Charles V. Gerkin, Jr.
Attorney at Law
Suite 610–PMB 307
4135 LaVista Road
Tucker, GA 30085–5003
770–414–4206
770–234–5965 (facsimile)
Charles.Gerkin@attbi.com

June 10, 2002

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399–0850

020501-TX

Re: **Application of DukeNet Communications, LLC for Authority to Provide Alternative Local Exchange Service Within the State of Florida**

Dear Sir or Madam:

Enclosed please find the original and eight (8) copies of the Application of DukeNet Communications, LLC for Authority to Provide Alternative Local Exchange Service Within the State of Florida, as well as a check for the application fee of $250.

Please acknowledge your receipt of the enclosed by date-stamping the two (2) extra copies of the Application and returning them to the undersigned in the enclosed self-addressed stamped envelope.

Thank you for your assistance in this matter.

Very truly yours,

Charles V. Gerkin, Jr.

CVG/s
Enclosures

** FLORIDA PUBLIC SERVICE COMMISSION **

DIVISION OF REGULATORY OVERSIGHT
CERTIFICATION SECTION

APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

020501-TX

Instructions

- ☐ This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Page 12).
- ☐ Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.
- ☐ Use a separate sheet for each answer which will not fit the allotted space.
- ☐ Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **$250.00** to:

  Florida Public Service Commission
  Division of Records and Reporting
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6770

- ☐ If you have questions about completing the form, contact:

  Florida Public Service Commission
  Division of Regulatory Oversight
  Certification Section
  2540 Shumard Oak Blvd.
  Tallahassee, Florida 32399-0850
  (850) 413-6480

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos 25-24.805,
25-24.810, and 25-24.815

APPLICATION

1. **This is an application for √ (check one):**

   (√) **Original certificate** (new company).

   ( ) **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.

   ( ) **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.

   ( ) **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.

2. Name of company:

   DukeNet Communications, LLC

3. Name under which the applicant will do business (fictitious name, etc.):

   same: **DukeNet Communications, LLC**

4. Official mailing address (including street name & number, post office box, city, state, zip code):

   400 South Tryon Street, MC WC 29
   Charlotte, North Carolina 28202

5. **Florida address (including street name & number, post office box, city, state, zip code):**

CT Corporation System
1200 South Pine Island Road
Plantation, Florida 33324

6. **Structure of organization:**

( ) Individual
( ) Foreign Corporation
( ) General Partnership
(**X**) Other **LLC**
( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

7. **<u>If individual,</u> provide:**

Name:_____

Title:_____

Address:_____

City/State/Zip:_____

Telephone No.:_____ Fax No.:_____

Internet E-Mail Address:_____

Internet Website Address:_____

8. **<u>If incorporated in Florida,</u> provide proof of authority to operate in Florida:**

(a) **The Florida Secretary of State corporate registration number:**

_____

9. **If foreign corporation, provide proof of authority to operate in Florida:**

(a) The Florida Secretary of State corporate registration number:

M0200000691

10. **If using fictitious name-d/b/a, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:**

(a) The Florida Secretary of State fictitious name registration number:

_____

_

11. **If a limited liability partnership, provide proof of registration to operate in Florida:**

(a) The Florida Secretary of State registration number:

_____

12. **If a partnership, provide name, title and address of all partners and a copy of the partnership agreement.**

Name:_____

Title:_____

Address:_____

City/State/Zip:_____

Telephone No.:_____ Fax No.:_____

Internet E-Mail Address:_____

Internet Website Address:_____

13. **If a foreign limited partnership, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.**

(a) The Florida registration number:_____

14. **Provide F.E.I. Number(if applicable): 56-1879392**

15. **Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:**
(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.
None

(b) an officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.
Richard Deason previously held the position of Vice President Operations and Engineering at Edge Connections. Mr. Deason left Edge Connections in order to pursue career opportunities with DukeNet Communications as Vice-President for Marketing and Business Development.

16. **Who will serve as liaison to the Commission with regard to the following?**

(a) The application:

Name: **Charles V. Gerkin, Jr.**
Title: **Attorney at Law**
Address: **Suite 610 – PMB 307**
4135 La Vista Road
City/State/Zip: **Tucker, Georgia 30085-5003**
Telephone No.**(770) 414-4206** Fax No.: **(770) 234-5965**
Internet E-Mail Address: **Charles.Gerkin@attbi.com**
Internet Website Address:_____

(b) Official point of contact for the ongoing operations of the company:

Name: **William Bradley Davis**
Title: **Vice President – Engineering and Operations**
Address:**400 South Tryon Street, MC WC 29**
City/State/Zip: **Charlotte, North Carolina 28202**
Telephone No.**(704) 382-4016** Fax No.: **(704) 382-3534**
Internet E-Mail Address:**wbdavis@duke-energy.com**
Internet Website Address:_____

(c) Complaints/Inquiries from customers:

Name: **William Bradley Davis**
Title: **Vice President – Engineering and Operations**
Address:**400 South Tryon Street, MC WC 29**
City/State/Zip: **Charlotte, North Carolina 28202**
Telephone No.**(704) 382-4016** Fax No.: **(704) 382-3534**
Internet E-Mail Address:**wbdavis@duke-energy.com**
Internet Website Address:_____

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

North Carolina and South Carolina

(b) has applications pending to be certificated as an alternative local exchange company.

Georgia

(c) is certificated to operate as an alternative local exchange company.

North Carolina and South Carolina

(d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

None

(e) has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

18. Submit the following:

A. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each.

A. R. Mullinax
DukeNet President and CEO
Bachelor of Business Administration – Texas A & M University
Executive Program – Stanford University
Member of American Institute of Certified Public Accountants
More than 24 years experience in the energy and telecommunications industries

William Bradley Davis
DukeNet Vice President of Engineering and Operations
Bachelor of Science – Mechanical Engineering – North Carolina State University
Masters of Business Administration – Queens College, Charlotte, North Carolina
More than 19 years experience in public utilities industry (power and telecommunications

B. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance.

William Bradley Davis
DukeNet Vice President of Engineering and Operations
Bachelor of Science – Mechanical Engineering – North Carolina State University
Masters of Business Administration – Queens College, Charlotte, North Carolina
More than 19 years experience in public utilities industry (power and telecommunications

Anthony Ray Cockerham, PE
Director of Engineering and Operations
Bachelor of Science – Electrical Engineering- North Carolina State University
Master of Science – Telecommunications Management – Southern Methodist University
More than 11 years experience in telecommunications industry

C. Financial capability.

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer affirming that the financial statements are true and correct and should include:

1. the balance sheet:

2. income statement: and

3. statement of retained earnings.

NOTE: *This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.*

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service.

3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations.

DukeNet is an indirect wholly owned subsidiary of Duke Energy Corporation. Duke Energy provides all of DukeNet's capital and operating financial needs. Please refer to enclosed Duke Energy annual reports for 1999, 2000 & 2001.

THIS PAGE MUST BE COMPLETED AND SIGNED

APPLICANT ACKNOWLEDGMENT STATEMENT

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** I understand that a non-refundable application fee of $250.00 must be submitted with the application.

UTILITY OFFICIAL:

Jan Holder
Print Name

Signature Jan Holder

Vice President –
Budgets & Business Planning
Title

Date 6/5/02

(704) 382-5665 **(704) 382-3534**
Telephone No. **Fax No.**

Address: 400 South Tryon Street, MC WC 29
Charlotte, North Carolina 28202

THIS PAGE MUST BE COMPLETED AND SIGNED

AFFIDAVIT

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

William Bradley Davis
Print Name

Signature William Bradley Davis

Vice President – Engineering & Operations
Title

Date 6/5/02

(704) 382-4016 **(704) 382-3534**
Telephone No. **Fax No.**

Address: 400 South Tryon Street, MC WC 29
Charlotte, North Carolina 28202

North Carolina
Mecklenburg County

I, Willie P. Bailey, a Notary Public for said County and State, do hereby certify that William Bradley Davis personally appeared before me this day and acknowledged the due execution of the foregoing instrument.

Witness my hand and official seal, this the 5th day of June, 2002.

(Official Seal)

Willie P. Bailey
Notary Public

My commission expires March 11, 2006.

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. **POP:** Addresses where located, and indicate if owned or leased.

None

1)_____ 2)_____

_____

3)_____ 4)_____

_____

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

None

1)_____ 2)_____

_____

3)_____ 4)_____

_____

3. **TRANSMISSION FACILITIES:** POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

POP-to-POP OWNERSHIP

None

1)_____

2)_____

3)_____

4)_____

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT

N/A

I, (Name)_____
(Title)_____of (Name of Company)

_____
and current holder of Florida Public Service Commission Certificate Number # _____
_____, have reviewed this application and join in the petitioner's request for a:

( ) sale

( ) transfer

( ) assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

_____
Print Name **Signature**

_____
Title **Date**

_____
Telephone No. **Fax No.**

Address:

_____

_____

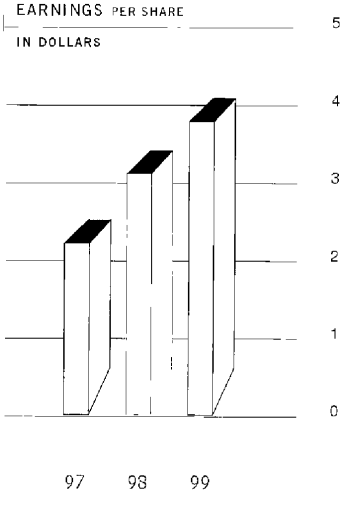
_____

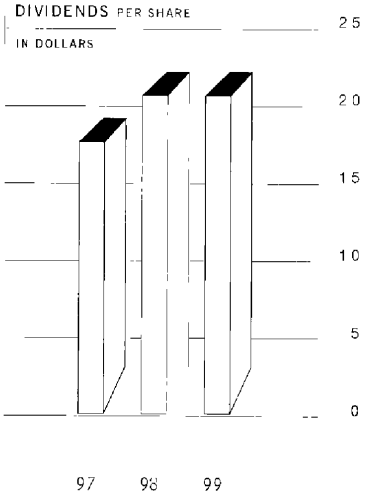
Duke Energy℠

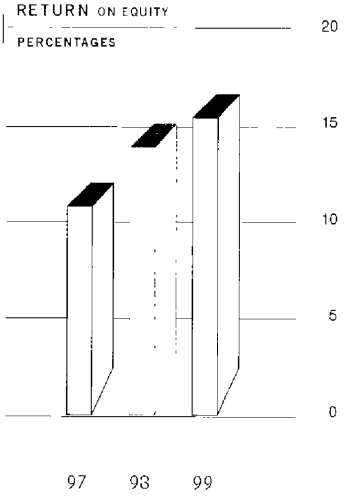
We are a global energy leader not because of the power generated by our plants or our other assets around the world. Duke Energy has grown to become a global energy leader because of the energy generated by our brains. **Brainpower.**

1999 ANNUAL REPORT

Brainpower.

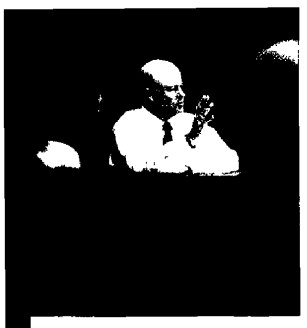


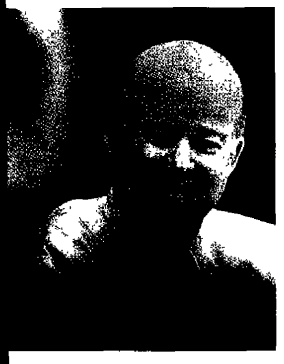




FINANCIAL HIGHLIGHTS		YEARS ENDED DEC 31		
IN MILLIONS, EXCEPT WHERE NOTED		99	98	97 [a]
Operating Revenues	$	21,742	$17,610	$16,309
Earnings Before Interest and Taxes		2,043	2,647	2,108
Income Before Extraordinary Item		847	1,260	974
Net Income		1,507	1,252	974
Earnings Available for Common Stockholders		1,487	1,231	902
Common Stock Data				
Weighted Average Shares Outstanding		365	361	360
Basic Earnings per Share (before extraordinary item)	$	2.26	$3.43	$2 51
Basic Earnings per Share		4.08	3.41	2.51
Dividends per Share		2.20	2.20	1.90
Capitalization				
Common Equity		42%	48%	49%
Minority Interest		6%	2%	1%
Preferred Stock		1%	2%	3%
Trust Preferred Securities		7%	5%	2%
Total Debt		44%	43%	45%
SEC Fixed Charges Coverage		2.9	4.7	4.1
Total Assets	$	33,409	$26,806	$24,029
Total Debt		9,432	7,168	6,777
Cash Flows from Operating Activities		2,684	2,331	2,140
Cash Flows from Investing Activities		(3,800)	(2,476)	(1,994)
Cash Flows from Financing Activities		1,600	78	(203)
Operating Data [b]				
Electric Operations Volumes, Sales–GWh		81,548	82,011	77,935
Natural Gas Transmission Volumes, Throughput–TBtu		1,893	2,593	2,862
Natural Gas Marketed, TBtu/d [c]		11.0	8 4	7 3
Electricity Marketed, GWh [d]		109,634	98,991	64,650
Natural Gas Gathered and Processed/Transported, TBtu/d		5.1	3.6	3.4
Natural Gas Liquids Production, MBbl/d		192.4	110.2	108 2

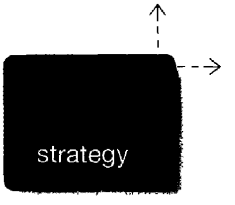
a - Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1997 • b - Units of measure used are gigawatt-hours (GWh), trillion British thermal units (TBtu), trillion British thermal units per day (TBtu/d) and thousand barrels per day (MBbl/d), as applicable • c - Includes Trading and Marketing and Field Services volumes • d - Excludes Electric Operations volumes





TO OUR SHAREHOLDERS

RICHARD B. PRIORY
Chairman of the Board
President and
Chief Executive Officer



We are living in the most exciting, opportunity-rich time in the history of energy. And your company is leading this new era by applying the brainpower of our people and a network of energy businesses and assets to create and sustain increasing shareholder value.

Customers around the corner and around the globe seek the edge that will move them forward competitively and move economies upward. That edge is energy – Duke Energy – and we're delivering

Consider these measures of growth achieved in the past two years:

911 percent growth in our unregulated power generation portfolio;

78 percent growth in natural gas liquids produced,

70 percent growth in non-utility U.S power sales;

52 percent growth in gas volumes marketed;

50 percent growth in volumes of natural gas processed; and

33 percent growth in operating revenues.

In this period, your company has transformed itself from the premier "hyper-electric" to one of the master architects in the new energy economy We have assembled the assets, resources, people and market positions that enable us to capture solid returns on our investments,

identify and seize the opportunities in a dynamic energy marketplace and increase our business scope and capital efficiency through a well-designed, growing network of energy businesses.

Movement of Duke Energy's stock price performance in 1999 did not match the bold strides of a company committed to and delivering growth. Energy stocks in general were undervalued in a market driven by relatively few high-growth technology stocks. We focused our efforts in 1999 on results and repositioning so that Duke Energy and its owners will be first in line to benefit from the reinvestment of capital as the sector strengthens. Financial analysts and business publications are becoming more bullish on the energy sector, with Duke Energy often singled out as a standout investment opportunity.

[1] **STRATEGY IN ACTION** Duke Energy has built a solid foundation and we are accelerating our strategy and delivering on our promise to our owners and customers. The basics of the strategy are straightforward 1) We are building or acquiring energy platforms – solid, sustainable interconnected energy businesses in target markets; 2) We are actively managing the risks of our portfolio of energy businesses; 3) We are operating as a connected enterprise, bringing into play each of the Duke Energy businesses that add new value, new service, new advantages for our customers.

Events of 1999 illustrate key aspects of our strategy 1) Duke Energy's energy merchant strategy accelerated sharply to meet the burgeoning demand for generation in the U.S. In 1999 we started construction of 2,000 megawatts (MW) of capacity, brought 5,000 MW of capacity into operation and sold 950 MW to capture better margins and manage risks. 2) We redeployed our pipeline assets into growth markets, moving capital from the sale of our Midwest Pipelines into markets where we could capture greater shareholder value. In addition to our new Maritimes & Northeast Pipeline that brings gas from Nova Scotia to Boston, we also announced the purchase of East Tennessee Natural Gas Company. (3) We exploited consolidation of the midstream gas business, building scope and value in an important business segment Our acquisition of UPFuels and the proposed combination of Duke Energy Field Services with Phillips Petroleum's Gas Processing and Marketing unit underscore this strategy. 4) We replicated our value chain strategy in key international markets. In Latin America we acquired 3,100 MW of generating capacity in four countries and established our trading and marketing business in Buenos Aires, Argentina. In Australia we began construction of the Eastern Gas Pipeline, announced three major gas supply contracts in New South Wales, and made substantial strides in integrating our natural gas and power generation assets with trading and marketing capabilities, connecting our skills and services to become the country's first energy merchant. 5) We built a comprehensive, corporatewide risk management capability through which we systematically identify and manage risks associated with energy commodity prices, credit, interest rates and foreign currency exchange. We have expanded our intellectual capital in this area to create a significant strategic advantage going forward.

[2] **EARNINGS HIGHLIGHTS** Duke Energy's energy merchant businesses are the engine for robust earnings growth. Our diversified energy businesses can further enhance earnings as strength in certain markets offsets periodic weakness in other markets or segments. For 1999, earnings before interest and taxes (EBIT), net of minority interests, from unregulated businesses accounted for $468 million, a 25 percent increase from 1998 unregulated earnings. Combining this with solid growth in our electric operations and pipeline activities, Duke Energy delivered earnings available to common shareholders of $1,487 million, or $4 08 per basic share, for 1999.

Duke Energy Field Services (DEFS) EBIT grew to $144 million in 1999, from $76 million in 1998 – a 90 percent increase. The $1.35 billion purchase of UPFuels catapulted DEFS to the number one U.S. producer of natural gas liquids (NGL) just as prices rebounded from historic lows. In 2000, we plan to combine our gathering and processing business with Phillips Petroleum's field services unit to create the new Duke Energy Field Services, a company about three times the size of its nearest competitor.

Duke Energy North America (DENA) and Duke Energy International (DEI) completed the acquisition and development of assets totaling $2.3 billion in 1999, and contributed $181 million in EBIT, net of minority interests, for 1999, compared to $64 million for 1998. Across North America, DENA capitalized on market timing and its commercial expertise to develop and manage a growing portfolio of wholesale generation assets, becoming a leading supplier of wholesale energy. Duke Energy International acquired quality assets that span the Latin American continent. These assets provide us with geographic diversity and fuel optionality, and create the platform for an integrated energy business. Duke Energy International is marshaling our financial strength and brainpower to advance a sound, vigorous growth strategy and supply the rapidly growing demand for gas and electricity in these countries.

Duke Energy Merchants (DEM), which encompasses Duke Energy Trading and Marketing and other businesses, strengthened its position on several fronts. It continued to add more structured, longer-term transactions and solidified its position as a top-tier natural gas and power marketer in the U.S. DEM contributed EBIT of $70 million in 1999, net of minority interests, compared to $81 million for 1998

Duke/Fluor Daniel emerged as a market leader in 1999. Rankings by Engineering News Record revealed the partnership to be the number one U.S. contractor for engineering, procurement and construction of fossil-fueled power generation. In 1999, this partnership was awarded contracts to construct 7,600 MW of power generation at 11 plants worldwide, and had a 40 percent market share of U.S. gas-fired generation construction.

We undertook significant restructuring and repositioning of two energy services businesses in 1999 at a cost of $73 million. Both DukeSolutions and Duke Engineering & Services required these steps to position them for success in 2000 and beyond.

Our natural gas transmission business achieved strong growth through market initiatives, improved efficiency and operational excellence. Duke Energy Gas Transmission's total EBIT of $627 million in 1999, down from $702 million in 1998, reflected the loss of earnings due to the sale of the Midwest Pipelines earlier in the year. But the Northeast Pipelines delivered excellent earnings growth, contributing EBIT of $557 million for 1999, 17 percent above 1998 EBIT of $476 million. We also agreed to acquire East Tennessee Natural Gas Company, which brings strong growth potential and enhances market opportunities for the Texas Eastern Transmission system.

Duke Power's performance reflected sales growth combined with excellent operations and customer focus. Our nuclear system operated at a 90 percent capacity factor and was recognized for achieving the lowest fuel costs of any U.S. nuclear operator. We continued our quarter-century track record for operating the most efficient fossil-fueled power generation system in the U.S. Duke Power delivered EBIT of $1,656 million, excluding an $800 million contingency reserve made for asbestos claims related to construction of Duke Power generating facilities in the 1960s and 1970s. Duke Power EBIT was $1,513 million for 1998. Duke Energy will deal with potential asbestos liabilities prudently and responsibly, now and in the future

Crescent Resources' growth in residential developed lot sales and its commercial real estate portfolio drove EBIT to $176 million for 1999, a 24 percent increase over 1998. DukeNet Communications continues to be on track for profitability in 2000 and represents an exciting growth opportunity for us as our world becomes more connected.

[3] GOING FORWARD We are committed to achieving growth in annual earnings per share of 8 to 10 percent. Our intent is to pay dividends at the current level and then consider increasing the payout when the dividend ratio reaches 50 percent. This policy, along with our strong balance sheet, enables us to continue generating the capital required by an aggressive growth strategy.

Expect your company to take bold steps as we continue to define and shape the energy industry. Look for a more dynamic approach to managing our portfolio of assets. Look for accelerated deal flow that results in new platforms, new energy businesses and growing value for shareholders. And look for us to help set the pace for electric industry restructuring in North Carolina and South Carolina.

[4] THE NEXT GENERATION OF ENERGY We chose these words in 1997 when we created Duke Energy and set for ourselves the goal of redefining energy capabilities and service for a new, interconnected world. Why? Because the expectations of customers in a global economy transcend all of the old benchmarks and boundaries

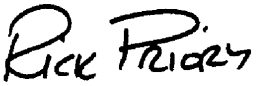
The World Wide Web is redefining the world of the 21st century, and Duke Energy is using that technology to build an electronic pathway to the next generation of business. We are advancing a strong, focused initiative to exploit the profound power of technology and e-business in every aspect of our business, with the ultimate aim of connecting with our customers and business partners how and when they want. We are putting our brainpower to work, building on the strong technical and communications infrastructure of Duke Energy.

The interconnected global economy requires an entirely new model of service and efficiency in delivering energy and energy services. And we are moving beyond the linear concept of an energy value chain toward a web of energy infrastructure, commodity markets and value-added services that will define our industry in the 21st century.

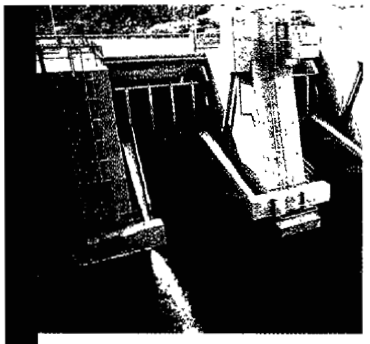
We believe Duke Energy leads the way for a new generation of energy and energy services – from the capabilities of our team to the strategic business assets that make up our ever-changing enterprise. Duke Energy has the inherent strength to deliver the growth and shareholder value to which we're committed. Our results for 1999 speak very clearly to those goals.

Three years ago, it was a vision; today, it is a reality. Duke Energy can quickly identify and seize the opportunities created by the unshackling of economies from energy regulation and market-stifling constraints. We can increase our business scope anywhere in the world, across the energy value chain. We have moved beyond yesterday's utility model to create a business model that connects assets, markets and customers in new ways. We are creating a growing web of businesses and business connections while delivering greater-than-ever value to markets and customers.

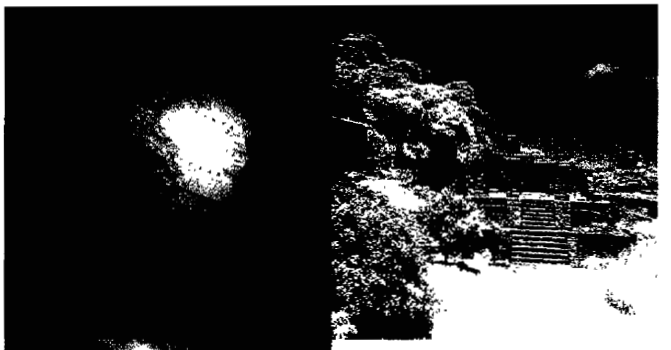
This new world – this next generation – is ours to create and shape. Across Duke Energy there is a strong sense that we have the drive and the brainpower and the heart to make great things happen. I can only describe it as a kind of business adrenaline that is putting all of our businesses and our people at the top of their game. Read on, and share the excitement that is Duke Energy.



RICHARD B. PRIORY
February 11 2000



"THE IMPORTANCE OF TIMING CAN'T BE UNDERESTIMATED. IT'S NOT ENOUGH TO RECOGNIZE AN OPPORTUNITY. YOU HAVE TO SEIZE IT AT THE RIGHT TIME."

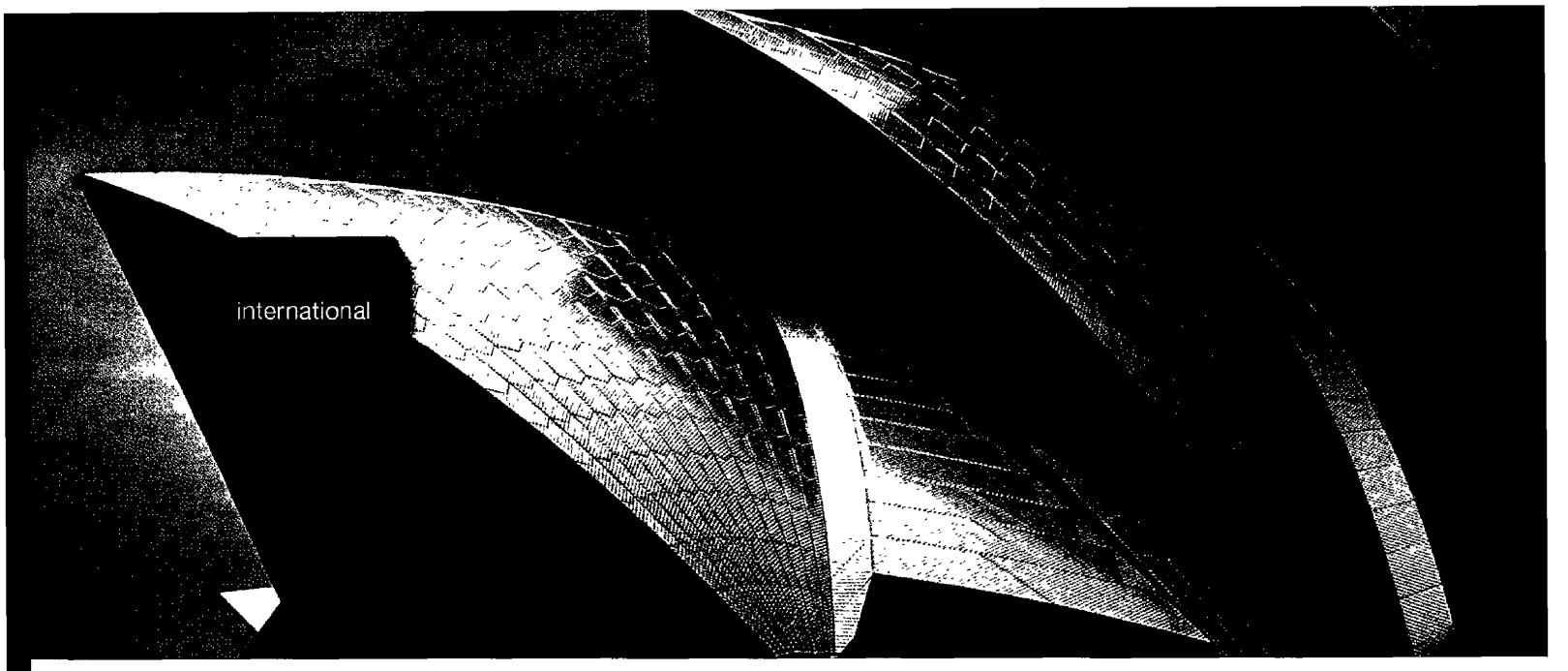


"Duke Energy targets key regions of the world where free markets prevail. As monopolies give way to competition, we fuel the new economies by providing low-cost and reliable energy and by advancing open competition. Open competition promotes economic growth. Our customers can buy reliable energy at prices that are competitive on a world scale. We benchmark ourselves against the best in the world in energy price and reliability. Our success is measured by growth. We help our customers grow by providing energy at competitive prices. We help the countries in which we operate to grow a robust economy. And we help Duke Energy grow value for its shareholders by investing in world energy markets. At Duke Energy, we promote and capture growth."

AGUSTIN COZZI
is a first-generation energy market analyst in new and rapidly evolving Latin American markets

BRUCE A. WILLIAMSON
PRESIDENT AND CEO
DUKE ENERGY INTERNATIONAL
Multi-faceted experience in international energy, including mergers and acquisitions, development, finance, and trading and marketing

B R A I N P O W E R

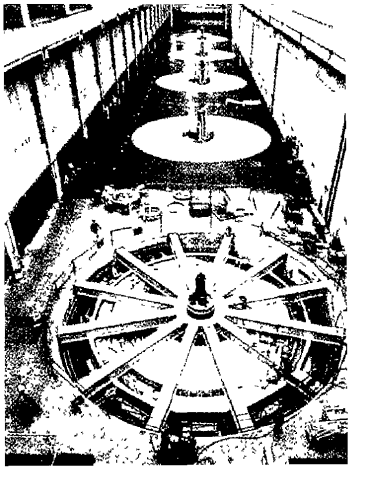


Duke Energy International (DEI) is replicating Duke Energy's North American strategy of integrating natural gas and power assets with energy trading and marketing. DEI manages these energy businesses from within the regions in which it operates, recruiting local talent and brainpower – people who know the markets and have established relationships. This strengthens the company's social, economic and commercial ties in the markets and provides a distinct competitive advantage: intellectual capital.

[1]ASIA/PACIFIC Duke Energy's primary focus in the region is Australia. In less than a year, DEI became the first energy merchant in Australia, with a portfolio of gas and power assets and a trading and marketing business. No other company has this mix of assets and capabilities. Building upon its initial position in Queensland Gas Pipeline in 1999, DEI acquired 400 MW of generation and an interest in a pipeline from BHP Power. It followed with the launch of Eastern Gas Pipeline, which will change the competitive landscape in Australia by introducing competition and increasing reliability in time for the 2000 Summer Olympic Games in Sydney.

But Duke Energy wasn't content to wait for the pipeline to be complete. Capitalizing on its core trading and marketing and risk management skills, DEI is already providing customers competitive energy services and tools, enabling these customers to manage their energy needs in a newly competitive environment.

[2]LATIN AMERICA Some companies are pulling back from Latin America because they lack the skills and capabilities to integrate traditional assets and trading and marketing. These skills are essential in a merchant market. In 1999 DEI established a lead position by building Latin America's first regional power generation and energy trading and marketing business through several significant acquisitions. Duke Energy also exited non-core assets, leveraging its position into more strategic holdings.

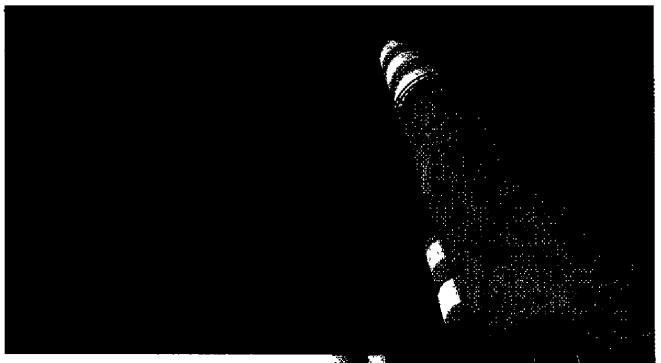


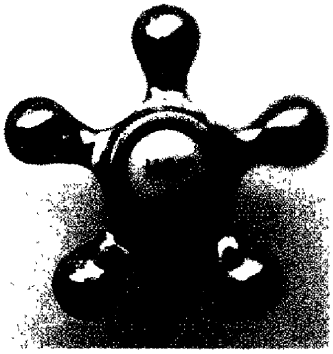
WE ARE CHANGING THE WAY THE WORLD BUYS AND SELLS ENERGY.

By the end of 1999 DEI had controlling interest in 3,500 gross MW of generating capacity in five countries and a trading and marketing business based in Buenos Aires, Argentina. DEI acquired controlling interest in Companhia de Geração de Energia Elétrica Paranapanema, one of Brazil's largest power producers. With a total installed capacity of 2,300 MW, Paranapanema is strategically located in Brazil's industrial heartland. Like Brazil, El Salvador is privatizing energy companies. DEI purchased controlling interest in Generadora Acajutla S.A. de C.V. and Generadora Salvadoreña S.A. de C.V., with a combined 275 MW of power generation. DEI plans to add generation at this location. DEI acquired 90 percent interest in EGENOR S.A.A., which owns 525 MW of thermal and hydroelectric power generation in northern Peru. DEI's initial interest in EGENOR was acquired from Dominion Resources, Inc. in a broader transaction in which the company agreed to purchase Dominion's controlling interest in a portfolio of hydroelectric, natural gas and diesel power generation businesses in Argentina, Belize, Bolivia and Peru, totaling 1,200 gross MW.

[3]EUROPE Duke Energy is bringing proven international experience and its core expertise in energy trading and marketing to European markets. The European Union has issued energy market directives that are part of a trend toward liberalization and deregulation. Market reform and regional integration will create opportunities for energy arbitrage and for investment and development of energy infrastructure.

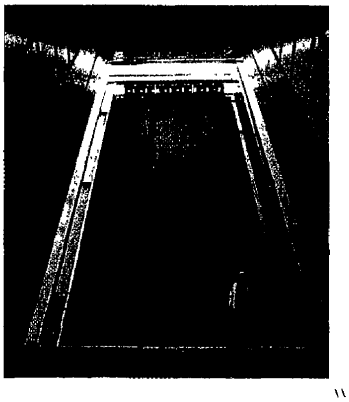
MARY GILBERT
DENA Chief Financial Officer, brought to DENA more than a decade of financial experience in energy asset development





"EVERY MOVE WE MAKE IS A BUILDING BLOCK IN OUR OVERALL STRATEGY."

"IT ALL COMES DOWN TO KNOWLEDGE. WE KNOW HOW TO SITE A PLANT, FINANCE IT, PERMIT IT, DESIGN IT, BUILD IT AND MANAGE IT BETTER THAN ANYONE. WE WORK SMARTER, FASTER AND EXTRACT GREATER VALUE FROM EVERYTHING WE DO."



"The merchant power business is competitive and dynamic – driven by market cycles and commodity prices. To capture the greatest value we actively manage our portfolio of generation assets, just as savvy investors manage their stock portfolios. Ours is a strategy of buy-build-manage-sell. We invest in a market when it is low in the capacity cycle and seek opportunities to divest when we can realize significant value from our assets. What gives us the competitive edge? We understand market fundamentals. We have an aggressive development program. We're top-flight asset managers, delivering superior performance and building value while managing our portfolio. The core skills unique to Duke Energy deliver greater value from our generation portfolio."

JAMES M. DONNELL
PRESIDENT AND CEO
DUKE ENERGY
NORTH AMERICA

Adept commodities trader and energy developer, a powerful combination in today's merchant market

B R A I N P O W E R

[1]DUKE ENERGY NORTH AMERICA Duke Energy North America (DENA) entered the wholesale merchant generation business less than three years ago and is today one of the leading developers, owners and managers of wholesale merchant generation in the U.S. By the end of 1999, DENA's asset portfolio included interest in 4,400 MW in operation, 3,300 MW under construction and 9,300 MW in advanced stages of development.

Recognizing that the traditional "buy and hold" approach would not capture the value to be realized in a merchant environment, DENA adopted a strategy of portfolio management. Currently it targets five high-growth regions, continually assessing its position in each market and increasing or decreasing its presence depending on the opportunities presented. Several deals highlight 1999. (1) DENA sold its 50 percent interest in the 130 MW Mecklenburg Energy Facility to United American Energy. (2) DENA signed a 10-year lease with the Port of San Diego (California) to operate the 706 MW South Bay Power Plant, and secured the opportunity to develop a next-generation replacement plant. (3) The company entered the Southwest market through its acquisition of a 50 percent interest in the Griffith Energy Project from PP&L Global, Inc. The 590 MW merchant plant in Arizona will begin commercial service in 2001. (4) DENA began construction of two 640 MW merchant peaking power plants in Indiana and Ohio. Within a month of groundbreaking, DENA announced the sale of a 50 percent interest in both facilities to Cinergy Capital & Trading, Inc. In addition, DENA acquired a 50 percent interest in a 130 MW Cinergy facility under development in Ohio. Commercial operation of the two peaking facilities is scheduled for the summer of 2000. (5) Construction proceeded on DENA's 510 MW Hidalgo Energy project in Texas, and DENA sold a 21.4 percent interest in the facility's output to the Brownsville Public Utilities Board.

By integrating Duke Energy's full range of capabilities, DENA will continue to maintain its speed to market and "first mover" advantage. This, coupled with the capability to accomplish multiple, simultaneous transactions, enables DENA to contribute increased earnings of as much as 10 percent to 20 percent on a project basis compared with its competition.

[2]DUKE/FLUOR DANIEL By moving power plants from the drawing board to the power grid better than any competitor, Duke/Fluor Daniel is a partner in the success of DENA,

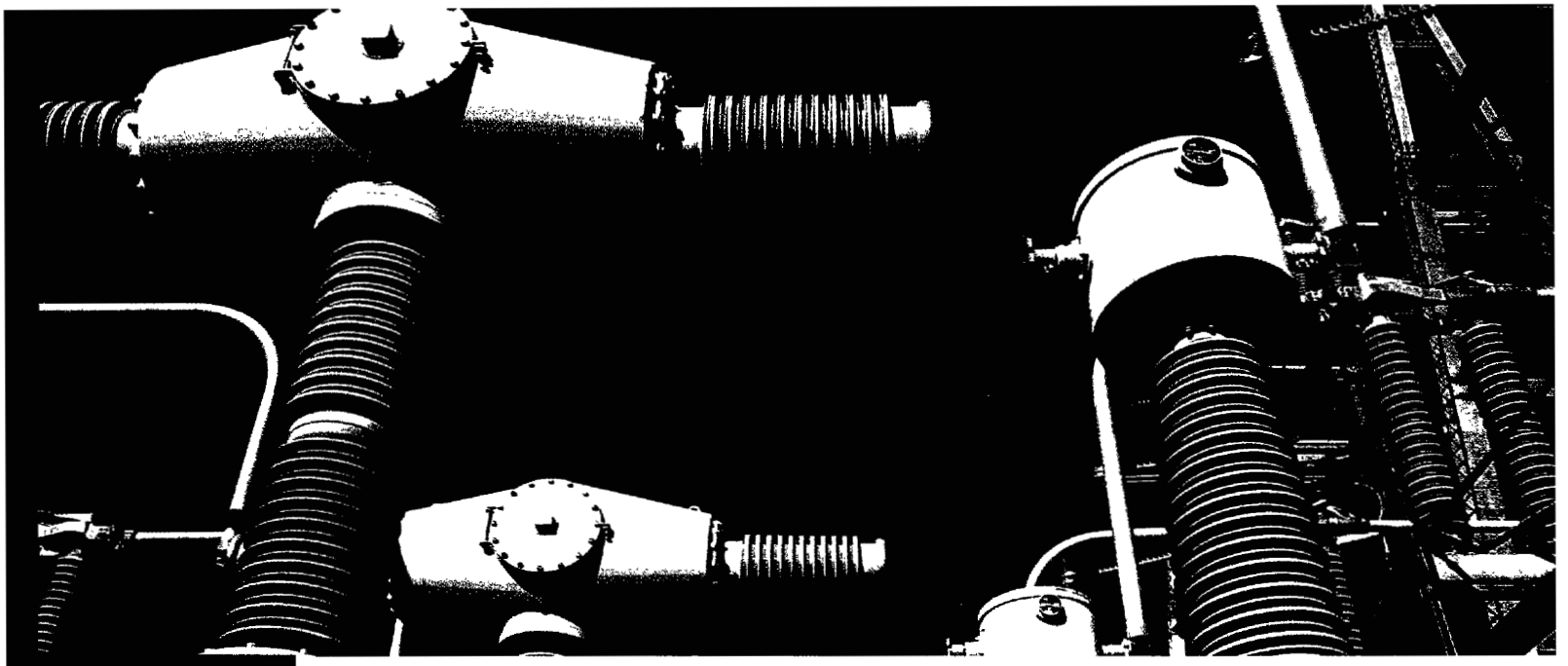
DEI and power generation developers worldwide. Significant projects announced in 1999 include: (1) turnkey engineering, procurement and construction (EPC) services for Primary Energy Inc.'s 540 MW cogeneration facility at BP Amoco's Whiting Refinery; (2) EPC and start-up services to Texas Independent Energy's 1,000 MW greenfield power plant in Texas; (3) EPC services for West Georgia Generating Co. L.P.'s 650 MW natural gas- and oil-fired simple cycle plant in Georgia; (4) EPC services for DENA's 640 MW Madison and Vermillion projects in Ohio and Indiana; (5) EPC services for SCE&G's 450 MW gas-fired plant in South Carolina. Also in 1999, Duke/Fluor Daniel began construction of the 450 MW AES Puerto Rico project, which will be one of the cleanest operating coal-fired plants in the world.

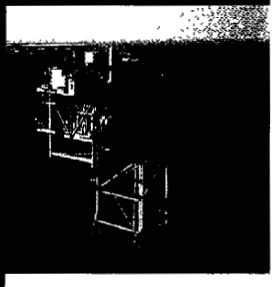
[3]RISK MANAGEMENT Duke Energy has elevated risk management to encompass and integrate its diverse energy businesses. Duke Energy's aim is to manage risk – as a strategic and competitive advantage. A corporate risk management committee, chaired by the chief financial officer, establishes risk management policies that address volatility associated with commodity prices, interest rates, credit and foreign exchange.

As energy commodity trading and marketing have grown dramatically, corporate risk management has established a comprehensive system to assess, manage and hedge commodity price risk. Risk management also addresses commodity price risk exposures inherent in such diverse energy assets as power generation and natural gas processing. Duke Energy does not just hedge against risk in a defensive position but creates competitive advantages for assets, market services and customers.

[4]DUKE ENERGY MERCHANTS DEM achieved strong growth in volumes marketed of both natural gas and power. For 1999 gas volumes increased 31 percent, to 10.5 trillion Btu (TBtu). Power volumes increased 11 percent, to 109,634 gigawatt-hours (GWh). DEM expanded services in 1999 and now encompasses gas sales, power sales, natural gas storage, natural gas transmission, gas supply, controlled generation and power transmission. DEM began to shape a North American commodity market for coal when it reached a throughput agreement with Arch Coal. Through Arch's Catlettsburg, Kentucky, coal terminal DEM will buy, store, blend and market coal.

"WE CANNOT AFFORD TO AVOID RISK. WITH RISK COMES REWARD. WE MUST GO BEYOND JUST MANAGING RISK EFFECTIVELY AND TRANSFORM RISK MANAGEMENT INTO A STRATEGIC COMPETITIVE ADVANTAGE."



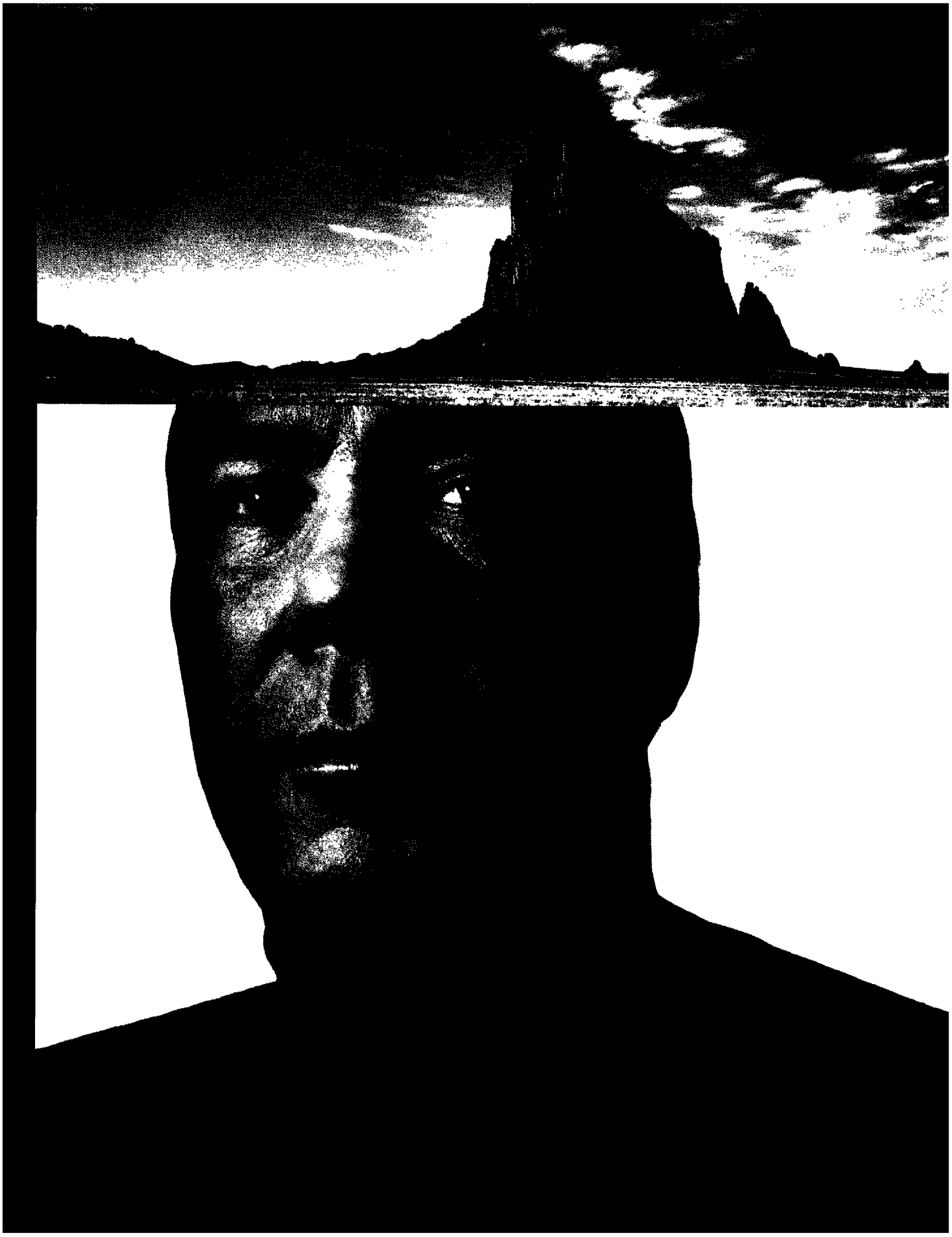


"Duke Energy is entering a new and larger universe of risk, based on volatility of energy commodity markets, credit markets and foreign exchange. It's an expanding universe because of the dramatic growth in the scope of our trading and marketing activities and our energy assets. We cannot afford to hedge away risk or to avoid it by pursuing a timid or sheltered business strategy. With risk comes reward. How do we manage our risk profile and exploit Duke Energy's competitive advantages? The way we structure acquisitions and overseas investments. The way we develop commercial arrangements to mitigate risk. The way we employ financial derivatives and instruments. And we continue to recruit aggressively for the best minds from the energy industry, as well as banking and other industries with a traditional focus on market risk management."

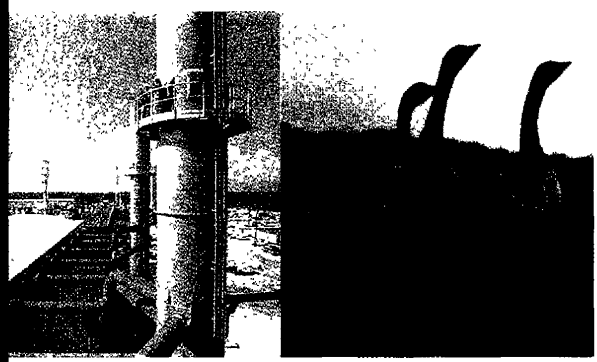
PREM RAMAMIRTHAM'S forward trading group in DEM generated approximately $70 million of gross margin in one year, an unprecedented achievement

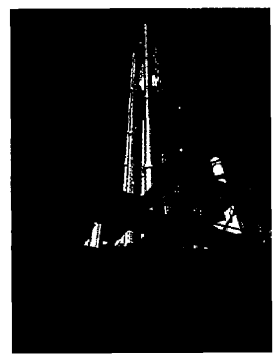
GEORGE BROWN
VICE PRESIDENT AND
MANAGING DIRECTOR
CORPORATE RISK MANAGEMENT
In-depth experience in energy risk management, policy, credit and finance, spanning energy industries and banking

B R A I N P O W E R
B R A I N P O W E R



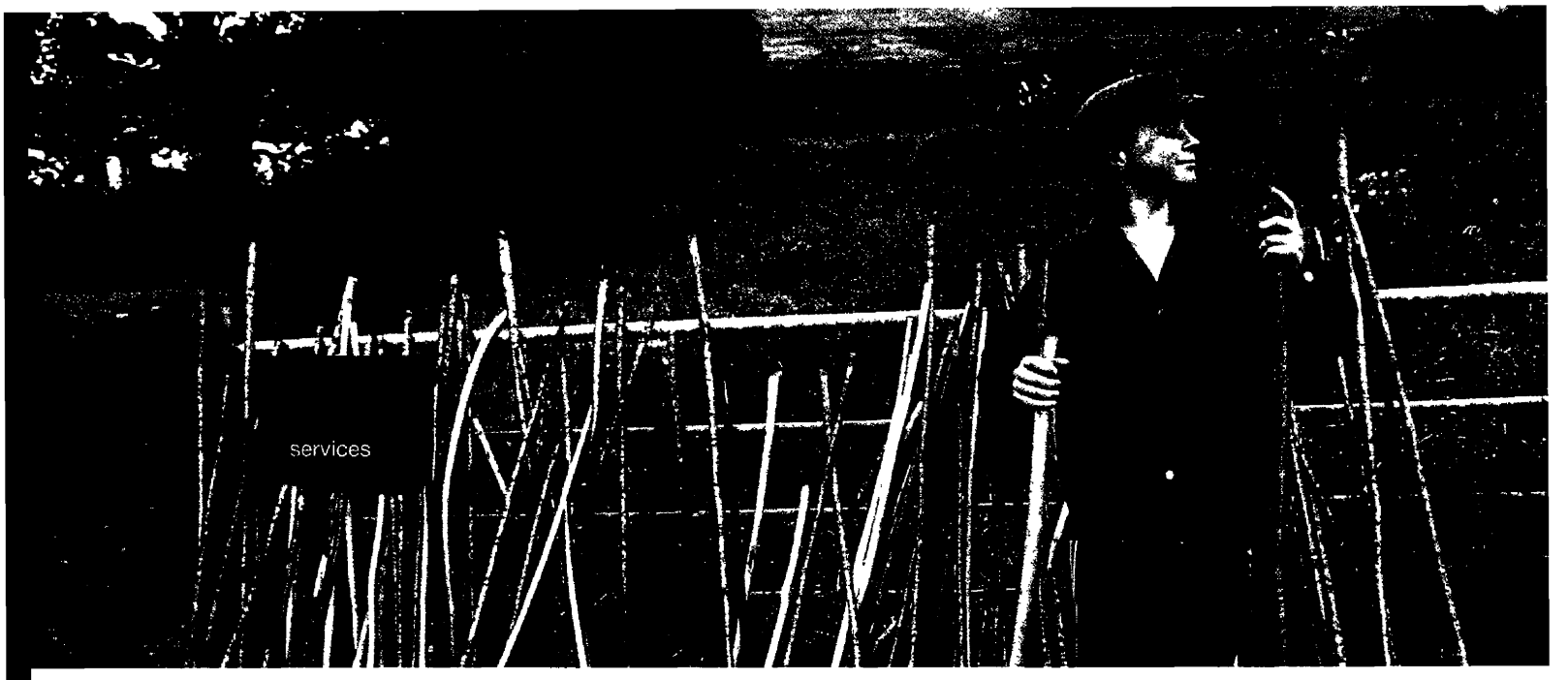
"OUR VISION FOR THIS INDUSTRY HAS BECOME THE DRIVING FORCE IN ITS EVOLUTION. OUR GOALS FOR 1999 WERE AMBITIOUS, AND WE SUCCESSFULLY MET EACH ONE: (1) WE BECAME A MEGA-PLAYER IN THE NGL INDUSTRY; (2) COMPLETED A STEP-OUT TO A NEW PRODUCTION BASIN; (3) IMPROVED OUR ASSET BASE IN EXPANDING PRODUCTION AREAS; AND (4) ESTABLISHED A POSITION IN CANADA."





"We set four goals for 1999: become a mega-player in the NGL industry; complete a step-out to a new production basin; improve our asset base in expanding production areas; and establish a position in Canada. We've acquired UPFuels, Canrock's Canadian assets, Koch's South Texas facilities, completed a new processing plant in Texas and constructed a new plant in the Mobile Bay area. The combination of these has essentially doubled the earnings capability of Duke Energy Field Services. At the same time, natural gas liquids prices began to rebound, and this gave us a double-barreled earnings boost. Now we're following this with the Phillips Petroleum deal, which doesn't just take DEFS to the next level, it fundamentally redefines the industry. Our vision for this industry has become the driving force in its evolution."

JIM W. MOGG
PRESIDENT AND CEO
DUKE ENERGY
FIELD SERVICES
Broad experience across the natural gas industry, including operations, gas supply, forecasting and regulatory affairs



[1]FIELD SERVICES In a $1.35 billion deal, DEFS acquired UPFuels from Union Pacific Resources Group Inc., which encompasses its natural gas gathering, processing and fractionation, natural gas liquids (NGL) pipelines, and natural gas and NGL marketing businesses. DEFS also bought the South Texas natural gas gathering, treating and processing systems from a subsidiary of Koch Industries and purchased Canrock gathering and processing assets in Alberta, Canada, from Cometra Energy. DEFS now serves seven major production basins from the Canadian Rockies to the Gulf of Mexico.

The growth of DEFS in 1999 was dramatic. In one year DEFS: (1) became the largest NGL producer in the U.S., at approximately 200,000 barrels per day (Bbl/d); (2) grew to one of the largest U.S. processors of natural gas, with a capacity of 6.9 billion cubic feet per day (Bcf/d), up from 4.6 Bcf/d; (3) increased the number of processing facilities in which it owns all or partial interest from 41 to 66; (4) expanded operation of processing plants from 30 to 52 plants; (5) expanded its fractionation capacity by 118,000 Bbl/d to 200,000 Bbl/d; and (6) extended its pipeline systems by 8,000 miles to 28,000 miles.

In December, Duke Energy and Phillips Petroleum redefined the evolution of the field services industry in a single stroke. The companies agreed to combine midstream businesses, subject to regulatory approval, to create the largest U.S. NGL business and the premier gatherer and processor of natural gas. Depending on market conditions after closing, it is expected that the new company will offer approximately 20 percent of its equity to the public in an initial public offering, giving investors the opportunity to participate directly in this industry.

[2]ELECTRIC OPERATIONS Duke Power's customer base in North Carolina and South Carolina grew by 2.8 percent across all classifications in 1999. Electricity sales decreased slightly by 0.6 percent compared with 1998. Duke Power's reputation has been built on everything from technical and operational expertise to what is nationally regarded as the best in customer service. The inaugural Financial Times Energy Award for Best Electric Company recognized Duke Power's almost 100 years of "safe, reliable, competitively priced electricity and outstanding customer service . . . ." Electric Light & Power Magazine ranked Duke's coal-fired power plants the most fuel-efficient in the U.S. for the 25th consecutive year – an unparalleled achievement. Its nuclear system had its best year ever in 1999, achieving a capacity factor of 90 percent, setting records for productivity and producing almost 55 million MWh for the year. Duke Power earned the highest rating for customer service for U.S. electric utilities, according to the American

Customer Satisfaction Index, based on customers' actual experiences. Electric Operations continues its traditional emphasis on customer service and value while leading efforts to bring additional benefits that can be realized with well-ordered restructuring initiatives.

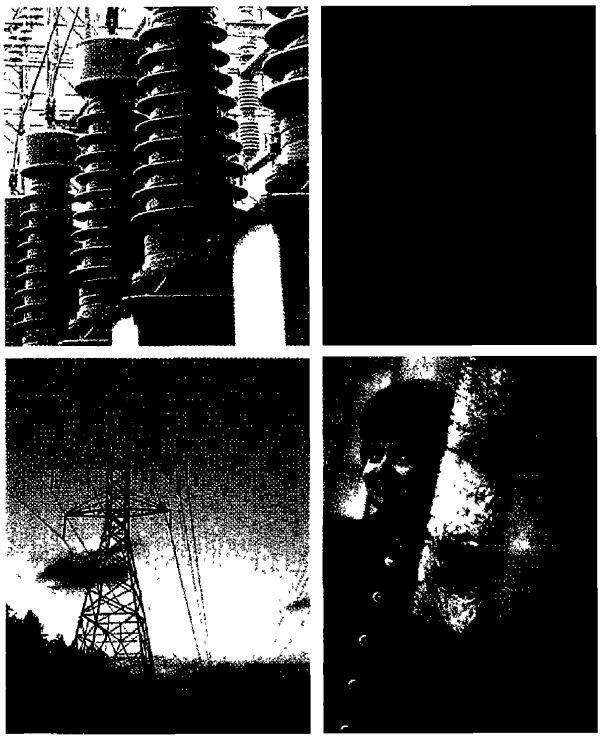
[3]NATURAL GAS TRANSMISSION Duke Energy Gas Transmission transported 1,566 TBtu to Mid-Atlantic and New England markets in 1999, an annual increase of 7 percent. In December, Maritimes & Northeast Pipeline was placed in service and received the first delivery of natural gas from the Sable Offshore Energy Project. Duke Energy owns 37.5 percent of the pipeline, which has a design capacity of 530 million cubic feet per day (MMcf/d) in Canada and 400 MMcf/d in the U.S.

Earnings growth potential will be driven by gas-fired power generation, as new plants are brought on line to serve growing demand and to replace older plants with cleaner, more efficient technology. Duke Energy Gas Transmission is pursuing a number of projects to meet this growth, including: (1) Hubline and Cross Bay, which will move incremental supply into Boston and New York, respectively; (2) a proposed pipeline that will be built to serve the high-growth Florida market; and (3) Spectrum, designed to move natural gas from the Midwest to the Northeast.

New earnings opportunities arise with the proposed purchase in 2000 of East Tennessee Natural Gas Company. This system's core market is growing above the national average, and it will further enhance revenues by providing access to a new market for Texas Eastern Transmission Corporation's capacity.

[4]DUKESOLUTIONS DukeSolutions, which offers integrated energy services for large, end-use customers, signed several contracts across North America. Among these are: (1) a $29 million energy efficiency contract at eight Veterans Affairs Medical Centers; (2) a long-term, multimillion-dollar investment with Inexcon Maine Inc. in 292 MW of power generation owned by Great Northern Paper Co.; (3) a 15-year on-site utilities agreement to provide a steam generating facility at Formica's largest plant, in Evendale, Ohio; (4) a $19 million integrated energy alliance with Toronto Dominion Centre, Canada's largest office complex; and (5) a five-year, $150 million agreement for an integrated energy alliance with CarrAmerica Realty Corporation in what may be the most comprehensive energy alliance in the commercial real estate industry.

power



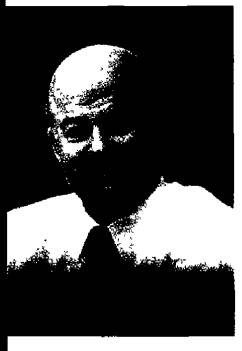
"It is the most exciting intellectual challenge in the electric industry. We are taking a system that has been in place for decades – and that has worked well – and we're leading the move to create in its place a system that will deliver a new level of benefit to customers, employees and shareholders. The electric utility industry is fundamental to our lives and our social order. It's critical for us to do restructuring right – to take what we've done well for so many years and do it better. In 1999 we stepped forward to lead industry restructuring in a much more active way. Duke Energy is showing the world how the integration of the energy value chain will deliver a new level of efficiency and service to energy markets and consumers. We want to build a consensus among regulators, customers, investors, competitors – everyone – so we can swiftly move beyond the uncertainties of this current transition period to create a whole new level of value and performance in our industry."

LISA CRUTCHFIELD
Vice President
Energy Public Policy
and Regulatory Affairs,
draws on her experience
in finance and as
Vice Chairman of the
Pennsylvania Public
Utilities Commission in
shaping corporate industry
restructuring policy

ELLEN T RUFF
VICE PRESIDENT AND GENERAL COUNSEL
CORPORATE AND ELECTRIC OPERATIONS
Broad expertise in areas of law involving state
and federal regulation, contract law,
corporate governance and finance

B R A I N P O W E R

POLICY COMMITTEE Duke Energy's Policy Committee reflects the company diverse in experience, background and point of view Those who are steeped in the knowledge and experience of Duke Energy stand shoulder to shoulder with those who have been recruited to bring experience and expertise gained around the world. More than 30 percent of the company's leadership has been recruited from outside traditional roles in the natural gas and electric power industries Across the board and around the world their brainpower works for customers, employees and investors – all who have a stake in Duke Energy



RICHARD B. PRIORY
Chairman of the Board
President and Chief Executive Officer
53, joined Duke Energy in 1976, elected President of Duke Power in 1994, elected Chairman and Chief Executive Officer in 1997, elected President in 1998.

RICHARD W. BLACKBURN
Executive Vice President
General Counsel and Secretary
57, joined Duke Energy in 1997. Prior to joining Duke Energy, Mr Blackburn was President and Group Executive with NYNEX Worldwide Communications and Media Group

WILLIAM A. COLEY
Group President, Duke Power
56, joined Duke Energy in 1966, elected President of Duke Power Company's Associated Enterprises Group in 1994, elected Group President of Duke Power in 1997.

FRED J. FOWLER
Group President, Energy Transmission
54, joined Duke Energy in 1985; elected President of Trunkline Gas Company in 1991, elected President of 1Source Corporation in 1993, elected President of Texas Eastern Transmission Corporation in 1994; elected Group President of Energy Transmission in 1997.

RICHARD J. OSBORNE
Executive Vice President
and Chief Financial Officer
49, joined Duke Energy in 1975, elected Vice President and Chief Financial Officer in 1991, elected Executive Vice President and Chief Financial Officer in 1997

HARVEY J. PADEWER
Group President, Energy Services
52, joined Duke Energy in 1998 Prior to joining Duke Energy, Mr Padewer was Senior Vice President and General Manager of Utilicorp Energy Group

RUTH G. SHAW
Executive Vice President and
Chief Administrative Officer
52, joined Duke Energy in 1992 as Vice President, Corporate Communications, elected Senior Vice President, Corporate Resources in 1994; elected Executive Vice President and Chief Administrative Officer in 1997.

[1]DUKE ENERGY CORPORATION

Richard B. Priory
Chairman of the Board
President and Chief Executive Officer

[2]DUKE POWER

William A. Coley
Group President Duke Power
Michael S. Tuckman
Executive Vice President
Nuclear Generation
Curtis H. Davis
Senior Vice President Power Generation
E.O. Ferrell III
Senior Vice President Electric Distribution
Jimmy R. Hicks
Senior Vice President Retail Services
C. Neal Alexander
Vice President Group Human Resources
Theodore B. Bright
Vice President Electric System Support
Buddy E. Davis
Vice President Group Environmental,
Health and Safety
Jeffrey L. Boyer
Vice President Planning and Finance
Steven K. Young
Vice President Rates and Regulatory Affairs

[3]ENERGY TRANSMISSION

Fred J. Fowler
Group President Energy Transmission
Jim W. Mogg
President and Chief Executive Officer
Duke Energy Field Services
Robert B. Evans
President
Duke Energy Gas Transmission
James D. Hinton
Senior Vice President
Electric Transmission
William L. Thacker
Chairman, President and
Chief Executive Officer TEPPCO
Theopolis Holeman
Senior Vice President
Transmission and Capacity Management
Dorothy M. Ables
Vice President, CFO and Treasurer

[4]ENERGY SERVICES

Harvey J. Padewer
Group President Energy Services
Bradley C. Karp
President Duke Energy Merchants and
Duke Energy Trading and Marketing
Ronald F. Green
President and Chief Executive Officer
Duke Engineering & Services
James M. Donnell
President and Chief Executive Officer
Duke Energy North America
Bruce A. Williamson
President and Chief Executive Officer
Duke Energy International
Clarence L. Ray, Jr.
President and Chief Executive Officer
Duke/Fluor Daniel
Keith Butler
Chief Operating Officer
DukeSolutions
Robert L. Howell
Executive Vice President
Mergers and Acquisitions
Kirk B. Michael
Vice President
Finance and Strategic Planning

[5]GENERAL COUNSEL

Richard W. Blackburn
Executive Vice President
General Counsel and Secretary
Richard K. McGee
Vice President and General Counsel
Energy Services
Ellen T. Ruff
Vice President and General Counsel
Corporate and Electric Operations
Lisa Crutchfield
Vice President Energy Public Policy and
Regulatory Affairs
Donald E. Hatley
Vice President Governmental Affairs
J. Wilfred Neal
Vice President Audit Services and
Corporate Security

[6]FINANCE

Richard J. Osborne
Executive Vice President and
Chief Financial Officer
David L. Hauser
Senior Vice President and Treasurer
Sue A. Becht
Vice President Investor Relations
Sandra P. Meyer
Vice President and Corporate Controller
Cary D. Flynn
Vice President Corporate Tax
George V. Brown
Vice President and Managing Director
Corporate Risk Management
Todd L. Reid
Vice President and Managing Director
Energy Risk Management

[7]CORPORATE RESOURCES

Ruth G. Shaw
Executive Vice President and
Chief Administrative Officer
Leonard B. Gatewood
Senior Vice President
Strategic Planning and Development
A.R. Mullinax
Global Sourcing and Logistics and
Chief E-Business Officer
Cecil O. Smith, Jr.
Senior Vice President
Information Management
Roberta B. Bowman
Vice President Public Affairs
James R. Hendricks, Jr.
Vice President Corporate Environment,
Health and Safety
Christopher C. Rolfe
Vice President Corporate Human Resources

[8]DIVERSIFIED BUSINESSES

Robert S. Lilien
Senior Vice President Diversified Businesses and
Chairman and CEO Crescent Resources
Arthur W. Fields
President Crescent Resources
Marion H. Smith, Jr.
President DukeNet Communications

RICHARD B. PRIORY
Chairman of the Board
President and Chief Executive Officer.
53, Chairman, Management Committee; Finance Committee; Corporate Governance Committee
Director since 1990.

ALEX BERNHARDT, SR.
Chairman and Chief Executive Officer, Bernhardt Furniture Company
56; Chairman, Corporate Performance Review Committee, Finance Committee.
Director since 1991.

ROBERT J. BROWN
Chairman and President, B&C Associates, Inc.
65; Finance Committee, Corporate Performance Review Committee
Director since 1994.

WILLIAM A. COLEY
Group President, Duke Power.
56, Management Committee
Director since 1990.

WILLIAM T. ESREY
Chairman and Chief Executive Officer, Sprint Corporation.
60, Compensation Committee; Corporate Governance Committee
Director since 1985.

ANN MAYNARD GRAY
Former President, Diversified Publishing Group, ABC, Inc.
54, Audit Committee, Corporate Performance Review Committee.
Director since 1994.

DENNIS R. HENDRIX
Retired Chairman and Chief Executive Officer, PanEnergy Corp.
60, Corporate Performance Review Committee, Corporate Governance Committee
Director since 1990.

HAROLD S. HOOK
Retired Chairman and Chief Executive Officer, American General Corporation.
68, Corporate Performance Review Committee, Audit Committee.
Director since 1978.

GEORGE DEAN JOHNSON, JR.
President and Chief Executive Officer, Extended Stay America
57; Chairman, Finance Committee, Compensation Committee.
Director since 1986.

DR. MAX LENNON
President, Mars Hill College.
59, Chairman, Audit Committee, Compensation Committee
Director since 1988.

LEO E. LINBECK, JR.
Chairman of the Board and Chief Executive Officer, Linbeck Corporation.
65, Audit Committee, Chairman, Compensation Committee.
Director since 1986.

JAMES G. MARTIN
Vice President, Research Carolinas HealthCare System
64, Chairman, Corporate Governance Committee, Compensation Committee.
Director since 1994.

RUSSELL M. ROBINSON, II
Attorney-at-Law, Robinson, Bradshaw & Hinson, P.A.
68, Audit Committee; Corporate Governance Committee
Director since 1995

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

INTRODUCTION

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

-BUSINESS SEGMENTS Duke Energy Corporation (collectively with its subsidiaries, "Duke Energy") is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U S and abroad. Duke Energy provides these and other services through seven business segments. Electric Operations, Natural Gas Transmission, Field Services, Trading and Marketing, Global Asset Development, Other Energy Services and Real Estate Operations.

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light) These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the sale of the Midwest Pipelines on March 29, 1999, Natural Gas Transmission also provided interstate transportation and storage services in the midwest states See further discussion of the sale of the Midwest Pipelines in Note 2 to the Consolidated Financial Statements The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces, transports and markets natural gas liquids (NGLs). Field Services operates gathering systems in western Canada and ten contiguous states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and onshore and offshore Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's energy trading operations, with Mobil Corporation owning a 40% minority interest This segment also includes certain other trading activities and limited hydrocarbon exploration and production activities that are wholly owned by Duke Energy

Global Asset Development develops, owns and operates energy-related facilities worldwide Global Asset Development conducts its operations primarily through Duke Energy North America, LLC (Duke Energy North America) and Duke Energy International, LLC (Duke Energy International)

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

Real Estate Operations conducts its business through Crescent Resources, Inc , which develops high quality commercial and residential real estate projects and manages land holdings in the southeastern U S

In 1997, Duke Power Company (Duke Power) merged with PanEnergy Corp (PanEnergy) The merger was accounted for as a pooling of interests; therefore, the Consolidated Financial Statements and other financial information included in this Annual Report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy See Note 2 to the Consolidated Financial Statements for additional information on the combination

-BUSINESS STRATEGY Duke Energy's business strategy is to develop integrated energy infrastructures in targeted regions where Duke Energy's extensive capabilities in developing energy assets, operating electricity, gas and NGL plants, optimizing commercial operations and managing risk can provide comprehensive energy solutions for customers and create superior value for shareholders. Domestically, Duke Energy is aggressively investing in new merchant power plants throughout the U.S , expanding its natural gas pipeline infrastructure in the eastern U S , rapidly increasing its leading position in gas processing and NGL marketing and broadening its trading and marketing expertise across the energy spectrum Internationally, Duke Energy is currently focusing on integrated electric and gas opportunities in Australia and Latin America and intends to implement its strategies in Europe

Electric Operations continues to strive to maintain low costs and competitive rates for its customers and to provide high quality customer service Electric Operations is expected to grow moderately, consistent with historical trends. Expansion will primarily result from continued economic growth in its service territory.

Natural Gas Transmission provides solid earnings growth and strengthens its competitive position by adhering to a comprehensive strategy of selected acquisitions and developing incremental projects that expand services to meet specific customer needs. In January 2000, Natural Gas Transmission announced that it had entered into a definitive agreement to purchase the East Tennessee Natural Gas Company, a pipeline well positioned to serve the rapidly growing southeastern region of the U.S The transaction is expected to close in the first quarter of 2000, subject to regulatory approval. For more information on this purchase, see Note 19 to the Consolidated Financial Statements

Duke Energy plans to significantly grow several of its business segments Field Services, Trading and Marketing, Global Asset Development and Other Energy Services Restructuring of energy markets in the U S and abroad is providing substantial opportunities for these segments to capitalize on their broad capabilities

Expansion opportunities for Field Services include the planned combination of Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. The transaction is expected to close by first quarter 2000, subject to regulatory approval. See Note 19 to the Consolidated Financial Statements for further discussion

Trading and marketing activities at Duke Energy continue to expand as Trading and Marketing provides energy supply, output marketing, risk management and commercial optimization services to all of Duke Energy's merchant structure developments Trading and Marketing continues to increase its customer base for wholesale energy management services to aggregators, distribution companies, large industrials and other marketers.

Global Asset Development expects to continue strong earnings growth through acquisitions, divestitures, construction of greenfield projects and expansion of existing facilities as oppor-

tunities are extracted, evaluated and realized through the marketplace Duke Energy's combination of assets and capabilities that span the energy value chain have contributed to Global Asset Development's successful delivery of natural gas pipeline, power generation, energy marketing and other services as demonstrated both domestically and internationally. To capture the greatest value in North America, Duke Energy North America, through its portfolio management strategy, seeks opportunities to invest in markets which have capacity needs and to divest, in whole or in part, when significant value can be realized.

Other Energy Services seeks to grow with various types of services including comprehensive energy efficiencies in food, textile and government facilities

The strong real estate market in the Southeast continues to present substantial growth opportunities for both the commercial and residential development of Real Estate Operations In addition to initiating development of significant office and industrial facilities in each of its established markets, Real Estate Operations entered a new market niche in 1999 to develop moderately priced residential communities in Jacksonville, Florida. Real Estate Operations also announced plans to enter the multi-family market and to significantly increase its retail development.

RESULTS OF OPERATIONS

In 1999, earnings available for common stockholders were $1,487 million, or $4.08 per basic share, net of an after-tax extraordinary gain of $660 million, or $1 82 per basic share. In 1998, earnings available for common stockholders were $1,231 million, or $3.41 per basic share, net of an after-tax extraordinary loss of $8 million, or $0 02 per basic share The increase in earnings available for common stockholders was primarily due to the 1999 extraordinary gain resulting from the sale of the Midwest Pipelines This gain, along with the factors described below that affect segment profit and loss, was partially offset by a pre-tax $800 million charge for estimated injury and damages claims (see Note 14 to the Consolidated Financial Statements), higher interest expense and minority interest expense

Earnings available for common stockholders increased $329 million in 1998 from 1997 earnings of $902 million, or $2 51 per basic share The increase in earnings available for common stockholders was due to the factors described below that affect segment profit and loss. These factors were partially offset by increased interest expense and minority interests.

Operating income for 1999 was $1,795 million compared to $2,433 million in 1998 and $1,970 million in 1997. Earnings before interest and taxes (EBIT) were $2,043 million, $2,647 million and $2,108 million for 1999, 1998 and 1997, respectively. Management evaluates each business segment based on an internal measure of earnings before interest and taxes, after deducting minority interests Operating Income and EBIT are affected by the same fluctuations for Duke Energy and each of its business segments. The only notable difference between Operating Income and EBIT is the inclusion in EBIT of certain non-operating activities See Note 3 to the Consolidated Financial Statements for additional information on business segments.

EBIT is summarized in the following table and is discussed by business segment thereafter.

EBIT BY BUSINESS SEGMENT	YEARS ENDED DEC 31		
IN MILLIONS	99	98	97
Electric Operations	$ 856	$1,513	$1,282
Natural Gas Transmission	627	702	624
Field Services	144	76	157
Trading and Marketing	70	81	23
Global Asset Development	181	64	4
Other Energy Services	(94)	10	18
Real Estate Operations	176	142	98
Other Operations	(9)	2	(120)
Minority Interests	92	57	22
Consolidated EBIT	$ 2,043	$2,647	$2,108

Other Operations primarily include communication services, water services and certain unallocated corporate costs. Included in the amounts discussed hereafter are intercompany transactions that are eliminated in the Consolidated Financial Statements.

ELECTRIC OPERATIONS	YEARS ENDED DEC 31		
IN MILLIONS (EXCEPT WHERE NOTED)	99	98	97
Operating Revenues	$ 4,700	$4,626	$4,401
Operating Expenses	3,966	3,228	3,221
Operating Income	734	1,398	1,180
Other Income, Net of Expenses	122	115	102
EBIT	$ 856	$1,513	$1,282
Sales - GWh [a]	81,548	82,011	77,935

[a] Gigawatt-hours

In 1999, EBIT for Electric Operations decreased $657 million compared to 1998, primarily due to an $800 million charge for estimated injury and damages claims See Note 14 to the Consolidated Financial Statements for additional information related to this charge. Partially offsetting this decrease was a 2.8% increase in the number of customers in the Electric Operations' service territory during 1999, and the absence of 1998 severance and other costs related to closing Electric Operations' merchandising business.

In 1998, EBIT for Electric Operations increased $231 million as compared to 1997, primarily due to a 5 2% increase in gigawatt-hour sales Gigawatt-hour sales increased as a result of warmer spring and summer weather conditions during 1998 and a 2 5% growth in the number of customers in the Electric Operations' service territory. EBIT also increased due to the absence of 1997 severance costs, however this was substantially offset by 1998 costs related to the closing of Electric Operations' merchandising business.

NATURAL GAS TRANSMISSION	YEARS ENDED DEC 31		
IN MILLIONS (EXCEPT WHERE NOTED)	99	98	97
Operating Revenues	$ 1,206	$1,528	$1,572
Operating Expenses	615	864	964
Operating Income	591	664	608
Other Income, Net of Expenses	36	38	16
EBIT	$ 627	$ 702	$ 624
Throughput – TBtu [a]	1,893	2,593	2,862

[a] Trillion British thermal units.

EBIT for Natural Gas Transmission decreased $75 million in 1999 compared to 1998. As a result of the sale of the Midwest Pipelines to CMS Energy Corporation (CMS) on March 29, 1999, EBIT for the Midwest Pipelines decreased $156 million compared to 1998's full year of operation. For the Northeast Pipelines, EBIT increased $81 million compared to 1998, primarily as a result of increased earnings from market-expansion projects and joint ventures, higher throughput and lower operating expenses. A gain of $24 million resulting from the sale of Duke Energy's interest in the Alliance Pipeline project and benefits totaling $38 million related to the completion of certain PCB (polychlorinated biphenyl) and soil clean-up programs below estimates also increased EBIT in 1999. Partially offsetting these contributions to EBIT were the non-recurrence of the 1998 favorable resolution of regulatory issues related to gas supply realignment cost issues ("GSR issues") and a 1998 refund from a state property tax ruling.

In 1998, EBIT for Natural Gas Transmission increased $78 million compared to 1997. EBIT for the Northeast Pipelines increased $56 million in 1998 over 1997, primarily as a result of the favorable resolution of GSR issues, favorable state property tax rulings and increased market expansion projects. These increases were partially offset by a decrease in throughput primarily as a result of mild winter weather.

For the Midwest Pipelines, 1998 EBIT increased $22 million compared to 1997, primarily due to a gain on the sale of the general partner interests in Northern Border Partners, L.P. and non-recurring 1997 litigation expenses. These increases were partially offset by the favorable resolution of certain regulatory matters in 1997, which was reflected as additional revenue and other income.

FIELD SERVICES	YEARS ENDED DEC 31		
IN MILLIONS (EXCEPT WHERE NOTED)	99	98	97
Operating Revenues	$ 3,590	$2,639	$3,055
Operating Expenses	3,444	2,598	2,898
Operating Income	146	41	157
Other Income, Net of Expenses	(2)	35	–
EBIT	$ 144	$ 76	$ 157
Natural Gas Gathered and Processed/Transported, TBtu/d [a]	5.1	3.6	3.4
NGL Production, MBbl/d [b]	192.4	110.2	108.2
Natural Gas Marketed, TBtu/d	0.5	0.4	0.4
Average Natural Gas Price per MMBtu [c]	$ 2.27	$ 2.11	$ 2.59
Average NGL Price per Gallon [d]	$ 0.34	$ 0.26	$ 0.35

[a] Trillion British thermal units per day.
[b] Thousand barrels per day.
[c] Million British thermal units.
[d] Does not reflect results of commodity hedges.

In 1999, EBIT for Field Services increased $68 million compared to 1998. A significant portion of the increase resulted from the March 31, 1999 acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR), (collectively, the "UPR acquisition"). For more information on the UPR acquisition, see Note 2 to the Consolidated Financial Statements. Improved average NGL prices, which were up $0.08 per gallon, or 30.8% from the prior year, also contributed to the increase in EBIT. Partially offsetting these increases were $34 million in 1998 of gains on sales of assets, which were included in other income.

EBIT for Field Services decreased $81 million in 1998 from 1997, primarily due to a decrease in average NGL prices of approximately $0.09 per gallon, or 25.7%. The decrease in EBIT was partially offset by $34 million of gains on sales of assets, which were included in other income.

On December 16, 1999, Duke Energy announced that it had signed definitive agreements with Phillips Petroleum to form a new midstream gas gathering and processing company. See Note 19 to the Consolidated Financial Statements for further discussion.

TRADING AND MARKETING	YEARS ENDED DEC 31		
IN MILLIONS (EXCEPT WHERE NOTED)	99	98	97
Operating Revenues	$ 11,793	$8,785	$7,489
Operating Expenses	11,724	8,665	7,446
Operating Income	69	120	43
Other Income, Net of Expenses	43	2	1
Minority Interest Expense	42	41	21
EBIT	$ 70	$ 81	$ 23
Natural Gas Marketed, TBtu/d	10.5	8.0	6.9
Electricity Marketed, GWh	109,634	98,991	64,650

In 1999, EBIT for Trading and Marketing decreased $11 million from 1998. The decrease resulted primarily from lower natural gas trading margins, partially offset by higher electricity trading margins as well as margins associated with other trading activities and sales of natural gas interests associated with drilling activities.

EBIT for Trading and Marketing increased $58 million in 1998 compared to 1997. The increase resulted primarily from increased trading margins and electricity margins, partially offset by increased expenses due to business growth. Electricity volumes marketed increased primarily as a result of acquiring the remaining 50% ownership interest in the Duke/Louis Dreyfus, L.L.C. (D/LD) joint venture in June 1997.

GLOBAL ASSET DEVELOPMENT	YEARS ENDED DEC 31		
IN MILLIONS (EXCEPT WHERE NOTED)	99	98	97
Operating Revenues	$ 777	$319	$123
Operating Expenses	571	261	129
Operating Income	206	58	(6)
Other Income, Net of Expenses	25	22	11
Minority Interest Expense	50	16	1
EBIT	$ 181	$ 64	$ 4
Proportional Megawatt Capacity Owned [a]	8,773	6,041	3,912
Proportional Maximum Pipeline Capacity [a], MMcf/d [b]	309	124	–

[a] Includes under construction or under contract.
[b] Million cubic feet per day.

In 1999, EBIT for Global Asset Development increased $117 million compared to 1998. The increase includes $99 million in income from the sale of partial interests in four generating stations in the U.S. as a result of executing its domestic portfolio management strategy. Earnings from new projects in Latin America and Australia also contributed $63 million to the increase. Partially offsetting these increases were higher operating expenses and increased development costs associated with business expansion.

EBIT for Global Asset Development increased $60 million in 1998 over 1997. The increase resulted primarily from business expansion and acquisitions, including the July 1998 acquisition of three electric generating stations in California and the December 1997 acquisition of an indirect 32.5% ownership interest in American Ref-Fuel Company. An expansion to the PT Puncakjaya power generation facility in Indonesia also contributed to the increase in EBIT during 1998. The increase in EBIT was partially offset by decreased earnings resulting from lower prices at National Methanol Company, a methanol and MTBE (methyl tertiary butyl ether) business in Saudi Arabia.

OTHER ENERGY SERVICES	YEARS ENDED DEC 31		
IN MILLIONS	99	98	97
Operating Revenues	$ 989	$521	$376
Operating Expenses	1,083	511	353
Operating Income	(94)	10	23
Other Income, Net of Expenses	–	–	(5)
EBIT	$ (94)	$ 10	$ 18

In 1999, EBIT for Other Energy Services decreased $104 million compared to 1998. The decrease was primarily due to charges of $38 million and $35 million at Duke Engineering & Services and DukeSolutions, respectively. These charges, which include costs associated with repositioning the companies to focus on growth markets, included expenses related to severance, office closings and write-offs of uncollectable accounts. Increased development activity at DukeSolutions and decreased earnings from projects of Duke Engineering & Services also contributed to lower EBIT. EBIT for Other Energy Services decreased $8 million in 1998 compared to 1997, primarily due to reduced earnings of Duke Engineering & Services.

REAL ESTATE OPERATIONS	YEARS ENDED DEC 31		
IN MILLIONS	99	98	97
Operating Revenues	$ 233	$181	$124
Operating Expenses	57	39	26
EBIT	$ 176	$142	$ 98

In 1999, EBIT for Real Estate Operations increased $34 million compared to 1998. The increase was primarily due to increased residential developed lot sales, land sales and commercial project sales, partially offset by decreased lake lot sales. EBIT for Real Estate Operations increased $44 million in 1998 over 1997, primarily as a result of increased commercial project sales, lake lot sales and land sales, including a gain on the sale of land in the Jocassee Gorges region of South Carolina.

-OTHER OPERATIONS EBIT for Other Operations decreased $11 million in 1999 compared to 1998, primarily as a result of the resolution of certain contingent items during 1998. EBIT for Other Operations increased $122 million in 1998 compared to 1997, primarily as a result of the absence of $71 million of non-recurring 1997 merger-related costs and the favorable resolution of certain contingent items in 1998, partially offset by a 1997 gain on the sale of Duke Energy's ownership interest in the Midland Cogeneration Venture.

-OTHER IMPACTS ON EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS Interest expense increased $87 million in 1999 compared to 1998, and $42 million in 1998 compared to 1997 due to higher average debt balances outstanding, resulting from acquisitions and expansion.

Minority interests increased $46 million in 1999 compared to 1998, and $73 million in 1998 compared to 1997. The increases were due primarily to regular distributions paid on new issuances of Duke Energy's trust preferred securities. For more information on issuances of trust preferred securities, see Note 12 to the Consolidated Financial Statements. Excluding these dividends, minority interests related primarily to Global Asset Development's 1999 investments and Trading and Marketing's joint venture with Mobil Corporation. For more information regarding acquisitions and new projects, see Notes 2 and 8 to the Consolidated Financial Statements.

Duke Energy's effective income tax rate was approximately 35%, 38% and 40% for 1999, 1998 and 1997, respectively. The decrease in 1999 from 1998 was primarily due to the favorable resolution of several income tax issues and the utilization of certain capital loss carryforwards due to the sale of the Midwest Pipelines. Favorable resolution of income tax issues also resulted in a decline in the effective tax rate in 1998 from 1997. Duke Energy expects its ongoing effective tax rate to approximate 38%.

The sale of the Midwest Pipelines to CMS closed on March 29, 1999 and resulted in a $660 million extraordinary gain, net of income tax of $404 million. For further discussion on the sale, see Note 2 to the Consolidated Financial Statements.

In January 1998, TEPPCO Partners, L.P., in which Duke Energy has a 21.1% ownership interest, redeemed certain First Mortgage Notes which resulted in Duke Energy recording a non-cash extraordinary loss of $8 million, net of income tax of $5 million, related to its share of costs of the early retirement of debt.

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

LIQUIDITY AND CAPITAL RESOURCES

-OPERATING CASH FLOWS Net cash provided by operations was $2,684 million in 1999, $2,331 million in 1998 and $2,140 million in 1997. In each of these years, the increase in cash was primarily due to net income resulting from business expansion.

On August 29, 1998, the FERC approved a settlement from Texas Eastern Transmission Corporation (TETCO), a subsidiary of Duke Energy, which accelerates recovery of natural gas transition costs. The order was effective October 1, 1998 and includes a rate moratorium until 2004. Net cash flows from operations are not expected to change for the first two years after implementation, however, after the natural gas transition costs are fully recovered, cash flows from operations are expected to decrease on an

annual basis For more information concerning the settlement, see Note 4 to the Consolidated Financial Statements.

In late 1999, Duke Energy established an accrual for estimated injury and damages claims Duke Energy expects to fund approximately $350 million, which is comprised of an insurance policy premium and estimated claim activity over the next year, primarily through new debt issuances. Management believes that the long-term cash requirements of the projected liability will not have a material effect on Duke Energy's liquidity or cash flows See Note 14 to the Consolidated Financial Statements for further discussion

-INVESTING CASH FLOWS Capital and investment expenditures were approximately $5 9 billion in 1999 compared to approximately $2 5 billion in 1998 The increase primarily resulted from business expansion for the Field Services and Global Asset Development segments Business expansion for Field Services included the $1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from UPR along with its natural gas and NGL marketing activities. International business expansion for Global Asset Development included $1 7 billion for multiple acquisitions in Latin America, western Australia and New Zealand In 1999, Global Asset Development also began construction of multiple power generation plants in North America and continued capital expenditures on projects initiated prior to 1999 Expenditures related to these activities were partially funded by $1 9 billion in cash proceeds from the sale of Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, which substantially comprised the Midwest Pipelines, along with Trunkline LNG Company For additional information concerning acquisitions and dispositions, see Note 2 to the Consolidated Financial Statements

Capital and investment expenditures in 1998 increased $472 million from $2 0 billion in 1997 primarily due to business expansion by Global Asset Development This included the $501 million purchase of three electric generating stations in California and the completion of the first phase of Bridgeport Energy, a power generation plant in Connecticut Business expansion for Natural Gas Transmission and Field Services also contributed to the increase in capital and investment expenditures The increase was partially offset by decreased expenditures for Electric Operations, primarily as a result of steam generator replacements at certain of its nuclear plants in 1997, and by the acquisition of the remaining 50% ownership of the D/LD joint venture in June 1997

Projected 2000 capital and investment expenditures for Electric Operations, including allowance for funds used during construction, are approximately $900 million. These projections include expenditures for existing plants, including refurbishment and upgrades related to the Oconee Nuclear Station's application for a 20-year renewal of its operating license, which is expected to receive approval from the Nuclear Regulatory Commission in 2000.

Projected 2000 capital and investment expenditures for Natural Gas Transmission, including allowance for funds used during construction, are approximately $600 million. These projections include expansion of the Maritimes & Northeast Pipeline, which delivers natural gas to markets in the Canadian Maritimes provinces and the northeastern U S from a supply basin offshore of Nova Scotia, and the planned $386 million purchase of the East Tennessee Natural Gas Company, which is expected to close in the first quarter of 2000 and is contingent upon regulatory approval For further discussion on this purchase, see Note 19 to the Consolidated Financial Statements

Duke Energy plans to continue to significantly grow several of its business segments Field Services, Global Asset Development, Trading and Marketing and Other Energy Services. Expansion plans for Field Services include the combination of Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company The transaction is expected to close by first quarter 2000 and is subject to regulatory approval See Note 19 to the Consolidated Financial Statements for additional information.

Projected 2000 capital and investment expenditures for Global Asset Development are approximately $3.6 billion. Expansion opportunities for Global Asset Development's domestic division, Duke Energy North America, include the continuation of various greenfield projects across the U S Expansion plans for Global Asset Development's international division, Duke Energy International, include completing the purchase of Dominion Resources, Inc.'s portfolio of hydroelectric, natural gas and diesel power generation businesses in Argentina and Bolivia (see Note 2 to the Consolidated Financial Statements) and the January 2000 completion of the tender offer for additional ownership interests in Companhia de Geração de Energia Elétrica Paranapanema (Paranapanema) (see Note 19 to the Consolidated Financial Statements). Duke Energy International will also continue to focus on its regional target areas in Australia and Latin America for further expansion opportunities and intends to implement its strategies in Europe

Projected 2000 capital and investment expenditures for Trading and Marketing are approximately $200 million This includes expenditures related to Trading and Marketing's new subsidiary, Duke Energy Hydrocarbons, which was formed in the second quarter of 1999 to invest capital in limited hydrocarbon exploration and production prospects through non-operating working interests. Duke Energy's intent is to produce natural gas to partially offset the short gas position of Duke Energy's power generation assets and to increase production volumes that will be beneficial to Field Services, Trading and Marketing, and Natural Gas Transmission

Projected 2000 capital and investment expenditures for Other Energy Services, Real Estate Operations and Other Operations are approximately $200 million, $400 million and $250 million, respectively

All projected capital and investment expenditures for the above segments are subject to periodic review and revision and may vary significantly depending on a number of factors including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility and economic trends

-FINANCING CASH FLOWS Duke Energy's consolidated capital structure at December 31, 1999, including short-term debt, was 44% debt, 6% minority interests, 7% trust preferred securities, 1% preferred stock and 42% common equity Fixed charges coverage, calculated using the Securities and Exchange Commission method, was 2 9 times, 4.7 times and 4 1 times for 1999, 1998 and 1997, respectively

Duke Energy's business expansion opportunities, along with dividends, debt repayments and operating and investing requirements, are expected to be funded by cash from operations, external financing, common stock issuances and the proceeds from certain asset sales

During 1999, Duke Energy and its subsidiary, Duke Capital Corporation (Duke Capital), issued a total of $1 9 billion of Senior Notes. The proceeds were used for general corporate purposes, including reducing commercial paper indebtedness incurred in connection with acquisitions of electric power generating assets in Latin America. Global Asset Development, through its Australian subsidiary, borrowed approximately $450 million under new financing arrangements, including a combined commercial paper and medium-term note program, bank facilities and non-recourse financing for certain western Australian assets. These new Global Asset Development financings are denominated in either Australian or New Zealand dollars. Issuances from the combined commercial paper and medium-term note program and the bank facilities were used to refund bridge financing of assets obtained during 1998 and 1999 and to fund on-going construction expenditures for the Eastern Gas Pipeline and future projects in Australia. Global Asset Development also assumed approximately $430 million of non-recourse debt, denominated in Brazilian reais, in relation to the acquisition of Paranapanema (see Note 2 to the Consolidated Financial Statements) and borrowed $380 million under a new bank facility to refinance the California generating assets. For additional information regarding debt, see Note 10 to the Consolidated Financial Statements

Also during the year, Duke Energy's and Duke Capital's business trusts, which are treated as wholly owned subsidiaries for financial reporting purposes, issued a total of $500 million of trust preferred securities. See Note 12 to the Consolidated Financial Statements for additional information on the trust preferred securities

Under its commercial paper facilities, Duke Energy had the ability to borrow up to $2 8 billion at both December 31, 1999 and 1998 The commercial paper facilities consisted of $1 25 billion for Duke Energy and $1.55 billion for Duke Capital At December 31, 1999, Global Asset Development also had available an approximately $500 million combined commercial paper and medium-term note program. Duke Energy's various bank credit facilities totaled approximately $3.7 billion (including approximately $320 million related to foreign facilities) at December 31, 1999 and $2.9 billion at December 31, 1998 At December 31, 1999, approximately $1.8 billion was outstanding under the commercial paper facilities and approximately $460 million of borrowings were outstanding under the bank credit facilities. Certain of the credit facilities support the issuance of commercial paper, therefore, the issuance of commercial paper reduces the amount available under these credit facilities (see Note 10 to the Consolidated Financial Statements)

As of December 31, 1999, Duke Energy and its subsidiaries had the ability to issue up to $2.15 billion aggregate principal amount of debt and other securities under shelf registrations filed with the Securities and Exchange Commission Effective January 7, 2000, the amount available was increased by $1 5 billion Such securities may be issued as First and Refunding Mortgage Bonds, Senior Notes, Subordinated Notes or Preferred Securities.

On December 16, 1999, Duke Energy announced that it had signed definitive agreements to combine Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. The new company will seek to arrange approximately $2 6 billion of debt financing and, upon closing of the transaction, will make a one-time cash distribution of $1.2 billion to both Duke Energy and Phillips Petroleum The new company would then offer approximately 20% of its equity to the public in 2000 to reduce the debt resulting from the transaction Such an offering is conditional upon completion of the transaction and favorable market conditions For additional information, see Note 19 to the Consolidated Financial Statements.

To maintain financial flexibility and reduce the amount of financing needed for growth opportunities, Duke Energy's Board of Directors adopted a dividend policy in June 1998 that targets 50% of earnings paid out in dividends on common stock The Board of Directors intends to maintain dividends at the current quarterly rate of $0 55 per share until the target payout ratio is reached at which time it intends to re-evaluate its dividend policy

In April 1999, Duke Energy's shareholders approved an amendment to the Articles of Incorporation to increase the authorized common stock from 500 million to 1 billion shares. This increase in authorized stock will provide Duke Energy with added flexibility in effecting financings, stock splits or stock dividends, stock plans and other transactions and arrangements involving the use of common stock.

Duke Energy InvestorChoice Plan, a stock dividend reinvestment plan, allows investors to reinvest dividends in new issuances of common stock and to purchase common stock directly from Duke Energy. Issuances under this plan were not material in 1999, 1998 or 1997

Duke Energy used authorized but unissued shares of its common stock to meet 1999 and 1998 employee benefit plan contribution requirements This practice is expected to continue in 2000.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

-RISK POLICIES Duke Energy is exposed to market risks associated with interest rates, commodity prices, equity prices and foreign exchange rates Comprehensive risk management policies have been established by the Corporate Risk Management Committee (CRMC) to monitor and control these market risks. The CRMC is chaired by the Chief Financial Officer and is comprised of senior executives The CRMC has responsibility for oversight of interest rate risk, foreign currency risk, credit risk and energy risk management, including approval of energy financial exposure limits

-INTEREST RATE RISK Duke Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt, fixed-rate debt and trust preferred securities, commercial paper and auction market preferred stock, as well as interest rate swaps and interest rate lock agreements Duke Energy manages its interest rate exposure by limiting its variable-rate and fixed-rate exposures to certain percentages of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates Duke Energy may also enter into financial derivative instruments including, but not limited to, swaps, options and treasury rate agreements to manage and mitigate interest rate risk exposure. See Notes 1, 7, 10, 12 and 13 to the Consolidated Financial Statements for additional information.

Based on a sensitivity analysis as of December 31, 1999, it was estimated that if market interest rates average 1% higher (lower) in 2000 than in 1999, earnings before income taxes would decrease (increase) by approximately $24 million. Comparatively, based on a sensitivity analysis as of December 31, 1998, had interest rates averaged 1% higher (lower) in 1999 than in 1998, it was estimated that earnings before income taxes would have decreased (increased) by approximately $23 million These

amounts were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of December 31, 1999 and 1998. In the event of a significant change in interest rates, management would likely take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in Duke Energy's financial structure.

-COMMODITY PRICE RISK Duke Energy, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price of natural gas, electricity and natural gas liquid products marketed and purchased. Duke Energy employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including forward contracts, futures, swaps and options. Market risks associated with commodity derivatives held for purposes other than trading were not material at December 31, 1999 and 1998. See Notes 1 and 7 to the Consolidated Financial Statements for additional information.

The risk in the commodity trading portfolio is measured on a daily basis utilizing a Value-at-Risk model to determine the maximum potential one-day favorable or unfavorable Daily Earnings at Risk (DER). The DER is monitored daily in comparison to established thresholds. Other measures are also utilized to monitor the risk in the commodity trading portfolio on a monthly and annual basis.

The DER computations are based on a historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the favorable or unfavorable impact of one-day's price movement on the existing portfolio. The historical simulation emphasizes the most recent market activity, which is considered the most relevant predictor of immediate future market movements for natural gas, electricity and petroleum products. The DER computations utilize several key assumptions, including a 95% confidence level for the resultant price movement and the holding period specified for the calculation. Duke Energy's DER calculation includes commodity derivative instruments held for trading purposes. The estimated potential one-day favorable or unfavorable impact on earnings before income taxes related to commodity derivatives held for trading purposes at December 31, 1999 and 1998 was approximately $10 million. The average estimated potential one-day favorable or unfavorable impact on earnings before income taxes related to commodity derivatives held for trading purposes was approximately $11 million and $5 million during 1999 and 1998, respectively. The increase in average 1999 amounts compared with 1998 is a result of an increase in the authorized energy financial exposure limit in 1998, which was approved by the CRMC. Changes in markets inconsistent with historical trends could cause actual results to exceed predicted limits.

Subsidiaries of Duke Energy are also exposed to market fluctuations in the prices of NGLs related to their ongoing gathering and processing operating activities. Duke Energy closely monitors the risks associated with NGL price changes on its future operations, and where appropriate, uses crude oil and natural gas commodity instruments to hedge NGL prices. Based on a sensitivity analysis as of December 31, 1999, it was estimated that if NGL prices average one cent per gallon less in 2000, earnings before income taxes would decrease by approximately $6 million, after considering the effect of Duke Energy's commodity hedge positions. Comparatively, based on sensitivity analysis as of December 31, 1998, if NGL prices would have averaged one cent per gallon less in 1999, it was estimated that earnings before income taxes would have decreased by approximately $8 million.

-EQUITY PRICE RISK Duke Energy maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning. (See Note 11 to the Consolidated Financial Statements.) As of December 31, 1999 and 1998, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Management believes that its exposure to fluctuations in equity prices or interest rates will not *materially affect consolidated results of operations*. See further discussion in the Current Issues, Nuclear Decommissioning Costs section of Management's Discussion and Analysis.

-FOREIGN OPERATIONS RISK Duke Energy is exposed to foreign currency risk, sovereign risk and other foreign operations risk that arise from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations, when possible, contracts are denominated in or indexed to the U.S. dollar or may be hedged through debt denominated in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to manage its risk related to foreign currency fluctuations. To monitor its currency exchange rate risks, Duke Energy uses sensitivity analysis, which measures the impact of a devaluation of the foreign currencies to which it has exposure.

At December 31, 1999, Duke Energy's primary foreign currency exchange rate exposures were the Brazilian real, the Australian dollar and the Canadian dollar. Exposures to other foreign currencies were not material. Based on the sensitivity analysis at December 31, 1999, a 10% devaluation in the currency exchange rates in Brazil would reduce Duke Energy's financial position by $65 million and would not significantly affect Duke Energy's consolidated results of operations or cash flows over the next twelve months. Based on the sensitivity analysis at December 31, 1999, a 10% devaluation in other foreign currencies were insignificant to Duke Energy's consolidated results of operations, financial position or cash flows. Exposures to foreign currency risks were not material to *consolidated results of operations, financial position* or cash flows during 1998.

CURRENT ISSUES

-ELECTRIC COMPETITION **Wholesale Competition** The Energy Policy Act of 1992 (EPACT) and the FERC's subsequent rulemaking activities have established the regulatory framework to open the wholesale energy market to competition. EPACT amended provisions of the Public Utility Holding Company Act of 1935 and the Federal Power Act to remove certain barriers to a competitive wholesale market. EPACT permits utilities to participate in the development of independent electric generating plants for sales to wholesale customers, and also permits the FERC to order transmission access for third parties to transmission facilities owned by another entity. It does not, however, permit the FERC to issue an order requiring transmission access to retail customers. The FERC, responsible in large measure for implementation of EPACT, has moved vigorously to implement its mandate, interpreting the statute broadly and issuing orders for third-party transmission service and a number of rules of general applicability, including Orders 888 and 889.

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

On December 20, 1999, the FERC issued its Order No 2000 regarding Regional Transmission Organizations (RTOs) In its order, the FERC stressed the voluntary nature of RTO participation by utilities and sets minimum characteristics and functions that must be met by utilities that participate in an RTO The order provides for an open, flexible structure for RTOs to meet the needs of the market, and provides for the possibility of incentive ratemaking and other benefits for utilities that participate in an RTO

The characteristics for acceptable RTOs include independence from market participants, operational control over a region of sufficient scope to support efficient and nondiscriminatory markets, and exclusive authority to maintain short-term reliability The order requires each utility subject to the jurisdiction of the FERC and not already in a FERC-approved RTO to make a filing by October 15, 2000, that either proposes participation in an RTO that will be in operation no later than December 15, 2001, or provides a status report on the utility's progress towards participation in an RTO

Because Order No 2000 has just been issued, and may be revised in certain respects, management cannot estimate its effect on future consolidated results of operations or financial position.

Retail Competition Currently, Electric Operations operates as a vertically integrated, investor-owned utility with exclusive rights to supply electricity in a franchised service territory – a 20,000-square-mile service territory in the Carolinas In its retail business, the NCUC and the PSCSC regulate Electric Operations' service and rates

Electric industry restructuring is being addressed in all 50 states and in the District of Columbia These restructurings will likely impact all entities owning electric generating assets The NCUC and the PSCSC are studying the merits of restructuring the electric utility industry in the Carolinas During 1999, three electric utility restructuring bills were filed in South Carolina's House of Representatives All three bills would introduce competition while allowing utilities to recover stranded costs, and have transition and phase-in periods ranging from five to six years. A task force formed by the South Carolina Senate is also examining issues related to deregulation of the state's electric utility business This task force will prepare a report for review, discussion and possible legislative action by the state's Senate Judiciary Committee and General Assembly as a whole

In May 1997, North Carolina passed a bill that established a study commission to examine whether competition should be implemented in the state Members of this commission include legislators, customers, utilities and a member of an environmental group. The study commission expects to issue its report to the General Assembly in 2000

One of the significant issues the study commission must address is the approximately $6 billion of debt issued by the two North Carolina municipal agencies (North Carolina Municipal Power Agency Number 1 and the North Carolina Eastern Municipal Agency). This debt is related to their joint ownership of generation assets with Duke Energy and Carolina Power & Light (CP&L). The municipal power agencies' member municipalities currently have electric rates higher than either Duke Energy or CP&L and are facing significant rate increases in the future to service the debt As a result, the power agencies' debt and electric rates are economic development issues for the 51 power agency municipalities and, by extension, for the state as a whole

On October 26 and 27, 1999, at the request of the study commission, four proposals were submitted to resolve the municipal debt issue, one of which was a joint Duke Energy-CP&L proposal The study commission expects to include a recommendation to resolve the municipal debt issue in its report to the General Assembly in 2000

More than a dozen bills on electric restructuring have been introduced in the last session of Congress On October 27, 1999 the U S. House Commerce Subcommittee on Energy and Power voted to move H.R 2944, "The Electricity Competition and Reliability Act," to the full Commerce Committee The primary restructuring issues addressed include repeal of major provisions of the Public Utility Holding Company Act and the Public Utility Regulatory Policies Act, reliability, transmission, nuclear decommissioning and state authority

Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to customers If cost-based regulation were to be discontinued in the industry for any reason, including competitive pressure on the cost-based prices of electricity, profits could be reduced and electric utilities might be required to reduce their asset balances to reflect a market basis less than cost Discontinuance of cost-based regulation would also require affected utilities to write off their associated regulatory assets Duke Energy's regulatory assets are included in the Consolidated Balance Sheets. The portion of these regulatory assets related to Electric Operations is approximately $1 4 billion, including primarily purchased capacity costs, debt expense and deferred taxes related to regulatory assets Duke Energy is recovering substantially all of these regulatory assets through its current wholesale and retail electric rates and would attempt to continue to recover these assets during a transition to competition In addition, Duke Energy would seek to recover the costs of its electric generating facilities in excess of the market price of power at the time of transition

Duke Energy supports a properly managed and orderly transition to competitive generation and retail services in the electric industry However, transforming the current regulated industry into efficient, competitive generation and retail electric markets is a complex undertaking, which will require a carefully considered transition to a restructured electric industry The key to effective retail competition is fairness among customers, service providers and investors. Duke Energy intends to continue to work with customers, legislators and regulators to address all the important issues Management currently cannot predict the impact, if any, of these competitive forces on future consolidated results of operations or financial position

-NATURAL GAS COMPETITION Wholesale Competition On July 29, 1998, the FERC issued a Notice of Proposed Rulemaking (NOPR) on short-term natural gas transportation services, which proposed an integrated package of revisions to its regulations governing interstate natural gas pipelines. "Short term" has been defined in the NOPR as all transactions of less than one year Under the proposed approach, cost-based regulation would be eliminated for short-term transportation and replaced by regulatory policies intended to maximize competition in the short-term transportation market, mitigate the ability of companies to exercise residual monopoly power and provide opportunities for greater flexibility in providing pipeline services The proposed changes include initiatives to revise pipeline scheduling procedures, receipt and delivery point policies and penalty policies, and require pipelines to auction short-term capacity. Other proposed changes would improve the FERC's reporting requirements, permit pipelines to negotiate rates and terms of services, and revise certain rate and certificate policies that affect competition.

In conjunction with the NOPR, the FERC also issued a Notice of Inquiry (NOI) on its pricing policies in the existing long-term market and pricing policies for new capacity The FERC seeks comments on whether its policies are biased toward either short-term or long-term service, provide accurate price signals and the right incentives for pipelines to provide optimal transportation services and construct facilities that meet future demand and do not result in over building and excess capacity. Comments on the NOPR and NOI were due in April 1999 On September 15, 1999, the FERC issued a new policy statement on certifying new interstate capacity in response to comments filed on the certificate issues raised in the NOPR.

Because the ultimate resolution of these issues is unknown, management cannot estimate the effects of these matters on future consolidated results of operations or financial position

Retail Competition Changes in regulation to allow retail competition could affect Duke Energy's natural gas transportation contracts with local gas distribution companies Natural gas retail deregulation is in the very early stages of development and management cannot estimate the effects of this matter on future consolidated results of operations or financial position.

-NUCLEAR DECOMMISSIONING COSTS Duke Energy's estimated site-specific nuclear decommissioning costs total approximately $1 9 billion stated in 1999 dollars based on decommissioning studies completed in 1999. This estimate includes the cost of decommissioning plant components not subject to radioactive contamination Duke Energy contributes to an external decommissioning trust fund and maintains an internal reserve to fund these costs.

The balance of the external funds as of December 31, 1999 and 1998 was $703 million and $580 million, respectively The balance of the internal reserve as of December 31, 1999 and 1998 was $223 million and $217 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization

Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of its nuclear plants Management believes that funding of the decommissioning costs will not have a material adverse effect on consolidated results of operations or financial position. See Note 11 to the Consolidated Financial Statements for additional information

As of December 31, 1999 and 1998, the external decommissioning trust fund was invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents Maintaining a portfolio that includes long-term equity investments maximizes the returns to be utilized to fund nuclear decommissioning, which in the long-term will better correlate to inflationary increases in decommissioning costs However, the equity securities included in Duke Energy's portfolio are exposed to price fluctuations in equity markets, and the fixed-rate, fixed-income securities are exposed to changes in interest rates.

Duke Energy actively monitors its portfolio by benchmarking the performance of its investments against certain indexes and by maintaining, and periodically reviewing, established target allocation percentages of the assets in its trusts Because the accounting for nuclear decommissioning recognizes that costs are recovered through the Electric Operations segment's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations.

-ENVIRONMENTAL Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters

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

PCB (Polychlorinated Biphenyl) Assessment and Clean-up Programs In June 1999, the Environmental Protection Agency (EPA) certified that TETCO, a wholly owned subsidiary of Duke Energy, had completed clean up of PCB contaminated sites under conditions stipulated by a U.S Consent Decree in 1989. TETCO is required to continue groundwater monitoring on a number of sites for at least the next two years The estimated cost of such monitoring is not material

Under terms of the agreement with CMS discussed in Note 2 to the Consolidated Financial Statements, Duke Energy is obligated to complete clean-up of previously identified contamination at certain agreed-upon sites on the PEPL and Trunkline systems These clean-up programs are expected to continue until 2001 The contamination resulted from the past use of lubricants containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas Soil and sediment testing, to date, has detected no significant off-site contamination Duke Energy has communicated with the EPA and appropriate state regulatory agencies on these matters

At December 31, 1999 and 1998, remaining estimated clean-up costs on the TETCO, PEPL and Trunkline systems were accrued and included in the Consolidated Balance Sheets as Other Current Liabilities and Environmental Clean-up Liabilities These cost estimates represent gross clean-up costs expected to be

Incurred, have not been discounted or reduced by customer recoveries and generally do not include fines, penalties or third-party claims Costs expected to be recovered from customers have been deferred and are included in the Consolidated Balance Sheets as Environmental Clean-up Costs

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

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

In October 1998, the EPA Issued a final rulrng on regional ozone control which requires revised State Implementation Plans for 22 eastern states and the District of Columbia. This EPA ruling is being challenged in court by various states, Industry and other Interests, including the states of North Carolina and South Carolina and Duke Energy. In May 1999, the court ordered that no state need submit a plan "pending further order of the court " The EPA has undertaken other ozone-related actions having virtually identical goals These actions have likewise been challenged by the same or similar parties The resolution of the October 1998 action is expected to resolve these other ozone-related actions as well The North Carolina Environmental Management Commission is considering several competing proposals to reduce utility emissions of nitrogen oxide. A proposed rule is anticipated in March 2000 with a final rule in September 2000. Depending on the resolution of these matters, costs to Duke Energy may range from approximately $100 million to $600 million for additional capital improvements

In October 1999, the EPA sent Duke Energy a request seeking information on Duke Power's repair and maintenance of its coal-fired plants since 1978. This is part of the EPA's New Source Reviews (NSR) enforcement initiative, in which the EPA claims that utilities and others have committed widespread violations of the Clean Air Act permitting requirements for the past quarter century. In November 1999, the EPA filed suit against seven utilities and issued an administrative order to Tennessee Valley Authority alleging numerous NSR permitting violations The EPA's allegations run counter to previous EPA guidance regarding the applicability of the NSR permitting requirements Duke Power, along with several other utilities, has routinely undertaken the type of repair, replacement, and maintenance projects that the EPA now claims are Illegal. A suit has not been Instituted against Duke Energy, and while it is too early to predict any consequences, Duke Energy believes that all of Its electric generation units are properly permitted and have been properly maintained Because this matter is in its most preliminary stage with respect to Duke Energy, management cannot estimate the effects of these matters on future consolidated results of operations or financial position.

In December 1997, the United Nations held negotiations in Kyoto, Japan to determine how to minimize global warming caused by, among other things, carbon dioxide emissions from fossil-fired generating facilities and methane from natural gas operations Further negotiations in November 1998 resutted in a work plan to complete the operational details of the Kyoto agreement by late 2000. If thrs initiative is adopted in its current form, it could have far reaching implications to Duke Energy and the entire energy industry Because this matter is in the early stages of discussion, management cannot estimate the effects on future consolidated results of operations or financial position

-LITIGATION AND CONTINGENCIES For information concerning litrgation and other commitments and contingencies, see Note 14 to the Consolidated Financial Statements

-YEAR 2000 READINESS PROGRAM Duke Energy did not experience any disruption to its operations resulting from the transition to the year 2000. Duke Energy completed its year 2000 readiness program at all of its business units in November 1999. Systems will continue to be monitored throughout the year, with special attention given to the leap year transition. The total cost of the program, including internal labor as well as incremental costs such as consulting and contract costs, was approximately $58 million These costs exclude replacement systems that, in addition to being Year 2000 ready, provided significantly enhanced capabilities which benefit operations in future periods.

-NEW ACCOUNTING STANDARD In September 1998, Statements of Financial Accounting Standard (SFAS) No 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy is required to adopt this standard by January 1, 2001 SFAS No 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative. Duke Energy is currently reviewing the expected impact of SFAS No 133 on consolidated results of operations and financial position.

-SUBSEQUENT EVENTS On December 16, 1999, Duke Energy announced that it had signed definitive agreements to combine Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company. Under the terms of the agreements, the new company will seek to arrange approximately $2 6 billion of debt financing and, upon closing of the transaction, will make a one-time cash distribution of $1 2 billion to both Duke Energy and Phillips Petroleum. At closing, Duke Energy will own about 70% of the new company and Phillips Petroleum will own about 30%. The new company would then offer approximately 20% of its equity to the public in 2000 to reduce the debt resulting from the transaction Such an offering is conditional upon completion of the transaction and favorable market conditions

On January 4, 2000, Duke Energy announced that it had entered into a definitive agreement to purchase, for $386 million, 100% of the stock of El Paso Energy Corporation's wholly owned subsidiary, East Tennessee Natural Gas Company, a 1,100-mile pipeline that crosses Duke Energy's TETCO pipeline and serves the southeastern region of the U S.

Both transactions are subject to regulatory approval and are expected to close in the first quarter of 2000.

In January 2000, Duke Energy completed a tender offer to the minority shareholders of Paranapanema and successfully acquired an additional 51% economic interest in the company for approximately $280 million This increased Duke Energy's economic ownership from approximately 44% to approximately 95%.

-FORWARD-LOOKING STATEMENTS From time to time, Duke Energy's reports, filings and other public announcements may include assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995 Duke Energy cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. Some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements include state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree to which competition enters the electric and natural gas industries, industrial, commercial and residential growth in the service territories of Duke Energy and its subsidiaries; the weather and other natural phenomena, the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates, changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject or other external factors over which Duke Energy has no control; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by Duke Energy's credit rating and general economic conditions, growth in opportunities for Duke Energy's business units, and the effect of accounting policies issued periodically by accounting standard-setting bodies

SELECTED FINANCIAL DATA

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	YEARS ENDED DEC 31 '99	98	97 [b]	96 [b]	95 [b]
Income Statement					
Operating revenues	$ 21,742	$17,610	$16,309	$12,302	$ 9,694
Operating expenses [a]	19,947	15,177	14,339	10,143	7,626
Operating income	1,795	2,433	1,970	2,159	2,068
Other income and expenses	248	214	138	135	122
Earnings before interest and taxes	2,043	2,647	2,108	2,294	2,190
Interest expense	601	514	472	499	508
Minority interests	142	96	23	6	–
Earnings before income taxes	1,300	2,037	1,613	1,789	1,682
Income taxes	453	777	639	698	664
Income before extraordinary item	847	1,260	974	1,091	1,018
Extraordinary gain (loss), net of tax	660	(8)	–	(17)	–
Net income	1,507	1,252	974	1,074	1,018
Dividends and premiums on redemptions of preferred and preference stock	20	21	72	44	49
Earnings available for common stockholders	$ 1,487	$ 1,231	$ 902	$ 1,030	$ 969
Common Stock Data					
Shares of common stock outstanding					
Year-end	366	363	360	359	362
Weighted average	365	361	360	361	361
Earnings per share (before extraordinary item) [a]					
Basic	$ 2.26	$ 3.43	$ 2.51	$ 2.90	$ 2.68
Dilutive	2.25	3.42	2.50	2.88	2.67
Earnings per share [a]					
Basic	$ 4.08	$ 3.41	$ 2.51	$ 2.85	$ 2.68
Dilutive	4.07	3.40	2.50	2.83	2.67
Dividends per share	2.20	2.20	1.90	1.57	1.50
Balance Sheet					
Total assets	$ 33,409	$26,806	$24,029	$22,366	$20,868
Long-term debt	8,683	6,272	6,530	5,485	5,803
Preferred stock with sinking fund requirements	104	124	149	234	234

[a] Financial information reflects a pre-tax $800 million charge for estimated injury and damages claims. The earning per share effect of this charge was $1.34 per share. See Note 14 to the Consolidated Financial Statements for further information.
[b] Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests As a result, the financial information gives effect to the merger as if it had occurred January 1, 1995.

COMMON STOCK DATA BY QUARTER

	99			98		
	DIVIDENDS PER SHARE	STOCK PRICE RANGE HIGH	LOW	DIVIDENDS PER SHARE	STOCK PRICE RANGE HIGH	LOW
First Quarter	$ 0.55	$64 11/16	$54 13/16	$0.55	$60 5/8	$53 7/16
Second Quarter	1.10	61 3/16	52 1/8	1.10	62 9/16	55 1/4
Third Quarter	–	58 1/2	52 7/16	–	66 3/16	57 1/16
Fourth Quarter	0.55	56 7/8	47 1/16	0.55	70 11/16	60 1/16

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

IN MILLIONS, EXCEPT PER SHARE AMOUNTS	YEARS ENDED DEC 31 99	98	97
Operating Revenues			
Sales, trading and marketing of natural gas and petroleum products (Notes 1 and 7)	$ 10,922	$7,854	$8,151
Generation, transmission and distribution of electricity (Notes 1 and 4)	4,934	4,586	4,334
Trading and marketing of electricity (Notes 1 and 7)	3,610	2,788	1,665
Transportation and storage of natural gas (Notes 1 and 4)	1,139	1,450	1,504
Other (Note 8)	1,137	932	655
Total operating revenues	21,742	17,610	16,309
Operating Expenses			
Natural gas and petroleum products purchased (Note 1)	10,636	7,497	7,705
Net interchange and purchased power (Notes 1, 4 and 5)	3,507	2,916	1,960
Fuel used in electric generation (Notes 1 and 11)	764	767	743
Other operation and maintenance (Notes 4, 11 and 14)	3,701	2,738	2,721
Depreciation and amortization (Notes 1 and 5)	968	909	841
Property and other taxes	371	350	369
Total operating expenses	19,947	15,177	14,339
Operating Income	1,795	2,433	1,970
Other Income and Expenses			
Deferred returns and allowance for funds used during construction (Note 1)	82	88	109
Other, net	166	126	29
Total other income and expenses	248	214	138
Earnings Before Interest and Taxes	2,043	2,647	2,108
Interest Expense (Notes 7 and 10)	601	514	472
Minority Interests (Note 12)	142	96	23
Earnings Before Income Taxes	1,300	2,037	1,613
Income Taxes (Notes 1 and 6)	453	777	639
Income Before Extraordinary Item	847	1,260	974
Extraordinary Gain (Loss), net of tax	660	(8)	–
Net Income	1,507	1,252	974
Dividends and Premiums on Redemptions of Preferred and Preference Stock (Note 13)	20	21	72
Earnings Available for Common Stockholders	1,487	1,231	902
Other Comprehensive Income, net of tax			
Foreign currency translation adjustments (Note 1)	(2)	–	–
Total Comprehensive Income	$ 1,485	$1,231	$ 902
Common Stock Data (Note 1)			
Weighted average shares outstanding	365	361	360
Earnings per share (before extraordinary item)			
Basic	$ 2.26	$3.43	$2.51
Dilutive	$ 2.25	$3.42	$2.50
Earnings per share			
Basic	$ 4.08	$3.41	$2.51
Dilutive	$ 4.07	$3.40	$2.50
Dividends per share	$ 2.20	$2 20	$1.90

See Notes to Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

IN MILLIONS	DEC 31 99	98
ASSETS		
Current Assets (Note 1)		
Cash and cash equivalents (Note 7)	$ 613	$ 80
Receivables (Note 7)	3,248	2,318
Inventory	599	543
Current portion of natural gas transition costs (Note 4)	81	100
Current portion of purchased capacity costs (Note 5)	146	99
Unrealized gains on mark-to-market transactions (Note 7)	1,131	1,457
Other (Note 7)	353	246
Total current assets	6,171	4,843
Investments and Other Assets		
Investments in affiliates (Notes 8 and 14)	1,299	902
Nuclear decommissioning trust funds (Note 11)	703	580
Pre-funded pension costs (Note 17)	315	332
Goodwill, net (Notes 1 and 2)	844	495
Notes receivable	154	244
Unrealized gains on mark-to-market transactions (Notes 1 and 7)	690	396
Other	705	283
Total investments and other assets	4,710	3,232
Property, Plant and Equipment (Notes 1, 5, 9, 10 and 11)		
Cost	30,436	27,128
Less accumulated depreciation and amortization	9,441	10,253
Net property, plant and equipment	20,995	16,875
Regulatory Assets and Deferred Debits (Note 1)		
Purchased capacity costs (Note 5)	497	648
Debt expense	223	253
Regulatory asset related to income taxes	500	506
Natural gas transition costs (Note 4)	4	80
Environmental clean-up costs (Note 14)	27	69
Other	282	300
Total regulatory assets and deferred debits	1,533	1,856
Total Assets	$ 33,409	$26,806

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS CONTINUED

IN MILLIONS	DEC 31 99	98
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 2,312	$ 1,754
Notes payable and commercial paper (Notes 7 and 10)	267	209
Taxes accrued (Note 1)	685	119
Interest accrued	139	109
Current maturities of long-term debt and preferred stock (Notes 10 and 13)	515	707
Unrealized losses on mark-to-market transactions (Notes 1 and 7)	1,241	1,387
Other (Notes 1 and 14)	717	670
Total current liabilities	5,876	4,955
Long-term Debt (Notes 7 and 10)	8,683	6,272
Deferred Credits and Other Liabilities (Note 1)		
Deferred income taxes (Note 6)	3,402	3,705
Investment tax credit (Note 6)	225	242
Nuclear decommissioning costs externally funded (Note 11)	703	580
Environmental clean-up liabilities (Note 14)	101	148
Unrealized losses on mark-to-market transactions (Note 7)	438	362
Other (Note 14)	2,099	907
Total deferred credits and other liabilities	6,968	5,944
Minority Interests (Note 2)	1,200	253
Guaranteed Preferred Beneficial Interests in Subordinated Notes of Duke Energy Corporation or Subsidiaries (Notes 7 and 12)	1,404	919
Preferred and Preference Stock (Notes 7 and 13)		
Preferred and preference stock with sinking fund requirements	71	104
Preferred and preference stock without sinking fund requirements	209	209
Total preferred and preference stock	280	313
Commitments and Contingencies (Notes 5, 11 and 14)		
Common Stockholders' Equity (Notes 15 and 16)		
Common stock, no par, 1 billion shares authorized; 366 million and 363 million shares outstanding at December 31, 1999 and 1998, respectively	4,603	4,449
Retained earnings	4,397	3,701
Accumulated other comprehensive income	(2)	–
Total common stockholders' equity	8,998	8,150
Total Liabilities and Stockholders' Equity	$ 33,409	$26,806

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

IN MILLIONS	YEARS ENDED DEC 31 99	98	97
Cash Flows from Operating Activities			
Net income	$ 1,507	$1,252	$974
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,151	1,055	983
Extraordinary (gain) loss, net of tax	(660)	8	–
Injuries and damages accrual	800	–	–
Deferred income taxes	(210)	(35)	99
Purchased capacity levelization	104	88	56
Transition cost recoveries (payments), net	95	(28)	(36)
(Increase) decrease in			
Receivables	(659)	(18)	(266)
Inventory	(89)	(104)	(7)
Other current assets	(138)	(39)	(18)
Increase (decrease) in			
Accounts payable	477	72	239
Taxes accrued	(57)	(6)	50
Interest accrued	32	(2)	(13)
Other current liabilities	73	84	15
Other, net	258	4	64
Net cash provided by operating activities	2,684	2,331	2,140
Cash Flows from Investing Activities			
Capital and investment expenditures	(5,936)	(2,500)	(2,028)
Proceeds from sale of subsidiaries	1,900	–	–
Decommissioning, retirements and other	236	24	34
Net cash used in investing activities	(3,800)	(2,476)	(1,994)
Cash Flows from Financing Activities			
Proceeds from the issuance of			
Long-term debt	3,221	1,357	1,618
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy Corporation or Subsidiaries	484	581	339
Common stock and stock options	162	176	15
Payments for the redemption of			
Long-term debt	(1,505)	(698)	(869)
Common stock	–	–	(25)
Preferred and preference stock	(20)	(180)	(224)
Net change in notes payable and commercial paper	58	(350)	(290)
Dividends paid	(822)	(814)	(726)
Other	22	6	(41)
Net cash provided by (used in) financing activities	1,600	78	(203)
Net increase (decrease) in cash and cash equivalents	484	(67)	(57)
Cash received from business acquisitions	49	38	–
Cash and cash equivalents at beginning of year	80	109	166
Cash and cash equivalents at end of year	$ 613	$ 80	$109
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	$ 541	$ 490	$476
Cash paid for income taxes	$ 732	$ 733	$470

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY

YEARS ENDED DEC 31

IN MILLIONS		99	98	97
Common Stock				
Balance at beginning of year	$	4,449	$4,284	$4,289
Dividend reinvestment and employee benefits		154	165	(9)
Other capital stock transactions, net		–	–	4
Balance at end of year		4,603	4,449	4,284
Retained Earnings				
Balance at beginning of year		3,701	3,256	3,052
Net income		1,507	1,252	974
Common stock dividends		(802)	(794)	(682)
Preferred and preference stock dividends and premiums on redemptions (Note 13)		(20)	(21)	(72)
Other capital stock transactions, net		11	8	(16)
Balance at end of year		4,397	3,701	3,256
Accumulated Other Comprehensive Income				
Balance at beginning of year		–	–	–
Foreign currency translation adjustments (Note 1)		(2)	–	–
Balance at end of year		(2)	–	–
Total Common Stockholders' Equity	$	8,998	$8,150	$7,540

See Notes to Consolidated Financial Statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

-CONSOLIDATION The consolidated financial statements include the accounts of all of Duke Energy Corporation's majority-owned subsidiaries after the elimination of significant intercompany transactions and balances Investments in other entities that are not controlled by Duke Energy Corporation, but where it has significant influence over operations, are accounted for using the equity method

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes Although these estimates are based on management's knowledge of current and expected future events, actual results could differ from those estimates

"Duke Energy" is used in these Notes as a collective reference to Duke Energy Corporation and its subsidiaries

-CASH AND CASH EQUIVALENTS All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents

-INVENTORY Inventory consists primarily of materials and supplies, gas held for transmission, processing and sales commitments, and coal held for electric generation Inventory is recorded at the lower of cost or market, primarily using the average cost method

-ACCOUNTING FOR RISK MANAGEMENT ACTIVITIES Duke Energy, primarily through its subsidiaries, manages its exposure to risk from existing contractual commitments and provides risk management services to its customers and suppliers through commodity derivatives, including forward contracts, futures, over-the-counter swap agreements and options

Commodity derivatives utilized for trading purposes are accounted for using the mark-to-market method Under this methodology, these instruments are adjusted to market value, and the unrealized gains and losses are recognized in current period income and are included in the Consolidated Statements of Income and Comprehensive Income as Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power, and in the Consolidated Balance Sheets as Unrealized Gains or Losses on Mark-to-Market Transactions

Commodity derivatives such as futures, forwards, over-the-counter swap agreements and options are also utilized for non-trading purposes to hedge the impact of market fluctuations in the price of natural gas, electricity and other energy-related products. To qualify as a hedge, the price movements in the commodity derivatives must be highly correlated with the underlying hedged commodity Under the deferral method of accounting, gains and losses related to commodity derivatives which qualify as hedges are recognized in income when the underlying hedged physical transaction closes and are included in the Consolidated Statements of Income and Comprehensive Income as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power If the commodity derivative is no longer sufficiently correlated to the underlying commodity, or if the underlying commodity transaction closes earlier than anticipated, the deferred gains or losses are recognized in income

Duke Energy periodically uses interest rate swaps, accounted for under the accrual method, to manage the interest rate characteristics associated with outstanding debt Interest rate differentials to be paid or received as interest rates change are accrued and recognized as an adjustment to interest expense. The amount accrued as either a payable to or receivable from counterparties is included in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits

Duke Energy also periodically utilizes interest rate lock agreements to hedge interest rate risk associated with new debt issuances Under the deferral method of accounting, gains or losses on such agreements, when settled, are deferred in the Consolidated Balance Sheets as Long-term Debt and are amortized in the Consolidated Statements of Income and Comprehensive Income as an adjustment to interest expense

Duke Energy is exposed to foreign currency risk from investments in international affiliates and businesses owned and operated in foreign countries To mitigate risks associated with foreign currency fluctuations, when possible, contracts are denominated in or indexed to the U.S. dollar or may be hedged through debt denominated in the foreign currency Duke Energy also uses foreign currency derivatives, where possible, to hedge its risk related to foreign currency fluctuations To qualify as a hedge, there must be a high degree of correlation between price movements in the derivative and the item designated as being hedged These derivatives are accounted for under the deferral method previously described under commodity derivatives used for non-trading purposes

Duke Energy also enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies These agreements are accounted for under the mark-to-market method previously described

-GOODWILL Goodwill represents the excess of acquisition costs over the fair value of the net assets of an acquired business. The goodwill created by Duke Energy's acquisitions is amortized on a straight-line basis over the useful lives of the assets, ranging from 10 to 40 years The amount of goodwill reported on the Consolidated Balance Sheets as of December 31, 1999 and 1998, respectively, was $844 million and $495 million, net of accumulated amortization of $218 million and $166 million. See Note 2 to the Consolidated Financial Statements for information on significant goodwill additions

-PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at original cost Duke Energy capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized The cost of repairs and replacements is charged to expense as incurred. Depreciation is generally computed using the straight-line method The composite weighted-average depreciation rates, excluding nuclear fuel, were 3.73%, 3 82% and 3 67% for 1999, 1998 and 1997, respectively

When property, plant and equipment maintained by Duke Energy's regulated operations are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization When entire regulated operating units are sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced, and any gain or loss is recorded in income, unless otherwise required by the Federal Energy Regulatory Commission (FERC)

-IMPAIRMENT OF LONG-LIVED ASSETS The recoverability of long-lived assets and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flow projections

-UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE Premiums, discounts and expenses incurred in connection with the issuance of presently outstanding long-term debt are amortized over the terms of the respective issues Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of those items

-ENVIRONMENTAL EXPENDITURES Environmental expenditures that relate to an existing condition caused by past operations and do not contribute to current or future revenue generation are expensed Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate Liabilities are recorded when environmental assessments and/or clean-ups are probable and the costs can be reasonably estimated Certain of these environmental assessments and clean-up costs are expected to be recovered from Natural Gas Transmission customers and have, therefore, been deferred and are included in the Consolidated Balance Sheets as Environmental Clean-up Costs

-COST-BASED REGULATION Duke Energy's regulated operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No 71, "Accounting for the Effects of Certain Types of Regulation" Accordingly, certain assets and liabilities that result from the regulated ratemaking process are recorded that would not be recorded under generally accepted accounting principles for non-regulated entities These regulatory assets and liabilities are classified in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities, respectively The applicability of SFAS No 71 is routinely evaluated, and factors such as regulatory changes and the impact of competition are considered Discontinuing cost-based regulation or increasing competition might require companies to reduce their asset balances to reflect a market basis less than cost and to write off their associated regulatory assets Management cannot predict the potential impact, if any, of discontinuing cost-based regulation or increasing competition on future financial position or consolidated results of operations However, Duke Energy continues to position itself to effectively meet these challenges by maintaining competitive prices

-COMMON STOCK OPTIONS Duke Energy accounts for stock-based compensation using the intrinsic method of accounting Under this method, compensation cost, if any, is measured as the excess of the quoted market price of Duke Energy's stock at the date of the grant over the amount an employee must pay to acquire the stock Restricted stock is recorded as compensation cost over the requisite vesting period based on the market value on the date of the grant Pro forma disclosures utilizing the fair value accounting method are included in Note 16 to the Consolidated Financial Statements

-REVENUES Revenues on sales of electricity and transportation and storage of natural gas are recognized as service is provided Revenues on sales of natural gas and petroleum products, as well as electricity, gas and other energy products marketed, are recognized in the period of delivery Receivables on the Consolidated Balance Sheets included $207 million and $193 million as of December 31, 1999 and 1998, respectively, for electric service that has been provided but not yet billed to customers. When rate cases are pending final approval, a portion of the revenues is subject to possible refund Reserves are established where required for such cases

-NUCLEAR FUEL Amortization of nuclear fuel is included in the Consolidated Statements of Income and Comprehensive Income as Fuel Used in Electric Generation The amortization is recorded using the units-of-production method

-DEFERRED RETURNS AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) Deferred returns represent the estimated financing costs associated with funding certain regulatory assets These regulatory assets primarily arose from the funding of purchased capacity costs above levels collected in rates Deferred returns are non-cash items and are primarily recognized as an addition to Purchased Capacity Costs with an offsetting credit to Other Income and Expenses.

AFUDC represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities AFUDC is a non-cash item and is recognized as a cost of Property, Plant and Equipment, with offsetting credits to Other Income and Expenses, and to Interest Expense After construction is completed, Duke Energy is permitted to recover these costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

Rates used for capitalization of deferred returns and AFUDC by Duke Energy's regulated operations are calculated in compliance with FERC rules

-FOREIGN CURRENCY TRANSLATION Assets and liabilities of Duke Energy's international operations, where the local currency is the functional currency, have been translated at year-end exchange rates, and revenues and expenses have been translated using average exchange rates prevailing during the year Adjustments resulting from translation are included in the Consolidated Statements of Income and Comprehensive Income as Foreign Currency Translation Adjustments The financial statements of international operations, where the U S dollar is the functional currency, reflect certain transactions denominated in the local currency that have been remeasured in U.S dollars The remeasurement of local currencies into U S. dollars creates gains and losses from foreign currency transactions that are included in consolidated net income

-INCOME TAXES Duke Energy and its subsidiaries file a consolidated federal income tax return Deferred income taxes have been provided for temporary differences Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in different periods Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

-EARNINGS PER COMMON SHARE Basic earnings per share is based on a simple weighted average of common shares outstanding Dilutive earnings per share reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, were exercised or converted into common stock The numerator for the calculation of basic and dilutive earnings per share is earnings available for common stockholders.

DENOMINATOR FOR EARNINGS PER SHARE

IN MILLIONS	99	98	97
Denominator for basic earnings per share (weighted average shares outstanding)	365	361	360
Assumed exercise of dilutive stock options	[a]	1	2
Denominator for dilutive earnings per share	365	362	362

[a] While Duke Energy had dilutive stock options as of December 31, 1999, the amount did not round to one million

-EXTRAORDINARY ITEMS In 1999, Duke Energy realized an extraordinary gain of $660 million, or $1 82 per share, relating to the sale of certain pipeline companies See Note 2 to the Consolidated Financial Statements for additional information on the extraordinary item

In January 1998, TEPPCO Partners, L P (TEPPCO), in which a subsidiary of Duke Energy has a 2% general partner interest and a 19.1% limited partner interest, redeemed certain First Mortgage Notes A non-cash extraordinary loss of $8 million, net of income tax of $5 million, was recorded related to costs of the early retirement of debt Earnings per common share for 1998 were reduced by $0.02 as a result of this charge

-NEW ACCOUNTING STANDARD In September 1998, SFAS No 133, "Accounting for Derivative Instruments and Hedging Activities," was issued Duke Energy is required to adopt this standard by January 1, 2001 SFAS No 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and it defines the accounting for changes in the fair value of the derivatives depending on the intended use of the derivative Duke Energy is currently reviewing the expected impact of SFAS No 133 on consolidated results of operations and financial position

-RECLASSIFICATIONS Certain amounts have been reclassified in the Consolidated Financial Statements to conform to the current presentation

2BUSINESS COMBINATIONS, ACQUISITIONS AND DISPOSITIONS

-BUSINESS COMBINATIONS PanEnergy Corp (PanEnergy) On June 18, 1997, Duke Power Company (Duke Power) changed its name to Duke Energy Corporation and completed a stock-for-stock merger with PanEnergy (the merger). PanEnergy was involved in the gathering, processing, transportation and storage of natural gas, the production of natural gas liquids (NGLs), and the marketing of natural gas, electricity and other energy-related products Pursuant to the merger agreement, Duke Energy issued 158 3 million shares of its common stock in exchange for all of the outstanding common stock of PanEnergy Accordingly, each share of PanEnergy common stock outstanding was converted into the right to receive 1 0444 shares of Duke Energy's common stock In addition, each outstanding option to purchase PanEnergy common stock became an option to purchase common stock of Duke Energy, adjusted accordingly The merger was accounted for as a pooling of interests, therefore, the Consolidated Financial Statements and other financial information included in this Annual Report for periods prior to the merger include the combined historical financial results of Duke Power and PanEnergy.

-BUSINESS ACQUISITIONS For acquisitions accounted for using the purchase method, assets and liabilities have been consolidated as of the purchase date and earnings from the acquisitions have been included in consolidated earnings of Duke Energy subsequent to the purchase date. Assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired are recorded as goodwill

Dominion Resources' Hydroelectric, Natural Gas and Diesel Power Generation Businesses In August 1999, Duke Energy, through its wholly owned subsidiary Duke Energy International, LLC (Duke Energy International) reached a definitive agreement with Dominion Resources, Inc (Dominion Resources) to acquire its portfolio of hydroelectric, natural gas and diesel power generation businesses in Argentina, Belize, Bolivia and Peru for approximately $405 million In October 1999, Duke Energy International completed the purchase of the businesses in Belize and Peru from Dominion Resources, as well as acquired additional ownership interests in the Peru business (Egenor) from two other parties for $152 million in cash and certain other ownership interests in South America The purchase increased Duke Energy International's ownership in Egenor from approximately 30% to 90% The completion of the purchases in Argentina and Bolivia are subject to receiving appropriate governmental consents and approvals and are expected to close by mid-2000.

Assets and liabilities of the Belize and Peru businesses have been recorded at preliminary fair values along with goodwill of $74 million which is being amortized on a straight-line basis over 35 to 40 years The final purchase price allocation and estimated life of goodwill are subject to adjustment when additional information concerning asset and liability valuations is finalized and the evaluation of certain pre-acquisition contingent liabilities has been completed.

Companhia de Geração de Energia Elétrica Paranapanema (Paranapanema) In August 1999, Duke Energy International entered a series of transactions to complete a $761 million purchase of a controlling voting interest and an approximate 44% economic interest in Paranapanema, an electric generating company in Brazil Assets and liabilities have been recorded at preliminary fair values along with goodwill of $134 million which is being amortized on a straight-line basis over 40 years The final purchase price allocation and estimated life of goodwill are subject to adjustment when additional information concerning asset and liability valuations is finalized and the evaluation of certain pre-acquisition contingent liabilities has been completed.

In January 2000, Duke Energy completed a tender offer to the minority shareholders of Paranapanema and successfully acquired an additional 51% economic interest in the company for approximately $280 million This increased Duke Energy's economic ownership from approximately 44% to approximately 95% See Note 19 to the Consolidated Financial Statements.

Union Pacific Resources' Gathering, Processing and Marketing Operations On March 31, 1999, Duke Energy through its wholly owned subsidiary, Duke Energy Field Services, Inc , completed the $1 35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR), as well as UPR's NGL marketing activities (collectively, "the UPR acquisition") Goodwill of $135 million has

been recorded and is being amortized on a straight-line basis over 15 to 20 years. The final purchase price allocation and estimated life of goodwill are subject to adjustment pending additional information concerning asset and liability valuations and the evaluation of certain pre-acquisition contingent liabilities.

-DISPOSITIONS **PEPL Companies and Trunkline LNG** On March 29, 1999, wholly owned subsidiaries of Duke Energy sold Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company and additional storage related to those systems (collectively, the PEPL Companies), which substantially comprised the Midwest Pipelines, along with Trunkline LNG Company (Trunkline LNG) to CMS Energy Corporation (CMS). The sales price of $2.2 billion involved cash proceeds of $1.9 billion and CMS' assumption of existing PEPL debt of approximately $300 million. The sale resulted in an extraordinary gain of $660 million, net of income tax of $404 million, and an increase in earnings per basic share of $1.82. Under the terms of the agreement with CMS, Duke Energy retained certain assets and liabilities, such as the Houston office building, certain environmental, legal and tax liabilities, and substantially all intercompany balances. Management believes that the retention of these items will not have a material adverse effect on consolidated results of operations or financial position.

COMBINED OPERATING RESULTS OF THE PEPL COMPANIES AND TRUNKLINE LNG [a]

FOR THE PERIOD FROM JANUARY 1, 1999 THROUGH MARCH 28, 1999 (IN MILLIONS)	
Operating revenues	$ 126
Operating expenses	57
Other income, net	4
Earnings before interest and taxes	$ 73

[a] Excludes intercompany building rental revenue, allocated corporate expenses, building depreciation and certain other costs retained by Duke Energy.

The pro forma results of operations for acquisitions and dispositions do not materially differ from reported results.

3 BUSINESS SEGMENTS Duke Energy is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments: Electric Operations, Natural Gas Transmission, Field Services, Trading and Marketing, Global Asset Development, Other Energy Services and Real Estate Operations.

Electric Operations generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina (doing business as Duke Power or Nantahala Power and Light). These electric operations are subject to the rules and regulations of the FERC, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

Natural Gas Transmission provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic and New England states. Until the sale of the Midwest Pipelines on March 29, 1999, Natural Gas Transmission also provided interstate transportation and storage services in the midwest states. See further discussion of the sale of the Midwest Pipelines in Note 2 to the Consolidated Financial Statements. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

Field Services gathers, processes, transports and markets natural gas and produces, transports and markets NGLs. Field Services operates gathering systems in western Canada and ten contiguous states that serve major gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent and onshore and offshore Gulf Coast areas.

Trading and Marketing markets natural gas, electricity and other energy-related products across North America. Duke Energy owns a 60% interest in Trading and Marketing's energy trading operations, with Mobil Corporation owning a 40% minority interest. This segment also includes certain other trading activities and limited hydrocarbon exploration and production activities that are wholly owned by Duke Energy.

Global Asset Development develops, owns and operates energy-related facilities worldwide. Global Asset Development conducts its operations primarily through Duke Energy North America, LLC (Duke Energy North America) and Duke Energy International.

Other Energy Services provides engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc., Duke/Fluor Daniel and DukeSolutions, Inc.

Real Estate Operations conducts its business through Crescent Resources, Inc., which develops high quality commercial and residential real estate projects and manages land holdings in the southeastern U.S.

Duke Energy's reportable segments are strategic business units that offer different products and services and are each managed separately. The accounting policies for the segments are the same as those described in Note 1 to the Consolidated Financial Statements. Management evaluates segment performance based on earnings before interest and taxes (EBIT) after deducting minority interests. EBIT presented in the accompanying table includes intersegment sales accounted for at prices representative of unaffiliated party transactions. Segment assets are provided as additional information in the accompanying table and are net of intercompany advances, intercompany notes receivable and investments in subsidiaries.

Other Operations primarily includes communication services, water services and certain unallocated corporate items.

BUSINESS SEGMENT DATA

IN MILLIONS

	UNAFFILIATED REVENUES	INTERSEGMENT REVENUES	TOTAL REVENUES	EBIT	DEPRECIATION AND AMORTIZATION	CAPITAL AND INVESTMENT EXPENDITURES	SEGMENT ASSETS
Year Ended Dec 31 1999							
Electric Operations	$ 4,700	$ –	$ 4,700	$ 856	$542	$ 759	$13,133
Natural Gas Transmission	1,100	106	1,206	627	126	261	3,897
Field Services	2,883	707	3,590	144	131	1,630	3,565
Trading and Marketing	11,334	459	11,793	70	12	104	4,060
Global Asset Development	612	165	777	181	104	2,703	6,673
Other Energy Services	886	103	989	(94)	14	94	612
Real Estate Operations	233	–	233	176	9	368	983
Other Operations	(6)	44	38	(9)	30	17	1,298
Eliminations and Minority Interests	–	(1,584)	(1,584)	92	–	–	(812)
Total Consolidated	$ 21,742	$ –	$21,742	$2,043	$968	$5,936	$33,409
Year Ended Dec 31 1998							
Electric Operations	$ 4,626	$ –	$ 4,626	$1,513	$522	$ 586	$12,953
Natural Gas Transmission	1,426	102	1,528	702	215	290	4,996
Field Services	2,094	545	2,639	76	80	304	1,893
Trading and Marketing	8,614	171	8,785	81	11	8	3,233
Global Asset Development	237	82	319	64	31	1,027	2,061
Other Energy Services	436	85	521	10	12	41	376
Real Estate Operations	181	–	181	142	6	217	724
Other Operations	(4)	26	22	2	32	27	968
Eliminations and Minority Interests	–	(1,011)	(1,011)	57	–	–	(398)
Total Consolidated	$ 17,610	$ –	$17,610	$2,647	$909	$2,500	$26,806
Year Ended Dec 31 1997							
Electric Operations	$ 4,401	$ –	$ 4,401	$1,282	$498	$ 743	$12,958
Natural Gas Transmission	1,468	104	1,572	624	229	247	5,059
Field Services	2,481	574	3,055	157	71	157	1,855
Trading and Marketing	7,411	78	7,489	23	7	18	1,857
Global Asset Development	109	14	123	4	9	348	988
Other Energy Services	343	33	376	18	6	47	223
Real Estate Operations	124	–	124	98	4	223	594
Other Operations	(28)	–	(28)	(120)	17	245	941
Eliminations and Minority Interests	–	(803)	(803)	22	–	–	(446)
Total Consolidated	$ 16,309	$ –	$16,309	$2,108	$841	$2,028	$24,029

In 1999, foreign operations consisted of 10% of consolidated revenues and 15% of consolidated long-lived assets, primarily in Canada and Latin America. Foreign operations were not material for 1998 and 1997.

4 REGULATORY MATTERS

-ELECTRIC OPERATIONS The NCUC and the PSCSC approve rates for retail electric sales within their respective states The FERC approves Electric Operations' rates for electric sales to wholesale customers Electric sales to the other joint owners of the Catawba Nuclear Station, which represent a majority of Electric Operations' electric wholesale revenues, are set through contractual agreements

In 1997, in conjunction with its merger with PanEnergy, Duke Energy agreed to cap the base electric rates for retail customers at existing levels through 2000, with very limited exceptions Duke Energy also agreed to freeze rates, except for the market-based rates, for transmission and wholesale electric sales In addition, Duke Energy agreed to a cap on the rates charged to the other joint owners of Catawba Nuclear Station under the interconnection agreements and on the reimbursement of certain costs related to administration and general expenses and general plant costs under operation and fuel agreements Management believes that these agreements will not have a material adverse effect on consolidated results of operations or financial position.

Fuel costs are reviewed semiannually in the wholesale jurisdiction and annually in the South Carolina retail jurisdiction, with provisions for reviewing such costs in base rates In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings All jurisdictions allow Duke Energy to adjust electric rates for past over- or under-recovery of fuel costs Therefore, the difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues The stipulation agreements related to the merger do not apply to the fuel cost adjustments.

Certain of Electric Operations' electric wholesale customers, excluding the other Catawba Nuclear Station joint owners, initiated proceedings in 1995 before the FERC concerning rate related matters Duke Energy and nine of its eleven wholesale customers entered into a settlement in July 1996 which reduced the customers' electric rates by approximately 9% These contracts will be in effect through 2001, subject to annual renewals thereafter Both of the customers that did not enter into the settlement signed agreements and began purchasing electricity from other suppliers in 1997. Management believes that these agreements will not have a material adverse impact on consolidated results of operations or financial position

In December 1997, Duke Energy filed applications with the FERC, NCUC and PSCSC for authority to combine Nantahala Power and Light (a wholly owned subsidiary) and Duke Power Duke Energy received the necessary approvals in June, April and February 1998, respectively Nantahala Power and Light began operations as a division of Duke Power effective August 3, 1998

On December 20, 1999, the FERC issued Order 2000, which encourages transmission owners to voluntarily join Regional Transmission Organizations (RTOs) to increase access to the nation's power grid. All public utilities that own, operate, or control interstate electric transmission are required to file with the FERC by October 15, 2000. This filing must describe the company's proposal to join an RTO, including a description of efforts to participate, reasons for not participating, plans for further work towards participation and/or any obstacles in participation All RTOs are to be operational by December 15, 2001

-NATURAL GAS TRANSMISSION Duke Energy's interstate natural gas pipelines primarily provide transportation and storage services pursuant to FERC Order 636. Order 636 allows pipelines to recover eligible costs resulting from implementation of the order (transition costs). In 1994, the FERC approved Texas Eastern Transmission Corporation's (TETCO) settlement resolving regulatory issues related primarily to Order 636 transition costs and a number of other issues related to services prior to Order 636 Under the 1994 settlement, TETCO's liability for transition costs was estimated based on the amount of producers' natural gas reserves and other factors In 1998, TETCO favorably resolved all remaining gas purchase contracts, recognizing $39 million of income ($24 million after tax) In addition, the FERC approved a settlement filed by TETCO, which accelerates recovery of natural gas transition costs The 1998 settlement is not expected to have a material adverse effect on the consolidated results of operations or financial position

-GLOBAL ASSET DEVELOPMENT Three California electric generating plants, Moss Landing, South Bay and Oakland, sell electricity under the terms of Reliability Must Run Agreements with the California Independent System Operator, which purchases electricity at FERC regulated rates Moss Landing and Oakland have entered into settlement agreements with respect to the rates to be paid to them by the Independent System Operator Those settlements were approved by the FERC in January 2000 South Bay has not reached a final agreement with respect to its electric rates and, therefore, its rates are subject to partial refund or surcharge Management believes that the final resolution of this matter will not have a material adverse effect on consolidated results of operations or financial position

5 JOINT OWNERSHIP OF GENERATING FACILITIES

JOINT OWNERSHIP OF CATAWBA NUCLEAR STATION

Owner	Ownership Interest
North Carolina Municipal Power Agency Number 1 (NCMPA)	37 5%
North Carolina Electric Membership Corporation (NCEMC)	28 125%
Duke Energy Corporation	12 5%
Piedmont Municipal Power Agency (PMPA)	12 5%
Saluda River Electric Cooperative, Inc (Saluda River)	9 375%
	100 0%

As of December 31, 1999, $523 million of Property, Plant and Equipment and $243 million of accumulated depreciation and amortization represented Duke Energy's investment in Catawba Nuclear Station Units 1 and 2 Duke Energy's share of operating costs is included in the Consolidated Statements of Income and Comprehensive Income

Duke Energy entered into contractual interconnection agreements with the other joint owners of Catawba Nuclear Station to purchase declining percentages of the generating capacity and energy from the station These purchased power agreements became effective in 1985 and 1986 The purchased power agreements were established for fifteen years for NCMPA and PMPA and ten years for NCEMC and Saluda River

The portion of purchased capacity subject to levelization not recovered in rates was deferred. Duke Energy is recovering the accumulated balance, including returns on the deferred balance,

over a period expected to end in 2004 Jurisdictional levelizations are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. The current levelized approved revenues are approximately $186 million

For the years ended December 31, 1999, 1998 and 1997, purchased capacity and energy costs from the other joint owners was approximately $62 million, $88 million and $120 million, respectively These amounts, after adjustments for the costs of capacity purchased not reflected in current rates, are included in the Consolidated Statements of Income and Comprehensive Income as Net Interchange and Purchased Power As of December 31, 1999 and 1998, $643 million and $747 million, respectively, associated with the cost of capacity purchased but not reflected in current rates have been accumulated in the Consolidated Balance Sheets as Purchased Capacity Costs and Current Portion of Purchased Capacity Costs.

The interconnection agreements also provide for supplemental power sales by Duke Energy to the other joint owners of Catawba Nuclear Station to satisfy their capacity and energy needs beyond the capacity and energy which they retain from the station or potentially acquire in the form of other resources The agreements further provide the other joint owners the ability to secure such supplemental requirements outside of these contractual agreements following an appropriate notice period. NCEMC, Saluda River and NCMPA have given such appropriate notice effective January 1, 2001 PMPA will continue to receive supplemental power sales from Duke Energy through December 31, 2005 As the other joint owners retain more capacity and energy from the station, or obtain additional capacity and energy from a third party, supplemental power sales are expected to decline Management believes this will not have a material adverse effect on consolidated results of operations or financial position.

6 INCOME TAXES

INCOME TAX EXPENSE

IN MILLIONS	YEARS ENDED DEC 31 99	98	97
Current income taxes			
Federal	$ 526	$673	$433
State	138	138	100
Total current income taxes	664	811	533
Deferred income taxes, net			
Federal	(127)	(15)	112
State	(65)	(4)	9
Total deferred income taxes, net	(192)	(19)	121
Investment tax credit amortization	(19)	(15)	(15)
Total income tax expense	$ 453	$777	$639

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE

IN MILLIONS	YEARS ENDED DEC 31 99	98	97
Income tax, computed at the statutory rate of 35%	$ 455	$713	$565
Adjustments resulting from			
State income tax, net of federal income tax effect	47	90	71
Favorable resolution of tax issues	(30)	–	–
Other items, net	(19)	(26)	3
Total income tax expense	$ 453	$777	$639
Effective tax rate	34.9%	38 1%	39 6%

NET DEFERRED INCOME TAX LIABILITY COMPONENTS

IN MILLIONS	DEC 31 99	98
Deferred credits and other liabilities	$ 556	$ 268
Alternative minimum tax credit carryforward	–	30
Other	8	36
Total deferred income tax assets	564	334
Valuation allowance	(62)	(52)
Net deferred income tax assets	502	282
Investments and other assets	(245)	(207)
Property, plant and equipment	(2,483)	(2,405)
Regulatory assets and deferred debits	(427)	(542)
Regulatory asset related to restating to pre-tax basis	(432)	(435)
Other	–	(69)
Total deferred income tax liabilities	(3,587)	(3,658)
State deferred income tax, net of federal tax effect	(340)	(357)
Net deferred income tax liability	$ (3,425)	$(3,733)

The change in the net deferred income tax liability from 1998 to 1999 differs from the 1999 deferred income tax expense as a result of the removal of net deferred income tax liabilities due to the sale of the PEPL Companies and Trunkline LNG

7 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

-COMMODITY DERIVATIVES Duke Energy, primarily through Trading and Marketing, manages its exposure to risk from existing contractual commitments and provides risk management services to its customers through forward contracts, futures, over-the-counter swap agreements and options (collectively, "commodity derivatives") Energy commodity forward contracts involve physical delivery of an energy commodity Energy commodity futures involve the buying or selling of natural gas, electricity or other energy-related commodities at a fixed price Over-the-counter swap agreements require Duke Energy to receive or make payments based on the difference between a specified price and the actual price of the underlying commodity Energy commodity options held to mitigate price risk provide the right, but not the requirement, to buy or sell energy-related commodities at a fixed price.

Commodity Derivatives – Trading Duke Energy engages in the trading of commodity derivatives, and therefore experiences net open positions Duke Energy manages open positions with strict policies which limit its exposure to market risk and require

daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement. The weighted-average life of Duke Energy's commodity risk portfolio was approximately 20 months at December 31, 1999.

NET GAINS RECOGNIZED FROM TRADING COMMODITY DERIVATIVES

IN MILLIONS	99	98	97
Natural gas	$ 83	$114	$34
Electricity	41	14	[a]

[a] Not material

ABSOLUTE NOTIONAL CONTRACT QUANTITY OF COMMODITY DERIVATIVES HELD FOR TRADING PURPOSES

	DEC 31	
	99	98
Natural gas, in billion cubic feet	36,285	11,149
Electricity, in gigawatt hours	469,371	112,867

FAIR VALUES OF COMMODITY DERIVATIVES – TRADING

IN MILLIONS	99		98	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Fair value at Dec 31				
Natural gas	$ 2,966	$2,855	$1,275	$1,179
Electricity	1,302	1,271	578	570
Average fair values for the year				
Natural gas	2,401	2,269	805	757
Electricity	962	900	420	416

Commodity Derivatives – Non-Trading At December 31, 1999 and 1998, Duke Energy held or issued several commodity derivatives, primarily in the form of swaps, that reduce exposure to market price fluctuations for certain power and NGL production facilities. At December 31, 1999, these commodity derivatives extended for periods up to ten years. The gains, losses and costs related to non-trading commodity derivatives that qualify as a hedge are not recognized until the underlying physical transaction closes. At December 31, 1999 and 1998, Duke Energy had unrealized net gains (losses) of $(120) million and $10 million, respectively, related to non-trading commodity derivatives. The determination of unrealized net gains (losses) requires judgment in interpreting market data and developing estimates of fair value. Accordingly, the unrealized net gains (losses) as of December 31, 1999 and 1998 are not necessarily indicative of the amounts Duke Energy could have realized in the current market.

ABSOLUTE NOTIONAL CONTRACT QUANTITY OF COMMODITY DERIVATIVES HELD FOR NON-TRADING PURPOSES

	99	98
Natural gas, in billion cubic feet	592	218
Electricity, in gigawatt hours	45,877	10,618
Power capacity, in megawatt months	25,950	–
Oil, in thousands of barrels	32,764	4,875

-INTEREST RATE DERIVATIVES Duke Energy periodically enters into financial derivative instruments including, but not limited to, swaps, options and treasury rate agreements to manage and mitigate interest rate risk exposure related to borrowings. The notional amounts shown in the following table serve solely as a basis for the calculation of payment streams to be exchanged. These notional amounts are not a measure of the company's exposure through its use of derivatives. Fair values shown in the following table represent estimated amounts that Duke Energy would have received if the swaps had been settled at current market rates on the respective dates.

INTEREST RATE DERIVATIVES

DOLLARS IN MILLIONS	DEC 31 99		
	NOTIONAL AMOUNT	FAIR VALUE	CONTRACTS EXPIRE
Interest rate swaps	$ 600	$2	2000
	DEC 31 98		
	NOTIONAL AMOUNT	FAIR VALUE	CONTRACTS EXPIRE
Interest rate swaps	$ 300	$8	1999-2000

Deferred gains on settled interest rate derivatives were not material in 1999 or 1998. Unrealized gains and losses and exposure to changes in market condition were not material at December 31, 1999 and 1998. As a result of the interest rate swap contracts which swap fixed rate obligations to effective floating rates, interest expense for the relative notional amount on the Consolidated Statements of Income and Comprehensive Income is recognized at the weighted average London interbank offered rate (LIBOR) for the year plus the applicable margins.

WEIGHTED AVERAGE RATE FOR INTEREST RATE SWAPS

	FOR YEARS ENDED DEC 31		
	99	98	97
8% Series B Swap	5.36%	5.69%	5.78%
7.5% Series B Swap	6.42%	6.74%	6.83%
Commercial paper fixed rate swaps	4.95%	–	–

-FOREIGN CURRENCY DERIVATIVES Trading and Marketing enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies. As of December 31, 1999, the agreements had a notional contract amount of approximately $762 million, beginning in the year 2000 and extending to the year 2005, and had a weighted average fixed exchange rate of 1.470 Canadian dollars to U.S. dollars. As of December 31, 1998, the agreements had a notional contract amount of approximately $120 million, beginning in the year 2000 and extending to the year 2005, and had a weighted average fixed exchange rate of 1.472 Canadian dollars to U.S. dollars. The fair value of foreign currency swap agreements was not material at December 31, 1999 or 1998.

In anticipation of the tender offer for Paranapanema (see Note 19 to the Consolidated Financial Statements), Duke Energy entered into foreign currency forward contracts to obtain Brazilian reais. As of December 31, 1999, the forward contracts had a notional amount of $280 million at an average exchange rate of 1.8496 Brazilian reais to U.S. dollars which approximated fair value.

-MARKET AND CREDIT RISK New York Mercantile Exchange (Exchange) traded futures and option contracts are guaranteed by the Exchange and have nominal credit risk On all other transactions previously described, Duke Energy is exposed to credit risk in the event of nonperformance by the counterparties. For each counterparty, Duke Energy analyzes its financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of these limits on an ongoing basis The change in market value of exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers Swap contracts and most other over-the-counter instruments are generally settled at the expiration of the contract term and may be subject to margin requirements with the counterparty.

-FINANCIAL INSTRUMENTS The fair value of financial instruments is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value Accordingly, the estimates determined as of December 31, 1999 and 1998 are not necessarily indicative of the amounts Duke Energy could have realized in current market exchanges. The majority of the estimated fair value amounts were obtained from independent parties

FINANCIAL INSTRUMENTS

IN MILLIONS

	99	
	BOOK VALUE	APPROXIMATE FAIR VALUE
Long-term debt [a]	$ 9,165	$8,891
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	1,404	1,207
Preferred stock [a]	313	303

	98	
	BOOK VALUE	APPROXIMATE FAIR VALUE
Long-term debt [a]	$ 6,959	$7,240
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	919	937
Preferred stock [a]	333	346

[a] Includes current maturities

The fair value of cash and cash equivalents, notes receivable, notes payable and commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates

Guarantees made on behalf of affiliates or recourse provisions from affiliates have no book value associated with them, and there are no fair values readily determinable since quoted market prices are not available

[8]INVESTMENT IN AFFILIATES Investments in domestic and international affiliates which are not controlled by Duke Energy but where Duke Energy has significant influence over operations are accounted for by the equity method These investments include undistributed earnings of $6 million and $5 million in 1999 and 1998, respectively. Duke Energy's share of net income from these affiliates is reflected in the Consolidated Statements of Income and Comprehensive Income as Other Operating Revenues

-NATURAL GAS TRANSMISSION Investments primarily include ownership interests in natural gas pipeline joint ventures which transport gas from Canada to the U S Investments include a 37 5% ownership interest in Maritimes & Northeast Pipeline, L L.C.

-FIELD SERVICES Investments primarily include a 37% interest in a partnership which owns natural gas gathering systems in the Gulf of Mexico (Dauphin Island Gathering Partners) and a 21 1% interest in TEPPCO

-GLOBAL ASSET DEVELOPMENT Global Asset Development has investments in various natural gas and electric generation and transmission facilities in its targeted geographic areas Significant investments include a 50% indirect interest in VMC Generating Company, a merchant electric generating company, a 36.8% indirect interest in American Ref-Fuel Company and a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) business in Jubail, Saudi Arabia

-OTHER ENERGY SERVICES Investments include the participation in various construction and support activities for fossil-fueled generating plants.

-REAL ESTATE OPERATIONS Investments include various real estate development projects

-OTHER OPERATIONS Investments include a 20% interest in the BellSouth PCS L P joint venture, which provides wireless personal communication services

INVESTMENT IN AFFILIATES

IN MILLIONS

	DEC 31 99			DEC 31 98			DEC 31 97		
	DOMESTIC	INTERNATIONAL	TOTAL	DOMESTIC	INTERNATIONAL	TOTAL	DOMESTIC	INTERNATIONAL	TOTAL
Natural Gas Transmission	$ 67	$ 83	$ 150	$104	$ 37	$141	$ 67	$ –	$ 67
Field Services	439	–	439	303	–	303	160	–	160
Global Asset Development	425	224	649	171	223	394	174	208	382
Other Energy Services	51	6	57	19	23	42	16	10	26
Real Estate Operations	11	–	11	5	–	5	2	–	2
Other Operations	(7)	–	(7)	17	–	17	36	13	49
Total	$ 986	$313	$1,299	$619	$283	$902	$455	$231	$686

EQUITY IN EARNINGS OF INVESTMENT

IN MILLIONS
FOR THE YEARS ENDED

	DEC 31 99			DEC 31 98			DEC 31 97		
	DOMESTIC	INTERNATIONAL	TOTAL	DOMESTIC	INTERNATIONAL	TOTAL	DOMESTIC	INTERNATIONAL	TOTAL
Natural Gas Transmission	$ 16	$ 9	$ 25	$ 14	$ 3	$ 17	$ 8	$ –	$ 8
Field Services	44	–	44	9	–	9	19	–	19
Global Asset Development	47	10	57	50	18	68	8	21	29
Other Energy Services	10	3	13	1	13	14	4	8	12
Real Estate Operations	3	–	3	–	–	–	–	–	–
Other Operations	(30)	–	(30)	(29)	–	(29)	(30)	–	(30)
Total	$ 90	$ 22	$ 112	$ 45	$ 34	$ 79	$ 9	$ 29	$ 38

SUMMARIZED COMBINED FINANCIAL INFORMATION OF UNCONSOLIDATED SUBSIDIARIES

IN MILLIONS

	DEC 31		
	99	98	97
Balance Sheet			
Current Assets	$ 1,544	$ 848	$ 642
Noncurrent Assets	7,826	7,340	5,868
Current Liabilities	1,155	1,084	758
Noncurrent Liabilities	4,727	3,884	3,257
Net Assets	$ 3,488	$3,220	$2,495
Income Statement			
Operating Revenues	$ 3,510	$1,667	$ 905
Operating Expenses	3,104	1,166	703
Net Income	193	263	72

Duke Energy had outstanding notes receivable from certain affiliates of $72 million and $80 million at December 31, 1999 and 1998, respectively.

9 PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT

IN MILLIONS	DEC 31 99	DEC 31 98
Electric utility		
Generation	$ 7,876	$ 7,670
Transmission and distribution	6,577	6,324
General plant	1,166	1,127
Nuclear fuel	741	554
Construction work in progress	343	328
Total electric utility	16,703	16,003
Natural gas transmission	4,473	6,194
Non-regulated generation	4,457	837
Gathering and processing	2,428	1,409
Construction work in progress	881	469
Other property and equipment	1,494	2,216
Total Property, Plant and Equipment	$ 30,436	$27,128

ACCUMULATED DEPRECIATION

IN MILLIONS	DEC 31 99	DEC 31 98
Electric utility [a]	$ 6,950	$ 6,371
Natural gas transmission	1,217	2,585
Non-regulated generation	493	26
Other	781	1,271
Total Accumulated Depreciation	$ 9,441	$10,253

[a] Includes amortization of nuclear fuel 1999 - $444 million, 1998 - $325 million

10 DEBT AND CREDIT FACILITIES

LONG-TERM DEBT

IN MILLIONS	YEAR DUE	DEC 31 99	DEC 31 98
DUKE ENERGY			
First and refunding mortgage bonds [a]			
7%	2000	$ 200	$200
5 7/8% - 6 7/8%	2001 - 2008	625	625
6 1/8% - 8 30%	2023 - 2025	661	678
7% - 8 95%	2027 - 2033	165	165
Mortgage bonds matured during 1999		–	425
Pollution control debt, 3 85% - 7 75%	2012 - 2017	172	172
Notes			
5 38% - 9 21%	2009 - 2016	264	65
6% - 6 6%	2028 - 2038	500	300
Commercial paper, 5 84% and 5.28% weighted-average rate at December 31, 1999 and 1998, respectively		1,000	1,200
Other debt		21	23

CONTINUED

LONG-TERM DEBT (CONTINUED)

	YEAR DUE	DEC 31 99	DEC 31 98
DUKE CAPITAL CORPORATION			
Senior Notes			
6 7/8% - 7 1/8%	2004 - 2009	$ 1,250	$ 250
6 1/8% - 8%	2018 - 2019	650	150
Commercial paper, 5 91% and 5 73% weighted-average rate at December 31, 1999 and 1998, respectively		500	500
Note payable to affiliate 5 03% and 4 68% weighted-average rate at December 31, 1999 and 1998, respectively		83	24
PANENERGY			
Bonds			
7 1/8%	2022	328	328
8 1/8% Debentures	2025	100	100
Notes			
7% - 9.9%, maturing serially	2003 - 2006	395	395
Notes matured during 1999		–	114
TETCO			
Notes			
8% - 10 1/8%	2000 - 2004	500	500
Medium-term, Series A, 7.64% - 9 07%	2001 - 2012	51	100
ALGONQUIN GAS TRANSMISSION COMPANY			
9 13% Notes	2003	100	100
CRESCENT RESOURCES, INC [b]			
Construction and mortgage loans, 5.86% - 7 26%	2000 - 2011	46	69
Revolving credit facilities, 5 98% weighted-average rate at December 31, 1998	2001	–	100
GLOBAL ASSET DEVELOPMENT			
Medium-term note, 7 25%	2004	162	–
Credit facilities, 6 01% weighted-average rate at December 31, 1999	2002	460	–
Notes			
7.69% - 18%	2000 - 2005	107	33
7.8%	2004 - 2013	161	–
6% - 10% [c]	2013 - 2017	485	–
Capital leases	2009 - 2028	207	–
Notes matured during 1999		–	78
Other debt of subsidiaries		34	313
Unamortized debt discount and premium, net		(62)	(48)
Total long-term debt		9,165	6,959
Current maturities of long-term debt		(482)	(687)
Total long-term portion		$ 8,683	$6,272

[a] Substantially all of Electric Operations' electric plant was mortgaged
[b] Substantial amounts of Crescent Resources' real estate development projects, land and buildings were pledged as collateral
[c] Paranapanema (Brazil) debt, principal is indexed annually to inflation

ANNUAL MATURITIES

IN MILLIONS	
2000	$ 482
2001	306
2002	225
2003	601
2004	958

Annual maturities exclude $1,736 million of long-term debt that matures after 2004 which have call options whereby Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise their redemption options, $881 million could potentially be repaid in 2000, $328 million in 2002, $227 million in 2003, $200 million in 2004 and $100 million thereafter.

CREDIT FACILITIES

IN MILLIONS	DEC 31 99	
	CREDIT FACILITIES	OUTSTANDING
364-day facilities [a]	$ 823	$ 10
Three-year revolving facilities	565	450
Four-year revolving facilities	125	–
Five-year revolving facilities [a]	2,200	–
Total Consolidated	$3,713	$460

	DEC 31 98	
	CREDIT FACILITIES	OUTSTANDING
364-day facilities [a]	$ 600	$ –
Four-year revolving facilities	125	100
Five-year revolving facilities [a]	2,200	–
Total Consolidated	$2,925	$100

[a] Supported commercial paper facilities.

NOTES PAYABLE AND COMMERCIAL PAPER

IN MILLIONS	DEC 31	
	99	98
Credit facilities outstanding	$ 460	$ 100
Note payable	86	4
Commercial paper outstanding	1,764	1,905
	2,310	2,009
Less portion classified as long-term		
Credit facilities	(460)	(100)
Note payable	(83)	–
Commercial paper	(1,500)	(1,700)
Portion classified as short-term	$ 267	$ 209

The weighted average interest rate on outstanding short-term notes payable and commercial paper at December 31, 1999 and 1998 was 5.72% and 5.23%, respectively.

11 NUCLEAR DECOMMISSIONING COSTS

-NUCLEAR DECOMMISSIONING COSTS Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately $1 9 billion stated in 1999 dollars based on decommissioning studies completed in 1999 This amount includes Duke Energy's 12.5% ownership in the Catawba Nuclear Station The other joint owners of Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of Duke Energy's nuclear stations Such estimates presume each unit will be decommissioned as soon as possible following the end of its license life Although subject to extension, the current operating licenses for Duke Energy's nuclear units expire as follows Oconee 1 and 2 – 2013, Oconee 3 – 2014; McGuire 1 – 2021, McGuire 2 – 2023, and Catawba 1 – 2024, Catawba 2 – 2026

During 1999 and 1998, Duke Energy expensed approximately $57 million which was contributed to the external funds for decommissioning costs and accrued an additional $6 million to the internal reserve Nuclear units are depreciated at an annual rate of 4 7%, of which 1 61% is for decommissioning The balance of the external funds as of December 31, 1999 and 1998 was $703 million and $580 million, respectively The balance of the internal reserve as of December 31, 1999 and 1998 was $223 million and $217 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization Management believes that the decommissioning costs being recovered through rates, when coupled with assumed after-tax fund earnings of 5 5% to 5.9%, are currently sufficient to provide for the cost of decommissioning

A provision in the Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the Department of Energy's (DOE) uranium enrichment plants Licensees are subject to an annual assessment for 15 years based on their pro rata share of past enrichment services. The annual assessment is recorded in the Consolidated Statements of Income and Comprehensive Income as Fuel Used in Electric Generation Duke Energy paid $10 million during 1999 and has paid $75 million cumulatively related to its ownership interests in nuclear plants.

The remaining liability and regulatory assets of $70 million and $79 million at December 31, 1999 and 1998, respectively, are reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities, and Regulatory Assets and Deferred Debits, respectively

-SPENT NUCLEAR FUEL Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by Duke Energy's contract with the DOE On June 8, 1998, Duke Energy filed with the United States Court of Federal Claims a claim against the DOE for damages in excess of $1 billion arising out of the DOE's failure to begin accepting commercial spent nuclear fuel by January 31, 1998 Damages claimed in the suit are intended to recover costs that Duke Energy is incurring and will continue to incur as a result of the DOE's partial material breach of its contract with Duke Energy, including costs associated with securing additional spent fuel storage capacity. Duke Energy will continue to safely manage its spent nuclear fuel until the DOE accepts it. Payments made to the DOE for disposal costs are based on nuclear output and are included in the Consolidated Statements of Income and Comprehensive Income as Fuel Used in Electric Generation.

12 GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY OR SUBSIDIARIES

Duke Energy and Duke Capital Corporation (Duke Capital) have each formed business trusts for which they own all the respective common securities. The trusts issue and sell preferred securities and invest the gross proceeds in assets of the trusts Substantially all the assets of each trust are junior subordinated notes issued by the respective company

TRUST PREFERRED SECURITIES

IN MILLIONS		DEC 31		
ISSUED	RATE	99	98	JUNIOR SUBORDINATED NOTES
Duke Energy				
1997	7 2%	$ 350	$350	7 2% Series A due 2037
1999	7 2%	250	–	7.2% Series B due 2039
Duke Capital				
1998	7⅞%	250	250	7 ⅞% Series A due 2038
1998	7⅛%	350	350	7 ⅛% Series B due 2038
1999	8⅛%	250	–	8⅛% Series C due 2029
Unamortized debt discount		(46)	(31)	
		$ 1,404	$919	

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts Payment of distributions on these preferred securities is guaranteed by the respective company, but only to the extent the trusts have funds legally and immediately available to make such distributions Dividends of $87 million, $44 million and $15 million related to the trust preferred securities have been included in the Consolidated Statements of Income and Comprehensive Income as Minority Interests for the years ended December 31, 1999, 1998, and 1997, respectively

13 PREFERRED AND PREFERENCE STOCK

AUTHORIZED SHARES OF STOCK AS OF DECEMBER 31, 1999 AND 1998

	PAR VALUE	SHARES (IN MILLIONS)
Preferred Stock	$ 100	12 5
Preferred Stock A	25	10 0
Preference Stock	100	1.5

As of December 31, 1999 and 1998, there were no shares of preference stock outstanding

PREFERRED STOCK WITH SINKING FUND REQUIREMENTS

DOLLARS IN MILLIONS

RATE/SERIES	YEAR ISSUED	SHARES OUTSTANDING AT DEC 31 99	DEC 31 99	DEC 31 98
6 10% C (Preferred Stock A)	1992	800,000	$ 20	$ 20
6 20% D (Preferred Stock A)	1992	800,000	20	20
6.20% T	1992	130,000	13	13
6.30% U	1992	130,000	13	13
6.40% V	1992	130,000	13	13
6 75% X	1993	250,000	25	25
5 95% B (Preferred Stock A) [a]	1992	–	–	20
Total			$ 104	$124

[a] Preferred stock series redeemed in September 1999

The annual sinking fund requirements for 2000 through 2004 are $33 million, $33 million, $13 million, $2 million and $2 million, respectively Some additional redemptions are permitted at Duke Energy's option.

PREFERRED STOCK WITHOUT SINKING FUND REQUIREMENTS

DOLLARS IN MILLIONS

RATE/SERIES	YEAR ISSUED	SHARES OUTSTANDING AT DEC 31, 99	DEC 31 99	DEC 31 98
4 50% C	1964	175,000	$ 18	$ 18
7 85% S	1992	300,000	30	30
7 00% W	1993	249,989	25	25
7 04% Y	1993	299,995	30	30
6 375% (Preferred Stock A)	1993	1,257,185	31	31
Auction Series A	1990	750,000	75	75
Total			$ 209	$209

The call provisions for the outstanding preferred stock specify various redemption prices not exceeding 104% of par value, plus accumulated dividends to the redemption date

During February 1998, Duke Energy purchased approximately two million shares of its preferred stock for $180 million During December 1997, Duke Energy redeemed approximately three million shares of preferred stock for $203 million The premiums related to these redemptions were included in the Consolidated Statements of Income and Comprehensive Income as Dividends and Premiums on Redemptions of Preferred and Preference Stock for 1997.

14 COMMITMENTS AND CONTINGENCIES

-NUCLEAR INSURANCE Duke Energy owns and operates the McGuire and Oconee Nuclear Stations with two and three nuclear reactors, respectively, and operates and has a partial ownership interest in the Catawba Nuclear Station with two nuclear reactors Nuclear insurance coverage is maintained in three program areas. liability coverage, property, decontamination and decommissioning coverage, and business interruption and/or extra expense coverage Certain expenses associated with nuclear insurance premiums paid by Duke Energy are reimbursed by the other joint owners of the Catawba Nuclear Station

Pursuant to the Price-Anderson Act, Duke Energy is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately $9.8 billion

Primary Liability Insurance The maximum required private primary liability insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims.

Excess Liability Insurance This policy currently provides approximately $9.6 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling The $9.6 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of $88 million per licensed commercial nuclear reactor This $9.6 billion will be increased by $88 million as each additional commercial nuclear reactor is licensed, or reduced by $88 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation If such an incident occurs and public liability damages exceed primary insurances, licensees may be assessed up to $88 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident The $88 million amount is subject to indexing for inflation and may be subject to state premium taxes

Duke Energy is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverage for Duke Energy's nuclear facilities under the following three policy programs:

Primary Property Insurance This policy provides $500 million in primary property damage coverage for each of Duke Energy's nuclear facilities

Excess Property Insurance This policy provides excess property, decontamination and decommissioning liability insurance in the following amounts $2.25 billion for the Catawba Nuclear Station and $1 5 billion each for the Oconee and McGuire Nuclear Stations

Business Interruption Insurance This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit Each unit of the McGuire and Catawba Nuclear Stations is insured for up to approximately $4 million per week and the Oconee Nuclear Station units are insured for up to approximately $3 million per week. Coverage amounts per unit decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 12-week deductible period and continues at 100% for 52 weeks and 80% for the next 110 weeks.

If NEIL's losses ever exceed its reserves for any of the above three programs, Duke Energy will be liable for assessments of up to five times its annual premiums The current potential maximum assessments are as follows· Primary Property Insurance – $22 million, Excess Property Insurance – $22 million, Business Interruption Insurance – $20 million.

The other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of any liabilities for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary insurance program of risk pooling or the NEIL policies.

-ENVIRONMENTAL Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters

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

PCB (Polychlorinated Biphenyl) Assessment and Clean-Up Programs In June 1999, the Environmental Protection Agency (EPA) certified that TETCO, a wholly owned subsidiary of Duke Energy, had completed clean up of PCB contaminated sites under conditions stipulated by a U S Consent Decree in 1989 TETCO is required to continue groundwater monitoring on a number of sites for at least the next two years The estimated cost of such monitoring is not material.

Under terms of the agreement with CMS discussed in Note 2 to the Consolidated Financial Statements, Duke Energy is obligated to complete clean-up of previous identified contamination at certain agreed-upon sites on the PEPL and Trunkline systems. These clean-up programs are expected to continue until 2001. The contamination resulted from the past use of lubricants containing PCBs and the prior use of wastewater collection facilities and other on-site disposal areas. Soil and sediment testing, to date, has detected no significant off-site contamination. Duke Energy has communicated with the EPA and appropriate state regulatory agencies on these matters

At December 31, 1999 and 1998, remaining estimated clean-up costs on the TETCO, PEPL and Trunkline systems have been accrued and are included in the Consolidated Balance Sheets as Other Current Liabilities and Environmental Clean-up Liabilities. These cost estimates represent gross clean-up costs expected to be incurred, have not been discounted or reduced by customer recoveries and generally do not include fines, penalties or third-party claims Costs expected to be recovered from customers have been deferred and are included in the Consolidated Balance Sheets as of December 31, 1999 and 1998, as Environmental Clean-up Costs

The federal and state clean-up programs are not expected to interrupt or diminish Duke Energy's ability to deliver natural gas

to customers. Based on Duke Energy's experience to date and costs incurred for clean-up operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations or financial position

-INJURY AND DAMAGES CLAIMS Duke Energy has experienced numerous claims relating to damages for personal injury alleged to have arisen from the exposure to or use of asbestos in connection with construction and maintenance activities performed by Duke Energy on its electric generation plants during the 1960s and 1970s During 1999, Duke Energy experienced a significant increase in the number of these claims This increase, coupled with its cumulative experience in claims received, prompted Duke Energy to conduct a comprehensive review which was completed in late 1999 and to record an $800 million accrual, which is included in Other Deferred Credits and Other Liabilities in the Consolidated Financial Statements, to reflect the purchase of a third party insurance policy as well as estimated amounts for future claims not recoverable under such policy. The insurance policy, combined with amounts covered by self-insurance reserves, provides for claims paid up to an aggregate of $1 6 billion Duke Energy currently believes the estimated claims relating to this exposure will not exceed such amount While Duke Energy is uncertain as to the timing of when claims will be received, portions of the estimated claims may not be received and paid for 30 or more years Amounts reserved for injury and damages claims were not material in 1998 and 1997.

While Duke Energy has recorded an accrual related to this estimated liability, such estimates cannot be made with certainty. Factors, such as the frequency and magnitude of claims, could result in changes in the estimates of the injury and damages liability and insurance recoveries Such changes could result in, over time, a difference from the amount currently reflected in the financial statements However, due to Duke Energy's insurance program related to this liability, management believes that any changes in the estimates would not have a material adverse effect on consolidated results of operations or financial position

-LITIGATION Duke Energy and its subsidiaries are involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts Where appropriate, Duke Energy has made accruals in accordance with SFAS No 5, "Accounting for Contingencies," to provide for such matters Management believes that the final disposition of these proceedings will not have a material adverse effect on consolidated results of operations or financial position.

-OTHER COMMITMENTS AND CONTINGENCIES Periodically, Duke Energy may become involved in contractual disputes with natural gas transmission customers involving potential or threatened abrogation of contracts by the customers If the customers are successful, Duke Energy may not receive the full value of anticipated benefits under the contracts

In the normal course of business, certain of Duke Energy's subsidiaries and affiliates enter into various contracts for energy services that contain certain schedule and performance requirements. Certain subsidiaries of Duke Energy had guaranteed performance under some of these contracts in the amount of approximately $2 5 billion and $1 2 billion as of December 31, 1999 and 1998, respectively. In addition, certain subsidiaries of Duke Energy have guaranteed debt agreements of affiliates and have provided surety bonds and letters of credit, all of which totaled approximately $853 million and $492 million as of December 31, 1999 and 1998, respectively The increase in the amount of these obligations is due to the increased construction activities at Duke Energy North America and Duke/Fluor Daniel Management monitors and approves these obligations and believes it is unlikely that Duke Energy would be required to perform or otherwise incur any material losses associated with the above obligations

Management believes that these commitments and contingencies will not have a material adverse effect on consolidated results of operations or financial position.

-LEASES Duke Energy utilizes assets under operating leases in several areas of operations. Consolidated rental expense amounted to $87 million, $80 million and $92 million in 1999, 1998 and 1997, respectively. Future minimum rental payments under Duke Energy's various operating leases for the years 2000 through 2004 are $79 million, $68 million, $58 million, $50 million and $45 million, respectively.

15 COMMON STOCK At Duke Energy's annual meeting of shareholders held on April 15, 1999, shareholders approved an amendment to the Articles of Incorporation to increase the authorized common stock from 500 million to 1 billion shares.

In 1996, the Board of Directors authorized Duke Energy to repurchase up to $1 billion of its common stock during the period beginning February 1996 and ending February 2001 No repurchases of common stock were made in 1999, 1998 or 1997, and none are anticipated in the future

16 STOCK-BASED COMPENSATION Under Duke Energy's 1998 Stock Incentive Plan, stock options for up to fifteen million shares of common stock may be granted to key employees. Under the plan, the exercise price of each option granted equals the market price of Duke Energy's common stock on the date of grant. Vesting periods range from one to five years with a maximum exercise term of ten years.

Effective with Duke Energy's merger with PanEnergy Corp, each share of PanEnergy common stock, outstanding immediately prior to the merger, was converted into the right to receive 1.0444 shares of Duke Energy common stock. Each option to purchase PanEnergy common stock, outstanding prior to the merger, was assumed by Duke Energy and became exercisable upon the same terms as under the applicable PanEnergy stock option plan and option agreement, except that these options became options to purchase shares of Duke Energy common stock, appropriately adjusted.

STOCK OPTION ACTIVITY

	OPTIONS (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at Dec 31 1996	3,274	$ 20
Granted	388	44
Exercised	(873)	19
Forfeited	(60)	27
Outstanding at Dec 31 1997	2,729	24
Granted	3,548	57
Exercised	(948)	21
Forfeited	(868)	57
Outstanding at Dec 31 1998	4,461	45
Granted	5,154	54
Exercised	(428)	23
Forfeited	(375)	57
Outstanding at Dec 31 1999	8,812	51

STOCK OPTIONS AT DEC 31, 1999

	OUTSTANDING		
RANGE OF EXERCISE PRICES	NUMBER (IN THOUSANDS)	WEIGHTED AVERAGE REMAINING LIFE (YRS)	WEIGHTED AVERAGE EXCERCISE PRICE
$10 to $14	36	1.4	$ 12
$15 to $20	728	4.0	19
$21 to $25	153	4.2	23
$26 to $31	157	6.1	27
$42 to $50	2,992	9.8	49
$51 to $59	4,443	8 6	58
$60 to $67	303	9.0	65
Total	8,812		

	EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
$10 to $14	36	$ 12
$15 to $20	728	19
$21 to $25	153	23
$26 to $31	157	27
$42 to $50	124	44
$51 to $59	582	57
$60 to $67	13	67
Total	1,793	34

Duke Energy had 1.5 million and 2.4 million options exercisable at December 31, 1998 and 1997, with weighted average exercise prices of $22 and $21 per option, respectively.

The weighted-average fair value of options granted was $10, $9 and $10 per option during 1999, 1998 and 1997, respectively The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

WEIGHTED-AVERAGE ASSUMPTIONS FOR OPTION-PRICING

	99	98	97
Stock dividend yield	4 1%	4.2%	3.5%
Expected stock price volatility	18.8%	15 1%	20.7%
Risk-free interest rates	5.9%	5 6%	6.5%
Expected option lives	7 years	7 years	7 years

Had compensation expense for stock-based comoensation been determined based on the fair value at the grant dates, 1999 net income would have been $1,498 million, or $4 06 per basic share, 1998 net income would have been $1,250 million, or $3 40 per basic share; and 1997 net income would have been $971 million, or $2 50 per basic share

Duke Energy has the 1996 Stock Incentive Plan (the 1996 Plan) under which two million shares of common stock were reserved for awards to employees. Restricted stock grants made under the 1996 Plan vest over a period ranging between one and five years Duke Energy awarded 65,850 restricted shares (fair value at grant dates of approximately $4 million) in 1999 and 3,000 restricted shares in 1998 Compensation expense for the grants is charged to earnings over the restriction period and was not material in 1999, 1998 or 1997

In addition, Duke Energy granted Performance Awards under the 1998 Long-Term Incentive Plan (the 1998 Plan), under which fifteen million shares of common stock have been reserved for employee awards Grants under the 1998 Plan vest over periods ranging between one and seven years Duke Energy awarded 493,200 shares (fair value at grant dates of $26 million) in 1999 Compensation expense for the stock grants is charged to earnings over the vesting period, and amounted to $3 million in 1999.

17 EMPLOYEE BENEFIT PLANS

-RETIREMENT PLANS Duke Energy and its subsidiaries maintain a non-contributory defined benefit retirement plan covering most employees with minimum service requirements using a cash balance formula Under a cash balance formula, a plan participant accumulates a retirement benefit based upon a percentage, which may vary with age and years of service, of current eligible earnings and current interest credits.

On December 31, 1998, all defined benefit retirement plans maintained by Duke Energy and its subsidiaries, except for the PanEnergy retirement plan, were merged to form the Duke Energy Retirement Cash Balance Plan (Duke Energy Plan). The plan merger changed the benefit for certain participants, from a formula based primarily on benefit accrual service and highest average earnings, to a cash balance formula.

Through December 31, 1998, the PanEnergy retirement plan provided retirement benefits (i) for eligible employees of certain subsidiaries that are generally based on an employee's years of benefit accrual service and highest average eligible earnings, and (ii) for eligible employees of certain other subsidiaries under a cash balance formula. In 1998, a significant amount of lump sum payouts was made from the PanEnergy plan resulting in a settlement gain of $10 million. Effective January 1, 1999, the benefit formula under the PanEnergy plan, for all eligible employees, was changed to a cash balance formula

In connection with the 1999 sale of the Midwest Pipelines to CMS, benefit accruals under the PanEnergy plan were frozen on December 31, 1998 for all participants who, as a result of the

sale, became employees of CMS and its subsidiaries Once the transfer of the benefit obligation and related assets of the affected participants to CMS was completed, the PanEnergy plan was merged into the Duke Energy Plan

Duke Energy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. On December 30, 1997, assets and related liabilities of $236 million and $204 million, respectively, for certain PanEnergy plan participants were transferred to the Duke Power plan As a result of this transfer, no contributions to the Duke Energy plan were necessary in 1999 or 1998.

COMPONENTS OF NET PERIODIC PENSION COSTS

IN MILLIONS	YEARS ENDED DEC 31		
	99	98	97
Service cost benefit earned during the year	$ 72	$ 63	$ 62
Interest cost on projected benefit obligation	165	169	164
Expected return on plan assets	(224)	(218)	(209)
Amortization of prior service cost	(3)	(4)	(5)
Amortization of net transition asset	(4)	(4)	(4)
Recognized net actuarial loss	12	10	17
Settlement gain	–	(10)	–
Net periodic pension costs	$ 18	$ 6	$ 25

RECONCILIATION OF FUNDED STATUS TO PRE-FUNDED PENSION COSTS

IN MILLIONS	DEC 31	
	99	98
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 2,540	$2,372
Service cost	72	63
Interest cost	165	169
Plan amendment	–	5
Actuarial (gain) loss	(41)	141
Transfer to CMS	(85)	–
Benefits paid	(205)	(210)
Benefit obligation at end of year	$ 2,446	$2,540
Change in Plan Assets		
Fair value of plan assets at beginning of year [a]	$ 2,922	$2,725
Actual return on plan assets	491	406
Employer contributions	(2)	1
Transfer to CMS	(85)	–
Benefits paid	(205)	(210)
Fair value of plan assets at end of year [a]	$ 3,121	$2,922
Funded status	$ 675	$ 382
Unrecognized net experience (gain) loss	(315)	2
Unrecognized prior service cost reduction	(24)	(27)
Unrecognized net transition asset	(21)	(25)
Pre-funded pension costs	$ 315	$ 332

[a] Principally equity and fixed income securities

ASSUMPTIONS USED FOR PENSION BENEFITS ACCOUNTING [a]

PERCENT	99	98	97
Discount rate	7.50	6 75	7.25
Salary increase	4.50	4 67	4 15
Expected long-term rate of return on plan assets	9 25	9.25	9 25

[a] Reflects weighted averages across all plans

Duke Energy also sponsors employee savings plans which cover substantially all employees Employer matching contributions of $68 million, $53 million and $53 million were expensed in 1999, 1998 and 1997, respectively

-OTHER POSTRETIREMENT BENEFITS Duke Energy and most of its subsidiaries provide certain health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective late 1998 and early 1999, health care benefits for future retirees were changed to limit employer contributions and medical coverage

Such benefit costs are accrued over the active service period of employees to the date of full eligibility for the benefits. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years

COMPONENTS OF NET PERIODIC POSTRETIREMENT BENEFIT COSTS

IN MILLIONS	YEARS ENDED DEC 31		
	99	98	97
Service cost benefit earned during the year	$ 7	$10	$10
Interest cost on accumulated post-retirement benefit obligation	40	43	46
Expected return on plan assets	(21)	(18)	(19)
Amortization of prior service cost	1	7	6
Amortization of net transition obligation	18	16	16
Recognized net actuarial (gain) loss	(1)	1	(1)
Net periodic postretirement benefit costs	$ 44	$59	$58

RECONCILIATION OF FUNDED STATUS TO ACCRUED POST RETIREMENT BENEFIT COSTS

IN MILLIONS	DEC 31	
	99	98
Change in Benefit Obligation		
Accumulated postretirement benefit obligation at beginning of year	$ 625	$ 667
Service cost	7	10
Interest cost	40	43
Plan participants' contributions	7	6
Amendments	–	(49)
Actuarial gain	(68)	(6)
Benefits paid	(49)	(46)
Accumulated postretirement benefit obligation at end of year	$ 562	$ 625
Change in Plan Assets		
Fair value of plan assets at beginning of year [a]	$ 305	$ 266
Actual return on plan assets	41	34
Employer contributions	23	45
Plan participants' contributions	7	6
Benefits paid	(49)	(46)
Fair market value of plan assets at end of year [a]	$ 327	$ 305
Funded status	$ (235)	$(320)
Unrecognized prior service cost	8	9
Unrecognized net experience gain	(110)	(23)
Unrecognized transition obligation	229	239
Accrued postretirement benefit costs	$ (108)	$ (95)

[a] Principally equity and fixed income securities.

ASSUMPTIONS USED FOR POSTRETIREMENT BENEFITS ACCOUNTING [a]

PERCENT			
	99	98	97
Discount rate	7.50	6.75	7 25
Salary increase	4.50	4 67	4 33
Expected long-term rate of return on 401(h) assets	9.25	9 25	9 25
Expected long-term rate of return on RLR assets	6.75	6 75	6.75
Expected long-term rate of return on VEBA assets	9.25	9 25	9.25
Assumed tax rate [b]	39.60	39.60	39 60

[a] Reflects weighted averages across all plans

[b] Health care portion of postretirement benefits in VEBA trusts.

For measurement purposes, a 5 0% weighted average rate of increase in the per capita cost of covered health care benefits was assumed for 1999 The rate was assumed to decrease gradually to 4 75% for 2005 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans

SENSITIVITY TO CHANGES IN ASSUMED HEALTH CARE COST TREND RATES

IN MILLIONS	1-PERCENTAGE-POINT INCREASE	1-PERCENTAGE-POINT DECREASE
Effect on total of service and interest cost components	$ 3	$ (2)
Effect on post retirement benefit obligation	34	(24)

18 QUARTERLY FINANCIAL DATA (UNAUDITED)

IN MILLIONS, EXCEPT PER SHARE DATA

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	TOTAL
1999					
Operating revenues	$ 4,160	$4,691	$6,694	$ 6,197	$21,742
Operating income	627	531	884	(247)	1,795
EBIT	683	568	908	(116)	2,043
Income before extraordinary item	307	288	441	(189)	847
Net income	967	288	441	(189)	1,507
Earnings per share (before extraordinary item)					
Basic	$ 0.83	$ 0.77	$ 1.20	$ (0.53)	$ 2.26
Dilutive	$ 0.83	$ 0.77	$ 1.19	$ (0.53)	$ 2.25
Earnings per share					
Basic	$ 2.65	$ 0.77	$ 1.20	$ (0.53)	$ 4.08
Dilutive	$ 2.64	$ 0.77	$ 1.19	$ (0.53)	$ 4.07
1998					
Operating revenues	$ 4,115	$4,014	$5,298	$ 4,183	$17,610
Operating income	608	549	826	450	2,433
EBIT	678	582	871	516	2,647
Income before extraordinary item	328	279	429	224	1,260
Net income	320	279	429	224	1,252
Earnings per share (before extraordinary item)					
Basic	$ 0 89	$ 0.76	$ 1.18	$ 0.60	$ 3.43
Dilutive	$ 0 89	$ 0.76	$ 1.17	$ 0.60	$ 3.42
Earnings per share					
Basic	$ 0.87	$ 0.76	$ 1.18	$ 0.60	$ 3.41
Dilutive	$ 0.87	$ 0 76	$ 1.17	$ 0.60	$ 3 40

19 SUBSEQUENT EVENTS On December 16, 1999, Duke Energy announced that it had signed definitive agreements to combine Duke Energy's gas gathering and processing businesses with Phillips Petroleum's Gas Processing and Marketing unit to form a new midstream company Under the terms of the agreements, the new company will seek to arrange approximately $2 6 billion of debt financing and, upon closing of the transaction, will make a one-time cash distribution of $1 2 billion to both Duke Energy and Phillips Petroleum At closing, Duke Energy will own about 70% of the new company and Phillips Petroleum will own about 30% The new company would then offer approximately 20% of its equity to the public in 2000 to reduce the debt resulting from the transaction Such an offering is conditional upon completion of the transaction and favorable market conditions

On January 4, 2000, Duke Energy announced that it had entered into a definitive agreement to purchase, for $386 million, 100% of the stock of El Paso Energy Corporation's wholly owned subsidiary, East Tennessee Natural Gas Company, a 1,100-mile pipeline that crosses Duke Energy's TETCO pipeline and serves the southeastern region of the U S

Both transactions are subject to regulatory approval and are expected to close in the first quarter of 2000

In January 2000, Duke Energy completed a tender offer to the minority shareholders of Paranapanema and successfully acquired an additional 51% economic interest in the company for approximately $280 million This increases Duke Energy's economic ownership from approximately 44% to approximately 95%

SHAREHOLDER INFORMATION

1 ANNUAL MEETING

-The 2000 Annual Meeting of Duke Energy Shareholders will be

Date	Thursday, April 20, 2000
Time	10 a m
Place	O.J. Miller Auditorium
	Energy Center
	526 South Church Street
	Charlotte, North Carolina

2 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 Written requests should be addressed to

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

3 SHAREHOLDER INTERNET SERVICES

-Duke Energy's Website provides investors with access to

- -The latest company news, including news releases and financial bulletins,
- -SEC filings,
- -Stock performance;
- -Audio/visual webcasts of conference calls, announcements and meetings,
- -Information and enrollment in the InvestorDirect Choice Plan,
- -Sign-up for automatic e-mail updates

To learn more about Internet-based services, visit Duke Energy on the Web at www duke-energy com or via e-mail at InvestDUK@duke-energy com

4 STOCK EXCHANGE LISTING

-Duke Energy's common stock, First and Refunding Mortgage Bonds and certain issues of preferred securities are listed on the New York Stock Exchange The company's common stock trading symbol is DUK

5 WEBSITE ADDRESS:

www duke-energy com

6 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

7 FINANCIAL PUBLICATIONS

-Duke Energy will furnish to any shareholder, without charge, copies of the 1999 report on SEC Form 10-K, the 1999 Statistical Supplement and an audiotape recording of excerpts from the 1999 Annual Report

8 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

9 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

10 DIVIDEND PAYMENT

-Duke Energy has paid quarterly cash dividends on its common stock for 73 consecutive years. Dividends on common and preferred stock in 2000 are expected to be paid on March 16, June 16, September 18 and December 18

11 BOND TRUSTEE

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

The Chase Bank of Texas, N. A
Corporate Trust Services
P. O. Box 2320
Dallas, TX 75221-2320

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Duke Energy Corporation

We have audited the consolidated balance sheets of Duke Energy Corporation and subsidiaries (Duke Energy) as of December 31, 1999 and 1998, and the related consolidated statements of income and comprehensive income, common stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of Duke Energy's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Charlotte, North Carolina
February 11 2000

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Energy Corporation (Duke Energy) are prepared by management, who are responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles in all material respects and necessarily include judgments and estimates of the expected effects of events and transactions that are currently being reported.

Duke Energy's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. Duke Energy's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment Duke Energy's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of directors who are not employees of Duke Energy. The audit committee meets with management and internal auditors periodically to review accounting control issues and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with Duke Energy's independent auditors, Deloitte & Touche LLP. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

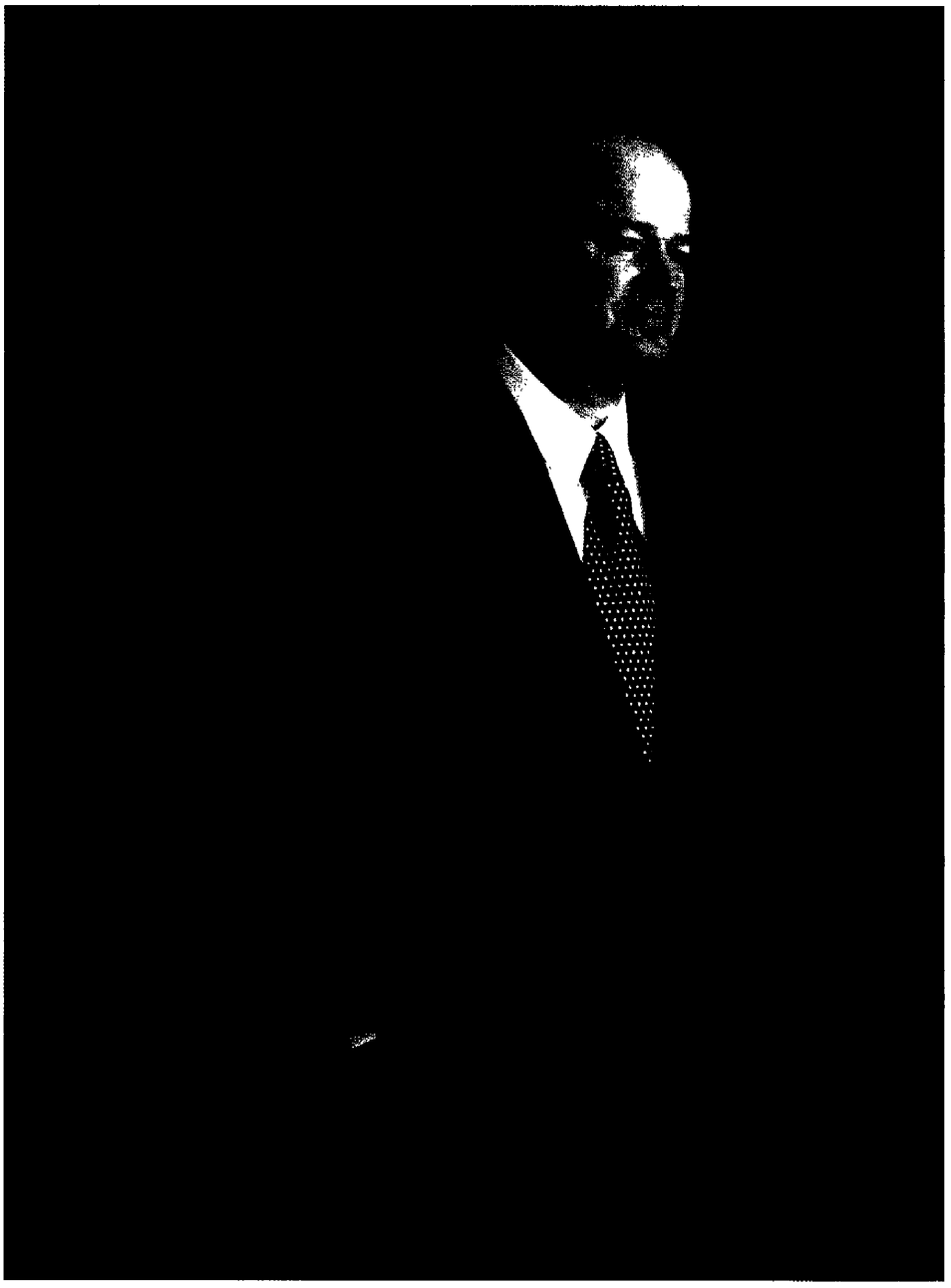
Sandra P. Meyer

SANDRA P. MEYER
Vice President and
Corporate Controller

Whistles Don't Pull Trains.

Duke Energy®

TABLE OF



RICHARD B. PRIORY

CHAIRMAN OF THE BOARD

PRESIDENT

CHIEF EXECUTIVE OFFICER

Letter to Shareholders
Duke Energy Corporation

Throughout this report, we talk about basic truths, those enduring tenets that govern our success and produced breakthrough results for Duke Energy in 2000.

Value Creation Drives Us

Defining the year was our own basic truth: We put value creation first. Every member of our team, in every business and in every global locale, shares that clarity of purpose. We come to work each morning with the goal of creating high-growth, sustainable shareholder value. And, at the end of the day, it is the one true measure of our success.

We enjoyed a lot of good days in 2000!

Breakthrough results drove record earnings growth, broadened our market base and rewarded shareholders by unlocking some of the hidden value in our company. We reached a pivotal milestone in our rise as a premier growth energy player, with 90 percent of our revenue and over half our earnings now coming from our competitive businesses.

We surpassed our pledge to grow earnings at an annual rate of 8 to 10 percent, achieving ongoing earnings per share of $2.10, a 17 percent increase over 1999. Revenue for the year increased 127 percent to $49.3 billion, and ongoing earnings before interest and taxes (EBIT) increased 29 percent to $3.7 billion.

Total shareholder return exceeded 75 percent for the year, and Duke Energy out-performed its peers in the Dow Jones Utilities Index by 67 percent.

Those are the highlights of an outstanding year.

But as good as the days behind us were, the days ahead will be even better. On the strength of our proven performance and rich potential, we split our stock earlier this year and raised our earnings growth target to 10 to 15 percent over the next few years. Value creation drives us.

It All Begins With Customers

The key to business success remains unchanged: Anticipate and meet customer needs better, faster and more efficiently than anyone else. We're using the Internet to connect with our customers in new and different ways – to be their resident "energy expert," to deliver seamless, fully integrated service, and to drive costs out of their business in countless ways. And, we're launching new businesses to serve emerging customer needs. For example, in 2000, Duke Capital Partners was created to provide debt and equity capital and financial services to high-growth energy businesses. Our customer focus is both forward-looking and grounded in core attributes like reliability, service excellence and accountability.

What are the results of our customer focus? Our Energy Services businesses delivered combined EBIT of $688 million in 2000, a 338 percent increase. These strong results were driven by aggressive expansion and management of our merchant plant portfolio, as well as gains in energy trading and risk management.

In the U.S., we expanded our regional energy businesses, delivering a record four new power plants and 2,300 megawatts in time for summer's peak. We broke ground on six new facilities that will add 3,400 megawatts by summer 2001, and we remain on target with the development of an additional 20,000 megawatts by 2004.

Internationally, we continued to tap the extraordinary potential of Latin American markets. In Brazil, we increased ownership in one of the country's largest generating companies to 95 percent. We likewise made leadership gains in Peru and El Salvador, and grew our asset bases in Argentina and Bolivia.

In Asia Pacific, we delivered a first-time competitive natural gas supply to Australia, and began pre-construction efforts on a pipeline for the state of Tasmania.

Back in the U.S., merging the capabilities of our Field Services unit with Phillips Petroleum's gas gathering, processing and marketing business contributed to a 106 percent increase in EBIT for Field Services.

Our more mature businesses also derived value growth in new and creative ways. Successful market expansion projects and acquisitions fueled 8 percent growth in ongoing operating earnings for Natural Gas Transmission. Duke Power's customer base increased by 2.5 percent in 2000, and ongoing earnings grew by 3 percent.

People [illegible]

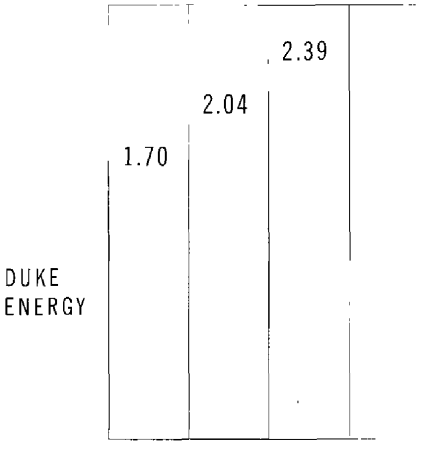
We have a sustainable, successful business strategy. We have an extraordinary asset portfolio that expands and contracts as we harvest market cycles. But what differentiates Duke Energy is the exceptional creativity, innovation, diligence and discipline of our employee team. We move with the speed and agility that comes from knowledge, decisiveness and a drive to lead.

In 2000, we continued to elevate corporate risk management as a source of competitive advantage and named Rich Osborne the company's first chief risk officer. With more than half of our revenues today derived from commodity positions, savvy risk management is integral to our success going forward.

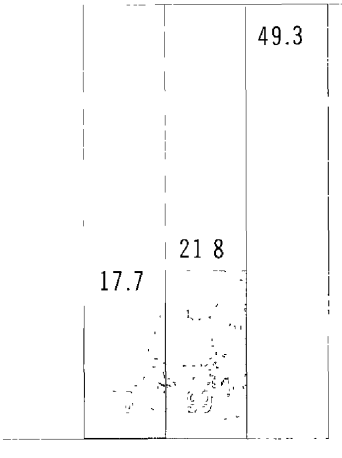
Earlier this year, we welcomed Robert Brace as executive vice president, chief financial officer, and a member of our policy committee. Robert most recently led the finance function for British Telecommunications plc, in London, and brings to our company a wealth of international finance, strategic planning, and merger and acquisition experience.

These moves add depth and diversity to an industry-leading management and employee team.

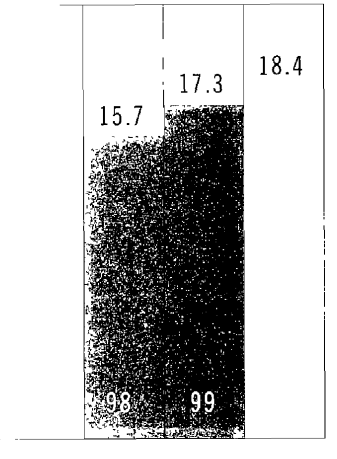
EARNINGS Per Share —[in dollars



REVENUE Growth —[in billions



RETURN On Equity —[percentages



Do Good Business

Duke Energy is value-minded — and we are high-minded. We adhere to the highest standards of service and integrity in all our markets and transactions. The Duke Energy name is perhaps our greatest shared asset, and we take great care and pride as we introduce ourselves to new customers and world markets. Your company will not compromise values built over a century for short-term gain.

Stay Alert

The 2001 outlook for energy is strong, even in light of the economic slowdown facing other sectors. The last several months clearly point to the need for increased domestic power generation and expansion of our natural gas infrastructure. Market volatility, price movement and supply shortfalls all signal an out-of-balance energy market. And no other company is better positioned than Duke Energy to deliver solutions and create value from shifting economic and market dynamics.

Duke Energy is working diligently to address the critical energy issues facing California that have dominated the news this year. Fundamentally, the crisis is due to electricity demand that far outstripped supply, and a reluctance to fill the gap with new generation and the infrastructure to efficiently fuel it.

We have applied our high operational standards to the four plants we operate in California, and in 2000 increased their output by 50 percent. We also plan to reinvest up to $1.6 billion to upgrade our existing units and replace others, adding approximately 1,560 megawatts of new capacity. Duke Energy is committed to generating the power needed by the California grid today — and to generating the ideas and solutions that will assure long-term market stability.

California's flawed approach to restructuring vividly illustrates the preconditions that must exist for deregulation to succeed: a reasonable balance between supply and demand, use of forward energy contracts to shield consumers from price volatility, and a measured approach that provides for an efficient wholesale market before full retail competition unfolds. These requirements play to Duke Energy's strengths and experience, and we are working with state leaders in the Carolinas and elsewhere to help protect that secure energy future.

Our business plan and earnings growth trajectory are not reliant on changes in the regulatory structure in which our electric franchise currently operates. Restructured or not, we are positioned to meet our targets and deliver on the energy imperative facing our country.

Forward

2000 was a year of premier results for Duke Energy. In 12 months, our pre-split stock price climbed from the mid-40s to a new all-time high in the 90s. We did that by holding fast to the basic principles that have served us well for nearly 100 years, while continuously reinventing our businesses and the way we work to succeed in a very different, opportunity-rich future.

We are poised to deliver even greater results in 2001. We are excited about the horizon that stretches before us: vast, rich, and full of promise — for our company, our shareholders, our customers, our employees and our world. You can count on Duke Energy to drive the growth, value and change that will benefit us all. And you can count on us to lay down new tracks around the globe, bringing the benefits of energy, breakthrough thinking, bold solutions and real results to all corners.

RICHARD B PRIORY
February 23, 2001

FINANCIAL HIGHLIGHTS

DUKE ENERGY

IN MILLIONS EXCEPT WHERE NOTED | YEARS ENDED	DECEMBER 31		
	2000	1999	1998
Operating revenues	$ 49,318	$ 21,766	$ 17,662
Earnings before interest and taxes	4,014	2,043	2,647
Income before extraordinary item	1,776	847	1,260
Net income	1,776	1,507	1,252
Earnings available for common stockholders	1,757	1,487	1,231
COMMON STOCK DATA[a]			
Weighted-average shares outstanding	736	729	722
Basic earnings per share (before extraordinary item)	$ 2.39	$ 1.13	$ 1.72
Basic earnings per share	2.39	2.04	1.70
Dividends per share	1.10	1.10	1.10
CAPITALIZATION			
Common equity and minority interest	46%	48%	50%
Preferred stock	1%	1%	2%
Trust preferred securities	5%	7%	5%
Total debt	48%	44%	43%
SEC fixed charges coverage	3.8	2.9	4.7
Total assets	$ 58,176	$ 33,409	$ 26,806
Total debt	13,282	9,432	7,168
Cash flows from operating activities	2,225	2,684	2,331
Cash flows used in investing activities	(5,030)	(3,800)	(2,476)
Cash flows from financing activities	2,714	1,600	78
OPERATING DATA[b]			
Electricity sales, GWh[c]	84,766	81,548	82,011
Natural gas transmission volumes, throughput, TBtu	1,717	1,893	2,593
Natural gas marketed, TBtu/d[d]	12.6	11.0	8.4
Electricity marketed, GWh[e]	275,258	109,634	98,991
Natural gas gathered and processed/transported, TBtu/d	7.6	5.1	3.6
Natural gas liquids production, MBbl/d	358.5	192.4	110.2

a - Restated to reflect the two-for-one common stock split effective January 26, 2001 • b - 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), as applicable • c - Franchised Electric only • d - Includes North American Wholesale Energy and Field Services volumes • e - Excludes Franchised Electric volumes

THEOPOLIS HOLEMAN
SENIOR VICE PRESIDENT
TRANSMISSION & ENGINEERING
DUKE ENERGY GAS TRANSMISSION
HOUSTON, TX

The right mix of energy assets, knowledge, businesses and people.

A company that's disciplined. Dynamic. Agile.

Leading change, not adapting to it.

Duke Energy is one company with many faces – asset management, trading and marketing, risk management, electric power, natural gas and more. It is a thriving network of energy businesses, each with a distinctive history, a unique focus, a service niche.

Yet the Duke Energy companies are united in purpose and direction – delivering real results to customers and creating value for investors. They share a keen awareness of supply and demand, critical to forecasting market cycles. Together, they work to uphold Duke Energy's reputation for integrity, customer commitment, environmental responsibility and good citizenship.

But success requires more than diverse capabilities and common values. It requires knowing how to put those competitive advantages to work.

Duke Energy has consistently held to a solid, straightforward strategy: Develop and manage a dynamic portfolio of energy assets. Deliver energy solutions to customers. Trade and market energy. Actively manage risk.

Duke Energy's management team launched this strategy with confidence, and it has served us well. Not only have we stayed the strategic course amid market uncertainties, but we've also applied this plan across the board, to every business line in every region. And it is working.

In the U.S., we are building regional energy businesses in gas, power, trading and marketing. And we are replicating that success to create a strong foothold in newly competitive international markets. Duke Energy is supplying and moving energy to targeted growth markets in North America, Latin America, Asia Pacific and Europe.

We are leading the evolution from regulated utilities to full-scope competitive energy companies. Most of Duke Energy's revenue – roughly 90 percent – and more than half its earnings are now generated by the company's competitive businesses. We saw the market signs and moved into profitable new ventures. Smart moves.

Industry restructuring and dramatic growth in demand are changing the way the world thinks about energy. Higher standards of living and light-speed communication have whetted the world's appetite for new electric generation. What used to be "wants" are now "needs."

In the U.S. alone, consumers will need more than 200,000 additional megawatts of electricity – nearly a 25 percent increase – within the next decade. Most of that new capacity – some 90 percent – will likely be fueled by natural gas. Duke Energy – with the knowledge, skills, speed and agility to turn market openings into market positions – will be filling those energy needs.

Putting strategy into action is Duke Energy's forte. Not just doing it, but doing it right. With foresight. Market intelligence. Decisiveness. Every decision to build, buy, sell or operate is carefully weighed against a two-part litmus test: Does it meet market demand? Does it create value?

In hundreds of transactions since Duke Energy made the leap from pipelines and kilowatts to an integrated energy company, the answers to the litmus test have been "yes" and "yes."

In the U.S., Duke Energy is answering the nation's mandate for more electric power with a fleet of energy-efficient merchant plants. Last summer, Duke Energy North America (DENA) hustled to bring four plants on line – an unprecedented achievement – to help the nation keep its cool during the peak demand season. And the company promises six more to help ensure power availability during the summer of 2001.

Duke Energy's first-to-market advantage comes from its integrated capabilities. DENA oversees plant development, negotiates gas supply and markets the power. Duke Engineering & Services provides environmental and siting expertise, and ties the finished plant to the electric grid. Duke/Fluor Daniel handles plant design, construction and operation. And Duke Energy Gas Transmission pipelines bring the fuel to the plants.

Knowing when and where to buy, and being in a position to act swiftly, are equally valuable. Case in point: DENA gained an early entrance into the growing Southwest power market by purchasing a half-interest in the Griffith Energy Project, a gas-fired merchant plant under construction in Arizona and due to begin operation in mid-2001.

Duke Energy North America's growing merchant plant portfolio is on schedule to put more than 23,000 megawatts of new capacity in operation by 2004. In addition, DENA trades eight times as much power and five to six times as much natural gas as Duke Energy owns, operates or controls.

By 2010, U.S. demand for natural gas is expected to grow from 22 trillion to 30 trillion cubic feet per year – mostly to fuel electric generation. The Department of Energy estimates $1.5 trillion will be invested in new pipelines and gas infrastructure over the next 15 years. Duke Energy is increasing its share of that business by developing new gas projects in high-growth eastern U.S. markets.

In the Southeast, natural gas usage is growing at an annual rate of more than 4 percent, twice the national average. To open the region to natural gas supplies from the Gulf Coast, Duke Energy Gas Transmission (DEGT) purchased the East Tennessee Natural Gas Company and connected its pipelines to Duke Energy's own Texas Eastern system. Further expansion is planned via the Patriot Extension, which will bring natural gas to southwest Virginia for the first time and will introduce a competitive gas supply to North Carolina.

In New England, Duke Energy is a partner in the Maritimes & Northeast Pipeline, completed in 1999. Originating offshore of Nova Scotia, the pipeline is fueling new merchant plants and expanding its reach into the Boston area with the current Hubline project.

The demand for natural gas in Florida is expected to double in the next decade. Duke Energy is partnering with Williams to build the Gulfstream pipeline from Alabama across the Gulf of Mexico to Central Florida — bringing over one billion cubic feet per day of new pipeline capacity to the state by mid-2002.

Getting the gas to market is one challenge. Storing it for quick accessibility is another, particularly when it is needed to bring peaking power plants on line at a moment's notice. That reality prompted DEGT to purchase Market Hub Partners, a salt cavern storage business with 23 billion cubic feet of capacity in Texas and Louisiana, and potential expansion facilities in Mississippi and Pennsylvania.

Duke Energy Gas Transmission operates 12,000 miles of natural gas pipeline, transporting 8 percent of the natural gas consumed in the U.S.

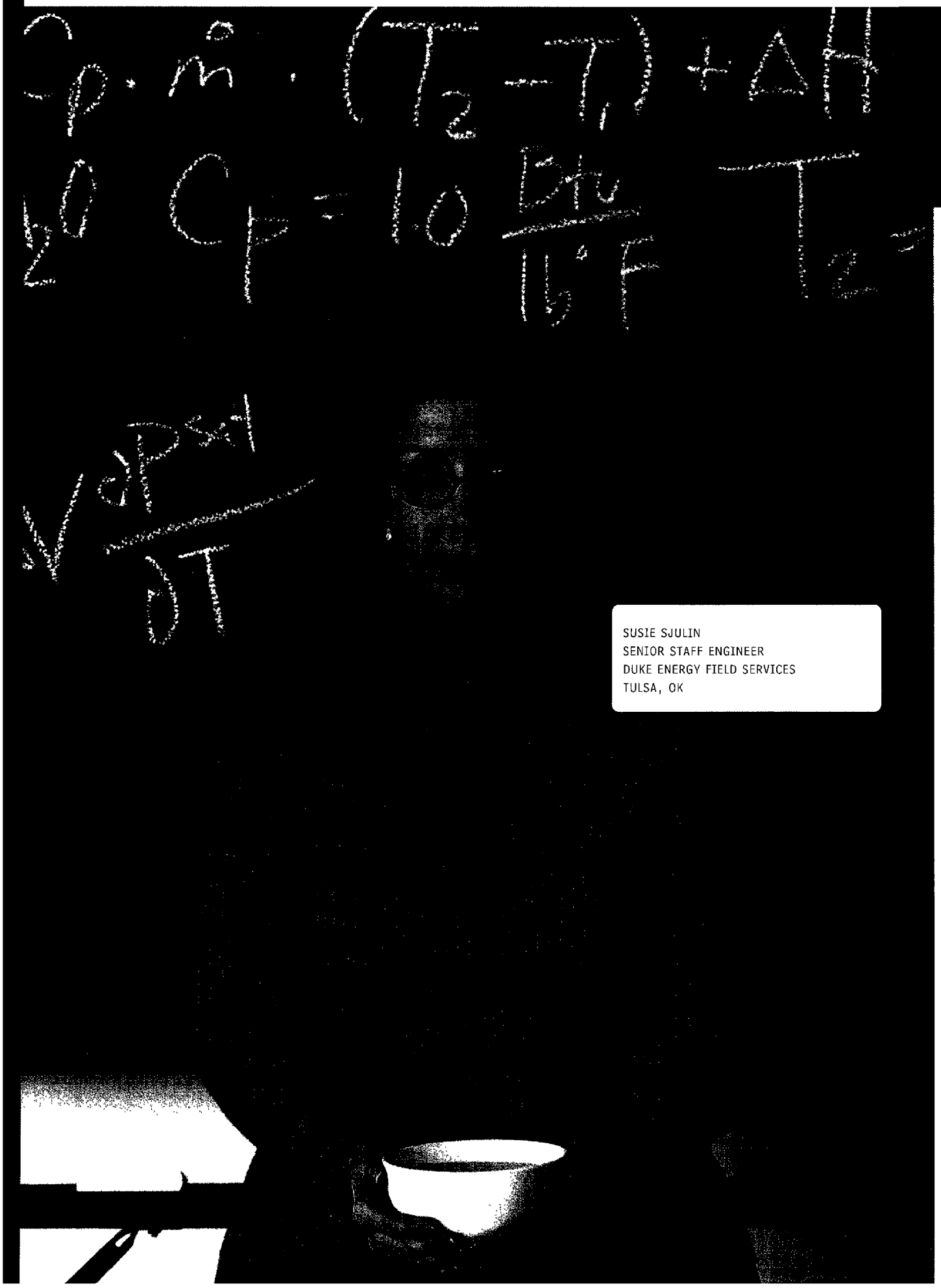
In March 2000, Duke Energy merged its field services business with Phillips Petroleum's gas gathering, processing and marketing unit to form a new midstream company – Duke Energy Field Services (DEFS).

DEFS separates valuable natural gas liquids (NGLs) like propane and butane from raw natural gas, and sells both the residue gas and the NGLs. The new company is the nation's number one producer of NGLs and one of the largest natural gas gatherers and marketers in the U.S.

Duke Energy Field Services owns and operates 70 plants and 57,000 miles of pipeline, and produces approximately 20 percent of NGL processing volumes in the U.S.

Too Hot.

Legend has it Albert Einstein didn't speak until he was about five. When he finally spoke, he said, "The soup's too hot." His parents asked him why he hadn't spoken sooner. He said, "Up until now everything was fine." There's just no substitute for good timing. "Take the joint venture with Phillips. We could've waited around and watched another company take the lead in natural gas liquids. Or we could act. We're not talking about action for action's sake. We're talking about eyes open, feet firm on the ground, evaluating your situation so that, when the time is right, you make the right things happen."



SUSIE SJULIN
SENIOR STAFF ENGINEER
DUKE ENERGY FIELD SERVICES
TULSA, OK

Worldwide, the energy industry is changing dramatically. In the U.S., electric deregulation is under way, while in other countries, government control of energy is giving way to private interests. Standards of living continue to rise, and the electronic age is creating unprecedented demand.

In the new economy, energy companies have a choice. They can look the other way, pretend the world is not changing around them, and become extinct. Or they can use change as an opportunity – to focus on their core businesses, devise successful strategies, expertly manage their risks and deliver energy to the world.

Duke Energy believes that a competitive market offers consumers more choices in both power supply and pricing, and breeds new, innovative technologies. Around the world, deregulation and privatization are opening new markets – and creating new opportunities for energy companies that act swiftly in response to customer needs.

Duke Energy is replicating its domestic strategy internationally, targeting key regions of the world where more open energy markets are emerging. Currently, we're focused on Latin America, Asia Pacific and Europe.

Energy privatization, population growth, economic prosperity and rising demand for power have created rich fields of opportunity for Duke Energy International (DEI) in both South America and Central America. Duke Energy is one of Latin America's leading energy companies, with a diverse portfolio of generation facilities in Argentina, Bolivia, Brazil, Ecuador, El Salvador and Peru.

Driving Duke Energy's position in Latin America is the company's $1 billion investment in Brazil, the eighth largest economy in the world. In 2000, Duke Energy acquired an additional interest in the Paranapanema hydroelectric system, bringing DEI's ownership in one of Brazil's largest generation companies to 95 percent.

DEI successfully manages a growing portfolio of hydroelectric and thermal assets in Peru's competitive power market. DEI also holds generating facilities in El Salvador, and has innovated cross-border power trades with neighboring Guatemala. These asset positions are complemented by DEI's natural gas and power wholesale marketing business in Buenos Aires and other energy hubs.

The first merchant player to build natural gas infrastructure in Australia, Duke Energy swiftly addressed a familiar need – a shortage of natural gas pipelines. In August, DEI completed the 500-mile Eastern Gas Pipeline, introducing natural gas competition to Australia's deregulating industry. And we fueled competition of a different sort, the 2000 Olympic Games in Sydney, by providing gas for the Olympic flame.

The pipeline will also deliver natural gas to a new Duke Energy asset – the Bairnsdale Power Plant. And in mid-2001, DEI will begin construction of a pipeline that will deliver natural gas to the energy markets of the Australian state of Tasmania for the first time.

Duke Energy has moved to capture the potential in Europe's liberalizing energy markets by establishing a trading and marketing position. DEI has acquired Mobil Europe Gas Inc. (MEGAS), the Netherlands' largest independent gas marketing company. From that platform and DEI's London office, Duke Energy will expand into power marketing, asset positions and other pursuits in targeted European regions.

Jump.

An African antelope can jump 10 or 15 feet into the air. But if it can't see clear to the horizon, it won't jump a knee-high hurdle. At Duke Energy, we have confidence in our judgment and our vision. We jump, even when we can't see the horizon. Sometimes we leave others wondering what we saw on the other side of the fence. "When we purchased the Paranapanema generation company in Brazil, some people didn't see its value. That's because it was part of a much larger plan. We're now one of Latin America's leading energy companies, simply because we refused to stand paralyzed on the wrong side of the fence."

MICHAEL DULANEY
VICE PRESIDENT
DUKE ENERGY INTERNATIONAL
SÃO PAULO, BRAZIL

Expansion into new markets has brought new risks – currency volatility and diverse economic conditions. Add volatility in fuel costs, fluctuating interest rates and other factors, and risk management becomes even more critical.

Across North America and around the world, an effective risk management program buoys Duke Energy to tackle projects that make economic sense and to buy or sell assets when market conditions are right. Duke Energy has elevated its risk management function to a competitive advantage by making risk calculation and mitigation a high priority across the enterprise.

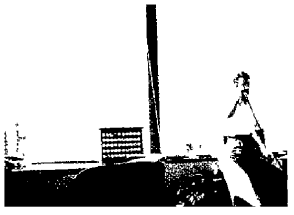
Duke Energy's power company consistently leads the industry in customer service, ranking first or second among utilities by the American Customer Service Index every year since 1994. Approximately 2 million customers in Duke Power's 22,000-square-mile service area have 24-hour access to the company's Customer Service Center.

Wherever in the world we do business, environmental stewardship guides our work. We work hard to protect natural and cultural resources, from California's marine habitats to Maine's stone walls and wetlands to Australia's aboriginal homelands.

Duke Energy is putting its values and expertise to use in new and different ways to benefit our customers and impact the bottom line. DukeSolutions provides supply management, risk hedging and e-business solutions to help major energy consumers use energy more wisely and more efficiently. Duke Capital Partners makes financing and asset management services available to wholesale and commercial energy markets. And Duke Energy Merchants is expanding our strong trading and marketing capabilities to energy-related ventures beyond natural gas and power – like refined products, fertilizers and crude oil.

We intend to continue to revolutionize the energy industry. By producing and delivering energy. By serving our customers with unparalleled commitment. By leading our industry with innovative solutions to the world's energy needs.

We are Duke Energy. Decisive. Results driven. Leading the way to the future.



SABRINA AUSTIN
SENIOR REGULATORY ANALYST
DUKESOLUTIONS
CHARLOTTE, NC

FINANCIAL TABLE OF

INTRODUCTION

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

⊙ **BUSINESS SEGMENTS** Duke Energy Corporation (collectively with its subsidiaries, "Duke Energy") is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments.

–[FRANCHISED ELECTRIC generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina. Its operations are conducted 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 interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic, New England and southeastern states. Its operations are conducted primarily through Duke Energy Gas Transmission Corporation. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

–[FIELD SERVICES gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores natural gas liquids (NGLs). Its operations are conducted primarily through Duke Energy Field Services, LLC (DEFS), a limited liability company that is approximately 30% owned by Phillips Petroleum. Field Services operates gathering systems in western Canada and 11 contiguous states that serve major natural gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, as well as onshore and offshore Gulf Coast areas.

–[NORTH AMERICAN WHOLESALE ENERGY'S (NAWE'S) activities include asset development, operation and management, primarily through Duke Energy North America, LLC (DENA), and commodity sales and services related to natural gas and power, primarily through Duke Energy Trading and Marketing, LLC (DETM). DETM is a limited liability company that is approximately 40% owned by Exxon Mobil Corporation. NAWE also includes Duke Energy Merchants, which develops new business lines in the evolving energy commodity markets. NAWE conducts its business throughout the U.S. and Canada. The operations of the previously segregated Trading and Marketing segment were combined by management into NAWE during 2000. Previous periods have been restated to conform to current period presentation.

–[INTERNATIONAL ENERGY conducts its operations through Duke Energy International, LLC. International Energy's activities include asset development, operation and management of natural gas and power facilities and energy trading and marketing of natural gas and electric power. This activity is targeted in the Latin American, Asia-Pacific and European regions.

–[OTHER ENERGY SERVICES is a combination of businesses that provide engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc. (DE&S), Duke/Fluor Daniel (D/FD) and DukeSolutions, Inc. (DukeSolutions). D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc.

–[DUKE VENTURES is comprised of other diverse businesses, primarily operating through Crescent Resources, Inc. (Crescent), DukeNet Communications, LLC (DukeNet) and Duke Capital Partners (DCP). Crescent develops high-quality commercial, residential and multi-family real estate projects and manages land holdings primarily in the southeastern U.S. DukeNet provides fiber optic networks for industrial, commercial and residential customers. DCP, a newly formed, wholly owned merchant finance company, provides financing, investment banking and asset management services to wholesale and commercial energy markets.

⊙ **BUSINESS STRATEGY** Duke Energy is one of the world's leading integrated energy companies. The company's business strategy is to develop integrated energy businesses in targeted regions where Duke Energy's extensive capabilities in developing energy assets, operating electricity, natural gas and NGL plants, optimizing commercial operations and managing risk can provide comprehensive energy solutions for customers and create superior value for shareholders. The growth in and restructuring of global energy markets are providing opportunities for Duke Energy's competitive business segments to capitalize on their comprehensive capabilities. Domestically, Duke Energy is aggressively investing in new merchant power plants throughout

the U.S., expanding its natural gas pipeline infrastructure in the eastern U.S., rapidly increasing its leading position in natural gas gathering and processing and NGL marketing, and developing its trading and marketing structured origination expertise across the energy spectrum. Internationally, Duke Energy is currently focusing on integrated electric and natural gas opportunities in Latin America, Asia Pacific and Europe.

Franchised Electric continues to add customers, maintain low costs and deliver high-quality customer service. Franchised Electric is expected to grow moderately, consistent with historical trends. Expansion will primarily result from continued economic growth in its service territory.

Natural Gas Transmission has increased its earnings growth rate by executing a comprehensive strategy of selected acquisitions and expansions and by developing expanded services and incremental projects that meet changing customer needs.

Field Services has developed market-leading size, scope and reliability of supply in natural gas gathering, processing and NGL marketing. Field Services plans to make additional investments in gathering, processing and NGL infrastructure. Field Services' interconnected natural gas processing operations provide an opportunity to capture fee-based investment opportunities in certain NGL assets, including pipelines, fractionators and terminals.

NAWE plans to continue increasing earnings through acquisitions, divestitures, construction of greenfield projects and expansion of existing facilities as regional opportunities are identified, evaluated and realized throughout the North American marketplace. To capture the greatest value in the U.S., DENA, through its portfolio management strategy, seeks opportunities to invest in energy assets in markets that have capacity needs and to divest other assets, in whole or in part, when significant value can be realized. Commodity sales and services related to natural gas and power continue to expand as NAWE provides energy supply, structured origination, trading and marketing, risk management and commercial optimization services to large energy customers, energy aggregators and other wholesale companies.

International Energy plans to continue expanding through acquisitions, divestitures, construction of greenfield projects and expansion of existing facilities in selected international regions. International Energy's combination of assets and capabilities and close working relationships with other subsidiaries of Duke Energy allow it to efficiently deliver natural gas pipeline, power generation, energy marketing and other services.

Other Energy Services plans to grow by providing an expanding customer base with a variety of engineering and energy efficiency services that allow customers to more effectively deal with rapidly changing conditions in the energy marketplace.

Duke Ventures plans to expand earnings capabilities in its real estate, telecommunications and capital financing business units by developing regional opportunities and by applying extensive experience to new project development.

Duke Energy's business strategy and growth expectations can vary significantly depending on many factors, including, but not limited to, the pace and direction of industry restructuring, regulatory constraints, acquisition opportunities, market volatility and economic trends. However, Duke Energy's growth expectations do not rely on industry restructuring in North Carolina and South Carolina.

RESULTS OF OPERATIONS

In 2000, earnings available for common stockholders were $1,757 million, or $2.39 per basic share, including a pre-tax gain of $407 million, or an after-tax gain of $0.34 per basic share, on the sale of Duke Energy's 20% interest in BellSouth Carolina PCS (BellSouth PCS). In 1999, earnings available for common stockholders were $1,487 million, or $2.04 per basic share, including an after-tax extraordinary gain of $660 million, or $0.91 per basic share resulting from the sale of the Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, which substantially comprised the Midwest Pipelines along with Trunkline LNG Company. The increase in earnings available for common stockholders in 2000 was primarily due to a 96% increase in segment earnings as described below, including the BellSouth PCS gain. Partially offsetting this increase was the 1999 extraordinary gain and higher interest and minority interest expense in the current year.

Earnings available for common stockholders increased $256 million in 1999 from 1998 earnings of $1,231 million, or $1.70 per basic share. The increase in earnings available for common stockholders was primarily due to the 1999 extraordinary gain resulting from the sale of the Midwest Pipelines. This gain, along with the factors described below that affect segment earnings, was partially offset by a pre-tax $800 million charge for estimated injury and damages claims (see Note 14 to the Consolidated Financial Statements) and higher interest and minority interest expense.

Earnings per share information provided above has been restated to reflect the two-for-one common stock split effective January 26, 2001. See Note 15 to the Consolidated Financial Statements for additional information.

Operating income for 2000 was $3,813 million compared to $1,819 million in 1999 and $2,485 million in 1998. Earnings before interest and taxes (EBIT) were $4,014 million, $2,043 million and $2,647 million for 2000, 1999 and 1998, respectively. Management evaluates each business segment based on an internal measure of EBIT, after deducting minority interests. Operating income and EBIT are affected by the same fluctuations for Duke Energy and each of its business segments. The only notable difference between operating income and EBIT is the inclusion in EBIT of certain non-operating activities. See Note 3 to the Consolidated Financial Statements for additional information on business segments. EBIT is summarized in the following table and is discussed by business segment thereafter

EBIT BY BUSINESS SEGMENT | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Franchised Electric	$ 1,704	$ 856	$ 1,513
Natural Gas Transmission	534	627	702
Field Services	296	144	76
North American Wholesale Energy	418	209	133
International Energy	331	42	12
Other Energy Services	(61)	(94)	10
Duke Ventures	563	162	122
Other Operations	(2)	5	22
EBIT attributable to minority interests	231	92	57
Consolidated EBIT	$ 4,014	$ 2,043	$ 2,647

Other Operations primarily include certain unallocated corporate costs. Included in the amounts discussed hereafter are intercompany transactions that are eliminated in the Consolidated Financial Statements.

FRANCHISED ELECTRIC | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31

	2000	1999	1998
Operating revenues	$ 4,946	$ 4,700	$ 4,626
Operating expenses	3,316	3,966	3,228
Operating income	1,630	734	1,398
Other income, net of expenses	74	122	115
EBIT	$ 1,704	$ 856	$ 1,513
Sales – GWh[a]	84,766	81,548	82,011

[a] Gigawatt-hours

Franchised Electric's EBIT increased $848 million in 2000 when compared to 1999, primarily due to an $800 million charge in 1999 for estimated injury and damages claims (see Note 14 to the Consolidated Financial Statements). Overall favorable weather and growth in customers, partially offset by increased operating costs, also contributed to this increase in EBIT. The average number of customers in Franchised Electric's service territory increased 2.5% during 2000. Total gigawatt-hour sales to customers increased by 3.9% for 2000. Sales to general service and residential customers increased 4.7% and 4.4%, respectively, while total industrial sales decreased 0.5%.

In 1999, Franchised Electric's EBIT decreased $657 million compared to 1998, primarily due to the above-mentioned charge for estimated injury and damages claims. Partially offsetting this decrease was a 2.8% increase in the number of customers in Franchised Electric's service territory during 1999, and the absence of 1998 severance and other costs related to closing Franchised Electric's merchandising business.

NATURAL GAS TRANSMISSION | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31	2000	1999	1998
Operating revenues	$1,131	$1,230	$1,542
Operating expenses	609	615	864
Operating income	522	615	678
Other income, net of expenses	12	12	24
EBIT	$ 534	$ 627	$ 702
Throughput – TBtu[a]	1,717	1,893	2,593

[a] Trillion British thermal units

In 2000, EBIT for Natural Gas Transmission decreased $93 million compared to 1999, primarily due to $132 million of EBIT in 1999 that did not reoccur in 2000. These items consisted of $70 million of EBIT related to the Midwest Pipelines, which were sold to CMS Energy Corporation (CMS) in March 1999; a $24 million gain resulting from the sale of Duke Energy's interest in the Alliance Pipeline project; and benefits totaling $38 million related to the completion of certain environmental cleanup programs below estimates. These items were partially offset by increased earnings from market-expansion projects and joint ventures such as the Maritimes & Northeast Pipeline, which was placed into service in December 1999, and earnings from East Tennessee Natural Gas Company and Market Hub Partners (MHP), which were acquired in March and September 2000, respectively. See Note 2 to the Consolidated Financial Statements for additional information on the sale of the Midwest Pipelines and the acquisitions of East Tennessee Natural Gas Company and MHP.

EBIT for Natural Gas Transmission decreased $75 million in 1999 compared to 1998. As a result of the sale of the Midwest Pipelines in March 1999, EBIT for the Midwest Pipelines decreased $156 million compared to 1998's full year of operation. For the remainder of Natural Gas Transmission, EBIT increased $81 million compared to 1998, primarily as a result of increased earnings from market-expansion projects and joint ventures, higher throughput and lower operating expenses. A $24 million gain resulting from the sale of Duke Energy's interest in the Alliance Pipeline project and benefits totaling $38 million related to the completion of certain environmental cleanup programs below estimates also increased EBIT in 1999. Partially offsetting these contributions to EBIT were the favorable impacts in 1998 in connection with the resolution of regulatory issues related to natural gas supply realignment costs and a refund from a state property tax ruling.

FIELD SERVICES | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31	2000	1999	1998
Operating revenues	$9,060	$3,590	$2,677
Operating expenses	8,635	3,444	2,598
Operating income	425	146	79
Other income, net of expenses	6	(2)	(3)
Minority interest expense	135	-	-
EBIT	$ 296	$ 144	$ 76
Natural gas gathered and processed/transported, TBtu/d[a]	7.6	5.1	3.6
NGL production, MBbl/d[b]	358.5	192.4	110.2
Natural gas marketed, TBtu/d	0.7	0.5	0.4
Average natural gas price per MMBtu[c]	$ 3.89	$ 2.27	$ 2.11
Average NGL price per gallon[d]	$ 0.53	$ 0.34	$ 0.26

[a] Trillion British thermal units per day

[b] Thousand barrels per day

[c] Million British thermal units

[d] Does not reflect results of commodity hedges

Field Services' EBIT increased $152 million in 2000 from 1999. The increase in EBIT and volume activity was primarily due to the combination of Field Services' natural gas gathering, processing and marketing business with Phillips Petroleum's Gas

Gathering, Processing and Marketing unit (Phillips) in March 2000; the acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR) (collectively, the "UPR acquisition") in April 1999; and other recent acquisitions and plant expansions. For additional information on the Phillips combination and the UPR acquisition, see Note 2 to the Consolidated Financial Statements. Improved average NGL prices, which increased 56% over 1999 prices, also contributed significantly to the increase in EBIT.

In 1999, Field Services' EBIT increased $68 million compared to 1998. A significant portion of the increase resulted from earnings from the UPR acquisition. Improved average NGL prices, which were up 31% from the prior year, also contributed to the increase in EBIT. Partially offsetting these increases were $34 million of asset sale gains in 1998.

NORTH AMERICAN WHOLESALE ENERGY | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31	2000	1999	1998
Operating revenues	$ 33,874	$ 11,801	$ 8,783
Operating expenses	33,386	11,591	8,619
Operating income	488	210	164
Other income, net of expenses	3	60	20
Minority interest expense	73	61	51
EBIT	$ 418	$ 209	$ 133
Natural gas marketed, TBtu/d	11.9	10.5	8.0
Electricity marketed, GWh	275,258	109,634	98,991
Proportional megawatt capacity owned[a]	8,984	5,799	5,098

[a] Includes under construction or under contract

NAWE's EBIT increased $209 million in 2000 compared to 1999. The increase was the result of increased earnings from asset positions, increased trading margins due to price volatility in natural gas and power and a $47 million increase in income from the sale of interests in generating facilities as a result of NAWE executing its portfolio management strategy. Operating revenues and expenses increased as the volumes of natural gas and power marketed increased 13% and 151%, respectively. These increases were partially offset by a $110 million charge related to receivables for energy sales in California, and increased operating and development costs associated with business expansion. See the Current Issues, California Issues section of Management's Discussion and Analysis, and Note 14 to the Consolidated Financial Statements for further information.

In 1999, EBIT for NAWE increased $76 million from 1998. The increase included $99 million in income from the sale of partial interests in four generating facilities as a result of NAWE executing its portfolio management strategy. Partially offsetting these increases were lower natural gas trading margins, partially offset by higher power trading margins as well as margins associated with other trading activities and sales of natural gas interests associated with drilling activities. Higher operating expenses and increased development costs associated with business expansion also partially offset the earnings increases.

INTERNATIONAL ENERGY | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31	2000	1999	1998
Operating revenues	$1,067	$357	$159
Operating expenses	755	292	145
Operating income	312	65	14
Other income, net of expenses	42	8	4
Minority interest expense	23	31	6
EBIT	$ 331	$ 42	$ 12
Proportional megawatt capacity owned[a]	4,876	2,974	943
Proportional maximum pipeline capacity[a], MMcf/d[b]	416	321	124

[a] Includes under construction or under contract

[b] Million cubic feet per day

International Energy's EBIT increased $289 million in 2000 when compared to 1999. The increase was primarily attributable to increased earnings in Latin America, mainly resulting from new investments (see Note 2 to the Consolidated Financial Statements for a discussion of significant acquisitions). The increase also included $54 million from the February 2000 sale of certain assets relating to the transportation of liquefied natural gas.

In 1999, International Energy's EBIT increased $30 million compared to 1998. Earnings from new investments in Latin America and Australia contributed $63 million to the increase. Partially offsetting these increases were higher operating expenses and increased development costs associated with business expansion.

OTHER ENERGY SERVICES | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Operating revenues	$ 695	$ 989	$ 521
Operating expenses	756	1,083	511
EBIT	$ (61)	$ (94)	$ 10

In 2000, EBIT for Other Energy Services improved $33 million compared to 1999. New business activity and decreased operating expenses at DukeSolutions, and earnings related to new projects at D/FD were responsible for current year improved EBIT. The results for 2000 also include Duke Energy's portion of an estimated project loss recorded by D/FD of approximately $62 million, partially offset by 1999 charges of $38 million and $35 million at DE&S and DukeSolutions, respectively. The 1999 charges primarily related to expenses for severance and office closings associated with repositioning the companies for growth.

EBIT for Other Energy Services decreased $104 million in 1999 compared to 1998. The decrease was primarily due to the above-mentioned charges of $38 million and $35 million at DE&S and DukeSolutions, respectively. Increased development costs at DukeSolutions and decreased earnings from projects of DE&S also contributed to lower EBIT.

DUKE VENTURES | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Operating revenues	$ 642	$ 232	$ 171
Operating expenses	79	70	49
EBIT	$ 563	$ 162	$ 122

EBIT for Duke Ventures increased $401 million in 2000 when compared to 1999. This increase is primarily attributable to the sale by DukeNet of its 20% interest in BellSouth PCS to BellSouth Corporation for a pre-tax gain of $407 million. Slightly offsetting this increase in EBIT was a decrease in commercial project sales and land sales at Crescent.

In 1999, EBIT for Duke Ventures increased $40 million compared to 1998. The increase was primarily due to Crescent's increased residential developed lot sales, land sales and commercial project sales, partially offset by decreased lake lot sales. Increased fiber optic revenues at DukeNet and decreased losses related to its interest in BellSouth PCS also contributed to increased EBIT.

OTHER IMPACTS ON EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS Interest expense increased $310 million in 2000 compared to 1999, and $87 million in 1999 compared to 1998 due to higher average debt balances outstanding, resulting from acquisitions and expansion.

Minority interest expense increased $165 million in 2000 compared to 1999 and $46 million in 1999 compared to 1998. Included in minority interest expense is expense related to regular distributions on issuances of Duke Energy's trust preferred securities (see Note 12 to the Consolidated Financial Statements). This expense increased $21 million for 2000 and $43 million for 1999 due to additional issuances of Duke Energy's trust preferred securities during 1999 and 1998.

In addition, the increase for 2000 includes minority interest expense related to Field Services' combination with Phillips Petroleum, and increased minority interest expense at NAWE related to its joint venture with Exxon Mobil Corporation, partially offset by decreased minority interest expense at International Energy related to its 1999 and 2000 acquisitions. The 1999 increase in minority interest expense over 1998 related primarily to International Energy's 1999 investments and NAWE's joint venture with Exxon Mobil Corporation. For additional information regarding acquisitions and new joint venture projects, see Notes 2 and 8 to the Consolidated Financial Statements.

Duke Energy's effective income tax rate was approximately 37%, 35% and 38% for 2000, 1999 and 1998, respectively. The decrease in 1999 was primarily due to the favorable resolution of several income tax issues and the utilization of certain capital loss carryforwards due to the sale of the Midwest Pipelines.

The sale of the Midwest Pipelines to CMS closed in March 1999 and resulted in a $660 million extraordinary gain, net of income tax of $404 million (see Note 2 to the Consolidated Financial Statements).

In January 1998, TEPPCO Partners, LP, in which Duke Energy has a 21.1% ownership interest, redeemed certain First Mortgage Notes. This resulted in a non-cash extraordinary loss of $8 million, net of income tax of $5 million, related to Duke Energy's share of costs of the early retirement of debt.

LIQUIDITY AND CAPITAL RESOURCES

⊙ **OPERATING CASH FLOWS** Net cash provided by operations was $2,225 million in 2000, $2,684 million in 1999 and $2,331 million in 1998. Cash flows from operations decreased in 2000 compared to 1999 primarily due to tax payments made in 2000 related to the sale of the Midwest Pipelines. The increase in cash flows from operations in 1999 from 1998 was primarily due to net income resulting from business expansion.

In 1999, Duke Energy established an accrual for estimated injury and damages claims. During 2000, Duke Energy paid approximately $253 million for the related insurance premium. Management believes that the long-term cash requirements of the projected liability will not have a material effect on Duke Energy's liquidity or cash flows. See Note 14 to the Consolidated Financial Statements for further discussion.

⊙ **INVESTING CASH FLOWS** Capital and investment expenditures were approximately $5.6 billion in 2000 compared to $5.9 billion in 1999. The primary use of cash in investing activities for capital and investment expenditures reflects development and expansion expenditures, upgrades to existing assets and the acquisitions of various businesses and assets. The change in Natural Gas Transmission's capital expenditures is primarily due to business expansion related to the approximately $390 million acquisition of East Tennessee Natural Gas Company and the approximately $250 million of cash for the acquisition of MHP. In 2000, NAWE began construction of a number of power generation plants in the U.S. and continued capital expenditures on projects initiated prior to 2000. International Energy's business expansion included the completion of a tender offer to the minority shareholders of Companhia de Geracao de Energia Elétrica Paranapanema (Paranapanema) for approximately $280 million and the completion of the approximately $405 million acquisition of Dominion Resources, Inc.'s portfolio of hydroelectric, natural gas and diesel power generation businesses in Latin America. Offsetting the capital and investing expenditures were cash proceeds of $400 million from the 2000 sale of Duke Energy's 20% interest in BellSouth PCS to BellSouth Corporation. For additional information concerning significant acquisitions and dispositions, see Note 2 to the Consolidated Financial Statements.

CAPITAL AND INVESTMENT EXPENDITURES BY BUSINESS SEGMENT | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Franchised Electric	$ 661	$ 759	$ 586
Natural Gas Transmission	973	261	290
Field Services	376	1,630	304
North American Wholesale Energy	1,937	1,028	796
International Energy	980	1,779	239
Other Energy Services	28	94	41
Duke Ventures	643	382	232
Other Operations	36	3	12
Total consolidated	$ 5,634	$ 5,936	$ 2,500

Capital and investment expenditures in 1999 increased approximately $3.4 billion from 1998 capital and investment expenditures of approximately $2.5 billion. The increase primarily resulted from business expansion for the Field Services, NAWE and International Energy business segments. Business expansion for Field Services included the $1.35 billion UPR acquisition. In 1999, NAWE began construction of multiple power generation plants in the U.S. and continued capital expenditures on projects initiated prior to 1999. International Energy's business expansion included $1.7 billion for multiple acquisitions in Latin America,

western Australia and New Zealand. Expenditures related to these activities were partially funded by $1.9 billion in cash proceeds from the sale of the Midwest Pipelines. For additional information concerning significant acquisitions and dispositions, see Note 2 to the Consolidated Financial Statements.

Projected 2001 capital and investment expenditures for Duke Energy are approximately $7.9 billion, of which over 75% is planned to be for competitive business segments which are not subject to state rate regulation. This projection includes approximately $6.5 billion for acquisitions and other expansion opportunities and $1.4 billion for existing plant upgrades. Duke Energy's projected capital expenditures also include $800 million in expenditures over the next three years for its Gulfstream pipeline project.

All projected capital and investment expenditures are subject to periodic review and revision and may vary significantly depending on a number of factors, including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility and economic trends.

FINANCING CASH FLOWS Duke Energy's consolidated capital structure at December 31, 2000, including short-term debt, was 48% debt, 46% common equity and minority interests, 5% trust preferred securities and 1% preferred stock. Fixed charges coverage, calculated using the Securities and Exchange Commission (SEC) method, was 3.8 times, 2.9 times and 4.7 times for 2000, 1999 and 1998, respectively.

Duke Energy's business expansion opportunities, along with dividends, debt repayments and operating requirements, are expected to be funded by cash from operations, external financing, common stock issuances and the proceeds from certain asset sales. Funding requirements met by external financing, common stock issuances and proceeds from the sale of assets are dependent upon the opportunities presented and favorable market conditions. Management believes Duke Energy has adequate financial resources to meet its future needs.

During 2000, Duke Energy issued a total of $550 million of Senior Notes at rates of approximately 7.250%. The proceeds were used for general corporate purposes. In April 2000, DEFS issued approximately $2.75 billion of commercial paper associated with the Phillips combination of which $1.22 billion was distributed to Phillips Petroleum. In August 2000, DEFS issued $1.7 billion of notes at rates from 7.50% to 8.125% and reduced the outstanding balance of its commercial paper. In December 2000, Texas Eastern Transmission Corporation (TETCO) issued $300 million of 7.30% notes due 2010. For additional information regarding debt, see Note 10 to the Consolidated Financial Statements.

During 2000, Duke Energy formed Catawba River Associates, LLC, and third-party, non-controlling, preferred interest holders invested approximately $1,025 million. The preferred interest receives a preferred return equal to an adjusted floating reference rate (approximately 7.847% at December 31, 2000). See Note 2 to the Consolidated Financial Statements for further discussion.

During 2000, Duke Energy repaid $380 million of 8.0% notes, $200 million of 7.0% notes, $200 million of 10.375% notes and made $323 million in scheduled debt repayments. In addition, Duke Energy made a tender offer for $115 million of the notes assumed with the acquisition of MHP. As of December 31, 2000, approximately $88 million of these notes had been retired.

Under its commercial paper facilities and extendible commercial note programs (ECNs), Duke Energy had the ability to borrow up to $5.7 billion and $3.3 billion at December 31, 2000 and 1999, respectively. A summary of the available commercial paper and ECNs as of December 31, 2000, is as follows:

IN BILLIONS	Duke Energy	Duke Capital Corporation[a]	Duke Energy Field Services	Duke Energy International	TOTAL
Commercial paper	$1.25	$1.55	$1.00[b]	$0.41[c]	$4.21
ECNs	0.50	1.00	-	-	1.50
Total	$1.75	$2.55	$1.00	$0.41	$5.71

[a] Duke Capital Corporation is a wholly owned subsidiary of Duke Energy that provides financing and credit enhancement services for its subsidiaries.

[b] Original availability of $2.8 billion was reduced to $1.0 billion upon DEFS' issuance of $1.7 billion in notes in August 2000.

[c] Includes ability to issue medium-term notes

The amount of Duke Energy's bank credit and construction facilities available at December 31, 2000 and 1999, was approximately $4.2 billion and $3.7 billion, respectively. Certain of the bank credit facilities support the issuance of commercial paper; therefore, the issuance of commercial paper reduces the amount available under these credit facilities. At December 31,

2000, approximately $3.2 billion was outstanding under the commercial paper facilities and ECNs, and approximately $44 million was outstanding under bank credit and construction facilities.

As of December 31, 2000, Duke Energy and its subsidiaries had the ability to issue up to $4.5 billion aggregate public offering price of debt and other securities under shelf registrations filed with the SEC. Such securities may be issued as Senior Notes, First and Refunding Mortgage Bonds, Subordinated Notes, Trust Preferred Securities, Duke Energy Common Stock, Stock Purchase Contracts or Stock Purchase Units.

On December 20, 2000, Duke Energy announced a two-for-one common stock split effective January 26, 2001, to shareholders of record on January 3, 2001. All outstanding share and per-share amounts have been restated to reflect the stock split.

To maintain financial flexibility and reduce the amount of financing needed for growth opportunities, Duke Energy's Board of Directors adopted a dividend policy in December 2000 that maintains dividends at the current quarterly rate of $0.275 per share, subject to declarations from time to time by the Board of Directors. This policy is consistent with Duke Energy's growth profile and strikes a balance between providing a competitive dividend yield and ensuring that cash is available to fund Duke Energy's growth. Duke Energy has paid quarterly cash dividends for 74 consecutive years. Dividends on common and preferred stocks in 2001 are expected to be paid on March 16, June 18, September 17 and December 17, subject to the discretion of the Board of Directors.

Duke Energy's InvestorDirect Choice Plan, a stock purchase and dividend reinvestment plan, allows investors to reinvest dividends in new issuances of common stock and to purchase common stock directly from Duke Energy. Issuances under this plan were not material in 2000, 1999 or 1998.

Duke Energy used authorized but unissued shares of its common stock to meet 2000 and 1999 employee benefit plan contribution requirements. This practice is expected to continue in 2001.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

⊙ **RISK POLICIES** Duke Energy is exposed to market risks associated with interest rates, commodity prices, equity prices and foreign currency exchange rates. Comprehensive risk management policies have been established by management to monitor and manage these market risks. Duke Energy's Policy Committee is responsible for the overall approval of market risk management policies and the delegation of approval and authorization levels. The Policy Committee is comprised of senior executives who receive periodic updates from the Chief Risk Officer (CRO) on market risk positions, corporate exposures, credit exposures and overall results of Duke Energy's risk management activities. The CRO has responsibility for the overall management of interest rate risk, foreign currency risk, credit risk and energy risk, including monitoring of exposure limits.

⊙ **INTEREST RATE RISK** Duke Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt, fixed-rate securities, commercial paper and auction market preferred stock, as well as interest rate swaps and interest rate lock agreements. Duke Energy manages its interest rate exposure by limiting its variable-rate and fixed-rate exposures to certain percentages of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates. Duke Energy may also enter into financial derivative instruments, including, but not limited to, swaps, options and treasury lock agreements to manage and mitigate interest rate risk exposure. See Notes 1, 7, 10, 12 and 13 to the Consolidated Financial Statements for additional information.

Based on a sensitivity analysis as of December 31, 2000, it was estimated that if market interest rates average 1% higher (lower) in 2001 than in 2000, earnings before income taxes would decrease (increase) by approximately $53 million. Comparatively, based on a sensitivity analysis as of December 31, 1999, had interest rates averaged 1% higher (lower) in 2000 than in 1999, it was estimated that earnings before income taxes would have decreased (increased) by approximately $24 million. These amounts were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of December 31, 2000 and 1999. The increase in interest rate sensitivity is primarily the result of the increase in outstanding variable-rate commercial paper. In the event of a significant change in interest rates, management would likely take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in Duke Energy's financial structure.

⊙ **COMMODITY PRICE RISK** Duke Energy, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price of natural gas, electricity and other energy-related products marketed and purchased. Duke Energy employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including forward contracts, futures, swaps and options. See Notes 1 and 7 to the Consolidated Financial Statements for additional information.

The risk in the commodity trading portfolio is measured and monitored on a daily basis utilizing a Value-at-Risk model to determine the maximum potential one-day favorable or unfavorable Daily Earnings at Risk (DER). The DER is monitored daily in comparison to established thresholds. Other measures are also utilized to limit and monitor the risk in the commodity trading portfolio on monthly and annual bases.

The DER computations are based on a historical simulation, which utilizes price movements over a specified period to simulate forward price curves in the energy markets to estimate the favorable or unfavorable impact of one day's price movement on the existing portfolio. The historical simulation emphasizes the most recent market activity, which is considered the most relevant predictor of immediate future market movements for natural gas, electricity and other energy-related products. The DER computations utilize several key assumptions, including a 95% confidence level for the resultant price movement and the holding period specified for the calculation. Duke Energy's DER calculation includes commodity derivative instruments held for trading purposes. Duke Energy's DER amounts are depicted in the table below. The increase in DER amounts as compared to 1999 is a result of Duke Energy's expanding portfolio of energy-related products both domestically and internationally.

DAILY EARNINGS AT RISK | IN MILLIONS[a]

Operational locations	Estimated One-Day Impact on EBIT at December 31, 2000	Estimated One-Day Impact on EBIT at December 31, 1999	Estimated Average One-Day Impact on EBIT for 2000	Estimated Average One-Day Impact on EBIT for 1999
North American	$ 20	$ 10	$ 16	$ 11
Other international	11	-	2	-

[a] Changes in markets inconsistent with historical trends could cause actual results to exceed predicted limits.

Certain subsidiaries of Duke Energy are also exposed to market fluctuations in the prices of various commodities related to their ongoing power generating, natural gas gathering, processing and marketing activities. Duke Energy closely monitors the risks associated with these commodities' price changes on its future operations, and where appropriate, uses various commodity instruments, such as electricity, natural gas, crude oil and NGLs to hedge these price risks. Based on a sensitivity analysis as of December 31, 2000, it was estimated that if NGL prices average one cent per gallon less in 2001, EBIT would decrease by approximately $8 million, after considering the effect of Duke Energy's commodity hedge positions. Comparatively, the same sensitivity analysis as of December 31, 1999, estimated that EBIT would have decreased by approximately $6 million. Based on the sensitivity analyses associated with other commodities' price changes, net of Duke Energy's commodity hedge positions, the effect on EBIT was not material as of December 31, 2000 or 1999.

⊙ **CREDIT RISK** Duke Energy's principal markets for power and natural gas marketing services are industrial end-users and utilities located throughout the U.S., Canada, Asia Pacific and Latin America. Duke Energy has concentrations of receivables from natural gas and electric utilities and their affiliates, as well as industrial customers throughout these regions. These concentrations of customers may affect Duke Energy's overall credit risk in that certain customers may be similarly affected by changes in economic, regulatory or other factors. On all transactions where Duke Energy is exposed to credit risk, Duke Energy analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of these limits on an ongoing basis. As of December 31, 2000, Duke Energy had approximately $400 million in receivables related to energy sales in California. Duke Energy quantified its exposures with regard to those receivables and recorded a provision of $110 million. See the Current Issues, California Issues section of Management's Discussion and Analysis, and Note 14 to the Consolidated Financial Statements for further information regarding credit exposure.

The change in market value of New York Mercantile Exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Physical forward contracts and financial derivatives are generally settled at the

expiration of the contract term or each delivery period; however, these transactions are also generally subject to margin agreements with the majority of Duke Energy's counterparties.

⊙ **EQUITY PRICE RISK** Duke Energy maintains trust funds, as required by the Nuclear Regulatory Commission, to fund certain costs of nuclear decommissioning (see Note 11 to the Consolidated Financial Statements). As of December 31, 2000 and 1999, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Management believes that its exposure to fluctuations in equity prices or interest rates will not materially affect consolidated results of operations, cash flows or financial position. See further discussion in the Current Issues, Nuclear Decommissioning Costs section of Management's Discussion and Analysis.

⊙ **FOREIGN CURRENCY RISK** Duke Energy is exposed to foreign currency risk that arises from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations, when possible, contracts are denominated in or indexed to the U.S. dollar, or investments may be hedged through debt denominated in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to manage its risk related to foreign currency fluctuations. To monitor its currency exchange rate risks, Duke Energy uses sensitivity analysis, which measures the impact of a devaluation of the foreign currencies to which it has exposure.

At December 31, 2000, Duke Energy's primary foreign currency exchange rate exposures were the Brazilian real, the Peruvian nuevo sol, the Australian dollar, the El Salvadoran colon, the Argentine peso, the European euro and the Canadian dollar. Based on a sensitivity analysis as of December 31, 2000, a 10% devaluation in the currency exchange rates in Brazil would reduce Duke Energy's financial position by approximately $91 million and would not significantly affect Duke Energy's consolidated results of operations, cash flows or financial position over the next 12 months. Based on a sensitivity analysis as of December 31, 1999, a 10% devaluation in the Brazilian currency exchange rates would have reduced Duke Energy's financial position by approximately $65 million. The increase in sensitivity to the Brazilian real is primarily due to the increased investment in Paranapanema as a result of Duke Energy's tender offer in 2000. See Note 2 to the Consolidated Financial Statements for further information. Based on these sensitivity analyses, a 10% devaluation in other foreign currencies was insignificant to Duke Energy's consolidated results of operations, cash flows or financial position.

CURRENT ISSUES

⊙ **ELECTRIC COMPETITION** ~~WHOLESALE COMPETITION~~ 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 final rules provides energy suppliers, including Duke Energy, with opportunities to sell and deliver capacity and energy at market-based prices. Franchised Electric obtained from the FERC's open-access rule the rights to sell capacity and energy at market-based rates from its own assets, which 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.

On December 20, 1999 and February 25, 2000, the FERC issued its Order 2000 and Order 2000-A regarding Regional Transmission Organizations (RTOs). In these orders, the FERC stressed the voluntary nature of RTO participation by utilities and set minimum characteristics and functions that must be met by utilities that participate in an RTO, including exclusive and independent authority to propose rates, terms and conditions of transmission service provided over the facilities it operates. The order provides for an open, flexible structure for RTOs to meet the needs of the market and provides for the possibility of incentive ratemaking and other benefits for utilities that participate in an RTO.

As a result of these rulemakings, on October 16, 2000, Duke Energy and two other investor-owned utilities, Progress Energy and South Carolina Electric & Gas, filed with the FERC to establish GridSouth Transco, LLC (GridSouth), as an RTO. If approved, GridSouth will be a for-profit, independent transmission company, responsible for operating and planning the companies' combined transmission systems. The target date for formation of GridSouth is December 15, 2001. However, the actual date that GridSouth becomes operational will depend upon the resolution of all necessary regulatory approvals and resolving all technical

issues. Management believes that the establishment of GridSouth will not have a material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

RETAIL COMPETITION Currently, Franchised Electric operates as a vertically integrated, investor-owned utility with exclusive rights to supply electricity in a franchised service territory – a 22,000-square-mile service territory in the Carolinas. In its retail business, the NCUC and the PSCSC regulate Franchised Electric's service and rates.

Electric industry restructuring is being addressed in all 50 states and in the District of Columbia. These restructurings will likely impact all entities owning electric generating assets. The NCUC and the PSCSC are studying the merits of restructuring the electric utility industry in the Carolinas. During 1999, three electric utility restructuring bills were filed in South Carolina's House of Representatives. All three bills addressed competition while allowing utilities to recover stranded costs, and have transition and phase-in periods ranging from five to six years. A task force formed by the South Carolina Senate is also examining issues related to deregulation of the state's electric utility business. Legislators anticipate that legislation is likely to be introduced during 2001. This task force will prepare a report for review, discussion and possible legislative action by the state's Senate Judiciary Committee and General Assembly as a whole.

In May 1997, North Carolina passed a bill that established a study commission to examine whether competition should be implemented in the state. Members of this commission include legislators, customers, utilities and a member of an environmental group. The study commission unanimously approved a set of recommendations on electric restructuring in April 2000. The commission's report to the legislature containing these recommendations was submitted to the General Assembly in May. The report basically recommended retail deregulation beginning partially in 2005 and fully in 2006. However, recent events in California's power market have led the study commission to evaluate whether, and to what extent, proposed legislation should be introduced in 2001. In general, the commission has expressed interest in ensuring that a viable wholesale electric market is in place prior to opening the state's retail electric market.

Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to customers. If cost-based regulation were to be discontinued in the industry for any reason, including competitive pressure on the cost-based prices of electricity, profits could be reduced and electric utilities might be required to reduce their asset balances to reflect a market basis less than cost. Discontinuance of cost-based regulation would also require affected utilities to write off their associated regulatory assets. Duke Energy's regulatory assets are included in the Consolidated Balance Sheets. The portion of these regulatory assets related to Franchised Electric is approximately $1.2 billion, including primarily purchased capacity costs, deferred debt expense and deferred taxes related to regulatory assets. Duke Energy is recovering substantially all of these regulatory assets through its current wholesale and retail electric rates and may attempt to continue to recover these assets during a transition to competition. In addition, Duke Energy would seek to recover the costs of its electric generating facilities in excess of the market price of power at the time of transition.

Duke Energy supports a properly managed and orderly transition to competitive generation and retail services in the electric industry. However, transforming the current regulated industry into efficient, competitive generation and retail electric markets is a complex undertaking, which will require a carefully considered transition to a restructured electric industry. The key to effective retail competition is fairness among customers, service providers and investors. Duke Energy intends to continue to work with customers, legislators and regulators to address all the important issues. Management currently cannot predict the impact, if any, of these competitive forces on future consolidated results of operations, cash flows or financial position.

⊙ **NATURAL GAS COMPETITION** **WHOLESALE COMPETITION** On February 9, 2000, the FERC issued Order 637, which sets forth revisions to its regulations governing short-term natural gas transportation services and policies governing the regulation of interstate natural gas pipelines. "Short-term" has been defined as all transactions of less than one year. Among the significant actions taken are the lifting of the price cap for short-term capacity release by pipeline customers for an experimental 2 1/2-year period ending September 1, 2002, and requiring that interstate pipelines file pro forma tariff sheets to (i) provide for nomination equality between capacity release and primary pipeline capacity; (ii) implement imbalance management services (for which interstate pipelines may charge fees) while at the same time reducing the use of operational flow orders and penalties;

and (iii) provide segmentation rights if operationally feasible. Order 637 also narrows the right of first refusal to remove economic biases perceived in the current rule. Order 637 imposes significant new reporting requirements for interstate pipelines that were implemented by Duke Energy during the third quarter of 2000. Additionally, Order 637 permits pipelines to propose peak/off-peak rates and term-differentiated rates, and encourages pipelines to propose experimental capacity auctions. By Order 637-A, issued in February 2000, the FERC generally denied requests for rehearing and several parties, including Duke Energy, have filed appeals in the District of Columbia Court of Appeals seeking court review of various aspects of the Order. During the third quarter of 2000, Duke Energy's interstate pipelines made the required pro forma tariff sheet filings. These filings are currently subject to review and approval by the FERC.

Management does not believe the effects of these matters will have a material effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

–[RETAIL COMPETITION Changes in regulation to allow retail competition could affect Duke Energy's natural gas transportation contracts with local natural gas distribution companies. Natural gas retail deregulation is in the very early stages of development and management cannot estimate the effects of this matter on future consolidated results of operations, cash flows or financial position.

⊙ **NUCLEAR DECOMMISSIONING COSTS** Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately $1.9 billion stated in 1999 dollars based on decommissioning studies completed in 1999. Duke Energy contributes to an external decommissioning trust fund and maintains an internal reserve to fund these costs.

The balance of the external fund as of December 31, 2000 and 1999, was $717 million and $703 million, respectively. The balance of the internal reserve as of December 31, 2000 and 1999, was $231 million and $223 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization.

Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of its nuclear plants. Management believes that funding of the decommissioning costs will not have a material adverse effect on consolidated results of operations, cash flows or financial position. See Note 11 to the Consolidated Financial Statements for additional information.

The external decommissioning trust fund is invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. These investments are exposed to price fluctuations in equity markets, and changes in interest rates. Because the accounting for nuclear decommissioning recognizes that costs are recovered through Franchised Electric's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations, cash flows or financial position.

⊙ **NUCLEAR RE-LICENSING** In May 2000, the Nuclear Regulatory Commission renewed the operating license for Duke Energy's three Oconee nuclear units through 2033 to 2034. Licenses for Duke Energy's other nuclear units expire between 2021 and 2026 and are also available for renewal.

⊙ **ENVIRONMENTAL** Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

–[MANUFACTURED GAS PLANTS AND SUPERFUND SITES Duke Energy was an operator of manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of certain former manufactured gas plant sites to investigate and, where necessary, remediate these contaminated sites. Duke Energy is considered by regulators to be a potentially responsible party and may be subject to future liability at eight federal Superfund sites and three state Superfund sites. While the cost of remediation of these sites may be substantial, Duke Energy will share in any liability associated with remediation of contamination at such sites with other potentially responsible parties. Management believes that resolution of these matters will not have a material adverse effect on consolidated results of operations, cash flows or financial position.

PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEANUP PROGRAMS In June 1999, the Environmental Protection Agency (EPA) certified that TETCO, a wholly owned subsidiary of Duke Energy, had completed cleanup of PCB-contaminated sites under conditions stipulated by a U.S. Consent Decree in 1989. TETCO was required to continue groundwater monitoring on a number of sites for two years. This required monitoring was completed as of the end of 2000, pending EPA concurrence. TETCO will be evaluating and discussing with the EPA, appropriate state authorities or both the need for additional remediation or monitoring.

Under terms of the sales agreement with CMS discussed in Note 2 to the Consolidated Financial Statements, Duke Energy is obligated to complete cleanup of previously identified contamination resulting from the past use of PCB-containing lubricants and other discontinued practices at certain sites on the PEPL and Trunkline systems. Based on Duke Energy's experience to date and costs incurred for cleanup operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations, cash flows or financial position.

AIR QUALITY CONTROL The Clean Air Act (CAA) Amendments of 1990 required a two-phase reduction by electric utilities in aggregate annual emissions of sulfur dioxide and nitrogen oxide by 2000. All projects associated with these requirements have been completed and Duke Energy currently meets all requirements of Phase I and Phase II.

In October 1998, the EPA issued a final rule on regional ozone control that required 22 eastern states and the District of Columbia to revise their State Implementation Plans (SIPs) to significantly reduce emissions of nitrogen oxide by May 1, 2003. The EPA's rule was challenged in court by various states, industry and other interests, including the states of North Carolina and South Carolina, and Duke Energy. In March 2000, the court upheld most aspects of the EPA's rule. The same court subsequently issued a decision that extended the compliance deadline for implementation of emission reductions to May 31, 2004. In January 2000, the EPA finalized another ozone-related rule under Section 126 of the CAA that has virtually identical emission control requirements as its October 1998 action, but with a May 1, 2003 compliance date. The EPA's 2000 rule has been challenged in court. The court is expected to issue its decision during the spring of 2001.

In response to the EPA's October 1998 rule, both North Carolina and South Carolina are in the process of finalizing the SIP revisions to implement the EPA rule's emission reduction requirements. Additionally, North Carolina has adopted a separate rule that caps nitrogen oxide emissions from coal-fired power plants in the event the EPA's SIP rule is eventually overturned.

Depending on the resolution of these and related matters, management anticipates that costs to Duke Energy may range from $500 million to $900 million in capital costs for additional emission controls over an estimated time period which continues through 2007. Emission control retrofits of this type are large technical, design and construction projects. These projects will be managed closely to ensure the continuation of reliable electric service to Duke Energy's customers throughout the projects and upon their completion.

On December 22, 2000, the U.S. Justice Department, acting on behalf of the EPA, filed a complaint against Duke Energy in the U.S. District Court in Greensboro, North Carolina, for alleged violations of the New Source Review (NSR) provisions of the CAA. The EPA is claiming that 29 projects performed at 25 of Duke Energy's coal-fired units were major modifications as defined in the CAA and that Duke Energy violated the CAA's NSR requirements when it undertook those projects without obtaining permits and installing emission controls for sulfur dioxide, nitrogen oxide and particulate matter. The complaint requests, among other things, that the court enjoin Duke Energy from operating the coal-fired units identified in the complaint, and order Duke Energy to install additional emission controls and pay unspecified civil penalties. This complaint appears to be part of the EPA's NSR enforcement initiative, in which the EPA claims that utilities and others have committed widespread violations of the CAA permitting requirements for the past 25 years. The EPA has sued or issued notices of violation of investigative information requests, to at least 48 other electric utilities and cooperatives.

The EPA's allegations run counter to previous EPA guidance regarding the applicability of the NSR permitting requirements. Duke Energy, along with other utilities, has routinely undertaken the type of repair, replacement, and maintenance projects that the EPA now claims are illegal. Duke Energy believes that all of its electric generation units are properly permitted and have been properly maintained, and intends to defend itself vigorously against these alleged violations. However, because these matters are in a preliminary stage, management cannot estimate the effects of these matters on Duke Energy's future consolidated results of operations, cash flows or financial position.The CAA authorizes civil penalties of up to $27,500 per day per violation at each generating unit. Civil penalties, if ultimately imposed by the court, and the cost of any required new pollution control equipment, if the court accepts the EPA's contentions, could be substantial.

–[GLOBAL CLIMATE CHANGE In 1997, the United Nations held negotiations in Kyoto, Japan to determine how to minimize global warming. The resulting Kyoto Protocol prescribed, among other greenhouse gas emission reduction tactics, carbon dioxide emission reductions from fossil-fueled electric generating facilities in the U.S. and other developed nations, as well as methane emission reductions from natural gas operations. Several subsequent meetings have been held attempting to resolve operational details to clear the way for multinational ratification and implementation without resolution. If the Kyoto Protocol were to be adopted in its current form, it could have far-reaching implications for Duke Energy and the entire energy industry. However, the outcome and timing of these implications are highly uncertain, and Duke Energy cannot estimate the effects on future consolidated results of operations, cash flows or financial position. Duke Energy remains engaged with those developing public policy initiatives and continuously assesses the commercial implications for its markets around the world.

⊙ **CALIFORNIA ISSUES** –[CALIFORNIA LITIGATION Duke Energy's subsidiaries, DENA and DETM, have been named among 16 defendants in a class action lawsuit (the Gordon lawsuit) filed against companies identified as "generators and traders" of electricity in California markets. DETM also was named as one of numerous defendants in four additional lawsuits, including two class actions (the Hendricks and Pier 23 Restaurant lawsuits), filed against generators, marketers and traders and other unnamed providers of electricity in California markets. These suits were brought either by or on behalf of electricity consumers in the State of California. The Gordon and Hendricks class action suits were filed in the Superior Court of the State of California, San Diego County, in November 2000. The other three suits were filed in January 2001, one in the Superior Court of the State of California, San Diego County, and the other two in the Superior Court of the State of California, County of San Francisco. These suits generally allege that the defendants manipulated the wholesale electricity markets in violation of state laws against unfair and unlawful business practices and state antitrust laws. Plaintiffs in the Gordon suit seek aggregate damages of over $4 billion, and the plaintiffs in the other suits, to the extent damages are specified, allege damages in excess of $1 billion. The lawsuits each seek the disgorgement of alleged unlawfully obtained revenues for sales of electricity and, in three suits, an award of treble damages.

–[CALIFORNIA WHOLESALE ELECTRICITY MARKETS As a result of high prices in the western U.S. wholesale electricity markets in 2000, several state and federal regulatory investigations and complaints have commenced to determine the causes of the prices and potentially to recommend remedial action. The FERC concluded its investigation by issuing on December 15, 2000, an Order Directing Remedies in California Wholesale Electricity Markets. In this conclusion, the FERC found no basis in allegations made by government officials in California that specific electric generators artificially drove up power prices. This conclusion is consistent with similar findings by the Compliance Unit of the California Power Exchange (CalPX) and the Northwest Power Planning Council. That Order is the subject of numerous rehearing requests.

At the state level, the California Public Utilities Commission, the California Electricity Oversight Board, the California Bureau of State Audits and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. None of those investigations have been completed and no findings have been made in connection with any of them.

–[CALIFORNIA UTILITIES DEFAULTS AND OTHER PROCEEDINGS Two California electric utilities recently defaulted on many of their obligations to suppliers and creditors. NAWE supplies electric power to these utilities directly and indirectly through contracts through the California Independent System Operator (CAISO) and the CalPX. NAWE also supplies natural gas to these utilities under direct contracts. With respect to electric power sales through the CAISO and CalPX, Duke Energy quantified its exposures at December 31, 2000 to these utilities and recorded a $110 million provision. As a result of these defaults and certain related government actions, Duke Energy has taken a number of steps, including initiating court actions, to mitigate its exposure.

While these matters referenced above are in their earliest stages, management does not believe, based on its analysis to date of the factual background and the claims asserted in these matters, that their resolution will have a material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

⊙ **LITIGATION AND CONTINGENCIES** –[EXXON MOBIL CORPORATION ARBITRATION In December 2000, three subsidiaries of Duke Energy initiated binding arbitration against three subsidiaries of the Exxon Mobil Corporation (collectively, the "Exxon Mobil entities") concerning the parties' joint ownership of DETM and certain related affiliates (collectively, the "Ventures"). At issue is a buy-out right provision in the parties' agreement. The agreements governing the ownership of the Ventures contain provisions giving Duke Energy the right to purchase the Exxon Mobil entities' 40% interest in the Ventures in the event material business disputes arise between the Ventures' owners. Such disputes have arisen, and consequently, Duke Energy exercised its right to buy the Exxon Mobil entities' interest. Duke Energy claims that refusal by the Exxon Mobil entities to honor the exercise is a breach of the buy-out right provision, and seeks specific performance of the provision. Duke Energy also complains of the Exxon Mobil entities' lack of use of, and contributions to, the Ventures.

In January 2001, the Exxon Mobil entities asserted counterclaims in the arbitration and claims in a separate Texas state court action alleging that Duke Energy breached its obligations to the Ventures and to the Exxon Mobil entities. The Exxon Mobil entities also claim that Duke Energy violated a Guaranty Agreement. While this matter is in its early stages, management believes that the final disposition of this action will not have a material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

For information concerning litigation and other commitments and contingencies, see Note 14 to the Consolidated Financial Statements.

⊙ **NEW ACCOUNTING STANDARD** In June 1998, Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy was required to adopt this standard by January 1, 2001. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and changes in the fair value of derivatives are reported in current earnings, unless the derivative is designated and effective as a hedge. If the intended use of the derivative is to hedge the exposure to changes in the fair value of an asset, a liability or a firm commitment, then changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. However, if the intended use of the derivative is to hedge the exposure to variability in expected future cash flows, then changes in the fair value of the derivative instrument will generally be reported in Other Comprehensive Income (OCI). The gains and losses on the derivative instrument that are reported in OCI will be reclassified to earnings in the periods in which earnings are impacted by the hedged item.

Duke Energy has determined the effect of implementing SFAS No. 133 and recorded a net-of-tax cumulative-effect adjustment of $96 million as a reduction in earnings. The net-of-tax cumulative-effect adjustment reducing OCI and Common Stockholders' Equity is estimated to be $921 million on January 1, 2001.

Currently, there are ongoing discussions surrounding the implementation and interpretation of SFAS No. 133 by the Financial Accounting Standards Board's Derivatives Implementation Group. Duke Energy implemented SFAS No. 133 based on current rules and guidance in place as of January 1, 2001. However, if the definition of derivative instruments is altered, this may impact Duke Energy's transition adjustment amounts and subsequent reported operating results.

⊙ **FORWARD-LOOKING STATEMENTS** From time to time, Duke Energy's reports, filings and other public announcements may include assumptions, projections, expectations, intentions or beliefs about future events. These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Duke Energy cautions that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. Some of the factors that could cause actual achievements and events to differ materially from those expressed or implied in such forward-looking statements include state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree at which competition enters the electric and natural gas industries; industrial, commercial and residential growth in the service territories of Duke Energy and its subsidiaries; the weather and other natural phenomena; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject or other external factors over which Duke Energy has no control; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by Duke Energy's credit rating and general economic conditions; growth in opportunities for Duke Energy's business units; and the effect of accounting policies issued periodically by accounting standard-setting bodies.

SELECTED FINANCIAL DATA | IN MILLIONS, EXCEPT PER-SHARE AMOUNTS | YEARS ENDED DECEMBER 31

	2000	1999[a]	1998	1997[b]	1996[b]
INCOME STATEMENT					
Operating revenues	$ 49,318	$ 21,766	$ 17,662	$ 16,309	$ 12,302
Operating expenses	45,505	19,947	15,177	14,339	10,143
Operating income	3,813	1,819	2,485	1,970	2,159
Other income and expenses	201	224	162	138	135
Earnings before interest and taxes	4,014	2,043	2,647	2,108	2,294
Interest expense	911	601	514	472	499
Minority interest expense	307	142	96	23	6
Earnings before income taxes	2,796	1,300	2,037	1,613	1,789
Income taxes	1,020	453	777	639	698
Income before extraordinary item	1,776	847	1,260	974	1,091
Extraordinary gain (loss), net of tax	-	660	(8)	-	(17)
Net income	1,776	1,507	1,252	974	1,074
Dividends on preferred and preference stock	19	20	21	72	44
Earnings available for common stockholders	$ 1,757	$ 1,487	$ 1,231	$ 902	$ 1,030
COMMON STOCK DATA[c]					
Shares of common stock outstanding					
Year-end	739	733	726	720	718
Weighted average	736	729	722	720	722
Earnings per share (before extraordinary item)					
Basic	$ 2.39	$ 1.13	$ 1.72	$ 1.26	$ 1.45
Diluted	2.38	1.13	1.71	1.25	1.44
Earnings per share					
Basic	$ 2.39	$ 2.04	$ 1.70	$ 1.26	$ 1.43
Diluted	2.38	2.03	1.70	1.25	1.42
Dividends per share	1.10	1.10	1.10	0.95	0.79
BALANCE SHEET					
Total assets	$ 58,176	$ 33,409	$ 26,806	$ 24,029	$ 22,366
Long-term debt, less current maturities	11,019	8,683	6,272	6,530	5,485

COMMON STOCK DATA BY QUARTER[c]

	2000			1999		
	Dividends Per Share	Stock Price Range		Dividends Per Share	Stock Price Range	
		High	Low		High	Low
First quarter	$ 0.275	$ 28.94	$ 23.19	$ 0.275	$ 32.34	$ 27.41
Second quarter	0.55	31.25	26.16	0.55	30.59	26.06
Third quarter	-	42.88	28.31	-	29.25	26.22
Fourth quarter	0.275	44.97	40.22	0.275	28.44	23.53

[a] Financial information reflects a pre-tax $800 million charge for estimated injury and damages claims. The earnings-per-share effect of this charge was $0.67 per share. See Note 14 to the Consolidated Financial Statements for further information.

[b] Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1996.

[c] Restated to reflect the two-for-one common stock split effective January 26, 2001

IN MILLIONS, EXCEPT PER-SHARE AMOUNTS | YEARS ENDED DECEMBER 31	2000	1999	1998
OPERATING REVENUES			
Sales, trading and marketing of natural gas and petroleum products (Notes 1 and 7)	$ 28,310	$ 10,922	$ 7,854
Trading and marketing of electricity (Notes 1 and 7)	13,060	3,610	2,788
Generation, transmission and distribution of electricity (Notes 1 and 4)	5,315	4,934	4,586
Transportation and storage of natural gas (Notes 1 and 4)	1,045	1,139	1,450
Gain on sale of equity investment (Notes 2 and 8)	407	-	-
Other (Note 8)	1,181	1,161	984
Total operating revenues	49,318	21,766	17,662
OPERATING EXPENSES			
Natural gas and petroleum products purchased (Note 1)	27,670	10,636	7,497
Net interchange and purchased power (Notes 1, 4 and 5)	12,000	3,507	2,916
Fuel used in electric generation (Notes 1 and 11)	781	764	767
Other operation and maintenance (Notes 4, 11 and 14)	3,469	3,701	2,738
Depreciation and amortization (Notes 1 and 5)	1,167	968	909
Property and other taxes	418	371	350
Total operating expenses	45,505	19,947	15,177
OPERATING INCOME	3,813	1,819	2,485
OTHER INCOME AND EXPENSES			
Deferred returns and allowance for funds used during construction (Note 1)	63	82	88
Other, net	138	142	74
Total other income and expenses	201	224	162
EARNINGS BEFORE INTEREST AND TAXES	4,014	2,043	2,647
INTEREST EXPENSE (NOTES 7 AND 10)	911	601	514
MINORITY INTEREST EXPENSE (NOTES 2 AND 12)	307	142	96
EARNINGS BEFORE INCOME TAXES	2,796	1,300	2,037
INCOME TAXES (NOTES 1 AND 6)	1,020	453	777
INCOME BEFORE EXTRAORDINARY ITEM	1,776	847	1,260
EXTRAORDINARY GAIN (LOSS), NET OF TAX	-	660	(8)
NET INCOME	1,776	1,507	1,252
DIVIDENDS ON PREFERRED AND PREFERENCE STOCK (NOTE 13)	19	20	21
EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS	$ 1,757	$ 1,487	$ 1,231
COMMON STOCK DATA (NOTE 1)			
Weighted-average shares outstanding	736	729	722
Earnings per share (before extraordinary item)			
Basic	$ 2.39	$ 1.13	$ 1.72
Diluted	$ 2.38	$ 1.13	$ 1.71
Earnings per share			
Basic	$ 2.39	$ 2.04	$ 1.70
Diluted	$ 2.38	$ 2.03	$ 1.70
Dividends per share	$ 1.10	$ 1.10	$ 1.10

See Notes to Consolidated Financial Statements.

IN MILLIONS | YEARS ENDED	DECEMBER 31		
	2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,776	$ 1,507	$ 1,252
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,348	1,151	1,055
Net mark-to-market gain	(464)	(24)	(75)
Extraordinary (gain) loss, net of tax	-	(660)	8
Gain on sale of equity investment	(407)	-	-
Provision on NAWE receivables	110	-	-
Injury and damages accrual	-	800	-
Deferred income taxes	152	(210)	(35)
Purchased capacity levelization	138	104	88
Transition cost recoveries (payments), net	82	95	(28)
(Increase) decrease in			
Receivables	(4,812)	(659)	(18)
Inventory	(97)	(89)	(104)
Other current assets	(796)	(138)	(39)
Increase (decrease) in			
Accounts payable	4,509	477	72
Taxes accrued	(439)	(57)	(6)
Interest accrued	64	32	(2)
Other current liabilities	1,116	73	84
Other, net	(55)	282	79
Net cash | provided by operating activities	2,225	2,684	2,331
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital and investment expenditures	(5,634)	(5,936)	(2,500)
Proceeds from sale of subsidiaries and equity investment	400	1,900	-
Decommissioning, retirements and other	204	236	24
Net cash | used in investing activities	(5,030)	(3,800)	(2,476)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of			
Long-term debt	3,206	3,221	1,357
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy Corporation or Subsidiaries	-	484	581
Common stock and stock options	230	162	176
Payments for the redemption of			
Long-term debt	(1,191)	(1,505)	(698)
Preferred and preference stock	(33)	(20)	(180)
Net change in notes payable and commercial paper	1,484	58	(350)
Distributions to minority interests	(1,216)	-	-
Contributions from minority interests	1,116	-	-
Dividends paid	(828)	(822)	(814)
Other	(54)	22	6
Net cash | provided by financing activities	2,714	1,600	78
Net (decrease) increase in cash and cash equivalents	(91)	484	(67)
Cash received from business acquisitions	100	49	38
Cash and cash equivalents at beginning of period	613	80	109
Cash and cash equivalents at end of period	$ 622	$ 613	$ 80
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	$ 817	$ 541	$ 490
Cash paid for income taxes	$ 1,177	$ 732	$ 733

See Notes to Consolidated Financial Statements

IN MILLIONS	DECEMBER 31	
	2000	1999
ASSETS		
CURRENT ASSETS (NOTE 1)		
Cash and cash equivalents (Note 7)	$ 622	$ 613
Receivables (Notes 1 and 7)	8,293	3,248
Inventory	736	599
Current portion of natural gas transition costs (Note 4)	-	81
Current portion of purchased capacity costs (Note 5)	149	146
Unrealized gains on mark-to-market transactions (Note 7)	11,038	1,131
Other (Note 7)	1,317	353
Total current assets	22,155	6,171
INVESTMENTS AND OTHER ASSETS		
Investments in affiliates (Notes 8 and 14)	1,370	1,299
Nuclear decommissioning trust funds (Note 11)	717	703
Pre-funded pension costs (Note 17)	304	315
Goodwill, net (Notes 1 and 2)	1,566	844
Notes receivable	462	154
Unrealized gains on mark-to-market transactions (Notes 1 and 7)	4,218	690
Other	1,445	705
Total investments and other assets	10,082	4,710
PROPERTY, PLANT AND EQUIPMENT (NOTES 1, 5, 9, 10 AND 11)		
Cost	34,615	30,436
Less accumulated depreciation and amortization	10,146	9,441
Net property, plant and equipment	24,469	20,995
REGULATORY ASSETS AND DEFERRED DEBITS (NOTE 1)		
Purchased capacity costs (Note 5)	356	497
Deferred debt expense (Note 7)	208	223
Regulatory asset related to income taxes	506	500
Other (Notes 4 and 14)	400	313
Total regulatory assets and deferred debits	1,470	1,533
TOTAL ASSETS	$ 58,176	$ 33,409

See Notes to Consolidated Financial Statements.

IN MILLIONS	DECEMBER 31	
	2000	1999
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 7,375	$ 2,312
Notes payable and commercial paper (Notes 7 and 10)	1,826	267
Taxes accrued (Note 1)	261	685
Interest accrued	208	139
Current maturities of long-term debt and preferred stock (Notes 10 and 13)	470	515
Unrealized losses on mark-to-market transactions (Notes 1 and 7)	11,070	1,241
Other (Notes 1 and 14)	1,769	717
Total current liabilities	22,979	5,876
LONG-TERM DEBT (NOTES 7 AND 10)	11,019	8,683
DEFERRED CREDITS AND OTHER LIABILITIES (NOTE 1)		
Deferred income taxes (Note 6)	3,851	3,402
Investment tax credit (Note 6)	211	225
Nuclear decommissioning costs externally funded (Note 11)	717	703
Environmental cleanup liabilities (Note 14)	100	101
Unrealized losses on mark-to-market transactions (Note 7)	3,581	438
Other (Note 14)	1,574	2,099
Total deferred credits and other liabilities	10,034	6,968
COMMITMENTS AND CONTINGENCIES (NOTES 5, 11 AND 14)		
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY CORPORATION OR SUBSIDIARIES (NOTES 7 AND 12)	1,406	1,404
MINORITY INTERESTS (NOTE 2)	2,435	1,200
PREFERRED AND PREFERENCE STOCK (NOTES 7 AND 13)		
Preferred and preference stock with sinking fund requirements	38	71
Preferred and preference stock without sinking fund requirements	209	209
Total preferred and preference stock	247	280
COMMON STOCKHOLDERS' EQUITY (NOTES 1,15 AND 16)		
Common stock, no par, 1 billion shares authorized; 739 million and 733 million shares outstanding at December 31, 2000 and 1999, respectively	4,797	4,603
Retained earnings	5,379	4,397
Accumulated other comprehensive income	(120)	(2)
Total common stockholders' equity	10,056	8,998
TOTAL LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	$ 58,176	$33,409

See Notes to Consolidated Financial Statements.

IN MILLIONS	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total	Total Comprehensive Income
BALANCE DECEMBER 31, 1997	$ 4,284	$ 3,256	$ -	$ 7,540	
Net income		1,252		1,252	$ 1,252
Total comprehensive income					$ 1,252
Dividend reinvestment and employee benefits (Note 16)	165			165	
Common stock dividends		(794)		(794)	
Preferred and preference stock dividends (Note 13)		(21)		(21)	
Other capital stock transactions, net		8		8	
BALANCE DECEMBER 31, 1998	$ 4,449	$ 3,701	$ -	$ 8,150	
Net income		1,507		1,507	$ 1,507
Other comprehensive income:					
Foreign currency translation adjustments (Note 1)			(2)	(2)	(2)
Total comprehensive income					$ 1,505
Dividend reinvestment and employee benefits (Note 16)	154			154	
Common stock dividends		(802)		(802)	
Preferred and preference stock dividends (Note 13)		(20)		(20)	
Other capital stock transactions, net		11		11	
BALANCE DECEMBER 31, 1999	$ 4,603	$ 4,397	$ (2)	$ 8,998	
Net income		1,776		1,776	$ 1,776
Other comprehensive income:					
Foreign currency translation adjustments (Note 1)			(118)	(118)	(118)
Total comprehensive income					$ 1,658
Dividend reinvestment and employee benefits (Note 16)	194			194	
Common stock dividends		(809)		(809)	
Preferred and preference stock dividends (Note 13)		(19)		(19)	
Other capital stock transactions, net		34		34	
BALANCE DECEMBER 31, 2000	$ 4,797	$ 5,379	$ (120)	$ 10,056	

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

⊙ **CONSOLIDATION** The Consolidated Financial Statements include the accounts of all of Duke Energy Corporation's majority-owned subsidiaries after the elimination of significant intercompany transactions and balances. Investments in other entities that are not controlled by Duke Energy Corporation, but where it has significant influence over operations, are accounted for using the equity method.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's best available knowledge of current and expected future events, actual results could differ from those estimates.

"Duke Energy" is used in these Notes as a collective reference to Duke Energy Corporation and its subsidiaries.

⊙ **CASH AND CASH EQUIVALENTS** All liquid investments with maturities at date of purchase of three months or less are considered cash equivalents.

⊙ **INVENTORY** Inventory consists primarily of materials and supplies, natural gas and natural gas liquid (NGL) products held in storage for transmission, processing and sales commitments, and coal held for electric generation. Inventory is recorded at the lower of cost or market, primarily using the average cost method.

⊙ **ACCOUNTING FOR RISK MANAGEMENT AND COMMODITY TRADING ACTIVITIES** Commodity derivatives utilized for trading purposes are accounted for using the mark-to-market method. Under this methodology, these instruments are adjusted to market value, and the unrealized gains and losses are recognized in current period income and are included in the Consolidated Statements of Income as Natural Gas and Petroleum Products Purchased or Net Interchange and Purchased Power, and in the Consolidated Balance Sheets as Unrealized Gains or Losses on Mark-to-Market Transactions.

Commodity derivatives such as futures, forwards, over-the-counter swap agreements and options are also utilized for non-trading purposes to hedge the impact of market fluctuations in the price of natural gas, electricity and other energy-related products. To qualify as a hedge, the price movements in the commodity derivatives must be highly correlated with the underlying hedged commodity. Under the deferral method of accounting, gains and losses related to commodity derivatives that qualify as hedges are recognized in income when the underlying hedged physical transaction closes and are included in the Consolidated Statements of Income as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power. If the commodity derivative is no longer sufficiently correlated to the underlying commodity, or if the underlying commodity transaction closes earlier than anticipated, the deferred gains or losses are recognized in income.

Duke Energy periodically uses interest rate swaps, accounted for under the accrual method, to manage the interest rate characteristics associated with outstanding debt. Interest rate differentials to be paid or received as interest rates change are accrued and recognized as an adjustment to interest expense. The amount accrued as either a payable to or a receivable from counterparties is included in the Consolidated Balance Sheets as Deferred Debt Expense.

Duke Energy also periodically utilizes interest rate lock agreements to hedge interest rate risk associated with new debt issuances. Under the deferral method of accounting, gains or losses on such agreements, when settled, are deferred in the Consolidated Balance Sheets as Long-Term Debt and are amortized in the Consolidated Statements of Income as an adjustment to Interest Expense.

Duke Energy is exposed to foreign currency risk from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations, when possible, contracts are denominated in or indexed to the U.S. dollar or investments may be hedged through debt denominated in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to hedge its risk related to foreign currency fluctuations. To qualify as a hedge, there must be a high degree of correlation between price movements in the derivative and the item designated as being hedged.

Duke Energy also enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies. These agreements are accounted for under the mark-to-market method previously described.

⊙ **GOODWILL** Goodwill represents the excess of acquisition costs over the fair value of the net assets of an acquired business. The goodwill created by Duke Energy's acquisitions is amortized on a straight-line basis over the useful lives of the assets, ranging from 10 to 40 years. The amount of goodwill reported on the Consolidated Balance Sheets as of December 31, 2000 and 1999, was $1,566 million and $844 million, net of accumulated amortization of $291 million and $218 million, respectively. See Note 2 to the Consolidated Financial Statements for information on significant goodwill additions.

⊙ **PROPERTY, PLANT AND EQUIPMENT** Property, plant and equipment are stated at original cost. Duke Energy capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of money. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs and replacements is charged to expense as incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates, excluding nuclear fuel, were 3.97%, 3.73% and 3.82% for 2000, 1999 and 1998, respectively.

When property, plant and equipment maintained by Duke Energy's regulated operations are retired, the original cost plus the cost of retirement, less salvage, is charged to accumulated depreciation and amortization. When entire regulated operating units are sold or non-regulated properties are retired or sold, the property and related accumulated depreciation and amortization accounts are reduced, and any gain or loss is recorded in income, unless otherwise required by the Federal Energy Regulatory Commission (FERC).

⊙ **IMPAIRMENT OF LONG-LIVED ASSETS** The recoverability of long-lived assets and intangible assets are reviewed whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Such evaluation is based on various analyses, including undiscounted cash flow projections.

⊙ **UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE** Premiums, discounts and expenses incurred in connection with the issuance of currently outstanding long-term debt are amortized over the terms of the respective issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of those items.

⊙ **ENVIRONMENTAL EXPENDITURES** Environmental expenditures that relate to an existing condition caused by past operations and do not contribute to current or future revenue generation are expensed. Environmental expenditures relating to current or future revenues are expensed or capitalized as appropriate. Liabilities are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated.

⊙ **COST-BASED REGULATION** Duke Energy's regulated operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." Accordingly, certain assets and liabilities that result from the regulated ratemaking process are recorded that would not be recorded under generally accepted accounting principles for non-regulated entities. These regulatory assets and liabilities are classified in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities, respectively. The applicability of SFAS No. 71 is routinely evaluated, and factors such as regulatory changes and the impact of competition are considered. Discontinuing cost-based regulation or increasing competition might require companies to reduce their asset balances to reflect a market basis less than cost and to write off their associated regulatory assets. Management cannot predict the potential impact, if any, of discontinuing cost-based regulation or increasing competition on future consolidated results of operations, cash flows or financial position. However, Duke Energy continues to position itself to effectively meet these challenges by maintaining competitive prices.

⊙ **COMMON STOCK OPTIONS** Duke Energy accounts for stock-based compensation using the intrinsic method of accounting. Under this method, compensation cost, if any, is measured as the excess of the quoted market price of Duke Energy's stock at the date of the grant over the amount an employee must pay to acquire the stock. Restricted stock grants and Company Performance Awards are recorded as compensation cost over the requisite vesting period based on the market value on the date of the grant. Pro forma disclosures utilizing the fair value accounting method are included in Note 16 to the Consolidated Financial Statements. All outstanding common stock amounts and compensation awards have been adjusted to reflect the two-for-one common stock split effective January 26, 2001. See Note 15 to the Consolidated Financial Statements for additional information on the stock split.

⊙ **REVENUES** Revenues on sales of electricity and transportation and storage of natural gas are recognized as service is provided. Revenues on sales of natural gas and petroleum products, as well as electricity, gas and other energy products marketed, are recognized in the period of delivery. The allowance for doubtful accounts was approximately $200 million and $43 million as of December 31, 2000 and 1999, respectively. Receivables on the Consolidated Balance Sheets included $244 million and $207 million as of December 31, 2000 and 1999, respectively, for electric service that has been provided but not yet billed to customers. When rate cases are pending final approval, a portion of the revenues is subject to possible refund. Reserves are established where required for such cases. During 2000, Duke Energy adopted the provisions of Staff Accounting Bulletin (SAB) 101 issued by the Securities and Exchange Commission. The impact of adopting SAB 101 was not material to Duke Energy.

⊙ **NUCLEAR FUEL** Amortization of nuclear fuel is included in the Consolidated Statements of Income as Fuel Used in Electric Generation. The amortization is recorded using the units-of-production method.

⊙ **DEFERRED RETURNS AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)** Deferred returns represent the estimated financing costs associated with funding certain regulatory assets. These regulatory assets primarily arose from the funding of purchased capacity costs above levels collected in rates. Deferred returns are non-cash items and are primarily recognized as an addition to Purchased Capacity Costs with an offsetting credit to Other Income and Expenses.

AFUDC represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. AFUDC is a non-cash item and is recognized as a cost of Property, Plant and Equipment, with offsetting credits to Other Income and Expenses and to Interest Expense. After construction is completed, Duke Energy is permitted to recover these costs, including a fair return, through their inclusion in rate base and in the provision for depreciation.

Rates used for capitalization of deferred returns and AFUDC by Duke Energy's regulated operations are calculated in compliance with FERC rules.

⊙ **FOREIGN CURRENCY TRANSLATION** Assets and liabilities of Duke Energy's international operations, where the local currency is the functional currency, have been translated at year-end exchange rates, and revenues and expenses have been translated using average exchange rates prevailing during the year. Adjustments resulting from translation are included in the Consolidated Statements of Common Stockholders' Equity and Comprehensive Income as Foreign Currency Translation Adjustments. The financial statements of international operations, where the U.S. dollar is the functional currency, reflect certain transactions denominated in the local currency that have been remeasured in U.S. dollars. The remeasurement of local currencies into U.S. dollars resulting from foreign currency gains and losses is included in consolidated net income.

⊙ **INCOME TAXES** Duke Energy and its subsidiaries file a consolidated federal income tax return. Deferred income taxes have been provided for temporary differences. Temporary differences occur when events and transactions recognized for financial reporting result in taxable or tax-deductible amounts in different periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

⊙ **EARNINGS PER COMMON SHARE** Basic earnings per share is based on a simple weighted average of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if securities or other agreements

to issue common stock, such as stock options, were exercised or converted into common stock. The numerator for the calculation of basic and diluted earnings per share is earnings available for common stockholders.

DENOMINATOR FOR EARNINGS PER SHARE | IN MILLIONS

	2000	1999	1998
Denominator for basic earnings per share (weighted-average shares outstanding)	735.7	729.3	722.0
Assumed exercise of diluted stock options	3.7	1.6	2.4
Denominator for diluted earnings per share	739.4	730.9	724.4

All common stock amounts have been adjusted to reflect the two-for-one common stock split effective January 26, 2001. See Note 15 to the Consolidated Financial Statements for additional information on the stock split.

⊙ **EXTRAORDINARY ITEMS** In 1999, Duke Energy realized an extraordinary gain of $660 million after tax, or $0.91 per share, relating to the sale of certain pipeline companies. See Note 2 to the Consolidated Financial Statements for additional information on the extraordinary item.

In January 1998, TEPPCO Partners, LP (TEPPCO), in which Duke Energy has a 21.1% ownership interest, redeemed certain First Mortgage Notes. A non-cash extraordinary loss of $8 million, net of income tax of $5 million, was recorded related to costs of the early retirement of debt. Earnings per common share for 1998 were reduced by $0.01 as a result of this charge.

⊙ **NEW ACCOUNTING STANDARD** In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. Duke Energy was required to adopt this standard by January 1, 2001. SFAS No. 133 requires that all derivatives be recognized as either assets or liabilities and measured at fair value, and changes in the fair value of derivatives are reported in current earnings, unless the derivative is designated and effective as a hedge. If the intended use of the derivative is to hedge the exposure to changes in the fair value of an asset, a liability or a firm commitment, then changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value. However, if the intended use of the derivative is to hedge the exposure to variability in expected future cash flows, then changes in the fair value of the derivative instrument will generally be reported in Other Comprehensive Income (OCI). The gains and losses on the derivative instrument that are reported in OCI will be reclassified to earnings in the periods in which earnings are impacted by the hedged item.

Duke Energy has determined the effect of implementing SFAS No. 133 and recorded a net-of-tax cumulative-effect adjustment of $96 million as a reduction in earnings. The net-of-tax cumulative-effect adjustment reducing OCI and Common Stockholders' Equity is estimated to be $921 million on January 1, 2001.

Currently, there are ongoing discussions surrounding the implementation and interpretation of SFAS No. 133 by the Financial Accounting Standards Board's Derivatives Implementation Group. Duke Energy implemented SFAS No. 133 based on current rules and guidance in place as of January 1, 2001. However, if the definition of derivative instruments is altered, this may impact Duke Energy's transition adjustment amounts and subsequent reported operating results.

⊙ **RECLASSIFICATIONS** Certain prior period amounts have been reclassified in the Consolidated Financial Statements to conform to the current presentation.

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

⊙ **BUSINESS ACQUISITIONS** For acquisitions accounted for using the purchase method, assets and liabilities have been consolidated as of the purchase date and earnings from the acquisitions have been included in consolidated earnings of Duke Energy subsequent to the purchase date. Assets acquired and liabilities assumed are recorded at their estimated fair values, and the excess of the purchase price over the estimated fair value of the net identifiable assets and liabilities acquired is recorded as goodwill. Purchase price allocations are subject to adjustment when additional information concerning asset and liability valuations becomes available within one year after the acquisition.

–[MARKET HUB PARTNERS (MHP) In September 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $400 million acquisition of MHP from subsidiaries of NiSource Inc. for approximately $250 million in cash and the assumption of $150 million in debt. MHP provides natural gas storage services in Louisiana and Texas with a current capacity of 23 billion cubic feet with significant expansion capabilities. Approximately $159 million of goodwill was recorded in the transaction and is being amortized on a straight-line basis over 35 years. In association with the acquisition of MHP, a tender offer was made for $115 million of the assumed debt as required by the debt agreements. As of December 31, 2000, approximately $88 million of this debt was retired.

–[PHILLIPS PETROLEUM'S GAS GATHERING, PROCESSING AND MARKETING UNIT (PHILLIPS) In March 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $1.7 billion transaction that combined Field Services' and Phillips' gas gathering, processing and marketing business to form a new midstream company, named Duke Energy Field Services, LLC (DEFS). In connection with the combination, DEFS issued approximately $2.75 billion of commercial paper in April 2000. The proceeds were used to make one-time cash distributions of approximately $1.53 billion to Duke Energy and $1.22 billion to Phillips Petroleum. Duke Energy owns approximately 70% of DEFS and Phillips Petroleum owns approximately 30%. Goodwill of approximately $429 million was recorded in connection with the transaction and is being amortized on a straight-line basis over 20 years.

–[EAST TENNESSEE NATURAL GAS COMPANY In March 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $390 million acquisition of East Tennessee Natural Gas Company from El Paso Energy. East Tennessee Natural Gas Company owns a 1,100-mile interstate natural gas pipeline system that crosses Duke Energy's Texas Eastern Transmission Corporation's (TETCO's) pipeline and serves the southeastern region of the U.S.

–[DOMINION RESOURCES' HYDROELECTRIC, NATURAL GAS AND DIESEL POWER GENERATION BUSINESSES In August 1999, Duke Energy, through its wholly owned subsidiary Duke Energy International, LLC (DEI), reached a definitive agreement to acquire Dominion Resources Inc.'s 1,200-megawatt portfolio of hydroelectric, natural gas and diesel power generation businesses in Latin America (collectively, the "Dominion acquisitions") for approximately $405 million. The Dominion acquisitions were completed in April 2000, and total goodwill related to these purchases was $109 million and is being amortized on a straight-line basis over 40 years.

–[COMPANHIA DE GERACAO DE ENERGIA ELÉTRICA PARANAPANEMA (PARANAPANEMA) In January 2000, Duke Energy, through its wholly owned subsidiary DEI, completed a series of transactions to purchase for approximately $1.03 billion an approximate 95% interest in Paranapanema, an electric generating company in Brazil. Goodwill of approximately $134 million was recorded in relation to this acquisition and is being amortized on a straight-line basis over 40 years.

–[UNION PACIFIC RESOURCES' GATHERING, PROCESSING AND MARKETING OPERATIONS In March 1999, Duke Energy through its wholly owned subsidiary, Duke Energy Field Services, Inc., completed the $1.35 billion acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources (UPR), as well as UPR's NGL marketing activities. Goodwill of $135 million has been recorded and is being amortized on a straight-line basis over 15 to 20 years.

⊙ **DISPOSITIONS** –[BELLSOUTH CAROLINA PCS (BELLSOUTH PCS) In September 2000, Duke Energy, through its wholly owned subsidiary DukeNet Communications, LLC (DukeNet), sold its 20% interest in BellSouth PCS for approximately $400 million to BellSouth Corporation. Operating revenues includes the resulting pre-tax gain of $407 million, or an after-tax gain of $0.34 per basic share.

–[CATAWBA RIVER ASSOCIATES, LLC (CATAWBA RIVER) During 2000, Duke Energy formed Catawba River, and third-party, non-controlling, preferred interest holders invested $1,025 million. Catawba River is a limited liability company with separate existence and identity from its members, and the assets of Catawba River are separate and legally distinct from Duke Energy. The preferred interest receives a preferred return equal to an adjusted floating reference rate (approximately 7.847% at December 31, 2000). The results of operations, cash flows and financial position of Catawba River are consolidated with Duke Energy. The preferred interest and the expense attributable to this interest are included in Minority Interests and Minority Interest Expense, respectively, on the Consolidated Financial Statements.

–[PEPL COMPANIES AND TRUNKLINE LNG In March 1999, wholly owned subsidiaries of Duke Energy sold Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, which substantially comprised the Midwest Pipelines, along with Trunkline LNG Company to CMS Energy Corporation (CMS). The sales price of $2.2 billion involved cash proceeds of $1.9 billion and CMS' assumption of existing PEPL debt of approximately $300 million. The sale resulted in an extraordinary gain of $660 million, net of income tax of $404 million, and an increase in earnings per basic share of $0.91. In 1999 and 1998, earnings before interest and taxes (EBIT) of $70 million and $156 million, respectively, relating to the Midwest Pipelines was included in Duke Energy's operating results. Under the terms of the sales agreement with CMS, Duke Energy retained certain assets and liabilities, which will not have a material adverse effect on consolidated results of operations, cash flows or financial position.

The pro forma results of operations for acquisitions and dispositions do not materially differ from reported results.

3. BUSINESS SEGMENTS

Duke Energy is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments.

–[FRANCHISED ELECTRIC generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina. Its operations are conducted primarily through Duke Power and Nantahala Power and Light. These electric operations are subject to the rules and regulations of the FERC, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

–[NATURAL GAS TRANSMISSION provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic, New England and southeastern states. Its operations are conducted primarily through Duke Energy Gas Transmission Corporation. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

–[FIELD SERVICES gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores NGLs. Its operations are conducted primarily through DEFS, a limited liability company that is approximately 30% owned by Phillips Petroleum. Field Services operates gathering systems in western Canada and 11 contiguous states that serve major natural gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, as well as onshore and offshore Gulf Coast areas.

–[NORTH AMERICAN WHOLESALE ENERGY'S (NAWE'S) activities include asset development, operation and management, primarily through Duke Energy North America, LLC (DENA), and commodity sales and services related to natural gas and power, primarily through Duke Energy Trading and Marketing, LLC (DETM). DETM is a limited liability company that is approximately 40% owned by Exxon Mobil Corporation. NAWE also includes Duke Energy Merchants, which develops new business lines in the evolving energy commodity markets. NAWE conducts its business throughout the U.S. and Canada. The operations of the previously segregated Trading and Marketing segment were combined by management into NAWE during 2000. Previous periods have been restated to conform to current period presentation.

–[INTERNATIONAL ENERGY conducts its operations through DEI. International Energy's activities include asset development, operation and management of natural gas and power facilities and energy trading and marketing of natural gas and electric power. This activity is targeted in the Latin American, Asia-Pacific and European regions.

–[OTHER ENERGY SERVICES is a combination of businesses that provide engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc., Duke/Fluor Daniel (D/FD) and DukeSolutions, Inc. D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc.

–[DUKE VENTURES is comprised of other diverse businesses, primarily operating through Crescent Resources, Inc. (Crescent), DukeNet and Duke Capital Partners (DCP). Crescent develops high-quality commercial, residential and multi-family real estate projects and manages land holdings primarily in the southeastern U.S. DukeNet provides fiber optic networks for industrial, commercial and residential customers. DCP, a newly formed, wholly owned merchant finance company, provides financing, investment banking and asset management services to wholesale and commercial energy markets.

Duke Energy's reportable segments are strategic business units that offer different products and services and are each managed separately. The accounting policies for the segments are the same as those described in Note 1 to the Consolidated Financial Statements. Management evaluates segment performance based on EBIT after deducting minority interests. EBIT presented in the accompanying table includes intersegment sales accounted for at prices representative of unaffiliated party transactions. Segment assets are provided as additional information in the accompanying table and are net of intercompany advances, intercompany notes receivable and investments in subsidiaries.

Other Operations primarily include certain unallocated corporate items.

BUSINESS SEGMENT DATA | IN MILLIONS

YEAR ENDED DECEMBER 31, 2000	Unaffiliated Revenues	Intersegment Revenues	Total Revenues	EBIT	Depreciation and Amortization	Capital and Investment Expenditures	Segment Assets
Franchised Electric	$ 4,946	$ -	$ 4,946	$ 1,704	$ 565	$ 661	$ 12,819
Natural Gas Transmission	998	133	1,131	534	131	973	4,995
Field Services	7,601	1,459	9,060	296	240	376	6,266
North American Wholesale Energy	33,590	284	33,874	418	75	1,937	28,213
International Energy	1,060	7	1,067	331	97	980	4,551
Other Energy Services	528	167	695	(61)	13	28	543
Duke Ventures	642	-	642	563	17	643	1,967
Other Operations	(47)	68	21	(2)	29	36	2,749
Eliminations and minority interests	-	(2,118)	(2,118)	231	-	-	(3,927)
Total consolidated	$ 49,318	$ -	$ 49,318	$ 4,014	$ 1,167	$ 5,634	$ 58,176
YEAR ENDED DECEMBER 31, 1999							
Franchised Electric	$ 4,700	$ -	$ 4,700	$ 856	$ 542	$ 759	$ 13,133
Natural Gas Transmission	1,124	106	1,230	627	126	261	3,897
Field Services	2,883	707	3,590	144	131	1,630	3,565
North American Wholesale Energy	11,623	178	11,801	209	57	1,028	6,268
International Energy	323	34	357	42	58	1,779	4,459
Other Energy Services	886	103	989	(94)	14	94	612
Duke Ventures	232	-	232	162	13	382	1,031
Other Operations	(5)	44	39	5	27	3	1,250
Eliminations and minority interests	-	(1,172)	(1,172)	92	-	-	(806)
Total consolidated	$ 21,766	$ -	$ 21,766	$ 2,043	$ 968	$ 5,936	$ 33,409
YEAR ENDED DECEMBER 31, 1998							
Franchised Electric	$ 4,626	$ -	$ 4,626	$ 1,513	$ 522	$ 586	$ 12,953
Natural Gas Transmission	1,440	102	1,542	702	215	290	4,996
Field Services	2,132	545	2,677	76	80	304	1,893
North American Wholesale Energy	8,727	56	8,783	133	27	796	4,394
International Energy	125	34	159	12	15	239	900
Other Energy Services	436	85	521	10	12	41	376
Duke Ventures	171	-	171	122	10	232	818
Other Operations	5	26	31	22	28	12	874
Eliminations and minority interests	-	(848)	(848)	57	-	-	(398)
Total consolidated	$ 17,662	$ -	$ 17,662	$ 2,647	$ 909	$ 2,500	$ 26,806

GEOGRAPHIC DATA | IN MILLIONS

	U.S.	Canada	Latin America	Other Foreign	Consolidated
2000					
Consolidated revenues	$ 43,282	$ 4,964	$ 512	$ 560	$ 49,318
Consolidated long-term assets	31,074	900	2,823	1,222	36,019
1999					
Consolidated revenues	$ 19,336	$ 2,007	$ 171	$ 252	$ 21,766
Consolidated long-term assets	22,995	250	2,708	901	26,854
1998					
Consolidated revenues	$ 16,589	$ 996	$ 31	$ 46	$ 17,662
Consolidated long-term assets	20,982	140	207	632	21,961

4. REGULATORY MATTERS

⊙ **FRANCHISED ELECTRIC** The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Franchised Electric's rates for electric sales to wholesale customers. Electric sales to the other joint owners of the Catawba Nuclear Station, which represent a majority of Franchised Electric's wholesale revenues, are set through contractual agreements.

Fuel costs are reviewed semiannually in the wholesale jurisdiction and annually in the South Carolina retail jurisdiction, with provisions for reviewing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings. All jurisdictions allow Duke Energy to adjust electric rates for past over- or under-recovery of fuel costs. Therefore, the difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues.

On December 20, 1999 and February 25, 2000, the FERC issued its Order 2000 and Order 2000-A regarding Regional Transmission Organizations (RTOs). In these orders, the FERC stressed the voluntary nature of RTO participation by utilities and set minimum characteristics and functions that must be met by utilities that participate in an RTO, including exclusive and independent authority to propose rates, terms and conditions of transmission service provided over the facilities it operates. The order provides for an open, flexible structure for RTOs to meet the needs of the market and provides for the possibility of incentive ratemaking and other benefits for utilities that participate in an RTO.

As a result of these rulemakings, on October 16, 2000, Duke Energy and two other investor-owned utilities, Progress Energy and South Carolina Electric & Gas, filed with the FERC to establish GridSouth Transco, LLC (GridSouth), as an RTO. If approved, GridSouth will be a for-profit, independent transmission company, responsible for operating and planning the companies' combined transmission systems. The target date for formation of GridSouth is December 15, 2001. However, the actual date that GridSouth becomes operational will depend upon the resolution of all necessary regulatory approvals and resolving all technical issues. Management believes that the establishment of GridSouth will not have a material adverse effect on future consolidated results of operations, cash flows or financial position.

⊙ **NATURAL GAS TRANSMISSION** On February 9, 2000, the FERC issued Order 637, which sets forth revisions to its regulations governing short-term natural gas transportation services and policies governing the regulation of interstate natural gas pipelines. "Short-term" has been defined as all transactions of less than one year. Among the significant actions taken are the lifting of the price cap for short-term capacity release by pipeline customers for an experimental 2 1/2-year period ending September 1, 2002, and requiring that interstate pipelines file pro forma tariff sheets to (i) provide for nomination equality between capacity release and primary pipeline capacity; (ii) implement imbalance management services (for which interstate pipelines may charge fees) while at the same time reducing the use of operational flow orders and penalties; and (iii) provide segmentation rights if operationally feasible. Order 637 also narrows the right of first refusal to remove economic biases perceived in the current rule. Order 637 imposes significant new reporting requirements for interstate pipelines that were implemented by Duke Energy during the third quarter of 2000. Additionally, Order 637 permits pipelines to propose peak/off-peak rates and term-differentiated rates, and encourages pipelines to propose experimental capacity auctions. By Order 637-A, issued

in February 2000, the FERC generally denied requests for rehearing and several parties, including Duke Energy, have filed appeals in the District of Columbia Court of Appeals seeking court review of various aspects of the Order. During the third quarter of 2000, Duke Energy's interstate pipelines made the required pro forma tariff sheet filings. These filings are currently subject to review and approval by the FERC.

Management does not believe the effects of these matters will have a material effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

5. JOINT OWNERSHIP OF GENERATING FACILITIES

JOINT OWNERSHIP OF CATAWBA NUCLEAR STATION

Owner	Ownership Interest
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.1%
Duke Energy Corporation	**12.5%**
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.4%
	100.0%

As of December 31, 2000, $525 million of property, plant and equipment and $268 million of accumulated depreciation and amortization represented Duke Energy's investment in Catawba Nuclear Station Units 1 and 2. Duke Energy's share of operating costs is included in the Consolidated Statements of Income.

Duke Energy entered into contractual interconnection agreements with the other joint owners of Catawba Nuclear Station to purchase declining percentages of the generating capacity and energy from the station, which expired during 2000.

The portion of purchased capacity costs subject to levelization in rates was deferred. As of December 31, 2000 and 1999, $505 million and $643 million, respectively, associated with the cost of capacity purchased but not reflected in current rates have been accumulated in the Consolidated Balance Sheets as Purchased Capacity Costs and Current Portion of Purchased Capacity Costs. Duke Energy is recovering the accumulated balance, including returns on the deferred balance, over a period expected to end in 2004. Jurisdictional levelizations are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. For the years ended December 31, 2000, 1999 and 1998, purchased capacity and energy costs from the other joint owners were approximately $7 million, $62 million and $88 million, respectively. These amounts, after adjustments for amounts in current rates, are included in the Consolidated Statements of Income as Net Interchange and Purchased Power.

The interconnection agreements also provide for supplemental power sales by Duke Energy to the other joint owners of Catawba Nuclear Station to satisfy their capacity and energy needs beyond the capacity and energy which they retain from the station or potentially acquire in the form of other resources. The agreements further provide the other joint owners the ability to secure such supplemental requirements outside of these contractual agreements following an appropriate notice period. NCEMC, Saluda River and NCMPA have given such appropriate notice effective January 1, 2001. PMPA will continue to receive supplemental power sales from Duke Energy through December 31, 2005. As the other joint owners retain more capacity and energy from the station, or obtain additional capacity and energy from a third party, supplemental power sales are expected to decline. Management believes this will not have a material adverse effect on consolidated results of operations, cash flows or financial position.

6. INCOME TAXES

INCOME TAX EXPENSE | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Current income taxes			
Federal	$ 679	$ 525	$ 673
State	109	138	138
Foreign	18	1	-
Total current income taxes	806	664	811
Deferred income taxes, net			
Federal	187	(126)	(15)
State	13	(65)	(4)
Foreign	29	(1)	-
Total deferred income taxes, net	229	(192)	(19)
Investment tax credit amortization	(15)	(19)	(15)
Total	income tax expense	$ 1,020	$ 453	$ 777

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Income tax, computed at the statutory rate of 35%	$ 979	$ 455	$ 713
Adjustments resulting from:			
State income tax, net of federal income tax effect	75	47	90
Favorable resolution of federal tax issues	(18)	(30)	-
Other items, net	(16)	(19)	(26)
Total	income tax expense	$ 1,020	$ 453	$ 777
Effective tax rate	36.5%	34.9%	38.1%

NET DEFERRED INCOME TAX LIABILITY COMPONENTS | IN MILLIONS DECEMBER 31

	2000	1999
Deferred credits and other liabilities	$ 429	$ 500
International property, plant, & equipment	153	-
Other	10	8
Total deferred income tax assets	592	508
Valuation allowance	(9)	(6)
Net deferred income tax assets	583	502
Investments and other assets	(320)	(245)
Property, plant and equipment	(2,707)	(2,483)
Regulatory assets and deferred debits	(326)	(427)
Regulatory asset related to restating to pre-tax basis	(429)	(432)
Total deferred income tax liability	(3,782)	(3,587)
State deferred income tax, net of federal tax effect	(320)	(340)
Total	net deferred income tax liability	$ (3,519)	$ (3,425)

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

COMMODITY DERIVATIVES – TRADING Duke Energy provides risk management services to its customers through forward contracts, futures, over-the-counter swap agreements and options (collectively, "commodity derivatives"). Duke Energy engages in the trading of commodity derivatives, and therefore experiences net open positions, which are managed with strict policies that limit its exposure to market risk and require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement. The weighted-average life of Duke Energy's commodity trading portfolio was approximately 25 months at December 31, 2000.

NET GAINS RECOGNIZED FROM TRADING ACTIVITIES | IN MILLIONS

	2000	1999	1998
Natural gas	$ 212	$ 83	$ 114
Electricity	368	41	14
Other[a]	46	-	-

[a] Other includes refined products, fertilizer, crude oil and other miscellaneous commodities

ABSOLUTE NOTIONAL CONTRACT QUANTITY OF COMMODITY DERIVATIVES HELD FOR TRADING PURPOSES | DECEMBER 31

	2000	1999
Natural gas, in billion cubic feet	39,716	17,248
Electricity, in gigawatt hours	289,109	185,536
Fertilizer contracts, in thousands of tonnes	141,619	-
Refined products, in thousands of barrels	451,133	-

FAIR VALUES OF COMMODITY DERIVATIVES – TRADING | IN MILLIONS

	2000		1999	
	Assets	Liabilities	Assets	Liabilities
Fair values at December 31,				
Natural gas	$ 45,423	$ 45,104	$ 2,966	$ 2,855
Electricity	9,436	9,254	1,302	1,271
Fertilizer contracts	5,886	5,850	-	-
Refined products	1,192	1,159	-	-
Other[a]	303	268	-	-
Eliminations	(46,984)	(46,984)	(2,447)	(2,447)
Total fair values	$ 15,256	$ 14,651	$ 1,821	$1,679
Average fair values for the year				
Natural gas	20,150	19,801	2,401	2,269
Electricity	6,650	6,558	962	900
Fertilizer contracts	3,002	2,974	-	-
Refined products	1,345	1,309	-	-
Other[a]	437	427	-	-

[a] Other includes crude oil and other miscellaneous commodities

COMMODITY DERIVATIVES – NON-TRADING Duke Energy also manages its exposure to risk from existing assets, liabilities and commitments by hedging the impact of market fluctuations. At December 31, 2000 and 1999, Duke Energy held or issued several commodity derivatives, primarily in the form of swaps, that reduce exposure to market price fluctuations for certain power and NGL production facilities. At December 31, 2000, these commodity derivatives extended for periods up to 10 years and generally contain margin requirements. The gains, losses and costs related to non-trading commodity derivatives are not recognized until the underlying physical transaction closes. At December 31, 2000 and 1999, Duke Energy had unrealized net losses of $1,642 million and $120 million, respectively, related to non-trading commodity derivatives. These unrealized losses partially offset the unrealized market value gains related to future cash flows from underlying asset positions.

ABSOLUTE NOTIONAL CONTRACT QUANTITY OF COMMODITY DERIVATIVES HELD FOR NON-TRADING PURPOSES

	DECEMBER 31	
	2000	1999
Natural gas, in billion cubic feet	401	592
Electricity, in gigawatt hours	75,932	45,877
Power capacity, in megawatt months	35,325	25,950
Crude oil, in thousands of barrels	43,991	32,764

INTEREST RATE DERIVATIVES Duke Energy periodically enters into financial derivative instruments including, but not limited to, swaps, options and interest rate locks to manage and mitigate interest rate risk related to existing and anticipated borrowings. The notional amounts shown in the following table serve solely as a basis for the calculation of payment streams to be exchanged. These notional amounts are not a measure of Duke Energy's exposure through its use of derivatives. Fair values shown in the following table represent estimated amounts that Duke Energy would have received (paid) if the swaps had been settled at current market rates on the respective dates.

INTEREST RATE DERIVATIVES | DOLLARS IN MILLIONS

	DECEMBER 31					
	2000			1999		
	Notional Amounts	Fair Value	Contracts Expire	Notional Amounts	Fair Value	Contracts Expire
Fixed-to-floating rate swaps	$ 275	$ 27	2009	$ 100	$ 1	2000
Cancelable fixed-to-floating rate swaps	630	20	2004–2022	-	-	-
CP[a] floating-to-fixed rate swap	100	(1)	2001	500	1	2000
Interest rate locks	275	(9)	2011	-	-	-

[a] Commercial paper

Gains and losses that had been deferred in anticipation of planned financing transactions on interest rate swap derivatives have been capitalized and are being amortized over the life of the underlying debt. These deferred gains and losses were not material in 2000 or 1999. As a result of the interest rate swap contracts, interest expense for the relative notional amount is recognized at the weighted-average rates as depicted in the following table.

WEIGHTED-AVERAGE RATES FOR INTEREST RATE SWAPS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Fixed-to-floating rate swaps	6.50%	5.71%	6.04%
Cancelable fixed-to-floating rate swaps	5.09%	-	-
Commercial paper swaps	6.11%	4.95%	-

FOREIGN CURRENCY DERIVATIVES NAWE enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies, primarily in the Canadian dollar. As of December 31, 2000, the agreements had a notional contract amount of approximately $1,396 million, beginning in the year 2001 and extending through the year 2005, and had a weighted-average fixed exchange rate of 1.4672 Canadian dollars to one U.S. dollar. As of December 31, 1999, the agreements had a notional contract amount of approximately $762 million, beginning in the year 2000 and extending to the year 2005, and had a weighted-average fixed exchange rate of 1.470 Canadian dollars to one U.S. dollar. The fair value of foreign currency swap agreements was not material at December 31, 2000 or 1999.

⊙ **MARKET AND CREDIT RISK** Duke Energy's principal markets for power and natural gas marketing services are industrial end-users and utilities located throughout the U.S., Canada, Asia Pacific and Latin America. Duke Energy has concentrations of receivables from natural gas and electric utilities and their affiliates, as well as industrial customers throughout these regions. These concentrations of customers may affect Duke Energy's overall credit risk in that certain customers may be similarly affected by changes in economic, regulatory or other factors. On all transactions where Duke Energy is exposed to credit risk, Duke Energy analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of these limits on an ongoing basis. As of December 31, 2000, Duke Energy had approximately $400 million in receivables related to energy sales in California. Duke Energy quantified its exposures with regard to those receivables and recorded a provision of $110 million. See Note 14 to the Consolidated Financial Statements for further information regarding credit exposure.

The change in market value of New York Mercantile Exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Physical forward contracts and financial derivatives are generally settled at the expiration of the contract term or each delivery period; however, these transactions are also generally subject to margin agreements with the majority of Duke Energy's counterparties.

⊙ **FINANCIAL INSTRUMENTS** The fair value of financial instruments is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2000 and 1999, are not necessarily indicative of the amounts Duke Energy could have realized in current markets. The majority of the estimated fair value amounts were obtained from independent parties.

FINANCIAL INSTRUMENTS | IN MILLIONS

	2000		1999	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
Long-term debt[a]	$ 11,456	$ 12,198	$ 9,165	$ 8,891
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	1,406	1,389	1,404	1,207
Preferred stock[a]	280	275	313	303

[a] Includes current maturities

The fair value of cash and cash equivalents, notes receivable, notes payable and commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

Guarantees made on behalf of affiliates or recourse provisions from affiliates have no book value associated with them, and there are no fair values readily determinable since quoted market prices are not available.

8. INVESTMENT IN AFFILIATES

Investments in domestic and international affiliates that are not controlled by Duke Energy but where Duke Energy has significant influence over operations are accounted for by the equity method. These investments include undistributed earnings of $70 million and $6 million in 2000 and 1999, respectively. Duke Energy's share of net income from these affiliates is reflected in the Consolidated Statements of Income as Other Operating Revenues.

⊙ **NATURAL GAS TRANSMISSION** Investments primarily include ownership interests in natural gas pipeline joint ventures which transport natural gas to the U.S. from Canada. Investments include a 37.5% ownership interest in Maritimes & Northeast Pipeline, LLC.

⊙ **FIELD SERVICES** Investments primarily include a 37% interest in a partnership which owns natural gas gathering systems in the Gulf of Mexico (Dauphin Island Gathering Partners) and a 21.1% ownership interest in TEPPCO.

⊙ **NORTH AMERICAN WHOLESALE ENERGY** Significant investments include a 50% indirect interest in VMC Generating Company, a merchant electric generating company, a 32.5% indirect interest in American Ref-Fuel, LLC and a 50% interest in Southwest Power Partners.

⊙ **INTERNATIONAL ENERGY** International Energy has investments in various natural gas and electric generation and transmission facilities in its targeted geographic areas. Significant investments include a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) business in Jubail, Saudi Arabia.

⊙ **OTHER ENERGY SERVICES** Investments include the participation in various construction and support activities for fossil-fueled generating plants.

⊙ **DUKE VENTURES** Significant investments include various real estate development projects and a 20% interest in the BellSouth PCS joint venture until its sale in 2000.

INVESTMENT IN AFFILIATES | IN MILLIONS | DECEMBER 31

	2000			1999			1998		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 82	$ 88	$ 170	$ 67	$ 83	$ 150	$ 104	$ 37	$ 141
Field Services	373	-	373	439	-	439	303	-	303
North American Wholesale Energy	635	9	644	425	-	425	171	-	171
International Energy	-	154	154	-	224	224	-	223	223
Other Energy Services	11	7	18	51	6	57	19	23	42
Duke Ventures	23	-	23	10	-	10	24	-	24
Other Operations	(12)	-	(12)	(6)	-	(6)	(2)	-	(2)
Total	$ 1,112	$ 258	$ 1,370	$ 986	$ 313	$ 1,299	$ 619	$ 283	$ 902

EQUITY IN EARNINGS OF INVESTMENT | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000			1999			1998		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 13	$ 4	$ 17	$ 16	$ 9	$ 25	$ 14	$ 3	$ 17
Field Services	39	-	39	44	-	44	9	-	9
North American Wholesale Energy	36	-	36	47	-	47	50	-	50
International Energy	-	43	43	-	10	10	-	18	18
Other Energy Services	(13)	-	(13)	10	3	13	1	13	14
Duke Ventures	(9)	-	(9)	(22)	-	(22)	(29)	-	(29)
Other Operations	(10)	-	(10)	(5)	-	(5)	-	-	-
Total	$ 56	$ 47	$ 103	$ 90	$ 22	$ 112	$ 45	$ 34	$ 79

SUMMARIZED COMBINED FINANCIAL INFORMATION OF UNCONSOLIDATED AFFILIATES IN MILLIONS

	DECEMBER 31		
	2000	1999	1998
Balance sheet			
Current assets	$ 1,242	$ 1,544	$ 848
Noncurrent assets	6,588	7,826	7,340
Current liabilities	888	1,155	1,084
Noncurrent liabilities	4,404	4,727	3,884
Net assets	$ 2,538	$ 3,488	$ 3,220
Income statement			
Operating revenues	$ 4,617	$ 3,510	$ 1,667
Operating expenses	4,039	3,104	1,166
Net income	440	193	263

Duke Energy had outstanding notes receivable from certain affiliates of $70 million and $72 million at December 31, 2000 and 1999, respectively.

9. PROPERTY, PLANT AND EQUIPMENT

NET PROPERTY, PLANT AND EQUIPMENT IN MILLIONS

	DECEMBER 31	
	2000	1999
Land	$ 36	$ 25
Plant:		
Electric generation and transmission	11,734	11,717
Natural gas transmission	11,281	10,290
Gathering and processing facilities	4,434	2,466
Other buildings and improvements	1,339	1,310
Leasehold improvements	14	8
Nuclear fuel	761	741
Equipment	92	83
Vehicles	36	37
Construction in process	2,209	1,220
Other	2,679	2,539
Total property, plant and equipment	$ 34,615	$ 30,436
Total accumulated depreciation[a]	$(10,146)	$ (9,441)
Total net property, plant and equipment	$ 24,469	$ 20,995

[a] Includes amortization of nuclear fuel: 2000 - $503 million; 1999 - $444 million

Capitalized interest of $67 million, $52 million and $28 million is included in the Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998, respectively.

10. DEBT AND CREDIT FACILITIES

LONG-TERM DEBT, IN MILLIONS	Year Due	DECEMBER 31 2000	1999
DUKE ENERGY			
First and refunding mortgage bonds[a]			
5.875%–6.375%	2001–2008	$ 625	$ 625
6.750%–8.30%	2023–2025	661	661
7.0%–8.950%	2027–2033	165	165
Pollution control debt, 3.850%–5.80%	2012–2017	172	172
Notes:			
5.375%–9.210%	2009–2016	811	264
6.0%–6.60%	2028–2038	500	500
Commercial paper, 6.510% and 5.840% weighted-average rate at December 31, 2000 and 1999, respectively[b]		1,256	1,184
Other debt		18	21
Notes matured during 2000		-	200
DUKE CAPITAL CORPORATION			
Senior notes:			
6.250%–7.50%	2004–2009	1,400	1,250
6.750%–8.50%	2018–2019	650	650
Commercial paper, 6.660% and 5.910% weighted-average rate at December 31, 2000 and 1999, respectively[b]		1,378	535
Note payable to affiliate 6.140% and 5.030% weighted-average rate at December 31, 2000 and 1999, respectively		141	86
PANENERGY CORP			
Bonds:			
7.750%	2022	328	328
8.625% debentures	2025	100	100
Notes:			
7.0%–9.90%, maturing serially	2003–2006	384	395
TETCO			
Notes:			
7.30%–10.375%	2001–2010	600	500
Medium-term, Series A, 7.640%–9.070%	2001–2012	51	51
ALGONQUIN GAS TRANSMISSION COMPANY			
9.130% Notes	2003	100	100

[a] Substantially all of Franchised Electric's plant was mortgaged

[b] Extendible commercial notes are included in the 2000 amounts

LONG-TERM DEBT (CONTINUED) | IN MILLIONS

	Year Due	DECEMBER 31 2000	1999
DEFS			
Notes, 7.50%–8.125%	2005–2030	$ 1,700	$ -
Commercial paper, 7.390% weighted-average rate at December 31, 2000		346	-
DENA			
Bonds, 7.50%–10.0%	2010–2030	302	-
Capital leases	2009–2028	272	207
Notes matured during 2000		-	380
DEI			
Medium-term note 7.250%	2004	139	162
Notes:			
4.50%–18.0%	2001–2024	222	107
7.90%	2004–2013	138	161
6.0%–10.0%[c]	2013–2017	477	485
Credit facilities, 6.130% and 6.010% weighted-average rate at December 31, 2000 and 1999, respectively		44	80
Commercial paper, 6.40% and 5.510% weighted-average rate at December 31, 2000 and 1999, respectively		223	49
CRESCENT[d]			
Construction and mortgage loans, 6.30%–9.50%	2001–2010	67	46
Other debt of subsidiaries		103	34
Unamortized debt discount and premium, net		(91)	(66)
Total long-term debt		13,282	9,432
Current maturities of long-term debt		(437)	(482)
Short-term notes payable and commercial paper		(1,826)	(267)
Total | long-term portion		$ 11,019	$ 8,683

c Paranapanema (Brazil) debt; principal is indexed annually to inflation.

d Substantial amounts of Crescent's real estate development projects, land and buildings were pledged as collateral.

The weighted-average interest rate on outstanding short-term notes payable and commercial paper at December 31, 2000 and 1999, was 6.80% and 5.720%, respectively.

ANNUAL MATURITIES | IN MILLIONS

2001	$ 437
2002	263
2003	475
2004	956
2005	922
Thereafter	8,403
Total | long-term debt	$ 11,456

Included in the annual maturities after 2005 is $1,536 million of long-term debt that has call options whereby Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise its redemption options, $95 million could potentially be repaid in 2001, $1,114 million in 2002, $227 million in 2003 and $100 million in 2005.

CREDIT FACILITIES | IN MILLIONS

	DECEMBER 31			
	2000		1999	
	Credit Facilities	Outstanding	Credit Facilities	Outstanding
364-day facilities[a]	$ 1,796	$ -	$ 823	$ 10
Three-year revolving facilities	84	44	565	450
Four-year revolving facilities	125	-	125	-
Five-year revolving facilities[a]	2,200	-	2,200	-
Total consolidated	$ 4,205	$ 44	$ 3,713	$ 460

[a] Supported commercial paper facilities

11. NUCLEAR DECOMMISSIONING COSTS

NUCLEAR DECOMMISSIONING COSTS Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately $1.9 billion stated in 1999 dollars based on decommissioning studies completed in 1999. This amount includes Duke Energy's 12.5% ownership in the Catawba Nuclear Station. The other joint owners of Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station. Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of Duke Energy's nuclear stations. The operating licenses for Duke Energy's nuclear units are subject to extension. On May 23, 2000, Duke Energy was granted a license renewal for Oconee. The current operating licenses for Duke Energy's nuclear units are as follows:

OPERATING LICENSES FOR NUCLEAR UNITS

Unit	Year
McGuire 1	2021
McGuire 2	2023
Catawba 1	2024
Catawba 2	2026
Oconee 1 and 2	2033
Oconee 3	2034

During 2000 and 1999, Duke Energy expensed approximately $57 million, which was contributed to the external funds for decommissioning costs, and accrued an additional $8 million to the internal reserve. Nuclear units are depreciated at an annual rate of 4.7%, of which 1.61% is for decommissioning. The balance of the external funds as of December 31, 2000 and 1999, was $717 million and $703 million, respectively. The balance of the internal reserve as of December 31, 2000 and 1999, was $231 million and $223 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization. Management believes that the decommissioning costs being recovered through rates, when coupled with expected fund earnings, are currently sufficient to provide for the cost of decommissioning.

A provision in the Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the Department of Energy's (DOE) uranium enrichment plants, (the D&D Fund). Licensees are subject to an annual assessment for 15 years based on their pro rata share of past enrichment services. On June 12, 1998, Duke Energy and 21 other utilities filed a lawsuit challenging the constitutionality of the D&D Fund and seeking an injunction that prohibits the government from collecting the assessment and a refund of all assessments paid. The annual assessment is recorded in the Consolidated Statements

of Income as Fuel Used in Electric Generation. Duke Energy paid $10 million during 2000 and has paid $85 million cumulatively related to its ownership interests in nuclear plants. The remaining liability and regulatory assets of $62 million and $70 million at December 31, 2000 and 1999, respectively, are reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities, and Regulatory Assets and Deferred Debits, respectively.

⊙ **SPENT NUCLEAR FUEL** Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting the spent nuclear fuel on January 31, 1998, the date provided by the Nuclear Waste Policy Act and by Duke Energy's contract with the DOE. On June 8, 1998, Duke Energy filed with the U.S. Court of Federal Claims a claim against the DOE for damages in excess of $1 billion arising out of the DOE's failure to begin accepting commercial spent nuclear fuel by January 31, 1998. Damages claimed in the suit are intended to recover costs that Duke Energy is incurring and will continue to incur as a result of the DOE's partial material breach of its contract with Duke Energy, including costs associated with securing additional spent fuel storage capacity. Duke Energy will continue 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.

12. GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY OR SUBSIDIARIES

Duke Energy and certain subsidiaries have each formed business trusts for which they own all the respective common securities. The trusts issue and sell preferred securities and invest the gross proceeds in junior subordinated notes issued by the respective parent companies.

TRUST PREFERRED SECURITIES | IN MILLIONS

Issued	Rate	Due	DECEMBER 31 2000	1999
1997	7.20%	2037	$ 350	$ 350
1998	7.375%	2038	350	350
1998	7.375%	2038	250	250
1999	8.375%	2029	250	250
1999	7.20%	2039	250	250
Unamortized debt discount			(44)	(46)
			$ 1,406	$ 1,404

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts. Payment of distributions on these preferred securities is guaranteed by the respective parent company, but only to the extent the trusts have funds legally and immediately available to make such distributions. Dividends of $108 million, $87 million and $44 million related to the trust preferred securities have been included in the Consolidated Statements of Income as Minority Interest Expense for the years ended December 31, 2000, 1999 and 1998, respectively.

13. PREFERRED AND PREFERENCE STOCK

AUTHORIZED SHARES OF STOCK AS OF DECEMBER 31, 2000 AND 1999

	Par Value	Shares (IN MILLIONS)
Preferred Stock	$ 100	12.5
Preferred Stock A	$ 25	10.0
Preference Stock	$ 100	1.5

As of December 31, 2000 and 1999, there were no shares of preference stock outstanding.

PREFERRED STOCK WITH SINKING FUND REQUIREMENTS | DOLLARS IN MILLIONS

Rate/Series	Year Issued	Shares Outstanding at December 31, 2000	DECEMBER 31 2000	1999
6.20% D (Preferred Stock A)	1992	800,000	$ 20	$ 20
6.30% U	1992	130,000	13	13
6.40% V	1992	130,000	13	13
6.75% X	1993	250,000	25	25
6.10% C (Preferred Stock A)[a]	1992	-	-	20
6.20% T[a]	1992	-	-	13
Total			$ 71	$ 104

[a] Preferred stock series C and T redeemed in September and December, 2000, respectively.

The annual sinking fund requirements for 2001 through 2005 are $33 million, $13 million, $2 million, $2 million and $2 million, respectively. Some additional redemptions are permitted at Duke Energy's option.

PREFERRED STOCK WITHOUT SINKING FUND REQUIREMENTS | DOLLARS IN MILLIONS

Rate/Series	Year Issued	Shares Outstanding at December 31, 2000	DECEMBER 31 2000	1999
4.50% C	1964	175,000	$ 18	$ 18
7.85% S	1992	300,000	30	30
7.00% W	1993	249,989	25	25
7.04% Y	1993	299,995	30	30
6.375% (Preferred Stock A)	1993	1,257,185	31	31
Auction Series A	1990	750,000	75	75
Total			$ 209	$ 209

The call provisions for the outstanding preferred stock specify various redemption prices not exceeding 104% of par value, plus accumulated dividends to the redemption date.

14. COMMITMENTS AND CONTINGENCIES

NUCLEAR INSURANCE Duke Energy owns and operates the McGuire and Oconee Nuclear Stations with two and three nuclear reactors, respectively, and operates and has a partial ownership interest in the Catawba Nuclear Station with two nuclear reactors. Nuclear insurance coverage is maintained in three program areas: liability coverage; property, decontamination and decommissioning coverage; and business interruption and/or extra expense coverage. Certain expenses associated with nuclear insurance premiums paid by Duke Energy are reimbursed by the other joint owners of the Catawba Nuclear Station.

Pursuant to the Price-Anderson Act, Duke Energy is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately $9.5 billion.

–[PRIMARY LIABILITY INSURANCE The maximum required private primary liability insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims.

–[EXCESS LIABILITY INSURANCE This policy currently provides approximately $9.3 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The $9.3 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of $88 million per licensed commercial nuclear reactor. This $9.3 billion will be increased by $88 million as each additional commercial nuclear reactor is licensed, or reduced by $88 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs and public liability damages exceed primary insurances,

licensees may be assessed up to $88 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident. The $88 million amount is subject to indexing for inflation and may be subject to state premium taxes.

Duke Energy is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverage for Duke Energy's nuclear facilities under the following three policy programs:

–[PRIMARY PROPERTY INSURANCE This policy provides $500 million in primary property damage coverage for each of Duke Energy's nuclear facilities.

–[EXCESS PROPERTY INSURANCE This policy provides excess property, decontamination and decommissioning liability insurance in the following amounts: $2.25 billion for the Catawba Nuclear Station and $1.5 billion each for the Oconee and McGuire Nuclear Stations.

–[BUSINESS INTERRUPTION INSURANCE This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit. Each unit of the McGuire and Catawba Nuclear Stations is insured for up to approximately $4 million per week and the Oconee Nuclear Station units are insured for up to approximately $3 million per week. Coverage amounts per unit decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 12-week deductible period and continues at 100% for 52 weeks and 80% for the next 110 weeks.

If NEIL's losses ever exceed its reserves for any of the above three programs, Duke Energy will be liable for assessments of up to five times its annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance – $18 million; Excess Property Insurance – $18 million; Business Interruption Insurance – $15 million.

The other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of any liabilities for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary insurance program of risk pooling or the NEIL policies.

⊙ **ENVIRONMENTAL** Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters.

–[MANUFACTURED GAS PLANTS AND SUPERFUND SITES Duke Energy was an operator of manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of certain former manufactured gas plant sites to investigate and, where necessary, remediate these contaminated sites. Duke Energy is considered by regulators to be a potentially responsible party and may be subject to future liability at eight federal Superfund sites and three state Superfund sites. While the cost of remediation of these sites may be substantial, Duke Energy will share in any liability associated with remediation of contamination at such sites with other potentially responsible parties. Management believes that resolution of these matters will not have a material adverse effect on consolidated results of operations, cash flows or financial position.

–[PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEANUP PROGRAMS In June 1999, the Environmental Protection Agency (EPA) certified that TETCO, a wholly owned subsidiary of Duke Energy, had completed cleanup of PCB-contaminated sites under conditions stipulated by a U.S. Consent Decree in 1989. TETCO was required to continue groundwater monitoring on a number of sites for two years. This required monitoring was completed as of the end of 2000, pending EPA concurrence. TETCO will be evaluating and discussing with the EPA, appropriate state authorities or both the need for additional remediation or monitoring.

Under terms of the sales agreement with CMS discussed in Note 2 to the Consolidated Financial Statements, Duke Energy is obligated to complete cleanup of previously identified contamination resulting from the past use of PCB-containing lubricants and other discontinued practices at certain sites on the PEPL and Trunkline systems. Based on Duke Energy's experience to date and costs incurred for cleanup operations, management believes the resolution of matters relating to the environmental issues discussed above will not have a material adverse effect on consolidated results of operations, cash flows or financial position.

AIR QUALITY CONTROL In October 1998, the EPA issued a final rule on regional ozone control that required 22 eastern states and the District of Columbia to revise their State Implementation Plans (SIPs) to significantly reduce emissions of nitrogen oxide by May 1, 2003. The EPA's rule was challenged in court by various states, industry and other interests, including the states of North Carolina and South Carolina, and Duke Energy. In March 2000, the court upheld most aspects of the EPA's rule. The same court subsequently issued a decision that extended the compliance deadline for implementation of emission reductions to May 31, 2004. In January 2000, the EPA finalized another ozone-related rule under Section 126 of the Clean Air Act (CAA) that has virtually identical emission control requirements as its October 1998 action, but with a May 1, 2003 compliance date. The EPA's 2000 rule has been challenged in court. The court is expected to issue its decision during the spring of 2001.

In response to the EPA's October 1998 rule, both North Carolina and South Carolina are in the process of finalizing the SIP revisions to implement the EPA rule's emission reduction requirements. Additionally, North Carolina has adopted a separate rule that caps nitrogen oxide emissions from coal-fired power plants in the event the EPA's SIP rule is eventually overturned.

Depending on the resolution of these and related matters, management anticipates that costs to Duke Energy may range from $500 million to $900 million in capital costs for additional emission controls over an estimated time period which continues through 2007. Emission control retrofits of this type are large technical, design and construction projects. These projects will be managed closely to ensure the continuation of reliable electric service to Duke Energy's customers throughout the projects and upon their completion.

On December 22, 2000, the U.S. Justice Department, acting on behalf of the EPA, filed a complaint against Duke Energy in the U.S. District Court in Greensboro, North Carolina, for alleged violations of the New Source Review (NSR) provisions of the CAA. The EPA is claiming that 29 projects performed at 25 of Duke Energy's coal-fired units were major modifications as defined in the CAA and that Duke Energy violated the CAA's NSR requirements when it undertook those projects without obtaining permits and installing emission controls for sulfur dioxide, nitrogen oxide and particulate matter. The complaint requests, among other things, that the court enjoin Duke Energy from operating the coal-fired units identified in the complaint, and order Duke Energy to install additional emission controls and pay unspecified civil penalties. This complaint appears to be part of the EPA's NSR enforcement initiative, in which the EPA claims that utilities and others have committed widespread violations of the CAA permitting requirements for the past 25 years. The EPA has sued or issued notices of violation or investigative information requests, to at least 48 other electric utilities and cooperatives.

The EPA's allegations run counter to previous EPA guidance regarding the applicability of the NSR permitting requirements. Duke Energy, along with other utilities, has routinely undertaken the type of repair, replacement, and maintenance projects that the EPA now claims are illegal. Duke Energy believes that all of its electric generation units are properly permitted and have been properly maintained, and intends to defend itself vigorously against these alleged violations. However, because these matters are in a preliminary stage, management cannot estimate the effects of these matters on Duke Energy's future consolidated results of operations, cash flows or financial position. The CAA authorizes civil penalties of up to $27,500 per day per violation at each generating unit. Civil penalties, if ultimately imposed by the court, and the cost of any required new pollution control equipment, if the court accepts the EPA's contentions, could be substantial.

INJURY AND DAMAGES CLAIMS Duke Energy has experienced numerous claims relating to damages for personal injury alleged to have arisen from the exposure to or use of asbestos in connection with construction and maintenance activities conducted by Duke Energy on its electric generation plants during the 1960s and 1970s. During 1999, Duke Energy experienced a significant increase in the number of these claims. This increase, coupled with its cumulative experience in claims received, prompted Duke Energy to conduct a comprehensive review which was completed in late 1999 and to record an $800 million accrual, which is included in Other Deferred Credits and Other Liabilities in the Consolidated Balance Sheets, to reflect the purchase of a third-party insurance policy as well as estimated amounts for future claims not recoverable under such policy. The insurance policy, combined with amounts covered by self-insurance reserves, provides for claims paid up to an aggregate of $1.6 billion. Duke Energy currently believes the estimated claims relating to this exposure will not exceed such amount. While Duke Energy is uncertain as to the timing of when claims will be received, portions of the estimated claims may not be received and paid for 30 or more years.

While Duke Energy has recorded an accrual related to this estimated liability, such estimates cannot be made with certainty. Factors, such as the frequency and magnitude of claims, could result in changes in the estimates of the injury and damages liability and insurance recoveries. Such changes could result in, over time, a difference from the amount currently reflected in

the financial statements. However, due to Duke Energy's insurance program relating to this liability, management believes that any changes in the estimates would not have a material adverse effect on consolidated results of operations, cash flows or financial position.

CALIFORNIA ISSUES —[CALIFORNIA LITIGATION Duke Energy's subsidiaries, DENA and DETM, have been named among 16 defendants in a class action lawsuit (the Gordon lawsuit) filed against companies identified as "generators and traders" of electricity in California markets. DETM also was named as one of numerous defendants in four additional lawsuits, including two class actions (the Hendricks and Pier 23 Restaurant lawsuits), filed against generators, marketers and traders and other unnamed providers of electricity in California markets. These suits were brought either by or on behalf of electricity consumers in the State of California. The Gordon and Hendricks class action suits were filed in the Superior Court of the State of California, San Diego County, in November 2000. The other three suits were filed in January 2001, one in the Superior Court of the State of California, San Diego County, and the other two in the Superior Court of the State of California, County of San Francisco. These suits generally allege that the defendants manipulated the wholesale electricity markets in violation of state laws against unfair and unlawful business practices and state antitrust laws. Plaintiffs in the Gordon suit seek aggregate damages of over $4 billion, and the plaintiffs in the other suits, to the extent damages are specified, allege damages in excess of $1 billion. The lawsuits each seek the disgorgement of alleged unlawfully obtained revenues for sales of electricity and, in three suits, an award of treble damages.

—[CALIFORNIA WHOLESALE ELECTRICITY MARKETS As a result of high prices in the western U.S. wholesale electricity markets in 2000, several state and federal regulatory investigations and complaints have commenced to determine the causes of the prices and potentially to recommend remedial action. The FERC concluded its investigation by issuing on December 15, 2000, an Order Directing Remedies in California Wholesale Electricity Markets. In this conclusion, the FERC found no basis in allegations made by government officials in California that specific electric generators artificially drove up power prices. This conclusion is consistent with similar findings by the Compliance Unit of the California Power Exchange (CalPX) and the Northwest Power Planning Council. That Order is the subject of numerous rehearing requests.

At the state level, the California Public Utilities Commission, the California Electricity Oversight Board, the California Bureau of State Audits and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. None of those investigations have been completed and no findings have been made in connection with any of them.

—[CALIFORNIA UTILITIES DEFAULTS AND OTHER PROCEEDINGS Two California electric utilities recently defaulted on many of their obligations to suppliers and creditors. NAWE supplies electric power to these utilities directly and indirectly through contracts through the California Independent System Operator (CAISO) and the CalPX. NAWE also supplies natural gas to these utilities under direct contracts. With respect to electric power sales through the CAISO and the CalPX, Duke Energy quantified its exposures at December 31, 2000 to these utilities and recorded a $110 million provision. As a result of these defaults and certain related government actions, Duke Energy has taken a number of steps, including initiating court actions, to mitigate its exposure.

While these matters referenced above are in their earliest stages, management does not believe, based on its analysis to date of the factual background and the claims asserted in these matters, that their resolution will have a material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

LITIGATION —[EXXON MOBIL CORPORATION ARBITRATION In December 2000, three subsidiaries of Duke Energy initiated binding arbitration against three subsidiaries of the Exxon Mobil Corporation (collectively, the "Exxon Mobil entities") concerning the parties' joint ownership of DETM and certain related affiliates (collectively, the "Ventures"). At issue is a buy-out right provision in the parties' agreement. The agreements governing the ownership of the Ventures contain provisions giving Duke Energy the right to purchase the Exxon Mobil entities' 40% interest in the Ventures in the event material business disputes arise between the Ventures' owners. Such disputes have arisen, and consequently, Duke Energy exercised its right to buy the Exxon Mobil entities' interest. Duke Energy claims that refusal by the Exxon Mobil entities to honor the exercise is a breach of the buy-out right provision, and seeks specific performance of the provision. Duke Energy also complains of the Exxon Mobil entities' lack of use of, and contributions to, the Ventures.

In January 2001, the Exxon Mobil entities asserted counterclaims in the arbitration and claims in a separate Texas state court action alleging that Duke Energy breached its obligations to the Ventures and to the Exxon Mobil entities. The Exxon Mobil entities also claim that Duke Energy violated a Guaranty Agreement. While this matter is in its early stages, management believes that the final disposition of this action will not have a material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

⊙ **OTHER COMMITMENTS AND CONTINGENCIES** —FINANCIAL GUARANTEES Certain subsidiaries of Duke Energy have guaranteed debt agreements of affiliates and have provided surety bonds and letters of credit, all of which totaled approximately $1.9 billion and $853 million as of December 31, 2000 and 1999, respectively. The increase in the amount of these obligations is primarily due to increasing support for margin deposits and power exchange participation.

⊙ **LEASES** Duke Energy utilizes assets under operating leases in several areas of operations. Consolidated rental expense amounted to $90 million, $87 million and $80 million in 2000, 1999 and 1998, respectively. Future minimum rental payments under Duke Energy's various operating leases for the years 2001 through 2005 are $74 million, $60 million, $51 million, $44 million and $38 million, respectively.

15. COMMON STOCK

On December 20, 2000, Duke Energy announced a two-for-one common stock split effective January 26, 2001, to shareholders of record on January 3, 2001. All outstanding share and per share amounts have been restated to reflect the stock split, and appropriate adjustments have been made in the exercise price and number of shares subject to stock options along with appropriate adjustments to stock amounts and other employee benefit programs. Effective with the stock split, the quarterly cash dividend rate on common stock is $0.275 per share, subject to declaration from time to time by the Board of Directors.

At its December 20, 2000 meeting, the Board of Directors approved a proposal to increase the number of authorized shares of common stock from one billion to two billion. Such an increase is subject to shareholder approval at the Duke Energy Corporation Annual Meeting of Shareholders to be held on April 26, 2001.

16. STOCK-BASED COMPENSATION

All of the following information regarding outstanding common stock shares and options has been restated to reflect the two-for-one common stock split discussed in Note 15 to the Consolidated Financial Statements.

Under Duke Energy's 1998 Long-term Incentive Plan (the 1998 Plan), stock options for up to 30 million shares of common stock may be granted to key employees. Under the 1998 Plan, the exercise price of each option granted is required to be no less than the market price of Duke Energy's common stock on the date of grant. Vesting periods range from one to five years with a maximum term of 10 years. An amendment to the 1998 Plan, subject to shareholder approval at the Duke Energy Corporation Annual Meeting of Shareholders to be held on April 26, 2001, will increase the number of shares of common stock available under the 1998 Plan to 60 million shares.

STOCK OPTION ACTIVITY

	Options (IN THOUSANDS)	Weighted-Average Exercise Price
Outstanding at December 31, 1997	5,459	$12
Granted	7,096	29
Exercised	(1,896)	11
Forfeited	(1,736)	29
Outstanding at December 31, 1998	8,923	23
Granted	10,308	27
Exercised	(856)	12
Forfeited	(750)	29
Outstanding at December 31, 1999	17,625	25
Granted	7,594	41
Exercised	(2,047)	21
Forfeited	(666)	27
Outstanding at December 31, 2000	22,506	31

STOCK OPTIONS | AT DECEMBER 31, 2000

	Outstanding			Exercisable	
Range of Exercise Prices	Number (IN THOUSANDS)	Weighted-Average Remaining Life (IN YEARS)	Weighted-Average Exercise Price	Number (IN THOUSANDS)	Weighted-Average Exercise Price
$5 to $7	7	1.3	$ 7	7	$ 7
$8 to $10	944	3.1	10	944	10
$11 to $12	203	3.3	12	203	12
$13 to $16	220	5.1	14	220	14
$21 to $25	6,115	8.9	25	1,532	24
$26 to $30	7,726	7.7	29	2,111	29
$31 to $34	578	8.0	32	185	33
>$34	6,713	10.0	43	-	-
Total	22,506			5,202	$23

Duke Energy had 3.6 million and 3.0 million options exercisable at December 31, 1999 and 1998, with weighted-average exercise prices of $17 and $11 per option, respectively.

The weighted-average fair value of options granted was $10, $5 and $4 per option during 2000, 1999 and 1998, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

WEIGHTED-AVERAGE ASSUMPTIONS FOR OPTION-PRICING

	2000	1999	1998
Stock dividend yield	3.7%	4.1%	4.2%
Expected stock price volatility	25.1%	18.8%	15.1%
Risk-free interest rates	5.3%	5.9%	5.6%
Expected option lives	7 years	7 years	7 years

Had compensation expense for stock-based compensation been determined based on the fair value at the grant dates, 2000 net income would have been $1,764 million, or $2.37 per basic share; 1999 net income would have been $1,498 million, or $2.03 per basic share; and 1998 net income would have been $1,250 million, or $1.70 per basic share.

Under Duke Energy's 1996 Stock Incentive Plan (the 1996 Plan), four million shares of common stock were reserved for awards to employees. Restricted stock grants made under the 1996 Plan vest over periods ranging from one to five years. Duke Energy awarded 294,526 restricted shares (fair value at grant dates of approximately $8 million) in 2000 and 131,700 restricted shares (fair value at grant dates of approximately $4 million) in 1999. Compensation expense for the grants is charged to earnings over the restriction period and amounted to $4 million in 2000 and was not material in 1999 or 1998.

Duke Energy granted Company Performance Awards under the 1998 Plan, under which 30 million shares of common stock have been reserved for employee and outside director awards. These share grants under the 1998 Plan vest over periods ranging between one and seven years. Duke Energy awarded 225,000 of these shares (fair value at grant dates of $7 million) in 2000 and 986,400 of these shares (fair value at grant dates of $26 million) in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and amounted to $7 million in 2000, $3 million in 1999 and zero in 1998.

17. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS Duke Energy and its subsidiaries maintain a non-contributory defined benefit retirement plan covering most employees with minimum service requirements using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit based upon a percentage, which may vary with age and years of service, of current eligible earnings and current interest credits.

On December 31, 1998, all defined benefit retirement plans maintained by Duke Energy and its subsidiaries, except for the PanEnergy retirement plan, were merged to form the Duke Energy Retirement Cash Balance Plan (the Duke Energy Plan). The plan merger changed the benefit for certain participants, from a formula based primarily on benefit accrual service and highest average earnings, to a cash balance formula.

Through December 31, 1998, the PanEnergy retirement plan provided retirement benefits (i) for eligible employees of certain subsidiaries that are generally based on an employee's years of benefit accrual service and highest average eligible earnings, and (ii) for eligible employees of certain other subsidiaries under a cash balance formula. In 1998, a significant amount of lump sum payouts were made from the PanEnergy plan resulting in a settlement gain of $10 million. Effective January 1, 1999, the benefit formula under the PanEnergy plan, for all eligible employees, was changed to a cash balance formula.

In connection with the 1999 sale of the Midwest Pipelines to CMS, benefit accruals under the PanEnergy plan were frozen on December 31, 1998, for all participants who, as a result of the sale, became employees of CMS and its subsidiaries. Once the transfer of the benefit obligation and related assets of the affected participants to CMS was completed, the PanEnergy plan was merged into the Duke Energy Plan.

Duke Energy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. No contributions to the Duke Energy Plan were necessary in 2000 or 1999. The net unrecognized transition asset, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

COMPONENTS OF NET PERIODIC PENSION COSTS | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Service cost benefit earned during the year	$ 70	$ 72	$ 63
Interest cost on projected benefit obligation	184	165	169
Expected return on plan assets	(244)	(224)	(218)
Amortization of prior service cost	(3)	(3)	(4)
Amortization of net transition asset	(4)	(4)	(4)
Recognized net actuarial loss	-	12	10
Settlement gain	-	-	(10)
Net periodic pension costs	$ 3	$ 18	$ 6

RECONCILIATION OF FUNDED STATUS TO PRE-FUNDED PENSION COSTS | IN MILLIONS	DECEMBER 31	
	2000	1999
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 2,446	$ 2,540
Service cost	70	72
Interest cost	184	165
Actuarial (gain) loss	16	(41)
Transfer to CMS	-	(85)
Benefits paid	(130)	(205)
Benefit obligation at end of year	$ 2,586	$ 2,446
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 3,121	$ 2,920
Actual return on plan assets	47	491
Transfer to CMS	-	(85)
Benefits paid	(130)	(205)
Fair value of plan assets at end of year[a]	$ 3,038	$ 3,121
Funded status	$ 452	$ 675
Unrecognized net experience gain	(110)	(315)
Unrecognized prior service cost reduction	(22)	(24)
Unrecognized net transition asset	(16)	(21)
Pre-funded pension costs	$ 304	$ 315

[a] Principally equity and fixed-income securities

ASSUMPTIONS USED FOR PENSION BENEFITS ACCOUNTING[a]			
PERCENT	2000	1999	1998
Discount rate	7.50	7.50	6.75
Salary increase	4.53	4.50	4.67
Expected long-term rate of return on plan assets	9.25	9.25	9.25

[a] Reflects weighted averages across all plans

Duke Energy also sponsors employee savings plans that cover substantially all employees. Employer matching contributions of $66 million, $68 million and $53 million were expensed in 2000, 1999 and 1998, respectively.

⊙ **OTHER POSTRETIREMENT BENEFITS** Duke Energy and most of its subsidiaries provide certain health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective late 1998 and early 1999, health care benefits for future retirees were changed to limit employer contributions and medical coverage.

Such benefit costs are accrued over the active service period of employees to the date of full eligibility for the benefits. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

COMPONENTS OF NET PERIODIC POSTRETIREMENT BENEFIT COSTS | IN MILLIONS	YEARS ENDED DECEMBER 31		
	2000	1999	1998
Service cost benefit earned during the year	$ 5	$ 7	$ 10
Interest cost on accumulated postretirement benefit obligation	43	40	43
Expected return on plan assets	(23)	(21)	(18)
Amortization of prior service cost	1	1	7
Amortization of net transition obligation	18	18	16
Recognized net actuarial (gain) loss	-	(1)	1
Net periodic postretirement benefit costs	$ 44	$ 44	$ 59

RECONCILIATION OF FUNDED STATUS TO ACCRUED POSTRETIREMENT BENEFIT COSTS | IN MILLIONS	DECEMBER 31	
	2000	1999
CHANGE IN BENEFIT OBLIGATION		
Accumulated postretirement benefit obligation at beginning of year	$ 562	$ 625
Service cost	5	7
Interest cost	43	40
Plan participants' contributions	7	7
Actuarial (gain) loss	39	(68)
Benefits paid	(42)	(49)
Accumulated postretirement benefit obligation at end of year	$ 614	$ 562
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 327	$ 305
Actual return on plan assets	8	41
Employer contributions	25	23
Plan participants' contributions	7	7
Benefits paid	(42)	(49)
Fair market value of plan assets at end of year[a]	$ 325	$ 327
Funded status	$ (289)	$ (235)
Unrecognized net experience gain	(47)	(110)
Unrecognized prior service cost	5	8
Unrecognized transition obligation	214	229
Accrued postretirement benefit costs	$ (117)	$ (108)

[a] Principally equity and fixed-income securities

ASSUMPTIONS USED FOR POSTRETIREMENT BENEFITS ACCOUNTING[a]			
PERCENT	2000	1999	1998
Discount rate	7.50	7.50	6.75
Salary increase	4.53	4.50	4.67
Expected long-term rate of return on assets	9.25	9.25	9.25
Assumed tax rate[b]	39.60	39.60	39.60

[a] Reflects weighted averages across all plans

[b] Applicable to the health care portion of funded postretirement benefits

For measurement purposes, a 6% average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and beyond. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

SENSITIVITY TO CHANGES IN ASSUMED HEALTH CARE COST TREND RATES | IN MILLIONS

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest costs	$ 2	$ (2)
Effect on postretirement benefit obligation	27	(25)

18. QUARTERLY FINANCIAL DATA | UNAUDITED

IN MILLIONS, EXCEPT PER SHARE DATA	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2000					
Operating revenues	$ 7,290	$ 10,926	$ 15,691	$ 15,411	$ 49,318
Operating income	812	794	1,501	706	3,813
EBIT	859	837	1,556	762	4,014
Net income	393	329	770	284	1,776
Earnings per share[a]					
Basic	$ 0.53	$ 0.44	$ 1.04	$ 0.38	$ 2.39
Diluted	$ 0.53	$ 0.44	$ 1.03	$ 0.38	$ 2.38
1999					
Operating revenues	$ 4,178	$ 4,691	$ 6,676	$ 6,221	$ 21,766
Operating income	645	531	866	(223)	1,819
EBIT	683	568	908	(116)	2,043
Income before extraordinary item	307	288	441	(189)	847
Net income	967	288	441	(189)	1,507
Earnings per share (before extraordinary item)[a]					
Basic	$ 0.41	$ 0.39	$ 0.60	$ (0.27)	$ 1.13
Diluted	$ 0.41	$ 0.39	$ 0.60	$ (0.27)	$ 1.13
Earnings per share[a]					
Basic	$ 1.32	$ 0.39	$ 0.60	$ (0.27)	$ 2.04
Diluted	$ 1.32	$ 0.39	$ 0.60	$ (0.27)	$ 2.03

[a] Restated to reflect the two-for-one common stock split effective January 26, 2001

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Duke Energy Corporation

We have audited the accompanying consolidated balance sheets of Duke Energy Corporation and subsidiaries (Duke Energy) as of December 31, 2000 and 1999, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Duke Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duke Energy as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Charlotte, North Carolina
January 18, 2001

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Energy Corporation (Duke Energy) are prepared by management, who are responsible for their integrity and objectivity. The statements are prepared in conformity with generally accepted accounting principles in all material respects and necessarily include judgments and estimates of the expected effects of events and transactions that are currently being reported.

Duke Energy's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles. In addition, accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. Duke Energy's accounting controls are continually reviewed for effectiveness. In addition, written policies, standards and procedures, and a strong internal audit program augment Duke Energy's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of independent directors who are not employees of Duke Energy. The audit committee meets with management and internal auditors periodically to review accounting control issues and to monitor each group's discharge of its responsibilities. The audit committee also meets periodically with Duke Energy's independent auditors, Deloitte & Touche LLP. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management.

Sandra P. Meyer

SANDRA P. MEYER
Senior Vice President and Corporate Controller

54 Chairman of the Board, President and Chief Executive Officer
Corporate Governance Committee | Finance Committee
DIRECTOR SINCE 1990.

57 Chairman and Chief Executive Officer, Bernhardt Furniture Company
Chairman, Corporate Performance Review Committee | Finance Committee
DIRECTOR SINCE 1991.

66 Chairman and President, B&C Associates, Inc.
Corporate Performance Review Committee | Finance Committee
DIRECTOR SINCE 1994.

57 Group President, Duke Power
DIRECTOR SINCE 1990.

61 Chairman and Chief Executive Officer, Sprint Corporation
Compensation Committee | Corporate Governance Committee
DIRECTOR SINCE 1985.

55 Former President, Diversified Publishing Group of ABC, Inc.
Audit Committee | Corporate Performance Review Committee
DIRECTOR SINCE 1994.

61 Retired Chairman and Chief Executive Officer, PanEnergy Corp
Corporate Governance Committee | Corporate Performance Review Committee
DIRECTOR SINCE 1990.

69 Retired Chairman and Chief Executive Officer, American General Corporation
Audit Committee | Corporate Performance Review Committee
DIRECTOR SINCE 1978.

58 President and Chief Executive Officer, Extended Stay America
Chairman, Finance Committee | Compensation Committee
DIRECTOR SINCE 1986.

60 President, Mars Hill College
Chairman, Audit Committee | Compensation Committee
DIRECTOR SINCE 1988.

66 Chairman of the Board and Chief Executive Officer, Linbeck Corporation
Chairman, Compensation Committee | Audit Committee
DIRECTOR SINCE 1986.

65 Vice President, Carolinas HealthCare System
Chairman, Corporate Governance Committee | Compensation Committee
DIRECTOR SINCE 1994.

69 Attorney-at-Law, Robinson, Bradshaw & Hinson, P.A.
Audit Committee | Corporate Governance Committee
DIRECTOR SINCE 1995. (RESIGNED FROM THE BOARD OF DIRECTORS EFFECTIVE FEBRUARY 27, 2001)

54 joined Duke Energy in 1976; elected President of Duke Power in 1994; elected Chairman and Chief Executive Officer in 1997; elected President in 1998.

58 joined Duke Energy in 1997. Prior to joining Duke Energy, Mr. Blackburn was President and Group Executive with NYNEX Worldwide Communications and Media Group.

50 joined Duke Energy in 2001. Prior to joining Duke Energy, Mr. Brace was Group Finance Director of British Telecommunications plc.

57 joined Duke Energy in 1966; elected President of Duke Power Company's Associated Enterprises Group in 1994; elected Group President of Duke Power in 1997.

55 joined Duke Energy in 1985; elected President of Trunkline Gas Company in 1991; elected President of 1Source Corporation in 1993; elected President of Texas Eastern Transmission Corporation in 1994; elected Group President of Energy Transmission in 1997.

50 joined Duke Energy in 1975; elected Vice President and Chief Financial Officer in 1991; elected Executive Vice President and Chief Financial Officer in 1997.

53 joined Duke Energy in 1998. Prior to joining Duke Energy, Mr. Padewer was Senior Vice President and General Manager of Utilicorp Energy Group.

53 joined Duke Energy in 1992 as Vice President, Corporate Communications; elected Senior Vice President, Corporate Resources, in 1994; elected Executive Vice President and Chief Administrative Officer in 1997.

RICHARD B PRIORY
Chairman of the Board, President and
Chief Executive Officer

WILLIAM A COLEY
Group President, Duke Power

MICHAEL S TUCKMAN
Executive Vice President, Nuclear Generation

CURTIS H DAVIS
Senior Vice President, Power Generation

E O. FERRELL III
Senior Vice President, Electric Distribution

JIMMY R HICKS
Senior Vice President, Retail Services

C NEAL ALEXANDER
Vice President, Group Human Services

JEFFREY L. BOYER
Vice President, Duke Power Planning and Finance

BUDDY E. DAVIS
Vice President, Group Environmental, Health
and Safety

JOHN W PHILLIPS, JR
Vice President, Information Management

STEVEN K. YOUNG
Vice President, Rates and Regulatory Affairs

FRED J FOWLER
Group President, Energy Transmission

JIM W. MOGG
Chief Executive Officer
Duke Energy Field Services

WILLIAM L THACKER, JR
Chairman, President and Chief Executive Officer
TEPPCO

ROBERT B. EVANS
President
Duke Energy Gas Transmission

DOROTHY M. ABLES
Senior Vice President and Chief Financial Officer
Duke Energy Gas Transmission

JAMES D. HINTON
Senior Vice President, Electric Transmission

THEOPOLIS HOLEMAN
Senior Vice President, Transmission and Engineering
Duke Energy Gas Transmission

RICHARD J KRUSE
Senior Vice President, Industry Initiatives, Pricing
and Regulatory Affairs
Duke Energy Gas Transmission

TOM C O'CONNOR
Senior Vice President, Marketing and
Capacity Management
Duke Energy Gas Transmission

J WILFRED NEAL
President
Duke Communication Services

HARVEY J. PADEWER
Group President, Energy Services

JAMES M DONNELL
President and Chief Executive Officer
Duke Energy North America

RONALD F GREEN
President and Chief Executive Officer
Duke Engineering & Services

CLARENCE L RAY, JR
President and Chief Executive Officer
Duke/Fluor Daniel

BRUCE A. WILLIAMSON
President and Chief Executive Officer
Duke Energy International

KEITH G. BUTLER
Chief Operating Officer, DukeSolutions

KIRK B. MICHAEL
Vice President and Chief Financial Officer
Finance and Planning

RICHARD J. OSBORNE
Executive Vice President and Chief Risk Officer

LEONARD B. GATEWOOD
Senior Vice President, Strategic
Planning and Development

GEORGE V. BROWN
Vice President and Chief Credit Officer
Corporate Risk Management

C JEFFERY TRIPLETTE
Vice President, Insurance

SARA S. WHITNEY
Vice President, Audit Services

ROBERT S LILIEN
President, Duke Ventures

ARTHUR W FIELDS
President, Crescent Resources

ROBERT T. LADD
President and Chief Executive Officer
Duke Capital Partners, LLC

MARION H. SMITH, JR
Chief Executive Officer
DukeNet Communications

RICHARD W BLACKBURN
Executive Vice President, General Counsel
and Secretary

DONALD E. HATLEY
Senior Vice President, Governmental Affairs

RICHARD K MCGEE
Senior Vice President and General Counsel
Energy Services

ELLEN T RUFF
Senior Vice President and General Counsel
Corporate and Electric Operations

MARTHA B. WYRSCH
Senior Vice President and General Counsel
Energy Transmission

ROBERT P. BRACE
Executive Vice President and Chief Financial Officer

SUE A. BECHT
Senior Vice President, Investor Relations

CARY D FLYNN
Senior Vice President, Corporate Tax

DAVID L. HAUSER
Senior Vice President and Treasurer

SANDRA P MEYER
Senior Vice President and Corporate Controller

RUTH G. SHAW
Executive Vice President and
Chief Administrative Officer

ROBERTA B. BOWMAN
Senior Vice President, Public Affairs

A R. MULLINAX
Senior Vice President, Global Sourcing and Logistics

CHRISTOPHER C. ROLFE
Senior Vice President, Human Resources

CECIL O. SMITH, JR
Senior Vice President, Information Management

JACQUELYN B GATES
Vice President, Diversity and Ethics

JAMES R. HENDRICKS, JR
Vice President, Corporate Environment,
Health and Safety

DONALD H. STEELE III
Vice President, Corporate Services

ANNUAL MEETING

The 2001 Annual Meeting of Duke Energy Shareholders will be:

DATE: THURSDAY | APRIL 26, 2001
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. Written requests should be addressed to:

INVESTOR RELATIONS
DUKE ENERGY CORPORATION
PO 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

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 2000 report on SEC Form 10-K, the 2000 Statistical Supplement and an audiotape recording of excerpts from the 2000 Annual Report

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 74 consecutive years. Dividends on common and preferred stock in 2001 are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 18, September 17 and December 17.

BOND TRUSTEE

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

THE CHASE BANK OF TEXAS N.A.
CORPORATE TRUST SERVICES
PO BOX 2320
DALLAS, TEXAS 75221-2320

526 South Church Street
Charlotte NC 28202-1803
704.594.6200
www.duke-energy.com

The Power of Focus

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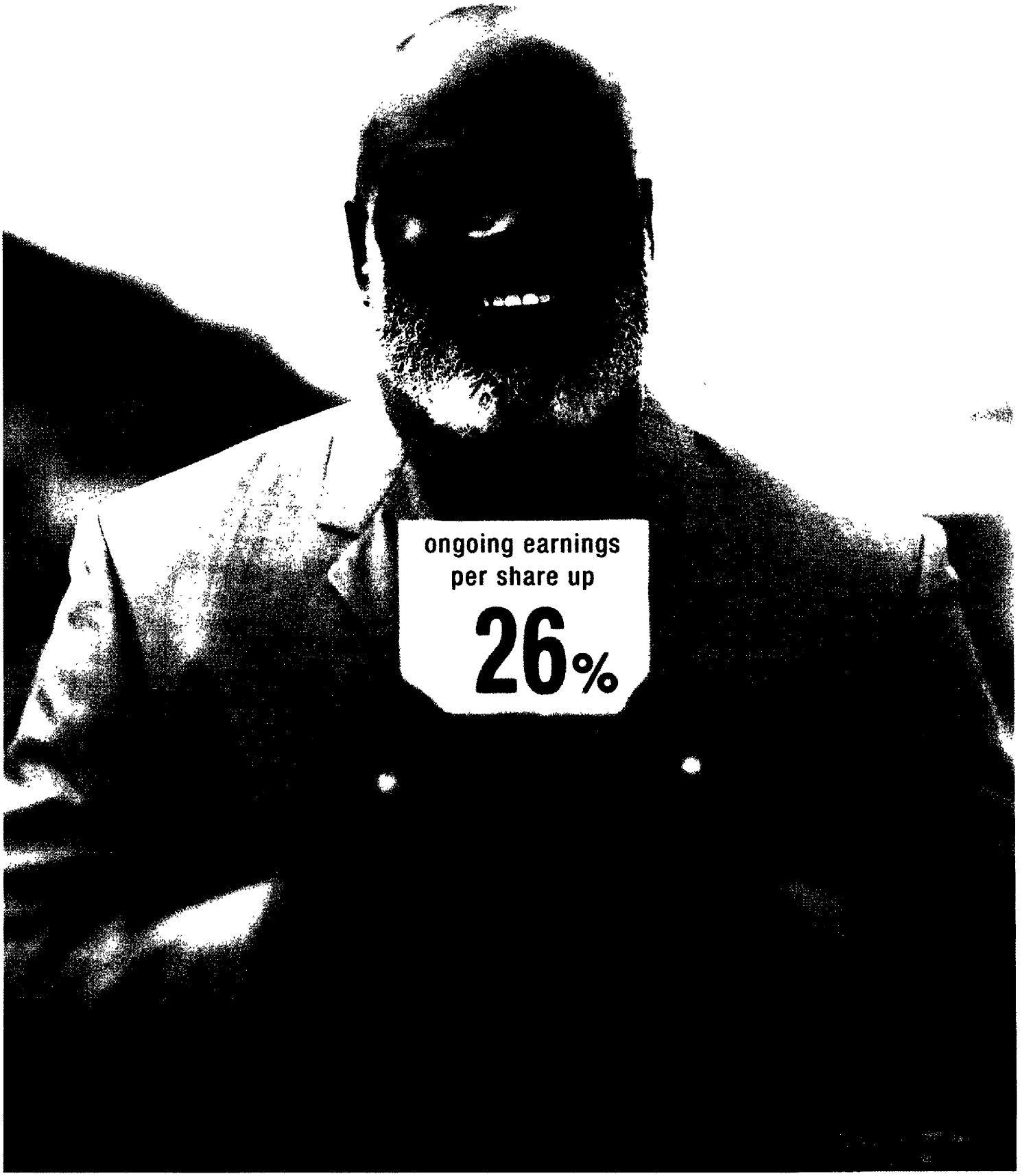
Duke Energy®

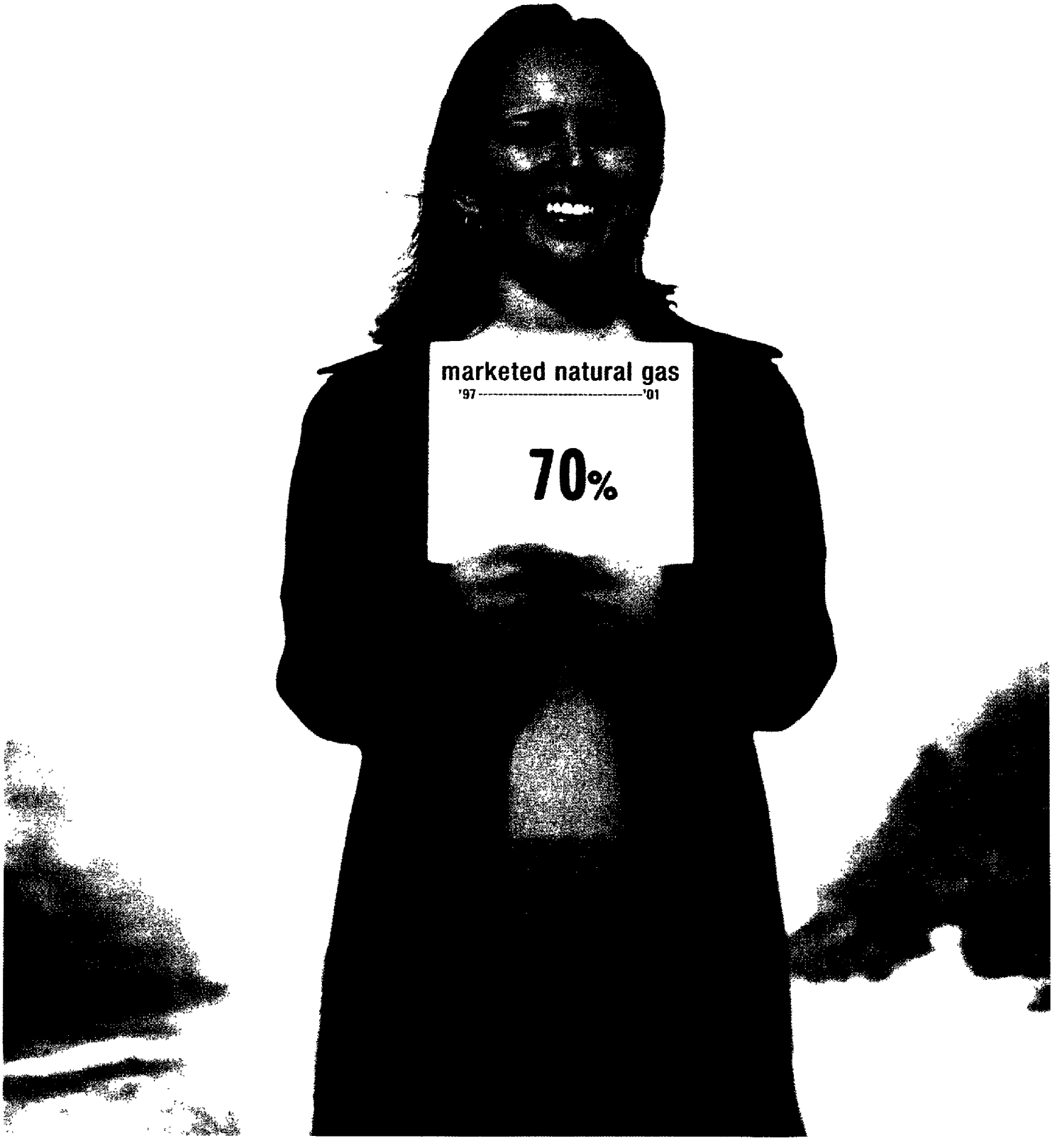
Cover: Duke Energy employee Amy Statler



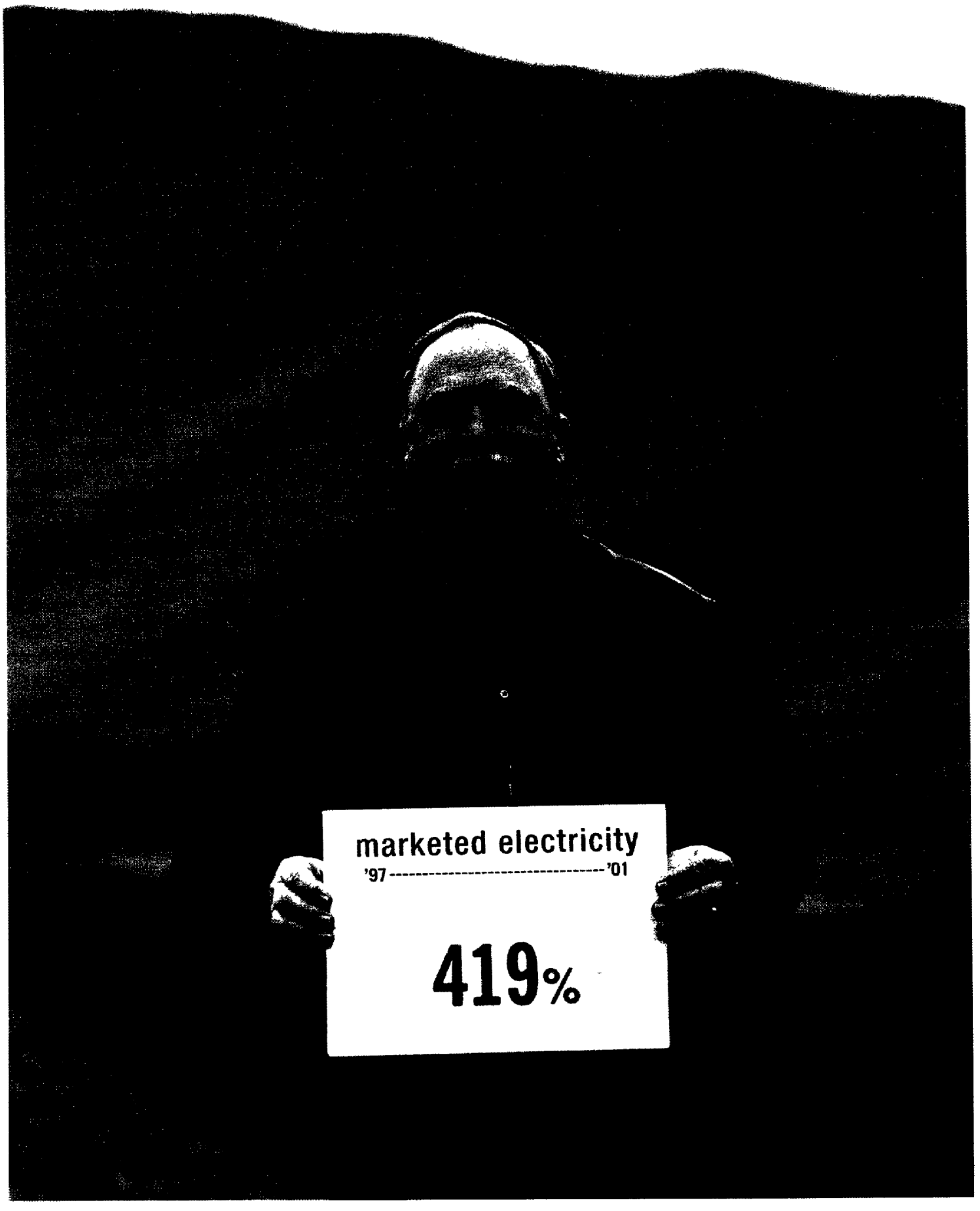
Lovett Epps Customer Service Duke Power

Dayna Herrick Civil Engineering McGuire Nuclear Station


total assets
$48 billion
$24 billion

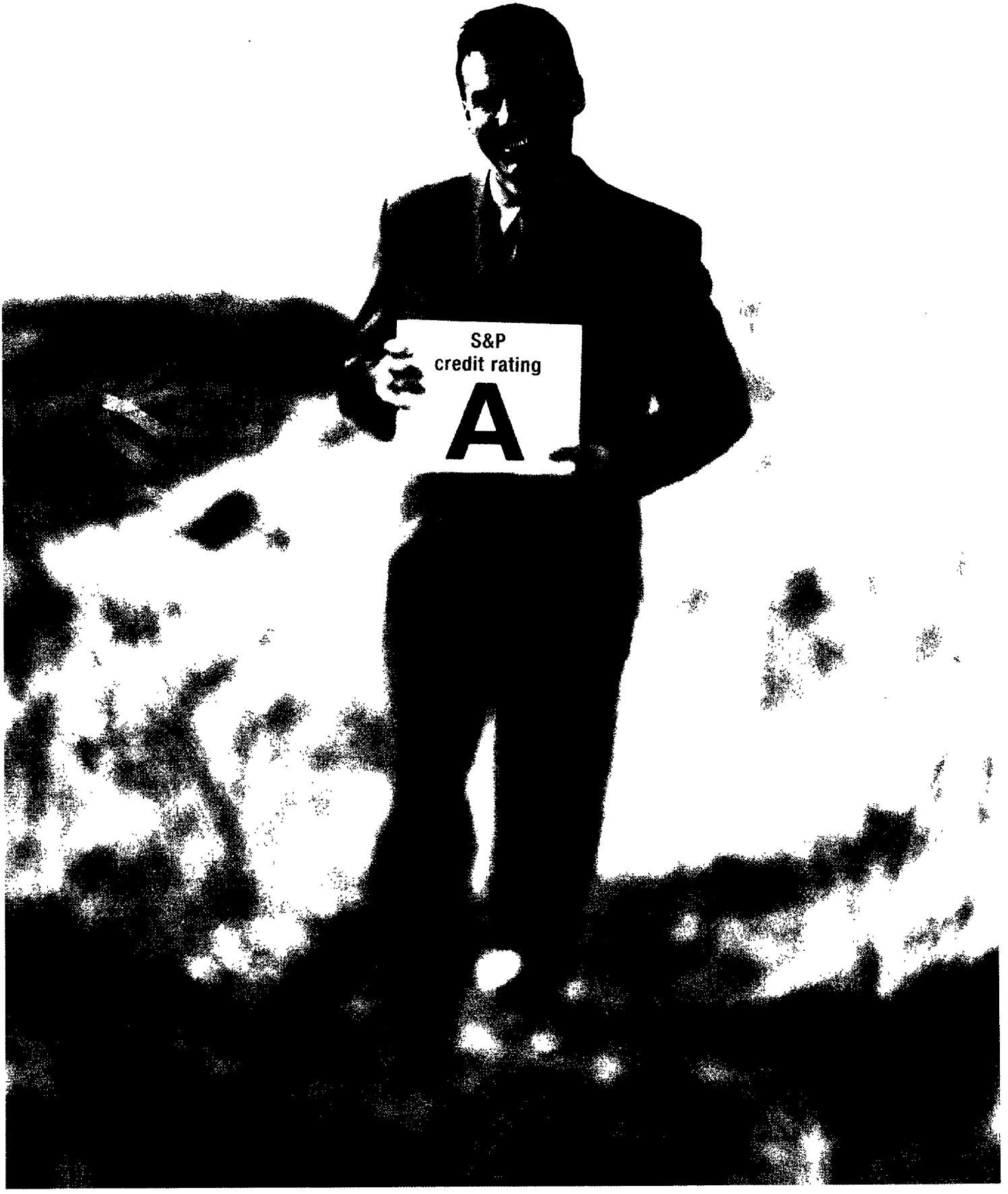


Celina Gomez Capacity Management Duke Energy Gas Transmission

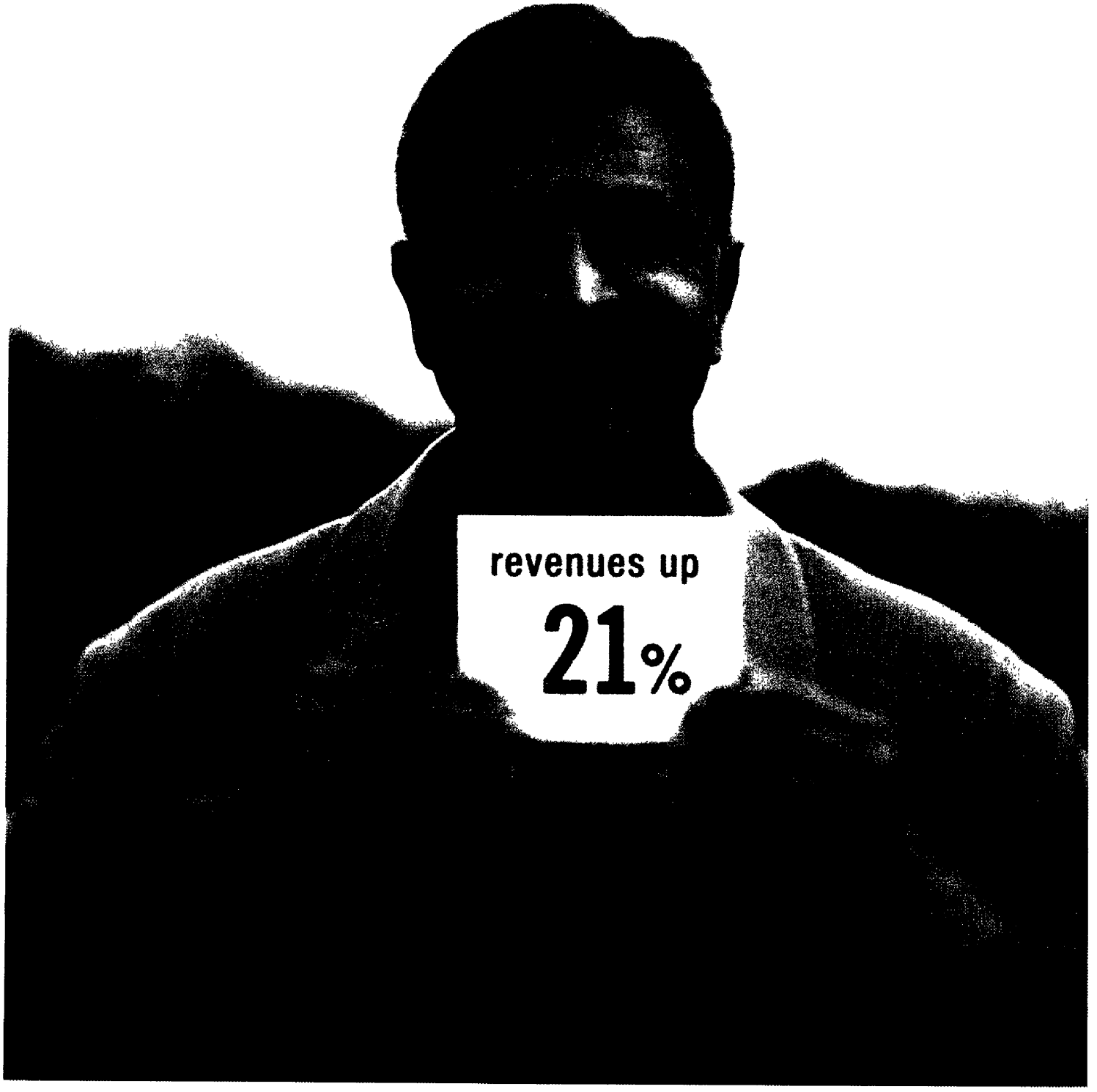


J B. McKinney Moapa Energy Facility Duke Energy North America

Jacquelyn Gates Diversity, Ethics and Compliance Corporate Resources



Julio Torre Business Operations Duke Energy International



Hemant Patel Business Development Duke Energy North America

This year, perhaps more than in any other, we see a world changed around us. 2001 underscored the importance of staying focused on the essentials. We are pleased to share the results of what a company can accomplish when it is focused. A company some 24,000 people strong – focused on performance, a strategy, a plan. Focused on a philosophy – a way of thinking. Focused not on obstacles or limits, but on potential and possibility. We've had a banner year of growth. We've grown assets. We've grown revenues. We've grown earnings. And our focus, our driving motivation, is a powerful way of thinking. It's looking forward and seeing clearly. It's doing the right things, and doing what's right. It's living our strategy, sticking to the basics and never losing sight of what's important.

The Power of Focus

TO OUR SHAREHOLDERS:

We live in remarkable times. And for Duke Energy, 2001 was a year of remarkable change, challenge – and results. On the preceding pages, you saw impressive numbers, delivered by an outstanding team. You'll recognize achievement and value growth in the numbers and charts – and focus, integrity and intellect in the people behind them.

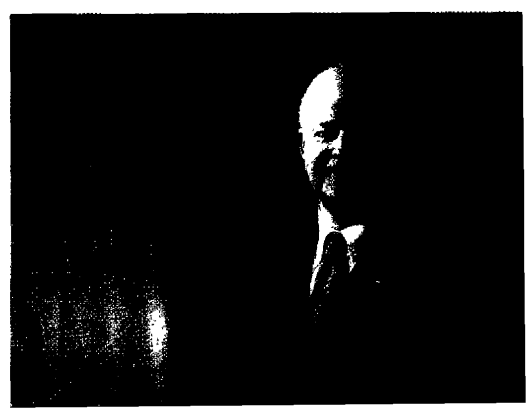
In a year that sometimes seemed "out of focus," Duke Energy posted its strongest-ever earnings. In the midst of economic downturn, an industry in transition and the cycles of an erratic market, we delivered on our promises to investors and customers. The power of focus helped us hold our ground in 2001 – and realize new gains as well.

As I write this letter in late February, investors in the U.S. and around the world are trying to make sense of things. Following fast on the heels of the dot.com demise of 2000, the bankruptcies of two major energy companies created new shockwaves from Wall Street to Main Street. Many investors I talk with feel stung by these experiences. Some are reluctant and confused. All are skeptical.

This more sober investor outlook is a positive development. As a manic market of inflated highs and tailspin lows is replaced by more measured expectations and clear-headedness, we return to basics. Basics in business strategy and direction. In performance measures and valuations. In customer service and corporate values. And in clear, straightforward communications.

We applaud this shift back to basics. The investing public deserves – and should demand – reliable information, candor and accountability. It is time for realism, rationality and forthright reporting. It is time for straight talk.

In that spirit,



[1] What business is the company in?

Sounds simple, doesn't it? But as companies have diversified, merged and morphed, the lines aren't as clear as they once were.

Not all companies with energy in their names are equally invested in energy. Many have diversified broadly into non-energy ventures. Duke Energy *is* an energy company. We have been for nearly a century, and our future success will play out in the vital, growing marketplace of world energy.

In North America and key regions around the world, our strategy is the same. We gather, process, transport, store and market natural gas. We design, build, own and operate electric generating facilities. We manage and trade energy. We provide millions of customers with reliable energy.

This integrated approach gives us the ability to avoid the market vulnerabilities of "pure plays" in our industry – the pure merchant generators or the pure traders. We pursue related lines of business, but always with a measured, disciplined approach. And as we have broadened our horizons, we have stuck close to our roots of energy expertise and experience.

We build our business on more than power plants and pipelines. We also build our business on relationships. We take a partnering approach with our customers, and focus on delivering solutions, solving problems and making a positive difference in their businesses. For example, to help our customers navigate the complexities of energy supply and demand for both natural gas and power, we have developed e-systems through which they can access energy information and complete transactions in real time.

Large or small, retail or wholesale, our customers have vastly different needs. But they all expect two things – reliable service and reasonable prices. We put all of our resources to work to make sure our customers get both.

[2] How does the company make money?

Our integrated business model – combining natural gas and power assets with trading and marketing – is what differentiates Duke Energy. Our generating facilities, gas processing plants, pipelines and wires are more than just steel, concrete and machinery – they are the building blocks of value and growth. Our trading and marketing skills help us mitigate risk, navigate changing commodity cycles and economic conditions, and protect and

DUKE ENERGY CORPORATION

financial highlights

In millions, except where noted	YEARS ENDED DECEMBER 31 2001	2000	1999
Operating revenues	$ 59,503	$ 49,318	$ 21,766
Earnings before interest and taxes	4,256	4,014	2,043
Income before extraordinary item and cumulative effect of change in accounting principle	1,994	1,776	847
Net income	1,898	1,776	1,507
Earnings available for common stockholders	1,884	1,757	1,487
COMMON STOCK DATA[a]			
Weighted-average shares outstanding	767	736	729
Basic earnings per share (before extraordinary item and cumulative effect of change in accounting principle)	$ 2.58	$ 2.39	$ 1.13
Basic earnings per share	2.45	2.39	2 04
Dividends per share	1.10	1.10	1.10
CAPITALIZATION			
Common equity	41%	37%	42%
Minority interests	7%	9%	6%
Preferred stock	1%	1%	1%
Trust preferred securities	5%	5%	7%
Total debt	46%	48%	44%
SEC fixed charges coverage	3.8	3.6	2.7
Total assets	$ 48,375	$ 58,232	$ 33,409
Total debt	14,185	12,980	9,432
Cash flows from operating activities	4,595	2,225	2,684
Cash flows used in investing activities	(6,281)	(4,930)	(3,751)
Cash flows from financing activities	1,354	2,714	1,600
OPERATING DATA[b]			
Franchised Electric's sales, GWh	79,685	84,766	81,548
Natural Gas Transmission's proportional throughput, TBtu	1,710	1,771	1,893
Natural gas marketed, TBtu/d[c]	14 0	12.6	11.0
Electricity marketed and traded, GWh[d]	335,210	275,258	109,634
Field Services' natural gas gathered and processed/transported, TBtu/d	8.6	7.6	5.1
Field Services' natural gas liquids production, MBbl/d	397.2	358.5	192.4

[a] Year 2000 and 1999 amounts are restated to reflect the two-for-one common stock split effective January 26, 2001.

[b] 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), as applicable

[c] Includes volumes for both North American Wholesale Energy and Field Services

[d] Includes volumes for North American Wholesale Energy only

enhance the value of our assets. By linking hard assets with trading and marketing capabilities, we increase – manyfold – our ability to deliver strong and consistent shareholder value.

Our portfolio of assets is fluid and flexible. We buy, build, manage and sell energy assets and products in much the same way investors manage their investment portfolios: We strive to buy low and sell high! Our practice of acquiring and selling positions is critical to capturing value and aligning our business with market realities, so you'll continue to see movement within the Duke Energy portfolio.

We build our businesses, plants and pipelines in the pathways of growth, developing the systems and facilities to efficiently connect supply and demand. It's like the secret of ice hockey great Wayne Gretsky's success – "skating where the puck is going to be." We build for tomorrow's growth.

The $8 billion acquisition of Westcoast Energy is the latest milestone in that grow-forward strategy. Westcoast is a natural gas pipeline, storage and distribution company based in Vancouver, British Columbia. It's the perfect fit for Duke Energy – ideally positioned, linking complementary assets, and advancing our long-term earnings potential.

With the addition of Westcoast's network, Duke Energy will have unparalleled access to North America's major natural gas supply basins and markets. Westcoast also brings an impressive network of gas gathering and processing services and gas storage capacity, as well as a talented team that will complement our own.

In financial terms, the Westcoast acquisition will be immediately accretive to earnings upon closing, and will spur future growth in our gas transmission and other businesses. We retain our strong balance sheet and financial flexibility with the acquisition, consistent with our commitment to maintain solid creditworthiness.

Operational excellence. Portfolio diversity. The overlay of energy trading and origination. Strategic acquisitions and divestitures. Financial strength. Those are our business model basics. When you put them together, you get sustainable growth and shareholder value.

[3] How has the company performed?

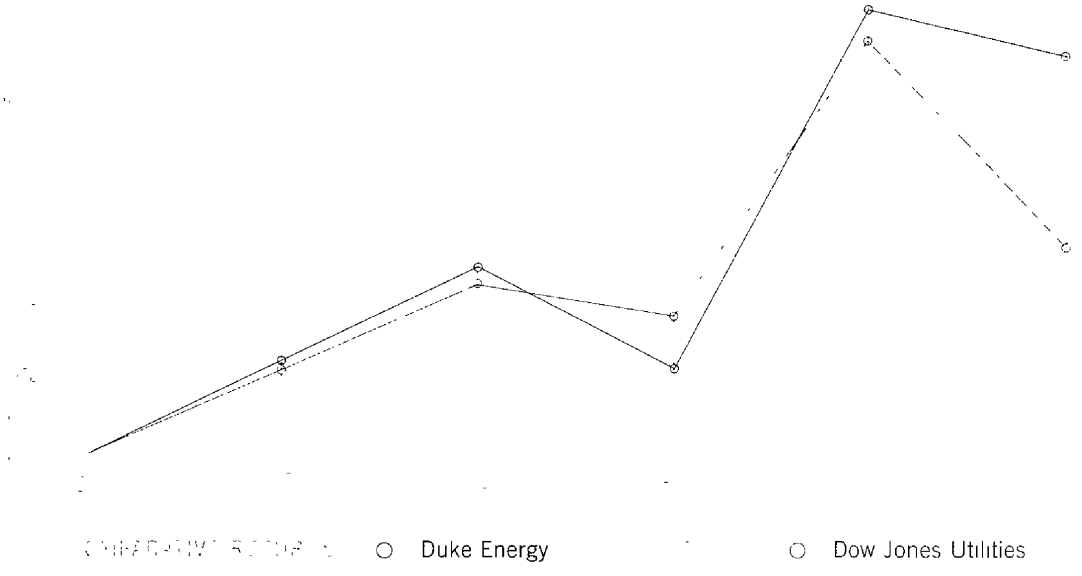
Today's investors seek real, reliable financial performance. Not platitudes. Not lofty talk of potential earnings and growth. Financial performance is the most basic of the basics, and we haven't lost sight of that fundamental at Duke Energy.

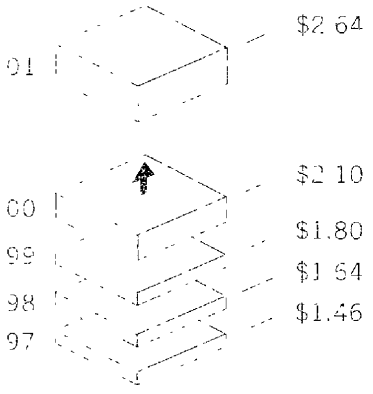
You'll see many impressive numbers in this report. Here are a few that matter the most in our business: A sound, sustainable earnings stream. The ability to deliver superior returns on capital. A debt level that gives us ready and secure access to that capital. And the ability to effectively manage risk exposure.

In 2001, revenues grew by 21 percent to nearly $60 billion, and earnings per share from our ongoing operations increased a record 26 percent. Reported earnings per share have seen a compound annual growth rate of 13 percent per year since 1998.

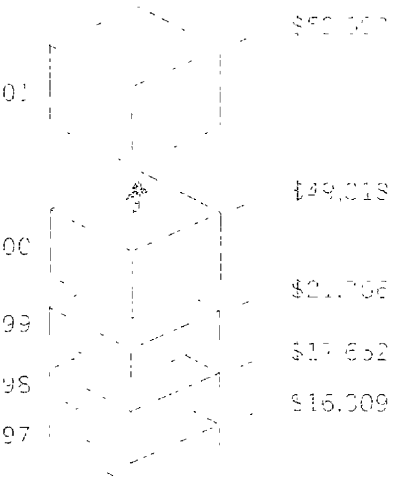
Our "A" Standard & Poor's credit rating – the strongest in our industry – allows us to initiate projects and see them through. We've worked hard to protect and strengthen our credit standing. In 2001, those efforts paid off when we completed the largest-ever combined equity and equity-linked transaction in the industry. We expect to see attractive acquisition opportunities in 2002 and beyond, and our credit muscle lets us move quickly on new growth opportunities.

We have access to capital – and we earn superior returns on that capital. Since 1998, Duke Energy has ranked in the top five of a 20-company peer group in return on capital employed. Our debt-to-capital ratio is a solid 46 percent, and we lead the industry with 17 percent return on equity.





Ongoing Earnings per Share



Revenues (in millions)

Like you, we're less than satisfied with Duke Energy's stock performance for the year, down 8 percent at year end. In context, we held our own, outperforming the S&P 500 and most of our energy peers. We exceeded our earnings estimates for 2001 and overcame the negative impacts of general economic uncertainty and energy sector weakness.

Financial performance is important. So is financial transparency. Investors need access to information so they can make informed decisions. And they need to know that their company has a clear picture of its risks and exposures at any given moment in time.

[4] How does the company manage its risk?

Duke Energy has one of the most comprehensive risk control structures in the energy industry. Led by our chief risk officer, systems and personnel throughout the organization ensure compliance with both internal controls and external regulatory procedures.

We monitor "daily earnings at risk" due to energy price fluctuations. By analyzing historic commodity prices, we can estimate the impact of future price movements on our portfolio. By design, the level of our daily earnings at risk is moderate, and it is constantly measured and monitored.

Duke Energy owns and operates more than 30,000 megawatts of electric generation worldwide

Effective risk management is embedded in our trading operations as well. We apply rigorous hedging discipline to all of our merchant generation and gas processing capacity, often selling future production through long-term contracts to lock in the spreads (the difference between the cost of production and the market price). That discipline protects us from dramatic swings in commodity prices. In the current market, we have hedged 91 percent of our merchant generation output for 2002, and 62 percent for 2003 and 2004.

You'll find detailed explanations of our risk management and accounting practices in the Management's Discussion and Analysis section of this report.

[illegible]

Not even a crystal ball can guarantee a perfect answer here, but there are signs to look for: a demonstrated track record, strong competitive positioning and the market's capacity for growth.

A year ago, Duke Energy increased its earnings growth goal to 10 to 15 percent compounded annually, from a base of $2.10 per share in 2000. We outpaced that pledge in 2001, and we expect to achieve the high end of that range in 2002.

After a turbulent year, the U.S. energy market remains resilient and healthy. Despite the exodus of key energy players in 2001, our industry – larger than any one company – remains strong. Customers take flight to quality, and companies like Duke Energy – with size, scope and a reputation for dependability – have an opportunity to forge new customer relationships.

The energy market continues to function efficiently and effectively. Buyers and sellers who trade electronically are moving to strong and stable energy trading platforms like the InterContinental Exchange, which Duke Energy helped create in 2000.

We also have confidence in the growth potential of the energy market, even in current economic conditions. Reliable, efficient, affordable energy is key to global economic growth. The U.S. Energy

Information Agency predicts that world energy consumption will increase by more than 50 percent by the year 2020. Even in a stalled economy, U.S. energy demand continues to grow by 1 to 2 percent annually.

For our part, we're building and acquiring thousands of megawatts of electric generation and thousands of miles of natural gas pipeline to serve North American and global energy markets. We're also adding capacity to store natural gas, produce natural gas liquids and transport petroleum products.

We've developed 12,000 megawatts of gas-fired power generation in the U.S. since 1997, including six new facilities brought on line for last summer's peak – an unprecedented accomplishment. We're building 11 more facilities to begin operation this summer, and generating facilities at five more locations are under construction for 2003.

We're also judiciously expanding our international operations – building generation capacity to meet growing demand in Latin America, extending our pipeline system in Australia, and pursuing new investments in liberalizing markets in Europe.

[6] What about the company's character?

In the energy business – in any business – integrity, character, trust and respect are critical success factors.

Tough times test a company's character and staying power. In 2001, we faced challenges and disruptions, in our industry and our world. The California energy crisis. Major energy companies in bankruptcy or decline. Downward pressure on energy prices. An economy in recession. The horrific events and aftershocks of September 11.

Our company's strength comes from its focus on resolving problems, not avoiding them. It's a simple formula: We run a good business, we tell the truth, we work from facts and we find solutions.

In California, for example, through all the political rhetoric, we focused on real solutions – keeping the plants running, and adding new supply to smooth out price volatility in wholesale markets for the long term. I'm extremely proud of our employees, who worked long hours under intense scrutiny to keep the lights on during the crisis.

Turbulent times and volatile markets call for strong leadership.

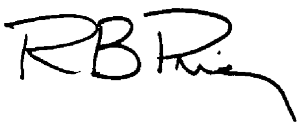
The seven executives who join me on Duke Energy's policy committee are at the top of their fields. They bring together diverse backgrounds and expertise, and set the true-north direction of our company. Behind them we have bench strength – an outstanding management team leading 24,000 talented energy professionals who span the disciplines of our business.

Ours is a team that does well from a business perspective, and does good from the perspective of our many stakeholders. The men and women of Duke Energy work to improve their communities and better the lives of their neighbors with charitable giving, volunteer work and civic involvement. And to prepare the next generation for a better tomorrow, we invest our time, talent and resources to support advancements in education at all levels.

The company's core values, business model, earnings ability, demonstrated performance, management discipline and future outlook – those are the critical elements I would question as an investor. The answers speak to a company's character, progress and potential.

Our company rose to the challenges of 2001 by focusing on the basics: Value creation. Consistently strong financial performance. Integrity and candor in our financial reporting. Positioning our businesses for future growth and opportunity. Diversity and balance. Trust and respect.

I believe those basics are the mark of a good company and of a good investment. They are the foundation that grounds us – and the spark that inspires us to new heights.



Richard B. Priory

FEBRUARY 19, 2002

Amy Statler Risk Management Duke Energy International

Richard B Priory 55 Chairman of the Board, President and Chief Executive Officer
Rick Priory has led Duke Energy as its chairman and CEO since Duke Power's 1997 merger with PanEnergy, one of the energy industry's first and most successful convergence alignments. A former college professor, Priory joined the company as a design engineer in 1976. His unique combination of academic and technical expertise led to his advancement to president of Duke Power in 1994. He was recently recognized as one of the world's top 25 managers by *Business Week*.

Richard W. Blackburn 59 Executive Vice President, General Counsel and Secretary
Responsible for Duke Energy's legal, governmental affairs and energy policy and strategy, Dick Blackburn has spent much of his career in senior legal positions Before joining Duke Energy in 1997, he served as president and group executive for NYNEX Worldwide Communications and Media Group, where he had lead responsibility for expansion of the corporation's global telecommunications businesses.

Robert P Brace 52 Executive Vice President and Chief Financial Officer
Corporate finance, accounting, taxes and investor relations are the responsibility of Robert Brace, who has an extensive background in international finance, strategic planning, mergers and acquisitions. He came to Duke Energy in 2001 from British Telecommunications plc, where he served as group finance director, the company's lead financial post.

RICHARD B PRIORY
FRED J. FOWLER
RICHARD W BLACKBURN
RICHARD J OSBORNE
ROBERT P BRACE
HARVEY J PADEWER
WILLIAM A COLEY
RUTH G SHAW








William A. Coley 58 Group President, Duke Power

Bill Coley joined Duke Power as a plant engineer in 1966, and today oversees the generation and delivery of electricity to more than 2 million customers in the Carolinas. His 36-year career spans responsibility for engineering, information systems, operations, power delivery and customer service. Coley serves on South Carolina's Palmetto Business Forum and on the North Carolina Economic Development Board.

Fred J. Fowler 56 Group President, Energy Transmission

Fred Fowler is responsible for Duke Energy's interstate natural gas pipeline system and natural gas gathering and processing business. He joined PanEnergy in 1985, bringing strong expertise in natural gas trading, marketing and transportation. He serves on the boards of directors of the Interstate Natural Gas Association of America and the Gas Research Institute.

Richard J Osborne 51 Executive Vice President and Chief Risk Officer

Overseeing Duke Energy's risk control policies, risk portfolio management and strategic planning, Rich Osborne is also responsible for the company's Duke Ventures group of non-energy businesses – Crescent Resources, DukeNet and Duke Capital Partners. A summer internship led him to join Duke Energy as a financial analyst in 1975, and by 1991 he had advanced to become chief financial officer.

Harvey J Padewer 54 Group President, Energy Services

Harvey Padewer leads Duke Energy North America, Duke Energy Generation Services, Duke/Fluor Daniel and Duke Energy Global Markets. He joined Duke Energy in 1998, having served as senior vice president and general manager of Utilicorp Energy Group, and vice chairman of the board of Aquila Pipeline Company. Padewer has a distinguished track record in growing energy-related businesses to become market leaders.

Ruth G. Shaw 54 Executive Vice President and Chief Administrative Officer

Ruth Shaw leads an array of corporate functions, ranging from human resources to information technology. She has also guided major strategic initiatives such as e-business and energy issues. She joined Duke Power as vice president of corporate communications in 1992, following a distinguished career in higher education. She is an active civic leader and president of the Duke Energy Foundation.

[redacted] 55
Chairman of the Board,
President and Chief Executive Officer.
Corporate Governance Committee;
Finance Committee
Director since 1990

[redacted] 58
Chairman and Chief Executive Officer,
Bernhardt Furniture Company
Chairman, Corporate
Performance Review Committee;
Finance Committee.
Director since 1991.

[redacted] 67
Chairman and Chief Executive Officer,
B&C Associates Inc.
Finance Committee; Corporate
Performance Review Committee
Director since 1994.

[redacted] 58
Group President, Duke Power.
Director since 1990

[redacted] 62
Chairman and Chief Executive Officer,
Sprint Corporation
Compensation Committee,
Corporate Governance Committee.
Director since 1985.

[redacted] 56
Former President, Diversified
Publishing Group of ABC Inc.
Audit Committee, Corporate
Performance Review Committee
Director since 1994

[redacted] 62
Retired Chairman and Chief
Executive Officer, PanEnergy Corp
Corporate Governance Committee,
Corporate Performance
Review Committee
Director since 1990.

[redacted] 70
Owner and President, Main Event
Management Corporation
Audit Committee; Corporate
Performance Review Committee
Director since 1978.

[redacted] 59
Chief Executive Officer and Director,
Extended Stay America Inc
Chairman, Finance Committee;
Compensation Committee.
Director since 1986.

[redacted] 61
Former President, Mars Hill College
Chairman, Audit Committee,
Compensation Committee
Director since 1988

[redacted] 67
Chairman of the Board, President and
Chief Executive Officer, Linbeck Corporation.
Chairman, Compensation Committee,
Audit Committee
Director since 1986.

[redacted] 66
Corporate Vice President,
Carolinas HealthCare System
Chairman, Corporate
Governance Committee;
Compensation Committee.
Director since 1994.

[redacted] 60
Retired Chairman, President and
Chief Executive Officer,
Institute of Nuclear Power Operations.
Audit Committee, Corporate
Performance Review Committee
Director since 2001.

Management Team

Richard B. Priory Chairman of the Board, President and Chief Executive Officer, Duke Energy

DUKE POWER William A. Coley Group President, Duke Power E.O. Ferrell III Senior Vice President, Electric Distribution Jimmy R Hicks Senior Vice President, Electric Transmission Sandra F Meyer Senior Vice President, Retail Services Ellen T. Ruff Senior Vice President, Asset Management Angeline M. Clinton Vice President, Information Systems J. Wilfred Neal President, Duke Communication Services Deborah T Patton Vice President, Human Resources Carol E. Shrum Vice President, Duke Power Planning and Finance Steven K. Young Vice President, Rates and Regulatory Affairs

ENERGY TRANSMISSION Fred J. Fowler Group President, Energy Transmission Jimmy W. Mogg Chairman, President and Chief Executive Officer, Duke Energy Field Services Robert B Evans President, Duke Energy Gas Transmission Barry R. Pearl President and Chief Operating Officer, TEPPCO Dorothy M. Ables Senior Vice President, Finance and Administration, and Chief Financial Officer, Duke Energy Gas Transmission Theopolis Holeman Senior Vice President, Transmission and Engineering, Duke Energy Gas Transmission Richard J Kruse Senior Vice President, Industry Initiatives, Pricing and Regulatory Affairs, Duke Energy Gas Transmission Tom C. O'Connor Senior Vice President, Marketing and Capacity Management, Duke Energy Gas Transmission

ENERGY SERVICES Harvey J. Padewer Group President, Energy Services James M Donnell President and Chief Executive Officer, Duke Energy North America Jeff L. Faulk President and Chief Executive Officer, Duke/Fluor Daniel Clarence L. Ray, Jr President and Chief Executive Officer, Duke Energy Generation Services Bruce A. Williamson President and Chief Executive Officer, Duke Energy Global Markets C. Neal Alexander, Jr. Senior Vice President, Human Resources Kirk B. Michael Senior Vice President and Chief Financial Officer Richard M. Sherrill Executive Vice President and Chief Operating Officer, Duke Energy North America Michael S. Tuckman Executive Vice President, Nuclear Generation Curtis H. Davis Senior Vice President, Power Generation Michael J Kimner President and Chief Executive Officer, Duke Energy Merchants Richard K. McGee President and Chief Executive Officer, Duke Energy International

GENERAL COUNSEL Richard W. Blackburn Executive Vice President, General Counsel and Secretary Brent C. Bailey Senior Vice President and General Counsel William F Hall III Senior Vice President, Energy Policy and Strategy Donald E. Hatley Senior Vice President, Governmental Affairs Martha B Wyrsch Senior Vice President and General Counsel

FINANCE Robert P. Brace Executive Vice President and Chief Financial Officer Sue A Beckl Senior Vice President, Investor Relations Keith G. Butler Senior Vice President and Controller Cary D Flynn Senior Vice President, Corporate Tax David L Hauser Senior Vice President and Treasurer Jeffrey L. Boyer Vice President, Financial Analysis

ENTERPRISE RISK MANAGEMENT AND DUKE VENTURES Richard J. Osborne Executive Vice President and Chief Risk Officer Robert S Lillien President, Duke Ventures Leonard B. Gatewood Senior Vice President, Strategic Planning and Development George V Brown Vice President, Corporate Risk Management and Chief Credit Officer C Jeffery Triplette Vice President, Insurance Sara S. Whitney Vice President, Audit Services A.R. Mullinax Senior Vice President, Duke Ventures Arthur W. Fields President, Crescent Resources, LLC Robert T. Ladd President and Chief Executive Officer, Duke Capital Partners, LLC Marion H. Smith, Jr. President and Chief Executive Officer, DukeNet Communications, LLC

CORPORATE RESOURCES Ruth G Shaw Executive Vice President and Chief Administrative Officer Roberta B. Bowman Senior Vice President, Public Affairs Christopher C Rolfe Senior Vice President, Human Resources Cecil O. Smith, Jr Senior Vice President, Information Management James W Chubb Vice President, Global Sourcing and Logistics Jacquelyn B. Gates Vice President, Diversity, Ethics and Compliance James R. Hendricks, Jr. Vice President, Corporate Environment, Health and Safety Donald H. Steele III Vice President, Corporate Services

FINANCIAL CONTENTS

INTRODUCTION

Management's Discussion and Analysis should be read with the Consolidated Financial Statements.

BUSINESS SEGMENTS 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 seven business segments

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 North America, primarily in the Mid-Atlantic, New England and southeastern states. It conducts operations primarily through Duke Energy Gas Transmission Corporation Interstate natural gas transmission and storage operations are subject to the FERC's rules and regulations.

Field Services gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores natural gas liquids (NGLs) It conducts operations primarily through Duke Energy Field Services, LLC (DEFS), which is approximately 30% owned by Phillips Petroleum. Field Services operates gathering systems in western Canada and 11 contiguous states in the U S Those systems serve major natural gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, and onshore and offshore Gulf Coast areas.

North American Wholesale Energy (NAWE) develops, operates and manages merchant generation facilities and engages in commodity sales and services related to natural gas and electric power. NAWE conducts these operations primarily through Duke Energy North America, LLC (DENA) and Duke Energy Trading and Marketing, LLC (DETM). DETM is approximately 40% owned by Exxon Mobil Corporation NAWE also includes Duke Energy Merchants Holdings, LLC, which develops new business lines in the evolving energy commodity markets other than natural gas and power NAWE conducts business primarily throughout the U.S. and Canada.

International Energy develops, operates and manages natural gas transportation and power generation facilities and engages in energy trading and marketing of natural gas and electric power. It conducts operations primarily through Duke Energy International, LLC and its activities target the Latin American, Asia-Pacific and European regions

Other Energy Services is a combination of businesses that provide engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc (DE&S), Duke/Fluor Daniel (D/FD) and DukeSolutions, Inc. (DukeSolutions) D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc , a wholly owned subsidiary of Fluor Corporation. (See Note 8 to the Consolidated Financial Statements) On January 31, 2002, Duke Energy announced the planned sale of DE&S to Framatome ANP, Inc (See Current Issues – Subsequent Event)

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 U S DukeNet provides fiber optic networks for industrial, commercial and residential customers DCP, a wholly owned merchant banking company, provides debt and equity capital and financial advisory services to the energy industry

BUSINESS STRATEGY Duke Energy is one of the world's leading integrated energy companies The company's business strategy is to develop integrated energy businesses in targeted regions where Duke Energy's extensive capabilities in developing energy assets, operating electricity, natural gas and NGL plants, optimizing commercial operations and managing risk can provide comprehensive energy solutions for customers and create superior value for shareholders The growth in and restructuring of global energy markets are providing opportunities for Duke Energy's competitive business segments to capitalize on their extensive capabilities. Domestically, Duke Energy is investing as opportunities arise in new merchant power plants throughout the U.S , expanding its natural gas pipeline infrastructure, advancing its leading position in natural gas gathering and processing and NGL marketing, and developing its trading and marketing structured origination expertise across the energy spectrum. Planned expansion for 2002 includes the pending acquisition of Westcoast Energy Inc. (Westcoast) for approximately $8 billion, including the assumption of debt. Westcoast, head-

quartered in Vancouver, British Columbia, is a North American energy company with interests in natural gas gathering, processing, transmission, storage and distribution, as well as power generation and international energy businesses. (See Current Issues – Pending Acquisition of Westcoast Energy Inc.) Internationally, Duke Energy is currently focusing on electric and natural gas opportunities in Latin America, Asia Pacific and Europe.

Franchised Electric continues to increase its customer base, maintain low costs and deliver high-quality customer service in the Piedmont Carolinas. Franchised Electric is expected to grow moderately. Expansion will primarily result from continued growth in the residential and general service sectors, partially offset by a continuing decline in the textile industry.

Natural Gas Transmission plans to continue its earnings growth rate by executing a comprehensive strategy of selected acquisitions and expansions, and by developing expanded services and incremental projects that meet changing customer needs.

Field Services has developed significant size and scope in natural gas gathering and processing and NGL marketing. Field Services plans to make additional investments in gathering, processing and NGL infrastructure. Field Services' interconnected natural gas processing operations provide an opportunity to capture fee-based investment opportunities in certain NGL assets, including pipelines, fractionators and terminals.

NAWE plans to continue increasing earnings through acquisitions, divestitures, construction of greenfield projects and expansion of existing facilities as regional opportunities are identified, evaluated and realized throughout the North American marketplace. DENA, through its portfolio management strategy, seeks opportunities to invest in energy assets in U.S. markets that have capacity needs and to divest other assets, in whole or in part, when significant value can be realized. Commodity sales and services related to natural gas and power continue to expand as NAWE provides energy supply, structured origination, trading and marketing, risk management and commercial optimization services to large energy customers, energy aggregators and other wholesale companies.

International Energy plans to continue expanding through acquisitions, divestitures, construction of greenfield projects and expansion of existing facilities in selected international regions. International Energy's combination of assets and capabilities and close working relationships with other subsidiaries of Duke Energy allow it to efficiently deliver natural gas pipeline, power generation, energy marketing and other services.

Other Energy Services' growth opportunities will be primarily related to D/FD. Other Energy Services plans to grow by providing an expanding customer base with a variety of engineering, operating, procurement and construction services in areas related to energy assets.

Duke Ventures plans to expand earnings capabilities in its real estate, telecommunications and capital financing business units by developing regional opportunities and by applying extensive experience to new project development.

Duke Energy's business strategy and growth expectations may vary significantly depending on many factors, including, but not limited to, the pace and direction of industry restructuring, regulatory constraints, acquisition opportunities, market volatility and economic trends. However, Duke Energy's growth expectations do not rely on progress in industry restructuring in North Carolina and South Carolina.

RESULTS OF OPERATIONS

In 2001, earnings available for common stockholders were $1,884 million, or $2.45 per basic share, compared to $1,757 million, or $2.39 per basic share, in 2000. The increase was due primarily to a 6% increase in earnings before interest and taxes (EBIT), as described below. Current-year EBIT increases on a comparative basis were partially offset by the prior year's pre-tax gain of $407 million (an after-tax gain of $0.34 per basic share) on the sale of Duke Energy's 20% interest in BellSouth Carolina PCS, and a current-year, one-time net-of-tax charge of $96 million (or $0.13 per basic share). This one-time charge was the cumulative effect of a change in accounting principle for the January 1, 2001 adoption of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." (See Note 1 to the Consolidated Financial Statements.)

Earnings available for common stockholders increased $270 million in 2000, from 1999 earnings of $1,487 million, or $2.04 per basic share. The increase was due primarily to a 96% increase in EBIT, as described below, including the BellSouth Carolina PCS gain. Partially offsetting the increase in EBIT on a comparative basis was a 1999 after-tax extraordinary gain of $660 million, or $0.91 per basic share. This gain was from the sale of Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, along with Trunkline LNG Company. Higher interest and minority interest expense in 2000 also partially offset the increase in EBIT.

Earnings per share information provided above has been restated to reflect the two-for-one common stock split effective January 26, 2001. (See Note 16 to the Consolidated Financial Statements.)

Operating income for 2001 was $4,100 million, compared to $3,813 million in 2000 and $1,819 million in 1999. EBIT was $4,256 million in 2001, $4,014 million in 2000 and $2,043 million in 1999. Operating income and EBIT are affected by the same fluctuations for Duke Energy and each of its business segments as described above. Beginning January 1, 2001, Duke Energy discontinued allocating corporate governance costs for its business segment analysis. Prior-year business segment EBIT amounts have been restated to conform to the current-year presentation of corporate cost allocations. (See Note 3 to the Consolidated Financial Statements for more information on business segments.) The following table shows the components of EBIT and a reconciliation from EBIT to net income.

RECONCILIATION OF OPERATING INCOME TO NET INCOME

	Years ended December 31		
In millions	2001	2000	1999
Operating income	$ 4,100	$ 3,813	$ 1,819
Other income and expenses	156	201	224
EBIT	4,256	4,014	2,043
Interest expense	785	911	601
Minority interest expense	327	307	142
Earnings before income taxes	3,144	2,796	1,300
Income taxes	1,150	1,020	453
Income before extraordinary item and cumulative effect of change in accounting principle	1,994	1,776	847
Extraordinary gain, net of tax	-	-	660
Cumulative effect of change in accounting principle, net of tax	(96)	-	-
Net Income	$ 1,898	$ 1,776	$ 1,507

EBIT is the main performance measure used by management to evaluate segment performance. As an indicator of Duke Energy's operating performance or liquidity, EBIT should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with generally accepted accounting principles. Duke Energy's EBIT may not be comparable to a similarly titled measure of another company. Business segment EBIT is summarized in the following table, and detailed discussions follow.

EBIT BY BUSINESS SEGMENT

	Years ended December 31		
In millions	2001	2000	1999
Franchised Electric	$ 1,631	$ 1,820	$ 942
Natural Gas Transmission	608	562	656
Field Services	336	311	156
North American Wholesale Energy	1,351	434	219
International Energy	286	341	44
Other Energy Services	(13)	(59)	(86)
Duke Ventures	183	568	165
Other Operations	(357)	(194)	(145)
EBIT attributable to minority interests	231	231	92
Consolidated EBIT	$ 4,256	$ 4,014	$ 2,043

Other Operations primarily includes certain unallocated corporate costs. The amounts discussed below include intercompany transactions that are eliminated in the Consolidated Financial Statements.

FRANCHISED ELECTRIC	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 4,746	$ 4,946	$ 4,700
Operating expenses	3,185	3,200	3,880
Operating income	1,561	1,746	820
Other income, net of expenses	70	74	122
EBIT	$ 1,631	$ 1,820	$ 942
Sales, GWh[a]	79,685	84,766	81,548

[a] Gigawatt-hours

Franchised Electric's EBIT decreased $189 million in 2001 as compared to 2000, due primarily to much milder weather in Franchised Electric's service territory during the latter part of 2001 and decreased sales to industrial customers, which were a result of the slowing economy These decreased sales were slightly offset by growth in the average number of residential and general service customers in Franchised Electric's service territory. The 2001 results also include a $36 million reduction in unbilled revenue receivables, resulting from a refinement in the estimates used to calculate unbilled kilowatt-hour sales (see Note 1 to the Consolidated Financial Statements), and $33 million in mutual insurance distributions that were reclassified from earnings to a deferred credit account as required by the NCUC, pending final outcome of a regulatory audit which will likely determine the treatment of those distributions. (See Current Issues – Regulatory Matters) The decrease in operating revenues, due to the decrease in GWh sales, caused an overall decrease in operating expenses, as variable fuel costs decreased because less fuel was needed This decrease was partially offset by increased costs for nuclear and fossil-fueled plant outages for repairs and maintenance.

In 2000, Franchised Electric's EBIT increased $878 million over 1999, due primarily to an $800 million expense in 1999 for estimated injuries and damages claims (See Note 15 to the Consolidated Financial Statements.) Overall favorable weather and growth in the average number of customers in Franchised Electric's service territory resulted in an increase in GWh sales, which also contributed to the increase in EBIT for 2000. This increase was partially offset by increased operating costs.

The following table shows the changes in GWh sales and average number of customers for the past two years.

Increase (decrease) over prior year	2001	2000
Residential sales	1.7 %	4.4 %
General service sales	3.6 %	4.7 %
Industrial sales	(9.6)%	(0.5)%
Total Franchised Electric sales	(6.0)%	3.9 %
Average number of customers	2.0 %	2.5 %

NATURAL GAS TRANSMISSION	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 1,105	$ 1,131	$ 1,230
Operating expenses	504	581	586
Operating income	601	550	644
Other income, net of expenses	7	12	12
EBIT	$ 608	$ 562	$ 656
Proportional throughput, TBtu[a]	1,710	1,771	1,893

[a] Trillion British thermal units

In 2001, EBIT for Natural Gas Transmission increased $46 million compared to 2000, primarily from earnings of East Tennessee Natural Gas Company (ETNG) and Market Hub Partners (MHP) (acquired in March and September 2000, respectively; see Note 2 to the Consolidated Financial Statements) and earnings from other market expansion projects. The decrease in operating revenues for

2001, which was offset by a decrease in operating expenses, resulted from $112 million in rate reductions, which became effective in December 2000 These reduced rates reflect lower recovery requirements for operating costs at Texas Eastern Transmission, LP, which consists primarily of system fuel and FERC Order 636 transition costs.

Future results of Natural Gas Transmission are expected to be positively impacted by the pending acquisition of Westcoast (See Current Issues – Pending Acquisition of Westcoast Energy Inc.)

EBIT for Natural Gas Transmission decreased $94 million in 2000 compared to 1999, due primarily to $135 million of EBIT in 1999 that did not recur in 2000 These earnings in 1999 resulted from $73 million of EBIT from the pipelines sold to CMS Energy Corporation (CMS) in March 1999; a $24 million gain from the sale of Duke Energy's interest in the Alliance Pipeline project; and benefits totaling $38 million from the completion of certain environmental cleanup programs below estimated costs These items were partially offset by increased earnings from market expansion projects, joint ventures such as the Maritimes & Northeast Pipeline, which was placed into service in December 1999, and earnings from ETNG and MHP

FIELD SERVICES

	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 9,651	$ 9,060	$ 3,590
Operating expenses	9,154	8,620	3,432
Operating income	497	440	158
Other income, net of expenses	1	6	(2)
Minority interest expense	162	135	-
EBIT	$ 336	$ 311	$ 156
Natural gas gathered and processed/transported, TBtu/d[a]	8.6	7.6	5 1
NGL production, MBbl/d[b]	397.2	358.5	192.4
Natural gas marketed, Tbtu/d	1.6	0.7	0.5
Average natural gas price per MMBtu[c]	$ 4.27	$ 3.89	$ 2 27
Average NGL price per gallon[d]	$ 0.45	$ 0.53	$ 0.34

[a] Trillion British thermal units per day
[b] Thousand barrels per day
[c] Million British thermal units
[d] Does not reflect results of commodity hedges

Field Services' EBIT increased $25 million in 2001 from 2000. Operating revenues increased due primarily to recognizing a full year of the results of the combination of Field Services' natural gas gathering, processing and marketing business with Phillips Petroleum's gas gathering, processing and marketing unit's midstream natural gas business (the Phillips combination) in March 2000 (See Note 2 to the Consolidated Financial Statements.) This increase was partially offset by lower average NGL prices that decreased $0 08 per gallon from the prior year. (See Quantitative and Qualitative Disclosures about Market Risk – Commodity Price Risk for information on NGL price sensitivity) Increased operating expenses due primarily to the Phillips combination were partially offset by savings from cost reduction efforts and plant consolidations, and by the interaction of Field Services' natural gas and NGL purchase contracts with lower average NGL prices and higher average natural gas prices. The 11% increase in NGL production, due primarily to the Phillips combination, was offset by reduced recoveries at facilities, resulting from tightened fractionation spreads driven by higher average natural gas prices.

In 2000, Field Services' EBIT increased $155 million compared to 1999 The increase in EBIT and volume activity was primarily due to the Phillips combination; the acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources in April 1999, and other acquisitions and plant expansions Improved average NGL prices, which increased 56% over 1999 prices, also contributed significantly to the increase in EBIT

NORTH AMERICAN WHOLESALE ENERGY	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 43,197	$ 33,874	$ 11,801
Operating expenses	41,809	33,370	11,581
Operating income	1,388	504	220
Other income, net of expenses	7	3	60
Minority interest expense	44	73	61
EBIT	$ 1,351	$ 434	$ 219
Natural gas marketed, TBtu/d	12.4	11.9	10.5
Electricity marketed and traded, GWh	335,210	275,258	109,634
Proportional megawatt capacity in operation	6,799	5,134	3,532
Proportional megawatt capacity owned[a]	15,569	8,984	5,799

[a] Includes under construction or under contract at period end

Compared to 2000, NAWE's EBIT increased $917 million in 2001. The increase in EBIT reflects a 32% increase in the proportional megawatt capacity of generation assets in operation. Increased earnings also resulted from a 4% increase in the marketing of natural gas volumes and a 22% increase in the marketing and trading of electricity volumes. Additionally, EBIT increased $63 million over the prior year due to the sale of NAWE's interests in generating facilities, consistent with its portfolio management strategy, and $110 million due to a charge in 2000 related to receivables for energy sales in California. These increases were partially offset by increased operating and development costs associated with business expansion and a current-year charge of $36 million for non-collateralized accounting exposure to Enron Corporation, which filed for bankruptcy in 2001. (See Quantitative and Qualitative Disclosures About Market Risk – Credit Risk.) Changes in the ownership percentage of NAWE's waste-to-energy plants and decreased earnings at DETM resulted in a $29 million decrease in minority interest expense compared to the prior year.

In 2001, NAWE experienced strong growth rates by taking advantage of significant volatility in the marketplace. While management is taking steps to continue to increase earnings, 2001 results may not be indicative of NAWE's future earnings trends.

In 2000, EBIT for NAWE increased $215 million from 1999, the result of increased earnings from asset positions, increased trading margins due to price volatility in natural gas and power, and a $47 million increase in income from the sale of interests in generating facilities. Operating revenues and expenses increased as the volumes of natural gas and electricity marketed increased 13% and 151%, respectively. These increases were partially offset by the $110 million charge related to receivables for energy sales in California, and increased operating and development costs associated with business expansion.

INTERNATIONAL ENERGY	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 2,090	$ 1,067	$ 357
Operating expenses	1,817	745	290
Operating income	273	322	67
Other income, net of expenses	36	42	8
Minority interest expense	23	23	31
EBIT	$ 286	$ 341	$ 44
Proportional megawatt capacity in operation	4,568	4,226	2,974
Proportional megawatt capacity owned[a]	5,386	4,876	2,974
Proportional maximum pipeline capacity in operation, MMcf/d[b]	255	255	83
Proportional maximum pipeline capacity owned[a], MMcf/d	363	363	255

[a] Includes under construction or under contract at period end

[b] Million cubic feet per day

International Energy's EBIT decreased $55 million in 2001 compared to 2000. The decrease was due primarily to a $54 million gain recognized in 2000 from the sale of liquefied natural gas ships, and the impact in 2001 of foreign currency devaluation on the earnings of international operations. However, these were offset by inflation adjustment clauses in certain contracts and stronger Latin American operational results

In 2000, International Energy's EBIT increased $297 million compared to 1999 The increase was primarily attributable to increased earnings in Latin America, mainly resulting from new investments (See Note 2 to the Consolidated Financial Statements for a discussion of significant acquisitions) The increase also included $54 million from the February 2000 sale of liquefied natural gas ships

OTHER ENERGY SERVICES

	Years ended December 31		
In millions	2001	2000	1999
Operating revenues	$ 565	$ 695	$ 989
Operating expenses	578	754	1,075
EBIT	$ (13)	$ (59)	$ (86)

In 2001, EBIT for Other Energy Services improved $46 million compared to 2000 Current-year results included approximately $36 million of charges at DE&S and DukeSolutions for goodwill impairment. These charges were offset by the prior year's loss on a D/FD project of $62 million and a $27 million charge at DE&S to reflect a more conservative revenue recognition approach on its projects D/FD uses the percentage-of-completion method to recognize income. (See Note 1 to the Consolidated Financial Statements for a discussion of revenue recognition.) Operating revenues and expenses also decreased compared to 2000, due to cessation of retail commodity trading at DukeSolutions On January 31, 2002, Duke Energy announced the planned sale of DE&S to Framatome ANP, Inc (See Current Issues – Subsequent Event.)

EBIT for Other Energy Services improved $27 million in 2000 compared to 1999. New business activity and decreased operating expenses at DukeSolutions and earnings related to new projects at D/FD were responsible for improved EBIT in 2000 The results for 2000 also included the D/FD project loss and the DE&S charge mentioned above. Partially offsetting these amounts were 1999 charges of $38 million at DE&S and $35 million at DukeSolutions, related to expenses for severance and office closings associated with repositioning the companies

DUKE VENTURES

	Years ended December 31		
In millions	2001	2000	1999
Operating revenues	$ 646	$ 797	$ 433
Operating expenses	461	229	268
Operating income	185	568	165
Minority interest expense	2	-	-
EBIT	$ 183	$ 568	$ 165

EBIT for Duke Ventures decreased $385 million in 2001 compared to 2000, due mainly to DukeNet's sale of its 20% interest in BellSouth Carolina PCS to BellSouth Corporation in 2000, for a pre-tax gain of $407 million. This decrease was minimally offset by increased earnings at Crescent, related primarily to increased commercial project sales, and the absence of losses related to DukeNet's BellSouth Carolina PCS investment. Excluding the gain on the sale in 2000, operating revenues and expenses increased due to DCP, which began operations in late 2000

In 2000, EBIT for Duke Ventures increased $403 million compared to 1999. This increase, primarily attributable to the DukeNet gain on the sale mentioned above, was slightly offset by a decrease in commercial project sales and land sales at Crescent

OTHER OPERATIONS EBIT for Other Operations decreased $163 million in 2001 and $49 million in 2000 The decrease for 2001 was due primarily to increased contributions to the Duke Energy Foundation (an independent, Internal Revenue Code section 501(c)(3) entity that funds Duke Energy's charitable contributions), mark-to-market losses on corporately managed energy risk positions used to hedge exposure to commodity prices, increased unallocated corporate costs and a prior-year interest refund from a Revenue Agency Ruling. The decrease in 2000 was due primarily to increased unallocated corporate costs.

OTHER IMPACTS ON EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS Interest expense decreased $126 million in 2001, due primarily to lower interest rates. In 2000, interest expense increased $310 million due to higher average outstanding debt balances, resulting from acquisitions and expansion.

Minority interest expense increased $20 million in 2001 and $165 million in 2000. Minority interest expense includes expense related to regular distributions on preferred securities of Duke Energy and its subsidiaries. This expense increased $39 million in 2001 and $14 million in 2000 related to Catawba River Associates, LLC (Catawba), which was formed by Duke Energy in September 2000 (See Note 13 to the Consolidated Financial Statements.) In 2000, this expense increased $21 million due to additional issuances of Duke Energy's trust preferred securities during 1999. (See Note 12 to the Consolidated Financial Statements.)

Minority interest expense as shown and discussed in the preceding business segment EBIT discussions includes only minority interest expense related to EBIT of Duke Energy's joint ventures. It does not include minority interest expense related to interest and taxes of the joint ventures. Total minority interest expense related to the joint ventures (including the portion related to interest and taxes) decreased $19 million in 2001 and increased $130 million in 2000. The 2001 decrease is due to changes in the ownership percentage of NAWE's waste-to-energy plants and decreased earnings by DETM, NAWE's joint venture with Exxon Mobil Corporation, offset slightly by increased minority interest expense for Field Services' joint venture with Phillips Petroleum. The 2000 increase was primarily due to increased minority interest expense at Field Services and NAWE, partially offset by decreased minority interest expense at International Energy due to its 1999 and 2000 acquisitions. (See Notes 2 and 8 to the Consolidated Financial Statements for more information on acquisitions and new joint venture projects.)

Duke Energy's effective tax rate was approximately 37% for 2001, 37% for 2000 and 35% for 1999.

During 2001, Duke Energy recorded a one-time net-of-tax charge of $96 million related to the cumulative effect of a change in accounting principle for the January 1, 2001 adoption of SFAS No. 133. This charge related to contracts that either did not meet the definition of a derivative under previous accounting guidance or do not qualify as hedge positions under new accounting requirements. (See Notes 1 and 7 to the Consolidated Financial Statements.)

The sale of PEPL, Trunkline and additional storage related to those systems, along with Trunkline LNG Company to CMS, closed in March 1999 and resulted in a $660 million extraordinary gain, after income tax of $404 million. (See Note 1 to the Consolidated Financial Statements.)

CRITICAL ACCOUNTING POLICIES

See Quantitative and Qualitative Disclosures About Market Risk – Risk and Accounting Policies for a discussion of Mark-to-Market Accounting, Hedge Accounting and Normal Purchases and Normal Sales, Special Exemption. Also see Note 1 to the Consolidated Financial Statements for a discussion of significant accounting policies.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, Duke Energy had $290 million in Cash and Cash Equivalents on the Consolidated Balance Sheets. This compares to $622 million as of December 31, 2000 and $613 million as of December 31, 1999.

OPERATING CASH FLOWS Net cash provided by operations increased $2,370 million in 2001 and decreased $459 million in 2000. The 2001 increase is due primarily to price movements in the energy commodities markets which have a direct impact on Duke Energy's use and generation of cash from operations. Earnings increase as natural gas and electricity prices move favorably with respect to contracts that Duke Energy holds. In addition, counterparties may be required to post collateral in cash or letters of credit if price moves benefit Duke Energy. This mechanism gives Duke Energy use of those funds on a short-term basis. Conversely, negative price impacts reduce earnings and may require Duke Energy to post collateral with its counterparties. Cash collateral posted by Duke Energy is included in Other Current Assets and cash collateral collected by Duke Energy is included in Other Current Liabilities on the Consolidated Balance Sheets. In 2000, Duke Energy posted more collateral with counterparties, reducing cash from operations. In addition, Duke Energy made tax payments in 2000 related to the sale of pipelines in 1999. These accounted for the reduced operating cash flows for 2000 compared to 1999.

INVESTING CASH FLOWS Cash used in investing activities increased $1,351 million in 2001 and $1,179 million in 2000. The primary use of cash for investing activities is capital and investment expenditures, which are detailed by business segment in the following table.

In millions	Years ended December 31 2001	2000	1999
Franchised Electric	$ 1,115	$ 661	$ 759
Natural Gas Transmission	748	973	261
Field Services	587	376	1,630
North American Wholesale Energy	3,272	1,937	1,028
International Energy	442	980	1,779
Other Energy Services	13	28	94
Duke Ventures	773	643	382
Other Operations	90	36	3
Total consolidated	$ 7,040	$ 5,634	$ 5,936

[a] Amounts are gross of cash received from acquisitions

Capital and investment expenditures increased $1,406 million in 2001 compared to 2000. The increase reflects additional expansion and development expenditures (especially related to NAWE's generating facilities), refurbishment and upgrades to existing assets (primarily related to Franchised Electric) and minor acquisitions of businesses and assets Also in 2001, Natural Gas Transmission invested in a 50% interest in Gulfstream Natural Gas System, LLC, a joint interstate natural gas pipeline development that will extend from Mississippi and Alabama across the Gulf of Mexico to Florida These increases were partially offset by Natural Gas Transmission's acquisition of ETNG for approximately $390 million and of MHP for approximately $250 million in cash, and International Energy's approximately $280 million tender offer for Companhia de Geracao de Energia Elétrica Paranapanema (Paranapanema) in 2000. (See Note 2 to the Consolidated Financial Statements for more information about significant acquisitions.)

Capital and investment expenditures decreased by $302 million in 2000 compared to 1999. In 2000, Natural Gas Transmission's capital expenditures increased primarily for business expansion related to the acquisitions of ETNG and MHP. Also in 2000, NAWE began construction of a number of power generation plants in the U.S and continued capital expenditures on ongoing projects International Energy's business expansion included completion of the Paranapanema tender offer and the approximately $405 million acquisition of Dominion Resources, Inc 's portfolio of hydroelectric, natural gas and diesel power generation businesses in Latin America

Offsetting the capital and investing expenditures were cash proceeds of $400 million from the sale of Duke Energy's 20% interest in BellSouth Carolina PCS in 2000 and $1,900 million from the sale of pipelines to CMS in 1999. (See Note 1 to the Consolidated Financial Statements for more information on the sale of the pipelines.)

Projected 2002 capital and investment expenditures for Duke Energy are approximately $8 0 billion, of which over 80% is planned for competitive business segments not subject to state rate regulation. This projection includes approximately $6 5 billion for acquisitions and other expansion opportunities and $1.5 billion for existing plant upgrades The above amounts do not include the pending acquisition of Westcoast for approximately $8 billion, including the assumption of debt

All projected capital and investment expenditures are subject to periodic review and revision and may vary significantly depending on a number of factors, including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility and economic trends

The consideration to Westcoast shareholders will be composed of 50% cash and 50% stock Management plans to largely utilize equity-linked securities to fund the cash consideration In November 2001, Duke Energy sold $750 million of mandatorily convertible securities (Equity Units). The net proceeds from the offering will provide a component of the permanent financing for the pending acquisition of Westcoast Management plans to use short-term borrowings to provide the additional cash requirements at closing. The timing for additional financing needs will be determined after the close of the transaction. (See Liquidity and Capital Resources – Financing Cash Flows)

Duke Energy's growth initiatives, along with dividends, debt repayments and operating requirements are expected to be funded by cash from operations, debt and capital market financings, project financings, common stock issuances through its InvestorDirect Choice Plan and employee benefit plans, and proceeds from the sale of assets These financing opportunities are dependent upon the opportunities presented and favorable market conditions Additionally, internal cash generation should fund approximately half of the capital needs Management believes Duke Energy has adequate financial resources to meet its future needs

FINANCING CASH FLOWS Duke Energy's consolidated capital structure at December 31, 2001, including short-term debt, was 46% debt, 41% common equity, 7% minority interests, 5% trust preferred securities and 1% preferred stock Fixed charges coverage, calculated using Securities and Exchange Commission (SEC) guidelines, was 3.8 times for 2001, 3 6 times for 2000 and 2 7 times for 1999

During 2001, DEFS issued $250 million of 6 875% senior unsecured notes due in 2011 and $300 million of 5.75% senior unsecured notes due in 2006. The proceeds were used to repay DEFS' short-term debt. Also during 2001, Duke Capital Corporation (a wholly owned subsidiary of Duke Energy), increased its note payable to D/FD by $427 million, to $568 million as of December 31, 2001 The weighted-average interest rate on this note for 2001 was 4 05% (See Notes 8 and 10 to the Consolidated Financial Statements)

In March 2001, Duke Energy completed an offering of 25 million shares of common stock, priced at $38 98 per share, before underwriting discount and other offering expenses. In addition, Duke Energy completed an offering of approximately 31 million Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation (which are included in Long-term Debt on the Consolidated Balance Sheets, see Note 10 to the Consolidated Financial Statements), and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. Also in March 2001, the underwriters exercised options granted to them to purchase an additional 3.75 million shares of common stock and four million Equity Units at the original issue prices, less underwriting discounts, to cover over-allotments made during the offerings Total net proceeds from the offerings, approximately $1 9 billion, were used to repay short-term debt and for other corporate purposes.

In November 2001, Duke Energy completed an offering of 30 million Equity Units, at $25 per unit, before underwriting discount and other offering expenses The Equity Units consist of senior notes of Duke Capital Corporation (which are included in Long-term Debt on the Consolidated Balance Sheets; see Note 10 to the Consolidated Financial Statements), and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. The net proceeds from the offering of approximately $731 million will provide a component of the permanent financing for the pending acquisition of Westcoast Pending the close of the Westcoast acquisition, the net proceeds of the offering will be used to manage working capital needs

During 2001, Duke Energy redeemed eight issues of its first and refunding mortgage bonds to take advantage of the general decline in interest rates The total face value of the redeemed bonds was $511 million, with interest rates ranging from 5 875% to 8 3% To fund these redemptions, Duke Energy issued commercial paper and used cash proceeds generated from short-term investments

In January 2002, Duke Energy issued $750 million of 6.25% senior unsecured bonds due in 2012 and $250 million of floating rate (based on the three-month London Interbank Offered Rate (LIBOR) plus 0.35%) senior unsecured bonds due in 2005. The proceeds from these issuances were used to manage working capital needs

In February 2002, Duke Capital Corporation issued $500 million of 6.25% senior unsecured bonds due in 2013 and $250 million of 6.75% senior unsecured bonds due in 2032 In addition, Duke Capital Corporation, through a private placement transaction, issued $500 million of floating rate (based on the one-month LIBOR plus 0 65%) senior unsecured bonds due in 2003 The proceeds from these issuances will be used to manage working capital needs and to fund a portion of the cash consideration for the pending acquisition of Westcoast

Under its commercial paper, medium-term notes and extendible commercial notes (ECNs) programs, Duke Energy had the ability to borrow up to $5,358 million at December 31, 2001 compared with $5,720 million at December 31, 2000 These programs do not have termination dates The following table summarizes the commercial paper, medium-term notes and ECNs as of December 31, 2001

In millions	Duke Energy	Duke Capital Corporation[a]	Duke Energy Field Services	Duke Energy International	Total
Commercial paper	$ 1,250	$ 1,550	$ 675	$ 383[b]	$ 3,858
ECNs	500	1,000	-	-	1,500
Total	$ 1,750	$ 2,550	$ 675	$ 383	$ 5,358

[a] Duke Capital Corporation provides financing and credit enhancement services for its subsidiaries.

[b] Includes ability to issue medium-term notes

The total amount of Duke Energy's bank credit facilities was approximately $4,606 million as of December 31, 2001 compared with $4,205 million as of December 31, 2000 Some of the credit facilities support the issuance of commercial paper, therefore, the issuance of commercial paper reduces the amount available under these credit facilities. As of December 31, 2001, approximately $2,970 million

was outstanding in the form of commercial paper, medium-term notes and ECNs, and approximately $38 million of borrowings were outstanding under the bank credit facilities The credit facilities expire from 2002 to 2004 and are not subject to minimum cash requirements; however, borrowings and issuances of letters of credit under approximately $1,100 million of these facilities are subject to and dependent on the senior unsecured debt ratings of Duke Capital Corporation (currently rated A3/A/A). Ratings of Baa2, BBB or the equivalent by at least two of Moody's Investors Service, Standard & Poor's and Fitch, Inc must be maintained to obtain additional borrowings and issuances of letters of credit Any outstanding borrowings would not become due and payable. (See Note 10 to the Consolidated Financial Statements for more information on the bank credit facilities)

As of December 31, 2001, Duke Energy and its subsidiaries had effective SEC shelf registrations for up to $3,500 million in gross proceeds from debt and other securities Subsequent to December 31, 2001, these SEC shelf registrations have been reduced by $1,750 million for the senior and unsecured bonds issued in January and February 2002, excluding the private placement transaction Under the SEC shelf registrations, such securities may be issued as senior notes, first and refunding mortgage bonds, subordinated notes, trust preferred securities, Duke Energy common stock, stock purchase contracts or stock purchase units

In 2000, Duke Energy issued $250 million 7.125% senior unsecured bonds due in 2012 with a put option that gives investors the choice to put the bond to Duke Energy at par value in September 2002 or extend the maturity until 2012 If extended, the bonds would be recouponed at 5.7% plus the Duke Energy 10-year credit spread on the extension date Also in 2000, Duke Capital Corporation issued $150 million senior unsecured bonds due in 2003 that become due and payable if Duke Capital Corporation's debt ratings fall below BBB

In 2000, Catawba, a fully consolidated financing entity managed by a subsidiary of Duke Energy, issued $1,025 million of preferred member interests to a third-party investor. Catawba subsequently advanced the proceeds from the sale to DE Power Generation, LLC, a wholly owned subsidiary of Duke Energy, which indirectly owns or leases six merchant power generation facilities located in California, Maine and Indiana Catawba is a limited liability company with a separate existence and identity from its preferred members, and the assets of Catawba are separate and legally distinct from Duke Energy. The preferred member interests receive quarterly a preferred return equal to an adjusted floating reference rate (approximately 5 20% for the full year ended December 31, 2001) (See Note 13 to the Consolidated Financial Statements for more information)

To maintain financial flexibility and reduce the amount of financing needed for growth opportunities, Duke Energy's Board of Directors adopted a dividend policy in 2000 that maintains dividends at the current quarterly rate of $0.275 per share, subject to declaration by the Board of Directors. This policy is consistent with Duke Energy's growth profile and strikes a balance between providing a competitive dividend yield and ensuring that cash is available to fund Duke Energy's growth Duke Energy has paid quarterly cash dividends for 75 consecutive years. Dividends on common and preferred stocks in 2002 are expected to be paid on March 15, June 17, September 16 and December 16, subject to the discretion of the Board of Directors

Duke Energy's InvestorDirect Choice Plan, a stock purchase and dividend reinvestment plan, allows investors to reinvest dividends in new issuances of common stock and to purchase common stock directly from Duke Energy. Issuances under this plan were not material in 2001, 2000 or 1999

Duke Energy used authorized but unissued shares of its common stock to meet 2001 and 2000 employee benefit plan contribution requirements. This practice is expected to continue in 2002.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS As part of its normal business, Duke Energy is a party to various financial guarantees, performance guarantees and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees and other third parties These arrangements are largely entered into by Duke Capital Corporation. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Consolidated Balance Sheets The possibility of Duke Energy having to honor its contingencies is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events Duke Energy would record a reserve if events occurred that required that one be established (See Note 15 to the Consolidated Financial Statements for more information on financial guarantees.)

In addition, Duke Energy enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts), take-or-pay arrangements, transportation or throughput agreements and other contracts that may or may not be recognized on the Consolidated Balance Sheets. Some of these arrangements may be recognized at market value on the Consolidated Balance Sheets as trading contracts or qualifying hedge positions included in Unrealized Gains or Losses on Mark-to-Market and Hedging Transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

[illegible] Duke Energy is exposed to market risks associated with commodity prices, credit exposure, interest rates, equity prices and foreign currency exchange rates. Management has established comprehensive risk management policies to monitor and manage these market risks Duke Energy's Policy Committee is responsible for the overall approval of market risk management policies and the delegation of approval and authorization levels. The Policy Committee is composed of senior executives who receive periodic updates from the Chief Risk Officer (CRO) on market risk positions, corporate exposures, credit exposures and overall risk management activities The CRO is responsible for the overall management of credit risk and commodity price risk, including monitoring exposure limits.

MARK-TO-MARKET ACCOUNTING (MTM ACCOUNTING) Under the MTM accounting method, an asset or liability is recognized at fair value and the change in the fair value of that asset or liability is recognized in earnings during the current period. This accounting method has been used by other industries for many years, and in 1998 the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) issued guidance that required MTM accounting for energy trading contracts. MTM accounting reports contracts at their "fair value," (the value a willing third party would pay for the particular contract at the time a valuation is made).

When available, quoted market prices are used to record a contract's fair value However, market values for energy trading contracts may not be readily determinable because the duration of the contracts exceeds the liquid activity in a particular market. If no active trading market exists for a commodity or for a contract's duration, holders of these contracts must calculate fair value using pricing models or matrix pricing based on contracts with similar terms and risks. This is validated by an internal group independent of Duke Energy's trading area. Holders of thinly traded securities or investments (mutual funds, for example) use similar techniques to price such holdings. Correlation and volatility are two significant factors used in the computation of fair values Duke Energy validates its internally developed fair values by comparing locations/durations that are highly correlated, using forecasted market intelligence and mathematical extrapolation techniques. While Duke Energy uses industry best practices to develop its pricing models, changes in Duke Energy's pricing methodologies or the underlying assumptions could result in significantly different fair values, income recognition and realization in future periods.

HEDGE ACCOUNTING Hedging typically refers to the mechanism that Duke Energy uses to mitigate the impact of volatility associated with price fluctuations Hedge accounting treatment is used when Duke Energy contracts to buy or sell a commodity such as natural gas or electricity at a fixed price for future delivery corresponding with anticipated physical sales or purchases of natural gas and power (cash flow hedge) In addition, hedge accounting treatment is used when Duke Energy holds firm commitments or asset positions, and enters into transactions that "hedge" the risk that the price of natural gas or power may change between the contract's inception and the physical delivery date of the commodity (fair value hedge) While the majority of Duke Energy's hedging transactions are used to protect the value of future cash flows related to its physical assets, to the extent the hedge is effective, Duke Energy recognizes in earnings the value of the contract when the commodity is purchased or sold, or the hedged transaction occurs or settles.

NORMAL PURCHASES AND NORMAL SALES, SPECIAL EXEMPTION A unique characteristic of the electric power industry is that electricity cannot be readily stored in significant quantities. As a result, some of the contracts to buy and sell electricity allow the buyer some flexibility in determining when to take electricity and in what quantity to match fluctuating demand. These contracts would normally meet the definition of a derivative requiring MTM or hedge accounting However, because electricity cannot be readily stored in significant quantities and an entity engaged in selling electricity is obligated to maintain sufficient capacity to meet the electricity needs of its customer base, an option contract for the purchase of electricity qualifies for the normal purchases and sales exemption described in Paragraph 10 of SFAS No 133 and Derivative Implementation Group (DIG) Issue No C15, "Scope Exceptions Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity." Therefore, contracts that Duke Energy holds for the sale of power in future periods that meet the criteria in DIG Issue No. C15 have been designated as "normal purchase, normal sales" contracts, and are exempted from recognition in the Consolidated Financial Statements until power is delivered. Duke Energy tracks these contracts separately in its hedge portfolio, but no value for these contracts is included in the Consolidated Financial Statements until power is actually delivered.

Duke Energy's wholesale energy portfolio in North America includes the merchant generation facilities and trading contracts held for power, natural gas, crude oil and petroleum products Of the total estimated value of this portfolio, approximately 80% is attributed to the anticipated value of merchant generation facility capacity owned or controlled by Duke Energy. This portion of the value of the

merchant generation portfolio is anticipated to be realized in future periods as the generation facilities are dispatched. A portion of this future value is secured by hedge contracts. Of the unhedged capacity, dispatch performance, and in some cases price, has been further secured through contracts designated as normal purchases and normal sales. Only the contracts designated and effective as qualifying hedges are reflected on Duke Energy's Consolidated Balance Sheets at fair value. Changes in the fair value of hedging contracts do not affect current-period earnings. Normal purchase and normal sales contracts are not subject to accounting recognition until contract performance occurs. The remaining percentage of the total estimated value of the merchant generation portfolio is attributed to the current value of trading contracts These contracts are subject to MTM accounting and changes in the contract fair value are recorded as part of current-period earnings. The table below represents the value by year of Duke Energy's North American merchant generation portfolio It does not include the value of trading positions, or hedges of other commodity risks or exposures.

NORTH AMERICAN MERCHANT GENERATION PORTFOLIO VALUE AS OF DECEMBER 31, 2001
In millions

Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter[a]	Total Portfolio Value
$ 814	$ 819	$ 835	$ 3,930	$ 6,398

[a] For purposes of calculating total portfolio value, model valuations were calculated through 2010.

As of December 31, 2001, the portion hedged of NAWE's expected output of its merchant generation portfolio was 91%, 62% and 62% for 2002, 2003 and 2004, respectively, through derivative contracts such as forward natural gas purchases and forward power sales

COMMODITY PRICE RISK Duke Energy, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price of natural gas, electricity and other energy-related products marketed and purchased Duke Energy employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including forward contracts, futures, swaps and options for trading purposes and for activity other than trading activity (primarily hedge strategies) (See Notes 1 and 7 to the Consolidated Financial Statements.)

TRADING The risk in the trading portfolio is measured and monitored on a daily basis utilizing a Value-at-Risk model to determine the potential one-day favorable or unfavorable Daily Earnings at Risk (DER) as described below. DER is monitored daily in comparison to established thresholds Other measures are also used to limit and monitor risk in the trading portfolio (which includes all trading contracts not designated as hedge positions) on monthly and annual bases These measures include limits on the nominal size of positions and periodic loss limits

DER computations are based on historical simulation, which uses price movements over a specified period (generally ranging from seven to 14 days) to simulate forward price curves in the energy markets to estimate the potential favorable or unfavorable impact of one day's price movement on the existing portfolio The historical simulation emphasizes the most recent market activity, which is considered the most relevant predictor of immediate future market movements for natural gas, electricity and other energy-related products. DER computations utilize several key assumptions, including a 95% confidence level for the resultant price movement and the holding period specified for the calculation Duke Energy's DER amounts for instruments held for trading purposes are shown in the following table.

DAILY EARNINGS AT RISK
In millions

	Estimated Average One-Day Impact on EBIT for 2001[a]	Estimated Average One-Day Impact on EBIT for 2000	High One-Day Impact on EBIT for 2001[a]	Low One-Day Impact on EBIT for 2001
Calculated DER	$ 21	$ 18	$ 86	$ 7

[a] Amounts include the impact of one origination contract that was initiated and hedged during the current year. Duke Energy's Risk Management Committee approved increased DER limits for this specific contract. Excluding this contract, average and one-day high 2001 DER amounts would have been $16 million and $43 million, respectively.

DER is an estimate based on historical price volatility. Actual volatility can exceed assumed results DER also assumes a normal distribution of price changes, thus, if the actual distribution is not normal, the DER may understate or overstate actual results DER is

used to estimate the risk of the entire portfolio, and for locations that do not have daily trading activity, it may not accurately estimate risk due to limited price information. Stress tests are employed in addition to DER to measure risk where market data information is limited. In the current DER methodology, options are modeled in a manner equivalent to forward contracts which may understate the risk.

Duke Energy's exposure to commodity price risk is influenced by a number of factors, including contract size, length, market liquidity, location and unique or specific contract terms. The following table illustrates the movements in the fair value of Duke Energy's trading instruments during 2001.

CHANGES IN FAIR VALUE OF TRADING CONTRACTS

In millions

Fair value of contracts outstanding at the beginning of the year	$ 605
Contracts realized or otherwise settled during the year	(746)
Fair value of contracts entered into during the year	622
Changes in fair value amounts attributable to changes in valuation techniques	(6)
Other changes in fair values	749
Fair value of contracts before SFAS No. 133 transition adjustment	1,224
SFAS No. 133 transition adjustment	(155)
Fair value of contracts outstanding at the end of the year	$ 1,069

For the year ended December 31, 2001, the unrealized net margin recognized in operating income was $619 million as compared to $139 million for 2000 and $41 million for 1999. The fair value of these contracts is expected to be realized in future periods, as detailed in the following table. The amount of cash ultimately realized for these contracts will differ from the amounts shown in the following table due to factors such as market volatility, counterparty default and other unforeseen events that could impact the amount and/or realization of these values. At December 31, 2001, Duke Energy held cash or letters of credit of $1,071 million to secure such future performance, and had deposited with counterparties $178 million of such collateral to secure its obligations to provide such future services. Collateral amounts held or posted vary depending on the value of the underlying contracts and cover trading, normal purchases and normal sales, and hedging contracts outstanding. Duke Energy may be required to return held collateral and post additional collateral should price movements adversely impact the value of open contracts or positions.

When available, Duke Energy uses observable market prices for valuing its trading instruments. When quoted market prices are not available, management uses established guidelines for the valuation of these contracts. Management may use a variety of reasonable methods to assist in determining the valuation of a trading instrument, including analogy to reliable quotations of similar trading instruments, pricing models, matrix pricing and other formula-based pricing methods. These methodologies incorporate factors for which published market data may be available. All valuation methods employed by Duke Energy are approved by an independent internal corporate risk management organization.

The following table shows the fair value of Duke Energy's trading portfolio as of December 31, 2001.

FAIR VALUE OF TRADING CONTRACTS AS OF DECEMBER 31, 2001

In millions

Sources of Fair Value	Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter	Total Fair Value
Prices supported by quoted market prices and other external sources	$ 457	$ 153	$ 9	$ 26	$ 645
Prices based on models and other valuation methods	(104)	11	128	389	424
Total	$ 353	$ 164	$ 137	$ 415	$ 1,069

The "prices supported by quoted market prices and other external sources" category includes Duke Energy's New York Mercantile Exchange (NYMEX) futures positions in natural gas and crude oil. The NYMEX has currently quoted prices for the next 32 months. In

addition, this category includes Duke Energy's forward positions and options in natural gas and power and natural gas basis swaps at points for which over-the-counter (OTC) broker quotes are available. On average, OTC quotes for natural gas and power forwards and swaps extend 22 and 32 months into the future, respectively. OTC quotes for natural gas and power options extend 12 months into the future, on average. Duke Energy values these positions against internally developed forward market price curves that are constantly validated and recalibrated against OTC broker quotes. This category also includes "strip" transactions whose prices are obtained from external sources and then modeled to daily or monthly prices as appropriate.

The "prices based on models and other valuation methods" category includes (i) the value of options not quoted by an exchange or OTC broker, (ii) the value of transactions for which an internally developed price curve was constructed as a result of the long dated nature of the transaction or the illiquidity of the market point, and (iii) the value of structured transactions. It is important to understand that in certain instances structured transactions can be decomposed and modeled by Duke Energy as simple forwards and options based on prices actively quoted. Although the valuation of the simple structures might not be different from the valuation of contracts in other categories, the effective model price for any given period is a combination of prices from two or more different instruments and therefore have been included in this category due to the complex nature of these transactions.

The value of Duke Energy's trading portfolio valuation adjustments for liquidity, credit and cost of service is reflected in the above amounts.

HEDGING STRATEGIES Some Duke Energy subsidiaries are exposed to market fluctuations in the prices of energy commodities related to their power generating and natural gas gathering, processing and marketing activities. Duke Energy closely monitors the risks associated with these commodity price changes on its future operations and, where appropriate, uses various commodity instruments such as electricity, natural gas, crude oil and NGL contracts to hedge the value of its assets and operations from such price risks. In accordance with SFAS No. 133, Duke Energy's primary use of energy commodity derivatives is to hedge the output and production of assets it physically owns. Contract terms are up to 13 years; however, since these contracts are designated and qualify as effective hedge positions of future cash flows, or fair values of assets owned by Duke Energy, to the extent that the hedge relationships are effective, their market value change impacts are not recognized in current earnings. The unrealized gains or losses on these contracts are deferred in Other Comprehensive Income (OCI) or included in Other Current or Noncurrent Assets or Liabilities on the Consolidated Balance Sheets, in accordance with SFAS No. 133. Amounts deferred in OCI are realized in earnings concurrently with the transaction being hedged. (See Notes 1 and 7 to the Consolidated Financial Statements.) However, in instances where the hedging contract no longer qualifies for hedge accounting, amounts included in OCI through the date of de-designation remain in OCI until the underlying transaction actually occurs. The derivative contract (if continued as an open position) will be marked to market currently through earnings. Several factors influence the effectiveness of a hedge contract, including counterparty credit risk.

The following table shows when gains and losses deferred on the Consolidated Balance Sheets for derivative instruments qualifying as effective hedges of firm commitments or anticipated future transactions will be recognized into earnings. Contracts with terms extending several years are generally valued using models and assumptions developed internally or by industry standards. However, as mentioned previously, the gains and losses for these contracts are not recognized in earnings until settlement at their then market price. Therefore, assumptions and valuation techniques for these contracts have no impact on reported earnings prior to settlement.

The fair value of Duke Energy's qualifying hedge positions at a point in time is not necessarily indicative of the value realized when such contracts settle.

FAIR VALUE OF HEDGE POSITIONS / COUNTERPARTIES AS OF DECEMBER 31, 2001

In millions

Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter	Total Contract Value
$ 454	$ 156	$ 71	$ (38)	$ 643

In addition to the hedge contracts described above and recorded on the Consolidated Balance Sheets, Duke Energy enters into other contracts that qualify for the normal purchases and sales exemption described in Paragraph 10 of SFAS No. 133 and DIG Issue No. C15. These contracts, generally forward agreements to sell power, bear the same counterparty credit risk as the hedge contracts described above. Under the same risk reduction guidelines used for other contracts, normal purchases and sales contracts are also subject to collateral requirements. Income recognition and realization related to these contracts coincide with the physical delivery of power.

Based on a sensitivity analysis as of December 31, 2001, it was estimated that a difference of one cent per gallon in the average price of NGLs in 2002 would have a corresponding effect on EBIT of approximately $6 million, after considering the effect of Duke Energy's commodity hedge positions. Comparatively, the same sensitivity analysis as of December 31, 2000 estimated that EBIT would have changed by approximately $8 million in 2001. Based on the sensitivity analyses associated with other commodities' price changes, net of Duke Energy's commodity hedge positions, the effect on EBIT was not material as of December 31, 2001 or 2000. Duke Energy's qualifying hedge positions protect it from immediate earnings impact for adverse price movements. The resulting gains and losses are deferred on the Consolidated Balance Sheets until cash settlement occurs, provided that the hedge positions remain effective.

These hypothetical adverse impacts do not consider the likely positive impact that price movements would have on Duke Energy's physical purchases and sales of natural gas and electricity which these contracts hedge. The hedge contracts are intended to mitigate the impact that price changes have on Duke Energy's physical positions. Therefore, although the fair value of these positions may decline with adverse price changes, the impact on results would be minimal as Duke Energy's physical positions are inversely affected by such changes.

Duke Energy's principal customers for power and natural gas marketing services are industrial end-users and utilities located throughout the U.S., Canada, Asia Pacific, Europe and Latin America. Duke Energy has concentrations of receivables from natural gas and electric utilities and their affiliates, as well as industrial customers throughout these regions. These concentrations of customers may affect Duke Energy's overall credit risk in that certain customers may be similarly affected by changes in economic, regulatory or other factors. Where exposed to credit risk, Duke Energy analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis. Duke Energy frequently uses master collateral agreements to mitigate credit exposure. The collateral agreement provides for a counterparty to post cash or letters of credit for exposure in excess of the established threshold. The threshold amount represents an open credit limit, determined in accordance with the corporate credit policy. The collateral agreement also provides that the inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

The change in market value of NYMEX-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Financial derivatives are generally cash settled periodically throughout the contract term. However, these transactions are also generally subject to margin agreements with many of Duke Energy's counterparties.

As of December 31, 2001, Duke Energy had a pre-tax bad debt provision of $90 million related to receivables for energy sales in California. (See Current Issues – California Issues.) Following the bankruptcy of Enron Corporation, Duke Energy terminated substantially all contracts with Enron Corporation and its affiliated companies (collectively, Enron). As a result, Duke Energy recorded, as a charge, a non-collateralized accounting exposure of $43 million. The $43 million non-collateralized accounting exposure is comprised of charges of $36 million at NAWE, $3 million at International Energy, $3 million at Field Services and $1 million at Natural Gas Transmission. These amounts are stated on a pre-tax basis as charges against the reporting segment's earnings.

The transactions between Enron and Duke Energy consisted of the following:

- NAWE – forward contracts, swaps, options and physical contracts used to trade natural gas, power, crude oil, liquefied petroleum gas and coal
- International Energy – forward contracts and options used to trade and hedge natural gas, power and oil
- Field Services – physical purchase/sale contracts for natural gas and NGLs; forward contracts, swaps and options used to trade natural gas and NGLs; transportation and storage
- Natural Gas Transmission – forward financial sales of NGLs

The $43 million charge was a direct reduction to earnings before income taxes and was a result of charging the full amount of unsettled mark-to-market earnings previously recognized, and all derivative assets and accounts receivable that became impaired due to Enron's financial deterioration. All assets written off or reserved for were net of the margin (cash collateral) posted by Enron of $330 million and applied by Duke Energy in connection with transactions between the companies.

Duke Energy's determination of its bankruptcy claims against Enron is still under review, and its claims made in the bankruptcy case are likely to exceed $43 million. Any bankruptcy claims that exceed this amount would primarily relate to termination and settlement rights under contracts and transactions with Enron that would have been recognized in future periods, and not in the historical periods covered by the financial statements to which the $43 million charge relates.

Substantially all contracts with Enron were completed or terminated prior to December 31, 2001. Duke Energy has continuing contractual relationships with certain Enron affiliates, which are not in bankruptcy. In Brazil, a power purchase agreement between a Duke Energy affiliate, Paranapanema, and Elektro Eletricidade e Servicos S/A (Elektro), a distribution company 40% owned by Enron, will expire December 31, 2005. The contract was executed by Duke Energy's predecessor in interest in Paranapanema, and obligates Paranapanema to provide energy to Elektro on an irrevocable basis for the contract period. In addition, a purchase/sale agreement expiring September 1, 2005 between a Duke Energy affiliate and Citrus Trading Corporation (Citrus), a 50/50 joint venture between Enron and El Paso Corporation, continues to be in effect. The contract requires the Duke Energy affiliate to provide liquefied natural gas to Citrus. Citrus has provided a letter of credit in favor of Duke Energy to cover its exposure.

INTEREST RATE RISK. Duke Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable-rate debt, fixed-to-floating interest rate swaps, commercial paper and auction market preferred stock. Duke Energy manages its interest rate exposure by limiting its variable-rate and fixed-rate exposures to certain percentages of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates. Duke Energy also enters into financial derivative instruments, including, but not limited to, interest rate swaps, options, swaptions and lock agreements to manage and mitigate interest rate risk exposure. (See Notes 1, 7, 10, 12 and 14 to the Consolidated Financial Statements.)

Based on a sensitivity analysis as of December 31, 2001, it was estimated that if market interest rates average 1% higher (lower) in 2002 than in 2001, earnings before income taxes would decrease (increase) by approximately $57 million. Comparatively, based on a sensitivity analysis as of December 31, 2000, had interest rates averaged 1% higher (lower) in 2001 than in 2000, it was estimated that earnings before income taxes would have decreased (increased) by approximately $53 million. These amounts include the effects of interest rate hedges and were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of December 31, 2001 and 2000. The increase in interest rate sensitivity is primarily due to the increase in outstanding variable-rate commercial paper. If interest rates changed significantly, management would likely take actions to manage its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in Duke Energy's financial structure.

EQUITY PRICE RISK. Duke Energy maintains trust funds, as required by the Nuclear Regulatory Commission (NRC), to fund certain costs of nuclear decommissioning. (See Note 11 to the Consolidated Financial Statements.) As of December 31, 2001 and 2000, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Duke Energy has an agreement with the NRC that these funds will only be used for activities relating to nuclear decommissioning. Because the accounting for nuclear decommissioning recognizes that costs are recovered through Franchised Electric's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations, cash flows or financial position. (See Current Issues – Nuclear Decommissioning Costs.)

FOREIGN CURRENCY RISK. Duke Energy is exposed to foreign currency risk from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations, when possible, transactions are denominated in or indexed to the U.S. dollar and/or local inflation rates, or investments may be hedged through debt denominated or issued in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to manage its risk related to foreign currency fluctuations. To monitor its currency exchange rate risks, Duke Energy uses sensitivity analysis, which measures the impact of devaluation of the foreign currencies to which it has exposure.

As of December 31, 2001, Duke Energy's primary foreign currency rate exposures were the Brazilian real, the Peruvian nuevo sol, the Australian dollar, the El Salvadoran colon, the Argentine peso, the European euro and the Canadian dollar. Based on a sensitivity analysis as of December 31, 2001, a 10% devaluation in the currency exchange rate in any or all of these foreign currencies would be insignificant to Duke Energy's Consolidated Statements of Income. Significant devaluations may impact Duke Energy's Consolidated Balance Sheets by decreasing the value of Duke Energy's net investments through a reduction in the cumulative translation adjustment in OCI.

Since 1991, the Argentine peso has been pegged to the U.S. dollar at a fixed 1:1 exchange ratio. In December 2001, the Argentine government imposed a restriction that limited cash withdrawals above a certain amount and foreign money transfers. Financial institu-

tions were allowed to conduct limited activity as a bank and exchange holiday was announced, and currency exchange activity was essentially halted In January 2002, the Argentine government announced the creation of a dual-currency system. Subsequently, however, the Argentine government has decided to use a free-floating currency.

Duke Energy's investment in Argentina was U.S. dollar functional as of December 31, 2001 Once a functional currency determination has been made, that determination must be adhered to consistently, unless significant changes in economic factors indicate that the entity's functional currency has changed The recent events in Argentina require a change In January 2002, the functional currency of Duke Energy's investment in Argentina changed from the U S dollar to the Argentine peso. In compliance with SFAS No 52, "Foreign Currency Translation," the change in functional currency will be made prospectively. Management believes that the events in Argentina will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position

CURRENT ISSUES

WHOLESALE COMPETITION 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 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 Energy and two other investor-owned utilities, Carolina Power & Light Company and South Carolina Electric & Gas Company, planned to establish GridSouth Transco, LLC (GridSouth), as an RTO responsible for the control of the companies' combined transmission systems. In March 2001, GridSouth received provisional approval from the FERC. However, in July 2001, the FERC issued orders recommending that utilities throughout the U.S. combine their transmission systems to create four large independent regional operators, one each in the Northeast, Southeast, Midwest and West The FERC ordered GridSouth and other utilities in the Southeast to join in 45 days of mediation to negotiate terms of a Southeast RTO. The FERC has not issued an order specifically based on those proceedings

Duke Energy, Carolina Power & Light Company and South Carolina Electric & Gas Company remain committed to the GridSouth RTO, but due to regulatory uncertainties in the RTO arena, the companies have withdrawn their applications to the PSCSC and NCUC to transfer functional control of their electric transmission assets to GridSouth. The companies intend to file new applications before the state commissions in the near future, including a revised GridSouth structure designed to meet the needs of customers and regulators Also, in January of 2002, GridSouth signed a memorandum of understanding with the representatives of SeTrans Grid Company (SeTrans), a group of investor-owned utilities and public power entities in several southeastern states seeking to form an RTO, to cooperate in discussing potential operational relationships between GridSouth and SeTrans and the structure of wholesale electric markets in the southeast U S

The actual structure of GridSouth or an alternative combined transmission structure and the date it will become operational depend upon the resolution of all regulatory approvals and technical issues Management believes that the result of this process, and the establishment and operation of GridSouth or an alternative combined transmission system structure, will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position

RETAIL COMPETITION Currently, Franchised Electric operates as a vertically integrated, investor-owned utility with exclusive rights to supply electricity in a franchised service territory – a 22,000-square-mile service territory in the Carolinas In its retail business, the NCUC and the PSCSC regulate Franchised Electric's service and rates.

Electric industry restructuring is being addressed throughout the U.S. and will likely impact all entities owning electric generating assets The NCUC and the PSCSC are studying the merits of restructuring the electric utility industry in the Carolinas. In 1997, North

Carolina passed a bill that established a study commission, including legislators, customers, utilities and a member of an environmental group, to examine whether competition should be implemented in the state. In 2000, the study commission unanimously approved a set of recommendations on electric restructuring and submitted a report containing these recommendations to the General Assembly. The report recommended retail deregulation beginning partially in 2005 and fully in 2006. However, events in California's power market have led the study commission to evaluate whether, and to what extent, proposed legislation should be introduced. In general, the commission has expressed interest in ensuring that a viable wholesale electric market is in place prior to opening the state's retail electric market.

Currently, the electric utility industry is predominantly regulated on a basis designed to recover the cost of providing electric power to customers. If cost-based regulation were to be discontinued in the industry for any reason, including competitive pressure on the cost-based prices of electricity, profits could be reduced and electric utilities might be required to reduce their asset balances to reflect a market basis less than cost. Discontinuance of cost-based regulation would also require affected utilities to write off their associated regulatory assets. Duke Energy's regulatory assets are included in the Consolidated Balance Sheets. The portion of these regulatory assets related to Franchised Electric is approximately $1.0 billion, including primarily purchased capacity costs, deferred debt expense and deferred taxes related to regulatory assets. Duke Energy is recovering substantially all of these regulatory assets through its current wholesale and retail electric rates and may attempt to continue to recover these assets during a transition to competition. In addition, Duke Energy would seek to recover the costs of its electric generating facilities in excess of the market price of power at the time of transition.

Duke Energy supports a properly managed and orderly transition to competitive generation and retail services in the electric industry. However, transforming the current regulated industry into efficient, competitive generation and retail electric markets is a complex undertaking, which will require a carefully considered transition to a restructured electric industry. The key to effective retail competition is fairness among customers, service providers and investors. Duke Energy intends to continue to work with customers, legislators and regulators to address all the important issues. Management currently cannot predict the impact, if any, of these competitive forces on future consolidated results of operations, cash flows or financial position.

NATURAL GAS COMPETITION. **WHOLESALE COMPETITION.** In 2000, the FERC issued Order 637, which sets forth revisions to its regulations governing short-term natural gas transportation services and policies governing the regulation of interstate natural gas pipelines. "Short-term" has been defined as all transactions of less than one year. Among the significant actions taken are the lifting of the price cap for short-term capacity release by pipeline customers for an experimental 2 1/2-year period ending September 1, 2002, and requiring interstate pipelines to file pro forma tariff sheets to (i) provide for nomination equality between capacity release and primary pipeline capacity, (ii) implement imbalance management services (for which interstate pipelines may charge fees) while at the same time reducing the use of operational flow orders and penalties, and (iii) provide segmentation rights if operationally feasible. Order 637 also narrows the right of first refusal to remove economic biases perceived in the current rule. Order 637 imposes significant new reporting requirements for interstate pipelines that were implemented by Duke Energy during 2000. Additionally, Order 637 permits pipelines to propose peak/off-peak rates and term-differentiated rates, and encourages pipelines to propose experimental capacity auctions. By Order 637-A, issued in 2000, the FERC generally denied requests for rehearing and several parties, including Duke Energy, have filed appeals in the District of Columbia Court of Appeals seeking court review of various aspects of the Order. During the third quarter of 2001, Duke Energy's interstate pipelines submitted revised pro forma tariff sheets to update the filings originally submitted in 2000. These filings are currently subject to review and approval by the FERC.

Management believes that the effects of these matters will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

RETAIL COMPETITION. Changes in regulation to allow retail competition could affect Duke Energy's natural gas transportation contracts with local natural gas distribution companies. While natural gas retail deregulation is in the very early stages of development, management believes the effects of this matter will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

NUCLEAR DECOMMISSIONING COSTS. Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately $1.9 billion stated in 1999 dollars based on

decommissioning studies completed in 1999 (studies are completed every five years). Duke Energy contributes to an external decommissioning trust fund and maintains an internal reserve to fund these costs

The balance of the external funds was $716 million as of December 31, 2001 and $717 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Nuclear Decommissioning Trust Funds (asset) and Nuclear Decommissioning Costs Externally Funded (liability). The balance of the internal reserve was $239 million as of December 31, 2001 and $231 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization.

Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of its nuclear plants Management believes that the decommissioning costs being recovered through rates, when coupled with expected fund earnings, are sufficient to provide for the cost of decommissioning. Additionally, management believes that funding of the decommissioning costs will not have a material adverse effect on consolidated results of operations, cash flows or financial position (See Note 11 to the Consolidated Financial Statements)

The external decommissioning trust fund is invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents Duke Energy has an agreement with the NRC that these funds will only be used for activities relating to nuclear decommissioning. These investments are exposed to price fluctuations in equity markets and changes in interest rates Because the accounting for nuclear decommissioning recognizes that costs are recovered through Franchised Electric's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations, cash flows or financial position

NUCLEAR RELICENSING In 2000, the NRC renewed the operating license for Duke Energy's three Oconee nuclear units through 2033 to 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

ENVIRONMENTAL Duke Energy is subject to international, federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters

MANUFACTURED GAS PLANTS AND SUPERFUND SITES Duke Energy operated manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of former manufactured gas plant sites to investigate and, where necessary, remediate those contaminated sites Regulators consider Duke Energy to be a potentially responsible party, possibly subject to future liability at six federal and two state Superfund sites While remediation costs may be substantial, Duke Energy will share in any liability associated with contamination at these sites with other potentially responsible parties. Management believes that resolution of these matters will have no material adverse effect on consolidated results of operations, cash flows or financial position

_PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEANUP PROGRAMS In 2001, Texas Eastern Transmission, LP, a wholly owned subsidiary of Duke Energy, completed the remaining requirements of a 1989 U.S. Consent Decree regarding the cleanup of PCB-contaminated sites. The Environmental Protection Agency (EPA) certified the completion of all work under the Consent Decree in January 2002. Monitoring of groundwater and remediation at certain sites may continue as required by various state authorities.

In March 1999, Duke Energy sold PEPL and Trunkline to CMS. (See Note 1 to the Consolidated Financial Statements for more information on the sale of the pipelines) Under the terms of the sales agreement with CMS, Duke Energy is obligated to complete cleanup of previously identified contamination resulting from the past use of PCB-containing lubricants and other discontinued practices at certain sites on the PEPL and Trunkline systems.

Based on Duke Energy's experience to date and costs incurred for cleanup, management believes the resolution of matters relating to the environmental issues discussed above will have no material adverse effect on consolidated results of operations, cash flows or financial position.

AIR QUALITY CONTROL In 1998, the EPA issued a final rule on regional ozone control that required 22 eastern states and the District of Columbia to revise their State Implementation Plans (SIPs) to significantly reduce emissions of nitrogen oxide by May 1, 2003. The EPA rule was challenged in court by various states, industry and other interests, including Duke Energy and the states of North Carolina and South Carolina. In 2000, the court upheld most aspects of the EPA rule. The same court subsequently extended the compliance deadline for implementation of emission reductions to May 31, 2004.

In 2000, the EPA finalized another ozone-related rule under Section 126 of the Clean Air Act (CAA) Section 126 of the CAA has virtually identical emission control requirements as the 1998 action, and specified a May 1, 2003 compliance date. While the emission

reduction requirements of the rule have been upheld in court, the implementation date for the rule has been revised to May 2004 as a result of a legal challenge and the resulting court order Management estimates that Duke Energy will spend from $500 million to $900 million in capital costs for additional emission controls through 2007 to comply with the new EPA rules.

Both North Carolina and South Carolina have revised their SIPs in response to the EPA's 1998 rule, and are awaiting EPA approval. Legislation was introduced in the North Carolina General Assembly in 2001 and passed by the state Senate that would require North Carolina electric utilities, including Duke Energy, to make significant reductions in emissions of sulfur dioxide and nitrogen oxides from coal-fired power plants over the next seven to 11 years. Management estimates Duke Energy's cost of achieving the proposed emission reductions to be approximately $1.5 billion A provision in the proposed North Carolina legislation allows Duke Energy to recover those costs from customers through an environmental compliance expenditure-recovery factor that is separate from the electric utility's base rates If passed into law, the final provisions could be significantly different from the proposal.

Emission control retrofits needed to comply with the new rules are large technical, design and construction projects These projects will be managed closely to ensure the continuation of reliable electric service to Duke Energy's customers throughout the projects and upon their completion.

In 2000, the U S Justice Department, acting on behalf of the EPA, filed a complaint against Duke Energy in the U.S. District Court in Greensboro, North Carolina, for alleged violations of the New Source Review (NSR) provisions of the CAA. The EPA claims that 29 projects performed at 25 of Duke Energy's coal-fired units were major modifications, as defined in the CAA, and that Duke Energy violated the CAA's NSR requirements when it undertook those projects without obtaining permits and installing emission controls for sulfur dioxide, nitrogen oxide and particulate matter The complaint asks the court to order Duke Energy to stop operating the coal-fired units identified in the complaint, install additional emission controls and pay unspecified civil penalties. This complaint is part of the EPA's NSR enforcement initiative, in which the EPA claims that utilities and others have committed widespread violations of the CAA permitting requirements for the past 25 years. The EPA has sued or issued notices of violation of investigative information requests to at least 48 other electric utilities and cooperatives.

The EPA's allegations run counter to previous EPA guidance regarding the applicability of the NSR permitting requirements Duke Energy, along with other utilities, has routinely undertaken the type of repair, replacement and maintenance projects that the EPA now claims are illegal. Duke Energy believes that all of its electric generation units are properly permitted and have been properly maintained, and is defending itself vigorously against these alleged violations. The U.S. Vice President's National Energy Policy Development Group has ordered the EPA to review its NSR rules and has ordered the Department of Justice to review the appropriateness of the enforcement cases The EPA review was scheduled to be completed by August 2001, but has not yet been concluded In January 2002, the Department of Justice released a report concluding that it was not improper for the Department of Justice to initiate the enforcement cases brought on behalf of the EPA. It specifically declined to address whether the EPA's enforcement actions are wise as a matter of national energy policy Because these matters are in a preliminary stage, management cannot estimate the effects of these matters on Duke Energy's future consolidated results of operations, cash flows or financial position. The CAA authorizes civil penalties of up to $27,500 per day per violation at each generating unit. Civil penalties, if ultimately imposed by the court, and the cost of any required new pollution control equipment, if the court accepts the EPA's contentions, could be substantial.

GLOBAL CLIMATE CHANGE In 1997, the United Nations held negotiations in Kyoto, Japan, to determine how to minimize global warming The resulting Kyoto Protocol prescribed, among other greenhouse gas emission reduction tactics, carbon dioxide emission reductions from fossil-fueled electric generating facilities in the U S and other developed nations, as well as methane emission reductions from natural gas operations The high-level operational framework for implementing the Kyoto Protocol was agreed to in November 2001 If the Kyoto Protocol were to be implemented in developed countries where Duke Energy operates, it could have far-reaching implications for Duke Energy and the entire energy industry However, the outcome and timing of these implications are highly uncertain, and Duke Energy cannot estimate the effects on future consolidated results of operations, cash flows or financial position. Duke Energy remains engaged in discussions with those developing public policy initiatives and continuously assesses the commercial implications for its markets around the world

NOTICE OF PROPOSED RULEMAKING (NOPR) On September 27, 2001, the FERC issued a NOPR announcing that it is considering new regulations regarding standards of conduct that would apply uniformly to natural gas pipelines and electric transmitting public utilities that are currently subject to different gas or electric standards The proposed standards would change how companies and their affili-

ates interact and share information by broadening the definition of "affiliate" covered by the standards of conduct, from the more narrow definition in the existing regulations The NOPR also seeks comment on whether the standards of conduct should be broadened to include the separation of those involved in the bundled retail electric sales function from those in the transmission function, as the current standards apply only to those involved in wholesale activities. Various entities filed comments on the NOPR with the FERC, including Duke Energy which filed on December 20, 2001. The FERC has indicated that they appreciate the complexity of the issues and that they would prefer having a technical conference before entering directly into a final rulemaking. No notice of a technical conference has been given at this time

REGULATORY MATTERS In 2001, the NCUC and PSCSC began a joint investigation, along with the Public Staff of the NCUC, regarding certain Duke Power regulatory accounting entries for 1998. In its internal review of the 14 entries in question, Duke Energy concluded that nine items were correctly classified for regulatory accounting Four items were incorrectly classified for regulatory purposes for 1998 only, and did not recur. The classification of the remaining item, distributions from a mutual insurance company, is subject to differing regulatory interpretations Duke Energy believes this item was appropriately classified, but is evaluating its classification for future years. As part of their investigation, the NCUC and PSCSC have jointly engaged an independent firm to conduct an audit of Duke Power's accounting records for reporting periods from 1998 through June 30, 2001. Duke Energy continues to fully cooperate with the commissions in their investigation As requested by the NCUC, Duke Energy has recorded the 2001 mutual insurance distribution, approximately $33 million, in a deferred credit account on the Consolidated Balance Sheets, pending final outcome of the independent audit.

CALIFORNIA ISSUES Duke Energy, some of its subsidiaries and three current or former executives have been named as defendants, among other corporate and individual defendants, in one or more of a total of six lawsuits brought by or on behalf of electricity consumers in the State of California The plaintiffs seek damages as a result of the defendants' alleged unlawful manipulation of the California wholesale electricity markets. DENA and DETM are among 16 defendants in a class-action lawsuit (the Gordon lawsuit) filed against generators and traders of electricity in California markets. DETM was also named as one of numerous defendants in four additional lawsuits, including two class actions (the Hendricks and Pier 23 Restaurant lawsuits), filed against generators, marketers, traders and other unnamed providers of electricity in California markets. A sixth lawsuit (the Bustamante lawsuit) was brought by the Lieutenant Governor of the State of California and a State Assemblywoman, on their own behalf as citizens and on behalf of the general public, and includes Duke Energy, some of its subsidiaries and three current or former executives of Duke Energy among other corporate and individual defendants The Gordon and Hendricks class-action lawsuits were filed in the Superior Court of the State of California, San Diego County, in November 2000. Three other lawsuits were filed in January 2001, one in Superior Court, San Diego County, and the other two in Superior Court, County of San Francisco. The Bustamante lawsuit was filed in May 2001 in Superior Court, Los Angeles County. These lawsuits generally allege that the defendants manipulated the wholesale electricity markets in violation of state laws against unfair and unlawful business practices and state antitrust laws The plaintiffs seek aggregate damages of billions of dollars. The lawsuits seek the refund of alleged unlawfully obtained revenues for electricity sales and, in four lawsuits, an award of treble damages. These suits have been consolidated before a state court judge in San Diego. While these matters are in their earliest stages, management believes, based on its analysis of the facts and the asserted claims, that their resolution will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

In addition to the lawsuits, several investigations and regulatory proceedings at the state and federal levels are looking into the causes of high wholesale electricity prices in the western U S At the federal level, numerous proceedings are before the FERC. Some parties to those proceedings have made claims for billions of dollars of refunds from sellers of wholesale electricity, including DETM Some parties have also sought to revoke the authority of DETM and other DENA-affiliated electricity marketers to sell electricity at market-based rates. The FERC is also conducting its own wholesale pricing investigation. As a result, the FERC has ordered some sellers, including DETM, to refund, or to offset against outstanding accounts receivable, amounts billed for electricity sales in excess of a FERC-established proxy price The proxy price represents what the FERC believes would have been the market-clearing price in a perfectly competitive market. In June 2001, DETM offset approximately $20 million against amounts owed by the California Independent System Operator and the California Power Exchange for electricity sales during January and February 2001. This offset reduced the $110 million reserve established in 2000 to $90 million Proceedings are ongoing to determine, among other issues, the amount of any refunds or offsets for periods prior to January 2001, and the method to be used to determine the proxy price in future months.

At the state level, the California Public Utilities Commission is conducting formal and informal investigations to determine if power plant operators in California, including some Duke Energy entities, have improperly "withheld," either economically or physically, generation output from the market to manipulate market prices. In addition, the California State Senate formed a Select Committee to Investigate Price Manipulation of the Wholesale Energy Market (Select Committee). The Select Committee has served a subpoena on Duke Energy and some of its subsidiaries seeking data concerning their California market activities. The Select Committee has heard testimony from several witnesses but no one from Duke Energy has yet been subpoenaed to testify.

The California Attorney General is also conducting an investigation to determine if any market participants engaged in illegal activity, including antitrust violation, in the course of their electricity sales into wholesale markets in the western U S The Attorneys General of Washington and Oregon are participating in the California Attorney General's investigation. The San Diego District Attorney is conducting a separate investigation into market activities and has issued subpoenas to DETM and a DENA subsidiary.

The California Attorney General has also convened a grand jury to determine whether criminal charges should be brought against any market participants To date, no Duke Energy employee has been called to testify before the grand jury nor have any criminal charges been filed against Duke Energy or any of its officers, directors or employees in connection with the wholesale electricity markets in the states of the western U S.

Throughout 2001, Duke Energy conducted its business in California to supply the maximum possible electricity to meet the needs of the state, limit its exposure to non-creditworthy counterparties and manage the output limitations on its power plants imposed by applicable permits and laws Since December 31, 2000, Duke Energy has closely managed the balance of doubtful receivables, and believes that the current pre-tax bad debt provision of $90 million is appropriate. No additional provisions for California receivables were recorded in 2001 Management believes, based on its analysis of the facts and the asserted claims, that the resolution of these matters will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

LITIGATION AND CONTINGENCIES _**EXXON MOBIL CORPORATION ARBITRATION** In 2000, three Duke Energy subsidiaries initiated binding arbitration against three Exxon Mobil Corporation subsidiaries (the Exxon Mobil entities) concerning the parties' joint ownership of DETM and related affiliates (the Ventures) At issue is a buy-out right provision under the joint venture agreements for these entities. If there is a material business dispute between the parties, which Duke Energy alleges has occurred, the buy-out provision gives Duke Energy the right to purchase Exxon Mobil's 40% interest in DETM. Exxon Mobil does not have a similar right under the joint venture agreements and once Duke Energy exercises the buy-out right, each party has the right to "unwind" the buy-out under certain specific circumstances. In December 2000, Duke Energy exercised its right to buy the Exxon Mobil entities' interest in the Ventures Duke Energy claims that refusal by the Exxon Mobil entities to honor the exercise is a breach of the buy-out right provision, and seeks specific performance of the provision. Duke Energy has also made additional claims against the Exxon Mobil entities for breach of the agreements governing the Ventures

In January 2001, the Exxon Mobil entities made counterclaims in the arbitration and, in a separate Texas state court action, alleged that Duke Energy breached its obligations to the Ventures and to the Exxon Mobil entities. In April 2001, the state court stayed its action, compelling the Exxon Mobil entities to arbitrate their claims The Exxon Mobil entities proceeded with the arbitration of their claims and have not challenged this order in an appellate court In early October 2001, the arbitration panel convened an evidentiary hearing regarding the buy-out right provision and Duke Energy's and Exxon Mobil's claims against each other The panel has not yet ruled but Duke Energy expects a final decision from the panel in early 2002 Management believes that the final disposition of this action will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

Duke Energy and its subsidiaries are involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will have no material adverse effect on consolidated results of operations, cash flows or financial position. (See Note 15 to the Consolidated Financial Statements for information concerning litigation and other commitments and contingencies)

NEW ACCOUNTING STANDARDS In June 2001, the FASB issued SFAS No 141, "Business Combinations," and SFAS No 142, "Goodwill and Other Intangible Assets "

SFAS No. 141 requires that all business combinations initiated (as defined by the standard) after June 30, 2001 be accounted for

using the purchase method. Companies may no longer use the pooling method of accounting for future combinations

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, and was adopted by Duke Energy as of January 1, 2002. SFAS No. 142 requires that goodwill no longer be amortized over an estimated useful life, as previously required. Instead, goodwill amounts will be subject to a fair-value-based annual impairment assessment. The standard also requires certain identifiable intangible assets to be recognized separately and amortized as appropriate. No such intangibles have been identified at Duke Energy. Duke Energy expects the adoption of SFAS No. 142 to have an impact on future financial statements, due to the discontinuation of goodwill amortization expense. For 2001, pre-tax goodwill amortization expense was $101 million. The FASB and the EITF continue to respond to questions to clarify key aspects of SFAS No. 142. Duke Energy has determined the effect of implementing SFAS No. 142 and does not expect to record any impairment in 2002.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. It is effective for fiscal years beginning after June 15, 2002, and early adoption is permitted. Duke Energy is currently assessing the new standard and has not yet determined the impact on its consolidated results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The new rules supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The new rules retain many of the fundamental recognition and measurement provisions, but significantly change the criteria for classifying an asset as held-for-sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Duke Energy has evaluated the new standard, and management believes that it will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

ENERGY INDUSTRY AND ACCOUNTING PRACTICES. The energy industry landscape changed during 2001. The bankruptcy of Enron (See Quantitative and Qualitative Disclosures About Market Risk – Credit Risk), the tragic events of September 11, 2001 and the global economic downturn will likely have continued impacts on the industry.

Near-term economic growth is likely to be lower and more cyclical than in the recent past. As a result, industrial or commercial customers and trading counterparties could reduce their business volume with Duke Energy. However, overall demand for power is still on the rise. Current estimates place demand growth for power between 1% and 2% annually over the next decade. Duke Energy will continue to seek opportunities to reduce the risks associated with economic impacts on its customers, and help markets achieve desired supply/demand equilibrium and infrastructure reliability.

The situation surrounding Enron's bankruptcy has forced regulators and legislators to take a renewed look at accounting practices, financial disclosures, companies' relationships with their independent auditors and retirement plan practices. Duke Energy cannot predict the ultimate impact of any future changes in laws or regulations. However, Duke Energy is committed to complying with all laws and regulations and will continue to play an active role in helping to shape future laws and regulations as they evolve.

PENDING ACQUISITION OF WESTCOAST ENERGY INC. In September 2001, Duke Energy announced its plans to acquire Westcoast for approximately $8 billion, including the assumption of debt. Westcoast, headquartered in Vancouver, British Columbia, is a North American energy company with interests in natural gas gathering, processing, transmission, storage and distribution, as well as power generation and international energy businesses. In the pending transaction, Duke Energy would acquire all outstanding common shares of Westcoast in exchange for a combination of cash, Duke Energy common shares and exchangeable shares of a Canadian subsidiary of Duke Energy such that 50% of the consideration will be paid in cash and 50% in stock. The transaction is expected to close by the end of the first quarter of 2002, subject to regulatory approvals. The transaction will be accounted for using the purchase method of accounting.

SUBSEQUENT EVENT. On January 31, 2002, Duke Energy announced the planned sale of its DE&S business unit to Framatome ANP, Inc. (a nuclear supplier) for approximately $84 million. Two components of DE&S are not part of the sale. Duke Energy will establish Duke Energy – Energy Delivery Services, formed by the power delivery services component of DE&S, which will continue to supply power delivery solutions to customers. Leadership of the U.S. Department of Energy Mixed Oxide Fuel project will also remain with Duke Energy. The transaction will require a Hart Scott Rodino filing and is expected to close in the second quarter of 2002.

FORWARD-LOOKING STATEMENTS Duke Energy's reports, filings and other public announcements may include statements that reflect assumptions, projections, expectations, intentions or beliefs about future events These statements are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. Generally, the words "may," "could," "project," "believe," "anticipate," "expect," "estimate," "plan," "forecast," "intend" and similar words identify forward-looking statements, which generally are not historical in nature All such statements (other than statements of historical facts), including statements regarding operating performance, financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations and events or developments that we expect or anticipate will occur in the future, are forward looking. Forward-looking statements are subject to certain risks and uncertainties that could, and often do, cause actual results to differ from Duke Energy's historical experience and our present expectations or projections Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements Caution should be taken not to place undue reliance on any such forward-looking statements

Factors that could cause actual results to differ materially from the expectations expressed or implied in such forward-looking statements include, but are not limited to: state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree at which competition enters the electric and natural gas industries; industrial, commercial and residential growth in the service territories of Duke Energy and its subsidiaries, the weather and other natural phenomena, the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates, changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject or other external factors over which Duke Energy has no control; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by Duke Energy's credit rating and general economic conditions; level of creditworthiness of counterparties to transactions, growth opportunities for Duke Energy's business units, and the effect of accounting policies issued periodically by accounting standard-setting bodies.

Selected Financial Data

In millions	2001	2000	1999[a]	1998	1997[b]
INCOME STATEMENT					
Operating revenues	$ 59,503	$ 49,318	$ 21,766	$ 17,662	$ 16,309
Operating expenses	55,403	45,505	19,947	15,177	14,339
Operating income	4,100	3,813	1,819	2,485	1,970
Other income and expenses	156	201	224	162	138
Interest expense	785	911	601	514	472
Minority interest expense	327	307	142	96	23
Earnings before income taxes	3,144	2,796	1,300	2,037	1,613
Income taxes	1,150	1,020	453	777	639
Income before extraordinary item and cumulative effect of change in accounting principle	1,994	1,776	847	1,260	974
Extraordinary gain (loss), net of tax	-	-	660	(8)	-
Cumulative effect of change in accounting principle, net of tax	(96)	-	-	-	-
Net income	1,898	1,776	1,507	1,252	974
Preferred and preference stock dividends	14	19	20	21	72
Earnings available for common stockholders	$ 1,884	$ 1,757	$ 1,487	$ 1,231	$ 902
BALANCE SHEET					
Total assets	$ 48,375	$ 58,232	$ 33,409	$ 26,806	$ 24,029
Long-term debt, less current maturities	12,321	10,717	8,683	6,272	6,530

[a] Financial information reflects a pre-tax $800 million charge for estimated injuries and damages claims. The earnings-per-share effect of this charge was $0.67 per share. (See Note 15 to the Consolidated Financial Statements.)

[b] Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1997.

Selected Financial Data

In millions, except per-share amounts	2001	2000	1999[a]	1998	1997[b]
COMMON STOCK DATA[c]					
Shares of common stock outstanding					
Year end	777	739	733	726	720
Weighted average	767	736	729	722	720
Earnings per share (before extraordinary item and cumulative effect of change in accounting principle)					
Basic	$ 2.58	$ 2.39	$ 1.13	$ 1.72	$ 1.26
Diluted	2 56	2 38	1 13	1.71	1 25
Earnings per share					
Basic	$ 2.45	$ 2.39	$ 2.04	$ 1.70	$ 1.26
Diluted	2.44	2.38	2.03	1.70	1.25
Dividends per share	1.10	1.10	1.10	1.10	0.95

COMMON STOCK DATA BY QUARTER[c]

	2001			2000		
	Dividends Per Share	Stock Price[d] High	Stock Price[d] Low	Dividends Per Share	Stock Price High	Stock Price Low
First quarter	$ 0.275	$ 43.50	$ 32 41	$ 0 275	$ 28 94	$ 23 19
Second quarter	0.55	47.74	38.40	0 55	31.25	26.16
Third quarter	-	42.85	34 39	-	42 88	28 31
Fourth quarter	0.275	41.35	32.22	0.275	44.97	40.22

[a] Financial information reflects a pre-tax $800 million charge for estimated injuries and damages claims. The earnings-per-share effect of this charge was $0.67 per share. (See Note 15 to the Consolidated Financial Statements.)

[b] Financial information reflects accounting for the 1997 merger with PanEnergy Corp as a pooling of interests. As a result, the financial information gives effect to the merger as if it had occurred January 1, 1997.

[c] Amounts prior to 2001 were restated to reflect the two-for-one common stock split effective January 26, 2001.

[d] The current-year stock prices represent the intra-day high and low stock price.

Consolidated Statements of Income

In millions, except per-share amounts	Years ended December 31 2001	2000	1999
OPERATING REVENUES			
Sales, trading and marketing of natural gas and petroleum products (Notes 1 and 7)	$ 33,364	$ 28,284	$ 10,922
Trading and marketing of electricity (Notes 1 and 7)	18,010	13,086	3,745
Generation, transmission and distribution of electricity (Notes 1 and 4)	5,410	5,315	4,799
Transportation and storage of natural gas (Notes 1 and 4)	996	1,045	1,139
Gain on sale of equity investment (Note 2)	-	407	-
Other (Note 8)	1,723	1,181	1,161
Total operating revenues	59,503	49,318	21,766
OPERATING EXPENSES			
Natural gas and petroleum products purchased (Note 1)	32,021	27,670	10,636
Net interchange and purchased power (Notes 1, 4 and 5)	16,515	12,000	3,507
Fuel used in electric generation (Notes 1 and 11)	965	781	764
Other operation and maintenance (Notes 4 and 11)	4,135	3,469	3,701
Depreciation and amortization (Notes 1 and 5)	1,336	1,167	968
Property and other taxes	431	418	371
Total operating expenses	55,403	45,505	19,947
OPERATING INCOME	4,100	3,813	1,819
OTHER INCOME AND EXPENSES	156	201	224
INTEREST EXPENSE (Note [illegible])	785	911	601
MINORITY INTEREST EXPENSE (Note [illegible])	327	307	142
EARNINGS BEFORE INCOME TAXES	3,144	2,796	1,300
INCOME TAXES (Note [illegible])	1,150	1,020	453
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,994	1,776	847
EXTRAORDINARY GAIN (NET OF TAX (Note [illegible]))	-	-	660
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE (NET OF TAX (Note [illegible]))	(96)	-	-
NET INCOME	1,898	1,776	1,507
PREFERRED AND PREFERENCE STOCK DIVIDENDS (Note [illegible])	14	19	20
EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS	$ 1,884	$ 1,757	$ 1,487
COMMON STOCK DATA (Note [illegible])			
Weighted-average shares outstanding	767	736	729
Earnings per share (before extraordinary item and cumulative effect of change in accounting principle)			
Basic	$ 2.58	$ 2.39	$ 1.13
Diluted	$ 2.56	$ 2.38	$ 1.13
Earnings per share			
Basic	$ 2.45	$ 2.39	$ 2.04
Diluted	$ 2.44	$ 2.38	$ 2.03
Dividends per share	$ 1.10	$ 1.10	$ 1.10

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

In millions	Years ended December 31 2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,898	$ 1,776	$ 1,507
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,450	1,348	1,151
Cumulative effect of change in accounting principle	96	-	-
Extraordinary gain, net of tax	-	-	(660)
Gain on sale of equity investment	-	(407)	-
Provision on NAWE's California receivables	-	110	-
Impairment charges	36	-	-
Injuries and damages accrual	-	-	800
Deferred income taxes	129	152	(210)
Purchased capacity levelization	156	138	104
Transition cost recoveries, net	-	82	95
(Increase) decrease in			
Net unrealized mark-to-market and hedging transactions	91	(464)	(24)
Receivables	3,166	(5,167)	(659)
Inventory	(192)	(100)	(89)
Other current assets	694	(796)	(138)
Increase (decrease) in			
Accounts payable	(3,545)	4,867	477
Taxes accrued	183	(439)	(57)
Interest accrued	28	64	32
Other current liabilities	297	1,116	73
Other, assets	351	175	221
Other, liabilities	(243)	(230)	61
Net cash provided by operating activities	4,595	2,225	2,684
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(5,930)	(4,568)	(5,291)
Investment expenditures	(1,093)	(966)	(596)
Proceeds from sale of subsidiaries and equity investment	-	400	1,900
Notes receivable	201	(158)	83
Other	541	362	153
Net cash used in investing activities	(6,281)	(4,930)	(3,751)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of			
Long-term debt	2,673	3,206	3,221
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy Corporation or subsidiaries	-	-	484
Common stock and stock options	1,432	230	162
Payments for the redemption of			
Long-term debt	(1,298)	(1,191)	(1,505)
Preferred and preference stock	(33)	(33)	(20)
Net change in notes payable and commercial paper	(246)	1,484	58
Distributions to minority interests	(329)	(1,216)	-
Contributions from minority interests	-	1,116	-
Dividends paid	(871)	(828)	(822)
Other	26	(54)	22
Net cash provided by financing activities	1,354	2,714	1,600
Net (decrease) increase in cash and cash equivalents	(332)	9	533
Cash and cash equivalents at beginning of period	622	613	80
Cash and cash equivalents at end of period	$ 290	$ 622	$ 613
SUPPLEMENTAL DISCLOSURES			
Cash paid for interest, net of amount capitalized	$ 733	$ 817	$ 541
Cash paid for income taxes	$ 770	$ 1,177	$ 732

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In millions	December 31 2001	2000
ASSETS		
CURRENT ASSETS (Note 1)		
Cash and cash equivalents (Note 7)	$ 290	$ 622
Receivables (Notes 1 and 7)	5,301	8,648
Inventory (Note 1)	1,017	739
Current portion of purchased capacity costs (Note 5)	160	149
Unrealized gains on mark-to-market and hedging transactions (Notes 1 and 7)	2,326	11,038
Other	451	1,317
Total current assets	9,545	22,513
INVESTMENTS AND OTHER ASSETS		
Investments in affiliates (Note 8)	1,480	1,387
Nuclear decommissioning trust funds (Note 11)	716	717
Pre-funded pension costs (Note 18)	313	304
Goodwill, net of accumulated amortization (Notes 1 and 2)	1,730	1,566
Notes receivable	576	462
Unrealized gains on mark-to-market and hedging transactions (Notes 1 and 7)	3,117	4,218
Other	1,299	1,143
Total investments and other assets	9,231	9,797
PROPERTY, PLANT AND EQUIPMENT (Notes 1, 5, 9, 10 and 11)		
Cost	39,464	34,598
Less accumulated depreciation and amortization	11,049	10,146
Net property, plant and equipment	28,415	24,452
REGULATORY ASSETS AND DEFERRED DEBITS (Notes 1 and 4)		
Purchased capacity costs (Note 5)	189	356
Deferred debt expense	203	208
Regulatory asset related to income taxes	510	506
Other (Notes 4 and 15)	282	400
Total regulatory assets and deferred debits	1,184	1,470
TOTAL ASSETS	$ 48,375	$ 58,232

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In millions	December 31 2001	2000
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,231	$ 7,733
Notes payable and commercial paper (Notes 7 and 10)	1,603	1,826
Taxes accrued (Note 1)	443	261
Interest accrued	239	208
Current maturities of long-term debt and preferred stock (Notes 10 and 14)	274	470
Unrealized losses on mark-to-market and hedging transactions (Notes 1 and 7)	1,519	11,070
Other (Notes 1 and 15)	2,118	1,769
Total current liabilities	10,427	23,337
LONG-TERM DEBT (Notes 7 and 10)	12,321	10,717
DEFERRED CREDITS AND OTHER LIABILITIES (Note 1)		
Deferred income taxes (Note 6)	4,307	3,851
Investment tax credit (Note 6)	189	211
Nuclear decommissioning costs externally funded (Note 11)	716	717
Environmental cleanup liabilities (Note 15)	85	100
Unrealized losses on mark-to-market and hedging transactions (Notes 1 and 7)	2,212	3,581
Other (Notes 4 and 15)	1,542	1,574
Total deferred credits and other liabilities	9,051	10,034
COMMITMENTS AND CONTINGENCIES (Notes 5, 11 and 15)		
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY CORPORATION OR SUBSIDIARIES (Notes 7 and 12)	1,407	1,406
MINORITY INTERESTS IN FINANCING SUBSIDIARY (Note 13)	1,025	1,025
MINORITY INTERESTS (Note 2)	1,221	1,410
PREFERRED AND PREFERENCE STOCK (Notes 7 and 14)		
Preferred and preference stock with sinking fund requirements	25	38
Preferred and preference stock without sinking fund requirements	209	209
Total preferred and preference stock	234	247
COMMON STOCKHOLDERS' EQUITY (Notes 1, 16 and 17)		
Common stock, no par, 2 billion shares authorized; 777 million and 739 million shares outstanding at December 31, 2001 and 2000, respectively	6,217	4,797
Retained earnings	6,292	5,379
Accumulated other comprehensive income (loss)	180	(120)
Total common stockholders' equity	12,689	10,056
TOTAL LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	$ 48,375	$ 58,232

See Notes to Consolidated Financial Statements

Consolidated Statements of Common Stockholders' Equity and Comprehensive Income

In millions	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Total Comprehensive Income
BALANCE DECEMBER 31, 1998	$ 4,449	$ 3,701	$	$ 8,150	
Net income		1,507		1,507	$ 1,507
Other comprehensive income					
Foreign currency translation adjustments (Note 1)			(2)	(2)	(2)
Total comprehensive income					$ 1,505
Dividend reinvestment and employee benefits (Note 17)	154			154	
Common stock dividends		(802)		(802)	
Preferred and preference stock dividends (Note 14)		(20)		(20)	
Other capital stock transactions, net		11		11	
BALANCE DECEMBER 31, 1999	$ 4,603	$ 4,397	$ (2)	$ 8,998	
Net income		1,776		1,776	$ 1,776
Other comprehensive income					
Foreign currency translation adjustments (Note 1)			(118)	(118)	(118)
Total comprehensive income					$ 1,658
Dividend reinvestment and employee benefits (Note 17)	194			194	
Common stock dividends		(809)		(809)	
Preferred and preference stock dividends (Note 14)		(19)		(19)	
Other capital stock transactions, net		34		34	
BALANCE DECEMBER 31, 2000	$ 4,797	$ 5,379	$ (120)	$ 10,056	
Net income		1,898		1,898	$ 1,898
Other comprehensive income[a]					
Cumulative effect of change in accounting principle (Note 1)			(921)	(921)	(921)
Foreign currency translation adjustments (Note 1)			(187)	(187)	(187)
Net unrealized gains on cash flow hedges (Notes 1 and 7)			1,324	1,324	1,324
Reclassification into earnings (Notes 1 and 7)			84	84	84
Total comprehensive income					$ 2,198
Dividend reinvestment and employee benefits (Note 17)	329			329	
Equity offering (Note 16)	1,091			1,091	
Common stock dividends, including equity units contract adjustment (Note 16)		(973)		(973)	
Preferred and preference stock dividends (Note 14)		(14)		(14)	
Other capital stock transactions, net		2		2	
BALANCE DECEMBER 31, 2001	$ 6,217	$ 6,292	$ 180	$ 12,689	

[a] Other Comprehensive Income amounts are net of tax, except for foreign currency translation.

See Notes to Consolidated Financial Statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[illegible] The Consolidated Financial Statements include the accounts of Duke Energy Corporation and all majority-owned subsidiaries, after eliminating significant intercompany transactions and balances Investments in businesses not controlled by Duke Energy Corporation, but over which it has significant influence, are accounted for using the equity method.

Conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes Although these estimates are based on management's best available knowledge of current and expected future events, actual results could be different from those estimates

In these Notes, "Duke Energy" refers to Duke Energy Corporation and its subsidiaries

[illegible] All liquid investments with maturities of three months or less at the date of purchase are considered cash equivalents.

[illegible] Inventory, excluding inventory held for trading, consists primarily of materials and supplies, natural gas and natural gas liquid (NGL) products held in storage for transmission, processing and sales commitments, and coal held for electric generation This inventory is recorded at the lower of cost or market value, primarily using the average cost method Inventory held for trading is marked to market

[illegible] All derivatives not qualifying for the normal purchases and sales exemption under Statement of Financial Accounting Standards (SFAS) No 133, "Accounting for Derivative Instruments and Hedging Activities," are recorded on the Consolidated Balance Sheets at their fair value as Unrealized Gains or Unrealized Losses on Mark-to-Market and Hedging Transactions. On the date that swaps, futures, forwards or option contracts are entered into, Duke Energy designates the derivative as either held for trading (trading instrument), as a hedge of a forecasted transaction or future cash flows (cash flow hedge), as a hedge of a recognized asset, liability or firm commitment (fair value hedge), as a normal purchase or sale contract; or leaves the derivative undesignated and marks it to market

For hedge contracts, Duke Energy formally assesses, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in fair values or cash flows of hedged items. The time value of options of $1 million was excluded in the assessment and measurement of hedge effectiveness for the year ended December 31, 2001.

When available, quoted market prices or prices obtained through external sources are used to verify a contract's fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on pricing models developed primarily from historical and expected correlations with quoted market prices.

Values are adjusted to reflect the potential impact of liquidating the positions held in an orderly manner over a reasonable time period under current conditions. Changes in market price and management estimates directly affect the estimated fair value of these contracts. Accordingly, it is reasonably possible that such estimates may change in the near term.

[illegible] TRADING Prior to settlement of any energy contract held for trading purposes, a favorable or unfavorable price movement is reported as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power, in the Consolidated Statements of Income An offsetting amount is recorded on the Consolidated Balance Sheets as Unrealized Gains or Unrealized Losses on Mark-to-Market and Hedging Transactions When a contract to sell is physically settled, the fair value entries are reversed and the gross amount invoiced to the customer is included as Sales, Trading and Marketing of Natural Gas and Petroleum Products, or Trading and Marketing of Electricity, in the Consolidated Statements of Income Similarly, when a contract to purchase is physically settled, the purchase price is included as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power, in the Consolidated Statements of Income If a contract is not financially settled, the unrealized gain or loss on the Consolidated Balance Sheets is reversed and reclassified to a receivable or payable account For income statement purposes, financial settlement has no revenue presentation effect on the Consolidated Statements of Income

[illegible] CASH FLOW HEDGES Changes in the fair value of a derivative designated and qualified as a cash flow hedge are included in the Consolidated Statements of Common Stockholders' Equity and Comprehensive Income as Other Comprehensive Income (OCI) until earnings are affected by the hedged item. Settlement amounts and ineffective portions of cash flow hedges are removed from OCI and recorded in the Consolidated Statements of Income in the same accounts as the item being hedged Duke Energy discontinues hedge accounting prospectively when it is determined that the derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged transaction will occur. When hedge accounting is discontinued because the derivative no longer qualifies as an effective hedge, the derivative continues to be carried on the Consolidated Balance Sheets at its fair value, with subsequent changes

in its fair value recognized in current-period earnings. Gains and losses related to discontinued hedges that were previously accumulated in OCI will remain in OCI until earnings are affected by the hedged item, unless it is no longer probable that the hedged transaction will occur. Gains and losses that were accumulated in OCI will be immediately recognized in current-period earnings.

FAIR VALUE HEDGES. Duke Energy enters into interest rate swaps to convert some of its fixed-rate long-term debt to floating-rate long-term debt and designates such interest rate swaps as fair value hedges. Duke Energy also enters into electricity derivative instruments such as swaps, futures and forwards to manage the fair value risk associated with some of its unrecognized firm commitments to sell generated power due to changes in the market price of power. Upon designation of such derivatives as fair value hedges, prospective changes in the fair value of the derivative and the hedged item are recognized in current earnings in a manner consistent with the earnings effect of the hedged risk. All components of each derivative gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

GOODWILL. Goodwill is the cost of an acquisition less the fair value of the net assets of the acquired business. Prior to January 1, 2002, Duke Energy amortized goodwill on a straight-line basis over the useful lives of the acquired assets, ranging from 10 to 40 years. The amount of goodwill reported on the Consolidated Balance Sheets as of December 31, 2001 was $1,730 million, net of accumulated amortization of $388 million. The amount of goodwill as of December 31, 2000 was $1,566 million, net of accumulated amortization of $291 million. Duke Energy has implemented SFAS No. 142, "Goodwill and Other Intangible Assets" as of January 1, 2002. For information on the impact of SFAS No. 142 on goodwill and goodwill amortization, see the New Accounting Standards section of this footnote. (See Note 2 for information on significant goodwill additions.)

PROPERTY, PLANT AND EQUIPMENT. Property, plant and equipment are stated at historical cost less accumulated depreciation. Duke Energy capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of funds used during construction. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs, replacements and major maintenance projects is expensed as it is incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates, excluding nuclear fuel, were 4.01% for 2001, 3.97% for 2000 and 3.73% for 1999.

When Duke Energy retires its regulated property, plant and equipment, it charges the original cost plus the cost of retirement, less salvage, to accumulated depreciation and amortization. When it sells entire regulated operating units, or retires or sells non-regulated properties, the property and related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded as income, unless otherwise required by the Federal Energy Regulatory Commission (FERC).

IMPAIRMENT OF LONG-LIVED ASSETS. Duke Energy reviews the recoverability of long-lived and intangible assets when circumstances indicate that the carrying amount of the asset may not be recoverable. This evaluation is based on various analyses, including undiscounted cash flow projections.

UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE. Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations used to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate.

ENVIRONMENTAL EXPENDITURES. Duke Energy expenses environmental expenditures that relate to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Liabilities are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated.

COST-BASED REGULATION. Duke Energy's regulated operations are subject to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." The economic effects of regulation can result in a regulated company recording costs that have been or are expected to be allowed in the rate-setting process in a period different from the period in which the costs would be charged to expense

by an unregulated enterprise Accordingly, Duke Energy records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. These regulatory assets and liabilities are classified in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities (See Note 4) Duke Energy periodically evaluates the applicability of SFAS No. 71, and considers factors such as regulatory changes and the impact of competition. If cost-based regulation ends or competition increases, companies may have to reduce their asset balances to reflect a market basis less than cost, and write off their associated regulatory assets.

STOCK BASED COMPENSATION Duke Energy accounts for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," by which compensation cost is the quoted market price of Duke Energy stock on the date of the grant minus the amount an employee must pay to acquire the stock Restricted stock grants and company performance awards are recorded over the required vesting period as compensation cost, based on the market value on the date of the grant. (See Note 17 for pro forma disclosures using the fair value accounting method.) All outstanding common stock amounts and compensation awards have been adjusted to reflect the two-for-one common stock split effective January 26, 2001. (See Note 16 for more information on the stock split)

REVENUES Revenues on sales of electricity and on natural gas transportation and storage are recognized when the service is provided. Revenues on sales of natural gas and petroleum products, as well as electricity, natural gas and other energy products marketed, are recognized in the delivery period The allowance for doubtful accounts was $265 million as of December 31, 2001 and $200 million as of December 31, 2000 Receivables on the Consolidated Balance Sheets included $177 million as of December 31, 2001 and $244 million as of December 31, 2000 for electric service provided but not yet billed. The amount for 2001 includes a $36 million reduction in unbilled revenue receivables, resulting from a refinement in the estimates used to calculate unbilled kilowatt-hour sales Pending final approval of rate cases, a portion of revenues is subject to possible refund, and reserves are established where required.

Long-term contracts, primarily in the Other Energy Services segment, are accounted for using the percentage-of-completion method. Under the percentage-of-completion method, sales and gross profit are recognized as the work is performed based on the relationship between costs incurred and total estimated costs at completion. Sales and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is recorded in that period The provision for the loss arises because estimated cost for the contract exceeds estimated revenue.

NUCLEAR FUEL Amortization of nuclear fuel is included in the Consolidated Statements of Income as Fuel Used in Electric Generation The amortization is recorded using the units-of-production method

DEFERRED RETURNS AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION Deferred returns, recorded in accordance with SFAS No 71, represent the estimated financing costs associated with funding regulatory assets that primarily arise from the funding of purchased capacity costs above levels collected in rates Deferred returns are non-cash items and are primarily recognized as an addition to Purchased Capacity Costs, with an offsetting credit to Other Income and Expenses The amount of deferred returns included in Other Income and Expenses was $43 million in 2001, $50 million in 2000 and $67 million in 1999

AFUDC represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities AFUDC is a non-cash item and is recognized as a Property, Plant and Equipment cost, with offsetting credits to Other Income and Expenses and to Interest Expense After construction is completed, Duke Energy is permitted to recover these costs, including a fair return, by including them in the rate base and in the depreciation provision. The total amount of AFUDC included in Other Income and Expenses and Interest Expense was $39 million in 2001, $20 million in 2000 and $23 million in 1999.

Rates used for capitalization of deferred returns and AFUDC by Duke Energy's regulated operations are calculated in compliance with GAAP rules

FOREIGN CURRENCY TRANSLATION Duke Energy translates assets and liabilities for its international operations, where the local currency is the functional currency, at year-end exchange rates. Revenues and expenses are translated using average exchange rates

during the year Foreign Currency Translation Adjustments are included in the Consolidated Statements of Common Stockholders' Equity and Comprehensive Income. In the financial statements for international operations, where the U S dollar is the functional currency, transactions denominated in the local currency have been remeasured in U S dollars Remeasurement resulting from foreign currency gains and losses is included in consolidated net income

Duke Energy and its subsidiaries file a consolidated federal income tax return. Deferred income taxes have been provided for temporary differences. These occur when there are differences between the GAAP and tax carrying amounts of assets and liabilities These differences create taxable or tax-deductible amounts for future periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties

Duke Energy generally presents revenues net of pass-through taxes on the Consolidated Statements of Income.

Basic earnings per share is based on a simple weighted average of common shares outstanding. Diluted earnings per share reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options and equity units, were exercised or converted into common stock The numerator for the calculation of both basic and diluted earnings per share is earnings available for common stockholders. The following table shows the denominator for basic and diluted earnings per share.

In millions	2001	2000	1999
Denominator for basic earnings per share (weighted-average shares outstanding)	767.5	735.7	729.3
Assumed exercise of diluted stock equivalents	5.4	3.7	1.6
Denominator for diluted earnings per share	772.9	739.4	730 9

Prior years' common stock amounts have been adjusted to reflect the two-for-one common stock split effective January 26, 2001 (See Note 16.)

Options to purchase approximately 6 0 million shares of common stock as of December 31, 2001, 3 3 million shares as of December 31, 2000 and 4 7 million shares as of December 31, 1999 were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares during the periods.

Duke Energy adopted SFAS No. 133 as amended and interpreted on January 1, 2001. In accordance with the transition provisions of SFAS No 133, Duke Energy recorded a net-of-tax cumulative effect adjustment of $96 million, or $0.13 per basic share, as a reduction in earnings The net-of-tax cumulative effect adjustment reducing OCI and Common Stockholders' Equity was $921 million For the 12 months ended December 31, 2001, Duke Energy reclassified as earnings $222 million of losses from OCI for derivatives included in the transition adjustment related to hedge transactions that settled The amount reclassified out of OCI will be different from the amount included in the transition adjustment due to market price changes since January 1, 2001

The Financial Accounting Standards Board's (FASB) Derivative Implementation Group (DIG), while no longer an active group, was active during 2001. In December 2001, the DIG issued a final revision to Issue C15, "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forwards Contracts in Electricity." Under the guidance of Issue C15, if certain electricity contracts meet the criteria, they could qualify as normal purchases or sales under SFAS No. 133 This new guidance will be effective April 1, 2002 The original wording of Issue C15, which was effective beginning July 1, 2001, will apply through the first quarter of 2002 For contracts previously designated as hedges, Duke Energy treated the change as a de-designation under SFAS No. 133, and the fair value for each qualifying contract on July 1, 2001 became the contract's net carrying amount Duke Energy is continuing to determine the impact of the revision on its future consolidated results of operations, cash flows and financial position

EXTRAORDINARY ITEMS In 1999, Duke Energy realized an extraordinary after-tax gain of $660 million, or $0 91 per share, from the sale of Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, along with Trunkline LNG Company, to CMS Energy Corporation (CMS).

NEW ACCOUNTING STANDARDS In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No 142

SFAS No. 141 requires that all business combinations initiated (as defined by the standard) after June 30, 2001 be accounted for using the purchase method Companies may no longer use the pooling method of accounting for future combinations

SFAS No 142 is effective for fiscal years beginning after December 15, 2001, and was adopted by Duke Energy as of January 1, 2002. SFAS No 142 requires that goodwill no longer be amortized over an estimated useful life, as previously required Instead, goodwill amounts will be subject to a fair-value-based annual impairment assessment. The standard also requires certain identifiable intangible assets to be recognized separately and amortized as appropriate No such intangibles have been identified at Duke Energy Duke Energy expects the adoption of SFAS No 142 to have an impact on future financial statements, due to the discontinuation of goodwill amortization expense For 2001, pre-tax goodwill amortization expense was $101 million. The FASB and the Emerging Issues Task Force (EITF) continue to respond to questions to clarify key aspects of SFAS No. 142 Duke Energy has determined the effect of implementing SFAS No 142 and does not expect to record any impairment in 2002.

In July 2001, the FASB issued SFAS No 143, "Accounting for Asset Retirement Obligations " SFAS No 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. It is effective for fiscal years beginning after June 15, 2002, and early adoption is permitted Duke Energy is currently assessing the new standard and has not yet determined the impact on its consolidated results of operations or financial position

In August 2001, the FASB issued SFAS No 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The new rules supersede SFAS No 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of " The new rules retain many of the fundamental recognition and measurement provisions, but significantly change the criteria for classifying an asset as held-for-sale SFAS No 144 is effective for fiscal years beginning after December 15, 2001 Duke Energy has evaluated the new standard, and management believes that it will have no material adverse effect on Duke Energy's consolidated results of operations or financial position

RECLASSIFICATIONS Certain amounts reported in prior periods have been reclassified in the Consolidated Financial Statements to conform to current classifications

2 BUSINESS ACQUISITIONS AND DISPOSITIONS

BUSINESS ACQUISITIONS Using the purchase method for acquisitions, Duke Energy consolidates assets and liabilities as of the purchase date, and includes earnings from acquisitions in consolidated earnings after the purchase date Assets acquired and liabilities assumed are recorded at estimated fair values on the date of acquisition. The purchase price minus the estimated fair value of the acquired assets and liabilities is recorded as goodwill. In accordance with SFAS No. 142, goodwill is subject to a fair-value-based annual impairment assessment beginning January 1, 2002 The allocation of the purchase price may be adjusted if additional information on asset and liability valuations becomes available within one year after the acquisition.

MARKET HUB PARTNERS (MHP) In September 2000, Duke Energy, through a wholly owned subsidiary, completed the acquisition of MHP from subsidiaries of NiSource Inc. for approximately $250 million in cash and the assumption of $150 million in debt. MHP provides natural gas storage services in Louisiana and Texas Approximately $228 million of goodwill was recorded in the transaction MHP debt agreements required a tender offer for $115 million of the assumed debt. As of December 31, 2001, approximately $88 million of this debt was retired

PHILLIPS PETROLEUM'S GAS GATHERING, PROCESSING AND MARKETING UNIT In March 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $1.7 billion transaction that combined Field Services' and Phillips Petroleum's gas gathering, processing and marketing business to form a new midstream company, Duke Energy Field Services, LLC (DEFS) In connection with the combination, DEFS issued approximately $2.75 billion of commercial paper in April 2000 and used the proceeds to make one-time cash distributions of approximately $1.53 billion to Duke Energy and $1.22 billion to Phillips Petroleum Duke Energy owns approximately 70% of

DEFS and Phillips Petroleum owns approximately 30%. Goodwill of approximately $432 million was recorded in the transaction

EAST TENNESSEE NATURAL GAS COMPANY (ETNG) In March 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $390 million acquisition of ETNG from El Paso Energy ETNG owns a 1,100-mile interstate natural gas pipeline system that crosses Duke Energy's Texas Eastern Transmission, LP's pipeline and serves the southeastern region of the U S Goodwill of approximately $125 million was recorded in the transaction.

DOMINION RESOURCES' HYDROELECTRIC, NATURAL GAS AND DIESEL POWER GENERATION BUSINESSES In April 2000, Duke Energy, through its wholly owned subsidiary Duke Energy International, LLC (DEI), completed the acquisition (which began, and parts of which had already closed, in 1999) of Dominion Resources Inc 's 1,200-megawatt portfolio of hydroelectric, natural gas and diesel power generation businesses in Latin America The total purchase price was approximately $405 million. Goodwill totaling $109 million was recorded in the transaction.

COMPANHIA DE GERACAO DE ENERGIA ELÉTRICA PARANAPANEMA (PARANAPANEMA) In January 2000, Duke Energy, through its wholly owned subsidiary DEI, completed a series of transactions to purchase for approximately $1 03 billion an approximate 95% interest in Paranapanema, an electric generating company in Brazil. Goodwill of approximately $134 million was recorded in the transaction.

PENDING ACQUISITION OF WESTCOAST ENERGY INC. (WESTCOAST) In September 2001, Duke Energy announced its plans to acquire Westcoast for approximately $8 billion, including the assumption of debt. Westcoast, headquartered in Vancouver, British Columbia, is a North American energy company with interests in natural gas gathering, processing, transmission, storage and distribution, as well as power generation and international energy businesses. In the pending transaction, Duke Energy would acquire all outstanding common shares of Westcoast in exchange for a combination of cash, Duke Energy common shares and exchangeable shares of a Canadian subsidiary of Duke Energy such that 50% of the consideration will be paid in cash and 50% in stock. The transaction is expected to close by the end of the first quarter of 2002, subject to regulatory approvals The transaction will be accounted for using the purchase method of accounting

BELLSOUTH CAROLINA PCS In September 2000, Duke Energy, through its wholly owned subsidiary DukeNet Communications, LLC (DukeNet), sold its 20% interest in BellSouth Carolina PCS for approximately $400 million to BellSouth Corporation Operating revenues in 2000 include the resulting pre-tax gain of $407 million, or an after-tax gain of $0 34 per basic share.

The pro forma results of operations for acquisitions and dispositions do not materially differ from reported results.

BUSINESS SEGMENTS

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 seven business segments

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 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 North America, primarily in the Mid-Atlantic, New England and southeastern states It conducts operations primarily through Duke Energy Gas Transmission Corporation Interstate natural gas transmission and storage operations are subject to the FERC's rules and regulations

Field Services gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores NGLs. It conducts operations primarily through DEFS, which is approximately 30% owned by Phillips Petroleum Field Services operates gathering systems in western Canada and 11 contiguous states in the U.S. Those systems serve major natural gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, and onshore and offshore Gulf Coast areas

North American Wholesale Energy (NAWE) develops, operates and manages merchant generation facilities and engages in commodity sales and services related to natural gas and electric power. NAWE conducts these operations primarily through Duke Energy North America, LLC (DENA) and Duke Energy Trading and Marketing, LLC (DETM). DETM is approximately 40% owned by Exxon Mobil Corporation. NAWE also includes Duke Energy Merchants Holdings, LLC, which develops new business lines in the evolving energy commodity markets other than natural gas and power. NAWE conducts business primarily throughout the U S and Canada

International Energy develops, operates and manages natural gas transportation and power generation facilities and engages in energy trading and marketing of natural gas and electric power It conducts operations primarily through DEI and its activities target the Latin American, Asia-Pacific and European regions

Other Energy Services is a combination of businesses that provide engineering, consulting, construction and integrated energy solutions worldwide, primarily through Duke Engineering & Services, Inc. (DE&S), Duke/Fluor Daniel (D/FD) and DukeSolutions, Inc. D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc , a wholly owned subsidiary of Fluor Corporation. (See Note 8) On January 31, 2002, Duke Energy announced the planned sale of DE&S to Framatome ANP, Inc (See Note 20.)

Duke Ventures is composed of other diverse businesses, operating primarily through Crescent Resources, LLC (Crescent), 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 U S DukeNet provides fiber optic networks for industrial, commercial and residential customers DCP, a wholly owned merchant banking company, provides debt and equity capital and financial advisory services to the energy industry.

Duke Energy's reportable segments offer different products and services and are managed separately as strategic business units Their accounting policies are the same as those described in Note 1 Management evaluates segment performance based on earnings before interest and taxes (EBIT) after deducting minority interests. EBIT is calculated as follows:

RECONCILIATION OF OPERATING INCOME TO EBIT	Years ended December 31		
In millions	2001	2000	1999
Operating income	$ 4,100	$ 3,813	$ 1,819
Other income and expenses	156	201	224
EBIT	$ 4,256	$ 4,014	$ 2,043

EBIT is the main performance measure used by management to evaluate segment performance As an indicator of Duke Energy's operating performance or liquidity, EBIT should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP. Duke Energy's EBIT may not be comparable to a similarly titled measure of another company.

Beginning January 1, 2001, Duke Energy discontinued allocating corporate governance costs for its business segment analysis Information for the 2000 and 1999 periods has been reclassified to conform to the current-year presentation Other Operations primarily includes certain unallocated corporate costs

In the accompanying table, EBIT includes intersegment sales at prices representative of unaffiliated party transactions. Capital and investment expenditures are gross of cash received from acquisitions The table also provides information on segment assets, net of intercompany advances, intercompany notes receivable, intercompany current assets, intercompany derivative assets and investments in subsidiaries.

In millions	Unaffiliated Revenues	Intersegment Revenues	Total Revenues	EBIT	Depreciation and Amortization	Capital and Investment Expenditures	Segment Assets
[illegible]							
Franchised Electric	$ 4,737	$ 9	$ 4,746	$ 1,631	$ 588	$ 1,115	$ 12,964
Natural Gas Transmission	967	138	1,105	608	141	748	5,027
Field Services	7,997	1,654	9,651	336	285	587	7,113
North American Wholesale Energy	42,815	382	43,197	1,351	132	3,272	14,562
International Energy	2,074	16	2,090	286	97	442	5,115
Other Energy Services	267	298	565	(13)	42	13	145
Duke Ventures	646	-	646	183	20	773	1,926
Other Operations	-	62	62	(357)	31	90	2,369
Eliminations and minority interests	-	(2,559)	(2,559)	231	-	-	(846)
Total consolidated	$ 59,503	$ -	$ 59,503	$ 4,256	$ 1,336	$ 7,040	$ 48,375
[illegible]							
Franchised Electric	$ 4,946	$ -	$ 4,946	$ 1,820	$ 565	$ 661	$ 12,819
Natural Gas Transmission	998	133	1,131	562	131	973	4,995
Field Services	7,601	1,459	9,060	311	240	376	6,624
North American Wholesale Energy	33,590	284	33,874	434	75	1,937	28,213
International Energy	1,060	7	1,067	341	97	980	4,551
Other Energy Services	326	369	695	(59)	13	28	543
Duke Ventures	797	-	797	568	17	643	1,967
Other Operations	-	(134)	(134)	(194)	29	36	2,749
Eliminations and minority interests	-	(2,118)	(2,118)	231	-	-	(4,229)
Total consolidated	$ 49,318	$ -	$ 49,318	$ 4,014	$ 1,167	$ 5,634	$ 58,232
[illegible]							
Franchised Electric	$ 4,700	$ -	$ 4,700	$ 942	$ 542	$ 759	$ 13,133
Natural Gas Transmission	1,124	106	1,230	656	126	261	3,897
Field Services	2,883	707	3,590	156	131	1,630	3,565
North American Wholesale Energy	11,623	178	11,801	219	57	1,028	6,268
International Energy	323	34	357	44	58	1,779	4,459
Other Energy Services	680	309	989	(86)	14	94	612
Duke Ventures	433	-	433	165	13	382	1,031
Other Operations	-	(162)	(162)	(145)	27	3	1,250
Eliminations and minority interests	-	(1,172)	(1,172)	92	-	-	(806)
Total consolidated	$ 21,766	$ -	$ 21,766	$ 2,043	$ 968	$ 5,936	$ 33,409

In millions	U.S.	Canada	Latin America	Other Foreign	Consolidated
[illegible]					
Consolidated revenues	$ 51,723	$ 5,690	$ 628	$ 1,462	$ 59,503
Consolidated long-term assets	34,150	516	2,573	1,594	38,833
[illegible]					
Consolidated revenues	$ 43,282	$ 4,964	$ 512	$ 560	$ 49,318
Consolidated long-term assets	30,772	900	2,823	1,222	35,717
[illegible]					
Consolidated revenues	$ 19,336	$ 2,007	$ 171	$ 252	$ 21,766
Consolidated long-term assets	22,995	250	2,708	901	26,854

4. REGULATORY MATTERS

REGULATORY ASSETS AND LIABILITIES Duke Energy's regulated operations are subject to SFAS No 71. Accordingly, Duke Energy records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. (See Note 1) The following table details Duke Energy's regulatory assets and liabilities

REGULATORY ASSETS AND LIABILITIES In millions	December 31 2001	 2000
ASSETS (LIABILITIES)		
Purchased capacity costs (see Note 5)	$ 349	$ 505
Deferred debt expense	203	208
Regulatory asset related to income taxes	510	506
Department of Energy (DOE) assessment fee[a]	53	62
Emission allowance control[a]	10	14
Demand-side management costs[a]	57	71
Environmental cleanup costs[a]	29	28
Nuclear property and liability reserves[b]	(100)	(100)
Fuel cost liabilities[b]	(17)	(45)

[a] Included in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets
[b] Included in Other Deferred Credits and Other Liabilities on the Consolidated Balance Sheets

FRANCHISED ELECTRIC The NCUC and the PSCSC approve rates for retail electric sales within their states The FERC approves Franchised Electric's rates for electric sales to wholesale customers, excluding the other joint owners of the Catawba Nuclear Station. Electric sales to the other joint owners of the Catawba Nuclear Station are set through contractual agreements (See Note 5 for ownership interests in Catawba Nuclear Station.)

Fuel costs are reviewed semiannually by the FERC and annually by the PSCSC, with provisions for reviewing those costs in base rates The NCUC reviews fuel costs in rates annually and during general rate case proceedings. All jurisdictions allow Duke Energy to adjust electric rates for past over- or under-recovery of fuel costs The difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues

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 Energy and two other investor-owned utilities, Carolina Power & Light Company and South Carolina Electric & Gas Company, planned to establish GridSouth Transco, LLC (GridSouth), as an RTO responsible for the control of the companies' combined transmission systems. In March 2001, GridSouth received provisional approval from the FERC However, in July 2001, the FERC issued orders recommending that utilities throughout the U S combine their transmission systems to create four large independent regional operators, one each in the Northeast, Southeast, Midwest and West. The FERC ordered GridSouth and other utilities in the Southeast to join in 45 days of mediation to negotiate terms of a Southeast RTO The FERC has not issued an order specifically based on those proceedings

Duke Energy, Carolina Power & Light Company and South Carolina Electric & Gas Company remain committed to the GridSouth RTO, but due to regulatory uncertainties in the RTO arena, the companies have withdrawn their applications to the PSCSC and NCUC to transfer functional control of their electric transmission assets to GridSouth. The companies intend to file new applications before the state commissions in the near future, including a revised GridSouth structure designed to meet the needs of customers and regulators Also, in January of 2002, GridSouth signed a memorandum of understanding with the representatives of SeTrans Grid Company (SeTrans), a group of investor-owned utilities and public power entities in several southeastern states seeking to form an RTO, to cooperate in discussing potential operational relationships between GridSouth and SeTrans and the structure of the wholesale electric markets in the southeast U.S.

The actual structure of GridSouth or an alternative combined transmission structure and the date it will become operational depend upon the resolution of all regulatory approvals and technical issues. Management believes that the result of this process, and the establishment and operation of GridSouth or an alternative combined transmission system structure, will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position

In 2001, the NCUC and PSCSC began a joint investigation, along with the Public Staff of the NCUC, regarding certain Duke Power regulatory accounting entries for 1998. In its internal review of the 14 entries in question, Duke Energy concluded that nine items were correctly classified for regulatory accounting Four items were incorrectly classified for regulatory purposes for 1998 only, and did not recur The classification of the remaining item, distributions from a mutual insurance company, is subject to differing regulatory interpretations. Duke Energy believes this item was appropriately classified, but is evaluating its classification for future years As part of their investigation, the NCUC and PSCSC have jointly engaged an independent firm to conduct an audit of Duke Power's accounting records for reporting periods from 1998 through June 30, 2001 Duke Energy continues to fully cooperate with the commissions in their investigation. As requested by the NCUC, Duke Energy has recorded the 2001 mutual insurance distribution, approximately $33 million, in a deferred credit account on the Consolidated Balance Sheets, pending final outcome of the independent audit.

NATURAL GAS TRANSMISSION In 2000, the FERC issued Order 637, which sets forth revisions to its regulations governing short-term natural gas transportation services and policies governing the regulation of interstate natural gas pipelines. "Short-term" has been defined as all transactions of less than one year Among the significant actions taken are the lifting of the price cap for short-term capacity release by pipeline customers for an experimental 2 1/2-year period ending September 1, 2002, and requiring interstate pipelines to file pro forma tariff sheets to (i) provide for nomination equality between capacity release and primary pipeline capacity; (ii) implement imbalance management services (for which interstate pipelines may charge fees) while at the same time reducing the use of operational flow orders and penalties; and (iii) provide segmentation rights if operationally feasible Order 637 also narrows the right of first refusal to remove economic biases perceived in the current rule. Order 637 imposes significant new reporting requirements for interstate pipelines that were implemented by Duke Energy during 2000 Additionally, Order 637 permits pipelines to propose peak/off-peak rates and term-differentiated rates, and encourages pipelines to propose experimental capacity auctions By Order 637-A, issued in 2000, the FERC generally denied requests for rehearing and several parties, including Duke Energy, have filed appeals in the District of Columbia Court of Appeals seeking court review of various aspects of the Order During the third quarter of 2001, Duke Energy's interstate pipelines submitted revised pro forma tariff sheets to update the filings originally submitted in 2000 These filings are currently subject to review and approval by the FERC.

Management believes that the effects of these matters will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

NOTICE OF PROPOSED RULEMAKING (NOPR) On September 27, 2001, the FERC issued a NOPR announcing that it is considering new regulations regarding standards of conduct that would apply uniformly to natural gas pipelines and electric transmitting public utilities that are currently subject to different gas or electric standards. The proposed standards would change how companies and their affiliates interact and share information by broadening the definition of "affiliate" covered by the standards of conduct, from the more narrow definition in the existing regulations. The NOPR also seeks comment on whether the standards of conduct should be broadened to include the separation of those involved in the bundled retail electric sales function from those in the transmission function, as the current standards apply only to those involved in wholesale activities. Various entities filed comments on the NOPR with the FERC, including Duke Energy which filed on December 20, 2001. The FERC has indicated that they appreciate the complexity of the issues and that they would prefer having a technical conference before entering directly into a final rulemaking. No notice of a technical conference has been given at this time.

5 JOINT OWNERSHIP OF GENERATING FACILITIES

JOINT OWNERSHIP OF CATAWBA NUCLEAR STATION[a]

Owner	Ownership Interest
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.1%
Duke Energy Corporation	[illegible]
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.4%
	100.0%

[a] Facility operated by Duke Energy

As of December 31, 2001, $536 million of property, plant and equipment and $296 million of accumulated depreciation and amortization represented Duke Energy's undivided interest in Catawba Nuclear Station Units 1 and 2. Duke Energy's share of operating costs is included in the Consolidated Statements of Income.

Contractual agreements to purchase declining percentages of the generating capacity and energy from the station through the year 2000, resulted in purchased capacity costs subject to rate levelization and deferral. The cost of capacity purchased but not reflected in current rates is reported in the Consolidated Balance Sheets as Current Portion of Purchased Capacity Costs and Purchased Capacity Costs. Those costs were $349 million as of December 31, 2001 and $505 million as of December 31, 2000. Duke Energy expects to recover the accumulated balance, including returns on the deferred balance, through 2004. The amounts levelized in rates are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. Purchased capacity and energy costs from the other joint owners were not material for 2001, but were approximately $7 million for 2000 and $62 million for 1999. After adjustments for current rates, these amounts are included in the Consolidated Statements of Income as Net Interchange and Purchased Power.

The interconnection agreements also provide for supplemental power sales by Duke Energy to the other joint owners of Catawba Nuclear Station, to satisfy their capacity and energy needs beyond what they retain from the station or acquire elsewhere. NCEMC, Saluda River and NCMPA have elected to buy power outside of these contractual agreements effective January 1, 2001. Management believes this will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position. PMPA will continue to receive supplemental power sales from Duke Energy through December 31, 2005.

6 INCOME TAXES

INCOME TAX EXPENSE

In millions	Years ended December 31 2001	2000	1999
Current income taxes			
Federal	$ 826	$ 679	$ 525
State	106	109	138
Foreign	24	18	1
Total current income taxes	956	806	664
Deferred income taxes, net			
Federal	165	187	(126)
State	9	13	(65)
Foreign	33	29	(1)
Total deferred income taxes, net	207	229	(192)
Investment tax credit amortization[c]	(13)	(15)	(19)
Total income tax expense	$ 1,150[a]	$ 1,020	$ 453[b]

a Excludes $59 million of deferred federal and state tax benefits related to the cumulative effect of change in accounting principle recorded net of tax. (See Note 1.)

b Excludes $404 million of current federal and state tax expense related to the extraordinary item recorded net of tax. (See Note 1.)

c Unamortized investment tax credit was $189 million at December 31, 2001.

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE

In millions	Years ended December 31 2001	2000	1999
Income tax, computed at the statutory rate of 35%	$ 1,100	$ 979	$ 455
Adjustments resulting from			
State income tax, net of federal income tax effect	74	75	47
Favorable resolution of federal tax issues	(11)	(18)	(30)
Other items, net	(13)	(16)	(19)
Total income tax expense	$ 1,150	$ 1,020	$ 453
Effective tax rate	36.6%	36.5%	34.9%

NET DEFERRED INCOME TAX LIABILITY COMPONENTS

In millions	December 31 2001	2000
Deferred credits and other liabilities	$ 507	$ 429
International property, plant and equipment	109	153
Other	58	10
Total deferred income tax assets	674	592
Valuation allowance	(17)	(9)
Net deferred income tax assets	657	583
Investments and other assets	(711)	(320)
Accelerated depreciation rates	(2,885)	(2,707)
Regulatory assets and deferred debits	(290)	(326)
Regulatory asset related to restating to pre-tax basis	(465)	(429)
Total deferred income tax liability	(4,351)	(3,782)
State deferred income tax, net of federal tax effect	(333)	(320)
Total net deferred income tax liability	$ (4,027)	$ (3,519)

7. DERIVATIVE INSTRUMENTS, HEDGING ACTIVITIES AND CREDIT RISK

Duke Energy, substantially through its subsidiaries, is exposed to the impact of market fluctuations in the price of natural gas, electricity and other energy-related products marketed and purchased. Duke Energy employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity derivatives, including forward contracts, futures, swaps and options for trading purposes and for activity other than trading activity (primarily hedge strategies). The following table shows the fair value of Duke Energy's derivative portfolio as of December 31, 2001

FAIR VALUE OF CONTRACTS AS OF DECEMBER 31, 2001
In millions

Type of Contract	Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter	Total Fair Value
Trading contracts	$ 353	$ 164	$ 137	$ 415	$ 1,069
Hedge contracts	454	156	71	(38)	643
Total	$ 807	$ 320	$ 208	$ 377	$ 1,712

COMMODITY CASH FLOW HEDGES Some Duke Energy subsidiaries are exposed to market fluctuations in the prices of various commodities related to their ongoing power generating and natural gas gathering, processing and marketing activities Duke Energy closely monitors the potential impacts of commodity price changes and, where appropriate, enters into contracts to protect margins for a portion of future sales and generation revenues. Duke Energy uses commodity instruments, consisting of swaps, futures, forwards and collared options, as cash flow hedges for natural gas, electricity and NGL transactions Duke Energy is hedging exposures to the price variability of these commodities for a maximum of nine years.

The ineffective portion of commodity cash flow hedges and the amount recognized for transactions that no longer qualified as cash flow hedges were not material in 2001 As of December 31, 2001, $323 million of after-tax deferred net gains on derivative instruments accumulated in OCI are expected to be recognized in earnings during the next 12 months as the hedged transactions occur However, due to the volatility of the commodities markets, the corresponding value in OCI is subject to change prior to its reclassification into earnings.

COMMODITY FAIR VALUE HEDGES Some Duke Energy subsidiaries are exposed to changes in the fair value of unrecognized firm commitments to sell generated power or natural gas due to market fluctuations in the underlying commodity prices. Duke Energy actively evaluates changes in the fair value of such unrecognized firm commitments due to commodity price changes and, where appropriate, uses various instruments to hedge its market risk. These commodity instruments, consisting of swaps, futures and forwards, serve as fair value hedges for the firm commitments associated with generated power and natural gas sales Duke Energy is hedging exposures to the market risk of such items for a maximum of 13 years For 2001, the ineffective portion of commodity fair value hedges was not material

TRADING CONTRACTS Duke Energy provides energy supply, structured origination, trading and marketing, risk management and commercial optimization services to large energy customers, energy aggregators and other wholesale companies. These services require Duke Energy to use natural gas, electricity, NGL and transportation derivatives and contracts that expose it to a variety of market risks Duke Energy manages its trading exposure with strict policies that limit its market risk and require daily reporting of potential financial exposure to management These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement.

INTEREST RATE (FAIR VALUE OR CASH FLOW) HEDGES Changes in interest rates expose Duke Energy to risk as a result of its issuance of variable-rate debt, fixed-to-floating interest rate swaps, commercial paper and auction market preferred stock Duke Energy manages its interest rate exposure by limiting its variable-rate and fixed-rate exposures to certain percentages of total capitalization, as set by policy, and by monitoring the effects of market changes in interest rates Duke Energy also enters into financial derivative instru-

ments, including, but not limited to, interest rate swaps, options, swaptions and lock agreements to manage and mitigate interest rate risk exposure Duke Energy's existing interest rate derivative instruments and related ineffectiveness were not material to its consolidated results of operations, cash flows or financial position in 2001.

INTEREST RATE DERIVATIVES

Dollars in millions	December 31 2001			2000		
	Notional Amounts	Fair Value	Contracts Expire	Notional Amounts	Fair Value	Contracts Expire
Fixed-to-floating rate swaps	$ 875	$ 20	2003 - 2019	$ 275	$ 27	2009
Cancelable fixed-to-floating rate swaps	455	7	2014 - 2025	630	20	2004 - 2022
CP[a] floating-to-fixed rate swaps	-	-	-	100	(1)	2001
Interest rate locks	-	-	-	275	(9)	2011

[a] Commercial paper

Gains and losses deferred in anticipation of planned financing transactions on interest rate swap derivatives are included in OCI and amortized over the life of the underlying debt once issued. These deferred gains and losses were not material in 2001 or 2000 As a result of the interest rate swap contracts, interest expense for the relative notional amount is recognized at the weighted-average rates as depicted in the following table

WEIGHTED-AVERAGE RATES FOR INTEREST RATE SWAPS	Years ended December 31 2001	2000	1999
Fixed-to-floating rate swaps	3 92%	6.50%	5.71%
Cancelable fixed-to-floating rate swaps	3.23%	5.09%	-
Commercial paper swaps	-	6.11%	4.95%

FOREIGN CURRENCY FAIR VALUE OR CASH FLOW HEDGES Duke Energy is exposed to foreign currency risk from investments in international affiliates and businesses owned and operated in foreign countries. To mitigate risks associated with foreign currency fluctuations, when possible, transactions are denominated in or indexed to the U.S. dollar and/or local inflation rates, or investments may be hedged through debt denominated or issued in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to manage its risk related to foreign currency fluctuations. In 2001, the impact of Duke Energy's foreign currency derivative instruments was not material to its consolidated results of operations, cash flows or financial position.

FINANCIAL INSTRUMENTS The fair value of financial instruments not currently carried at market value is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2001 and 2000, are not necessarily indicative of the amounts Duke Energy could have realized in current markets

FINANCIAL INSTRUMENTS

In millions	2001		2000	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
Long-term debt[a]	$ 12,582	$ 13,239	$ 11,154	$ 11,896
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	1,407	1,440	1,406	1,389
Preferred stock[a]	247	242	280	275

[a] Includes current maturities

The fair value of cash and cash equivalents, notes receivable, notes payable and commercial paper are not materially different from their carrying amounts because of the short-term nature of these instruments or because the stated rates approximate market rates.

CREDIT RISK Duke Energy's principal customers for power and natural gas marketing services are industrial end-users and utilities located throughout the U S , Canada, Asia Pacific, Europe and Latin America Duke Energy has concentrations of receivables from natural gas and electric utilities and their affiliates, as well as industrial customers throughout these regions. These concentrations of customers may affect Duke Energy's overall credit risk in that certain customers may be similarly affected by changes in economic, regulatory or other factors Where exposed to credit risk, Duke Energy analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis. Duke Energy frequently uses master collateral agreements to mitigate credit exposure. The collateral agreement provides for a counterparty to post cash or letters of credit for exposure in excess of the established threshold. The threshold amount represents an open credit limit, determined in accordance with the corporate credit policy The collateral agreement also provides that the inability to post collateral is sufficient cause to terminate a contract and liquidate all positions

The change in market value of New York Mercantile Exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Financial derivatives are generally cash settled periodically throughout the contract term However, these transactions are also generally subject to margin agreements with many of Duke Energy's counterparties

As of December 31, 2001, Duke Energy had a pre-tax bad debt provision of $90 million related to receivables for energy sales in California. (See Note 15 for further information regarding market and credit exposure) Following the bankruptcy of Enron Corporation, Duke Energy terminated substantially all contracts with Enron Corporation and its affiliated companies (collectively, Enron). As a result, Duke Energy recorded, as a charge, a non-collateralized accounting exposure of $43 million. The $43 million non-collateralized accounting exposure is comprised of charges of $36 million at NAWE, $3 million at International Energy, $3 million at Field Services and $1 million at Natural Gas Transmission These amounts are stated on a pre-tax basis as charges against the reporting segment's earnings

The transactions between Enron and Duke Energy consisted of the following.

- NAWE - forward contracts, swaps, options and physical contracts used to trade natural gas, power, crude oil, liquefied petroleum gas and coal
- International Energy - forward contracts and options used to trade and hedge natural gas, power and oil
- Field Services - physical purchase/sale contracts for natural gas and NGLs; forward contracts, swaps and options used to trade natural gas and NGLs, transportation and storage
- Natural Gas Transmission - forward financial sales of NGLs

The $43 million charge was a direct reduction to earnings before income taxes and was a result of charging the full amount of unsettled mark-to-market earnings previously recognized, and all derivative assets and accounts receivable that became impaired due to Enron's financial deterioration All assets written off or reserved for were net of the margin (cash collateral) posted by Enron of $330 million and applied by Duke Energy in connection with transactions between the companies

Duke Energy's determination of its bankruptcy claims against Enron is still under review, and its claims made in the bankruptcy case are likely to exceed $43 million. Any bankruptcy claims that exceed this amount would primarily relate to termination and settlement rights under contracts and transactions with Enron that would have been recognized in future periods, and not in the historical periods covered by the financial statements to which the $43 million charge relates.

Substantially all contracts with Enron were completed or terminated prior to December 31, 2001 Duke Energy has continuing contractual relationships with certain Enron affiliates, which are not in bankruptcy In Brazil, a power purchase agreement between a Duke Energy affiliate, Paranapanema, and Elektro Eletricidade e Servicos S/A (Elektro), a distribution company 40% owned by Enron, will expire December 31, 2005. The contract was executed by Duke Energy's predecessor in interest in Paranapanema, and obligates Paranapanema to provide energy to Elektro on an irrevocable basis for the contract period In addition, a purchase/sale agreement expiring September 1, 2005 between a Duke Energy affiliate and Citrus Trading Corporation (Citrus), a 50/50 joint venture between Enron and El Paso Corporation, continues to be in effect The contract requires the Duke Energy affiliate to provide liquefied natural gas to Citrus Citrus has provided a letter of credit in favor of Duke Energy to cover its exposure

8. INVESTMENT IN AFFILIATES AND RELATED PARTY TRANSACTIONS

Investments in domestic and international affiliates that are not controlled by Duke Energy, but over which it has significant influence, are accounted for by the equity method These investments include undistributed earnings of $166 million in 2001 and $70 million in 2000. Duke Energy received distributions of $158 million in 2001, $138 million in 2000 and $111 million in 1999 from these investments. Duke Energy's share of net income from these affiliates is reflected in the Consolidated Statements of Income as Other Operating Revenues.

NATURAL GAS TRANSMISSION Investments primarily include a 37 5% interest in the Maritimes & Northeast Pipeline and a 50% interest in Gulfstream Natural Gas System, LLC. The Maritimes & Northeast Pipeline is composed of Canadian and U S natural gas pipeline joint ventures that together transport natural gas into the U S from Canada. Gulfstream Natural Gas System, LLC is a joint interstate natural gas pipeline development that will extend from Mississippi and Alabama across the Gulf of Mexico to Florida.

[illegible] Investments primarily include a 21.1% ownership interest in TEPPCO Partners, LP, a publicly traded limited partnership which owns and operates a network of pipelines for refined products and crude oil

[illegible] Significant investments include a 50% interest in American Ref-Fuel Company, LLC and a 50% interest in Southwest Power Partners, LLC American Ref-Fuel Company, LLC owns and operates facilities that convert waste to energy Southwest Power Partners, LLC is a gas-fired combined-cycle facility under construction in Arizona. Once completed, this facility will serve markets in Arizona, Nevada and California

[illegible] Significant investments include a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) business in Jubail, Saudi Arabia.

[illegible] Investments include participation in various construction and support activities for fossil-fueled generating plants.

[illegible] Significant investments include various real estate development projects

[illegible]

In millions	December 31, 2001			December 31, 2000			December 31, 1999		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 565	$ 88	$ 653	$ 82	$ 88	$ 170	$ 67	$ 83	$ 150
Field Services	252	-	252	373	-	373	439	-	439
North American Wholesale Energy	315	-	315	635	9	644	425	-	425
International Energy	-	165	165	-	154	154	-	224	224
Other Energy Services	53	7	60	11	7	18	51	6	57
Duke Ventures	30	-	30	23	-	23	10	-	10
Other Operations	5	-	5	5	-	5	-	-	-
Total	$ 1,220	$ 260	$ 1,480	$ 1,129	$ 258	$ 1,387	$ 992	$ 313	$ 1,305

[illegible]

In millions	Year Ended December 31, 2001			Year Ended December 31, 2000			Year Ended December 31, 1999		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 38	$ 7	$ 45	$ 13	$ 4	$ 17	$ 16	$ 9	$ 25
Field Services	45	-	45	39	-	39	44	-	44
North American Wholesale Energy	35	-	35	36	-	36	47	-	47
International Energy	-	39	39	-	43	43	-	10	10
Other Energy Services	49	-	49	(13)	-	(13)	10	3	13
Duke Ventures	2	-	2	(9)	-	(9)	(22)	-	(22)
Other Operations	(47)	-	(47)	(10)	-	(10)	(5)	-	(5)
Total	$ 122	$ 46	$ 168	$ 56	$ 47	$ 103	$ 90	$ 22	$ 112

SUMMARIZED COMBINED FINANCIAL INFORMATION OF UNCONSOLIDATED AFFILIATES	December 31		
In millions	2001	2000	1999
BALANCE SHEET			
Current assets	$ 1,239	$ 1,242	$ 1,544
Noncurrent assets	8,199	6,588	7,826
Current liabilities	1,202	888	1,155
Noncurrent liabilities	4,400	4,404	4,727
Net assets	$ 3,836	$ 2,538	$ 3,488
INCOME STATEMENT			
Operating revenues	$ 5,202	$ 4,617	$ 3,510
Operating expenses	4,525	4,039	3,104
Net income	499	440	193

RELATED PARTY TRANSACTIONS Outstanding notes receivable from affiliates were $25 million as of December 31, 2001 and $70 million as of December 31, 2000

Duke Energy and Fluor Enterprises, Inc formed the D/FD 50/50 partnership in 1989. The partnership provides full-service siting, permitting, licensing, engineering, procurement, construction, start-up, operating and maintenance services for fossil-fired plants in the U.S. and internationally. D/FD is the primary builder for NAWE's merchant generation plants currently under construction Fifty percent of the profit earned by D/FD for the construction of NAWE's merchant generation plants, which is associated with Duke Energy's ownership, is deferred in consolidation until the plant is sold as part of NAWE's portfolio management strategy, or once the plant becomes operational it is amortized over the plant's useful life. Fifty percent of the profit earned by D/FD for operating and maintenance services, which is associated with Duke Energy's ownership, is eliminated in consolidation. For the year ended December 31, 2001, Duke Energy deferred profit of $54 million for D/FD construction contracts, and eliminated profit of $9 million for operating and maintenance services For the year ended December 31, 2000, Duke Energy deferred profit of $16 million for construction contracts. There was no profit from operating and maintenance services to be eliminated in 2000 For the year ended December 31, 1999, Duke Energy deferred profit of $6 million for construction contracts. There was no profit from operating and maintenance services to be eliminated in 1999. In addition, as part of the D/FD partnership agreement, excess cash is loaned at current market rates to Duke Energy and Fluor Enterprises, Inc. (See Note 10)

In the normal course of business, Duke Energy's consolidated subsidiaries enter into energy trading contracts with one another On a stand-alone basis, the accounting for such contracts may differ by counterparty For example, DETM, an energy-trading subsidiary within the scope of EITF Issue No 98-10, "Accounting for Energy Trading and Risk Management Activities," may enter into a contract to purchase natural gas storage from DEFS DEFS may treat this contract as a hedge position, and DETM may mark to market the contract through its current earnings. In the consolidation process, the effects of this contract are eliminated, and not reflected in Duke Energy's Consolidated Financial Statements. In all cases, energy trading contracts (and any resulting mark-to-market gains or losses) between consolidated subsidiaries are eliminated in the consolidation process

Also see Note 13, Minority Interest Financing, for additional related party information.

9. PROPERTY, PLANT AND EQUIPMENT

NET PROPERTY, PLANT AND EQUIPMENT	December 31	
In millions	2001	2000
Land	$ 49	$ 36
Plant		
Electric generation, distribution and transmission	19,792	18,669
Natural gas transmission	6,200	5,449
Gathering and processing facilities	4,106	4,470
Other buildings and improvements	1,346	1,339
Leasehold improvements	4	14
Nuclear fuel	788	761
Equipment	251	108
Vehicles	69	36
Construction in process	5,068	2,192
Other	1,791	1,524
Total property, plant and equipment	39,464	34,598
Total accumulated depreciation[a]	(11,049)	(10,146)
Total net property, plant and equipment	$ 28,415	$ 24,452

[a] Includes accumulated amortization of nuclear fuel: 2001 - $546 million; 2000 - $503 million

Capitalized interest of $167 million for 2001, $67 million for 2000 and $52 million for 1999 is included in the Consolidated Statements of Income.

10. DEBT AND CREDIT FACILITIES

DEBT		December 31	
In millions	Year Due	2001	2000
DUKE ENERGY			
First and refunding mortgage bonds			
6.125% - 6.625%	2003	$ 175	$ 175
6.75% - 7.5%	2023 - 2025	450	450
7.0% - 8.95%	2027 - 2033	165	165
Pollution control debt, 3.85% - 5.8%	2012 - 2017	172	172
Notes			
5.375% - 9.21%	2009 - 2016	809	811
6.0% - 6.6%	2028 - 2038	500	500
Commercial paper, 1.93% and 6.52% weighted-average rate at December 31, 2001 and 2000, respectively[a]		1,087	1,256
Other debt		19	18
Fair value hedge carrying value adjustment	2010 - 2014	(10)	-
Notes matured during 2001		-	661

(Table continued on next page)

DEBT (continued) In millions	Year Due	December 31 2001	2000
DUKE CAPITAL CORPORATION[b]			
Senior notes			
4.73% - 7.5%	2003 - 2009	$ 1,400	$ 1,400
6.75% - 8.5%	2018 - 2019	650	650
4.32%[c]	2006	750	-
5.87%[c]	2006	875	-
Commercial paper, 2.16% and 6.71% weighted-average rate at December 31, 2001 and 2000, respectively[a]		1,456	1,378
Note payable to D/FD, 4.05% and 6.14% weighted-average rate at December 31, 2001 and 2000, respectively		568	141
Fair value hedge carrying value adjustment	2009 - 2025	30	-
SUBSIDIARY DEBT GUARANTEED BY DUKE CAPITAL CORPORATION			
Duke Energy Australia Pty Ltd.			
Medium-term note, 7.25%[d]	2004	128	139
Credit facilities, 6.41% and 6.13% weighted-average rate at December 31, 2001 and 2000, respectively		38	44
Commercial paper, 5.96% and 6.4% weighted-average rate at December 31, 2001 and 2000, respectively[d]		231	223
Hidroelectrica Cerros Colorados S.A.			
Notes, 3.8%	2002	68	95
Duke Energy South Bay, LLC			
Capital leases	2009	94	272
PANENERGY CORP			
Bonds			
7.75%	2022	328	328
8.625% debentures	2025	100	100
Notes, 7.0% - 9.9%, maturing serially	2003 - 2006	372	384
Fair value hedge carrying value adjustment		7	-
TEXAS EASTERN TRANSMISSION, LP			
Notes			
7.3% - 8.25%	2002 - 2010	500	500
Medium-term, Series A, 7.92% - 9.07%	2004 - 2012	35	51
Notes matured during 2001		-	100
ALGONQUIN GAS TRANSMISSION COMPANY			
Notes, 9.13%	2002 - 2003	67	100

(Table continued on next page)

DEBT (continued) In millions	Year Due	December 31 2001	2000
DUKE ENERGY FIELD SERVICES, LLC			
Notes			
7.5% - 8.125%	2005 - 2030	$ 1,700	$ 1,700
5.75% - 6.875%	2006 - 2011	550	-
Commercial paper, 2.53% and 7.39% weighted-average rate at December 31, 2001 and 2000, respectively		213	346
Capital leases		3	-
Fair value hedge carrying value adjustment	2009 - 2025	(5)	-
CRESCENT, LLC[e]			
Construction and mortgage loans, 2.73% - 10.0%	2002 - 2005	73	67
OTHER DEBT OF SUBSIDIARIES			
Duke Energy Western Australia Holdings			
Notes, 5.35%[d]	2004 - 2013	124	138
Paranapanema			
Notes, 6.0% – 10.0%[f]	2002 - 2017	427	477
Duke Energy Vermillion			
Notes, 6.8%	2002	5	-
Other international debt of subsidiaries		76	127
Other domestic debt of subsidiaries		61	103
Unamortized debt discount and premium, net		(106)	(91)
Total debt		14,185	12,980
Current maturities of long-term debt		(261)	(437)
Short-term notes payable and commercial paper		(1,603)	(1,826)
Total long-term debt		$ 12,321	$ 10,717

[a] Amounts include extendible commercial notes.

[b] Duke Capital Corporation is a wholly owned subsidiary of Duke Energy that provides financing and credit enhancement services for its subsidiaries.

[c] Component of mandatorily convertible securities (Equity Units) (See Note 16.)

[d] Debt denominated in Australian dollars

[e] A portion of Crescent's real estate development projects, land and buildings are pledged as collateral.

[f] Debt denominated in Brazilian reais and principal is indexed annually to inflation

In January 2002, Duke Energy issued $750 million of 6.25% senior unsecured bonds due in 2012 and $250 million of floating rate (based on the three-month London Interbank Offered Rate (LIBOR) plus 0.35%) senior unsecured bonds due in 2005. The proceeds from these issuances were used to manage working capital needs

In February 2002, Duke Capital Corporation issued $500 million of 6 25% senior unsecured bonds due in 2013 and $250 million of 6.75% senior unsecured bonds due in 2032. In addition, Duke Capital Corporation, through a private placement transaction, issued $500 million of floating rate (based on the one-month LIBOR plus 0.65%) senior unsecured bonds due in 2003. The proceeds from these issuances will be used to manage working capital needs and to fund a portion of the cash consideration for the pending acquisition of Westcoast.

The weighted-average interest rate on outstanding short-term notes payable and commercial paper was 3 13% as of December 31, 2001 and 6.8% as of December 31, 2000.

ANNUAL MATURITIES

In millions	
2002	$ 261
2003	576
2004	883
2005	1,016
2006	2,101
Thereafter	7,745
Total long-term debt	$ 12,582

Annual maturities after 2006 include $1,360 million of long-term debt with call options, meaning Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise its redemption options, it could potentially repay $1,033 million in 2002, $227 million in 2003 and $100 million in 2005.

In 2000, Duke Energy issued $250 million 7 125% senior unsecured bonds due in 2012 with a put option that gives investors the choice to put the bond to Duke Energy at par value in September 2002 or extend the maturity until 2012 If extended, the bonds would be recouponed at 5.7% plus the Duke Energy 10-year credit spread on the extension date. Also in 2000, Duke Capital Corporation issued $150 million senior unsecured bonds due in 2003 that become due and payable if Duke Capital Corporation's debt ratings fall below BBB

CREDIT FACILITIES

In millions	December 31, 2001		December 31, 2000	
	Credit Facilities	Outstanding	Credit Facilities	Outstanding
Bridge facility	$ 250	$ -	$ -	$ -
364-day facilities[a]	2,716	-	1,796	-
Three-year revolving facilities[a]	1,640	38	84	44
Four-year revolving facilities	-	-	125	-
Five-year revolving facilities[a]	-	-	2,200	-
Total consolidated	$ 4,606	$ 38	$ 4,205	$ 44

[a] Majority of facilities support commercial paper facilities

The credit facilities expire from 2002 to 2004 and are not subject to minimum cash requirements; however, borrowings and issuances of letters of credit under approximately $1,100 million of these facilities are subject to and dependent on the senior unsecured debt ratings of Duke Capital Corporation (currently rated A3/A/A) Ratings of Baa2, BBB or the equivalent by at least two of Moody's Investors Service, Standard & Poor's and Fitch, Inc. must be maintained to obtain additional borrowings and issuances of letters of credit. Any outstanding borrowings would not become due and payable

11 NUCLEAR DECOMMISSIONING COSTS

NUCLEAR DECOMMISSIONING COSTS Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately $1.9 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. Both the NCUC and the PSCSC have allowed Duke Energy to recover estimated decommissioning costs through retail rates over the expected remaining service periods of Duke Energy's nuclear stations. The operating licenses for Duke Energy's nuclear units are subject to extension. In 2000, Duke Energy was granted a license renewal for the Oconee Nuclear Station. Applications to renew the operating licenses for Duke Energy's other nuclear units were filed with the Nuclear Regulatory Commission (NRC) in June 2001 Duke Energy's nuclear units are currently licensed as follows.

OPERATING LICENSES FOR NUCLEAR UNITS

Unit	Year
McGuire 1	2021
McGuire 2	2023
Catawba 1	2024
Catawba 2	2026
Oconee 1 and 2	2033
Oconee 3	2034

During 2001 and 2000, Duke Energy expensed approximately $57 million, and a corresponding amount of cash was contributed to external funds for decommissioning costs, and accrued an additional $8 million to the internal reserve. Nuclear units are depreciated at an annual rate of 4.7%, of which 1.61% is for decommissioning. The balance of the external funds was $716 million as of December 31, 2001 and $717 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Nuclear Decommissioning Trust Funds (asset) and Nuclear Decommissioning Costs Externally Funded (liability). The balance of the internal reserve was $239 million as of December 31, 2001 and $231 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization. The external decommissioning trust fund is invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Duke Energy has an agreement with the NRC that these funds will only be used for activities relating to nuclear decommissioning. These investments are exposed to price fluctuations in equity markets and changes in interest rates. Because the accounting for nuclear decommissioning recognizes that costs are recovered through Franchised Electric's rates, fluctuations in equity prices or interest rates do not affect consolidated results of operations, cash flows or financial position. Management believes that the decommissioning costs being recovered through rates, when coupled with expected fund earnings, are sufficient to provide for the cost of decommissioning.

A provision in the Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the DOE's uranium enrichment plants (the D&D Fund). Licensees are subject to an annual assessment for 15 years based on their pro rata share of past enrichment services. In 1998, Duke Energy and 21 other utilities filed a lawsuit challenging the constitutionality of the D&D Fund and seeking an injunction that prohibits the government from collecting the assessment and refunds all assessments paid. The annual assessment is recorded in the Consolidated Statements of Income as Fuel Used in Electric Generation. Duke Energy has paid $96 million into the fund, including $11 million during 2001. The remaining liability and regulatory assets of $53 million as of December 31, 2001 and $62 million as of December 31, 2000 are reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities, and Regulatory Assets and Deferred Debits.

SPENT NUCLEAR FUEL. Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has entered into contracts with the DOE for the disposal of spent nuclear fuel. The DOE failed to begin accepting 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.

12. GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY OR SUBSIDIARIES

Duke Energy and one of its subsidiaries have formed business trusts for which they own all the common securities. The trusts issue and sell preferred securities and invest the gross proceeds in junior subordinated notes issued by the respective parent companies.

TRUST PREFERRED SECURITIES

In millions			December 31	
Issued	Rate	Due	2001	2000
1997	7.20 %	2037	$ 350	$ 350
1998	7.375%	2038	350	350
1998	7.375%	2038	250	250
1999	8.375%	2029	250	250
1999	7.20 %	2039	250	250
Unamortized debt discount			(43)	(44)
			$ 1,407	$ 1,406

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts. Distribution payments on these preferred securities are guaranteed by the respective parent companies, but only to the extent that the trusts have funds legally and immediately available to make distributions. Dividends related to the trust preferred securities were $108 million for 2001, $108 million for 2000 and $87 million for 1999, and have been included in the Consolidated Statements of Income as Minority Interest Expense.

13. MINORITY INTEREST FINANCING

In 2000, Catawba River Associates, LLC (Catawba), a fully consolidated financing entity managed by a subsidiary of Duke Energy, issued $1,025 million of preferred member interests to a third-party investor. Catawba subsequently advanced the proceeds from the sale to DE Power Generation, LLC (DEPG), a wholly owned subsidiary of Duke Energy, which indirectly owns or leases six merchant power generation facilities located in California, Maine and Indiana. Catawba is a limited liability company with a separate existence and identity from its preferred members, and the assets of Catawba are separate and legally distinct from Duke Energy. The preferred member interests receive quarterly a preferred return equal to an adjusted floating reference rate (approximately 5.20% for the full year ended December 31, 2001).

The purpose of the transaction was to reimburse Duke Energy for a portion of its prior investment in the DEPG assets in a separate venture financing with third-party investors not requiring direct recourse to the credit of Duke Energy. The results of operations, cash flows and financial position of Catawba are consolidated with Duke Energy for financial reporting purposes. The preferred member interests are included in Minority Interest in Financing Subsidiary on the Consolidated Balance Sheets, and the payments made with respect to the preferred return are included in Minority Interest Expense on the Consolidated Statements of Income of Duke Energy.

The initial term of the financing ends in September 2005, at which time Catawba must either (a) reset the preferred rate as agreed by the existing preferred investors, (b) re-market the preferred member interests to other preferred investors, (c) redeem the outstanding preferred member interests, in whole or in part, plus any accrued and unpaid return, or (d) commence an orderly liquidation of DEPG and Catawba. This could impact Duke Energy's liquidity at the time if it were to elect to redeem the preferred member interests or, alternatively, result in the loss of the future associated earnings contribution to Duke Energy of the assets of DEPG in the event of an orderly liquidation.

Duke Energy and Catawba have the right to redeem the preferred member interests at any time, and the holder of the preferred member interests may require an early liquidation of the assets of DEPG and Catawba and a redemption of the preferred member interests from the available liquidation proceeds upon the occurrence of specified events (such as failure to make required payments or to perform other obligations).

Duke Capital Corporation has the right to borrow certain amounts from DEPG and Catawba as demand loans. If Duke Capital Corporation's credit rating (currently A3/A) declines below investment grade (Baa3/BBB-), the preferred members may and will likely require that these loans be repaid. In addition, if there were such a downgrade, the preferred investor could cause an increase in the quarterly payments and a recharacterization of the preferred member interests as a debt obligation on the Consolidated Financial Statements of Duke Energy.

14 PREFERRED AND PREFERENCE STOCK

AUTHORIZED SHARES OF STOCK AS OF DECEMBER 31

	Par Value	Shares (In millions)
Preferred Stock	$ 100	12.5
Preferred Stock A	$ 25	10.0
Preference Stock	$ 100	1.5

As of December 31, 2001 and 2000, there were no shares of preference stock outstanding

PREFERRED STOCK WITH SINKING FUND REQUIREMENTS

Dollars in millions

Rate/Series	Year Issued	Shares Outstanding at December 31, 2001	December 31 2001	2000
6.20% D (Preferred Stock A)	1992	-	$ -	$ 20
6.30% U	1992	-	-	13
6.40% V	1992	130,000	13	13
6.75% X	1993	250,000	25	25
Total			$ 38	$ 71

The annual sinking fund requirements are $13 million for 2002 and $2 million each year for 2003 through 2006. Additional redemptions are permitted at Duke Energy's option.

PREFERRED STOCK WITHOUT SINKING FUND REQUIREMENTS

Dollars in millions

Rate/Series	Year Issued	Shares Outstanding at December 31, 2001	December 31 2001	2000
4.50% C	1964	175,000	$ 18	$ 18
7.85% S	1992	300,000	30	30
7.00% W	1993	249,989	25	25
7.04% Y	1993	299,995	30	30
6.375% (Preferred Stock A)	1993	1,257,185	31	31
Auction Series A	1990	750,000	75	75
Total			$ 209	$ 209

The call provisions for outstanding preferred stock specify redemption prices not exceeding 104% of par value, plus accumulated dividends to the redemption date.

15 COMMITMENTS AND CONTINGENCIES

NUCLEAR INSURANCE 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.

PRIMARY LIABILITY INSURANCE Duke Energy has purchased the maximum required private primary liability insurance, $200 million, along with a like amount to cover certain worker tort claims

EXCESS LIABILITY INSURANCE This policy currently provides approximately $9.3 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The $9 3 billion is the sum of the current potential cumulative retrospective premium assessments of $88 million per licensed commercial nuclear reactor. This would be increased by $88 million for each additional commercial nuclear reactor licensed, or reduced by $88 million for nuclear reactors no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the U S If such an incident should occur and public liability damages exceed primary insurances, licensees may be assessed up to $88 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident. The $88 million is subject to indexing for inflation and may be subject to state premium taxes

Duke Energy is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverage for Duke Energy's nuclear facilities under three policy programs.

PRIMARY PROPERTY INSURANCE This policy provides $500 million of primary property damage coverage for each of Duke Energy's nuclear facilities

EXCESS PROPERTY INSURANCE This policy provides excess property, decontamination and decommissioning liability insurance: $2.25 billion for the Catawba Nuclear Station and $1.5 billion each for the Oconee and McGuire Nuclear Stations.

BUSINESS INTERRUPTION INSURANCE This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit. Each McGuire and Catawba unit is insured for up to approximately $4 million per week, and the Oconee units are insured for up to approximately $3 million per week. Coverage amounts decline if more than one unit is involved in an accidental outage Initial coverage begins after a 12-week deductible period and continues at 100% for 52 weeks and 80% for the next 110 weeks.

If NEIL's losses exceed its reserves for any of the above three programs, Duke Energy is liable for assessments of up to 10 times its annual premiums. The current potential maximum assessments are: Primary Property Insurance – $31 million, Excess Property Insurance – $36 million and Business Interruption Insurance – $29 million

The other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of liability for retrospective premiums and other premium assessments resulting from the Price-Anderson Act's excess secondary insurance program of risk pooling, or the NEIL policies.

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

MANUFACTURED GAS PLANTS AND SUPERFUND SITES Duke Energy operated manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of former manufactured gas plant sites to investigate and, where necessary, remediate those contaminated sites. Regulators consider Duke Energy to be a potentially responsible party, possibly subject to future liability at six federal and two state Superfund sites. While remediation costs may be substantial, Duke Energy will share in any liability associated with contamination at these sites with other potentially responsible parties Management believes that resolution of these matters will have no material adverse effect on consolidated results of operations, cash flows or financial position.

PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEANUP PROGRAMS In 2001, Texas Eastern Transmission, LP, a wholly owned subsidiary of Duke Energy, completed the remaining requirements of a 1989 U S Consent Decree regarding the cleanup of PCB-contaminated sites. The Environmental Protection Agency (EPA) certified the completion of all work under the Consent Decree in January 2002. Monitoring of groundwater and remediation at certain sites may continue as required by various state authorities.

In March 1999, Duke Energy sold PEPL and Trunkline to CMS. (See Note 1 for more information on the sale of the pipelines) Under the terms of the sales agreement with CMS, Duke Energy is obligated to complete cleanup of previously identified contamination resulting from the past use of PCB-containing lubricants and other discontinued practices at certain sites on the PEPL and Trunkline systems.

Based on Duke Energy's experience to date and costs incurred for cleanup, management believes the resolution of matters relating to the environmental issues discussed above will have no material adverse effect on consolidated results of operations, cash flows or financial position

AIR QUALITY CONTROL In 1998, the EPA issued a final rule on regional ozone control that required 22 eastern states and the District of Columbia to revise their State Implementation Plans (SIPs) to significantly reduce emissions of nitrogen oxide by May 1, 2003. The EPA rule was challenged in court by various states, industry and other interests, including Duke Energy and the states of North Carolina and South Carolina. In 2000, the court upheld most aspects of the EPA rule. The same court subsequently extended the compliance deadline for implementation of emission reductions to May 31, 2004.

In 2000, the EPA finalized another ozone-related rule under Section 126 of the Clean Air Act (CAA). Section 126 of the CAA has virtually identical emission control requirements as the 1998 action, and specified a May 1, 2003 compliance date. While the emission reduction requirements of the rule have been upheld in court, the implementation date for the rule has been revised to May 2004 as a result of a legal challenge and the resulting court order.

Both North Carolina and South Carolina have revised their SIPs in response to the EPA's 1998 rule, and are awaiting EPA approval. Legislation was introduced in the North Carolina General Assembly in 2001 and passed by the state Senate that would require North Carolina electric utilities, including Duke Energy, to make significant reductions in emissions of sulfur dioxide and nitrogen oxides from coal-fired power plants over the next seven to 11 years. A provision in the proposed North Carolina legislation allows Duke Energy to recover costs of achieving the proposed emission reductions from customers through an environmental compliance expenditure-recovery factor that is separate from the electric utility's base rates. If passed into law, the final provisions could be significantly different from the proposal.

Emission control retrofits needed to comply with the new rules are large technical, design and construction projects. These projects will be managed closely to ensure the continuation of reliable electric service to Duke Energy's customers throughout the projects and upon their completion.

In 2000, the U.S. Justice Department, acting on behalf of the EPA, filed a complaint against Duke Energy in the U.S. District Court in Greensboro, North Carolina, for alleged violations of the New Source Review (NSR) provisions of the CAA. The EPA claims that 29 projects performed at 25 of Duke Energy's coal-fired units were major modifications, as defined in the CAA, and that Duke Energy violated the CAA's NSR requirements when it undertook those projects without obtaining permits and installing emission controls for sulfur dioxide, nitrogen oxide and particulate matter. The complaint asks the court to order Duke Energy to stop operating the coal-fired units identified in the complaint, install additional emission controls and pay unspecified civil penalties. This complaint is part of the EPA's NSR enforcement initiative, in which the EPA claims that utilities and others have committed widespread violations of the CAA permitting requirements for the past 25 years. The EPA has sued or issued notices of violation of investigative information requests to at least 48 other electric utilities and cooperatives.

The EPA's allegations run counter to previous EPA guidance regarding the applicability of the NSR permitting requirements. Duke Energy, along with other utilities, has routinely undertaken the type of repair, replacement and maintenance projects that the EPA now claims are illegal. Duke Energy believes that all of its electric generation units are properly permitted and have been properly maintained, and is defending itself vigorously against these alleged violations. The U.S. Vice President's National Energy Policy Development Group has ordered the EPA to review its NSR rules and has ordered the Department of Justice to review the appropriateness of the enforcement cases. The EPA review was scheduled to be completed by August 2001, but has not yet been concluded. In January 2002, the Department of Justice released a report concluding that it was not improper for the Department of Justice to initiate the enforcement cases brought on behalf of the EPA. It specifically declined to address whether the EPA's enforcement actions are wise as a matter of national energy policy. Because these matters are in a preliminary stage, management cannot estimate the effects of these matters on Duke Energy's future consolidated results of operations, cash flows or financial position. The CAA authorizes civil penalties of up to $27,500 per day per violation at each generating unit. Civil penalties, if ultimately imposed by the court, and the cost of any required new pollution control equipment, if the court accepts the EPA's contentions, could be substantial.

CALIFORNIA ISSUES Duke Energy, some of its subsidiaries and three current or former executives have been named as defendants, among other corporate and individual defendants, in one or more of a total of six lawsuits brought by or on behalf of electricity consumers in the State of California. The plaintiffs seek damages as a result of the defendants' alleged unlawful manipulation of the California wholesale electricity markets. DENA and DETM are among 16 defendants in a class-action lawsuit (the Gordon lawsuit) filed against generators and traders of electricity in California markets. DETM was also named as one of numerous defendants in four additional lawsuits, including two class actions (the Hendricks and Pier 23 Restaurant lawsuits), filed against generators, marketers, traders

and other unnamed providers of electricity in California markets. A sixth lawsuit (the Bustamante lawsuit) was brought by the Lieutenant Governor of the State of California and a State Assemblywoman, on their own behalf as citizens and on behalf of the general public, and includes Duke Energy, some of its subsidiaries and three current or former executives of Duke Energy among other corporate and individual defendants. The Gordon and Hendricks class-action lawsuits were filed in the Superior Court of the State of California, San Diego County, in November 2000. Three other lawsuits were filed in January 2001, one in Superior Court, San Diego County, and the other two in Superior Court, County of San Francisco. The Bustamante lawsuit was filed in May 2001 in Superior Court, Los Angeles County. These lawsuits generally allege that the defendants manipulated the wholesale electricity markets in violation of state laws against unfair and unlawful business practices and state antitrust laws. The plaintiffs seek aggregate damages of billions of dollars. The lawsuits seek the refund of alleged unlawfully obtained revenues for electricity sales and, in four lawsuits, an award of treble damages. These suits have been consolidated before a state court judge in San Diego. While these matters are in their earliest stages, management believes, based on its analysis of the facts and the asserted claims, that their resolution will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

In addition to the lawsuits, several investigations and regulatory proceedings at the state and federal levels are looking into the causes of high wholesale electricity prices in the western U.S. At the federal level, numerous proceedings are before the FERC. Some parties to those proceedings have made claims for billions of dollars of refunds from sellers of wholesale electricity, including DETM. Some parties have also sought to revoke the authority of DETM and other DENA-affiliated electricity marketers to sell electricity at market-based rates. The FERC is also conducting its own wholesale pricing investigation. As a result, the FERC has ordered some sellers, including DETM, to refund, or to offset against outstanding accounts receivable, amounts billed for electricity sales in excess of a FERC-established proxy price. The proxy price represents what the FERC believes would have been the market-clearing price in a perfectly competitive market. In June 2001, DETM offset approximately $20 million against amounts owed by the California Independent System Operator and the California Power Exchange for electricity sales during January and February 2001. This offset reduced the $110 million reserve established in 2000 to $90 million. Proceedings are ongoing to determine, among other issues, the amount of any refunds or offsets for periods prior to January 2001, and the method to be used to determine the proxy price in future months.

At the state level, the California Public Utilities Commission is conducting formal and informal investigations to determine if power plant operators in California, including some Duke Energy entities, have improperly "withheld," either economically or physically, generation output from the market to manipulate market prices. In addition, the California State Senate formed a Select Committee to Investigate Price Manipulation of the Wholesale Energy Market (Select Committee). The Select Committee has served a subpoena on Duke Energy and some of its subsidiaries seeking data concerning their California market activities. The Select Committee has heard testimony from several witnesses but no one from Duke Energy has yet been subpoenaed to testify.

The California Attorney General is also conducting an investigation to determine if any market participants engaged in illegal activity, including antitrust violations, in the course of their electricity sales into wholesale markets in the western U.S. The Attorneys General of Washington and Oregon are participating in the California Attorney General's investigation. The San Diego District Attorney is conducting a separate investigation into market activities and has issued subpoenas to DETM and a DENA subsidiary.

The California Attorney General has also convened a grand jury to determine whether criminal charges should be brought against any market participants. To date, no Duke Energy employee has been called to testify before the grand jury nor have any criminal charges been filed against Duke Energy or any of its officers, directors or employees in connection with the wholesale electricity markets in the states of the western U.S.

Throughout 2001, Duke Energy conducted its business in California to supply the maximum possible electricity to meet the needs of the state, limit its exposure to non-creditworthy counterparties and manage the output limitations on its power plants imposed by applicable permits and laws. Since December 31, 2000, Duke Energy has closely managed the balance of doubtful receivables, and believes that the current pre-tax bad debt provision of $90 million is appropriate. No additional provisions for California receivables were recorded in 2001. Management believes, based on its analysis of the facts and the asserted claims, that the resolution of these matters will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

LITIGATION AND CONTINGENCIES **EXXON MOBIL CORPORATION ARBITRATION** In 2000, three Duke Energy subsidiaries initiated binding arbitration against three Exxon Mobil Corporation subsidiaries (the Exxon Mobil entities) concerning the parties' joint ownership of DETM and related affiliates (the Ventures). At issue is a buy-out right provision under the joint venture agreements for these entities. If there

is a material business dispute between the parties, which Duke Energy alleges has occurred, the buy-out provision gives Duke Energy the right to purchase Exxon Mobil's 40% interest in DETM Exxon Mobil does not have a similar right under the joint venture agreements and once Duke Energy exercises the buy-out right, each party has the right to "unwind" the buy-out under certain specific circumstances. In December 2000, Duke Energy exercised its right to buy the Exxon Mobil entities' interest in the Ventures. Duke Energy claims that refusal by the Exxon Mobil entities to honor the exercise is a breach of the buy-out right provision, and seeks specific performance of the provision Duke Energy has also made additional claims against the Exxon Mobil entities for breach of the agreements governing the Ventures.

In January 2001, the Exxon Mobil entities made counterclaims in the arbitration and, in a separate Texas state court action, alleged that Duke Energy breached its obligations to the Ventures and to the Exxon Mobil entities In April 2001, the state court stayed its action, compelling the Exxon Mobil entities to arbitrate their claims The Exxon Mobil entities proceeded with the arbitration of their claims and have not challenged this order in an appellate court. In early October 2001, the arbitration panel convened an evidentiary hearing regarding the buy-out right provision and Duke Energy's and Exxon Mobil's claims against each other. The panel has not yet ruled but Duke Energy expects a final decision from the panel in early 2002. Management believes that the final disposition of this action will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

Duke Energy and its subsidiaries are involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will have no material adverse effect on consolidated results of operations, cash flows or financial position

INJURIES AND DAMAGES CLAIMS Duke Energy has experienced numerous claims relating to damages for personal injuries alleged to have arisen from the exposure to or use of asbestos in connection with construction and maintenance activities conducted by Duke Energy on its electric generation plants during the 1960s and 1970s During 1999, Duke Energy experienced a significant increase in the number of these claims This increase, coupled with its cumulative experience in claims received, prompted Duke Energy to conduct a comprehensive review which was completed in late 1999 and to record an $800 million accrual, to reflect the purchase of a third-party insurance policy as well as estimated amounts for future claims not recoverable under such policy. The insurance policy, combined with amounts covered by self-insurance reserves, provides for claims paid up to an aggregate of $1 6 billion. Duke Energy currently believes the estimated claims relating to this exposure will not exceed such amount. While Duke Energy is uncertain as to the timing of when claims will be received, portions of the estimated claims may not be received and paid for 30 or more years.

While Duke Energy has recorded an accrual related to this estimated liability, such estimates cannot be made with certainty. Factors, such as the frequency and magnitude of claims, could result in changes in the estimates of the injuries and damages liability and insurance recoveries. Such changes could result in, over time, a difference from the amount currently reflected in the financial statements. However, due to Duke Energy's insurance program relating to this liability, management believes that any changes in the estimates would not have a material adverse effect on consolidated results of operations, cash flows or financial position.

OTHER COMMITMENTS AND CONTINGENCIES As part of its normal business, Duke Energy is a party to various financial guarantees, performance guarantees and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees and other third parties. These arrangements are largely entered into by Duke Capital Corporation. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Consolidated Balance Sheets The possibility of Duke Energy having to honor its contingencies is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events Duke Energy would record a reserve if events occurred that required that one be established.

In addition, Duke Energy enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts), take-or-pay arrangements, transportation or throughput agreements and other contracts that may or may not be recognized on the Consolidated Balance Sheets. Some of these arrangements may be recognized at market value on the Consolidated Balance Sheets as trading contracts or qualifying hedge positions included in Unrealized Gains or Losses on Mark-to-Market and Hedging Transactions

FINANCIAL GUARANTEES Some Duke Energy subsidiaries have guaranteed affiliates' debt agreements and have provided surety bonds and letters of credit, totaling approximately $579 million as of December 31, 2001 and $1.9 billion as of December 31, 2000. The decrease in these obligations is due primarily to decreasing support for margin deposits and power exchange participation.

LEASES Duke Energy leases assets in several areas of its operations. Consolidated rental expense for operating leases was $114 million in 2001, $90 million in 2000 and $87 million in 1999. Future minimum rental payments under operating leases for the years 2002 through 2006 are $87 million, $70 million, $57 million, $43 million and $34 million, respectively.

16 COMMON STOCK AND EQUITY OFFERINGS

In March 2001, Duke Energy completed an offering of 25 million shares of common stock, priced at $38.98 per share, before underwriting discount and other offering expenses. In addition, Duke Energy completed an offering of approximately 31 million units of Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation, and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. Also in March 2001, the underwriters exercised options granted to them to purchase an additional 3.75 million shares of common stock and four million Equity Units at the original issue prices, less underwriting discounts, to cover over-allotments made during the offerings. Total net proceeds from the offerings, approximately $1.9 billion, were used to repay short-term debt and for other corporate purposes.

In November 2001, Duke Energy completed an offering of 30 million Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation, and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. The net proceeds from the offering of approximately $731 million will provide a component of the permanent financing for the pending acquisition of Westcoast. Pending the close of the Westcoast acquisition, the net proceeds of the offering will be used to manage working capital needs.

The Duke Capital Corporation senior notes that are part of the Equity Units are included in Long-term Debt on the Consolidated Balance Sheets. (See Note 10.) The value of the forward purchase contracts associated with the Equity Units were assumed to be zero at inception as the offerings were done at market prices. The return on the Equity Units consists of interest on the debt component and a contract adjustment payment. The contract adjustment was recorded as a declared dividend and its present value was recorded in Other Current and Noncurrent Liabilities on the Consolidated Balance Sheets.

At Duke Energy's Annual Meeting of Shareholders held on April 26, 2001, shareholders approved an amendment to the Articles of Incorporation to increase the authorized common stock from one billion to two billion shares.

On December 20, 2000, Duke Energy announced a two-for-one common stock split effective January 26, 2001, to shareholders of record on January 3, 2001. All 2000 and 1999 outstanding share and per share amounts have been restated to reflect the stock split. Appropriate adjustments have been made in the exercise price and number of shares subject to stock options, as well as in stock amounts and other employee benefit programs. Effective with the stock split, the quarterly cash dividend rate on common stock is $0.275 per share.

17 STOCK-BASED COMPENSATION

The following information regarding outstanding common stock shares and options reflects the two-for-one common stock split discussed in Note 16.

Duke Energy's 1998 Long-term Incentive Plan, as amended (the 1998 Plan), reserved 60 million shares of common stock for company performance awards to employees and outside directors. Incentive stock options may only be granted to key employees. Under the 1998 Plan, the exercise price of each option granted cannot be less than the market price of Duke Energy's common stock on the date of grant. Vesting periods range from one to five years with a maximum term of 10 years.

	Options (In thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 1998	8,923	$ 23
Granted	10,308	27
Exercised	(856)	12
Forfeited	(750)	29
Outstanding at December 31, 1999	17,625	25
Granted	7,594	41
Exercised	(2,047)	21
Forfeited	(666)	27
Outstanding at December 31, 2000	22,506	31
Granted	7,090	37
Exercised	(2,285)	25
Forfeited	(905)	33
Outstanding at December 31, 2001	26,406	33

STOCK OPTIONS AT DECEMBER 31, 2001

Range of Exercise Prices	Outstanding			Exercisable	
	Number (In thousands)	Weighted-Average Remaining Life (In years)	Weighted-Average Exercise Price	Number (In thousands)	Weighted-Average Exercise Price
$5 to $8	21	2.2	$ 8	21	$ 8
$9 to $12	784	2.4	10	784	10
$13 to $16	168	4.1	14	168	14
$17 to $22	186	5.1	22	186	22
$23 to $27	5,278	8.0	25	2,317	25
$28 to $33	6,565	6 7	29	3,049	29
$34 to $39	7,236	9.9	38	-	-
> $39	6,168	9.0	43	1,412	43
Total	26,406			7,937	28

On December 31, 2000, Duke Energy had 5.2 million exercisable options with a $23 weighted-average exercise price On December 31, 1999, Duke Energy had 3 6 million exercisable options with a $17 weighted-average exercise price.

The weighted-average fair value per option granted was $10 during 2001, $10 during 2000 and $5 during 1999 The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

WEIGHTED AVERAGE ASSUMPTIONS FOR OPTION PRICING	2001	2000	1999
Stock dividend yield	3.4%	3.7%	4 1%
Expected stock price volatility	29.5%	25.1%	18.8%
Risk-free interest rates	5.0%	5.3%	5.9%
Expected option lives	7 years	7 years	7 years

Duke Energy's net income for 2001 would have been $1,876 million, or $2.42 per basic share, had compensation expense for stock-based compensation been based on the fair value at the grant dates. Net income for 2000 would have been $1,764 million, or $2 37 per basic share, and 1999 net income would have been $1,498 million, or $2 03 per basic share

The 1998 Plan allows for a maximum of six million shares of common stock to be issued under restricted stock awards, performance awards and phantom stock awards Performance awards granted under the 1998 Plan vest over periods from one to seven

years Duke Energy awarded 24,000 shares (fair value of approximately $1 million at grant dates) in 2001, 225,000 shares (fair value of approximately $7 million at grant dates) in 2000 and 986,400 shares (fair value of approximately $26 million at grant dates) in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and totaled $6 million in 2001, $7 million in 2000 and $3 million in 1999

Phantom stock awards granted under the 1998 Plan vest over periods from one to four years. Duke Energy awarded 457,700 shares (fair value of approximately $17 million at grant dates) in 2001 and 168,500 shares (fair value of approximately $7 million at grant dates) in 2000. No phantom stock awards were granted in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and totaled $4 million in 2001, and was less than $1 million in 2000 There was no compensation expense for stock grants in 1999.

Duke Energy's 1996 Stock Incentive Plan (the 1996 Plan) reserved four million shares of common stock for awards to employees Restricted stock grants under the 1996 Plan vest over periods ranging from one to five years. Duke Energy awarded 124,005 restricted shares (fair value of approximately $5 million at grant dates) in 2001, 294,526 restricted shares (fair value of approximately $8 million at grant dates) in 2000 and 131,700 restricted shares (fair value of approximately $4 million at grant dates) in 1999. Compensation expense for the grants is charged to earnings over the restriction period and totaled $4 million in 2001, $4 million in 2000, and $1 million in 1999.

18 EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS Duke Energy and its subsidiaries maintain a non-contributory defined benefit retirement plan. It covers most employees with minimum service requirements using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit based upon a percentage (which may vary with age and years of service) of current eligible earnings and current interest credits.

Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants No contributions to the Duke Energy plan were necessary in 2001 or 2000 The net unrecognized transition asset, resulting from the implementation of accrual accounting, is amortized over approximately 20 years. Investment gains or losses are amortized over five years.

COMPONENTS OF NET PERIODIC PENSION COSTS

	Years Ended December 31		
In millions	2001	2000	1999
Service cost benefit earned during the year	$ 74	$ 70	$ 72
Interest cost on projected benefit obligation	188	184	165
Expected return on plan assets	(264)	(244)	(224)
Amortization of prior service cost	(3)	(3)	(3)
Amortization of net transition asset	(4)	(4)	(4)
Recognized net actuarial loss	-	-	12
Net periodic pension costs	$ (9)	$ 3	$ 18

RECONCILIATION OF FUNDED STATUS TO PRE-FUNDED PENSION COSTS

In millions	December 31 2001	2000
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 2,586	$ 2,446
Service cost	74	70
Interest cost	188	184
Actuarial (gain) loss	(147)	16
Plan amendments	1	-
Benefits paid	(174)	(130)
Benefit obligation at end of year	$ 2,528	$ 2,586
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 3,038	$ 3,121
Actual return on plan assets	(394)	47
Benefits paid	(174)	(130)
Fair value of plan assets at end of year[a]	$ 2,470	$ 3,038
Funded status	$ (58)	$ 452
Unrecognized net experience loss (gain)	400	(110)
Unrecognized prior service cost reduction	(17)	(22)
Unrecognized net transition asset	(12)	(16)
Pre-funded pension costs	$ 313	$ 304

[a] Principally equity and fixed-income securities. For measurement purposes, plan assets were valued as of September 30.

ASSUMPTIONS USED FOR PENSION BENEFIT ACCOUNTING[a]

Percent	2001	2000	1999
Discount rate	7.25	7.50	7.50
Salary increase	4.94	4.53	4.50
Expected long-term rate of return on plan assets	9.25	9.25	9.25

[a] Reflects weighted averages across all plans

Duke Energy also sponsors employee savings plans that cover substantially all employees. Duke Energy expensed employer matching contributions of $69 million in 2001, $66 million in 2000 and $68 million in 1999

OTHER POST-RETIREMENT BENEFITS Duke Energy and most of its subsidiaries provide some health care and life insurance benefits for retired employees on a contributory and non-contributory basis Employees are eligible for these benefits if they have met age and service requirements at retirement, as defined in the plans. Under plan amendments effective late 1998 and early 1999, health care benefits for future retirees were changed to limit employer contributions and medical coverage

These benefit costs are accrued over an employee's active service period to the date of full benefits eligibility The net unrecognized transition obligation, resulting from accrual accounting, is amortized over approximately 20 years.

COMPONENTS OF NET PERIODIC POST-RETIREMENT BENEFIT COSTS	Years Ended December 31		
In millions	2001	2000	1999
Service cost benefit earned during the year	$ 5	$ 5	$ 7
Interest cost on accumulated post-retirement benefit obligation	44	43	40
Expected return on plan assets	(24)	(23)	(21)
Amortization of prior service cost	1	1	1
Amortization of net transition obligation	18	18	18
Recognized net actuarial gain	-	-	(1)
Plan curtailments	(3)	-	-
Net periodic post-retirement benefit costs	$ 41	$ 44	$ 44

RECONCILIATION OF FUNDED STATUS TO ACCRUED POST-RETIREMENT BENEFIT COSTS	December 31	
In millions	2001	2000
CHANGE IN BENEFIT OBLIGATION		
Accumulated post-retirement benefit obligation at beginning of year	$ 614	$ 562
Service cost	5	5
Interest cost	44	43
Plan participants' contributions	9	7
Actuarial loss	104	39
Benefits paid	(61)	(42)
Plan curtailments	(3)	-
Accumulated post-retirement benefit obligation at end of year	$ 712	$ 614
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 325	$ 327
Actual return on plan assets	(40)	8
Employer contributions	32	25
Plan participants' contributions	9	7
Benefits paid	(61)	(42)
Fair market value of plan assets at end of year[a]	$ 265	$ 325
Funded status	$ (447)	$ (289)
Employer contributions	11	9
Unrecognized net experience loss (gain)	111	(56)
Unrecognized prior service cost	4	5
Unrecognized transition obligation	196	214
Accrued post-retirement benefit costs	$ (125)	$ (117)

[a] Principally equity and fixed-income securities. For measurement purposes, plan assets were valued as of September 30.

ASSUMPTIONS USED FOR POST-RETIREMENT BENEFITS ACCOUNTING[a]

Percent	2001	2000	1999
Discount rate	7.25	7.50	7.50
Salary increase	4.94	4.53	4.50
Expected long-term rate of return on assets	9.25	9.25	9.25
Assumed tax rate[b]	39.60	39.60	39.60

[a] Reflects weighted averages across all plans

[b] Applicable to the health care portion of funded post-retirement benefits

For measurement purposes, the net per capita cost of covered health care benefits for employees who have not retired are assumed to have an initial annual rate increase of 11.5% in 2002 that will gradually decrease to 6% in 2008. For employees that have retired, an initial annual rate of increase of 14.5% in 2002 will gradually decrease to 6% in 2011. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

SENSITIVITY TO CHANGES IN ASSUMED HEALTH CARE COST TREND RATES In millions	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest costs	$ 2	$ (2)
Effect on post-retirement benefit obligation	47	(40)

19 QUARTERLY FINANCIAL DATA (UNAUDITED)

In millions, except per-share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2001					
Operating revenues	$ 16,491	$ 15,580	$ 16,718	$ 10,714	$ 59,503
Operating income	1,182	880	1,492	546	4,100
EBIT	1,254	902	1,529	571	4,256
Income before cumulative effect of change in accounting principle	554	419	796	225	1,994
Net income	458	419	796	225	1,898
Earnings per share (before cumulative effect of change in accounting principle)					
Basic	$ 0.74	$ 0.54	$ 1.02	$ 0.29	$ 2.58
Diluted	$ 0.73	$ 0.53	$ 1.01	$ 0.28	$ 2.56
Earnings per share					
Basic	$ 0.61	$ 0.54	$ 1.02	$ 0.29	$ 2.45
Diluted	$ 0.60	$ 0.53	$ 1.01	$ 0.28	$ 2.44
2000					
Operating revenues	$ 7,290	$ 10,926	$ 15,691	$ 15,411	$ 49,318
Operating income	812	794	1,501	706	3,813
EBIT	859	837	1,556	762	4,014
Net income	393	329	770	284	1,776
Earnings per share[a]					
Basic	$ 0.53	$ 0.44	$ 1.04	$ 0.38	$ 2.39
Diluted	$ 0.53	$ 0.44	$ 1.03	$ 0.38	$ 2.38

[a] Restated to reflect the two-for-one common stock split effective January 26, 2001

During the fourth quarter of 2001, Duke Energy recorded a $43 million provision for non-collateralized accounting exposure to Enron, as well as a $36 million reduction in unbilled revenue receivables, resulting from a refinement in the estimates used to calculate unbilled kilowatt-hour sales

20 SUBSEQUENT EVENT

On January 31, 2002, Duke Energy announced the planned sale of its DE&S business unit to Framatome ANP, Inc (a nuclear supplier) for approximately $84 million. Two components of DE&S are not part of the sale Duke Energy will establish Duke Energy – Energy Delivery Services, formed by the power delivery services component of DE&S, which will continue to supply power delivery solutions to customers Leadership of the U.S Department of Energy Mixed Oxide Fuel project will also remain with Duke Energy The transaction will require a Hart Scott Rodino filing and is expected to close in the second quarter of 2002

Auditors' Report and Management's Responsibility Statement

[illegible] AUDITORS' REPORT

To the Board of Directors and Stockholders of
Duke Energy Corporation

We have audited the accompanying consolidated balance sheets of Duke Energy Corporation and subsidiaries (Duke Energy) as of December 31, 2001 and 2000, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of Duke Energy's management Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duke Energy as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
CHARLOTTE, NC

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of Duke Energy Corporation (Duke Energy) are prepared by management, who are responsible for their integrity and objectivity The statements are prepared in conformity with generally accepted accounting principles in all material respects and necessarily include judgments and estimates of the expected effects of events and transactions that are currently being reported.

Duke Energy's system of internal accounting control is designed to provide reasonable assurance that assets are safeguarded and transactions are executed according to management's authorization. Internal accounting controls also provide reasonable assurance that transactions are recorded properly, so that financial statements can be prepared according to generally accepted accounting principles In addition, accounting controls provide reasonable assurance that errors or irregularities which could be material to the financial statements are prevented or are detected by employees within a timely period as they perform their assigned functions. Duke Energy's accounting controls are continually reviewed for effectiveness In addition, written policies, standards and procedures, and a strong internal audit program augment Duke Energy's accounting controls.

The Board of Directors pursues its oversight role for the financial statements through the audit committee, which is composed entirely of independent directors who are not employees of Duke Energy The audit committee meets with management and internal auditors periodically to review accounting control issues and to monitor each group's discharge of its responsibilities The audit committee also meets periodically with Duke Energy's independent auditors, Deloitte & Touche LLP. The independent auditors have free access to the audit committee and the Board of Directors to discuss internal accounting control, auditing and financial reporting matters without the presence of management

KEITH G. BUTLER
[illegible]

SHAREHOLDER INFORMATION

Annual Meeting The 2002 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, April 25, 2002
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. Written requests should be addressed to:

Investor Relations
Duke Energy Corporation
PO 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

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 2001 report on SEC Form 10-K and the 2001 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 75 consecutive years. Dividends on common and preferred stock in 2002 are expected to be paid, subject to declaration by the Board of Directors, on March 15, June 17, 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
PO Box 2320
Dallas, Texas 75221-2320

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