

Duke Energy Corporation

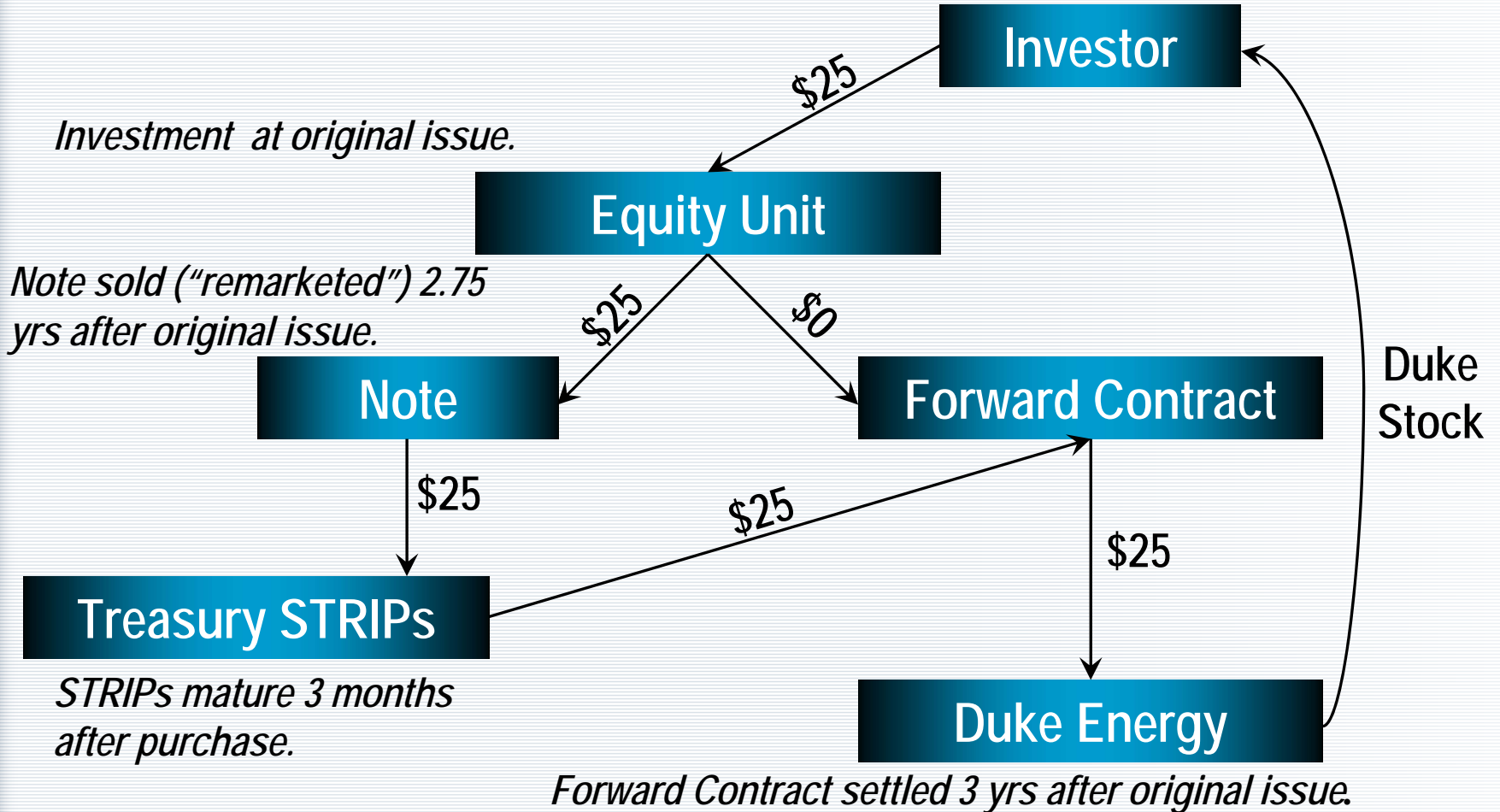
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DKE & DUR Equity Units Tax Information

Duke Equity Units Overview



Cash Payments to Investors

1. Quarterly cash distributions -
 - *Coupon payment on Note; and*
 - *Contract adjustment payment on Forward Contract.*
2. Excess proceeds from remarketing Notes — (remarketing proceeds in excess of Treasury STRIPs purchase price).

Duke Equity Units

Tax Treatment of Separate Instruments

Duke Capital Notes

1. All (\$25) of original issue purchase price of Equity Unit was allocated to Note.
2. Note treated as "contingent payment debt."
 - *Investors report as taxable income accrued original issue discount (OID) – not coupon payments received.*
 - *Gain or loss from sale of Notes is ordinary, not capital.*
3. Quarterly Note coupon payments that are included in quarterly cash distributions are not included in taxable income.
 - *71.15% of quarterly distributions on DKE Units.*
 - *54% of quarterly distributions on DUR Units.*

Duke Equity Units

Tax Treatment of Separate Instruments

Duke Capital Notes

Remarketing of Notes

1. Notes were sold 3 months before scheduled settlement of Forward Contracts.
2. Treated as taxable sale of Notes by Investors.
 - *Amount realized reported on 1099-B.*
 - *Investors recognized ordinary gain or loss.*
3. Remarketing proceeds -
 - *Used to purchased Treasury STRIPs for Investors.*
 - *Proceeds in excess of STRIPs purchase price distributed to Investors; included in income as part of amount realized on sale of Notes.*

Duke Equity Units

Tax Treatment of Separate Instruments

Duke Capital Notes

Remarketing of Notes — Calculation of gain or loss

1. Gain or loss from remarketing Note equals:
 - *Amount realized by Investor from sale; minus*
 - *Investor's adjusted tax basis in Note.*

2. Amount realized by Investor from remarketing Note equals:
 - *Purchase price of Treasury STRIPS; plus*
 - *Excess proceeds paid to Investors.*

Duke Equity Units

Tax Treatment of Separate Instruments

Duke Capital Notes

Remarketing of Notes — Calculation of gain or loss

3. Investor's tax basis in Note equals:
 - *Equity Unit purchase price allocated to Note;*
 - *Plus OID accrued on Note;*
 - *Minus Coupon payments received on Note.*

Duke Equity Units

Tax Treatment of Separate Instruments

Forward Contract

1. None (\$0) of original issue purchase price of Equity Unit was allocated to Forward Contract at original issue.
2. Quarterly "contract adjustment payments" reported on 1099-MISC as taxable income -
 - *28.85% of quarterly distributions on DKE Units;*
 - *46% of quarterly distributions on DUR Units.*
3. Investor obligated to pay \$25 at settlement, in 3 years, for variable number of shares of Duke common stock.
 - *Number of shares depended on market price of common stock at time of settlement.*

Duke Equity Units

Tax Treatment of Separate Instruments

Treasury STRIPs

1. Investors owned undivided interest in Treasury STRIPs purchased with remarketing proceeds.
2. Excess of STRIPs principal amount over purchase price was treated as OID.
3. \$25 of STRIPs principal amount received at maturity of STRIPs paid to Duke in exchange for Duke common stock to settle Forward Contract.
4. Remaining STRIPs principal amount received at maturity of STRIPs paid to Investor in the final quarterly cash distribution.

Duke Equity Units

Tax Treatment of Separate Instruments

Duke Common Stock

1. Holding period began day after settlement of Forward Contract.
2. Investor's basis for shares of Duke common stock:
 - If Investor treated contract adjustment payments as taxable income, the Investor's basis for shares of common stock received at settlement of Forward Contract was \$25.
 - If Investor did not treat contract adjustment payments as taxable income, the Investor's basis for shares of common stock received at settlement of Forward Contract was \$25 minus the amount of contract adjustment payments received by the Investor.

Duke Equity Units

Tax Information Reporting - 2004

1. 1099-OID

- OID on Notes;
- OID on Treasury STRIPs.

2. 1099-MISC

- Contract adjustment fees.

3. 1099-B

- Amount realized from Note remarketing.

Duke Equity Units Examples

The following three hypothetical examples relate to investments in DKE Equity Units.

In each example, it is assumed that the investor treated contract adjustment payments as taxable income.

The principles of the examples also apply to DUR Equity Units.

Duke Equity Units Examples

Example 1.

- *DKE Equity Unit purchased at original issue.*
- *DKE Equity Unit held through remarketing.*
- *Investor received Duke common stock on settlement of Forward Contract.*

1. Investor accrued OID on Note.
2. Investor treated contract adjustment payment (28.85% of each quarterly distribution) as taxable income.
3. Investor recognized gain on remarketing of Notes, treated as ordinary interest income.
4. Investor accrued OID on Treasury STRIPs.

Duke Equity Units

Examples

Example 1 (cont'd)

Calculation of Gain on Remarketing of Note

Amount realized (1099-B):		\$25.395
■ Treasury STRIPs:	\$25.329	
■ + Excess proceeds:	0.066	
Adjusted basis:		<25.24>
■ Purchase price:	\$25.00	
■ + Accrued OID:	4.520	
■ - Coupon payments:	4.280	
	<i>(71.15% of each quarterly distribution)</i>	
Gain (ordinary interest income):		\$0.155

Duke Equity Units

Examples

Example 1 (cont'd)

OID on Treasury STRIPs

Principal amount:	\$25.367
<u>- Purchase Price:</u>	<u>25.239</u>

OID (1099-OID): \$0.038

Duke Equity Units

Examples

Example 1 (cont'd)

Tax Basis for .6414 Shares Duke Common Stock

Equity Unit purchase price allocated to Forward Contract:	\$ 0
<u>Forward Contract settlement price:</u>	<u>25</u>
Basis for .6414 shares:	\$25

Example 1 (cont'd)

2004 Tax Reporting

- 1099-MISC: \$0.298 of contract adjustment payments.
- 1099-OID: \$0.205 of OID on the Note.
- 1099-OID: \$0.038 of OID on Treasury STRIPs.
- 1099-B: \$25.395 net proceeds from the remarketing.

Duke Equity Units

Examples

Example 2.

- *DKE Equity Unit purchased at original issue.*
- *DKE Equity Unit sold on January 3, 2004 for \$13.50.*
 - ◆ *Fair market value of Note assumed to be \$25.*
 - ◆ *Inferred fair market value of Forward contract assumed to be negative \$11.50.*

1. Investor accrued OID on Note.
2. Investor treated contract adjustment payment (28.85% of each quarterly distribution) as taxable income.
3. Sale of Equity Unit treated as:
 - Sale of Note - Investor recognized ordinary loss.
 - Assignment of Forward Contract – Investor recognized capital loss.

Duke Equity Units

Examples

Example 2 (cont'd)

Sale of Note

■ Amount realized:		\$25.00
■ Adjusted basis:		<25.417>
■ <i>Purchase price:</i>	\$25.00	
■ <i>+ Accrued OID:</i>	4.330	
■ <i>- Coupon payments:</i>	3.913	

Loss (ordinary): \$<0.417>

Example 2 (cont'd)

Assignment of Forward Contract

Amount realized:	\$<11.50>
<u>Adjusted basis:</u>	<u>0.00</u>
Loss (capital):	\$<11.50>

Example 2 (cont'd)

2004 Tax Reporting

- 1099-OID: \$0.008 of OID on the Note.
- 1099-B: \$13.50 net proceeds from sale of the DKE unit.*

* Represents the net proceeds received from the sale of the Note for \$25 and Investor's deemed payment of \$11.50 to the buyer of the Equity Unit.

Duke Equity Units

Examples

Example 3.

- *DKE Equity Unit purchased for \$13.50 on January 3, 2004.*
 - ◆ *Fair market value of Note assumed to be \$25.*
 - ◆ *Inferred fair market value of Forward Contract assume to be negative \$11.50.*
 - *DKE Equity Unit held through remarketing.*
 - *Investor received Duke common stock on settlement of Forward Contract.*
1. Investor accrued OID on Note
 2. Investor treated contract adjustment payment (28.85% of each quarterly distribution) as taxable income.
 3. Investor recognized gain on remarketing of Notes, treated as ordinary interest income.
 4. Investor accrued OID on Treasury STRIPs.

Duke Equity Units Examples

Example 3 (cont'd)

Sale (remarketing) of Note

Amount realized (1099-B):		\$25.395
■ Treasury STRIPs:	\$25.329	
■ + Excess proceeds:	0.066	
Adjusted basis:		<24.829>
■ Purchase price:	\$25.00	
■ + Accrued OID:	0.196	
■ - Coupon payment:	0.367	
Gain (ordinary interest income):		\$0.566

Example 3 (cont'd)

OID on Treasury STRIP

Principal amount:	\$25.367
<u>- Purchase Price:</u>	<u><25.239></u>

OID (1099-OID):	\$0.038
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Duke Equity Units Examples

Example 3 (cont'd)

Tax Basis for .6414 Shares Duke common Stock

Equity Unit purchase price allocated to Forward Contract:*	\$<11.50>
<u>Forward Contract settlement price:</u>	<u>25.00</u>
Basis for .6414 shares:	\$13.50

*Assumes that the \$11.50 paid to the Investor to assume the burdensome Forward Contract is an open transaction and is treated as an adjustment to the basis in Duke common stock acquired pursuant to the Forward Contract.

Example 3 (cont'd)

2004 Tax Reporting

- *1099-MISC: \$0.298 of contract adjustment payments.*
- *1099-OID: \$0.194 of OID on the Note.*
- *1099-OID: \$0.038 of OID on Treasury STRIPs.*
- *1099-B: \$25.395 net proceeds from the remarketing.*

Duke Energy Corporation web site

- Prospectuses for DKE Equity Units and DUR Equity Units can be found at:

http://www.duke-energy.com/investors/resources/debt_redeemed

- Tax information regarding the DKE Equity Units can be found at:

<http://www.duke-energy.com/investors/>