	19	2	21
Real Estate Operations	--	--	--
Other Operations	(31)	1	(30)
Total	\$ 11	\$ 22	\$ 33

<TABLE>

Summarized Combined Financial Information of Unconsolidated Subsidiaries

<TABLE>
<CAPTION>

	1998	1997	1996
In millions			
<S>	<C>	<C>	<C>
Balance Sheet			
Current Assets	\$ 848	\$ 642	\$ 1,025
Noncurrent Assets	7,340	5,868	5,661
Current Liabilities	1,084	758	879
Noncurrent Liabilities	3,884	3,257	3,462
Net Assets	\$ 3,220	\$ 2,495	\$ 2,345
Income Statement			
Operating Revenues	\$ 1,667	\$ 905	\$ 3,133
Operating Expenses	1,166	703	2,494
Net Income	263	72	160

<TABLE>

Duke Energy had outstanding notes receivable from certain affiliates of \$80 million and \$87 million at December 31, 1998 and 1997, respectively.

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	In millions	
	<C>	<C>
Electric utility		
Generation	\$ 7,670	\$ 7,575
Transmission and distribution	6,324	6,084
General plant	1,127	1,119
Nuclear fuel	554	644
Construction work in progress	328	222
Total electric utility	16,003	15,644
Natural gas transmission	6,194	6,094
Gathering and processing	1,409	1,315
Construction work in progress	469	351
Other property and equipment	3,053	2,044
Total Property, Plant and Equipment	\$ 27,128	\$ 25,448

</TABLE>

Accumulated Depreciation

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	In millions	
	<C>	<C>
Electric utility (a)	\$ 6,371	\$ 6,068
Natural gas transmission	2,585	2,459
Other	1,297	1,185
Total Accumulated Depreciation	\$ 10,253	\$ 9,712

</TABLE>

(a) Includes amortization of nuclear fuel: 1998 -- \$325 million; 1997 \$370 million.

On July, 1, 1998, a subsidiary of Duke Energy purchased three electric generating stations in California for \$501 million from Pacific Gas & Electric Company. These stations have a combined capacity of 2,645 megawatts. Two of the plants, Moss Landing and Oakland, are subject to the terms of RMR Agreements with the California ISO. The cost of these facilities is included within "Other property and equipment" above.

53

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 10. DEBT AND CREDIT FACILITIES

Long-term Debt

<TABLE>

<CAPTION>

	December 31,		
	Year Due	1998	1997
	In millions		
	<C>	<C>	<C>
<S>			
Duke Energy (a)			
First and refunding mortgage bonds:			
5.76% - 8%	1999	\$ 425	\$ 425
7%	2000	200	200
7/8% - 7.41%	2001 - 2004	500	600
6 3/8% - 7%	2005 - 2008	125	325
6 3/4% - 8.30%	2023 - 2025	678	878
7% - 8.95%	2027 - 2033	165	165
Mortgage bonds matured during 1998		--	50
Pollution control bonds, 3.85% -- 7.75%	2012 - 2017	172	172
Notes:			
6.9% - 9.21%	2011 - 2016	65	--
6%	2028	300	--
Commercial paper, 5.28% and 5.9% weighted-average rate at December 31, 1998 and 1997, respectively		1,200	800
Other debt		23	26
Duke Capital Corporation			
Senior Notes:			
6 1/4%	2005	250	--
6 3/4%	2018	150	--
Commercial paper, 5.73% and 6.03% weighted-average rate at December 31, 1998 and 1997, respectively		500	800
Other debt		24	--
PanEnergy			
Bonds:			
7 3/4%	2022	328	328
8 5/8% Debentures	2025	100	100
Notes:			
5.55% - 9.9%, maturing serially	1998 - 2003	59	73
7% - 8 5/8%	1999 - 2006	450	450

TETCO

Notes:

8% - 10 3/8%	2000 - 2004	500	500	
Medium term, Series A, 7.64 - 9.07%	1999 - 2012		100	100
Igonquin Gas Transmission Company				
9.13% Notes	2003	100	100	
Panhandle Eastern Pipe Line Company (PEPL)				
7 7/8% Note	2004	100	100	
7.2% - 7.95% Debentures	2023 - 2024	200	200	
Crescent Resources, Inc. (b)				
Construction and mortgage loans, 5.21% - 7.10%	1998 - 2011		69	117
Revolving credit facilities, 5.98% and 6.30% weighted-average rate at December 31, 1998 and 1997, respectively	2001	100		77
Global Asset Development				
5.2% - 18% Notes	1999 - 2004	111	--	
Other debt of subsidiaries		13	67	
Unamortized debt discount and premium, net			(48)	(46)
Total long-term debt		6,959	6,607	
Current maturities of long-term debt			(687)	(77)
Total long-term portion		\$ 6,272	\$ 6,530	

<TABLE>

(a) Substantially all of Duke Energy's electric plant was mortgaged.

(b) Substantial amounts of Crescent Resources' real estate development projects, land and buildings were pledged as collateral.

54

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 10. DEBT AND CREDIT FACILITIES -- Continued

The annual maturities of consolidated long-term debt at December 31, 1998 were \$687 million, \$413 million, \$388 million, \$133 million and \$526 million for 1999 through 2003, respectively. Such payments exclude \$1,853 million of long-term debt that matures after 2003 which have call options whereby Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise their redemption options, \$820 million could potentially be repaid in 1999, \$178 million in 2000, \$328 million in 2002, \$427 million in 2003 and \$100 million thereafter.

Credit Facilities

<TABLE>

<CAPTION>

December 31,

	1998		1997		
	Credit Facilities	Outstanding	Credit Facilities	Outstanding	
	In millions				
<S>	<C>	<C>	<C>	<C>	
Annually renewable facilities	\$ --	\$ --	\$ 54	\$ 16	
364-day facilities (a)	600	--	300	--	
Two-year revolving facilities (b)	--	--	40	--	
Four-year revolving facilities	125	100	125	77	
Five-year revolving facilities (a)	2,200	--	2,200	--	
Total Consolidated	\$ 2,925	\$ 100	\$ 2,719	\$ 93	

</TABLE>

(a) Supported commercial paper facilities.

(b) Supported pollution control bonds.

Notes Payable and Commercial Paper

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	In millions	
<S>	<C>	<C>
Credit facilities outstanding	\$ 100	\$ 93
Note payable	4	4
Commercial paper outstanding	1,905	1,750
	2,009	1,847
Less portion classified as long-term		
Credit facilities	(100)	(77)
Commercial paper	(1,700)	(1,600)
Portion classified as short-term	\$ 209	\$ 170

</TABLE>

The weighted average interest rate on outstanding short-term notes payable and commercial paper at December 31, 1998 and 1997 was 5.23% and 6.04%, respectively.

NOTE 11. NUCLEAR DECOMMISSIONING COSTS

Nuclear Decommissioning Costs. Estimated site-specific nuclear

decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately \$1.3 billion stated in 1994 dollars based on decommissioning studies completed in 1994. This amount includes Duke Energy's 12.5% ownership in the Catawba Nuclear Station. The other joint owners of Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station. Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of Duke Energy's nuclear stations. Such estimates presume each unit will be decommissioned as soon as possible following the end of its license life. Although subject to extension, the current operating licenses for Duke Energy's nuclear units expire as follows: Oconee 1 and 2 - 2013, Oconee 3 - 2014; McGuire 1 - 2021, McGuire 2 - 2023; and Catawba 1 - 2024, Catawba 2 - 2026.

55

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 11. NUCLEAR DECOMMISSIONING COSTS -- Continued

During 1998 and 1997, Duke Energy expensed approximately \$57 million which was contributed to the external funds for decommissioning costs and accrued an additional \$6 million and \$3 million to the internal reserve in 1998 and 1997, respectively. Nuclear units are depreciated at an annual rate of 4.7%, of which 51% is for decommissioning. The balance of the external funds as of December 31, 1998 and 1997, was \$580 million and \$471 million, respectively. The balance of the internal reserve as of December 31, 1998 and 1997, was \$217 million and \$211 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization. Management believes that the decommissioning costs being recovered through rates, when coupled with assumed after-tax fund earnings of 5.5% to 5.9%, are currently sufficient to provide for the cost of decommissioning.

A provision in the Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the Department of Energy's (DOE) uranium enrichment plants. Licensees are subject to an annual assessment for 15 years based on their pro rata share of past enrichment services. The annual assessment is recorded in the Consolidated Statements of Income as Fuel Used in Electric Generation. Duke Energy paid \$10 million during 1998 and has paid \$65 million cumulatively related to its ownership interests in nuclear plants. The remaining liability and regulatory asset of \$79 million and \$87 million at December 31, 1998 and 1997, respectively, is reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities and Regulatory Assets and Deferred Debits, respectively.

Spent Nuclear Fuel. Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by Duke Energy's contract with the DOE. On June 8, 1998, Duke Energy filed with the United States Court of Federal Claims a claim against the DOE for damages in

excess of \$1 billion arising out of the DOE's failure to begin accepting commercial spent nuclear fuel by January 31, 1998. Damages claimed in the suit are intended to recover costs that Duke Energy is incurring and will continue incur as a result of the DOE's partial material breach of its contract with Duke Energy, including costs associated with securing additional spent fuel storage capacity. Duke Energy will continue to safely manage its spent nuclear fuel until the DOE accepts it. Payments made to the DOE for disposal costs are based on nuclear output and are included in the Consolidated Statements of Income as Fuel Used in Electric Generation.

NOTE 12. GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY OR SUBSIDIARIES

Duke Energy and Duke Capital Corporation (Duke Capital) have each formed business trusts for which they own all the respective common securities. The trusts issue and sell preferred securities and invest the gross proceeds in assets of the trusts. Substantially all the assets of each trust are junior subordinated notes issued by the respective company.

Trust Preferred Securities

<TABLE>
<CAPTION>

Issued	December 31,			
	Rate	1998	1997	Junior Subordinated Notes
	In millions			
<S>	<C>	<C>	<C>	<C>
Duke Energy				
1997	7.2%	\$ 350	\$ 350	7.2% Series A due 2037
Duke Capital				
1998	7 3/8%	250	--	7 3/8% Series A due 2038
1998	7 3/8%	350	--	7 3/8% Series B due 2038
Unamortized debt discount			(31)	(11)
		\$ 919	\$ 339	

</TABLE>

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts. Payment of distributions on these preferred securities is guaranteed by the respective company, but only to the extent the trusts have funds legally and immediately available to make such distributions. Dividends of \$44 million and \$15 million related to the trust preferred securities have been included in the Consolidated Statements of Income as Minority Interests for the years ended December 31, 1998 and 1997, respectively.

NOTE 13. PREFERRED AND PREFERENCE STOCK
Authorized Shares of Stock as of December 31, 1998 and 1997

	Shares	
	Par Value	(in millions)

<S>	<C>	<C>
Preferred Stock	\$ 100	12.5
Preferred Stock A	\$ 25	10.0
Preference Stock	\$ 100	1.5

<TABLE>

December 31,					
Shares Outstanding -----					
ate/Series	Year Issued at December 31, 1998 1998 1997				

			Dollars in millions		
<S>	<C>	<C>	<C>	<C>	
5.95% B (Preferred Stock A)		1992	800,000	\$ 20	\$ 20
6.10% C (Preferred Stock A)		1992	800,000	20	20
6.20% D (Preferred Stock A)		1992	800,000	20	20
6.20% T	1992		130,000	13	13
6.30% U	1992		130,000	13	13
6.40% V	1992		130,000	13	13
6.75% X	1993		250,000	25	50
Total			\$ 124	\$ 149	

December 31,

Rate/Series Shares Outstanding -----
 Year Issued at December 31, 1998 1998 1997

		Dollars in millions			
<S>	<C>	<C>	<C>	<C>	
4.50% C	1964	175,000	\$ 18	\$ 35	
7.85% S	1992	300,000	30	60	
7.00% W	1993	249,989	25	50	
7.04% Y	1993	299,995	30	60	
6.375% (Preferred Stock A) ...	1993	1,257,185	31	60	
Auction Series A	1990	750,000	75	75	
Total			\$ 209	\$ 340	

</TABLE>

The call provisions for the outstanding preferred stock specify various redemption prices not exceeding 104% of par value, plus accumulated dividends to the redemption date.

During December 1997, Duke Energy redeemed approximately three million shares of preferred stock for \$203 million. During February 1998, Duke Energy purchased approximately two million shares of its preferred stock for \$180 million. The premiums related to these redemptions were included in the Consolidated Statements of Income as Dividends and Premiums on Redemptions of Preferred and Preference Stock for 1997.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Future Construction Costs. Duke Energy plans to maintain its regulated electric operations facilities in the Carolinas and pursue business expansion as opportunities arise. Projected 1999 capital and investment expenditures for Electric Operations, including allowance for funds used during construction, are approximately \$900 million. These projections include

57

<PAGE>

DUKE ENERGY CORPORATION Notes to Consolidated Financial Statements -- Continued

NOTE 14. COMMITMENTS AND CONTINGENCIES -- Continued

expenditures for existing plants, including refurbishment and upgrades related to the Oconee Nuclear Station's application for a 20-year renewal of its operating license. The license renewal process could take three to five years to complete. All projections are subject to periodic review and revisions. Actual expenditures incurred may vary from such estimates due to various factors, including industry restructuring, weather, economic growth, regulatory constraints and environmental regulation.

Projected 1999 capital and investment expenditures for Natural Gas transmission, including allowance for funds used during construction, are approximately \$400 million and do not include projections related to the

Midwest Pipelines which are expected to be sold in early 1999. These projections include the completion of the Maritimes & Northeast Pipeline project, which will deliver natural gas to markets in the Canadian Maritimes provinces and the northeastern United States from a supply basin offshore Nova Scotia. These projections also include other market expansion projects and costs relating to existing assets.

Duke Energy plans to continue to significantly grow several of its business segments: Field Services, Global Asset Development, Trading and Marketing and Other Energy Services. Expansion opportunities for Field Services include the planned \$1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business of Union Pacific Resources along with its natural gas and NGL marketing activities. The transaction is expected to close in the first half of 1999 and is contingent upon completion of due diligence and receipt of clearances under the Hart-Scott-Rodino Act.

Expansion opportunities for Global Asset Development's international division, Duke Energy International, include the \$315 million purchase of power generation and transmission assets in western Australia and New Zealand, including an ownership interest in a pipeline in western Australia. This acquisition also includes a development proposal for a cogeneration plant and a portfolio of international and Australian-based projects. This transaction closed on January 22, 1999.

Also, Duke Energy International recently purchased the rights to develop and operate the 500-mile Eastern Gas Pipeline project in eastern Australia. Construction of this \$270 million pipeline project is scheduled to begin in July 1999 and completion is expected by the middle of 2000.

Expansion opportunities for Global Asset Development's domestic division, Duke Energy Power Services, include the continuation of greenfield projects, such as the Bridgeport Energy project and Maine Independence Station, as well as the Hidalgo project, a 510-megawatt power plant to be built in south Texas, which is targeted to begin producing power in mid-2000. Other similar initiatives in 1999 for both Duke Energy International and Duke Energy Power Services will likely require significant capital and investment expenditures, which will be subject to periodic review and revision and may vary significantly depending on the value-added opportunities presented.

Projected 1999 capital and investment expenditures for Trading and Marketing, Other Energy Services and Real Estate Operations are approximately \$30 million, \$90 million and \$300 million, respectively. These projected capital and investment expenditures are subject to periodic review and revision and may vary significantly depending on acquisition opportunities, market volatility, economic trends and the value-added opportunities presented.

Nuclear Insurance. Duke Energy owns and operates the McGuire and Oconee Nuclear Stations with two and three nuclear reactors, respectively, and operates and has a partial ownership interest in the Catawba Nuclear Station with two nuclear reactors. Nuclear insurance coverage is maintained in three program areas: liability coverage; property, decontamination and decommissioning coverage; and business interruption and/or extra expense coverage. Certain expenses associated with nuclear insurance premiums paid by Duke Energy are reimbursed by the other joint owners of the Catawba Nuclear

Station.

Pursuant to the Price-Anderson Act, Duke Energy is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$9.8 billion.

Primary Liability Insurance. The maximum required private primary liability insurance of \$200 million has been purchased along with a like amount to cover certain worker tort claims.

Excess Liability Insurance. This policy currently provides approximately \$9.6 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The \$9.6 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of \$88 million per licensed commercial

58

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 14. COMMITMENTS AND CONTINGENCIES -- Continued

nuclear reactor. This \$9.6 billion will be increased by \$88 million as each additional commercial nuclear reactor is licensed, or reduced by \$88 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs and public liability damages exceed primary insurances, licensees may be assessed up to \$88 million for each of their licensed reactors, payable at a rate not to exceed \$10 million a year per licensed reactor for each incident. The \$88 million amount is subject to indexing for inflation and may be subject to state premium taxes.

Duke Energy is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverages for Duke Energy's nuclear facilities under the following three policy programs:

Primary Property Insurance. This policy provides \$500 million in primary property damage coverage for each of Duke Energy's nuclear facilities.

Excess Property Insurance. This policy provides excess property, decontamination and decommissioning liability insurance in the following amounts: \$2.25 billion for the Catawba Nuclear Station and \$1.5 billion each for the Oconee and McGuire Nuclear Stations.

Business Interruption Insurance. This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit. Each unit of the McGuire and Catawba Nuclear Stations is insured for up to approximately \$4 million per week and the Oconee Nuclear Station units are insured for up to approximately \$3 million per week. Coverage amounts per unit decline if more than one unit is involved in an accidental

outage. Initial coverage begins after a 17-week deductible period and continues at 100% for 52 weeks and 80% for the next 104 weeks.

If NEIL's losses ever exceed its reserves for any of the above three programs, Duke Energy will be liable for assessments of up to five times its annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance - \$23 million; Excess Property Insurance - \$23 million; Business Interruption Insurance - \$20 million.

The other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of any liabilities for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary insurance program of risk pooling or the NEIL policies.

Environmental. Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

TETCO is currently conducting PCB (polychlorinated biphenyl) assessment and clean-up programs at certain of its compressor station sites under conditions stipulated by a U.S. Consent Decree. The programs include on- and off-site assessment, installation of on-site source control equipment and groundwater monitoring wells and on- and off-site clean-up work. TETCO completed the soil clean-up programs during 1998, subject to regulatory approval. Groundwater monitoring activities will continue at several sites beyond 1999.

In 1987, the Commonwealth of Kentucky instituted a suit in state court against TETCO, alleging improper disposal of PCBs at TETCO's three compressor station sites in Kentucky. This suit is still pending. In 1996, TETCO completed clean-up of these sites under the U.S. Consent Decree.

Duke Energy has also identified environmental contamination at certain sites on the PEPL and Trunkline Gas Company (Trunkline) systems and has undertaken clean-up programs at these sites. The contamination resulted from the past use of lubricants containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. Duke Energy has communicated with the Environmental Protection Agency and appropriate state regulatory agencies on these matters. Under the terms of the agreement with CMS Energy Corporation discussed in Other Commitments and Contingencies below, Duke Energy is obligated to complete the PEPL and Trunkline clean-up programs at certain agreed-upon sites. These clean-up programs are expected to continue until 2001.

59

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 14. COMMITMENTS AND CONTINGENCIES -- Continued

At December 31, 1998 and 1997, remaining estimated clean-up costs on the

TETCO, PEPL and Trunkline systems have been accrued and are included in the Consolidated Balance Sheets as Other Current Liabilities and Environmental Clean-up Liabilities. These cost estimates represent gross clean-up costs expected to be incurred, have not been discounted or reduced by customer recoveries and generally do not include fines, penalties or third-party claims. Costs to be recovered from customers are included in the Consolidated Balance Sheets as of December 31, 1998 and 1997, as Environmental Clean-up Costs.

The federal and state clean-up programs are not expected to interrupt or diminish Duke Energy's ability to deliver natural gas to customers. Based on experience to date and costs incurred for clean-up operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations or financial position.

Litigation. On April 25, 1997, a group of affiliated plaintiffs that own and/or operate various pipeline and marketing companies and partnerships primarily in Kansas filed suit against PEPL, a subsidiary of Duke Energy, in the U.S. District Court for the Western District of Missouri. The plaintiffs allege that PEPL has engaged in unlawful and anti-competitive conduct with regard to requests for interconnects with the PEPL system for service to the Kansas City area. Asserting that PEPL has violated the antitrust laws and tortiously interfered with the plaintiffs' business expectancies, the plaintiffs seek compensatory and punitive damages. Under the terms of the agreement with CMS Energy Corporation discussed in Other Commitments and Contingencies below, Duke Energy is retaining any liability associated with this suit. Based on information currently available to Duke Energy, management believes that the resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position.

Duke Energy and its subsidiaries are also involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, Duke Energy has made accruals in accordance with SFAS No. 5, "Accounting for Contingencies," in order to provide for such matters. Management believes that the final disposition of these proceedings will not have a material adverse effect on consolidated results of operations or financial position.

Other Commitments and Contingencies. In January 1998, Duke Energy acquired a 9.8% ownership in Alliance Pipeline. This pipeline is designed to transport natural gas from western Canada to the Chicago-area market center for distribution throughout North America. The pipeline is scheduled to begin commercial operation in late 2000. In addition to buying an ownership interest in the pipeline project, Duke Energy has a contractual commitment for 67.25 million cubic feet per day of capacity on the line over 15 years for an estimated total of \$315 million.

Periodically, Duke Energy may become involved in contractual disputes with natural gas transmission customers involving potential or threatened abrogation of contracts by the customers. If the customers are successful, Duke Energy may not receive the full value of anticipated benefits under the contracts.

In the normal course of business, certain of Duke Energy's subsidiaries

and affiliates enter into various contracts for energy services which contain certain schedule and performance requirements. Risk management techniques are used to mitigate their exposure associated with such contracts. Certain subsidiaries of Duke Energy have guaranteed performance under some of these contracts. In addition, certain subsidiaries of Duke Energy have guaranteed debt agreements of affiliates and have provided surety bonds and letters of credit.

Management believes that these commitments and contingencies will not have a material adverse effect on consolidated results of operations or financial position.

Duke Energy, through its wholly owned subsidiaries, PanEnergy and TEC, entered into an agreement to sell PEPL, Trunkline and additional storage related to those systems (collectively, the PEPL Companies), which substantially comprise the Midwest Pipelines, along with Trunkline LNG Company (Trunkline LNG), to CMS Energy Corporation (CMSEnergy). The sales price of \$2.2 billion involves cash proceeds of \$1.9 billion and the assumption of existing PEPL debt of approximately \$300 million. Management believes that the retention of certain assets and liabilities, such as the Houston office

60

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 14. COMMITMENTS AND CONTINGENCIES -- Continued

building, certain environmental, legal and tax liabilities, and substantially all intercompany balances, will not have a material adverse effect on consolidated results of operations or financial position. The sale will result in an after-tax gain of approximately \$700 million and is contingent upon receipt of clearances under the Hart-Scott-Rodino Act. Closing is expected in early 1999.

Total assets of the PEPL Companies and Trunkline LNG were \$1.2 billion at December 31, 1998.

Combined 1998 Operating Results of the PEPL Companies and
Trunkline LNG (a)

<TABLE>
<CAPTION>

	In millions
<S>	<C>
Operating Revenues	\$482
Operating Expenses	278
Other Income, Net	10

Earnings Before Interest and Taxes	\$214
	==

</TABLE>

(a) Excludes intercompany building rental revenue, allocated corporate expenses, building depreciation and certain other costs to be retained by Duke Energy.

Leases. Duke Energy utilizes assets under operating leases in several areas of operations. Consolidated rental expense amounted to \$80 million, \$92 million, and \$84 million in 1998, 1997, and 1996, respectively. Future minimum rental payments under Duke Energy's various operating leases for the years 1999 through 2003 are \$85 million, \$76 million, \$65 million, \$41 million, and \$33 million, respectively.

NOTE 15. COMMON STOCK

The Board of Directors authorized Duke Energy to repurchase up to \$1 billion of its common stock during the period beginning February 1996 and ending February 2001. As a result of the merger, shares repurchased between February 1996 and June 1999 were limited to 15 million shares. As of December 31, 1996, approximately three million shares had been repurchased for \$159 million. No repurchases of common stock were made in 1997 or 1998, and none are anticipated in the future.

NOTE 16. STOCK-BASED COMPENSATION

Under Duke Energy's 1998 Stock Incentive Plan, stock options for up to fifteen million shares of common stock may be granted to key employees. Under the plan, the exercise price of each option granted equals the market price of Duke Energy's common stock on the date of grant. Vesting periods range from one to five years with a maximum exercise term of ten years.

Effective with the merger, each share of PanEnergy common stock, outstanding immediately prior to the merger, was converted into the right to receive 1.0444 shares of Duke Energy common stock. Each option to purchase PanEnergy common stock, outstanding prior to the merger, was assumed by Duke Energy and became exercisable upon the same terms as under the applicable PanEnergy stock option plan and option agreement, except that these options became options to purchase shares of Duke Energy common stock, appropriately adjusted.

<PAGE>

DUKE ENERGY CORPORATION Notes to Consolidated Financial Statements -- Continued

NOTE 16. STOCK-BASED COMPENSATION -- Continued

Stock Option Grants

<TABLE>
<CAPTION>

	Options (in thousands)	Weighted Average Exercise Price	
<S>	<C>	<C>	
Outstanding at December 31, 1995	3,559		\$ 18
Granted	498	28	
Exercised	(712)	16	
Forfeited	(71)	22	
Outstanding at December 31, 1996	3,274		20
Granted	388	44	
Exercised	(873)	19	
Forfeited	(60)	27	
Outstanding at December 31, 1997	2,729		24
Granted	3,548	57	
Exercised	(948)	21	
Forfeited	(868)	57	
Outstanding at December 31, 1998	4,461		45

</TABLE>

Stock Options at December 31, 1998

<TABLE>
<CAPTION>

	Outstanding		Exercisable		
Range of Exercise Prices	Number (in thousands)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number (in thousands)	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$10 to \$14	57	2.3	\$12	57	\$12
\$15 to \$20	637	4.9	18	637	18
\$21 to \$25	556	4.9	21	556	21
\$26 to \$31	199	7.1	27	199	27
\$42 to \$50	240	8.1	44	87	44
\$55 to \$60	2,709	9.2	57	--	--
\$66 to \$67	63	9.7	67	7	67
Total	4,461		1,543	22	

</TABLE>

Duke Energy had two million options exercisable at both December 31, 1997 and 1996, with weighted average exercise prices of \$21 and \$19 per option, respectively.

The weighted-average fair value of options granted was \$9, \$10 and \$9 per option during 1998, 1997 and 1996, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

Weighted-Average Assumptions for Option-Pricing

<TABLE>

<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Stock dividend yield	4.2%	3.5%	2.6%
Expected stock price volatility	15.1%	20.7%	26.0%
Risk-free interest rates	5.6%	6.5%	5.7%
Expected option lives	7 years	7 years	7 years

</TABLE>

Had compensation expense for stock-based compensation been determined based on the fair value at the grant dates, 1998 net income would have been \$1,250 million, or \$3.40 per basic share; 1997 net income would have been \$971 million, or \$2.50 per basic share; and 1996 net income would have been \$1,074 million, or \$2.85 per basic share.

62

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

NOTE 17. EMPLOYEE BENEFIT PLANS

Retirement Plans. Duke Energy and its subsidiaries have maintained multiple non-contributory defined benefit retirement plans covering most employees with minimum service requirements. Effective January 1, 1997, the Duke Power retirement plan was amended to base a plan participant's benefit on a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit based upon a percentage, which may vary with age and years of service, of current eligible earnings and current interest credits. Prior to January 1, 1997, the Duke Power retirement plan benefits were based on an age-related formula which took into account the participant's years of benefit accrual service and highest average eligible earnings.

Through December 31, 1998, the PanEnergy plan provided retirement benefits (i) for eligible employees of certain subsidiaries that are generally based on an employee's years of benefit accrual service and highest average eligible earnings, and (ii) for eligible employees of certain other subsidiaries under a cash balance formula. In 1998, a significant amount of lump sum payouts was made from the PanEnergy plan resulting in a settlement gain of \$10 million. Effective January 1, 1999, the benefit formula under the PanEnergy plan, for all eligible employees, was changed to a cash balance formula.

In connection with the expected 1999 sale of the Midwest Pipelines to CMS Energy, benefit accruals under the PanEnergy plan were frozen on December 31,

1998, for all participants who, as a result of the sale, will become employees of CMS Energy and its subsidiaries. Once the transfer of benefit obligation and related assets of the affected participants

CMS Energy is completed, the PanEnergy plan will be merged into the Duke Energy Plan.

On December 31, 1998, all defined benefit retirement plans maintained by Duke Energy, except for the PanEnergy plan, were merged to form the Duke Energy Retirement Cash Balance Plan (Duke Energy Plan). The plan merger changed the benefit for certain participants, from a formula based primarily on benefit accrual service and highest average earnings, to a cash balance formula.

Duke Energy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. On December 30, 1997, assets and related liabilities of \$236 million and \$204 million, respectively, for certain PanEnergy plan participants were transferred to the Duke Power plan. As a result of this transfer, no contributions to the Duke Power plan were necessary in 1998 or 1997.

In 1998, Duke Energy adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which required the restatement of prior year data. This restatement did not change the net periodic expense or the funded status of the retirement or postretirement benefit plans.

Components of Net Periodic Pension Costs

TABLE
CAPTION

For the Years Ended December 31,

1998 1997 1996

In millions

	<C>	<C>	<C>
<S> Service cost benefit earned during the year	\$ 63	\$ 62	\$ 63
Interest cost on projected benefit obligation ...	169	164	153
Expected return on plan assets	(218)	(209)	(192)
Amortization of prior service cost	(4)	(5)	(2)
Amortization of net transition asset	(4)	(4)	(5)
Recognized net actuarial loss	10	17	13
Settlement gain	(10)	--	--
Net periodic pension costs	\$ 6	\$ 25	\$ 30

</TABLE>

<PAGE>

DUKE ENERGY CORPORATION Notes to Consolidated Financial Statements -- Continued

NOTE 17. EMPLOYEE BENEFIT PLANS -- Continued

Reconciliation of Funded Status to Pre-funded Pension Costs

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	In millions	
	<C>	<C>
Change in Benefit Obligation		
Benefit obligation at beginning of year	\$ 2,372	\$ 2,126
Service cost	63	62
Interest cost	169	164
Plan amendment	5	11
Actuarial loss	141	179
Special termination benefit	--	2
Benefits paid	(210)	(172)
Benefit obligation at end of year	\$ 2,540	\$ 2,372
Change in Plan Assets		
Fair value of plan assets at beginning of year (a)	\$ 2,725	\$ 2,445
Actual return on plan assets	406	451
Employer contributions	1	1
Benefits paid	(210)	(172)
Fair value of plan assets at end of year (a)	\$ 2,922	\$ 2,725
Funded status	\$ 382	\$ 353
Unrecognized net experience loss	2	81
Unrecognized prior service cost reduction	(27)	(65)
Unrecognized net transition asset	(25)	(32)
Pre-funded pension costs	\$ 332	\$ 337

</TABLE>

(a) Principally equity and fixed income securities.

Assumptions Used for Pension Benefits Accounting (a)

<TABLE>
<CAPTION>

	1998	1997	1996
	Percent		
	<C>	<C>	<C>
Discount rate	6.75	7.25	7.50
Salary increase	4.67	4.15	4.80
Expected long-term rate of return on plan			

assets..... 9.25 9.25 9.18

<TABLE>

(a) Reflects weighted averages across all plans.

Duke Energy also sponsors employee savings plans which cover substantially all employees. Employer matching contributions of \$53 million, \$53 million and \$35 million were expensed in 1998, 1997 and 1996, respectively.

Other Postretirement Benefits. Duke Energy and most of its subsidiaries provide certain health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective late 1998 and early 1999, health care benefits for future retirees were changed to limit employer contributions and medical coverage.

64

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 17. EMPLOYEE BENEFIT PLANS -- Continued

Such benefit costs are accrued over the active service period of employees the date of full eligibility for the benefits. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

Duke Energy is using an investment account under section 401(h) of the Internal Revenue Code, a retired lives reserve (RLR) and multiple voluntary employees' beneficiary association (VEBA) trusts under section 501(c)(9) of the Internal Revenue Code to partially fund postretirement benefits. The 401(h) vehicle, which provides for tax deductions for contributions and tax-free accumulation of investment income, partially funds postretirement health care benefits. The RLR, which has tax attributes similar to 401(h) funding, partially funds postretirement life insurance obligations. Certain subsidiaries use the VEBA trusts to partially fund accrued postretirement health care benefits and fund postretirement life insurance obligations.

Components of Net Periodic Postretirement Benefit Costs

<TABLE>
<CAPTION>

For the Years Ended December 31,		
1998	1997	1996
In millions		

	<C>	<C>	<C>
Service cost benefit earned during the year	\$ 10	\$ 10	\$ 8
Interest cost on accumulated postretirement benefit obligation	43	46	44
Expected return on plan assets	(18)	(19)	(16)
Amortization of prior service cost	7	6	1
Amortization of net transition obligation	16	16	18
Recognized net actuarial loss (gain)	1	(1)	--
Net periodic postretirement benefit costs	\$ 59	\$ 58	\$ 55

<TABLE>

65

<PAGE>

DUKE ENERGY CORPORATION
Notes to Consolidated Financial Statements -- Continued

NOTE 17. EMPLOYEE BENEFIT PLANS -- Continued

Reconciliation of Funded Status to Accrued Postretirement Benefit Costs

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	In millions	
	<C>	<C>
Change in Benefit Obligation		
Accumulated postretirement benefit obligation at beginning of year	\$ 667	\$ 642
Service cost	10	10
Interest cost	43	46
Plan participants' contributions	6	6
Amendments	(49)	4
Actuarial (gain) loss	(6)	4
Benefits paid	(46)	(45)
Accumulated postretirement benefit obligation at end of year	\$ 625	\$ 667
Change in Plan Assets		
Fair value of plan assets at beginning of year (a)	\$ 266	\$ 225
Actual return on plan assets	34	45
Employer contributions	45	40
Plan participants' contributions	6	1
Benefits paid	(46)	(45)
Fair market value of plan assets at end of year (a)	\$ 305	\$ 266
Funded status	\$ (320)	\$ (401)
Unrecognized prior service cost	9	64
Unrecognized net experience (gain) loss	(23)	4

Unrecognized transition obligation	239	256
Accrued postretirement benefit costs	\$ (95)	\$ (77)

TABLE>

(a) Principally equity and fixed income securities.

Assumptions Used for Postretirement Benefits Accounting (a)

<TABLE>
<CAPTION>

	1998	1997	1996
	Percent		
	<C>	<C>	<C>
Discount rate	6.75	7.25	7.50
Salary increase	4.67	4.33	4.84
Expected long-term rate of return on 401(h) assets	9.25	9.25	9.00
Expected long-term rate of return on RLR assets ...	6.75	6.75	6.50
Expected long-term rate of return on VEBA assets ..	9.25	9.25	9.50
Assumed tax rate (b)	39.60	39.60	39.60

</TABLE>

(a) Reflects weighted averages across all plans.

(b) Health care portion of postretirement benefits in VEBA trusts.

For measurement purposes, a 5% weighted average rate of increase in the per capita cost of covered health care benefits was assumed for 1998. The rate was assumed to decrease gradually to 4.75% for 2005 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

66

<PAGE>

DUKE ENERGY CORPORATION Notes to Consolidated Financial Statements -- Continued

NOTE 17. EMPLOYEE BENEFIT PLANS -- Continued

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

<TABLE>
<CAPTION>

1-Percentage- Point Increase	1-Percentage- Point Decrease

	In millions	
<S>	<C>	<C>
Effect on total of service and interest cost components ..	\$ 3	\$ (2)
Effect on postretirement benefit obligation	30	(28)

TABLE>

NOTE 18. QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total

	In millions, except per share data				
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Operating revenues	\$ 4,115	\$ 4,014	\$ 5,298	\$ 4,183	\$ 17,610
Operating income	608	549	826	450	2,433
EBIT	678	582	871	516	2,647
Income before extraordinary item	328	279	429	224	1,260
Net income	320	279	429	224	1,252
Earnings per share (before extraordinary item)					
Basic	\$ 0.89	\$ 0.76	\$ 1.18	\$ 0.60	\$ 3.43
Dilutive	\$ 0.89	\$ 0.76	\$ 1.17	\$ 0.60	\$ 3.42
Earnings per share					
Basic	\$ 0.87	\$ 0.76	\$ 1.18	\$ 0.60	\$ 3.41
Dilutive	\$ 0.87	\$ 0.76	\$ 1.17	\$ 0.60	\$ 3.40
1997					
Operating revenues	\$ 3,786	\$ 3,113	\$ 4,820	\$ 4,590	\$ 16,309
Operating income	610	352	606	402	1,970
EBIT	644	407	632	425	2,108
Net income	312	168	309	185	974
Earnings per share					
Basic	\$ 0.84	\$ 0.43	\$ 0.83	\$ 0.41	\$ 2.51
Dilutive	\$ 0.83	\$ 0.43	\$ 0.83	\$ 0.40	\$ 2.50

</TABLE>

NOTE 19. SUBSEQUENT EVENT (UNAUDITED)

On February 18, 1999, Duke Energy announced its intent to make a concurrent cash tender offer in Chilean pesos in Chile and the United States for 51% of the outstanding shares of Endesa-Chile. The estimated total cash outlay is approximately \$2.1 billion based on current exchange rates. The offer will be contingent upon, among other things, certain Endesa-Chile shareholder approvals. If all approvals are obtained, the transactions are expected to be completed during the second quarter of 1999. Endesa-Chile controls and operates 10,247 megawatts of generating capacity in Argentina, Brazil, Chile, Colombia and Peru.

Schedule II -- Valuation and Qualifying Accounts and Reserves

TABLE
<CAPTION>

	In Millions
<S>	<C>
Balance at December 31, 1998 (a)	\$367
Balance at December 31, 1997 (a,b)	329
Balance at December 31, 1996 (a,b)	281

</TABLE>

(a) Principally consists of injuries and damages reserves, property insurance reserves and litigation and other contingency reserves which are included in "Other Current Liabilities" or "Deferred Credits and Other Liabilities" in the Consolidated Balance Sheets.

(b) Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred on December 31, 1996.

68

<PAGE>

Independent Auditors' Report

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF DUKE ENERGY CORPORATION

We have audited the consolidated balance sheets of Duke Energy Corporation and subsidiaries (Duke Energy) as of December 31, 1998 and 1997, and the related consolidated statements of income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the consolidated financial statement schedule listed in the accompanying index at Item 14. These financial statements and financial statement schedule are the responsibility of Duke Energy's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits. The consolidated financial statements and consolidated financial statement schedule give retroactive effect to the merger of Duke Power Company and PanEnergy Corp, which has been accounted for as a pooling of interests as described in Note 2 to the consolidated financial statements. We did not audit the statements of income, common stockholders' equity, and cash flows of PanEnergy Corp and subsidiaries for the year ended December 31, 1996, which statements reflect total operating revenues of (in millions), \$7,537 for the year ended December 31, 1996. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in PanEnergy Corp and subsidiaries for 1996, is based solely on the report of those other auditors.

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

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles. Also, in our opinion, based on our audits and (as to the amounts included for PanEnergy Corp and subsidiaries) the report of the other auditors, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
Deloitte & Touche LLP
Charlotte, North Carolina
February 12, 1999

69

<PAGE>

Responsibility for Financial Statements

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

Duke Energy's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. Duke Energy's accounting controls are continually reviewed for effectiveness. In addition, written policies,

standards and procedures, and a strong internal audit program augment Duke Energy's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of Duke Energy. The audit committee meets with management and internal auditors periodically to review the work of each group and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with Duke Energy's independent auditors, Deloitte & Touche LLP. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

/s/ JEFFREY L. BOYER
Jeffrey L. Boyer
Vice President and Corporate Controller

70

<PAGE>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III.

Item 10. Directors and Executive Officers of the Registrant.

Reference is made to "Executive Officers of Duke Energy" included in "Item 1. Business" of this report. See "Election of Directors," "Information Regarding the Board of Directors" and "Other Matters" in the proxy statement relating to Duke Energy's 1999 annual meeting of shareholders (the Proxy Statement), incorporated herein by reference.

Item 11. Executive Compensation.

See "Executive Compensation" and "Compensation of Directors" in the Proxy Statement, incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

See "Security Ownership of Nominees, Directors and Executive Officers" in the Proxy Statement, incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

See "Information Regarding the Board of Directors" in the Proxy Statement, incorporated herein by reference.

<PAGE>

PART IV.

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Consolidated Financial Statements, Supplemental Financial Data and Supplemental Schedules included in Part II of this annual report are as follows:

Consolidated Financial Statements

Consolidated Statements of Income for the Years Ended December 31, 1998, 1997 and 1996

Consolidated Statements of Cash Flows for the Years Ended December 31, 1998, 1997 and 1996

Consolidated Balance Sheets as of December 31, 1998 and 1997

Consolidated Statements of Common Stockholders' Equity for the Years Ended December 31, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

Quarterly Financial Data (unaudited) (included in Note 18 to the Consolidated Financial Statements)

Consolidated Financial Statement Schedule II -- Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1998, 1997 and 1996

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

(b) Reports on Form 8-K

A Current Report on Form 8-K filed on November 5, 1998 contained disclosures under Item 5, Other Events, and Item 7, Financial Statements and Exhibits.

A Current Report on Form 8-K filed on December 1, 1998 contained disclosures under Item 5, Other Events, and Item 7, Financial Statements, Pro Forma Financial Information and Exhibits.

A Current Report on Form 8-K filed on December 18, 1998 contained disclosures under Item 5, Other Events, and Item 7, Financial Statements and Exhibits.

(c) Exhibits -- See Exhibit Index immediately following the signature

3e.

<PAGE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 15, 1999

DUKE ENERGY CORPORATION
(Registrant)

By: RICHARD B. PRIORY
Richard B. Priory
Chairman of the Board, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

(i) Principal executive officer:
Richard B. Priory
Chairman of the Board, President and Chief Executive Officer

(ii) Principal financial officer:
Richard J. Osborne
Executive Vice President and Chief Financial Officer

(iii) Principal accounting officer:
Jeffrey L. Boyer
Vice President and Corporate Controller

(iv) All of the Directors:
Richard B. Priory
G. Alex Bernhardt, Sr.
Robert J. Brown
William A. Coley
William T. Esrey
Ann Maynard Gray
Dennis R. Hendrix
Harold S. Hook
George Dean Johnson, Jr.
Max Lennon
Leo E. Linbeck, Jr.
James G. Martin
Russell M. Robinson, II

Date: March 15, 1999

Richard J. Osborne, by signing his name hereto, does hereby sign this document on behalf of the registrant and on behalf of each of the above-named persons pursuant to a power of attorney duly executed by the registrant and such persons, filed with the Securities and Exchange Commission as an exhibit

hereto.

By: /s/ RICHARD J. OSBORNE

Attorney-In-Fact

73

<PAGE>

EXHIBIT INDEX

Exhibits filed herewith are designated by an asterisk (*). All exhibits not so designated are incorporated by reference to a prior filing, as indicated. Items constituting management contracts or compensatory plans or arrangements are designated by a double asterisk (**).

<TABLE>

<CAPTION>

Exhibit
Number

<S> <C> <C>

- 2 -- Agreement and Plan of Merger, dated as of November 24, 1996, as amended and restated as of March 10, 1997, among registrant, Duke Transaction Corporation and PanEnergy Corp (filed with Form 8-K dated March 20, 1997, File No. 1-4928, as Exhibit 2(a)).
- 2-A -- Restated Articles of Incorporation of registrant, dated June 18, 1997 (filed with Form S-8, No. 333-29563, effective June 19, 1997, as Exhibit 4(G)).
- 3-B -- By-Laws of registrant, as amended.
- 4 -- Rights Agreement, dated as of December 17, 1998, between the registrant and The Bank of New York, as Rights Agent (filed with Form 8-K dated February 11, 1999).
- 10-A -- Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
- 10-B -- Agreement, dated August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
- 10-C -- Agreement, dated October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-D -- Agreement, dated October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-E** -- Employee Incentive Plan (filed with Form 10-K for the year ended December 31, 1993, File No. 1-4928, as Exhibit 10-F).
- 10-F** -- Directors' Charitable Giving Program (filed with Form 10-K for the year ended December 31, 1992, File No. 1-4928, as Exhibit 10-P).
- 10-G** -- Estate Conservation Plan (filed with Form 10-K for the year ended December 31, 1992, File No. 1-4928, as Exhibit 10-R).
- 10-H** -- Supplemental Insurance Plan (filed with Form 10-K for the year ended December 31, 1992, File No. 1-4928, as Exhibit 10-S).
- I** -- Executive Short-Term Incentive Plan (filed with Form 10-K for the year ended December 31, 1994, File

1-4928, as Exhibit 10-V).

10-J** -- Executive Savings Plan (filed with Form 10-K for the year ended December 31, 1996, File No. 1-4928, as Exhibit 10-Z).

10-K** -- Executive Cash Balance Plan (filed with Form 10-K for the year ended December 31, 1996, File No. 1-4928, as Exhibit 10-AA).

10-L** -- Directors' Savings Plan (filed with Form 10-K for the year ended December 31, 1996, File No. 1-4928, as Exhibit 10-BB).

10-M** -- Duke Power Company Stock Incentive Plan (filed as Appendix A to Schedule 14A of registrant, March 18, 1996, File No. 1-4928).

10-N** -- 1989 Non-employee Directors Stock Option Plan of Panhandle Eastern Corporation, adopted February 1, 1989 (filed with Form S-8 Registration Statement of Panhandle Eastern Corporation, File No. 33-28912, as Exhibit 28(a)).

10-O** -- 1982 Key Employee Stock Option Plan of Panhandle Eastern Corporation, as amended through December 3, 1986 (and related Agreement) (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1986, File No. 1-8157, as Exhibit 10(g)).

10-P** -- Employees Savings Plan of Panhandle Eastern Corporation and Participating Affiliates (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1990, File No. 1-8157, as Exhibit 10.12).

10-Q** -- Panhandle Eastern Corporation 1994 Long Term Incentive Plan (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1993, File No. 1-8157, as Exhibit 10.18).

10-R -- \$1,250,000,000 Five-Year Credit Agreement dated as of August 25, 1997, among registrant, the banks listed therein and Morgan Guaranty Trust Company of New York, as Administrative Agent (filed with Form 10-K for the year ended December 31, 1997, as Exhibit 10-R).

10-S -- \$950,000,000 Five-Year Credit Agreement dated as of August 25, 1997, among Duke Capital Corporation, the banks listed therein and The Chase Manhattan Bank, as Administrative Agent (filed with Form 10-K for the year ended December 31, 1997, as Exhibit 10-S).

<TABLE>

74

<PAGE>

<TABLE>

<CAPTION>

Exhibit
Number

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10-T -- \$600,000,000 364-Day Credit Agreement dated as of August 24, 1998, among Duke Capital Corporation, the banks listed therein and The Chase Manhattan Bank, as Administrative Agent, (filed with Form 8-K of Duke Capital Corporation dated February 24, 1999, File No. 0-23977, as Exhibit 99.2).

10-U** -- Employment Agreement by and between the registrant and Richard B. Priory dated November 24, 1996 (incorporated by reference to Exhibit C-1 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 22, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-U).

10-V** -- Employment Agreement by and among PanEnergy Corp, the registrant and Paul M. Anderson dated November 24, 1996 (incorporated by reference to Exhibit B-1 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 24, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-V).

10-W** -- Employment Agreement by and among PanEnergy Corp, the registrant and Fred J. Fowler dated November 24, 1996 (incorporated by reference to Exhibit B-3 of Exhibit 2 to this Form 10-K), and the First

Amendment thereto dated October 24, 1997, filed herewith.

- 10-X** -- Employment Agreement by and between the registrant and William A. Coley dated November 24, 1996 (incorporated by reference to Exhibit C-2 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 24, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-X).
- 10-Y** -- Employment Agreement by and between the registrant and Richard J. Osborne dated November 24, 1996 (incorporated by reference to Exhibit C-3 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 27, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-Y).
- 10-Z** -- 1990 Long-Term Incentive Plan of Panhandle Eastern Corporation (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1990, File No. 1-8157, as Exhibit 10.14).
- 10-AA -- Formation Agreement between PanEnergy Trading and Market Services, Inc. and Mobil Natural Gas, Inc.
dated May 29, 1996 (filed with Form 10-Q of PanEnergy Corp for the quarter ended June 30, 1996, File No. 1-8157, as Exhibit 2).
- *10-BB -- Employment Agreement by and between the registrant and Richard W. Blackburn dated November 10, 1997.
- 10-CC -- Duke Energy Corporation Long-Term Incentive Plan (filed as Appendix A to Schedule 14A of the registrant, March 16, 1998).
- 10-DD -- Duke Energy Corporation Policy Committee Short-Term Incentive Plan (filed as Appendix B to Schedule 14A of the registrant, March 16, 1998).
- 10-EE -- Stock Purchase Agreement between PanEnergy Corp, Texas Eastern Corporation and CMS Energy Corporation, dated as of October 31, 1998 (filed as Exhibit 10 to Form 8-K of the registrant, File No. 1-4928, filed November 5, 1998).
- 10-FF -- Merger and Purchase Agreement among Union Pacific Resources Company, Union Pacific Fuels, Inc., Duke Energy Field Services, Inc. and DEFS Merger Sub Corp., dated as of November 20, 1998 (filed as Exhibit 10 to Form 8-K of the registrant, File No. 1-4928, filed December 1, 1998).
- *12 -- Computation of Ratio of Earnings to Fixed Charges.
- *21 -- List of Subsidiaries.
- *23(a) -- Consent of Deloitte & Touche LLP.
- *23(b) -- Consent of KPMG LLP.
- *24(a) -- Power of attorney authorizing Richard J. Osborne and others to sign the annual report on behalf of the registrant and certain of its directors and officers.
- *24(b) -- Certified copy of resolution of the Board of Directors of the registrant authorizing power of attorney.
- *27 -- Financial Data Schedule for the Year Ended December 31, 1998.
- *99 -- Independent Auditors' Report of KPMG LLP to the Board of Directors of PanEnergy Corp, dated January 16, 1997.

<TABLE>

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments.

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<TYPE>EX-3.(II)
<SEQUENCE>2
<DESCRIPTION>EXHIBIT 3-B
<EXT>

Exhibit 3-B
BY-LAWS
OF
DUKE ENERGY CORPORATION

Date of Adoption:

July 28, 1997

Amended February 17, 1999

<PAGE>

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	Page

<S>	<C>
ARTICLE I Offices	1
Section 1.1. Principal Office.....	1
Section 1.2. Other Offices.....	1
ARTICLE II Meetings of Shareholders.....	1
Section 2.1. Place of Meetings.....	1
Section 2.2. Annual Meetings.....	1
Section 2.3. Special Meetings.....	1
Section 2.4. Notice of Meetings.....	1
Section 2.5. Voting Group.....	2
Section 2.6. Quorum.....	2
Section 2.7. Voting of Shares.....	2
Section 2.8. Proxies.....	3
Section 2.9. Notice of Shareholder Business and Nominations.....	3
Section 2.10. Conduct of Meetings.....	5
Section 2.11. Inspectors of Elections.....	6
Section 2.12. Shareholders' List.....	6
ARTICLE III Board of Directors.....	6
Section 3.1. General Powers.....	6
Section 3.2. Number and Qualifications.....	6
Section 3.3. Election of Directors; Classes.....	6
Section 3.4. Removal.....	7

Section 3.5. Newly Created Directorships; Vacancies.....	7
Section 3.6. Compensation of Directors.....	7

ARTICLE IV Meetings of Directors.....	8
Section 4.1. Regular Meetings.....	8
Section 4.2. Special Meetings.....	8
Section 4.3. Notice.....	8
Section 4.4. Quorum and Manner of Acting.....	8
Section 4.5. Action by Consent of Board of Directors.....	8
Section 4.6. Conference Telephone Meetings.....	8

ARTICLE V Committees of the Board.....	9
Section 5.1. Management and Other Committees.....	9
Section 5.2.....	9
Section 5.3.....	10

ARTICLE VI Officers.....	10
Section 6.1. Elected Officers.....	10
Section 6.2. Election and Term of Office.....	10
Section 6.3. Chairman of the Board and Chief Executive Officer.....	10

i

<PAGE>

Section 6.4. President.....	11
Section 6.5. Vice Presidents.....	11
Section 6.6. Secretary.....	11
Section 6.7. Treasurer.....	11
Section 6.8. Controller.....	12
Section 6.9. Assistant Secretaries, Assistant Treasurers and Assistant Controllers.....	12
Section 6.10. Removal.....	12
Section 6.11. Vacancies.....	12

ARTICLE VII Stock Certificates and Transfers.....	12
Section 7.1. Certificates for Shares.....	12
Section 7.2. Share Transfer Records.....	13
Section 7.3. Lost, Stolen or Destroyed Certificates.....	13
Section 7.4. Fixing Record Date.....	13
Section 7.5. Holder of Record.....	14

ARTICLE VIII Contracts, Checks and Drafts, Deposits and Proxies.....	14
Section 8.1. Contracts.....	14
Section 8.2. Checks and Drafts.....	14
Section 8.3. Deposits.....	14
Section 8.4. Proxies.....	14

ARTICLE IX Indemnification.....	15
Section 9.1. Indemnification.....	15

ARTICLE X Miscellaneous.....	15
Section 10.1. Fiscal Year.....	15
Section 10.2. Distributions.....	15

Section 10.3. Seal.....	16
Section 10.4. Waiver of Notice.....	16
Section 10.5. Time Periods.....	16
Section 10.6. Resignations.....	16
Section 10.7. Definitions.....	16
ARTICLE XI Emergency Provisions.....	16
Section 11.1. General.....	16
Section 11.2. Unavailable Directors.....	17
Section 11.3. Authorized Number of Directors.....	17
Section 11.4. Quorum.....	17
Section 11.5. Creation of Emergency Committee.....	17
Section 11.6. Constitution of Emergency Committee.....	17
Section 11.7. Powers of Emergency Committee.....	18
Section 11.8. Directors Becoming Available.....	18
Section 11.9. Election of Board of Directors.....	18
Section 11.10. Termination of Emergency Committee.....	18
Section 11.11. Nonexclusive Powers.....	18

ii

<PAGE>

ARTICLE XII Amendments.....	18
Section 12.1. Amendments.....	18

</TABLE>

iii

<PAGE>

BY-LAWS
OF
DUKE ENERGY CORPORATION (Adopted July 28, 1997
& Amended February 17, 1999)

ARTICLE I

OFFICES

Section 1.1. PRINCIPAL OFFICE. The principal office of the Corporation shall be located in Charlotte, North Carolina.

Section 1.2. OTHER OFFICES. The Corporation may have such other offices either within or without the State of North Carolina as the Board of Directors may designate or as the business of the Corporation may from time to time require.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 2.1. PLACE OF MEETINGS. All meetings of shareholders shall be held at such place either within or without the State of North Carolina as shall be designated by the Board of Directors and designated in the notice of the meeting.

Section 2.2. ANNUAL MEETINGS. The annual meeting of shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on such date and at such time as may be fixed by the Board of Directors.

Section 2.3. SPECIAL MEETINGS. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of shareholders for any purpose or purposes may be called only by (i) the Board of Directors pursuant to a resolution stating the purpose or purposes thereof or (ii) by the Chairman of the Board of Directors. No business other than that stated in the notice shall be transacted at any special meeting.

Section 2.4. NOTICE OF MEETINGS. Written or printed notice, stating the place, day and hour of the meeting of shareholders and the purpose or purposes for which the meeting is called, shall be delivered by the Corporation not less than 10 calendar days nor more

1

<PAGE>

than 60 calendar days before the date of the meeting, either personally, by mail, or by such other means as may be permitted by law to each shareholder of record entitled to vote at such meeting; provided that such notice must be given to all shareholders with respect to any meeting at which a merger or share exchange is to be submitted to shareholders for approval and in such other instances as required by law. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, correctly addressed to the shareholder at such shareholder's address as it appears on the stock transfer books of the Corporation. Such further notice shall be given as may be required by law. When a meeting is adjourned to a different date, time or place, notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment and if a new record date is not or must not be fixed for the adjourned meeting; but if a new record date is fixed for the adjourned meeting (which must be done if the new date is more than 120 days after the date of the original meeting), notice of the adjourned meeting must be given as provided in this Section 2.4 to persons who are shareholders as of the new record date.

Section 2.5. VOTING GROUP. All shares of one or more classes or series that under the Articles of Incorporation or the North Carolina Business Corporation Act are entitled to vote and be counted together collectively on a matter at a meeting of shareholders constitute a voting group. All shares entitled by the Articles of Incorporation or the North Carolina Business Corporation Act to vote generally on a matter are for that purpose a single voting group. Classes or series of shares shall not be entitled to vote separately by voting group unless expressly authorized by the Articles of Incorporation or specifically required by law.

Section 2.6. QUORUM. Shares entitled to vote as a separate voting group may take action on a matter at a meeting of shareholders only if a quorum of that voting group exists. Unless otherwise required by law, the Articles of Incorporation or By-Law adopted by the shareholders, a majority of the votes entitled to be

cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting. In the absence of a quorum at the opening of any meeting of shareholders, such meeting may be adjourned from time to time by the vote of a majority of the votes cast on the motion to adjourn; and, subject to the provisions of Section 2.4, at any adjourned meeting any business may be transacted that might have been transacted at the original meeting if a quorum exists with respect to the matter proposed.

Section 2.7. VOTING OF SHARES. Each outstanding share entitled to vote shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Except in the election of directors, the vote of a majority of shares voted on any matter at a meeting of shareholders at which a quorum is present shall be the act of the shareholders on that matter, unless the vote of a greater number is required by law or by the Articles of Incorporation. Election of directors at all meetings of the shareholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any class of

2

<PAGE>

stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, those nominees for election as directors who receive the highest number of votes at a meeting at which a quorum is present up to the maximum number of directors to be elected at such meeting shall be deemed to have been elected.

Section 2.8. PROXIES. Shares may be voted either in person or by one or more proxies authorized by a written appointment of proxy signed by the shareholder or by the shareholder's duly authorized attorney-in-fact. An appointment of proxy is valid for 11 months from the date of its execution, unless a different period is expressly provided in the appointment form.

Section 2.9. NOTICE OF SHAREHOLDER BUSINESS AND NOMINATIONS.

(A) ANNUAL MEETINGS OF SHAREHOLDERS. (1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the Corporation's notice of meeting pursuant to Section 2.4 of these By-Laws, (b) by or at the direction of the Board of Directors, or (c) by any shareholder of the Corporation who was a shareholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law.

(2) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (c) of paragraph (A)(1) of this By-Law, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation no later than the close of business on the 90th calendar day nor earlier than

the close of business on the 120th calendar day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, notice by the shareholder to the Corporation must be so delivered not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as described above. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the

3

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shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 calendar days prior to the first anniversary of the preceding year's annual meeting of shareholders, a shareholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th calendar day following the day on which such public announcement is first made by the Corporation.

(B) SPECIAL MEETINGS OF SHAREHOLDERS. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting under Section 2.4 of these By-Laws. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected

pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors, or (b) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this By-Law, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any shareholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting pursuant to such clause (b), if the shareholder's notice required by paragraph (A)(2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th calendar day prior to such special meeting and not later than the close of business on the later of the 90th calendar day prior to such special meeting or the 10th calendar day following the day on which public announcement is first made of the date of such special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting of shareholders commence a new time period for the giving of a shareholder's notice as described above.

(C) GENERAL. (1) Only such persons who are nominated in accordance with the

4

<PAGE>

Procedures set forth in this By-Law shall be eligible to serve as directors and by such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Articles of Incorporation or these By-Laws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this By-Law, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights (i) of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any class or series of stock having a preference over the Common Stock as to dividends or on liquidation to elect directors under specified circumstances.

Section 2.10. CONDUCT OF MEETINGS. The Board of Directors may to the extent not

prohibited by law adopt such rules and regulations for the conduct of the meeting of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may to the extent not prohibited by law include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to shareholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof, and (v) limitations on the time allotted to questions or comments by participants. The date and time of the opening and the closing of the polls for each matter upon which the shareholders will vote at a meeting shall be announced at the meeting by the person presiding over the meeting. Unless, and to the extent, determined by the Board of Directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

5

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Section 2.11. INSPECTORS OF ELECTIONS. The Board of Directors may appoint, or may authorize the Chairman of the Board to appoint, one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of shareholders and make a written report thereof. If no inspector has been appointed to act or is able to act at a meeting of shareholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging such person's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such person's ability. The inspectors shall, by majority vote, resolve all questions regarding voting of shares, including the shares represented at the meeting, the qualification of voters, the validity of proxies, the existence of a quorum as to any voting group, and the acceptance, rejection and tabulation of votes.

Section 2.12. SHAREHOLDERS' LIST. Before each meeting of shareholders, the Secretary of the Corporation shall prepare an alphabetical list of the shareholders entitled to notice of such meeting. The list shall be arranged by voting group (and within each voting group by class or series of shares) and show the address of and number of shares held by each shareholder. The list shall be kept on file at the principal office of the Corporation, or at a place identified in the meeting notice in the city where the meeting will be held, for the period beginning two business days after notice of the meeting is given and continuing through the meeting, and shall be available for inspection on written demand by any shareholder, personally or by or with such shareholder's representative, at any time during regular business hours. The list shall also be available at the meeting and shall be subject to inspection on written demand by any shareholder, personally or by or with such shareholder's representative,

at any time during the meeting or any adjournment thereof.

ARTICLE III

BOARD OF DIRECTORS

Section 3.1. GENERAL POWERS. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these By-Laws required to be exercised or done by the shareholders.

Section 3.2. NUMBER AND QUALIFICATIONS. The number of directors constituting the Board of Directors shall be not less than twelve nor more than twenty-four, as may be fixed from time to time by the Board of Directors. A director must be a shareholder of the Corporation.

Section 3.3. ELECTION OF DIRECTORS; CLASSES. The directors, other than those who may be elected by the holders of any class of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances,

6

<PAGE>

shall be classified, with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible. Such classes shall originally consist of one class (Class I) of seven directors who shall be elected at the annual meeting of shareholders held in 1991 for a term expiring at the annual meeting of shareholders held in 1992; a second class (Class II) of six directors who shall be elected at the annual meeting of shareholders held in 1991 for a term expiring at the annual meeting of shareholders to be held in 1993; and a third class (Class III) of six directors who shall be elected at the annual meeting of shareholders held in 1991 for a term expiring at the annual meeting of shareholders to be held in 1994; with each class to hold office until its successor is elected and qualified. The Board of Directors shall increase or decrease the number of directors in one or more classes as may be appropriate whenever it increases or decreases the number of directors pursuant to the Articles of Incorporation and Section 3.2 of these By-Laws, in order to ensure that the three classes shall be as nearly equal in number as possible. At each annual meeting of shareholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

Section 3.4. REMOVAL. Subject to the rights of any class of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, a director may be removed from office only with cause. "Cause" for removal of a director under this Section 3.4 means fraudulent or dishonest acts, or gross abuse of authority in the discharge of duties to the Corporation, and must be established after written notice of specific charges and an opportunity to meet and refute such charges.

Section 3.5. NEWLY CREATED DIRECTORSHIPS; VACANCIES. Except as may be otherwise provided for or fixed by or pursuant to any provisions of the Articles of Incorporation relating to the rights of the holders of any class of stock having preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until the expiration of the full term of the class for which such director is elected and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3.6. COMPENSATION OF DIRECTORS. Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

7

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ARTICLE IV

MEETINGS OF DIRECTORS

Section 4.1. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-Law as soon as practicable after the annual meeting of shareholders. The Board of Directors may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 4.2. SPECIAL MEETINGS. Special meetings of the Board of Directors shall be called at the request of the Chairman of the Board or a majority of the Board of Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix the place and time of the meetings.

Section 4.3. NOTICE. Notice of any special meeting of directors shall be given to each director at such director's business or residence in writing by hand delivery, first-class or overnight mail or courier service, facsimile transmission or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least 5 calendar days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least 24 hours before such meeting. If by facsimile transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least 12 hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least 12 hours prior to the time set for meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the

notice of such meeting.

Section 4.4. QUORUM AND MANNER OF ACTING. Unless the Articles of Incorporation or these By-Laws provide otherwise, a majority of the number of directors fixed pursuant to these By-Laws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. Unless required by law or the Articles of Incorporation or these By-Laws provide otherwise, the affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 4.5. ACTION BY CONSENT OF BOARD OF DIRECTORS. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing, whether before or after such action, and the writing or writings are included with the minutes or filed with the corporate records.

Section 4.6. CONFERENCE TELEPHONE MEETINGS. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the

8

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meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

ARTICLE V

COMMITTEES OF THE BOARD

Section 5.1. MANAGEMENT AND OTHER COMMITTEES. The Board of Directors may designate a Management Committee consisting of two or more directors of the Corporation which shall include the Chairman of the Board who shall act as chairman. Subject to delegations of authority or any other restrictions adopted by the Board of Directors, the Management Committee may exercise all of the authority of the Board of Directors when it is not in session, except that the Management Committee may not (i) authorize distributions; (ii) approve, or propose to shareholders, action that is required by law to be approved by shareholders; (iii) fill vacancies on the Board of Directors or on any of its Committees; (iv) amend the Articles of Incorporation; (v) adopt, amend or repeal By-Laws; (vi) approve a plan of merger not requiring shareholder approval; (vii) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; or (viii) authorize or approve the issuance or sale or contract for the sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except within limits specifically prescribed by the Board of Directors. Any resolutions adopted or other action taken by the Management Committee within the scope of its authority shall be deemed for all purposes to be adopted or taken by the Board of Directors.

Board of Directors may also designate one or more other Committees of the Board of Directors which shall consist of two or more directors of the

Corporation. Any such Committee, other than the Management Committee (the powers of which are expressly provided for herein), may to the extent permitted by law exercise such powers and shall have such responsibilities as shall be specified in the designating resolution. The Board of Directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such Committee. Nothing herein shall be deemed to prevent the Board of Directors from appointing one or more Committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such Committee shall have or may exercise any authority of the Board of Directors.

Section 5.2 Each Committee shall keep written minutes of its proceedings and shall report such proceedings to the Board when required. A majority of the members of a Committee of the Board of Directors shall be necessary to constitute a quorum and the affirmative vote of the majority of the members present at a meeting at which a quorum is present shall be necessary to constitute action by the Committee. A Committee may also act by the written consent of all members thereof although not convened in a meeting provided that such written consent is filed with the Minute Books of the Committee.

9

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Section 5.3 Each Committee shall fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. Notice of meetings of any Committee shall be given to each member of the Committee in the manner provided for in Section 4.3 of these By-Laws.

ARTICLE VI

OFFICERS

Section 6.1. ELECTED OFFICERS. The elected officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer, a Controller and such other officers (including, without limitation, Executive Vice Presidents and Senior Vice Presidents and Vice Presidents) as the Board of Directors from time to time may deem proper. The Chairman of the Board and the President shall be chosen from among the directors. All officers elected by the Board of Directors shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article VI. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof. The Board of Directors or the Management Committee may from time to time appoint such other officers (including one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers), as may be necessary or desirable for the conduct of the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as shall be provided in these By-Laws or, to the extent consistent with these By-Laws, as may be prescribed by the Board of Directors or the Management Committee, as the case may be.

Section 6.2. ELECTION AND TERM OF OFFICE. The elected officers of the Corporation shall be elected annually by the Board of Directors at the regular meeting of the Board of Directors held after the annual meeting of shareholders. The election of officers shall not be held at such meeting, such election

shall be held as soon thereafter as practicable. Each officer shall hold office until such person's successor shall have been duly elected and shall have qualified or until such person's death or until he or she shall resign or shall removed pursuant to Section 6.10.

Section 6.3. CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER. The Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to such person's office which may be required by law and all such other duties as are properly required of the Chairman of the Board by the Board of Directors. The Chairman of the Board shall preside at all meetings of shareholders and of the Board of Directors and shall make reports to the Board of Directors and the shareholders, and shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect. The Chairman of the Board may also serve as President, if so elected by the Board.

10

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Section 6.4. PRESIDENT. The President shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President shall in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of shareholders and of the Board of Directors.

Section 6.5. VICE PRESIDENTS. The Executive Vice Presidents, the Senior Vice Presidents and the Vice Presidents shall have such powers and duties as may be prescribed for them, respectively, by the Board of Directors, the Management Committee or the Chairman of the Board. Each of such officers shall report to the Chairman of the Board or such other officer as the Chairman of the Board shall direct.

Section 6.6. SECRETARY. The Secretary shall attend all meetings of the shareholders and of the Board of Directors, shall keep a true and faithful record thereof in proper books and shall have the custody and care of the corporate seal, records, minute books and stock books of the Corporation and of such other books and papers as in the practical business operations of the Corporation shall naturally belong in the office or custody of the Secretary or as shall be placed in the Secretary's custody by order of the Board of Directors or the Management Committee. The Secretary shall keep a suitable record of the addresses of shareholders and shall, except as may be otherwise required by statute or these By-Laws, sign and issue all notices required for meetings of shareholders or of the Board of Directors. The Secretary shall sign all papers to which the Secretary's signature may be necessary or appropriate, shall affix and attest the seal of the Corporation to all instruments requiring the seal, shall have the authority to certify the By-Laws, resolutions of the shareholders and Board of Directors and other documents of the Corporation as true and correct copies thereof and shall have such other powers and duties as are commonly incidental to the office of Secretary and as may be prescribed by the Board of Directors, the Management Committee or the Chairman of the Board.

Section 6.7. TREASURER. The Treasurer shall have charge of and supervision over

and be responsible for the funds, securities, receipts and disbursements of the Corporation; cause the moneys and other valuable effects of the Corporation to be deposited in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as shall be selected in accordance with resolutions adopted by the Board of Directors; cause the funds of the Corporation to be disbursed by checks or drafts upon the authorized depositories of the Corporation, and cause to be taken and preserved proper vouchers for all moneys disbursed; render to the proper officers and to the Board of Directors, the Management Committee and the Finance Committee, whenever requested, a statement of the financial condition of the Corporation and of all his or her transactions as Treasurer; cause to be kept at the principal executive offices of the Corporation correct books of account of all its business and transactions; and, in general, perform all duties incident to the office of Treasurer and such other duties as are given to him or her by the By-Laws or as may be assigned to him or her by the Chairman of the Board or the Board of Directors.

11

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Section 6.8. CONTROLLER. The Controller shall be the chief accounting officer of the Corporation; shall keep full and accurate accounts of all assets, liabilities, commitments, revenues, costs and expenses, and other financial transactions of the Corporation in books belonging to the Corporation, and conform them to sound accounting principles with adequate internal control; shall cause regular audits of these books and records to be made; shall see that all expenditures are made in accordance with procedures duly established, from time to time, by the Corporation; shall render financial statements upon the request of the Board of Directors; and, in general, shall perform all the duties ordinarily connected with the office of Controller and such other duties as may be assigned to him or her by the Chairman of the Board or the Board of Directors.

Section 6.9. ASSISTANT SECRETARIES, ASSISTANT TREASURERS AND ASSISTANT CONTROLLERS. Assistant Secretaries, Assistant Treasurers and Assistant Controllers, when elected or appointed, shall respectively assist the Secretary, the Treasurer and the Controller in the performance of the respective duties assigned to such principal officers, and in assisting such principal officer, each of such assistant officers shall for such purpose have the powers of such principal officer; and, in case of the absence, disability, death, resignation or removal from office of any principal officer, such principal officer's duties shall, except as otherwise ordered by the Board of Directors or the Management Committee, temporarily devolve upon such assistant officer as shall be designated by the Chairman of the Board.

Section 6.10. REMOVAL. Any officer or agent may be removed by the affirmative vote of a majority of the directors then in office whenever, in their judgment, the best interests of the Corporation would be served thereby. In addition, any officer or agent appointed by the Management Committee may be removed by the Management Committee whenever, in its judgment, the best interests of the Corporation would be served thereby. Any removal shall be without prejudice to contract rights, if any, of the person so removed.

Section 6.11. VACANCIES. A newly created elected office and a vacancy in any

elected office because of death, resignation or removal may be filled by the Board of Directors for the unexpired portion of the term at any meeting of the Board of Directors. Any vacancy in an office appointed by the Management Committee because of death, resignation or removal may be filled by the Management Committee.

ARTICLE VII

STOCK CERTIFICATES AND TRANSFERS

Section 7.1. CERTIFICATES FOR SHARES. The Board of Directors may authorize the issuance of some or all of the shares of the Corporation's classes or series without issuing certificates to represent such shares. If shares are represented by certificates, the certificates shall be in such form as required by law and as determined by the Board of Directors. Certificates shall be signed, either manually or in facsimile, by the Chairman of the Board, the President or a Vice President and by the Secretary or Treasurer or an Assistant Secretary or an Assistant Treasurer. In case any officer or officers who shall

12

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have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the Corporation and the issuance and delivery of any such certificate or certificates shall be conclusive evidence of such adoption. All certificates for shares shall be consecutively numbered or otherwise identified and entered into the stock transfer books of the Corporation. When shares are represented by certificates, the Corporation shall issue and deliver to each shareholder to whom such shares have been issued or transferred certificates representing the shares owned by such shareholder. When shares are not represented by certificates, then within a reasonable time after the issuance or transfer of such shares, the Corporation shall send the shareholder to whom such shares have been issued or transferred a written statement of the information required by law to be on certificates.

Section 7.2. SHARE TRANSFER RECORDS. The Corporation shall maintain share transfer records, containing the name and address of each shareholder of record and the number and class or series of shares held by such shareholder. Transfers of shares of the Corporation shall be made only on the share transfer records of the Corporation by the holder of record thereof or by a duly authorized agent, transferee or legal representative and only upon surrender for cancellation of the certificate for such shares (if the shares are represented by certificates).

Section 7.3. LOST, STOLEN OR DESTROYED CERTIFICATES. No certificate for shares in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of

such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board of Directors or any financial officer may in its or such person's discretion require. A new certificate may be issued without requiring any bond if the Board of Directors or such financial officer so determines.

Section 7.4. **FIXING RECORD DATE.** The Board of Directors may fix a future date as the record date for one or more voting groups in order to determine the shareholders entitled to notice of a meeting of shareholders, to vote or to take any other action. Such record date may not be more than 70 days before the meeting or action requiring a determination of shareholders. A determination of shareholders entitled to notice of or to vote at a meeting of shareholders is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. If no record date is fixed by the Board of Directors for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, the close of business on the day before the first notice of the meeting is delivered to shareholders shall be the record date for such determination of shareholders. The Board of Directors

13

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may fix a date as the record date for determining shareholders entitled to a distribution or share dividend. If no record date is fixed by the Board of Directors for such determination, it is the date the Board of Directors authorizes the distribution or share dividend.

Section 7.5. **HOLDER OF RECORD.** Except as otherwise required by law, the Corporation may treat the person in whose name the shares stand of record on its books as the absolute owner of the shares and the person exclusively entitled to receive notification and distributions, to vote and to otherwise exercise the rights, powers and privileges of ownership of such shares.

ARTICLE VIII

CONTRACTS, CHECKS AND DRAFTS, DEPOSITS AND PROXIES

Section 8.1. **CONTRACTS.** The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 8.2. **CHECKS AND DRAFTS.** All checks, drafts or other orders for the payment of money, issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by the Board of Directors.

Section 8.3. **DEPOSITS.** All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such depositories as may be selected by or under the authority of the Board of Directors.

Section 8.4. PROXIES. Unless otherwise provided by the Board of Directors, the Chairman of the Board, the President or any Executive Vice President, Senior Vice President or Vice President may from time to time appoint an attorney or attorneys or agent or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal or otherwise, all such written proxies or other instruments as he or she may deem necessary or proper in the premises.

14

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ARTICLE IX

INDEMNIFICATION

Section 9.1. INDEMNIFICATION. Any person who is or was serving as a director, officer, employee or agent of the Corporation or who, at the request of the Corporation, is or was serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a trustee or administrator under an employee benefit plan, shall be indemnified by the Corporation, to the fullest extent permitted by law, against (a) litigation expenses, including costs, expenses and reasonable attorneys' fees incurred by any such person in connection with any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative, whether formal or informal, and whether or not brought by or on behalf of the Corporation, arising out of such person's status as such or such person's activities in any of the foregoing capacities, (b) liability, including payments made by such person in satisfaction of any judgment, money decree, fine (including an excise tax assessed with respect to an employee benefit plan), penalty or settlement for which such person may have become liable in any such action, suit or proceeding, and (c) reasonable costs, expenses and attorneys' fees incurred by such person in connection with the enforcement of the indemnification rights provided herein. Any person who is or was serving in any of the foregoing capacities for or on behalf of the Corporation shall be conclusively deemed to be doing or to have done so in reliance upon, and as consideration for, the indemnification rights provided herein.

Any such litigation expenses shall be paid by the Corporation in advance of the final disposition of any action, suit or proceeding upon receipt of an unsecured written promise by or on behalf of any such person to repay such amount unless shall ultimately be determined that such person is entitled to be indemnified the Corporation against such expenses.

The rights of indemnification provided herein (which shall be deemed to be a contract between any such person and the Corporation enforceable on the part of such person notwithstanding any subsequent amendment or repeal of this By-Law) shall inure to the benefit of the estates or legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from this By-Law, by contract, resolution or otherwise.

ARTICLE X

MISCELLANEOUS

Section 10.1. FISCAL YEAR. The fiscal year of the Corporation shall begin on the first day of January in each year and shall end on the thirty-first day of December of such year.

Section 10.2. DISTRIBUTIONS. The Board of Directors may from time to time authorize,

15

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and the Corporation may grant, distributions and share dividends to its shareholders pursuant to law and subject to the provisions of the Articles of Incorporation.

Section 10.3. SEAL. The corporate seal of the Corporation shall be circular in form and shall consist of two concentric circles between which is the name of Corporation and the location of its principal office and in the center of which is inscribed the word "SEAL". The corporate seal may be used by causing it or a facsimile thereof to be impressed or reproduced or otherwise.

Section 10.4. WAIVER OF NOTICE. Whenever any notice is required to be given to any shareholder or director of the Corporation under the provisions of the North Carolina Business Corporation Law or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the shareholders or the Board of Directors or committee thereof need be specified in any waiver of notice of such meeting.

Section 10.5. TIME PERIODS. In applying any provision of these By-Laws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

Section 10.6. RESIGNATIONS. Any director or any officer, whether elected or appointed, may resign at any time by giving written notice of such resignation to the Chairman of the Board or the Secretary, and such resignation shall be deemed to be effective when communicated unless the notice specifies a later effective date. No formal action shall be required on behalf of the Corporation to make any such resignation effective.

Section 10.7. DEFINITIONS. Unless the context otherwise requires, terms used in these By-Laws shall have the meanings assigned to them in the North Carolina Business Corporation Act to the extent defined therein.

ARTICLE XI

EMERGENCY PROVISIONS

Section 11.1. GENERAL. The provisions of this Article shall be operative only during a national emergency declared by the President of the United States or the person performing the President's functions, or in the event of a nuclear, atomic or other attack on the United States or on a locality in which the Corporation conducts its principal business or customarily holds meetings of its Board of Directors or its shareholders, or during the existence of any other catastrophic event or similar emergency, as a result of which a quorum of the Board of Directors cannot readily be assembled for action. Said provisions in such event shall override all other By-Laws of the Corporation in conflict with

16

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any provisions of this Article, and shall remain operative during such emergency, but thereafter shall be inoperative; provided that all actions taken in good faith pursuant to such provisions shall thereafter remain in full force and effect unless and until revoked by action taken pursuant to the provisions of the By-Laws other than those contained in this Article.

Section 11.2. UNAVAILABLE DIRECTORS. All directors of the Corporation who are not available to perform their duties as directors by reason of physical or mental incapacity or for any other reason or who are unwilling to perform their duties or whose whereabouts are unknown shall automatically cease to be directors, with like effect as if such persons had resigned as directors, so long as such unavailability continues.

Section 11.3. AUTHORIZED NUMBER OF DIRECTORS. The authorized number of directors shall be the number of directors remaining after eliminating those who have ceased to be directors pursuant to Section 11.2, or the minimum number required by law, whichever number is greater.

Section 11.4. QUORUM. The number of directors necessary to constitute a quorum shall be one-third of the authorized number of directors as specified in Section 11.3, or such other minimum number as, pursuant to the law or lawful decree then in force, it is possible for the by-laws of a corporation to specify.

Section 11.5. CREATION OF EMERGENCY COMMITTEE. In the event the number of directors remaining after eliminating those who have ceased to be directors pursuant to Section 11.2 is less than the minimum number of authorized directors required by law, then until the appointment of additional directors to make up such required minimum, all the powers and authorities which the Board of Directors could by law delegate, including all powers and authorities which the Board of Directors could delegate to a committee, shall be automatically vested in emergency committee, and the emergency committee shall thereafter manage affairs of the Corporation pursuant to such powers and authorities and shall

have all other powers and authorities as may by law or lawful decree be conferred on any person or body of persons during a period of emergency.

Section 11.6. CONSTITUTION OF EMERGENCY COMMITTEE. The emergency committee shall consist of all the directors remaining after eliminating those who have ceased to be directors pursuant to Section 11.2, provided that such remaining directors are not less than three in number. In the event such remaining directors are less than three in number, the emergency committee shall consist of three persons, who shall be the remaining director or directors and either one or two officers or employees of the Corporation, as the remaining director or directors may in writing designate. If there is no remaining director, the emergency committee shall consist of the three most senior officers of the Corporation who are available to serve, and if and to the extent that officers are not available, the most senior employees of the Corporation. Seniority shall be determined in accordance with any designation of seniority in the minutes of the proceedings of the Board of Directors, and in the absence of such designation, shall be determined by rate of remuneration.

17

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Section 11.7. POWERS OF EMERGENCY COMMITTEE. The emergency committee, once appointed, shall govern its own procedures and shall have power to increase the number of members thereof beyond the original number, and in the event of a vacancy or vacancies therein, arising at any time, the remaining member or members of the emergency committee shall have the power to fill such vacancy or vacancies. In the event at any time after its appointment all members of the emergency committee shall die or resign or become unavailable to act for any person whatsoever, a new emergency committee shall be appointed in accordance with the foregoing provisions of this Article 11.

Section 11.8. DIRECTORS BECOMING AVAILABLE. Any person who has ceased to be a director pursuant to the provisions of Section 11.2 and who thereafter becomes available to serve as a director shall automatically become a member of the emergency committee.

Section 11.9. ELECTION OF BOARD OF DIRECTORS. The emergency committee shall, as soon after its appointment as is practicable, take all requisite action to secure the election of a board of directors, and upon such election all the powers and authorities of the emergency committee shall cease.

Section 11.10. TERMINATION OF EMERGENCY COMMITTEE. In the event, after the appointment of an emergency committee, a sufficient number of persons who ceased to be directors pursuant to Section 11.2 become available to serve as directors, so that if they had not ceased to be directors as aforesaid, there would be sufficient directors to constitute the minimum number of directors required by law, then all such persons shall automatically be deemed to be reappointed as directors and the powers and authorities of the emergency committee shall terminate.

Section 11.11. NONEXCLUSIVE POWERS. The emergency powers provided in this Article 11 shall be in addition to any powers provided by law.

ARTICLE XII

AMENDMENTS

Section 12.1. AMENDMENTS. Except as required by law or as otherwise provided in the Articles of Incorporation or in a By-Law adopted by the shareholders, these By-Laws may be amended or repealed and new By-Laws may be adopted by the Board of Directors. No By-Law adopted, amended or repealed by the shareholders shall be readopted, amended or repealed by the Board of Directors, unless the Articles of Incorporation or a By-Law adopted by the shareholders authorizes the Board of Directors to adopt, amend or repeal that particular By-Law or the By-Laws generally.

18

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EMPLOYMENT AND NON-COMPETE AGREEMENT

THIS EMPLOYMENT AND NON-COMPETE AGREEMENT (the "Agreement") is entered into this 10th day of November, 1997, by and between RICHARD W. BLACKBURN ("Employee") and DUKE ENERGY CORPORATION ("Duke"), a North Carolina corporation with its principal executive offices in Charlotte, North Carolina.

Background Statement

Duke desires to employ Employee to serve as its Executive Vice President and General Counsel, and Employee desires to accept that position with Duke. This Agreement sets forth the terms and conditions of Employee's employment by Duke and represents the entire agreement of the parties with respect to that subject.

Terms of Agreement

NOW, THEREFORE, in consideration of the premises and of the mutual covenants contained herein, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Employment. Duke hereby employs Employee, and Employee hereby accepts such employment, upon the terms and conditions set forth herein.

2. Position and Duties.

(a) Duties. Employee is employed by Duke as Executive Vice President and General Counsel of Duke. As Executive Vice President and General Counsel, Employee shall perform such duties as the bylaws of Duke, the Board of Directors and the Chief Executive Officer may prescribe. Employee shall report directly to the Office of the Chairman

at Duke and shall serve on Duke's Policy Committee.

(b) Engaging in Other Employment. While employed by Duke, Employee shall devote full time and attention to Duke and shall not be employed by any other person or entity. With the consent of the Chief Executive Officer, Employee may accept paid board or trustee positions for other entities and may accept fees for public speaking and published writings. Employee may reasonably participate as a member in community, civic, or similar organizations and may pursue personal investments that do not interfere with the normal business activities of Duke.

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(c) Loyal and Conscientious Performance. Employee shall act at all times in compliance with the policies, rules and decisions adopted from time-to-time by the Board of Directors of Duke and perform all the duties and obligations required of him by this Agreement in a loyal and conscientious manner.

(d) Location. Employee's office shall be located in Charlotte, North Carolina

3. Term of Employment. The term of the employment pursuant to this Agreement shall commence on November 10, 1997, and end on December 31, 1998 unless terminated earlier pursuant to the provisions of this Agreement. After the expiration of the term of employment set forth in this Section 3, Employee shall be an employee-at-will whose employment can be terminated at any time for any reason by Duke or Employee.

4. Base Compensation. Employee's base annual salary is \$360,000. This base compensation will be payable in equal monthly installments, subject to applicable state and federal income tax and social security tax withholding requirements.

5. Bonus. Employee shall be eligible to participate in the annual bonus program for members of Duke's Policy Committee as established by the Compensation Committee of Duke's Board of Directors. If the goals established in the bonus program are met, the Employee's target bonus is 60% of base annual salary, the minimum bonus is 30% of base annual salary and the maximum bonus is 90% of base annual salary. If minimum goals are not met, there will be no bonus.

6. Grant of Stock Options and Restricted Stock. Duke shall grant to Employee an option to purchase 150,000 shares of Duke common stock pursuant to Duke's Stock Incentive Plan. This grant will be made during 1998 at the same time that options are granted to other members of Duke's Policy Committee. The exercise price of the options will be the fair market value of the shares on the date of grant. The normal expiration date of the options will be the tenth anniversary of the date of grant. To the extent permitted by the terms of the plan under which such options are granted, the options will expire one year after termination of Employment (but will expire earlier if the termination is a result of voluntary resignation).

In order to permit this grant of stock options, the shareholders of Duke

must approve an amendment to the Stock Incentive Plan to increase the number of shares for which options may be granted and to increase the annual limit on the number of options granted to any individual. The Board of Directors will use its best efforts to have such amendment approved at the 1998 annual meeting.

Duke shall grant to Employee 9,000 shares of Restricted Stock in three equal grants of 3,000 shares in January 1998, January 1999 and January 2000, on such terms

2

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and conditions as set forth in Duke's Stock Incentive Plan. Shares of restricted stock shall accrue dividends from the date of grant forward. With respect to each grant of 3,000 shares of Restricted Stock, 1,000 of such shares shall vest on the three successive anniversary dates from the date of original award of that 3,000-share grant.

In the event Employee's employment is terminated for any reason, either by Duke or Employee, all unvested stock options or Restricted Stock shall be forfeited.

7. Fringe Benefits. Employee shall participate in all benefit plans that are available to members of Duke's Policy Committee. A statement of current benefits available to members of the Policy Committee is attached hereto as Schedule A. The availability and terms of such fringe benefits are set by the Compensation Committee of the Board of Directors and change from time-to-time. There is no assurance that the benefits set forth on Schedule A will not be changed or eliminated for members of the Policy Committee. For purposes of determining Employee's vacation benefits, Employee shall be credited 15 years of service (which will entitle Employee to four weeks vacation beginning January 1, 1998).

8. Noncompetition by Employee.

(a) Employee agrees that during his employment by Duke and for a period of one year after his voluntary resignation of employment or six months after an involuntary termination of Employee's employment, without Duke's prior written consent, he will not, directly or indirectly, either as principal, agent, manager, employee, partner, shareholder, director, officer, consultant or otherwise, (A) become engaged or involved in any business (other than as a less than 5% equity owner of any corporation traded on any national, international or regional stock exchange or in the over-the-counter market), that competes with Duke or any person or entity that controls, is controlled by or is under common control with Duke (collectively, the "Company Affiliates") in the business of production, transmission, distribution or retail or wholesale marketing or selling of electricity, gathering, processing or transmission of natural gas, resale or arranging for the purchase for resale, brokering, marketing or trading of natural gas, electricity or derivatives thereof, energy management and energy solution provision, or natural or international energy development; or (B) induce or attempt to induce any customer, supplier or employee of Duke or any Company Affiliate to reduce, terminate, restrict or otherwise alter its business relationship with Duke or any Company

Affiliate. If any provision or part of this Section 8 is held to be unenforceable because of the duration of such provision or the area covered thereby, the parties hereto agree to modify such provision, or that the court making such determination shall have the power to modify such provision, to reduce the duration or area of such provision or both, or to delete specific words or phrases herefrom ("blue-penciling"), and in its reduced or blue-penciled form, such

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provision shall then be enforceable and shall be enforced. If Employee violates any of the restrictive covenants set forth in this Section 8, then the time limitation otherwise applicable shall be extended for a period of time equal to the period of time during which such breach or breaches occurred. The parties intend the above restrictions on competition to be completely severable and independent, and any invalidity or unenforceability of any one or more of such restrictions shall not render invalid or unenforceable any one or more of the other restrictions. Notwithstanding the above, this restrictive covenant is not intended to restrict the ability of Employee to practice as an attorney in private practice or to render legal advice to any client or to restrict him from competing with any Duke subsidiary or affiliate with which he had no connection or involvement during his employment by Duke.

(b) The provision of Section 8(a) shall be limited in scope and effective only within the following geographical areas:

- (i) Any country in the World where Duke has \$25 million in capital deployed as of the date of termination;
- (ii) The Continent of North America;
- (iii) The United States of America;
- (iv) The states of the United States located east of the Mississippi River;
- (v) The states of North Carolina, South Carolina, Virginia Georgia and Tennessee; and
- (vi) North Carolina and South Carolina.

The parties intend the above geographical areas to be completely severable and independent, and any invalidity or unenforceability of this Agreement with respect to any one area shall not render this Agreement unenforceable as applied to any one or more of the other areas.

(c) Employee acknowledges that Duke may have no adequate means to protect its rights under this Section 8 other than by securing an injunction (a court order prohibiting Employee from violating this Agreement). Employee agrees that Duke may enforce this Agreement by

obtaining a preliminary and permanent injunction and any other appropriate equitable relief in any court of competent jurisdiction. Employee acknowledges that the recovery of damages will not be an adequate means to redress a breach of this Agreement, but nothing in this Section

4

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8 shall prohibit Duke from pursuing any remedies in addition to injunctive relief, including recovery of damages.

(d) Employee acknowledges and agrees that Duke would not agree to hire Employee without the covenants made by Employee in this Section 8, and that the compensation and benefits provided in this Agreement constitute adequate and sufficient consideration for the covenants made by Employee in this Section 8 and in the remainder of this Agreement.

(e) Employee's obligations under this Section 8 shall survive any termination of his employment.

9. Confidentiality. Employee shall not, at any time, use (other than in the ordinary course of fulfilling his duties as an employee of Duke), divulge or otherwise disclose, directly or indirectly, any confidential and proprietary information (including without limitation any customer or prospect list, supplier list, acquisition or merger targets, business plans or strategies, data, records or financial information which is not generally known to the public) concerning the business, policies or operations of Duke or its Company Affiliates which Employee may have learned on or prior to the date hereof or during the term of Employee's employment by Duke (as an employee, consultant, shareholder, officer, controlling person, agent or otherwise). Employee's obligations under this Section 9 shall survive any termination of his employment.

10. Termination.

(a) Notwithstanding anything to the contrary contained herein, Employee may terminate his employment at any time by resigning, and Employee's employment may be terminated by Duke prior to the end of the term specified in Section 3 as follows:

(i) due to the death of Employee;

(ii) due to the disability which prevents Employee from performing the essential functions of his full duties for a period of 90 consecutive days at anytime during the term of this Agreement;

(iii) continued gross neglect, malfeasance or gross insubordination, after reasonable notice, for a reason not beyond Employee's control, in performing duties assigned to Employee with this Agreement; (B) a final conviction for a felony involving moral turpitude; (C) an egregious act of

dishonesty (including without limitation theft or embezzlement) in connection with employment, or a malicious action by Employee toward Duke's customers or employees; (E) a willful material violation of the

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provision of Section 8 or 9 hereof, or (F) material failure to carry out reasonably assigned duties or instructions consistent with the title of General Counsel and Executive Vice President (provided that material failure to carry out reasonably assigned duties shall be deemed to constitute cause only after a finding by Duke's Chief Executive Officer of material failure on the part of Employee and the failure to remedy such performance to the Chief Executive Officer's satisfaction within 30 days after delivery of written notice to Employee of such finding); or

(iv) for any reason other than death, disability or for cause.

(b) In the event of Employee's resignation or early termination pursuant to subsection (a)(i), (ii) or (iii) above, Employee shall be entitled only to his base salary earned through the date of termination. Employee's rights to any bonus and unvested stock options or unvested restricted stock shall be forfeited, but the termination shall not affect any rights of Employee that have become vested under any employee benefit plan or arrangement. In the event that Duke terminates Employee pursuant to subsection (a)(iv) above, prior to the end of the term specified in Section 3 hereof, the balance of the annual base compensation and target bonus (as established pursuant to the bonus program hereto in Section 5 above) shall be paid to Employee at the time it would otherwise be due and payable under the terms of this Agreement.

(c) After the end of the term specified in Section 3 hereof, Employee shall be an employee-at-will whose employment can be terminated at any time for any reason by Duke or Employee. If Duke decides to terminate Employee, Duke will cooperate with Employee in determining when and how to announce such termination and will delay any announcement for up to six months from the termination date if Employee so requests. Upon termination, Employee shall be eligible to receive severance benefits in accordance with the Severance Plan for executive employees in effect as of the date of termination. In addition, Duke will provide Employee with out placement services for six months after termination and will provide a suitable furnished office for Employee at Duke to use for finding new employment for a period of up to six months. Employee shall not receive any compensation for any period of time post-termination, even though Employee may maintain an office at Duke, except for the severance benefits provided by the Severance Plan for executive employees.

(d) Upon Duke's termination of Employee's employment (except due to death, disability or cause) during the term of this Agreement, Duke shall pay Employee all reasonable relocation costs to move to any geographical location within 1,000 miles of Charlotte, North Carolina and receive the same relocation benefits that he was given upon his move to North Carolina.

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11. Notice. Any notice to be given hereunder by either party to the other may be effectuated either by personal delivery in writing or by mail, registered or certified, postage prepaid, with return receipt requested. Mailed notices shall be addressed to the parties at the following addresses:

If to Duke or any other

Company Affiliate: Mr. Richard Priory
Chairman and CEO
Duke Energy Corporation
Post Office Box 1007
Charlotte, North Carolina 28201 - 1007

cc: Mr. Christopher C. Rolfe
Vice President, Corporate Human Resources
Duke Energy Corporation
Post Office Box 1244, PB403-A
Charlotte, North Carolina 28201-1244

If to Employee: Mr. Richard W. Blackburn
General Counsel and Executive Vice President
Post Office Box 1244 - PB05E
Charlotte, North Carolina 28201-1244

12. Waiver of Breach. The waiver by any party to a breach of any provision in this Agreement cannot operate or be construed as a waiver of any subsequent breach by a party.

13. Severability. The invalidity or unenforceability of any particular provision in this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if the invalid or unenforceable provision were omitted.

14. Entire Agreement. Except as otherwise provided herein, this Agreement covers the entire understanding of the parties as to the employment of Employee, superseding all prior understandings and agreements, and no modifications or amendments of the terms and conditions herein shall be effective unless in writing and signed by the parties or their respective duly authorized agents.

15. Governing Law. This Agreement shall be interpreted, construed and governed according to the laws of the State of North Carolina, without reference to conflicts of law principles thereof.

16. Consent to Jurisdiction. Employee hereby consents to the nonexclusive jurisdiction of any state court within Mecklenburg County, North Carolina or any federal

court located within the Western District of the State of North Carolina for any proceeding instituted hereunder or arising out of or in connection with this Agreement.

17. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their permitted successors, assigns, legal representatives and heirs, but neither this Agreement nor any rights hereunder shall be assignable by Employee.

18. Temporary Housing and Relocation. Employee will relocate from New Canaan, Connecticut to the Charlotte area. Duke will pay relocation costs under its standard relocation plan referenced in Schedule A. Duke will provide Employee with a furnished apartment for up to nine months, and reimburse Employee for airfare and ground transportation related to weekend trips back to Connecticut. Duke also will reimburse Employee for the reasonable cost associated with house-hunting trips for his spouse.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

DUKE ENERGY

By: /s/ Richard B. Priory

Title: Chief Executive Officer

EMPLOYEE

/s/ Richard W. Blackburn
----- (SEAL)

8

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SCHEDULE A

The General Counsel will participate in Executive Cash Balance plan, effective 1-1-98.

- o One account to provide a make-whole plan to compensate for IRS limits on the qualified cash balance plan.
- o A second account will provide an additional retirement benefit of 2% of pay (base and bonus) each month.
- o Interest on both accounts tied to 30-year treasury bonds.

The General Counsel will participate in Executive Savings Plan, effective -98.

- o One account will provide a make-whole plan to compensate for IRS limits on the qualified 401-K Plan.

A second account will be for voluntary deferrals up to 25% of base pay and up to 100% of cash incentives.

- o Investment options consistent with the qualified 401-K Plan.

The General Counsel will participate in the financial planning benefit which provides for \$6,000/year or \$18,000 over a 3-year period for financial planning services.

The General Counsel will receive a membership in a country club.

The General Counsel will receive a membership in a dining club.

The General Counsel will receive a parking place in downtown Charlotte.

The General Counsel will receive standard relocation benefits.

The company will pay ABA dues, North Carolina State Bar dues, and other professional dues for the General Counsel.

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RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement (the "Agreement") has been made as of January 2, 1998, (the "Date of Award") by DUKE ENERGY CORPORATION with its principal offices in Charlotte, North Carolina (the "Company"), to RICHARD W. BLACKBURN, who resides at 6810 Phillips Place Court, Charlotte, North Carolina 28210 (the "Grantee").

RECITALS

Under the Duke Energy Corporation Stock Incentive Plan (the "Plan"), the Company's Compensation Committee of the Board of Directors (the "Committee") has determined the form of this Agreement and selected the Grantee, a Key Employee, to receive this Restricted Stock Award and the shares of Duke Energy Corporation Common Stock, without par value ("Common Stock") that are subject hereto. The applicable terms of the Plan are incorporated in this Agreement by reference, including the definitions of terms contained in the Plan.

RESTRICTED STOCK AWARD

In accordance with the terms of the Plan, the Company has made this Restricted Stock Award effective as of January 2, 1998, and concurrently has issued or transferred to the Grantee shares of Common Stock upon the following terms and conditions:

Section 1. Number of Shares. The number of shares of Common Stock issued transferred under this Restricted Stock Award is three thousand (3,000).

Section 2. Rights of the Grantee as Shareholder. The Grantee, as the owner of record of the shares of Common Stock issued or transferred pursuant to this Restricted Stock Award, is entitled to all the rights of a shareholder of Company, including the right to vote, the right to receive cash or stock dividends, and the right to receive shares in any recapitalization of the Company, subject, however, to the restrictions stated in this Agreement and to the restrictions referred to in the legend, if any, that appears on the back of each certificate representing shares of Common Stock issued under this Restricted Stock Award. If the Grantee receives any additional shares by reason of being the holder of the shares of Common Stock issued or transferred under this Restricted Stock Award or of the additional shares previously distributed to the Grantee, all the additional shares shall be subject to the provisions of this Agreement.

Section 3. Period of Restriction. The Period of Restriction under this Restricted Stock Award shall commence on the Date of Award and expire upon the earliest of (i) the date of death of the Grantee, (ii) the date of Disability of the Grantee as defined in Section 2.10 of the Plan, (iii) the occurrence of a Change of Control of the Company, as set forth in Section 2.5 of the Plan, or (iv) the vesting of shares of Common Stock issued under this Restricted Stock Award in equal installments of one thousand (1,000) shares each, in accordance with the following vesting schedule:

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Vesting Date Expiration of Period of Restriction)	Shares Released from Restrictions
January 4, 1999	1,000 shares
January 3, 2000	1,000 shares
January 2, 2001	1,000 shares

Section 4. Conditions During Period of Restriction. During the Period of Restriction the following conditions must continue to be satisfied:

- a. the employment of the Grantee with the Company must not terminate for any reason, except as provided in Section 3 above;
- b. the Grantee must not, voluntarily or involuntarily, sell, assign, transfer, pledge, or otherwise dispose of the nonvested shares of Common Stock issued or transferred pursuant to this Restricted Stock Award; and
- c. the Grantee must not exercise any dissenter's rights with respect to the shares of Common Stock issued or transferred pursuant to this Restricted Stock Award that are otherwise available under any provisions of the North Carolina Business Corporation Act.

Section 5. Consequences of Failure to Satisfy Conditions. The following

shall be the consequences of Grantee's failure to satisfy the conditions in Section 4 during the Period of Restriction:

If the condition of Section 4.a is not satisfied, either by act of the Grantee or otherwise, (i) the Grantee will forfeit the nonvested shares of Common Stock issued or transferred pursuant to this Restricted Stock Award, (ii) the Grantee will assign and transfer the certificates evidencing ownership of such nonvested shares to the Company, (iii) all interest of the Grantee in such nonvested shares shall terminate, and (iv) the Grantee shall cease to be shareholder with respect to such nonvested shares.

- b. Any attempted sale, assignment, transfer, pledge, or other disposition of the nonvested shares of Common Stock issued or transferred pursuant to this Restricted Stock Award in violation of the condition in Section 4.b, whether voluntary or involuntary, shall be ineffective and the Company shall not be required to transfer the nonvested shares.
- c. Any attempted exercise of dissenter's rights in violation of the condition in Section 4.c shall be ineffective and the Company may disregard any purported notice of

2

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Exercise of dissenter's rights by the Grantee during the Period of Restriction in respect to the nonvested shares of Common Stock issued or transferred pursuant to this Restricted Stock Award.

Section 6. Lapse of Restrictions. At the end of the Period of Restriction, if the condition specified in Section 4.a has been satisfied during the Period of Restriction, all restrictions shall terminate, and the Grantee shall be entitled to exchange the certificates containing the legend prescribed in Section 7 for certificates without the legend, provided, that if the Grantee has attempted to violate the condition specified in Section 4.b, the Company shall have no obligation to deliver unlegended certificates to anyone other than the Grantee. However, in the event of an attempted violation of the condition specified in Section 4.b, the Company shall be entitled to withhold delivery of any of the certificates if, and for so long as, in the judgment of the Company's counsel, the Company would incur a risk of liability to any party whom such shares were purported to be sold, transferred, pledged, or otherwise disposed.

Section 7. Legend on Certificates. Each certificate evidencing ownership of shares of Common Stock issued or transferred pursuant to this Restricted Stock Award during the Period of Restriction shall bear the following legend on the back side of the certificate:

"These shares have been issued or transferred subject to a Restricted Stock Award Agreement and are subject to substantial restrictions, including but not limited to, a prohibition against transfer, either voluntary or involuntary, a waiver of any

appraisal rights, and a provision requiring transfer of these shares to Duke Energy Corporation (the "Company") without any payment in the event of termination of the employment of the registered owner, all as more particularly set forth in a Restricted Stock Award Agreement, a copy of which is on file with the Company."

Pursuant to Section 8.4 of the Plan, the Company shall hold the shares of Common Stock issued or transferred pursuant to this Restricted Stock Award in escrow during the Period of Restriction.

Section 8. Specific Performance of the Grantee's Covenants. By accepting this Restricted Stock Award and the issuance and delivery of the shares of Common Stock pursuant to this Restricted Stock Award, the Grantee acknowledges that the Company does not have an adequate remedy in damages for the breach by the Grantee of the conditions and covenants set forth in this Restricted Stock Award Agreement and agrees that the Company is entitled to and may obtain an order or a decree of specific performance against the Grantee issued by any court having jurisdiction.

Section 9. Employment with the Company. Nothing in this Agreement or in the Plan shall confer upon the Grantee the right to continued employment with the Company.

3

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Section 10. Section 83(b) Election. If the Grantee makes an election pursuant to Section 83(b) of the Internal Revenue Code, the Grantee shall promptly file a copy of such election with the Company.

Section 11. Withholding Tax. Before a certificate for shares of Common Stock is issued or delivered pursuant to this Restricted Stock Award or, if the Grantee makes the election permitted by Section 83(b) of the Internal Revenue Code, the Company may, by notice to the Grantee, require that the Grantee pay to the Company the amount of federal, state, or local taxes, if any, required by law to be withheld. The Company may satisfy the withholding requirement in whole or in part, by withholding shares of Common Stock having a fair market value equal to the withholding tax.

Section 12. Notices of Payments. Any notice to be given by the Grantee under this Agreement shall be in writing and shall be deemed to have been given only upon receipt by the Secretary of the Company at 422 South Church Street, Charlotte, North Carolina 28202, or at such address as may be communicated in writing to the Grantee from time to time. Any notice or communication by the Company to the Grantee under this Agreement shall be in writing and shall be deemed to have been given if mailed or delivered to the Grantee at the address listed in the records of the Company or at such address as specified in writing to the Company by the Grantee.

Section 13. Waiver. The waiver by the Company of any provision of this Agreement shall not operate as, or be construed to be, a waiver of the same or other provision of this Agreement at any subsequent time for any other

purpose.

Section 14. Termination or Modification of Restricted Stock Award. This Restricted Stock Award shall be irrevocable except that the Company shall have the right under Article 19 of the Plan to revoke this Agreement at any time during the Period of Restriction if it is contrary to law or modify this Restricted Stock Award to bring it into compliance with any valid and mandatory law or government regulation. In the event of revocation of this Agreement pursuant to the foregoing, the Company may give notice to the Grantee that the nonvested shares of Common Stock are to be assigned, transferred, and delivered to the Company as though the Grantee's employment with the Company terminated on the date of the notice.

Section 15. Section Headings. The section headings in this Agreement are for convenience of reference only and shall not be deemed as part of, or germane to, the interpretation or construction of this Agreement.

Section 16. Determination by Committee. Determinations by the Committee shall be final and conclusive with respect to the interpretation of the Plan and this Agreement.

Section 17. Governing Law. The validity and construction of this Agreement shall be governed by the laws of the state of North Carolina.

4

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IN WITNESS WHEREOF, the Company has caused this Agreement to be executed and granted in Charlotte, North Carolina, to be effective as of January 2, 1998.

ATTEST:

/s/ Phyllis T. Simpson

By: /s/ Richard B. Priory

Assistant Secretary

Chairman and Chief Executive
Officer

Acceptance of Restricted Stock Award

The undersigned Grantee accepts this Restricted Stock Award and the three thousand (3,000) shares of Common Stock issued or transferred under this Agreement and agrees to be bound by the provisions of this Agreement, including but not limited to the agreements and covenants of the Grantee expressed in Section 4.

Dated this 13 day of January, 1998.

/s/ Richard W. Blackburn

Richard W. Blackburn
Grantee

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TYPE>EX-10

<SEQUENCE>4

<DESCRIPTION>EXHIBIT 10-W

<TEXT>

FIRST AMENDMENT
TO
EMPLOYMENT AGREEMENT

This FIRST AMENDMENT TO EMPLOYMENT AGREEMENT, by and between Duke Energy Corporation, a North Carolina corporation ("Duke"), PanEnergy Corp, a Delaware corporation ("PanEnergy"), and Fred J. Fowler (the "Executive") is made as of this 24th day of October, 1997.

WHEREAS, the Executive has entered into an employment agreement dated November 24, 1996, with PanEnergy (the "Employment Agreement");

WHEREAS, the parties hereto intend that all rights and obligations of PanEnergy under the Employment Agreement be assumed by Duke;

WHEREAS, the Employment Agreement provides that it may be amended by the written agreement of the parties; and

WHEREAS, the parties hereto now wish to amend the Agreement in certain respects.

NOW, THEREFORE, in consideration of the premises and the mutual agreements hereinafter contained, the parties do hereby amend the Employment Agreement as follows:

1. Section 3(b) (ii) of the Employment Agreement is hereby amended by deleting the text thereof in its entirety and replacing it with the following:

"(ii) Annual Bonus. (a) In respect of calendar year 1997, the Executive shall be eligible, based upon the Executive's achievement of performance goals (set by the Compensation Committee of the Board, in consultation with the Executive, at levels substantially consistent with past practice) during such fiscal year, to receive a bonus at a target level of not less than 50% of the Annual Base Salary, with the opportunity, substantially consistent with past practice, to earn in excess of such amount based upon the attainment of agreed upon performance goals. Such bonus shall be paid no later than March 31, 1998.

(b) Commencing in calendar year 1998, the Executive shall be eligible, based upon the achievement of performance goals during such year, to receive an annual bonus with a target level of 60% of the Executive's base salary for purposes of the applicable annual bonus plan. The establishment of the performance goals, the evaluation of the

actual

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performance against such goals, and the determination of the bonus (if any) actually payable to the Executive (which may be at, above or below the target level) shall be made by the Compensation Committee of the Board acting in its sole discretion. At the discretion of the Board, such bonus may be made payable pursuant to the terms of an annual bonus plan that is intended to comply with the requirements of Section 162(m) of the Internal Revenue Code, and that is subject to the approval of the Company's stockholders at its 1998 annual meeting.

(c) For purposes of Section 5(a) hereof concerning the Company's obligations upon termination of employment, the term "Target Annual Bonus" shall mean the target level of the Executive's annual bonus multiplied his Annual Base Salary, each as in effect under this Section 3 immediately prior to the Date of Termination."

2. Section 3(b)(iii) of the Employment Agreement is hereby amended by deleting the text thereof in its entirety and by replacing it with the following:

"(iii) Long Term Incentives. The Compensation Committee of the Board shall award to the Executive one or more nonqualified stock options to purchase an aggregate of 200,000 shares of the Company's common stock, without par value, (the "Option") pursuant to the terms of the Company's Stock Incentive Plan (the "Plan"). The number of shares covered by the Option in excess of 100,000 (100,000 shares) shall be subject to the approval by the stockholders of the Company of an amendment to the Plan to increase the number of shares that may be subject to stock options granted during a year to any one participant. The option may be granted in one or more installments at the discretion of the Compensation Committee, but in any event shall be fully granted by the date of the 1998 annual meeting (subject to stockholder approval as described above). The exercise price per share of the Option shall be the fair market value of the Common Stock on the date(s) of grant, determined in accordance with the terms of the Plan. The Option shall vest in accordance with a schedule no less favorable than equal annual installments of 20 percent each as to the number of shares subject to the Option, commencing on the first anniversary of the date(s) of grant, and shall have a maximum term of exercise of 10 years from the date(s) of grant (subject in each case to your continued employment by the Company). The Option shall also include provisions consistent with the Plan with respect to the vesting and term of the Option in connection with a "change of control" of the Company and the death or disability of the Executive. The foregoing and other applicable terms and conditions of the Option shall be set forth in a stock option agreement approved by the Compensation Committee of the Board. Notwithstanding any prior agreement between the Company and the Executive, the Company is

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3. All rights and obligations of p-nEnergy under the Employment Agreement are hereby assigned to and assumed by Duh~, and all references to "the Company" in the Employment Agreement, as amended hereby, shall hereinafter be deemed to be references to Duke.

IN WITNESS WHEREOF, the parties hereto have entered into this First Amendment to Employment Agreement as of the day and year first above written.

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<TYPE>EX-12
<SEQUENCE>5
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COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

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	1998(A)	1997(A)	1996 (A)	1995 (A)	1994 (A)
Earnings before income taxes		\$ 2,037	\$ 1,613	\$ 1,789	\$ 1,682
Fixed charges	555	520	540	556	538
Total	\$ 2,592	\$ 2,133	\$ 2,329	\$ 2,238	\$ 1,960
Fixed charges:					
Interest on debt	\$ 533	\$ 497	\$ 514	\$ 536	\$ 520
Interest component of rentals	22	23	26	20	18
Fixed charges	\$ 555	\$ 520	\$ 540	\$ 556	\$ 538
Ratio of earnings to fixed charges	4.7	4.1	4.3	4.0	3.6

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A Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1994.

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<TYPE>EX-21

<SEQUENCE>6

<DESCRIPTION>EXHIBIT 21

<EXT>

EXHIBIT 21

LIST OF SUBSIDIARIES

The following is a list of certain subsidiaries of the registrant and their respective states of incorporation (100% owned unless otherwise indicated):

Algonquin Gas Transmission Company (Delaware)
Crescent Resources, Inc. (South Carolina)
Duke Capital Corporation (Delaware)
Duke Energy Field Services, Inc. (Colorado)
Duke Energy Natural Gas Corporation (Delaware)
Duke Energy Trading and Marketing, L.L.C. (Delaware) (60% owned)
PanEnergy Corp (Delaware)
Panhandle Eastern Pipe Line Company (Delaware)
Texas Eastern Transmission Corporation (Delaware)
Trunkline Gas Company (Delaware)

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<TYPE>EX-23

<SEQUENCE>7

<DESCRIPTION>EXHIBIT 23(A)

<EXT>

Exhibit No. 23(a)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-50543, 33-50617, 33-50715, 333-02571, 333-02575, 333-14209, 333-30263, 333-40679 and 333-59327 of Duke Energy Corporation on Form S-3 and Registration Statement Nos. 333-29563, 333-29585, 333-29587, 333-34655, 333-12093, 333-50317 and 333-59279 of Duke Energy Corporation on Form S-8 of our report dated February 12, 1999, appearing in this Form 10-K of Duke Energy Corporation for the year ended December 31, 1998.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
March 12, 1999

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<TYPE>EX-23

<SEQUENCE>8

<DESCRIPTION>EXHIBIT 23(B)

<TEXT>

Exhibit No. 23(b)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statement Nos. 33-50543, 33-50617, 33-50715, 333-02571, 33-59926, 33-60314, 333-02575, 333-14209, and 333-30263 of Duke Energy Corporation on Form S-3 and Registration Statements Nos. 333-29563, 333-29585, 333-29587, and 333-34655 of Duke Energy Corporation on Form S-8 of our report on the consolidated financial statements on PanEnergy Corp as of and for the year ended December 31, 1996, dated January 16, 1997, appearing in this Form 10-K of Duke Energy Corporation.

/s/ KPMG LLP

Houston, Texas

March 8, 1999

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<TYPE>EX-24

<SEQUENCE>9

<DESCRIPTION>EXHIBIT 24(A)

<TEXT>

Exhibit 24 (a)

DUKE ENERGY CORPORATION

POWER OF ATTORNEY

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1998
(Annual Report)

The undersigned DUKE ENERGY CORPORATION, a North Carolina corporation and certain of its officers and/or directors, do each hereby constitute and appoint Richard J. Osborne, Ellen T. Ruff, and Jeffrey L. Boyer, and each of them, to act as attorneys-in-fact for and in the respective names, places, and stead of the undersigned, to execute, seal, sign, and file with the Securities and Exchange Commission the Annual Report of said Duke Energy Corporation on Form 10-K and any and all amendments thereto, hereby granting to said attorneys-in-fact, and each of them, full power and authority to do and perform all and every act and thing whatsoever requisite, necessary, or proper to be done in and about the premises, as fully to all intents and purposes as the undersigned, or any of them, might or could do if personally present, hereby ratifying and approving the acts of said attorneys-in-fact.

Executed the 17th day of February, 1999.

DUKE ENERGY CORPORATION

By R. B. PRIORY

Chairman, President and
Chief Executive Officer

(Corporate Seal)

ATTEST:

ROBERT T. LUCAS III
Assistant Secretary

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R. B. PRIORY

Chairman, President and
Chief Executive Officer

R. B. Priory

(Principal Executive Officer and Director)

RICHARD J. OSBORNE

Executive Vice President and Chief Financial
Officer (Principal Financial Officer)

Richard J. Osborne

JEFFREY L. BOYER

Vice President and Corporate Controller
(Principal Accounting Officer)

Jeffrey L. Boyer

G. ALEX BERNHARDT

(Director)

G. Alex Bernhardt

ROBERT J. BROWN

(Director)

Robert J. Brown

WILLIAM A. COLEY

(Director)

William A. Coley

WILLIAM T. ESREY

(Director)

William T. Esrey

ANN M. GRAY

(Director)

Ann M. Gray

DENNIS R. HENDRIX

(Director)

Dennis R. Hendrix

HAROLD S. HOOK

(Director)

Harold S. Hook

GEORGE DEAN JOHNSON, JR

(Director)

George Dean Johnson, Jr.

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MAX LENNON

(Director)

Max Lennon

LEO E. LINBECK, JR

(Director)

Leo E. Linbeck, Jr.

JAMES G. MARTIN

(Director)

James G. Martin

RUSSELL M. ROBINSON, II

(Director)

Russell M. Robinson, II

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<TYPE>EX-24

<SEQUENCE>10

<DESCRIPTION>EXHIBIT 24(B)

<TEXT>

Exhibit No. 24(B)

Certified Copy of Resolutions from the Minutes of
a Regular Meeting of the Board of Directors of
Duke Energy Corporation Held on February 17, 1999

FURTHER RESOLVED, That the Power of Attorney as presented to
the meeting and executed by all the Directors present be and hereby
is approved in form and content for purposes of filing the Form
10-K Annual Report with the Securities and Exchange Commission.

* * * * *

I, Robert T. Lucas III, Assistant Secretary of Duke Energy Corporation,
do hereby certify that the above is a full, true and complete extract from the
Minutes of the regular meeting of the Board of Directors of Duke Energy
Corporation held on February 17, 1999, at which meeting a quorum was present; as
taken from and compared with the original Minutes of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the
Corporate Seal of said Duke Energy Corporation this 15th day of March, 1999.

Robert T. Lucas III
Assistant Secretary

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENTS OF INCOME, CONSOLIDATED STATEMENTS OF CASH FLOWS, AND CONSOLIDATED BALANCE SHEETS AS OF AND FOR YEAR TO DATE 12/31/98 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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<F1> REPRESENTS BASIC EARNINGS PER SHARE

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Exhibit 99

INDEPENDENT AUDITORS' REPORT

The Board of Directors

PanEnergy Corp

We have audited the accompanying consolidated balance sheet of PanEnergy Corp as of December 31, 1996, and the related consolidated statements of income, common stockholder's equity, and cash flows for the year ended December 31, 1996 (not presented herein). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PanEnergy Corp and subsidiaries as of December 31, 1996, and the results of their operations and their cash flows for the year ended December 31, 1996 in conformity with generally accepted accounting principles.

KPMG LLP

Houston, Texas
January 16, 1997

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999 or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-4928

DUKE ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

North Carolina 56-0205520
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

526 South Church Street, Charlotte, North 28202-1904
Carolina (Zip Code)
(Address of principal executive offices)

704-594-6200
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Common Stock, without par value	New York Stock Exchange, Inc.
3.75% Preferred Stock A, 1993 Series, par value	
5 1/8% Senior Subordinated Bonds, 5 7/8% Due	New York Stock Exchange, Inc.



2001 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 5 7/8%
 Series C Due 2003 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 6 1/4%
 Series B Due 2004 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 6 3/8% Due
 2008 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 6 5/8%
 Series B Due 2003 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 6 3/4% Due
 2025 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 6 7/8%
 Series B Due 2023 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 7% Due 2000 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 7% Series B
 Due 2000 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 7% Due 2033 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 7 1/2%
 Series B Due 2025 New York Stock Exchange, Inc.
 First and Refunding Mortgage Bonds, 7 7/8% Due
 2024 New York Stock Exchange, Inc.
 7.20% Quarterly Income Preferred Securities
 issued by Duke Energy
 Capital Trust I and guaranteed by Duke Energy
 Corporation New York Stock Exchange, Inc.
 7.20% Trust Preferred Securities issued by Duke
 Energy Capital
 Trust II and guaranteed by Duke Energy
 Corporation New York Stock Exchange, Inc.
 Reference Stock Purchase Rights New York Stock Exchange, Inc.
 Series C 6.60% Senior Notes Due 2038 New York Stock Exchange, Inc.
 <TABLE>

Securities registered pursuant to Section 12(g) of the Act:

Title of class

Preferred Stock, par value \$100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

<TABLE>

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Estimated aggregate market value of the voting stock held by affiliates of the registrant at

February 29, 2000..... \$ 17,313,000,000
Number of shares of Common Stock, without par value,
outstanding at February 29, 2000..... 366,689,508

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Documents incorporated by reference:

The registrant is incorporating herein by reference certain sections of the proxy statement relating to the 2000 annual meeting of shareholders to provide information required by Part III, Items 10, 11, 12 and 13 of this annual report.

<PAGE>

DUKE ENERGY CORPORATION

FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1999

TABLE OF CONTENTS

<TABLE>

<CAPTION>

Item	Page
PART I.	
<C>	
1. Business.....	1
General.....	1
Electric Operations.....	3
Natural Gas Transmission.....	7
Field Services.....	9
Trading and Marketing.....	11
Global Asset Development.....	12
Other Energy Services.....	14
Real Estate Operations.....	15
Environmental Matters.....	15
Foreign Operations and Export Sales.....	16
Employees.....	16
Operating Statistics.....	17
Executive Officers of Duke Energy.....	18
2. Properties.....	18
3. Legal Proceedings.....	20
4. Submission of Matters to a Vote of Security Holders.....	20

PART II:

5. Market for Registrant's Common Equity and Related Stockholder Matters..	20
6. Selected Financial Data.....	21
Management's Discussion and Analysis of Results of Operations and Financial Condition.....	21
Quantitative and Qualitative Disclosures About Market Risk.....	39

8. Financial Statements and Supplementary Data.....	40
9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	80

PART III.

10. Directors and Executive Officers of the Registrant.....	80
11. Executive Compensation.....	80
12. Security Ownership of Certain Beneficial Owners and Management.....	80
13. Certain Relationships and Related Transactions.....	80

PART IV.

14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.....	81
Signatures.....	82
Exhibit Index.....	83

</TABLE>

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

From time to time, Duke Energy may make statements regarding its assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Duke Energy cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results, and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that the actual results will not differ materially from those expressed or implied by the forward-looking statements. For a discussion of some factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Forward-Looking Statements."

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PART I.

Item 1. Business.

GENERAL

Duke Energy Corporation (collectively with its subsidiaries, "Duke Energy") is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments:

- Electric Operations
- Natural Gas Transmission
- Field Services
- Trading and Marketing
- Global Asset Development

Other Energy Services
Real Estate Operations

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the sale of the Midwest Pipelines on March 29, 1999, Natural Gas Transmission also provided interstate transportation and storage services in the midwest states. See further discussion of the sale of the Midwest Pipelines in Note 2 to the Consolidated Financial Statements, "Business Combinations, Acquisitions and Dispositions." The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces, transports and markets natural gas liquids (NGLs). Field Services operates gathering systems in western Canada and ten contiguous states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and onshore and offshore Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's energy trading operations, with Mobil Corporation holding a 40% minority interest. This segment also includes certain other trading activities and limited hydrocarbon exploration and production activities that are wholly owned by Duke Energy.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy North America, LLC (Duke Energy North America) and Duke Energy International, LLC (Duke Energy International).

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc. (Duke Engineering & Services), Duke/Fluor Daniel and DukeSolutions, Inc. (DukeSolutions).

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages land holdings in the southeastern U.S.

The 1997 merger of Duke Power Company (Duke Power) and PanEnergy Corp (PanEnergy) was accounted for as a pooling of interests; therefore, all financial information included in this annual report for

Periods prior to the merger include the combined historical financial results

of Duke Power and PanEnergy. See Note 2 to the Consolidated Financial Statements, "Business Combinations, Acquisitions and Dispositions," for additional information on the merger.

Certain terms used to describe Duke Energy's business are explained below.

British Thermal Unit (Btu). A standard unit for measuring thermal energy or heat commonly used as a gauge for the energy content of natural gas and other fuels.

Cubic Foot (cf). The most common unit of measurement of gas volume; the amount of natural gas required to fill a volume of one cubic foot under stated conditions of temperature, pressure and water vapor.

Distribution. The system of lines, transformers and switches that connect the electric transmission system to customers.

Federal Energy Regulatory Commission (FERC). The agency that regulates the transportation of electricity and natural gas in interstate commerce and authorizes the buying and selling of energy commodities at market-based rates.

Gathering System. Pipeline, processing and related facilities that access production and other sources of natural gas supplies for delivery to mainline transmission systems.

Generation. The process of transforming other forms of energy, such as nuclear or fossil fuels, into electricity. Also, the amount of electric energy produced, expressed in megawatt-hours.

Greenfield Development. The development of a new power generating facility on an undeveloped site.

Independent System Operator (ISO). Ensures non-discriminatory access to a regional transmission system, providing all customers access to the power exchange and clearing all bilateral contract requests for use of the electric transmission system. Also responsible for maintaining bulk electric system reliability.

Jurisdictional. Facilities and activities subject to the primary regulatory oversight of FERC or state regulatory agencies.

Liquefied Natural Gas (LNG). Natural gas that has been converted to a liquid by cooling it to -260 degrees Fahrenheit.

Local Distribution Company (LDC). A company that obtains the major portion of its revenues from the operations of a retail distribution system for the delivery of electricity or gas for ultimate consumption.

Natural Gas. A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in porous geological formations beneath the earth's surface, often

in association with petroleum. The principal constituent is methane.

Natural Gas Liquids (NGLs). Liquid hydrocarbons extracted during the processing of natural gas. Principal commercial NGLs include butanes, propane, natural gasoline and ethane.

Peak Load. The amount of electricity required during periods of highest demand. Peak periods fluctuate by season, generally occurring in the morning hours in winter and in late afternoon during the summer.

Throughput. The amount of natural gas or natural gas liquids transported through a pipeline system.

Transmission System (Electric). An interconnected group of electric transmission lines and related equipment for moving or transferring electric energy in bulk between points of supply and points at which it is transformed for delivery over a distribution system to customers, or for delivery to other electric transmission systems.

Transmission System (Natural Gas). An interconnected group of natural gas pipelines and associated facilities for transporting natural gas in bulk between points of supply and delivery points to industrial customers, local distribution companies, or for delivery to other natural gas transmission systems.

Watt. A measure of real power production or usage equal to one joule per second.

discussion of the current business and operations of each of Duke Energy's segments follows. For further discussion of the operating outlook of Duke Energy and its segments, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Introduction--Business Strategy." For financial information concerning Duke Energy's business segments, see Note 3 to the Consolidated Financial Statements, "Business Segments."

Duke Energy is a North Carolina corporation with its principal executive offices located at 526 South Church Street, Charlotte, NC 28202-1904. The telephone number is 704-594-6200.

ELECTRIC OPERATIONS

Service Area and Customers

Electric Operations' service area, approximately two-thirds of which lies in North Carolina, covers about 22,000 square miles with an estimated population of 5.3 million and includes a number of cities, of which the largest are Charlotte, Greensboro, Winston-Salem and Durham in North Carolina, and Greenville and Spartanburg in South Carolina. Electric Operations supplies electric service directly to approximately two million residential, commercial and industrial customers in more than 200 cities, towns and unincorporated communities. Electricity is sold at wholesale to incorporated municipalities and to several public and private utilities. In addition, sales are made through contractual agreements to municipal or cooperative customers who purchased portions of the Catawba Nuclear Station. For statistics related to

gigawatt-hour sales by customer type, see "Business, Operating Statistics." For further discussion of the Catawba Nuclear Station joint ownership, see Note 5 to the Consolidated Financial Statements, "Joint Ownership of Generating Facilities."

Electric Operations' service area is undergoing increasingly diversified industrial and commercial development. The textile industry, machinery and equipment manufacturing, and chemical and chemical-related industries are of major significance to the economy of the area. Other industrial activities include rubber and plastic products, paper and allied products, and various other light and heavy manufacturing and service businesses. The largest industry served is the textile industry, which accounted for approximately \$428 million of Electric Operations' revenues for 1999, representing 10% of total electric revenues and 36% of industrial revenues. Electric Operations normally experiences seasonal peak loads in summer and winter.

3

<PAGE>

(A map appears here depicting Electric Operation's 100 kV Electric Lines, 230kV Electric Lines, 500 kV Electric Lines, Nuclear Facilities, Fossil Facilities, Hydro Facilities, and Combustion Turbine Facilities.)

Capability and Resources of Energy

Electric energy required to supply the needs of Electric Operations' customers is primarily generated by three nuclear generating stations with a combined net capability of 5,020 megawatts (MW) (Oconee Nuclear Station--2,538 MW, McGuire Nuclear Station--2,200 MW and Catawba Nuclear Station--282 MW, which represents Electric Operations' 12.5% ownership share in the Catawba Nuclear Station), eight coal-fired stations with a combined capability of 7,699 MW, thirty-one hydroelectric stations with a combined capability of 2,803 MW and six combustion turbine stations with a combined capability of 1,784 MW. Energy and capacity are also supplied through contracts with other generators of electricity and purchased on the open market. Electric Operations has interconnections and arrangements with its neighboring utilities, which are considered adequate for planning, emergency assistance, exchange of capacity and energy and reliability of power supply. Future increased energy requirements of Electric Operations' customers are expected to be supplied through purchased power contracts and open market purchases. For statistics regarding sources of electric energy, see "Business, Operating Statistics."

4

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Fuel Supply

Electric Operations presently relies principally on coal and nuclear fuel for the generation of electric energy. Electric Operations' reliance on oil and gas is minimal. Information regarding the utilization of sources of power and cost of fuels for each of the three years in the period ended December 31, 1999 is set forth in the following table:

TABLE>

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Cost of Fuel per Net Generation by Kilowatt-hour Source Generated (Percent)(d) (Cents)(d)						
	1999	1998	1997	1999	1998	1997
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Coal.....	50.4	50.7	59.0	1.33	1.32	1.30
Nuclear(a).....	48.0	46.2	38.5	0.43	0.44	0.48
Oil and gas(b).....	0.8	1.0	0.4	4.51	4.01	5.58
All fuels (cost based on weighted average)(a).....	99.2	97.9	97.9	0.92	0.93	0.99
Hydroelectric(c).....	0.8	2.1	2.1			
	100.0	100.0	100.0			

</TABLE>

- (a) Statistics related to nuclear generation and all fuels reflect Electric Operations' 12.5% ownership interest in the Catawba Nuclear Station.
- (b) Cost statistics include amounts for light-off fuel at Electric Operations' coal-fired stations.
- (c) Generating figures are net of output required to replenish pumped storage units during off-peak periods.
- (d) Years prior to 1998 have been restated to include Nantahala Power and Light.

Coal. Electric Operations meets its coal demand through purchase supply contracts and spot agreements. Large amounts of its coal supply are obtained under supply contracts with mining operators utilizing both underground and surface mining. Electric Operations has an adequate supply of coal to fuel its current operations. Its supply contracts, all of which have price adjustment provisions, have expiration dates ranging from 2000 to 2003. Duke Energy believes that it will be able to renew such contracts as they expire or to enter into similar contractual arrangements with other coal suppliers for the quantities and qualities of coal required. The coal purchased under these supply contracts is produced from mines located in eastern Kentucky, southern West Virginia and southwestern Virginia. Coal requirements not met by supply contracts have been and are expected to be fulfilled with spot market purchases.

The average sulfur content of coal being purchased by Electric Operations is approximately 1%. Such coal satisfies the current emission limitation for sulfur dioxide for existing facilities. See also "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Environmental, Air Quality Control" for additional information regarding this matter.

Nuclear. Generally, the process for developing nuclear generating fuel supply

involves the mining and milling of uranium ore to produce uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride, enrichment of that gas and fabrication of the enriched uranium hexafluoride into usable fuel assemblies. Electric Operations has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Based upon current projections, these contracts will meet Electric Operations' requirements through the following years:

<TABLE>

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Nuclear Station	Uranium Conversion Enrichment Fabrication			
	Material	Service	Service	Service
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Oconee.....	2000	2000	2002	2006
McGuire.....	2000	2000	2002	2009
Catawba.....	2000	2000	2002	2009

</TABLE>

5

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Uranium material requirements will be met through various supplier contracts, with uranium material produced primarily in the U.S. and Canada. Duke Energy believes that it will be able to renew contracts as they expire or to enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services. Requirements not met by long-term supply contracts have been and are expected to be fulfilled with unfabricated uranium spot market purchases.

Duke Energy entered into a contract with the Department of Energy (DOE) to use mixed oxide fuel at its McGuire and Catawba nuclear stations. The mixed oxide fuel is fabricated from plutonium from the government's surplus and is similar to conventional uranium fuel. Before using the fuel, Duke Energy must apply for and receive amendments to the respective facility operating licenses from the Nuclear Regulatory Commission (NRC). Mixed oxide fuel is scheduled to be used at McGuire and Catawba nuclear stations in 2007.

After spent fuel is removed from a nuclear reactor, it is placed in temporary storage for cooling in a spent fuel pool at the nuclear station site. Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by Duke Energy's contract with the DOE. On June 8, 1998, Duke Energy filed with the U.S. Court of Federal Claims a claim against the DOE for damages in excess of \$1 billion arising out of the DOE's failure to begin accepting commercial spent nuclear fuel by January 31, 1998. Damages claimed in the suit are intended to recover costs that Duke Energy is incurring and will continue to incur as a result of the DOE's partial material breach of its contract with Duke Energy, including costs associated with securing additional spent fuel storage capacity. Duke Energy will continue safely manage its spent nuclear fuel until the DOE accepts it.

Competition

Electric industry restructuring is being addressed in all 50 states and in the District of Columbia, which is resulting in changes in the industry. For further discussion, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Electric Competition."

Electric Operations is currently subject to competition in some areas from government owned power systems, municipally owned electric systems, rural electric cooperatives and, in certain instances, other private utilities. Currently, statutes in North Carolina and South Carolina provide for the assignment by the NCUC and the PSCSC, respectively, of all areas outside municipalities in such States to regulated electric utilities and rural electric cooperatives. Substantially all of the territory comprising the Electric Operations' service area has been so assigned. The remaining areas have been designated as unassigned and in such areas Electric Operations remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina there continues to be competition between municipalities and other electric suppliers outside the corporate limits of the municipalities, subject, however, to the regulation of the PSCSC. In addition, Electric Operations is engaged in continuing competition with various natural gas providers.

Regulation

The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Electric Operations' rates for certain electric sales to wholesale customers. For further discussion of rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters--Electric Operations." The FERC, the NCUC and the PSCSC also have authority over the construction and operation of Electric Operations' facilities. Electric Operations holds certificates of public convenience and necessity issued by the FERC, the NCUC and the PSCSC, authorizing it to construct and operate the electric facilities now in operation for which certificates are required, and to sell electricity to retail and wholesale customers. Prior approval from the NCUC and the PSCSC is required to issue securities.

The NCUC, PSCSC and FERC have implemented regulations governing access to regulated electric customer data by non-regulated entities and services provided between regulated and non-regulated affiliated

6.

<PAGE>

entities. These regulations affect the activities of Trading and Marketing, Global Asset Development, and Other Energy Services with Electric Operations.

The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities permit the FERC to order transmission access for third parties to transmission facilities owned by another entity. EPACT does not, however, permit the FERC to issue orders requiring transmission access to retail customers. The FERC has issued orders for third-party transmission service and number of rules of general applicability, including Orders 888 and 889.

Pursuant to the FERC's final rules, Electric Operations obtained from the FERC open-access rule the rights to sell capacity and energy at market-based rates from its own assets. For further discussion, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Electric Competition."

The Electric Operations segment is subject to the jurisdiction of the NRC as to the design, construction and operation of its nuclear stations. For discussions of nuclear decommissioning costs and nuclear insurance regulatory requirements and coverages, see Note 11 to the Consolidated Financial Statements, "Nuclear Decommissioning Costs" and Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies--Nuclear Insurance," respectively.

The hydroelectric generating facilities of Electric Operations are licensed by the FERC under Part I of the Federal Power Act, with license terms expiring from 2001 to 2036. The nuclear generating facilities of Electric Operations are licensed by the NRC with license terms expiring from 2013 to 2026. The FERC has authority to grant extensions of hydroelectric generating licenses, and the NRC has authority to grant extensions of nuclear generating licenses. Duke Energy has filed an application for a 20-year renewal of its operating license for the Oconee Nuclear Station. The application is expected to receive approval from the NRC in 2000. Duke Energy is also initiating the license renewal process for the McGuire and Catawba Nuclear Stations in 2000. Duke Energy has filed a license application for one of its hydroelectric facilities for which it expects to receive a new license by 2001. Duke Energy is also in various stages of relicensing other facilities whose licenses expire between 2005 and 2008.

The Electric Operations segment is subject to the jurisdiction of the Environmental Protection Agency (EPA) and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters."

NATURAL GAS TRANSMISSION

Natural Gas Transmission provides interstate transportation and storage of natural gas through its Northeast Pipelines, which includes Texas Eastern Transmission Corporation (TETCO) and Algonquin Gas Transmission Company (Algonquin). The Midwest Pipelines, which included Panhandle Eastern Pipe Line Company (PEPL) and Trunkline Gas Company (Trunkline), were also a part of Natural Gas Transmission until their sale to CMS Energy Corporation (CMS) in March 1999. See further discussion of the sale in Note 2 to the Consolidated Financial Statements, "Business Combinations, Acquisitions and Dispositions."

Investments include a 37.5% ownership interest in Maritimes & Northeast Pipeline, which has a design capacity of 530 million cubic feet per day (MMcf/d) in Canada and 400 MMcf/d in the U.S. Maritimes & Northeast Pipeline was placed in service and received the first delivery of natural gas from the Sable Offshore Energy Project in December 1999.

In January 2000, Natural Gas Transmission announced that it had entered into a definitive agreement to purchase the East Tennessee Natural Gas Company, a 100-mile pipeline that crosses the TETCO pipeline in Tennessee and serves the rapidly growing southeastern region of the U.S. The transaction is expected to close in late March 2000, subject to regulatory approval. For more information

on this purchase, see Note 19 to the Consolidated Financial Statements, "Subsequent Events."

For 1999, consolidated natural gas deliveries by Natural Gas Transmission's interstate pipelines totaled 1,893 trillion British thermal units (TBtu), compared to 2,593 TBtu in 1998. For the Northeast Pipelines, 1999 natural gas deliveries were 1,565 TBtu, a 7% increase from last year. The Midwest Pipelines, as a consequence of the sale to CMS, reported natural gas deliveries of 328 TBtu in 1999 compared to 1,141 TBtu in 1998.

7

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A majority of the delivered volumes of Natural Gas Transmission's interstate pipelines represents gas transported under long-term firm service agreements with local distribution company (LDC) customers in the pipelines' market areas. Firm transportation services are also provided under contract to gas marketers, producers, other pipelines, electric power generators and a variety of end-users. In addition, the pipelines provide both firm and interruptible transportation to customers on a short-term or seasonal basis. See natural gas deliveries statistics under "Business, Operating Statistics." Demand for gas transmission of Natural Gas Transmission's interstate pipeline systems is seasonal, with the highest throughput occurring during the colder periods in the first and fourth quarters.

Natural Gas Transmission's interstate pipeline systems consist of approximately 11,000 miles of pipe, which include 650 miles related to the partial ownership interest in Maritimes & Northeast Pipeline. The pipeline systems receive natural gas from most major North American producing regions for delivery to markets primarily in the Mid-Atlantic and New England states.

(A map appears here depicting Natural Gas Transmission's interstate pipeline systems and storage.)

TETCO's major customers are located in Pennsylvania, New Jersey and New York, and include LDCs serving the Pittsburgh, Philadelphia, Newark and New York City metropolitan areas. Algonquin's major customers include LDCs and electric power generators located in the Boston, Hartford, New Haven, Providence and Cape Cod areas.

TETCO also provides firm and interruptible open-access storage services. Storage is offered as a stand-alone unbundled service or as part of a no-notice bundled service. TETCO's storage services utilize two joint venture storage facilities in Pennsylvania and one wholly owned and operated storage field in Maryland. TETCO also leases storage capacity. TETCO's certificated working capacity in these three fields is 75 billion cubic feet (Bcf), and the combined working gas in storage was 59 Bcf on December 31, 1999. Algonquin owns no storage fields.

8

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petition

Duke Energy's interstate pipeline subsidiaries compete with other interstate and intrastate pipeline companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service.

In the Mid-Atlantic and New England markets, TETCO competes directly with Transcontinental Gas Pipe Line Corporation, Tennessee Gas Pipeline Company (TGPC), Iroquois Gas Transmission System (Iroquois), CNG Transmission Corporation and Columbia Gas Transmission Corporation. Algonquin competes directly in certain market areas with TGPC and Iroquois.

Natural gas competes with other forms of energy available to Duke Energy's customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in the areas served by Duke Energy.

Regulation

The FERC has authority to regulate rates and charges for natural gas transported in or stored for interstate commerce or sold by a natural gas company in interstate commerce for resale. For further discussion of rate matters, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Liquidity and Capital Resources--Operating Cash Flows" and Note 4 to the Consolidated Financial Statements, "Regulatory Matters--Natural Gas Transmission." The FERC also has authority over the construction and operation of pipeline and related facilities utilized in the transportation, storage and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. TETCO and Algonquin hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate the pipelines, facilities and properties now in operation for which such certificates are required, and to transport and store natural gas in interstate commerce.

As required by FERC Order 636, Natural Gas Transmission's pipelines operate as open-access transporters of natural gas, providing unbundled firm and interruptible transportation and storage services on an equal basis for all gas supplies, whether purchased from the pipeline or from another gas supplier. FERC allows pipelines to recover eligible costs, known as "transition costs," resulting from the implementation of Order 636. For further discussion of Order 636, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters--Natural Gas Transmission."

The FERC has implemented regulations governing access to regulated natural gas transmission customer data by non-regulated entities and services provided between regulated and non-regulated affiliated entities. These regulations affect the activities of Trading and Marketing, Global Asset Development and Other Energy Services with Natural Gas Transmission.

Natural Gas Transmission is subject to the jurisdiction of the EPA and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters." Natural Gas Transmission is also subject to

the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline and LNG plant safety requirements, and to the Hazardous Liquid Pipeline Safety Act of 1979, which regulates oil and petroleum pipelines.

ELD SERVICES

Field Services gathers, processes, transports and markets natural gas and produces, transports and markets NGLs. Field Services owns and operates approximately 28,000 miles of natural gas gathering systems, including intrastate pipelines, and 52 natural gas processing plants in the U.S. and Canada. Field Services also has ownership interests in 12 other natural gas processing plants in the U.S.

Field Services gathers natural gas from production wellheads through gathering systems in western Canada and ten contiguous states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and onshore and offshore Gulf Coast areas. Field Services' operations also include several intrastate pipeline systems and one high-deliverability natural gas storage facility.

9

<PAGE>

The map below includes Field Services' natural gas gathering systems, intrastate pipelines, region offices and supply areas. The map also shows the interstate systems of the Natural Gas Transmission segment.

A map appears here depicting the items indicated in the above paragraph.)

Field Services' NGL processing operations involve the extraction of NGLs from natural gas and, at certain facilities, the fractionation of the NGLs into their individual components (ethane, propane, butane and natural gasoline). The natural gas used in Field Services' processing operations is generally gathered on its own gathering system. NGLs are sold by Field Services to a variety of customers ranging from large, multi-national petrochemical and refining companies to small, family-owned retail propane distributors. Most NGL sales are based upon current market-related prices. Field Services also produces helium at the National Helium Corporation facility in Liberal, Kansas and the Ladder Creek facility in Colorado.

Field Services' operating results are significantly impacted by changes in NGL prices, which increased approximately 30.8% in 1999 compared to 1998. See "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk" for a discussion of Field Services' exposure to changes in commodity prices.

On March 31, 1999, Field Services completed the \$1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR), as well as UPR's

10

<PAGE>

natural gas and NGL marketing activities (collectively, "the UPR acquisition"). For further discussion of the UPR acquisition see Note 2 to the Consolidated Financial Statements, "Business Combinations, Acquisitions and Dispositions."

In 1998, Field Services sold assets related to its crude oil gathering and marketing business, including 1,800 miles of intrastate crude oil pipelines in the Mid-Continent and South Texas areas and 450 miles of intrastate NGL pipelines in the Texas Gulf Coast area, to TEPPCO Partners, L.P. (TEPPCO) in exchange for an additional ownership interest in TEPPCO. As a result of the sale, Duke Energy now has a 2% general partner interest and a 19.1% limited partner interest in TEPPCO, a publicly owned master limited partnership that transports refined products and liquefied petroleum products through a 4,300 mile pipeline system.

On December 16, 1999, Field Services announced that it had signed definitive agreements to combine Field Services' gas gathering and processing businesses with Phillips Petroleum Company's Gas Processing and Marketing unit to form a new midstream company. The transaction is expected to close by late March 2000. For additional information, see Note 19 to the Consolidated Financial Statements, "Subsequent Events."

See certain operating statistics of Field Services under "Business, Operating Statistics." Activities of Field Services can fluctuate in response to the seasonality affecting natural gas.

Competition

Field Services competes with major integrated oil companies, major interstate pipelines, national and local natural gas gatherers, brokers, marketers and distributors for natural gas supplies, in gathering and processing natural gas and in marketing and transporting natural gas and NGLs. Competition for natural gas supplies is primarily based on the efficiency and reliability of operations, the availability of transportation to high demand markets and the ability to obtain a satisfactory price for the producer's natural gas. Competition for sales customers is based primarily upon reliability and price of delivered natural gas and NGLs.

Regulation

The intrastate pipelines owned by the Field Services group are subject to state regulation and, to the extent they provide services under Section 311 of the Natural Gas Policy Act of 1978, are also subject to FERC regulation. However, the majority of the natural gas gathering activities of the Field Services group are not subject to regulation by the FERC.

Field Services is subject to the jurisdiction of the EPA and state environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters." Certain operations of Field Services are subject to the jurisdiction of the Department of Transportation and certain similar state agencies whose regulations have incorporated certain provisions of the Natural Gas Pipeline Safety Act of 1968, the Hazardous Liquid Pipeline Safety Act of 1979, and subsequent amendments.

LOADING AND MARKETING

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's natural gas and electric power trading operations, with Mobil Corporation (Mobil) owning a 40% minority interest. Trading and Marketing also includes certain other trading activities and limited hydrocarbon exploration and production activities that are wholly owned by Duke Energy.

11

<PAGE>

Trading and Marketing markets natural gas primarily to LDCs, electric power generators (including Global Asset Development's generation facilities), municipalities, large industrial end-users and energy marketing companies. Trading and Marketing markets electricity to investor owned utilities, municipal power generators and other power marketers. Trading and Marketing also provides energy management services, such as supply and market aggregation, peaking services, dispatching, balancing, transportation, storage, tolling, contract negotiation and administration, as well as energy commodity risk management products and services. Operations are primarily in the U.S. and, to a lesser extent, in Canada, and are serviced through three operating centers. Additionally, during 1999, Duke Energy Hydrocarbons was formed to invest capital in limited hydrocarbon exploration and production prospects through non-operating working interests.

Natural gas marketing operations encompass both on-system and off-system supplies. With respect to on-system supplies, Trading and Marketing generally purchases natural gas from Field Services' facilities and delivers the gas to intrastate or interstate pipeline for redelivery to another customer. Natural Gas Transmission's pipelines are utilized for deliveries when prudent. With respect to off-system supplies, Trading and Marketing purchases natural gas from producers, pipelines and other suppliers not connected with Duke Energy's facilities for resale to customers. Substantially all of Mobil's U.S. and Canadian natural gas production is committed to be marketed through Trading and Marketing through 2006.

With respect to electricity marketing operations, Trading and Marketing purchases electricity from third-party suppliers and from Global Asset Development's domestic generation facilities for resale to customers.

Trading and Marketing has a portfolio of short-term and long-term sales agreements with customers, the vast majority of which incorporate market-sensitive pricing terms. Long-term gas purchase agreements with producers, principally entered into in connection with on-system supplies, also generally include market-sensitive pricing provisions. Purchases and sales of off-system gas and electricity supplies are normally made under short-term contracts. Purchase and sales commitments involving significant price and location risk are generally hedged with offsetting commitments and commodity futures, swaps and options. For information concerning Trading and Marketing's risk-management activities, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk--Commodity Price Risk" and Note 7 to the Consolidated Financial Statements, "Risk Management and Financial Instruments--Commodity Derivatives--Trading."

See certain operating statistics of Trading and Marketing under "Business, Operating Statistics." Activities of Trading and Marketing can fluctuate in response to the seasonality affecting both electricity and natural gas.

Competition

Trading and Marketing competes with major integrated oil companies, major interstate pipelines and their marketing affiliates, brokers, marketers and distributors, and electric utilities and other electric power marketers for natural gas supplies and in marketing natural gas, electricity and other energy commodities. Competition in the energy marketing business is driven by the price of commodities and services delivered, along with the quality and reliability of services provided.

Regulation

The energy marketing activities of Trading and Marketing may, in certain circumstances, be subject to the jurisdiction of the FERC. Current FERC policies permit Trading and Marketing entities subject to FERC jurisdiction to market natural gas and electricity at market-based rates.

GLOBAL ASSET DEVELOPMENT

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily in the U.S. through Duke Energy North America and internationally, currently in Australia and Latin America, through Duke Energy International.

12

<PAGE>

Deregulation of energy markets in the U.S. and abroad is providing substantial opportunities for Global Asset Development to grow through acquisitions, construction of greenfield projects and expansion of existing facilities. Global Asset Development is an active participant in both domestic and international competitive energy-related markets, which include natural gas pipelines, power generation, energy trading and marketing and other services. Global Asset Development owns, operates or has substantial interests in approximately 12,500 MW of generation and approximately 1,900 miles of pipeline systems, including projects under construction.

Domestically, Duke Energy North America is investing in new merchant power plants throughout the U.S. To capture the greatest value, Duke Energy North America, through its portfolio management strategy, seeks opportunities to invest in markets which have capacity needs and to divest, in whole or in part, when significant value can be realized. During 1999, Duke Energy North America began construction of multiple new power generation plants in the southwest and midwest.

The following map includes Duke Energy North America's power generation facilities.

Map appears here depicting Duke Energy North America's power generation

facilities, including those under construction.)

Duke Energy International continues to focus on its regional target areas in Australia and Latin America for further expansion opportunities and intends to complement its strategies in Europe. In January 1999, Duke Energy International completed the \$315 million purchase of power generation and transmission assets in western Australia and New Zealand, including an ownership interest in a pipeline in western Australia. From August 1999 through January 2000, Duke Energy International entered into a series of transactions to complete an approximate \$1.0 billion purchase of an approximate 95% economic interest in Companhia de Geracao de Energia Eletrica Paranapanema, an electric generating company in Brazil. Also during 1999, Duke Energy International reached a definitive agreement with Dominion Resources, Inc. to acquire its portfolio of hydroelectric, natural gas and diesel power generation businesses in Argentina, Belize, Bolivia and Peru for approximately \$405 million. For additional information on business acquisitions see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Liquidity and Capital Resources--Investing Cash Flows" and Notes 2 and 19 to the Consolidated Financial Statements, "Business Combinations, Acquisitions and Dispositions" and "Subsequent Events," respectively.

13

<PAGE>

The following map illustrates the locations of Duke Energy International's worldwide energy facilities, including projects under construction or under contract.

map appears here depicting the items indicated in the above paragraph.)

Competition and Regulation

Global Asset Development experiences substantial competition from existing utility companies as well as other merchant electric generation companies in the U.S. Internationally, Global Asset Development focuses on regions where free markets prevail or are developing. Competition in these markets is from other multinational energy companies and local private and public utilities.

Most of Global Asset Development's operations are not subject to regulation. However, to the extent that Global Asset Development's generating stations in California sell electricity under "reliability must run" agreements to the California Independent System Operator, such sales are made at FERC regulated rates.

Global Asset Development is subject to international, federal, state and local environmental regulations. For a discussion of environmental regulation, see "Business, Environmental Matters."

OTHER ENERGY SERVICES

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Duke/Fluor Daniel and DukeSolutions.

Duke Engineering & Services specializes in energy and environmental projects and provides comprehensive engineering, quality assurance, project and construction management and operating and maintenance services for all phases hydroelectric, nuclear and renewable power generation, transmission and distribution projects worldwide.

Duke/Fluor Daniel, operating through several entities, provides full service siting, permitting, licensing, engineering, procurement, construction, start-up, operating and maintenance services for fossil-fired plants, both

14

<PAGE>

domestically and internationally. Subsidiaries of Duke Energy and Fluor Corporation each own 50% of Duke/Fluor Daniel.

DukeSolutions provides energy consulting services to large end users of energy by first identifying and then affecting points in a customer's operations where energy related costs are incurred, including procurement, production and disposal. The scope of services involves providing strategic solutions to reduce costs when customers buy energy, convert it into a usable form, use it to manufacture products and dispose of any waste.

Other Energy Services experiences substantial competition from utilities and other independent companies in the U. S. or abroad.

Other Energy Services is subject to the jurisdiction of the EPA and international, state and local environmental agencies. For a discussion of environmental regulation, see "Business, Environmental Matters."

REAL ESTATE OPERATIONS

Real Estate Operations conducts its business through Crescent Resources Inc., which develops high quality commercial and residential real estate projects and manages land holdings in the southeastern U.S. At December 31, 1999, Real Estate Operations owned 4.2 million square feet of commercial and industrial space, with an additional 1.4 million square feet under construction. At December 31, 1999, the commercial portfolio included 2.6 million square feet of office space, 1.5 million square feet of warehouse space and 0.1 million square feet of retail space. In 1999, commercial buildings totaling 2.0 million of square feet were sold for \$155 million.

Real Estate Operations' residential developments are high-end, country club and golf course communities with individual lots sold to custom builders. In 1999, Real Estate Operations added the development of moderately priced residential communities in Jacksonville, Florida, with sales in tracts to national builders. In 1999, Real Estate Operations sold 917 residential developed lots for \$138 million, and tract sales were \$9 million.

In 1999, Real Estate Operations also announced plans to enter the multi-family market and to significantly increase its retail development. At December 1999, Real Estate Operations had approximately 200,000 acres of land under management.

ENVIRONMENTAL MATTERS

Duke Energy is subject to international, federal, state and local regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Certain environmental regulations affecting Duke Energy include:

- . The Clean Air Act Amendments of 1990, which require a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000;
- . State Implementation Plans, which were issued by the EPA to 22 states including North and South Carolina, and the District of Columbia related to existing and new national ambient air quality standards for ozone;
- . The Federal Water Pollution Control Act Amendments of 1987, which require permits for facilities that discharge treated wastewater into the environment; and
- . The Comprehensive Environmental Response, Compensation and Liability Act, which can require any individual or entity which may have owned or operated a disposal site, as well as transporters or generators of hazardous wastes which were sent to such site, to share in remediation costs for the site.

For further discussion of environmental matters involving Duke Energy, including possible liability and capital costs, see "Legal Proceedings," Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Environmental" and Note 14 to the Consolidated Financial Statements,

15

<PAGE>

"Commitments and Contingencies--Environmental." Compliance with international, federal, state and local provisions' regulating the discharge of materials into the environment, or otherwise protecting the environment, is not expected to have a material adverse effect on the competitive position, consolidated results of operations or financial position of Duke Energy.

FOREIGN OPERATIONS AND EXPORT SALES

Foreign operations consisted of 10% of consolidated revenues in 1999 and 15% of consolidated long-lived assets as of December 31, 1999. For 1998 and 1997, foreign operations and export sales were not material to Duke Energy as a whole. For a discussion of Duke Energy's foreign operations and the risks associated with them, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk--Foreign Operations Risk" and Notes 3 and 7 to the Consolidated Financial Statements, "Business Segments" and "Risk Management and Financial Instruments," respectively.

EMPLOYEES

At December 31, 1999, Duke Energy had approximately 21,000 employees. Approximately 1,600 operating and maintenance employees are represented by unions. Of these approximately 1,400 are represented by the International Brotherhood of Electrical Workers (IBEW). During 1999, new agreements were reached with IBEW units for a portion of the employees. Additionally, negotiations began with the IBEW for a new contract for other employees. The new contract when completed, will be effective in 2000. An additional 74 employees are represented by the United Steelworkers and Rubberworkers of America. Approximately 160 employees are represented by the Paper, Allied, Chemical and Energy Workers Union (PACE, formerly the Oil, Chemical and Atomic Workers International Union). Two new agreements were reached with PACE during 1999.

16

<PAGE>

OPERATING STATISTICS

<TABLE>

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Years Ended December 31,

1999 1998 1997 1996 1995

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<C> <C> <C> <C> <C>

Electric Operations(a)

Sources of Electric Energy, GWh(b)

Generated--net output:

Coal.....	41,306	42,164	45,234	40,649	32,389
Nuclear.....	39,263	38,366	29,569	33,177	39,836
Hydro.....	638	1,714	1,633	1,802	2,117
Oil and gas.....	662	846	301	199	255

Total generation..... 81,869 83,090 76,737 75,827 74,597

Purchased power and net interchange..... 3,617 2,659 3,781 3,885 1,239

Total output..... 85,486 85,749 80,518 79,712 75,836

Plus: Purchases from other

Catawba joint owners..... 1,233 1,656 2,316 2,662 6,070

Total sources of energy..... 86,719 87,405 82,834 82,374 81,906

Less: Line loss and company usage..... 5,171 5,394 4,899 4,827 4,780

Total GWh sales..... 81,548 82,011 77,935 77,547 77,126

Electric Energy Sales, GWh

Residential..... 21,897 22,002 20,483 21,484 20,124

General service..... 21,807 21,093 19,687 19,593 18,461

Industrial

Textile..... 11,201 11,981 11,955 11,603 12,155

Other..... 18,704 18,668 18,376 18,131 17,738

Other energy and wholesale..... 7,715 8,933 7,029 6,781 7,852

Total GWh sales billed.....	81,324	82,677	77,530	77,592	76,330
Unbilled GWh sales.....	224	(666)	405	(45)	796

Total GWh sales.....	81,548	82,011	77,935	77,547	77,126

Natural Gas Transmission

Throughput Volumes, TBtu(c):

Northeast Pipelines

TETCO.....	1,254	1,148	1,300	1,349	1,234
Algonquin.....	311	311	341	327	331

Total Northeast Pipelines.....	1,565	1,459	1,641	1,676	1,565

Midwest Pipelines(d)

PEPL.....	176	560	659	687	663
Trunkline.....	152	581	620	632	519

Total Midwest Pipelines.....	328	1,141	1,279	1,319	1,182

Intercompany eliminations.....	--	(7)	(58)	(56)	(44)

Total Natural Gas

Transmission.....	1,893	2,593	2,862	2,939	2,703

Field Services

Natural Gas Gathered and

Processed/Transported, TBtu/d(e)...	5.1	3.6	3.4	2.9	1.9

NGL Production, MBbl/d(f).....	192.4	110.2	108.2	78.5	54.8

Average Natural Gas Price per

MMBtu(g).....	\$2.27	\$2.11	\$2.59	\$2.59	\$1.64

Average NGL Price per Gallon.....	\$0.34	\$0.26	\$0.35	\$0.39	\$0.33

Natural Gas Marketed, TBtu/d.....	0.5	0.4	0.4	0.5	0.1

Trading and Marketing

Natural Gas Marketed, TBtu/d.....	10.5	8.0	6.9	5.5	3.6

Electricity Marketed, GWh.....	109,634	98,991	64,650	4,229	513

<TABLE>

(a) Years prior to 1998 have been restated to include Nantahala Power and Light.

(b) Gigawatt-hour.

(c) Trillion British thermal units.

(d) Sold in March 1999.

(e) Trillion British thermal units per day.

(f) Thousand barrels per day.

(g) Million British thermal units.

<PAGE>

EXECUTIVE OFFICERS OF DUKE ENERGY

Richard B. Priory, 53, Chairman of the Board, President and Chief Executive Officer. Mr. Priory served as President and Chief Operating Officer from 1994 and he assumed his present position in 1997 following the merger with

PanEnergy.

William A. Coley, 56, Group President, Duke Power. Mr. Coley served as President of Duke Energy's Associated Enterprises Group from 1994 to 1997 when he assumed his present position following the merger.

Fred J. Fowler, 54, Group President, Energy Transmission. Mr. Fowler served as Group Vice President of PanEnergy from 1996 until the merger, when he assumed his present position. He was President of TETCO from 1994 to 1996.

Harvey J. Padewer, 52, Group President, Energy Services. Mr. Padewer assumed his present position on January 1, 1999. From 1995 through 1998, he served as Senior Vice President and General Manager of Utilicorp Energy Group, where he was President, Aquila Energy; President, Utilico Group; and Vice Chairman of the Board, Aquila Pipeline Corporation. From 1989 to 1995, he served in executive positions at ABB Power Generation, Inc., first as Vice President, Sales and Marketing and later as President, Turbine Power Division.

Richard W. Blackburn, 57, Executive Vice President, General Counsel and Secretary. Mr. Blackburn was named to his present position in October 1997. Prior to joining Duke Energy, he served as President and Group Executive of NYNEX Corporation's Worldwide Communications and Media Group from 1995 to 1997.

Richard J. Osborne, 49, Executive Vice President and Chief Financial Officer. Mr. Osborne served as Senior Vice President and Chief Financial Officer from 1994 until he assumed his present position in 1997 following the merger.

Ruth G. Shaw, 52, Executive Vice President and Chief Administrative Officer. Shaw served as Senior Vice President, Corporate Resources, from 1994 until she assumed her present position following the merger.

Sandra P. Meyer, 45, Vice President and Corporate Controller. Ms. Meyer assumed her present position in September 1999. Prior to her present position, Ms. Meyer served as Vice President, Duke Power Planning and Finance following the merger in 1997. She became Vice President and Controller of PanEnergy in 1994 and was named to the additional position of Treasurer in October 1996.

Executive officers are elected annually by the Board of Directors and serve until the first meeting of the Board of Directors following the annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers nor any arrangement or understanding between any executive officer and any other person pursuant to which the officer was selected.

Item 2. Properties.

ELECTRIC OPERATIONS

At December 31, 1999, Electric Operations operated three nuclear generating stations with a combined net capability of 5,020 MW (which includes 12.5% ownership in the Catawba Nuclear Station), eight coal-fired stations with a combined capability of 7,699 MW, thirty-one hydroelectric stations with a combined capability of 2,803 MW and six combustion turbine stations with a

combined capability of 1,784 MW, all of which are located in North Carolina or South Carolina.

18

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In addition, Electric Operations owned, as of December 31, 1999, approximately 13,000 conductor miles of electric transmission lines, including 600 conductor miles of 525 kilovolts, 2,600 conductor miles of 230 kilovolts, 6,500 conductor miles of 100 kilovolts, and 3,300 conductor miles of 13 to 66 kilovolts. Electric Operations also owned approximately 91,100 conductor miles of electric distribution lines, including 61,800 conductor miles of rural overhead lines, 15,500 conductor miles of urban overhead lines, 7,500 conductor miles of rural underground lines and 6,300 conductor miles of urban underground lines. At December 31, 1999, the electric transmission and distribution systems comprised approximately 1,600 substations.

Substantially all electric plant is mortgaged under the Indenture relating to First and Refunding Mortgage Bonds.

NATURAL GAS TRANSMISSION

TETCO's gas transmission system extends approximately 1,700 miles from producing fields in the Gulf Coast region of Texas and Louisiana to Ohio, Pennsylvania, New Jersey and New York. It consists of two parallel systems, one consisting of three large-diameter parallel pipelines and the other consisting of from one to three large-diameter pipelines over its length. TETCO's system consists of 9,220 miles of pipeline and has 73 compressor stations.

TETCO also owns and operates two offshore Louisiana pipeline systems, which extend over 100 miles into the Gulf of Mexico and consist of 490 miles of pipeline.

Algonquin's transmission system connects with TETCO's facilities in New Jersey, and extends approximately 250 miles through New Jersey, New York, Connecticut, Rhode Island and Massachusetts. The system consists of 1,066 miles of pipeline with six compressor stations.

For information concerning natural gas storage properties, see "Business, Natural Gas Transmission."

FIELD SERVICES

For information regarding the properties of Field Services, see "Business, Field Services."

GLOBAL ASSET DEVELOPMENT

Duke Energy North America owns several gas-fueled electric generating stations throughout the U.S., including four wholly owned stations in California with combined capacity of 3,351 MW. As of December 31, 1999, Duke Energy North America had ownership interests ranging from 24.42% to 50% in numerous other generating facilities with combined capacity of 1,217 MW. Additionally, Duke Energy North America wholly owns or has ownership interests

ranging from 50% to 78.53% in several generating stations that are under construction. The combined capacity of these facilities is 2,960 MW.

As of December 31, 1999, Duke Energy International's properties included a combination of hydroelectric and thermal power generation assets. Duke Energy International had ownership interests ranging from 50% to 98% in hydroelectric facilities located in Brazil, Argentina, Bolivia, Peru and Belize, with combined capacity of 3,443 MW. Wholly owned thermal facilities in Australia and New Zealand had capacity of 392 MW. Thermal facilities in which Duke Energy International had ownership interests ranging from 21.9% to 97% in Peru, Ecuador, El Salvador, Indonesia and Argentina had capacity of 1,085 MW. These statistics include projects under construction or under contract.

Additionally, Duke Energy International owned 889 miles of pipeline systems in Australia, and had an ownership interest of 11.84% in 800 miles of pipeline systems in Australia and a 21.9% ownership interest in 190 miles of pipeline systems in Peru. These statistics include projects under construction. Also as of December 31, 1999, Duke Energy International had a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) business in Jubail, Saudi Arabia.

For additional information and maps regarding the properties of Global Asset Development, see "Business, Global Asset Development."

19

<PAGE>

REAL ESTATE OPERATIONS

For information regarding the properties of Real Estate Operations, see "Business, Real Estate Operations."

OTHER

None of the properties used in connection with Duke Energy's other business activities are considered material to Duke Energy's operations as a whole.

Item 3. Legal Proceedings.

The Illinois Environmental Protection Agency has initiated an environmental enforcement proceeding against a former subsidiary of Duke Energy relating to alleged air quality permit violations at a natural gas compressor station. Duke Energy has agreed to indemnify the purchaser of this former subsidiary against liability for any penalty or fines resulting from these alleged violations. This proceeding could result in a penalty in excess of \$100,000.

See Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies--Injury and Damages Claims," for discussion of Duke Energy's injury and damages claims.

Management believes that the resolution of the matters discussed and referred above will not have a material adverse effect on consolidated results of operations or financial position.

For additional information concerning litigation and other contingencies, see Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies," and "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Environmental." With respect to the State Implementation Plan EPA proceeding discussed under "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues--Environmental--Air Quality Control," in March 2000, the court ruled in favor of the EPA with respect to several issues. Management's estimate of the potential capital improvement costs in this matter remain appropriate.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of Duke Energy's security holders during the last quarter of 1999.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

The common stock of Duke Energy is listed for trading on the New York Stock Exchange. At February 29, 2000, there were approximately 152,392 holders of record of such common stock.

Common Stock Data by Quarter

<TABLE>

<CAPTION>

	1999			1998		
	Stock Price Range			Stock Price Range		
	Dividends-----			Dividends-----		
	Per Share	High	Low	Per Share	High	Low
<S>	<C>	<C>	<C>	<C>	<C>	<C>
First Quarter....	\$0.55	\$64 11/16	\$54 13/16	\$0.55	\$60 5/8	\$53 7/16
Second Quarter...	1.10	61 3/16	52 1/8	1.10	62 9/16	55 1/8
Third Quarter....	--	58 1/2	52 7/16	--	66 3/16	57 1/16
Fourth Quarter...	0.55	56 7/8	47 1/16	0.55	70 11/16	60 1/16

</TABLE>

On December 17, 1998, Duke Energy's Board of Directors adopted a shareholder rights plan, which was subsequently approved by the North Carolina Utilities Commission and the Public Service Commission of South Carolina. Under the terms of the plan, holders of record of outstanding common stock on February 12, 1999 received one right for each share of common stock owned. The plan is intended to assure fair and equal treatment for all shareholders in the event of a hostile takeover attempt and to encourage a potential acquirer to negotiate with the Board of Directors a fair price for all shareholders before attempting a takeover. The adoption of the plan was not in response to any takeover offer or threat.

Item 6. Selected Financial Data.

TABLE
CAPTION>

	1999	1998	1997(b)	1996(b)	1995(b)
In millions, except per share amounts					
<S>	<C>	<C>	<C>	<C>	<C>
Income Statement					
Operating revenues.....	\$21,742	\$17,610	\$16,309	\$12,302	\$ 9,694
Operating expenses(a).....	19,947	15,177	14,339	10,143	7,626
Operating income.....	1,795	2,433	1,970	2,159	2,068
Other income and expenses.....	248	214	138	135	122
Earnings before interest and taxes..	2,043	2,647	2,108	2,294	2,190
Interest expense.....	601	514	472	499	508
Minority interests.....	142	96	23	6	--
Earnings before income taxes.....	1,300	2,037	1,613	1,789	1,682
Income taxes.....	453	777	639	698	664
Income before extraordinary item....	847	1,260	974	1,091	1,018
Extraordinary gain/(loss), net of tax.....	660	(8)	--	(17)	--
Net income.....	1,507	1,252	974	1,074	1,018
Dividends and premiums on redemptions of preferred and preference stock.....	20	21	72	44	49
Earnings available for common stockholders.....	\$ 1,487	\$ 1,231	\$ 902	\$ 1,030	\$ 969
Common Stock Data					
Shares of common stock outstanding					
Year-end.....	366	363	360	359	362
Weighted average.....	365	361	360	361	361
Earnings per share (before extraordinary item)(a)					
Basic.....	\$ 2.26	\$ 3.43	\$ 2.51	\$ 2.90	\$ 2.68
Dilutive.....	\$ 2.25	\$ 3.42	\$ 2.50	\$ 2.88	\$ 2.67
Earnings per share(a)					
Basic.....	\$ 4.08	\$ 3.41	\$ 2.51	\$ 2.85	\$ 2.68
Dilutive.....	\$ 4.07	\$ 3.40	\$ 2.50	\$ 2.83	\$ 2.67
Dividends per share.....	\$ 2.20	\$ 2.20	\$ 1.90	\$ 1.57	\$ 1.50
Balance Sheet					
Total assets.....	\$33,409	\$26,806	\$24,029	\$22,366	\$20,868
Long-term debt.....	\$ 8,683	\$ 6,272	\$ 6,530	\$ 5,485	\$ 5,803
Preferred stock with sinking fund requirements.....	\$ 104	\$ 124	\$ 149	\$ 234	\$ 234

TABLE>

-
- (a) Financial information reflects a pre-tax \$800 million charge for estimated injury and damages claims. The earnings per share effect of this charge was \$1.34 per share. See Note 14 to the Consolidated Financial Statements, "Commitments and Contingencies--Injury and Damages Claims," for additional information.
- (b) Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1995.

Item 7. Management's Discussion and Analysis of Results of Operations and Financial Condition.

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

21

<PAGE>

Business Segments. Duke Energy Corporation (collectively with its subsidiaries, "Duke Energy") is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments:

- Electric Operations
- Natural Gas Transmission
- Field Services
- Trading and Marketing
- Global Asset Development
- Other Energy Services
- Real Estate Operations

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the sale of the Midwest Pipelines on March 29, 1999, Natural Gas Transmission also provided interstate transportation and storage services in the midwest states. See further discussion of the sale of the Midwest Pipelines in Note 2 to the Consolidated Financial Statements. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces, transports and markets natural gas liquids (NGLs). Field Services

operates gathering systems in western Canada and ten contiguous states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and onshore and offshore Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's energy trading operations, with Mobil Corporation owning a 40% minority interest. This segment also includes certain other trading activities and limited hydrocarbon exploration and production activities that are wholly owned by Duke Energy.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy North America, LLC (Duke Energy North America) and Duke Energy International, LLC (Duke Energy International).

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc. (Duke Engineering & Services), Duke/Fluor Daniel and DukeSolutions, Inc. (DukeSolutions).

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages land holdings in the southeastern U.S.

In 1997, Duke Power Company (Duke Power) merged with PanEnergy Corp (PanEnergy). The merger was accounted for as a pooling of interests; therefore, the Consolidated Financial Statements and other financial information included in this Annual Report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy. See Note 2 to the Consolidated Financial Statements for additional information on the combination.

22

<PAGE>

Business Strategy. Duke Energy's business strategy is to develop integrated energy infrastructures in targeted regions where Duke Energy's extensive capabilities in developing energy assets, operating electricity, gas and NGL plants, optimizing commercial operations and managing risk can provide comprehensive energy solutions for customers and create superior value for shareholders. Domestically, Duke Energy is aggressively investing in new merchant power plants throughout the U.S., expanding its natural gas pipeline infrastructure in the eastern U.S., rapidly increasing its leading position in gas processing and NGL marketing and broadening its trading and marketing expertise across the energy spectrum. Internationally, Duke Energy is currently focusing on integrated electric and gas opportunities in Australia and Latin America and intends to implement its strategies in Europe.

Electric Operations continues to strive to maintain low costs and competitive rates for its customers and to provide high quality customer service. Electric Operations is expected to grow moderately, consistent with historical trends. Expansion will primarily result from continued economic growth in its service territory.

Natural Gas Transmission provides solid earnings growth and strengthens its competitive position by adhering to a comprehensive strategy of selected acquisitions and developing incremental projects that expand services to meet specific customer needs. In January 2000, Natural Gas Transmission announced that it had entered into a definitive agreement to purchase the East Tennessee Natural Gas Company, a pipeline well positioned to serve the rapidly growing southeastern region of the U.S. The transaction is expected to close in the first quarter of 2000, subject to regulatory approval. For more information on this purchase, see Note 19 to the Consolidated Financial Statements.

Duke Energy plans to significantly grow several of its business segments: Field Services, Trading and Marketing, Global Asset Development and Other Energy Services. Restructuring of energy markets in the U.S. and abroad is providing substantial opportunities for these segments to capitalize on their broad capabilities.

Expansion opportunities for Field Services include the planned combination of Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. The transaction is expected to close by first quarter 2000, subject to regulatory approval. See Note 19 to the Consolidated Financial Statements for further discussion.

Trading and marketing activities at Duke Energy continue to expand as Trading and Marketing provides energy supply, output marketing, risk management and commercial optimization services to all of Duke Energy's merchant structure developments. Trading and Marketing continues to increase customer base for wholesale energy management services to aggregators, distribution companies, large industrials and other marketers.

Global Asset Development expects to continue strong earnings growth through acquisitions, divestitures, construction of greenfield projects and expansion of existing facilities as opportunities are extracted, evaluated and realized through the marketplace. Duke Energy's combination of assets and capabilities that span the energy value chain have contributed to Global Asset Development's successful delivery of natural gas pipeline, power generation, energy marketing and other services as demonstrated both domestically and internationally. To capture the greatest value in North America, Duke Energy North America, through its portfolio management strategy, seeks opportunities to invest in markets which have capacity needs and to divest, in whole or in part, when significant value can be realized.

Other Energy Services seeks to grow with various types of services including comprehensive energy efficiencies in food, textile and government facilities.

The strong real estate market in the Southeast continues to present substantial growth opportunities for both the commercial and residential development of Real Estate Operations. In addition to initiating development of significant office and industrial facilities in each of its established markets, Real Estate Operations entered a new market niche in 1999 to develop moderately priced residential communities in Jacksonville, Florida. Real Estate Operations also announced plans to enter the multi-family market and to significantly increase its retail development.

<PAGE>

RESULTS OF OPERATIONS

In 1999, earnings available for common stockholders were \$1,487 million, or \$4.08 per basic share, net of an after-tax extraordinary gain of \$660 million, or \$1.82 per basic share. In 1998, earnings available for common stockholders were \$1,231 million, or \$3.41 per basic share, net of an after-tax extraordinary loss of \$8 million, or \$0.02 per basic share. The increase in earnings available for common stockholders was primarily due to the 1999 extraordinary gain resulting from the sale of the Midwest Pipelines. This gain, along with the factors described below that affect segment profit and loss, was partially offset by a pre-tax \$800 million charge for estimated injury and damages claims (see Note 14 to the Consolidated Financial Statements), higher interest expense and minority interest expense.

Earnings available for common stockholders increased \$329 million in 1998 from 1997 earnings of \$902 million, or \$2.51 per basic share. The increase in earnings available for common stockholders was due to the factors described below that affect segment profit and loss. These factors were partially offset by increased interest expense and minority interests.

Operating income for 1999 was \$1,795 million compared to \$2,433 million in 1998 and \$1,970 million in 1997. Earnings before interest and taxes (EBIT) were \$2,043 million, \$2,647 million and \$2,108 million for 1999, 1998 and 1997, respectively. Management evaluates each business segment based on an internal measure of earnings before interest and taxes, after deducting minority interests. Operating Income and EBIT are affected by the same fluctuations for Duke Energy and each of its business segments. The only notable difference between Operating Income and EBIT is the inclusion in EBIT of certain non-operating activities. See Note 3 to the Consolidated Financial Statements for additional information on business segments.

EBIT is summarized in the following table and is discussed by business segment thereafter.

EBIT by Business Segment

<TABLE>

<CAPTION>

Years Ended December 31,

	1999	1998	1997
In millions			
<S>	<C>	<C>	<C>
Electric Operations.....	\$ 856	\$ 1,513	\$ 1,282
Natural Gas Transmission.....	627	702	624
Field Services.....	144	76	157
Trading and Marketing.....	70	81	23
Global Asset Development.....	181	64	4
Other Energy Services.....	(94)	10	18

In millions

<S>

<C>

<C>

<C>

Electric Operations.....	\$ 856	\$ 1,513	\$ 1,282
Natural Gas Transmission.....	627	702	624
Field Services.....	144	76	157
Trading and Marketing.....	70	81	23
Global Asset Development.....	181	64	4
Other Energy Services.....	(94)	10	18

Real Estate Operations.....	176	142	98
Other Operations.....	(9)	2	(120)
Minority Interests.....	92	57	22
Consolidated EBIT.....	\$ 2,043	\$ 2,647	\$ 2,108

</TABLE>

Other Operations primarily include communication services, water services and certain unallocated corporate costs. Included in the amounts discussed hereafter are intercompany transactions that are eliminated in the Consolidated Financial Statements.

24

<PAGE>

Electric Operations

<TABLE>

<CAPTION>

Years Ended December 31,			
	1999	1998	1997
In millions, except where noted			
	<C>	<C>	<C>
Operating Revenues.....	\$ 4,700	\$ 4,626	\$ 4,401
Operating Expenses.....	3,966	3,228	3,221
Operating Income.....	734	1,398	1,180
Other Income, Net of Expenses.....	122	115	102
EBIT.....	\$ 856	\$ 1,513	\$ 1,282
Sales -- GWh (a).....	81,548	82,011	77,935

</TABLE>

(a) Gigawatt-hours.

In 1999, EBIT for Electric Operations decreased \$657 million compared to 1998, primarily due to an \$800 million charge for estimated injury and damages claims. See Note 14 to the Consolidated Financial Statements for additional information related to this charge. Partially offsetting this decrease was a 2.8% increase in the number of customers in the Electric Operations' service territory during 1999, and the absence of 1998 severance and other costs related to closing Electric Operations' merchandising business.

In 1998, EBIT for Electric Operations increased \$231 million as compared to 1997, primarily due to a 5.2% increase in gigawatt-hour sales. Gigawatt-hour sales increased as a result of warmer spring and summer weather conditions during 1998 and a 2.5% growth in the number of customers in the Electric Operations' service territory. EBIT also increased due to the absence of 1997 severance costs, however this was substantially offset by 1998 costs related to

the closing of Electric Operations' merchandising business.

Natural Gas Transmission

<TABLE>
<CAPTION>

	Years Ended December 31,			
	1999	1998	1997	
	In millions, except where noted			
<S>	<C>	<C>	<C>	
Operating Revenues.....	\$ 1,206	\$ 1,528	\$ 1,572	
Operating Expenses.....	615	864	964	
Operating Income.....	591	664	608	
Other Income, Net of Expenses.....	36	38	16	
EBIT.....	\$ 627	\$ 702	\$ 624	
Throughput -- TBtu (a).....	1,893	2,593	2,862	

</TABLE>

(a) Trillion British thermal units.

EBIT for Natural Gas Transmission decreased \$75 million in 1999 compared to 1998. As a result of the sale of the Midwest Pipelines to CMS Energy Corporation (CMS) on March 29, 1999, EBIT for the Midwest Pipelines decreased \$56 million compared to 1998's full year of operation. For the Northeast Pipelines, EBIT increased \$81 million compared to 1998, primarily as a result of increased earnings from market-expansion projects and joint ventures, higher throughput and lower operating expenses. A gain of \$24 million resulting from the sale of Duke Energy's interest in the Alliance Pipeline project and benefits totaling \$38 million related to the completion of certain PCB (polychlorinated biphenyl) and soil clean-up programs below estimates also increased EBIT in 1999. Partially offsetting these contributions to EBIT were the non-recurrence of the 1998 favorable resolution of regulatory issues related to gas supply realignment cost issues ("GSR issues") and a 1998 refund from a state property tax ruling.

In 1998, EBIT for Natural Gas Transmission increased \$78 million compared to 1997. EBIT for the Northeast Pipelines increased \$56 million in 1998 over 1997, primarily as a result of the favorable resolution of

<PAGE>

GSR issues, favorable state property tax rulings and increased market expansion projects. These increases were partially offset by a decrease in throughput primarily as a result of mild winter weather.

For the Midwest Pipelines, 1998 EBIT increased \$22 million compared to 1997, primarily due to a gain on the sale of the general partner interests in Northern Border Partners, L.P. and non-recurring 1997 litigation expenses.

These increases were partially offset by the favorable resolution of certain regulatory matters in 1997, which was reflected as additional revenue and other income.

Field Services

<TABLE>

<CAPTION>

Years Ended December 31,				
	1999	1998	1997	
In millions, except where noted				
<S>	<C>	<C>	<C>	
Operating Revenues.....	\$ 3,590	\$ 2,639	\$ 3,055	
Operating Expenses.....	3,444	2,598	2,898	
Operating Income.....	146	41	157	
Other Income, Net of Expenses.....	(2)	35	--	
EBIT.....	\$ 144	\$ 76	\$ 157	
Natural Gas Gathered and Processed/Transported, TBtu/d (a).....	5.1	3.6	3.4	
NGL Production, MBbl/d (b).....	192.4	110.2	108.2	
Natural Gas Marketed, TBtu/d.....	0.5	0.4	0.4	
Average Natural Gas Price per MMBtu (c).....	\$ 2.27	\$ 2.11	\$ 2.59	
Average NGL Price per Gallon (d).....	\$ 0.34	\$ 0.26	\$ 0.35	

<TABLE>

- (a) Trillion British thermal units per day.
- (b) Thousand barrels per day.
- (c) Million British thermal units.
- (d) Does not reflect results of commodity hedges.

In 1999, EBIT for Field Services increased \$68 million compared to 1998. A significant portion of the increase resulted from the March 31, 1999 acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR), (collectively, the "UPR acquisition"). For more information on the UPR acquisition, see Note 2 to the Consolidated Financial Statements. Improved average NGL prices, which were up \$0.08 per gallon, or 30.8% from the prior year, also contributed to the increase in EBIT. Partially offsetting these increases were \$34 million in 1998 of gains on sales of assets, which were included in other income.

EBIT for Field Services decreased \$81 million in 1998 from 1997, primarily due to a decrease in average NGL prices of approximately \$0.09 per gallon, or 25.7%. The decrease in EBIT was partially offset by \$34 million of gains on sales of assets, which were included in other income.

On December 16, 1999, Duke Energy announced that it had signed definitive agreements with Phillips Petroleum to form a new midstream gas gathering and processing company. See Note 19 to the Consolidated Financial Statements for further discussion.

<PAGE>

Trading and Marketing

<TABLE>

<CAPTION>

Years Ended December 31,				
	1999	1998	1997	
In millions, except where noted				
<S>	<C>	<C>	<C>	
Operating Revenues.....	\$ 11,793	\$ 8,785	\$ 7,489	
Operating Expenses.....	11,724	8,665	7,446	
Operating Income.....	69	120	43	
Other Income, Net of Expenses.....	43	2	1	
Minority Interest Expense.....	42	41	21	
EBIT.....	\$ 70	\$ 81	\$ 23	
Natural Gas Marketed, TBtu/d.....	10.5	8.0	6.9	
Electricity Marketed, GWh.....	109,634	98,991	64,650	

</TABLE>

In 1999, EBIT for Trading and Marketing decreased \$11 million from 1998. The decrease resulted primarily from lower natural gas trading margins, partially offset by higher electricity trading margins as well as margins associated with other trading activities and sales of natural gas interests associated with drilling activities.

EBIT for Trading and Marketing increased \$58 million in 1998 compared to 1997. The increase resulted primarily from increased trading margins and electricity margins, partially offset by increased expenses due to business growth. Electricity volumes marketed increased primarily as a result of acquiring the remaining 50% ownership interest in the Duke/Louis Dreyfus, L.L.C. (D/LD) joint venture in June 1997.

Global Asset Development

<TABLE>

<CAPTION>

Years Ended December 31,				
	1999	1998	1997	
In millions, except where noted				
<S>	<C>	<C>	<C>	
Operating Revenues.....	\$ 777	\$ 319	\$ 123	
Operating Expenses.....	571	261	129	
Operating Income.....	206	58	(6)	

Other Income, Net of Expenses.....	25	22	11
Minority Interest Expense.....	50	16	1

EBIT.....	\$ 181	\$ 64	\$ 4

Proportional Megawatt Capacity Owned

(a).....	8,773	6,041	3,912

Proportional Maximum Pipeline Capacity

(a), MMcf/d (b).....	309	124	--

<TABLE>

(a) Includes under construction or under contract.

(b) Million cubic feet per day.

In 1999, EBIT for Global Asset Development increased \$117 million compared to 1998. The increase includes \$99 million in income from the sale of partial interests in four generating stations in the U.S. as a result of executing its domestic portfolio management strategy. Earnings from new projects in Latin America and Australia also contributed \$63 million to the increase. Partially offsetting these increases were higher operating expenses and increased development costs associated with business expansion.

EBIT for Global Asset Development increased \$60 million in 1998 over 1997. The increase resulted primarily from business expansion and acquisitions, including the July 1998 acquisition of three electric generating stations in California and the December 1997 acquisition of an indirect 32.5% ownership interest in American Ref-Fuel Company. An expansion to the PT Puncakjaya power generation facility in Indonesia also contributed to the increase in EBIT during 1998. The increase in EBIT was partially offset by decreased earnings resulting from lower prices at National Methanol Company, a methanol and MTBE (methyl tertiary butyl ether) business in Saudi Arabia.

27

<PAGE>

Other Energy Services

<TABLE>

<CAPTION>

Years Ended December 31,

1999	1998	1997

In millions

<S>	<C>	<C>	<C>
Operating Revenues.....	\$ 989	\$ 521	\$ 376
Operating Expenses.....	1,083	511	353
Operating Income.....	(94)	10	23
Other Income, Net of Expenses.....	--	--	(5)
EBIT.....	\$ (94)	\$ 10	\$ 18

<TABLE>

In 1999, EBIT for Other Energy Services decreased \$104 million compared to 1998. The decrease was primarily due to charges of \$38 million and \$35 million Duke Engineering & Services and DukeSolutions, respectively. These charges, which include costs associated with repositioning the companies to focus on growth markets, included expenses related to severance, office closings and write-offs of uncollectable accounts. Increased development activity at DukeSolutions and decreased earnings from projects of Duke Engineering & Services also contributed to lower EBIT. EBIT for Other Energy Services decreased \$8 million in 1998 compared to 1997, primarily due to reduced earnings of Duke Engineering & Services.

Real Estate Operations

<TABLE>

<CAPTION>

	Years Ended December 31,		
	1999	1998	1997
	In millions		
<S>	<C>	<C>	<C>
Operating Revenues.....	\$ 233	\$ 181	\$ 124
Operating Expenses.....	57	39	26
EBIT.....	\$ 176	\$ 142	\$ 98

<TABLE>

In 1999, EBIT for Real Estate Operations increased \$34 million compared to 1998. The increase was primarily due to increased residential developed lot sales, land sales and commercial project sales, partially offset by decreased lake lot sales. EBIT for Real Estate Operations increased \$44 million in 1998 over 1997, primarily as a result of increased commercial project sales, lake lot sales and land sales, including a gain on the sale of land in the Jocassee Gorges region of South Carolina.

Other Operations

EBIT for Other Operations decreased \$11 million in 1999 compared to 1998, primarily as a result of the resolution of certain contingent items during 1998. EBIT for Other Operations increased \$122 million in 1998 compared to 1997, primarily as a result of the absence of \$71 million of non-recurring 1997 merger-related costs and the favorable resolution of certain contingent items in 1998, partially offset by a 1997 gain on the sale of Duke Energy's ownership interest in the Midland Cogeneration Venture.

Other Impacts on Earnings Available for Common Stockholders

Interest expense increased \$87 million in 1999 compared to 1998, and \$42 million in 1998 compared to 1997 due to higher average debt balances tstanding, resulting from acquisitions and expansion.

Minority interests increased \$46 million in 1999 compared to 1998, and \$73

million in 1998 compared to 1997. The increases were due primarily to regular distributions paid on new issuances of Duke Energy's trust preferred securities. For more information on issuances of trust preferred securities, see Note 12 to the Consolidated Financial Statements. Excluding these dividends, minority interests related primarily to Global Asset Development's 1999 investments and Trading and Marketing's joint venture with Mobil Corporation. For more information regarding acquisitions and new projects, see Notes 2 and 8 to the Consolidated Financial Statements.

28

<PAGE>

Duke Energy's effective income tax rate was approximately 35%, 38% and 40% for 1999, 1998 and 1997, respectively. The decrease in 1999 from 1998 was primarily due to the favorable resolution of several income tax issues and the utilization of certain capital loss carryforwards due to the sale of the Midwest Pipelines. Favorable resolution of income tax issues also resulted in a decline in the effective tax rate in 1998 from 1997. Duke Energy expects its ongoing effective tax rate to approximate 38%.

The sale of the Midwest Pipelines to CMS closed on March 29, 1999 and resulted in a \$660 million extraordinary gain, net of income tax of \$404 million. For further discussion on the sale, see Note 2 to the Consolidated Financial Statements.

In January 1998, TEPPCO Partners, L.P., in which Duke Energy has a 21.1% ownership interest, redeemed certain First Mortgage Notes which resulted in Duke Energy recording a non-cash extraordinary loss of \$8 million, net of income tax of \$5 million, related to its share of costs of the early retirement of debt.

In December 1997, Duke Energy redeemed four issues of preferred stock and commenced a tender offer to purchase a portion of six additional issues of preferred stock. Premiums related to these redemptions were included in the Consolidated Statements of Income and Comprehensive Income in 1997 as Dividends and Premiums on Redemptions of Preferred and Preference Stock.

LIQUIDITY AND CAPITAL RESOURCES

Operating Cash Flows

Net cash provided by operations was \$2,684 million in 1999, \$2,331 million in 1998 and \$2,140 million in 1997. In each of these years, the increase in cash was primarily due to net income resulting from business expansion.

On August 29, 1998, the FERC approved a settlement from Texas Eastern Transmission Corporation (TETCO), a subsidiary of Duke Energy, which accelerates recovery of natural gas transition costs. The order was effective October 1, 1998 and includes a rate moratorium until 2004. Net cash flows from operations are not expected to change for the first two years after implementation; however, after the natural gas transition costs are fully recovered, cash flows from operations are expected to decrease on an annual basis. For more information concerning the settlement, see Note 4 to the Consolidated Financial Statements.

In late 1999, Duke Energy established an accrual for estimated injury and damages claims. Duke Energy expects to fund approximately \$350 million, which comprised of an insurance policy premium and estimated claim activity over the next year, primarily through new debt issuances. Management believes that the long-term cash requirements of the projected liability will not have a material effect on Duke Energy's liquidity or cash flows. See Note 14 to the Consolidated Financial Statements for further discussion.

Investing Cash Flows

Capital and investment expenditures were approximately \$5.9 billion in 1999 compared to approximately \$2.5 billion in 1998. The increase primarily resulted from business expansion for the Field Services and Global Asset Development segments. Business expansion for Field Services included the \$1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from UPR along with its natural gas and NGL marketing activities. International business expansion for Global Asset Development included \$1.7 billion for multiple acquisitions in Latin America, western Australia and New Zealand. In 1999, Global Asset Development also began construction of multiple power generation plants in North America and continued capital expenditures on projects initiated prior to 1999. Expenditures related to these activities were partially funded by \$1.9 billion in cash proceeds from the sale of Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, which substantially comprised the Midwest Pipelines, along with Trunkline LNG Company. For additional information concerning acquisitions and dispositions, see Note 2 to the Consolidated Financial Statements.

29

<PAGE>

Capital and investment expenditures in 1998 increased \$472 million from \$2.0 billion in 1997 primarily due to business expansion by Global Asset Development. This included the \$501 million purchase of three electric generating stations in California and the completion of the first phase of Bridgeport Energy, a power generation plant in Connecticut. Business expansion for Natural Gas Transmission and Field Services also contributed to the increase in capital and investment expenditures. The increase was partially offset by decreased expenditures for Electric Operations, primarily as a result of steam generator replacements at certain of its nuclear plants in 1997, and by the acquisition of the remaining 50% ownership of the D/LD joint venture in June 1997.

Projected 2000 capital and investment expenditures for Electric Operations, including allowance for funds used during construction, are approximately \$900 million. These projections include expenditures for existing plants, including refurbishment and upgrades related to the Oconee Nuclear Station's application for a 20-year renewal of its operating license, which is expected to receive approval from the Nuclear Regulatory Commission in 2000.

Projected 2000 capital and investment expenditures for Natural Gas Transmission, including allowance for funds used during construction, are approximately \$600 million. These projections include expansion of the

Maritimes & Northeast Pipeline, which delivers natural gas to markets in the Canadian Maritimes provinces and the northeastern U.S. from a supply basin offshore of Nova Scotia, and the planned \$386 million purchase of the East Tennessee Natural Gas Company, which is expected to close in the first quarter 2000 and is contingent upon regulatory approval. For further discussion on this purchase, see Note 19 to the Consolidated Financial Statements.

Duke Energy plans to continue to significantly grow several of its business segments: Field Services, Global Asset Development, Trading and Marketing and Other Energy Services. Expansion plans for Field Services include the combination of Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. The transaction is expected to close by first quarter 2000 and is subject to regulatory approval. See Note 19 to the Consolidated Financial Statements for additional information.

Projected 2000 capital and investment expenditures for Global Asset Development are approximately \$3.6 billion. Expansion opportunities for Global Asset Development's domestic division, Duke Energy North America, include the continuation of various greenfield projects across the U.S. Expansion plans for Global Asset Development's international division, Duke Energy International, include completing the purchase of Dominion Resources, Inc.'s portfolio of hydroelectric, natural gas and diesel power generation businesses in Argentina and Bolivia (see Note 2 to the Consolidated Financial Statements) and the January 2000 completion of the tender offer for additional ownership interests in Companhia de Geracao de Energia Eletrica Paranapanema (Paranapanema) (see Note 19 to the Consolidated Financial Statements). Duke Energy International will also continue to focus on its regional target areas in Australia and Latin America for further expansion opportunities and intends to implement its strategies in Europe.

Projected 2000 capital and investment expenditures for Trading and Marketing are approximately \$200 million. This includes expenditures related to Trading and Marketing's new subsidiary, Duke Energy Hydrocarbons, which was formed in the second quarter of 1999 to invest capital in limited hydrocarbon exploration and production prospects through non-operating working interests. Duke Energy's intent is to produce natural gas to partially offset the short gas position of Duke Energy's power generation assets and to increase production volumes that will be beneficial to Field Services, Trading and Marketing, and Natural Gas Transmission.

Projected 2000 capital and investment expenditures for Other Energy Services, Real Estate Operations and Other Operations are approximately \$200 million, \$400 million and \$250 million, respectively.

All projected capital and investment expenditures for the above segments are subject to periodic review and revision and may vary significantly depending on a number of factors including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility and economic trends.

Financing Cash Flows

Duke Energy's consolidated capital structure at December 31, 1999, including short-term debt, was 44% debt, 6% minority interests, 7% trust preferred securities, 1% preferred stock and 42% common equity. Fixed charges coverage, calculated using the Securities and Exchange Commission method, was 2.9 times, 4.7 times and 4.1 times for 1999, 1998 and 1997, respectively.

Duke Energy's business expansion opportunities, along with dividends, debt repayments and operating and investing requirements, are expected to be funded by cash from operations, external financing, common stock issuances and the proceeds from certain asset sales.

During 1999, Duke Energy and its subsidiary, Duke Capital Corporation (Duke Capital), issued a total of \$1.9 billion of Senior Notes. The proceeds were used for general corporate purposes, including reducing commercial paper indebtedness incurred in connection with acquisitions of electric power generating assets in Latin America. Global Asset Development, through its Australian subsidiary, borrowed approximately \$450 million under new financing arrangements, including a combined commercial paper and medium-term note program, bank facilities and non-recourse financing for certain western Australian assets. These new Global Asset Development financings are denominated in either Australian or New Zealand dollars. Issuances from the combined commercial paper and medium-term note program and the bank facilities were used to refund bridge financing of assets obtained during 1998 and 1999 and to fund on-going construction expenditures for the Eastern Gas Pipeline and future projects in Australia. Global Asset Development also assumed approximately \$430 million of non-recourse debt, denominated in Brazilian reais, in relation to the acquisition of Paranapanema (see Note 2 to the Consolidated Financial Statements) and borrowed \$380 million under a new bank facility to refinance the California generating assets. For additional information regarding debt, see Note 10 to the Consolidated Financial Statements.

Also during the year, Duke Energy's and Duke Capital's business trusts, which are treated as wholly owned subsidiaries for financial reporting purposes, issued a total of \$500 million of trust preferred securities. See Note 12 to the Consolidated Financial Statements for additional information on trust preferred securities.

Under its commercial paper facilities, Duke Energy had the ability to borrow up to \$2.8 billion at both December 31, 1999 and 1998. The commercial paper facilities consisted of \$1.25 billion for Duke Energy and \$1.55 billion for Duke Capital. At December 31, 1999, Global Asset Development also had available an approximately \$500 million combined commercial paper and medium-term note program. Duke Energy's various bank credit facilities totaled approximately \$3.7 billion (including approximately \$320 million related to foreign facilities) at December 31, 1999 and \$2.9 billion at December 31, 1998. At December 31, 1999, approximately \$1.8 billion was outstanding under the commercial paper facilities and approximately \$460 million of borrowings were outstanding under the bank credit facilities. Certain of the credit facilities support the issuance of commercial paper, therefore, the issuance of commercial paper reduces the amount available under these credit facilities (see Note 10 to the Consolidated Financial Statements).

As of December 31, 1999, Duke Energy and its subsidiaries had the ability to issue up to \$2.15 billion aggregate principal amount of debt and other securities under shelf registrations filed with the Securities and Exchange Commission. Effective January 7, 2000, the amount available was increased by \$1.5 billion. Such securities may be issued as First and Refunding Mortgage Bonds, Senior Notes, Subordinated Notes or Preferred Securities.

On December 16, 1999, Duke Energy announced that it had signed definitive agreements to combine Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. The new company will seek to arrange approximately \$2.6 billion of debt financing and, upon closing of the transaction, will make a one-time cash distribution of \$1.2 billion to both Duke Energy and Phillips Petroleum. The new company would then offer approximately 20% of its equity to the public in 2000 to reduce the debt resulting from the transaction. Such an offering is conditional upon completion of the transaction and favorable market conditions. For additional information, see Note 19 to the Consolidated Financial Statements.

31

<PAGE>

To maintain financial flexibility and reduce the amount of financing needed for growth opportunities, Duke Energy's Board of Directors adopted a dividend policy in June 1998 that targets 50% of earnings paid out in dividends on common stock. The Board of Directors intends to maintain dividends at the current quarterly rate of \$0.55 per share until the target payout ratio is reached at which time it intends to re-evaluate its dividend policy.

In April 1999, Duke Energy's shareholders approved an amendment to the Articles of Incorporation to increase the authorized common stock from 500 million to 1 billion shares. This increase in authorized stock will provide Duke Energy with added flexibility in effecting financings, stock splits or stock dividends, stock plans and other transactions and arrangements involving the use of common stock.

Duke Energy InvestorChoice Plan, a stock dividend reinvestment plan, allows investors to reinvest dividends in new issuances of common stock and to purchase common stock directly from Duke Energy. Issuances under this plan were not material in 1999, 1998 or 1997.

Duke Energy used authorized but unissued shares of its common stock to meet 1999 and 1998 employee benefit plan contribution requirements. This practice is expected to continue in 2000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Policies

Duke Energy is exposed to market risks associated with interest rates, commodity prices, equity prices and foreign exchange rates. Comprehensive risk management policies have been established by the Corporate Risk Management Committee (CRMC) to monitor and control these market risks. The CRMC is chaired

by the Chief Financial Officer and is comprised of senior executives. The CRMC has responsibility for oversight of interest rate risk, foreign currency risk, credit risk and energy risk management, including approval of energy financial exposure limits.

Interest Rate Risk

Duke Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt, fixed-rate debt and trust preferred securities, commercial paper and auction market preferred stock, as well as interest rate swaps and interest rate lock agreements. Duke Energy manages its interest rate exposure by limiting its variable-rate and fixed-rate exposures to certain percentages of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates. Duke Energy may also enter into financial derivative instruments including, but not limited to, swaps, options and treasury rate agreements to manage and mitigate interest rate risk exposure. See Notes 1, 7, 10, 12 and 13 to the Consolidated Financial Statements for additional information.

Based on a sensitivity analysis as of December 31, 1999, it was estimated that if market interest rates average 1% higher (lower) in 2000 than in 1999, earnings before income taxes would decrease (increase) by approximately \$24 million. Comparatively, based on a sensitivity analysis as of December 31, 1998, had interest rates averaged 1% higher (lower) in 1999 than in 1998, it was estimated that earnings before income taxes would have decreased (increased) by approximately \$23 million. These amounts were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of December 31, 1999 and 1998. In the event of a significant change in interest rates, management would likely take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in Duke Energy's financial structure.

Commodity Price Risk

Duke Energy, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price of natural gas, electricity and natural gas liquid products marketed and purchased. Duke Energy employs

32

<PAGE>

established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including forward contracts, futures, swaps and options. Market risks associated with commodity derivatives held for purposes other than trading were not material at December 31, 1999 and 1998. See Notes 1 and 7 to the Consolidated Financial Statements for additional information.

The risk in the commodity trading portfolio is measured on a daily basis utilizing a Value-at-Risk model to determine the maximum potential one-day favorable or unfavorable Daily Earnings at Risk (DER). The DER is monitored daily in comparison to established thresholds. Other measures are also utilized to monitor the risk in the commodity trading portfolio on a monthly and annual

basis.

The DER computations are based on a historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the favorable or unfavorable impact of one-day's price movement on the existing portfolio. The historical simulation emphasizes the most recent market activity, which is considered the most relevant predictor of immediate future market movements for natural gas, electricity and petroleum products. The DER computations utilize several key assumptions, including a 95% confidence level for the resultant price movement and the holding period specified for the calculation. Duke Energy's DER calculation includes commodity derivative instruments held for trading purposes. The estimated potential one-day favorable or unfavorable impact on earnings before income taxes related to commodity derivatives held for trading purposes at December 31, 1999 and 1998 was approximately \$10 million. The average estimated potential one-day favorable or unfavorable impact on earnings before income taxes related to commodity derivatives held for trading purposes was approximately \$11 million and \$5 million during 1999 and 1998, respectively. The increase in average 1999 amounts compared to 1998 is a result of an increase in the authorized energy financial exposure limit in 1998, which was approved by the CRMC. Changes in markets inconsistent with historical trends could cause actual results to exceed predicted limits.

Subsidiaries of Duke Energy are also exposed to market fluctuations in the prices of NGLs related to their ongoing gathering and processing operating activities. Duke Energy closely monitors the risks associated with NGL price changes on its future operations, and where appropriate, uses crude oil and natural gas commodity instruments to hedge NGL prices. Based on a sensitivity analysis as of December 31, 1999, it was estimated that if NGL prices average one cent per gallon less in 2000, earnings before income taxes would decrease by approximately \$6 million, after considering the effect of Duke Energy's commodity hedge positions. Comparatively, based on sensitivity analysis as of December 31, 1998, if NGL prices would have averaged one cent per gallon less in 1999, it was estimated that earnings before income taxes would have decreased by approximately \$8 million.

Equity Price Risk

Duke Energy maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning. (See Note 11 to the Consolidated Financial Statements.) As of December 31, 1999 and 1998, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Management believes that its exposure to fluctuations in equity prices or interest rates will not materially affect consolidated results of operations. See further discussion in the Current Issues, Nuclear Decommissioning Costs section of Management's Discussion and Analysis.

Foreign Operations Risk

Duke Energy is exposed to foreign currency risk, sovereign risk and other foreign operations risk that arise from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations, when possible, contracts are

denominated in or indexed to the U.S. dollar or may be hedged through debt denominated in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to manage its risk related to foreign currency situations. To monitor its currency exchange rate risks, Duke Energy uses sensitivity analysis, which measures the impact of a devaluation of the foreign currencies to which it has exposure.

33

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At December 31, 1999, Duke Energy's primary foreign currency exchange rate exposures were the Brazilian real, the Australian dollar and the Canadian dollar. Exposures to other foreign currencies were not material. Based on the sensitivity analysis at December 31, 1999, a 10% devaluation in the currency exchange rates in Brazil would reduce Duke Energy's financial position by approximately \$65 million and would not significantly affect Duke Energy's consolidated results of operations or cash flows over the next twelve months. Based on the sensitivity analysis at December 31, 1999, a 10% devaluation in other foreign currencies were insignificant to Duke Energy's consolidated results of operations, financial position or cash flows. Exposures to foreign currency risks were not material to consolidated results of operations, financial position or cash flows during 1998.

CURRENT ISSUES

Electric Competition. Wholesale Competition. The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities have established the regulatory framework to open the wholesale energy market to competition. EPACT amended provisions of the Public Utility Holding Company Act of 1935 and the Federal Power Act to remove certain barriers to a competitive wholesale market. EPACT permits utilities to participate in the development of independent electric generating plants for sales to wholesale customers, and also permits the FERC to order transmission access for third parties to transmission facilities owned by another entity. It does not, however, permit the FERC to issue an order requiring transmission access to retail customers. The FERC, responsible in large measure for implementation of EPACT, has moved vigorously to implement its mandate, interpreting the statute broadly and issuing orders for third-party transmission service and a number of rules of general applicability, including Orders 888 and 889.

Open-access transmission for wholesale customers as defined by the FERC's final rules provides energy suppliers, including Duke Energy, with opportunities to sell and deliver capacity and energy at market-based prices. Duke Energy and several of its non-regulated subsidiaries have been granted authority by the FERC to act as power marketers. Electric Operations obtained from the FERC open-access rule the rights to sell capacity and energy at market-based rates from its own assets. Open access provides another supply option through which Electric Operations can purchase at attractive rates a portion of capacity and energy requirements resulting in lower overall costs to customers. Open access also provides Electric Operations' existing wholesale customers with competitive opportunities to seek other suppliers for their capacity and energy requirements.

On December 20, 1999, the FERC issued its Order No. 2000 regarding Regional

Transmission Organizations (RTOs). In its order, the FERC stressed the voluntary nature of RTO participation by utilities and sets minimum characteristics and functions that must be met by utilities that participate in RTO. The order provides for an open, flexible structure for RTOs to meet the needs of the market, and provides for the possibility of incentive ratemaking and other benefits for utilities that participate in an RTO.

The characteristics for acceptable RTOs include independence from market participants, operational control over a region of sufficient scope to support efficient and nondiscriminatory markets, and exclusive authority to maintain short-term reliability. The order requires each utility subject to the jurisdiction of the FERC and not already in a FERC-approved RTO to make a filing by October 15, 2000, that either proposes participation in an RTO that will be in operation no later than December 15, 2001, or provides a status report on the utility's progress towards participation in an RTO.

Because Order No. 2000 has just been issued, and may be revised in certain respects, management cannot estimate its effect on future consolidated results of operations or financial position.

Retail Competition. Currently, Electric Operations operates as a vertically integrated, investor-owned utility with exclusive rights to supply electricity in a franchised service territory--a 20,000-square-mile service territory in the Carolinas. In its retail business, the NCUC and the PSCSC regulate Electric Operations' service and rates.

34

PAGE>

Electric industry restructuring is being addressed in all 50 states and in the District of Columbia. These restructurings will likely impact all entities owning electric generating assets. The NCUC and the PSCSC are studying the merits of restructuring the electric utility industry in the Carolinas. During 1999, three electric utility restructuring bills were filed in South Carolina's House of Representatives. All three bills would introduce competition while allowing utilities to recover stranded costs, and have transition and phase-in periods ranging from five to six years. A task force formed by the South Carolina Senate is also examining issues related to deregulation of the state's electric utility business. This task force will prepare a report for review, discussion and possible legislative action by the state's Senate Judiciary Committee and General Assembly as a whole.

In May 1997, North Carolina passed a bill that established a study commission to examine whether competition should be implemented in the state. Members of this commission include legislators, customers, utilities and a member of an environmental group. The study commission expects to issue its report to the General Assembly in 2000.

One of the significant issues the study commission must address is the approximately \$6 billion of debt issued by the two North Carolina municipal agencies (North Carolina Municipal Power Agency Number 1 and the North Carolina Western Municipal Agency). This debt is related to their joint ownership of generation assets with Duke Energy and Carolina Power & Light (CP&L). The municipal power agencies' member municipalities currently have electric rates

higher than either Duke Energy or CP&L and are facing significant rate increases in the future to service the debt. As a result, the power agencies' debt and electric rates are economic development issues for the 51 power agency municipalities and, by extension, for the state as a whole.

On October 26 and 27, 1999, at the request of the study commission, four proposals were submitted to resolve the municipal debt issue, one of which was a joint Duke Energy-CP&L proposal. The study commission expects to include a recommendation to resolve the municipal debt issue in its report to the General Assembly in 2000.

More than a dozen bills on electric restructuring have been introduced in the last session of Congress. On October 27, 1999 the U.S. House Commerce Subcommittee on Energy and Power voted to move H.R. 2944, "The Electricity Competition and Reliability Act," to the full Commerce Committee. The primary restructuring issues addressed include repeal of major provisions of the Public Utility Holding Company Act and the Public Utility Regulatory Policies Act, reliability, transmission, nuclear decommissioning and state authority.

Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to customers. If cost-based regulation were to be discontinued in the industry for any reason, including competitive pressure on the cost-based prices of electricity, profits could be reduced and electric utilities might be required to reduce their asset balances to reflect a market basis less than cost. Discontinuance of cost-based regulation would also require affected utilities to write off their associated regulatory assets. Duke Energy's regulatory assets are included in the Consolidated Balance Sheets. The portion of these regulatory assets related to electric operations is approximately \$1.4 billion, including primarily purchased capacity costs, debt expense and deferred taxes related to regulatory assets. Duke Energy is recovering substantially all of these regulatory assets through its current wholesale and retail electric rates and would attempt to continue to recover these assets during a transition to competition. In addition, Duke Energy would seek to recover the costs of its electric generating facilities in excess of the market price of power at the time of transition.

Duke Energy supports a properly managed and orderly transition to competitive generation and retail services in the electric industry. However, transforming the current regulated industry into efficient, competitive generation and retail electric markets is a complex undertaking, which will require a carefully considered transition to a restructured electric industry. The key to effective retail competition is fairness among customers, service providers and investors. Duke Energy intends to continue to work with customers, legislators and

35

<PAGE>

regulators to address all the important issues. Management currently cannot predict the impact, if any, of these competitive forces on future consolidated results of operations or financial position.

Natural Gas Competition. Wholesale Competition. On July 29, 1998, the FERC

issued a Notice of Proposed Rulemaking (NOPR) on short-term natural gas transportation services, which proposed an integrated package of revisions to its regulations governing interstate natural gas pipelines. "Short term" has been defined in the NOPR as all transactions of less than one year. Under the proposed approach, cost-based regulation would be eliminated for short-term transportation and replaced by regulatory policies intended to maximize competition in the short-term transportation market, mitigate the ability of companies to exercise residual monopoly power and provide opportunities for greater flexibility in providing pipeline services. The proposed changes include initiatives to revise pipeline scheduling procedures, receipt and delivery point policies and penalty policies, and require pipelines to auction short-term capacity. Other proposed changes would improve the FERC's reporting requirements, permit pipelines to negotiate rates and terms of services, and revise certain rate and certificate policies that affect competition.

In conjunction with the NOPR, the FERC also issued a Notice of Inquiry (NOI) on its pricing policies in the existing long-term market and pricing policies for new capacity. The FERC seeks comments on whether its policies are biased toward either short-term or long-term service, provide accurate price signals and the right incentives for pipelines to provide optimal transportation services and construct facilities that meet future demand and do not result in over building and excess capacity. Comments on the NOPR and NOI were due in April 1999. On September 15, 1999, the FERC issued a new policy statement on certifying new interstate capacity in response to comments filed on the certificate issues raised in the NOPR.

Because the ultimate resolution of these issues is unknown, management cannot estimate the effects of these matters on future consolidated results of operations or financial position.

Retail Competition. Changes in regulation to allow retail competition could affect Duke Energy's natural gas transportation contracts with local gas distribution companies. Natural gas retail deregulation is in the very early stages of development and management cannot estimate the effects of this matter on future consolidated results of operations or financial position.

Nuclear Decommissioning Costs. Duke Energy's estimated site-specific nuclear decommissioning costs total approximately \$1.9 billion stated in 1999 dollars based on decommissioning studies completed in 1999. This estimate includes the cost of decommissioning plant components not subject to radioactive contamination. Duke Energy contributes to an external decommissioning trust fund and maintains an internal reserve to fund these costs.

The balance of the external funds as of December 31, 1999 and 1998 was \$703 million and \$580 million, respectively. The balance of the internal reserve as of December 31, 1999 and 1998 was \$223 million and \$217 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization.

Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of its nuclear plants. Management believes that funding of the decommissioning costs will not have a material adverse effect on consolidated results of operations or financial position. See Note 11 to the Consolidated

Financial Statements for additional information.

As of December 31, 1999 and 1998, the external decommissioning trust fund was invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Maintaining a portfolio that includes long-term equity investments maximizes the returns to be utilized to fund nuclear decommissioning, which in the long-term will better correlate to inflationary increases in decommissioning costs. However, the equity securities included in Duke Energy's portfolio are exposed to price

36

<PAGE>

fluctuations in equity markets, and the fixed-rate, fixed-income securities are exposed to changes in interest rates.

Duke Energy actively monitors its portfolio by benchmarking the performance of its investments against certain indexes and by maintaining, and periodically reviewing, established target allocation percentages of the assets in its trusts. Because the accounting for nuclear decommissioning recognizes that costs are recovered through the Electric Operations segment's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations.

Environmental. Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

Manufactured Gas Plants and Superfund Sites. Duke Energy was an operator of manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of certain former manufactured gas plant sites to investigate and, where necessary, remediate these contaminated sites. The State of South Carolina has expressed interest in entering into a similar arrangement. Duke Energy is considered by regulators to be a potentially responsible party and may be subject to future liability at seven federal Superfund sites and two state Superfund sites. While the cost of remediation of the remaining sites may be substantial, Duke Energy will share in any liability associated with remediation of contamination at such sites with other potentially responsible parties. Management believes that resolution of these matters will not have a material adverse effect on consolidated results of operations or financial position.

PCB (Polychlorinated Biphenyl) Assessment and Clean-up Programs. In June 1999, the Environmental Protection Agency (EPA) certified that TETCO, a wholly owned subsidiary of Duke Energy, had completed clean up of PCB contaminated sites under conditions stipulated by a U.S. Consent Decree in 1989. TETCO is required to continue groundwater monitoring on a number of sites for at least the next two years. The estimated cost of such monitoring is not material.

Under terms of the agreement with CMS discussed in Note 2 to the Consolidated Financial Statements, Duke Energy is obligated to complete clean-up of previously identified contamination at certain agreed-upon sites on the PEPL and Trunkline systems. These clean-up programs are expected to continue until 2001. The contamination resulted from the past use of lubricants containing

PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. Duke Energy has communicated with the EPA and appropriate state regulatory agencies on these matters.

At December 31, 1999 and 1998, remaining estimated clean-up costs on the TETCO, PEPL and Trunkline systems were accrued and included in the Consolidated Balance Sheets as Other Current Liabilities and Environmental Clean-up Liabilities. These cost estimates represent gross clean-up costs expected to be incurred, have not been discounted or reduced by customer recoveries and generally do not include fines, penalties or third-party claims. Costs expected to be recovered from customers have been deferred and are included in the Consolidated Balance Sheets as Environmental Clean-up Costs.

The federal and state clean-up programs are not expected to interrupt or diminish Duke Energy's ability to deliver natural gas to customers. Based on Duke Energy's experience to date and costs incurred for clean-up operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations or financial position.

Air Quality Control. The Clean Air Act Amendments of 1990 require a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000. Duke Energy currently meets all requirements of Phase I. Duke Energy supports the national objective of protecting air quality in the most cost-effective manner, and has already reduced emissions by operating plants efficiently, using nuclear and hydroelectric generation and implementing various compliance strategies. To meet Phase II requirements by

37

<PAGE>

2000, Duke Energy's current strategy includes using low-sulfur coal, purchasing sulfur dioxide emission allowances and installing low-nitrogen oxide burners and emission monitoring equipment. Construction activities needed to comply with Phase II requirements will be completed in the spring of 2000, allowing compliance with year 2000 Phase II requirements. Additional annual operating expenses of approximately \$25 million for low-sulfur coal premiums, emission allowance purchases and other compliance activities will occur after 2000. This strategy is contingent upon developments in future markets for emission allowances, low-sulfur coal, future regulatory and legislative actions and advances in clean air technologies.

In October 1998, the EPA issued a final ruling on regional ozone control which requires revised State Implementation Plans for 22 eastern states and the District of Columbia. This EPA ruling is being challenged in court by various states, industry and other interests, including the states of North Carolina and South Carolina and Duke Energy. In May 1999, the court ordered that no state need submit a plan "pending further order of the court." The EPA has undertaken other ozone-related actions having virtually identical goals. These actions have likewise been challenged by the same or similar parties. The resolution of the October 1998 action is expected to resolve these other ozone-related actions as well. The North Carolina Environmental Management Commission is considering several competing proposals to reduce utility emissions of

nitrogen oxide. A proposed rule is anticipated in March 2000 with a final rule in September 2000. Depending on the resolution of these matters, costs to Duke Energy may range from approximately \$100 million to \$600 million for additional capital improvements.

In October 1999, the EPA sent Duke Energy a request seeking information on Duke Power's repair and maintenance of its coal-fired plants since 1978. This is part of the EPA's New Source Reviews (NSR) enforcement initiative, in which the EPA claims that utilities and others have committed widespread violations of the Clean Air Act permitting requirements for the past quarter century. In November 1999, the EPA filed suit against seven utilities and issued an administrative order to Tennessee Valley Authority alleging numerous NSR permitting violations. The EPA's allegations run counter to previous EPA guidance regarding the applicability of the NSR permitting requirements. Duke Power, along with several other utilities, has routinely undertaken the type of repair, replacement, and maintenance projects that the EPA now claims are illegal. A suit has not been instituted against Duke Energy, and while it is too early to predict any consequences, Duke Energy believes that all of its electric generation units are properly permitted and have been properly maintained. Because this matter is in its most preliminary stage with respect to Duke Energy, management cannot estimate the effects of these matters on future consolidated results of operations or financial position.

In December 1997, the United Nations held negotiations in Kyoto, Japan to determine how to minimize global warming caused by, among other things, carbon dioxide emissions from fossil-fired generating facilities and methane from natural gas operations. Further negotiations in November 1998 resulted in a work plan to complete the operational details of the Kyoto agreement by late 2000. If this initiative is adopted in its current form, it could have far reaching implications to Duke Energy and the entire energy industry. Because this matter is in the early stages of discussion, management cannot estimate the effects on future consolidated results of operations or financial position.

Litigation and Contingencies. For information concerning litigation and other commitments and contingencies, see Note 14 to the Consolidated Financial Statements.

Year 2000 Readiness Program. Duke Energy did not experience any disruption to its operations resulting from the transition to the year 2000. Duke Energy completed its year 2000 readiness program at all of its business units in November 1999. Systems will continue to be monitored throughout the year, with special attention given to the leap year transition. The total cost of the program, including internal labor as well as incremental costs such as consulting and contract costs, was approximately \$58 million. These costs exclude replacement systems that, in addition to being Year 2000 ready, provided significantly enhanced capabilities which benefit operations in future periods.

New Accounting Standard. In September 1998, Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy is required to

<PAGE>

adopt this standard by January 1, 2001. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative. Duke Energy is currently reviewing the expected impact of SFAS No. 133 on consolidated results of operations and financial position.

Subsequent Events. On December 16, 1999, Duke Energy announced that it had signed definitive agreements to combine Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. Under the terms of the agreements, the new company will seek to arrange approximately \$2.6 billion of debt financing and, upon closing of the transaction, will make a one-time cash distribution of \$1.2 billion to both Duke Energy and Phillips Petroleum. At closing, Duke Energy will own about 70% of the new company and Phillips Petroleum will own about 30%. The new company would then offer approximately 20% of its equity to the public in 2000 to reduce the debt resulting from the transaction. Such an offering is conditional upon completion of the transaction and favorable market conditions.

On January 4, 2000, Duke Energy announced that it had entered into a definitive agreement to purchase, for \$386 million, 100% of the stock of El Paso Energy Corporation's wholly owned subsidiary, East Tennessee Natural Gas Company, a 1,100-mile pipeline that crosses Duke Energy's TETCO pipeline and serves the southeastern region of the U.S.

Both transactions are subject to regulatory approval and are expected to close in the first quarter of 2000.

In January 2000, Duke Energy completed a tender offer to the minority shareholders of Paranapanema and successfully acquired an additional 51% economic interest in the company for approximately \$280 million. This increased Duke Energy's economic ownership from approximately 44% to approximately 95%.

Forward-Looking Statements. From time to time, Duke Energy's reports, filings and other public announcements may include assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Duke Energy cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. Some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements include state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree to which competition enters the electric and natural gas industries; industrial, commercial and residential growth in the service territories of Duke Energy and its subsidiaries; the weather and other natural phenomena; the timing and extent of changes in

commodity prices, interest rates and foreign currency exchange rates; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject or other external factors over which Duke Energy has control; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by Duke Energy's credit rating and general economic conditions; growth in opportunities for Duke Energy's business units; and the effect of accounting policies issued periodically by accounting standard-setting bodies.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

See "Management's Discussion and Analysis of Results of Operations" and "Financial Condition, Quantitative and Qualitative Disclosures About Market Risk."

39

<PAGE>

Item 8. Financial Statements and Supplementary Data.

DUKE ENERGY CORPORATION

Consolidated Statements Of Income And Comprehensive Income

<TABLE>

<CAPTION>

Years Ended December 31,

1999 1998 1997

In millions, except
per share amounts

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Operating Revenues

Sales, trading and
marketing of natural gas
and petroleum products

(Notes 1 and 7)..... \$ 10,922 \$ 7,854 \$ 8,151

Generation, transmission
and distribution of
electricity (Notes 1 and

4)..... 4,934 4,586 4,334

Trading and marketing of
electricity (Notes 1 and

7)..... 3,610 2,788 1,665

Transportation and storage
of natural gas (Notes 1

and 4)..... 1,139 1,450 1,504

Other (Note 8)..... 1,137 932 655

Total operating revenues... 21,742 17,610 16,309

Operating Expenses

Natural gas and petroleum

products purchased (Note 1).....	10,636	7,497	7,705
Net interchange and purchased power (Notes 1, and 5).....	3,507	2,916	1,960
Fuel used in electric generation (Notes 1 and 11).....	764	767	743
Other operation and maintenance (Notes 4, 11 and 14).....	3,701	2,738	2,721
Depreciation and amortization (Notes 1 and 5).....	968	909	841
Property and other taxes...	371	350	369
Total operating expenses...	19,947	15,177	14,339

Operating Income.....	1,795	2,433	1,970

Other Income and Expenses

Deferred returns and allowance for funds used during construction (Note 1).....	82	88	109
Other, net.....	166	126	29

Total other income and expenses.....	248	214	138

Earnings Before Interest and Taxes

Taxes.....	2,043	2,647	2,108
Interest Expense (Notes 7 and 10).....	601	514	472
Minority Interests (Note 12).....	142	96	23

Earnings Before Income Taxes

Taxes.....	1,300	2,037	1,613
Income Taxes (Notes 1 and 6).....	453	777	639

Income Before Extraordinary Item

Item.....	847	1,260	974
Extraordinary Gain (Loss), net of tax.....	660	(8)	--

Net Income.....	1,507	1,252	974

Dividends and Premiums on Redemptions of Preferred and Preference Stock (Note 6).....

.....	20	21	72

Earnings Available For
Common Stockholders..... 1,487 1,231 902

Other Comprehensive Income,
net of tax
Foreign currency
translation adjustments
(Note 1)..... (2) -- --

Total Comprehensive
Income..... \$ 1,485 \$ 1,231 \$ 902

Common Stock Data (Note 1)

Weighted average shares
outstanding..... 365 361 360
Earnings per share (before
extraordinary item)
Basic..... \$ 2.26 \$ 3.43 \$ 2.51
Dilutive..... \$ 2.25 \$ 3.42 \$ 2.50
Earnings per share
Basic..... \$ 4.08 \$ 3.41 \$ 2.51
Dilutive..... \$ 4.07 \$ 3.40 \$ 2.50
Dividends per share..... \$ 2.20 \$ 2.20 \$ 1.90

<TABLE>

See Notes to Consolidated Financial Statements.

40

AGE>

DUKE ENERGY CORPORATION

Consolidated Statements Of Cash Flows

<TABLE>
<CAPTION>

Years Ended December 31,

1999 1998 1997

In millions

<\$>

<C>

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<C>

Cash Flows From Operating Activities

Net income..... \$ 1,507 \$ 1,252 \$ 974
Adjustments to reconcile net income to net cash
provided by operating activities:
Depreciation and amortization..... 1,151 1,055 983
Extraordinary (gain) loss, net of tax..... (660) 8 --
Injuries and damages accrual..... 800 -- --
Deferred income taxes..... (210) (35) 99
Purchased capacity levelization..... 104 88 56
Transition cost recoveries (payments), net.... 95 (28) (36)
Increase) decrease in
Receivables..... (659) (18) (266)

Inventory.....	(89)	(104)	(7)
Other current assets.....	(138)	(39)	(18)
Increase (decrease) in			
Accounts payable.....	477	72	239
Taxes accrued.....	(57)	(6)	50
Interest accrued.....	32	(2)	(13)
Other current liabilities.....	73	84	15
Other, net.....	258	4	64

Net cash provided by operating activities..... 2,684 2,331 2,140

Cash Flows From Investing Activities

Capital and investment expenditures.....	(5,936)	(2,500)	(2,028)
Proceeds from sale of subsidiaries.....	1,900	--	--
Decommissioning, retirements and other.....	236	24	34

Net cash used in investing activities..... (3,800) (2,476) (1,994)

Cash Flows From Financing Activities

Proceeds from the issuance of

Long-term debt.....	3,221	1,357	1,618
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy Corporation or Subsidiaries.....	484	581	339
Common stock and stock options.....	162	176	15

Payments for the redemption of

Long-term debt.....	(1,505)	(698)	(869)
Common stock.....	--	--	(25)
Preferred and preference stock.....	(20)	(180)	(224)

Net change in notes payable and commercial

paper.....	58	(350)	(290)
Dividends paid.....	(822)	(814)	(726)
Other.....	22	6	(41)

Net cash provided by (used in) financing

activities..... 1,600 78 (203)

Net increase (decrease) in cash and cash

equivalents.....	484	(67)	(57)
Cash received from business acquisitions.....	49	38	--
Cash and cash equivalents at beginning of year..	80	109	166

Cash and cash equivalents at end of year..... \$ 613 \$ 80 \$ 109

Supplemental Disclosures

Cash paid for interest, net of amount

capitalized..... \$ 541 \$ 490 \$ 476

Cash paid for income taxes..... \$ 732 \$ 733 \$ 470

<TABLE>

See Notes to Consolidated Financial Statements.

DUKE ENERGY CORPORATION

Consolidated Balance Sheets

<TABLE>
<CAPTION>

December 31,

1999 1998

In millions

<C> <C>

<S>

ASSETS

Current Assets (Note 1)

Cash and cash equivalents (Note 7).....	\$ 613	\$ 80
Receivables (Note 7).....	3,248	2,318
Inventory.....	599	543
Current portion of natural gas transition costs (Note 4).....	81	100
Current portion of purchased capacity costs (Note 5).....	146	99
Unrealized gains on mark-to-market transactions (Note 7).....	1,131	1,457
Other (Note 7).....	353	246
Total current assets.....	6,171	4,843

Investments and Other Assets

Investments in affiliates (Notes 8 and 14).....	1,299	902
Nuclear decommissioning trust funds (Note 11).....	703	580
Self-funded pension costs (Note 17).....	315	332
Goodwill, net (Notes 1 and 2).....	844	495
Notes receivable.....	154	244
Unrealized gains on mark-to-market transactions (Notes 1 and 7).....	690	396
Other.....	705	283
Total investments and other assets.....	4,710	3,232

Property, Plant and Equipment (Notes 1, 5, 9, 10 and 11)

Cost.....	30,436	27,128
Less accumulated depreciation and amortization.....	9,441	10,253
Net property, plant and equipment.....	20,995	16,875

Regulatory Assets and Deferred Debits (Note 1)

Purchased capacity costs (Note 5).....	497	648
Debt expense.....	223	253
Regulatory asset related to income taxes.....	500	506
Natural gas transition costs (Note 4).....	4	80
Environmental clean-up costs (Note 14).....	27	69
Other.....	282	300

Total regulatory assets and deferred debits..... 1,533 1,856

Total Assets..... \$33,409 \$26,806

<TABLE>

See Notes to Consolidated Financial Statements.

42

<PAGE>

DUKE ENERGY CORPORATION

Consolidated Balance Sheets, Continued

<TABLE>

<CAPTION>

December 31,

1999 1998

In millions

<S>

<C> <C>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

Accounts payable.....	\$ 2,312	\$ 1,754		
Notes payable and commercial paper (Notes 7 and 10).....			267	209
Taxes accrued (Note 1).....	685	119		
Interest accrued.....	139	109		
Current maturities of long-term debt and preferred stock				
Notes 10 and 13).....	515	707		
Unrealized losses on mark-to-market transactions (Notes 1 and 7).....	1,241	1,387		
Other (Notes 1 and 14).....	717	670		

Total current liabilities..... 5,876 4,955

Long-term Debt (Notes 7 and 10)..... 8,683 6,272

Deferred Credits and Other Liabilities (Note 1)

Deferred income taxes (Note 6).....	3,402	3,705		
Investment tax credit (Note 6).....	225	242		
Nuclear decommissioning costs externally funded (Note 11)....			703	580
Environmental clean-up liabilities (Note 14).....	101	148		
Unrealized losses on mark-to-market transactions (Note 7)....	438	362		
Other (Note 14).....	2,099	907		

Total deferred credits and other liabilities..... 6,968 5,944

Minority Interests (Note 2)..... 1,200 253

Guaranteed Preferred Beneficial Interests in Subordinated

Notes of Duke Energy Corporation or Subsidiaries (Notes 7 and 12)..... 1,404 919

Deferred and Preference Stock (Notes 7 and 13)

Preferred and preference stock with sinking fund requirements.....	71	104
Preferred and preference stock without sinking fund requirements.....	209	209
	-----	-----
Total preferred and preference stock.....	280	313
	-----	-----
Commitments and Contingencies (Notes 5, 11 and 14)		
Common Stockholders' Equity (Notes 15 and 16)		
Common stock, no par, 1 billion shares authorized; 366 million and 363 million shares outstanding at December 31, 1999 and 1998, respectively.....		
	4,603	4,449
Retained earnings.....	4,397	3,701
Accumulated other comprehensive income.....	(2)	--
	-----	-----
Total common stockholders' equity.....	8,998	8,150
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$33,409	\$26,806
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

43

<PAGE>

DUKE ENERGY CORPORATION

Consolidated Statements Of Common Stockholders' Equity

<TABLE>

<CAPTION>

	Years Ended December 31,		
	1999	1998	1997

	In millions		
	<C>	<C>	<C>
Common Stock			
Balance at beginning of year.....	\$ 4,449	\$ 4,284	\$ 4,289
Dividend reinvestment and employee benefits....	154	165	(9)
Other capital stock transactions, net.....	--	--	4
	-----	-----	-----
Balance at end of year.....	4,603	4,449	4,284
	-----	-----	-----
Retained Earnings			
Balance at beginning of year.....	3,701	3,256	3,052
Net income.....	1,507	1,252	974
Common stock dividends.....	(802)	(794)	(682)
Preferred and preference stock dividends and premiums on redemptions (Note 13).....	(20)	(21)	(72)
Other capital stock transactions, net.....	11	8	(16)

Balance at end of year.....	4,397	3,701	3,256
Accumulated Other Comprehensive Income			
Balance at beginning of year.....	--	--	--
Foreign currency translation adjustments (Note			
1).....	(2)	--	--
Balance at end of year.....	(2)	--	--
Total Common Stockholders' Equity.....	\$ 8,998	\$ 8,150	\$ 7,540

<TABLE>

See Notes to Consolidated Financial Statements

44

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements

For the Years Ended December 31, 1999, 1998 and 1997

1. Summary of Significant Accounting Policies

Consolidation. The consolidated financial statements include the accounts of all of Duke Energy Corporation's majority-owned subsidiaries after the elimination of significant intercompany transactions and balances. Investments in other entities that are not controlled by Duke Energy Corporation, but where it has significant influence over operations, are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current and expected future events, actual results could differ from those estimates.

"Duke Energy" is used in these Notes as a collective reference to Duke Energy Corporation and its subsidiaries.

Cash and Cash Equivalents. All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents.

Inventory. Inventory consists primarily of materials and supplies, gas held for transmission, processing and sales commitments, and coal held for electric generation. Inventory is recorded at the lower of cost or market, primarily using the average cost method.

Accounting for Risk Management and Commodity Trading Activities. Duke Energy, primarily through its subsidiaries, manages its exposure to risk from existing

contractual commitments and provides risk management services to its customers and suppliers through commodity derivatives, including forward contracts, futures, over-the-counter swap agreements and options.

Commodity derivatives utilized for trading purposes are accounted for using the mark-to-market method. Under this methodology, these instruments are adjusted to market value, and the unrealized gains and losses are recognized in current period income and are included in the Consolidated Statements of Income and Comprehensive Income as Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power, and in the Consolidated Balance Sheets as Unrealized Gains or Losses on Mark-to-Market Transactions.

Commodity derivatives such as futures, forwards, over-the-counter swap agreements and options are also utilized for non-trading purposes to hedge the impact of market fluctuations in the price of natural gas, electricity and other energy-related products. To qualify as a hedge, the price movements in the commodity derivatives must be highly correlated with the underlying hedged commodity. Under the deferral method of accounting, gains and losses related to commodity derivatives which qualify as hedges are recognized in income when the underlying hedged physical transaction closes and are included in the Consolidated Statements of Income and Comprehensive Income as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power. If the commodity derivative is no longer sufficiently correlated to the underlying commodity, or if the underlying commodity transaction closes earlier than anticipated, the deferred gains or losses are recognized in income.

Duke Energy periodically uses interest rate swaps, accounted for under the accrual method, to manage the interest rate characteristics associated with outstanding debt. Interest rate differentials to be paid or received as interest rates change are accrued and recognized as an adjustment to interest expense. The amount accrued as either a payable to or receivable from counterparties is included in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits.

45

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

1. Summary of Significant Accounting Policies -- Continued

Duke Energy also periodically utilizes interest rate lock agreements to hedge interest rate risk associated with new debt issuances. Under the deferral method of accounting, gains or losses on such agreements, when settled, are deferred in the Consolidated Balance Sheets as Long-term Debt and are amortized in the Consolidated Statements of Income and Comprehensive Income as an adjustment to interest expense.

Duke Energy is exposed to foreign currency risk from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations,

when possible, contracts are denominated in or indexed to the U.S. dollar or may be hedged through debt denominated in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to hedge its risk related to foreign currency fluctuations. To qualify as a hedge, there must be a high degree of correlation between price movements in the derivative and the item designated as being hedged. These derivatives are accounted for under the deferral method previously described under commodity derivatives used for non-trading purposes.

Duke Energy also enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies. These agreements are accounted for under the mark-to-market method previously described.

Goodwill. Goodwill represents the excess of acquisition costs over the fair value of the net assets of an acquired business. The goodwill created by Duke Energy's acquisitions is amortized on a straight-line basis over the useful lives of the assets, ranging from 10 to 40 years. The amount of goodwill reported on the Consolidated Balance Sheets as of December 31, 1999 and 1998, respectively, was \$844 million and \$495 million, net of accumulated amortization of \$218 million and \$166 million. See Note 2 to the Consolidated Financial Statements for information on significant goodwill additions.

Property, Plant and Equipment. Property, plant and equipment are stated at original cost. Duke Energy capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs and replacements is charged to expense as incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates, excluding nuclear fuel, were 3.73%, 3.82% and 3.67% for 1999, 1998 and 1997, respectively.

When property, plant and equipment maintained by Duke Energy's regulated operations are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire regulated operating units are sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced, and any gain or loss is recorded in income, unless otherwise required by the Federal Energy Regulatory Commission (FERC).

Impairment of Long-Lived Assets. The recoverability of long-lived assets and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flow projections.

Unamortized Debt Premium, Discount and Expense. Premiums, discounts and expenses incurred in connection with the issuance of presently outstanding long-term debt are amortized over the terms of the respective issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of those items.

Environmental Expenditures. Environmental expenditures that relate to an existing condition caused by past operations and do not contribute to current or future revenue generation are expensed. Environmental

46

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

1. Summary of Significant Accounting Policies -- Continued

expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated. Certain of these environmental assessments and clean-up costs are expected to be recovered from Natural Gas Transmission customers and have, therefore, been deferred and are included in the Consolidated Balance Sheets as Environmental Clean-up Costs.

Cost-Based Regulation. Duke Energy's regulated operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain assets and liabilities that result from the regulated ratemaking process are recorded that would not be recorded under generally accepted accounting principles for non-regulated entities. These regulatory assets and liabilities are classified in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities, respectively. The applicability of SFAS No. 71 is routinely evaluated, and factors such as regulatory changes and the impact of competition are considered. Discontinuing cost-based regulation or increasing competition might require companies to reduce their asset balances to reflect a market basis less than cost and to write off their associated regulatory assets. Management cannot predict the potential impact, if any, of discontinuing cost-based regulation or increasing competition on future financial position or consolidated results of operations. However, Duke Energy continues to position itself to effectively meet these challenges by maintaining competitive prices.

Common Stock Options. Duke Energy accounts for stock-based compensation using the intrinsic method of accounting. Under this method, compensation cost, if any, is measured as the excess of the quoted market price of Duke Energy's stock at the date of the grant over the amount an employee must pay to acquire the stock. Restricted stock is recorded as compensation cost over the requisite vesting period based on the market value on the date of the grant. Pro forma disclosures utilizing the fair value accounting method are included in Note 16 to the Consolidated Financial Statements.

Revenues. Revenues on sales of electricity and transportation and storage of natural gas are recognized as service is provided. Revenues on sales of natural gas and petroleum products, as well as electricity, gas and other energy products marketed, are recognized in the period of delivery. Receivables on the Consolidated Balance Sheets included \$207 million and \$193 million as of

December 31, 1999 and 1998, respectively, for electric service that has been provided but not yet billed to customers. When rate cases are pending final approval, a portion of the revenues is subject to possible refund. Reserves are established where required for such cases.

Nuclear Fuel. Amortization of nuclear fuel is included in the Consolidated Statements of Income and Comprehensive Income as Fuel Used in Electric Generation. The amortization is recorded using the units-of-production method.

Deferred Returns and Allowance for Funds Used During Construction (AFUDC). Deferred returns represent the estimated financing costs associated with funding certain regulatory assets. These regulatory assets primarily arose from the funding of purchased capacity costs above levels collected in rates. Deferred returns are non-cash items and are primarily recognized as an addition to Purchased Capacity Costs with an offsetting credit to Other Income and Expenses.

AFUDC represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. AFUDC is a non-cash item and is recognized as a cost of Property, Plant and Equipment, with offsetting credits to Other Income and Expenses and to Interest Expense. After construction is completed, Duke Energy is permitted to recover these costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

47

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

1. Summary of Significant Accounting Policies -- Continued

Rates used for capitalization of deferred returns and AFUDC by Duke Energy's regulated operations are calculated in compliance with FERC rules.

Foreign Currency Translation. Assets and liabilities of Duke Energy's international operations, where the local currency is the functional currency, have been translated at year-end exchange rates, and revenues and expenses have been translated using average exchange rates prevailing during the year. Adjustments resulting from translation are included in the Consolidated Statements of Income and Comprehensive Income as Foreign Currency Translation Adjustments. The financial statements of international operations, where the U.S. dollar is the functional currency, reflect certain transactions denominated in the local currency that have been remeasured in U.S. dollars. The remeasurement of local currencies into U.S. dollars creates gains and losses from foreign currency transactions that are included in consolidated net income.

Income Taxes. Duke Energy and its subsidiaries file a consolidated federal income tax return. Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions

recognized for financial reporting result in taxable or tax-deductible amounts in different periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

Earnings Per Common Share. Basic earnings per share is based on a simple weighted average of common shares outstanding. Dilutive earnings per share reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, were exercised or converted into common stock. The numerator for the calculation of basic and dilutive earnings per share is earnings available for common stockholders.

<TABLE>
<CAPTION>

	1999	1998	1997
	-----	-----	-----
	In millions		
	<C>	<C>	<C>
Denominator for Earnings per Share			
Denominator for basic earnings per share (weighted average shares outstanding).....	365	361	360
Assumed exercise of dilutive stock options.....	(a)	1	2
	-----	-----	-----
Denominator for dilutive earnings per share.....	365	362	362
	=====	=====	=====

</TABLE>

(a) While Duke Energy had dilutive stock options as of December 31, 1999, the amount did not round to one million.

Extraordinary Items. In 1999, Duke Energy realized an extraordinary gain of \$660 million, or \$1.82 per share, relating to the sale of certain pipeline companies. See Note 2 to the Consolidated Financial Statements for additional information on the extraordinary item.

In January 1998, TEPPCO Partners, L.P. (TEPPCO), in which a subsidiary of Duke Energy has a 2% general partner interest and a 19.1% limited partner interest, redeemed certain First Mortgage Notes. A non-cash extraordinary loss of \$8 million, net of income tax of \$5 million, was recorded related to costs of the early retirement of debt. Earnings per common share for 1998 were reduced by \$0.02 as a result of this charge.

New Accounting Standard. In September 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy is required to adopt this standard by January 1, 2001. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

1. Summary of Significant Accounting Policies -- Continued

derivative. Duke Energy is currently reviewing the expected impact of SFAS No. 133 on consolidated results of operations and financial position.

Reclassifications. Certain amounts have been reclassified in the Consolidated Financial Statements to conform to the current presentation.

2. Business Combinations, Acquisitions and Dispositions

Business Combinations: PanEnergy Corp (PanEnergy). On June 18, 1997, Duke Power Company (Duke Power) changed its name to Duke Energy Corporation and completed a stock-for-stock merger with PanEnergy (the merger). PanEnergy was involved in the gathering, processing, transportation and storage of natural gas; the production of natural gas liquids (NGLs); and the marketing of natural gas, electricity and other energy-related products. Pursuant to the merger agreement, Duke Energy issued 158.3 million shares of its common stock in exchange for all of the outstanding common stock of PanEnergy. Accordingly, each share of PanEnergy common stock outstanding was converted into the right to receive 1.0444 shares of Duke Energy's common stock. In addition, each outstanding option to purchase PanEnergy common stock became an option to purchase common stock of Duke Energy, adjusted accordingly. The merger was accounted for as a pooling of interests; therefore, the Consolidated Financial Statements and other financial information included in this Annual Report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy.

Business Acquisitions: For acquisitions accounted for using the purchase method, assets and liabilities have been consolidated as of the purchase date and earnings from the acquisitions have been included in consolidated earnings of Duke Energy subsequent to the purchase date. Assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired are recorded as goodwill.

Dominion Resources' Hydroelectric, Natural Gas and Diesel Power Generation Businesses. In August 1999, Duke Energy, through its wholly owned subsidiary, Duke Energy International, LLC (Duke Energy International) reached a definitive agreement with Dominion Resources, Inc. (Dominion Resources) to acquire its portfolio of hydroelectric, natural gas and diesel power generation businesses in Argentina, Belize, Bolivia and Peru for approximately \$405 million. In October 1999, Duke Energy International completed the purchase of the businesses in Belize and Peru from Dominion Resources, as well as acquired additional ownership interests in the Peru business (Egenor) from two other parties for \$152 million in cash and certain other ownership interests in South America. The purchase increased Duke Energy International's ownership in Egenor from approximately 30% to 90%. The completion of the purchases in Argentina and Bolivia are subject to receiving appropriate governmental consents and approvals and are expected to close by mid-2000.

Assets and liabilities of the Belize and Peru businesses have been recorded at preliminary fair values along with goodwill of \$74 million which is being

amortized on a straight-line basis over 35 to 40 years. The final purchase price allocation and estimated life of goodwill are subject to adjustment when additional information concerning asset and liability valuations is finalized and the evaluation of certain pre-acquisition contingent liabilities has been completed.

Companhia de Geracao de Energia Eletrica Paranapanema (Paranapanema). In August 1999, Duke Energy International entered a series of transactions to complete a \$761 million purchase of a controlling voting interest and an approximate 44% economic interest in Paranapanema, an electric generating company in

49

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

2. Business Combinations, Acquisitions and Dispositions -- Continued

Brazil. Assets and liabilities have been recorded at preliminary fair values along with goodwill of \$134 million which is being amortized on a straight-line basis over 40 years. The final purchase price allocation and estimated life of goodwill are subject to adjustment when additional information concerning asset and liability valuations is finalized and the evaluation of certain pre-acquisition contingent liabilities has been completed.

In January 2000, Duke Energy completed a tender offer to the minority shareholders of Paranapanema and successfully acquired an additional 51% economic interest in the company for approximately \$280 million. This increased Duke Energy's economic ownership from approximately 44% to approximately 95%. See Note 19 to the Consolidated Financial Statements.

Union Pacific Resources' Gathering, Processing and Marketing Operations. On March 31, 1999, Duke Energy through its wholly owned subsidiary, Duke Energy Field Services, Inc., completed the \$1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR), as well as UPR's NGL marketing activities (collectively, "the UPR acquisition"). Goodwill of \$135 million has been recorded and is being amortized on a straight-line basis over 15 to 20 years. The final purchase price allocation and estimated life of goodwill are subject to adjustment pending additional information concerning asset and liability valuations and the evaluation of certain pre-acquisition contingent liabilities.

Dispositions: PEPL Companies and Trunkline LNG. On March 29, 1999, wholly owned subsidiaries of Duke Energy sold Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company and additional storage related to those systems (collectively, the PEPL Companies), which substantially comprised the Midwest pipelines, along with Trunkline LNG Company (Trunkline LNG) to CMS Energy Corporation (CMS). The sales price of \$2.2 billion involved cash proceeds of \$1.9 billion and CMS' assumption of existing PEPL debt of approximately \$300

million. The sale resulted in an extraordinary gain of \$660 million, net of income tax of \$404 million, and an increase in earnings per basic share of \$1.82. Under the terms of the agreement with CMS, Duke Energy retained certain assets and liabilities, such as the Houston office building, certain environmental, legal and tax liabilities, and substantially all intercompany balances. Management believes that the retention of these items will not have a material adverse effect on consolidated results of operations or financial position.

Combined Operating Results of the PEPL Companies and Trunkline LNG for the Period from January 1, 1999 through March 28, 1999 (a)

<TABLE>
<CAPTION>

	In millions
<S>	<C>
Operating Revenues.....	\$126
Operating Expenses.....	57
Other Income, Net.....	4

Earnings Before Interest and Taxes.....	\$ 73

</TABLE>

(a) Excludes intercompany building rental revenue, allocated corporate expenses, building depreciation and certain other costs retained by Duke Energy.

The pro forma results of operations for acquisitions and dispositions do not materially differ from reported results.

50

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

3. Business Segments

Duke Energy is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments:

- . Electric Operations
- . Natural Gas Transmission
- . Field Services
- . Trading and Marketing
- . Global Asset Development
- . Other Energy Services
- . Real Estate Operations

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the FERC, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the sale of the Midwest Pipelines on March 29, 1999, Natural Gas Transmission also provided interstate transportation and storage services in the midwest states. See further discussion of the sale of the Midwest Pipelines in Note 2 to the Consolidated Financial Statements. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces, transports and markets NGLs. Field Services operates gathering systems in western Canada and ten contiguous states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and onshore and offshore Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's energy trading operations, with Mobil Corporation owning a 40% minority interest. This segment also includes certain other trading activities and limited hydrocarbon exploration and production activities that are wholly owned by Duke Energy.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy North America, LLC (Duke Energy North America) and Duke Energy International.

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc., Duke/Fluor Daniel and DukeSolutions, Inc.

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages land holdings in the southeastern U.S.

Duke Energy's reportable segments are strategic business units that offer different products and services and are each managed separately. The accounting policies for the segments are the same as those described in Note 1 to the Consolidated Financial Statements. Management evaluates segment performance based on earnings before interest and taxes (EBIT) after deducting minority interests. EBIT presented in the accompanying table includes intersegment sales accounted for at prices representative of unaffiliated party

Notes to Consolidated Financial Statements -- Continued

Business Segments -- Continued

transactions. Segment assets are provided as additional information in the accompanying table and are net of intercompany advances, intercompany notes receivable and investments in subsidiaries.

Other Operations primarily includes communication services, water services and certain unallocated corporate items.

Business Segment Data

<TABLE>

<CAPTION>

	Depreciation Capital and Unaffiliated Intersegment Total and Investment Segment Revenues Revenues Revenues EBIT Amortization Expenditures Assets						

	In millions						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Year Ended December 31, 1999							
Electric Operations.....	\$ 4,700	\$ --	\$ 4,700	\$ 856	\$ 542	\$ 759	\$13,133
Natural Gas							
Transmission.....	1,100	106	1,206	627	126	261	3,897
Field Services.....	2,883	707	3,590	144	131	1,630	3,565
Trading and Marketing...	11,334	459	11,793	70	12	104	4,060
Global Asset							
Development.....	612	165	777	181	104	2,703	6,673
Other Energy Services...	886	103	989	(94)	14	94	612
Real Estate Operations..	233	--	233	176	9	368	983
Other Operations.....	(6)	44	38	(9)	30	17	1,298
Eliminations and							
Minority Interests.....	--	(1,584)	(1,584)	92	--	--	(812)
	-----	-----	-----	-----	-----	-----	-----
Total Consolidated....	\$21,742	\$ --	\$21,742	\$ 2,043	\$968	\$5,936	\$33,409

Year Ended December 31, 1998

Electric Operations.....	\$ 4,626	\$ --	\$ 4,626	\$ 1,513	\$ 522	\$ 586	\$12,953
Natural Gas							
Transmission.....	1,426	102	1,528	702	215	290	4,996
Field Services.....	2,094	545	2,639	76	80	304	1,893
Trading and Marketing...	8,614	171	8,785	81	11	8	3,233
Global Asset							
Development.....	237	82	319	64	31	1,027	2,061
Other Energy Services...	436	85	521	10	12	41	376
Real Estate Operations..	181	--	181	142	6	217	724
Other Operations.....	(4)	26	22	2	32	27	968
Eliminations and							
Minority Interests.....	--	(1,011)	(1,011)	57	--	--	(398)

Total Consolidated....	\$17,610	\$ --	\$17,610	\$ 2,647	\$909	\$2,500	\$26,806

Year Ended December 31,
1997

Electric Operations.....	\$ 4,401	\$ --	\$ 4,401	\$ 1,282	\$498	\$ 743	\$12,958
Natural Gas							
Transmission.....	1,468	104	1,572	624	229	247	5,059
Field Services.....	2,481	574	3,055	157	71	157	1,855
Trading and Marketing...	7,411	78	7,489	23	7	18	1,857
Global Asset							
Development.....	109	14	123	4	9	348	988
Other Energy Services...	343	33	376	18	6	47	223
Real Estate Operations..	124	--	124	98	4	223	594
Other Operations.....	(28)	--	(28)	(120)	17	245	941
Eliminations and							
Minority Interests.....	--	(803)	(803)	22	--	--	(446)

Total Consolidated....	\$16,309	\$ --	\$16,309	\$ 2,108	\$841	\$2,028	\$24,029

</TABLE>

52

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

3. Business Segments -- Continued

In 1999, foreign operations consisted of 10% of consolidated revenues and 15% of consolidated long-lived assets, primarily in Canada and Latin America. Foreign operations were not material for 1998 and 1997.

4. Regulatory Matters

Electric Operations. The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Electric Operations' rates for electric sales to wholesale customers. Electric sales to the other joint owners of the Catawba Nuclear Station, which represent a majority of Electric Operations' electric wholesale revenues, are set through contractual agreements.

In 1997, in conjunction with its merger with PanEnergy, Duke Energy agreed to cap the base electric rates for retail customers at existing levels through 2000, with very limited exceptions. Duke Energy also agreed to freeze rates, except for the market-based rates, for transmission and wholesale electric sales. In addition, Duke Energy agreed to a cap on the rates charged to the other joint owners of Catawba Nuclear Station under the interconnection agreements and on the reimbursement of certain costs related to administration

and general expenses and general plant costs under operation and fuel agreements. Management believes that these agreements will not have a material adverse effect on consolidated results of operations or financial position.

Fuel costs are reviewed semiannually in the wholesale jurisdiction and annually in the South Carolina retail jurisdiction, with provisions for reviewing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings. All jurisdictions allow Duke Energy to adjust electric rates for past over- or under-recovery of fuel costs. Therefore, the difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues. The stipulation agreements related to the merger do not apply to the fuel cost adjustments.

Certain of Electric Operations' electric wholesale customers, excluding the other Catawba Nuclear Station joint owners, initiated proceedings in 1995 before the FERC concerning rate-related matters. Duke Energy and nine of its eleven wholesale customers entered into a settlement in July 1996 which reduced the customers' electric rates by approximately 9%. These contracts will be in effect through 2001, subject to annual renewals thereafter. Both of the customers that did not enter into the settlement signed agreements and began purchasing electricity from other suppliers in 1997. Management believes that these agreements will not have a material adverse impact on consolidated results of operations or financial position.

In December 1997, Duke Energy filed applications with the FERC, NCUC and PSCSC for authority to combine Nantahala Power and Light (a wholly owned subsidiary) and Duke Power. Duke Energy received the necessary approvals in June, April and February 1998, respectively. Nantahala Power and Light began operations as a division of Duke Power effective August 3, 1998.

On December 20, 1999, the FERC issued Order 2000, which encourages transmission owners to voluntarily join Regional Transmission Organizations (RTOs) to increase access to the nation's power grid. All public utilities that own, operate, or control interstate electric transmission are required to file with the FERC by October 15, 2000. This filing must describe the company's proposal to join an RTO, including a description of efforts to participate, reasons for not participating, plans for further work towards participation and/or any obstacles in participation. All RTOs are to be operational by December 15, 2001.

Natural Gas Transmission. Duke Energy's interstate natural gas pipelines primarily provide transportation and storage services pursuant to FERC Order 636. Order 636 allows pipelines to recover eligible

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

Regulatory Matters -- Continued

costs resulting from implementation of the order (transition costs). In 1994, the FERC approved Texas Eastern Transmission Corporation's (TETCO) settlement involving regulatory issues related primarily to Order 636 transition costs and a number of other issues related to services prior to Order 636. Under the 1994 settlement, TETCO's liability for transition costs was estimated based on the amount of producers' natural gas reserves and other factors. In 1998, TETCO favorably resolved all remaining gas purchase contracts, recognizing \$39 million of income (\$24 million after tax). In addition, the FERC approved a settlement filed by TETCO, which accelerates recovery of natural gas transition costs. The 1998 settlement is not expected to have a material adverse effect on the consolidated results of operations or financial position.

Global Asset Development. Three California electric generating plants, Moss Landing, South Bay and Oakland, sell electricity under the terms of Reliability Must Run Agreements with the California Independent System Operator, which purchases electricity at FERC regulated rates. Moss Landing and Oakland have entered into settlement agreements with respect to the rates to be paid to them by the Independent System Operator. Those settlements were approved by the FERC in January 2000. South Bay has not reached a final agreement with respect to its electric rates and, therefore, its rates are subject to partial refund or surcharge. Management believes that the final resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position.

5. Joint Ownership of Generating Facilities

Joint Ownership of Catawba Nuclear Station

<TABLE>

<CAPTION>

Owner	Ownership Interest
-----	-----
<S>	<C>
North Carolina Municipal Power Agency Number 1 (NCMPA).....	37.5%
North Carolina Electric Membership Corporation (NCEMC).....	28.125%
Duke Energy Corporation.....	12.5%
Piedmont Municipal Power Agency (PMPA).....	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River).....	9.375%

	100%
	=====

</TABLE>

As of December 31, 1999, \$523 million of Property, Plant and Equipment and \$243 million of accumulated depreciation and amortization represented Duke Energy's investment in Catawba Nuclear Station Units 1 and 2. Duke Energy's share of operating costs is included in the Consolidated Statements of Income and Comprehensive Income.

Duke Energy entered into contractual interconnection agreements with the other joint owners of Catawba Nuclear Station to purchase declining percentages of the generating capacity and energy from the station. These purchased power

agreements became effective in 1985 and 1986. The purchased power agreements were established for fifteen years for NCMPA and PMPA and ten years for NCEMC and Saluda River.

The portion of purchased capacity subject to levelization not recovered in rates was deferred. Duke Energy is recovering the accumulated balance, including returns on the deferred balance, over a period expected to end in 2004. Jurisdictional levelizations are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. The current levelized approved revenues are approximately \$186 million.

54

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

5. Joint Ownership of Generating Facilities -- Continued

For the years ended December 31, 1999, 1998 and 1997, purchased capacity and energy costs from the other joint owners was approximately \$62 million, \$88 million and \$120 million, respectively. These amounts, after adjustments for the costs of capacity purchased not reflected in current rates, are included in the Consolidated Statements of Income and Comprehensive Income as Net Exchange and Purchased Power. As of December 31, 1999 and 1998, \$643 million and \$747 million, respectively, associated with the cost of capacity purchased but not reflected in current rates have been accumulated in the Consolidated Balance Sheets as Purchased Capacity Costs and Current Portion of Purchased Capacity Costs.

The interconnection agreements also provide for supplemental power sales by Duke Energy to the other joint owners of Catawba Nuclear Station to satisfy their capacity and energy needs beyond the capacity and energy which they retain from the station or potentially acquire in the form of other resources.

The agreements

further provide the other joint owners the ability to secure such supplemental requirements outside of these contractual agreements following an appropriate notice period. NCEMC, Saluda River and NCMPA have given such appropriate notice effective January 1, 2001. PMPA will continue to receive supplemental power sales from Duke Energy through December 31, 2005. As the other joint owners retain more capacity and energy from the station, or obtain additional capacity and energy from a third party, supplemental power sales are expected to decline. Management believes this will not have a material adverse effect on consolidated results of operations or financial position.

6. Income Taxes

Income Tax Expense

<TABLE>

<CAPTION>

	For the Years Ended December 31,		
	1999	1998	1997
	In millions		
<S>	<C>	<C>	<C>
Current income taxes			
Federal.....	\$ 526	\$ 673	\$ 433
State.....	138	138	100
Total current income taxes.....	664	811	533
Deferred income taxes, net			
Federal.....	(127)	(15)	112
State.....	(65)	(4)	9
Total deferred income taxes, net.....	(192)	(19)	121
Investment tax credit amortization.....	(19)	(15)	(15)
Total income tax expense.....	\$ 453	\$ 777	\$ 639

</TABLE>

55

AGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

6. Income Taxes -- Continued

Income Tax Expense Reconciliation to Statutory Rate

<TABLE>

<CAPTION>

	For the Years Ended December 31,		
	1999	1998	1997
	In millions		
<S>	<C>	<C>	<C>
Income tax, computed at the statutory rate of 35%..	\$ 455	\$ 713	\$ 565
Adjustments resulting from:			
State income tax, net of federal income tax effect.....	47	90	71
Favorable resolution of tax issues.....	(30)	--	--
Other items, net.....	(19)	(26)	3

Total income tax expense.....	\$ 453	\$ 777	\$ 639

Effective tax rate.....	34.9%	38.1%	39.6%

</TABLE>

Net Deferred Income Tax Liability Components

<TABLE>

<CAPTION>

December 31,

1999	1998

In millions

<S>

<C>

<C>

Deferred credits and other liabilities.....	\$ 556	\$ 268
Alternative minimum tax credit carryforward.....	--	30
Other.....	8	36

Total deferred income tax assets.....	564	334
Valuation allowance.....	(62)	(52)

Net deferred income tax assets.....	502	282

Investments and other assets.....	(245)	(207)
Property, plant and equipment.....	(2,483)	(2,405)
Regulatory assets and deferred debits.....	(427)	(542)
Regulatory asset related to restating to pre-tax basis....	(432)	(435)
Other.....	--	(69)

Total deferred income tax liabilities.....	(3,587)	(3,658)

State deferred income tax, net of federal tax effect.....	(340)	(357)

Net deferred income tax liability.....	\$(3,425)	\$(3,733)

</TABLE>

The change in the net deferred income tax liability from 1998 to 1999 differs from the 1999 deferred income tax expense as a result of the removal of net deferred income tax liabilities due to the sale of the PEPL Companies and Trunkline LNG.

7. Risk Management and Financial Instruments

Commodity Derivatives. Duke Energy, primarily through Trading and Marketing, manages its exposure to risk from existing contractual commitments and provides risk management services to its customers through forward contracts, futures, over-the-counter swap agreements and options (collectively, "commodity derivatives"). Energy commodity forward contracts involve physical delivery of energy commodity. Energy commodity futures involve the buying or selling of natural gas, electricity or other energy-related commodities at a fixed price.

Over-the-counter swap agreements require Duke Energy to receive or make payments based on

56

AGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

7. Risk Management and Financial Instruments -- Continued

the difference between a specified price and the actual price of the underlying commodity. Energy commodity options held to mitigate price risk provide the right, but not the requirement, to buy or sell energy-related commodities at a fixed price.

Commodity Derivatives -- Trading. Duke Energy engages in the trading of commodity derivatives, and therefore experiences net open positions. Duke Energy manages open positions with strict policies which limit its exposure to market risk and require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement. The weighted-average life of Duke Energy's commodity risk portfolio was approximately 20 months at December 31, 1999.

Net Gains Recognized from Trading Commodity Derivatives

<TABLE>

<CAPTION>

1999 1998 1997

In millions

<C> <C> <C>

Natural gas.....	\$83	\$114	\$34
Electricity.....	41	14	(a)

</TABLE>

(a) Not material.

Absolute Notional Contract Quantity of Commodity Derivatives Held for Trading Purposes

<TABLE>

<CAPTION>

December 31,

1999 1998

<C> <C>

Natural gas, in billion cubic feet.....	36,285	11,149
Electricity, in gigawatt hours.....	469,371	112,867

</TABLE>

Fair Values of Commodity Derivatives -- Trading

TABLE
CAPTION>

	1999		1998	

	Assets	Liabilities	Assets	Liabilities

	In millions			
<S>	<C>	<C>	<C>	<C>
Fair value at December 31				
Natural gas.....	\$2,966	\$2,855	\$1,275	\$1,179
Electricity.....	1,302	1,271	578	570
Average fair values for the year				
Natural gas.....	2,401	2,269	805	757
Electricity.....	962	900	420	416

</TABLE>

Commodity Derivatives -- Non-Trading. At December 31, 1999 and 1998, Duke Energy held or issued several commodity derivatives, primarily in the form of swaps, that reduce exposure to market price fluctuations for certain power and NGL production facilities. At December 31, 1999, these commodity derivatives extended for periods up to ten years. The gains, losses and costs related to non-trading commodity derivatives that qualify as a hedge are not recognized until the underlying physical transaction closes. At December 31, 1999 and 1998, Duke Energy had unrealized net gains (losses) of \$(120) million and \$10 million, respectively, related to non-trading commodity derivatives. The termination of unrealized net gains (losses) requires judgement in interpreting market data and developing estimates of fair value. Accordingly, the unrealized net gains (losses) as of December 31, 1999 and 1998 are not necessarily indicative of the amounts Duke Energy could have realized in the current market.

57

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

7. Risk Management and Financial Instruments -- Continued

Absolute Notional Contract Quantity of Commodity Derivatives Held for Non-Trading Purposes

TABLE
CAPTION>

	1999	1998

<S>	<C>	<C>
Natural gas, in billion cubic feet.....	592	218

Electricity, in gigawatt hours..... 45,877 10,618
 Power capacity, in megawatt months..... 25,950 --
 Oil, in thousands of barrels..... 32,764 4,875

<TABLE>

Interest Rate Derivatives. Duke Energy periodically enters into financial derivative instruments including, but not limited to, swaps, options and treasury rate agreements to manage and mitigate interest rate risk exposure related to borrowings. The notional amounts shown in the following table serve solely as a basis for the calculation of payment streams to be exchanged. These notional amounts are not a measure of the company's exposure through its use of derivatives. Fair values shown in the following table represent estimated amounts that Duke Energy would have received if the swaps had been settled at current market rates on the respective dates.

Interest Rate Derivatives

<TABLE>

<CAPTION>

December 31,					
1999			1998		
Notional Fair Contracts			Notional Fair Contracts		
Amounts	Value	Expire	Amounts	Value	Expire

Dollars in millions

<C> <C> <C> <C> <C> <C>

Interest rate swaps..... \$600 \$2 2000 \$300 \$8 1999-2000

<TABLE>

Deferred gains on settled interest rate derivatives were not material in 1999 or 1998. Unrealized gains and losses and exposure to changes in market condition were not material at December 31, 1999 and 1998. As a result of the interest rate swap contracts which swap fixed rate obligations to effective floating rates, interest expense for the relative notional amount on the Consolidated Statements of Income and Comprehensive Income is recognized at the weighted average London interbank offered rate (LIBOR) for the year plus the applicable margins.

Weighted Average Rates for Interest Rate Swaps

<TABLE>

<CAPTION>

For the Years
 Ended December
 31,

1999 1998 1997

<C> <C> <C>

8% Series B Swap..... 5.36% 5.69% 5.78%

5% Series B Swap..... 6.42% 6.74% 6.83%

Commercial paper fixed rate swaps..... 4.95% -- --

<TABLE>

Foreign Currency Derivatives. Trading and Marketing enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies. As of December 31, 1999, the agreements had a notional contract amount of approximately \$762 million, beginning in the year 2000 and extending to the year 2005, and had a weighted average fixed exchange rate of 1.470 Canadian dollars to U.S. dollars. As of December 31, 1998, the agreements had a notional contract amount of approximately \$120 million, beginning in the year 2000 and extending to the year 2005, and had a weighted average fixed exchange rate of 1.472 Canadian dollars to U.S. dollars. The fair value of foreign currency swap agreements was not material at December 31, 1999 or 1998.

58

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

7. Risk Management and Financial Instruments -- Continued

In anticipation of the tender offer for Paranapanema (see Note 19 to the Consolidated Financial Statements), Duke Energy entered into foreign currency forward contracts to obtain Brazilian reais. As of December 31, 1999, the forward contracts had a notional amount of \$280 million at an average exchange rate of 1.8496 Brazilian reais to U.S. dollars which approximated fair value.

Market and Credit Risk. New York Mercantile Exchange (Exchange) traded futures and option contracts are guaranteed by the Exchange and have nominal credit risk. On all other transactions previously described, Duke Energy is exposed to credit risk in the event of nonperformance by the counterparties. For each counterparty, Duke Energy analyzes its financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of these limits on an ongoing basis. The change in market value of exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Swap contracts and most other over-the-counter instruments are generally settled at the expiration of the contract term and may be subject to margin requirements with the counterparty.

Financial Instruments. The fair value of financial instruments is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 1999 and 1998 are not necessarily indicative of the amounts Duke Energy could have realized in current market exchanges. The majority of the estimated fair value amounts were obtained from independent parties.

Financial Instruments

<TABLE>

<CAPTION>

	1999		1998		
	Approximate		Approximate		
	Book Value	Fair Value	Book Value	Fair Value	

In millions

<S>	<C>	<C>	<C>	<C>	
Long-term debt (a).....	\$9,165	\$8,891	\$6,959	\$7,240	
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries.....	1,404	1,207	919	937	
Preferred stock (a).....	313	303	333	346	

</TABLE>

(a) Includes current maturities.

The fair value of cash and cash equivalents, notes receivable, notes payable and commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

Guarantees made on behalf of affiliates or recourse provisions from affiliates have no book value associated with them, and there are no fair values readily determinable since quoted market prices are not available.

8. Investment in Affiliates

Investments in domestic and international affiliates which are not controlled by Duke Energy but where Duke Energy has significant influence over operations are accounted for by the equity method. These investments include undistributed earnings of \$6 million and \$5 million in 1999 and 1998, respectively. Duke Energy's share of net income from these affiliates is reflected in the Consolidated Statements of Income and Comprehensive Income as Other Operating Revenues.

59

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

8. Investment in Affiliates -- Continued

Natural Gas Transmission. Investments primarily include ownership interests in natural gas pipeline joint ventures which transport gas from Canada to the U.S. Investments include a 37.5% ownership interest in Maritimes & Northeast Pipeline, L.L.C.

Field Services. Investments primarily include a 37% interest in a partnership which owns natural gas gathering systems in the Gulf of Mexico (Dauphin Island

Gathering Partners) and a 21.1% interest in TEPPCO.

Global Asset Development. Global Asset Development has investments in various natural gas and electric generation and transmission facilities in its targeted geographic areas. Significant investments include a 50% indirect interest in VMC Generating Company, a merchant electric generating company, a 36.8% indirect interest in American Ref-Fuel Company and a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) business in Jubail, Saudi Arabia.

Other Energy Services. Investments include the participation in various construction and support activities for fossil-fueled generating plants.

Real Estate Operations. Investments include various real estate development projects.

Other Operations. Investments include a 20% interest in the BellSouth PCS L.P. joint venture, which provides wireless personal communication services.

Investment in Affiliates

<TABLE>
<CAPTION>

	December 31, 1999			December 31, 1998			December 31, 1997		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
In millions									
Natural Gas									
Transmission.....	\$ 67	\$ 83	\$ 150	\$ 104	\$ 37	\$ 141	\$ 67	\$ --	\$ 67
Field Services.....	439	--	439	303	--	303	160	--	160
Global Asset									
Development.....	425	224	649	171	223	394	174	208	382
Other Energy Services...	51	6	57	19	23	42	16	10	26
Real Estate Operations..	11	--	11	5	--	5	2	--	2
Other Operations.....	(7)	--	(7)	17	--	17	36	13	49
Total.....	\$ 986	\$ 313	\$ 1,299	\$ 619	\$ 283	\$ 902	\$ 455	\$ 231	\$ 686

Equity in Earnings of Investment

<CAPTION>

For the years ended:

	December 31, 1999			December 31, 1998			December 31, 1997		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
In millions									
Natural Gas									
Transmission.....	\$ 16	\$ 9	\$ 25	\$ 14	\$ 3	\$ 17	\$ 8	\$ --	\$ 8

Field Services.....	44	--	44	9	--	9	19	--	19
Global Asset Development.....	47	10	57	50	18	68	8	21	29
Other Energy Services...	10	3	13	1	13	14	4	8	12
Real Estate Operations..	3	--	3	--	--	--	--	--	--
Other Operations.....	(30)	--	(30)	(29)	--	(29)	(30)	--	(30)
Total.....	\$ 90	\$ 22	\$ 112	\$ 45	\$ 34	\$ 79	\$ 9	\$ 29	\$ 38

</TABLE>

60

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

8. Investment in Affiliates -- Continued

Summarized Combined Financial Information of Unconsolidated Subsidiaries

<TABLE>
<CAPTION>

December 31,

1999 1998 1997

In millions

<\$>

<C> <C> <C>

Balance Sheet

Current Assets.....	\$1,544	\$ 848	\$ 642
Noncurrent Assets.....	7,826	7,340	5,868
Current Liabilities.....	1,155	1,084	758
Noncurrent Liabilities.....	4,727	3,884	3,257

Net Assets..... \$3,488 \$3,220 \$2,495

Income Statement

Operating Revenues.....	\$3,510	\$1,667	\$ 905
Operating Expenses.....	3,104	1,166	703
Net Income.....	193	263	72

</TABLE>

Duke Energy had outstanding notes receivable from certain affiliates of \$72 million and \$80 million at December 31, 1999 and 1998, respectively.

9. Property, Plant and Equipment

<TABLE>
<CAPTION>

December 31,

1999 1998

In millions

<S>

<C> <C>

Electric utility

Generation.....	\$ 7,876	\$ 7,670
Transmission and distribution.....	6,577	6,324
General plant.....	1,166	1,127
Nuclear fuel.....	741	554
Construction work in progress.....	343	328

Total electric utility..... 16,703 16,003

Natural gas transmission.....	4,473	6,194
Non-regulated generation.....	4,457	837
Gathering and processing.....	2,428	1,409
Construction work in progress.....	881	469
Other property and equipment.....	1,494	2,216

Total Property, Plant and Equipment..... \$30,436 \$27,128
=====

Accumulated Depreciation

<CAPTION>

December 31,

1999 1998

In millions

<S>

<C> <C>

Electric utility(a).....	\$ 6,950	\$ 6,371
Natural gas transmission.....	1,217	2,585
Non-regulated generation.....	493	26
Other.....	781	1,271

Total Accumulated Depreciation..... \$ 9,441 \$10,253
=====

</TABLE>

(a) Includes amortization of nuclear fuel: 1999--\$444 million; 1998--\$325 million.

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

Debt and Credit Facilities

Long-term Debt

TABLE
CAPTION>

December 31,

Year Due 1999 1998

In millions

<S>

<C>

<C>

<C>

Duke Energy

First and refunding mortgage bonds:(a)

7%.....	2000	\$ 200	\$ 200
5 7/8%--6 5/8%.....	2001--2008	625	625
6 3/4%--8.30%.....	2023--2025	661	678
7%--8.95%.....	2027--2033	165	165
Mortgage bonds matured during 1999.....	--	425	
Pollution control debt, 3.85%--7.75%.....	2012--2017	172	172

Notes:

5.38%--9.21%.....	2009--2016	264	65
6%--6.6%.....	2028--2038	500	300
Commercial paper, 5.84% and 5.28% weighted-average rate at December 31, 1999 and 1998, respectively...		1,000	1,200
Other debt.....	21	23	

Duke Capital Corporation

Senior Notes:

6 1/4%--7 1/2%.....	2004--2009	1,250	250
3/4%--8%.....	2018--2019	650	150
Commercial paper, 5.91% and 5.73% weighted-average rate at December 31, 1999 and 1998, respectively...		500	500
Note payable to affiliate 5.03% and 4.68% weighted-average rate at December 31, 1999 and 1998, respectively.....	83	24	

PanEnergy

Bonds:

7 3/4%.....	2022	328	328
8 5/8% Debentures.....	2025	100	100

Notes:

7%--9.9%, maturing serially.....	2003--2006	395	395
Notes matured during 1999.....	--	114	

TETCO

Notes:

8%--10 3/8%.....	2000--2004	500	500
Medium-term, Series A, 7.64% -- 9.07%.....	2001--2012	51	100

Algonquin Gas Transmission Company

9.13% Notes.....	2003	100	100

Crescent Resources, Inc(b)

Construction and mortgage loans, 5.86%--7.26%.....	2000--2011	46	69
Revolving credit facilities, 5.98% weighted-average rate at December 31, 1998.....	2001	--	100

Global Asset Development

Medium-term note, 7.25%.....	2004	162	--
Credit facilities, 6.01% weighted-average rate at December 31, 1999.....	2002	460	--

Notes:

7.69%--18%.....	2000--2005	107	33
8%.....	2004--2013	161	--
9%--10%(c).....	2013--2017	485	--
Capital leases.....	2009--2028	207	--
Notes matured during 1999.....		--	78
Other debt of subsidiaries.....		34	313
Unamortized debt discount and premium, net.....		(62)	(48)

Total long-term debt.....	9,165	6,959
Current maturities of long-term debt.....	(482)	(687)

Total long-term portion.....	\$8,683	\$6,272

</TABLE>

- (a) Substantially all of Electric Operations' electric plant was mortgaged.
- (b) Substantial amounts of Crescent Resources' real estate development projects, land and buildings were pledged as collateral.
- (c) Parapanema (Brazil) debt, principal is indexed annually to inflation.

62

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

10. Debt and Credit Facilities -- Continued

Annual Maturities

<TABLE>

<CAPTION>

	In millions
<S>	<C>
2000.....	\$482
2001.....	306
2002.....	225
2003.....	601
2004.....	958

</TABLE>

Annual maturities exclude \$1,736 million of long-term debt that matures after 2004 which have call options whereby Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise their redemption options, \$881 million could potentially be repaid in 2000, \$328 million in 2002, \$227 million in 2003, \$200 million in 2004 and \$100 million thereafter.

Credit Facilities

<TABLE>

<CAPTION>

	December 31, 1999		December 31, 1998	
	Credit	Credit		
	Facilities Outstanding	Facilities Outstanding		
	In millions			
<S>	<C>	<C>	<C>	<C>
364-day facilities (a).....	\$ 823	\$ 10	\$ 600	\$ --
Three-year revolving facilities.....	565	450	--	--
Four-year revolving facilities.....	125	--	125	100
Five-year revolving facilities (a).....	2,200	--	2,200	--
Total Consolidated.....	\$3,713	\$460	\$2,925	\$100

</TABLE>

(a) Supported commercial paper facilities.

Notes Payable and Commercial Paper

<TABLE>

<CAPTION>

	December 31,	
	1999	1998
	In millions	
<S>	<C>	<C>
Credit facilities outstanding.....	\$ 460	\$ 100
Note payable.....	86	4
Commercial paper outstanding.....	1,764	1,905
	2,310	2,009
Less portion classified as long-term		
Credit facilities.....	(460)	(100)
Note payable.....	(83)	--
Commercial paper.....	(1,500)	(1,700)
Portion classified as short-term.....	\$ 267	\$ 209

</TABLE>

The weighted average interest rate on outstanding short-term notes payable and commercial paper at December 31, 1999 and 1998 was 5.72% and 5.23%, respectively.

>AGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

Nuclear Decommissioning Costs

Nuclear Decommissioning Costs. Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately \$1.9 billion stated in 1999 dollars based on decommissioning studies completed in 1999. This amount includes Duke Energy's 12.5% ownership in the Catawba Nuclear Station. The other joint owners of Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station. Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of Duke Energy's nuclear stations. Such estimates presume each unit will be decommissioned as soon as possible following the end of its license life. Although subject to extension, the current operating licenses for Duke Energy's nuclear units expire as follows: Oconee 1 and 2 -- 2013, Oconee 3 -- 2014; McGuire 1 -- 2021, McGuire 2 -- 2023; and Catawba 1 -- 2024, Catawba 2 -- 2026.

During 1999 and 1998, Duke Energy expensed approximately \$57 million which was contributed to the external funds for decommissioning costs and accrued an additional \$6 million to the internal reserve. Nuclear units are depreciated at an annual rate of 4.7%, of which 1.61% is for decommissioning. The balance of the external funds as of December 31, 1999 and 1998 was \$703 million and \$580 million, respectively. The balance of the internal reserve as of December 31, 1999 and 1998 was \$223 million and \$217 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization. Management believes that the decommissioning costs being recovered through rates, when coupled with assumed after-tax fund earnings of 5.5% to 5.9%, are currently sufficient to provide for the cost of decommissioning.

A provision in the Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the Department of Energy's (DOE) uranium enrichment plants. Licensees are subject to an annual assessment for 15 years based on their pro rata share of past enrichment services. The annual assessment is recorded in the Consolidated Statements of Income and Comprehensive Income as Fuel Used in Electric Generation. Duke Energy paid \$10 million during 1999 and has paid \$75 million cumulatively related to its ownership interests in nuclear plants. The remaining liability and regulatory assets of \$70 million and \$79 million at December 31, 1999 and 1998, respectively, are reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities, and Regulatory Assets and Deferred Debits, respectively.

Spent Nuclear Fuel. Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by Duke Energy's contract with the DOE. On June 8, 1998, Duke Energy filed with the United States Court of Federal Claims a claim against the DOE for damages in

excess of \$1 billion arising out of the DOE's failure to begin accepting commercial spent nuclear fuel by January 31, 1998. Damages claimed in the suit are intended to recover costs that Duke Energy is incurring and will continue incur as a result of the DOE's partial material breach of its contract with Duke Energy, including costs associated with securing additional spent fuel storage capacity. Duke Energy will continue to safely manage its spent nuclear fuel until the DOE accepts it. Payments made to the DOE for disposal costs are based on nuclear output and are included in the Consolidated Statements of Income and Comprehensive Income as Fuel Used in Electric Generation.

12. Guaranteed Preferred Beneficial Interests in Subordinated Notes of Duke Energy or Subsidiaries

Duke Energy and Duke Capital Corporation (Duke Capital) have each formed business trusts for which they own all the respective common securities. The trusts issue and sell preferred securities and invest the gross proceeds in assets of the trusts. Substantially all the assets of each trust are junior subordinated notes issued by the respective company.

64

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

12. Guaranteed Preferred Beneficial Interests in Subordinated Notes of Duke Energy or Subsidiaries -- Continued

Trust Preferred Securities

<TABLE>

<CAPTION>

Issued	December 31,				Junior Subordinated Notes
	Rate	1999	1998		
	In millions				
<S>	<C>	<C>	<C>	<C>	
Duke Energy					
1997.....	7.2% \$	350	\$ 350	7.2% Series A due 2037	
1999.....	7.2%	250	--	7.2% Series B due 2039	
Duke Capital					
1998.....	7 3/8%	250	250	7 3/8% Series A due 2038	
1998.....	7 3/8%	350	350	7 3/8% Series B due 2038	
1999.....	8 3/8%	250	--	8 3/8% Series C due 2029	
Unamortized debt discount.....		(46)	(31)		
		<u>\$ 1,404</u>	<u>\$ 919</u>		

<TABLE>

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts. Payment of distributions on these preferred securities is guaranteed by the respective company, but only to extent the trusts have funds legally and immediately available to make such distributions. Dividends of \$87 million, \$44 million and \$15 million related to the trust preferred securities have been included in the Consolidated Statements of Income and Comprehensive Income as Minority Interests for the years ended December 31, 1999, 1998 and 1997, respectively.

13. Preferred and Preference Stock

Authorized Shares of Stock as of December 31, 1999 and 1998

<TABLE>

<CAPTION>

	Par Value Shares	
	In millions	
	<C>	<C>
Preferred Stock.....	\$100	12.5
Preferred Stock A.....	\$ 25	10.0
Preference Stock.....	\$100	1.5

</TABLE>

As of December 31, 1999 and 1998, there were no shares of preference stock outstanding.

Preferred Stock with Sinking Fund Requirements

<TABLE>

<CAPTION>

Rate/Series	December 31, Shares Outstanding		
	Year Issued at December 31, 1999	1999	1998
	Dollars in millions		
	<C>	<C>	<C>
6.10% C (Preferred Stock A).....	1992	800,000	\$ 20 \$ 20
6.20% D (Preferred Stock A).....	1992	800,000	20 20
6.20% T.....	1992	130,000	13 13
6.30% U.....	1992	130,000	13 13
6.40% V.....	1992	130,000	13 13
6.75% X.....	1993	250,000	25 25
5.95% B (Preferred Stock A) (a)...	1992	--	-- 20
Total.....		\$ 104	\$ 124

</TABLE>

(a) Preferred stock series redeemed in September 1999.

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

13. Preferred and Preference Stock -- Continued

The annual sinking fund requirements for 2000 through 2004 are \$33 million, \$33 million, \$13 million, \$2 million and \$2 million, respectively. Some additional redemptions are permitted at Duke Energy's option.

Preferred Stock without Sinking Fund Requirements

<TABLE>

<CAPTION>

December 31,					
Rate/Series	Year Shares Outstanding				
	Issued at December 31, 1999	1999	1998		
Dollars in millions					
<S>	<C>	<C>	<C>	<C>	
4.50% C.....	1964	175,000	\$ 18	\$ 18	
7.85% S.....	1992	300,000	30	30	
7.00% W.....	1993	249,989	25	25	
7.04% Y.....	1993	299,995	30	30	
6.375% (Preferred Stock A).....	1993	1,257,185		31	31
Auction Series A.....	1990	750,000	75	75	
Total.....			\$ 209	\$ 209	

</TABLE>

The call provisions for the outstanding preferred stock specify various redemption prices not exceeding 104% of par value, plus accumulated dividends to the redemption date.

During February 1998, Duke Energy purchased approximately two million shares of its preferred stock for \$180 million. During December 1997, Duke Energy redeemed approximately three million shares of preferred stock for \$203 million. The premiums related to these redemptions were included in the Consolidated Statements of Income and Comprehensive Income as Dividends and Premiums on Redemptions of Preferred and Preference Stock for 1997.

14. Commitments and Contingencies

Nuclear Insurance. Duke Energy owns and operates the McGuire and Oconee Nuclear Stations with two and three nuclear reactors, respectively, and operates and has a partial ownership interest in the Catawba Nuclear Station with two nuclear reactors. Nuclear insurance coverage is maintained in three program areas: liability coverage; property, decontamination and commissioning coverage; and business interruption and/or extra expense coverage. Certain expenses associated with nuclear insurance premiums paid by Duke Energy are reimbursed by the other joint owners of the Catawba Nuclear

Station.

Pursuant to the Price-Anderson Act, Duke Energy is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately \$9.8 billion.

Primary Liability Insurance. The maximum required private primary liability insurance of \$200 million has been purchased along with a like amount to cover certain worker tort claims.

Excess Liability Insurance. This policy currently provides approximately \$9.6 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The \$9.6 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of \$88 million per licensed commercial nuclear reactor. This \$9.6 billion will be increased by \$88 million as each additional commercial nuclear reactor is licensed, or reduced by \$88 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs and public liability damages exceed primary insurances, licensees may be assessed up to \$88 million for each of their licensed reactors, payable at a rate not

66

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

14. Commitments and Contingencies -- Continued

to exceed \$10 million a year per licensed reactor for each incident. The \$88 million amount is subject to indexing for inflation and may be subject to state premium taxes.

Duke Energy is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverage for Duke Energy's nuclear facilities under the following three policy programs:

Primary Property Insurance. This policy provides \$500 million in primary property damage coverage for each of Duke Energy's nuclear facilities.

Excess Property Insurance. This policy provides excess property, decontamination and decommissioning liability insurance in the following amounts: \$2.25 billion for the Catawba Nuclear Station and \$1.5 billion each for the Oconee and McGuire Nuclear Stations.

Business Interruption Insurance. This policy provides business interruption d/or extra expense coverage resulting from an accidental outage of a nuclear t. Each unit of the McGuire and Catawba Nuclear Stations is insured for up approximately \$4 million per week and the Oconee Nuclear Station units are

insured for up to approximately \$3 million per week. Coverage amounts per unit decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 12-week deductible period and continues at 100% for 52 weeks and 80% for the next 110 weeks.

If NEIL's losses ever exceed its reserves for any of the above three programs, Duke Energy will be liable for assessments of up to five times its annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance -- \$22 million; Excess Property Insurance -- \$22 million; Business Interruption Insurance -- \$20 million.

The other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of any liabilities for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary insurance program of risk pooling or the NEIL policies.

Environmental. Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

Manufactured Gas Plants and Superfund Sites. Duke Energy was an operator of manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of certain former manufactured gas plant sites to investigate and, where necessary, remediate these contaminated sites. The State of South Carolina has expressed interest in entering into a similar arrangement. Duke Energy is considered by regulators to be a potentially responsible party and may be subject to future liability at seven federal Superfund sites and two state Superfund sites. While cost of remediation of the remaining sites may be substantial, Duke Energy will share in any liability associated with remediation of contamination at such sites with other potentially responsible parties. Management believes that resolution of these matters will not have a material adverse effect on consolidated results of operations or financial position.

PCB (Polychlorinated Biphenyl) Assessment and Clean-up Programs. In June 1999, the Environmental Protection Agency (EPA) certified that TETCO, a wholly owned subsidiary of Duke Energy, had completed clean up of PCB contaminated sites under conditions stipulated by a U.S. Consent Decree in 1989. TETCO is required to continue groundwater monitoring on a number of sites for at least the next two years. The estimated cost of such monitoring is not material.

67

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

14. Commitments and Contingencies -- Continued

Under terms of the agreement with CMS discussed in Note 2 to the Consolidated Financial Statements, Duke Energy is obligated to complete clean-up of previously identified contamination at certain agreed-upon sites on the PEPL

and Trunkline systems. These clean-up programs are expected to continue until 2001. The contamination resulted from the past use of lubricants containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant on-site contamination. Duke Energy has communicated with the EPA and appropriate state regulatory agencies on these matters.

At December 31, 1999 and 1998, remaining estimated clean-up costs on the TETCO, PEPL and Trunkline systems have been accrued and are included in the Consolidated Balance Sheets as Other Current Liabilities and Environmental Clean-up Liabilities. These cost estimates represent gross clean-up costs expected to be incurred, have not been discounted or reduced by customer recoveries and generally do not include fines, penalties or third-party claims. Costs expected to be recovered from customers have been deferred and are included in the Consolidated Balance Sheets as of December 31, 1999 and 1998, as Environmental Clean-up Costs.

The federal and state clean-up programs are not expected to interrupt or diminish Duke Energy's ability to deliver natural gas to customers. Based on Duke Energy's experience to date and costs incurred for clean-up operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations or financial position.

Injury and Damages Claims. Duke Energy has experienced numerous claims relating to damages for personal injury alleged to have arisen from the exposure to or use of asbestos in connection with construction and maintenance activities performed by Duke Energy on its electric generation plants during the 1960s and 1970s. During 1999, Duke Energy experienced a significant increase in the number of these claims. This increase, coupled with its cumulative experience in claims received, prompted Duke Energy to conduct a comprehensive review which was completed in late 1999 and to record an \$800 million accrual, which is included in Other Deferred Credits and Other Liabilities in the Consolidated Financial Statements, to reflect the purchase of a third party insurance policy as well as estimated amounts for future claims not recoverable under such policy. The insurance policy, combined with amounts covered by self-insurance reserves, provides for claims paid up to an aggregate of \$1.6 billion. Duke Energy currently believes the estimated claims relating to this exposure will not exceed such amount. While Duke Energy is uncertain as to the timing of when claims will be received, portions of the estimated claims may not be received and paid for 30 or more years. Amounts reserved for injury and damages claims were not material in 1998 and 1997.

While Duke Energy has recorded an accrual related to this estimated liability, such estimates cannot be made with certainty. Factors, such as the frequency and magnitude of claims, could result in changes in the estimates of the injury and damages liability and insurance recoveries. Such changes could result in, over time, a difference from the amount currently reflected in the financial statements. However, due to Duke Energy's insurance program related to this liability, management believes that any changes in the estimates would not have a material adverse effect on consolidated results of operations or financial position.

Litigation. Duke Energy and its subsidiaries are involved in legal, tax and

regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts. Where appropriate, Duke Energy has made accruals in accordance with SAS No. 5, "Accounting for Contingencies," to provide for such matters. Management believes that the final disposition of these proceedings will not have a material adverse effect on consolidated results of operations or financial position.

68

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

14. Commitments and Contingencies -- Continued

Other Commitments and Contingencies. Periodically, Duke Energy may become involved in contractual disputes with natural gas transmission customers involving potential or threatened abrogation of contracts by the customers. If the customers are successful, Duke Energy may not receive the full value of anticipated benefits under the contracts.

In the normal course of business, certain of Duke Energy's subsidiaries and affiliates enter into various contracts for energy services that contain certain schedule and performance requirements. Certain subsidiaries of Duke Energy had guaranteed performance under some of these contracts in the amount of approximately \$2.5 billion and \$1.2 billion as of December 31, 1999 and 1998, respectively. In addition, certain subsidiaries of Duke Energy have guaranteed debt agreements of affiliates and have provided surety bonds and letters of credit, all of which totaled approximately \$853 million and \$492 million as of December 31, 1999 and 1998, respectively. The increase in the amount of these obligations is due to the increased construction activities at Duke Energy North America and Duke/Fluor Daniel. Management monitors and approves these obligations and believes it is unlikely that Duke Energy would be required to perform or otherwise incur any material losses associated with the above obligations.

Management believes that these commitments and contingencies will not have a material adverse effect on consolidated results of operations or financial position.

Leases. Duke Energy utilizes assets under operating leases in several areas of operations. Consolidated rental expense amounted to \$87 million, \$80 million and \$92 million in 1999, 1998 and 1997, respectively. Future minimum rental payments under Duke Energy's various operating leases for the years 2000 through 2004 are \$79 million, \$68 million, \$58 million, \$50 million and \$45 million, respectively.

Common Stock

At Duke Energy's annual meeting of shareholders held on April 15, 1999,

shareholders approved an amendment to the Articles of Incorporation to increase the authorized common stock from 500 million to 1 billion shares.

In 1996, the Board of Directors authorized Duke Energy to repurchase up to \$1 billion of its common stock during the period beginning February 1996 and ending February 2001. No repurchases of common stock were made in 1999, 1998 or 1997, and none are anticipated in the future.

16. Stock-Based Compensation

Under Duke Energy's 1998 Stock Incentive Plan, stock options for up to fifteen million shares of common stock may be granted to key employees. Under the plan, the exercise price of each option granted equals the market price of Duke Energy's common stock on the date of grant. Vesting periods range from one to five years with a maximum exercise term of ten years.

Effective with Duke Energy's merger with PanEnergy Corp, each share of PanEnergy common stock, outstanding immediately prior to the merger, was converted into the right to receive 1.0444 shares of Duke Energy common stock. Each option to purchase PanEnergy common stock, outstanding prior to the merger, was assumed by Duke Energy and became exercisable upon the same terms as under the applicable PanEnergy stock option plan and option agreement, except that these options became options to purchase shares of Duke Energy common stock, appropriately adjusted.

69

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

16. Stock-Based Compensation -- Continued

Stock Option Activity

<TABLE>

<CAPTION>

	Options (In thousands)	Weighted Average Exercise Price	
<S>	<C>	<C>	
Outstanding at December 31, 1996.....	3,274		\$20
Granted.....	388	44	
Exercised.....	(873)	19	
Forfeited.....	(60)	27	

Outstanding at December 31, 1997.....	2,729		24
Granted.....	3,548	57	
Exercised.....	(948)	21	
Forfeited.....	(868)	57	

Outstanding at December 31, 1998.....	4,461	45
Granted.....	5,154	54
Exercised.....	(428)	23
Forfeited.....	(375)	57

Outstanding at December 31, 1999..... 8,812 51
=====

</TABLE>

Stock Options at December 31, 1999

<TABLE>

<CAPTION>

Outstanding			Exercisable		
Range of Exercise Prices	Number (In thousands)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (In thousands)	Weighted Average Exercise Price (In thousands)	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$10 to \$14	36	1.4	\$12	36	\$12
\$15 to \$20	728	4.0	19	728	19
\$21 to \$25	153	4.2	23	153	23
\$26 to \$31	157	6.1	27	157	27
\$42 to \$50	2,992	9.8	49	124	44
\$51 to \$59	4,443	8.6	58	582	57
\$60 to \$67	303	9.0	65	13	67
Total	8,812		1,793	34	

</TABLE>

Duke Energy had 1.5 million and 2.4 million options exercisable at December 31, 1998 and 1997, with weighted average exercise prices of \$22 and \$21 per option, respectively.

The weighted-average fair value of options granted was \$10, \$9 and \$10 per option during 1999, 1998 and 1997, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

Weighted-Average Assumptions for Option-Pricing

<TABLE>

<CAPTION>

	1999	1998	1997
<S>	<C>	<C>	<C>
Stock dividend yield.....	4.1%	4.2%	3.5%
Expected stock price volatility.....	18.8%	15.1%	20.7%
Risk-free interest rates.....	5.9%	5.6%	6.5%
Expected option lives.....	7 years	7 years	7 years

</TABLE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

16. Stock-Based Compensation -- Continued

Had compensation expense for stock-based compensation been determined based on the fair value at the grant dates, 1999 net income would have been \$1,498 million, or \$4.06 per basic share; 1998 net income would have been \$1,250 million, or \$3.40 per basic share; and 1997 net income would have been \$971 million, or \$2.50 per basic share.

Duke Energy has the 1996 Stock Incentive Plan (the 1996 Plan) under which two million shares of common stock were reserved for awards to employees. Restricted stock grants made under the 1996 Plan vest over a period ranging between one and five years. Duke Energy awarded 65,850 restricted shares (fair value at grant dates of approximately \$4 million) in 1999 and 3,000 restricted shares in 1998. Compensation expense for the grants is charged to earnings over the restriction period and was not material in 1999, 1998 or 1997.

In addition, Duke Energy granted Performance Awards under the 1998 Long-Term Incentive Plan (the 1998 Plan), under which fifteen million shares of common stock have been reserved for employee awards. Grants under the 1998 Plan vest over periods ranging between one and seven years. Duke Energy awarded 493,200 shares (fair value at grant dates of \$26 million) in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and amounted to \$3 million in 1999.

17. Employee Benefit Plans

Retirement Plans. Duke Energy and its subsidiaries maintain a non-contributory defined benefit retirement plan covering most employees with minimum service requirements using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit based upon a percentage, which may vary with age and years of service, of current eligible earnings and current interest credits.

On December 31, 1998, all defined benefit retirement plans maintained by Duke Energy and its subsidiaries, except for the PanEnergy retirement plan, were merged to form the Duke Energy Retirement Cash Balance Plan (Duke Energy Plan). The plan merger changed the benefit for certain participants, from a formula based primarily on benefit accrual service and highest average earnings, to a cash balance formula.

Through December 31, 1998, the PanEnergy retirement plan provided retirement benefits (i) for eligible employees of certain subsidiaries that are generally based on an employee's years of benefit accrual service and highest average eligible earnings, and (ii) for eligible employees of certain other

subsidiaries under a cash balance formula. In 1998, a significant amount of lump sum payouts was made from the PanEnergy plan resulting in a settlement gain of \$10 million. Effective January 1, 1999, the benefit formula under the PanEnergy plan, for all eligible employees, was changed to a cash balance formula.

In connection with the 1999 sale of the Midwest Pipelines to CMS, benefit accruals under the PanEnergy plan were frozen on December 31, 1998 for all participants who, as a result of the sale, became employees of CMS and its subsidiaries. Once the transfer of the benefit obligation and related assets of the affected participants to CMS was completed, the PanEnergy plan was merged into the Duke Energy Plan.

Duke Energy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. On December 30, 1997, assets and related liabilities of \$236 million and \$204 million, respectively, for certain PanEnergy plan participants were transferred to the Duke Power plan. As a result of this transfer, no contributions to the Duke Energy plan were necessary in 1999 or 1998.

71

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

Employee Benefit Plans -- Continued

Components of Net Periodic Pension Costs

<TABLE>
<CAPTION>

	For the Years Ended December 31,		
	1999	1998	1997
	In millions		
	<C>	<C>	<C>
Service cost benefit earned during the year.....	\$ 72	\$ 63	\$ 62
Interest cost on projected benefit obligation.....	165	169	164
Expected return on plan assets.....	(224)	(218)	(209)
Amortization of prior service cost.....	(3)	(4)	(5)
Amortization of net transition asset.....	(4)	(4)	(4)
Recognized net actuarial loss.....	12	10	17
Settlement gain.....	--	(10)	--
Net periodic pension costs.....	\$ 18	\$ 6	\$ 25

TABLE>

Reconciliation of Funded Status to Pre-funded Pension Costs

<TABLE>
<CAPTION>

December 31,

1999 1998

In millions

<S>

<C> <C>

Change in Benefit Obligation

Benefit obligation at beginning of year.....	\$2,540	\$2,372
Service cost.....	72	63
Interest cost.....	165	169
Plan amendment.....	--	5
Actuarial (gain) loss.....	(41)	141
Transfer to CMS.....	(85)	--
Benefits paid.....	(205)	(210)

Benefit obligation at end of year..... \$2,446 \$2,540

Change in Plan Assets

Fair value of plan assets at beginning of year (a).....	\$2,922	\$2,725
Actual return on plan assets.....	491	406
Employer contributions.....	(2)	1
Transfer to CMS.....	(85)	--
Benefits paid.....	(205)	(210)

Fair value of plan assets at end of year (a)..... \$3,121 \$2,922

Funded status.....	\$ 675	\$ 382
Unrecognized net experience (gain) loss.....	(315)	2
Unrecognized prior service cost reduction.....	(24)	(27)
Unrecognized net transition asset.....	(21)	(25)

Pre-funded pension costs..... \$ 315 \$ 332

<TABLE>

(a) Principally equity and fixed income securities.

72

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

17. Employee Benefit Plans -- Continued

Assumptions Used for Pension Benefits Accounting (a)

ABLE>

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1999 1998 1997

Percent

<C> <C> <C>

<S>
Discount rate..... 7.50 6.75 7.25
Salary increase..... 4.50 4.67 4.15
Expected long-term rate of return on plan assets..... 9.25 9.25 9.25

</TABLE>

(a) Reflects weighted averages across all plans.

Duke Energy also sponsors employee savings plans which cover substantially all employees. Employer matching contributions of \$68 million, \$53 million and \$53 million were expensed in 1999, 1998 and 1997, respectively.

Other Postretirement Benefits. Duke Energy and most of its subsidiaries provide certain health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective late 1998 and early 1999, health care benefits for future retirees were changed to limit employer contributions and medical coverage.

Such benefit costs are accrued over the active service period of employees to the date of full eligibility for the benefits. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

Components of Net Periodic Postretirement Benefit Costs

<TABLE>

<CAPTION>

For the Years Ended
December 31,

1999 1998 1997

In millions

<C> <C> <C>

<S>
Service cost benefit earned during the year..... \$ 7 \$ 10 \$ 10
Interest cost on accumulated postretirement benefit
obligation..... 40 43 46
Expected return on plan assets..... (21) (18) (19)
Amortization of prior service cost..... 1 7 6
Amortization of net transition obligation..... 18 16 16
Recognized net actuarial (gain) loss..... (1) 1 (1)

Net periodic postretirement benefit costs..... \$ 44 \$ 59 \$ 58

</TABLE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

17. Employee Benefit Plans -- Continued

Reconciliation of Funded Status to Accrued Postretirement Benefit Costs

<TABLE>

<CAPTION>

	December 31,	
	1999	1998
	In millions	
	<C>	<C>
Change in Benefit Obligation		
Accumulated postretirement benefit obligation at beginning of year.....	\$ 625	\$ 667
Service cost.....	7	10
Interest cost.....	40	43
Plan participants' contributions.....	7	6
Amendments.....	--	(49)
Actuarial gain.....	(68)	(6)
Benefits paid.....	(49)	(46)
Accumulated postretirement benefit obligation at end of year.....	\$ 562	\$ 625
Change in Plan Assets		
Fair value of plan assets at beginning of year (a).....	\$ 305	\$ 266
Actual return on plan assets.....	41	34
Employer contributions.....	23	45
Plan participants' contributions.....	7	6
Benefits paid.....	(49)	(46)
Fair market value of plan assets at end of year (a).....	\$ 327	\$ 305
Funded status.....	\$ (235)	\$ (320)
Unrecognized prior service cost.....	8	9
Unrecognized net experience gain.....	(110)	(23)
Unrecognized transition obligation.....	229	239
Accrued postretirement benefit costs.....	\$ (108)	\$ (95)

<TABLE>

(a) Principally equity and fixed income securities.

Assumptions Used for Postretirement Benefits Accounting (a)

ABLE>

CAPTION>

1999 1998 1997

Percent

<C> <C> <C>

Discount rate.....	7.50	6.75	7.25
Salary increase.....	4.50	4.67	4.33
Expected long-term rate of return on 401(h) assets.....	9.25	9.25	9.25
Expected long-term rate of return on RLR assets.....	6.75	6.75	6.75
Expected long-term rate of return on VEBA assets.....	9.25	9.25	9.25
Assumed tax rate (b).....	39.60	39.60	39.60

</TABLE>

- (a) Reflects weighted averages across all plans.
 (b) Health care portion of postretirement benefits in VEBA trusts.

For measurement purposes, a 5.0% weighted average rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 4.75% for 2005 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

74

<PAGE>

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

17. Employee Benefit Plans -- Continued

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

<TABLE>

<CAPTION>

1-Percentage- 1-Percentage-
Point Increase Point Decrease

In millions

<C> <C>

Effect on total of service and interest cost components.....	\$ 3	\$ (2)
Effect on postretirement benefit obligation.....	34	(24)

</TABLE>

18. Quarterly Financial Data (Unaudited)

<TABLE>

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First Second Third Fourth
Quarter Quarter Quarter Quarter Total

In millions, except per share data

<S>	<C>	<C>	<C>	<C>	<C>
1999					
Operating revenues.....	\$4,160	\$4,691	\$6,694	\$6,197	\$21,742
Operating income.....	627	531	884	(247)	1,795
EBIT.....	683	568	908	(116)	2,043
Income before extraordinary item..	307	288	441	(189)	847
Net income.....	967	288	441	(189)	1,507
Earnings per share (before extraordinary item)					
Basic.....	\$ 0.83	\$ 0.77	\$ 1.20	\$(0.53)	\$ 2.26
Dilutive.....	\$ 0.83	\$ 0.77	\$ 1.19	\$(0.53)	\$ 2.25
Earnings per share					
Basic.....	\$ 2.65	\$ 0.77	\$ 1.20	\$(0.53)	\$ 4.08
Dilutive.....	\$ 2.64	\$ 0.77	\$ 1.19	\$(0.53)	\$ 4.07
1998					
Operating revenues.....	\$4,115	\$4,014	\$5,298	\$4,183	\$17,610
Operating income.....	608	549	826	450	2,433
EBIT.....	678	582	871	516	2,647
Income before Extraordinary item..	328	279	429	224	1,260
Net income.....	320	279	429	224	1,252
Earnings per share before Extraordinary item)					
Basic.....	\$ 0.89	\$ 0.76	\$ 1.18	\$ 0.60	\$ 3.43
Dilutive.....	\$ 0.89	\$ 0.76	\$ 1.17	\$ 0.60	\$ 3.42
Earnings per share					
Basic.....	\$ 0.87	\$ 0.76	\$ 1.18	\$ 0.60	\$ 3.41
Dilutive.....	\$ 0.87	\$ 0.76	\$ 1.17	\$ 0.60	\$ 3.40
ABLE>					

19. Subsequent Events

On December 16, 1999, Duke Energy announced that it had signed definitive agreements to combine Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. Under the terms of the agreements, the new company will seek to arrange approximately \$2.6 billion of debt financing and, upon closing of the transaction, will make a one-time cash distribution of \$1.2 billion to both Duke Energy and Phillips Petroleum. At closing, Duke Energy will own about 70% of the new company and Phillips Petroleum will own about 30%. The new company would then offer approximately 20% of its equity to the public in 2000 to reduce the debt resulting from the transaction. Such an offering is conditional upon completion of the transaction and favorable market conditions.

On January 4, 2000, Duke Energy announced that it had entered into a definitive agreement to purchase, for \$386 million, 100% of the stock of El Paso Energy Corporation's wholly owned subsidiary, East Tennessee

DUKE ENERGY CORPORATION

Notes to Consolidated Financial Statements -- Continued

19. Subsequent Events -- Continued

Natural Gas Company, a 1,100-mile pipeline that crosses Duke Energy's TETCO pipeline and serves the southeastern region of the U.S.

Both transactions are subject to regulatory approval and are expected to close in the first quarter of 2000.

In January 2000, Duke Energy completed a tender offer to the minority shareholders of Paranapanema and successfully acquired an additional 51% economic interest in the company for approximately \$280 million. This increases Duke Energy's economic ownership from approximately 44% to approximately 95%.

76

<PAGE>

DUKE ENERGY CORPORATION

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

<TABLE>

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		Additions			
		Balance at	Charged to	Charged to	Balance at
		Beginning of Period	Expense	Other Accounts	Deductions End of Period

		In millions			
<S>	<C>	<C>	<C>	<C>	<C>
December 31, 1999:					
Injuries and Damages...	\$113	\$ 900	\$--	\$111	\$ 902
Other (a).....	254	150	60(c)	104	360
	---	---	---	---	---
	\$367	\$1,050	\$60	\$215	\$1,262
December 31, 1998 (b)...					367
December 31, 1997 (b)...					329

</TABLE>

(a) Principally consists of property insurance reserves and litigation and other contingency reserves which are included in "Other Current Liabilities" or "Deferred Credits and Other Liabilities" in the Consolidated Balance Sheets.

(b) Principally consists of injury and damages reserves, property insurance reserves and litigation and other contingency reserves which are included in "Other Current Liabilities" or "Deferred Credits and Other Liabilities" in the Consolidated Balance Sheets.

(c) Principally litigation and other contingency reserves assumed in business combinations.

77

<PAGE>

INDEPENDENT AUDITORS' REPORT

to the Board of Directors and Stockholders of Duke Energy Corporation

We have audited the accompanying consolidated balance sheets of Duke Energy Corporation and subsidiaries (Duke Energy) as of December 31, 1999 and 1998, and the related consolidated statements of income and comprehensive income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the consolidated financial statement schedule listed in the accompanying index at Item 14. These financial statements and financial statement schedule are the responsibility of Duke Energy's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duke Energy as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles. Also, in our opinion such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Charlotte, North Carolina
February 11, 2000

78

<PAGE>

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Energy Corporation (Duke Energy) are prepared by management, who are responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles in all material respects and necessarily include judgments and estimates of the expected effects of events and transactions that are currently being reported.

Duke Energy's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed

according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. Duke Energy's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment Duke Energy's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of Duke Energy. The audit committee meets with management and internal auditors periodically to review accounting control issues and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with Duke Energy's independent auditors, Deloitte & Touche LLP. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

/s/ Sandra P. Meyer
Sandra P. Meyer
Vice President and Corporate Controller

79

<PAGE>

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III.

Item 10. Directors and Executive Officers of the Registrant.

Reference is made to "Executive Officers of Duke Energy" included in "Item 1. Business" of this report. See "The Board of Directors," "Information on the Board of Directors" and "Other Information" in the proxy statement relating to Duke Energy's 2000 annual meeting of shareholders (the Proxy Statement), incorporated herein by reference.

Item 11. Executive Compensation.

See "Compensation" and "Information on the Board of Directors - Compensation of Directors" in the Proxy Statement, incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

See "Beneficial Ownership" in the Proxy Statement, incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

See "Information on the Board of Directors -- Certain Relationships" in the Proxy Statement, incorporated herein by reference.

80

<PAGE>

PART IV.

Item 14. Exhibits, Financial Statement Schedule, and Reports on Form 8-K.

(a) Consolidated Financial Statements, Supplemental Financial Data and Supplemental Schedule included in Part II of this annual report are as follows:

Consolidated Financial Statements

Consolidated Statements of Income and Comprehensive Income for the Years Ended December 31, 1999, 1998 and 1997

Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 1998 and 1997

Consolidated Balance Sheets as of December 31, 1999 and 1998

Consolidated Statements of Common Stockholders' Equity for the Years Ended December 31, 1999, 1998 and 1997

Notes to Consolidated Financial Statements

Quarterly Financial Data (unaudited) (included in Note 18 to the Consolidated Financial Statements)

Consolidated Financial Statement Schedule II--Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1999, 1998 and 1997

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or notes thereto.

(b) Reports on Form 8-K

A Current Report on Form 8-K filed on December 30, 1999 contained disclosures under Item 5, Other Events, and Item 7, Financial Statements and Exhibits.

(c) Exhibits--See Exhibit Index immediately following the signature page.

81

<PAGE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 20, 2000

Duke Energy Corporation

(Registrant)

By: Richard B. Priory
Richard B. Priory
Chairman of the Board, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

- (i) Principal executive officer:
Richard B. Priory
Chairman of the Board, President and Chief Executive Officer
- (ii) Principal financial officer:
Richard J. Osborne
Executive Vice President and Chief Financial Officer
- (iii) Principal accounting officer:
Sandra P. Meyer
Vice President and Corporate Controller
- (iv) All of the Directors:
Richard B. Priory
G. Alex Bernhardt, Sr.
Robert J. Brown
William A. Coley
William T. Esre
Ann Maynard Gray
Dennis R. Hendrix
Harold S. Hook
George Dean Johnson, Jr.
Max Lennon
Leo E. Linbeck, Jr.
James G. Martin
Russell M. Robinson, II

Date: March 20, 2000

Richard J. Osborne, by signing his name hereto, does hereby sign this document on behalf of the registrant and on behalf of each of the above-named persons pursuant to a power of attorney duly executed by the registrant and such persons, filed with the Securities and Exchange Commission as an exhibit hereto.

/s/ Richard J. Osborne
By: _____
Attorney-In-Fact

EXHIBIT INDEX

Exhibits filed herewith are designated by an asterisk (*). All exhibits not designated are incorporated by reference to a prior filing, as indicated. Items constituting management contracts or compensatory plans or arrangements are designated by a double asterisk (**).

<TABLE>

<CAPTION>

Exhibit

Number

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- 2 Agreement and Plan of Merger, dated as of November 24, 1996, as amended and restated as of March 10, 1997, among registrant, Duke Transaction Corporation and PanEnergy Corp (filed with Form 8-K dated March 20, 1997, File No. 1-4928, as Exhibit 2(a)).
- 3-A Restated Articles of Incorporation of registrant, dated June 18, 1997 (filed with Form S-8, No. 333-29563, effective June 19, 1997, as Exhibit 4(G)).
- *3-B Articles of Amendment to Restated Articles of Incorporation of registrant.
- *3-C By-Laws of registrant, as amended.
- 4 Rights Agreement, dated as of December 17, 1998, between the registrant and The Bank of New York, as Rights Agent (filed with Form 8-K dated February 11, 1999).
- 9-A Agreement, dated March 6, 1978, between the registrant and the North Carolina Municipal Power Agency No. 1 (filed with Form 8-K for the month of March 1978, File No. 1-4928).
- 10-B Agreement, dated August 1, 1980, between the registrant and Piedmont Municipal Power Agency (filed with Form 8-K for the month of August 1980, File No. 1-4928).
- 10-C Agreement, dated October 14, 1980, between the registrant and North Carolina Electric Membership Corporation (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-D Agreement, dated October 14, 1980, between the registrant and Saluda River Electric Cooperative, Inc. (filed with Form 10-Q for the quarter ended September 30, 1980, File No. 1-4928).
- 10-E** Directors' Charitable Giving Program (filed with Form 10-K for the year ended December 31, 1992, File No. 1-4928, as Exhibit 10-P).
- 10-F** Estate Conservation Plan (filed with Form 10-K for the year ended December 31, 1992, File No. 1-4928, as Exhibit 10-R).
- 10-G** Directors' Savings Plan (filed with Form 10-K for the year ended December 31, 1996, File No. 1-4928, as Exhibit 10-BB).
- 10-H** Duke Power Company Stock Incentive Plan (filed as Appendix A to Schedule 14A of registrant, March 18, 1996, File No. 1-4928).

TABLE>

<PAGE>

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Exhibit
Number

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- 10-I** 1989 Non-employee Directors Stock Option Plan of Panhandle Eastern Corporation, adopted February 1, 1989 (filed with Form S-8 Registration Statement of Panhandle Eastern Corporation, File No. 33-28912, as Exhibit 28(a)).
- 10-J** 1982 Key Employee Stock Option Plan of Panhandle Eastern Corporation, as amended through December 3, 1986 (and related Agreement) (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1986, File No. 1-8157, as Exhibit 10(g)).
- 10-K** Panhandle Eastern Corporation 1994 Long Term Incentive Plan (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1993, File No. 1-8157, as Exhibit 10.18).
- 10-L \$1,250,000,000 Five-Year Credit Agreement dated as of August 25, 1997, among registrant, the banks listed therein and Morgan Guaranty Trust Company of New York, as Administrative Agent (filed with Form 10-K for the year ended December 31, 1997, as Exhibit 10-R).
- 10-M \$950,000,000 Five-Year Credit Agreement dated as of August 25, 1997, among Duke Capital Corporation, the banks listed therein and The Chase Manhattan Bank, as Administrative Agent (filed with Form 10-K for the year ended December 31, 1997, as Exhibit 10-S).
- *10-N \$600,000,000 364-Day Credit Agreement dated as of August 23, 1999, among Duke Capital Corporation, the banks listed therein and The Chase Manhattan Bank, as Administrative Agent.
- 10-O** Employment Agreement by and between the registrant and Richard B. Priory dated November 24, 1996 (incorporated by reference to Exhibit C-1 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 22, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-U).
- 10-P** Employment Agreement by and among PanEnergy Corp, the registrant and Fred J. Fowler dated November 24, 1996 (incorporated by reference to Exhibit B-3 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 24, 1997, filed herewith.
- 10-Q** Employment Agreement by and between the registrant and William A. Coley dated November 24, 1996 (incorporated by reference to Exhibit C-2 of Exhibit 2 to this Form 10-K), and the First Amendment thereto dated October 24, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-X).
- 10-R** Employment Agreement by and between the registrant and Richard J. Osborne dated November 24, 1996 (incorporated by reference to Exhibit C-3 of Exhibit 2 to this Form 10-K), and the First

Amendment thereto dated October 27, 1997 (filed with Form 10-K for the year ended December 31, 1997, as part of Exhibit 10-Y).

<TABLE>

84

<PAGE>

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Exhibit
Number

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10-S** 1990 Long-Term Incentive Plan of Panhandle Eastern Corporation (filed with Form 10-K of Panhandle Eastern Corporation for the year ended December 31, 1990, File No. 1-8157, as Exhibit 10.14).

10-T Formation Agreement between PanEnergy Trading and Market Services, Inc. and Mobil Natural Gas, Inc. dated May 29, 1996 (filed with Form 10-Q of PanEnergy Corp for the quarter ended June 30, 1996, File No. 1-8157, as Exhibit 2).

10-U Duke Energy Corporation Long-Term Incentive Plan (filed as Appendix A to Schedule 14A of the registrant, March 16, 1998).

10-V** Duke Energy Corporation Policy Committee Short-Term Incentive Plan (filed as Appendix B to Schedule 14A of the registrant, March 16, 1998).

10-W Stock Purchase Agreement between PanEnergy Corp, Texas Eastern Corporation and CMS Energy Corporation, dated as of October 31, 1998 (filed as Exhibit 10 to Form 8-K of the registrant, File No. 1-4928, filed November 5, 1998).

10-X Merger and Purchase Agreement among Union Pacific Resources Company, Union Pacific Fuels, Inc., Duke Energy Field Services, Inc. and DEFS Merger Sub Corp., dated as of November 20, 1998 (filed as Exhibit 10 to Form 8-K of the registrant, File No. 1-4928, filed December 1, 1998).

10-Y** Duke Energy Corporation Executive Savings Plan (filed with Form 10-K Report of TEPPCO Partners, LP, File No. 1-10403, for the year ended December 31, 1999, as Exhibit 10.7).

10-Z** Duke Energy Corporation Executive Cash Balance Plan (filed with Form 10-K Report of TEPPCO Partners, LP, File No. 1-10403, for the year ended December 31, 1999, as Exhibit 10.8).

10-AA** Duke Energy Corporation Retirement Benefit Equalization Plan (filed with Form 10-K Report of TEPPCO Partners, LP, File No. 1-10403, for the year ended December 31, 1999, as Exhibit 10.9).

*10-BB** Form of Key Employee Severance Agreement and Release between the registrant and certain key executives.

*10-CC** Form of Change in Control Agreement between the registrant and certain key executives.

10-DD Contribution Agreement by and among Phillips Petroleum Company, Duke Energy Corporation and Duke Energy Field Services L.L.C., dated as of December 16, 1999 (filed as

Exhibit 2.1 to Form 8-K of the registrant, filed December 30, 1999).

10-EE Governance Agreement by and among Phillips Petroleum Company, Duke Energy Corporation and Duke Energy Field Services L.L.C., dated as of December 16, 1999 (filed as Exhibit 2.2 to Form 8-K of the registrant, filed December 30, 1999).

*12 Computation of Ratio of Earnings to Fixed Charges.

*21 List of Subsidiaries.

*23(a) Independent Auditors' Consent.

*24(a) Power of attorney authorizing Richard J. Osborne and others to sign the annual report on behalf of the registrant and certain of its directors and officers.

</TABLE>

85

<PAGE>

<TABLE>

<S> <C>

*24(b) Certified copy of resolution of the Management Committee of the Board of Directors of the registrant authorizing power of attorney.

*27 Financial Data Schedule for the Year Ended December 31, 1999.

</TABLE>

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments.

86

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<SEQUENCE>2

<DESCRIPTION>ARTICLES OF AMENDMENT OF DUKE ENERGY CORPORATION

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Exhibit 3-B

ARTICLES OF AMENDMENT OF DUKE ENERGY CORPORATION

The undersigned corporation hereby submits these Articles of Amendment for purpose of amending its Articles of Incorporation:

1. The name of the corporation is Duke Energy Corporation.

2. The following amendment to the Articles of Incorporation of the Corporation was adopted by the holders of its Common Stock on the 15th day of April, 1999, in the manner prescribed by law:

The first unnumbered paragraph of Article IV of the Articles of Incorporation was amended to read as follows:

The total number of authorized shares of this Corporation is 1,024,000,000 shares, divided unto 12,500,000 shares of Preferred Stock of the par value of \$100 each (hereafter called Preferred Stock), 10,000,000 shares of Preferred Stock A of the par value of \$25 each (hereafter called Preferred Stock A), 1,500,000 shares of Preference Stock of the par value of \$100 each (hereafter called Preference Stock), and 1,000,000,000 shares of Common Stock without nominal or par value (hereafter called Common Stock).

3. Only shares of Common Stock of the corporation were entitled to vote with respect to the amendment. The number of such shares of the corporation outstanding at the time of such adoption was 364,145,736; the number of votes entitled to be cast thereon was 363,464,761; and the number of votes indisputably represented at the meeting of shareholders was 301,118,240.

4. The number of votes cast for such amendment was 255,717,157, and the number of votes cast against such amendment was 43,442,086. The total number of undisputed votes cast for the amendment was sufficient for approval of the amendment.

This 28th day of April, 1999.

DUKE ENERGY CORPORATION

By: _____
Richard B. Priory
Chairman of the Board, President
and Chief Executive Officer

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Exhibit 3-C

BY-LAWS

OF

DUKE ENERGY CORPORATION

Date of Adoption:

July 28, 1997

Amended February 17, 1999, April 15, 1999
and December 16, 1999

<PAGE>

Exhibit 3-C

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	Page
<S>	<C>
ARTICLE I Offices.....	1
Section 1.1. Principal Office.....	1
Section 1.2. Other Offices.....	1
ARTICLE II Meetings of Shareholders.....	1
Section 2.1. Place of Meetings.....	1
Section 2.2. Annual Meetings.....	1
Section 2.3. Special Meetings.....	1
Section 2.4. Notice of Meetings.....	1
Section 2.5. Voting Group.....	2
Section 2.6. Quorum.....	2
Section 2.7. Voting of Shares.....	2
Section 2.8. Proxies.....	3
Section 2.9. Notice of Shareholder Business and Nominations.....	3
Section 2.10. Conduct of Meetings.....	5
Section 2.11. Inspectors of Elections.....	6
Section 2.12. Shareholders' List.....	6
ARTICLE III Board of Directors.....	6
Section 3.1. General Powers.....	6
Section 3.2. Number and Qualifications.....	6
Section 3.3. Election of Directors; Classes.....	7
Section 3.4. Removal.....	7
Section 3.5. Newly Created Directorships; Vacancies.....	7
Section 3.6. Compensation of Directors.....	8
ARTICLE IV Meetings of Directors.....	8
Section 4.1. Regular Meetings.....	8
Section 4.2. Special Meetings.....	8
Section 4.3. Notice.....	8
Section 4.4. Quorum and Manner of Acting.....	8
Section 4.5. Action by Consent of Board of Directors.....	8

Section 4.6. Conference Telephone Meetings.....	9
ARTICLE V Committees of the Board.....	9
Section 5.1. Management and Other Committees.....	9
Section 5.2.....	9
Section 5.3.....	10
ARTICLE VI Officers.....	10
Section 6.1. Elected Officers.....	10
Section 6.2. Election and Term of Office.....	10
Section 6.3. Chairman of the Board and Chief Executive Officer.....	11
<TABLE>	
i	
<PAGE>	
<TABLE>	
<S>	
<C>	
Section 6.4. President.....	11
Section 6.5. Vice Presidents.....	11
Section 6.6. Secretary.....	11
Section 6.7. Treasurer.....	11
Section 6.8. Controller.....	12
Section 6.9. Assistant Secretaries, Assistant Treasurers and Assistant Controllers.....	12
Section 6.10. Removal.....	12
Section 6.11. Vacancies.....	12
ARTICLE VII Stock Certificates and Transfers.....	13
Section 7.1. Certificates for Shares.....	13
Section 7.2. Share Transfer Records.....	13
Section 7.3. Lost, Stolen or Destroyed Certificates.....	13
Section 7.4. Fixing Record Date.....	14
Section 7.5. Holder of Record.....	14
ARTICLE VIII Contracts, Checks and Drafts, Deposits and Proxies.....	14
Section 8.1. Contracts.....	14
Section 8.2. Checks and Drafts.....	14
Section 8.3. Deposits.....	14
Section 8.4. Proxies.....	14
ARTICLE IX Indemnification.....	15
Section 9.1. Indemnification.....	15
ARTICLE X Miscellaneous.....	16
Section 10.1. Fiscal Year.....	16
Section 10.2. Distributions.....	16
Section 10.3. Seal.....	16
Section 10.4. Waiver of Notice.....	16
Section 10.5. Time Periods.....	16
Section 10.6. Resignations.....	16
Section 10.7. Definitions.....	16

ARTICLE XI Emergency Provisions.....	17
Section 11.1. General.....	17
Section 11.2. Unavailable Directors.....	17
Section 11.3. Authorized Number of Directors.....	17
Section 11.4. Quorum.....	17
Section 11.5. Creation of Emergency Committee.....	17
Section 11.6. Constitution of Emergency Committee.....	18
Section 11.7. Powers of Emergency Committee.....	18
Section 11.8. Directors Becoming Available.....	18
Section 11.9. Election of Board of Directors.....	18
Section 11.10. Termination of Emergency Committee.....	18
Section 11.11. Nonexclusive Powers.....	18
ARTICLE XII Amendments.....	19
Section 12.1. Amendments.....	19

</TABLE>

ii

<PAGE>

Exhibit 3-C

BY-LAWS

OF

DUKE ENERGY CORPORATION

(Adopted July 28, 1997 and Amended February 17, 1999,
April 15, 1999 and December 16, 1999)

ARTICLE I

Offices

Section 1.1. Principal Office. The principal office of the Corporation shall be located in Charlotte, North Carolina.

Section 1.2. Other Offices. The Corporation may have such other offices either within or without the State of North Carolina as the Board of Directors may designate or as the business of the Corporation may from time to time require.

ARTICLE II

Meetings of Shareholders

Section 2.1. Place of Meetings. All meetings of shareholders shall be held at such place either within or without the State of North Carolina as shall be fixed by the Board of Directors and designated in the notice of the meeting.

Section 2.2. Annual Meetings. The annual meeting of shareholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on such date and at such time as

may be fixed by the Board of Directors.

Section 2.3. Special Meetings. Except as otherwise required by law and subject to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, special meetings of shareholders for any purpose or purposes may be called only by (i) the Board of Directors pursuant to a resolution stating the purpose or purposes thereof or (ii) by the Chairman of the Board of Directors. No business other than that stated in the notice shall be transacted at any special meeting.

Section 2.4. Notice of Meetings. Written, printed or electronically transmitted notice, stating the place, day and hour of the meeting of shareholders and the purpose or purposes for which the meeting is called, shall be delivered by the Corporation not less

1

<PAGE>

than 10 calendar days nor more than 60 calendar days before the date of the meeting, either personally, by mail, or by such other means as may be permitted by law to each shareholder of record entitled to vote at such meeting; provided that such notice must be given to all shareholders with respect to any meeting at which a merger or share exchange is to be submitted to shareholders for approval and in such other instances as required by law. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage thereon prepaid, correctly addressed to the shareholder at such shareholder's address as it appears on the stock transfer books of the Corporation. If electronically transmitted, such notice shall be deemed to be delivered when transmitted to the shareholder at the electronic mail address most recently provided to the Corporation by the shareholder, unless the Corporation has reason to believe that such transmission is undeliverable at such address. Such further notice shall be given as may be required by law. When a meeting is adjourned to a different date, time or place, notice need not be given of the new date, time or place if the new date, time or place is announced at the meeting before adjournment and if a new record date is not or must not be fixed for the adjourned meeting; but if a new record date is fixed for the adjourned meeting (which must be done if the new date is more than 120 days after the date of the original meeting), notice of the adjourned meeting must be given as provided in this Section 2.4 to persons who are shareholders as of the new record date.

Section 2.5. Voting Group. All shares of one or more classes or series that under the Articles of Incorporation or the North Carolina Business Corporation Act are entitled to vote and be counted together collectively on a matter at a meeting of shareholders constitute a voting group. All shares entitled by the Articles of Incorporation or the North Carolina Business Corporation Act to vote generally on a matter are for that purpose a single voting group. Classes or series of shares shall not be entitled to vote separately by voting group unless expressly authorized by the Articles of Incorporation or specifically required by law.

Section 2.6. Quorum. Shares entitled to vote as a separate voting group may take action on a matter at a meeting of shareholders only if a quorum of that voting group exists. Unless otherwise required by law, the Articles of Incorporation or

a By-Law adopted by the shareholders, a majority of the votes entitled to be cast on the matter by the voting group constitutes a quorum of that voting group for action on that matter. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting. In the absence of a quorum at the opening of any meeting of shareholders, such meeting may be adjourned from time to time by the vote of a majority of the votes cast on the motion to adjourn; and, subject to the provisions of Section 2.4, at any adjourned meeting any business may be transacted that might have been transacted at the original meeting if a quorum exists with respect to the matter proposed.

Section 2.7. Voting of Shares. Each outstanding share entitled to vote shall be entitled to one vote on each matter submitted to a vote at a meeting of shareholders. Except in the election of directors, the vote of a majority of shares voted on any matter at a meeting

2

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of shareholders at which a quorum is present shall be the act of the shareholders on that matter, unless the vote of a greater number is required by law or by the Articles of Incorporation. Election of directors at all meetings of the shareholders at which directors are to be elected shall be by ballot, and, subject to the rights of the holders of any class of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, those nominees for election as directors who receive the highest number of votes at a meeting at which a quorum is present up to the maximum number of directors to be elected at such meeting shall be deemed to have been elected.

Section 2.8. Proxies. Shares may be voted either in person or by one or more proxies authorized by an appointment of proxy given by the shareholder or by the shareholder's duly authorized attorney-in-fact, in any manner provided by law, including electronic or telephonic transmission. An appointment of proxy is valid for 11 months from the date of its execution, unless a different period is expressly provided in the appointment form.

Section 2.9. Notice of Shareholder Business and Nominations.

(A) Annual Meetings of Shareholders. (1) Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the Corporation's notice of meeting pursuant to Section 2.4 of these By-Laws, (b) by or at the direction of the Board of Directors, or (c) by any shareholder of the Corporation who was a shareholder of record at the time of giving of notice provided for in this By-Law, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law.

(2) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (c) of paragraph (A)(1) of this By-Law, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation

not later than the close of business on the 90th calendar day nor earlier than the close of business on the 120th calendar day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event at the date of the annual meeting is more than 30 calendar days before or more than 60 calendar days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120th calendar day prior to such annual meeting and not later than the close of business on the later of the 90th calendar day prior to such annual meeting or the 10th calendar day following the calendar day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as described above. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is

3

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otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 14a-11 thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board of Directors at least 100 calendar days prior to the first anniversary of the preceding year's annual meeting of shareholders, a shareholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th calendar day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Shareholders. Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting under Section 2.4 of these By-Laws. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of

the Board of Directors, or (b) provided that the Board of Directors has determined that directors shall be elected at such meeting, by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this By-Law, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this By-Law. In the event the Corporation calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any shareholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation's notice of meeting pursuant to such clause (b), if the shareholder's notice required by paragraph (A)(2) of this By-Law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th calendar day prior to such special meeting and not later than the close of business on the later of the 90th calendar day prior to such special meeting or the 10th calendar day following the day on which public announcement is first made of the date of such special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event

4

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shall the public announcement of an adjournment of a special meeting of shareholders commence a new time period for the giving of a shareholder's notice as described above.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Articles of Incorporation or these By-Laws, the chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this By-Law, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-Law. Nothing in this By-Law shall be deemed to affect any rights (i) of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or (ii) of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances.

Section 2.10. Conduct of Meetings. The Board of Directors may to the extent not prohibited by law adopt such rules and regulations for the conduct of the

meeting of shareholders as it shall deem appropriate. Except to the extent inconsistent with such rules and regulations as adopted by the Board of Directors, the chairman of any meeting of shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may to the extent not prohibited by law include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to shareholders of record of the Corporation, their duly authorized and constituted proxies or such other persons as the chairman of the meeting shall determine; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. The date and time of the opening and the closing of the polls for each matter upon which the shareholders will vote at a meeting shall be announced at the

5

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meeting by the person presiding over the meeting. Unless, and to the extent, determined by the Board of Directors or the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 2.11. Inspectors of Elections. The Board of Directors may appoint, or may authorize the Chairman of the Board to appoint, one or more inspectors, which inspector or inspectors may include individuals who serve the Corporation in other capacities, including, without limitation, as officers, employees, agents or representatives, to act at the meetings of shareholders and make a written report thereof. If no inspector has been appointed to act or is able to act at a meeting of shareholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before discharging such person's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such person's ability. The inspectors shall, by majority vote, resolve all questions regarding voting of shares, including the shares represented at the meeting, the qualification of voters, the validity of proxies, the existence of a quorum as to any voting group, and the acceptance, rejection and tabulation of votes.

Section 2.12. Shareholders' List. Before each meeting of shareholders, the Secretary of the Corporation shall prepare an alphabetical list of the shareholders entitled to notice of such meeting. The list shall be arranged by voting group (and within each voting group by class or series of shares) and show the address of and number of shares held by each shareholder. The list shall be kept on file at the principal office of the Corporation, or at a place identified in the meeting notice in the city where the meeting will be held, for the period beginning two business days after notice of the meeting is given and continuing through the meeting, and shall be available for inspection on written demand by any shareholder, personally or by or with such shareholder's representative, at any time during regular business hours. The list shall also be available at the meeting and shall be subject to inspection on written demand

by any shareholder, personally or by or with such shareholder's representative, at any time during the meeting or any adjournment thereof.

ARTICLE III

Board of Directors

Section 3.1. General Powers. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. In addition to the powers and authorities by these By-Laws expressly conferred upon them, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Articles of Incorporation or by these By-Laws required to be exercised or done by the shareholders.

Section 3.2. Number and Qualifications. The number of directors constituting the Board of Directors shall be not less than twelve nor more than twenty-four, as may be fixed from time to time by the Board of Directors. A director must be a shareholder of the

6

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Corporation.

Section 3.3. Election of Directors; Classes. The directors, other than those who may be elected by the holders of any class of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, shall be classified, with respect to the time for which they severally hold office into three classes, as nearly equal in number as possible. Such classes shall originally consist of one class (Class I) of seven directors who shall be elected at the annual meeting of shareholders held in 1991 for a term expiring at the annual meeting of shareholders held in 1992; a second class (Class II) of six directors who shall be elected at the annual meeting of shareholders held in 1991 for a term expiring at the annual meeting of shareholders to be held in 1993; and a third class (Class III) of six directors who shall be elected at the annual meeting of shareholders held in 1991 for a term expiring at the annual meeting of shareholders to be held in 1994; with each class to hold office until its successor is elected and qualified. The Board of Directors shall increase or decrease the number of directors in one or more classes as may be appropriate whenever it increases or decreases the number of directors pursuant to the Articles of Incorporation and Section 3.2 of these By-Laws, in order to ensure that the three classes shall be as nearly equal in number as possible. At each annual meeting of shareholders, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election.

Section 3.4. Removal. Subject to the rights of any class of stock having a preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, a director may be removed from office only with cause. "Cause" for removal of a director under this Section 3.4 means fraudulent or dishonest acts, or gross abuse of authority in the discharge of duties to the Corporation, and must be established after written notice of specific charges and an opportunity to meet and refute such charges.

Section 3.5. Newly Created Directorships; Vacancies. Except as may be otherwise provided for or fixed by or pursuant to any provisions of the Articles of Incorporation relating to the rights of the holders of any class of stock having preference over the Common Stock as to dividends or upon liquidation to elect directors under specified circumstances, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until the expiration of the full term of the class for which such director is elected and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

7

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Section 3.6. Compensation of Directors. Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

ARTICLE IV

Meetings of Directors

Section 4.1. Regular Meetings. A regular meeting of the Board of Directors shall be held without other notice than this By-Law as soon as practicable after the annual meeting of shareholders. The Board of Directors may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 4.2. Special Meetings. Special meetings of the Board of Directors shall be called at the request of the Chairman of the Board or a majority of the Board of Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix the place and time of the meetings.

Section 4.3. Notice. Notice of any special meeting of directors shall be given to each director at such director's business or residence in writing by hand delivery, first-class or overnight mail or courier service, facsimile transmission or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least 5 calendar days before such meeting. If by overnight mail or courier service, such notice shall be deemed adequately delivered when the notice is delivered to the overnight mail or courier service company at least 24 hours before such meeting. If by facsimile transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least 12 hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least 12 hours prior to the time set for meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice of such meeting.

Section 4.4. Quorum and Manner of Acting. Unless the Articles of Incorporation or these By-Laws provide otherwise, a majority of the number of directors fixed pursuant to these By-Laws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. Unless required by law or the Articles of Incorporation or these By-Laws provide otherwise, the affirmative vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 4.5. Action by Consent of Board of Directors. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing, whether before or after such action, and the writing or writings are included with the minutes or

8

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filed with the corporate records.

Section 4.6. Conference Telephone Meetings. Members of the Board of Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

ARTICLE V

Committees of the Board

Section 5.1. Management and Other Committees. The Board of Directors may designate a Management Committee consisting of two or more directors of the Corporation which shall include the Chairman of the Board who shall act as chairman. Subject to delegations of authority or any other restrictions adopted by the Board of Directors, the Management Committee may exercise all of the authority of the Board of Directors when it is not in session, except that the Management Committee may not (i) authorize distributions; (ii) approve, or propose to shareholders, action that is required by law to be approved by shareholders; (iii) fill vacancies on the Board of Directors or on any of its Committees; (iv) amend the Articles of Incorporation; (v) adopt, amend or repeal By-Laws; (vi) approve a plan of merger not requiring shareholder approval; (vii) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; or (viii) authorize or approve the issuance or sale or contract for the sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except within limits specifically prescribed by the Board of Directors. Any resolutions adopted or other action taken by the Management Committee within the scope of its authority shall be deemed for all purposes to be adopted or taken by the Board of Directors.

The Board of Directors may also designate one or more other Committees of the Board of Directors which shall consist of two or more directors of the Corporation. Any such Committee, other than the Management Committee (the powers which are expressly provided for herein), may to the extent permitted by law

exercise such powers and shall have such responsibilities as shall be specified in the designating resolution. The Board of Directors shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. Nothing herein shall be deemed to prevent the Board of Directors from appointing one or more Committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such Committee shall have or may exercise any authority of the Board of Directors.

Section 5.2. Each Committee shall keep written minutes of its proceedings and shall report such proceedings to the Board when required. A majority of the members of a

9

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Committee of the Board of Directors shall be necessary to constitute a quorum and the affirmative vote of the majority of the members present at a meeting at which a quorum is present shall be necessary to constitute action by the Committee. A Committee may also act by the written consent of all members thereof although not convened in a meeting provided that such written consent is filed with the Minute Books of the Committee.

Section 5.3. Each Committee shall fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. Notice of meetings of any Committee shall be given to each member of the Committee in the manner provided for in Section 4.3 of these By-Laws.

ARTICLE VI

Officers

Section 6.1. Elected Officers. The elected officers of the Corporation shall be a Chairman of the Board, a President, a Secretary, a Treasurer, a Controller and such other officers (including, without limitation, Executive Vice Presidents and Senior Vice Presidents and Vice Presidents) as the Board of Directors or the Management Committee from time to time may deem proper. The Chairman of the Board and the President shall be chosen from among the directors. Elected officers shall have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article VI. Such officers shall also have such powers and duties as from time to time may be conferred by the Board of Directors or by any committee thereof. The Board of Directors or the Management Committee may from time to time appoint such other officers (including one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers), as may be necessary or desirable for the conduct of the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as shall be provided in these By-Laws or, to the extent consistent with these By-Laws, as may be prescribed by the Board of Directors or the Management Committee. The Executive Officers of the Corporation shall consist of the members of the Policy Committee of the Corporation, the Controller, the Chief Financial Officer, the Secretary, the Treasurer, and such other officers as the Board of Directors may designate as Executive Officers from time to time.

Section 6.2. Election and Term of Office. Executive Officers of the Corporation

shall be elected by the Board of Directors at the regular meeting of the Board of Directors held after the annual meeting of shareholders. Officers who are not Executive Officers may be elected by either the Board of Directors or the Management Committee at the first regular meeting of the Board of Directors (or the Management Committee) held after the annual meeting of shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as practicable. Each officer shall hold office until such person's successor shall have been duly elected and shall have qualified or until

10

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such person's death or until he or she shall resign or shall be removed pursuant to Section 6.10.

Section 6.3. Chairman of the Board and Chief Executive Officer. The Chairman of the Board shall be the Chief Executive Officer of the Corporation and shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to such person's office which may be required by law and all such other duties as are properly required of the Chairman of the Board by the Board of Directors. The Chairman of the Board shall preside at all meetings of shareholders and of the Board of Directors and shall make reports to the Board of Directors and the shareholders, and shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect. The Chairman of the Board may also serve as President, if so elected by the Board.

Section 6.4. President. The President shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President shall in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of shareholders and of the Board of Directors.

Section 6.5. Vice Presidents. The Executive Vice Presidents, the Senior Vice Presidents and the Vice Presidents shall have such powers and duties as may be prescribed for them, respectively, by the Board of Directors, the Management Committee or the Chairman of the Board. Each of such officers shall report to the Chairman of the Board or such other officer as the Chairman of the Board shall direct.

Section 6.6. Secretary. The Secretary shall attend all meetings of the shareholders and of the Board of Directors, shall keep a true and faithful record thereof in proper books and shall have the custody and care of the corporate seal, records, minute books and stock books of the Corporation and of such other books and papers as in the practical business operations of the Corporation shall naturally belong in the office or custody of the Secretary or as shall be placed in the Secretary's custody by order of the Board of Directors or the Management Committee. The Secretary shall keep a suitable record of the addresses of shareholders and shall, except as may be otherwise required by statute or these By-Laws, sign and issue all notices required for meetings of shareholders or of the Board of Directors. The Secretary shall sign all papers to which the Secretary's signature may be necessary or appropriate, shall affix

and attest the seal of the Corporation to all instruments requiring the seal, shall have the authority to certify the By-Laws, resolutions of the shareholders and Board of Directors and other documents of the Corporation as true and correct copies thereof and shall have such other powers and duties as are commonly incidental to the office of Secretary and as may be prescribed by the Board of Directors, the Management Committee or the Chairman of the Board.

Section 6.7. Treasurer. The Treasurer shall have charge of and supervision over and be responsible for the funds, securities, receipts and disbursements of the Corporation;

11

<PAGE>

cause the moneys and other valuable effects of the Corporation to be deposited in the name and to the credit of the Corporation in such banks or trust companies or with such bankers or other depositories as shall be selected in accordance with resolutions adopted by the Board of Directors; cause the funds of the Corporation to be disbursed by checks or drafts upon the authorized depositories of the Corporation, and cause to be taken and preserved proper vouchers for all moneys disbursed; render to the proper officers and to the Board of Directors, the Management Committee and the Finance Committee, whenever requested, a statement of the financial condition of the Corporation and of all his or her transactions as Treasurer; cause to be kept at the principal executive offices of the Corporation correct books of account of all its business and transactions; and, in general, perform all duties incident to the office of Treasurer and such other duties as are given to him or her by the By-Laws or as may be assigned to him or her by the Chairman of the Board or the Board of Directors.

Section 6.8. Controller. The Controller shall be the chief accounting officer of the Corporation; shall keep full and accurate accounts of all assets, liabilities, commitments, revenues, costs and expenses, and other financial transactions of the Corporation in books belonging to the Corporation, and conform them to sound accounting principles with adequate internal control; shall cause regular audits of these books and records to be made; shall see that all expenditures are made in accordance with procedures duly established, from time to time, by the Corporation; shall render financial statements upon the request of the Board of Directors; and, in general, shall perform all the duties ordinarily connected with the office of Controller and such other duties as may be assigned to him or her by the Chairman of the Board or the Board of Directors.

Section 6.9. Assistant Secretaries, Assistant Treasurers and Assistant Controllers. Assistant Secretaries, Assistant Treasurers and Assistant Controllers, when elected or appointed, shall respectively assist the Secretary, the Treasurer and the Controller in the performance of the respective duties assigned to such principal officers, and in assisting such principal officer, each of such assistant officers shall for such purpose have the powers of such principal officer, and, in case of the absence, disability, death, resignation or removal from office of any principal officer, such principal officer's duties shall, except as otherwise ordered by the Board of Directors or the Management Committee, temporarily devolve upon such assistant officer as shall be designated by the Chairman of the Board.

Section 6.10. Removal. Any officer or agent may be removed by the affirmative vote of a majority of the directors then in office whenever, in their judgment, the best interests of the Corporation would be served thereby. In addition, any officer or agent appointed by the Management Committee may be removed by the Management Committee whenever, in its judgment, the best interests of the Corporation would be served thereby. Any removal shall be without prejudice to the contract rights, if any, of the person so removed.

Section 6.11. Vacancies. A newly created elected office and a vacancy in any elected office because of death, resignation or removal may be filled by the Board of Directors for the unexpired portion of the term at any meeting of the Board of Directors. Any vacancy

12

<PAGE>

in an office appointed by the Management Committee because of death, resignation or removal may be filled by the Management Committee.

ARTICLE VII

Stock Certificates and Transfers

Section 7.1. Certificates for Shares. The Board of Directors may authorize the issuance of some or all of the shares of the Corporation's classes or series without issuing certificates to represent such shares. If shares are represented by certificates, the certificates shall be in such form as required by law and determined by the Board of Directors. Certificates shall be signed, either manually or in facsimile, by the Chairman of the Board, the President or a Vice President and by the Secretary or Treasurer or an Assistant Secretary or an Assistant Treasurer. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the Corporation and the issuance and delivery of any such certificate or certificates shall be conclusive evidence of such adoption. All certificates for shares shall be consecutively numbered or otherwise identified and entered into the stock transfer books of the Corporation. When shares are represented by certificates, the Corporation shall issue and deliver to each shareholder to whom such shares have been issued or transferred certificates representing the shares owned by such shareholder. When shares are not represented by certificates, then within a reasonable time after the issuance or transfer of such shares, the Corporation shall send the shareholder to whom such shares have been issued or transferred a written statement of the information required by law to be on certificates.

Section 7.2. Share Transfer Records. The Corporation shall maintain share transfer records, containing the name and address of each shareholder of record

and the number and class or series of shares held by such shareholder. Transfers of shares of the Corporation shall be made only on the share transfer records of the Corporation by the holder of record thereof or by a duly authorized agent, assignee or legal representative and only upon surrender for cancellation of the certificate for such shares (if the shares are represented by certificates).

Section 7.3. Lost, Stolen or Destroyed Certificates. No certificate for shares of stock in the Corporation shall be issued in place of any certificate alleged to have been lost, destroyed or stolen, except on production of such evidence of such loss, destruction or theft and on delivery to the Corporation of a bond of indemnity in such amount, upon such terms and secured by such surety, as the Board of Directors or any financial officer may

13

<PAGE>

in its or such person's discretion require. A new certificate may be issued without requiring any bond if the Board of Directors or such financial officer so determines.

Section 7.4. Fixing Record Date. The Board of Directors may fix a future date as the record date for one or more voting groups in order to determine the shareholders entitled to notice of a meeting of shareholders, to vote or to take any other action. Such record date may not be more than 70 days before the meeting or action requiring a determination of shareholders. A determination of shareholders entitled to notice of or to vote at a meeting of shareholders is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date for the adjourned meeting, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. If no record date is fixed by the Board of Directors for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, the close of business on the day before the first notice of the meeting is delivered to shareholders shall be the record date for such determination of shareholders. The Board of Directors may fix a date as the record date for determining shareholders entitled to a distribution or share dividend. If no record date is fixed by the Board of Directors for such determination, it is the date the Board of Directors authorizes the distribution or share dividend.

Section 7.5. Holder of Record. Except as otherwise required by law, the Corporation may treat the person in whose name the shares stand of record on its books as the absolute owner of the shares and the person exclusively entitled to receive notification and distributions, to vote and to otherwise exercise the rights, powers and privileges of ownership of such shares.

ARTICLE VIII

Contracts, Checks and Drafts, Deposits and Proxies

Section 8.1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 8.2. Checks and Drafts. All checks, drafts or other orders for the payment of money, issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as may from time to time be determined by the Board of Directors.

Section 8.3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such depositories as may be selected by or under the authority of the Board of Directors.

Section 8.4. Proxies. Unless otherwise provided by the Board of Directors, the Chairman of the Board, the President or any Executive Vice President, Senior Vice

14

<PAGE>

President or Vice President may from time to time appoint an attorney or attorneys or agent or agents of the Corporation, in the name and on behalf of the Corporation, to cast the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation, any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or to consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and may instruct the person or persons so appointed as to the manner of casting such votes or giving such consent, and may execute or cause to be executed in the name and on behalf of the Corporation and under corporate seal or otherwise, all such written proxies or other instruments he or she may deem necessary or proper in the premises.

ARTICLE IX

Indemnification

Section 9.1. Indemnification. Any person who is or was serving as a director, officer, employee or agent of the Corporation or who, at the request of the Corporation, is or was serving as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a trustee or administrator under an employee benefit plan, shall be indemnified by the Corporation, to the fullest extent permitted by law, against (a) litigation expenses, including costs, expenses and reasonable attorneys' fees incurred by any such person in connection with any threatened, pending or completed action, suit or proceedings, whether civil, criminal, administrative or investigative, whether formal or informal, and whether or not brought by or on behalf of the Corporation, arising out of such person's status as such or such person's activities in any of the foregoing capacities, (b) liability, including payments made by such person in satisfaction of any judgment, money decree, fine (including an excise tax assessed with respect to an employee benefit plan), penalty or settlement for which such person may have become liable in any such action, suit or proceeding, and (c) reasonable costs, expenses and attorneys' fees incurred by such person in connection with the enforcement of the indemnification rights provided herein. Any person who is or is serving in any of the foregoing capacities for or on behalf of the Corporation shall be conclusively deemed to be doing or to have done so in

reliance upon, and as consideration for, the indemnification rights provided herein.

Any such litigation expenses shall be paid by the Corporation in advance of the final disposition of any action, suit or proceeding upon receipt of an unsecured written promise by or on behalf of any such person to repay such amount unless it shall ultimately be determined that such person is entitled to be indemnified by the Corporation against such expenses.

The rights of indemnification provided herein (which shall be deemed to be a contract between any such person and the Corporation enforceable on the part of such person notwithstanding any subsequent amendment or repeal of this By-Law) shall inure to the

15

<PAGE>

benefit of the estates or legal representatives of any such person and shall not be exclusive of any other rights to which such person may be entitled apart from this By-Law, by contract, resolution or otherwise.

ARTICLE X

Miscellaneous

Section 10.1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January in each year and shall end on the thirty-first day of December of such year.

Section 10.2. Distributions. The Board of Directors may from time to time authorize, and the Corporation may grant, distributions and share dividends to its shareholders pursuant to law and subject to the provisions of the Articles of Incorporation.

Section 10.3. Seal. The corporate seal of the Corporation shall be circular in form and shall consist of two concentric circles between which is the name of the Corporation and the location of its principal office and in the center of which is inscribed the word "SEAL". The corporate seal may be used by causing it or a facsimile thereof to be impressed or reproduced or otherwise.

Section 10.4. Waiver of Notice. Whenever any notice is required to be given to any shareholder or director of the Corporation under the provisions of the North Carolina Business Corporation Law or these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at, nor the purpose of, any annual or special meeting of the shareholders or the Board of Directors or committee thereof need be specified in any waiver of notice of such meeting.

Section 10.5. Time Periods. In applying any provision of these By-Laws which requires that an act be done or not be done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

Section 10.6. Resignations. Any director or any officer, whether elected or appointed, may resign at any time by giving written notice of such resignation to the Chairman of the Board or the Secretary, and such resignation shall be deemed to be effective when communicated unless the notice specifies a later effective date. No formal action shall be required on behalf of the Corporation to make any such resignation effective.

Section 10.7. Definitions. Unless the context otherwise requires, terms used in these By-Laws shall have the meanings assigned to them in the North Carolina Business Corporation Act to the extent defined therein.

16

<PAGE>

ARTICLE XI

Emergency Provisions

Section 11.1. General. The provisions of this Article shall be operative only during a national emergency declared by the President of the United States or the person performing the President's functions, or in the event of a nuclear, atomic or other attack on the United States or on a locality in which the Corporation conducts its principal business or customarily holds meetings of its Board of Directors or its shareholders, or during the existence of any other catastrophic event or similar emergency, as a result of which a quorum of the Board of Directors cannot readily be assembled for action. Said provisions in such event shall override all other By-Laws of the Corporation in conflict with any provisions of this Article, and shall remain operative during such emergency, but thereafter shall be inoperative; provided that all actions taken in good faith pursuant to such provisions shall thereafter remain in full force and effect unless and until revoked by action taken pursuant to the provisions of the By-Laws other than those contained in this Article.

Section 11.2. Unavailable Directors. All directors of the Corporation who are not available to perform their duties as directors by reason of physical or mental incapacity or for any other reason or who are unwilling to perform their duties or whose whereabouts are unknown shall automatically cease to be directors, with like effect as if such persons had resigned as directors, so long as such unavailability continues.

Section 11.3. Authorized Number of Directors. The authorized number of directors shall be the number of directors remaining after eliminating those who have ceased to be directors pursuant to Section 11.2, or the minimum number required by law, whichever number is greater.

Section 11.4. Quorum. The number of directors necessary to constitute a quorum shall be one-third of the authorized number of directors as specified in Section 11.3, or such other minimum number as, pursuant to the law or lawful decree then in force, it is possible for the by-laws of a corporation to specify.

Section 11.5. Creation of Emergency Committee. In the event the number of directors remaining after eliminating those who have ceased to be directors pursuant to Section 11.2 is less than the minimum number of authorized directors

required by law, then until the appointment of additional directors to make up such required minimum, all the powers and authorities which the Board of Directors could by law delegate, including all powers and authorities which the Board of Directors could delegate to a committee, shall be automatically vested in an emergency committee, and the emergency committee shall thereafter manage the affairs of the Corporation pursuant to such powers and authorities and shall have all other powers and authorities as may by law or lawful decree be conferred on any person or body of persons during a period of emergency.

17

<PAGE>

Section 11.6. Constitution of Emergency Committee. The emergency committee shall consist of all the directors remaining after eliminating those who have ceased to be directors pursuant to Section 11.2, provided that such remaining directors are not less than three in number. In the event such remaining directors are less than three in number, the emergency committee shall consist of three persons, who shall be the remaining director or directors and either one or two officers or employees of the Corporation, as the remaining director or directors may in writing designate. If there is no remaining director, the emergency committee shall consist of the three most senior officers of the Corporation who are available to serve, and if and to the extent that officers are not available, the most senior employees of the Corporation. Seniority shall be determined in accordance with any designation of seniority in the minutes of the proceedings of the Board of Directors, and in the absence of such designation, shall be determined by rate of remuneration.

Section 11.7. Powers of Emergency Committee. The emergency committee, once appointed, shall govern its own procedures and shall have power to increase the number of members thereof beyond the original number, and in the event of a vacancy or vacancies therein, arising at any time, the remaining member or members of the emergency committee shall have the power to fill such vacancy or vacancies. In the event at any time after its appointment all members of the emergency committee shall die or resign or become unavailable to act for any reason whatsoever, a new emergency committee shall be appointed in accordance with the foregoing provisions of this Article 11.

Section 11.8. Directors Becoming Available. Any person who has ceased to be a director pursuant to the provisions of Section 11.2 and who thereafter becomes available to serve as a director shall automatically become a member of the emergency committee.

Section 11.9. Election of Board of Directors. The emergency committee shall, as soon after its appointment as is practicable, take all requisite action to secure the election of a board of directors, and upon such election all the powers and authorities of the emergency committee shall cease.

Section 11.10. Termination of Emergency Committee. In the event, after the appointment of an emergency committee, a sufficient number of persons who ceased to be directors pursuant to Section 11.2 become available to serve as directors, so that if they had not ceased to be directors as aforesaid, there would be sufficient directors to constitute the minimum number of directors required by law, then all such persons shall automatically be deemed to be reappointed as directors and the powers and authorities of the emergency committee shall

terminate.

Section 11.11. Nonexclusive Powers. The emergency powers provided in this article 11 shall be in addition to any powers provided by law.

18

<PAGE>

ARTICLE XII

Amendments

Section 12.1. Amendments. Except as required by law or as otherwise provided in the Articles of Incorporation or in a By-Law adopted by the shareholders, these By-Laws may be amended or repealed and new By-Laws may be adopted by the Board of Directors. No By-Law adopted, amended or repealed by the shareholders shall be readopted, amended or repealed by the Board of Directors, unless the Articles of Incorporation or a By-Law adopted by the shareholders authorizes the Board of Directors to adopt, amend or repeal that particular By-Law or the By-Laws generally.

19

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<TYPE>EX-10.N

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<DESCRIPTION>BY-LAWS OF DUKE ENERGY CORPORATION

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Exhibit 10N

BY-LAWS

OF

DUKE ENERGY CORPORATION

Date of Adoption:

July 28, 1997

Amended February 17, 1999, April 15, 1999
and December 16, 1999

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EXHIBIT 10-N

[CONFORMED COPY]

\$600,000,000

364-DAY

CREDIT AGREEMENT

dated as of

August 23, 1999

among

Duke Capital Corporation,

The Banks Listed Herein

and

The Chase Manhattan Bank,
as Administrative Agent

Morgan Guaranty Trust Company of New York,
Syndication Agent

Chase Securities Inc.
J.P. Morgan Securities Inc.,
Co-Lead Arrangers and Co-Book Managers

<PAGE>

TABLE OF CONTENTS

<TABLE>
<CAPTION>

Page

<S>

<C>

ARTICLE 1 Definitions

Section 1.01. Definitions..... 1

Section 1.02. Accounting Terms and Determinations.....	10
Section 1.03. Types and Classes of Borrowings.....	11

ARTICLE 2 The Credits

Section 2.01. Commitments to Lend.....	11
Section 2.02. Notice of Committed Borrowings.....	12
Section 2.03. Bid Rate Borrowings.....	13
Section 2.04. Notice to Banks; Funding of Loans.....	17
Section 2.05. Registry; Notes.....	18
Section 2.06. Maturity of Loans.....	18
Section 2.07. Interest Rates.....	19
Section 2.08. Fees.....	20
Section 2.09. Optional Termination or Reduction of Commitments.....	21
Section 2.10. Method of Electing Interest Rates.....	21
Section 2.11. Mandatory Termination of Commitments.....	22
Section 2.12. Optional Prepayments.....	22
Section 2.13. General Provisions as to Payments.....	23
Section 2.14. Funding Losses.....	24
Section 2.15. Computation of Interest and Fees.....	24
Section 2.16. Regulation D Compensation.....	24
Section 2.17. Increased Commitments; Additional Banks.....	25

ARTICLE 3 Conditions

Section 3.01. Effectiveness.....	26
Section 3.02. Borrowings.....	27

ARTICLE 4 Representations and Warranties

Section 4.01. Corporate Existence and Power.....	28
Section 4.02. Corporate and Governmental Authorization; No Contravention..	28
Section 4.03. Binding Effect.....	28

<TABLE>

i

<PAGE>

<TABLE>

<S>

<C>

Section 4.04. Financial Information.....	29
Section 4.05. Litigation.....	29
Section 4.06. Compliance with Laws.....	29
Section 4.07. Taxes.....	30
Section 4.08. Public Utility Holding Company Act.....	30
Section 4.09. Year 2000.....	30

ARTICLE 5 Covenants

Section 5.01. Information.....	30
Section 5.02. Payment of Taxes.....	32
Section 5.03. Maintenance of Property, Insurance.....	32
Section 5.04. Maintenance of Existence.....	33
Section 5.05. Compliance with Laws.....	33
Section 5.06. Books and Records.....	33
Section 5.07. Maintenance of Ownership of Principal Subsidiaries.....	34
Section 5.08. Negative Pledge.....	34
Section 5.09. Consolidations, Mergers and Sales of Assets.....	35
Section 5.10. Use of Proceeds.....	35
Section 5.11. Transactions with Affiliates.....	36
Section 5.12. Indebtedness/Capitalization Ratio.....	36

ARTICLE 6 Defaults

Section 6.01. Events of Default.....	36
Section 6.02. Notice of Default.....	38

ARTICLE 7 The Administrative Agent

Section 7.01. Appointment and Authorization.....	38
Section 7.02. Administrative Agent and Affiliates.....	38
Section 7.03. Action by Administrative Agent.....	39
Section 7.04. Consultation with Experts.....	39
Section 7.05. Liability of Administrative Agent.....	39
Section 7.06. Indemnification.....	40
Section 7.07. Credit Decision.....	40
Section 7.08. Successor Administrative Agent.....	40
Section 7.09. Administrative Agent's Fee.....	40

</TABLE>

ii

<PAGE>

<TABLE>

<S>

<C>

ARTICLE 8 Change in Circumstances

Section 8.01. Basis for Determining Interest Rate Inadequate or Unfair....	41
Section 8.02. Illegality.....	41
Section 8.03. Increased Cost and Reduced Return.....	42
Section 8.04. Taxes.....	43
Section 8.05. Base Rate Loans Substituted for Affected Fixed Rate Loans...	46
Section 8.06. Substitution of Bank Termination Option.....	46

ARTICLE 9 Miscellaneous

Section 9.01. Notices.....	47
Section 9.02. No Waivers.....	48
Section 9.03. Expenses; Indemnification.....	48
Section 9.04. Sharing of Set-offs.....	48
Section 9.05. Amendments and Waivers.....	49
Section 9.06. Successors and Assigns.....	49
Section 9.07. Collateral.....	51
Section 9.08. Confidentiality.....	51
Section 9.09. Governing Law; Submission to Jurisdiction.....	51
Section 9.10. Counterparts; Integration.....	51
Section 9.11. WAIVER OF JURY TRIAL.....	52

iii

<PAGE>

<TABLE>

PAGE

<S>

<C>

PRICING SCHEDULE

- EXHIBIT A - Note
- EXHIBIT B - Form of Bid Rate Quote Request
- EXHIBIT C - Form of Invitation for Bid Rate Quotes
- EXHIBIT D - Form of Bid Rate Quote
- EXHIBIT E - Opinion of General Counsel for the Borrower
- EXHIBIT F - Opinion of Davis Polk & Wardwell, Special Counsel for the
Administrative Agent
- EXHIBIT G - Assignment and Assumption Agreement
- EXHIBIT H - Extension Agreement

</TABLE>

iv

<PAGE>

364-DAY CREDIT AGREEMENT

364-DAY CREDIT AGREEMENT dated as of August 23, 1999 among DUKE CAPITAL CORPORATION, the BANKS listed on the signature pages hereof and THE CHASE MANHATTAN BANK, as Administrative Agent.

The parties hereto agree as follows:

ARTICLE 1

Definitions

Section 1.01. Definitions. The following terms, as used herein, have the following meanings:

"Additional Bank" means any financial institution that becomes a Bank for

purposes hereof in connection with (i) an increase in the aggregate amount of the Commitments pursuant to Section 2.17 or (ii) the replacement of a Bank pursuant to Section 8.06.

"Administrative Agent" means The Chase Manhattan Bank in its capacity as administrative agent for the Banks hereunder, and its successors in such capacity.

"Administrative Questionnaire" means, with respect to each Bank, the administrative questionnaire in the form submitted to such Bank by the Administrative Agent and submitted to the Administrative Agent (with a copy to the Borrower) duly completed by such Bank.

"Affiliate" means (i) any Person that directly, or indirectly through one or more intermediaries, controls the Borrower (a "Controlling Person") or (ii) any Person (other than the Borrower or a Subsidiary) which is controlled by or is under common control with a Controlling Person. As used herein, the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Applicable Lending Office" means, with respect to any Bank, (i) in the case of its Domestic Loans, its Domestic Lending Office, (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office and (iii) in the case of its Bid Rate Loans, its Bid Rate Lending Office.

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"Approved Officer" means the president, a vice president or the treasurer or assistant treasurer of the Borrower or such other representative of the Borrower as may be designated by any one of the foregoing with the consent of the Administrative Agent.

"Assignee" has the meaning set forth in Section 9.06(c).

"Bank" means each bank or other financial institution listed on the signature pages hereof, each Additional Bank, each Assignee which becomes a Bank pursuant to Section 9.06(c), and their respective successors.

"Base Rate" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day.

"Base Rate Loan" means (i) a Committed Loan which bears interest at the Base Rate pursuant to the applicable Notice of Committed Borrowing or Notice of Interest Rate Election or the provisions of Article 8 or (ii) an overdue amount which was a Base Rate Loan immediately before it became overdue.

"Bid Rate (General)" has the meaning set forth in Section 2.03(d).

"Bid Rate (General) Auction" means a solicitation of Bid Rate Quotes setting forth Bid Rates (General) pursuant to Section 2.03.

"Bid Rate (General) Loan" means a loan made or to be made by a Bank pursuant to a Bid Rate (General) Auction.

"Bid Rate (Indexed) Auction" means a solicitation of Bid Rate Quotes setting forth Bid Rate (Indexed) Margins based on the London Interbank Offered Rate pursuant to Section 2.03.

"Bid Rate Lending Office" means, as to each Bank, its Domestic Lending Office or such other office, branch or affiliate of such Bank as it may hereafter designate as its Bid Rate Lending Office by notice to the Borrower and the Administrative Agent; provided that any Bank may from time to time by notice to the Borrower and the Administrative Agent designate separate Bid Rate Lending Offices for its Bid Rate (Indexed) Loans, on the one hand, and its Bid Rate (General) Loans, on the other hand, in which case all references herein to the Bid Rate Lending Office of such Bank shall be deemed to refer to either or both of such offices, as the context may require.

"Bid Rate (Indexed) Loan" means a loan made or to be made by a Bank pursuant to a Bid Rate (Indexed) Auction (including such a loan bearing interest at the Base Rate pursuant to Section 8.01(a)).

2

<PAGE>

"Bid Rate Loan" means a Bid Rate (Indexed) Loan or a Bid Rate (General) Loan.

"Bid Rate (Indexed) Margin" has the meaning set forth in Section 2.03(d).

"Bid Rate Quote" means an offer by a Bank to make a Bid Rate Loan in accordance with Section 2.03.

"Borrower" means Duke Capital Corporation, a Delaware corporation, and its successors.

"Borrowing" has the meaning set forth in Section 1.03.

"Class" refers to the determination whether a Loan is a Committed Loan (and, if a Committed Loan, whether a Revolving Credit Loan or a Term Loan) or a Bid Rate Loan.

"Commitment" means (i) with respect to each Bank listed on the signature pages hereof, the amount set forth opposite the name of such Bank on the signature pages hereof, and (ii) with respect to each Additional Bank or Assignee which becomes a bank pursuant to Sections 2.17(a), 2.01(c) and 9.06(c), the amount of the Commitment thereby assumed by it, in each case as such amount may from time to time be reduced pursuant to Section 2.09, 2.11 or 9.06(c) or increased pursuant to Section 2.17(a), 8.06 or 9.06(c).

"Commitment Termination Date" means, for each Bank, August 21, 2000, as such date may be extended from time to time with respect to such Bank pursuant to Section 2.01(c) or, if any such day is not a Euro-Dollar Business Day, the next preceding Euro-Dollar Business Day.

"Committed Loan" means a Revolving Credit Loan or a Term Loan made by a Bank pursuant to Section 2.01.

"Consolidated Capitalization" means the sum of (i) Consolidated Indebtedness, (ii) consolidated common stockholders' equity as would appear on a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with generally accepted accounting principles, and (iii) the aggregate liquidation preference of preferred stocks (other than preferred stocks subject to mandatory redemption or repurchase) of the Borrower and its Consolidated Subsidiaries upon involuntary liquidation.

"Consolidated Indebtedness" means, at any date, all Indebtedness of Borrower and its Consolidated Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles.

3

<PAGE>

"Consolidated Subsidiary" means, for any Person, at any date any Subsidiary or other entity the accounts of which would be consolidated with those of such Person in its consolidated financial statements if such statements were prepared as of such date; unless otherwise specified "Consolidated Subsidiary" means a Consolidated Subsidiary of the Borrower.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Domestic Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

"Domestic Lending Office" means, as to each Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Borrower and the Administrative Agent.

"Effective Date" means the date this Agreement becomes effective in accordance with Section 3.01.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges, releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Group" means all members of a controlled group of corporations and trades or businesses (whether or not incorporated) under common control

which, together with the Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code.

"Euro-Dollar Business Day" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

4

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"Euro-Dollar Lending Office" means, as to each Bank, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or affiliate of such Bank as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Administrative Agent.

"Euro-Dollar Loan" means (i) a Committed Loan which bears interest at a Euro-Dollar Rate pursuant to the applicable Notice of Committed Borrowing or Notice of Interest Rate Election or (ii) an overdue amount which was a Euro-Dollar Loan immediately before it became overdue.

"Euro-Dollar Margin" means a rate per annum determined in accordance with the Pricing Schedule.

"Euro-Dollar Rate" means a rate of interest determined pursuant to Section 2.07(b) on the basis of a London Interbank Offered Rate.

"Euro-Dollar Reference Banks" means the principal London offices of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York.

"Euro-Dollar Reserve Percentage" has the meaning set forth in Section 2.16.

"Event of Default" has the meaning set forth in Section 6.01.

"Existing Credit Agreement" means the \$600,000,000 364-Day Credit Agreement dated as of August 24, 1998 among the Borrower, the lenders party thereto and The Chase Manhattan Bank, as administrative agent.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to The Chase Manhattan Bank (or its successor as Administrative Agent) on such day on such transactions as determined by the Administrative Agent.

5

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"Final Maturity Date" means, for each Bank, the first anniversary of its Commitment Termination Date or, if such day is not a Euro-Dollar Business Day, the next preceding Euro-Dollar Business Day; provided that the Final Maturity Date for all Banks shall be no later than August 16, 2004.

"Fixed Rate Loans" means Euro-Dollar Loans or Bid Rate Loans (excluding Bid Rate (Indexed) Loans bearing interest at the Base Rate) or any combination of the foregoing.

"Group of Loans" means at any time a group of Committed Loans of the same Class consisting of (i) all Base Rate Loans of such Class outstanding at such time or (ii) all Euro-Dollar Loans of such Class having the same Interest Period at such time, provided that, if a Committed Loan of any particular Bank is converted to or made as a Base Rate Loan pursuant to Article 8, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been if it had not been so converted or made.

"Indebtedness" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all indebtedness of such Person for the deferred purchase price of property or services purchased, (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired, (iv) all indebtedness under leases which shall have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases in respect of which such Person is liable as lessee, (v) the face amount of letter of credit indebtedness available or to be available to be drawn (other than letter of credit obligations relating to indebtedness included in Indebtedness pursuant to another clause of this definition) and, without duplication, the unreimbursed amount of all drafts drawn thereunder, (vi) indebtedness secured by any Lien on property or assets of such Person, whether or not assumed (but in any event not exceeding the fair market value of the property or asset), (vii) all direct guarantees of Indebtedness referred to above of another Person, (viii) all amounts payable in connection with mandatory redemptions or repurchases of preferred stock and (ix) any obligations of such Person (in the nature of principal or interest) in respect of acceptances or similar obligations issued or created for the account of such Person.

"Interest Period" means: (1) with respect to each Euro-Dollar Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in an applicable Notice of Interest Rate Election and ending one, two, three or six, or, if deposits of a corresponding maturity are generally available in the London interbank market, nine or twelve, months thereafter, as the Borrower may elect in such notice; provided that:

6

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(a) any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Dollar Business Day; and

(b) any Interest Period which begins on the last Euro-Dollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Euro-Dollar Business Day of a calendar month;

(2) with respect to each Bid Rate (Index) Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing and ending such number of months thereafter (but not less than one month) as the Borrower may elect in accordance with Section 2.03; provided that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Dollar Business Day; and

(b) any Interest Period which begins on the last Euro-Dollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Euro-Dollar Business Day of a calendar month; and

(3) with respect to each Bid Rate (General) Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing and ending such number of days thereafter (but not less than 7 days) as the Borrower may elect in accordance with Section 2.03; provided that any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day; and

provided further that: (x) any Interest Period applicable to any Loan of any Bank which begins before such Bank's Commitment Termination Date and would otherwise end after such Bank's Commitment Termination Date shall end on such Bank's Commitment Termination Date; and (y) any Interest Period applicable to any Loan of any Bank which would otherwise end after such Bank's Final Maturity Date shall end on such Bank's Final Maturity Date.

7

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"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"Investment Grade Status" exists as to any Person at any date if all senior debt securities of such Person outstanding at such date which had been rated by S&P or Moody's are rated BBB- or higher by S&P or Baa3 or higher by Moody's, as the case may be.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement,

capital lease or other title retention agreement relating to such asset.

"Loan" means a Base Rate Loan or a Euro-Dollar Loan or a Bid Rate Loan
and "Loans" means Base Rate Loans or Euro-Dollar Loans or Bid Rate Loans or any
combination of the foregoing.

"London Interbank Offered Rate" has the meaning set forth in Section
2.07(b).

"Material Adverse Effect" means a material adverse effect on the
business, financial position, results of operations or prospects of the
Borrower.

"Material Debt" means Indebtedness of the Borrower or any of its
Subsidiaries in an aggregate principal amount exceeding \$100,000,000.

"Material Plan" has the meaning set forth in Section 6.01(i).

"Material Subsidiary" means at any time any Subsidiary of the Borrower
having, together with its Subsidiaries, consolidated assets in excess of 10% of
the total assets of the Borrower and its Consolidated Subsidiaries, determined
on a consolidated basis as of such time.

"Moody's" means Moody's Investor Service, Inc.

"Notes" means promissory notes of the Borrower, in the form required
by Section 2.05, evidencing the obligation of the Borrower to repay the Loans,
and "Note" means any one of such promissory notes issued hereunder.

"Notice of Borrowing" means a Notice of Committed Borrowing (as
defined in Section 2.02) or a Notice of Bid Rate Borrowing (as defined in
Section 2.03(f)).

8

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"Notice of Interest Rate Election" has the meaning set forth in
Section 2.10(b).

"Parent" means, with respect to any Bank, any Person controlling such
Bank.

"Participant" has the meaning set forth in Section 9.06(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity
succeeding to any or all of its functions under ERISA.

"Person" means an individual, a corporation, a partnership, an
association, a trust or any other entity or organization, including a government
or political subdivision or an agency or instrumentality thereof.

"Plan" means at any time an employee pension benefit plan which is
covered by Title IV of ERISA or subject to the minimum funding standards under
Section 412 of the Internal Revenue Code and is either (i) maintained by a

member of the ERISA Group for employees of a member of the ERISA Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Prime Rate" means the rate of interest publicly announced by The Chase Manhattan Bank in New York City from time to time as its Prime Rate. Each change in the Prime Rate shall be effective from and including the day such change is publicly announced.

"Principal Subsidiary" means each of Texas Eastern Transmission Corporation, Algonquin Gas Transmission Company, PanEnergy Corp, and their respective successors.

"Quarterly Payment Date" means the first Domestic Business Day of each January, April, July and October.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Required Banks" means at any time Banks (i) having at least 51% of the sum of the aggregate amount of the Commitments and the aggregate outstanding principal amount of the Term Loans or (ii) if the Commitments shall have been terminated, having at least 51% of the aggregate unpaid principal amount of the Loans.

9

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"Revolving Credit Loan" means a loan made or to be made by a Bank pursuant to Section 2.01(a); provided that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Interest Rate Election, the term "Revolving Credit Loan" shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"Revolving Credit Period" means, with respect to any Bank, the period from and including the Effective Date to but not including its Commitment Termination Date.

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

"Subsidiary" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified, "Subsidiary" means a Subsidiary of the Borrower.

"Substantial Assets" means assets sold or otherwise disposed of in a single transaction or a series of related transactions representing 25% or more of the consolidated assets of the Borrower and its Consolidated Subsidiaries, taken as a whole.

"Term Loan" means a loan made or to be made by a Bank pursuant to Section 2.01(b); provided that, if any such loan or loans (or portions thereof) combined or subdivided pursuant to a Notice of Interest Rate Election, the term "Term Loan" shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"United States" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"Unfunded Vested Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or the Plan under Title IV of ERISA.

Section 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements

10

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required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks.

Section 1.03. Types and Classes of Borrowings. The term "Borrowing" denotes the aggregation of Loans of one or more Banks to be made to the Borrower pursuant to Article 2 on a single date and for a single Interest Period. Borrowings are classified for purposes of this Agreement either by reference to the pricing of Loans comprising such Borrowing (e.g., a "Fixed Rate Borrowing" is a Euro-Dollar Borrowing or a Bid Rate Borrowing (excluding any such Borrowing consisting of Bid Rate (Indexed) Loans bearing interest at the Base Rate), and a "Euro-Dollar Borrowing" is a Borrowing comprised of Euro-Dollar Loans) or by reference to the provisions of Article 2 under which participation therein is determined (i.e., a "Committed Borrowing" is a Borrowing under Section 2.01 in which all Banks participate in proportion to their Commitments, while a "Bid Rate Borrowing" is a Borrowing under Section 2.03 in which the Bank participants are determined on the basis of their bids in accordance therewith) or by reference to the Class of Loans comprising such Borrowing (e.g., a "Term Borrowing" is a Borrowing comprised of Term Loans).

ARTICLE 2

The Credits

Section 2.01. Commitments to Lend. (a) Revolving Credit Loans. During its Revolving Credit Period, each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make loans to the Borrower pursuant to this subsection from time to time in amounts such that the aggregate principal amount of Revolving Credit Loans by such Bank at any one time outstanding shall not exceed the amount of its Commitment. Each Borrowing under this subsection shall be in an aggregate principal amount of \$10,000,000 or any larger multiple of \$1,000,000 (except that any such Borrowing may be in the aggregate amount available in accordance with Section 3.02(b)) and shall be made from the several Banks ratably in proportion to their respective Commitments in effect on the date of Borrowing; provided that, if the Interest Period selected by the Borrower for a Borrowing would otherwise end after the Commitment Termination Dates of some but not all Banks, the Borrower may in its Notice of Committed Borrowing elect not to borrow from those Banks whose Commitment Termination Dates fall prior to the end of such Interest Period. Within the foregoing limits, the Borrower may borrow under this subsection (a), or to the

11

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extent permitted by Section 2.12, prepay Loans and reborrow at any time during the Revolving Credit Periods under this subsection (a).

(b) Term Loans. Each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make a loan to the Borrower on its Commitment Termination Date in an amount up to but not exceeding the amount of its Commitment. Each Borrowing under this subsection (b) shall be made from the several Banks having the same Commitment Termination Date ratably in proportion to their respective Commitments.

(c) Extension of Commitments. On no more than four separate occasions, the Borrower may, upon not less than 45 days but no earlier than 60 days notice prior to the then current Commitment Termination Dates to the Administrative Agent (which shall notify each Bank of receipt of such request), propose to extend the Revolving Credit Periods for an additional 364 days measured from the Commitment Termination Dates then in effect. Each Bank shall endeavor to respond to such request, whether affirmatively or negatively (such determination in the sole discretion of such Bank), by notice to the Borrower and the Administrative Agent not more than 45 days nor less than 30 days prior to such Bank's Commitment Termination Date. Subject to the execution by the Borrower, the Administrative Agent and such Banks of a duly completed Extension Agreement in substantially the form of Exhibit H, the Commitment Termination Date applicable to the Commitment of each Bank so affirmatively notifying the Borrower and the Administrative Agent shall be extended for the period specified above; provided that no Commitment Termination Date of any Bank shall be extended unless Banks having at least 66*% in aggregate amount of the Commitments in effect at the time any such extension is requested shall have elected so to extend their Commitments. Any Bank which does not give such notice to the Borrower and the Administrative Agent shall be deemed to have elected not to extend as requested, and the Commitment of each non-extending Bank shall terminate on its Commitment Termination Date determined without giving effect to such requested extension. The Borrower may, in accordance with Section 3.06, designate another bank or other financial institution (which may, but need not be, an extending Bank) to replace a non-extending Bank.

Section 2.02. Notice of Committed Borrowings. The Borrower shall give the Administrative Agent notice (a "Notice of Committed Borrowing") not later than 30 A.M. (New York City time) on (x) the date of each Base Rate Borrowing and, the third Euro-Dollar Business Day before each Euro-Dollar Borrowing, specifying:

12

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(a) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Domestic Borrowing or a Euro-Dollar Business Day in the case of a Euro-Dollar Borrowing,

(b) the aggregate amount of such Borrowing,

(c) whether the Loans comprising such Borrowing are to bear interest initially at the Base Rate or a Euro-Dollar Rate,

(d) the Class of Loans comprising such Borrowing, and

(e) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

Section 2.03. Bid Rate Borrowings. (a) The Bid Rate Option. In addition to Committed Borrowings pursuant to Section 2.01, the Borrower may, as set forth in this Section, request the Banks at any time prior to their respective Commitment Termination Dates to make offers to make Bid Rate Loans to the Borrower. The Banks may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this Section.

(b) Bid Rate Quote Request. When the Borrower wishes to request offers to make Bid Rate Loans under this Section, it shall transmit to the Administrative Agent by telex or facsimile transmission a Bid Rate Quote Request substantially in the form of Exhibit B hereto so as to be received no later than 10:00 A.M. (New York City time) on (x) the fourth Euro-Dollar Business Day prior to the date of Borrowing proposed therein, in the case of a Bid Rate (Indexed) Auction or (y) the Domestic Business Day next preceding the date of Borrowing proposed therein, in the case of a Bid Rate (General) Auction (or, in either case, such other time or date as the Borrower and the Administrative Agent shall have mutually agreed and shall have notified to the Banks not later than the date of the Bid Rate Quote Request for the first Bid Rate (Indexed) Auction or Bid Rate (General) Auction for which such change is to be effective) specifying:

(i) the proposed date of Borrowing, which shall be a Euro-Dollar Business Day,*

(ii) the aggregate amount of such Borrowing, which shall be \$10,000,000 or a larger multiple of \$1,000,000,

(iii) the duration of the Interest Period applicable thereto, subject to the provisions of the definition of Interest Period, and

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(iv) whether the Bid Rate Quotes requested are to set forth a Bid Rate (Indexed) or a Bid Rate (General) Rate.

The Borrower may request offers to make Bid Rate Loans for more than one Interest Period in a single Bid Rate Quote Request.

(c) Invitation for Bid Rate Quotes. Promptly upon receipt of a Bid Rate Quote Request, the Administrative Agent shall send to the Banks by telex or facsimile transmission an Invitation for Bid Rate Quotes substantially in the form of Exhibit C hereto, which shall constitute an invitation by the Borrower to each Bank to submit Bid Rate Quotes offering to make the Bid Rate Loans to which such Bid Rate Quote Request relates in accordance with this Section.

(d) Submission and Contents of Bid Rate Quotes. (i) Each Bank may submit a Bid Rate Quote containing an offer or offers to make Bid Rate Loans in response to any Invitation for Bid Rate Quotes. Each Bid Rate Quote must comply with the requirements of this subsection (d) and must be submitted to the Administrative Agent by telex or facsimile transmission at its offices specified in or pursuant to Section 9.01 not later than (x) 2:00 P.M. (New York City time) on the fourth Euro-Dollar Business Day prior to the proposed date of Borrowing, in the case of a Bid Rate (Indexed) Auction or (y) 9:30 A.M. (New York City time) on the proposed date of Borrowing, in the case of an Bid Rate (General) Auction (or, in either case, such other time or date as the Borrower and the Administrative Agent shall have mutually agreed and shall have notified to the Banks not later than the date of the Bid Rate Quote Request for the first Bid Rate (Indexed) Auction or Bid Rate (General) Auction for which such change is to be effective); provided that Bid Rate Quotes submitted by the Administrative Agent (or any affiliate of the Administrative Agent) in the capacity of a Bank may be submitted, and may only be submitted, if the Administrative Agent or such affiliate notifies the Borrower of the terms of the offer or offers contained therein not later than (x) 1:00 P.M. (New York City time) on the fourth Euro-Dollar Business Day prior to the proposed date of Borrowing, in the case of a Bid Rate (Indexed) Auction or (y) 9:15 A.M. (New York City time) on the proposed date of Borrowing, in the case of an Bid Rate (General) Auctions. Subject to Articles 3 and 6, any Bid Rate Quote so made shall be irrevocable except with the written consent of the Administrative Agent given on the instructions of the Borrower.

(ii) Each Bid Rate Quote shall be in substantially the form of Exhibit D hereto and shall in any case specify:

(A) the proposed date of Borrowing,

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(B) the principal amount of the Bid Rate Loan for which each such offer is being made, which principal amount (w) may be greater than or less than the Commitment of the quoting Bank, (x) must be \$5,000,000 or a larger multiple of \$1,000,000 and (y) may not exceed

the principal amount of Bid Rate Loans for each Interest Period for which offers were requested and (z) may be subject to an aggregate limitation as to the principal amount of Bid Rate Loans for which offers being made by such quoting Bank may be accepted,

(C) in the case of a Bid Rate (Indexed) Auction, the margin above or below the applicable London Interbank Offered Rate (the "Bid Rate (Indexed) Margin") offered for each such Bid Rate Loan, expressed as a percentage (specified to the nearest 1/10,000th of 1%) to be added to or subtracted from such base rate,

(D) in the case of a Bid Rate (General) Auction, the rate of interest per annum (specified to the nearest 1/10,000th of 1%) (the "Bid Rate (General)") offered for each such Bid Rate Loan, and

(E) the identity of the quoting Bank.

A Bid Rate Quote may set forth up to five separate offers by the quoting Bank with respect to each Interest Period specified in the related Invitation for Bid Rate Quotes.

(iii) Any Bid Rate Quote shall be disregarded if:

(A) it is not substantially in conformity with Exhibit D hereto or does not specify all of the information required by subsection 2.03(d)(ii);

(B) it contains qualifying, conditional or similar language beyond that contemplated by Exhibit D;

(C) it proposes terms other than or in addition to those set forth in the applicable Invitation for Bid Rate Quotes;

(D) it arrives after the time set forth in subsection 2.03(d)(i); or

(E) the Commitment Termination Date of the Bank submitting such Bid Rate Quote falls prior to the last day of the requested Interest Period for which such Bank offers to make a Bid Rate Loan.

15

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(e) Notice to Borrower. The Administrative Agent shall promptly but in no event later than 10:00 A.M. (New York City time) notify the Borrower of the terms (x) of any Bid Rate Quote submitted by a Bank that is in accordance with subsection (d) and (y) of any Bid Rate Quote that amends, modifies or is otherwise inconsistent with a previous Bid Rate Quote submitted by such Bank with respect to the same Bid Rate Quote Request. Any such subsequent Quote shall be disregarded by the Administrative Agent unless such subsequent Quote is submitted solely to correct a manifest error in such former Quote. The Administrative Agent's notice to the Borrower shall specify (A) the aggregate principal amount of Loans for which offers have been received for each Interest Period specified in the related Bid Rate Quote Request, (B) the respective

principal amounts and Bid Rate (Indexed) Margins or Bid Rate (General) Rates, as the case may be, so offered and (C) if applicable, limitations on the aggregate principal amount of Bid Rate Loans for which offers in any single Bid Rate Quote may be accepted.

(f) Acceptance and Notice by Borrower. Not later than 10:30 A.M. (New York City time) on (x) the third Euro-Dollar Business Day prior to the proposed date of Borrowing, in the case of a Bid Rate (Indexed) Auction or (y) the proposed date of Borrowing, in the case of an Bid Rate (General) Auction (or, in either case, such other time or date as the Borrower and the Administrative Agent shall have mutually agreed and shall have notified to the Banks not later than the date of the Bid Rate Quote Request for the first Bid Rate (Indexed) Auction or Bid Rate (General) Auction for which such change is to be effective), the Borrower shall notify the Administrative Agent of its acceptance or non-acceptance of the offers so notified to it pursuant to subsection (e). In the case of acceptance, such notice (a "Notice of Bid Rate Borrowing") shall specify the aggregate principal amount of offers for each Interest Period that are accepted. The Borrower may accept any Bid Rate Quote in whole or in part; provided that:

(i) the aggregate principal amount of each Bid Rate Borrowing may not exceed the applicable amount set forth in the related Bid Rate Quote Request,

(ii) the principal amount of each Bid Rate Borrowing must be \$10,000,000 or a larger multiple of \$1,000,000, and

(iii) acceptance of offers may only be made on the basis of ascending Bid Rate (Indexed) Margins or Bid Rate (General) Rates, as the case may be.

(g) Allocation by Administrative Agent. If offers are made by two more Banks with the same Bid Rate (Indexed) Margins or Bid Rate (General), as the

16

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case may be, for a greater aggregate principal amount than the amount in respect of which such offers are accepted for the related Interest Period, the principal amount of Bid Rate Loans in respect of which such offers are accepted shall be allocated by the Administrative Agent among such Banks as nearly as possible (in multiples of \$1,000,000, as the Administrative Agent may deem appropriate) in proportion to the aggregate principal amounts of such offers. Determinations by the Administrative Agent of the amounts of Bid Rate Loans shall be conclusive in the absence of manifest error.

Section 2.04. Notice to Banks; Funding of Loans. (a) Upon receipt of a Notice of Borrowing, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share (if any) of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Not later than 12:00 Noon (New York City time) on the date of each Borrowing, each Bank participating therein shall (except as provided in subsection (c) of this Section) make available its share of such Borrowing, in

Federal or other funds immediately available in New York City, to the Administrative Agent at its address specified in or pursuant to Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied, the Administrative Agent will make the funds so received from the Banks available to the Borrower at the Administrative Agent's aforesaid address.

(c) Unless the Administrative Agent shall have received notice from a Bank prior to the date of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's share of such Borrowing, the Administrative Agent may assume that such Bank has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section 2.04 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Administrative Agent, such Bank and, if such Bank shall not have made such payment within two Domestic Business Days of demand therefor, the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.07 and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

17

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(d) The failure of any Bank to make the Loan to be made by it as part of any Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make a Loan on the date of such Borrowing, but no Bank shall be responsible for the failure of any other Bank to make a Loan to be made by such other Bank.

Section 2.05. Registry; Notes. (a) The Administrative Agent shall maintain a register (the "Register") on which it will record the Commitment of each Bank, each Loan made by such Bank and each repayment of any Loan made by such Bank. Any such recordation by the Administrative Agent on the Register shall be conclusive, absent manifest error. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrower's obligations hereunder.

(b) The Borrower hereby agrees that, promptly upon the request of any Bank at any time, the Borrower shall deliver to such Bank a duly executed Note, in substantially the form of Exhibit A hereto, payable to the order of such Bank and representing the obligation of the Borrower to pay the unpaid principal amount of the Loans made to the Borrower by such Bank, with interest as provided herein on the unpaid principal amount from time to time outstanding.

(c) Each Bank shall record the date, amount and maturity of each Loan made by it and the date and amount of each payment of principal made by the

Borrower with respect thereto, and each Bank receiving a Note pursuant to this Section, if such Bank so elects in connection with any transfer or enforcement of its Note, may endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding; provided that the failure of such Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Notes. Such Bank is hereby irrevocably authorized by the Borrower so to endorse its Note and to attach to and make a part of its Note a continuation of any such schedule as and when required.

Section 2.06. Maturity of Loans. (a) Each Revolving Credit Loan made by any Bank shall mature, and the principal amount thereof shall be due and payable together with accrued interest thereon, on the Commitment Termination Date of such Bank.

(b) The Term Loans of each Bank shall mature, and the principal amount thereof shall be due and payable, together with accrued interest thereon, on the Final Maturity Date of such Bank.

(c) Each Bid Rate Loan included in any Bid Rate Borrowing shall mature, and the principal amount thereof shall be due and payable (together with

18

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interest accrued thereon), on the last day of the Interest Period applicable to such Bid Rate Borrowing.

Section 2.07. Interest Rates. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day. Such interest shall be payable quarterly in arrears on each Quarterly Payment Date, at maturity and on the date of termination of the Commitments in their entirety. Any overdue principal or overdue interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 1% plus the Base Rate for such day.

(b) Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the Euro-Dollar Margin for such day plus the London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

The "London Interbank Offered Rate" applicable to any Interest Period means the rate appearing on Page 3750 of the Telerate Service (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of the Telerate Service, as may be nominated by the British Bankers' Association for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) as of 11:00 A.M. (London time) two Euro-Dollar Business Days prior to the commencement of each Interest Period, as the rate for dollar deposits with a maturity comparable

to such Interest Period. In the event that such rate is not so available at such time for any reason, then the "London Interbank Offered Rate" for such Interest Period shall be the average (rounded upward, if necessary, to the next higher 1/16 of 1%) of the respective rates per annum at which deposits in dollars are offered to each of the Euro-Dollar Reference Banks in the London interbank market at approximately 11:00 A.M. (London time) two Euro-Dollar Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Loan of such Euro-Dollar Reference Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. If any Euro-Dollar Reference Bank does not furnish a timely quotation, the Administrative Agent shall determine the relevant interest rate on the basis of the quotation furnished by the remaining Euro-Dollar Reference Bank or, if none of such quotations is available on a timely basis, the provisions of Section 8.01 shall apply.

19

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(c) Any overdue principal of or overdue interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the sum of 1% plus the higher of (i) the sum of the Euro-Dollar Margin for such day plus the London Interbank Offered Rate applicable to such Loan at the date such payment was due and (ii) the Base Rate for such day.

(d) Subject to Section 8.01(a), each Bid Rate (Indexed) Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the London Interbank Offered Rate for such Interest Period (determined in accordance with Section 2.07(b) as if each Euro-Dollar Reference Bank were to participate in the related Bid Rate (Indexed) Borrowing ratably in proportion to its Commitment) plus (or minus) the Bid Rate (Indexed) Margin quoted by the Bank making such Loan in accordance with Section 2.03. Each Bid Rate (General) Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the Bid Rate (General) quoted by the Bank making such Loan in accordance with Section 2.03. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof. Any overdue principal of or overdue interest on any Bid Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 1% plus the Base Rate for such day.

(e) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Banks by telecopy, telex or cable of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error unless the Borrower raises an objection thereto within five Domestic Business Days after receipt of such notice.

Section 2.08. Fees. (a) Facility Fee. The Borrower shall pay to the Administrative Agent for the account of each Bank a facility fee at the Facility Fee Rate (determined daily in accordance with the Pricing Schedule). Such

facility fee shall accrue (i) from and including the Effective Date to but excluding such Bank's Commitment Termination Date, on the daily average aggregate amount of such Bank's Commitment (whether used or unused) and (ii) from and including such Bank's Commitment Termination Date to but excluding the date such Bank's Loans shall be repaid in their entirety, on the daily average aggregate outstanding principal amount of such Bank's Committed Loans.

(b) Payments. Accrued fees under this Section for the account of any Bank shall be payable quarterly in arrears on each Quarterly Payment Date and

20

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upon such Bank's Commitment Termination Date and Final Maturity Date (and, if later, the date the Loans of such Bank shall be repaid in their entirety); provided, that accrued facility fees shall be paid in equal quarterly installments on the Quarterly Payment Date following each full quarter during which the aggregate amount of Commitments remains unchanged.

Section 2.09. Optional Termination or Reduction of Commitments. The Borrower may, upon at least three Domestic Business Days' notice to the Administrative Agent, (i) terminate the Commitments at any time, if no Loans are outstanding at such time or (ii) ratably reduce from time to time by an aggregate amount of \$10,000,000 or any larger multiple of \$1,000,000 the aggregate amount of the Commitments in excess of the aggregate outstanding principal amount of the Revolving Credit and Bid Rate Loans.

Section 2.10. Method of Electing Interest Rates. (a) The Loans included in each Committed Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Committed Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Group of Loans (subject in each case to the provisions of Article 8 and the last sentence of this subsection (a)), as follows:

(i) if such Loans are Base Rate Loans, the Borrower may elect to convert such Loans to Euro-Dollar Loans as of any Euro-Dollar Business Day; and

(ii) if such Loans are Euro-Dollar Loans, the Borrower may elect to convert such Loans to Base Rate Loans or elect to continue such Loans as Euro-Dollar Loans for an additional Interest Period, subject to Section 2.14 in the case of any such conversion or continuation effective on any day other than the last day of the then current Interest Period applicable to such Loans.

Each such election shall be made by delivering a notice (a "Notice of Interest Rate Election") to the Administrative Agent not later than 10:30 A.M. (New York City time) on the third Euro-Dollar Business Day before the conversion or continuation selected in such notice is to be effective. A Notice of Interest Rate Election may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans, provided that (i) such portion be allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not

apply, are each \$10,000,000 or any larger multiple of \$1,000,000.

(b) Each Notice of Interest Rate Election shall specify:

21

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(i) the Group of Loans (or portion thereof) to which such notice applies;

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of subsection 2.10(a) above;

(iii) if the Loans comprising such Group are to be converted, the new type of Loans and, if the Loans being converted are to be Fixed Rate Loans, the duration of the next succeeding Interest Period applicable thereto; and

(iv) if such Loans are to be continued as Euro-Dollar Loans for an additional Interest Period, the duration of such additional Interest Period.

Each Interest Period specified in a Notice of Interest Rate Election shall comply with the provisions of the definition of the term "Interest Period".

(c) Promptly after receiving a Notice of Interest Rate Election from the Borrower pursuant to subsection 2.10(a) above, the Administrative Agent shall verify each Bank of the contents thereof and such notice shall not thereafter be revocable by the Borrower. If no Notice of Interest Rate Election is timely received prior to the end of an Interest Period for any Group of Loans, the Borrower shall be deemed to have elected that such Group of Loans be converted to Base Rate Loans as of the last day of such Interest Period.

(d) An election by the Borrower to change or continue the rate of interest applicable to any Group of Loans pursuant to this Section shall not constitute a "Borrowing" subject to the provisions of Section 3.02.

Section 2.11. Mandatory Termination of Commitments. The Commitment of each Bank shall terminate on such Bank's Commitment Termination Date, and any Revolving Credit or Bid Rate Loans of such Bank then outstanding (together with accrued interest thereon) shall be due and payable on such date.

Section 2.12. Optional Prepayments. (a) The Borrower may (i) upon notice to the Administrative Agent not later than 10:30 A.M. (New York City time) on any Domestic Business Day prepay on such Domestic Business Day any Group of Base Rate Loans or any Bid Rate Borrowing bearing interest at the Base Rate pursuant to Section 8.01(a) and (ii) upon at least three Euro-Dollar Business Days' notice to the Administrative Agent not later than 10:30 A.M. (New York City time) prepay any Group of Euro-Dollar Loans, in each case in whole at any time, or from time to time in part in amounts aggregating \$5,000,000 or any larger

22

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multiple of \$1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment and together with any additional amounts payable pursuant to Section 2.14. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks included in such Group or Borrowing.

(b) Except as provided in subsection 2.12(a), the Borrower may not prepay all or any portion of the principal amount of any Bid Rate Loan prior to the maturity thereof.

(c) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share (if any) of such prepayment and such notice shall not thereafter be revocable by the Borrower.

Section 2.13. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loans and of fees hereunder, not later than 12:00 Noon (New York City time) on the date when due, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 9.01. The Administrative Agent will promptly distribute to each Bank its ratable share of each such payment received by the Administrative Agent for the account of the Banks. Whenever any payment of principal of, or interest on, the Base Rate Loans, or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Euro-Dollar Loans shall be due on a day which is not a Euro-Dollar Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro-Dollar Business Day. Whenever any payment of principal of, or interest on, the Bid Rate Loans shall be due on a day which is not a Euro-Dollar Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Dollar Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the

23

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Borrower shall not have so made such payment, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.14. Funding Losses. If the Borrower makes any payment of principal with respect to any Fixed Rate Loan or any Euro-Dollar Loan is converted to a Base Rate Loan or continued as a Euro-Dollar Loan for a new Interest Period (pursuant to Article 2, 6 or 8 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or if the Borrower fails to borrow, prepay, convert or continue any Fixed Rate Loans after notice has been given to any Bank in accordance with Section 2.04(a), 2.10(c) or 2.12(c), the Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or expense incurred by it (or by an existing or prospective Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow, prepay, convert or continue, provided that such Bank shall have delivered to the Borrower a certificate setting forth in reasonable detail the calculation of the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.15. Computation of Interest and Fees. Interest based on the Prime Rate and facility fees hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day); provided that facility fees for the account of any Bank shall be paid in equal quarterly installments for each full quarter in which the Commitment of such Bank remains unchanged. All other interest shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

Section 2.16. Regulation D Compensation. In the event that a Bank is required to maintain reserves of the type contemplated by the definition of "Euro-Dollar Reserve Percentage", such Bank may require the Borrower to pay, contemporaneously with each payment of interest on the Euro-Dollar Loans, additional interest on the related Euro-Dollar Loan of such Bank at a rate per annum determined by such Bank up to but not exceeding the excess of (i) (A) the applicable London Interbank Offered Rate divided by (B) one minus the Euro-Dollar Reserve Percentage over (ii) the applicable London Interbank Offered Rate. Any Bank wishing to require payment of such additional interest (x) shall so notify the Borrower and the Administrative Agent, in which case such additional interest on the Euro-Dollar Loans of such Bank shall be payable to such

24

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Bank at the place indicated in such notice with respect to each Interest Period commencing at least three Euro-Dollar Business Days after the giving of such notice and (y) shall notify the Borrower at least three Euro-Dollar Business Days prior to each date on which interest is payable on the Euro-Dollar Loans of the amount then due it under this Section. Each such notification shall be accompanied by such information as the Borrower may reasonably request.

"Euro-Dollar Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for

determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents).

Section 2.17. Increased Commitments; Additional Banks. (a) Subsequent to the Effective Date, the Borrower may, on no more than three occasions, upon at least 30 days' notice to the Administrative Agent (which shall promptly provide a copy of such notice to the Banks), propose to increase the aggregate amount of the Commitments by an amount not to exceed in the aggregate for all such increases \$60,000,000 (the amount of any such increase, the "Increased Commitments"). Each Bank party to this Agreement at such time shall have the right (but no obligation), for a period of 15 days following receipt of such notice, to elect by notice to the Borrower and the Administrative Agent to increase its Commitment by a principal amount which bears the same ratio to the Increased Commitments as its then Commitment bears to the aggregate Commitments then existing.

(b) If any Bank party to this Agreement shall not elect to increase its Commitment pursuant to subsection (a) of this Section, the Borrower may designate one or more banks or other financial institutions (which may be, but need not be, one or more of the existing Banks) which at the time agree in the case of any existing Bank to increase its Commitment and, in the case of any other such bank (an "Additional Bank"), to become a party to this Agreement and assume a Commitment hereunder. The sum of the increases in the Commitments of the existing Banks pursuant to this subsection (b) plus the Commitments of the Additional Banks shall not in the aggregate exceed the unsubscribed amount of the Increased Commitments.

(c) An increase in the aggregate amount of the Commitments pursuant to this Section 2.17 shall become effective upon the receipt of the Administrative

25

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Agent of an agreement in form and substance satisfactory to the Administrative Agent signed by the Borrower, by each Additional Bank and by each other Bank whose Commitment is to be increased, setting forth the new Commitments of such Banks and setting forth the agreement of each Additional Bank to become a party to this Agreement and to be bound by all the terms and provisions hereof, together with such evidence of appropriate corporate authorization on the part of the Borrower with respect to the Increased Commitments and such opinions of counsel for the Borrower with respect to the Increased Commitments as the Administrative Agent may reasonably request.

(d) Upon any increase in the aggregate amount of the Commitments pursuant to this Section 2.17, within five Domestic Business Days, in the case of Base Rate Loans then outstanding, and at the end of the then current Interest period with respect thereto, in the case of Euro-Dollar Loans then outstanding, the Borrower shall prepay or repay such Loans in their entirety and, to the extent the Borrower elects to do so and subject to the conditions specified in

Article 3, the Borrower shall reborrow Committed Loans from the Banks in proportion to their respective Commitments after giving effect to such increase, until such time as all outstanding Committed Loans are held by the Banks in such proportion.

ARTICLE 3

Conditions

Section 3.01. Effectiveness. This Agreement shall become effective on the date that each of the following conditions shall have been satisfied (or waived in accordance with Section 9.05):

(a) receipt by the Administrative Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telecopy, telex or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) receipt by the Administrative Agent of an opinion of the General Counsel of the Borrower substantially in the form of Exhibit E hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(c) receipt by the Administrative Agent of an opinion of Davis Polk & Wardwell, special counsel for the Administrative Agent, substantially in the form of Exhibit F hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

26

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(d) receipt by the Administrative Agent of a certificate signed by a Vice President, the Treasurer or the Controller of the Borrower, dated the Effective Date, to the effect set forth in clauses (c) and (d) of Section 3.02;

(e) receipt by the Administrative Agent of all documents it may have reasonably requested prior to the date hereof relating to the existence of the Borrower, the corporate authority for and the validity of this Agreement and the Notes, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent; and

(f) receipt by the Administrative Agent of evidence satisfactory to it of the payment of all principal of and interest on any loans outstanding under, and all accrued commitment fees under, the Existing Credit Agreement and the cancellation or the expiration of any letter of credit issued thereunder, provided that this Agreement shall not become effective or be binding on any party hereto unless all of the foregoing conditions are satisfied not later than August 23, 1999. The Administrative Agent shall promptly notify the Borrower and the Banks of the Effective Date, and such notice shall be conclusive and binding on all parties hereto. The Borrower and the Banks party to the Existing Credit Agreement, comprising the "Required Banks" as defined therein, hereby agree that (i) the commitments of the lenders under the Existing Credit

Agreement shall terminate in their entirety immediately and automatically upon the effectiveness of this Agreement, without further action by any party to the Existing Credit Agreement, (ii) all accrued fees under the Existing Credit Agreement shall be due and payable at such time and (iii) subject to the funding of its indemnities in the Existing Credit Agreement, the Borrower may prepay any and all loans outstanding thereunder on the date of effectiveness of this Agreement.

Section 3.02. Borrowings. The obligation of any Bank to make a Loan on the occasion of any Borrowing is subject to the satisfaction of the following conditions:

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.02 or 2.03;

(b) the facts that, immediately after such Borrowing the aggregate outstanding principal amount of the Revolving Credit Loans and the Bid Rate Loans will not exceed the aggregate amount of the Commitments (exclusive of Commitments terminating on the date of such Borrowing);

(c) the fact that, immediately after such Borrowing, no Default shall have occurred and be continuing; and

27

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(d) the fact that the representations and warranties of the Borrower contained in this Agreement (except the representations and warranties set forth in Sections 4.04(c) and 4.05) shall be true on and as of the date of such Borrowing.

Each Borrowing hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing as to the facts specified in clauses (b), (c) and (d) of this Section.

ARTICLE 4

Representations and Warranties

The Borrower represents and warrants that:

Section 4.01. Corporate Existence and Power. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of Delaware, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and is duly qualified to do business as a foreign corporation in each jurisdiction where such qualification is required, except where the failure so to qualify would not have a material adverse effect on the business, financial position or results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by the Borrower of this Agreement and

the Notes are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or conflict with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or by-laws of the Borrower or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Material Subsidiaries.

Section 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Borrower and each Note, if and when executed and delivered in accordance with this Agreement, will constitute a valid and binding obligation of the Borrower, in each case enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

28

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Section 4.04. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of December 31, 1998 and the related consolidated statements of income, cash flows, capitalization and retained earnings for the fiscal year then ended, reported on by Deloitte & Touche, copies of which have been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(b) The unaudited consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of June 30, 1999 and the related unaudited consolidated statements of income and cash flows for the six months then ended, copies of which have been delivered to each of the Banks, fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and changes in financial position for such six month period (subject to normal year-end adjustments and the absence of footnotes).

(c) Since the respective dates set forth above, there has been no material adverse change in the business, financial position or results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.05. Litigation. (a) Except as disclosed in the reports referred to in Section 4.04, or in reports hereafter filed by the Borrower with the Securities and Exchange Commission, copies of which have been made available to each of the Banks, there is no action, suit or proceeding pending against, or to the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official which would be likely to be decided adversely to the Borrower and, as a result, have a material adverse effect upon the business, consolidated financial position or results of operations of the Borrower and its

Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity of this Agreement or any Note.

Section 4.06. Compliance with Laws. The Borrower and each Material Subsidiary is in compliance in all material respects with all applicable laws, ordinances, rules, regulations and requirements of governmental authorities (including, without limitation, ERISA and Environmental Laws) except where (i) non-compliance would not have a material adverse affect on the business, financial position or results of operations of the Borrower and its Consolidated

29

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Subsidiaries, considered as a whole, or (ii) the necessity of compliance therewith is contested in good faith by appropriate proceedings.

Section 4.07. Taxes. The Borrower and its Material Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Material Subsidiary except (i) where nonpayment would not have a material adverse effect on the business, financial position or results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole or (ii) where the same are contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of the Borrower and its Material Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Borrower, adequate.

Section 4.08. Public Utility Holding Company Act. The Borrower is not a holding company under the Public Utility Holding Company Act of 1935, as amended.

Section 4.09. Year 2000. The cost to the Borrower of (i) any reprogramming required to permit the proper functioning, in and following year 2000 of (a) the Borrower's critical computer systems and (b) Borrower's critical equipment containing embedded microchips (including systems and equipment supplied by others), (ii) the testing of all such systems and equipment, as so reprogrammed, and (iii) the reasonably foreseeable consequences of year 2000 to the Borrower (including, without limitation, reprogramming errors and the failure of others' systems or equipment) will not result in a Default or a Material Adverse Effect. Except for such of the reprogramming referred to in the preceding sentence as may be necessary, the computer and management information systems of the Borrower and its Subsidiaries are and, with ordinary course upgrading and maintenance, will continue for the term of this Agreement, to be sufficient to permit the Borrower to conduct its business without Material Adverse Effect.

ARTICLE 5

Covenants

The Borrower agrees that, so long as any Bank has any Commitment hereunder any amount payable hereunder remains unpaid:

Section 5.01. Information. The Borrower will deliver to each of the
banks:

30

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(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income, cash flows, capitalization and retained earnings for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner consistent with the requirements of the Securities and Exchange Commission by Deloitte & Touche or other independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of the Borrower's fiscal year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by an Approved Officer of the Borrower;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of an Approved Officer of the Borrower stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) within five days after any officer of the Borrower with responsibility relating thereto obtains knowledge of any Default, if such Default is then continuing, a certificate of an Approved Officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(e) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Borrower shall have filed with the Securities and Exchange Commission;

(f) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial

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withdrawal liability under Title IV of ERISA or notice that any Material Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Material Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Material Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Material Plan or makes any amendment to any Material Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth details as to such occurrence and action, if any, which the Borrower or applicable member of the ERISA Group is required or proposes to take; and

(g) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Administrative Agent, at the request of any Bank, may reasonably request.

Information required to be delivered pursuant to this Sections 5.01(a), 5.01(b) and 5.01(e) shall be deemed to have been delivered on the date on which the Borrower provides notice to the Banks that such information has been posted on the Securities and Exchange Commission website on the Internet at sec.gov/edaux/searches.htm or at another website identified in such notice and accessible by the Banks without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 5.01(c) and (ii) the Borrower shall deliver paper copies of the information referred to in Sections 5.01(a), 5.01(b) and 5.01(e) to any Bank which requests such delivery.

Section 5.02. Payment of Taxes. The Borrower will pay and discharge, and will cause each Material Subsidiary to pay and discharge, at or before maturity, all their tax liabilities, except where (i) nonpayment would not have a material adverse effect on the business, financial position or results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, or (ii) the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Material Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same.

Section 5.03. Maintenance of Property; Insurance. (a) The Borrower will keep, and will cause each Material Subsidiary to keep, all property useful and

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necessary in its business in good working order and condition, ordinary wear and tear excepted.

(b) The Borrower will, and will cause each of its Material Subsidiaries maintain (either in the name of the Borrower or in such Subsidiary's own name) with financially sound and responsible insurance companies, insurance on their respective properties in at least such amounts and against at least such risks (and with such risk retention) as are usually insured against in the same general area by companies of established repute engaged in the same or a similar business; provided that self-insurance by the Borrower or any such Material Subsidiary shall not be deemed a violation of this covenant to the extent that companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Material Subsidiary operates self-insure; and will furnish to the Banks, upon request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

Section 5.04. Maintenance of Existence. The Borrower will preserve, renew and keep in full force and effect, and will cause each Material Subsidiary to preserve, renew and keep in full force and effect their respective corporate existence and their respective rights, privileges and franchises material to the normal conduct of their respective businesses; provided that nothing in this Section 5.04 shall prohibit the termination of any right, privilege or franchise of the Borrower or any Material Subsidiary or of the corporate existence of any Material Subsidiary if the Borrower in good faith determines that such termination is in the best interest of the Borrower and is not materially disadvantageous to the Banks.

Section 5.05. Compliance with Laws. The Borrower will comply, and cause each Material Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, ERISA and Environmental Laws) except where (i) noncompliance would not have a material adverse effect on the business, financial position or results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, or (ii) the necessity of compliance therewith is contested in good faith by appropriate proceedings.

Section 5.06. Books and Records. The Borrower will keep, and will cause each Material Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all financial transactions in relation to its business and activities in accordance with its customary practices; and will permit, and will cause each Material Subsidiary to permit, representatives of any Bank at such Bank's expense (accompanied by a representative of the Borrower, if the Borrower so desires) to visit any of their respective properties, to examine any of their respective books and records and to discuss their respective affairs,

33

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finances and accounts with their respective officers, employees and independent public accountants, all upon such reasonable notice, at such reasonable times and as often as may reasonably be desired.

Section 5.07. Maintenance of Ownership of Principal Subsidiaries. The Borrower will maintain ownership of all shares of the common stock of each

Principal Subsidiary, directly or indirectly through Subsidiaries, free and clear of all Liens, provided that any Principal Subsidiary may merge with and to the Borrower or another Subsidiary.

Section 5.08. Negative Pledge. The Borrower will not create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(a) Liens granted by the Borrower existing on the date of this Agreement securing Indebtedness outstanding on the date of this Agreement in an aggregate principal amount not exceeding \$100,000,000;

(b) any Lien on any asset of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower and not created in contemplation of such event;

(c) any Lien existing on any asset prior to the acquisition thereof by the Borrower and not created in contemplation of such acquisition;

(d) any Lien on any asset securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset, provided that such Lien attaches to such asset concurrently with or within 180 days after the acquisition thereof;

(e) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses of this Section, provided that such Indebtedness is not increased and is not secured by any additional assets;

(f) Liens for taxes, assessments or other governmental charges or levies not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with generally accepted accounting principles;

(g) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law, created in the ordinary course of business and for amounts not past due for more than 60 days or which are being contested in good faith by appropriate proceedings which are sufficient

34.

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to prevent imminent foreclosure of such Liens, are promptly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with generally accepted accounting principles;

(h) Liens incurred or deposits made in the ordinary course of business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness), statutory obligations

and other similar obligations or arising as a result of progress payments under government contracts;

(i) easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variations and other restrictions, charges or encumbrances (whether or not recorded) affecting the use of real property;

(j) Liens with respect to judgments and attachments which do not result in an Event of Default;

(k) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance or other obligations arising in the ordinary course of business; and

(l) other Liens including Liens imposed by Environmental Laws arising in the ordinary course of its business which (i) do not secure Indebtedness, (ii) do not secure any obligation in an amount exceeding \$100,000,000 at any time at which Investment Grade Status does not exist as to the Borrower and (iii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business.

Section 5.09. Consolidations, Mergers and Sales of Assets. The Borrower will not (i) consolidate or merge with or into any other Person or (ii) sell, lease or otherwise transfer, directly or indirectly, Substantial Assets to any Person (other than a Subsidiary); provided that the Borrower may merge with another Person if the Borrower is the corporation surviving such merger and, after giving effect thereto, no Default shall have occurred and be continuing.

Section 5.10. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Borrower for its general corporate purposes, including liquidity support for outstanding commercial paper. None of such

35

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proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any "margin stock" within the meaning of Regulation U.

Section 5.11. Transactions with Affiliates. The Borrower will not, and will not permit any Subsidiary to, directly or indirectly, pay any funds to or for the account of, make any investment in, lease, sell, transfer or otherwise dispose of any assets, tangible or intangible, to, or participate in, or effect, any transaction with, any Affiliate unless all such transactions between the Borrower and its Subsidiaries on the one hand and any Affiliate on the other, taken in the aggregate and not individually, shall be on an arms-length basis on terms no less favorable to the Borrower or such Subsidiary than could have been obtained from a third party who was not an Affiliate; provided that the foregoing provisions of this Section shall not prohibit the Borrower and each Subsidiary from declaring or paying any lawful dividend so long as, after giving effect thereto, no Default shall have occurred and be continuing.

Section 5.12. Indebtedness/Capitalization Ratio. The ratio of Consolidated Indebtedness to Consolidated Capitalization will at no time exceed %.

ARTICLE 6

Defaults

Section 6.01. Events of Default. If one or more of the following events ("Events of Default") shall have occurred and be continuing:

- (a) the Borrower shall fail to pay when due any principal of any Loan or shall fail to pay, within five days of the due date thereof, any interest, fees or any other amount payable hereunder;
- (b) the Borrower shall fail to observe or perform any covenant contained in Sections 5.08, 5.09, 5.12 or the second sentence of 5.10, inclusive;
- (c) the Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause (a) or (b) above) for 30 days after notice thereof has been given to the Borrower by the Administrative Agent at the request of any Bank;
- (d) any representation, warranty, certification or statement made by the Borrower in this Agreement or in any certificate, financial statement or other

36

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document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);

- (e) the Borrower or any Subsidiary shall fail to make any payment in respect of Material Debt (other than the Loans) when due or within any applicable grace period;
- (f) any event or condition shall occur and shall continue beyond the applicable grace or cure period, if any, provided with respect thereto so as to result in the acceleration of the maturity of Material Debt;
- (g) the Borrower or any Material Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they come due, or shall take any corporate action to authorize any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against the Borrower or any Material Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days; or an order for relief shall be entered against the Borrower or any Material Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(i) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of \$25,000,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of \$50,000,000 (collectively, a "Material Plan") shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against any member of the ERISA Group to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 90 days thereafter; or a condition shall exist by reason of

37

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which the PBGC would be entitled to obtain a decree adjudicating that any Material Plan must be terminated;

(j) a judgment or other court order for the payment of money in excess of \$50,000,000 shall be rendered against the Borrower or any Material Subsidiary and such judgment or order shall continue without being vacated, discharged, satisfied or stayed or bonded pending appeal for a period of 45 days; or

(k) the Borrower shall cease to be a Subsidiary of Duke Energy Corporation;

then, and in every such event, the Administrative Agent shall (i) if requested by Banks having more than 66% in aggregate amount of the Commitments, by notice to the Borrower terminate the Commitments and they shall thereupon terminate and (ii) if requested by Banks holding more than 66% in aggregate principal amount of the Loans, by notice to the Borrower declare the Loans (together with accrued interest thereon) to be, and the Loans shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, provided that in the case of any of the Events of Default specified in clause (g) or (h) above with respect to the Borrower, without any notice to the Borrower or any other act by the Administrative Agent or the Banks, the Commitments shall thereupon terminate and the Loans (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 6.02. Notice of Default. The Administrative Agent shall give notice to the Borrower under Section 6.01(c) promptly upon being requested to do

so by any Bank and shall thereupon notify all the Banks thereof.

ARTICLE 7

The Administrative Agent

Section 7.01. Appointment and Authorization. Each Bank irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Administrative Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

Section 7.02. Administrative Agent and Affiliates. The Chase Manhattan Bank shall have the same rights and powers under this Agreement as any other

38

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Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and The Chase Manhattan Bank and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with the Borrower or any Subsidiary or affiliate of the Borrower as if it were not the Administrative Agent hereunder.

Section 7.03. Action by Administrative Agent. The obligations of the Administrative Agent hereunder are only those expressly set forth herein. Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6.

Section 7.04. Consultation with Experts. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.05. Liability of Administrative Agent. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable to any Bank for any action taken or not taken by it in connection herewith (i) with the consent or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any borrowing hereunder, (ii) the performance or observance of any of the covenants or agreements of the Borrower, (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent, or (iv) the validity, effectiveness or genuineness of this Agreement, the Notes or any other instrument or writing furnished in connection herewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex or similar writing).

believed by it in good faith to be genuine or to be signed by the proper party or parties. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom and is intended to create or reflect only an administrative relationship between independent contracting parties.

39

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Section 7.06. Indemnification. Each Bank shall, ratably in accordance with its Commitment, indemnify the Administrative Agent, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrower) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from the such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with this Agreement or any action taken or omitted by such indemnitees thereunder.

Section 7.07. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

Section 7.08. Successor Administrative Agent. The Administrative Agent may resign at any time by giving notice thereof to the Banks and the Borrower. Upon any such resignation, the Borrower, with the consent of the Required Banks, (such consent not to be unreasonably withheld or delayed), shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$250,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder; provided that if such successor Administrative Agent is appointed without the consent of the Borrower, such successor Administrative Agent may be replaced by the Borrower with the consent of the Required Banks. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Section 7.09. Administrative Agent's Fee. The Borrower shall pay to the Administrative Agent for its own account fees in the amounts and at the times

previously agreed upon between the Borrower and the Administrative Agent.

40

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ARTICLE 8

Change in Circumstances

Section 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period for any Euro-Dollar Borrowing or Bid Rate (Indexed) Borrowing:

(a) the Administrative Agent is advised by the Euro-Dollar Reference Banks that deposits in dollars (in the applicable amounts) are not being offered to the Euro-Dollar Reference Banks in the relevant market for such Interest Period, or

(b) in the case of a Euro-Dollar Borrowing, Banks having 66*% or more of the aggregate amount of the affected Loans advise the Administrative Agent that the London Interbank Offered Rate as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Banks of funding their Euro-Dollar Loans for such Interest Period, the Administrative Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Banks to make Euro-Dollar Loans or to continue or convert outstanding Loans as or into Euro-Dollar Loans shall be suspended and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the then current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least one Domestic Business Day before the date of any Fixed Rate Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, (i) if such Fixed Rate Borrowing is a Committed Borrowing, such Borrowing shall instead be made as a Base Rate Borrowing and (ii) if such Borrowing is a Bid Rate (Indexed) Borrowing, the Loans comprising such Borrowing shall bear interest for each day from and including the first day to but excluding the last day of the Interest Period applicable thereto at the Base Rate for such day.

Section 8.02. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable

41

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agency shall make it unlawful or impossible for any Bank (or its Euro-Dollar Lending Office) to make, maintain or fund any of its Euro-Dollar Loans and such Bank shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon

until such Bank notifies the Borrower and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Euro-Dollar Loans, or to continue or convert outstanding Loans or into Euro-Dollar Loans, shall be suspended. Before giving any notice to the Administrative Agent pursuant to this Section, such Bank shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not be otherwise disadvantageous to such Bank in the good faith exercise of its discretion. If such notice is given, each Euro-Dollar Loan of such Bank then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Bank may lawfully continue to maintain and fund such Loan to such day or (b) immediately if such Bank shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 8.03. Increased Cost and Reduced Return. (a) If on or after (x) the date of this Agreement, in the case of any Committed Loan or any obligation to make Committed Loans or (y) the date of any related Bid Rate Quote, in the case of any Bid Rate Loan, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) issued on or after such date of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Euro-Dollar Loan any such requirement included in an applicable Euro-Dollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Applicable Lending Office) or shall impose on any Bank (or its Applicable Lending Office) or on the London interbank market any other condition (other than in respect of Taxes or Other Taxes) affecting its Fixed Rate Loans, its Note or its obligation to make Fixed Rate Loans and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Fixed Rate Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement or under its Note with respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate

42

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such Bank for such increased cost or reduction; provided that no such amount shall be payable with respect to any period commencing more than 90 days prior to the date such Bank first notifies the Borrower of its intention to demand compensation therefor under this Section 8.03(a).

(b) If any Bank shall have determined that, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental

authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency given or made after the date of this Agreement, has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank (with a copy to the Administrative Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction; provided that no such amount shall be payable with respect to any period commencing less than 30 days after the date such Bank first notifies the Borrower of its intention to demand compensation under this Section 8.03(b).

(c) Each Bank will promptly notify the Borrower and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

Section 8.04. Taxes. (a) For purposes of this Section 8.04, the following terms have the following meanings:

"Taxes" means any and all present or future taxes, duties, levies, imports, deductions, charges or withholdings with respect to any payment by the Borrower pursuant to this Agreement or any Note, and all liabilities with respect thereto, excluding (i) in the case of each Bank and the Administrative Agent, taxes imposed on its income, net worth or gross receipts and franchise or similar taxes

43

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imposed on it by a jurisdiction under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Lending Office is located and (ii) in the case of each Bank, any United States withholding tax imposed on such payments except to the extent that such Bank is subject to United States withholding tax by reason of a U.S. Tax Law Change.

"Other Taxes" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any

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"U.S. Tax Law Change" means with respect to any Bank or Participant the occurrence (x) in the case of each Bank listed on the signature pages hereof, after the date of its execution and delivery of this Agreement and (y) in the case of any other Bank, after the date such Bank shall have become a Bank hereunder, and (z) in the case of each Participant, after the date such Participant became a Participant hereunder, of the adoption of any applicable U.S. federal law, U.S. federal rule or U.S. federal regulation relating to taxation, or any change therein, or the entry into force, modification or revocation of any income tax convention or treaty to which the United States is a party.

(b) Any and all payments by the Borrower to or for the account of any Bank or the Administrative Agent hereunder or under any Note shall be made without deduction for any Taxes or Other Taxes; provided that, if the Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) the Borrower shall furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(c) The Borrower agrees to indemnify each Bank and the Administrative Agent for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.04) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid

44

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within 15 days after such Bank or the Administrative Agent (as the case may be) makes demand therefor.

(d) Each Bank organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Bank listed on the signature pages hereof and on or prior to the date on which it becomes a Bank in the case of each other Bank, and from time to time thereafter as required by law (but only so long as such Bank remains lawfully able to do so), shall provide the Borrower two completed and duly executed copies of Internal Revenue Service form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal Revenue Service, or other documentation reasonably requested by the Borrower, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts the Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is not actively connected with the conduct of a trade or business in the United States.

(e) For any period with respect to which a Bank has failed to provide the Borrower with the appropriate form pursuant to Section 8.04(d) (unless such failure is due to a U.S. Tax Law Change), such Bank shall not be entitled to indemnification under Section 8.04(b) or 8.04(c) with respect to any Taxes or Other Taxes which would not have been payable had such form been so provided, provided that if a Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes (it being understood, however, that the Borrower shall have no liability to such Bank in respect of such Taxes).

(f) If the Borrower is required to pay additional amounts to or for the account of any Bank pursuant to this Section 8.04, then such Bank will take such action (including changing the jurisdiction of its Applicable Lending Office) as in the good faith judgment of such Bank (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank.

(g) If any Bank or the Administrative Agent receives a refund (including a refund in the form of a credit against taxes that are otherwise payable by the Bank or the Administrative Agent) of any Taxes or Other Taxes for which the Borrower has made a payment under Section 8.04(b) or (c) and such refund was received from the taxing authority which originally imposed such Taxes or Other Taxes, such Bank or the Administrative Agent agrees to reimburse the Borrower to the extent of such refund, provided that nothing contained in this

45

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paragraph (g) shall require any Bank or the Administrative Agent to make available its tax returns (or any other information relating to its taxes which it deems to be confidential).

Section 8.05. Base Rate Loans Substituted for Affected Fixed Rate Loans. If (i) the obligation of any Bank to make or to continue or convert outstanding Loans as or into Euro-Dollar Loans has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03(a) or 8.04 with respect to its Euro-Dollar Loans and the Borrower shall, by at least five Euro-Dollar Business Days' prior notice to such Bank through the Administrative Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Loans which would otherwise be made by such Bank as (or continued as or converted to) Euro-Dollar Loans, as the case may be, shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Banks), and

(b) after each of its Euro-Dollar Loans has been repaid, all payments of principal which would otherwise be applied to repay such Loans shall be applied to repay its Base Rate Loans instead.

If such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer exist, the principal amount of such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Banks.

Section 8.06. Substitution of Bank Termination Option. If (i) the obligation of any Bank to make or to convert or continue outstanding Loans as or into Euro-Dollar Loans has been suspended pursuant to Section 8.02, (ii) any Bank has demanded compensation under Section 8.03 or 8.04, or (iii) any Bank exercises its right not to extend its Commitment Termination Date pursuant to Section 2.01(c) or (iv) Investment Grade Status ceases to exist as to any Bank, then:

(a) the Borrower shall have the right, with the assistance of the Administrative Agent, to designate a substitute bank or banks (which may be one or more of the Banks) mutually satisfactory to the Borrower and the Administrative Agent (whose consent shall not be unreasonably withheld or delayed) to purchase for cash, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit G hereto, the outstanding Loans of such Bank and assume the Commitment of such Bank, without recourse to or

46

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warranty by, or expense to, such Bank, for a purchase price equal to the principal amount of all of such Bank's outstanding Loans plus any accrued but unpaid interest thereon and the accrued but unpaid fees in respect of such Bank's Commitment hereunder plus such amount, if any, as would be payable pursuant to Section 2.14 if the outstanding Loans of such Bank were prepaid in their entirety on the date of consummation of such assignment; and

(b) if at the time Investment Grade Status exists as to the Borrower, the Borrower may elect to terminate this Agreement as to such Bank, provided that (i) the Borrower notifies such Bank through the Administrative Agent of such election at least three Euro-Dollar Business Days before the effective date of such termination and (ii) the Borrower repays or prepays the principal amount of all outstanding Loans made by such Bank plus any accrued but unpaid interest thereon and the accrued but unpaid fees in respect of such Bank's Commitment hereunder plus all other amounts payable by the Borrower to such Bank hereunder, not later than the effective date of such termination. Upon satisfaction of the foregoing conditions, the Commitment of such Bank shall terminate on the effective date specified in such notice.

ARTICLE 9

Miscellaneous

Section 9.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party: (x) in the case of the Borrower or the Administrative Agent, at its address or telecopy or

telex number set forth on the signature pages hereof, (y) in the case of any Bank, at its address or telecopy or telex number set forth in its Administrative Questionnaire or (z) in the case of any party, such other address or telecopy or telex number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Borrower. Each such notice, request or other communication shall be effective (i) if given by telecopy or telex, when such telecopy or telex is transmitted to the telecopy or telex number specified in this Section and the appropriate answerback or confirmation slip, as the case may be, is received, (ii) if given by mail, 84 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Administrative Agent under Article 2 or Article 3 shall not be effective until delivered.

47

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Section 9.02. No Waivers. No failure or delay by the Administrative Agent or any Bank in exercising any right, power or privilege hereunder or under any Note shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 9.03. Expenses; Indemnification. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses of the Administrative Agent, including reasonable fees and disbursements of special counsel for the Administrative Agent, in connection with the preparation of this Agreement, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Administrative Agent or any Bank, including reasonable fees and disbursements of counsel, in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify the Administrative Agent and each Bank, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an "Indemnatee") and hold each Indemnatee harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnatee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnatee shall be designated a party thereto) relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder; provided that no Indemnatee shall have the right to be indemnified hereunder for such Indemnatee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

Section 9.04. Sharing of Set-offs. Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount then due with respect to the Loans held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount then due with respect to the Loans held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Loans held by the other Banks, and such other adjustments

shall be made, as may be required so that all such payments with respect to the Loans held by the Banks shall be shared by the Banks pro rata; provided that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness under this Agreement.

48

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Section 9.05. Amendments and Waivers. Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Banks (and, if the rights or duties of the Administrative Agent, are affected thereby, by the Administrative Agent); provided that no such amendment or waiver shall, unless signed by all the Banks, (i) increase or decrease the Commitment of any Bank (except (x) as contemplated by Section 2.17 or (y) for a ratable decrease in the Commitments of all Banks) or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or any fees hereunder, (iii) postpone the date fixed for any payment of principal of or interest on any Loan or interest thereon or any fees hereunder or for termination of any Commitment or (iv) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement.

Section 9.06. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that the Borrower may not assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Banks.

(b) Any Bank may, with the consent of the Borrower (such consent not to be unreasonably withheld or delayed), at any time grant to one or more banks or other institutions (each a "Participant") participating interests in its Commitment or any or all of its Loans. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to the Administrative Agent, such Bank shall remain responsible for the performance of its obligations hereunder, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement described in clause (i), (ii) or (iii) of Section 9.05 without the consent of the Participant. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article 8 with respect to its participating interest, subject to the performance of such Participant of the obligations of a Bank thereunder. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement.

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ly to the extent of a participating interest granted in accordance with this subsection (b).

(c) Any Bank may at any time assign to one or more banks or other financial institutions (each an "Assignee") all, or a proportionate part (equivalent to an initial Commitment of not less than \$20,000,000 (unless the Borrower and the Administrative Agent shall otherwise agree)) of all, of its rights and obligations under this Agreement and its Note (if any), and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit G hereto executed by such Assignee and such transferor Bank, with (and only with and subject to) the prior written consent of the Borrower (given in its sole discretion) and the Administrative Agent (which shall not be unreasonably withheld or delayed), provided that unless such assignment is of the entire right, title and interest of the transferor Bank hereunder, after making any such assignment such transferor Bank shall have a Commitment of at least \$20,000,000 (unless the Borrower and the Administrative Agent shall otherwise agree). Upon execution and delivery of such instrument of assumption and payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, such Assignee shall be a Bank party to this Agreement and shall have all the rights and obligations of a Bank with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this subsection (c), the transferor Bank, the Administrative Agent and the Borrower shall make appropriate arrangements so that, if required by the Assignee, a Note is issued to the Assignee. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall, prior to the first date on which interest or fees are payable hereunder for its account, deliver to the Borrower and the Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 8.04. All assignments shall be subject to a transaction fee established by, and payable by the transferor Bank to, the Administrative Agent for its own account (which shall not exceed \$5,000).

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement and its Note (if any) to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder or modify any such obligations.

(e) No Assignee, Participant or other transferee of any Bank's rights (including any Applicable Lending Office other than such Bank's initial Applicable Lending Office) shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Bank would have been entitled to receive with

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respect to the rights transferred, unless such transfer is made by reason of the provisions of Section 8.02, 8.03 or 8.04 requiring such Bank to designate different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

Section 9.07. Collateral. Each of the Banks represents to the Administrative Agent and each of the other Banks that it in good faith is not relying upon any "margin stock" (as defined in Regulation U) as collateral in the extension or maintenance of the credit provided for in this Agreement.

Section 9.08. Confidentiality. The Administrative Agent and each Bank agrees to keep any information delivered or made available by the Borrower pursuant to this Agreement confidential from anyone other than persons employed or retained by such Bank and its affiliates who are engaged in evaluating, approving, structuring or administering the credit facility contemplated hereby; provided that nothing herein shall prevent any Bank from disclosing such information (a) to any other Bank or to the Administrative Agent, (b) to any other Person if reasonably incidental to the administration of the credit facility contemplated hereby, (c) upon the order of any court or administrative agency, (d) upon the request or demand of any regulatory agency or authority, (e) which had been publicly disclosed other than as a result of a disclosure by the Administrative Agent or any Bank prohibited by this Agreement, (f) in connection with any litigation to which the Administrative Agent, any Bank or its subsidiaries or Parent may be a party, (g) to the extent necessary in connection with the exercise of any remedy hereunder, (h) to such Bank's or Administrative Agent's legal counsel and independent auditors and (i) subject to provisions substantially similar to those contained in this Section 9.08, to any actual or proposed Participant or Assignee.

Section 9.09. Governing Law; Submission to Jurisdiction. This Agreement and each Note (if any) shall be construed in accordance with and governed by the law of the State of New York. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 9.10. Counterparts; Integration. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or

51.

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written, relating to the subject matter hereof.

Section 9.11. WAIVER OF JURY TRIAL. EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE BANKS, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO

SO UNDER APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

DUKE CAPITAL CORPORATION

By: /s/ David L. Hauser

Title: Vice President & Treasurer
Address: 422 South Church Street
Charlotte, NC 28202-1904
Attention: David L. Hauser
Telecopy number: (704) 382-1452

52

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Commitment

\$55,000,000 THE CHASE MANHATTAN BANK

By: /s/ Paul V. Farrell
Title: Vice President

\$55,000,000 MORGAN GUARANTY TRUST
COMPANY OF NEW YORK

By: /s/ Robert Bottamedi
Title: Vice President

\$50,000,000 BANK OF AMERICA, NA

By: /s/ Michelle Schoenfeld
Title: Associate

\$30,000,000

BARCLAYS BANK PLC

By: /s/ Jonathan Berman
Title: Director

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Commitment

\$30,000,000

CITIBANK, N.A.

By: /s/ J. Nicholas McKee
Title: Vice President

\$30,000,000

FIRST UNION NATIONAL BANK

By: /s/ Michael J. Kolosowsky
Title: Vice President

3,000,000

WACHOVIA BANK, N.A.

By: /s/ Christopher L. Fincher
Title: Senior Vice President

\$30,000,000

THE FIRST NATIONAL BANK OF CHICAGO

By: /s/ Madeleine N. Pember

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Commitment

Title: Assistant Vice President

\$0,000,000

THE BANK OF NEW YORK

By: /s/ Steven Kalachman
Title: Vice President

\$20,000,000

AUSTRALIA AND NEW ZEALAND BANKING
GROUP LIMITED

By: /s/ Elizabeth M. Waters
Title: Vice President

\$20,000,000

BANK OF MONTREAL

By: /s/ Mary Lee Latta
Title: Director