

# Large Filing Separator Sheet

Case Number: 07-589-GA-AIR  
07-590-GA-ALT  
07-591-GA-AAM

Date Filed: 7/18/2007

Section: 1 of 4

Number of Pages: 201

Description of Document: Volume 8  
Supplemental Information  
“(C)(5)”

RECEIVED-DOCKETING DIV  
2007 JUL 18 PM 1:50  
PUCO

**BEFORE**

**THE PUBLIC UTILITIES COMMISSION OF OHIO**

In The Matter of the Application of	)	
Duke Energy Ohio, Inc. for an	)	Case No. 07-589-GA-AIR
Increase in Gas Rates	)	
	)	
In the Matter of the Application of	)	
Duke Energy Ohio, Inc. for Approval	)	Case No. 07-590-GA-ALT
of an Alternative Rate Plan for its	)	
Gas Distribution Service	)	
	)	
In the Matter of the Application of	)	
Duke Energy Ohio, Inc. for Approval	)	Case No. 07-591-GA-AAM
to Change Accounting Methods	)	

---

VOLUME 8

SUPPLEMENTAL INFORMATION  
“(C)(5)”

---

**DUKE ENERGY OHIO**  
Case Nos. 07-589-GA-AIR  
Supplemental Information (C)(5)

---

Annual reports to shareholders of the applicant, and/or parent company if applicant is wholly owned subsidiary, for the most recent five years and the most recent statistical supplement.

**Response:** See Attached. Cinergy Corp did not file an annual report for 2005 or 2006 due to the pending merger with Duke Energy Corporation.

**Sponsoring Witness:** L. Gwen Pate



# Changing minds. Changing habits.

2006 SUMMARY ANNUAL REPORT





## IN THIS REPORT

- 1 Introduction — The New Energy Equation
- 3 Chairman's Letter to Stakeholders
- 4 2006 Achievements and 2007 Goals
- 9 2007 Duke Energy Charter
- 11 2006 Financial Highlights
- 13 Duke Energy at a Glance
- 15 Defining the New Energy Equation
- 21 Solving the New Energy Equation
- 27 Challenging Conventional Wisdom
- 30 Consolidated Financial Statements
- 35 Board of Directors
- 37 Executive Management
- 38 Non-GAAP Financial Measures
- 40 Investor Information
- 41 Sustainability at Duke Energy



## ABOUT THE COVER

Liqin Jiang is a load forecast analyst. Each day, she uses temperature, humidity, wind and other key metrics to forecast customer power demand for Duke Energy's Midwest operations for the next seven to 10 days. She must be as precise as possible to ensure that adequate supplies of power are available to meet that demand. Her analyses are just one example of how the Duke Energy team works each day to balance — and ultimately to solve — the new energy equation.

## FORWARD-LOOKING STATEMENT

This report includes statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. One can typically identify forward-looking statements by the use of forward-looking words such as: may, will, could, project, believe, expect, estimate, continue, potential, plan, forecast and other similar words. Those statements represent Duke Energy's intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside Duke Energy's control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Those factors 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 at and degree to which competition enters the electric and natural gas industries; the outcomes of litigation and regulatory investigations, proceedings or inquiries; industrial, commercial and residential growth in Duke Energy's service territories; additional competition in Duke Energy's markets and continued industry consolidation; the influence of weather on company operations, including the economic, operational and other effects of hurricanes, tornados or other natural phenomena; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; general economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions; declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans; the level of creditworthiness of counterparties to Duke Energy's transactions; the amount of collateral required to be posted from time to time in Duke Energy's transactions; growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power; the performance of electric generation facilities; the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; the ability to successfully complete merger, acquisition or divestiture plans, including the prices at which Duke Energy is able to sell assets; and the success of the business following a merger, acquisition or divestiture.

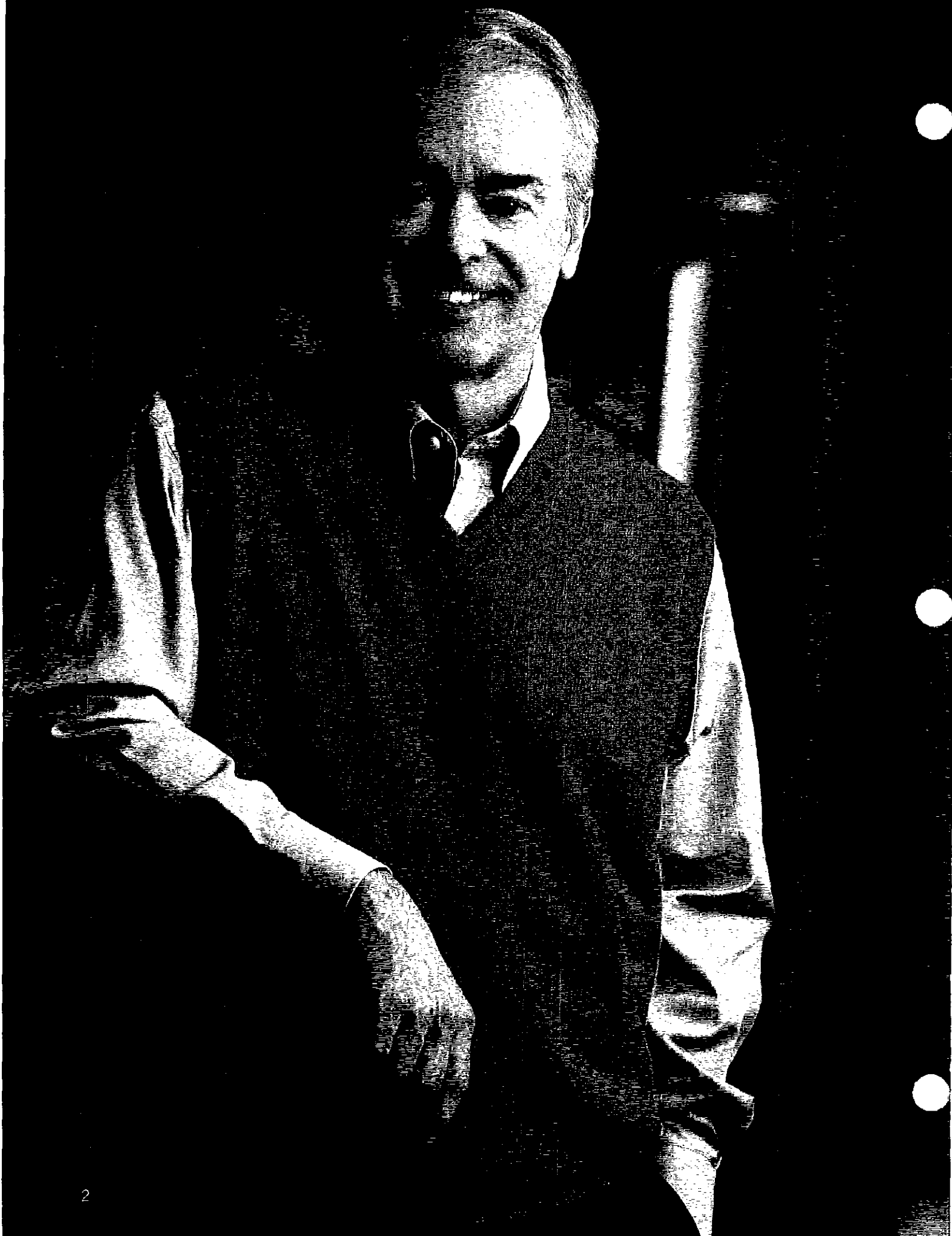
In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Information contained in this report is unaudited, and is subject to change.

## ... to solve the new energy equation.

We face a new energy equation with many variables. Increasing demand for energy is a key driver of rising energy prices. As a result, there is a renewed focus on renewable energy and energy efficiency — “save-a-watts” vs. megawatts. There is mounting concern about global climate change and further reducing air emissions. And, we must continue to grow earnings and dividends.

These variables present both challenges and opportunities. We believe we can solve this new equation with our sustainability focus. This means working to balance the needs of all of our stakeholders. These efforts will keep our prices affordable and our service reliable as we continue to work to reduce our environmental footprint and earn superior returns.

This delicate balancing act requires us to challenge conventional wisdom with new thinking and innovation. It means changing our own minds and habits and those of our stakeholders. We must still generate megawatts, but we believe we can produce significant save-a-watts as well. In 2006, we repositioned Duke Energy to do just that. Read on ...



**Dear fellow investors, customers, employees and all who have a vested interest in our success — our partners, suppliers, policymakers, regulators and communities:**

I want to thank the entire Duke Energy team for accomplishing both a merger and a spinoff last year. Never before in my career have I seen people work so hard to resolve so many complex issues. Our many financial, operational and policy accomplishments in 2006 were the result of your dedication and support.

For our other stakeholders, let me summarize our key accomplishments simply by saying that we did what we said we would do in our 2006 Charter.

2006 ongoing diluted earnings per share of \$1.81 exceeded 2005 ongoing diluted earnings per share of \$1.73. Duke Energy's total shareholder return for 2006, before the spinoff of Spectra Energy in early 2007, was 26.3 percent. We outperformed both the Philadelphia Stock Exchange Utility Sector Index (20 percent) and the S&P 500 Index (15.8 percent).

The strategic steps we took last year positioned the company for growth in 2007 and beyond. We established an industry-leading electric power platform through the successful execution of the merger with Cinergy — and we did it in 11 months.

(LEFT) JAMES E. ROGERS, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

# Looking back. Looking forward.

2006 was a year of significant achievement for Duke Energy. We successfully completed our merger with Cinergy, a major milestone in our history. We also achieved significant operational and financial results, including a record return on equity. Looking forward, we are committed to continued growth and innovation, focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development. We will continue to invest in energy infrastructure that meets rising customer demands for reliable energy in an efficient and environmentally sound manner. We will also continue to pursue strategic acquisitions and partnerships to enhance our competitive position in the energy market.

## 2006 Key Accomplishments

- ✓ Merged with Cinergy to increase the scale and scope of our power business.
- ✓ Reduced our risk profile by selling our unregulated power plants outside the Midwest and by selling our Commercial Marketing and Trading business.
- ✓ Formed a joint venture with Morgan Stanley Real Estate Fund for Crescent Resources.
- ✓ Repurchased \$500 million of stock.
- ✓ Acquired, filed for certificate, or announced our intent to build new generation assets throughout our five states. We estimate that we will need to increase our generating capacity by approximately 6,400 megawatts over the next 10 years.
- ✓ Announced numerous expansions of our gas transmission system.
- ✓ Achieved our 2006 employee incentive target.
- ✓ Spun off Spectra Energy on Jan. 2, 2007.

## 2007 Key Objectives

- Establish the identity and culture of the new Duke Energy, unifying our people, values, strategy, processes and systems.
- Optimize our operations by focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development.
- Achieve public policy, regulatory and legislative outcomes that balance our customers' needs for reliable energy at competitive prices with our shareholders' expectation of superior returns.
- Invest in energy infrastructure that meets rising customer demands for reliable energy in an efficient and environmentally sound manner.
- Achieve 2007 financial objectives and position the company to meet future growth targets.

\*See the 2007 Duke Energy Charter on page 9.

We reduced our earnings volatility and business risk by selling our commercial marketing and trading operations, and effectively half of our real estate development company, Crescent Resources. These transactions raised almost \$2 billion in after-tax cash, most of which will be invested in our lower-risk, energy infrastructure businesses.

In customer satisfaction, we have consistently ranked in the top quartile in several independent utility studies. Last year, our utility companies in the South and Midwest finished in the top 10 nationally in the Key Account Benchmark Study. In addition, we ranked first in the South and best in the nation among small and mid-sized business customers, according to J.D. Power and Associates.

We provided leadership on industry issues. I currently serve as chairman of Edison Electric Institute and I co-chair the National Action Plan on Energy Efficiency and the Alliance to Save Energy. Other members of the Duke Energy leadership team also help to shape the state and federal policy decisions that affect our business.

We continued to build a high-performance, sustainability-focused culture characterized by diversity, inclusion, employee development and leadership. And we established new safety incentives for 2007 to reinforce our concern for each other and our customers.

## **SO WHY DID WE CHOOSE TO GET LARGER AND THEN GET SMALLER?**

Very simply, scale and focus.

Our merger with Cinergy in April 2006 gave our electric business the scale it needed to stand alone. To unlock even greater value, three months later we announced that we would separate our natural gas business and our electric business into two strong pure-play companies: Spectra Energy for gas and Duke Energy for electric power. We completed the spinoff of Spectra Energy in January 2007. Today Duke Energy is one of the top five electric companies in the United States in market capitalization.

Having the strategic focus of a pure-play electric company will help us meet the challenges and seize the opportunities to solve what we call the new energy equation.

In this equation, we must meet our customers' needs for affordable and reliable electric power while meeting more stringent environmental rules that will inevitably increase costs.

We must raise capital for long-term investments in more environmentally friendly generation capacity, renewable energy and energy efficiency. And we must reassure investors who may be wary of long-term capital construction programs.

Balancing these factors and solving the new energy equation will require a new approach to utility regulation. It will require us to change minds and change habits. It will require us to see and understand the goals of each of our stakeholder groups. This letter and the rest of this report will detail our plans to do that.

## **WHAT INVESTORS CAN EXPECT IN 2007 AND BEYOND**

Our strategy to increase earnings and dividends in the long term is straightforward:

- Steadily improve our sales growth
- Earn solid returns on our significant capital investments, and
- Continue achieving additional cost reductions from the merger and from our continuous improvement efforts.

These three drivers — sales, investments and cost savings — are essential to achieving both our 2007 financial objectives and long-term growth.

You can read all of our 2007 objectives in our Charter on page 9. Our 2007 employee incentive target of \$1.15 per share is based on ongoing diluted earnings. The \$1.15 serves as the basis for 4 to 6 percent annual earnings growth through the end of 2009. We expect dividend growth to be in line with earnings growth.

Our business plan projects a quarterly dividend increase of \$0.01 beginning in the third quarter of 2007. This dividend increase — to be decided by the board of directors — would be in line with our expectation to increase dividends consistent with a 70 to 75 percent payout target.

## **SOLVING THE NEW ENERGY EQUATION: CHANGING MINDS AND CHANGING HABITS**

Our actions in 2006 put us in a strong position to grow as we address the variables of the new energy equation:

- Building new power plants to meet steadily increasing demand
- Using a diverse mix of fuels and technologies at our new plants to limit our future price, reliability and environmental risks
- Deploying new technologies to modernize our transmission and distribution grids to boost efficiency and reliability, and to support new energy efficiency initiatives
- Obtaining legislation and regulatory treatment that will let us recover our financing costs as we build new and more efficient power plants (megawatts) and as we promote energy efficiency ("save-a-watts") with new initiatives on both sides of the meter
- Realizing the efficiencies and cost savings from the merger while maintaining our operational excellence, and
- Shaping new federal rules that limit carbon emissions to ensure our customers and other stakeholders are fairly treated.

We will solve the new energy equation by challenging conventional wisdom. We will invest in new technology. We will balance the variables by working collaboratively with all stakeholders to find the best and fairest solutions.

*Let me briefly highlight each variable and spell out our strategy for addressing it. This will also give you a good overview of our near-term and long-term growth strategies.*

**Building new power plants to meet steadily increasing demand.** In the Carolinas, we are adding between 40,000 and 60,000 new customers annually. In Indiana, Kentucky and Ohio, we are adding 11,000 to 16,000 new customers each year. For the next three years, we expect annual kilowatt-hour sales growth of about 1.5 percent in the Carolinas and about 1 percent in the Midwest.

We are required by law to meet the electric power needs of our customers as economically and reliably as possible. Each year, we perform an extensive analysis to update our

forecasts for customer power demand and study all viable and economical options to meet that demand. In the past, we have been successful in meeting our customer growth by operating our power plants efficiently, by purchasing peaking power plants and by buying power on the whole-sale market as needed.

Today's growth projections suggest that we will need to increase our generating capacity by approximately 6,400 megawatts over the next 10 years. Most of this new capacity will be in the Carolinas, and the remainder in Indiana.

Even now, we need nearly 1,500 megawatts of new generation in Ohio to meet existing demand. We plan to build or buy new generation there if the state enacts legislation that will allow utilities to own generation facilities.

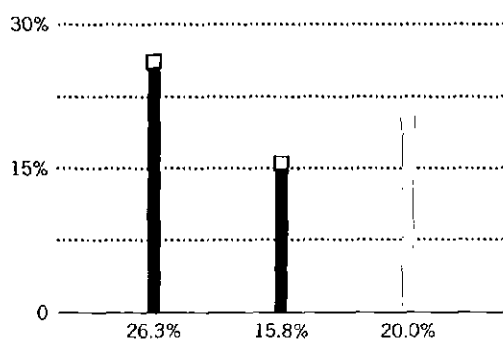
Our newest base load plants — those designed to operate around the clock — were completed in 1986 in the Carolinas and in 1991 in the Midwest. It takes six to 10 years to plan, permit and construct such plants. We are seeking permits now for plants that we'll need in 2011, when we expect to have more than 250,000 additional customers.

We anticipate annual capital expenditures of approximately \$3.5 billion from 2007 through 2009 for expansion of our generation capacity, environmental retrofits, nuclear fuel, maintenance and other expenses. Included in this amount is expansion capital for:

- Expanding generation in North Carolina
- Planning a new cleaner-coal integrated gasification combined cycle (IGCC) plant in Indiana, and
- Exploring the development of a new nuclear plant in South Carolina.

We expect that new generation and other infrastructure investments over the next three years will increase the total rate base in our five states by about 25 percent from the current \$16 billion to \$20 billion (less depreciation and amortization). The returns generated from a growing rate base will ultimately translate into long-term earnings growth — and we expect our rates to remain below the national average.

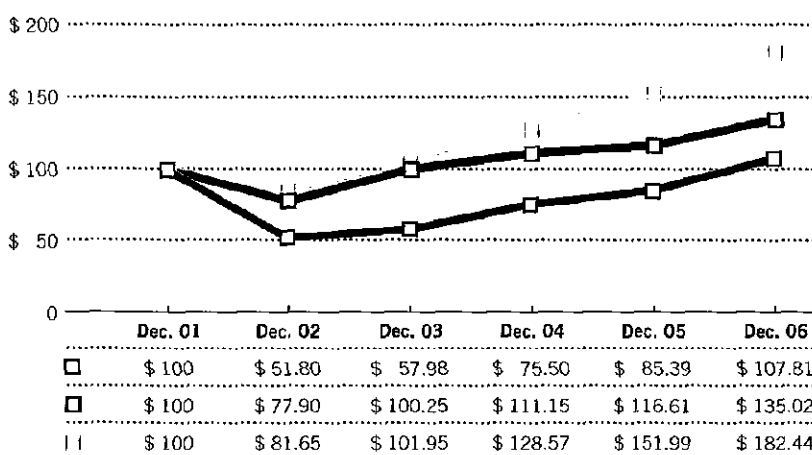
## COMPARISON OF 2006 TOTAL RETURN



### LEGEND

- Duke Energy Corporation
- S&P 500 Index
- || Philadelphia Stock Exchange Utility Sector Index

## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN



Assumes \$100 was invested on December 31, 2001 in company common stock and each index. Values are as of December 31 assuming dividends are reinvested.

OVER A FIVE-YEAR PERIOD BEGINNING DECEMBER 31, 2001, DUKE ENERGY'S TOTAL SHAREHOLDER RETURN (TSR) HAS LAGGED BOTH THE S&P 500 INDEX AND THE PHILADELPHIA STOCK EXCHANGE UTILITY INDEX. BUT, IN 2006, INVESTORS RESPONDED FAVORABLY TO THE DECISIVE ACTIONS WE TOOK TO LOWER OUR RISK PROFILE AND REPOSITION DUKE ENERGY AS A LEADING PURE-PLAY ELECTRIC COMPANY.

DUKE ENERGY'S TSR FOR 2006 (PRE-SPINOFF OF SPECTRA ENERGY) WAS 26.3 PERCENT, WHICH EXCEEDED THE PHILADELPHIA STOCK EXCHANGE UTILITY SECTOR INDEX (20 PERCENT) AND THE S&P 500 INDEX (15.8 PERCENT).

**Using a diverse mix of fuels and technologies at our new plants to limit our future price, reliability and environmental risks.** One of the reasons our average price for electricity is below the national average is that 98 percent of our energy is generated from coal and nuclear power.

For our Cliffside Station, we proposed building two new 800-megawatt units using supercritical coal technology. This is the most environmentally efficient pulverized coal technology available today. Because of their increased efficiencies, these plants typically burn 10 percent less coal than conventional units and emit significantly less sulfur dioxide and nitrogen oxide.

As I was finishing this letter, we received a notice of decision from the North Carolina Utilities Commission (NCUC), which authorized building one of the two units. The commission also accepted our commitment to invest 1 percent of our revenues in the Carolinas for energy efficiency, subject to appropriate regulatory treatment, and our plan to retire older, less efficient units.

Our cost estimates were based on two units, and we still need an air permit for this project. So as you read this, we are studying the Cliffside project to determine how to proceed. We won't make a decision until we have a clearer understanding of the overall costs as well as the conditions of the air permit. We are also evaluating the possibility of enhancing and accelerating natural gas-fired plants in our portfolio.

In Indiana, we continue to explore development of a new 630-megawatt IGCC plant. IGCC technology is less proven, but has the potential to significantly reduce emissions. Additionally, the geology of the plant location is conducive to underground storage of captured carbon emissions. We believe that investing in this next generation of coal-plant technology is an important part of meeting our environmental commitments.

Because the Cliffside and IGCC projects use more environmentally friendly technologies, they were authorized for significant federal tax credits by the U.S. Department of Energy upon their completion. This is further evidence that Duke Energy is on the forefront of new cleaner coal technology.



We are also proposing to build a new nuclear plant in South Carolina. New nuclear plants will encounter challenges, including used fuel storage, cost recovery and a new licensing process. But nuclear energy has one big advantage: It produces no greenhouse gas emissions, and we believe that will help offset the other challenges.

**Deploying new technologies to modernize our transmission and distribution grids to boost efficiency and reliability, and to support new energy efficiency initiatives.** Complementing our capital investments in new generation is our renewed commitment to energy efficiency. Our job is to educate and support our customers — to change minds and habits — to help them better manage their energy use to reduce both peak and overall demand.

Energy efficiency can be measured in save-a-watts, the number of megawatts we don't need to supply when customers are being smart about their energy consumption. Efficient energy practices are just as important as coal, nuclear, natural gas and renewable energy. That's why we think of efficiency as the "fifth fuel."

With our strong customer relationships and back office systems, we are well positioned to make energy efficiency a significant part of our portfolio. Duke Energy has appointed a vice president of energy efficiency, a chief technology officer and a vice president of regulatory strategy. You will meet them in the pages that follow. We believe that their focused approach will make energy efficiency a new asset for all of our stakeholders, especially our customers and investors.

Energy efficiency is the core of our commitment to building a sustainable business model. We intend to manage financial, environmental and social opportunities and risks effectively, so we'll still be doing business many years from now.

You can be part of our commitment to sustainability leadership, too. We are again offering to make a \$1 donation to The Nature Conservancy for every shareholder who signs up for electronic delivery of our annual report, proxy statement and our other financial information. Currently, more than 80,000 of you have chosen electronic delivery, and we intend to make an equivalent donation in dollars to The Nature Conservancy. Electronic delivery helps us in two ways: It preserves our natural resources, and it significantly

reduces our printing and mailing costs. You need to sign up only once, and you can do so at this Web link: <https://www.icsdelivery.com/duk/index.html>.

**Obtaining legislation and regulatory treatment that will let us recover our financing costs as we build new and more efficient power plants (megawatts) and as we promote energy efficiency (save-a-watts) with new initiatives on both sides of the meter.** We are working this year to create a regulatory framework that balances the needs of our customers, our investors and our environment. Allowing us to recover financing costs as we incur them would lower the overall cost of projects as well as allow us to spread out rate increases over the course of the building cycle, avoiding large one-time increases.

We are pursuing such legislation in the Carolinas that would cover both the Cliffside station in North Carolina and a proposed new nuclear station in South Carolina. We are also seeking to recover our upfront development costs for the nuclear plant. We have been clear that we will not move forward with a nuclear plant unless we know that we can recover our financing costs in rates as we build.

In Ohio, we are pursuing a two-part regulatory strategy: First, we filed a request to extend the Rate Stabilization Plan through 2010. Second, we are also promoting legislation that would allow a regulated distribution company the choice of whether to build or to purchase new generation.

Success on this front depends on our ability to change minds. We need to persuade legislators and regulators to give energy efficiency investments the same weight as new generation investments. Conventional wisdom says that regulators reward us for selling more of our product, not less. We want to change the paradigm, by persuading them that utilities should be rewarded for energy efficiency as well as sales. If we can earn almost as much for saving a watt as for making a watt, everyone will benefit. With this kind of economic impartiality, we can provide reliable service, conserve precious resources and reduce emissions while still delivering a fair return to our investors.

We believe we can succeed with our regulatory agenda. We are seeking a consensus on policies that balance the needs of all of our stakeholders. This collaborative approach has produced constructive regulatory outcomes for our stakeholders before.

[illegible]

- 1. Establish the identity and culture of the new Duke Energy, unifying our people, values, strategy, processes and systems.
- 2. Optimize our operations by focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development.
- 3. Achieve public policy, regulatory and legislative outcomes that balance our customers' needs for reliable energy at competitive prices with our shareholders' expectation of superior returns.
- 4. Invest in energy infrastructure that meets rising customer demands for reliable energy in an energy efficient and environmentally sound manner.
- 5. Achieve 2007 financial objectives and position the company to meet future growth targets.

- 1. **Stewardship** — A commitment to health, safety, environmental responsibility and our communities.
- 2. **Integrity** — Ethically and honestly doing what we say we will do.
- 3. **Safety** — A relentless commitment to working safely and looking out for the safety of our co-workers and others with whom we do business.
- 4. **Respect for the Individual** — Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- 5. **High Performance** — Achieving superior business results, stretching our capabilities and valuing the contributions of every employee.
- 6. **Win-Win Relationships** — Having relationships which focus on the creation of value for all parties.
- 7. **Initiative** — Having the courage, creativity and discipline to lead change and shape the future.

- Our investors realize a superior return on their investment over time.
- Our customers, suppliers and communities benefit from our business relationships.
- Every employee starts each day with a sense of purpose, and ends each day safely with a sense of accomplishment.

"Our challenges are as great as our opportunities, but I am confident that by listening to all of our stakeholders and engaging them in our efforts, we will solve the new energy equation — for the benefit of all."

**Realizing the efficiencies and cost savings from the merger while maintaining our operational excellence.**

We are on track to realize \$650 million in net savings from the Cinergy merger over the first five years. We are beginning to see the full benefits of those savings as most of the merger-related rate reductions expire this year. In 2007, we are focusing on continuous improvement. We intend to carefully manage our costs and simplify our operations to deliver our products and services as reliably and efficiently as possible.

**Shaping new federal rules that limit carbon emissions to ensure our customers and other stakeholders are fairly treated.** Duke Energy is the third-largest consumer of coal in the United States, so we are mindful of our environmental responsibilities. A growing body of scientific evidence suggests that the burning of fossil fuels is changing our climate. We are committed to making the best technology choices, ones that will limit our emissions and optimize our investments so that we can keep our prices competitive.

Reducing greenhouse gases with advanced power generation technology will take decades and cost billions of dollars. The work will continue well into this century. But if we don't begin to solve the problem now, the costs will go even higher.

To demonstrate our corporate commitment to tackling this issue, in January 2007, Duke Energy joined the United States Climate Action Partnership (USCAP). This diverse coalition of businesses and environmental groups includes Alcoa, DuPont, Caterpillar, General Electric and other utilities — FPL Group, PG&E Corp. and PNM Resources — as well as Environmental Defense, Natural Resources Defense Council, World Resources Institute and the Pew Center on Global Climate Change. Together, we have begun a dialogue and offered recommendations on national policies for dealing with this pressing issue. Additionally,

in partnership with the U.S. Department of Energy, we are researching underground carbon storage at our East Bend Station in Kentucky.

**PATIENCE IS NEEDED TO CHANGE MINDS AND HABITS**

The strategies I've outlined will position Duke Energy to be a leader on several fronts, including new technologies, energy efficiency, continuous improvement and sustainability. Our challenges are as great as our opportunities, but I am confident that by listening to all of our stakeholders and engaging them in our efforts, we will solve the new energy equation — for the benefit of all.

I again thank our employees, management and board of directors — both past and present — for our many successes in 2006. You achieved our strategic agenda while keeping the gas flowing and the lights on.

I thank our investors for your support during the merger and the spinoff. Your confidence in us is the best evidence that the new direction we have taken to become one of the nation's premier electric companies is the right direction.

We are energized by the prospects of a bright future. We have a solid investment proposition, and we are in a strong position to change minds and habits to create significant value for all of our stakeholders. From a sustainability standpoint, I believe that our grandchildren will be proud of how we are addressing the energy and environmental issues of our day.



James E. Rogers  
Chairman, President and Chief Executive Officer

March 2, 2007

## FINANCIAL HIGHLIGHTS<sup>a</sup>

(In millions, except per-share amounts)	2006	2005	2004	2003 <sup>c</sup>	2002
<b>Statement of Operations</b>					
Operating revenues	\$ 15,184	\$ 16,297	\$ 19,596	\$ 17,623	\$ 14,757
Operating expenses	12,493	13,416	16,441	16,632	12,313
Gains on sales of investments in commercial and multi-family real estate	201	191	192	84	106
Gains (losses) on sales of other assets and other, net	276	534	(416)	(199)	32
Operating income	3,168	3,606	2,931	876	2,582
Other income and expenses, net	1,008	1,809	304	550	352
Interest expense	1,253	1,066	1,282	1,331	1,116
Minority interest expense	61	538	200	62	91
Earnings from continuing operations before income taxes	2,862	3,811	1,753	33	1,727
Income tax expense (benefit) from continuing operations	843	1,282	507	(52)	544
Income from continuing operations	2,019	2,529	1,246	85	1,183
(Loss) income from discontinued operations, net of tax	(156)	(701)	244	(1,246)	(149)
Income (loss) before cumulative effect of change in accounting principle	1,863	1,828	1,490	(1,161)	1,034
Cumulative effect of change in accounting principle, net of tax and minority interest	—	(4)	—	(162)	—
Net income (loss)	1,863	1,824	1,490	(1,323)	1,034
Dividends and premiums on redemption of preferred and preference stock	—	12	9	15	13
Earnings (loss) available for common stockholders	\$ 1,863	\$ 1,812	\$ 1,481	\$ (1,338)	\$ 1,021
<b>Ratio of Earnings to Fixed Charges<sup>d</sup></b>	<b>3.2</b>	<b>4.7</b>	<b>2.3</b>	<b>—<sup>b</sup></b>	<b>2.0</b>
<b>Common Stock Data</b>					
Shares of common stock outstanding <sup>e</sup>					
Year-end	1,257	928	957	911	895
Weighted average – basic	1,170	934	931	903	836
Weighted average – diluted	1,188	970	966	904	838
Earnings (loss) per share					
Basic	\$ 1.59	\$ 1.94	\$ 1.59	\$ (1.48)	\$ 1.22
Diluted	\$ 1.57	\$ 1.88	\$ 1.54	\$ (1.48)	\$ 1.22
Dividends per share	\$ 1.26	\$ 1.17	\$ 1.10	\$ 1.10	\$ 1.10
<b>Balance Sheet</b>					
Total assets	\$ 68,700	\$ 54,723	\$ 55,770	\$ 57,485	\$ 60,122
Long-term debt including capital leases, less current maturities	\$ 18,118	\$ 14,547	\$ 16,932	\$ 20,622	\$ 20,221
Capitalization					
Common equity	55%	50%	45%	37%	36%
Preferred stock	0%	0%	0%	0%	1%
Trust preferred securities	0%	0%	0%	0%	3%
Total common equity and preferred securities	55%	50%	45%	37%	40%
Minority interests	2%	2%	4%	5%	5%
Total debt	43%	48%	51%	58%	55%

<sup>a</sup> Significant transactions reflected in the results above include: 2006 merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2006 Crescent joint venture transaction and subsequent deconsolidation effective September 7, 2006 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2005 DENA disposition (see Note 13 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Discontinued Operations and Assets Held for Sale"), 2005 deconsolidation of DEFS effective July 1, 2005 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2005 DEFS sale of TEPPCO (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions") and 2004 DENA sale of the Southeast plants (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

<sup>b</sup> Earnings were inadequate to cover fixed charges by \$241 million for the year ended December 31, 2003.

<sup>c</sup> As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force (EITF) 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) and SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles. (See Note 1 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Summary of Significant Accounting Policies," for further discussion.)

<sup>d</sup> Includes pre-tax gains of approximately \$0.9 billion, net of minority interest, related to the sale of TEPPCO GP and LP in 2005 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

<sup>e</sup> 2006 increase primarily attributable to issuance of approximately 313 million shares in connection with Duke Energy's merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

## DUKE ENERGY BUSINESS SEGMENTS

### U.S. Franchised Electric and Gas



2007 EBIT  
CONTRIBUTION

U.S. Franchised Electric and Gas, which operates in North Carolina, South Carolina, Indiana, Ohio and Kentucky, is our largest business segment and our primary source of earnings growth.

We expect this segment to represent approximately 79 percent of forecasted 2007 ongoing total segment earnings before interest and taxes (EBIT).<sup>\*</sup> It includes:

- A \$16 billion retail rate base
- 3.9 million electric customers
- 500,000 gas customers in Ohio and Kentucky
- 47,000 square miles of service territory
- 28,000 megawatts of regulated generation.

### Commercial Power



2007 EBIT  
CONTRIBUTION

Duke Energy's Commercial Power business owns and operates unregulated power plants, primarily in the Midwest. Almost all of the results for this business come from sales to retail customers in Ohio under that state's Rate Stabilization Plan.

Also in this segment is Duke Energy Generation Services (DEGS), which develops, owns and operates electric generation sources that serve large energy consumers, municipalities, utilities and industrial facilities. We expect this segment to represent approximately 7 percent of forecasted 2007 ongoing total segment EBIT.<sup>\*</sup> It includes:

- 8,100 megawatts of unregulated generation, most of which is dedicated to regulated customers.

### Duke Energy International



2007 EBIT  
CONTRIBUTION

Duke Energy's international electric generation operations are located in Central and South America. We expect this segment to represent approximately 11 percent of forecasted 2007 ongoing total segment EBIT.<sup>\*</sup> It includes:

- Approximately 4,000 megawatts of generation, primarily hydroelectric power, in six countries: Argentina, Brazil, Ecuador, El Salvador, Guatemala and Peru.

### Crescent Resources



2007 EBIT  
CONTRIBUTION

Formed more than 40 years ago by Duke Energy, Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects.

We expect this segment to represent approximately 3 percent of forecasted 2007 ongoing total segment EBIT.<sup>\*</sup> In 2006, Duke Energy worked with Morgan Stanley Real Estate Fund to create an effective 50/50 joint venture.

- Crescent Resources is in 10 states, primarily in the southeastern and southwestern United States.

Taking the U.S. Franchised Electric and Gas and Commercial Power segments together, we expect more than 85 percent of Duke Energy's forecasted 2007 ongoing total segment EBIT will come from sales to regulated customers.

<sup>\*</sup>2007 forecasted ongoing total segment EBIT excludes results for the operations labeled Other.




DUKE ENERGY AT A GLANCE:

## Repositioning our business

In January 2007, Duke Energy Corporation became one of the largest pure-play electric power holding companies in the United States. Our utility companies supply and deliver energy to 3.9 million U.S. customers. We have about 37,000 megawatts of electric generating capacity in the Midwest and the Carolinas, natural gas distribution services in Ohio and Kentucky, and approximately 4,000 megawatts of electric generation in Latin America. Duke Energy is also a joint-venture partner in a U.S. real estate company.

GIANNA MANES IS SENIOR VICE PRESIDENT OF REGULATED PORTFOLIO OPTIMIZATION AND FUELS AT DUKE ENERGY'S U.S. FRANCHISED ELECTRIC AND GAS BUSINESS. THE ORGANIZATION SHE LEADS BUYS AND SELLS ELECTRICITY IN THE WHOLESALE MARKET AND PURCHASES COAL AND NATURAL GAS FOR THE GENERATION FLEET.



## Changing minds by thinking differently

Over the next three years, Duke Energy's regulated businesses plan to invest more than \$9 billion to strengthen customer service and reliability, and to meet steadily growing demand. Besides investing in additional megawatt-hours from new plants, we are supporting a "save-a-watt" business model focused on energy efficiency to offset the need for more plants, even as demand continues to grow. With this new model, energy efficiency becomes a sustainable system resource that plays a more significant role in our plans to meet customers' increasing demand for electricity.

We are working with policymakers to find the best way to address the timely recovery of these investments. We believe that recovering financing costs as we build and implementing a regulatory framework that encourages investments in energy efficiency will result in smaller, more manageable rate increases. This is a win-win proposition for our customers and our investors. We also believe that investments in energy efficiency should be put on an equal footing with investments in new generation. With comparable earnings on investments, we would be economically impartial to meeting our customers' growing demand for electricity with investments in energy efficiency or new generation.

BEVERLY MARSHALL (LEFT), VICE PRESIDENT FOR FEDERAL POLICY AND GOVERNMENT AFFAIRS AT DUKE ENERGY,  
AND JULIE GRIFFITH, VICE PRESIDENT FOR STATE GOVERNMENT AFFAIRS AT DUKE ENERGY INDIANA,  
ARE TWO KEY MEMBERS OF DUKE ENERGY'S PUBLIC POLICY TEAM.

# Defining the new energy equation

For more than a century, we have supplied our customers with affordable and reliable electricity. Our product is considered an essential service. It has also made possible many innovative technologies that enhance our customers' standard of living. And it has helped keep our local and state economies competitive in the global marketplace.

Providing adequate power was once as simple as balancing supply and demand. Although that is still the core of what we do, times have changed. Today, we face the unprecedented challenge of solving a new energy equation.

During a time of rising and volatile fuel prices, historic environmental challenges and industry restructuring, the demand for electricity continues to grow. With our commitment to sustainability, we must balance the growing demand for power with the investments needed to supply it — while reducing our environmental impact and keeping prices affordable.

This requires new thinking on both the policy and technology fronts.



To meet the growing demand for power, we are investing in a new generation of highly efficient and environmentally advanced power plants, new environmental controls for existing plants, and transmission and distribution system upgrades. Our emphasis on new energy efficiency programs and technologies will help meet growing demand.

We call energy efficiency the "fifth fuel" because it complements coal, nuclear power, natural gas and renewable energy, the four primary sources of electric power for the future. We see it as one of our most promising solutions, because the most environmentally sound, inexpensive and reliable kilowatt-hour is the one we don't have to produce. Generating "save-a-watts" is just one part of the equation that requires our customers to change how they use electricity. We are looking at ways to help them do that.

## UNDERSTANDING THE VARIABLES

Solving the new energy equation means understanding all of its variables. One of the most significant and unpredictable variables is future environmental regulation. Today's irregular patchwork of federal and state environmental requirements has already prompted substantial investments.

Recognition of global warming as a serious problem has increased the call for regulation of greenhouse gases, primarily carbon. Mandatory carbon dioxide (CO<sub>2</sub>) emission reductions are being considered in Congress. When legislation passes, utilities will need to make substantial investments to comply. It is critical that any such carbon regulations be phased in to avoid causing economic disruption and that the affected companies receive emission allowances to defray the cost of compliance.

## POLICY LEADERSHIP

Our stakeholders, particularly our customers, investors and communities, expect us to play a leading role in shaping a national policy that addresses this national and global challenge. We take that responsibility seriously. Our goal is a policy that will slow the growth of greenhouse gases and then begin to reduce them — while protecting the economy and our customers from price shocks.

Another variable is the prospect of mandatory renewable portfolio standards (RPS) at both the federal and state level. Twenty-two states currently have such standards, which require electric utilities to generate anywhere from 5 to 20 percent of their power from "climate-friendly" renewable energy sources such as solar, wind, geothermal and agricultural waste, over varying periods of time. Congress is evaluating legislative proposals for a national RPS.

As a company focused on sustainability, we have invested in pilot projects involving wind and agricultural waste so that we can gain an understanding of the technologies and costs that would be required on a larger scale before mandatory standards are put in place. Today, we are also the second-largest generator of renewable hydroelectric power in the United States among investor-owned utilities.

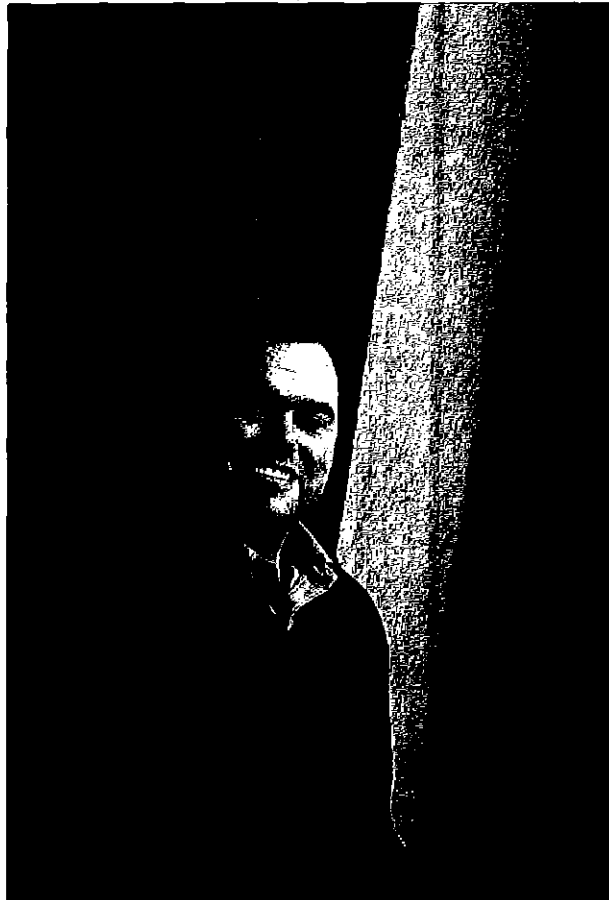
Like any other publicly traded company, we have a responsibility to meet our customers' needs while recovering our investments and earning a good return on those investments for our shareholders. To solve the new energy equation, we must use nuclear, coal, natural gas, renewable energy and energy efficiency. Our strategy for doing so is outlined on the following pages.



### *balancing supply and demand*

When you flip that light switch, adjust your air conditioning, turn your television on or boot up your computer, you expect power. But do you think about where it comes from? Duke Energy generates electricity from a variety of fuels: coal, natural gas, nuclear and renewable hydroelectric sources. Energy efficiency, the "fifth fuel," is also part of the mix. This diversity means that we're not overly dependent on any single fuel, and it helps us address fuel price fluctuations and environmental risks. We must also keep our fuel mix in balance to meet steadily growing demand. This is all part of the company's Integrated Resource Plan, which determines the best options to meet our customers' electricity needs over the next 20 years. Using input from many stakeholders, we update the plan periodically with the goal of finding the most efficient and economical resources — both in power generation and in energy efficiency — to meet future demand.

JANICE HAGER IS MANAGING DIRECTOR OF INTEGRATED RESOURCE PLANNING FOR DUKE ENERGY.  
HER TEAM ENSURES THAT DUKE ENERGY'S SUPPLY OF ELECTRICITY KEEPS PACE WITH GROWING CUSTOMER DEMAND  
WHILE COMPLYING WITH ENVIRONMENTAL REQUIREMENTS.



### *Balancing regulated and non-regulated assets*

When electric generation was deregulated in Ohio in 2001, many people expected a fully competitive market to develop in the first five years. But that didn't happen. As the end of that five-year period drew near, regulators, utilities and customers realized that an immediate shift to market-based rates in 2006 would probably result in large price increases over a short time, as had occurred in other states. To minimize rate shock and to permit a gradual transition to market-based rates, state regulators worked with Ohio's electric utilities, including Duke Energy Ohio, to develop rate stabilization plans (RSPs). These plans provide customers with stable, predictable rates for a number of years — in Duke Energy's case, from 2006 through 2008. In late 2006, Duke Energy Ohio asked regulators to extend its RSP by an additional two years, through 2010. Under the proposed extension, which is being reviewed, the utility's unregulated generating assets in Ohio would continue to serve the state's retail customers. The plan supports continued electric system reliability and sends clear price signals to customers, while helping to maintain a stable revenue stream for the company.

**DAVE CELONA, VICE PRESIDENT FOR GOVERNMENT AND REGULATORY AFFAIRS  
AT DUKE ENERGY OHIO, IS WORKING TO PROVIDE STABILITY TO OHIO'S ELECTRIC INDUSTRY BY PROMOTING  
THE EXTENSION OF THE COMPANY'S RATE STABILIZATION PLAN.**



### *Balancing reliability and cost*

Just as demand for electric power is increasing, so is the demand for even greater reliability of that power supply. This is primarily driven by our increasingly digital society. More and more appliances and equipment — from plasma televisions to automated assembly lines — are using more kilowatt-hours to power more digital circuits. A power interruption of even a few seconds is not only inconvenient, but it can have a major economic impact as well. At Duke Energy, we work around the clock to supply power reliably. One way we do that is to ensure that we operate our supply and delivery operations — generation, transmission and distribution — efficiently and safely, and in a way that protects the environment. This balanced approach helps keep our reliability and customer satisfaction high, and it helps us better manage our operation and maintenance costs, which is important to our investors. Our power delivery networks play a critical role in our energy efficiency and reliability efforts. Investing in a smart grid will help us achieve our “fifth fuel” initiatives and enhance our service and reliability.

**THEOPOLIS HOLEMAN IS SENIOR VICE PRESIDENT OF POWER DELIVERY FOR DUKE ENERGY'S U.S. FRANCHISED ELECTRIC AND GAS OPERATIONS. HIS TEAM IS RESPONSIBLE FOR KEEPING POWER QUALITY AND RELIABILITY HIGH — 24/7.**



## Changing habits with a smarter grid

We believe we can change energy habits, including our own, by deploying new energy-saving technologies. One promising technology available now is advanced metering — the replacement of the simple billing meter with one capable of two-way communication over our distribution grid. The day when all of our customers will be able to log in to our Web site and see their hourly energy use is not far off.

With our customers' permission, these new meters would give us the ability to control high-energy-use appliances and equipment during peak demand times, without inconveniencing customers or business owners, who would also share in the savings.

Smart meters will also enhance our ability to measure and verify the impacts of our energy efficiency programs. This is critical for energy efficiency to become a reliable system resource for meeting customer demand for electricity. Remote metering over our network would also let us predict trouble, pinpoint outages, and restore power faster. This solution should be more economical than paying for a new power plant, and most of the smart grid's cost would be offset by the operational and power procurement savings.

Advanced metering is just one of the energy and cost-saving technologies we are exploring to change minds and habits.

DAVID MOHLER (LEFT) IS VICE PRESIDENT AND CHIEF TECHNOLOGY OFFICER AT DUKE ENERGY. TED SCHULTZ IS VICE PRESIDENT FOR ENERGY EFFICIENCY. THEIR TEAMS ARE COMMITTED TO DEPLOYING THE BEST PRACTICES AND TECHNOLOGIES TO HELP OUR CUSTOMERS USE ENERGY MORE WISELY.

# Solving the new energy equation

It is clear that we need to invest in enhanced reliability and in the expansion of our capacity to generate electricity to meet growing customer demand. We know that investments in new state-of-the-art generation, renewables and energy efficiency can be made reasonably with appropriate and timely cost recovery.

Historically, regulators have rewarded utilities for selling more of their product, not less. To solve the new energy equation, we need to change minds about the types of investments that should be eligible for recovery through rates.

We are especially interested in building public support for investments in energy efficiency — the “fifth fuel,” which lowers overall customer demand and reduces or eliminates greenhouse gases and other emissions.

We are working to shift the paradigm in the way regulators treat the business of energy efficiency and in the way utilities develop and deliver such programs. We believe utilities are uniquely positioned to provide universal access to energy efficiency services and new technologies to their customers. This would dramatically change the way utilities develop and deliver energy efficiency programs as part of their standard customer offerings.

To create a sustainable “fifth fuel” system resource accessible by all customers, energy efficiency investments must be on par with new generation investments.

#### **STRIKING A BALANCE**

Changing the regulatory paradigm will also help us avoid some of the price jumps that can occur when a new plant, project, initiative or program finally gets up and running. Such constructive regulatory treatment would give us and others in our industry further incentives to explore and invest in these programs and projects.

#### **BUILDING A CONSENSUS**

To achieve this goal, we are collaborating with numerous stakeholder groups. We hope to build a consensus that will convince lawmakers and regulators that everyone wins with appropriate regulatory treatment of investments in efficiency and renewable energy.

Our new chief technology officer and new vice president of energy efficiency and their teams are committed to achieving success on these two fronts. They know that our customers need innovative products and services to help them better manage their energy costs and reduce their own environmental footprints — while maintaining the comfort and conveniences they want and expect.

We believe that this balanced strategy is a winning proposition for all stakeholders. Our customers will save money, the environment will be cleaner and our investors will earn fair returns on their investments.



### *Web-based energy provides better solutions*

The U.S. Environmental Protection Agency (EPA) facility at Research Triangle Park in North Carolina is the agency's major center for air pollution research and regulation. With 1.2 million square feet for laboratories, computing facilities and offices, it is the largest facility ever designed and built by the EPA. To lead by example, the EPA designed the complex — which was completed in 2001 — to operate with sustainable building practices, including energy efficiency. "The key to energy efficiency is having the right information," says Sam Pagán, the facility's energy director. "Our plans called for a unified system to monitor and meter all of our energy use, and we tried numerous vendors and technologies. Duke Energy was the only company to come up with and deliver a viable solution — a Web-based system that monitors in real time how much water, natural gas, fuel oil and electricity we are using. We now have the mechanism to better manage our annual energy needs and save the EPA considerable energy dollars."

**SAM PAGÁN IS DIRECTOR OF THE ENERGY MANAGEMENT AND CONSERVATION STAFF AT THE EPA'S RESEARCH TRIANGLE PARK FACILITY IN NORTH CAROLINA. THE SPRAWLING COMPLEX OF LABS, OFFICES, AND COMPUTING FACILITIES USES AN ENERGY-MONITORING SOLUTION CREATED BY DUKE ENERGY.**





(FROM LEFT) JOHN BOONE, BUSINESS DEVELOPMENT MANAGER, TOM FENIMORE, MANAGER OF ENERGY MANAGEMENT SERVICES, AND KEN KERNGOLE, CUSTOMER RELATIONS MANAGER, WORKED ON THE DUKE ENERGY TEAMS THAT DESIGNED, DEVELOPED AND DELIVERED AN ENERGY MANAGEMENT SOLUTION FOR THE K&N.



## Advancing the “fifth fuel” — U.S. EPA case study

As Sam Pagán of the U.S. Environmental Protection Agency (EPA) notes on a previous page, when the agency needed an energy management and monitoring system for its massive complex of labs, offices and computing facilities in Research Triangle Park in North Carolina, Duke Energy delivered. Three teams from Duke Energy — account management, business development and custom delivery — collaborated with the EPA's energy management team to get the job done.

The first idea was to measure the allocation of electric power and its costs building by building. But it soon became apparent that to achieve the EPA's objective

to view total energy use in real time and analyze that data — a more comprehensive solution would be needed.

The teams worked together to replace ineffective metering and monitoring systems with a new energy monitoring and reporting system. The new system tracks the use of city water, natural gas, chilled and heated water, and electricity for the entire complex. It collects the data on a secure Web site and makes it available to campus energy management systems. Controllers working from a central office, or from anywhere on campus with a wireless laptop computer, can monitor and protect the energy needs for individual buildings or for the entire complex.

The Duke Energy team also earned the right to install and maintain the system, which may serve as a model for other EPA facilities. As part of the company's renewed focus on energy efficiency, Duke Energy consults with its other large business customers on the benefits of total energy measurement systems.



## Meeting steadily growing demand

Plans to modernize our Cliffside Steam Station in North Carolina will ensure that our customers in the Carolinas have an affordable and reliable supply of power to support the region's economic growth. Our plan called for replacing four old coal units with two supercritical and highly efficient 800-megawatt coal units using advanced emissions controls.

In late February 2007, we received a notice of decision from the North Carolina Utilities Commission, which authorized building one of the two units. The commission also accepted our commitment to invest 1 percent of our revenues in the Carolinas for energy efficiency, subject to appropriate regulatory treatment, and our plan to retire older, less efficient units.

Our estimates were based on two units, and as this annual report was being published, we still needed an air permit for this project. We are studying the commission's decision and the project to determine how to proceed. We won't make a decision until we have a clearer understanding of the overall costs as well as the conditions of the air permit. We are also evaluating the possibility of enhancing and accelerating natural gas-fired plants in our portfolio.

Another important element of our generation strategy is the 2,234-megawatt William States Lee nuclear plant we are proposing to build in South Carolina's Cherokee County. We also continue to explore building an advanced cleaner coal plant in Indiana, and we are pursuing additional energy efficiency programs and renewable technologies.

The net result of these initiatives will help us meet steadily increasing customer demand while reducing multiple environmental impacts of our operations, including carbon emissions.

RICK ROPER IS GENERAL MANAGER OF DUKE ENERGY'S CLIFFSIDE STEAM STATION IN WESTERN NORTH CAROLINA. THE 760-MEGAWATT BASE LOAD POWER PLANT HAS BEEN IN COMMERCIAL OPERATION SINCE 1940.

## Challenging conventional wisdom

Our customers want us to solve the new energy equation, and our track record gives them confidence that we can do it. They want better information about their own energy use and more options to control it. For Duke Energy, that means not only providing our customers with electricity, but also showing them how to personalize their energy use. That's our commitment.

We will start by digitizing our electric distribution and transmission grids. These huge networks already link meters, transformers, substations and other technologies with a communication and control infrastructure. By taking our mostly analog distribution grid and converting it to a digital network, we can create an information-rich communication system. Our plan is to create the "utility of the future."

## UTILITY OF THE FUTURE

As the electric grid goes digital, we can meet our customers' growing appetite for better energy-efficiency information, programs and technologies; for plug-in electric hybrid vehicles; for distributed generation, which is power produced from smaller and more localized generating units, and for more base load power generated from renewable sources.

## A NEW BUSINESS MODEL

The utility of the future will focus on generating, delivering and using energy more efficiently. The business model is based on capturing information and relaying it to our customers, who can use it to make better energy decisions. This model will also help us balance supply and demand, and respond faster to service interruptions.

For example, new "smart meters" will tell customers exactly how much electricity they are using at any given time. These meters will also tell us when, how and in what quantities customers are using power. This will allow us to provide exactly what they need along the most efficient distribution circuits. In essence, the meter becomes an interactive information gateway, not just a passive billing device. The usage data we compile will also help us make better long-term decisions about the need for new transmission and distribution systems.

The utility of the future will make us all more efficient. Already on the drawing board are designs for new transformers that will convert voltages with greater efficiency for homes and businesses. New electric wire alloys will let us transmit power with less resistance. All of

the components of the energy delivery system will be linked through real time communication over wires already in place in every home and business.

We have several other initiatives already under way, including our broadband-over-power-line (BPL) pilot programs in Charlotte, N.C., and Cincinnati, Ohio. Our energy monitoring and metering solution at the EPA labs and computing center at Research Triangle Park in North Carolina (see pages 23-25) can be the platform for the expansion of this technology to residential, commercial and industrial customers.

## FORMING ALLIANCES

Our imaginative initiatives aren't limited to smart metering and exploring new technologies. To promote energy efficiency, we are forming new collaboratives with our stakeholders, including alliances with retailers and suppliers, to inform customers — both small and large — of readily available tools and technologies to reduce energy use.

Duke Energy is well positioned to solve energy problems for our customers. We understand energy use, we have a low cost of capital, and we are working through alliances and with third parties to implement the best solutions for customers.

The long-term goal for the utility of the future is simple: to provide greater reliability with less environmental impact at a lower cost to our customers. New programs delivered through new channels will make it happen.



*Aligning customer and shareholder interests*

Our primary goals are to deliver competitively priced, reliable energy to our customers while protecting the environment and earning reasonable returns for our investors. In this growing economy, we need to make major investments in a new generation of power plants, as well as in our transmission and distribution systems, in order to meet increasing customer demands for energy. Given the uncertainties about future environmental regulations, we also want to expand our portfolio to include more energy-efficient products and services, and more renewable energy options. We are convinced that a diverse resource portfolio will be more cost-effective and sustainable over the long term. The new challenges we face demand new regulatory solutions. Too often, traditional regulatory policies pit customer interests against shareholder interests. We are committed to finding regulatory strategies that align the interests of customers and shareholders, resulting in benefits to both in all five states where we do business.

KAY PASHOS IS VICE PRESIDENT FOR REGULATORY STRATEGY AT DUKE ENERGY. HER TEAM IS RESPONSIBLE FOR PERSUADING STATE REGULATORS TO APPROVE THE COMPANY'S REGULATORY STRATEGY, WHICH TAKES INTO ACCOUNT THE NEEDS OF BOTH CUSTOMERS AND SHAREHOLDERS.

# CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per-share amounts)	Years Ended December 31,		
	2006	2005	2004
<b>Operating Revenues</b>			
Non-regulated electric, natural gas, natural gas liquids, and other	\$ 3,158	\$ 7,212	\$11,322
Regulated electric	7,678	5,406	5,041
Regulated natural gas and natural gas liquids	4,348	3,679	3,233
Total operating revenues	15,184	16,297	19,596
<b>Operating Expenses</b>			
Natural gas and petroleum products purchased	1,829	5,827	9,225
Operation, maintenance and other	4,415	3,540	3,313
Fuel used in electric generation and purchased power	3,403	1,610	1,576
Depreciation and amortization	2,049	1,728	1,750
Property and other taxes	769	571	513
Impairments and other charges	28	140	64
Total operating expenses	12,493	13,416	16,441
<b>Gains on Sales of Investments in Commercial and Multi-Family Real Estate</b>	201	191	192
<b>Gains (Losses) on Sales of Other Assets and Other, net</b>	276	534	(416)
<b>Operating Income<sup>1</sup></b>	3,168	3,606	2,931
<b>Other Income and Expenses</b>			
Equity in earnings of unconsolidated affiliates	732	479	161
(Losses) Gains on sales and impairments of equity investments	(20)	1,225	(4)
Gain on sale of subsidiary stock	15	—	—
Other income and expenses, net	281	105	147
Total other income and expenses	1,008	1,809	304
<b>Interest Expense</b>	1,253	1,066	1,282
<b>Minority Interest Expense</b>	61	538	200
<b>Earnings From Continuing Operations Before Income Taxes</b>	2,862	3,811	1,753
<b>Income Tax Expense from Continuing Operations</b>	843	1,282	507
<b>Income From Continuing Operations</b>	2,019	2,529	1,246
<b>(Loss) Income From Discontinued Operations, net of tax</b>	(156)	(701)	244
<b>Income Before Cumulative Effect of Change in Accounting Principle</b>	1,863	1,828	1,490
<b>Cumulative Effect of Change in Accounting Principle, net of tax and minority interest</b>	—	(4)	—
<b>Net Income</b>	1,863	1,824	1,490
<b>Dividends and Premiums on Redemption of Preferred and Preference Stock</b>	—	12	9
<b>Earnings Available For Common Stockholders</b>	\$ 1,863	\$ 1,812	\$ 1,481
<b>Common Stock Data</b>			
Weighted-average shares outstanding			
Basic	1,170	934	931
Diluted	1,188	970	966
Earnings per share (from continuing operations)			
Basic	\$ 1.73	\$ 2.69	\$ 1.33
Diluted	\$ 1.70	\$ 2.60	\$ 1.29
(Loss) earnings per share (from discontinued operations)			
Basic	\$ (0.14)	\$ (0.75)	\$ 0.26
Diluted	\$ (0.13)	\$ (0.72)	\$ 0.25
Earnings per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.59	\$ 1.94	\$ 1.59
Diluted	\$ 1.57	\$ 1.88	\$ 1.54
Earnings per share			
Basic	\$ 1.59	\$ 1.94	\$ 1.59
Diluted	\$ 1.57	\$ 1.88	\$ 1.54
Dividends per share	\$ 1.26	\$ 1.17	\$ 1.10

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

# CONSOLIDATED BALANCE SHEETS

(In millions, except per-share amounts)	December 31,	
	2006	2005
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 948	\$ 511
Short-term investments	1,514	632
Receivables (net of allowance for doubtful accounts of \$94 at December 31, 2006 and \$127 at December 31, 2005)	2,256	2,580
Inventory	1,358	863
Assets held for sale	28	1,528
Unrealized gains on mark-to-market and hedging transactions	107	87
Other	729	1,756
Total current assets	6,940	7,957
<b>Investments and Other Assets</b>		
Investments in unconsolidated affiliates	2,305	1,933
Nuclear decommissioning trust funds	1,775	1,504
Goodwill	8,175	3,775
Intangibles, net	905	65
Notes receivable	224	138
Unrealized gains on mark-to-market and hedging transactions	248	62
Assets held for sale	134	3,597
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$17 at December 31, 2005)	—	1,281
Other	2,304	2,678
Total investments and other assets	16,070	15,033
<b>Property, Plant and Equipment</b>		
Cost	58,330	40,823
Less accumulated depreciation and amortization	16,883	11,623
Net property, plant and equipment	41,447	29,200
<b>Regulatory Assets and Deferred Debits</b>		
Deferred debt expense	320	269
Regulatory assets related to income taxes	1,361	1,338
Other	2,562	926
Total regulatory assets and deferred debits	4,243	2,533
<b>Total Assets</b>	<b>\$68,700</b>	<b>\$54,723</b>
<b>LIABILITIES AND COMMON STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,686	\$ 2,431
Notes payable and commercial paper	450	83
Taxes accrued	434	327
Interest accrued	302	230
Liabilities associated with assets held for sale	26	1,488
Current maturities of long-term debt	1,605	1,400
Unrealized losses on mark-to-market and hedging transactions	134	204
Other	1,976	2,255
Total current liabilities	6,613	8,418
<b>Long-term Debt</b>		
	18,118	14,547
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	7,003	5,253
Investment tax credit	175	144
Unrealized losses on mark-to-market and hedging transactions	238	10
Liabilities associated with assets held for sale	18	2,085
Asset retirement obligations	2,301	2,058
Other	7,327	5,020
Total deferred credits and other liabilities	17,062	14,570
<b>Commitments and Contingencies</b>		
<b>Minority Interests</b>		
	805	749
<b>Common Stockholders' Equity</b>		
Common stock, \$0.001 par value, 2 billion shares authorized; 1,257 million and zero shares outstanding at December 31, 2006 and December 31, 2005, respectively	1	—
Common stock, no par, 2 billion shares authorized; zero and 928 million shares outstanding at December 31, 2006 and December 31, 2005, respectively	—	10,446
Additional paid-in capital	19,854	—
Retained earnings	5,652	5,277
Accumulated other comprehensive income	595	716
Total common stockholders' equity	26,102	16,439
<b>Total Liabilities and Common Stockholders' Equity</b>	<b>\$68,700</b>	<b>\$54,723</b>

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.



# **CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In millions)	Years Ended December 31,		
	2006	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 1,863	\$ 1,824	\$ 1,490
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	2,215	1,884	2,037
Cumulative effect of change in accounting principle	—	4	—
Gains on sales of investments in commercial and multi-family real estate	(201)	(191)	(201)
Gains on sales of equity investments and other assets	(365)	(1,771)	(193)
Impairment charges	48	159	194
Deferred income taxes	250	282	867
Minority interest	61	538	195
Equity in earnings of unconsolidated affiliates	(732)	(479)	(161)
Purchased capacity levelization	(14)	(14)	92
Contributions to company-sponsored pension plans	(172)	(45)	(279)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	(134)	443	216
Receivables	844	(249)	(231)
Inventory	(24)	(80)	(48)
Other current assets	1,276	(944)	(33)
Increase (decrease) in:			
Accounts payable	(1,524)	117	(5)
Taxes accrued	(69)	53	188
Other current liabilities	(594)	622	91
Capital expenditures for residential real estate	(322)	(355)	(322)
Cost of residential real estate sold	143	294	268
Other, assets	1,005	193	(155)
Other, liabilities	194	533	158
Net cash provided by operating activities	3,748	2,818	4,168
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(3,381)	(2,327)	(2,161)
Investment expenditures	(89)	(43)	(46)
Acquisitions, net of cash acquired	(284)	(294)	—
Cash acquired from acquisition of Cinergy	147	—	—
Purchases of available-for-sale securities	(33,436)	(40,317)	(65,929)
Proceeds from sales and maturities of available-for-sale securities	32,596	40,131	65,098
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	2,861	2,375	1,619
Proceeds from the sales of commercial and multi-family real estate	254	372	606
Settlement of net investment hedges and other investing derivatives	(163)	(296)	—
Distributions from equity investments	152	383	—
Purchases of emission allowances	(228)	(18)	—
Sales of emission allowances	194	—	—
Other	49	(92)	20
Net cash used in investing activities	(1,328)	(126)	(793)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from the:			
Issuance of long-term debt	2,369	543	153
Issuance of common stock and common stock related to employee benefit plans	127	41	1,704
Payments for the redemption of:			
Long-term debt	(2,098)	(1,346)	(3,646)
Preferred stock of a subsidiary	(12)	(134)	(176)
Decrease in cash overdrafts	(2)	—	—
Notes payable and commercial paper	(412)	165	(67)
Distributions to minority interests	(304)	(861)	(1,477)
Contributions from minority interests	247	779	1,277
Dividends paid	(1,488)	(1,105)	(1,065)
Repurchase of common shares	(500)	(933)	—
Proceeds from Duke Energy Income Fund	104	110	—
Other	8	24	19
Net cash used in financing activities	(1,961)	(2,717)	(3,278)
Changes in cash and cash equivalents included in assets held for sale	(22)	3	39
Net increase (decrease) in cash and cash equivalents	437	(22)	136
Cash and cash equivalents at beginning of period	511	533	397
Cash and cash equivalents at end of period	\$ 948	\$ 511	\$ 533
<b>Supplemental Disclosures</b>			
Cash paid for interest, net of amount capitalized	\$ 1,154	\$ 1,089	\$ 1,323
Cash paid (refunded) for income taxes	\$ 460	\$ 546	\$ (339)
Acquisition of Cinergy Corp.			
Fair value of assets acquired	\$ 17,304	\$ —	\$ —
Liabilities assumed	\$ 12,709	\$ —	\$ —
Issuance of common stock	\$ 8,993	\$ —	\$ —
Significant non-cash transactions:			
Conversion of convertible notes to stock	\$ 632	\$ 28	\$ —
AFUDC-equity component	\$ 58	\$ 30	\$ 25
Transfer of DEFS Canadian Facilities	\$ —	\$ 97	\$ —
Debt retired in connection with disposition of business	\$ —	\$ —	\$ 840
Note receivable from sale of southeastern plants	\$ —	\$ —	\$ 48
Remarketing of senior notes	\$ —	\$ —	\$ 1,625

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

# CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In millions)	Accumulated Other Comprehensive Income (Loss)									
	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	SFAS No. 158 Adjustment	Other	Total
<b>Balance December 31, 2003</b>	<b>911</b>	<b>\$ 9,513</b>	<b>\$ —</b>	<b>\$ 4,066</b>	<b>\$315</b>	<b>\$ 298</b>	<b>\$(444)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 13,748</b>
Net income	—	—	—	1,490	—	—	—	—	—	1,490
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	279	—	—	—	—	279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business	—	—	—	—	(54)	—	—	—	—	(54)
Net unrealized gains on cash flow hedges <sup>b</sup>	—	—	—	—	—	311	—	—	—	311
Reclassification into earnings from cash flow hedges <sup>c</sup>	—	—	—	—	—	(83)	—	—	—	(83)
Minimum pension liability adjustment <sup>d</sup>	—	—	—	—	—	—	28	—	—	28
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,971
Dividend reinvestment and employee benefits	5	128	—	—	—	—	—	—	—	128
Equity offering	41	1,625	—	—	—	—	—	—	—	1,625
Common stock dividends	—	—	—	(1,018)	—	—	—	—	—	(1,018)
Preferred and preference stock dividends	—	—	—	(9)	—	—	—	—	—	(9)
Other capital stock transactions, net	—	—	—	(4)	—	—	—	—	—	(4)
<b>Balance December 31, 2004</b>	<b>957</b>	<b>\$11,266</b>	<b>\$ —</b>	<b>\$ 4,525</b>	<b>\$540</b>	<b>\$ 526</b>	<b>\$(416)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 16,441</b>
Net income	—	—	—	1,824	—	—	—	—	—	1,824
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments <sup>a</sup>	—	—	—	—	306	—	—	—	—	306
Net unrealized gains on cash flow hedges <sup>b</sup>	—	—	—	—	—	413	—	—	—	413
Reclassification into earnings from cash flow hedges <sup>c</sup>	—	—	—	—	—	(1,026)	—	—	—	(1,026)
Minimum pension liability adjustment <sup>d</sup>	—	—	—	—	—	—	356	—	—	356
Other <sup>f</sup>	—	—	—	—	—	—	—	—	17	17
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,890
Dividend reinvestment and employee benefits	3	85	—	—	—	—	—	—	—	85
Stock repurchase	(33)	(933)	—	—	—	—	—	—	—	(933)
Conversion of debt	1	28	—	—	—	—	—	—	—	28
Common stock dividends	—	—	—	(1,093)	—	—	—	—	—	(1,093)
Preferred and preference stock dividends	—	—	—	(12)	—	—	—	—	—	(12)
Other capital stock transactions, net	—	—	—	33	—	—	—	—	—	33
<b>Balance December 31, 2005</b>	<b>928</b>	<b>\$10,446</b>	<b>\$ —</b>	<b>\$ 5,277</b>	<b>\$846</b>	<b>\$ (87)</b>	<b>\$ (60)</b>	<b>\$ —</b>	<b>\$ 17</b>	<b>\$ 16,439</b>
Net income	—	—	—	1,863	—	—	—	—	—	1,863
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	103	—	—	—	—	103
Net unrealized gains on cash flow hedges <sup>b</sup>	—	—	—	—	—	6	—	—	—	6
Reclassification into earnings from cash flow hedges <sup>c</sup>	—	—	—	—	—	36	—	—	—	36
Minimum pension liability adjustment <sup>d</sup>	—	—	—	—	—	—	(1)	—	—	(1)
Other <sup>f</sup>	—	—	—	—	—	—	—	—	(15)	(15)
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,992
Retirement of old Duke Energy shares	(927)	(10,399)	—	—	—	—	—	—	—	(10,399)
Issuance of new Duke Energy shares	927	1	10,398	—	—	—	—	—	—	10,399
Common stock issued in connection with Cinergy merger	313	—	8,993	—	—	—	—	—	—	8,993
Conversion of Cinergy options to Duke Energy options	—	—	59	—	—	—	—	—	—	59
Dividend reinvestment and employee benefits	6	22	172	—	—	—	—	—	—	194
Stock repurchase	(17)	(69)	(431)	—	—	—	—	—	—	(500)
Common stock dividends	—	—	—	(1,488)	—	—	—	—	—	(1,488)
Conversion of debt to equity	27	—	632	—	—	—	—	—	—	632
Tax benefit due to conversion of debt to equity	—	—	34	—	—	—	—	—	—	34
Adjustment due to SFAS No. 158 adoption <sup>e</sup>	—	—	—	—	—	—	61	(311)	—	(250)
Other capital stock transactions, net	—	—	(3)	—	—	—	—	—	—	(3)
<b>Balance December 31, 2006</b>	<b>1,257</b>	<b>\$ 1</b>	<b>\$19,854</b>	<b>\$ 5,652</b>	<b>\$949</b>	<b>\$ (45)</b>	<b>\$ —</b>	<b>\$(311)</b>	<b>\$ 2</b>	<b>\$ 26,102</b>

<sup>a</sup> Foreign currency translation adjustments, net of \$62 tax benefit in 2005. The 2005 tax benefit related to the settled net investment hedges (see Note 8 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K). Substantially all of the 2005 tax benefit is a correction of an immaterial accounting error related to prior periods.

<sup>b</sup> Net unrealized gains on cash flow hedges, net of \$3 tax expense in 2006, \$233 tax expense in 2005, and \$170 tax expense in 2004.

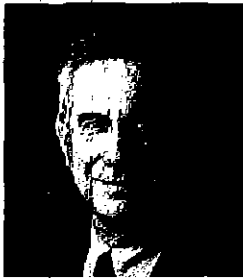
<sup>c</sup> Reclassification into earnings from cash flow hedges, net of \$19 tax expense in 2006, \$583 tax benefit in 2005, and \$45 tax benefit in 2004. Reclassification into earnings from cash flow hedges in 2006, is due primarily to the recognition of Duke Energy North America's (DENA) unrealized net gains related to hedges on forecasted transactions which will no longer occur as a result of the sale to LS Power of substantially all of DENA's assets and contracts outside of the Midwestern United States and certain contractual positions related to the Midwestern assets (see Notes 8 and 13 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K).

<sup>d</sup> Minimum pension liability adjustment, net of \$0 tax benefit in 2006, \$228 tax expense in 2005, and \$18 tax expense in 2004.

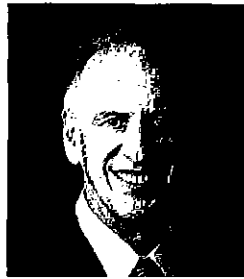
<sup>e</sup> Adjustment due to SFAS No. 158 adoption, net of \$144 tax benefit in 2006. Excludes \$595 recorded as a regulatory asset (see Note 22 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K).

<sup>f</sup> Net of \$9 tax benefit in 2006, and \$10 tax expense in 2005.

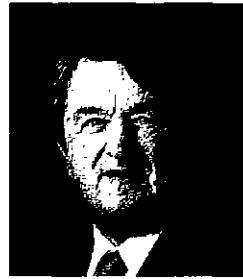
See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.



WILLIAM BARNETT III



G. ALEX BERNHARDT SR.



MICHAEL G. BROWNING



PHILLIP R. COX



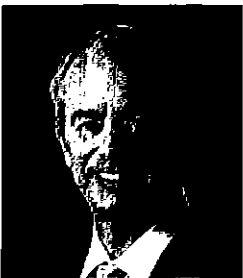
ANN MAYNARD GRAY



JAMES H. HANCE JR.



JAMES T. RHODES



JAMES E. ROGERS



MARY L. SCHAPIRO



DUDLEY S. TAFT

## BOARD OF DIRECTORS

### **William Barnet III**

*Chairman, President and CEO, The Barnet Co. Inc.;*

*Chair, Finance and Risk Management Committee;*

*Member, Nuclear Oversight Committee*

Barnet joined Duke Energy's board in 2005. He has been mayor of Spartanburg, S.C., since 2002. He serves on the board of directors of Bank of America and is a trustee of the Duke Endowment. Barnet was named to the South Carolina Business Hall of Fame in 2004.

### **G. Alex Bernhardt Sr.**

*Chairman and CEO, Bernhardt Furniture Co.;*

*Member, Audit and Nuclear Oversight Committees*

Bernhardt joined Duke Energy's board in 1991. Besides leading the family business in Lenoir, N.C., he serves on the board of directors of Communities In Schools. He is director emeritus and past president of the American Furniture Manufacturers Association and past president of the International Home Furnishings Marketing Association.

### **Michael G. Browning**

*President and Chairman of the Board, Browning Investments Inc.;*

*Member, Compensation, Corporate Governance, and Finance and Risk Management Committees*

Browning joined Cinergy's board in 1994. He is a former director of PSI Energy. He is a member of the boards of directors of the Indianapolis Convention & Visitors Association and the Indianapolis Museum of Art. He serves on the St. Vincent Hospital and Health Care Center advisory board and on the Indiana Public Officers Compensation Commission.

### **Phillip R. Cox**

*President and CEO, Cox Financial Corp.;*

*Chair, Audit Committee*

Cox became a Cinergy director in 1994. He is a former director of Cincinnati Gas & Electric. He is chairman of the board of Cincinnati Bell. He is a board member of Touchstone Mutual Funds, The Timken Company and Diebold Inc. He also serves on the boards of the Cincinnati Business Committee and the University of Cincinnati.

### **Ann Maynard Gray**

*Former President, Diversified Publishing Group of ABC Inc.;*

*Lead Director; Chair, Corporate Governance Committee;*

*Member, Compensation, and Finance and Risk Management Committees*

Gray became a Duke Energy director in 1994. She has held a number of senior positions with American Broadcasting Companies, including senior vice president of finance, treasurer and vice president of planning. She serves on the boards of the Phoenix Companies and Elan Corp. plc, and she is a past member of the board of trustees of J.P. Morgan Funds.

### **James H. Hance Jr.**

*Retired Vice Chairman, Chief Financial Officer*

*and Board Member, Bank of America;*

*Chair, Compensation Committee; Member, Finance and Risk Management Committee*

Hance joined Duke Energy's board in 2005. A certified public accountant, he spent 17 years with Price Waterhouse. He serves on the boards of directors for Sprint Nextel Corp., Cousins Properties Inc. and Rayonier Corp. He is a trustee of Washington University and of Johnson & Wales University.

### **James T. Rhodes**

*Retired Chairman, President and CEO, Institute of Nuclear Power Operations (INPO);*

*Chair, Nuclear Oversight Committee; Member, Audit Committee*

Rhodes became a director of Duke Energy in 2001. A former president and CEO of Virginia Power, he is a member of the Electric Power Research Institute's advisory council. Rhodes is a former board member of INPO, the Nuclear Energy Institute, Virginia Electric and Power Co., Dominion Resources Inc., Edison Electric Institute, the Southeastern Electric Exchange and NationsBank N.A.

### **James E. Rogers**

*Chairman, President and CEO, Duke Energy*

Rogers became chairman of Duke Energy in 2007. He was chairman and CEO of Cinergy prior to its merger with Duke Energy. Rogers is chairman and serves on the Executive Committee of the Edison Electric Institute. He is a director of Fifth Third Bancorp and Cigna Corp. He is a member of the boards of directors of the Nuclear Energy Institute, the Institute of Nuclear Power Operations, the Alliance to Save Energy, the National Coal Council and the Nicholas Institute for Environmental Policy Solutions.

### **Mary L. Schapiro**

*Chairman and CEO, National Association of Securities Dealers (NASD);*

*Member, Audit and Corporate Governance Committees*

Schapiro became a Cinergy director in 1999. She is a member of the board of governors of NASD, the world's largest private-sector securities regulator. Previously, as chairman of the Commodity Futures Trading Commission, she participated in the President's Working Group on Financial Markets. She also served as a commissioner on the Securities and Exchange Commission for six years. She currently serves on the board of directors of Kraft Foods Inc. and the board of trustees of Franklin and Marshall College.

### **Dudley S. Taft**

*President and CEO, Taft Broadcasting Co.;*

*Member, Compensation and Nuclear Oversight Committees*

Taft served on Cinergy's board beginning in 1994 and was a director of Cincinnati Gas & Electric from 1985 until 1995. He serves on the boards of the Unifi Mutual Holding Co., Fifth Third Bancorp and Tribune Co. He is chairman of the Cincinnati Association for the Arts and a trustee of Boys and Girls Clubs of Greater Cincinnati.



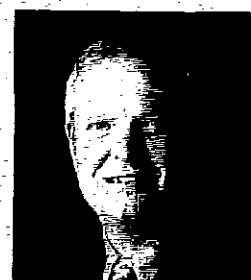
HENRY B. BARRON JR.



PAUL H. BARRY



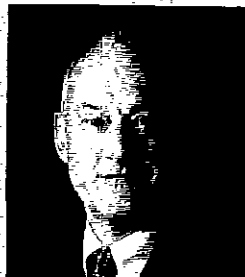
LYNN J. GOOD



DAVID L. HAUSER



JULIA S. JANSON



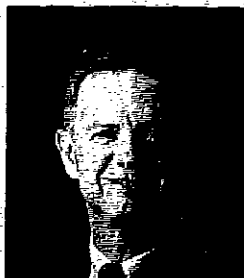
MARC E. MANLY



WILLIAM R. MCCOLLUM JR.



SANDRA P. MEYER



THOMAS C. O'CONNOR



CATHY S. ROCHE



CHRISTOPHER C. ROLFE



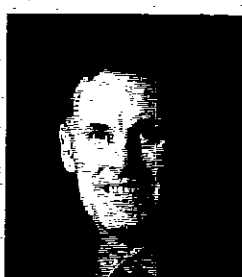
ELLEN T. RUFF



JIM L. STANLEY



R. SEAN TRAUSCHKE



B. KEITH TRENT



JAMES L. TURNER

## EXECUTIVE MANAGEMENT

### **Henry B. Barron Jr.**

#### *Group Executive and Chief Nuclear Officer*

Barron became Duke Energy's chief nuclear officer in 2004. He is responsible for the safe operation of the company's three nuclear generating stations. He joined Duke Power in 1972 as a nuclear power plant engineer.

### **Paul H. Barry**

#### *Senior Vice President and Chief Development Officer*

Barry is responsible for all corporate development, mergers and acquisitions. He previously served as group executive and president of Duke Energy Americas, where his responsibilities included non-regulated generation and services, trading and marketing, and international operations.

### **Lynn J. Good**

#### *Senior Vice President and Treasurer*

Good leads the treasury functions for the company, as well as insurance, market and credit risk management, and corporate financial planning and analysis. She previously served as executive vice president and chief financial officer for Cinergy.

### **David L. Hauser**

#### *Group Executive and Chief Financial Officer*

Hauser became Duke Energy's CFO in 2004. He leads the financial function, which includes the controller's office, treasury, tax, risk management and insurance. Since Hauser joined Duke Power in 1973, he has held various leadership positions, including controller.

### **Julia S. Janson**

#### *Senior Vice President, Ethics and Compliance, and Corporate Secretary*

Janson directs Duke Energy's ethics and compliance program and serves as corporate secretary. Until the recent merger, she was with Cinergy, where she was named corporate secretary in 2000, and chief compliance officer in 2004.

### **Marc E. Manly**

#### *Group Executive and Chief Legal Officer*

Manly leads a group that comprises the legal department, internal audit services, the ethics and compliance office, and the corporate secretary. He served as Cinergy's executive vice president and chief legal officer from 2002 until Cinergy merged with Duke Energy.

### **William R. McCollum Jr.**

#### *Group Executive and Chief Regulated Generation Officer*

McCollum is responsible for the company's regulated fossil fuel and hydroelectric power generation, including portfolio optimization, engineering, construction, project management and procurement. He joined Duke Power as a nuclear power plant engineer in 1974.

### **Sandra P. Meyer**

#### *President, Duke Energy Ohio and Duke Energy Kentucky*

Meyer leads Duke Energy's Ohio and Kentucky operations, which serve more than 810,000 customers. She was formerly group vice president of customer service, sales and marketing for Duke Power.

### **Thomas C. O'Connor**

#### *Group Executive and President, Commercial Businesses*

O'Connor is responsible for the Midwest non-regulated generation, Duke Energy International, Duke Energy Generation Services, the telecommunications businesses, the company's equity interest in Crescent Resources, and all corporate development and merger and acquisition activities.

### **Cathy S. Roche**

#### *Senior Vice President and Chief Communications Officer*

Roche is responsible for directing and managing Duke Energy's communications with internal and external audiences, as well as executive communications, corporate publications, advertising, and brand management and strategy.

### **Christopher C. Rolfe**

#### *Group Executive and Chief Administrative Officer*

Rolfe leads several of Duke Energy's corporate functions, including human resources, information technology and operations services. He previously served as group executive and chief human resources officer.

### **Ellen T. Ruff**

#### *President, Duke Energy Carolinas*

Ruff leads Duke Energy's utility business in North Carolina and South Carolina, which serves more than 2.2 million customers. She was formerly group vice president of planning and external relations for Duke Power.

### **Jim L. Stanley**

#### *President, Duke Energy Indiana*

Stanley leads Duke Energy's Indiana utility business, which serves more than 760,000 customers. He previously served as vice president of field operations for Duke Energy's Midwest service area.

### **R. Sean Trauschke**

#### *Vice President, Investor Relations*

Trauschke is responsible for monitoring trends in investment markets and for maintaining key relationships with investors, financial analysts and financial institutions. He was formerly the company's vice president of risk management, chief risk officer and chief credit officer.

### **B. Keith Trent**

#### *Group Executive and Chief Strategy and Policy Officer*

Trent is responsible for strategy, federal policy and government affairs, energy efficiency and technology initiatives, environmental health and safety policy, corporate communications, and sustainability and community affairs. He was formerly chief development officer and general counsel.

### **James L. Turner**

#### *Group Executive and President, U.S. Franchised Electric and Gas*

Turner has overall profit and loss responsibility for the company's U.S. Franchised Electric and Gas business, which serves 3.9 million customers in five states. Prior to the merger of Duke Energy and Cinergy, Turner served as president of Cinergy.

## NON-GAAP FINANCIAL MEASURES

### 2006 AND 2005 ONGOING DILUTED EARNINGS PER SHARE ("EPS")

Duke Energy's 2006 Summary Annual Report references 2006 and 2005 ongoing diluted EPS of \$1.81 and \$1.73, respectively. Ongoing diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents diluted EPS from continuing operations plus the per-share effect of any discontinued operations from our Crescent Resources real estate development company ("Crescent") prior to the deconsolidation of Crescent in September 2006, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported diluted EPS from continuing operations to ongoing diluted EPS for 2006 and 2005:

	2006	2005
Diluted EPS from continuing operations, as reported	\$ 1.70	\$ 2.60
Diluted EPS from discontinued operations, as reported	(0.13)	(0.72)
Diluted EPS, as reported	1.57	1.88
Adjustments to reported EPS:		
Diluted EPS from discontinued operations excluding Crescent Resources, and cumulative effect of change in accounting principle	0.13	0.73
Diluted EPS impact of special items (see detail below)	0.11	(0.88)
<b>Diluted EPS, ongoing</b>	<b>\$1.81</b>	<b>\$1.73</b>

The following is the detail of the \$(0.11) in special items impacting diluted EPS for 2006:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2006 Diluted EPS Impact
Natural Gas Transmission gain on contract settlement	\$ 24	\$ (8)	\$ 0.01
Duke Energy portion of gain on Duke Energy Field Services' ("DEFS") asset sale	14	(5)	0.01
Costs to achieve the Cinergy merger	(128)	45	(0.07)
Costs to achieve the spinoff of Spectra Energy	(60)	7	(0.05)
Impairment of Campeche investment	(50)	—	(0.04)
Gain on sale of interest in Crescent	246	(124)	0.10
Gain related to the issuance of units of Natural Gas Transmission's Canadian income fund	15	(5)	0.01
Settlement reserves	(165)	58	(0.09)
Impairment of Bolivia investment	(28)	31	—
Tax adjustment	—	8	0.01
<b>Total Diluted EPS impact</b>			<b>\$(0.11)</b>

The following is the detail of the \$0.88 in special items impacting diluted EPS for 2005:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2005 Diluted EPS Impact
Gain on sale of TEPPCO GP (net of minority interest of \$343 million)	\$791	\$(293)	\$ 0.51
Gain on sale of TEPPCO LP units	97	(36)	0.06
Loss on de-designation of Field Services' hedges, net of settlements on 2005 positions	(23)	9	(0.01)
Additional liabilities related to mutual insurance companies	(28)	10	(0.02)
Gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	(213)	0.37
Impairment of Campeche investment	(20)	6	(0.01)
Initial and subsequent net mark-to-market gains on de-designating Southeast Duke Energy North America ("DENA") hedges	21	(8)	0.01
Loss on Southeast DENA contract termination	(75)	28	(0.04)
Tax adjustments	—	12	0.01
<b>Total Diluted EPS impact</b>			<b>\$ 0.88</b>

### PROCEEDS FROM CERTAIN SIGNIFICANT 2006 DISPOSITION TRANSACTIONS

Duke Energy's 2006 Summary Annual Report references the nearly \$2 billion in after-tax proceeds raised from selling the commercial marketing and trading ("CMT") operations and effectively half of Crescent. The following represents the components of the after-tax proceeds from these transactions:

(In millions)	
<b>Proceeds related to Creation of Crescent Joint Venture</b>	
Net proceeds from issuance of debt by Crescent	\$1,190
Proceeds received from sale of equity interest	415
Estimated income tax payments resulting from transaction	(135)
Reduction in reported cash due to deconsolidation of Crescent	(30)
<b>Net after-tax proceeds</b>	<b>\$1,440</b>
<b>Proceeds on Sale of CMT</b>	
Net proceeds received (including working capital and base price)	\$700
Estimated income tax payments resulting from transaction	(145)
<b>Net after-tax proceeds</b>	<b>\$555</b>
<b>Total combined net after-tax proceeds</b>	<b>\$1,995</b>

## **2007 EMPLOYEE INCENTIVE TARGET MEASURE**

Duke Energy's 2006 Summary Annual Report references the company's 2007 employee incentive target. The EPS measure used for employee incentive bonuses is based on ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast any special items for any future periods.

## **ANTICIPATED ONGOING DILUTED EPS GROWTH PERCENTAGES**

Duke Energy's 2006 Summary Annual Report references the company's anticipated growth in ongoing diluted EPS through the end of 2009. These growth percentages are based on anticipated ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure, as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast any special items for any future periods.

## **FORECASTED 2007 ONGOING SEGMENT AND TOTAL SEGMENT EBIT**

Duke Energy's 2006 Summary Annual Report includes a discussion of forecasted 2007 ongoing EBIT for each of Duke Energy's reportable segments as a percentage of forecasted 2007 ongoing total segment EBIT. Forecasted 2007 ongoing segment and total segment EBIT amounts are non-GAAP financial measures, as they reflect segment and total segment EBIT, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for forecasted ongoing segment EBIT is reported segment EBIT from continuing operations, which includes the impact of special items. The most directly comparable GAAP measure for ongoing total segment EBIT is reported total segment EBIT, which includes the impact of special items. Due to the forward-looking nature of these non-GAAP financial measures for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast any special items for any future periods.



## INVESTOR INFORMATION

### Annual Meeting

The 2007 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 10, 2007

Time: 10 a.m.

Place: O.J. Miller Auditorium,  
Energy Center  
526 South Church Street  
Charlotte, NC 28202

### Shareholder Services

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet.

Send written requests to:

Investor Relations  
Duke Energy  
P.O. Box 1005  
Charlotte, NC 28201-1005

For electronic correspondence, visit [www.duke-energy.com/contactIR](http://www.duke-energy.com/contactIR).

### Stock Exchange Listing

Duke Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

### Web Site Addresses

Corporate home page:  
[www.duke-energy.com](http://www.duke-energy.com)  
Investor Relations:  
[www.duke-energy.com/investors](http://www.duke-energy.com/investors)

### InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or

cash payment of dividends. Additionally, participants may register for DUK-Online, our online account management tool.

### Financial Publications

Duke Energy's current annual report, SEC Form 10-K and related financial publications can be found on our Web site at [www.duke-energy.com/investors](http://www.duke-energy.com/investors). Printed copies are also available free of charge upon request.

### Electronic Delivery

As part of our commitment to sustainability leadership, we are again offering to make a \$1 donation to The Nature Conservancy for every shareholder who signs up for electronic delivery of our annual report, proxy statement and our other financial information. Currently, more than 80,000 of you have chosen electronic delivery, and we intend to make an equivalent donation in dollars to The Nature Conservancy. This effort helps preserve our natural resources and significantly reduces our printing and mailing costs.

You only need to sign up once.

To enroll in electronic delivery, go to <https://www.icsdelivery.com/duk/index.html>. To learn more about the work of The Nature Conservancy, visit <http://www.nature.org>.

### Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

### Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common stock issues.

### Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 80 consecutive years. For the rest of 2007, dividends on common stock are expected to be paid, subject to declaration by the Board of Directors, on June 18, Sept. 17 and Dec. 17, 2007.

### Bond Trustee

If you have questions regarding your bond account, call (800) 275-2048, or write to:

The Bank of New York  
Global Trust Services  
101 Barclay Street  
New York, NY 10286

### NYSE CEO Certification

Duke Energy Corporation has filed the certification of its chief executive officer and chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2006. In November 2006, Duke Energy Corporation's chief executive officer, as required by Section 303A.12(a) of the NYSE Listed Company Manual, certified to the NYSE that he was not aware of any violation by Duke Energy Corporation of the NYSE's corporate governance listing standards.

### Send Us Feedback

We welcome your opinion on Duke Energy's 2006 Summary Annual Report. Please visit [www.duke-energy.com/investors](http://www.duke-energy.com/investors), where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities.

## Sustainability At Duke Energy

Duke Energy is no newcomer to sustainability. Our commitment to conduct our business in a way that creates long-term benefits for our stakeholders, our environment and our company has been part of our core business philosophy for years. As such, our approach to sustainability has five focus areas:

**Provide innovative products and services for a carbon-constrained, competitive world.**

**Why it matters:** Our customers want products and services that keep them competitive regionally and globally, yet respond to environmental concerns.

**Reduce our environmental footprint.**

**Why it matters:** As an energy company, we have a large impact on the environment and depend on natural resources for much of our fuel.

**Attract and retain a diverse, high-quality work force.**

**Why it matters:** Energy companies will be differentiated by the quality, creativity and customer focus of their employees.

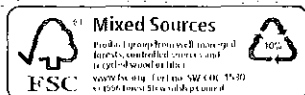
**Help build strong communities.**

**Why it matters:** Our success is linked to the health and prosperity of the communities we serve.

**Be profitable and demonstrate strong governance and transparency.**

**Why it matters:** Creating shareholder value and earning the trust and confidence of our many stakeholders keeps us in business.

Duke Energy's annual and periodic updates on sustainability performance are available on our Web site at this link:  
<http://www.duke-energy.com/environment/sustainability.asp>.



Products with a Mixed Sources label support the development of responsible forest management worldwide. The wood comes from Forest Stewardship Council (FSC)-certified well-managed forests, company-controlled sources and/or recycled material. The recycling symbol identifies post-consumer recycled content in these products.



526 South Church Street  
Charlotte, NC 28202-1802  
704.594.6200  
[www.duke-energy.com](http://www.duke-energy.com)



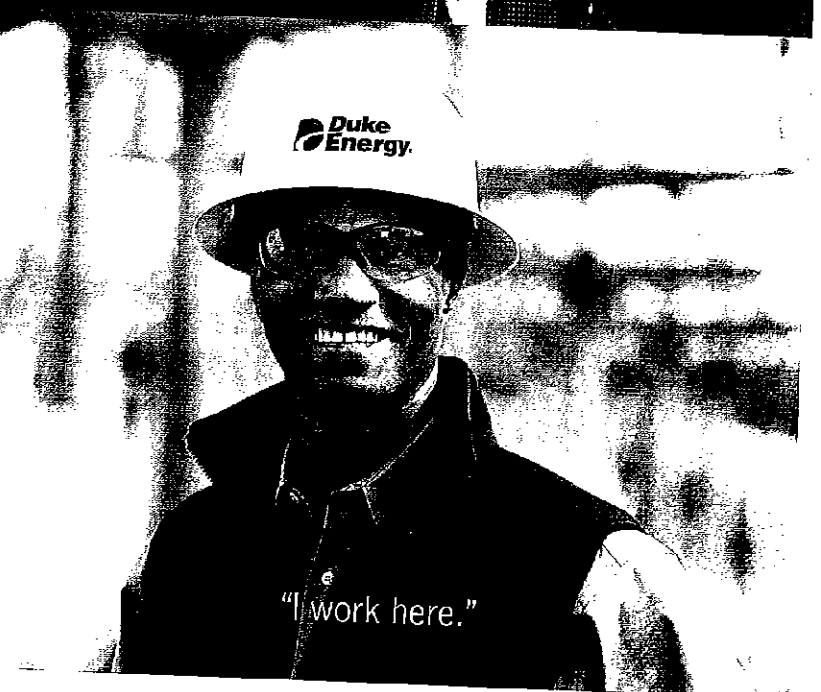
"I'm a shareholder."



"We are customers."



"This is my community."



"I work here."

"What can we expect from the merger  
of Duke Energy and Cinergy?"

## IN THIS REPORT

2	FINANCIAL HIGHLIGHTS
3	CHAIRMAN'S LETTER TO STAKEHOLDERS
9	2006 DUKE ENERGY CHARTER
11	CEO'S LETTER TO STAKEHOLDERS
17	THE NEW DUKE ENERGY
21	U.S. FRANCHISED ELECTRIC AND GAS
25	DUKE ENERGY GAS TRANSMISSION
26	DUKE ENERGY FIELD SERVICES
27	DUKE ENERGY AMERICAS
28	CRESCENT RESOURCES
29	CONSOLIDATED FINANCIAL STATEMENTS
34	BOARD OF DIRECTORS
36	EXECUTIVE MANAGEMENT
38	NON-GAAP FINANCIAL MEASURES
41	INVESTOR INFORMATION

### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document contains forward-looking information which is subject to risks and uncertainties that could cause actual results to be different than those contemplated, including, but not limited to: changes in state, federal or international regulatory environments; commercial, industrial and residential growth in the company's service territory; the weather and other natural phenomena; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; general economic conditions; 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; the effect of accounting pronouncements; growth in opportunities for Duke Energy's business units; and other risks described in the 2005 Form 10-Ks filed by Duke Energy and Cinergy Corp., the registration statement on Form S-4 filed by Duke Energy and other Securities and Exchange Commission filings. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

What can you expect from this merger?

You can expect a company committed to its many stakeholders..

That means increasing value for our investors..

Delivering reliable and affordable service to our customers..

Supporting and enhancing our local communities..

Providing a safe and rewarding workplace for our employees..

Growing our business, while sustaining the environment and quality of life..

To find out more, read on....

# FINANCIAL HIGHLIGHTS<sup>a</sup>

(In millions, except per-share amounts)	2005	2004	2003 <sup>c</sup>	2002	2001
<b>Statement of Operations</b>					
Operating revenues	\$ 16,746	\$ 20,549	\$ 18,021	\$ 14,752	\$ 15,383
Operating expenses	13,855	17,376	17,087	12,393	13,036
Gains on sales of investments in commercial and multi-family real estate	191	192	84	106	106
Gains (losses) on sales of other assets, net	534	(404)	(199)	32	238
Operating income	3,616	2,961	819	2,497	2,691
Other income and expenses, net	1,800	305	550	369	293
Interest expense	1,062	1,281	1,330	1,116	777
Minority interest expense	538	200	62	91	268
Earnings (loss) from continuing operations before income taxes	3,816	1,785	(23)	1,659	1,939
Income tax expense (benefit) from continuing operations	1,283	533	(94)	514	713
Income from continuing operations	2,533	1,252	71	1,145	1,226
(Loss) income from discontinued operations, net of tax	(705)	238	(1,232)	(111)	768
Income (loss) before cumulative effect of change in accounting principle	1,828	1,490	(1,161)	1,034	1,994
Cumulative effect of change in accounting principle, net of tax and minority interest	(4)	—	(162)	—	(96)
Net income (loss)	1,824	1,490	(1,323)	1,034	1,898
Dividends and premiums on redemption of preferred and preference stock	12	9	15	13	14
Earnings (loss) available for common stockholders	\$ 1,812	\$ 1,481	\$ (1,338)	\$ 1,021	\$ 1,884
<b>Ratio of Earnings to Fixed Charges<sup>d</sup></b>	<b>4.7</b>	<b>2.4</b>	<b>—<sup>b</sup></b>	<b>2.1</b>	<b>2.8</b>
<b>Common Stock Data</b>					
Shares of common stock outstanding					
Year-end	928	957	911	895	777
Weighted average—basic	934	931	903	836	767
Weighted average—diluted	970	966	904	838	773
Earnings (loss) per share					
Basic	\$1.94	\$1.59	\$(1.48)	\$1.22	\$2.45
Diluted	1.88	1.54	(1.48)	1.22	2.44
Dividends per share	1.17	1.10	1.10	1.10	1.10
<b>Balance Sheet</b>					
Total assets	\$ 54,723	\$ 55,770	\$ 57,485	\$ 60,122	\$ 49,624
Long-term debt including capital leases, less current maturities	\$ 14,547	\$ 16,932	\$ 20,622	\$ 20,221	\$ 12,321
Capitalization					
Common equity	50%	45%	37%	36%	41%
Preferred stock	0%	0%	0%	1%	1%
Trust preferred securities	0%	0%	0%	3%	5%
Total common equity and preferred securities	50%	45%	37%	40%	47%
Minority interests	2%	4%	5%	5%	7%
Total debt	48%	51%	58%	55%	46%

<sup>a</sup> Significant transactions reflected in the results above include: 2005 DENA disposition (see Note 13 to the Consolidated Financial Statements, "Discontinued Operations and Assets Held for Sale"), 2005 deconsolidation of DEFS effective July 1, 2005 (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions"), 2005 DEFS sale of TEPPCO (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions"), 2004 DENA sale of the Southeast plants (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions") and 2003 DENA charges (see Note 13 to the Consolidated Financial Statements, "Discontinued Operations and Assets Held for Sale").

<sup>b</sup> Earnings were inadequate to cover fixed charges by \$19 million for the year ended December 31, 2003.

<sup>c</sup> As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force (EITF) 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) and SFAS No. 143, "Accounting for Asset Retirement Obligations." In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles. (See Note 1 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies," for further discussion.)

<sup>d</sup> Includes pretax gains on the sale of TEPPCO GP and LP of approximately \$0.9 billion, net of minority interest, in 2005.

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.



Paul M. Anderson  
Chairman of the Board

**Dear Fellow Stakeholder,**

This report comes to you at an important juncture in our company's history — actually, in the history of two companies.

Many of you have recently become Duke Energy shareholders as a result of our merger with Cinergy. I welcome you to Duke Energy, and I welcome this opportunity to give all of our investors a first glimpse of the combined company. We believe this merger is good for everyone who has a stake in our success, and this report will tell you why. But first, let me recap the events of 2005 that brought us to where we are today.

For Duke Energy, 2005 was a year of transition. We repositioned the company to reduce risk, capture value for shareholders and create a flexible platform for future growth. We took a number of decisive steps and implemented them swiftly, but deliberately. The result is a whole "new" Duke Energy, with a revised business model for our electric operations and greater flexibility for the rest of the portfolio.

**CAPTURING VALUE**

We began the year by announcing the transfer of a 19.7 percent interest in Duke Energy Field Services (DEFS) to our partner ConocoPhillips for about \$1.1 billion in cash and assets. At the same time, DEFS sold its interest in TEPPCO for another \$1.1 billion. The company used part of those proceeds to buy back 32.6 million shares of common stock, and raised the quarterly dividend by 12.7 percent.

The assets transferred as part of the DEFS/ConocoPhillips deal positioned DEFS to launch a new master limited partnership (DCP Midstream Partners) in the United States, and allowed Duke Energy



Gas Transmission (DEGT) to create a similar investment vehicle in Canada. These tax-efficient vehicles feature a lower cost of capital, allowing us to better compete for future acquisitions.

At the operating level, each of our major businesses met their profit goals while pursuing growth opportunities. Later in this report, you will find their 2005 highlights, along with those of Cinergy's businesses. I would only add that I am quite proud of their performance.

On a less dramatic scale, we continued to reduce our backlog of litigation and to exit from non-core legacy projects and businesses. That relentless focus helped us to exceed our profit targets for the year.

## **POSITIONING FOR THE FUTURE**

We took two major actions to position ourselves for the future. The first was the decision to merge with Cinergy to create the foundation for our future electric business. The second was the decision to exit all of Duke Energy North America's (DENA's) trading positions and operations, except for assets in the Midwest.

For the foreseeable future, it appears that the electric industry will remain stalled somewhere between a regulated/integrated model and an unregulated/disaggregated model. Many states are testing their models, but none appear eager for wholesale change. As a result, the rules of the regulatory game are evolving.

At the same time, increasingly stringent environmental standards, growing concern about greenhouse gases, skyrocketing fossil-fuel prices and a need to develop the next generation of capacity will challenge the industry like it has never been challenged before. Massive investments will be required at a time when customers are becoming more and more concerned about price and reliability.

The combination of these factors will drive the industry to create super-regional consolidated players that have economies of scale, financial strength and organizational flexibility. It is a pattern we have seen in banking and other industries under similar circumstances.

Duke Energy intends to be a consolidator in this new environment. The merger with Cinergy is a first step, providing not only scale and diversity, but also an opportunity to remodel our electric business to better face future challenges, while continuing to provide reliable and affordable service to our customers. The new model provides the opportunity for growth beyond Duke Power's historical service territory, giving our electric operations the scale and flexibility to operate as a stand-alone business in this changing environment.

## **REDUCING RISK**

Our newly combined electric fleet uses a diverse combination of fuels — nuclear, coal, gas and hydro — reducing our dependence on any one commodity. We also operate in diverse markets, blending higher-growth opportunities in the Carolinas with more moderate but steady growth in the Midwest. Our geographic diversity reduces year-to-year weather volatility. And operations in five separate regulatory

jurisdictions allow us to pursue regulatory initiatives specific to the needs of customers in each service area, while broadly applying best practices in customer service.

Our decision to exit DENA outside the Midwest was a logical follow-on to our decision to merge with Cinergy. DENA's gas-fired plants in the Midwest complement Cinergy's merchant assets, providing a more flexible fleet in the short term and reduced environmental compliance costs in the longer term. However, much of the rest of DENA's portfolio was encumbered by long-dated contracts that limited our ability to develop a sustainable business model. We ultimately decided that we would realize the greatest shareholder value by exiting DENA's operations outside the Midwest.

We have disposed of most of DENA's electricity and natural gas contracts, and expect to close on the pending sale of our remaining eight merchant power plants, as well as unwind any remaining contracts, by mid-year. The net result of our exit from DENA is a substantial reduction in market risk and a much more focused merchant operation.

## **ASSESSING OUR PERFORMANCE**

Our Charter provides four measures of success which are useful in assessing our performance in 2005. We feel we did well against all of them.

### **Our investors realize a superior return on their investment.**

It was a good year relative to the S&P 500. We provided total shareholder return (TSR) of 13 percent, compared to the S&P's TSR of just under 5 percent. However, we fell short of the Dow Jones Utilities' 25 percent. We attribute that lag to uncertainties around the merger with Cinergy, as investors stood by to see if and when it would come to fruition. Now that the merger is complete, we're expecting to see a rebound in the stock price.

Shareholders did see their annual dividend increase to \$1.24 per share in 2005, and ongoing basic earnings per share were \$1.79, topping our employee incentive target of \$1.65.

### **Our customers and suppliers benefit from our business relationships.**

The year 2005 will long be remembered for its devastating hurricanes. Duke Power crews were there — more than 1,500 employees and contractors — to help rebuild the electric grid after Katrina and Rita hit the Gulf Coast. Not a single contracted DEGT customer missed a delivery during the hurricanes, thanks to our storage capacity and some creative solutions — like building a new interconnect to bypass a heavily damaged processing plant. DEGT is also working with industry peers on new standards to ensure pipeline and storage facility safety in case of future disasters.

Customers ranked Duke Power "Highest in Customer Satisfaction With Residential Electric Service in the Southern U.S.," based on a 2005 J.D. Power and Associates study and, in a separate benchmark survey conducted by TQS Research, manufacturing and institutional customers ranked the utility first in the Southeast and third nationally.

As for suppliers, we are encouraging them to improve safety for their employees, and many are following our lead. We are also working to improve supplier diversity — we made progress in 2005, but we can still do better.

### **The communities in which we operate value our citizenship.**

Our employees, retirees and The Duke Energy Foundation gave more than \$800,000 in hurricane and tsunami relief. We gave more than \$5 million to the U.S. United Way and more than \$1 million to the Canadian United Way in 2005. Total Foundation and companywide giving for the year — including in-kind donations, contributions from employees and retirees, and the value of volunteer service — exceeded \$32 million.

Employees collected tons of food and other essentials for displaced hurricane victims, and thousands of Duke Energy employees and retirees completed some 450 community service projects during our 2005 Global Service Event. Employees also received financial support for their volunteer projects with more than \$200,000 in grants from the Foundation. On this page you will find examples of the many ways our communities recognized Duke Energy for business integrity and environmental stewardship in 2005.

### **Every employee starts each day with a sense of purpose, and ends each day with a sense of accomplishment.**

Overall employee satisfaction is at its highest level in more than five years. In our 2005 employee survey, most employees expressed confidence in the company's future and pride in Duke Energy and their work. Nine out of 10 employees ranked the company favorably for environmental, health and safety practices.

In 2005 we made a recommitment to professional development, which had been somewhat on the back burner for several years. Employees seized those opportunities — training hours were up 83 percent in 2005 over 2004. Along with other members of the executive team, I personally participated in advanced leadership training for some 2,700 managers.

For 2006, we're adding to this measure of success — that employees end each day **safely**. The year 2005 was a sad one for five families who lost fathers and husbands who were contractors

### **Community Recognition in 2005**

- An Environmental Excellence Award from the Southern Gas Association for DEGT's leadership in developing the Texas Corporate Wetlands Restoration Partnership.
- The Newcomen Award honoring Duke Power for its outstanding business accomplishments, stewardship and integrity. Duke Power is the only three-time recipient of the award.
- A Corporate Stewardship Award from the South Carolina Department of Archives and History for archaeology and historic preservation at Crescent Resources' Palmetto Bluff community.
- An Environmental Achievement and Education Award to DEGT from the City of Calgary for development of an Urban Ecology Program for schools.
- An Award of Recognition from the British Columbia School Superintendents Association for DEGT's contributions to public education through the Northern Opportunities program.
- A Corporate Plus Award from the Charlotte chapter of INROADS for Duke Energy's support of the organization's mission to provide internship opportunities for minority students.
- The 2005 Diversity Best Practices Award from the Charlotte Chamber of Commerce, honoring Duke Energy for its multicultural involvement in the community.
- A Community Service Award from the Hale Reservation for Duke Energy's role in restoring the organization's environmental education facilities and preserving natural resources in the Boston area.

at work for Duke Energy. We can't say any year has been truly successful if we don't keep our workers safe.

## **MOVING FORWARD**

Our new Charter objectives spell out what you can expect from us in 2006.

The first imperative is to **establish an industry-leading electric power platform through successful execution of the merger with Cinergy.**

We know that we have to earn the right to pursue other consolidations in the future, by demonstrating that this merger benefits all of our stakeholders — employees, shareholders, customers, regulators and our communities. We intend to do just that.

We will **continue to build a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.**

Both Duke Energy and Cinergy have a deep bench of talent, and we put both companies' best minds to work on an integration plan to create a winning combination of leadership and resources. We share the same business values, and a commitment to serve our stakeholders with integrity from a position of industry leadership. Our compatible company cultures create a strong foundation for organic growth and for future mergers and acquisitions.

We intend to **deliver on our 2006 financial objectives and position the company for growth in 2007 and beyond.**

All employees have an incentive target of \$1.90 per ongoing diluted share in 2006. (This year, we are framing our objectives in terms of diluted as opposed to basic shares, consistent with Wall Street's comparison of earnings on a fully diluted basis.) We see this as a challenging but realistic goal, based on the groundwork we have laid and opportunities ahead. It assumes synergy savings from the merger and a sharing of those savings with customers, but excludes costs to achieve as those are considered one-time items.

Long-term management incentives are tied to total shareholder return. Working safely also remains an important measure of our success. Top leaders will see a 5 percent reduction in their short-term bonus payouts in the event of an employee, contractor or subcontractor fatality in 2006.

We plan to **complete the Duke Energy North America exit and pursue strategic portfolio opportunities.**

With the merger complete, our focus moves to the question of whether to separate our gas and power businesses and to new opportunities for electric utility consolidation. As with the Cinergy merger, our litmus test for all decisions will continue to be the degree to which they create value for investors and other stakeholders.

Finally, we will continue to **build credibility through leadership on key policy issues, transparent communications and excellent customer service.**

Our aggressive position on global climate change ruffled more than a few feathers in 2005. Last year, Cinergy devoted nearly its entire annual report to this issue, so be assured that Jim Rogers shares my commitment to facing facts about its potential effect on our industry. We share a philosophy that it is better to help shape the future with solutions, than to ignore reality and hope the tough problems just go away.

Jim and I also share a strong belief in straightforward communication with our shareholders and all of our constituents, and in providing superior service to customers, the lifeblood of our company. You will read more about Jim's plans as your new CEO in his letter, which follows.

*I heartily welcome Jim and our new leaders from Cinergy to Duke Energy's management team. I will continue in my leadership role as chairman of the board. Let me take this opportunity to also welcome our new board members — Bill Barnett and Jim Hance, who joined the board in 2005, and five new board members from Cinergy — Michael Browning, Phil Cox, Mary Schapiro, Dudley Taft and of course Jim Rogers. Our outgoing board members, Max Lennon and Jim Martin, deserve special thanks for their years of dedicated service during a turbulent period in our company's history.*

As I settle into my role as chairman, I thank you for your support during my time as CEO. When I accepted that position in November 2003, my objective was to restore our credibility and financial health, and meet the needs of our stakeholders. Thanks to your support and the contributions of thousands of employees, we have largely achieved those goals.

I now feel comfortable handing over the CEO role to Jim Rogers, who shares my strong belief in the future of Duke Energy and its people. It is a good feeling to know that I am leaving in his capable hands a company that is financially strong, has a bright future and is positioned to be an industry leader.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul M. Anderson", with a stylized, flowing script.

**Paul M. Anderson**  
Chairman of the Board

April 3, 2006



## 2006 Duke Energy Charter

We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.

*Our purpose is to create superior and sustainable value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.*

### **To be a leader in a new era of growth, we must:**

- Establish an industry-leading electric power platform through successful execution of the merger with Cinergy.
- Continue to build a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.
- Deliver on our 2006 financial objectives and position the company for growth in 2007 and beyond.
- Complete the Duke Energy North America exit and pursue strategic portfolio opportunities.
- Build credibility through leadership on key policy issues, transparent communications and excellent customer service.

### **In conducting our business, we value:**

- **Stewardship** – A commitment to health, safety, environmental responsibility and our communities.
- **Integrity** – Ethically and honestly doing what we say we will do.
- **Respect for the Individual** – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- **High Performance** – Achieving superior business results and stretching our capabilities.
- **Win-Win Relationships** – Having relationships which focus on the creation of value for all parties.
- **Initiative** – Having the courage, creativity and discipline to lead change and shape the future.

### **We will be successful when:**

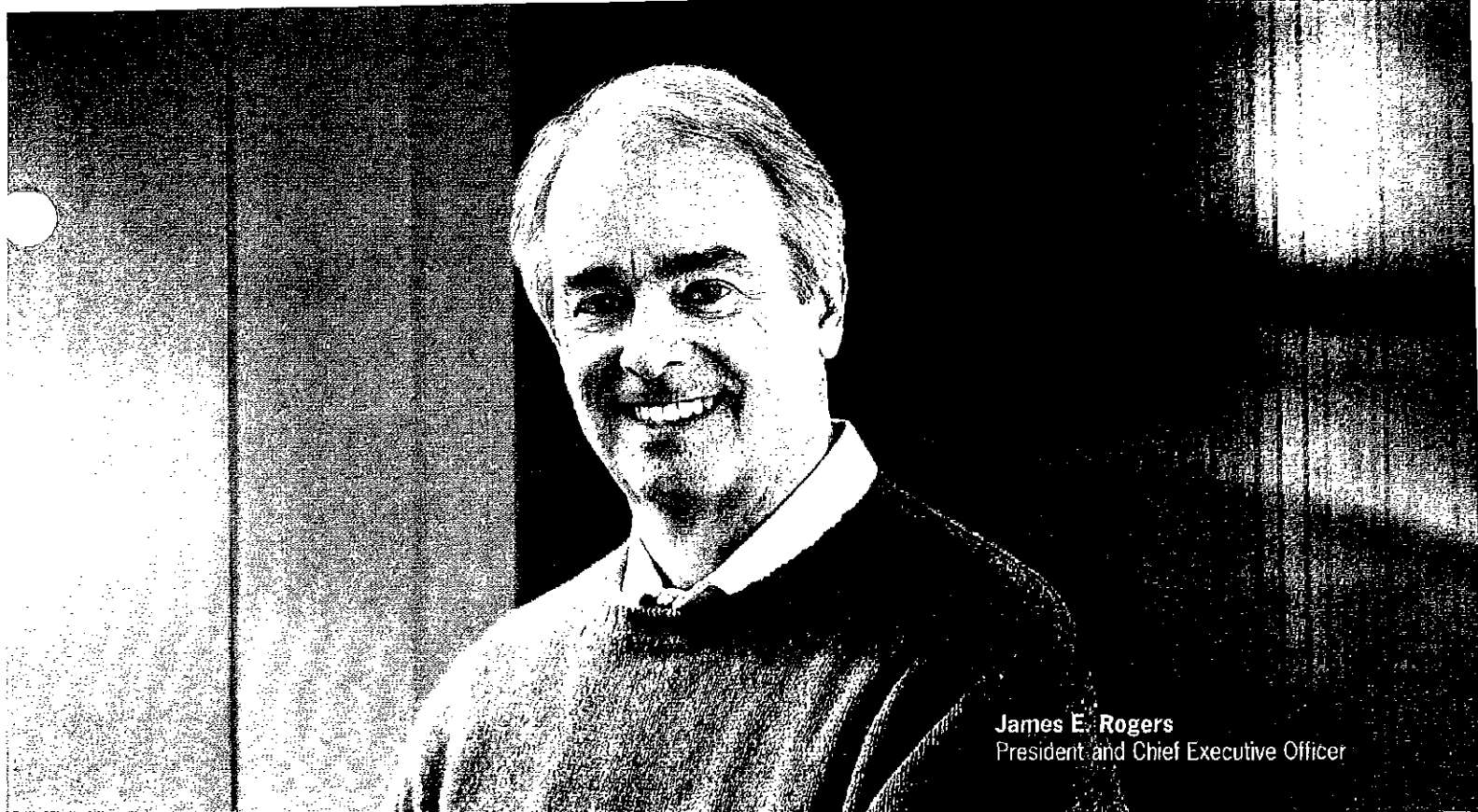
- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose, and ends each day safely with a sense of accomplishment.

How will we know our merger is successful?

We have developed a scorecard to track key measures, including savings, customer and employee satisfaction, reliability, safety and sustainability.

And we will share our progress with our stakeholders on a regular basis.

Read more about what success will look like at the new Duke Energy ...



**James E. Rogers**  
President and Chief Executive Officer

**Dear fellow investors, customers, employees and others who have a vested interest in our success — our policymakers, regulators, suppliers, partners and communities:**

The best way to celebrate the traditions and the people of two strong companies is by building an even stronger company on the combined foundations of each.

Cinergy and Duke Energy each have a long and proud history with many successes. Of course, we have each had some missteps, as is true with all companies. However, as a combined company, we will honor our past achievements and the people who came before us by building on their accomplishments. As we plan for the future, we will remember the lessons learned from both our past successes and mistakes.

Combined, we are a very large company. But I am mindful that bigger doesn't necessarily mean better. To me, being better means having a relentless focus on what we do well. It means listening to our stakeholders and then working to balance their sometimes competing needs. It's knowing that we must earn the right to serve all of our stakeholders each and every day.

As the CEO of the new Duke Energy, my number one objective is to create an effective team of dedicated employees who come to work every day with the purpose of earning the right to serve you. Our team must be unrelenting and uncompromising in its drive to deliver on our promises. A team, simply put, that is accountable to be good stewards.

#### **MEETING OUR FUTURE CHALLENGES**

In his preceding letter, Paul Anderson gave you a good overview of Duke Energy as a whole. My focus here is primarily on the outlook for our combined franchised electric and gas utilities, competitive Midwest generation, and wholesale marketing and trading businesses. Our merger greatly increases the value of these businesses. We believe they can be significant contributors to our future earnings growth.



As Paul notes in his letter, our industry is stalled between regulation and deregulation. Efforts by states to provide retail customers with energy choices have essentially come to a halt. As federal regulators continue to regionalize our nation's power grid, wholesale competition is taking incremental but uneven steps forward.

Successful companies will be those who can operate comfortably in both regulated and competitive markets and create customer value in each. The new Duke Energy will be one of those companies. Here's why:

We have combined two premier, franchised electric utility businesses with long histories of reliably supplying energy at costs below the national average. Each company is known for its ability to consistently provide superior customer satisfaction. We view low rates and attentive customer service as essential investments in our future growth. One result of low rates and top-tier customer service is increased credibility in the regulatory arena.

Our diverse customer base will benefit from our aspiration to rank among the top performers in our industry for safety, efficiency, low costs, and reliable generation and distribution performance. Also, our fuel diversity — nuclear, coal, gas and hydro — will reduce our sensitivity to volatility caused by changes in commodity costs, weather and economic conditions.

Our combined commercial generation assets straddle the seam between the Midwest ISO and PJM Interconnection regional transmission organizations, two of the most developed and dynamic power markets in the United States. These assets represent a diverse mix of baseload, midmerit and peaking generation that give us the flexibility to meet diverse customer needs in still-evolving competitive supply markets.

Our energy marketing and trading organization is positioned to continue to take advantage of opportunities in competitive gas and electric markets in a low-risk manner. We believe we've created the right size platform with the right level of risk tolerance to be able to contribute steady, incremental earnings to the overall portfolio.

## **A NEW VALUE PROPOSITION**

Over the past decade, we've seen dramatic shifts in how investors view the power industry. Not long ago, the market favored merchant players with greater earnings growth potential but also higher levels of volatility. As the commodity cycle bottomed out, investors exited the merchant sector and returned to traditional regulated utilities. This "back to basics" approach has taken utility stock valuations to record levels for many companies.

As a result, our industry has significantly out-performed the S&P 500 in both 2004 and 2005. Of course, history shows that it is rare for any one industry sector to beat the broader market for three consecutive years. Since interest rates have risen, the utility sector's opportunity to do so for a third consecutive year will be significantly challenged. I hope that 2006 proves history wrong.

But however the industry fares, in my view, our business model allows us to out-perform comparable companies in our industry. We have the ability to deliver stable, predictable earnings from low-cost, regulated operations, and we can also manage low-risk growth in competitive wholesale markets. As such, we believe our combined company will have the earnings diversity and financial flexibility to weather changes in the regulatory landscape and investor sentiment.

With these perspectives as background, and based on the 2006 Charter objectives Paul introduced in his letter, here are our priorities for the rest of this year and beyond:

- **Build an effective management team committed to one company, one stock and one team.** Our team will create a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.
- **Harvest the savings from our merger.** We expect to realize approximately \$650 million in aggregate net savings during the initial five years after the merger closes. These savings will help drive our earnings growth for shareholders and — through equitable sharing mechanisms with customers and shareholders — our aspiration to be a low-cost supplier for our customers.
- **Comply with more stringent environmental rules.** We intend to reduce sulfur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>) and mercury emissions from our coal-fired generation plants with the installation of new pollution control equipment on our largest units. We are also preparing for a future in which we believe new environmental laws and regulations will regulate the emissions of greenhouse gases.
- **Continue planning for new power plant construction to meet longer-term customer demand.** Given the long lead times to build new baseload plants and the increased complexities of environmental compliance, we must place a strong emphasis on developing long-range plans to ensure that we maintain adequate generation reserves in all of our jurisdictions. As we carefully assess estimates of future supply and demand, we will evaluate all types of generation — coal, nuclear, coal gasification, hydroelectric, natural gas and renewable energy. We will continue to find cost-effective ways to lessen our exposure to the economic and environmental risks associated with any one fuel. For example, we intend to relicense our hydroelectric fleet and modernize our most economic coal units.
- **Minimize the impact of volatile fuel prices on customers.** Generation fuel expense is one of the primary drivers of electricity prices. We intend to take advantage of our fuel diversity, purchasing power and efficient fuel delivery systems to minimize the impact of fuel price swings on our customers.
- **Renew our focus on energy conservation and efficiency.** We will pursue policies promoting conservation, efficiency and wise energy use. In the past, our customers benefited from these programs, which help them use less energy without compromising their quality of life. In collaboration with our state utility regulatory commissions and consumer advocates, there is so much more we can and will do.
- **Modernize and expand our aging transmission and distribution systems.** We expect to invest approximately \$2.3 billion in our regulated operations over the next three years to improve the reliability of our regulated gas and electric delivery systems.
- **Maintain low risk in our energy marketing and trading businesses.** We will continue to have a conservative, low-risk focus in our marketing and trading businesses with narrow risk parameters for products offered and committed capital. We will focus strictly on near-term, credit-advantaged opportunities.
- **Support the economic well-being of our communities.** The average organic growth rate of our regulated franchises (demand in kilowatt-hours) is expected to be approximately 1.5 percent over the

next three years. We will work with community and political leaders to focus on local economic development, which should increase this rate over time.

In all, you can expect us to work on these priorities to achieve predictable earnings and dividend growth.

## **CINERGY — A HISTORY OF SUCCESS**

I would like to review my experience at Cinergy both for former Cinergy shareholders who are new to Duke Energy, as well as for those shareholders who owned Duke Energy prior to the merger. I am proud of the people of Cinergy because they bring a rich heritage of accomplishments to this merger. As the new CEO of Duke Energy, I am grounded in this history and inspired to build on these successes. Because we chose not to issue a final Cinergy annual report, I will briefly highlight our accomplishments during Cinergy's nearly 12 years of existence.

**Total Return Focus:** Since the merger of PSI Energy and Cincinnati Gas & Electric to create Cinergy in 1994, we provided our investors with an average annual total shareholder return of 11.9 percent through 2005. During that time, we beat the S&P 500, the S&P 500 Electric Utility and the Philadelphia Stock Exchange Utility indexes, and we returned approximately \$3.5 billion in cash dividends to shareholders.

**Governance Leadership:** Institutional Shareholder Services has consistently ranked Cinergy as one of the top 10 companies in the S&P 500 for its governance. I believe this recognition reflects the Cinergy board's consistent focus on what constitutes good corporate governance. The board created one of the first corporate governance committees in the United States in 1994, shortly after the company was formed.

**Customer Focused:** Our customers enjoy some of the lowest electric and natural gas rates in Ohio and Kentucky. In 2005, our Indiana electric rates were the same as they were in 1988 when I became CEO of PSI Energy, while our investors have earned a fair return. Across the board, our rates are significantly below the national average, and keeping our rates competitive has been a commitment to our customers.

For many years, we've ranked in the top quartile of Midwest utilities for customer satisfaction. For two consecutive years — 2005 and 2006 — our call centers have been certified for providing "An Outstanding Customer Service Experience" by J.D. Power and Associates. We were the first energy company in the United States to earn this prestigious certification.

**Emergency Response:** I'm proud of the way our employees have responded to emergencies in our communities and elsewhere. Last year, we sent crews to the Gulf States following Hurricanes Katrina and Rita. After a severe ice storm in December, Cinergy crews worked alongside their Duke Power counterparts to restore service to 700,000 customers in the Carolinas. For the last two years, the Edison Electric Institute, our industry's leading trade organization, has recognized our emergency assistance to other utilities.

**Employer of Choice:** We earned the U.S. secretary of labor's top diversity award for our efforts to recognize the talents and respect the differences of our employees. Also, for nine consecutive years — 1997–2006 — Cinergy was named one of the 100 best companies for working mothers by Working

Mother magazine, and for many of those years we were the only utility listed. Last year, AARP recognized Cinergy as a top employer for employees over age 50.

**No Surprises for Regulators and Policymakers:** Our relationships with federal, state and local regulators and policymakers have been consistently based on a powerful but simple premise: "No surprises." Our efforts to balance the needs of our investors and customers resulted in many regulatory wins for both, including most recently, our rate stabilization plan in Ohio and our environmental compliance settlement in Indiana.

**Industry Leadership on Public Policy:** We worked to mold and shape national energy policy. Along with Duke Energy and other energy companies, we helped to secure passage last year of the Energy Policy Act, probably the most significant energy legislation to be enacted since the 1970s. And we will continue to push for passage of comprehensive multipollutant legislation at the federal level.

**Environmental Leadership:** As one of the largest users of coal to generate power, we have been a leader on the issue of reducing coal-fired emissions. At the first Cinergy board meeting in 1994, we adopted an environmental leadership pledge — one of the first in our industry. Our pledge illustrated a key operating principle: Accountability starts at the board level.

Cinergy has been one of a handful of utilities with experience in coal gasification. We are using this knowledge to obtain public and private support to build one of the first commercial cleaner-burning coal gasification plants to replace one of our older coal plants.

We earned national recognition for our partnerships on numerous environmental projects. Most recently, the U.S. Department of Energy and the U.S. Environmental Protection Agency recognized Cinergy and BP with its Energy Star award for the operational and environmental efficiency of Cinergy Solutions' cogeneration plant at the BP refinery near Houston.

Over the past 15 years, Cinergy reduced its SO<sub>2</sub> and NO<sub>x</sub> emission rates by 50 percent and 45 percent, respectively. Also, we were one of the few utilities that voluntarily committed to reduce our greenhouse gas emissions. In late 2004, we issued our "Air Issues Report to Stakeholders," and last year we devoted our annual report to climate change. We did this to jump-start a debate on what must be done to prepare our stakeholders for the inevitability of a carbon-constrained world. We owe it to our children and grandchildren to start dealing now with the climate change issue.

**Committed to Communities:** Our people are involved in virtually every major nonprofit organization in each community we serve. They volunteer their time and talents whenever the need arises. And Cinergy Foundation has given back \$45 million to improve education, community development, health care, social services and culture.

Cinergy has been an industry leader in economic development. We continued to support our communities, even as states such as Ohio were deregulated. We've always considered economic development to be the heart of our organic growth.

**Sustainability Leader:** Lots of companies talk about sustainability. Many don't think about what it really means. To us, it has meant reducing our environmental footprint in a world where our grandchildren may not be able to take the basics, such as clean air, plentiful water and affordable energy, for granted.

Viewing our business as a whole, we've always known that *responsible actions based on balancing the needs of our stakeholders lead to long-term success*. That is how we have defined sustainability.

In 2005, we were again recognized for sustainability leadership. For the third consecutive year, Cinergy was named to the Dow Jones Sustainability Indexes. We were one of only two utilities in the United States and eight in the world to be so named.

As a further commitment to sustainability, we encourage you to enroll in electronic delivery of our financial information and proxy statements. Besides preserving our natural resources by reducing paper, electronic delivery also significantly reduces the costs of printing and mailing. In 2007, for every shareholder who selects electronic delivery rather than a printed copy of their 2006 Duke Energy annual report, we will donate \$1 to The Nature Conservancy, with whom we've worked on numerous environmental initiatives. (See page 41 for more information.)

#### **EARN THE RIGHT EVERY DAY**

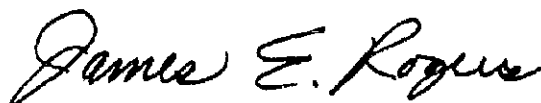
As a combined company, I have no doubt that we will achieve even greater successes in the future. I believe success is about people who want to create a better future. I have confidence that together, this new team of Duke Energy and former Cinergy employees will carry on our best traditions and start new ones.

I thank the employees of Cinergy who have traveled with me on this journey. You never wavered from our vision of "people making history by making a difference." You made a real difference. We would not be where we are today were it not for your hard work and dedication.

I want to thank the past and present officers who helped grow Cinergy into a great company and a great merger partner.

And my thanks to the Cinergy board of directors, especially George Julifs, Tom Petry, Jack Schiff and Phil Sharp, who are departing. Your insights and thoughtful debate helped us to maintain our focus on growth and on serving our stakeholders.

I'm both humbled and excited about being the CEO of Duke Energy. I know it is a company where each of us will strive every day to earn the right to serve you, our stakeholders.



**James E. Rogers**  
President and Chief Executive Officer

April 3, 2006

What does the new Duke Energy look like?

The merger of Duke Energy and Cinergy creates a premier energy company serving 3.8 million electric customers in five states, and 1.7 million gas customers.

Our six major lines of business form a strong platform for future growth, and give Duke Energy the ability to succeed in both regulated and nonregulated markets.

On the pages that follow, you will learn more about how the new Duke Energy is structured for future growth, highlights of our combined companies' 2005 accomplishments, and a strategic look ahead.

You will also see the benefits of the merger from the perspective of our shareholders, our customers, our employees and our communities.

Read on...



## As an investor, what can I expect from this merger?

We expect the financial strength of the new Duke Energy to deliver steady earnings-per-share (EPS) growth. Our targeted earnings will be \$2 per ongoing diluted share in 2007, our first full year as a combined company, and 4 to 6 percent ongoing annual EPS growth thereafter. Our diverse portfolio of assets and operations, both regulated and nonregulated, will enable us to sustain that growth. With the merger complete, we are resuming our stock buyback program and will consider increasing the dividend, based on our target payout ratio of 70 percent.

*Farmer, conservationist and Duke Energy shareholder Ernie Averett. The Averett family has owned and operated Flatwood Farms in Oxford, N.C., for seven generations. Averett began investing in Duke Energy more than 10 years ago to smooth out his seasonal income with reliable dividends.*

## DUKE ENERGY + CINERGY = THE NEW DUKE ENERGY

With this merger, our newly combined power business joins our natural gas businesses to rank among the largest in North America. While the merger benefits our entire company and all of its stakeholders, the key advantages are largely related to our electric business:

- The combined strength and diversity of our franchised electric utilities put us in a better position for sustained growth, and our greater size and scope give us a stronger platform for participation in the consolidation of the electric power industry.
- We will continue to grow our earnings by investing in the expansion and reliability of our operations — focusing on new generating capacity, environmental controls and the modernization of our power delivery system.
- In our competitive supply markets, we will reap the benefits of fuel, asset and geographic diversity.
- Approximately \$650 million in net cost savings aggregated over the first five years will be shared equitably with customers and shareholders.
- Our public voice on energy and environmental policy issues will be stronger and heard more broadly.
- We can better maintain our commitments to support our communities and to be the “employer of choice.”
- Most importantly, this merger reinforces our focus on understanding and balancing the needs of all of our stakeholders, which is fundamental to continued leadership as a sustainable business.

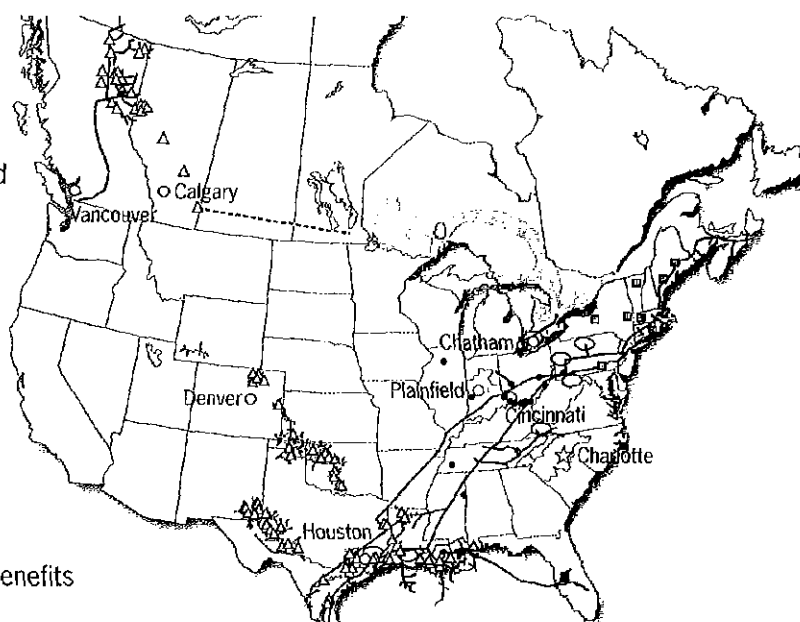
With the merger, some of our business names have changed. What has not changed is their commitment to our shared purpose: to create value for our investors, customers, communities and employees.

Our U.S. franchised electric and gas utilities — formerly Duke Power in the Carolinas, Cincinnati Gas & Electric in Ohio, Union Light, Heat and Power in Kentucky and PSI Energy in Indiana — are now known simply as Duke Energy.

Cinergy Solutions is now Duke Energy Generation Services. Duke Energy Americas, Duke Energy International, Duke Energy Gas Transmission, Duke Energy Field Services, Crescent Resources and Union Gas, our local distribution company in Canada, retain their names.

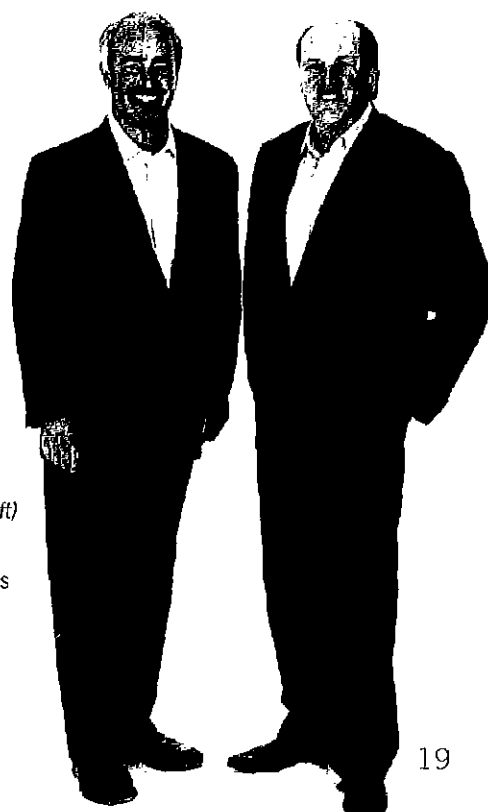
The following summaries recap the primary accomplishments of our major businesses in 2005 and their main areas of focus going forward.

### Combined North American Assets



- ☆ Corporate Headquarters
- Major Office Location
- Natural Gas Storage
- △ DEGT-Natural Gas Processing Plant
- Natural Gas Transmission Pipeline
- Natural Gas Liquids (NGL) Pipeline
- ⋯ Union Gas Distribution Service Area
- ⋯ Franchised Electric Service Area
- △ DEFS-Processing Plant
- Natural Gas Gathering Pipeline
- Propane Terminal
- Wholesale Generation Plant

*President and CEO Jim Rogers (left) is responsible for the company's day-to-day operations and business decisions, while Chairman Paul Anderson's role focuses on high-level strategy development and management succession.*







## As customers, what can we expect from this merger?

We know that the energy and related services we supply to millions of customers are essential to their way of life. We are committed to keeping our electric and gas utility rates, which in 2005 were below the U.S. national average, as competitive and stable as possible, while earning a fair return for our investors. We will continue to strive for the highest standards in customer service and satisfaction. We will work diligently to maintain outstanding system reliability and safety, and to help our customers find the energy solutions they need.

*Heather Hallenberg, Frank Satogata and their son Sean, at their home in Cincinnati's Mount Washington neighborhood. The Satogatas have been Cincinnati Gas & Electric customers for nearly 20 years. Active in the Greater Cincinnati arts community, Frank is a graphic designer and painter, Heather is arts services director of Cincinnati's Fine Arts Fund, and Sean is a freshman in high school.*

## U.S. FRANCHISED ELECTRIC AND GAS

Duke Energy's franchised electric and gas operations deliver safe, reliable and competitively priced electricity to more than 3.8 million electric customers in North Carolina, South Carolina, Ohio, Indiana and Kentucky. A diverse fuel mix of nuclear, coal-fired, hydroelectric and combustion-turbine generation provides approximately 28,000 megawatts of total generating capability. These operations also serve more than 500,000 natural gas customers in Ohio and Kentucky.

Our regulated utilities are focused on revenue growth, operational performance and continued partnerships with customers and communities. For the first time in 20 years, future demand is projected to outpace generation capacity — in the Carolinas alone, we foresee a need for 20 percent more capacity, about 4,000 megawatts, by 2015, and we are pursuing options to build both coal and nuclear generation plants. In Indiana, we are evaluating the construction of a state-of-the-art coal gasification project to replace a more than 50-year-old coal-fired plant. New generation will support our already diverse portfolio of low-cost coal and nuclear baseload generation, supplemented by hydro-electric, combustion-turbine and purchased power for peak periods.

The successful integration of our franchised electric businesses will achieve cost savings and enhance customer service and reliability across all service territories.

Ongoing segment earnings before interest and taxes (EBIT) for U.S. Franchised Electric and Gas in 2006 is expected to be approximately \$1.95 billion.

### 2005 Highlights

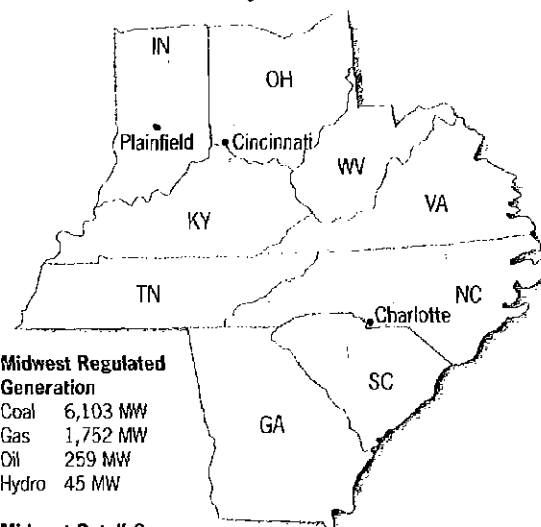
#### Duke Power

Duke Power contributed approximately \$1.5 billion in segment EBIT in 2005, slightly higher than 2004 segment EBIT of \$1.47 billion due to favorable weather, strong bulk power sales and the impact of continued economic development efforts — partially offset by a charge for December ice storm expenses and by higher operating and maintenance expenses.

Population growth — and demand for Duke Power's attractive electric rates — continue in the Piedmont Carolinas. New high-tech industries such as biotechnology and automotive research moved to the region, replacing lost business and jobs in the textile sector.

These leaders are responsible for providing franchised electric and gas customers with efficient and reliable operations (from left): Patty Walker, group vice president, Ohio and Kentucky gas operations; Brew Barron, group vice president, nuclear generation and chief nuclear officer; Bill McCollum, group vice president, regulated fossil/hydro generation; Theopolis Holeman, group vice president, power delivery; and Todd Arnold, group vice president, customer service.

## U.S. Franchised Electric and Gas Service Area and Major Offices



Southeast Regulated Generation	
Nuclear	6,996 MW
Coal	7,699 MW
Gas	2,424 MW
Hydro	2,800 MW





## What can my community expect from this merger?

We are committed to maintaining a local presence with “go to” people who live in and are actively involved in the communities we serve. We will continue to support local economic development efforts — in many communities, we’re already a catalyst for those efforts. We will help provide energy assistance to our low-income customers through flexible billing and assistance programs. We pledge that our corporate foundation giving in support of community health, education and cultural enrichment will continue. And we will provide leadership in environmental responsibility and sustainability — a corporate priority.

*Charlotte Otto, Global External Relations Officer for The Procter & Gamble Co. Active in her community's business and cultural life, Otto currently chairs the Cincinnati USA Regional Chamber and Downtown Cincinnati Inc., and serves on the board of Cincinnati Playhouse in the Park.*

Regional growth continued to add to Duke Power's total customer base, which grew by 43,000 customers — about a 2 percent net increase — in 2005. In July, the company set a new peak demand record of 18,687 megawatts.

To meet growing demand, Duke Power focused on new generation plans — and on operating its current generation and delivery systems as efficiently as possible. In 2005, the company's fossil/hydro fleet set a new all-time generation record, beating the previous record by more than 2 million megawatt-hours. Duke Power's two largest steam stations, Marshall and Belews Creek, were ranked second and third in efficiency among U.S. coal-fired stations by Electric Light & Power magazine. And our nuclear fleet achieved its second highest capacity factor ever — 93.68 percent, up from 2004's 90.23 percent. (Capacity factor measures how much electricity the system produces as a percent of its total capability.)

In October, Duke Power confirmed it is proceeding with the federal application process for a combined construction and operating license for two Westinghouse AP1000 nuclear reactors. A potential site in South Carolina has been selected for a joint project with Southern Company.

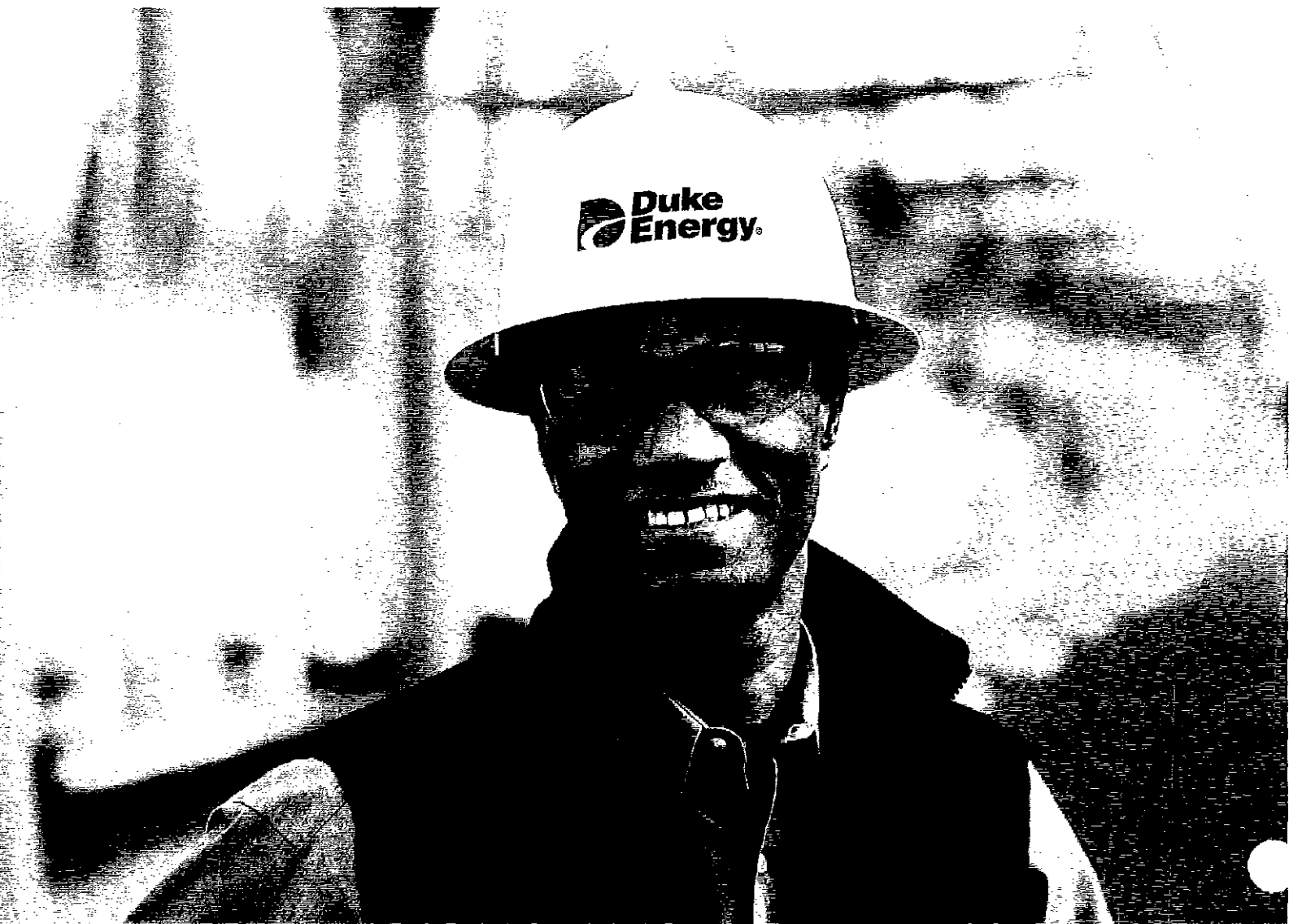
### **Cinergy**

Cinergy's regulated businesses contributed approximately \$645 million in adjusted EBIT in 2005, compared to approximately \$586 million in 2004, while advancements in reliability and customer service were recognized by regulatory authorities and earned national recognition.

Ohio regulators approved a \$51.5 million electric distribution rate increase, the first in a decade, for Cincinnati Gas & Electric Co. (CG&E). Effective in 2006, the increase recognized CG&E's reliability improvements over the past 12 years. Kentucky regulators approved an \$8.1 million natural gas distribution rate increase for Union Light, Heat and Power (ULH&P) for continued improvement of its gas distribution system. PSI Energy (PSI) reached a settlement to recover approximately \$1 billion to comply with new federal clean air and mercury rules. The five-year plan will result in further significant reductions in the emissions of sulfur dioxide and nitrogen oxides as well as mercury emissions.

*These leaders are the face of Duke Energy in their business communities (from left): Bill Easter, president and CEO, Duke Energy Field Services; Martha Wyrsh, president, Duke Energy Gas Transmission; Art Fields, president and CEO, Crescent Resources; Ellen Ruff, president, Duke Energy Carolinas; Sandra Meyer, president, Duke Energy Ohio and Kentucky; Kay Pashos, president, Duke Energy Indiana; and Richard McGee, president, Duke Energy International.*





## As an employee, what can I expect from this merger?

We recognize that employees are the foundation of our company. They create value for our stakeholders, day in and day out. We believe our larger scale and scope will help us maintain competitive pay and benefits, and provide more opportunities for employees to grow and develop in their careers. We will continue to recognize employees for their work and to foster a diverse, inclusive, performance-based culture where they feel valued and can reach their full potential. Above all, we are committed to our employees' health and safety, both on and off the job.

*James W. Bowden, General Manager of Power Delivery Operations for Duke Power's Northern Region. Bowden oversees the operation, modification and maintenance of Duke Power's transmission system in a region serving 830,000 customers. His family history with Duke Power goes back more than 100 years — his grandfather joined the company in 1905 and his father also worked for Duke Power.*

And state and federal regulators also agreed to the transfer of approximately 1,100 megawatts of generation assets from CG&E to ULH&P to meet future customer demand.

In January 2006, the CG&E and PSI customer call centers in Ohio and Indiana were recertified by J.D. Power and Associates. Last year, Cinergy was the first energy company in the United States to be certified for providing "An Outstanding Customer Service Experience." (Duke Power was the second.) And, for the second year in a row, Cinergy received the Edison Electric Institute's emergency assistance award, this time for the help it gave Gulf Coast utilities in the wake of Hurricanes Katrina and Rita last fall. In December after a severe ice storm, Cinergy crews worked alongside their Duke Power counterparts in the Carolinas to restore service to 700,000 customers.

## **DUKE ENERGY GAS TRANSMISSION**

*Duke Energy Gas Transmission has more than 17,500 miles of transmission pipelines; 250 billion cubic feet of natural gas storage; gathering and processing assets; a natural gas liquids processing operation; and a local distribution company serving more than 1.2 million customers in Canada. DEGT is well positioned to connect new and existing natural gas supplies to growing markets, with timely pipeline expansions and the development of highly flexible natural gas storage capacity.*

Duke Energy Gas Transmission (DEGT) continues to make a consistent contribution to cash flow and earnings by providing natural gas transmission and storage, gathering and processing, and local distribution services to premium markets in North America.

Going forward, DEGT is expected to deliver ongoing segment EBIT of approximately \$1.39 billion, which is essentially flat with 2005. Ongoing earnings for this business are anticipated to grow by 3 to 5 percent annually — driven by opportunities for continued pipeline development, optimization of existing transmission, distribution, gathering and processing systems, storage development and control of costs. Demand for natural gas is expected to grow 2 to 3 percent in DEGT's key markets.

### **2005 Highlights**

DEGT contributed approximately \$1.39 billion in segment EBIT, compared to approximately \$1.33 billion in 2004 — an increase driven by improved operations, U.S. system expansions, newly acquired Canadian assets and a favorable currency exchange rate.

The geographic strength of DEGT's system was evident following last year's devastating hurricanes. Although the company's Gulf Coast-area assets were temporarily affected, not a single contracted customer in our Northeast market area missed a natural gas delivery during that trying time.

Other key 2005 successes included:

- An agreement with CenterPoint Energy on a proposed pipeline to connect supply from East Texas basins to growing eastern U.S. markets
- Acquisition from AGL Resources of the remaining 50 percent interest in Saltville Gas Storage, strengthening DEGT's storage position in the Mid-Atlantic
- A high rate of long-term contract renewals
- Successful regulatory settlements which reduced volatility and created a stable rate environment for customers
- In Canada, acquisition of the Empress liquids processing system, the transfer of Duke Energy Field Services' gas processing operations to DEGT and the establishment of the Duke Energy Income Fund investment vehicle

- Agreements to expand Union Gas' Dawn–Trafalgar transportation system to reach markets in Ontario, Quebec and the U.S. Northeast
- Precedent agreements to expand the Maritimes & Northeast pipeline to transport natural gas to U.S. and Canadian markets from proposed liquefied natural gas import terminals in Atlantic Canada.

## DUKE ENERGY FIELD SERVICES

*Duke Energy Field Services gathers, treats, compresses, processes, transports, markets and stores natural gas; and produces, fractionates, transports, trades and markets natural gas liquids (NGL). DEFS is one of the largest natural gas gatherers in the United States, the largest NGL producer and one of the largest NGL marketers. DEFS owns or operates 54 plants and 56,000 miles of pipeline. It is a 50-50 joint venture between Duke Energy and ConocoPhillips.*

Duke Energy Field Services (DEFS) is moving from a period of rapid growth to focus on selective growth and performance excellence — rigorously driving improvement in operations and in commercial and support activities. DEFS' new master limited partnership, DCP Midstream Partners, will be an important growth vehicle, allowing for capital-efficient growth and solid cash flow. DEFS' solid financial position provides options for deploying cash through reinvestment, debt repayment and dividends to its parent companies, Duke Energy and ConocoPhillips.

For 2006, ongoing equity earnings to Duke Energy are anticipated to be approximately \$500 million, assuming an average crude oil price of \$61 per barrel.

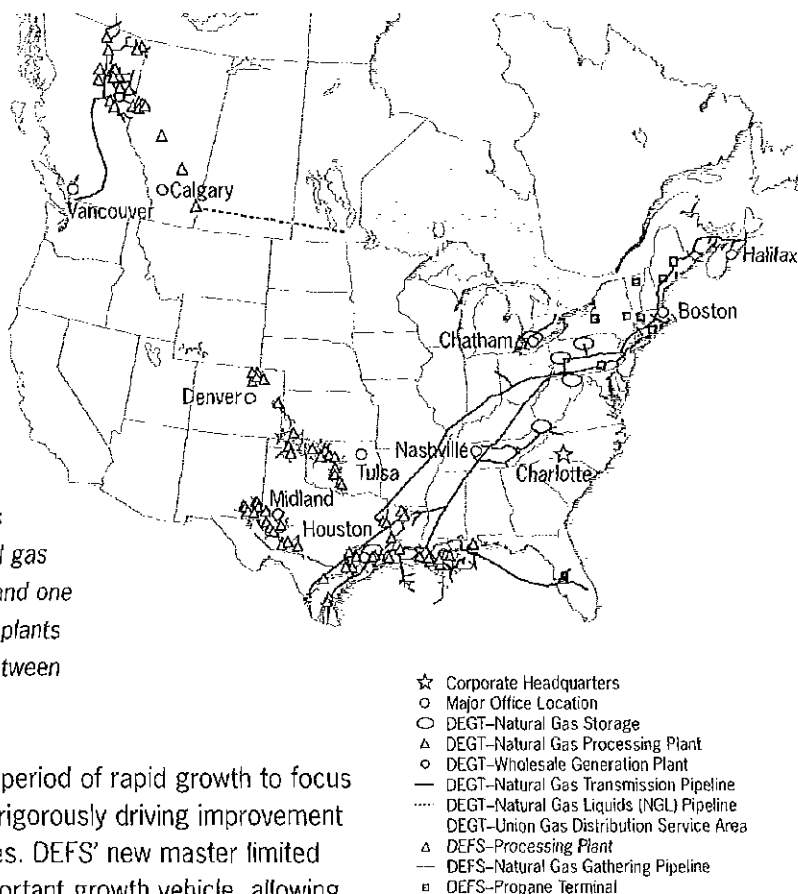
## 2005 Highlights

Strong commodity prices as well as operational and commercial improvements more than offset disruptions from the Gulf Coast hurricanes to net record earnings for DEFS, which contributed \$291 million in ongoing segment EBIT for the first six months of 2005. For the second half of the year, DEFS contributed \$214 million in ongoing equity earnings as a result of a change in ownership with ConocoPhillips.

It was a year to position DEFS for future success. In a restructuring move, Duke Energy sold nearly 20 percent of its ownership interest to DEFS partner ConocoPhillips, forming a 50/50 joint venture. DEFS' natural gas gathering and processing assets in western Canada moved to Duke Energy Gas Transmission.

DEFS also sold the general partner of TEPPCO to Enterprise GP Holdings L.P. for more than \$1.1 billion, and created a new master limited partnership (MLP), DCP Midstream Partners LP. DEFS owns the general partner of the new MLP and operates its assets in Texas and Louisiana.

## Natural Gas Operations



## **DUKE ENERGY AMERICAS**

*Duke Energy Americas includes the company's major wholesale energy operations and commercial businesses. With approximately 7,000 megawatts and 4,000 megawatts, respectively, in the United States and internationally, Duke Energy Americas has a diverse mix of power generation facilities, and is engaged in the sale and marketing of electric power, natural gas and generation services.*

### **Duke Energy International**

Duke Energy International (DEI) will continue to pursue organic growth opportunities for our existing generation assets in Latin America and improve operational efficiency to increase the returns on those assets.

For 2006, DEI is expected to deliver ongoing segment EBIT of approximately \$275 million.

### **2005 Highlights**

DEI exceeded expectations with segment EBIT of \$314 million, compared to \$222 million in 2004. Those results were largely driven by improved Latin American operations (due primarily to favorable pricing and weather conditions in Peru and Argentina), favorable currency exchange impacts in Brazil and record earnings from National Methanol Co. due to higher commodity prices.

The improved results achieved by DEI in total, as well as on its portfolio of Latin American generation assets, continued a positive earnings trend that began in 2003.

DEI's operations continued to generate strong cash flow. During 2005, DEI took advantage of a one-time opportunity to repatriate more than \$500 million in foreign earnings to Duke Energy Corp. at a lower tax rate.

### **North American Nonregulated Generation and Marketing**

The merger with Cinergy gives our nonregulated generation and trading and marketing businesses a fresh start. CG&E's coal-fired merchant generation portfolio gains fuel diversity and reliability with the addition of DENA's Midwest fleet of new and efficient natural gas-fired plants. Now that the exit from DENA's legacy trading business is nearly complete, we are moving to Cinergy's commercial business model which focuses on transactions with contract terms of less than one year — a stronger platform for growth.

Ongoing segment EBIT for North American Nonregulated Generation and Marketing in 2006 is expected to be approximately \$325 million.

### **2005 Highlights**

#### **Cinergy**

Cinergy's commercial businesses contributed approximately \$443 million in adjusted EBIT in 2005, compared to approximately \$345 million in 2004. Power Operations, the group responsible for operating and maintaining Cinergy's nonregulated power generation assets, set records for generation, productivity and safety last year. The 26,608,001 megawatt-hours (MWH) of generation and an average 40,503 MWH generated per employee beat previous Cinergy records set in 2000. Power Operations employees and contractors also achieved their best-ever safety incident rate and logged the lowest number of recordable incidents in company history.



The Power Trading and Portfolio Optimization groups each benefited from market conditions to deliver a solid year. Power Trading gross margins were up \$46 million from the prior year. Portfolio Optimization sold emission allowances no longer needed to meet future non-retail commitments, which increased emission allowance gross margins by \$121 million.

Cinergy's commercial businesses also realized a \$37 million increase in retail margins, primarily resulting from implementation of our rate stabilization plan in Ohio.

Cinergy Solutions implemented new efficiency measures for Procter & Gamble manufacturing plants, and was engaged to design, build, own and operate a new steam generating plant for Dow Chemical's Union Carbide subsidiary.

### **Duke Energy North America**

Duke Energy put most of Duke Energy North America's (DENA) assets up for sale in September 2005, and announced in November the transfer of virtually all of DENA's trading book of outstanding gas and power derivative contracts to Barclays Bank. That move essentially eliminated all credit, collateral, market and legal risk associated with DENA's derivative trading positions.

In January 2006, Duke Energy announced an agreement to sell DENA's 6,200 megawatts of power generation in the western and northeastern United States to LS Power Equity Partners for approximately \$1.5 billion. DENA's remaining 3,600 megawatts of generation in the Midwest are being combined with Cinergy's commercial operations.

(Note: For 2005, approximately \$120 million of ongoing EBIT losses for DENA's continuing operations were included in Other, and its discontinued results are reported in Discontinued Operations.)

### **CRESCENT RESOURCES**

*Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups.*

Crescent Resources continues to focus on real estate development in growth markets, primarily in the southeastern and southwestern United States. The company will invest in commercial and residential opportunities based on earnings potential and geographic market demand.

Crescent Resources is expected to deliver ongoing segment EBIT of approximately \$250 million in 2006.

### **2005 Highlights**

Crescent Resources continued to benefit from robust commercial and residential real estate markets, to end 2005 with segment EBIT of \$314 million, compared to \$240 million in 2004 — generating more earnings than anticipated for the second consecutive year.

Crescent actively managed its real estate holdings to achieve gains on the sale of a site in Nashville, Tenn., to Nissan for its North American corporate headquarters, a legacy land tract in South Carolina, its interest in a portfolio of office buildings in Georgia and Florida, and 2,483 residential lots in the Carolinas, Georgia, Florida, Texas and Arizona.

The book value of Crescent's portfolio was \$1.3 billion at year-end 2005, compared with \$1.1 billion at the end of 2004.

# CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended December 31

(In millions, except per-share amounts)	2005	2004	2003
<b>Operating Revenues</b>			
Nonregulated electric, natural gas, natural gas liquids, and other	\$ 7,661	\$ 12,232	\$ 10,088
Regulated electric	5,406	5,041	4,851
Regulated natural gas and natural gas liquids	3,679	3,276	3,082
Total operating revenues	16,746	20,549	18,021
<b>Operating Expenses</b>			
Natural gas and petroleum products purchased	6,279	10,156	8,479
Operation, maintenance and other	3,553	3,317	3,496
Fuel used in electric generation and purchased power	1,584	1,576	1,465
Depreciation and amortization	1,728	1,750	1,675
Property and other taxes	571	513	499
Impairments and other charges	140	64	1,219
Impairment of goodwill	—	—	254
Total operating expenses	13,855	17,376	17,087
<b>Gains on Sales of Investments in Commercial and Multi-Family Real Estate</b>	191	192	84
<b>Gains (Losses) on Sales of Other Assets, net</b>	534	(404)	(199)
<b>Operating Income</b>	3,616	2,961	819
<b>Other Income and Expenses</b>			
Equity in earnings of unconsolidated affiliates	479	161	123
Gains (Losses) on sales and impairments of equity method investments	1,225	(4)	279
Other income and expenses, net	96	148	148
Total other income and expenses	1,800	305	550
<b>Interest Expense</b>	1,062	1,281	1,330
<b>Minority Interest Expense</b>	538	200	62
<b>Earnings (Loss) from Continuing Operations Before Income Taxes</b>	3,816	1,785	(23)
<b>Income Tax Expense (Benefit) from Continuing Operations</b>	1,283	533	(94)
<b>Income from Continuing Operations</b>	2,533	1,252	71
<b>(Loss) Income from Discontinued Operations, net of tax</b>	(705)	238	(1,232)
<b>Income (Loss) Before Cumulative Effect of Change in Accounting Principle</b>	1,828	1,490	(1,161)
<b>Cumulative Effect of Change in Accounting Principle, net of tax and minority interest</b>	(4)	—	(162)
<b>Net Income (Loss)</b>	1,824	1,490	(1,323)
<b>Dividends and Premiums on Redemption of Preferred and Preference Stock</b>	12	9	15
<b>Earnings (Loss) Available for Common Stockholders</b>	\$ 1,812	\$ 1,481	\$ (1,338)
<b>Common Stock Data</b>			
Weighted-average shares outstanding			
Basic	934	931	903
Diluted	970	966	904
Earnings per share (from continuing operations)			
Basic	\$ 2.69	\$1.33	\$ 0.06
Diluted	\$ 2.61	\$1.29	\$ 0.06
(Loss) Earnings per share (from discontinued operations)			
Basic	\$(0.75)	\$0.26	\$(1.36)
Diluted	\$(0.73)	\$0.25	\$(1.36)
Earnings (Loss) per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.94	\$1.59	\$(1.30)
Diluted	\$ 1.88	\$1.54	\$(1.30)
Earnings (Loss) per share			
Basic	\$ 1.94	\$1.59	\$(1.48)
Diluted	\$ 1.88	\$1.54	\$(1.48)
Dividends per share	\$ 1.17	\$1.10	\$ 1.10

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

CONSOLIDATED BALANCE SHEETS

December 31

(In millions)

2005

2004

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 511	\$ 533
Short-term investments	632	1,319
Receivables (net of allowance for doubtful accounts of \$127 at December 31, 2005 and \$135 at December 31, 2004)	2,580	3,184
Inventory	863	942
Assets held for sale	1,528	40
Unrealized gains on mark-to-market and hedging transactions	87	962
Other	1,756	938
<b>Total current assets</b>	<b>7,957</b>	<b>7,918</b>

**Investments and Other Assets**

Investments in unconsolidated affiliates	1,933	1,292
Nuclear decommissioning trust funds	1,504	1,374
Goodwill	3,775	4,148
Notes receivable	138	232
Unrealized gains on mark-to-market and hedging transactions	62	1,379
Assets held for sale	3,597	84
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$17 at December 31, 2005, and \$15 at December 31, 2004)	1,281	1,128
Other	2,743	1,949
<b>Total investments and other assets</b>	<b>15,033</b>	<b>11,586</b>

**Property, Plant and Equipment**

Cost	40,574	46,806
Less accumulated depreciation and amortization	11,374	13,000
<b>Net property, plant and equipment</b>	<b>29,200</b>	<b>33,806</b>

**Regulatory Assets and Deferred Debits**

Deferred debt expense	269	297
Regulatory assets related to income taxes	1,338	1,269
Other	926	894
<b>Total regulatory assets and deferred debits</b>	<b>2,533</b>	<b>2,460</b>

**Total Assets**

**\$ 54,723**      **\$ 55,770**

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

December 31

(In millions)	2005	2004
<b>LIABILITIES AND COMMON STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,431	\$ 2,414
Notes payable and commercial paper	83	68
Taxes accrued	327	273
Interest accrued	230	287
Liabilities associated with assets held for sale	1,488	30
Current maturities of long-term debt	1,400	1,832
Unrealized losses on mark-to-market and hedging transactions	204	819
Other	2,255	1,779
Total current liabilities	8,418	7,502
<b>Long-term Debt</b>	14,547	16,932
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	5,253	5,228
Investment tax credit	144	154
Unrealized losses on mark-to-market and hedging transactions	10	971
Liabilities associated with assets held for sale	2,085	14
Asset retirement obligations	2,058	1,926
Other	5,020	4,982
Total deferred credits and other liabilities	14,570	13,275
<b>Commitments and Contingencies</b>		
<b>Minority Interests</b>	749	1,486
<b>Preferred and Preference Stock without Sinking Fund Requirements</b>	—	134
<b>Common Stockholders' Equity</b>		
Common stock, no par, 2 billion shares authorized; 928 million and 957 million shares outstanding at December 31, 2005, and December 31, 2004, respectively	10,388	11,252
Retained earnings	5,335	4,539
Accumulated other comprehensive income	716	650
Total common stockholders' equity	16,439	16,441
<b>Total Liabilities and Common Stockholders' Equity</b>	<b>\$ 54,723</b>	<b>\$ 55,770</b>

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
(In millions)	2005	2004	2003
<b>Cash Flows from Operating Activities</b>			
Net income (loss)	\$ 1,824	\$ 1,490	\$ (1,323)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	1,884	2,037	1,987
Cumulative effect of change in accounting principle	4	—	162
Gains on sales of investments in commercial and multi-family real estate	(191)	(201)	(103)
Gain on sales of equity investments and other assets	(1,646)	(193)	(86)
Impairment charges	36	194	3,495
Deferred income taxes	282	867	(534)
Minority interest	538	195	61
Equity in earnings of unconsolidated affiliates	(479)	(161)	(123)
Purchased capacity levelization	(14)	92	194
Contribution to company-sponsored pension plans	(45)	(279)	(194)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	468	216	(15)
Receivables	(255)	(231)	1,188
Inventory	(80)	(48)	(30)
Other current assets	(944)	(33)	(104)
Increase (decrease) in:			
Accounts payable	81	(5)	(1,047)
Taxes accrued	53	188	(168)
Other current liabilities	622	91	70
Capital expenditures for residential real estate	(355)	(322)	(196)
Cost of residential real estate sold	294	268	167
Other, assets	191	(155)	(162)
Other, liabilities	533	158	165
Net cash provided by operating activities	2,801	4,168	3,404
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(2,309)	(2,161)	(2,260)
Investment expenditures, net of refund	(43)	(46)	(153)
Acquisitions, net of cash acquired	(294)	—	—
Purchases of available-for-sale securities	(41,073)	(65,929)	(40,451)
Proceeds from sales and maturities of available-for-sale securities	40,887	65,098	40,004
Net proceeds from the sales of and distributions from equity investments and other assets, and sales of and collections on notes receivable	2,375	1,619	1,976
Proceeds from the sales of commercial and multi-family real estate	372	606	314
Settlement of net investment hedges and other investing derivatives	(321)	—	—
Distributions from equity investments	383	—	—
Other	(86)	20	(106)
Net cash used in investing activities	(109)	(793)	(676)
<b>Cash Flows from Financing Activities</b>			
Proceeds from the:			
Issuance of long-term debt	543	153	3,009
Issuance of common stock and common stock related to employee benefit plans	41	1,704	277
Payments for the redemption of:			
Long-term debt	(1,346)	(3,646)	(2,849)
Preferred stock of a subsidiary	—	(176)	(38)
Preferred and preference stock	(134)	—	—
Guaranteed preferred beneficial interests in subordinated notes	—	—	(250)
Notes payable and commercial paper	165	(67)	(1,702)
Distributions to minority interests	(861)	(1,477)	(2,508)
Contributions from minority interests	779	1,277	2,432
Dividends paid	(1,105)	(1,065)	(1,051)
Repurchase of common shares	(933)	—	—
Proceeds from Duke Energy Income Fund	110	—	—
Other	24	19	23
Net cash used in financing activities	(2,717)	(3,278)	(2,657)
Changes in cash and cash equivalents included in assets held for sale	3	39	(55)
Net (decrease) increase in cash and cash equivalents	(22)	136	16
<b>Cash and cash equivalents at beginning of period</b>	<b>533</b>	<b>397</b>	<b>381</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 511</b>	<b>\$ 533</b>	<b>\$ 397</b>
<b>Supplemental Disclosures</b>			
Cash paid for interest, net of amount capitalized	\$ 1,089	\$ 1,323	\$ 1,324
Cash paid (refunded) for income taxes	\$ 546	\$ (339)	\$ (18)
Significant non-cash transactions:			
Transfer of DEFS Canadian facilities	\$ 97	\$ —	\$ —
AFUDC—equity component	\$ 30	\$ 25	\$ 74
Conversion of convertible notes to stock	\$ 28	\$ —	\$ —
Debt retired in connection with disposition of businesses	\$ —	\$ 840	\$ 387
Note receivable from sale of southeastern plants	\$ —	\$ 48	\$ —
Remarketing of senior notes	\$ —	\$ 1,625	\$ —

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (LOSS)

(In millions)	Accumulated Other Comprehensive Income (Loss)							
	Common Stock Shares	Common Stock	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	Other	Total
<b>Balance December 31, 2002</b>	<b>895</b>	<b>\$ 9,236</b>	<b>\$ 6,417</b>	<b>\$ (647)</b>	<b>\$ 422</b>	<b>\$ (484)</b>	<b>\$ —</b>	<b>\$14,944</b>
Net loss			(1,323)					(1,323)
Other comprehensive loss								
Foreign currency translation adjustments <sup>a</sup>				986				986
Foreign currency translation adjustments reclassified into earnings as a result of the sale of European operations				(24)				(24)
Net unrealized gains on cash flow hedges <sup>b</sup>					116			116
Reclassification into earnings from cash flow hedges <sup>c</sup>					(240)			(240)
Minimum pension liability adjustment <sup>d</sup>						40		40
Total comprehensive loss								(445)
Dividend reinvestment and employee benefits	16	283	(6)					277
Common stock dividends			(993)					(993)
Preferred and preference stock dividends			(15)					(15)
Other capital stock transactions, net			(20)					(20)
<b>Balance December 31, 2003</b>	<b>911</b>	<b>\$ 9,519</b>	<b>\$ 4,060</b>	<b>\$ 315</b>	<b>\$ 298</b>	<b>\$ (444)</b>	<b>\$ —</b>	<b>\$13,748</b>
Net income			1,490					1,490
Other comprehensive income								
Foreign currency translation adjustments				279				279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business				(54)				(54)
Net unrealized gains on cash flow hedges <sup>b</sup>					311			311
Reclassification into earnings from cash flow hedges <sup>c</sup>					(83)			(83)
Minimum pension liability adjustment <sup>d</sup>						28		28
Total comprehensive income								1,971
Dividend reinvestment and employee benefits	5	108	20					128
Equity offering	41	1,625						1,625
Common stock dividends			(1,018)					(1,018)
Preferred and preference stock dividends			(9)					(9)
Other capital stock transactions, net			(4)					(4)
<b>Balance December 31, 2004</b>	<b>957</b>	<b>\$11,252</b>	<b>\$ 4,539</b>	<b>\$ 540</b>	<b>\$ 526</b>	<b>\$ (416)</b>	<b>\$ —</b>	<b>\$16,441</b>
Net income			1,824					1,824
Other comprehensive income								
Foreign currency translation adjustments				306				306
Net unrealized gains on cash flow hedges <sup>b</sup>					413			413
Reclassification into earnings from cash flow hedges <sup>c</sup>					(1,026)			(1,026)
Minimum pension liability adjustment <sup>d</sup>						356		356
Other <sup>e</sup>							17	17
Total comprehensive income								1,890
Dividend reinvestment and employee benefits	3	41	44					85
Stock repurchase	(33)	(933)						(933)
Conversion of debt	1	28						28
Common stock dividends			(1,093)					(1,093)
Preferred and preference stock dividends			(12)					(12)
Other capital stock transactions, net			33					33
<b>Balance December 31, 2005</b>	<b>928</b>	<b>\$10,388</b>	<b>\$ 5,335</b>	<b>\$ 846</b>	<b>\$ (87)</b>	<b>\$ (60)</b>	<b>\$17</b>	<b>\$16,439</b>

<sup>a</sup> Foreign currency translation adjustments, net of \$62 tax benefit in 2005 and \$114 tax benefit in 2003. The 2005 tax benefit related to the settled net investment hedges (see Note 8). Substantially all of the 2005 tax benefit is an immaterial correction of an accounting error related to prior periods.

<sup>b</sup> Net unrealized gains on cash flow hedges, net of \$233 tax expense in 2005, \$170 tax expense in 2004, and \$49 tax expense in 2003.

<sup>c</sup> Reclassification into earnings from cash flow hedges, net of \$583 tax benefit in 2005, \$45 tax benefit in 2004, and \$130 tax benefit in 2003. Reclassification into earnings from cash flow hedges for the year ended December 31, 2005, is due primarily to the recognition of Duke Energy North America's (DENA's) unrealized net gains related to hedges on forecasted transactions which will no longer occur as a result of the plan to sell or otherwise dispose of substantially all of DENA's assets and contracts outside of the Midwestern United States and certain contractual positions related to the Midwestern assets (see Notes 8 and 13).

<sup>d</sup> Minimum pension liability adjustment, net of \$228 tax expense in 2005, \$18 tax expense in 2004, and \$27 tax expense in 2003.

<sup>e</sup> Net of \$10 tax expense in 2005.

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

## BOARD OF DIRECTORS



### **Roger Agnelli**

*President and Chief Executive Officer (CEO), Companhia Vale do Rio Doce (CVRD), Rio de Janeiro, Brazil.*

*Compensation and Finance and Risk Management Committees. Agnelli became a member of Duke Energy's board of directors in 2004. He joined CVRD as chairman of the board in*

2000. He serves on the boards of Swiss-based ABB Ltd. and Suzano Petroquímica, and is a member of the International Investments Council, the New York Stock Exchange International Committee, and the Economic and Social Development Council (CDES), an advisory council to the president of Brazil.



### **Paul M. Anderson**

*Chairman of the Board, Duke Energy. Anderson rejoined Duke Energy as chairman and CEO in 2003, after retiring as managing director and CEO of Australia-based BHP Billiton. He was Duke Energy's first president and chief operating officer after the 1997 merger of Duke Power and PanEnergy.*

Anderson is a director of Qantas Airways Limited, a global counselor for the Conference Board and adjunct professor in global sustainability at RMIT University in Melbourne, Victoria. He was recently appointed to the President's Council of Advisors on Science and Technology.



### **William Barnet III**

*President, The Barnet Co. Inc., and Chairman, William Barnet & Son LLC. Audit and Nuclear Oversight Committees. Barnet, who joined Duke Energy's board in 2005, is president of a real estate and investment firm and chairman of a 108-year old textile company. He has been mayor of*

Spartanburg, S.C., since 2002. He serves on the board of directors of Bank of America and is a trustee of The Duke Endowment. Barnet was named to the South Carolina Business Hall of Fame in 2004.



### **G. Alex Bernhardt Sr.**

*Chairman and CEO, Bernhardt Furniture Co. Audit and Nuclear Oversight Committees. Bernhardt joined Duke Energy's board in 1991. Besides leading the family business in Lenoir, S.C., he serves on the board of directors of Cities in Schools. He is director emeritus and past president*

of the American Furniture Manufacturers Association, and past president of the International Home Furnishings Marketing Association.



### **Michael G. Browning**

*President and Chairman of the Board, Browning Investments Inc. Corporate Governance and Nuclear Oversight Committees. Browning joined Cinergy's board in 1994 and is a director of PSI Energy. He is a member of the boards of directors of the Indianapolis Economic Development Commission,*

Indianapolis Downtown Inc. and the Indianapolis Museum of Art. He serves on the St. Vincent Hospital and Health Care Center advisory board and the State of Indiana Public Officers Compensation Commission.



### **Phillip R. Cox**

*President and CEO, Cox Financial Corp. Chair, Audit Committee. Cox became a Cinergy director in 1994 and is a former director of Cincinnati Gas & Electric. He is chairman of the boards of Cincinnati Bell and the University of Cincinnati, chairman of the Federal Reserve Bank's Audit*

Committee, and board member of Bethesda Hospital, Touchstone Mutual Funds and Timken Co. He also chairs the Cincinnati Business Committee.



### **William T. Esrey**

*Chairman Emeritus, Sprint Corp. Audit and Corporate Governance Committees. Esrey joined Duke Energy's board in 1985. His career in telecommunications has spanned more than 40 years. He joined Sprint in 1980 and went on to serve as the company's chief financial officer, president,*

CEO and chairman. He also served as chairman of Japan Telecom from 2003 to 2004. Esrey serves on the board of directors of General Mills, and is a member of The Business Council.



### **Ann Maynard Gray**

*Former President, Diversified Publishing Group of ABC Inc. Lead Director. Chair, Corporate Governance Committee. Compensation and Finance and Risk Management Committees. Gray became a Duke Energy director in 1994. She held a number of senior positions with American Broadcasting*

Companies including senior vice president of finance, treasurer and vice president of planning. She serves on the boards of The Phoenix Companies and Elan Corp., and is a past member of the board of trustees of J.P. Morgan Funds.

**James H. Hance Jr.**

*Retired Vice Chairman, Chief Financial Officer and Board member, Bank of America. Chair, Compensation Committee. Finance and Risk Management Committee.* Hance joined Duke Energy's board in 2005. A certified public accountant, he spent 17 years with Price Waterhouse. He

serves on the boards of directors for Sprint Nextel Corp., EnPro Industries, Cousins Properties Inc. and Rayonier Corp. He is a trustee of Washington University and serves on the boards of the Foundation of the University of North Carolina at Charlotte and the March of Dimes.

**James E. Rogers**

*President and CEO, Duke Energy.* Rogers was chairman and CEO of Cinergy before its merger with Duke Energy, and was formerly chairman, president and CEO of PSI Energy. He serves on the boards of Fifth Third Bancorp and Fifth Third Bank, the American Gas Association, the U.S.

Chamber of Commerce, the Business Roundtable, the National Coal Council and the Nicholas Institute for Environmental Policy Solutions, as well as on the Edison Electric Institute's Executive Committee.

**Dennis R. Hendrix**

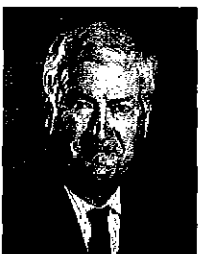
*Retired Chairman of the Board, PanEnergy Corp. Compensation, Corporate Governance and Finance and Risk Management Committees.* Hendrix rejoined Duke Energy's board in 2004, having previously served from 1997 to 2002. He was chairman of PanEnergy prior to its merger with

Duke Power in 1997, and previously CEO and president. He serves on the boards of Allied Waste Industries Inc., Newfield Exploration Co. and Grant Prideco, and is director of the Robert A. Welch Foundation.

**Mary L. Schapiro**

*Vice Chairman, National Association of Securities Dealers (NASD) and President of the Regulatory Policy and Oversight Division. Audit and Corporate Governance Committees.* Schapiro became a Cinergy director in 1999. She is a member of the board of governors of NASD, the world's

largest private sector securities regulator. Previously, as chairman of the Commodity Futures Trading Commission, she participated in the President's Working Group on Financial Markets. She also served as a commissioner of the Securities and Exchange Commission for six years.

**Michael E.J. Phelps**

*Chairman, Dornoch Capital Inc. Chair, Finance and Risk Management Committee. Corporate Governance Committee.* Phelps was chairman and CEO of Westcoast Energy Inc. before its merger with Duke Energy in 2002, when he joined Duke Energy's board. He is a member of the boards of

directors of Canadian Pacific Railway Co., Canfor Corp. and the Fairborne Energy Trust, and serves as chairman of the boards of the GLOBE Foundation of Canada and Kodiak Exploration Ltd.

**Dudley S. Taft**

*President, Taft Broadcasting Co. Compensation and Nuclear Oversight Committees.* Taft served on Cinergy's board beginning in 1994 and was a director of Cincinnati Gas & Electric from 1985 until 1995. He serves on the boards of The Union Central Life Insurance Co., Fifth Third Bancorp, Fifth Third Bank and Tribune Co. He is chairman of the Cincinnati Association for the Arts and a trustee of Boys and Girls Clubs of Greater Cincinnati.

**James T. Rhodes**

*Retired Chairman, President and CEO, Institute of Nuclear Power Operations (INPO). Chair, Nuclear Oversight Committee. Audit Committee.* Rhodes became a director of Duke Energy in 2001. The former president and CEO of Virginia Power, he is a member of the Electric Power Research Institute's

advisory council. Rhodes is a former board member of INPO, the Nuclear Energy Institute, Virginia Electric and Power Co., Dominion Resources Inc., Edison Electric Institute, the Southeastern Electric Exchange and NationsBank N.A.

**Advisor to Chairman of the Board****Jim W. Mogg**

Mogg was group vice president and chief development officer before the merger with Cinergy. He was responsible for Duke Energy strategy and corporate transactions, mergers and acquisitions, human resources, diversity, employee development and Crescent Resources, the company's real estate affiliate.

Crescent continues to report to him in his new position. Mogg previously served as chairman, president and CEO of Duke Energy Field Services.





**James E. Rogers**

*President and Chief Executive Officer*  
Rogers led Cinergy as CEO since it was formed in 1994, and was formerly CEO of Cinergy's affiliate PSI Energy. Before joining PSI in 1988, he was executive vice president, interstate pipelines, for the Enron Gas Pipeline Group. Previously, as partner in a Dallas law firm, Rogers

represented energy companies before the Federal Energy Regulatory Commission (FERC), the Department of Energy, Congressional committees and federal courts. Earlier, he directed litigation and enforcement as deputy general counsel for FERC.



**Paul H. Barry**

*Group Executive and President, Duke Energy Americas*  
Barry leads North American Nonregulated Generation and Marketing, Duke Energy International (DEI) and Duke Energy Generation Services (formerly Cinergy Solutions). He joined Duke Energy in 2002 as vice president of mergers and

acquisitions. His previous experience includes positions as vice president of business development for General Electric Capital Services Structured Finance Group, director of corporate finance for CBS Corp. (formerly Westinghouse Electric Corp.), and director of acquisitions and divestitures for Amoco Production Co.



**Julie A. Dill**

*Group Executive – Investor Relations, and Chief Communications Officer*  
Dill joined DEI in 1998 as senior vice president of planning and finance and chief financial officer. In 2001 she was named executive vice president, Asia Pacific, where she was responsible for assets and operations in Australia, New

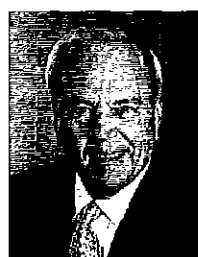
Zealand and Indonesia. In 2002 she was named one of the top 50 Women in Energy. She became vice president of investor and shareholder relations in 2005. Before joining Duke Energy, Dill spent 17 years with Shell Oil Co., most recently as fiscal director of transportation for Equilon Enterprises, a Royal Dutch Shell company.



**W.H. (Bill) Easter III**

*President and Chief Executive Officer, Duke Energy Field Services*  
Easter's career in natural gas supply and marketing, transportation, refining and petroleum marketing has spanned 35 years. Before joining Duke Energy in 2004, he held a number of positions with Conoco and later ConocoPhillips,

Duke Energy's joint-venture partner in DEFS. Easter serves on the boards of Junior Achievement Rocky Mountain and the University of Colorado at Denver Business School. He is a member of the Executive Leadership Council, and was named one of the Most Powerful African Americans in Corporate America by Black Enterprise magazine in 2005.



**Fred J. Fowler**

*Group Executive and President, Duke Energy Gas*  
Fowler leads the company's gas businesses, Duke Energy Gas Transmission and Duke Energy Field Services. He has been Duke Energy's president and chief operating officer since 2002. He began his energy career in 1968 and held

senior-level positions with Panhandle Eastern Pipe Line Co., Trunkline Gas Co., Texas Eastern Transmission Corp. and PanEnergy Corp. He was named group president of energy transmission when PanEnergy merged with Duke Power in 1997. Fowler is past chairman of the Interstate Natural Gas Association of America.



**David L. Hauser**

*Group Executive and Chief Financial Officer*  
Hauser became Duke Energy's CFO in 2004. He joined Duke Power in 1973. Positions he has held include controller, vice president of procurement services and materials, senior vice president of global asset development, and senior

vice president and treasurer. Hauser has chaired the Southeastern Electric Exchange Accounting and Finance Division, and the Edison Electric Institute's FERC Accounting Liaison Group and General Accounting Committee. He serves on the Business Advisory Council for the University of North Carolina at Charlotte.



**Marc E. Manly**

*Group Executive and Chief Legal Officer*  
Manly leads Duke Energy's legal group, which also includes federal affairs, internal audit, ethics and compliance, and the corporate secretary. He served as Cinergy's executive vice president and chief legal officer from 2002 until the merger with Duke Energy. Before joining

Cinergy, Manly was managing director for law and governmental affairs, general counsel and corporate secretary at NewPower Holdings Inc. Previously, he was vice president and solicitor general for AT&T Corp. and prior to that a partner in a law firm.

**Thomas C. O'Connor**

*Group Executive and Chief Operating Officer, U.S. Franchised Electric and Gas*  
O'Connor joined Algonquin Gas Transmission Co. in 1987. He went on to serve as senior vice president of marketing and capacity management, vice president of marketing, vice president of East Coast marketing for the Northeast Pipeline

Group and president of PanEnergy Development Co. O'Connor was named president of Duke Energy Gas Transmission's (DEGT) U.S. operations and then president and CEO of DEGT in 2002, and group vice president of corporate strategy in 2005.

**Christopher C. Rolfe**

*Group Executive and Chief Human Resources Officer*

Rolfe joined Duke Power in 1972 as an engineering assistant, and eventually worked on most of the utility's fossil, hydroelectric and nuclear generation projects. He later managed the company's research and development activities and

led corporate quality initiatives. He was named vice president of corporate human resources in 1997 and vice president of human resources in 2000. Rolfe is a board member of the Charlotte-Mecklenburg Public Schools Foundation and chairman of the North Carolina Commission on Workforce Development.

**Ruth G. Shaw**

*Group Executive – Public Policy, and President – Duke Nuclear*

Shaw is responsible for the company's nuclear power strategy and operations, as well as public policy and sustainability. She was formerly president and chief executive officer of Duke Power.

Previously, she served as Duke Energy's executive vice president and chief administrative officer, president of the Duke Energy Foundation, senior vice president of corporate resources and vice president of corporate communications. Shaw serves on the boards of directors of Edison Electric Institute, the Nuclear Energy Institute and the Institute of Nuclear Power Operations.

**B. Keith Trent**

*Group Executive and Chief Development Officer*

Trent is responsible for corporate strategy, mergers and acquisitions, as well as for the company's telecommunications and investment businesses. He served as group vice president, general counsel and secretary before the merger with

Cinergy. He joined Duke Energy in 2002 as general counsel, litigation, with responsibility for major litigation, government investigations, and the company's labor and employment and environment, health and safety legal teams. His energy career began in 1982 as a reservoir/production engineer with Arco Oil & Gas in Houston.

**James L. Turner**

*Group Executive and Chief Commercial Officer, U.S. Franchised Electric and Gas*  
Turner leads U.S. franchised electric and gas commercial functions. He was formerly president of Cinergy with responsibility for the regulated operations of PSI Energy, Cincinnati Gas & Electric Co. and Union Light, Heat and Power Co., as

well as for corporate development and strategic planning. He previously served as Cinergy's executive vice president and chief financial officer. Before joining Cinergy, Turner was a principal in an Indianapolis law firm and previous to that, as Indiana utility consumer counselor, he led an agency which represented utility consumers.

**Martha B. Wyrsh**

*President, Duke Energy Gas Transmission*

Wyrsh leads Duke Energy's natural gas transmission, storage and distribution business, and well as the gathering and processing and liquids businesses in western Canada. She has held a number of legal executive positions since she

joined Duke Energy in 1999, including group vice president, general counsel and secretary, and senior vice president and general counsel of energy transmission and distribution. She serves on the boards of directors of the Interstate Natural Gas Association of America, the Greater Houston Partnership and the United Way of the Texas Gulf Coast.

## NON-GAAP FINANCIAL MEASURES

### 2005 Earnings-per-share Incentive Target Measure

Duke Energy's 2005 Summary Annual Report references 2005 ongoing basic earnings per share (EPS) of \$1.79, which topped our incentive target of \$1.65. Ongoing basic EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents basic EPS from continuing operations plus the per-share effect of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported basic EPS from continuing operations to ongoing basic EPS for 2005:

Basic EPS from continuing operations, as reported	\$ 2.69
Basic EPS from discontinued operations, as reported	(0.75)
Basic EPS, as reported	1.94
Adjustments to reported basic EPS:	
Basic EPS from discontinued operations excluding Crescent Resources, and cumulative effect of change in accounting principle	0.76
Basic EPS impact of special items (see detail below)	(0.91)
<b>Basic EPS, ongoing</b>	<b>\$1.79</b>

The following is the detail of the \$0.91 in special items impacting basic EPS for 2005:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2005 Basic EPS Impact
Gain on sale of TEPPCO GP (net of minority interest of \$343 million)	\$791	\$(293)	\$0.53
Gain on sale of TEPPCO LP units	97	(36)	0.07
Loss on de-designation of Field Services' hedges, net of settlements on 2005 positions	(23)	9	(0.01)
Additional liabilities related to mutual insurance companies	(28)	10	(0.02)
Gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	(213)	0.39
Impairment of DE's investment in Campeche	(20)	6	(0.02)
Initial and subsequent net mark-to-market gains on de-designating Southeast DENA hedges	21	(8)	0.01
Loss on Southeast DENA contract termination	(75)	28	(0.05)
Tax adjustments	-	12	0.01
<b>Total Basic EPS impact</b>			<b>\$0.91</b>

### 2005 EBIT from Continuing Operations for Duke Energy North America

Duke Energy's 2005 Summary Annual Report references ongoing EBIT (earnings before interest and taxes) losses for Duke Energy North America's (DENA) continuing operations of approximately \$120 million, which are included in Other. Ongoing EBIT losses for DENA's continuing operations is a non-GAAP financial measure, as it represents reported Other EBIT adjusted to include only the results of DENA's continuing operations, excluding special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing EBIT losses for DENA's continuing operations is reported in Other EBIT, which includes DENA's EBIT losses from continuing operations, including any special items, in addition to certain other amounts that are reported as part of Other.

The following is a reconciliation of ongoing EBIT losses for DENA's continuing operations to reported Other EBIT for the year ended Dec. 31, 2005:

(In millions)	Year Ended Dec. 31, 2005
Ongoing EBIT losses for DENA's continuing operations	\$ (119)
Special items:	
Initial and subsequent net pretax mark-to-market gains on de-designating Southeast DENA hedges	21
Pretax loss on Southeast DENA contract termination	(75)
Reported EBIT losses for DENA's continuing operations	(173)
Other items included in Other EBIT <sup>(1)</sup>	(472)
<b>Reported Other EBIT Loss</b>	<b>\$(645)</b>

<sup>(1)</sup> Primarily consists of losses on de-designated hedges, captive insurance losses and corporate governance costs.

## 2005 Ongoing Segment EBIT Amounts for Duke Energy Field Services

Duke Energy's 2005 Summary Annual Report references ongoing segment EBIT for Field Services of \$291 million for the first six months of 2005 and \$214 million in ongoing equity earnings for the second half of 2005. Following the deconsolidation of Duke Energy Field Services LLC effective July 1, 2005, ongoing segment EBIT approximated ongoing equity earnings in Field Services. Ongoing segment EBIT is a non-GAAP financial measure, as it represents reported segment EBIT adjusted for special items, which represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items.

The following is a reconciliation of Field Services' ongoing segment EBIT to reported segment EBIT for the six months ended June 30, 2005, and the six months ended Dec. 31, 2005:

(In millions)	Six Months Ended June 30, 2005	
Ongoing segment EBIT		\$ 291
Special items:		
Pretax gain on sale of TEPPCO GP (net of minority interest of \$343 million)	791	
Pretax gain on sale of TEPPCO LP units	97	
Pretax loss on de-designation of Field Services' hedges, net of settlements	(96)	792
<b>Reported segment EBIT</b>		<b>\$1,083</b>

(In millions)	Six Months Ended Dec. 31, 2005	
Ongoing segment EBIT (equity earnings)		\$ 214
Special items:		
Pretax gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	
Reversal of pretax loss on de-designation of Field Services' hedges, net of settlements	73	649
<b>Reported segment EBIT (equity earnings)</b>		<b>\$ 863</b>
<b>Total reported segment EBIT for 2005</b>		<b>\$1,946</b>

## 2005 Adjusted Segment EBIT for Cinergy Corp.

Duke Energy's 2005 Summary Annual Report includes a discussion of Cinergy's adjusted segment EBIT results for 2004 and 2005 for certain segments. Adjusted segment EBIT for Cinergy represents a non-GAAP financial measure, as it reflects reported segment profit adjusted for interest, taxes and items not related to Cinergy's ongoing, underlying business or which distort comparability of results. A reconciliation of adjusted segment EBIT to reported segment profit is provided below:

(In millions)	2005		2004	
	Regulated Business Unit	Commercial Business Unit	Regulated Business Unit	Commercial Business Unit
<b>Adjusted segment EBIT</b>	<b>\$ 645</b>	<b>\$ 443</b>	<b>\$ 586</b>	<b>\$ 345</b>
Reconciling items:				
Mark-to-market effect on asset hedges	-	(62)	-	6
Merger costs	(16)	(9)	-	-
Severance costs	(10)	(10)	-	-
EBIT from synthetic fuel production	-	(96)	-	(70)
Write-down and/or disposal of certain investments and other charges	-	-	(7)	(29)
Preferred dividends	(2)	(1)	(3)	-
Interest	(154)	(127)	(145)	(125)
Income Taxes	(174)	72	(173)	57
Discontinued operations, net of tax	-	3	-	(10)
Cumulative effect of change in accounting principle, net of tax	-	(3)	-	-
<b>Reported segment profit</b>	<b>\$ 289</b>	<b>\$ 210</b>	<b>\$ 258</b>	<b>\$ 174</b>

### **2006 Earnings-per-share Incentive Target Measure**

Duke Energy's 2005 Summary Annual Report includes a discussion of the company's 2006 EPS incentive target of \$1.90. This EPS measure is used for employee incentive bonuses and should track ongoing diluted EPS, which is a non-GAAP financial measure as it represents diluted EPS from continuing operations plus the per-share effect of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to project any special items for 2006.

### **2006 and Beyond Ongoing Segment EBIT and Related Growth Percentages**

Duke Energy's 2005 Summary Annual Report includes discussion of forecasted ongoing EBIT for 2006 for certain segments, including a discussion of ongoing equity earnings for Duke Energy Field Services and, for Duke Energy Gas Transmission, a discussion of forecasted ongoing segment EBIT growth rates, which are based on historical and forecasted ongoing segment EBIT.

Ongoing segment EBIT and related growth rates are non-GAAP financial measures, as they represent reported segment EBIT adjusted for special items, which represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items. Due to the forward-looking nature of forecasted ongoing segment EBIT and related growth rates for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as the company is unable to project special items for any future periods.

### **2006 Ongoing Segment EBIT for Crescent Resources**

Duke Energy's 2005 Summary Annual Report includes a discussion of Crescent Resources' forecasted ongoing segment EBIT from continuing and discontinued operations for 2006. As the company's segment GAAP measure is EBIT from continuing operations, the combination of segment EBIT from continuing and discontinued operations represents a non-GAAP financial measure. The most directly comparable GAAP measure for Crescent's segment EBIT from continuing and discontinued operations is reported segment EBIT from continuing operations. Information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to forecast which Crescent operations, if any, will be discontinued operations during 2006.

### **2007 Ongoing Diluted EPS and Related Future Growth Percentages**

Duke Energy's 2005 Summary Annual Report includes a discussion of forecasted 2007 ongoing diluted EPS and related forecasted growth percentages thereafter. Ongoing diluted EPS and related growth rates are non-GAAP financial measures, as they represent diluted EPS from continuing operations plus the per-share effects of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of ongoing diluted EPS for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to forecast any special items for 2007 or for any future periods.

### Annual Meeting

The date for the 2006 Annual Meeting of Duke Energy Shareholders has not been set. Shareholders will receive a meeting notice in advance.

### Shareholder Services

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet. Send written requests to:

Investor Relations  
Duke Energy  
P.O. Box 1005  
Charlotte, NC 28201-1005

For electronic correspondence, visit [www.duke-energy.com/contactIR](http://www.duke-energy.com/contactIR).

### Stock Exchange Listing

Duke Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

### Web Site Addresses

Corporate home page:  
[www.duke-energy.com](http://www.duke-energy.com)  
Investor Relations:  
[www.duke-energy.com/investors](http://www.duke-energy.com/investors)

### InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or cash payment of dividends. Additionally, participants may register for DUK-Online, our online account management tool.

### Financial Publications

Duke Energy's current annual report, SEC Form 10-K and related financial publications can be found on our Web site at [www.duke-energy.com/investors](http://www.duke-energy.com/investors). Printed copies are also available on request.

### Electronic Delivery

As part of our commitment to sustainability, we encourage shareholders to enroll in electronic delivery of financial information and proxy statements. Besides preserving our natural resources by reducing paper quantities, electronic delivery also significantly reduces the costs of printing and mailing. In 2007, Duke Energy will donate \$1 to The Nature Conservancy for every shareholder who selects electronic delivery rather than a printed copy of their 2006 annual report.

To enroll in electronic delivery, go to [www.icsdelivery.com/duk](http://www.icsdelivery.com/duk). To learn more about the work of The Nature Conservancy, visit [www.nature.org](http://www.nature.org).

### Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

### Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common stock issues.

### Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 79 consecutive years. Dividends on common stock are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 16, Sept. 18 and Dec. 18, 2006.

### Bond Trustee

If you have questions regarding your bond account, call (800) 275-2048, or write to:  
JPMorgan Chase Bank  
Institutional Trust Services  
P.O. Box 2320  
Dallas, TX 75221-2320

We welcome your opinion on Duke Energy's 2005 Annual Report. Please visit [www.duke-energy.com/investors](http://www.duke-energy.com/investors), where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities. This report was printed in the USA on recycled paper.





526 South Church Street  
Charlotte, NC 28202-1802  
704.594.6200  
[www.duke-energy.com](http://www.duke-energy.com)

2004 OBJECTIVES

Paul M. Anderson



2004 OBJECTIVES

Generate cash and reduce debt

*\$4.6 Billion - Have Run!*

Preserve the dividend of \$1.10 per share

*Yes!!*

Resize and realign our asset portfolio

*Good start*

Improve safety record

*Major disappointment - unacceptable*

Invest in maintenance and modest expansion

*Yes*

Reduce losses in merchant generation

*Yes, but miles to go*

Streamline systems to reduce bureaucracy and overhead

*Unfinished business*

Set clear accountabilities, linking rewards to results

*Will done & results show it*

Restore credibility with key stakeholders

*Making progress*

Resolve regulatory and legal issues

*Mostly behind us*

*Shareholder return of 30% vs. 11% for S&P 500*

*Not bad!*

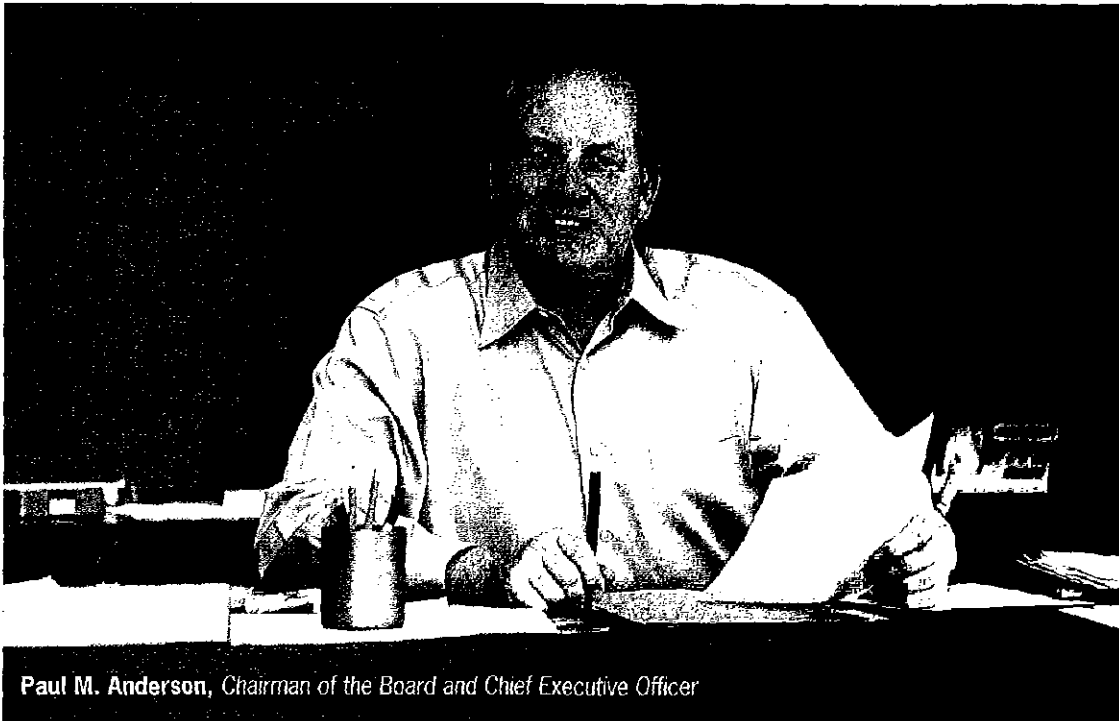


#### **IN THIS REPORT**

- 1 CHAIRMAN'S LETTER TO SHAREHOLDERS**
- 2 FINANCIAL HIGHLIGHTS**
- 5 OUR 2005 CHARTER**
- 6 PRESIDENT'S REPORT ON OPERATIONS**
  - 9 DUKE POWER**
  - 10 DUKE ENERGY GAS TRANSMISSION**
  - 11 DUKE ENERGY FIELD SERVICES**
  - 12 DUKE ENERGY AMERICAS**
  - 14 CRESCENT RESOURCES**
- 15 CONSOLIDATED FINANCIAL STATEMENTS**
- 20 NON-GAAP FINANCIAL MEASURES**
- 22 BOARD OF DIRECTORS**
- 24 EXECUTIVE MANAGEMENT**
- 25 INVESTOR INFORMATION**

#### **Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995**

This document contains forward-looking information which is subject to risks and uncertainties that could cause actual results to be different than those contemplated, including, but not limited to: changes in state, federal or international regulatory environments; commercial, industrial and residential growth in the company's service territory; the weather and other natural phenomena; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; general economic conditions; 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; the effect of accounting pronouncements; growth in opportunities for Duke Energy's business units; and other risks described in the company's 2004 SEC Form 10-K and other Securities and Exchange Commission filings. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



**Paul M. Anderson**, Chairman of the Board and Chief Executive Officer

**Dear Fellow Shareholder,**

My letter to you last year focused on the challenges our company faced as we sought to redefine our position in an industry which was itself emerging from a painful restructuring. At that time, we were long on promises and resolve, but rather short on results. We had assessed our situation, implemented some organizational changes, articulated an investment proposition and developed a charter for the company.

The charter listed five imperatives which formed the basis for a number of specific objectives for 2004. Assessing our performance against those objectives gives me a sense of accomplishment – even cautious pride – which is tempered by deep disappointment over where we have failed. We also have some unfinished business to address.

**Our Accomplishments**

In January 2004, we detailed a financial plan for our investors. At that time, many in the financial community were skeptical as to our ability to achieve that plan, but we ended up significantly exceeding each of our commitments. We maintained the dividend of \$1.10 per share, beat our ongoing basic earnings-per-share goal of \$1.20 by 18 cents, reduced debt by \$4.6 billion (lowering debt as a percent of total capital to 51 percent from 58 percent), maintained liquidity well over \$1 billion and voluntarily contributed more than \$500 million to our U.S. pension plan and nuclear decommissioning funds.

We were also able to significantly reduce DENA's (Duke Energy North America's) mark-to-market exposure and close out a number of legal and regulatory uncertainties that the company was facing. As a result, our credit rating stabilized, and the market also responded positively, as our share price rose by 25 percent to close the year at \$25.33. We delivered a total return to shareholders of 30 percent for 2004 – outpacing the S&P 500's 11 percent.

Much of our financial plan was achieved by aggressively realigning our portfolio. We realized over \$3.1 billion of proceeds from the sale of assets, such as our merchant plants in the southeast United States, our asset portfolios in the Asia-Pacific region and Europe, and two of our three deferred plants. (The sale of the third plant is expected to close in March 2005.)

# FINANCIAL HIGHLIGHTS

(In millions, except per-share amounts)	Years Ended December 31				
	2004	2003 <sup>b</sup>	2002	2001	2000
<b>Statement of Operations</b>					
Operating revenues	\$ 22,503	\$ 22,080	\$ 15,860	\$ 17,889	\$ 15,800
Operating expenses	19,456	22,818	13,258	14,311	12,775
Gains on sales of investments in commercial and multi-family real estate	192	84	106	106	75
(Losses) gains on sales of other assets, net	(225)	(199)	32	238	214
Operating income (loss)	3,014	(853)	2,740	3,922	3,314
Other income and expenses, net	302	584	379	311	707
Interest expense	1,349	1,380	1,097	760	887
Minority interest expense	195	61	116	326	302
Earnings (loss) from continuing operations before income taxes	1,772	(1,710)	1,906	3,147	2,832
Income tax expense (benefit) from continuing operations	540	(707)	611	1,149	1,032
Income (loss) from continuing operations	1,232	(1,003)	1,295	1,998	1,800
Income (loss) from discontinued operations, net of tax	258	(158)	(261)	(4)	(24)
Income (loss) before cumulative effect of change in accounting principle	1,490	(1,161)	1,034	1,994	1,776
Cumulative effect of change in accounting principle, net of tax and minority interest	—	(162)	—	(96)	—
Net income (loss)	1,490	(1,323)	1,034	1,898	1,776
Dividends and premiums on redemption of preferred and preference stock	9	15	13	14	19
Earnings (loss) available for common stockholders	\$ 1,481	\$ (1,338)	\$ 1,021	\$ 1,884	\$ 1,757
<b>Ratio of Earnings to Fixed Charges</b>	<b>2.3</b>	<b>—<sup>c</sup></b>	<b>2.2</b>	<b>3.9</b>	<b>3.7</b>
<b>Common Stock Data<sup>a</sup></b>					
Shares of common stock outstanding					
Year-end	957	911	895	777	739
Weighted average	931	903	836	767	736
Earnings (loss) per share (from continuing operations)					
Basic	\$ 1.31	\$ (1.13)	\$ 1.53	\$ 2.59	\$ 2.42
Diluted	1.27	(1.13)	1.53	2.57	2.41
Earnings (loss) per share (from discontinued operations)					
Basic	\$ 0.28	\$ (0.17)	\$ (0.31)	\$ (0.01)	\$ (0.03)
Diluted	0.27	(0.17)	(0.31)	(0.01)	(0.03)
Earnings (loss) per share (before cumulative effect of change in accounting principle)					
Basic	\$ 1.59	\$ (1.30)	\$ 1.22	\$ 2.58	\$ 2.39
Diluted	1.54	(1.30)	1.22	2.56	2.38
Earnings (loss) per share					
Basic	\$ 1.59	\$ (1.48)	\$ 1.22	\$ 2.45	\$ 2.39
Diluted	1.54	(1.48)	1.22	2.44	2.38
Dividends per share	1.10	1.10	1.10	1.10	1.10
<b>Balance Sheet</b>					
Total assets	\$ 55,470	\$ 57,225	\$ 60,122	\$ 49,624	\$ 59,276
Long-term debt including capital leases, less current maturities	\$ 16,932	\$ 20,622	\$ 20,221	\$ 12,321	\$ 10,717
Capitalization					
Common equity	45%	37%	36%	41%	37%
Preferred stock	0%	0%	1%	1%	1%
Trust preferred securities	0%	0%	3%	5%	5%
Total common equity and preferred securities	45%	37%	40%	47%	43%
Minority interests	4%	5%	5%	7%	9%
Total debt	51%	58%	55%	46%	48%

<sup>a</sup> Amounts prior to 2001 were restated to reflect the two-for-one common stock split effective January 26, 2001.

<sup>b</sup> As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" and Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles.

<sup>c</sup> Earnings were inadequate to cover fixed charges by \$1.707 million for the year ended December 31, 2003.

In addition to generating funds, those sales repositioned Duke Energy as a company focused on the Americas and eliminated some of our lowest-return assets. We also challenged our real estate subsidiary, Crescent Resources, to become a major contributor of cash, and it responded with a stunning contribution of more than \$440 million.

We moved into 2005 with a solid earnings base and the financial flexibility to once again control our own destiny. In February, we announced that we would buy back up to \$2.5 billion in common stock over the next three years, based on our strong cash position. This share repurchase program will create value for shareholders, without inhibiting our ability to pursue future growth opportunities. We plan to pursue new growth cautiously, remaining mindful that we spent the year 2004 recovering from the effects of what in hindsight was an overly aggressive growth strategy.

### **Pride in the Organization**

Given the significant achievements of the last 12 months, it is noteworthy that the members of the team that accomplished them were, with few exceptions, already here when I rejoined the company in November 2003. It is a tribute to that depth of talent that I was not forced to go outside the company to renew the organization. Using existing bench strength, we have significantly refreshed the organization and taken a number of steps to further develop the talent we have.

I am quite proud of the team we have in place today. Employees at all levels recognized the challenges that the company faced and stepped up to accept responsibility for resolving them. The company has done its part by aligning rewards with results, refocusing on talent management and reinvigorating a number of employee development programs. Particular attention has been focused on diversity, training, performance management and management development. During December 2004, the senior management team underwent a 360-degree evaluation, and a number of executive rotations were set in motion to ensure that we are developing the next generation of leadership at all levels.

Another source of pride was the contribution that Duke employees made to their communities. To commemorate Duke Power's 100th anniversary in 2004, our annual month-long Global Service Event was expanded to 100 days. An estimated 9,000 employees and retirees spent approximately 27,000 hours completing more than 500 service projects in the United States, Canada, Brazil and Peru.

Also in 2004, Duke Power proactively engaged leaders in business, industry, government, education and the nonprofit sector in economic development summits in North Carolina and South Carolina. In the Carolinas and elsewhere, Duke is actively involved in the communities in which we operate.

We also made progress in increasing our focus on customers and working with regulators to achieve win-win outcomes. For example, regulators in the Carolinas embraced an innovative approach where we share profits from Duke Power's bulk power marketing sales with our customers. Those dollars are funding job retraining programs and providing energy assistance to low-income households – improving the quality of life in our region. In North Carolina, some of these funds are also being used to reduce industrial rates, allowing those customers to offer more cost-competitive products and services.

We began a process of renewal at the Board level, beginning with an in-depth assessment led by an independent third party. As a result, we established a lead director, formed a Nuclear Oversight Committee, rotated committee heads and welcomed two new Board members, Roger Agnelli and Dennis Hendrix. We thank Bob Brown, George Dean Johnson and Leo Linbeck for their many contributions over the years; they will be retiring from the Board in May 2005.

### **Disappointments**

While we are proud of our successes, we cannot ignore our failures. The biggest disappointment of 2004 was our unacceptable safety record. A number of measures can be used to judge an organization's safety record, but none is so personal or powerful as the number of employee and contractor fatalities. In 2004, one employee and three contractors lost their lives while working for Duke Energy. This is more than unacceptable – it is a tragedy for which I feel personally responsible. I would like to rationalize

why those fatalities occurred, but I simply cannot. Safety is not something that can be prescribed or controlled through process alone. It relies on a culture that is nurtured from the top, and Duke's top management cannot allow safety to be overshadowed by other priorities.

Another disappointment was the fire last August at our Moss Bluff natural gas storage facility near Houston. Thankfully, no employee or contractor was injured, yet it is disappointing that such an incident could occur.

We have taken a number of steps to improve our safety focus. Later on in this report, Fred Fowler will address some of them. For my part, I will not feel that we have had a truly successful year unless that year is free of fatalities and major operational incidents.

### **Unfinished Business**

We made significant progress in a number of areas, but we are left with unfinished business. Developing a sustainable business model for DENA is one such area. We made substantial progress in restructuring DENA and expect it will cut its losses by nearly half in 2005, but it may take a combination with one or more other parties, including other merchant generators, to provide the scope, scale and fuel diversity needed to realize an acceptable return on that investment.

A tremendous effort and significant funds were expended to comply with Sarbanes-Oxley Section 404, which mandates a thorough self-assessment of our internal controls over financial reporting. Despite the frustration of a rigid process and a challenging time frame, the effort proved very beneficial in helping us understand where we could improve our processes and systems. In 2005, we will build on what we have learned and re-engineer our financial systems, simplify our organization and reduce bureaucracy. Ultimately, this effort should greatly reduce our overhead costs in future years.

### **Looking Forward**

As we enter 2005 and beyond, I am optimistic. The management objectives in our 2005 charter reflect the progress we made in 2004 to reclaim control of our future. This year, we are pursuing growth opportunities and reasserting our role as an industry leader.

The financial objective for 2005 is to **deliver on our financial plan and provide superior total shareholder return**. This reflects how far we have come – 2004's financial goal was to defend the dividend. We had an ongoing basic earnings-per-share target of \$1.20 for employee incentive payouts in 2004. For 2005, we have increased that target by 33 percent to ongoing basic earnings per share of \$1.60.

Another management objective is to **establish industry-leading positions in core businesses and identify new energy-related growth strategies**. We are in a position to grow any of our existing businesses if we find the right opportunity, and we will evaluate new but related lines of business to fuel future growth.

One 2005 objective relates to the unfinished business I discussed earlier: to **position DENA to be a successful merchant operator with a sustainable business model**.

We will also **enhance a high-performance culture by focusing on safety, inclusion and diversity, employee development, business structure and process simplification**. The highest priority here is to improve our safety culture. We have created a shared safety goal for 2005 for the top 700 leaders in the company. If any Duke employee, contractor or subcontractor loses his or her life while doing work for us, this group will have their total short-term incentive payout reduced.

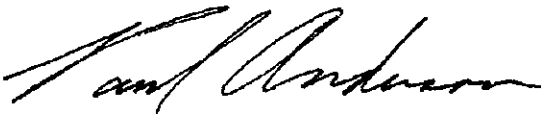
Our final objective for 2005 is to **build stakeholder relationships and future shareholder value through effective leadership on key policy issues related to energy, regulation and the environment**. It is clear that the United States needs cohesive environmental and energy policies that break the continuing logjam, and we intend to take a leadership role in developing and advancing those policies. For example, we will be proactive on the issue of global climate change. By helping shape public policy, we can advance the interests of our investors and customers, while also addressing the issue itself. Ideally,

U.S. public policy should encourage a transition to a lower-carbon-intensive economy through a broad-based approach, such as a carbon tax or other mechanism which addresses all sectors of the economy.

As I close this letter, I would be remiss if I did not address the most critical concern I wrote of last year: restoring credibility with our key constituents. In 2004, I believe we made significant progress in re-earning their trust. While trust and credibility are hard to measure, we see positive indicators – in the tone and tenor of questions from our many stakeholders, in the spirit and resilience of our employees, and in the contracts and handshakes with our partners and customers. As I said last year, the task of building confidence will always be unfinished business for us, but I hope that you share my sense of real progress in this area and a positive view of our company's future.

I appreciate your many comments and suggestions over the past year and thank you for your continued investment in Duke Energy.

Sincerely,



**Paul M. Anderson**

Chairman of the Board and Chief Executive Officer

March 15, 2005

#### OUR 2005 CHARTER

We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.

Our purpose is to create superior value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.

**To provide a stable platform for future growth, we must:**

- Enhance a high-performance culture by focusing on safety, inclusion and diversity, employee development, business structure and process simplification.
- Position DENA to be a successful merchant operator with a sustainable business model.
- Deliver on our financial plan and provide superior total shareholder return.
- Establish industry-leading positions in core businesses and identify new energy-related growth strategies.
- Build stakeholder relationships and future shareholder value through effective leadership on key policy issues related to energy, regulation and the environment.

**In conducting our business, we value:**

- Stewardship – A commitment to health, safety, environmental responsibility and our communities.
- Integrity – Ethically and honestly doing what we say we will do.
- Respect for the Individual – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- High Performance – The excitement and fulfillment of achieving superior business results and stretching our capabilities.
- Win-Win Relationships – Having relationships which focus on the creation of value for all parties.
- Initiative – Having the courage, creativity and discipline to lead change and shape the future.

**We will be successful when:**

- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose, and ends each day with a sense of accomplishment.



**Dear Shareholders,**

Overall, 2004 was a year of considerable progress in Duke Energy's operations. I welcome this opportunity to report on those results, and review some of the past year's successes and disappointments.

*Duke Energy's diverse portfolio allows us to balance the market risk in our nonregulated businesses with the relatively stable earnings that our regulated companies provide.*

**Regulated Businesses Generated Steady Earnings**

Duke Power contributed \$1.47 billion in segment earnings before interest and taxes (EBIT) in 2004. The utility provides us with a solid base of earnings and cash flow. Duke Power is working hard at diversifying its customer base and attracting new business to our area. Duke Power's customers pay essentially the same average rate per kilowatt-hour today as in 1986. At about 21 percent below the national average (due to efficient operations, cost management and lower-cost nuclear generation) those competitive rates offer an important advantage to customers in our service territory, and are especially attractive to potential new industries.

In 2004, Duke Energy Gas Transmission's (DEGT's) 17,500 miles of transmission pipeline continued to move natural gas to key distribution companies along the U.S. East Coast and in Canada, contributing \$1.31 billion in segment EBIT. Expansion activity has been brisk over the past year, with infrastructure projects completed in western Canada and in the U.S. Northeast, Mid-Atlantic, Southeast and Gulf Coast regions. Transportation reliability was also strong, with DEGT operations in both the United States and Canada setting numerous all-time peak volume records. Reliability, combined with outstanding customer service, contributed to contract renewal levels of nearly 100 percent in our northeast U.S. market.

*Weather – as it relates to heating and cooling needs – has a major impact on both DEGT and Duke Power, but the weather created a different challenge in 2004. For most of the southeastern United States, 2004 will be remembered as the year of the hurricanes. Several of our businesses experienced minor disruptions, but Duke Power's transmission and distribution system was*

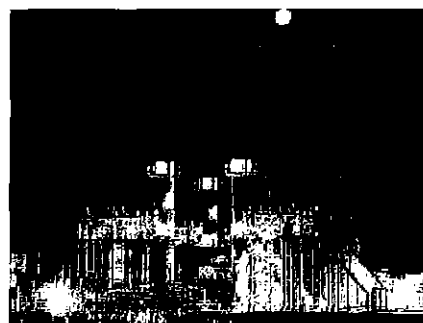
2004 operations leadership (above, left to right): Ruth Shaw, Duke Power; Bill Easter, Duke Energy Field Services; Fred Fowler, President and Chief Operating Officer, Duke Energy; Bobby Evans, Duke Energy Americas; Tom O'Connor, Duke Energy Gas Transmission; Art Fields, Crescent Resources

largely spared from effects of the hurricanes. That allowed our line crews to provide needed support to utility customers in Florida and throughout the Southeast.

### **Unregulated Businesses Saw Challenges and Opportunities**

Paul provided an overview of our progress with Duke Energy Americas, which includes Duke Energy North America (DENA) and Duke Energy International (DEI). Those businesses ended 2004 with very different scale and scope than when they began. The sale of DEI's Asia-Pacific assets allows us to focus on our operations in Latin America. In 2004, DEI generated segment EBIT from continuing operations of \$222 million and is looking for a 2 to 3 percent compound annual growth rate over the next three years, based on its 2004 ongoing segment EBIT of \$236 million.

While unfinished business remains for DENA in 2005, we should not overlook the significant progress made in 2004. We sold our generating portfolio in the Southeast as well as two deferred plants in the West – and expect to close on the sale of a third in March 2005. We also changed the DENA business model to focus on contracting a larger share of electric generation through tolls and capacity sales. (Tolls are agreements to sell all or part of a plant's capacity or production for a fee.) We are now beginning to see the benefits of that approach. For example, in 2004 DENA sold more than 50 major tolls and future capacity contracts to investor-owned utilities, municipalities and other customers, adding significantly to DENA revenue for 2005 and beyond. Additionally, DENA reduced operating expenses by nearly \$180 million. We expect to cut DENA's \$288 million ongoing segment EBIT loss from continuing operations in 2004 roughly in half, to a projected ongoing EBIT loss of approximately \$150 million in 2005. We continue to pursue various options that will create a sustainable business model for DENA, including consideration of potential business partners.



Duke Energy North America's Moss Landing facility in California is one of the largest and most efficient generating plants in the state. (Photo: David Sievert)

While market conditions have challenged DENA, they have provided opportunities for our other businesses. Record-high crude oil prices meant a blockbuster year for Duke Energy Field Services (DEFS), generating EBIT from continuing operations of \$380 million to Duke Energy. DEFS is the largest processor of natural gas liquids (NGLs) in the United States, and NGL prices roughly track the price of crude oil. But it is not only the price of crude that is helping DEFS. Even in a record-breaking year, DEFS initiated business improvements that reduced costs for its ongoing operations by \$30 million.

In February 2005, we reached agreement with ConocoPhillips to restructure our 70 percent ownership of DEFS into an equal partnership, which will reduce our exposure to commodity price risk and provide more than \$500 million in pre-tax cash to Duke Energy. The deal will also transfer DEFS' natural gas gathering and processing facilities and ConocoPhillips' natural gas liquids system in western Canada to DEGT – adding significantly to the scope, scale and diversity of DEGT's Canadian operations.

Crescent Resources, our real estate and land management subsidiary, concentrated on the strongest segments of the U.S. real estate market in 2004, generating record results of \$240 million in segment EBIT from continuing operations. While Crescent regularly refreshes its property holdings, 2004 results reflected an opportunistic sale of property in the Washington, D.C. area. Going forward, we expect Crescent's segment EBIT contribution to return to a more historic level of approximately \$150 million in 2005.

### **Legal Issues Resolved**

We made tremendous progress in 2004 in resolving many of the company's regulatory and legal risks. Most significantly, a comprehensive settlement with western U.S. power market participants, approved by the Federal Energy Regulatory Commission in December, provided needed closure to issues that arose in that market in 2000 and 2001. We were also gratified that the U.S. Attorney closed an investigation into Duke Power's 1998 to 2000 accounting practices, concluding that no action was warranted against the company or its employees.



## Safety Performance Must Improve

Regarding safety, I can only say that our performance in 2004 was, in a word, unacceptable. Four people who came to work at Duke Energy facilities last year *did not go home to their families*. In response, we are building a zero-injury safety culture to prevent employee and contractor injuries.

- We have communicated a new safety vision to all employees that aims for zero injuries through continuous safety improvement, and we are setting the same expectations for our contractors.
- We are leading this culture change from the top – every member of the Expanded Executive Committee has personal safety objectives that spell out exactly how they will lead their organization to an improved safety record.
- I will discuss in person our safety expectations with more than 2,500 managers and supervisors in 2005.
- Business units are conducting employee safety perception surveys, and I will personally review the safety improvement plans developed in response to those surveys.



Hector Gutierrez and Pilar Dávila of Duke Energy Peru's Lima office brighten the educational experience for local elementary students with a fresh coat of paint for their desks.

## We Gave Back to Our Communities

To customers and communities, our employees are the face of Duke Energy. Corporate giving and volunteerism remain hallmarks of Duke Energy, and in 2004 we continued to make a real difference in our communities in the following ways:

- Duke Energy marks its birthday each year with a Global Service Event. In 2004, thousands of employees and retirees participated in more than 500 volunteer projects in 170 communities where Duke Energy operates. Most of the projects helped improve the lives of children, senior citizens and disabled individuals. In Peru, for example, employees focused on children and education. They donated books and school supplies, painted classrooms, served lunch and organized activities.
- Duke Energy employees were recognized with Ethics in Action's Community Care Award for developing innovative community partnerships and programs serving the residents of British Columbia.
- In the Carolinas, we are leading economic development efforts to diversify our region's economy and provide opportunities for growth. That's good for Duke Power and good for the region. In 2004, Duke Power contracted more than \$23.3 million of new annual electric load (compared to \$6.2 million for 2003), and nearly 200 additional projects are pending.
- Crescent Resources won accolades from community leaders and state officials for committing to sell nearly 3,000 acres and to make a one-time multi-million-dollar gift to the state of North Carolina to expand Lake James State Park almost sixfold.
- The Texas Corporate Wetlands Restoration Partnership, led by DEGT employees, participated in one of only 12 projects honored nationwide by Coastal America – a partnership of federal agencies and state and local private organizations. Our work on the San Jacinto battleground project near Houston contributed to the restoration of 115 acres of historic marshland as well as adjacent prairie and bottomland forest.

These are just a few examples of the many ways the people of Duke Energy work to improve our communities, economy and environment. On the following pages, the leaders of our businesses will tell you more about their performance and future objectives.

Sincerely,



Fred J. Fowler

President and Chief Operating Officer

In 2004, Duke Power celebrated its 100th anniversary in a way that honored our heritage – by taking a leading role in advancing economic development in the Carolinas.

In recent years, textiles and other industries that were once the bedrock of the region's economy have steadily declined. Our competitive electric rates are one way to attract new business. But energy costs are just one aspect of a region's commercial appeal. Much like our founders, who used electricity to help drive the textile boom early in the 20th century, we are working to strengthen and diversify our economy and expand our customer base by attracting new business and industry to our service territory.

#### Major accomplishments:

- ✓ Duke Power jump-started the economic development engine by bringing more than 500 business, industry, government, nonprofit and academic leaders together for two Carolinas Competitiveness Forums in 2004.
- ✓ We are already seeing results from our push to help recruit and retain manufacturing. Major companies like Merck and Dell, and many smaller businesses, have announced plans to locate facilities in Duke Power's service territory.
- ✓ Regulators embraced our plan to share some of the profits from our bulk power marketing sales 50-50 with shareholders and customers. Programs funded by these sharing arrangements help pay energy bills for low-income residents, fund workforce training at community colleges, help reduce industrial rates in North Carolina, and support energy-efficient industrial improvements and local economic development initiatives in South Carolina.
- ✓ Duke Power's generating fleet continues to excel in reliability and efficiency. Catawba Nuclear Station set a new company reliability record in September, operating for 531 continuous days, and Electric Light & Power magazine named Marshall Steam Station the most efficient coal-fired station in the United States.



Catawba Nuclear Station in York County, S.C., set a new Duke Power reliability record in 2004, and was recognized by the U.S. Nuclear Regulatory Commission for safe operations.

No amount of business achievement can make up for the tragic loss of three of our contractors in 2004. Ensuring the safety of employees, contractors and customers remains a core Duke Power value, and we are focused intently on both the cultural and process changes needed to reduce avoidable accidents, injury and risk.

Looking ahead, our growth forecasts indicate a need for new base-load generation within the next decade. We are evaluating options to meet that need in ways that are both economical and environmentally sound. We are upgrading a number of our existing coal-fired stations with state-of-the-art environmental equipment, and evaluating emerging clean-coal technologies. The relicensing of our hydroelectric facilities, currently underway, will ensure the continuation of hydropower as an economical and emission-free energy resource, while preserving water quality and recreational access. And to secure the option of future nuclear generation capacity, we are in the initial stages of preparing a combined construction and operating license application for a new, advanced-design nuclear plant.

As Duke Power enters its second century, we continue to build on the fundamentals of customer service, operational performance, safety, responsible citizenship and innovation.

— **Ruth Shaw**, President and Chief Executive Officer, Duke Power

**Profile:** One of the largest investor-owned electric utilities in the United States, Duke Power delivers safe, reliable and economically priced electricity to more than 2 million customers in North Carolina and South Carolina.

Operating Data	2004	2003	2002	2001	2000
<b>Franchised Electric</b>					
Sales, gigawatt-hours	82,708	82,828	83,783	79,685	84,766
Nuclear capacity factor <sup>a</sup>	90%	91%	95%	92%	92%
Average number of customers	2,197,000	2,160,000	2,117,000	2,117,000	2,072,000

<sup>a</sup> Includes 100 percent of Catawba Nuclear Station, which is 12.5 percent owned by Duke Power.

Duke Energy Gas Transmission (DEGT) pipelines are strategically located with access to diverse supply basins and growing markets throughout North America, and our storage facilities offer customers reliability and seasonal flexibility.

We expect demand for natural gas to grow by an average 2 to 3 percent annually in our key markets over the next five years. Our challenge is to keep pace with that demand, by developing the infrastructure needed to connect new supplies to growing markets.

#### Major accomplishments:

- ✓ Three natural gas pipeline and two gas storage expansion projects began to serve DEGT customers in 2004, adding delivery capacity for customers in the U.S. Northeast, Southeast and Mid-Atlantic states. Storage facility expansions in Louisiana and Virginia increased available gas storage capacity by 1.8 billion cubic feet.
- ✓ The 110-mile extension of the Gulfstream pipeline from central Florida to the state's east coast was completed in February 2005, doubling the pipeline's firm contracted capacity. (Gulfstream is a joint development of Duke Energy and Williams.)
- ✓ Multiple peak-volume days on our Texas Eastern, Algonquin, East Tennessee, Gulfstream and Union Gas systems demonstrated our ability to operate reliably and provide access to growing markets.
- ✓ In August, DEGT employees mobilized quickly and effectively in response to a fire at our Moss Bluff gas storage facility near Houston. We regret that this incident occurred and the inconvenience that it caused our neighbors and customers.
- ✓ A successful "open season" in the northeast United States and eastern Canada signaled strong customer demand for new natural gas transportation and storage solutions. Many of those responses should result in new contracts and several expansion projects over the next three to five years.
- ✓ Union Gas added more than 31,000 new customers in 2004 through focused marketing efforts and reliable service.
- ✓ Rate proceedings involving our BC Pipeline and Union Gas businesses were resolved fairly for both customers and shareholders.



Plant operator Charles Barker monitors storage operations at the Kingsport liquefied natural gas storage facility, on DEGT's East Tennessee Natural Gas pipeline system.

Over the next several years, we plan to invest more than \$1 billion in DEGT facility expansions. We expect liquefied natural gas (LNG) to play a major role in North America's future natural gas supply. LNG import terminals are proposed along the Gulf Coast and the northern East Coast, including the Canadian Maritimes, and most of them would have ready access to Duke Energy's existing pipelines and storage facilities. We intend to be a major player in providing the pipeline expansion and storage needed to connect this new supply to growth markets.

Our assets are equally well-positioned in the growing Western Canadian Sedimentary Basin, and the addition of ConocoPhillips' natural gas liquids operations and DEFS' gathering and processing facilities to our system in 2005 will enhance that position. We are ready and willing to expand further, as natural gas drilling activity increases in northeastern British Columbia.

As I move on to pursue new career opportunities at Duke Energy, I am confident about the continued success of the business that Martha Wyrsh will now lead.

— Tom O'Connor, President and Chief Executive Officer, Duke Energy Gas Transmission

**Profile:** Duke Energy Gas Transmission serves its customers by transporting natural gas from North America's major supply areas to growing markets in the northeastern and southeastern United States and in Canada. DEGT also stores natural gas, distributes natural gas to retail customers in Ontario, and gathers and processes natural gas for customers in western Canada.

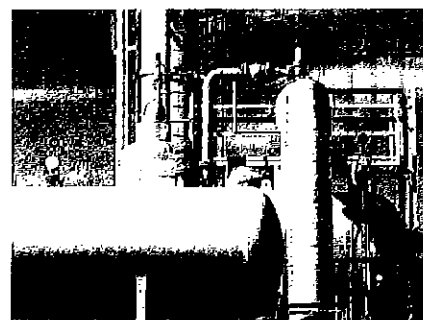
Operating Data	2004	2003	2002	2001	2000
<b>Natural Gas Transmission</b>					
Throughput, trillion British thermal units (Tbtu) <sup>a</sup>	3,332	3,362	3,160	1,781	1,771
Storage capacity, billion cubic feet	258	257	254	101	98

<sup>a</sup> Represents share of capacity owned by DEGT.

Duke Energy Field Services (DEFS) captured enormous value from strong natural gas liquids (NGL) prices and gas processing margins in 2004. We also improved operating and commercial performance, and benefited from increased production and a strategic acquisition. The combination of these factors resulted in record earnings for the DEFS joint venture.

**Major accomplishments:**

- ✓ We were able to handle higher natural gas volumes in many areas in 2004, due to increased drilling by our customers, with little or no additional investment. For example, we successfully processed and delivered almost 10 percent more gas on our Oklahoma "supersystem" by redistributing the flow of natural gas among the system's four plants.
- ✓ We delivered strong marketing results and continued to renegotiate natural gas supply contracts in order to better align our interests with those of producers, reduce earnings volatility and improve profitability.
- ✓ DEFS acquired natural gas gathering, processing and transmission assets in southeast New Mexico from ConocoPhillips for \$74 million. The acquisition included three processing plants and more than 1,000 miles of gathering pipeline. In addition to adding new customers and volumes, these assets, in combination with our existing facilities, improve market access and reliability for our customers.
- ✓ The number and severity of employee and contractor injuries declined at DEFS in 2004, as evidenced by a 40 percent reduction in safety-related lost workdays and more than a 50 percent reduction in contractor injuries versus 2003. Tragically, an employee of our former TEPPCO affiliate lost his life in a work-related accident, underscoring the importance of maintaining safety as our top priority.
- ✓ We successfully consolidated our computer operations into Duke Energy's computing center in Charlotte, eliminating our Denver data center and generating significant efficiency and cost improvements.



The Platteville facility is one of DEFS' newest gathering and processing plants, built to process increased natural gas production in the Denver-Julesburg Basin area of Colorado.

DEFS is poised to deliver another exceptional year of earnings in 2005. We expect commodity prices to remain above traditional levels, though perhaps somewhat lower than 2004.

In this, my second year at the helm at DEFS, we are working to further improve our underlying operational and commercial performance through continued application of best practices, by capturing efficiencies inherent in our large operating scale and scope, and by continually improving our processes and information systems.

Two 2005 transactions will allow us to focus on further strengthening our competitive position in the United States. As part of the pending restructuring of DEFS into a 50/50 joint venture with ConocoPhillips, we expect to receive additional U.S. midstream assets and our Canadian operations will move to DEGT. In addition, with the February 2005 sale of TEPPCO, our affiliated master limited partnership, we exited the business of transporting refined products and crude oil, as well as selected natural gas and NGL activities. Going forward, we will invest to improve the capability of our existing assets and pursue selective growth opportunities. Given today's competitive landscape, we will also evaluate the merits of establishing another master limited partnership.

— **Bill Easter**, *Chairman, President and Chief Executive Officer, Duke Energy Field Services*

**Profile:** The largest producer of natural gas liquids in North America and one of the largest marketers, Duke Energy Field Services gathers, processes, transports, markets and stores natural gas and produces, transports and markets NGLs. DEFS is a joint venture of Duke Energy and ConocoPhillips.

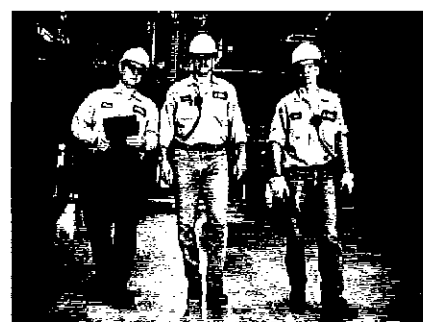
<b>Operating Data</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Field Services</b>					
Natural gas gathered and processed/transported, TBtu/day	<b>7.3</b>	7.4	7.9	8.0	7.0
Natural gas liquids production, thousand barrels per day	<b>363</b>	353	379	384	343
Average natural gas price per million Btu	<b>\$ 6.14</b>	\$ 5.39	\$ 3.22	\$ 4.27	\$ 3.89
Average natural gas liquids price per gallon	<b>\$ 0.68</b>	\$ 0.53	\$ 0.38	\$ 0.45	\$ 0.53

### Duke Energy North America – Reducing Merchant Risk

Our goal for DENA in 2004 was to stabilize the business. We accomplished that through asset sales and cost efficiencies, and by moving from a commodity trading model to a stronger focus on marketing energy to customers from our own assets. An anticipated \$300 million ongoing segment EBIT loss came in at \$288 million, including unanticipated mark-to-market losses of \$25 million. A team of employees committed to controlling costs and optimizing resources made it possible to achieve our financial goal.

#### Major accomplishments:

- ✓ The sale of our fleet of eight merchant plants in the southeast United States came sooner than many predicted. Completed in August, the sale boosted Duke Energy's 2004 divestiture proceeds by approximately \$975 million, including about \$500 million in tax benefits and a note receivable of approximately \$50 million.
- ✓ We sold two partially completed plants in 2004 (Luna in New Mexico and Moapa in Nevada), as well as surplus turbines and related equipment. Proceeds from those transactions totaled approximately \$600 million, including about \$270 million in tax benefits. At year-end, we signed an agreement to sell a third deferred-construction plant (Grays Harbor in Washington state).
- ✓ We mitigated our earnings volatility by significantly reducing the exposure to fluctuating commodity prices associated with our mark-to-market portfolio.
- ✓ DENA strengthened its position in long-term gas storage capacity, providing flexibility to fuel our own plants as well as serve other customers.
- ✓ Duke Energy's settlement of refund proceedings and other litigation related to the 2000-2001 western U.S. energy crisis cleared the way for some of the large utilities in those markets to return as DENA customers.
- ✓ DENA's Lee facility in Illinois added "black start" capability in 2004 that will allow the unit to start without any outside electrical supply. Even during a blackout, it can be brought into service to help ensure the stability and reliability of the electric grid in the Midwest.
- ✓ We made substantial progress on winding down the Duke Energy Trading and Marketing joint venture with ExxonMobil. By the end of 2004, we had completed or signed transactions to sell about 90 percent of that business.



Production technicians Mike Armstrong, Benny King and Steve Anderson ensure that the Washington Energy Facility in southeastern Ohio operates safely and reliably. The plant has had no recordable injuries since it opened in 2001.

Success at DENA is measured in relative terms. We are determined to reduce DENA's losses and return the business to profitability. We expect to cut our ongoing EBIT loss nearly in half in 2005, to approximately \$150 million. By the end of 2006, on an ongoing basis, we anticipate breaking even, and we look forward to being profitable again in 2007.

We will continue to control costs and manage our portfolio with smart business decisions. We have strong assets in growing areas, and energy demand continues to grow. We intend to be a strong player in the merchant energy market.

As in the rest of Duke Energy, we are renewing our emphasis on safety. Many of our plants have perfect safety records. We are challenging ourselves to spread that zero-injury culture across our entire fleet.

**Profile:** Duke Energy North America owns and operates merchant power generation facilities, and markets electricity, natural gas, energy management and related services to wholesale customers throughout North America.

Operating Data	2004	2003	2002	2001	2000
<b>Duke Energy North America</b>					
Actual plant production, gigawatt-hours	21,884	24,046	24,962	20,516	18,523
Proportional capacity in operation, megawatts <sup>a</sup>	9,890	15,820	14,157	6,799	5,134

<sup>a</sup> Represents share of capacity owned by DENA.

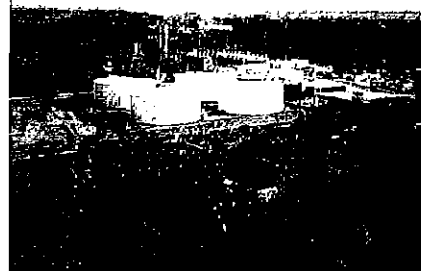
### Duke Energy International – A Sharper Focus

Duke Energy International (DEI) began 2004 with a goal of exiting the European and Asia-Pacific markets – to focus on increasing the returns from our power generation business in Latin America. Energy demand in that part of the world is growing at 4 to 6 percent a year, two to three times the growth rate in North America, and DEI owns generation assets in seven Latin American countries.

DEI's continuing operations delivered solid results in 2004, contributing \$222 million in EBIT toward Duke Energy's overall goals.

#### Major accomplishments:

- ✓ With the US\$1.2 billion sale of our assets in Australia and New Zealand in April (including \$840 million of debt assumed by the buyer), Duke Energy reached its 2004 divestiture target just four months into the year. In May, DEI sold its 30 percent equity interest in the Cantarell nitrogen facility in Mexico, and by year-end, our exit from Europe was largely complete.
- ✓ Planta Arizona in Guatemala completed its dual-fuel conversion, making it one of the most efficient thermal plants in Central America. By using a mix of different fuels, Duke Energy has become one of the lowest-cost energy providers in that region.
- ✓ In Brazil, a successful contracting strategy significantly reduced our exposure to low-price spot markets in 2004 and eliminated that exposure for 2005. At the same time, we are preserving capacity for 2006 and beyond, in anticipation of improving market conditions and price levels.
- ✓ DEI's overall safety record improved in 2004. DEI Brazil became the first company to earn the Eloy Chaves Medal, the most prestigious safety award in the country's electric power industry, for three consecutive years.
- ✓ Our employees in Brazil have worked for more than five years without a lost-time incident, and our Peru and Argentina facilities recently surpassed two years without a lost-time incident.
- ✓ Duke Energy Peru became the first company in Peru, and the first in the Duke Energy system, to obtain simultaneous international certifications for operations management, environmental management, and occupational health and safety practices, based on International Organization for Standardization (ISO) guidelines.



The 160-megawatt Planta Arizona in Guatemala generates electricity efficiently and at low cost, using dual-fuel technology.

DEI's operations are well-positioned to achieve higher earnings and returns in the near term, and to benefit from continued growth in energy demand in Latin America.

— **Bobby Evans**, *President and Chief Executive Officer, Duke Energy Americas*

**Profile:** Duke Energy International owns and operates power generation facilities, and sells electric power and natural gas. Its primary focus is on power generation activities in Latin America.

Operating Data	2004	2003	2002	2001	2000
<b>International Energy</b>					
Sales, gigawatt-hours	17,776	16,374	18,350	15,749	14,154
Proportional capacity in operation, megawatts <sup>a</sup>	4,139	4,121	3,917	3,968	3,768

<sup>a</sup> Represents share of capacity owned by DEI.

Our challenge in 2004 was to contribute \$400 million in cash and \$155 million in EBIT to Duke Energy. We hit those targets – and then some – thanks to continuing strong demand for investment-grade real estate. At the same time, we kept all of our platforms – commercial, residential and multi-family – growing and well-positioned for 2005 and beyond. We didn't hold a liquidation sale to meet 2004's financial goals. We executed our strategy, continued to invest in our base of assets and enhanced our development and land management practices, upholding our reputation as a “green” developer. Every segment of our business contributed to our success in 2004.

#### Major accomplishments:

- ✓ Crescent completed master planning for Potomac Yard, a 300-acre mixed-use site adjacent to Reagan National Airport, and sold most of the property to other developers in 2004. We retain ownership of two office buildings under construction, and the General Services Administration has leased 405,000 square feet of that space for the Environmental Protection Agency.
- ✓ In the residential market, Crescent reached its all-time record of more than \$413 million in individual homesite sales.
- ✓ Property sales are brisk at Palmetto Bluff, an environmental preserve and residential community in South Carolina's lowcountry. A portion of every real estate transaction funds the Palmetto Bluff Conservancy, a nonprofit organization dedicated to natural resource protection on the property.
- ✓ We sold nearly 3,000 acres of lakefront property and made a one-time multi-million-dollar gift to the state of North Carolina to expand Lake James State Park. The sale, which closed in January, is a key component in a master plan to drive economic growth in the Lake James region and preserve the lake environment for wildlife and recreation.
- ✓ We're participating in the development of a major mixed-use development in Charlotte, N.C., that will include the new corporate headquarters for Piedmont Natural Gas.



The Auberge Inn at Crescent's Palmetto Bluff community in South Carolina opened in 2004, along with the Jack Nicklaus-designed May River golf course.

Most segments of the real estate market held strong in 2004, and Crescent is well-positioned for the future regardless of market conditions. We are investing primarily in the Southeast and the Southwest – growing regions with diverse economies. Studies show that 85 percent of growth in the United States is occurring in the coastal states, plus Arizona and Nevada.

Within this geographic area, we offer a diversified mix of high-growth product types, including second homes and retirement homes for baby boomers. We're broadening our reach into that market with more diverse real estate offerings, and branching out into residential condominiums, primarily in Florida. We'll continue to adjust our portfolio to invest in both residential and commercial growth markets.

It should be noted that 2004 was a banner year, and it's unrealistic to expect the same results on an annual basis. We can promise, however, to continue to capitalize on opportunities without taking undue risks, and to fulfill our commitments to Duke Energy and its investors.

— **Art Fields**, *President and Chief Executive Officer, Crescent Resources*

**Profile:** Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups.

Operating Data	2004	2003	2002	2001	2000
<b>Crescent Resources</b>					
Residential lots sold	2,473	2,060	1,221	1,075	955
Commercial square footage sold, in millions	2.1	1.7	1.2	3.1	2.0
Multi-family units sold	273	950	—	—	—
Surplus (legacy) land sold, acres	9,087	5,088	10,982	11,402	8,562

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31		
(In millions, except per-share amounts)	2004	2003	2002
<b>Operating Revenues</b>			
Non-regulated electric, natural gas, natural gas liquids and other	\$ 14,275	\$ 14,178	\$ 8,780
Regulated electric	5,111	4,960	4,880
Regulated natural gas	3,117	2,942	2,200
Total operating revenues	22,503	22,080	15,860
<b>Operating Expenses</b>			
Natural gas and petroleum products purchased	11,335	11,419	5,360
Operation, maintenance and other	3,568	3,796	3,304
Fuel used in electric generation and purchased power	2,098	2,075	2,191
Depreciation and amortization	1,851	1,792	1,506
Property and other taxes	539	526	533
Impairment and other related charges	65	2,956	364
Impairments of goodwill	—	254	—
Total operating expenses	19,456	22,818	13,258
<b>Gains on Sales of Investments in Commercial and Multi-Family Real Estate</b>	192	84	106
<b>(Losses) Gains on Sales of Other Assets, net</b>	(225)	(199)	32
<b>Operating Income (Loss)</b>	3,014	(853)	2,740
<b>Other Income and Expenses</b>			
Equity in earnings of unconsolidated affiliates	161	123	218
(Losses) Gains on sales and impairments of equity investments	(4)	279	32
Other income and expenses, net	145	182	129
Total other income and expenses	302	584	379
<b>Interest Expense</b>	1,349	1,380	1,097
<b>Minority Interest Expense</b>	195	61	116
<b>Earnings (Loss) from Continuing Operations Before Income Taxes</b>	1,772	(1,710)	1,906
<b>Income Tax Expense (Benefit) from Continuing Operations</b>	540	(707)	611
<b>Income (Loss) from Continuing Operations</b>	1,232	(1,003)	1,295
<b>Discontinued Operations</b>			
Net operating loss, net of tax	(10)	(27)	(261)
Net gain (loss) on dispositions, net of tax	268	(131)	—
<b>Income (Loss) from Discontinued Operations</b>	258	(158)	(261)
<b>Income (Loss) Before Cumulative Effect of Change in Accounting Principle</b>	1,490	(1,161)	1,034
<b>Cumulative Effect of Change in Accounting Principle, net of tax and minority interest</b>	—	(162)	—
<b>Net Income (Loss)</b>	1,490	(1,323)	1,034
<b>Dividends and Premiums on Redemption of Preferred and Preference Stock</b>	9	15	13
<b>Earnings (Loss) Available for Common Stockholders</b>	\$ 1,481	\$ (1,338)	\$ 1,021
<b>Common Stock Data</b>			
Weighted-average shares outstanding	931	903	836
Earnings (Loss) per share (from continuing operations)			
Basic	\$ 1.31	\$ (1.13)	\$ 1.53
Diluted	\$ 1.27	\$ (1.13)	\$ 1.53
Earnings (Loss) per share (from discontinued operations)			
Basic	\$ 0.28	\$ (0.17)	\$ (0.31)
Diluted	\$ 0.27	\$ (0.17)	\$ (0.31)
Earnings (Loss) per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.59	\$ (1.30)	\$ 1.22
Diluted	\$ 1.54	\$ (1.30)	\$ 1.22
Earnings (Loss) per share			
Basic	\$ 1.59	\$ (1.48)	\$ 1.22
Diluted	\$ 1.54	\$ (1.48)	\$ 1.22
Dividends per share	\$ 1.10	\$ 1.10	\$ 1.10



CONSOLIDATED BALANCE SHEETS

	December 31	
(In millions)	2004	2003
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 533	\$ 397
Short-term investments	1,319	763
Receivables (net of allowance for doubtful accounts of \$276 at 2004 and \$280 at 2003)	3,237	2,953
Inventory	942	941
Assets held for sale	40	361
Unrealized gains on mark-to-market and hedging transactions	962	1,566
Other	938	694
Total current assets	7,971	7,675
<b>Investments and Other Assets</b>		
Investments in unconsolidated affiliates	1,292	1,398
Nuclear decommissioning trust funds	1,374	925
Goodwill	4,148	3,962
Notes receivable	232	260
Unrealized gains on mark-to-market and hedging transactions	1,379	1,857
Assets held for sale	84	1,444
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$15 and \$32 at December 31, 2004 and 2003, respectively)	1,128	1,353
Other	1,896	2,137
Total investments and other assets	11,533	13,336
<b>Property, Plant and Equipment</b>		
Cost	46,806	45,987
Less accumulated depreciation and amortization	13,300	12,139
Net property, plant and equipment	33,506	33,848
<b>Regulatory Assets and Deferred Debits</b>		
Deferred debt expense	297	275
Regulatory assets related to income taxes	1,269	1,152
Other	894	939
Total regulatory assets and deferred debits	2,460	2,366
<b>Total Assets</b>	<b>\$ 55,470</b>	<b>\$ 57,225</b>

	December 31	
(In millions)	2004	2003
<b>LIABILITIES AND COMMON STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,414	\$ 2,317
Notes payable and commercial paper	68	130
Taxes accrued	273	14
Interest accrued	287	304
Liabilities associated with assets held for sale	30	651
Current maturities of long-term debt	1,832	1,200
Unrealized losses on mark-to-market and hedging transactions	819	1,283
Other	1,815	1,849
Total current liabilities	7,538	7,748
<b>Long-term Debt</b> , including debt to affiliates of \$876 at 2003	16,932	20,622
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	5,228	4,120
Investment tax credit	154	165
Unrealized losses on mark-to-market and hedging transactions	971	1,754
Liabilities associated with assets held for sale	14	737
Asset retirement obligations	1,926	1,707
Other	4,646	4,789
Total deferred credits and other liabilities	12,939	13,272
<b>Commitments and Contingencies</b>		
<b>Minority Interests</b>	1,486	1,701
<b>Preferred and Preference Stock without Sinking Fund Requirements</b>	134	134
<b>Common Stockholders' Equity</b>		
Common stock, no par, 2 billion shares authorized; 957 million and 911 million shares outstanding at December 31, 2004 and 2003, respectively	11,252	9,519
Retained earnings	4,539	4,060
Accumulated other comprehensive income	650	169
Total common stockholders' equity	16,441	13,748
<b>Total Liabilities and Common Stockholders' Equity</b>	<b>\$ 55,470</b>	<b>\$ 57,225</b>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
(In millions)	2004	2003	2002
<b>Cash Flows from Operating Activities</b>			
Net income (loss)	\$ 1,490	\$ (1,323)	\$ 1,034
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	2,037	1,987	1,692
Cumulative effect of change in accounting principle	—	162	—
Gains on sales of investments in commercial and multi-family real estate	(201)	(103)	(106)
Gains on sales of equity investments and other assets	(193)	(86)	(81)
Impairment charges	194	3,495	545
Deferred income taxes	867	(534)	495
Purchased capacity levelization	92	194	175
Contribution to company-sponsored pension plans	(278)	(192)	(9)
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	216	(15)	596
Receivables	(188)	1,126	12
Inventory	(48)	(30)	134
Other current assets	(35)	(77)	(335)
Increase (decrease) in			
Accounts payable	(5)	(1,047)	798
Taxes accrued	188	(168)	(332)
Other current liabilities	116	79	(194)
Capital expenditures for residential real estate	(322)	(196)	(179)
Cost of residential real estate sold	268	167	117
Other, assets	(305)	(249)	205
Other, liabilities	246	206	(368)
Net cash provided by operating activities	4,139	3,396	4,199
<b>Cash Flows from Investing Activities</b>			
Capital expenditures, net of refund	(2,055)	(2,242)	(4,745)
Investment expenditures	(46)	(153)	(584)
Acquisition of Westcoast Energy Inc., net of cash acquired	—	—	(1,707)
Purchases of available-for-sale securities	(64,594)	(40,032)	(12,393)
Proceeds from sales and maturities of available-for-sale securities	64,092	39,641	11,859
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	1,542	1,966	516
Proceeds from the sales of commercial and multi-family real estate	606	314	169
Other	(309)	(162)	(69)
Net cash used in investing activities	(764)	(668)	(6,954)
<b>Cash Flows from Financing Activities</b>			
Proceeds from the:			
Issuance of long-term debt	153	3,009	5,114
Issuance of common stock and common stock related to employee benefit plans	1,704	277	1,323
Payments for the redemption of:			
Long-term debt	(3,646)	(2,849)	(1,837)
Preferred stock of a subsidiary	(176)	(38)	—
Preferred and preference stock	—	—	(88)
Guaranteed preferred beneficial interests in subordinated notes	—	(250)	—
Notes payable and commercial paper	(67)	(1,702)	(1,067)
Distributions to minority interests	(1,477)	(2,508)	(2,260)
Contributions from minority interests	1,277	2,432	2,535
Dividends paid	(1,065)	(1,051)	(938)
Other	19	23	64
Net cash (used in) provided by financing activities	(3,278)	(2,657)	2,846
Changes in cash and cash equivalents associated with assets held for sale	39	(55)	—
Net increase in cash and cash equivalents	136	16	91
<b>Cash and cash equivalents at beginning of year</b>	<b>397</b>	<b>381</b>	<b>290</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 533</b>	<b>\$ 397</b>	<b>\$ 381</b>
<b>Supplemental Disclosures</b>			
Cash paid for interest, net of amount capitalized	\$ 1,323	\$ 1,324	\$ 1,011
Cash (refunded) paid for income taxes	\$ (339)	\$ (18)	\$ 344
Significant non-cash transactions:			
Debt retired in connection with disposition of businesses	\$ 840	\$ 387	\$ —
Note receivable from sale of southeast plants	\$ 48	\$ —	\$ —
Remarketing of senior notes	\$ 1,625	\$ —	\$ —
Acquisition of Westcoast Energy Inc.			
Fair value of assets acquired	\$ —	\$ —	\$ 9,254
Liabilities assumed, including debt and minority interests	—	—	8,047
Issuance of common stock	—	—	1,702
Capital lease obligations related to property, plant and equipment	\$ —	\$ —	\$ 117

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME (LOSS)

(In millions)	Accumulated Other Comprehensive Income (Loss)						
	Common Stock Shares	Common Stock	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	Total
<b>Balance December 31, 2001</b>	<b>777</b>	<b>\$ 6,217</b>	<b>\$ 6,292</b>	<b>\$ (307)</b>	<b>\$ 487</b>	<b>\$ —</b>	<b>\$12,689</b>
Net income			1,034				1,034
Other Comprehensive Income							
Foreign currency translation adjustments				(340)			(340)
Net unrealized gains on cash flow hedges <sup>b</sup>					37		37
Reclassification into earnings from cash flow hedges <sup>c</sup>					(102)		(102)
Minimum pension liability adjustment <sup>d</sup>						(484)	(484)
Total comprehensive income							145
Dividend reinvestment and employee benefits	13	342					342
Equity offering	55	975					975
Westcoast acquisition	50	1,702					1,702
Common stock dividends			(905)				(905)
Preferred and preference stock dividends			(13)				(13)
Other capital stock transactions, net			9				9
<b>Balance December 31, 2002</b>	<b>895</b>	<b>\$ 9,236</b>	<b>\$ 6,417</b>	<b>\$ (647)</b>	<b>\$ 422</b>	<b>\$ (484)</b>	<b>\$14,944</b>
Net loss			(1,323)				(1,323)
Other Comprehensive Loss							
Foreign currency translation adjustments <sup>a</sup>				986			986
Foreign currency translation adjustments reclassified into earnings as a result of the sale of European operations				(24)			(24)
Net unrealized gains on cash flow hedges <sup>b</sup>					116		116
Reclassification into earnings from cash flow hedges <sup>c</sup>					(240)		(240)
Minimum pension liability adjustment <sup>d</sup>						40	40
Total comprehensive loss							(445)
Dividend reinvestment and employee benefits	16	283	(6)				277
Common stock dividends			(993)				(993)
Preferred and preference stock dividends			(15)				(15)
Other capital stock transactions, net			(20)				(20)
<b>Balance December 31, 2003</b>	<b>911</b>	<b>\$ 9,519</b>	<b>\$ 4,060</b>	<b>\$ 315</b>	<b>\$ 298</b>	<b>\$ (444)</b>	<b>\$13,748</b>
Net income			1,490				1,490
Other Comprehensive Income							
Foreign currency translation adjustments				279			279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business				(54)			(54)
Net unrealized gains on cash flow hedges <sup>b</sup>					311		311
Reclassification into earnings from cash flow hedges <sup>c</sup>					(83)		(83)
Minimum pension liability adjustment <sup>d</sup>						28	28
Total comprehensive income							1,971
Dividend reinvestment and employee benefits	5	108	20				128
Equity offering	41	1,625					1,625
Common stock dividends			(1,018)				(1,018)
Preferred and preference stock dividends			(9)				(9)
Other capital stock transactions, net			(4)				(4)
<b>Balance December 31, 2004</b>	<b>957</b>	<b>\$11,252</b>	<b>\$ 4,539</b>	<b>\$ 540</b>	<b>\$ 526</b>	<b>\$ (416)</b>	<b>\$16,441</b>

<sup>a</sup> Foreign currency translation adjustments, net of \$114 tax benefit in 2003

<sup>b</sup> Net unrealized gains on cash flow hedges, net of \$170 tax expense in 2004, \$49 tax expense in 2003 and \$72 tax expense in 2002

<sup>c</sup> Reclassification into earnings from cash flow hedges, net of \$45 tax benefit in 2004, \$130 tax benefit in 2003 and \$94 tax benefit in 2002

<sup>d</sup> Minimum pension liability adjustment, net of \$18 tax expense in 2004, \$27 tax expense in 2003 and \$309 tax benefit in 2002

## NON-GAAP FINANCIAL MEASURES

Pages 1 and 4 of the Chairman's letter reference a 2004 ongoing basic earnings-per-share goal of \$1.20, which we beat by 18 cents. Page 4 of the Chairman's letter also references the 2005 ongoing basic earnings-per-share target of \$1.60. Ongoing basic earnings per share is a non-GAAP (generally accepted accounting principles) financial measure because it excludes the per-share effects of any "special items," which represent certain income or charges which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure is basic earnings per share.

Information to reconcile the 2005 ongoing basic earnings-per-share target to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items for 2005. The following is a reconciliation of ongoing to reported basic earnings per share for 2004:

### Ongoing Basic Earnings per Share – 2004

(In millions, except earnings per share)

	Pre-tax Amount	Tax Effect	Basic EPS Impact
<b>Ongoing Basic Earnings per Share</b>			<b>\$ 1.38</b>
Net gain on sale of discontinued operations (net of minority interest of \$7 million)	\$ 278	\$ (16)	0.28
Net loss on asset sales, primarily sale of southeast U.S. plants (including minority interest benefit of \$25 million)	(206)	72	(0.14)
Impairments and other related charges (net of minority interest of \$12 million)	(25)	9	(0.02)
Litigation reserves and settlements (net of minority interest of \$5 million) and contract termination charges	(5)	2	0.00
Tax benefit from restructuring	–	48	0.05
Adjustment to captive insurance reserve	64	(22)	0.04
Net loss on sales of equity investments (including minority interest benefit of \$7 million) and loss on asset exchanges	(8)	3	0.00
Total basic earnings-per-share impact of special items			0.21
<b>Basic Earnings per Share, as Reported</b>			<b>\$ 1.59</b>

Page 1 of the Chairman's letter references a debt reduction of \$4.6 billion. This amount represents a non-GAAP measure because it includes changes in amounts presented in the Consolidated Balance Sheets as other than "debt," including amounts classified as "liabilities associated with assets held for sale" and "minority interests." The following is a reconciliation of the \$4.6 billion to the changes in the amounts reported in the Consolidated Balance Sheets as "debt":

### Reconciliation of Debt Paydown to Consolidated Balance Sheets – 2004

(In millions)

	12/31/03	12/31/04	Difference
Long-term debt	\$20,622	\$16,932	\$ (3,690)
Current maturities of long-term debt and preferred stock	1,200	1,832	632
Notes payable and commercial paper	130	68	(62)
<b>Total Debt</b>	<b>21,952</b>	<b>18,832</b>	<b>(3,120)</b>
Changes due to foreign currency			(300)
Other cash changes			(89)
<b>Sub-total</b>			<b>(389)</b>
Redeem Australia debt			(890)
Redeem Westcoast Energy, Inc. preferred securities			(176)
<b>Total Change</b>			<b>\$ (4,575)</b>
Total debt paydown disclosed			\$ (4,600)

Page 1 of the Chairman's letter references \$3.1 billion of proceeds from asset sales in 2004. This amount represents a non-GAAP measure because it includes amounts that are presented in the Consolidated Statements of Cash Flows as other than net "proceeds from sales of equity investments and other assets, and sales of and collections on notes receivable," including \$750 million of tax benefits and \$840 million of non-cash debt reductions.

The Financial Highlights on page 2 include amounts for "earnings (loss) before interest and taxes from continuing operations." This non-GAAP measure represents the combination of "operating income (loss)" and "other income and expenses" as presented in the Consolidated Statements of Operations, and it excludes results and impacts from discontinued operations.

Page 3 of the Chairman's letter mentions a 2004 contribution from Crescent Resources of more than \$440 million. This amount represents the cash that Crescent Resources generated from its operating and investing activities and contributed to Duke Energy.

In this report, for certain segments we use ongoing segment EBIT (earnings before interest and taxes) as a measure of historical and anticipated future performance. For some segments we also use a forecasted ongoing segment EBIT growth rate, which is based on historical and forecasted ongoing segment EBIT, as an indicator of anticipated future compound annual growth rates. When used for future periods, ongoing segment EBIT may also include amounts that may be reported as discontinued operations. Ongoing segment EBIT and related growth rates are non-GAAP financial measures because they represent reported segment EBIT adjusted for special items. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items.

For future periods, information to reconcile ongoing segment EBIT and related growth rates to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast special items or amounts that may be reported as discontinued operations. The following is a reconciliation of ongoing segment EBIT to reported segment EBIT for 2004:

#### Reconciliation of Ongoing to Reported Segment EBIT – 2004

(In millions)

	Ongoing Segment EBIT	Special Items					Total	Reported Segment EBIT
		Gains (Losses) on Sales of Assets	Gains (Losses) on Sales of Equity Investments	Impairment and Other Related Charges	Early Contract Termination Charges	Enron/ California Settlements, net		
<b>Earnings Before Interest and Taxes from Continuing Operations</b>								
Duke Energy North America	\$(288)	\$(228) <sup>a</sup>	\$–	\$ (2)	\$(20) <sup>b</sup>	\$3 <sup>b,c</sup>	\$(247)	\$(535)
International Energy	236	(2)	1	(13) <sup>b</sup>	–	–	(14)	222

a Net of minority interest benefit of \$26 million

b Recorded in operation and maintenance expense

c Net of minority interest of \$5 million

## BOARD OF DIRECTORS



(Left to right) Robert J. Brown, George Dean Johnson Jr., G. Alex Bernhardt Sr., A. Max Lennon, Paul M. Anderson, Roger Agnelli, James T. Rhodes

## BOARD MEMBERS

**Roger Agnelli, 45**, *President and Chief Executive Officer, Companhia Vale do Rio Doce (CVRD), Brazil. Compensation Committee. Finance and Risk Management Committee. Director since 2004.* Agnelli leads CVRD, a global mining company and the world's largest producer of iron ore. For several years he held various positions at Bradesco, a Brazilian financial conglomerate. Agnelli joined Duke Energy's Board of Directors in November 2004.

**Paul M. Anderson, 59**, *Chairman of the Board and Chief Executive Officer, Duke Energy. Director since 2003.* Anderson rejoined Duke Energy in 2003, having served as its first president and chief operating officer in 1997 and 1998, and with Duke Energy predecessor companies since 1977. He retired as managing director and chief executive officer of Australia-based BHP Billiton Ltd. in 2002.

**G. Alex Bernhardt Sr., 62**, *Chairman and Chief Executive Officer, Bernhardt Furniture Co. Audit Committee. Nuclear Oversight Committee. Director since 1991.* Besides leading the family business in Lenoir, N.C., Bernhardt serves as a director of Cities in Schools and Smart Start, and on the Davidson College Board of Trustees.

**Robert J. Brown, 70**, *Chairman and Chief Executive Officer, B&C Associates Inc. Audit Committee. Corporate Governance Committee. Director since 1994.* Brown founded B&C Associates Inc., a marketing research and public relations firm in High Point, N.C. He serves on the Board of Trustees of the National Urban League. Brown will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

**William T. Esrey, 65**, *Chairman Emeritus, Sprint Corp. Chair, Audit Committee. Director since 1985.* Esrey joined Sprint in 1980, and went on to serve as the company's chief financial officer, president, chief executive officer and chairman. He also served as chairman of Japan Telecom from 2003 to 2004.

**Ann Maynard Gray, 59**, *Former President, Diversified Publishing Group of ABC Inc. Lead Director. Chair, Corporate Governance Committee. Compensation Committee. Finance and Risk Management Committee. Nuclear Oversight Committee. Director since 1994.* At American Broadcasting Companies Inc., Gray also held positions as treasurer and vice president of planning. She currently serves as a trustee for J.P. Morgan Funds.



(Left to right) Leo E. Linbeck Jr., Ann Maynard Gray, Michael E.J. Phelps, William T. Esrey, James G. Martin, Dennis R. Hendrix

**Dennis R. Hendrix, 65, Retired Chairman of the Board, PanEnergy Corp. Compensation Committee. Finance and Risk Management Committee. Director since 2004.** Hendrix rejoined the Board of Directors in December 2004. He was chairman of the board of PanEnergy Corp prior to the 1997 merger of Duke Power and PanEnergy.

**George Dean Johnson Jr., 62, Owner, Johnson Development Associates Inc. Finance and Risk Management Committee. Director since 1986.** Johnson was formerly chief executive officer and director of Extended Stay America Inc. He served in the S.C. House of Representatives and as a director of the Federal Reserve Bank of Richmond. Johnson will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

**A. Max Lennon, 64, President, Education and Research Services. Audit Committee. Director since 1988.** Lennon is a former president of Clemson University and Mars Hill College. He also served as president and chief executive officer of Eastern Foods Inc.

**Leo E. Linbeck Jr., 70, Senior Chairman, Linbeck Corp. Compensation Committee. Finance and Risk Management Committee. Director since 1986.** Linbeck Corp. is a group of four construction-related firms headquartered in Houston, Texas. Linbeck is past chairman and director of the Federal Reserve Bank of Dallas. He will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

**James G. Martin, 69, Corporate Vice President, Carolinas HealthCare System. Chair, Compensation Committee. Corporate Governance Committee. Nuclear Oversight Committee. Director since 1994.** Martin was governor of the state of North Carolina from 1985 to 1993, and previously served as a U.S. congressman. He is chairman of the Global TransPark Foundation Inc.

**Michael E.J. Phelps, 57, Chairman, Dornoch Capital Inc. Chairman, Duke Energy Canadian Advisory Council. Chair, Finance and Risk Management Committee. Corporate Governance Committee. Director since 2002.** Phelps is former chairman of the board and chief executive officer of Westcoast Energy Inc., acquired by Duke Energy in 2002.

**James T. Rhodes, 63, Retired Chairman, President and Chief Executive Officer, Institute of Nuclear Power Operations. Chair, Nuclear Oversight Committee. Audit Committee. Director since 2001.** Rhodes was formerly president and chief executive officer of Virginia Power. He is a member of the Advisory Council of the Electric Power Research Institute.





2004 Executive Committee (left to right): A.R. Mullinax, Fred Fowler, Martha Wyrsh, Jim Mogg, Paul Anderson, David Hauser, Julie Dill, Rich Osborne

#### EXECUTIVE COMMITTEE

Duke Energy's Executive Committee is responsible for driving a strategy that generates shareholder value by providing a stable platform for growth and continued profitability. This group develops corporate strategy, allocates capital, outlines enterprise goals, implements Board direction, and in general leads the enterprise.

**Paul M. Anderson**, *Chairman of the Board and Chief Executive Officer*. Anderson has lead responsibility for positioning Duke Energy as a company that achieves superior results, focusing the organization on its vision and purpose, improving execution and ensuring clear accountability. He chairs the Executive Committee and the Expanded Executive Committee.

**Fred J. Fowler**, *President and Chief Operating Officer*. Fowler chairs Duke Energy's Enterprise Performance Committee, with responsibility for the operational, commercial and financial results of the company's energy-related businesses.

**David L. Hauser**, *Group Vice President and Chief Financial Officer*. Hauser is responsible for treasury, accounting, tax and risk management. His duties include certifying financial statements and overseeing risk control policies and systems.

**Jim W. Mogg**, *Group Vice President and Chief Development Officer*. Mogg oversees strategy and corporate transactions, corporate and human resources development, mergers and acquisitions, diversity and the company's real estate affiliate.

**A.R. Mullinax**, *Group Vice President and Chief Information Officer*. Mullinax leads information technology and is responsible for global sourcing and logistics, corporate real estate services and human resources services.

**Richard J. Osborne**, *Group Vice President, Public and Regulatory Policy*. Osborne has responsibility for Duke Energy's public policy agenda and relationships with regulators, legislators, communities and other key stakeholders.

**Martha B. Wyrsh**. Wyrsh served as group vice president, general counsel and secretary until March 1, 2005, when she became president and chief executive officer of Duke Energy Gas Transmission.

**Julie A. Dill**, *Secretary to the Executive Committee and Vice President, Investor and Shareholder Relations*. Dill is responsible for relationships and communication with the investment community, and for monitoring changes and trends in investment markets.

#### EXPANDED EXECUTIVE COMMITTEE

The Expanded Executive Committee includes the Executive Committee members as well as the heads of the major business units. This group is responsible for corporate policies and programs that reach across the business units.

(Pictured on page 6)

**William H. Easter III**, *Chairman, President and Chief Executive Officer, Duke Energy Field Services*. Easter leads the company's natural gas gathering and processing and natural gas liquids business.

**Robert B. Evans**, *President and Chief Executive Officer, Duke Energy Americas*. Evans is responsible for Duke Energy's North American and Latin American wholesale energy generation business.

**Thomas C. O'Connor**. O'Connor served as president and chief executive officer of Duke Energy Gas Transmission until March 1, 2005. He will have responsibilities for corporate strategy upon his completion of Harvard University's Advanced Management Program, and will be joining the Executive Committee later in 2005.

**Ruth G. Shaw**, *President and Chief Executive Officer, Duke Power Company*. Shaw oversees the electric utility that serves more than 2 million customers in North Carolina and South Carolina.

### **Annual Meeting**

The 2005 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 12, 2005

Time: 10 a.m.

Place: O.J. Miller Auditorium,  
Energy Center  
526 South Church Street  
Charlotte, NC 28202

### **Shareholder Services**

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet.

Send written requests to:

Investor Relations  
Duke Energy  
P.O. Box 1005  
Charlotte, NC 28201-1005

For electronic correspondence, please go to "Contact Investor Relations" at: [www.duke-energy.com/investors](http://www.duke-energy.com/investors).

### **Stock Exchange Listing**

Duke Energy's common stock and certain issues of first and refunding mortgage bonds, preferred securities and senior notes are listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

### **Web Site Addresses**

Corporate home page:  
[www.duke-energy.com](http://www.duke-energy.com)  
Investor Relations:  
[www.duke-energy.com/investors](http://www.duke-energy.com/investors)

### **InvestorDirect Choice Plan**

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or cash payment of dividends. Additionally, participants may register for DUK-Online.

### **Financial Publications**

Duke Energy will furnish to any shareholder, without charge, printed copies of the 2004 Summary Annual Report and SEC Form 10-K. Those and other financial publications can also be found on our Web site at [www.duke-energy.com/investors](http://www.duke-energy.com/investors).

### **Electronic Delivery**

With a shareholder's consent, we can stop mailing paper copies of financial information and proxy statements. You can go to [www.icsdelivery.com/duk](http://www.icsdelivery.com/duk) to enroll in electronic delivery. You will need to provide your Social Security number or Tax I.D. number, your e-mail address, and a PIN number of your choice for electronic voting.

### **Duplicate Mailings**

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

### **Transfer Agent and Registrar**

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common and preferred stock issues.

### **Dividend Payment**

Duke Energy has paid quarterly cash dividends on its common stock for 78 consecutive years. Dividends on common and preferred stock are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 16, Sept. 16 and Dec. 16, 2005.

### **Bond Trustee**

If you have questions regarding your bond account, call (800) 275-2048, or write to:

JPMorgan Chase Bank  
Institutional Trust Services  
P.O. Box 2320  
Dallas, TX 75221-2320

We welcome your opinion on Duke Energy's 2004 Annual Report. Please visit [www.duke-energy.com/investors](http://www.duke-energy.com/investors), where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities. This report was printed in the USA on recycled paper.





526 South Church Street  
Charlotte, NC 28202-1802  
704.594.6200  
[www.duke-energy.com](http://www.duke-energy.com)

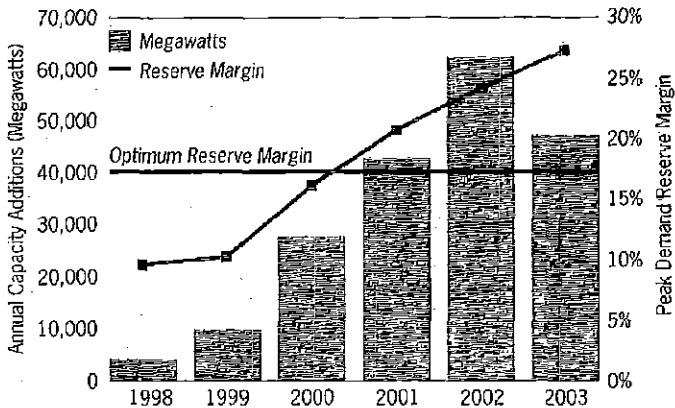
Dear Fellow Shareholder,

As I sit down to write this letter, I start from a perspective I know we share. Like many of you, I am a long-term holder of Duke Energy stock, having acquired much of it over the years prior to the merger of PanEnergy and Duke Power. When I left the company in 1998 to become CEO of Australian based BHP Ltd., Duke Energy was prospering, the stock price was buoyant and the industry seemed to be entering an era of unprecedented growth and prosperity. Since returning to the U.S. and rejoining...

## THE ENVIRONMENT WE ARE IN

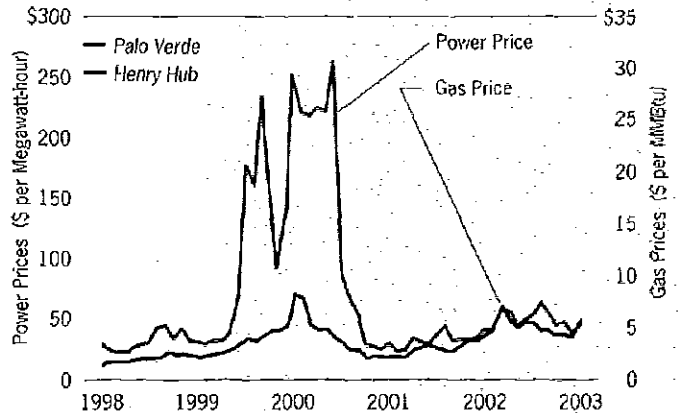
The energy landscape has changed drastically in the past five years. New generating capacity has outpaced demand growth, causing a decline in power prices while natural gas prices rose. Meanwhile, restructuring largely stalled, slowing the transition to a more competitive marketplace. Here are a few indicators of how our industry has changed since 1998.

### U.S. Capacity Additions/Reserve Margins



The industry continued to add capacity beyond what was needed for adequate reserve margins. The optimum U.S. reserve for electricity is approximately 17 percent higher than peak demand to handle weather extremes, power outages and other conditions.

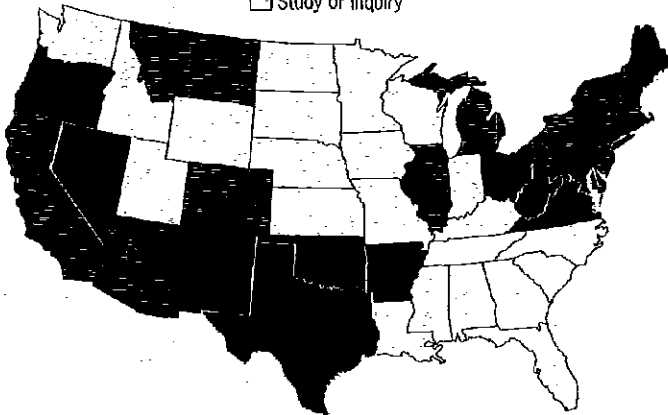
### Power and Gas Prices (Average Monthly)



Normal gas and power price relationships gave way to extreme volatility from the late 1990s into mid-2001. When power prices plummeted, so did the profit margins from gas-fired electric generation. (Prices shown are as reported at the Henry Hub and Palo Verde trading centers.)

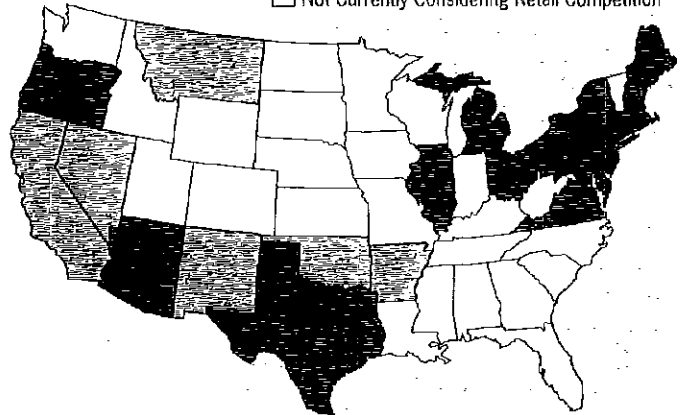
### Status of Electric Restructuring 1999

- Active Implementation
- Legislation Enacted / Utility Commission Endorsed
- Study or Inquiry



### Status of Electric Restructuring 2003

- Active Implementation
- ▨ Restructuring Suspended / Delayed
- Not Currently Considering Retail Competition



The push for electric restructuring has slowed dramatically. While implementation is underway in some states with varying results, most are not currently considering retail competition, and several have suspended deregulation or delayed their plans.

IN THIS REPORT **COVER** LETTER TO SHAREHOLDERS **INSIDE FRONT COVER** THE ENVIRONMENT WE ARE IN  
**2** OUR FINANCIAL PICTURE **4** OUR CHARTER **8** OUR CUSTOMERS **10** WHAT WE DO  
**17** CONSOLIDATED FINANCIAL STATEMENTS **23** LEADERSHIP **24** BOARD OF DIRECTORS  
**INSIDE BACK COVER** INVESTOR INFORMATION

## LETTER TO SHAREHOLDERS, continued from front cover

... Duke, I have been amazed at how much the landscape has changed in just five short years. The thriving industry I left is like a bombed-out village. Parts of it remain and are recognizable, but other parts are missing or damaged beyond recognition. And some of the damage was self-inflicted.

### **The State of the Industry**

In 2000, the combined market capitalization of the ten largest integrated energy firms exceeded \$230 billion. By the end of 2003, their combined market cap had dropped by more than \$100 billion. Today, half of that group would not even make the ten-largest list by market capitalization.

Of the companies that comprised the Interstate Natural Gas Association of America and the Edison Electric Institute at year-end 1998, more than a quarter have merged or otherwise disappeared. Several have filed for bankruptcy and still more have had their debt lowered to below investment grade. Roughly one in four has changed names, and more than 50 percent have changed their CEOs. The new breed of independent power producers has fared even worse, while many involved in energy trading have been discredited.

Changes to market dynamics and the regulatory climate have been no less dramatic. The dream of an integrated gas and power generation industry serving free and open markets with a balance of hard assets and trading has turned into a nightmare. Overly aggressive estimates of demand led power generators to add enormous chunks of new capacity just as the cycle was peaking. Traders began to confuse a bull market with brains and became the new "masters of the universe." Many company managements aspired to be increasingly clever rather than good, and spoke of "virtual" companies without assets. The price of natural gas was all over the map, but it looked tame compared to volatility in the electric markets. By the end of 2003, liquidity in many markets had all but disappeared.

The landscape was also reshaped by regulatory and legislative action – and inaction. The rush toward deregulation halted mid-stream, leaving the industry in limbo with a mixture of state and federal laws and regulations that often conflicted and contributed to the problems. Recent focus has been to put constraints on the industry to prevent a repeat of past excesses. Unfortunately, some of these controls destroy or eliminate many of the benefits originally envisioned for an integrated energy industry.

Of course, it's not just the energy industry that has changed over the last five years. The boom and bust of the "dot coms," the accompanying investor frenzy and the ultimate implosion of some of the largest and most respected companies in the U.S. were remarkable events to observe from the vantage point of the Sydney and London exchanges. I remember watching the regulatory and legislative response and wondering who in their right mind would agree to be the CEO of a U.S. company in that kind of environment.

My personal answer to that question is simple: Someone who believes in the company and its people.

### **Sizing Up Our Situation**

If the industry resembles a bombed-out village, Duke is one of the few recognizable structures remaining. In hindsight, there is no denying that the company got caught up in the exuberance of the day and participated in the overbuilding of capacity. (To be honest, I often wonder to what extent I might have been sucked into that vortex if I had remained in the industry during that period.)

Obviously, Duke Energy has taken a number of major hits. The stock price at year-end was less than half of what it was at its peak. Credit ratings were reduced twice in 2003. Duke Energy North America has gone from generating profits of over \$1 billion in 2001 to a position of generating losses in 2003. Many of the key strategic assumptions that drove Duke Energy in the late '90s proved incorrect, as the world evolved in far different directions. And yet, the underlying assets, the customer base and the market position of the company are sound.

---

Paul Anderson was appointed Chairman and Chief Executive Officer of Duke Energy effective Nov. 1, 2003. His association with the company began in 1977, when he joined Texas Eastern Corp. as Director of Corporate Planning. Anderson left the company in 1990, following the merger of Texas Eastern Corp. and Panhandle Eastern Corp. He subsequently returned to Panhandle Eastern (later named PanEnergy Corp) to become its Chairman and CEO prior to the merger with Duke Power to create Duke Energy. He served as President and Chief Operating Officer of Duke Energy until 1998, when he left to become CEO and Managing Director of BHP Ltd., an Australian based company. During his tenure at BHP, the company merged with Billiton PLC to form BHP Billiton, listed on both the London and Sydney exchanges. Mr. Anderson retired from BHP Billiton in July 2002.

## OUR FINANCIAL PICTURE

	Years Ended December 31				
(In millions, except where noted)	2003	2002	2001	2000	1999
Operating revenues	\$ 22,529	\$ 16,189	\$ 18,415	\$ 16,228	\$ 9,909
(Loss) earnings before interest and taxes from continuing operations <sup>a</sup>	\$ (268)	\$ 3,118	\$ 4,236	\$ 4,037	\$ 2,018
Interest expense	1,380	1,097	760	887	583
Minority interest expense <sup>b</sup>	64	115	327	306	141
Income tax (benefit) expense from continuing operations	(707)	611	1,150	1,036	456
(Loss) income from discontinued operations, net of tax	(156)	(261)	(5)	(32)	9
Extraordinary gain, net of tax	—	—	—	—	660
Cumulative effect of change in accounting principles, net of tax	(162)	—	(96)	—	—
Net (loss) income	(1,323)	1,034	1,898	1,776	1,507
Dividends and premiums on redemptions of preferred and preference stock	15	13	14	19	20
(Loss) earnings available for common stockholders	\$ (1,338)	\$ 1,021	\$ 1,884	\$ 1,757	\$ 1,487
<b>Common Stock Data</b>					
Basic weighted-average shares outstanding	903	836	767	736	729
Basic (loss) earnings per share (from continuing operations)	\$ (1.13)	\$ 1.53	\$ 2.59	\$ 2.43	\$ 1.12
Basic (loss) earnings per share (from discontinued operations)	\$ (0.17)	\$ (0.31)	\$ (0.01)	\$ (0.04)	\$ 0.01
Basic (loss) earnings per share (before extraordinary items and cumulative effect of change in accounting principles)	\$ (1.30)	\$ 1.22	\$ 2.58	\$ 2.39	\$ 1.13
Basic (loss) earnings per share	\$ (1.48)	\$ 1.22	\$ 2.45	\$ 2.39	\$ 2.04
Dividends per share	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10	\$ 1.10
Cash flows from operating activities	\$ 3,929	\$ 4,547	\$ 4,357	\$ 2,011	\$ 2,684
Cash flows from investing activities	\$ (931)	\$ (6,809)	\$ (6,043)	\$ (4,716)	\$ (3,751)
Cash flows from financing activities	\$ (2,657)	\$ 2,846	\$ 1,354	\$ 2,714	\$ 1,600
Total assets	\$ 56,203	\$ 60,122	\$ 49,624	\$ 59,276	\$ 34,388
Total debt	\$ 21,952	\$ 22,465	\$ 14,185	\$ 12,980	\$ 9,432
<b>Capitalization</b>					
Common equity	37%	36%	41%	37%	42%
Preferred stock <sup>c</sup>	0%	1%	1%	1%	1%
Trust preferred securities <sup>c</sup>	0%	3%	5%	5%	7%
Total common equity and preferred securities	37%	40%	47%	43%	50%
Minority interests <sup>c</sup>	5%	5%	7%	9%	6%
Total debt <sup>c</sup>	58%	55%	46%	48%	44%

<sup>a</sup> (Loss) earnings before interest and taxes from continuing operations is a non-GAAP financial measure as defined by the Securities and Exchange Commission (SEC) under Regulation G. See page 22 of this report for additional information.

<sup>b</sup> Includes financing expenses related to securities of subsidiaries of \$55 million, \$130 million, \$161 million, \$122 million and \$87 million for the twelve months ended Dec. 31, 2003, 2002, 2001, 2000 and 1999, respectively. The expense related to these securities is now accounted for in interest expense.

<sup>c</sup> As a result of the implementation of SFAS No. 150 and FIN 46R, approximately \$900 million related to trust preferred securities and preferred stock with sinking fund requirements has been reclassified to debt and remains outstanding as of Dec. 31, 2003. Additionally, debt excludes approximately \$880 million of debt that has been reclassified as liabilities associated with assets held for sale as of Dec. 31, 2003.

Certain non-GAAP financial measures such as (loss) earnings before interest and taxes from continuing operations and ongoing (loss) earnings per share are used in this report. See page 22 for more information. Included in this Summary Annual Report are financial and operating highlights and consolidated financial statements. Audited financial statements along with related footnotes are included in the company's 2003 SEC Form 10-K. To obtain a copy of the 2003 SEC Form 10-K, please refer to the instructions for Financial Publications inside the back cover of this report.

## LETTER TO SHAREHOLDERS, continued

Relative to many others in the industry, Duke Energy is in an enviable position. Our financial strength provided us choices and flexibility, while others had their options sharply curtailed. We've maintained operational excellence in all of our energy businesses and continued to deliver reliably to our customers. We sold non-core assets to reduce debt, but we weren't forced into a fire sale or to surrender assets vital to our future growth. Our employees, while reduced in number, are re-energized and focused on restoring shareholder value and reclaiming our place as an industry leader.

The work to restore value began in 2003, well before I arrived on the scene. The company reacted forcefully to avoid being caught by the liquidity wave that hurt so many others. In 2003, we generated net proceeds of approximately \$2 billion from the sale of non-core assets. We reduced debt and trust preferred securities by \$2.2 billion, net of new debt issued and including nearly \$400 million of debt assumed in asset sales. We slashed our capital spending to \$2.8 billion – versus our original forecast of \$3.2 billion – and exited proprietary trading. We undertook a major cost-cutting effort that included significant voluntary and involuntary staff reductions. Our liquidity position is solid, and included over \$1 billion in cash and cash equivalents at year-end.

The year culminated in additional dramatic steps to restructure our business portfolio. We have decided to sell our merchant plants in the southeastern U.S. and to forgo further investment in our deferred plants in the West. These actions, combined with others, such as the planned sale of our Australian assets and our exit from Europe, resulted in a \$3.4 billion pre-tax write-down in the fourth quarter.

We resolved a number of regulatory and legal issues. In July, the Federal Energy Regulatory Commission (FERC) cleared Duke Energy of charges of withholding electricity from its California power plants. In September, Duke Energy Trading & Marketing announced a \$28 million settlement with the Commodity Futures Trading Commission, closing the agency's investigation of natural gas price reporting. In December, we reached a settlement with FERC, ending their inquiry into our trading and marketing practices in the western U.S. market, leaving only the refund proceeding related to the California energy crisis still outstanding at FERC.

I am confident that the tough decisions we made last year will serve us well long-term – but they didn't come without some near-term pain: We reported a net loss of \$1.3 billion for 2003, or (\$1.48) per share. Our fourth-quarter loss of \$2 billion was the largest in company history. Ongoing earnings per share for the year, excluding special items, were \$1.28, compared to \$1.88 in ongoing EPS in 2002.

### **Our Investment Proposition**

At year-end, we revised our investment proposition to emphasize income and modest growth. The high growth aspirations of the past are simply not in the best interests of our long-term investors. The Board has reaffirmed our commitment to maintain an annual dividend level of \$1.10 per share.

As we go forward, our work will be guided by the charter printed on the following page. We have introduced it to our employees, as well as publicly, as the document that defines us as a company, articulates our values, and sets out our management priorities and how we will measure success. I urge you to read the charter and more about the management priorities on the pages that follow. They are the roadmap we will follow to restore our credibility, strengthen our financial performance and meet the needs of our stakeholders.

In 2004, we celebrate the 100th anniversary of Duke Power, the first of Duke Energy's companies. We appreciate those of you who have supported us and have had confidence in us over many years. In my mind, there's no end-goal in the quest to build confidence. The most successful and enduring companies are those that continually strive to do more. When you look at Duke Energy today, I hope you see a company with a renewed sense of purpose, candor and commitment to the long term. As we enter our second hundred years, I pledge to you that Duke Energy will work harder than ever to win your investment, your business and your trust.

Sincerely,



Paul M. Anderson, Chairman of the Board and Chief Executive Officer

March 15, 2004



## OUR CHARTER

**We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.**

Our purpose is to create superior value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.

**To provide a stable platform for future growth, we must:**

- Deliver on our financial plan and preserve the dividend of \$1.10/share.
- Resize and realign our asset portfolio to reflect current and future market realities and to improve return on capital.
- Significantly improve execution of essential management and operating systems, reducing bureaucracy and overhead.
- Build a high performance organization with clear accountabilities in which every individual accepts responsibility and is rewarded for results.
- Restore credibility and earn the trust of employees, customers, suppliers, regulators, legislators, communities and investors.

**In conducting our business, we value:**

- Stewardship – A commitment to health, safety, environmental responsibility and our communities.
- Integrity – Ethically and honestly doing what we say we will do.
- Respect for the Individual – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- High Performance – The excitement and fulfillment of achieving superior business results and stretching our capabilities.
- Win-Win Relationships – Having relationships which focus on the creation of value for all parties.
- Initiative – Having the courage, creativity and discipline to lead change and shape the future.

**We will be successful when:**

- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose and ends each day with a sense of accomplishment.

## OUR CHARTER

### **Duke Energy's Roadmap to Success.**

Duke Energy's charter, printed on the facing page, sets out who we are, what we do, how we do it and how we'll know when we succeed. The purpose, values and measures of success will be constants, while the five "musts" are management's immediate priorities. These have shaped the company's financial and operational goals for 2004. As our goals are achieved and new challenges are identified, these priorities will change over time. Below we outline what we must do to provide a stable platform for future growth, and our strategy for getting there.

#### **Deliver on our financial plan and preserve the dividend of \$1.10 per share.**

Duke Energy took decisive steps in 2003 to improve our financial flexibility. We cut costs, reduced debt and generated cash. We expect to pay down debt by \$3.5 to \$4 billion in 2004.

We are well-positioned to generate cash this year from the conversion of outstanding equity units, from operations and from asset sales. These funds will be used to reduce debt, pay the dividend and provide capital for maintenance and modest expansion.

#### **Resize and realign our asset portfolio to reflect current and future market realities and to improve return on capital.**

In 2003, Duke Energy strengthened and streamlined its portfolio of energy businesses and assets. We sold non-core assets, reduced the size and scope of our domestic merchant energy business and our international operations, and are exiting non-core businesses, including Duke Capital Partners and Duke/Fluor Daniel. These moves reduce our exposure to international and merchant risk, and focus our resources on areas that promise better returns.

A major focus for 2004 will be to complete the execution of the plans we announced for our merchant and international businesses, including the sale of our assets in the southeastern U.S. and Australia, and our exit from Europe.

Our capital investment going forward will be primarily in Duke Power, our franchised electric utility, and Duke Energy Gas Transmission (DEGT), our natural gas pipeline business – both of which deliver stable earnings and strong cash flows. We're investing in these assets to be sure they are well-maintained and we can capture appropriate and attractive high-return growth opportunities. We will also continue to invest capital in Crescent Resources, one of the country's premier real estate development companies, which contributes substantial cash to our enterprise.

Duke Energy Field Services (DEFS) continues to be one of the top players in the North American midstream natural gas sector, enjoying an approximately 20 percent market share in natural gas liquids (NGLs) production. In 2003, DEFS benefited from higher NGL prices and improved "frac spreads" (the difference between the thermal value of NGLs and natural gas). The business also worked to improve cash flow, optimize its assets, realign its contract mix to reduce the impact of commodity price fluctuations, and reduce debt. Going forward, we'll selectively pursue growth opportunities and expand and contract our DEFS asset base in response to changing market cycles.

In merchant and international operations, we are focusing on regions that we expect to yield the highest returns when energy markets improve. In the United States, we will remain in the northeastern, midwestern and western regions where demand is likely to recover sooner than in other regions, and where transmission and regulatory policies better support wholesale power markets. Internationally, we will focus on Latin America. The consolidation of Duke Energy North America (DENA) and Duke Energy International (DEI) reflects our narrowed focus and will result in greater efficiencies.

## OUR CHARTER, continued

Duke Energy has an enviable portfolio of energy assets, both regulated and non-regulated. To serve its franchised territory in the Carolinas, Duke Power has the advantage of fuel diversity: nuclear, coal, hydroelectric and natural gas. Our natural gas pipelines and storage facilities are strategically situated to serve major supply basins and high-growth markets. Our merchant plants in the U.S. Northeast, Midwest and West will be well-positioned to contribute strong earnings when demand recovers.

### **Significantly improve execution of essential management and operating systems, reducing bureaucracy and overhead.**

A top-to-bottom expectation of all businesses and corporate functions is to simplify and flatten their organizations and eliminate overlap. For example, the risk management organization now reports to the Chief Financial Officer to align the risk and finance functions and provide a single point of accountability. The role of the Chief Administrative Officer was eliminated. By creating Duke Energy Americas, we combined under one leader the administrative functions for DENA and DEI, and other efficiencies will follow.

The actions we took in 2003 to resize the business and workforce will result in permanent cost savings of more than \$200 million a year, and we continue to press for increased efficiency in all areas of the business.

### **Build a high performance organization with clear accountabilities in which every individual accepts responsibility and is rewarded for results.**

Duke Energy's new management team has clearly defined accountabilities, and their compensation is tied to their success. Foremost is achieving the company's minimum earnings per share (EPS) goal of \$1.10 – without it, the 12-member executive team will receive zero short-term bonus for the year, no matter how successful they may have been in reaching other goals. The target EPS portion of the incentive plan – which triggers a 100 percent payout for that portion only – is \$1.20 a share. In addition to the EPS goal, Executive Committee members and business unit leaders have specific goals that align with and support the management priorities in the charter.

Rewards will be linked to results at all levels of the organization. In 2004, most Duke Energy employees will have EPS as a component of their incentive plan. Additionally for those employees, if 2004 earnings fall below \$1.10 a share, the payout for all measures will be capped at 50 percent.

The ultimate example of pay tied to performance is the compensation plan for CEO Paul Anderson. Anderson's compensation is entirely stock-based with a provision that all shares received must be held until he leaves the company. Additionally, there is no provision for a cash severance payment should his employment be terminated by the Board of Directors before his contract ends in 2007.

If our compensation plan emphasizes accountability, so do the company's governance practices. Even before Sarbanes-Oxley was signed into law in 2002, Duke Energy's policies and practices guarded against conflict of interest, supported independent and involved oversight of management by the Board of Directors, and provided other safeguards now required by the legislation or recommended by the New York Stock Exchange.

Duke Energy is subject to regulatory codes and standards of conduct that address business activities between regulated companies and their affiliates. These rules prevent regulated businesses from subsidizing the activities of their affiliates, and prevent the affiliates from gaining an unfair advantage because of their relationship with the regulated businesses. Duke Energy complies with both the letter and the spirit of these standards and works to ensure that all employees understand and follow them.

Like ethical conduct, safety is a key aspect of successful performance. Duke Energy's long-range safety goal is simple – zero injuries, work-related illnesses and fatalities. Management and employees must continually renew their commitment to safety in order to reach that goal. Improvements in corporate-wide safety results begin by

establishing accountability at every level, starting with the company's leaders. Business units are expected to set challenging safety targets, and to provide quarterly safety performance reviews. We foster a culture in which individual employees accept accountability for the safety of their co-workers, their customers, their communities and themselves.

**Restore credibility and earn the trust of employees, customers, suppliers, regulators, legislators, communities and investors.**

There is no doubt that our reputation has taken some hits. We are committed to restoring confidence in Duke Energy by reliably serving our customers, by delivering superior returns to investors, by being good neighbors in communities where we operate, and by providing our employees with a sense of purpose and direction.

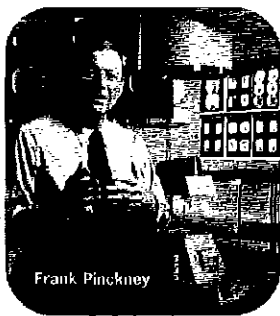
Duke Energy is recommitting itself to creating win-win relationships with every customer we serve, and with regulatory agencies charged with representing consumer interests.

We're working hard to enhance the customer experience in every facet of Duke Energy. From ensuring natural gas delivery to a Canadian power generator during the August blackout, to helping a South Carolina hospital operate around the clock, to supplying reliable electricity to a manufacturer in Brazil – we're committed to delivering dependable and cost-effective energy and service. You'll hear directly from a few of our customers in the pages that follow.

We work openly and productively with the regulatory agencies that oversee our businesses. Duke Power, for example, has been able to work with utility commissions in North Carolina and South Carolina to develop win-win approaches to such issues as clean air legislation and the company's resulting environmental investments.

We bring more than natural gas and power to our communities. For instance, DEGT is committed to increasing aboriginal participation in its workforce in British Columbia through employment and contracting opportunities. Duke Power has renewed its commitment to economic development in the Carolinas, partnering with government and community interests to attract new industry and jobs to the region. Reflecting the company's community spirit, Duke Energy employees and retirees volunteered more than 235,000 hours to nonprofit organizations in 2003.

Duke Energy is committed to restoring its reputation as an industry leader. In all of our interactions with investors, customers, neighbors and employees, we are working hard to regain their trust.



Frank Pinckney

"As one of the largest hospital systems in the state, our physicians, nurses and patients depend on Duke Power. Together we save lives and keep patients breathing hour after hour, every day of the week."

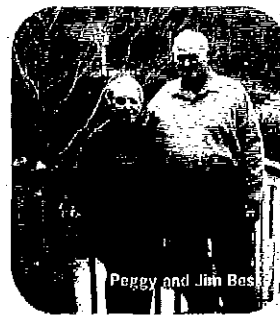
Frank Pinckney, CEO and President  
Greenville Hospital System  
Greenville, S.C.



D. Lindsay Pettus

"Crescent Resources has been exceptionally responsive in working with our organization over the years. Our third land purchase from the company is now pending, and we hope to continue to partner with Crescent in our efforts to protect the natural resources and water quality of the Catawba River valley."

D. Lindsay Pettus, President  
The Catawba Valley Land Trust  
Lancaster, S.C.



Peggy and Jim Besse

"In view of the prices of other services available to retirees who live on fixed incomes, such as health insurance and medication, you and your company are standouts for efficiency and concern for your customers."

Peggy and Jim Besse,  
Duke Power customers  
Hickory, N.C.

"For a glass packaging manufacturer, electric energy is one of the main raw materials in the industrial process. Choosing Duke Energy as our electric energy supplier assured Cispra a real competitive advantage. Our partnership has always been based on clear and objective negotiations."

José Antonio Ramos Lorente,  
President, Cispra S/A  
(affiliated company of Owens-Illinois Inc.)  
São Paulo, São Paulo, Brazil



José Antonio Ramos Lorente

"Texas Parks and Wildlife has accomplished a lot at San Jacinto Battleground over the past few years. Restoration, revegetation, interpretation and construction projects have become realities, thanks to our partners. Some of our partners donate materials or money. Other partners donate volunteer labor. Duke Energy contributes both. TPW and Duke Energy are not just partners; we're members of a team, and in some ways, that's the most valuable donation of all!"

Ted Hollingsworth,  
Cultural Resources Manager  
Texas Parks and Wildlife Dept.  
La Porte, Texas



Ted Hollingsworth

"Over the last 10 years, the Capital City has enjoyed tremendous economic growth, placing a great demand on the infrastructure. One of the City's greatest assets is the power plant. In 1996 the City of Dover became partners with Duke Energy for the management and operation of that plant. I can honestly say that was one of the smartest decisions this City has ever made to protect that asset."

James L. Hutchison, Mayor  
City of Dover, Del.



James L. Hutchison

"Our relationship with Duke Energy is all about them understanding our business, from our perspective, as evidenced during a compressor station outage this winter. They shared critical information with us, so that we could understand how the outage might affect our system operations. We consider the Duke team to be our partner in delivering safe, reliable energy to our customers, every day."

Dennis E. Welch,  
President and  
Chief Operating Officer  
Yankee Gas Services Co.  
Berlin, Conn.



Dennis E. Welch



Del Fischer

"While planning our Pinedale field development, we recognized the need for a large pipeline expansion to meet our growth projections. We were pleased that Duke was willing to work out a mutually beneficial solution that met both our timing and capacity needs."

Del Fischer,  
Gas Planning and Transportation  
Shell Exploration & Production Co.  
Houston, Texas



The Roberts

"Sugarloaf was the first place we saw that had all the things we wanted in one place - golf, lakes, a pool for our kids, sidewalks for bikes, good schools and a sense of security."

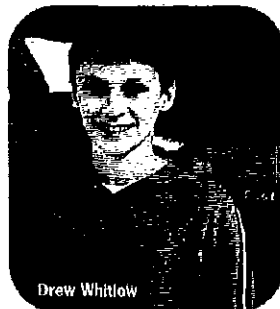
Dawn and Scott Roberts,  
Crescent community homeowners  
Sugarloaf Country Club,  
Duluth, Ga.



Ken Lacivita

"During the massive power blackout in August 2003, Union Gas personnel were able to assist OPGI in sourcing and supplying natural gas to the Lennox Generating Station near Kingston, Ontario. By ensuring natural gas was available, the station was able to continue to operate and contributed to meeting the electricity needs of Ontario consumers during a very difficult time."

Ken Lacivita,  
Director, Electricity Trading  
Ontario Power Generation Inc.  
Toronto, Ontario



Drew Whitlow

"After Isabel ripped through, Gloucester was left powerless and gloomy. We wouldn't have gotten power as fast as we did if it weren't for your crews. I thought my family was not going to have power for a month. We got it in a week! Thank you so much for all you did."

Drew Whitlow, 7th grade student  
Page Middle School  
Gloucester, Va.

We come to work every day to serve these and all of our customers. We know that we will succeed as a company if we serve them well. On the following pages, we describe our main business units, their primary areas of focus, and how they are meeting customer expectations and responding to changing markets.

## WHAT WE DO

Duke Energy is a diversified energy company with a portfolio of natural gas and electric businesses, both regulated and non-regulated, and an affiliated real estate company. Duke Energy supplies, delivers and processes energy for customers in North America and selected international markets. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

## DUKE POWER

**Profile:** Duke Power is one of the nation's largest electric utilities and provides safe, reliable, competitively priced electricity and value-added products and services to more than 2 million customers in North Carolina and South Carolina. In 2004, Duke Power celebrates 100 years of service. The company operates three nuclear generating stations, eight coal-fired stations, 31 hydroelectric stations and numerous combustion turbine units. Total system generating capability is approximately 19,900 megawatts. Duke Power is based in Charlotte.

### Operating Data:

	2003	2002	2001	2000	1999
<b>Franchised Electric</b>					
Sales, gigawatt-hours	82,828	83,783	79,685	84,766	81,548
Nuclear capacity factor <sup>a</sup>	91%	95%	92%	92%	90%
Average number of customers	2,160,000	2,117,000	2,117,000	2,072,000	2,023,000

<sup>a</sup> Includes 100 percent of Catawba Nuclear Station, which is 12.5 percent owned by Duke Power.

### Performance Highlights:

- Duke Power achieved a critical milestone last year, with the Nuclear Regulatory Commission's renewal of Catawba and McGuire Nuclear Stations' operating licenses – allowing the stations to continue providing electricity, jobs and revenue into the 2040s. Oconee Nuclear Station's license renewal was approved in 2000. Duke Power is the first utility in the United States to have seven nuclear units with extended licenses.
- Oconee celebrated 30 years of operation in 2003, and was the first U.S. nuclear station to reach 500 million megawatt-hours of electric generation. McGuire generated more electricity than in any previous year, and also set station records for reliability and cost efficiency. Even with planned maintenance and refueling outages, Duke Power's three nuclear stations produced at more than 91 percent of their capacity in 2003.
- Duke Power's fossil and hydroelectric fleets achieved 98 percent commercial availability for the second year, and the hydro stations set a new generation record of 6.4 million megawatt-hours.
- Duke Power is investing nearly \$2.2 billion in emission controls for its fossil-fueled power plants over the next decade, to bring air emissions well under current federal limits. At Belews Creek, Duke Power's largest coal-fired station, new environmental equipment is expected to reduce the utility's nitrogen oxide emissions by 75 percent from 1998 levels by this summer.
- The formal relicensing process is underway for Duke Power's Catawba-Wateree hydroelectric operations. The utility is working closely with stakeholder groups to ensure that its hydro facilities continue to serve customers and communities in an environmentally responsible manner.
- In 2003, Duke Power renewed its commitment to economic development in its service area, the surest way to draw new customers to the region and keep existing ones. The Carolinas have seen substantial and ongoing declines in traditional industries such as textiles, furniture, chemicals and tobacco, and Duke Power is working with government and community interests to spur a more diverse business and manufacturing economy. It's working – General Dynamics has moved a division headquarters to Charlotte and will open a plant in the area, and Sterilite is building a manufacturing facility in Laurens, S.C.

- Duke Power received the 2003 Edison Electric Institute Emergency Response Award, recognizing the swift restoration of electric service to 1.4 million customers affected by the December 2002 ice storm. That unprecedented effort heightened the utility's readiness for weather events like Hurricane Isabel, which hit the U.S. East Coast in September. After restoring service to thousands of Duke Power customers, crews moved on to help Dominion repair Isabel's damage in harder-hit areas in Virginia and eastern North Carolina.
- Duke Power launched an electronic billing and payment service in 2003. This new service allows customers to receive and pay their bills online. Nearly 5 percent of customers have already signed up for e-Bill, saving the mailing of more than a million bills annually. If just half of Duke Power's customers were to choose this option, the utility would save approximately \$2 million per year.
- Mill Creek Combustion Turbine Station is the newest addition to Duke Power's generation fleet. The \$300 million, 640-megawatt natural gas-fired station in Cherokee County, S.C., can generate enough power to serve more than 500,000 homes.

#### Strategy Going Forward:

- Deliver on the financial plan through management of cash, costs and capital, and through win-win regulatory policy.
- Operate assets with superior safety, reliability, efficiency, availability and responsibility.
- Improve customer satisfaction and deliver valued products and services.
- Create and realize opportunities for sustainable sales growth.
- Earn trust and build confidence with employees, customers, communities, regulators and elected officials.

## DUKE ENERGY GAS TRANSMISSION

**Profile:** Duke Energy Gas Transmission (DEGT) transports and stores natural gas from North America's major supply areas for customers in the northeastern and southeastern United States and in Canada. DEGT also distributes natural gas to retail customers in Ontario, and gathers and processes natural gas for customers in western Canada. DEGT is based in Houston.

#### Operating Data:

	2003	2002	2001	2000	1999
<b>Natural Gas Transmission</b>					
Throughput, trillion British thermal units (Tbtu) <sup>a</sup>	3,362	3,160	1,781	1,771	1,893
Storage capacity, billion cubic feet	257	254	101	98	75

<sup>a</sup> Represents share of capacity owned by DEGT.

#### Performance Highlights:

- DEGT capped a great year in 2003 by placing five major pipeline expansion projects into service in three key growth regions – in time for the winter heating season. The five expansions provide a combined 850 million cubic feet per day of added capacity for customers in the northeastern and southeastern United States, eastern Canada, British Columbia and the U.S. Pacific Northwest.
- DEGT is moving forward with plans to construct the Dominion Expansion Project, which will transport natural gas for distribution by DEGT customer Dominion Transmission in Maryland and Virginia, increasing the reliability and efficiency of natural gas supplies in the Mid-Atlantic region.
- January 2004 brought the U.S. Northeast some of the lowest temperatures in two decades. DEGT's Algonquin and Texas Eastern systems had some of their top delivery days in company history in that region. DEGT's pipelines and storage facilities met shippers' supply demands with the consistently reliable service they expect from DEGT. More than 99 percent of DEGT's Northeast shippers whose contracts came up for renewal in 2003 showed their satisfaction by renewing agreements with the company.



## WHAT WE DO, continued

- Natural gas storage has become an increasingly critical part of the energy infrastructure in North America. In August, customers began preparing for winter by storing natural gas in the new Saltville Gas Storage facility in southwest Virginia, the only salt cavern storage facility in the South Atlantic market. Jointly developed by DEGT and NUI Corp.'s Virginia Gas Co., the field has storage capacity for 1 billion cubic feet of natural gas; that capacity will double in 2004 and expand to a planned 6 billion cubic feet by 2007. DEGT also has storage capacity in Texas, Louisiana, Pennsylvania and Maryland, and the largest natural gas storage facility in North America, Union Gas' Dawn facility in Ontario.
- The Gulfstream Natural Gas System, jointly developed by DEGT and Williams, signed a 23-year agreement with Florida Power & Light Co. (FPL), to transport up to 350 million cubic feet of natural gas per day beginning in 2005. Gulfstream, the first interstate transmission pipeline across the Gulf of Mexico, is extending its Florida mainline by approximately 110 miles to enable two FPL plants to serve an additional 400,000 customers on Florida's East Coast.
- DEGT's Union Gas provided transportation and distribution of 1,250 billion cubic feet of natural gas and experienced a net increase of 24,000 customers.
- DEGT's U.S. operations recorded their lowest ever number of preventable safety incidents in 2003, achieving a 17.6 percent reduction over 2002. Eighty-two U.S. transmission locations were accident-free, and five have recorded more than 1 million work-hours without a lost-time injury.
- In Canada, DEGT's BC Pipeline and Field Services group exceeded its safety performance targets by 45 percent for personal injuries and 22 percent for vehicle accidents, and incurred no lost-time incidents.
- In line with Duke Energy's strategy to strengthen its financial position by selling non-core assets, the company sold ownership interests in a number of pipeline systems and related facilities in 2003.

### Strategy Going Forward:

- Produce superior financial results through increased productivity and balanced growth.
- Provide superior customer service.
- Optimize existing asset portfolio.
- Capture efficiencies and control costs.
- Develop new high-return expansion projects.

## DUKE ENERGY FIELD SERVICES

**Profile:** Duke Energy Field Services (DEFS) gathers, processes, transports, markets and stores natural gas, and produces, transports and markets natural gas liquids (NGLs) like propane, butane and ethane. DEFS gathers natural gas from producers' wells in western Canada and from Wyoming to the Gulf Coast, and processes it at more than 60 plants.

Headquartered in Denver, DEFS is the largest producer of NGLs in North America – with twice the production of its nearest competitor – and one of the largest marketers. DEFS also owns the general partner of TEPPCO, a master limited partnership which owns and operates pipelines for refined products, NGLs and crude oil, and owns natural gas gathering assets. Duke Energy owns approximately 70 percent of DEFS, and ConocoPhillips owns the remainder.

### Operating Data:

	2003	2002	2001	2000	1999
<b>Field Services</b>					
Natural gas gathered and processed/transported, TBtu/day	7.7	8.1	8.3	7.3	4.9
Natural gas liquids production, thousand barrels per day	365.3	388.7	394.0	354.9	186.3
Average natural gas price per million Btu	\$ 5.39	\$ 3.22	\$ 4.27	\$ 3.89	\$ 2.27
Average natural gas liquids price per gallon	\$ 0.53	\$ 0.38	\$ 0.45	\$ 0.53	\$ 0.34

### Performance Highlights:

- DEFS has benefited from higher NGL prices, which have risen with increasing demand for NGLs along with natural gas and crude oil, and the "frac spread" (the difference between the thermal value of NGLs and natural gas) has increased as well. DEFS continues to lead the NGL industry with 20 percent of market share.
- DEFS has realized strong margins from its natural gas processing business, especially on percent-of-proceeds contracts, under which DEFS keeps a percentage of the natural gas and NGLs as payment for services.
- One of DEFS' strategies for 2003 was to support the growth strategy at TEPPCO. TEPPCO expanded the pipeline and processing capacity on its Jonah Gas Gathering System in Wyoming, and increased to 50 percent its ownership interest in the Centennial Pipeline from the Gulf Coast to the Midwest.
- DEFS sold several non-strategic assets according to plan in 2003, including various gas processing plants and gathering pipelines in the Gulf Coast region and Oklahoma.

### Strategy Going Forward:

- Capitalize on size and focus of existing operations.
- Be a top-3 player in every producing region where DEFS has assets.
- Optimize and rationalize the asset base.
- Focus on operational and commercial excellence.
- Maintain strong financial position and self-funding status.
- Support the growth of TEPPCO.

## DUKE ENERGY AMERICAS

As 2003 drew to a close, Duke Energy took a close look at opportunities to streamline operations for higher efficiency. As a result, in January 2004, the major merchant energy businesses, Duke Energy North America (DENA) and Duke Energy International (DEI), were combined into Duke Energy Americas, based in Houston. These businesses will more narrowly focus on key markets in North America and Latin America.

### Duke Energy North America

**Profile:** Duke Energy North America operates merchant power generation facilities, and markets electricity, natural gas, energy management and related services to wholesale customers throughout North America.

Of all of Duke Energy's business units, DENA faced the toughest challenges in 2003. A period of rapid growth in merchant power markets was followed by regulatory and market upheavals and the aftershocks of Enron's collapse. An oversupply of merchant generation in many regions and low spark spreads (the difference between the cost of natural gas and the price of the electricity it generates) have prevented many DENA facilities from generating power profitably. As a result, the company made the strategic decision to exit the Southeast region in 2004, but to retain operations in the West, Northeast and Midwest regions – markets that have value for the company long-term.

### Operating Data:

	2003	2002	2001	2000	1999
<b>Duke Energy North America</b>					
Actual plant production, gigawatt-hours	<b>24,046</b>	24,962	20,516	18,523	11,307
Capacity in operation, megawatts <sup>a</sup>	<b>15,820</b>	14,157	6,799	5,134	3,532

<sup>a</sup> Represents share of capacity owned by DENA.

## WHAT WE DO, continued

### Performance Highlights:

- DENA reduced the scope and scale of its trading and marketing organization to align with current market conditions, limited commercial transactions to those that directly benefit DENA operations and customers, and implemented new levels of control and risk management.
- In May, DENA announced it would end proprietary (purely financial) trading, which typically represented less than 10 percent of DENA's gross margin. In 2003, DENA also began to wind down the Duke Energy Trading & Marketing joint venture, which is 60 percent owned by Duke Energy and 40 percent by ExxonMobil. DENA's stand-alone trading and marketing operation continues with a focus around the company's own assets.
- DENA sold 15 significant new tolls related to its plants. A toll is an agreement to sell all or part of the generating capacity of a power plant for a fee. Duke Energy expects tolling deals to play an increasingly important role in merchant energy, allowing DENA to capture margin at relatively low risk.
- In 2003, DENA initiated a new customer relationship program, enhancing and renewing ties with key providers and buyers in the areas where DENA plants are located.
- Consistent with its sharpened focus on its merchant natural gas-fired fleet, DENA sold its interest in American Ref-Fuel, which converts municipal solid waste into energy, and Duke Energy Hydrocarbons, which was involved in the exploration and production of natural gas and petroleum, primarily in the Gulf of Mexico.
- As DENA employees faced tough challenges in 2003, their resolve to work safely resulted in a 50 percent reduction in recordable injuries.

### Strategy Going Forward:

- Selectively reduce merchant energy exposure by selling plants in the southeastern United States, and by selling DENA's interest in deferred plants in Washington, Nevada and New Mexico, or seeking a partner to fund their completion.
- Rationalize the natural gas transportation and storage business around DENA's generation assets.
- Return the base business to profitability as the market recovers.
- Retain an option for future regional growth in wholesale merchant energy.

### Duke Energy International

**Profile:** Duke Energy International operates power generation facilities, and engages in sales and marketing of electric power and natural gas outside the United States and Canada. Its primary focus is on power generation activities in Latin America, where it owns approximately 4,100 net megawatts of capacity in seven countries.

During 2003, DEI made the strategic decision to exit the European and Asia-Pacific markets, reducing the overall exposure of Duke Energy to international markets. DEI sold its investment in Indonesia, a power plant in northwest France and its Dutch gas marketing business, collectively generating gross proceeds of over \$400 million for Duke Energy. Duke Energy retains a diversified portfolio of generating assets that are well-positioned to benefit from strengthening energy markets and economies in Latin America. This table presents operating data for DEI's continuing operations.

### Operating Data:

	2003	2002	2001	2000	1999
<b>International Energy</b>					
Sales, gigawatt-hours	16,374	18,350	15,749	14,154	4,812
Capacity in operation, megawatts <sup>a</sup>	4,121	3,917	3,968	3,768	2,415

<sup>a</sup> Represents share of capacity owned by DEI.

### Performance Highlights:

- 2003 was a solid year from an operating standpoint for DEI's continuing operations in Latin America and its investment in National Methanol Company in Saudi Arabia.
- Strong operating results were driven by successful recontracting efforts in Brazil, stronger market prices in Peru, completion of the second phase of a greenfield plant in Guatemala, solid results from National Methanol and significant cost reductions of approximately \$30 million over 2002.
- DEI Guatemala brought the second phase of the 160-megawatt Planta Arizona on line, and is completing a conversion this year which will allow the plant to run on Orimulsion® in addition to fuel oil. The plant's dual-fuel capability will position Planta Arizona as one of the most flexible, efficient and low-cost generators in the region.
- DEI Peru became the first company in Peru, and the first Duke Energy company, to obtain simultaneous international certifications for operations management (ISO 9001), environmental management (ISO 14001) and occupational health and safety practices (OHSAS 18001).
- For the second consecutive year, DEI Brazil Paranapanema received the Medalha Eloy Chaves Award as recognition for the best safety record in the Brazilian electric generation sector. It is the only company ever to have received this award for two consecutive years. DEI Brazil also reached 4 million work-hours without a lost-time incident.

### Strategy Going Forward:

- Focus on Latin America, with an emphasis on increasing overall returns through:
  - Organic growth through sales and marketing efforts
  - Asset optimization for all facilities
  - Cost reduction
  - Portfolio/balance sheet management.
- Identify and assess opportunities in Latin America to capitalize on economic growth, regulatory reform and strengths of the existing portfolio.
- Complete exit from the European and Asia-Pacific regions.

## CRESCENT RESOURCES

**Profile:** As part of Duke Energy for over 40 years, Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups. The company is based in Charlotte.

### Operating Data:

	2003	2002	2001	2000	1999
<b>Crescent Resources</b>					
Residential lots sold	2,060	1,221	1,075	955	1,049
Commercial square footage sold, in millions	1.7	1.2	3.1	2.0	2.0
Multi-family units sold	950	—	—	—	—
Surplus (legacy) land sold, acres	5,088	10,982	11,402	8,562	29,648

### Performance Highlights:

- Crescent is the master developer of Potomac Yard, a 300-acre mixed-use development adjacent to Reagan National Airport in Arlington and Alexandria, Va. The approved plans for Potomac Yard include high-quality mixed-use communities of townhouses, apartments, hotels, retail stores, offices, open space, pedestrian-friendly neighborhoods, parks,

## WHAT WE DO, continued

playfields and a transit system. In 2003, Crescent sold two parcels of land for apartment and condominium units and retail developments, and began work on two office buildings.

- Two major transactions underway in 2003 demonstrate Crescent's commitment to strike a balance between property developed in an environmentally sensitive manner and land sold for long-term preservation.
  - The N.C. Wildlife Resources Commission will manage the 4,400-acre Needmore area that hosts a diverse array of aquatic and forest wildlife along a 27-mile stretch of the Little Tennessee River in the N.C. mountains. Supported by individual donations and environmental groups, the N.C. chapter of The Nature Conservancy worked with the state and Crescent to facilitate the purchase, completed in January 2004.
  - In December 2003, Crescent accepted a letter of intent from The Katawba Valley Land Trust (KVLT) to buy the Heritage Tract, a 2,000-acre area of environmental, cultural and historical significance along the Catawba River in South Carolina. Crescent has sold more than 1,200 acres to KVLT for the expansion of Landsford Canal State Park, home of the world's largest known colony of the rare Rocky Shoals spider lilies. In recent years, Crescent has also conveyed several conservation easements along the stream banks feeding into the Catawba River to KVLT for permanent stewardship.
- More than one-third of the property in Palmetto Bluff, Crescent's 20,000-acre recreational and residential community in South Carolina's lowcountry, will remain undeveloped, including a 6,500-acre managed forest. Crescent has sold close to \$50 million in residential real estate at Palmetto Bluff since sales opened last year. A luxury inn and spa and an 18-hole Nicklaus Signature Golf Course are set to open in 2004.
- In 2003, Crescent maintained strong market share in its residential markets.
  - The company sold 57 percent of the total value of homesites with an average price of \$50,000 or more in new communities in the greater Charlotte, N.C., area.
  - In the metro Atlanta area, Sugarloaf Country Club has been the top-selling luxury golf club community for million-dollar homes for the past six years.
  - In Palm Coast, Fla., Crescent's residential venture partner LandMar Group's Grand Haven exceeded 2003 sales projections by 55 percent.
  - Crescent welcomed the first families to its new country club community in the Atlanta area, the River Club, on the Chattahoochee River in Suwanee, Ga.
  - Crescent opened three new communities at Lake Keowee in South Carolina, and announced plans for a new family-oriented residential development near Lake Norman in North Carolina.
- Since establishing its retail division three years ago, Crescent's strategy has been to sell select neighborhood retail centers it develops and re-invest in the development of new retail centers. The company closed four sales in the month of December 2003 alone for more than \$50 million, and has five retail centers under development.
- Crescent's multi-family division realized a gain of \$11.6 million when it sold two apartment communities in 2003. Both Lighthouse Court in the Jacksonville, Fla., area and CrossWynde in the Tampa vicinity opened less than two years ago.

### Strategy Going Forward:

- Generate earnings through:
  - Opportunity-driven development in carefully selected target markets
  - Land sales that maximize the return to shareholders.
- Continue to focus on existing business lines, executing a proven development strategy without significantly increasing risk.
- Continue to generate significant cash flows through asset sales, while maintaining current capital expenditure levels.

# CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31		
(In millions)	2003	2002	2001
<b>Operating Revenues</b>			
Non-regulated electric, natural gas, natural gas liquids and other	\$ 14,561	\$ 9,109	\$ 12,405
Regulated electric	5,026	4,880	5,088
Regulated natural gas	2,942	2,200	922
Total operating revenues	22,529	16,189	18,415
<b>Operating Expenses</b>			
Natural gas and petroleum products purchased	11,568	5,436	6,986
Fuel used in electric generation and purchased power	2,087	2,191	2,022
Operation and maintenance	3,959	3,441	3,991
Depreciation and amortization	1,803	1,515	1,262
Property and other taxes	527	535	431
Impairment and other related charges	2,956	364	—
Impairment of goodwill	254	—	36
Total operating expenses	23,154	13,482	14,728
<b>(Losses) Gains on Sales of Other Assets, net</b>	<b>(199)</b>	32	238
<b>Operating (Loss) Income</b>	<b>(824)</b>	2,739	3,925
<b>Other Income and Expenses</b>			
Equity in earnings of unconsolidated affiliates	123	218	164
Gains on sales of equity investments	279	32	—
Other income and expenses, net	154	129	147
Total other income and expenses	556	379	311
<b>Interest Expense</b>	<b>1,380</b>	1,097	760
<b>Minority Interest Expense</b>	<b>64</b>	115	327
<b>(Loss) Earnings from Continuing Operations Before Income Taxes</b>	<b>(1,712)</b>	1,906	3,149
<b>Income Tax (Benefit) Expense from Continuing Operations</b>	<b>(707)</b>	611	1,150
<b>(Loss) Income from Continuing Operations</b>	<b>(1,005)</b>	1,295	1,999
<b>Discontinued Operations</b>			
Net operating loss, net of tax	(27)	(261)	(5)
Net loss on dispositions, net of tax	(129)	—	—
<b>Loss from Discontinued Operations</b>	<b>(156)</b>	(261)	(5)
<b>(Loss) Income Before Cumulative Effect of Change in Accounting Principle</b>	<b>(1,161)</b>	1,034	1,994
<b>Cumulative Effect of Change in Accounting Principle, net of tax and minority interest</b>	<b>(162)</b>	—	(96)
<b>Net (Loss) Income</b>	<b>(1,323)</b>	1,034	1,898
<b>Dividends and Premiums on Redemption of Preferred and Preference Stock</b>	<b>15</b>	13	14
<b>(Loss) Earnings Available for Common Stockholders</b>	<b>\$ (1,338)</b>	\$ 1,021	\$ 1,884

## CONSOLIDATED BALANCE SHEETS

	December 31	
(In millions)	2003	2002
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,160	\$ 874
Receivables (net of allowance for doubtful accounts of \$280 at 2003 and \$349 at 2002)	2,888	4,861
Inventory	1,156	1,134
Assets held for sale	424	—
Unrealized gains on mark-to-market and hedging transactions	1,566	2,144
Other	694	887
Total current assets	7,888	9,900
<b>Investments and Other Assets</b>		
Investments in unconsolidated affiliates	1,398	2,015
Nuclear decommissioning trust funds	925	708
Goodwill	3,962	3,747
Notes receivable	260	589
Unrealized gains on mark-to-market and hedging transactions	1,857	2,480
Assets held for sale	1,444	—
Other	1,117	1,645
Total investments and other assets	10,963	11,184
<b>Property, Plant and Equipment</b>		
Cost	47,157	48,677
Less accumulated depreciation and amortization	12,171	11,298
Net property, plant and equipment	34,986	37,379
<b>Regulatory Assets and Deferred Debits</b>		
Deferred debt expense	275	263
Regulatory asset related to income taxes	1,152	936
Other	939	460
Total regulatory assets and deferred debits	2,366	1,659
<b>Total Assets</b>	<b>\$ 56,203</b>	<b>\$ 60,122</b>

	December 31	
(In millions)	2003	2002
<b>LIABILITIES AND COMMON STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,331	\$ 3,637
Notes payable and commercial paper	130	915
Taxes accrued	—	156
Interest accrued	304	310
Liabilities associated with assets held for sale	651	—
Current maturities of long-term debt and preferred stock	1,200	1,331
Unrealized losses on mark-to-market and hedging transactions	1,283	1,918
Other	1,799	1,770
Total current liabilities	7,698	10,037
<b>Long-term Debt, including debt to affiliates of \$876 at 2003</b>	<b>20,622</b>	<b>20,221</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	4,120	4,834
Investment tax credit	165	176
Unrealized losses on mark-to-market and hedging transactions	1,754	1,548
Liabilities associated with assets held for sale	737	—
Other	5,524	4,893
Total deferred credits and other liabilities	12,300	11,451
<b>Commitments and Contingencies</b>		
<b>Guaranteed Preferred Beneficial Interests in Subordinated</b>		
Notes of Duke Energy Corporation or Subsidiaries	—	1,408
<b>Minority Interests</b>	<b>1,701</b>	<b>1,904</b>
<b>Preferred and Preference Stock</b>		
Preferred and preference stock with sinking fund requirements	—	23
Preferred and preference stock without sinking fund requirements	134	134
Total preferred and preference stock	134	157
<b>Common Stockholders' Equity</b>		
Common stock, no par, 2 billion shares authorized; 911 million and 895 million shares outstanding at December 31, 2003 and 2002, respectively	9,519	9,236
Retained earnings	4,060	6,417
Accumulated other comprehensive income (loss)	169	(709)
Total common stockholders' equity	13,748	14,944
<b>Total Liabilities and Common Stockholders' Equity</b>	<b>\$ 56,203</b>	<b>\$ 60,122</b>



# CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
(In millions)	2003	2002	2001
<b>Cash Flows from Operating Activities</b>			
Net (loss) income	\$ (1,323)	\$ 1,034	\$ 1,898
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	1,987	1,692	1,450
Cumulative effect of change in accounting principles	162	—	96
Gain on sales of equity investments and other assets	(86)	(81)	(238)
Impairment charges	3,495	545	36
Deferred income taxes	(534)	495	129
Purchased capacity levelization	194	175	156
Contribution to company-sponsored pension plan	(181)	—	—
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	(15)	596	91
Receivables	1,126	12	3,166
Inventory	(30)	134	(192)
Other current assets	(77)	(335)	694
Increase (decrease) in			
Accounts payable	(1,030)	798	(3,545)
Taxes accrued	(168)	(332)	183
Other current liabilities	79	(194)	325
Other, assets	349	380	351
Other, liabilities	(19)	(372)	(243)
Net cash provided by operating activities	3,929	4,547	4,357
<b>Cash Flows from Investing Activities</b>			
Capital expenditures, net of refund	(2,471)	(4,924)	(5,930)
Investment expenditures	(290)	(641)	(1,093)
Acquisition of Westcoast Energy Inc., net of cash acquired	—	(1,707)	—
Net proceeds from the sale of equity investments and other assets, and sales of and collections on notes receivable	1,966	516	943
Other	(136)	(53)	37
Net cash used in investing activities	(931)	(6,809)	(6,043)
<b>Cash Flows from Financing Activities</b>			
Proceeds from the			
Issuance of long-term debt	3,009	5,114	2,673
Issuance of common stock and common stock related to employee benefit plans	277	1,323	1,432
Payments for the redemption of			
Long-term debt	(2,849)	(1,837)	(1,298)
Preferred and preference stock and preferred member interests	(38)	(88)	(33)
Guaranteed preferred beneficial interests in subordinated notes	(250)	—	—
Notes payable and commercial paper	(1,702)	(1,067)	(246)
Distributions to minority interests	(2,508)	(2,260)	(3,063)
Contributions from minority interests	2,432	2,535	2,733
Dividends paid	(1,051)	(938)	(871)
Other	23	64	27
Net cash (used in) provided by financing activities	(2,657)	2,846	1,354
Changes in cash and cash equivalents associated with assets held for sale	(55)	—	—
Net increase (decrease) in cash and cash equivalents	286	584	(332)
Cash and cash equivalents at beginning of period	874	290	622
Cash and cash equivalents at end of period	\$ 1,160	\$ 874	290
<b>Supplemental Disclosures</b>			
Cash paid for interest, net of amount capitalized	\$ 1,324	\$ 1,011	\$ 733
Cash (refunded) paid for income taxes	(18)	344	770
Significant non-cash transactions:			
Acquisition of Westcoast Energy Inc.			
Fair value of assets acquired	\$ —	\$ 9,254	\$ —
Liabilities assumed, including debt and minority interests	—	8,047	—
Issuance of common stock	—	1,702	—
Capital lease obligations related to property, plant and equipment	\$ —	\$ 117	\$ —

# CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In millions)	Accumulated Other Comprehensive Income (Loss)						Total
	Common Stock Shares	Common Stock	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	
<b>Balance December 31, 2000</b>	<b>739</b>	<b>\$ 4,797</b>	<b>\$ 5,379</b>	<b>\$ (120)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$10,056</b>
Net income			1,898				1,898
Other comprehensive income							
Cumulative change in accounting principle <sup>a</sup>					(921)		(921)
Foreign currency translation adjustments				(187)			(187)
Net unrealized gains on cash flow hedges <sup>c</sup>					1,324		1,324
Reclassification into earnings from cash flow hedges <sup>d</sup>					84		84
Total comprehensive income							2,198
Dividend reinvestment and employee benefits	13	329					329
Equity offering	25	1,091					1,091
Common stock dividends, including equity units contract adjustment			(973)				(973)
Preferred and preference stock dividends			(14)				(14)
Other capital stock transactions, net			2				2
<b>Balance December 31, 2001</b>	<b>777</b>	<b>\$ 6,217</b>	<b>\$ 6,292</b>	<b>\$ (307)</b>	<b>\$ 487</b>	<b>\$ —</b>	<b>\$12,689</b>
Net income			1,034				1,034
Other comprehensive income							
Foreign currency translation adjustments				(340)			(340)
Net unrealized gains on cash flow hedges <sup>c</sup>					37		37
Reclassification into earnings from cash flow hedges <sup>d</sup>					(102)		(102)
Minimum pension liability adjustment <sup>e</sup>						(484)	(484)
Total comprehensive income							145
Dividend reinvestment and employee benefits	13	342					342
Equity offering	55	975					975
Westcoast acquisition	50	1,702					1,702
Common stock dividends, including equity units contract adjustment			(905)				(905)
Preferred and preference stock dividends			(13)				(13)
Other capital stock transactions, net			9				9
<b>Balance December 31, 2002</b>	<b>895</b>	<b>\$ 9,236</b>	<b>\$ 6,417</b>	<b>\$ (647)</b>	<b>\$ 422</b>	<b>\$ (484)</b>	<b>\$14,944</b>
Net loss			(1,323)				(1,323)
Other comprehensive loss							
Foreign currency translation adjustments <sup>b</sup>				962			962
Net unrealized gains on cash flow hedges <sup>c</sup>					116		116
Reclassification into earnings from cash flow hedges <sup>d</sup>					(240)		(240)
Minimum pension liability adjustment <sup>e</sup>						40	40
Total comprehensive loss							(445)
Dividend reinvestment and employee benefits	16	283	(6)				277
Common stock dividends, including equity units contract adjustment			(993)				(993)
Preferred and preference stock dividends			(15)				(15)
Other capital stock transactions, net			(20)				(20)
<b>Balance December 31, 2003</b>	<b>911</b>	<b>\$ 9,519</b>	<b>\$ 4,060</b>	<b>\$ 315</b>	<b>\$ 298</b>	<b>\$ (444)</b>	<b>\$13,748</b>

<sup>a</sup> Cumulative change in accounting principle, net of \$573 tax benefit in 2001.

<sup>b</sup> Foreign currency translation adjustments, net of \$114 million tax benefit in 2003.

<sup>c</sup> Net unrealized gains on cash flow hedges, net of \$49 tax expense in 2003, \$72 tax expense in 2002 and \$748 tax expense in 2001.

<sup>d</sup> Reclassification into earnings from cash flow hedges, net of \$130 tax benefit in 2003, \$94 tax benefit in 2002 and \$116 tax expense in 2001.

<sup>e</sup> Minimum pension liability adjustment, net of \$27 tax expense in 2003 and \$309 tax benefit in 2002.

## Non-GAAP Financial Measures

(Loss) earnings before interest and taxes from continuing operations and ongoing (loss) earnings per share are non-GAAP (generally accepted accounting principles) financial measures as defined by the Securities and Exchange Commission under Regulation G.

(Loss) earnings before interest and taxes from continuing operations is one of the measures used by management to assess consolidated performance for continuing operations. It represents the combination of operating (loss) income, and other income and expenses as presented on the Consolidated Statements of Operations, and it excludes results and impacts of discontinued operations. Additionally, management believes its investors use (loss) earnings before interest and taxes from continuing operations as a supplemental measure to evaluate the company's consolidated results from continuing operations.

The company's management uses ongoing (loss) earnings per share, which represents net income adjusted for special items, as one of the measures to evaluate operations of the company. Special items represent certain charges or gains which management believes are not representative of the ongoing operations of the company. Management believes that the presentation and use of ongoing (loss) earnings per share provide useful information to investors, allowing them to more accurately compare the company's ongoing performance across all periods presented.

The following is a reconciliation of ongoing (loss) earnings per share to GAAP reported basic (loss) earnings per share for 2003 and 2002:

	Pre-tax Amount	Tax Effect	Full-year EPS
<b>2003</b>			
<b>Earnings per share, ongoing</b>			<b>\$1.28</b>
DENA plant impairments and DETM charges	\$(2,826)	\$1,046	(1.97)
DENA redesignation of hedging contracts to mark-to-market	(262)	97	(0.18)
Charges and impairments for Australia and Europe	(292)	69	(0.25)
Cumulative effect of accounting changes	(256)	94	(0.18)
DENA goodwill write-off	(254)	90	(0.18)
Severance and related charges	(153)	55	(0.11)
Net gain on asset sales	185	(66)	0.13
DEI reserve and charges for environmental settlements in Brazil	(26)	10	(0.02)
Write-off of risk management system	(51)	19	(0.04)
Settlement with the South Carolina Public Service Commission	(46)	18	(0.03)
Settlement with the Commodity Futures Trading Commission	(17)	—	(0.02)
Tax benefit on 2002 impairment of goodwill at DEI for European gas trading	—	52	0.06
Tax adjustments	—	23	0.03
			(2.76)
<b>Earnings per share, as reported</b>			<b>\$(1.48)</b>

	Pre-tax Amount	Tax Effect	Full-year EPS
<b>2002</b>			
<b>Earnings per share, ongoing</b>			<b>\$1.88</b>
Impairment of goodwill at DEI for European gas trading	\$(194)	\$ —	(0.22)
Expenses at Franchised Electric associated with December 2002 ice storm	(89)	35	(0.06)
Severance charges associated with workforce reduction	(103)	40	(0.08)
Partial impairment of a merchant plant as a result of current market outlook	(31)	9	(0.04)
Asset impairments at Field Services	(28)	10	(0.02)
Termination of certain turbines on order, plus write-down of other uninstalled turbines	(163)	59	(0.13)
Write-off of site development costs, primarily in California and Brazil	(80)	30	(0.06)
Information technology system write-off at DENA	(24)	9	(0.02)
Demobilization costs at DENA	(22)	8	(0.02)
Settlement with North Carolina Utility Commission and Public Service Commission of South Carolina	(19)	7	(0.01)
			(0.66)
<b>Earnings per share, as reported</b>			<b>\$1.22</b>

## LEADERSHIP

### Executive Committee

Duke Energy's Executive Committee is responsible for driving a strategy that optimizes shareholder value by providing a stable platform for growth and continued profitability. This group develops corporate strategy, allocates capital, outlines enterprise goals, implements Board direction, and in general leads the enterprise.

#### Paul M. Anderson

Chairman of the Board and Chief Executive Officer  
Anderson has lead responsibility for positioning Duke Energy as a company that achieves superior results, optimizing the focus of the entire organization, improving execution and ensuring clear accountability. He chairs the Executive Committee and the Expanded Executive Committee.

#### Fred J. Fowler

President and Chief Operating Officer  
Fowler chairs Duke Energy's Operating Committee, with responsibility for the operational, commercial and financial results of the company's energy-related businesses.

#### David L. Hauser

Group Vice President and Chief Financial Officer  
Hauser is responsible for treasury, accounting, tax and risk management. His duties include certifying financial statements and overseeing risk control policies and systems.

#### Jim W. Mogg

Group Vice President and Chief Development Officer  
Mogg oversees strategy and corporate transactions, corporate and human resources development, mergers and acquisitions, diversity and the company's real estate affiliate.

#### Richard J. Osborne

Group Vice President, Public and Regulatory Policy  
Osborne has responsibility for Duke Energy's public policy agenda and relationships with regulators, legislators, communities and other key stakeholders.

#### Martha B. Wyrsh

Group Vice President, General Counsel and Secretary

Wyrsh is responsible for the company's legal affairs, compliance activities and the office of Corporate Secretary, as well as audit, ethics, security, business continuity and insurance.

#### Gregory L. Ebel

Secretary to the Executive Committee  
Vice President, Investor and Shareholder Relations

Ebel is responsible for relationships and communication with the investment community, and for monitoring changes and trends in investment markets.

### Expanded Executive Committee

The Expanded Executive Committee includes the Executive Committee members as well as the heads of the major business units and a business services unit. This group is responsible for corporate policies and programs that reach across the business units.

#### William H. Easter III

Chairman, President and Chief Executive Officer,  
Duke Energy Field Services

Easter leads the company's natural gas gathering and processing and natural gas liquids business.

#### Robert B. Evans

President,  
Duke Energy Americas

Evans is responsible for Duke Energy's North American and Latin American wholesale energy generation business.

#### A.R. Mullinax

Group Vice President,  
Duke Energy Business Services

Mullinax directs global sourcing and logistics, information technology services, corporate real estate services and human resources services.



Greg Ebel, Ruth Shaw, David Hauser and (seated) Bobby Evans



Fred Fowler, Paul Anderson and Martha Wyrsh



A. R. Mullinax, Jim Mogg, Tom O'Connor, Bill Easter and (seated) Rich Osborne

#### Thomas C. O'Connor

President,  
Duke Energy Gas Transmission

O'Connor leads Duke Energy's natural gas pipeline business in the United States and Canada.

#### Ruth G. Shaw

President,  
Duke Power Company

Shaw oversees the electric utility that serves more than 2 million customers in North Carolina and South Carolina.

## BOARD OF DIRECTORS



**Paul M. Anderson**, 58, Chairman of the Board and Chief Executive Officer, Duke Energy. Director since 2003. Paul Anderson

rejoined Duke Energy in November, having served as its first President and Chief Operating Officer after the 1997 merger of Duke Power and PanEnergy.



**G. Alex Bernhardt, Sr.**, 61, Chairman and Chief Executive Officer, Bernhardt Furniture Company. Audit Committee. Nuclear Oversight

Committee. Director since 1991. Besides leading the family business in Lenoir, N.C., Bernhardt serves as a director of Cities in Schools and Smart Start, and on the Davidson College Board of Trustees.



**Robert J. Brown**, 69, Chairman and Chief Executive Officer, B&C Associates Inc. Audit Committee. Corporate Governance

Committee. Director since 1994. Brown founded B&C Associates Inc., a marketing research and public relations firm in High Point, N.C. He serves on the Board of Trustees of the National Urban League.



**William T. Esrey**, 64, Chairman Emeritus, Sprint Corporation. Chairman, Japan Telecom. Audit Committee. Director since 1985. Esrey

joined Sprint in 1980, and went on to serve as the company's Chief Financial Officer, President, Chief Executive Officer and Chairman. He joined Japan Telecom in 2003.



**Ann Maynard Gray**, 58, Former President, Diversified Publishing Group of ABC Inc. Corporate Governance Committee. Compensation

Committee. Nuclear Oversight Committee. Finance and Risk Management Committee. Director since 1994. At American Broadcasting Companies Inc., Gray also held positions as Treasurer and Vice President of Planning. She currently serves as a trustee for J.P. Morgan funds.



**George Dean Johnson, Jr.**, 61, Chief Executive Officer and Director, Extended Stay America Inc. Chairman, Finance

and Risk Management Committee. Director since 1986. Johnson is also Chairman of Johnson Development Associates Inc. He served in the S.C. House of Representatives and as a director of the Federal Reserve Bank of Richmond.



**Max Lennon**, 63, President, Education and Research Services. Chairman, Audit Committee. Director since 1988. Lennon is a former

president of Clemson University and Mars Hill College. He also served as President and Chief Executive Officer of Eastern Foods Inc.



**Leo E. Linbeck, Jr.**, 69, Senior Chairman, Linbeck Corporation. Chairman, Compensation Committee. Finance and Risk Management

Committee. Director since 1986. Linbeck Corp. is a group of two construction-related firms headquartered in Houston, Texas. Linbeck is past Chairman and director of the Federal Reserve Bank of Dallas.



**James G. Martin**, 68, Corporate Vice President, Carolinas HealthCare System. Chairman, Corporate Governance Committee.

Compensation Committee. Nuclear Oversight Committee. Director since 1994. Martin was Governor of the state of North Carolina from 1985 to 1993, and previously was a U.S. Congressman. He is Chairman of the Global TransPark Foundation Inc.



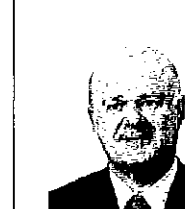
**Michael E.J. Phelps**, 56, Chairman, Dornoch Capital Inc. Chairman, Duke Energy Canadian Advisory Council. Corporate Governance

Committee. Finance and Risk Management Committee. Director since 2002. Phelps is former Chairman of the Board and Chief Executive Officer of Westcoast Energy Inc., acquired by Duke Energy in 2002.



**James T. Rhodes**, 62, Retired Chairman, President and Chief Executive Officer, Institute of Nuclear Power Operations. Chairman, Nuclear

Oversight Committee. Audit Committee. Director since 2001. Rhodes was formerly President and Chief Executive Officer of Virginia Power. He currently serves on the Executive Committee of the Nuclear Energy Institute.



In October 2003, Rick Priory announced his retirement and stepped down as Chairman and CEO. Duke

Energy thanks him for his leadership and contributions over his 27 years with the company, and wishes him well in his retirement.

## INVESTOR INFORMATION

### Annual Meeting

The 2004 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 13, 2004

Time: 10 a.m.

Place: O.J. Miller Auditorium, Energy Center  
526 South Church Street  
Charlotte, NC 28202

### Shareholder Services

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Send e-mail requests to [InvestDUK@duke-energy.com](mailto:InvestDUK@duke-energy.com). Send written requests to:

Investor Relations  
Duke Energy  
P.O. Box 1005  
Charlotte, NC 28201-1005

### Stock Exchange Listing

Duke Energy's common stock and certain issues of first and refunding mortgage bonds, preferred securities and senior notes are listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

### Web Site Address

[www.duke-energy.com](http://www.duke-energy.com)

### InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or cash payment of dividends.

Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities.



This report was printed in the USA on recycled paper.

### Financial Publications

Duke Energy will furnish to any shareholder, without charge, printed copies of the 2003 Summary Annual Report and SEC Form 10-K. Those and other financial publications can also be found on our Web site.

### Electronic Delivery

With a shareholder's consent, we can stop mailing paper copies of financial information and proxy statements. You can go to [www.icsdelivery.com/duk](http://www.icsdelivery.com/duk) to enroll in electronic delivery. You will need to provide your Social Security number or Tax I.D. number, your e-mail address, and a PIN number of your choice for electronic voting.

### Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

### Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common and preferred stock issues.

### Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 77 consecutive years. Dividends on common and preferred stock are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 16, Sept. 16 and Dec. 16, 2004.

### Bond Trustee

If you have questions regarding your bond account, call (800) 275-2048, or write to:

JPMorgan Chase Bank  
Institutional Trust Services  
P.O. Box 2320  
Dallas, TX 75221-2320

We welcome your opinion on Duke Energy's 2003 Annual Report. Please visit the Investors section of [www.duke-energy.com](http://www.duke-energy.com), where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.



526 South Church Street  
Charlotte, NC 28202-1802  
704.594.6200  
[www.duke-energy.com](http://www.duke-energy.com)



Duke Energy  
2002  
Annual Report



## STRAIGHTFORWARD

---

This has been a challenging year. A year of questions. This is a book of answers. Straightforward answers. What worked this year? What didn't? In this defining year for the energy industry, what have we learned? And what is the strategy that will take us forward? We've been in this business almost a century now. Challenging years pass. Companies that face challenges head-on prevail. So we offer this – a frank appraisal of our year, and a strategic look forward.

3	Financial Highlights
4	Chairman's Letter
10	Q&A with Company Leaders
20	Board of Directors
22	Governance / Management
23	Shareholder Information

# FINANCIAL HIGHLIGHTS

.. Years Ended December 31 ..

In millions, except where noted

	2002	2001	2000
Operating revenues <sup>a</sup>	\$ 15,663	\$ 18,197	\$ 15,342
Earnings before interest and taxes	2,869	4,256	4,014
Income before cumulative effect of change in accounting principle	1,034	1,994	1,776
Net income	1,034	1,898	1,776
Earnings available for common stockholders	1,021	1,884	1,757
COMMON STOCK DATA <sup>b</sup>			
Weighted-average shares outstanding	836	767	736
Basic earnings per share (before cumulative effect of change in accounting principle)	\$ 1.22	\$ 2.58	\$ 2.39
Basic earnings per share	1.22	2.45	2.39
Dividends per share	1.10	1.10	1.10
CAPITALIZATION			
Common equity	36%	41%	37%
Minority interests	5%	7%	9%
Preferred stock	1%	1%	1%
Trust preferred securities	3%	5%	5%
Total debt	55%	46%	48%
SEC fixed charges coverage	2.1	3.8	3.6
Total assets	\$ 60,966	\$ 48,531	\$ 58,232
Total debt	22,465	14,185	12,980
Cash flows from operating activities	4,530	4,357	2,011
Cash flows used in investing activities	(6,809)	(6,043)	(4,716)
Cash flows from financing activities	2,846	1,354	2,714
OPERATING DATA <sup>c</sup>			
Sales, GWh <sup>d</sup>	105,226	98,581	101,715
Natural Gas Transmission's proportional throughput, TBtu <sup>e</sup>	3,160	1,781	1,771
Natural gas marketed, TBtu/d <sup>f</sup>	23.5	16.6	13.6
Electricity marketed and traded, GWh <sup>g</sup>	641,836	347,236	279,466
Field Services' natural gas gathered and processed/transported, TBtu/d	8.3	8.6	7.6
Field Services' natural gas liquids production, MBbl/d	391.9	397.2	358.5

<sup>a</sup> Revenues have been updated to show the impact of gross versus net presentation of revenues under the Financial Accounting Standards Board's EITF Issue No. 02-03. (For more information, see "New Accounting Standards" in Note 1 to the Consolidated Financial Statements, in Item 8 of SEC Form 10-K.)

<sup>b</sup> Year 2000 amounts are restated to reflect the two-for-one common stock split effective January 26, 2001.

<sup>c</sup> Units of measure used are gigawatt-hours (GWh), trillion British thermal units (TBtu), trillion British thermal units per day (TBtu/d) and thousand barrels per day (MBbl/d).

<sup>d</sup> Includes Franchised Electric's and International Energy's statistics.

<sup>e</sup> For 2002, includes volumes of Westcoast Energy Inc., acquired March 14, 2002.

<sup>f</sup> Includes Duke Energy North America's, International Energy's and Field Services' volumes.

<sup>g</sup> Includes Duke Energy North America's and International Energy's volumes.

"What happened  
in 2002 and  
where do we go  
from here?"



RICHARD B. PRIORY  
CHAIRMAN OF THE BOARD  
CHIEF EXECUTIVE OFFICER

## TO OUR SHAREHOLDERS:

---

The year 2002 was one of enormous challenge – for our company, our industry and the economy at large. And it was a year of disappointment for shareholders who have come to rely on Duke Energy's ability to provide steady returns.

Our best efforts and outlook proved no match for the harsh realities of 2002: An economy of fits and starts, unprecedented turmoil in the U.S. merchant energy sector, accelerating upheaval in both credit and equity markets, and an unrelenting bear market all combined to create the greatest crisis in investor confidence and public trust since the Depression.

External factors were certainly challenging. And while we marshaled all of our resources and knowledge to address the dynamic changes within our sector, we were not fully prepared to deal with eroding market conditions. Our forecasts for U.S. power supply and demand missed the mark, and collapsing markets left us long in power supply and overexposed to a dramatic drop in the price of electricity.

Our reported year-end earnings per share were \$1.22, including the effect of certain charges related to ice storm damage, restructuring costs, and goodwill and asset impairments. Without those charges, ongoing earnings were \$1.88 per share. Our stock price fell from a 52-week high of \$39.80 to \$19.54 at year-end. Total return to shareholders, including dividends paid during the year and the decrease in our stock price, declined 48 percent in 2002.

If the law of gravity prevailed in 2002, so did the theory of relativity. Amid a landscape of fallen merchant energy providers, Duke Energy has fared comparatively well. We are among the few in our sector to retain investment-grade credit ratings. Our Duke Power and Duke Energy Gas Transmission businesses provided reliable earnings and solid cash flow, helping compensate for the sharp downturn in our merchant energy business.

I'm proud of our staying power, our operational performance in the face of adversity, and our steadfast commitment to value creation. But there are no bragging rights in basic business survival – and we're never content with "better than most." So this letter and the commentary that follows will address what happened in 2002 – and, more importantly, what we're doing to manage through the current economic and market weakness and ensure we are well positioned for the future.

## WHAT HAPPENED IN 2002?

---

The young merchant energy sector, which had enjoyed an enormous upswing in previous years, experienced its first major down cycle in 2002. The turn was stunning, swift and severe.

Some regions that had capacity shortfalls just a year ago experienced a rapid upsurge in supply. We had focused on the development activities of large, established generators, but we underestimated the build-out efforts of some smaller local and regional energy merchants. Rapid additions to generating capacity, coupled with the extended economic downturn, resulted in a sharp decline in power margins and volatility.

In the wake of the Enron bankruptcy, credit rating agencies focused more intently on cash and coverage ratios for all companies, but particularly for the energy sector. As business conditions worsened, companies faced enormous increases in their capital costs, and in many cases were shut out of the capital markets. The dramatic credit decline of many energy customers and wholesale market participants reduced the size, length and volume of energy transactions in the marketplace.

Finally, regulatory uncertainty, changes in accounting standards and securities laws, investigations and litigation further discouraged investment and confidence in our sector. Moreover, this occurred in the context of an alarming crisis of trust in business in general, brought on by accounting missteps and improprieties, allegations of business scandals and growing skepticism about the effectiveness of corporate governance.

All of these factors converged to create dramatic changes in the energy marketplace, and to substantially reduce the earnings opportunity for our merchant energy businesses Duke Energy North America (DENA) and Duke Energy International (DEI). Our total reported earnings before interest and taxes (EBIT) of \$2.87 billion fell \$1.39 billion short of 2001 EBIT of \$4.26 billion. Ongoing 2002 EBIT (excluding one-time charges) was \$3.62 billion, compared to \$4.34 billion in 2001 – primarily due to substantially lower results at DENA.

#### WHERE DO WE GO FROM HERE?

As eager as we are to put 2002 behind us, we're realistic enough to know that we'll be grappling with weak market conditions through at least 2003. The slow pace of economic recovery, imbalance between electricity supply and demand, and regulatory and legal uncertainties facing our industry paint a sober view of the year ahead.

We therefore expect earnings per share of between \$1.35 and \$1.60 in 2003 (before one-time charges for the implementation of new required accounting standards).

We are committed to growing profits from our core regulated businesses.

Duke Energy benefits from the balance within our portfolio between stable businesses like Duke Power and Duke Energy Gas Transmission – and the more cyclical merchant energy and Field Services businesses. These are supplemented by smaller but healthy contributors like Crescent Resources, which delivers solid performance in fluctuating business cycles. While our regulated businesses are not immune to weakness in the economy, they are robust and are expected to generate some 80 percent of our earnings in 2003.

Serving more than 2 million customers in North Carolina and South Carolina, Duke Power continued to provide a solid stream of earnings in 2002. The business delivered EBIT of \$1.61 billion in 2002, just slightly down from 2001 EBIT of \$1.63 billion. The stability of these earnings and cash flows is directly linked to Duke Power's consistent, best-in-class performance. Operational excellence was evident in our 2002 performance, with our three nuclear stations achieving an unprecedented level of productivity, and our fossil and hydroelectric plants reaching record levels of commercial availability.

We were pleased by the passage of North Carolina's clean air legislation in 2002. Thanks to the hard work of the state's governor, legislators, regulators, environmentalists and electric utilities, a constructive plan was adopted that allows us to recover the costs of installing additional environmental controls at our fossil-fueled generating stations. Most importantly, the new legislation will result in significantly reduced emission levels. The legislation will freeze Duke Power electricity rates at their current levels for the next five years, while maintaining the company's stable earnings and cash flows.

Duke Energy Gas Transmission performed exceptionally well, contributing \$1.17 billion in EBIT for 2002, a 92 percent increase over 2001 EBIT of \$608 million. We completed a major expansion of our gas transmission business with the acquisition of Westcoast Energy in Canada, which added significant gas pipeline, storage and field services capacity, as well as a local distribution company serving 1.1 million residential customers. The transaction closed on March 14, 2002, and the Westcoast business contributed \$416 million in EBIT for the year. We expect that contribution to increase as

we connect major supply basins with growing markets on both sides of the border. And responding to demand growth in key eastern U.S. markets, we undertook pipeline expansion projects to serve Florida, Tennessee, North Carolina, Virginia, Massachusetts, New York and New Jersey.

We are addressing issues in our merchant energy business.

We are resolutely focused on reducing our exposure in the merchant energy business. After contributing \$1.49 billion of EBIT in 2001, DENA contributed only \$165 million of EBIT in 2002. We took decisive action last year – deferring construction projects, renegotiating the terms of our turbine purchases and halting most new development efforts.

We realigned and substantially reduced our merchant energy organization. And, by consolidating our North American sales and marketing functions, we are gaining significant economies of scale. Additionally, we developed consistent policies, practices and systems, including enhanced controls to improve our monitoring and reporting capabilities.

While the wholesale energy industry is still reeling from the loss of so many participants, low market volatility and low liquidity, we view sales and marketing as an integral aspect of a competitive energy marketplace. Our energy professionals market energy commodities, manage risk, provide reliability and promote price transparency for our customers worldwide.

We are committed to preserving the value merchant energy provides – reliable power supply, competitive pricing and efficient, well-run plants. Going forward, there will be fewer but stronger suppliers in the merchant field – well capitalized, able to survive through market ups and downs, skilled in risk management, diversified to sustain earnings, with assets to back their commitments. And Duke Energy intends to be at the head of the pack.

Just as merchant energy suffered in the U.S., international energy markets saw a downturn last year as well. DEI reported an EBIT loss of \$102 million for 2002, due primarily to goodwill and other asset impairments associated with changing market conditions in Europe and Latin America – and business decisions we made to respond to those conditions. We have exited the power trading business in Europe and we pulled back on development plans in Brazil. We are concentrating our efforts this year on organic growth within our international business, emphasizing sales and marketing of capacity from our generation facilities and pipelines.

Discipline is our watchword for 2003.

We are focused on cash generation and capital management, limiting discretionary spending and reducing debt. To provide the financial flexibility needed to manage through near-term cycles, we've reduced planned capital expenditures by more than half to \$3 billion in 2003. We expect cash from operations and asset sales to fund our capital expenditures and dividends, reducing the need for outside financing.

For 76 consecutive years we have paid quarterly dividends on our common stock. Our dividend delivered a 5.8 percent yield in 2002, and our plans for 2003 fully support the dividend at its current level of \$1.10 per share.

We will continue to divest non-strategic assets when we can capture value. In addition to power plant and pipeline sales in 2002, we sold two businesses – Duke Engineering & Services and DukeSolutions – to companies with strategies better aligned with their capabilities.

We are reducing our workforce as we restructure to accommodate market changes and capture additional efficiencies. Consistent with the reductions, we've streamlined accountabilities and strengthened our focus on business operations. These changes are expected to reduce future costs by about \$150 million annually.

We are maintaining a solid balance sheet.

Despite a difficult 2002, we maintain a strong balance sheet and sound credit ratings, good cash flow, a diverse earnings base and solid risk management.

*For the past two decades, we've demonstrated our commitment to maintaining the sound financial ratios that support a solid credit rating. Even though our corporate ratings on unsecured debt were reduced in 2002, they remain among the strongest in the electric and gas sector.*

Investors today are hungry for more detailed financial information, and we are striving to provide new levels of transparency and context in our financial reporting. We are providing additional metrics associated with our sales and marketing operations, and new levels of detail related to cash flow, balance sheet and income statements in our quarterly and annual reporting.

We are accountable for our actions.

Duke Energy's resilience in trying times and in good times is as much an outcome of corporate character as corporate performance. Integrity, trust, credibility and respect have been cornerstones of our company for nearly a century. And we are accountable for ensuring that any challenge to that foundation – any breach of ethics or misconduct – is addressed swiftly and resolutely.

For me, one of the most disappointing events of the year was finding instances where we did not meet our own high standards for conduct. We identified a small number of round-trip transactions that appear to have been conducted with no legitimate business purpose. While those instances were isolated and immaterial to earnings or revenue, we were forceful and forthright in our response: We have taken appropriate disciplinary actions and instituted new levels of control and accountability throughout our organization.

We have worked hard to reaffirm and communicate the values that Duke Energy stands for. Leadership sets the example for ethical conduct, and all employees are held accountable. Each year, every Duke Energy officer and employee reviews our *Code of Business Ethics* as we *recommit ourselves to preserving and building our company's reputation*. Additionally, each of our energy marketing and risk control professionals signs a statement acknowledging in detail their commodity trading responsibilities at Duke Energy.

Another issue that grabbed headlines in 2002 was an inquiry into specific Duke Power regulatory accounting entries. Our own review and an outside audit resulted in the identification of unintentional errors – and the need for improved communication with the North Carolina and South Carolina utility commissions. Reconciling our conviction that we had acted in good faith with the need to move forward, we reached a settlement agreement with both commissions, and are cooperating with the Department of Justice as they review this issue as well.

We were gratified at year-end by the decision of the U.S. District Court in the Southern District of New York to dismiss, in all respects, a number of class-action lawsuits regarding round-trip transactions. And we were also pleased when a federal judge in California dismissed a lawsuit filed by a Washington plaintiff against our company and other California generators, alleging antitrust and unfair business practices under California state law.

Let me be clear here: Duke Energy will not tolerate unethical business conduct. If we find instances of wrongdoing, we will take swift corrective action. We will be equally vigilant in defending our corporate character against false allegations, misconceptions and the potent dynamic of "headline risk." We will continue to defend ourselves vigorously as we respond with facts and candor to questions about our operations, our principles and our character.



We call upon our deep and principled management capability.

The right mix of skills and experience allowed us to redefine our corporate organization to respond to the market realities of 2002. The appointment of Fred Fowler to the role of Duke Energy's president and chief operating officer was a strong and definitive move by our Board of Directors. Fred brings tremendous operational leadership, financial rigor and a solid track record of delivering results in both key areas. Congratulations and our deepest thanks to Bill Coley, who retired in February as president of Duke Power and as a member of Duke Energy's Board of Directors. Bill provided strong leadership within our company and our community over the course of a distinguished 37-year career with the company. We wish him well.

These significant changes at the highest level of our company resulted in a number of positive moves within our operating businesses: Ruth Shaw succeeds Bill Coley as president of Duke Power; Tom O'Connor now serves as president of Duke Energy Gas Transmission; Rob Ladd is president of Duke Energy North America; Richard McGee continues as president of Duke Energy International; and Jimmy Mogg continues as chairman, president and CEO of Duke Energy Field Services. In making these changes and related realignments, we drew upon deep management bench strength and the talent needed to move us forward with good direction and momentum.

We are governed by an engaged and exacting Board of Directors. As more stringent governance standards have been proposed on many different fronts, we are in compliance with current standards and intend to meet all future requirements. We welcome Michael Phelps to our board, and thank Dennis Hendrix and Harold Hook for their years of dedicated service.

We are focused on the future.

2002 certainly taught us all the inherent dangers associated with a market bubble. It also brought renewed appreciation for timeless attributes like real assets, cash flow, sustainable earnings, operational know-how, reliable performance and customer service. We were reminded of the value and safeguards that diversification brings to the portfolios of individual investors and to companies like Duke Energy. And we are more focused on clarity and candor in reporting and assessing corporate performance.

Duke Energy's stock price will rebound, of that I am confident. Predicting a recovery date is more difficult. Triggers that will prompt the return of a robust energy marketplace include economic recovery, a narrowing of electricity reserve margins in the U.S., the restoration of financial liquidity to our sector, certainty around new and proposed accounting and governance standards, and the credit health of energy customers and partners.

2002 was a tremendously trying chapter in Duke Energy's 99-year history. But it was prologue, not epilogue. We've taken decisive action to weather the current cycle and to be ready to act on the growth opportunities that will emerge. We are relying on the fundamentals: Unyielding business values and operating principles. Strong, consistent value from core assets. Effective, conservative financial management. Solid, day-to-day execution. Reliable reporting driven not only by the new rules of the road – but also by our best judgment and highest intentions.

Our industry is far too vital to suffer a prolonged crisis of confidence. Duke Energy is focused not only on pulling our company through a tough time, but also on doing our part to restore order, accountability and honor to our critical sector. I hope that you will continue to stay the course with us, and I thank you for your confidence, which we work hard every day to both re-earn and reward.



"What actions  
are you taking to  
move the company  
forward?"

"Other energy  
companies have  
pulled out of trading  
and marketing.  
Why are you still in?"

"With all the  
distractions, can  
you stay focused  
on customers?"



FRED J. FOWLER  
PRESIDENT  
CHIEF OPERATING OFFICER

## WE'RE DRAWING ON OUR CORE STRENGTHS – RELIABILITY, EFFICIENCY AND PRODUCTIVITY.

---

We're responding to the current industry slump as we have to previous downturns in our industry and the economy – by focusing on productivity and efficiency throughout our operations, and by safely and reliably meeting customers' energy needs. My job as chief operating officer is to make sure that we not only maintain our record of operational excellence – we improve it.

In recent months, we've taken a hard look at costs across the enterprise. We've delayed projects and sold assets, and we're reducing our workforce by nearly 2,000 to reflect current market realities. Many of those moves have involved our competitive merchant energy business, where market conditions present the greatest challenges.

All indicators – excess supply, narrow spark spreads and difficult credit conditions – point to a slow recovery for merchant energy. Our 20 natural gas-fired merchant power plants are under-used in today's oversupplied electricity market. But state-of-the-art technology, leveraged with nearly 100 years of power generation experience, puts our merchant generation fleet among the most efficient and well-run in the U.S. – a competitive advantage when the economy recovers and power demand catches up with supply.

Our regulated businesses provide stability going forward.

The strong cash flows and steady growth of our regulated businesses will be the bedrock of our earnings for the foreseeable future. Duke Power and Duke Energy Gas Transmission are focused on maximizing profits by increasing productivity and sales.

Duke Power continues to raise the bar for operational excellence. In 2002, the utility's nuclear stations generated more electricity for the Carolinas than ever before – producing at more than 95 percent of their capacity, and at the lowest production cost ever. A higher capacity factor reflects fewer and shorter outages, boosting productivity. We do expect a lower nuclear capacity factor in 2003, as a result of planned maintenance and refueling outages.

The utility's hydroelectric and fossil fleet achieved outstanding commercial availability of 98.3 percent in 2002. Combined with higher nuclear output, that availability helped meet more of the system's power demand at less cost. The fossil/hydro plants met summer peak power demands, thanks to the company's careful management of water resources during the Carolinas' worst drought in 100 years. And through prudent planning, the fleet maintained system reliability while installing the latest environmental technology to reduce emissions at six of the utility's eight coal-fired stations.

Innovation, commitment to customer service and an unwavering focus on safety and reliability have established Duke Energy Gas Transmission as an industry leader, and we are responding to the needs of our customers with new projects and new ideas. Investment in new technologies and advanced preventive maintenance practices are further enhancing the reliability of our pipelines. Capacity in our wholly owned U.S. pipelines is nearly 95 percent contracted with an average contract life of nine years. Union Gas, our distribution company in Ontario, continues to grow, adding more than 20,000 new customers in 2002. This stable customer base and growing demand for reliable sources of natural gas strengthen our earnings base, cash flow and growth potential.

The sharing of expertise, capabilities and market knowledge among our diverse businesses, within regulatory limits, drives efficiencies to boost our bottom line. Here's one example: We use small jet-engine-like turbines for both gas compression in our pipelines and gas-fired electric generation in remote areas around the globe. Operating teams from our gas transmission business in Canada and our generation facilities in Ecuador, France and Australia saw a common interest. They worked out a plan to purchase maintenance services and spare parts for the turbines as a fleet, saving an estimated 20 to 25 percent – millions of dollars – over the life of the equipment.

#### BUYING AND SELLING ENERGY IS AN IMPORTANT PART OF OUR BUSINESS.

---

*The wholesale energy market is where we buy fuel for our power plants and sell their output. Our sales and marketing activities allow us to buy energy at the lowest possible cost and sell it at the highest fair price, providing higher returns on our investment in merchant plants and other energy infrastructure.*

And sales and marketing are critical to the efficient movement of energy in the wholesale marketplace. These activities bring reliable, fair-priced energy to our customers, when and where they need it, along with energy-related products and services.

Most of our market transactions are related to our assets, or conducted on behalf of our customers. We do little proprietary trading, which involves buying and selling energy commodities to profit from price fluctuations. In 2002, *only about 10 percent of Duke Energy North America's gross margin was the result of proprietary trading.*

Some companies have exited the business, true, but we're seeing new entrants, especially banks and oil companies. We welcome those new market participants, their confidence in this business and the liquidity they bring back to the energy marketplace.

#### CUSTOMERS FACE THEIR OWN CHALLENGES, AND WE OFFER SOLUTIONS.

---

Most of our customers are facing the same economic pressures as we are. This presents a real opportunity to build on our business relationships by helping new and existing customers manage their energy needs and costs.

We're reaching for larger market share with wholesale customers, who look to Duke Energy for price risk management and reliable energy supply.

For example, Duke Energy is saving the city of North Little Rock, Ark., a projected \$2.2 million over five years, by reliably supplying its electricity needs at lower cost than competitors could offer. Our cost-efficient generation and marketing capabilities combined to give us that competitive advantage.

On the retail side, Duke Power is ranked #1 for customer satisfaction in the TQS Research survey of large industrial and commercial customers of electric utilities, and consistently ranks first or second with residential customers on the American Customer Satisfaction Index. Awards and surveys that put us at the top of the charts are in the nice-to-know category, but our greatest satisfaction comes from knowing that we're meeting our customers' expectations.

Union Gas has launched a web-based system that enables its business customers to conduct energy transactions online. At Duke Power, we're rolling out mobile meter reading to measure customer usage with pinpoint accuracy, in a fraction of the time and at less cost than manual reading.

When a December 2002 ice storm in the Carolinas left nearly 1.4 million customers in the cold and the dark, Duke Power restored service to more than 150,000 customers per day – more than ever before. This dramatic restoration rate drew on our experience in previous storms: Following the devastation of Hurricane Hugo in 1989 we restored power to an average of 38,000 customers per day, and after a 1996 ice storm, 66,000 customers per day. Each time we have learned valuable lessons about communicating with our customers as we work to safely restore their comfort and security.

One of the realities of the energy business is that many factors are beyond our control – like the weather and the economy. Our job is to effectively manage the factors we can control, and to make the best possible decisions to successfully guide our company through all kinds of conditions and market cycles. Driving us will be our operational focus, our commitment to customers and our belief in the future of competitive energy markets.

"Trading and marketing scandals have eroded trust in the energy industry. What are you doing to regain that trust?"



RICHARD J. OSBORNE  
EXECUTIVE VICE PRESIDENT  
CHIEF RISK OFFICER

## THE CRISIS IN CONFIDENCE IN ENERGY TRADING IS INDUSTRY-WIDE, AND REQUIRES INDUSTRY LEADERSHIP.

Every company involved in energy trading and marketing is responsible for restoring market confidence and vitality.

As a founding member of the Committee of Chief Risk Officers (CCRO), Duke Energy is working with more than 30 other companies to develop best practices for energy trading and marketing. These standards will make wholesale energy businesses easier for investors, customers and regulators to understand and compare, through better reporting of the risks and financial aspects of their operations.

The CCRO has identified best practices in a number of areas – corporate governance, financial controls, risk management and measurement, including credit risk, and disclosures about trading and marketing operations. Duke Energy is already in compliance with many of the CCRO's recommendations; we're in the process of implementing others, and reviewing our own practices against these new industry standards.

We've hardwired new control measures into our risk management and trading practices.

We consolidated our risk management oversight functions to ensure a uniform approach and the application of industry best practices across all of our businesses, as we measure and monitor our exposure to both credit risk and energy commodity price risk.

Increasingly sophisticated risk limits allow us to better monitor our market exposures. We're enhancing both energy and credit risk management by clarifying accountabilities, improving measurement criteria, and updating our documentation and reporting practices. We're implementing new risk management information systems to summarize and capture data faster and more accurately, improving our ability to track results. And most importantly, while our *corporate and business unit risk management professionals understand the technical and analytical aspects of risk management*, they also know that effective risk management means more than monitoring a series of measures and limits – it means understanding the overall risk of an operation or position in a very practical sense.

We've also created a trade operations compliance group. This group studies trading rules and regulations, creates policies and procedures, clarifies standards, provides training and monitors our operations for compliance.

If we find problems, we move quickly to fix them.

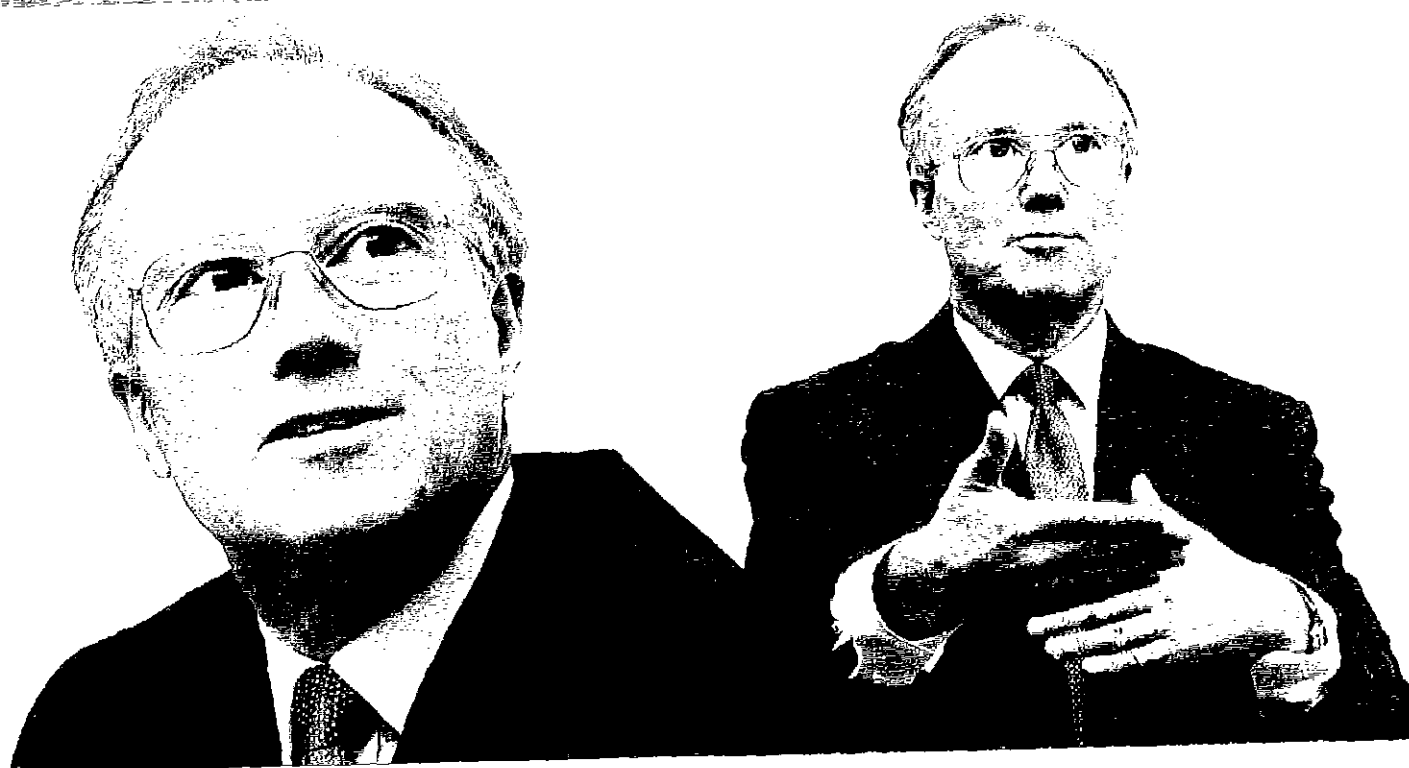
"Round-trip" trades – simultaneous or prearranged transactions that lack a legitimate business purpose, and are conducted for the purpose of increasing volume or revenues – are against company policy. In response to a Securities and Exchange Commission investigation of energy companies' trading practices, we conducted a thorough review of 750,000 transactions going back to 1999, and uncovered 89 such transactions. The round-trip trades totaled less than one-third of one percent of our trading revenues for that period, and had no material impact on earnings.

We publicly reported the transactions, took appropriate disciplinary action and strengthened our controls. Governmental entities continue to review the practices of Duke Energy and other companies that trade energy commodities. This scrutiny should encourage a less risky, better controlled wholesale energy market.

Trading and marketing are the lifeblood of a healthy, competitive energy industry. But they are still somewhat new to the industry. We're working from the inside out, calibrating our controls and policies, and from the outside in, collaborating with industry partners and regulatory bodies, to restore order and trust to this emerging business.

"What are you doing  
to strengthen the  
company's financial  
position?"

"How are you  
improving your  
financial  
transparency?"



ROBERT P. BRACE  
EXECUTIVE VICE PRESIDENT  
CHIEF FINANCIAL OFFICER



WE ARE TAKING A DISCIPLINED APPROACH, FOCUSING ON OPERATIONAL EFFICIENCY,  
CASH GENERATION AND CAPITAL MANAGEMENT.

We are focused on cash generation, capital management, limiting discretionary spending and reducing our debt. We issued \$1 billion in equity in 2002 to enhance our balance sheet, and we've sold non-strategic businesses and assets. To improve cash flow, we've cut costs, significantly reduced capital spending and focused on the productivity and efficiency of our operations.

In 2003, we expect cash flow from operations, including divestitures, to more than adequately fund capital expenditures of approximately \$3 billion and the approximately \$1 billion needed for the yearly dividend of \$1.10 per share. As of year-end 2002, we had nearly \$2.9 billion in unused bank credit available, in addition to more than \$850 million cash on hand.

In spite of our lowered credit ratings, we have been able to access the capital markets on favorable terms. In 2002, we borrowed at an average interest rate of 6.1 percent, which compares favorably to an average rate of approximately 7 percent for our total debt portfolio.

WE ARE PROVIDING MORE INFORMATION SOONER, AND MAKING IT EASIER TO UNDERSTAND.

Summary cash flow and balance sheet information, for example, is now included with our quarterly earnings releases and simultaneously posted to our Web site. And, we strongly support industry initiatives, legislative reforms and accounting guidelines that bring more clarity to financial reporting.

Duke Energy is providing more detailed information to investors regarding its energy marketing and risk management activities – in fact, we were among the first to provide additional disclosures consistent with those recently recommended by the energy industry's Committee of Chief Risk Officers.

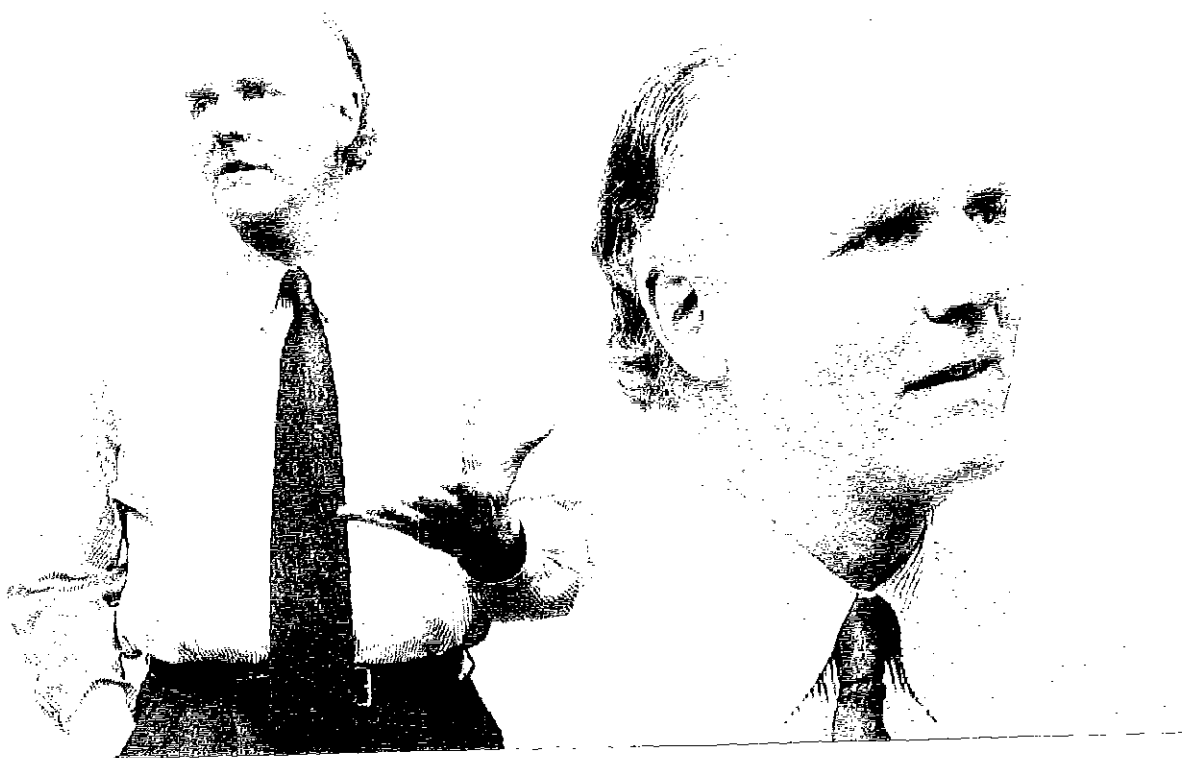
A Financial Accounting Standards Board task force recently ruled that companies could not recognize as earnings unrealized gains or losses on the future value of certain energy contracts prior to settling those contracts. That is, energy companies may no longer use "mark-to-market" accounting to recognize earnings on their income statements, except in certain limited cases. We applaud this ruling, as it removes the uncertainty inherent in applying mark-to-market accounting across the board, provides greater transparency and brings less volatility to earnings.

Another new accounting rule requires that energy companies report trading revenues on their income statements on a net basis instead of a gross basis. This change affects reported revenues, but it has no impact on the company's profitability or cash flows. Measures such as operating income, earnings per share and return on equity have not been affected by this new ruling.

Financial reporting, in my view, should present a fair and complete picture of a company's financial health. Our financial reports undergo rigorous management review and analysis, business by business, before they are published. During 2002, we improved this process to incorporate new requirements as a result of the Sarbanes-Oxley Act. New steps include more detailed discussions and documentation, and a corporate Disclosure Committee reviews our financial reports before they are filed with the Securities and Exchange Commission. These activities are designed to ensure that our published financial reports continue to accurately, clearly and thoroughly reflect the financial condition of Duke Energy and its businesses.

"Your longstanding  
reputation has  
been challenged.  
What are you doing  
about it?"

"New regulations and  
legislation are changing  
corporate governance  
practices. How does  
your Board of Directors  
measure up?"



RICHARD W. BLACKBURN  
EXECUTIVE VICE PRESIDENT  
GENERAL COUNSEL  
CHIEF ADMINISTRATIVE OFFICER

---

## OUR REPUTATION IS BUILT ON ACTIONS, NOT JUST WORDS.

The Duke Energy name has historically stood for integrity and fair play. That perception has been challenged. We've worked hard and long to build our good name, and we intend to preserve it. Ethical conduct is, and always has been, a defining aspect of our company, and a key competitive advantage.

Earning the public trust is no easy task. It starts by making sure our house is in order.

We've taken a critical look at what we do, and how we do it. Our values – integrity, stewardship, inclusion, initiative, teamwork and accountability – are more than ideals posted on a wall. They're the way we do business, from the board room to the break room. We weave them into our corporate policies and procedures, into our very culture. They underlie contracts written for mutual benefit, as well as legal obligation. And they are key factors in the way we recruit, select and train employees, and guide their performance.

Over the past year, we have reinforced with employees Duke Energy's business values, emphasizing their relevance to every task and decision. We've also updated our Code of Business Ethics, to clarify how the values apply in specific situations. We're not perfect – but we take prompt and decisive action if we find that our Code of Business Ethics has been violated.

---

## OUR BOARD OF DIRECTORS PROVIDES ETHICAL AND ACCOUNTABLE LEADERSHIP.

Mistrust of corporate governance due to real and perceived abuses has given rise to new legislation and regulation – in the energy industry and throughout the business world. Our corporate governance remains strong and accountable, and in compliance with recent reforms.

Even before the Sarbanes-Oxley Act was signed into law in 2002, Duke Energy's policies and practices guarded against conflicts of interest, supported independent and involved oversight of management by the Board of Directors, and provided other safeguards now required by the legislation. For example, since 1993, Duke Energy has provided employees with a telephone hotline to anonymously report suspected violations of law or of the company's Code of Business Ethics. And a recent policy change prohibits senior officers from using the company's external auditor for any personal services.

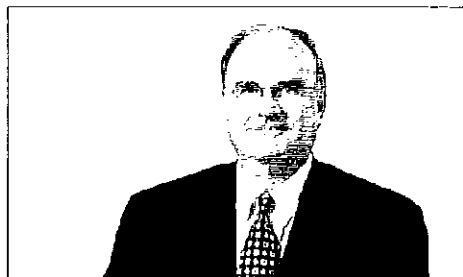
We have further strengthened our policies and practices to reflect the requirements of the Sarbanes-Oxley Act. Duke Energy prohibits loans to executive officers, for instance, and this year the board's Audit Committee will begin pre-approving all services provided by Duke Energy's auditor.

New governance rules proposed by the New York Stock Exchange (NYSE), and under review by the Securities and Exchange Commission, require that companies have written governance principles. We've had written principles since 1998. In addition, we've had practices in place that reflect other NYSE proposed, but not yet required, standards. For example, the members of our Board of Directors' Audit, Compensation and Corporate Governance Committees are independent. And, the Corporate Governance Committee reviews directors' and executive officers' service on other boards for possible conflicts of interest, and to ensure they can adequately focus on their responsibilities to Duke Energy's shareholders.

Duke Energy welcomes these constructive reforms. But what they say is true: "You can't legislate morality." There's no substitute for a commitment to the ethical core of this company. Our board, our management, our employees and our auditors are accountable for fulfilling both the spirit and the letter of the law. That's the kind of responsible performance that will get our industry back on track.

## BOARD OF DIRECTORS

Duke Energy's Board of Directors is responsible for positively influencing shareholder value and enhancing the company's reputation as a constructive force in the communities where it does business. The board is committed to strong governance practices, which provide a framework for timely response to issues affecting Duke Energy and its shareholders.



### BOARD OF DIRECTORS

**G. ALEX BERNHARDT, SR.** 59  
Chairman and Chief Executive Officer,  
Bernhardt Furniture Company.  
Audit Committee.  
Director since 1991.

**ROBERT J. BROWN** 68  
Chairman and Chief Executive Officer,  
B&C Associates Inc.  
Audit Committee;  
Corporate Governance Committee.  
Director since 1994.

**RICHARD B. PRIORY** 56  
Chairman of the Board  
and Chief Executive Officer.  
Finance and Risk Management Committee.  
Director since 1990.

**MAX LENNON** 62  
President, Education  
and Research Services.  
Chairman, Audit Committee.  
Director since 1988.

**LEO E. LINBECK, JR.** 68  
Chairman of the Board, Linbeck Corporation.  
Chairman, Compensation Committee;  
Finance and Risk Management Committee.  
Director since 1986.



**WILLIAM T. ESREY 63**  
Chairman and Chief Executive Officer,  
Sprint Corporation.  
Compensation Committee;  
Finance and Risk Management Committee.  
Director since 1985.

**ANN MAYNARD GRAY 57**  
Former President, Diversified  
Publishing Group of ABC Inc.  
Corporate Governance Committee;  
Finance and Risk Management Committee.  
Director since 1994.

**GEORGE DEAN JOHNSON, JR. 60**  
Chief Executive Officer and Director,  
Extended Stay America Inc.  
Chairman, Finance and Risk Management  
Committee; Compensation Committee.  
Director since 1986.

**JAMES G. MARTIN 67**  
Corporate Vice President,  
Carolinas HealthCare System.  
Chairman, Corporate Governance Committee;  
Compensation Committee.  
Director since 1994.

**MICHAEL E.J. PHELPS 55**  
Chairman, Duke Energy Canadian  
Advisory Council.  
Corporate Governance Committee;  
Finance and Risk Management Committee.  
Director since 2002.

**JAMES T. RHODES 61**  
Retired Chairman, President  
and Chief Executive Officer,  
Institute of Nuclear Power Operations.  
Audit Committee.  
Director since 2001.

## GOVERNANCE

---

### AUDIT COMMITTEE

The Audit Committee recommends to the Board of Directors the appointment of Duke Energy's independent auditors; provides independent oversight for financial reporting and internal controls, the internal audit function and the independent auditors; determines the independence of auditors; and makes recommendations on audit matters and internal controls to the Board of Directors.

### COMPENSATION COMMITTEE

The Compensation Committee sets the salaries and other compensation of all executive officers of Duke Energy, except the chairman of the board and chief executive officer. This committee makes recommendations to the Board of Directors regarding the chairman and CEO's salary and other compensation, without his presence or participation. The committee also makes recommendations to the Board of Directors on compensation for outside directors.

### CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee considers matters related to corporate governance, and formulates and periodically revises governance principles. It recommends the size and composition of the Board of Directors, within the limits of the Articles of Incorporation and By-Laws, and recommends potential successors to the chief executive officer. This committee also considers nominees recommended by shareholders for the Board of Directors.

### FINANCE AND RISK MANAGEMENT COMMITTEE

The Finance and Risk Management Committee reviews Duke Energy's financial and fiscal affairs, and makes recommendations to the Board of Directors regarding dividends, financing and fiscal policies. It reviews the financial exposure of Duke Energy as well as mitigating strategies, and determines whether actions taken by management with respect to financial matters are consistent with internal controls approved by the Audit Committee.

Complete Committee Charters, as well as Duke Energy's Principles for Corporate Governance and Code of Business Ethics, are available in the Investors section of [www.duke-energy.com](http://www.duke-energy.com), under Corporate Information.

---

## MANAGEMENT

RICHARD B. PRIORY	Chairman and Chief Executive Officer
FRED J. FOWLER	President and Chief Operating Officer
RICHARD W. BLACKBURN	Executive Vice President, General Counsel and Chief Administrative Officer
ROBERT P. BRACE	Executive Vice President and Chief Financial Officer
RICHARD J. OSBORNE	Executive Vice President and Chief Risk Officer
ROBERT B. EVANS	Transition Executive, Energy Services
ROBERT T. LADD	President, Duke Energy North America
RICHARD K. MCGEE	President, Duke Energy International
JIMMY W. MOGG	Chairman, President and CEO, Duke Energy Field Services
A.R. MULLINAX	Executive Vice President, Duke Energy Business Services
TOM C. O'CONNOR	President, Duke Energy Gas Transmission
RUTH G. SHAW	President, Duke Power

---

## SHAREHOLDER INFORMATION

**ANNUAL MEETING** The 2003 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, April 24, 2003

Time: 10 a.m.

Place: O.J. Miller Auditorium, Energy Center

526 South Church Street

Charlotte, North Carolina 28202

**SHAREHOLDER SERVICES** Shareholders with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services should call (800) 488-3853 or (704) 382-3853. E-mail requests should be sent to [InvestDUK@duke-energy.com](mailto:InvestDUK@duke-energy.com). Written requests should be addressed to:

Investor Relations

Duke Energy Corporation

P.O. Box 1005

Charlotte, North Carolina 28201-1005

**STOCK EXCHANGE LISTING** Duke Energy's common stock, first and refunding mortgage bonds, and certain issues of preferred securities and senior notes are listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

**WEB SITE ADDRESS** [www.duke-energy.com](http://www.duke-energy.com)

**INVESTORDIRECT CHOICE PLAN** The InvestorDirect Choice Plan provides a simple and convenient way for interested parties to purchase common stock directly through the company without incurring brokerage fees. Bank drafts for monthly purchases as well as a safekeeping option for depositing certificates into the plan are available. The plan also provides for full reinvestment, direct deposit or cash payment of dividends.

**FINANCIAL PUBLICATIONS** Duke Energy will furnish to any shareholder, without charge, copies of the 2002 report on SEC Form 10-K and the 2002 Statistical Supplement.

**DUPLICATE MAILINGS** You will receive duplicate mailings of annual reports, proxy statements and other shareholder mailings if your shares are registered in different accounts. If you receive such duplications, please call Investor Relations for instructions on eliminating the duplicate mailings or combining your accounts.

**TRANSFER AGENT AND REGISTRAR** Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common and preferred stock issues.

**DIVIDEND PAYMENT** Duke Energy has paid quarterly cash dividends on its common stock for 76 consecutive years. Dividends on common and preferred stock in 2003 are expected to be paid, subject to declaration by the Board of Directors, on March 17, June 16, September 16 and December 16.

**BOND TRUSTEE** If you have any questions regarding your bond account, call (800) 275-2048 or write to:

JPMorgan Chase Bank

Corporate Trust Services

P.O. Box 2320

Dallas, Texas 75221-2320

We welcome your opinion on  
Duke Energy's 2002 Annual Report.  
Please visit the Investors section of  
[www.duke-energy.com](http://www.duke-energy.com), where you  
can view the online Annual Report  
and provide feedback on both the print  
and online versions via a reader survey.  
Or send your written comments to:  
Investor Relations  
Duke Energy  
P.O. Box 10005  
Charlotte, NC 28201-1000



Duke Energy is an equal opportunity employer. This report is provided solely for information and is not to be used in connection with any offer, or the solicitation of an offer, in any or all circumstances. This report was prepared in the U.S.A. on a non-exclusive basis.



**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, 2002 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.)

526 South Church Street, Charlotte, North Carolina

(Address of principal executive offices)

28202-1803

(Zip Code)

704-594-6200

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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, 6¾% Due 2025	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 6⅞% Series B Due 2023	New York Stock Exchange, Inc.
First and Refunding Mortgage Bonds, 7% Due 2033	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.
Preference Stock Purchase Rights	New York Stock Exchange, Inc.
Series C 6.60% Senior Notes Due 2038	New York Stock Exchange, Inc.
Corporate Units	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. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☒ No ☐

Estimated aggregate market value of the common equity held by nonaffiliates of the registrant at March 3, 2003	.....	\$12,015,000,000	
	at June 28, 2002	.....	\$25,846,000,000
Number of shares of Common Stock, without par value, outstanding at March 3, 2003	.....	897,280,223	
	at June 28, 2002	.....	832,055,248

**Documents incorporated by reference:**

The registrant is incorporating herein by reference certain sections of the proxy statement relating to the 2003 annual meeting of shareholders to provide information required by Part II, portions of Item 5, and Part III, Items 10, 11 and 12 of this annual report.

**DUKE ENERGY CORPORATION**  
**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2002**  
**TABLE OF CONTENTS**

<u>Item</u>		<u>Page</u>
<b>PART I.</b>		
1.	Business .....	1
	General .....	1
	Franchised Electric .....	5
	Natural Gas Transmission .....	9
	Field Services .....	13
	Duke Energy North America .....	15
	International Energy .....	18
	Other Energy Services .....	19
	Duke Ventures .....	19
	Environmental Matters .....	20
	Geographic Regions .....	20
	Employees .....	21
	Operating Statistics .....	22
	Executive Officers of Duke Energy .....	23
2.	Properties .....	24
3.	Legal Proceedings .....	27
4.	Submission of Matters to a Vote of Security Holders .....	28
<b>PART II.</b>		
5.	Market for Registrant's Common Equity and Related Stockholder Matters .....	29
6.	Selected Financial Data .....	30
7.	Management's Discussion and Analysis of Results of Operations and Financial Condition .....	31
7A.	Quantitative and Qualitative Disclosures About Market Risk .....	80
8.	Financial Statements and Supplementary Data .....	81
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	153
<b>PART III.</b>		
10.	Directors and Executive Officers of the Registrant .....	153
11.	Executive Compensation .....	153
12.	Security Ownership of Certain Beneficial Owners and Management .....	153
13.	Certain Relationships and Related Transactions .....	153
14.	Controls and Procedures .....	153
<b>PART IV.</b>		
15.	Exhibits, Financial Statement Schedule, and Reports on Form 8-K. ....	154
	Signatures .....	155
	Exhibit Index .....	158

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

Duke Energy Corporation's reports, filings and other public announcements may contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast" and other similar words. Those statements represent Duke Energy's intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside Duke Energy's control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Those factors 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 at and degree to which competition enters the electric and natural gas industries

- The outcomes of litigation and regulatory investigations, proceedings or inquiries
- Industrial, commercial and residential growth in Duke Energy's service territories
- The weather and other natural phenomena
- The timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates
- General economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities or other hostilities
- 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, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions
- Lack of improvement or further declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans
- The level of creditworthiness of counterparties to Duke Energy's transactions
- The amount of collateral required to be posted from time to time in Duke Energy's transactions
- Growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power, pipeline, gathering, processing and other infrastructure projects
- The performance of electric generation, pipeline and gas processing facilities
- The extent of success in connecting natural gas supplies to gathering and processing systems and in connecting and expanding gas and electric markets and
- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## **PART I.**

### **Item 1. Business.**

#### **GENERAL**

Duke Energy Corporation (collectively with its subsidiaries, Duke Energy), an integrated provider of energy and energy services, offers physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through the seven business segments described below.

Franchised Electric generates, transmits, distributes and sells electricity in central and western North Carolina and western South Carolina. It conducts operations primarily through Duke Power and 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 transportation and storage of natural gas for customers throughout the East Coast and Southern U.S. and in Canada. Natural Gas Transmission also provides distribution service to retail customers in Ontario and Western Canada, and gas gathering and processing services to customers in Western Canada. Natural Gas Transmission does business primarily through Duke Energy Gas Transmission Corporation. Duke Energy acquired Westcoast Energy Inc. (Westcoast) on March 14, 2002 (see Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions"). Duke Energy Gas Transmission's natural gas transmission and storage operations in the U.S. are subject to the FERC's and the Texas Railroad Commission's rules and regulations, while natural gas gathering, processing, transmission, distribution and storage operations in Canada are subject to the rules and regulations of the National Energy Board, the Ontario Energy Board and the British Columbia Utilities Commission.

Field Services gathers, compresses, treats, processes, transports, trades and markets, and stores natural gas; and produces, transports, trades and markets, and stores natural gas liquids (NGLs). It conducts operations primarily through Duke Energy Field Services, LLC (DEFS), which is approximately 30% owned by ConocoPhillips and approximately 70% owned by Duke Energy. Field Services gathers natural gas from production wellheads in Western Canada and 11 contiguous states in the U.S. Those systems serve major natural gas-producing regions in the Western Canadian Sedimentary Basin, Rocky Mountain, Permian Basin, Mid-Continent and East Texas-Austin Chalk-North Louisiana areas, as well as onshore and offshore Gulf Coast areas.

Duke Energy North America (DENA) develops, operates and manages merchant power generation facilities and engages in commodity sales and services related to natural gas and electric power. DENA conducts business throughout the U.S. and Canada through Duke Energy North America, LLC and Duke Energy Trading and Marketing, LLC (DETM). DETM is approximately 40% owned by ExxonMobil Corporation and approximately 60% owned by Duke Energy. Prior to April 1, 2002, the DENA business segment was combined with Duke Energy Merchants Holdings, LLC (DEM) to form a segment called North American Wholesale Energy. In 2002, management combined DEM with the Other Energy Services segment. Previous periods have been reclassified to conform to the current presentation.

International Energy develops, operates and manages natural gas transportation and power generation facilities, and engages in sales and marketing of natural gas and electric power outside the U.S. and Canada. It conducts operations primarily through Duke Energy International, LLC (DEI) and its activities target power generation in Latin America, power generation and natural gas transmission in Asia-Pacific and natural gas marketing in Northwest Europe.

Other Energy Services is composed of diverse energy businesses, operating primarily through DEM, Duke/Fluor Daniel (D/FD) and Energy Delivery Services (EDS). DEM engages in commodity buying and selling, and risk management and financial services in non-regulated energy commodity markets other than physical natural gas and power (such as petroleum products). D/FD provides comprehensive engineering, procurement, construction, commissioning and operating plant services for fossil-fueled electric power generating facilities worldwide. D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc., a wholly owned subsidiary of Fluor Corporation. EDS is an engineering, construction, maintenance and technical services firm specializing in electric transmission and distribution lines and substation projects. It was formed in the second quarter of 2002 from the transmission and distribution services component of Duke Engineering & Services, Inc. (DE&S). This component was excluded from the sale of DE&S to Framatome ANP, Inc. on May 1, 2002. Other Energy Services also retained other portions of DE&S that were not part of the sale, as well as a portion of DukeSolutions, Inc. (DukeSolutions) that was not sold on May 1, 2002 to Ameresco, Inc. DE&S and DukeSolutions were included in Other Energy Services through the dates of their sales. (See Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions," for additional information on the sales of DE&S and DukeSolutions.)

Duke Ventures is composed of other diverse businesses, operating primarily through Crescent Resources, LLC (Crescent), DukeNet Communications, LLC (DukeNet) and Duke Capital Partners, LLC (DCP). Crescent develops high-quality commercial, residential and multi-family real estate projects and manages land holdings, primarily in the Southeastern and Southwestern U.S. DukeNet develops and manages fiber optic communications systems for wireless, local and long distance communications companies; and selected educational, governmental, financial and health care entities. DCP, a wholly owned merchant finance company, provides debt and equity capital and financial advisory services primarily to the energy industry. In March 2003, Duke Energy announced that it will exit the merchant finance business at DCP in an orderly manner.

Duke Energy is a North Carolina corporation. Its principal executive offices are located at 526 South Church Street, Charlotte, North Carolina 28202-1803. The telephone number is 704-594-6200. Additional information about Duke Energy, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, is available through Duke Energy's web site at <http://www.duke-energy.com>. Such reports are accessible at no charge through Duke Energy's web site, and are made available as soon as reasonably practicable after such material is filed with or furnished to the Securities and Exchange Commission.

Terms used to describe Duke Energy's business are defined below.

**Allowance for Funds Used During Construction.** A non-cash accounting convention of regulatory utilities that represents the estimated composite interest costs of debt and a return on equity funds used to finance construction. The allowance is capitalized in the property accounts and included in income.

**Asset Optimization.** The process of maximizing the returns on a portfolio of assets through the use of hedging strategies involving energy contracts.

**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.

**Decommissioning.** The process of closing down a nuclear facility and reducing the residual radioactivity to a level that permits the release of the property and termination of the license. Nuclear power plants are required by the Nuclear Regulatory Commission to set aside funds for their decommissioning costs during operation.

**Derivative.** A contract in which its price is based on the value of underlying securities, equity indices, debt instruments, commodities or other benchmarks. Often used to hedge risk, derivatives involve the trading of rights or obligations, but not the direct transfer of property.

**Distribution.** The system of lines, transformers, switches and mains that connect electric and natural gas transmission systems to customers.

**Estimated Available Production.** Estimated physical generation capability of owned generation assets as adjusted for scheduled maintenance transmission availability and an estimate for unplanned outages.

**Federal Energy Regulatory Commission (FERC).** The U.S. 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.

**Forward Contract.** A contract in which the buyer is obligated to take delivery, and the seller is obligated to deliver a fixed amount of a commodity at a predetermined price on a specified future date, at which time payment is due in full.

**Fractionation/Fractionate** The process of separating liquid hydrocarbons from natural gas into propane, butane, ethane, etc.

**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).** An entity that 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.

**Integrated Logistics.** The coordinated effort to optimally deliver physical product to the end user.

**Light-off Fuel.** Fuel oil used to light the coal prior to generating electricity.

**Liquefied Natural Gas (LNG).** Natural gas that has been converted to a liquid by cooling it to -260 degrees Fahrenheit.

**Liquid Market.** A market in which selling and buying can be accomplished with minimal price change; such a market has a high level of trading activity and open interest.

**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.

**Logistics & Optimization.** The act of maximizing physical positions through arbitrage, especially on contractual assets such as storage, transportation, generation and transmission.

**Mark-to-Market.** The process whereby derivatives or energy trading contracts are adjusted to market value, and the unrealized gain or loss is recognized in current earnings and on the balance sheet.

**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.

**No-notice Bundled Service.** A pipeline delivery service which allows customers to receive or deliver gas on demand without making prior nominations to meet service needs and without paying daily balancing and scheduling penalties.

**Origination.** Identification and execution of physical energy related transactions throughout the value chain.

**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.

**Regional Transmission Organization (RTO).** An independent entity which is established to have "functional control" over utilities' transmission systems, in order to expedite wholesale wheeling. FERC proposes to have RTOs or other independent transmission providers operate transmission systems in all regions of the country.

**Reliability Must Run.** Generation that the California ISO determines is required to be on-line to meet applicable reliability criteria requirements.

**Throughput.** The amount of natural gas or natural gas liquids transported through a pipeline system.

**Tolling.** Process whereby a party moves fuel to a power generator and receives kilowatt hours in return for a pre-established fee.

**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.

**Volatility.** An annualized measure of the fluctuation in the price of an energy contract. Implied volatility is a measure of what the market values volatility to be, as reflected in the option's price.

**Watt.** A measure of power production or usage equal to one joule per second.

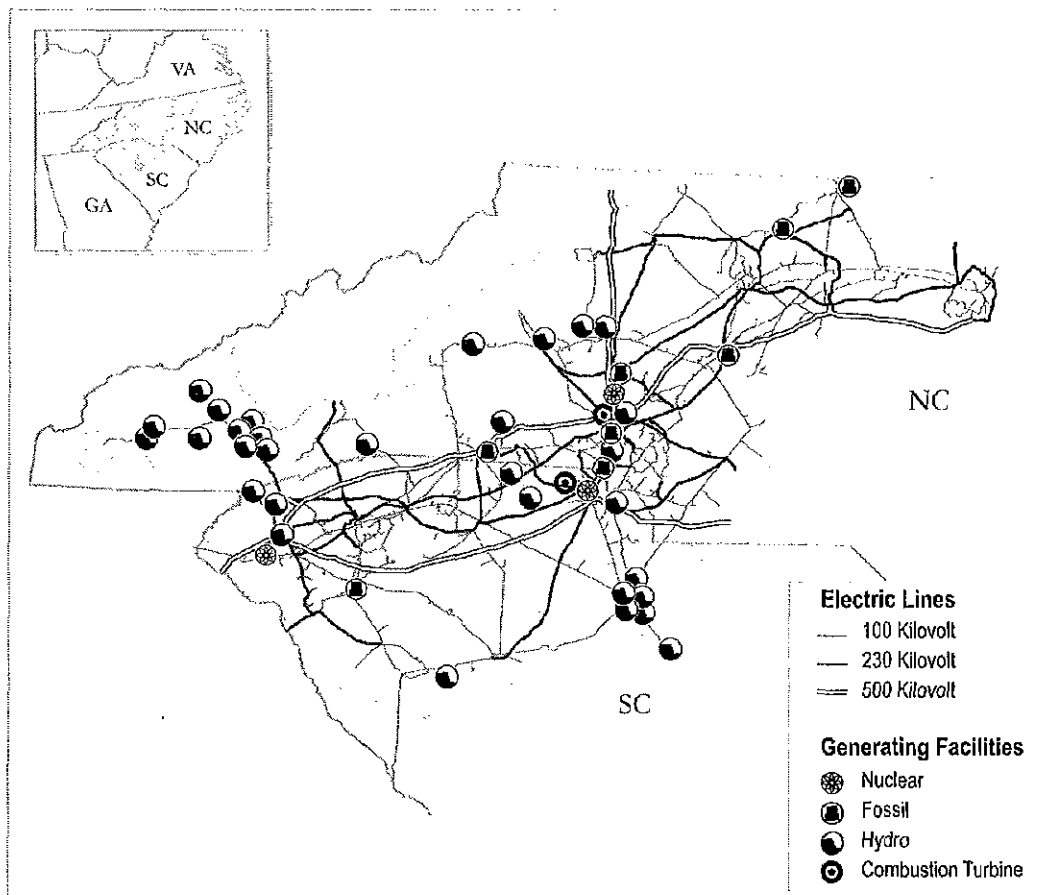
The following sections describe the business and operations of each of Duke Energy's business segments. (For more information on the operating outlook of Duke Energy and its segments, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Introduction—Business Strategy." For financial information on Duke Energy's business segments, see Note 3 to the Consolidated Financial Statements, "Business Segments.")

## FRANCHISED ELECTRIC

### Service Area and Customers

Franchised Electric generates, transmits, distributes and sells electricity. Its service area covers about 22,000 square miles with an estimated population of 5.7 million in central and western North Carolina and western South Carolina. Franchised Electric supplies electric service to approximately two million residential, commercial and industrial customers over 94,000 miles of distribution lines and a 13,300 mile transmission system. Electricity is sold wholesale to incorporated municipalities and to public and private utilities. In addition, municipal and cooperative customers who purchased portions of the Catawba Nuclear Station buy power through contractual agreements. (For statistics related to gigawatt-hour sales by customer type, see "Operating Statistics" in this section. For more information on the Catawba Nuclear Station joint ownership, see Note 5 to the Consolidated Financial Statements, "Joint Ownership of Generating Facilities.")

Industrial and commercial development in Franchised Electric's service area is highly diversified. The textile industry, machinery and equipment manufacturing, and chemical industries are of major significance to the area's economy. Other industries operating in the area include rubber and plastic products, paper and related products, and other manufacturing and service businesses. The textile industry, the largest industry served by Franchised Electric, accounted for approximately \$335 million of Franchised Electric's revenues for 2002, representing 7% of total electric revenues and 31% of industrial revenues. Franchised Electric normally experiences seasonal peak loads in summer and winter.





## Energy Capacity and Resources

Electric energy for Franchised Electric's customers is generated by three nuclear generating stations with a combined net capacity of 5,020 megawatts (MW) (including Duke Energy's 12.5% ownership in the Catawba Nuclear Station), eight coal-fired stations with a combined capacity of 7,699 MW, 31 hydroelectric stations (including two pumped-storage facilities) with a combined capacity of 2,806 MW and seven combustion turbine stations with a combined capacity of 2,135 MW. Energy and capacity are also supplied through contracts with other generators and purchased on the open market. Franchised Electric has interconnections and arrangements with its neighboring utilities to facilitate planning, emergency assistance, exchange of capacity and energy, and reliability of power supply. Franchised Electric expects that additional construction, purchased power contracts and open market purchases will meet customers' energy needs in the future. (For statistics on sources of electric energy, see "Operating Statistics" in this section.)

## Fuel Supply

Franchised Electric relies principally on coal and nuclear fuel for its generation of electric energy. The following table lists Franchised Electric's sources of power and fuel costs for the three years ending December 31, 2002.

	Generation by Source (Percent)			Cost of Fuel per Net Kilowatt-hour Generated (Cents)		
	2002	2001	2000	2002	2001	2000
Coal .....	51.2	50.9	50.9	1.54	1.48	1.29
Nuclear(a) .....	48.3	48.6	48.1	0.42	0.42	0.42
Oil and gas(b) .....	0.1	0.2	0.5	11.89	11.48	7.32
All fuels (cost based on weighted average)(a) .....	99.6	99.7	99.5	1.01	0.98	0.91
Hydroelectric(c) .....	0.4	0.3	0.5			
	100.0	100.0	100.0			

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

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

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

**Coal.** Franchised Electric meets its coal demand through purchase supply contracts and spot agreements. Large amounts of coal are obtained under supply contracts with mining operators who mine both underground and at the surface. Franchised Electric has an adequate supply of coal to fuel its current operations. Expiration dates for its supply contracts, which have price adjustment provisions, range from 2003 to 2005. Duke Energy expects to renew these contracts or enter into similar contracts with other suppliers for the quantities and quality of coal required. The coal purchased under these contracts is produced from mines in eastern Kentucky, southern West Virginia and southwestern Virginia. Franchised Electric uses spot market purchases to meet coal requirements not met by supply contracts.

The average sulfur content of coal purchased by Franchised Electric is approximately 1%. This satisfies the current emission limitation for sulfur dioxide for existing facilities. (See Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies—Environmental," for additional information regarding particulate matter.)

**Nuclear.** Developing nuclear generating fuel generally involves the mining and milling of uranium ore to produce uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride gas, enrichment of that gas, and then the fabrication of the enriched uranium hexafluoride into usable fuel assemblies.

Franchised Electric has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Uranium concentrates, conversion services and enrichment services are primarily met through a diversified portfolio of long-term supply contracts. The contracts are diversified by supplier, country of origin and pricing. Franchised Electric staggers its contracting so that its portfolio of long-term contracts covers the majority of its fuel requirements at Oconee, McGuire and Catawba in the near term, but so that its level of coverage decreases each year into the future. Due to the technical complexities of changing suppliers of fuel fabrication services, Franchised Electric generally sole sources these services to domestic suppliers on a plant by plant basis using multi-year contracts.

Based upon current projections, Franchised Electric's existing portfolio of contracts will meet the requirements of Oconee, McGuire and Catawba Nuclear Stations through the following years:

<u>Nuclear Station</u>	<u>Uranium Material</u>	<u>Conversion Service</u>	<u>Enrichment Service</u>	<u>Fabrication Service</u>
Oconee .....	2005	2005	2007	2006
McGuire .....	2005	2005	2007	2009
Catawba .....	2005	2005	2007	2009

After the years indicated above, a portion of the fuel requirements at Oconee, McGuire and Catawba are covered by long-term contracts. For requirements not covered under long-term contracts, Duke Energy believes it will be able to renew contracts as they expire, or enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services. Near-term requirements not met by long-term supply contracts have been and are expected to be fulfilled with uranium spot market purchases.

Duke Power, a division of Duke Energy, has entered into a contract under which Duke Power has agreed to prepare the McGuire and Catawba nuclear reactors for use of mixed oxide fuel and to purchase mixed oxide fuel for use in such reactors. Mixed oxide fuel is fabricated from the U.S. government's surplus plutonium and is similar to conventional uranium fuel. Before using the fuel, Duke Energy must apply for and obtain amendments to the facilities' operating licenses from the Nuclear Regulatory Commission (NRC). (See Note 17 to the Consolidated Financial Statements, "Guarantees and Indemnifications," for additional information.)

### **Insurance and Decommissioning**

Duke Energy owns and operates the McGuire and Oconee Nuclear Stations and operates and has a partial ownership interest in the Catawba Nuclear Station. The McGuire and Catawba Nuclear Stations have two nuclear reactors each and Oconee has three. Nuclear insurance includes: liability coverage; property, decontamination and decommissioning coverage; and business interruption and/or extra expense coverage. The other joint owners of the Catawba Nuclear Station reimburse Duke Energy for certain expenses associated with nuclear insurance premiums. The Price-Anderson Act requires Duke Energy to insure against public liability claims resulting from nuclear incidents to the full limit of liability, approximately \$9.5 billion. (See Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies—Nuclear Insurance," for more information.)

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 (studies are completed every five years). This includes costs related to Duke Energy's 12.5% ownership in the Catawba Nuclear Station. The other joint owners of the Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station. (See Note 12 to the Consolidated Financial Statements, "Nuclear Decommissioning Costs," for more information.)

After spent fuel is removed from a nuclear reactor, it is cooled in a spent fuel pool at the nuclear station. Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has contracted with the U.S.

Department of Energy (DOE) for the disposal of spent nuclear fuel. The DOE failed to begin accepting spent nuclear fuel on January 31, 1998, the date specified by the Nuclear Waste Policy Act and in Duke Energy's contract with the DOE. In 1998, Duke Energy filed a claim with the U.S. Court of Federal Claims against the DOE related to the DOE's failure to accept commercial spent nuclear fuel by the required date. Damages claimed in the lawsuit are based upon Duke Energy's costs incurred as a result of the DOE's partial material breach of its contract, including the cost of 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.

## **Competition**

Duke Energy continues to monitor electric industry restructuring and actively participates in regulatory reform deliberations in North Carolina and South Carolina. However, movement toward retail deregulation in these and other states has recently slowed. (For more information, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues—Electric Competition.")

Franchised Electric competes in some areas with government-owned power systems, municipally owned electric systems, rural electric cooperatives and other private utilities. By statute, the NCUC and the PSCSC assign all service areas outside municipalities in North Carolina and South Carolina to regulated electric utilities and rural electric cooperatives. Substantially all of the territory comprising Franchised Electric's service area has been assigned in this manner. In unassigned areas, Franchised Electric's business 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, competition continues between municipalities and other electric suppliers outside the municipalities' corporate limits, subject to the regulation of the PSCSC. In addition, Franchised Electric continues to compete with natural gas providers.

## **Regulation**

The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Franchised Electric's rates for some electric sales to wholesale customers. (For more information on rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters—Franchised Electric.") The FERC, the NCUC and the PSCSC also have authority over the construction and operation of Franchised Electric's facilities. Certificates of public convenience and necessity issued by the FERC, the NCUC and the PSCSC authorize Franchised Electric to construct and operate its electric facilities, and to sell electricity to retail and wholesale customers. Prior approval from the NCUC and the PSCSC is required to issue securities.

NCUC, PSCSC and FERC regulations govern access to regulated electric customer data by non-regulated entities, and services provided between regulated and non-regulated affiliated entities. These regulations affect DENA's and Other Energy Services' activities with Franchised Electric.

The Energy Policy Act of 1992 and the FERC's subsequent rulemaking activities opened the wholesale energy market to competition. Open-access transmission for wholesale customers, as defined by the FERC's rules, provides energy suppliers, including Duke Energy, with opportunities to sell and deliver capacity and energy at market-based prices. From the FERC's open-access rule, Franchised Electric obtained the rights to sell capacity and energy at market-based rates from its own assets, which also allows Franchised Electric to purchase, at attractive rates, a portion of its capacity and energy requirements resulting in lower overall costs to customers. Open access also provides Franchised Electric's existing wholesale customers with competitive opportunities to seek other suppliers for their capacity and energy requirements.

In 1999 and 2000, the FERC issued its Order 2000 and Order 2000-A regarding Regional Transmission Organizations (RTOs). These orders set minimum characteristics and functions RTOs must meet, including

independent authority to establish the terms and conditions of transmission service over the facilities they control. The orders provide for an open and flexible RTO structure to meet the needs of the market, and for the possibility of incentive ratemaking and other benefits for transmission owners that participate.

As a result of these rulemakings, Duke Power and the franchised electric units of two other investor-owned utilities, Progress Energy (formerly known as Carolina Power & Light Company) and South Carolina Electric & Gas Company, planned to establish GridSouth Transco, LLC (GridSouth), as an RTO responsible for the functional control of the companies' combined transmission systems. As of December 31, 2002, Duke Energy had invested \$37 million in GridSouth, including carrying costs. This amount is included in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets. The sponsors expected that GridSouth would be substantially operational by the FERC's Order 2000 "deadline" date of December 15, 2001. In March 2001, GridSouth received provisional approval from the FERC. However, in July 2001 the FERC ordered GridSouth and other utilities in the Southeast to join in a mediation to negotiate terms of a Southeastern RTO. It does not appear that the FERC will issue an order specifically based on that proceeding. In 2002, the GridSouth sponsors withdrew their applications to the NCUC and the PSCSC for approval of the transfer of functional control of their electric transmission assets to GridSouth, and announced that development of the GridSouth implementation project had been suspended until the sponsors have an opportunity to further consider regulatory circumstances and the outcome of initiatives such as the FERC's Notice of Proposed Rulemaking (NOPR) on Standard Market Design (SMD) and the RTO cost/benefit study initiated by the Southeastern Association of Regulatory Utility Commissioners (SEARUC). The SEARUC cost/benefit study, issued in November 2002, states that under most scenarios neither RTOs nor SMDs provide net benefits to retail customers in the Southeast over the next few years. The final rule from the SMDNOPR is not expected to be issued until after July 2003. Duke Energy believes that more open wholesale electric markets will at some point provide benefits to consumers and other market participants. Duke Energy continues to examine its specific options relative to RTOs in light of the existing complex regulatory environment. Management believes its investment in GridSouth is probable of recovery.

Franchised Electric is subject to the NRC jurisdiction for the design, construction and operation of its nuclear generating facilities. In 2000, the NRC renewed the operating license for Duke Energy's three Oconee nuclear units through 2033 and 2034. Applications to renew the operating licenses for Duke Energy's Catawba and McGuire nuclear units were filed with the NRC in June 2001. These operating licenses currently expire between 2021 and 2026. Franchised Electric's hydroelectric generating facilities are licensed by the FERC under Part I of the Federal Power Act, with license terms expiring from 2005 to 2036. The FERC has authority to extend hydroelectric generating licenses. Other hydroelectric facilities whose licenses expire between 2005 and 2008 are in various stages of relicensing.

Franchised Electric is subject to the jurisdiction of the Environmental Protection Agency (EPA) and state environmental agencies. (For a discussion of environmental regulation, see "Environmental Matters" in this section.)

## **NATURAL GAS TRANSMISSION**

Natural Gas Transmission provides transportation and storage of natural gas for customers throughout the East Coast and Southern U.S. and in Canada. Natural Gas Transmission also provides distribution services to retail customers in Ontario and Western Canada, and gas gathering and processing service to customers in Western Canada. Natural Gas Transmission does business primarily through Duke Energy Gas Transmission Corporation. Duke Energy acquired Westcoast on March 14, 2002. (See Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions.")

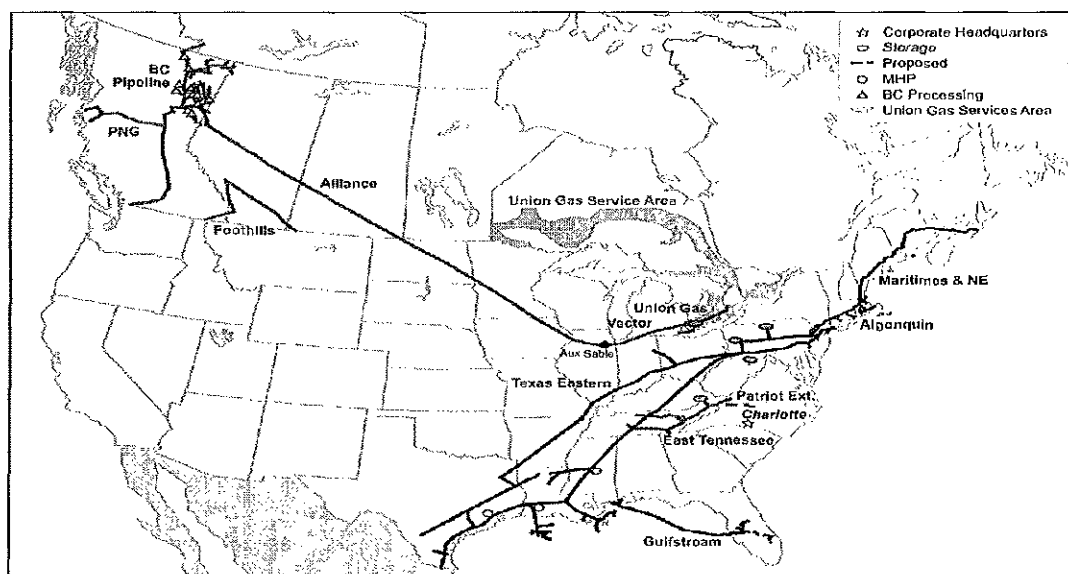
Natural Gas Transmission's significant investments include Gulfstream Natural Gas System, LLC (Gulfstream), an interstate natural gas pipeline system owned and operated jointly by Duke Energy and The Williams Companies, Inc. The Gulfstream gas pipeline has a capacity of 1.1 billion cubic feet (Bcf) of natural

gas per day and transports gas from the Mobile Bay area, across the Gulf of Mexico, to growing gas markets in south and central Florida. Gulfstream went in-service in May 2002.

Alliance Pipeline, in which Natural Gas Transmission owns a 23.6% equity interest, is a natural gas transmission pipeline with a daily transportation capacity of 1.3 Bcf of natural gas per day from northeastern British Columbia, through Alberta and Saskatchewan, to a terminus near Chicago, Illinois.

Vector Pipeline, in which Natural Gas Transmission owns a 30% equity interest, is a natural gas transmission pipeline from a point near Chicago, Illinois to Union Gas Limited's (Union Gas) Dawn hub in Ontario. The Vector Pipeline connects with the Alliance Pipeline and the Northern Border Pipeline near Chicago, Illinois and delivers gas into markets in Indiana, Michigan and Ontario. The Vector Pipeline has a capacity of approximately 1 Bcf per day.

For 2002, Natural Gas Transmission's proportional throughput for its pipelines totaled 3,160 trillion British thermal units (BTU), compared to 1,781 BTU in 2001, a 77% increase mainly due to the Westcoast acquisition. This includes throughput on Natural Gas Transmission's wholly owned U.S. and Canadian pipelines and its proportional share of throughput on pipelines that are not wholly owned. (See natural gas delivery statistics under "Operating Statistics" in this section.) A majority of Natural Gas Transmission's contracted transportation volumes are under long-term firm service agreements with local distribution company (LDC) customers in the pipelines' market areas. Firm transportation services are also provided 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 various customers on a short-term or seasonal basis. Demand on Natural Gas Transmission's pipeline systems is seasonal, with the highest throughput occurring during colder periods in the first and fourth calendar quarters. Natural Gas Transmission's deliveries are in Canada (primarily the Western and Atlantic regions of Canada, plus Ontario and Quebec), and the U.S. (primarily Connecticut, Maine, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Rhode Island, Tennessee and Virginia). Natural Gas Transmission provides distribution services through its Union Gas and Pacific Northern Gas (PNG) subsidiaries. Union Gas' distribution service area encompasses approximately 400 communities and extends throughout northern Ontario from the Manitoba border to the North Bay/Muskoka area, through southern Ontario from Windsor to just west of Toronto, and across eastern Ontario from Port Hope to Cornwall. Union Gas' distribution system consists of approximately 20,000 miles of distribution lines serving approximately 1.17 million residential, commercial and industrial customers. PNG serves approximately 39,000 customers in west-central and northeastern British Columbia.



Natural Gas Transmission's pipeline systems consist of over 18,000 miles of transmission pipelines. The pipeline systems receive natural gas from major North American producing regions for delivery to markets primarily in British Columbia, the Western U.S., Ontario, the Pacific Northwest, and the Mid-Atlantic, Southeastern and New England states. (For detailed descriptions of Natural Gas Transmission's pipeline systems, see "Properties, Natural Gas Transmission.")

Natural Gas Transmission, through Market Hub Partners (MHP), wholly owns natural gas salt cavern facilities in south Texas and Louisiana with a total storage capacity of approximately 29 Bcf. MHP markets natural gas storage services to pipelines, LDCs, producers, end users and natural gas marketers. Texas Eastern Transmission, LP (Texas Eastern) and East Tennessee Natural Gas (ETNG) also provide 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 with transportation. Texas Eastern has two joint-venture storage facilities in Pennsylvania and one wholly owned and operated storage field in Maryland. Texas Eastern's certificated working capacity in these three fields is 75 Bcf. ETNG has a liquefied natural gas storage facility in Tennessee with a certificated working capacity of 1.2 Bcf. Union Gas owns approximately 150 Bcf of natural gas storage capacity in 20 underground facilities located in depleted gas fields near Sarnia, Ontario.

## **Competition**

Natural Gas Transmission's pipeline, storage and field services businesses compete with other pipeline and storage facilities in the transportation, processing and storage of natural gas. Natural Gas Transmission competes directly with other pipelines serving the Mid-Atlantic, Northeastern, Southeastern and Pacific Northwestern states, Western Canada, Ontario and along Canada's Atlantic coast. Natural Gas Transmission also competes directly with other natural gas storage facilities in south Texas, Louisiana and Ontario. The principal elements of competition are rates, terms of service, and flexibility and reliability of service.

Union Gas' sales to industrial customers are affected by economic conditions and the price of competitive energy sources. Most of Union Gas' industrial and commercial customers, and a portion of residential customers, purchase their natural gas supply directly from suppliers or marketers. As Union Gas earns income from the distribution of natural gas and not the sale of the natural gas commodity, the gas distribution margin is not affected by the source of the customer's gas supply.

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, governmental regulations, the capability to convert to alternative fuels, weather and other factors 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 or stored for U.S. interstate commerce or sold by a natural gas company via interstate commerce for resale. (For more information on rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters—Natural Gas Transmission.") The FERC also has authority over the construction and operation of U.S. pipelines and related facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. Texas Eastern, Algonquin Gas Transmission Company (Algonquin), ETNG, Gulfstream, Alliance Pipeline, Vector Pipeline, MHP and Maritimes & Northeast Pipeline (M&N Pipeline) hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate pipelines, facilities and related properties, and to transport and store natural gas via interstate commerce. The MHP storage assets located in Texas are also subject to the Texas Railroad Commission's rules and regulations.

As required by FERC Order 636, Natural Gas Transmission's U.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.

The FERC regulations govern access to regulated natural gas transmission customer data by non-regulated entities and to services provided between regulated and non-regulated affiliated entities. These regulations affect the activities of DENA with Natural Gas Transmission.

Natural Gas Transmission's U.S. operations are subject to the jurisdiction of the EPA and state environmental agencies. (For a discussion of environmental regulation, see "Environmental Matters" in this section.) Natural Gas Transmission's interstate natural gas pipelines are subject to the regulations of the U.S. Department of Transportation (DOT) concerning pipeline safety. DOT regulations have incorporated certain provisions of the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline and liquefied natural gas plant safety requirements. In addition, the DOT is developing regulations that will require pipelines to implement integrity management programs, including more frequent inspections and other safety protections in areas where the consequences of potential pipeline accidents pose the greatest risk to people and their property. The Pipeline Safety Improvement Act of 2002, which was enacted on December 17, 2002, establishes mandatory inspections of high-consequence areas for all U.S. oil and natural gas pipelines within 10 years.

The natural gas gathering, processing, transmission, storage and distribution operations in Canada are subject to regulation by the National Energy Board and provincial agencies in Canada, such as the Ontario Energy Board and the British Columbia Utilities Commission. These agencies have authorization similar to the FERC for setting rates, regulating the operations of facilities and construction of any additional facilities.

## **FIELD SERVICES**

Field Services gathers, compresses, treats, processes, transports, trades and markets, and stores natural gas; and produces, transports, trades and markets, and stores NGLs. It conducts operations primarily through DEFS. Field Services gathers natural gas from production wellheads in Western Canada and 11 contiguous states in the U.S. Those systems serve major gas-producing regions in the Western Canadian Sedimentary Basin, Rocky Mountain, Permian Basin, Mid-Continent and East Texas-Austin Chalk-North Louisiana areas, as well as onshore and offshore Gulf Coast areas. Field Services owns and operates approximately 60,000 miles of natural gas gathering systems with approximately 35,000 active receipt points. Field Services conducts its operations primarily through DEFS, which is approximately 30% owned by ConocoPhillips.

Duke Energy and ConocoPhillips are currently in discussions regarding possible changes to DEFS' ownership. Member interests in DEFS are currently held approximately 70% by Duke Energy and approximately 30% by ConocoPhillips. The discussions are focused on a possible change in the ownership structure that would be driven by the possible contribution by ConocoPhillips of certain midstream natural gas assets to DEFS. There is no certainty that these discussions will lead to a transaction in which ConocoPhillips would contribute these assets to DEFS or what might be the terms of such a transaction.

Field Services' natural gas processing operations separate raw natural gas that has been gathered on its systems and third-party systems into condensate, NGLs and residue gas. Field Services processes the raw natural gas at the 60 natural gas processing facilities that it owns and operates and at 11 third-party operated facilities in which it has an equity interest.

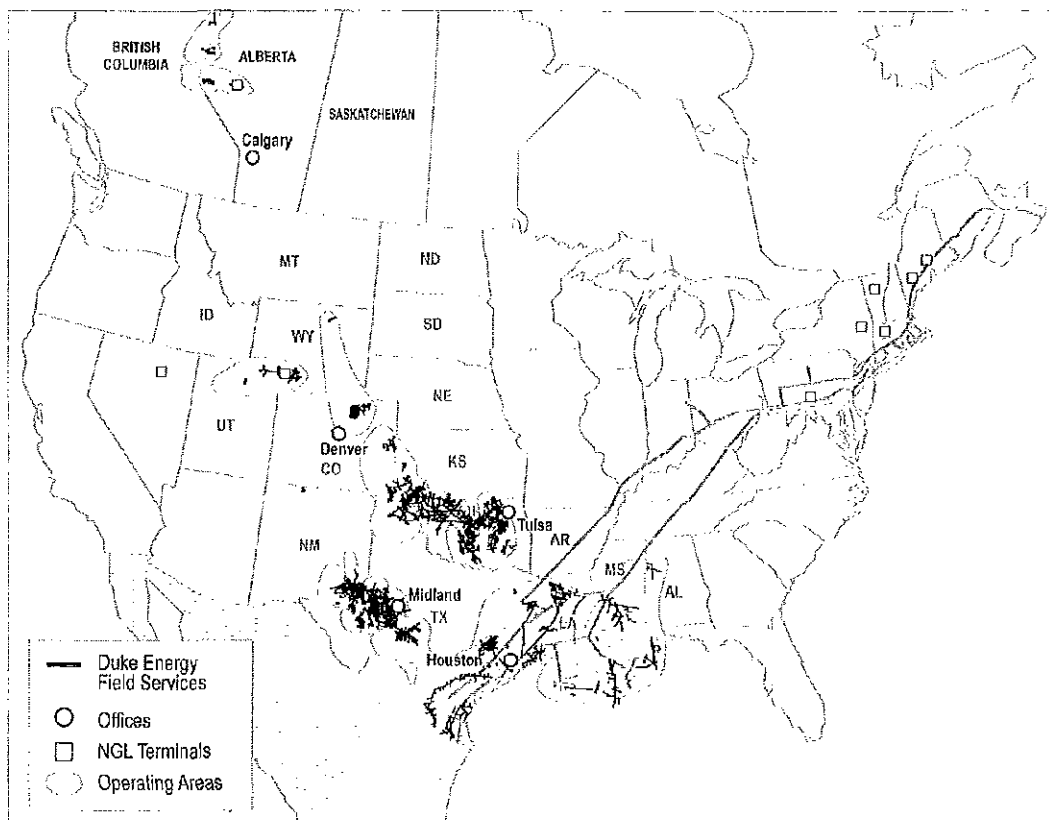
The NGLs separated from the raw natural gas are either sold and transported as NGL raw mix, or further separated through a fractionation process into their individual components (ethane, propane, butanes and natural gasoline) and then sold as components. Field Services fractionates NGL raw mix at 11 processing facilities that it owns and operates and at two third-party-operated facilities in which it has an equity interest. In addition, Field Services operates a propane wholesale marketing business. Field Services sells NGLs to a variety of customers ranging from large, multinational petrochemical and refining companies to small regional retail propane distributors. Substantially all of its NGL sales are at market-based prices.

The residue gas separated from the raw natural gas is sold at market-based prices to marketers or end-users, including large industrial customers and natural gas and electric utilities serving individual consumers. Field Services markets residue gas directly or through its wholly owned gas marketing company and its affiliates. Field Services also stores residue gas at its 7.5 billion-cubic-foot natural gas storage facility.



Field Services uses NGL trading and storage at the Mont Belvieu, Texas and Conway, Kansas NGL market centers to manage its price risk and to provide additional services to its customers. Gas trading and marketing activities are supported by ownership of the Spindletop storage facility and various intrastate pipelines which provide access to market centers/hubs such as Waha, Texas; Katy, Texas and the Houston Ship Channel. Field Services undertakes these NGL and gas trading activities through the use of fixed forward sales, basis and spread trades, storage opportunities, put/call options, term contracts and spot marketing trading. Field Services believes there are additional opportunities to grow its services with its customer base.

The following map includes Field Services' natural gas gathering systems, intrastate pipelines, regional offices and supply areas. The map also shows Natural Gas Transmission's interstate pipeline systems.



Field Services also owns Texas Eastern Products Pipeline Company, LLC (TEPPCO), the general partner of TEPPCO Partners, L.P., a publicly traded limited partnership which owns one of the largest common carrier pipelines of refined petroleum products and liquefied petroleum gases in the U. S., as well as, natural gas gathering systems, petrochemical and natural gas liquid pipelines, and is engaged in crude oil transportation, storage, gathering and marketing. TEPPCO is responsible for the management and operations of TEPPCO Partners, L.P.

Field Services' operating results are significantly impacted by changes in NGL prices, which decreased approximately 16% in 2002 compared to 2001. (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.)

Field Services' activities can fluctuate in response to seasonal demand for natural gas. (See Field Services' "Operating Statistics" in this section.)

## **Competition**

Field Services competes with major integrated oil companies, major interstate and intrastate pipelines, national and local natural gas gatherers, and 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 based primarily on the reputation, efficiency and reliability of operations, the availability of gathering and transportation to high-demand markets, the pricing arrangement offered by the gatherer/processor and the ability of the gatherer/processor to obtain a satisfactory price for the producer's residue gas and extracted NGLs. Competition for sales to customers is based primarily upon reliability, services offered, and price of delivered natural gas and NGLs.

## **Regulation**

The intrastate pipelines owned by Field Services are subject to state regulation. To the extent they provide services under Section 311 of the Natural Gas Policy Act of 1978, they are also subject to FERC regulation. However, most of Field Services' natural gas gathering activities are not subject to FERC regulation.

Field Services is subject to the jurisdiction of the EPA and state environmental agencies. (For more information, see "Environmental Matters" in this section.) Some of Field Services' operations are subject to the jurisdiction of the DOT and state transportation agencies. The regulations from these agencies, which incorporate certain provisions of the Natural Gas Pipeline Safety Act, control the design, installation, testing, construction, operation, replacement and management of Field Services' pipeline operations.

In addition, Field Services' interstate natural gas pipelines are subject to the regulations of the DOT concerning pipeline safety. The DOT is developing regulations that will require pipelines to implement integrity management programs, including more frequent inspections and other safety protections in areas where the consequences of potential pipeline accidents pose the greatest risk to people and their property. The Pipeline Safety Improvement Act of 2002, which was enacted on December 17, 2002, establishes mandatory inspections of high-consequence areas for all U.S. oil and natural gas pipelines within 10 years.

Field Services' Canadian assets are regulated by the Alberta Energy and Utilities Board and the National Energy Board.

## **DUKE ENERGY NORTH AMERICA**

DENA develops, operates and manages merchant power generation facilities and engages in commodity sales and services related to natural gas and electric power. DENA conducts business throughout the U.S. and Canada through Duke Energy North America, LLC and DETM. DETM is approximately 40% owned by ExxonMobil Corporation and approximately 60% owned by Duke Energy. Prior to April 1, 2002, the DENA business segment was combined with DEM to form a segment called North American Wholesale Energy. In 2002, management combined DEM with the Other Energy Services segment.

DENA is an integrated energy business that develops, owns and manages a portfolio of merchant generation facilities. Through its portfolio management strategy, DENA invests and divests in selected markets as conditions warrant. DENA captures additional value by combining its project development, commercial and risk management expertise with the technical and operational skills of other Duke Energy business units to build and manage projects with maximum efficiency. DENA also supplies competitively priced energy, integrated logistics and asset optimization services, as well as risk management products, to wholesale energy customers.

DENA currently owns or operates approximately 14,157 net MW of operating generation and has approximately 1,860 net MW of projects under construction, slated for completion to meet summer 2003 peak

demand. In addition, in September 2002, DENA deferred construction on approximately 2,450 net MW of projects, including its Moapa, Grays Harbor and Luna plants.

The following map shows DENA's power generation facilities.



DETM markets natural gas, electricity and other energy-related products to a wide range of customers across North America. Duke Energy owns a 60% interest in DETM's natural gas and electric power trading operations, with ExxonMobil Corporation owning a 40% minority interest.

DETM markets natural gas primarily to LDCs, electric power generators (including DENA's generation facilities), municipalities, large industrial end-users and energy marketing companies. DETM markets electricity to investor-owned utilities, municipal power generators and other power marketers. DETM 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.

Natural gas marketing operations encompass both on-system and off-system supplies. On system, DETM generally purchases natural gas from producers connected to Field Services' facilities and delivers the gas to an intrastate or interstate pipeline for redelivery to another customer, using Natural Gas Transmission's pipelines when prudent. Off system, DETM purchases natural gas from producers, pipelines and other suppliers not connected with Duke Energy's facilities for resale to customers. DETM was previously committed to market substantially all of ExxonMobil's U.S. and Canadian natural gas production through 2006. However, Duke Energy and ExxonMobil subsidiaries have reached an agreement to modify DETM's gas supply from the ExxonMobil subsidiaries, so that a substantial amount of the gas will be released to ExxonMobil beginning as early as March 2003.

DETM's electricity marketing operations involve purchasing electricity from third-party suppliers and from DENA's domestic generation facilities for resale to customers.

The vast majority of DETM's portfolio of short-term and long-term sales agreements incorporates market-sensitive pricing terms. Long-term gas purchase agreements with producers also generally include market-sensitive pricing provisions. 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 DETM's risk-management activities, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk" and Note 7 to the Consolidated Financial Statements, "Derivative Instruments, Hedging Activities and Credit Risk.")

DETM's activities can fluctuate in response to seasonal demand for electricity, natural gas and other energy-related commodities. (See "Operating Statistics" in this section.)

### **Competition**

DETM competes for natural gas supplies and in marketing natural gas, electricity and other energy-related commodities. Competitors include major integrated oil companies, major interstate pipelines and their marketing affiliates, brokers, marketers and distributors, electric utilities, certain financial institutions engaged in commodity trading and other domestic and international electric power and natural gas marketers. The price of commodities and services delivered, along with the quality and reliability of services provided, drive competition in the energy marketing business.

DENA experiences substantial competition from utilities as well as other merchant electric generation companies in the U.S.

### **Regulation**

Most of DENA's and DETM's operations are subject to market-based rate regulation. However, to the extent that DENA's generating stations in California sell electricity to the California Independent System Operator under "reliability must run" agreements, those sales are made at FERC regulated rates.

DENA's and DETM's energy marketing activities are, in some circumstances, subject to the jurisdiction of the FERC. Current FERC policies permit DENA's trading and marketing entities to market natural gas, electricity and other energy-related commodities at market-based rates, subject to FERC jurisdiction.

From June, 20, 2002 through October 30, 2002, the price at which DETM could sell wholesale electricity in the Western Electricity Coordinating Council was subject to a floating price cap imposed by a FERC order. However, subject to the FERC's approval, DETM could sell at prices in excess of the cap in effect at the time if it provided justification. On October 31, 2002, the FERC imposed a soft price cap for the sale of energy throughout the Western Electricity Coordinating Council of \$250 per MW hour.

Several legal and regulatory proceedings at the state and federal levels are ongoing related to DENA's activities in California during the electricity supply situation and related to trading activities. (See Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies – Litigation – Western Power Disputes" for further discussion.)

The operation and maintenance of DENA's power plants in California will be subject to regulation pursuant to rules that are currently being promulgated by state authorities. The new rules will purport to increase the reliability of the generation supply in California by setting maintenance standards and regulating when plants may be taken out of service for routine maintenance. Duke Energy does not believe that the new rules, when finalized, will have a material impact on the operation of its power plants in California.

DENA is subject to federal, state and local environmental regulations. (For a discussion of environmental regulation, see "Environmental Matters" in this section.)

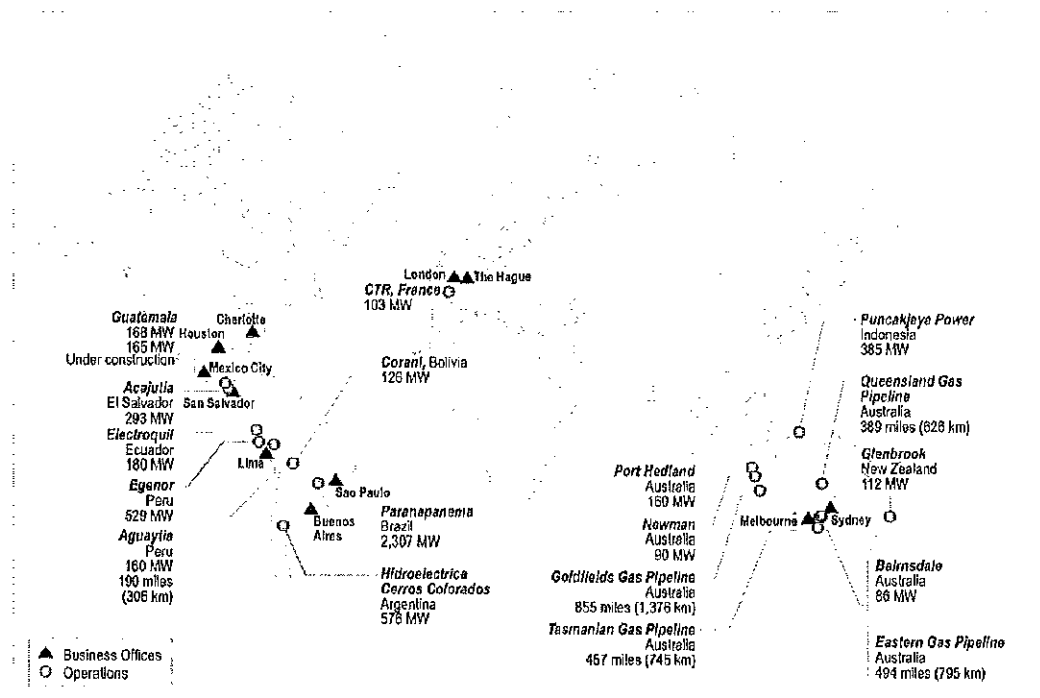
## INTERNATIONAL ENERGY

International Energy develops, operates and manages natural gas transportation and power generation facilities, and engages in sales and marketing of natural gas and electric power outside the U.S. and Canada. It conducts operations primarily through DEI and its activities target power generation in Latin America, power generation and natural gas transmission in Asia-Pacific and natural gas marketing in Northwest Europe.

From its platform of assets, International Energy provides customers with energy supply at competitive prices, manages the logistics associated with natural gas and power delivery, and offers services that allow customers to improve energy efficiency and hedge their commodity price exposure. International Energy's customers include retail distributors, electric utilities, independent power producers, large industrial companies, governments, gas and oil producers and mining operations. International Energy is committed to building integrated regional businesses that provide customers with a full range of innovative and competitively priced energy services.

International Energy's current strategy is focused on maximizing the returns and cash flow from its current portfolio of energy businesses by creating organic growth through its sales and marketing efforts in all regions, optimizing the output and efficiency of its various facilities, controlling and reducing costs and divesting selected assets.

International Energy owns, operates or has substantial interests in approximately 4,792 net MW of generation facilities and 2,400 miles of pipeline systems in operation. The following map shows the locations of International Energy's worldwide energy facilities, including projects under construction or under contract. The capacities shown in the map are gross MW values, for net MW values see "Properties, International Energy."



## **Competition and Regulation**

International Energy's operations are subject to country and region-specific market and competition regulations. Commonly addressed regulatory issues include rules, rates and tariffs governing open and competitive access to gas and power transmission grids, rules for merchant power plant dispatch and remuneration, and rules that support the emergence of competitive gas and power trading and marketing. International Energy's operations are subject to international environmental regulations. (See "Environmental Matters" in this section.)

## **OTHER ENERGY SERVICES**

Other Energy Services is composed of diverse energy businesses, operating primarily through DEM, D/FD and EDS. Prior to the sales of DE&S on May 1, 2002, and DukeSolutions on May 1, 2002, those businesses were included in Other Energy Services. (For more information on the sales, see Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions.") Other Energy Services also includes other portions of DE&S and DukeSolutions that were not part of the sales.

DEM engages in commodity buying and selling, and risk management and financial services in non-regulated energy commodity markets other than physical natural gas and power (such as petroleum products). DEM's activities can fluctuate in response to seasonal demand for other energy-related commodities.

D/FD, 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 Enterprises, Inc. each own 50% of D/FD.

EDS is an engineering, construction, maintenance and technical services firm specializing in electric transmission and distribution lines and substation projects. It was formed in the second quarter of 2002 from the transmission and distribution services component of DE&S and was excluded from the sale of DE&S.

## **Competition and Regulation**

DEM competes for other energy-related commodities. Competitors include major integrated oil companies, major interstate pipelines and their marketing affiliates, brokers and distributors. D/FD competes with major companies who provide engineering, procurement, construction, start-up and maintenance services for fossil fueled power generation facilities. EDS' competition includes companies that provide engineering, procurement, construction and maintenance services for transmission lines, distribution lines and substation facilities.

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 "Environmental Matters" in this section.)

## **DUKE VENTURES**

Duke Ventures is composed of other diverse businesses, primarily operating through Crescent, DukeNet and DCP.

Crescent develops high-quality commercial, residential and multi-family real estate projects, and manages land holdings, primarily in the Southeastern and Southwestern U.S. On December 31, 2002, Crescent owned 2.6 million square feet of commercial, industrial and retail space, with an additional 0.6 million square feet under construction. This portfolio included 1.3 million square feet of office space, 1.3 million square feet of warehouse space and 0.6 million square feet of retail space. Crescent's residential developments include high-end country club and golf course communities, with individual lots sold to custom builders and tract developments sold to

national builders. In 2002, Crescent had six multi-family communities, including three operating properties and three properties under development. On December 31, 2002, Crescent also managed approximately 129,000 acres of land.

DukeNet provides telecommunications bandwidth capacity for industrial and commercial customers through its fiber optic network. It owns and operates a fiber optic communications network centered in North Carolina and South Carolina and is interconnected with a fiber optic communications network through affiliate agreements with third parties.

DCP, a wholly owned merchant finance company, provides financing, investment banking and asset management services to wholesale and commercial markets in the energy and real estate industries. In March 2003, Duke Energy announced that it will exit the merchant finance business at DCP in an orderly manner.

## **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. Environmental regulations affecting Duke Energy include, but are not limited to:

- The Clean Air Act and the 1990 amendments to the Act, as well as state laws and regulations impacting air emissions, including State Implementation Plans related to existing and new national ambient air quality standards for ozone. Owners and/or operators of air emissions sources are responsible for obtaining permits and for annual compliance and reporting.
- The Federal Water Pollution Control Act which requires permits for facilities that discharge treated wastewater into the environment.
- The Comprehensive Environmental Response, Compensation and Liability Act, which can require any individual or entity that may have owned or operated a disposal site, as well as transporters or generators of hazardous wastes sent to such site, to share in remediation costs.
- The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act, which requires certain solid wastes, including hazardous wastes, to be managed pursuant to a comprehensive regulatory regime.
- The National Environmental Policy Act, which requires consideration of potential environmental impacts by federal agencies in their decisions, including siting approvals.

(For more information on environmental matters involving Duke Energy, including possible liability and capital costs, see Note 16 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, cash flows or financial position of Duke Energy.

## **GEOGRAPHIC REGIONS**

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 Currency Risk," and Notes 3 and 7 to the Consolidated Financial Statements, "Business Segments" and "Risk Management Instruments, Hedging Activities and Credit Risk."

## **EMPLOYEES**

On December 31, 2002, Duke Energy had approximately 22,000 employees. A total of 3,700 operating and maintenance employees were represented by unions. This amount consists of the following:

- 1,421 employees represented by the International Brotherhood of Electrical Workers
- 1,187 employees represented by the Communications, Energy and Paperworkers of Canada
- 269 employees represented by the United Steel Workers of America
- 198 employees represented by the Canadian Pipeline Employees Association
- 99 employees represented by Sindicato de Trabajadores del Sector Electrico
- 85 employees represented by Sindicato de Trabajadores del Sector Petroquimico
- 81 employees represented by Sindicato dos Trabalhadores na Industria da Energia Hidroeletrica de Ipaussu
- 79 employees represented by the Paper, Allied, Chemical and Energy Workers Union
- 77 employees represented by the International Union of Operating Engineers
- 34 employees represented by Asociacion del Personal Jerarquico del Agua y la Energia
- 29 employees represented by Sindicato dos Trabalhadores na Industria de Energia Eletrica de Campinas
- 28 employees represented by Sindicato Unico de Centrales de Generacion Canion del Pato
- 24 employees represented by Federacion Argentina de Trabajadores de Luz y Fuerza
- 23 employees represented by Sindicato Unico de Generacion Electrica Carhuaquero
- 21 employees represented by the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industries of the U.S. and Canada
- 20 employees represented by Sindicato Corani
- 13 employees represented by Sindicato dos Trabalhadores nas Industrias de Energia Eletrica de Sao Paulo
- 12 employees represented by the National Distribution Union



## OPERATING STATISTICS

	Years Ended December 31,				
	2002	2001	2000	1999	1998
<b>Franchised Electric</b>					
Sources of Electric Energy, GWh(a)					
Generated—net output:					
Coal .....	43,561	41,796	43,526	41,306	42,164
Nuclear .....	41,155	39,922	41,073	39,263	38,366
Hydro .....	317	224	394	638	1,714
Oil and gas .....	98	139	459	662	846
Total generation .....	85,131	82,081	85,452	81,869	83,090
Purchased power and net interchange .....	4,102	3,050	4,497	3,617	2,659
Total output .....	89,233	85,131	89,949	85,486	85,749
Plus: Purchases from other Catawba joint owners ..	—	—	150	1,233	1,656
Total sources of energy .....	89,233	85,131	90,099	86,719	87,405
Less: Line loss and company usage .....	5,450	5,446	5,333	5,171	5,394
Total GWh sales .....	83,783	79,685	84,766	81,548	82,011
Electric Energy Sales, GWh					
Residential .....	24,466	23,272	22,884	21,897	22,002
General service .....	24,242	23,666	22,845	21,807	21,093
Industrial .....					
Textile .....	8,443	8,829	10,819	11,201	11,981
Other .....	17,816	18,074	18,952	18,704	18,668
Other energy and wholesale .....	8,706	6,979	8,671	7,715	8,933
Total GWh sales billed .....	83,673	80,820	84,171	81,324	82,677
Unbilled GWh sales .....	110	(1,135)	595	224	(666)
Total GWh sales .....	83,783	79,685	84,766	81,548	82,011
<b>Natural Gas Transmission</b>					
Proportional Throughput Volumes, TBtu(b)(c) .....	3,160	1,781	1,771	1,893	1,459
<b>Field Services</b>					
Natural Gas Gathered and					
Processed/Transported, TBtu/d(d) .....	8.3	8.6	7.6	5.1	3.6
NGL Production, MBbl/d(e) .....	391.9	397.2	358.5	192.4	110.2
Natural Gas Marketed, TBtu/d .....	1.6	1.6	0.7	0.5	0.4
Average Natural Gas Price per MMBtu(f) .....	\$ 3.22	\$ 4.27	\$ 3.89	\$ 2.27	\$ 2.11
Average NGL Price per Gallon .....	\$ 0.38	\$ 0.45	\$ 0.53	\$ 0.34	\$ 0.26
<b>Duke Energy North America</b>					
Natural Gas Marketed, TBtu/d .....	17.7	12.3	11.9	10.5	8.0
Electricity Marketed and Traded, GWh .....	546,245	334,517	275,258	109,634	98,991
<b>Duke Energy International</b>					
Sales, GWh .....	21,443	18,896	16,949	—	—
Natural Gas Marketed, TBtu/d .....	4.2	2.7	1.0	—	—
Electricity Marketed and Traded, GWh .....	95,591	12,719	4,208	—	—

(a) Gigawatt-hour

(b) Trillion British thermal units

(c) Includes throughput of Westcoast acquired March 14, 2002, and excludes throughput of pipelines sold in March 1999: 328 TBtu (1999); 1,141 TBtu (1998)

(d) Trillion British thermal units per day

(e) Thousand barrels per day

(f) Million British thermal units

## **EXECUTIVE OFFICERS OF DUKE ENERGY**

**RICHARD B. PRIORY**, 56, Chairman of the Board and Chief Executive Officer. Mr. Priory served as President and Chief Operating Officer from 1994 until he assumed the position of Chairman of the Board, President and Chief Executive Officer in 1997.

**RICHARD W. BLACKBURN**, 60, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary. Mr. Blackburn was Executive Vice President, General Counsel and Secretary from 1997 until assuming his present position in 2003.

**ROBERT P. BRACE**, 53, Executive Vice President and Chief Financial Officer. Mr. Brace joined Duke Energy in 2000. Previously, he served as Group Finance Director of British Telecommunications plc starting in 1993.

**KEITH G. BUTLER**, 42, Senior Vice President and Controller. Mr. Butler was named Senior Vice President and Chief Financial Officer of Duke Energy Global and its affiliated companies in February 1998, Senior Vice President and Chief Financial Officer of Duke Energy North America in July 1998, and Chief Operating Officer of DukeSolutions in September 1999 before he assumed his current position in August 2001.

**FRED J. FOWLER**, 57, President and Chief Operating Officer. Mr. Fowler assumed his current position in November 2002. Mr. Fowler served as Group Vice President of PanEnergy from 1996 until the PanEnergy merger in 1997, when he was named Group President, Energy Transmission.

**DAVID L. HAUSER**, 51, Senior Vice President and Treasurer. Mr. Hauser held various positions, including Controller, at Duke Power before being named Senior Vice President, Global Asset Development in 1997. He was appointed to his current position in 1998.

**RICHARD J. OSBORNE**, 52, Executive Vice President and Chief Risk Officer. Mr. Osborne assumed his present position in May 2000. He previously served as Executive Vice President and Chief Financial Officer. Beginning in 1994, Mr. Osborne was Senior Vice President and Chief Financial Officer.

**RUTH G. SHAW**, 55, President, Duke Power. Ms. Shaw assumed her current position in February 2003. Ms. Shaw served as Senior Vice President, Corporate Resources, from 1994 until the PanEnergy merger in 1997, when she was named Executive Vice President and Chief Administrative Officer.

Executive officers are elected annually by the Board of Directors. They 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 involved in officer selection.

## **Item 2. Properties.**

### **FRANCHISED ELECTRIC**

As of December 31, 2002, Franchised Electric operated three nuclear generating stations with a combined net capacity of 5,020 MW (including a 12.5% ownership in the Catawba Nuclear Station), eight coal-fired stations with a combined capacity of 7,699 MW, 31 hydroelectric stations with a combined capacity of 2,806 MW and seven combustion turbine stations with a combined capacity of 2,135 MW. All of the stations are located in North Carolina or South Carolina.

In addition, Franchised Electric owned, as of December 31, 2002, approximately 13,300 conductor miles of electric transmission lines, including 600 miles of 525 kilovolts, 2,600 miles of 230 kilovolts, 6,700 miles of 100 to 161 kilovolts, and 3,400 miles of 13 to 66 kilovolts. Franchised Electric also owned approximately 94,000 conductor miles of electric distribution lines, including 62,800 miles of rural overhead lines, 15,700 miles of urban overhead lines, 8,400 miles of rural underground lines and 7,100 miles of urban underground lines. As of December 31, 2002, the electric transmission and distribution systems had approximately 1,600 substations.

Substantially all of Franchised Electric's electric plant in service is mortgaged under the indenture relating to Duke Energy's various series of First and Refunding Mortgage Bonds.

### **NATURAL GAS TRANSMISSION**

Texas Eastern'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 with three large-diameter parallel pipelines and the other with one to three large-diameter pipelines. Texas Eastern's system consists of approximately 8,600 miles of pipeline and 73 compressor stations.

Texas Eastern also owns and operates two offshore Louisiana pipeline systems, which extend over 100 miles into the Gulf of Mexico and include approximately 470 miles of Texas Eastern's pipelines.

Algonquin's transmission system connects with Texas Eastern's facilities in New Jersey, and extends approximately 250 miles through New Jersey, New York, Connecticut, Rhode Island and Massachusetts. The system consists of approximately 1,070 miles of pipeline with seven compressor stations.

ETNG's transmission system crosses Texas Eastern's system at two points in Tennessee and consists of two mainline systems totaling approximately 1,185 miles of pipeline in Tennessee and Virginia, with 18 compressor stations.

M&N Pipeline's transmission system extends approximately 800 miles from producing fields in Nova Scotia through New Brunswick, Maine, New Hampshire and Massachusetts. It has two compressor stations on the system.

The British Columbia Pipeline System (BC Pipeline) consists of the field services division, with more than 1,840 miles of gathering pipelines in British Columbia, Alberta, the Yukon Territory and the Northwest Territories, as well as 22 field compressor stations; four gas processing plants located in British Columbia at Fort Nelson, Taylor, Pine River and in the Sikanni area northwest of Fort St. John, with a total contractible capacity of approximately 1.8 Bcf of residue gas per day; and three elemental sulphur recovery plants located at Fort Nelson, Taylor and Pine River. The pipeline division has approximately 1,740 miles of transmission pipelines in British Columbia and Alberta, as well as 18 mainline compressor stations.

Union Gas owns and operates natural gas transmission, distribution and storage facilities in Ontario. Union Gas distributes natural gas to customers in northern, southwestern and eastern Ontario and provides storage,

transportation and related services to utilities and other industry participants in the gas markets of Ontario, Quebec and the Central and Eastern U.S. Union Gas' underground natural gas storage facilities have a working capacity of approximately 150 Bcf in 20 underground facilities located in depleted gas fields. Its transmission system consists of approximately 3,000 miles of pipeline and six mainline compressor stations. Union Gas' distribution service area encompasses approximately 400 communities. Its distribution system consists of approximately 20,000 miles of distribution lines serving approximately 1.17 million residential, commercial, and industrial customers.

PNG is a gas transmission and distribution utility which serves customers in west-central and northeastern British Columbia of which Duke Energy owns 40% of the non-voting participating stock and 100% of the voting participating stock. PNG's transmission system connects with the BC Pipeline system near Summit Lake, British Columbia and extends approximately 370 miles to the West Coast of British Columbia. In addition, PNG owns and operates distribution facilities in various communities located throughout its service area.

MHP owns and operates two natural gas storage facilities: Moss Bluff and Egan. The Moss Bluff facility consists of three storage caverns located in Liberty and Chambers counties near Houston, Texas and has access to five pipelines. The Egan facility consists of three storage caverns located in Acadia Parish in the south central part of Louisiana and has access to seven pipeline facilities.

(For a map showing natural gas transmission and storage properties and additional information on Natural Gas Transmission's properties, see "Business, Natural Gas Transmission.")

## **FIELD SERVICES**

(For information and a map showing Field Services' properties, see "Business, Field Services" earlier in this section.)

## DUKE ENERGY NORTH AMERICA

As of December 31, 2002, DENA's generation portfolio in operation included:

<u>Name</u>	<u>Gross MW</u>	<u>Net MW</u>	<u>Fuel</u>	<u>Location</u>	<u>Ownership Interest (percentage)</u>
Moss Landing(a) . . . . .	2,538	2,538	Natural gas	CA	100%
Morro Bay(a) . . . . .	1,002	1,002	Natural gas	CA	100
Murray(a) . . . . .	1,240	1,240	Natural gas	GA	100
South Bay(a) . . . . .	700	700	Natural gas	CA	100
Vermillion(b) . . . . .	648	648	Natural gas	IN	100
Lee(b) . . . . .	640	640	Natural gas	IL	100
Enterprise Energy(b) . . . . .	640	640	Natural gas	MS	100
Southhaven(b) . . . . .	640	640	Natural gas	MS	100
Sandersville(b) . . . . .	640	640	Natural gas	GA	100
Marshall County(b) . . . . .	640	640	Natural gas	KY	100
Hot Spring(a) . . . . .	620	620	Natural gas	AR	100
Washington(a) . . . . .	610	610	Natural gas	OH	100
Griffith Energy(a) . . . . .	600	300	Natural gas	AZ	50
Arlington Valley(a) . . . . .	570	570	Natural gas	AZ	100
Hinds(a) . . . . .	520	520	Natural gas	MS	100
Maine Independence(a) . . . . .	520	520	Natural gas	ME	100
Bridgeport(a) . . . . .	500	333	Natural gas	CT	67
St. Francis(a) . . . . .	494	248	Natural gas	MO	50
New Albany Energy(b) . . . . .	385	385	Natural gas	MS	100
American Ref-Fuel(c) . . . . .	380	190	Waste-to-energy	CT, MA, NJ, NY, PA	50
Bayside(a) . . . . .	265	199	Natural gas	NB	75
Oakland(b) . . . . .	165	165	Oil	CA	100
McMahon(d) . . . . .	117	59	Natural gas	BC	50
Ft. Frances(d) . . . . .	110	110	Natural gas	ON	100
Total . . . . .	<u>15,184</u>	<u>14,157</u>			

(a) Facilities are combined cycle plants

(b) Facilities are peaker plants

(c) Facilities are waste to energy plants

(d) Facilities are cogeneration plants

DENA had approximately 1,860 net MW under construction for completion to meet summer 2003 peak demands. In addition to facilities in operation or under construction, in September 2002, DENA deferred construction on approximately 2,450 net MW of projects, including its Moapa, Grays Harbor and Luna plants.

(For additional information and a map showing DENA's properties, see "Business, Duke Energy North America.")