Duke Energy

2003 Summary Annual Report

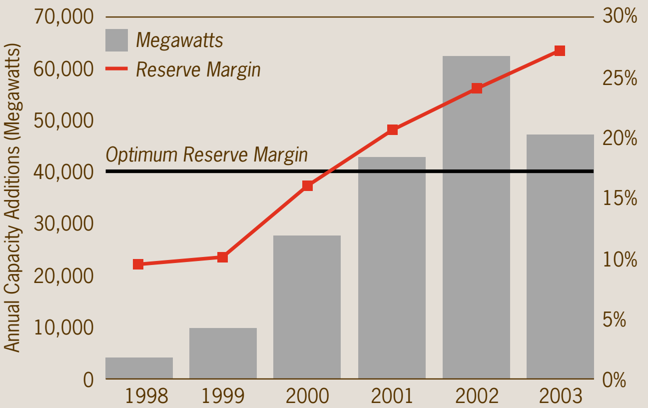
Dear Fellow Shareholder,

As I sit down to write this letter, I start from a perspective I know we share. Like many of you, I am a long-term holder of Duke Energy stock, having acquired much of it over the years prior to the merger of PanEnergy and Duke Power. When I left the company in 1998 to become CEO of Australian based BHP Ltd., Duke Energy was prospering, the stock price was buoyant and the industry seemed to be entering an era of unprecedented growth and prosperity. Since returning to the U.S. and rejoining...

THE ENVIRONMENT WE ARE IN

The energy landscape has changed drastically in the past five years. New generating capacity has outpaced demand growth, causing a decline in power prices while natural gas prices rose. Meanwhile, restructuring largely stalled, slowing the transition to a more competitive marketplace. Here are a few indicators of how our industry has changed since 1998.

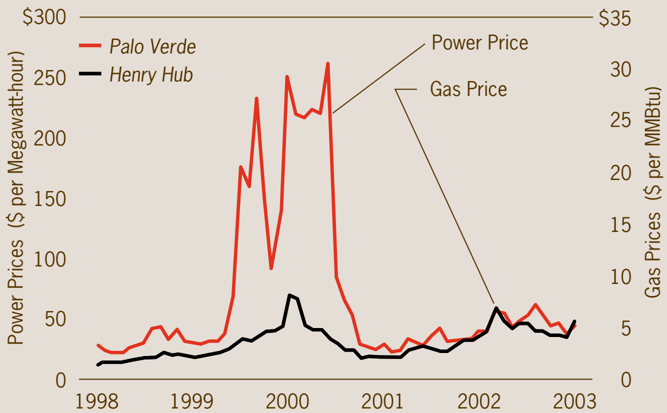
U.S Capacity Additions/Reserve Margins



The industry continued to add capacity beyond what was needed for adequate reserve margins. The optimum U.S. reserve for electricity is approximately 17 percent higher than peak demand to handle weather extremes, power outages and other conditions.

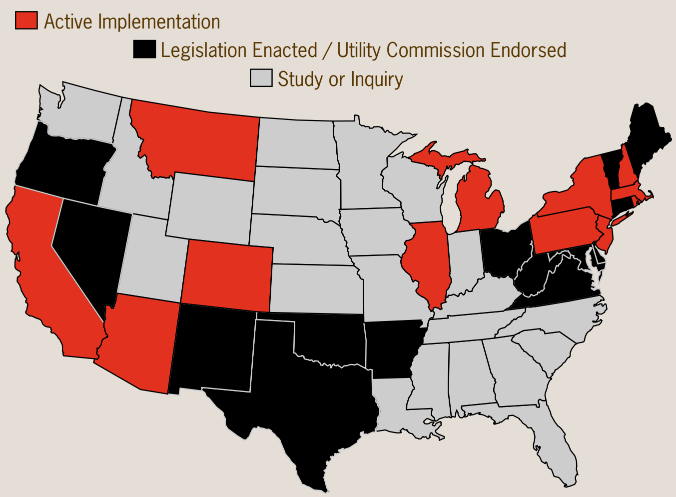
Power and Gas Prices

(Average Monthly)

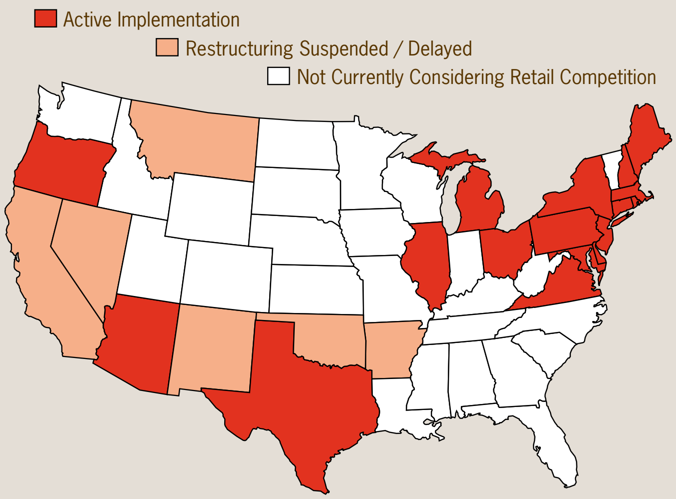


Normal gas and power price relationships gave way to extreme volatility from the late 1990s into mid-2001. When power prices plummeted, so did the profit margins from gas-fired electric generation. (Prices shown are as reported at the Henry Hub and Palo Verde trading centers.)

Status of Electric Restructuring 1999



Status of Electric Restructuring 2003



The push for electric restructuring has slowed dramatically. While implementation is underway in some states with varying results, most are not currently considering retail competition, and several have suspended deregulation or delayed their plans.

LETTER TO SHAREHOLDERS, continued from front cover

... Duke, I have been amazed at how much the landscape has changed in just five short years. The thriving industry I left is like a bombed-out village. Parts of it remain and are recognizable, but other parts are missing or damaged beyond recognition. And some of the damage was self-inflicted.

The State of the Industry

In 2000, the combined market capitalization of the ten largest integrated energy firms exceeded $230 billion. By the end of 2003, their combined market cap had dropped by more than $100 billion. Today, half of that group would not even make the ten-largest list by market capitalization.

Of the companies that comprised the Interstate Natural Gas Association of America and the Edison Electric Institute at year-end 1998, more than a quarter have merged or otherwise disappeared. Several have filed for bankruptcy and still more have had their debt lowered to below investment grade. Roughly one in four has changed names, and more than 50 percent have changed their CEOs. The new breed of independent power producers has fared even worse, while many involved in energy trading have been discredited.

Changes to market dynamics and the regulatory climate have been no less dramatic. The dream of an integrated gas and power generation industry serving free and open markets with a balance of hard assets and trading has turned into a nightmare. Overly aggressive estimates of demand led power generators to add enormous chunks of new capacity just as the cycle was peaking. Traders began to confuse a bull market with brains and became the new "masters of the universe." Many company managements aspired to be increasingly clever rather than good, and spoke of "virtual" companies without assets. The price of natural gas was all over the map, but it looked tame compared to volatility in the electric markets. By the end of 2003, liquidity in many markets had all but disappeared.

The landscape was also reshaped by regulatory and legislative action – and inaction. The rush toward deregulation halted mid-stream, leaving the industry in limbo with a mixture of state and federal laws and regulations that often conflicted and contributed to the problems. Recent focus has been to put constraints on the industry to prevent a repeat of past excesses. Unfortunately, some of these controls destroy or eliminate many of the benefits originally envisioned for an integrated energy industry.

Of course, it's not just the energy industry that has changed over the last five years. The boom and bust of the "dot coms," the accompanying investor frenzy and the ultimate implosion of some of the largest and most respected companies in the U.S. were remarkable events to observe from the vantage point of the Sydney and London exchanges. I remember watching the regulatory and legislative response and wondering who in their right mind would agree to be the CEO of a U.S. company in that kind of environment.

My personal answer to that question is simple: Someone who believes in the company and its people.

Sizing Up Our Situation

If the industry resembles a bombed-out village, Duke is one of the few recognizable structures remaining. In hindsight, there is no denying that the company got caught up in the exuberance of the day and participated in the overbuilding of capacity. (To be honest, I often wonder to what extent I might have been sucked into that vortex if I had remained in the industry during that period.)

Obviously, Duke Energy has taken a number of major hits. The stock price at year-end was less than half of what it was at its peak. Credit ratings were reduced twice in 2003. Duke Energy North America has gone from generating profits of over $1 billion in 2001 to a position of generating losses in 2003. Many of the key strategic assumptions that drove Duke Energy in the late '90s proved incorrect, as the world evolved in far different directions. And yet, the underlying assets, the customer base and the market position of the company are sound.

Paul Anderson was appointed Chairman and Chief Executive Officer of Duke Energy effective Nov. 1, 2003. His association with the company began in 1977, when he joined Texas Eastern Corp. as Director of Corporate Planning. Anderson left the company in 1990, following the merger of Texas Eastern Corp. and Panhandle Eastern Corp. He subsequently returned to Panhandle Eastern (later named PanEnergy Corp) to become its Chairman and CEO prior to the merger with Duke Power to create Duke Energy. He served as President and Chief Operating Officer of Duke Energy until 1998, when he left to become CEO and Managing Director of BHP Ltd., an Australian based company. During his tenure at BHP, the company merged with Billiton PLC to form BHP Billiton, listed on both the London and Sydney exchanges. Mr. Anderson retired from BHP Billiton in July 2002.

OUR FINANCIAL PICTURE

(In millions, except where noted)	Years Ended December 31 2003	2002	2001	2000	1999
Operating revenues	**$ 22,529**	$ 16,189	$ 18,415	$ 16,228	$ 9,909
(Loss) earnings before interest and taxes from continuing operations[a]	**$ (268)**	$ 3,118	$ 4,236	$ 4,037	$ 2,018
Interest expense	**1,380**	1,097	760	887	583
Minority interest expense[b]	**64**	115	327	306	141
Income tax (benefit) expense from continuing operations	**(707)**	611	1,150	1,036	456
(Loss) income from discontinued operations, net of tax	**(156)**	(261)	(5)	(32)	9
Extraordinary gain, net of tax	**—**	—	—	—	660
Cumulative effect of change in accounting principles, net of tax	**(162)**	—	(96)	—	—
Net (loss) income	**(1,323)**	1,034	1,898	1,776	1,507
Dividends and premiums on redemptions of preferred and preference stock	**15**	13	14	19	20
(Loss) earnings available for common stockholders	**$ (1,338)**	$ 1,021	$ 1,884	$ 1,757	$ 1,487
Common Stock Data					
Basic weighted-average shares outstanding	**903**	836	767	736	729
Basic (loss) earnings per share (from continuing operations)	**$ (1.13)**	$ 1.53	$ 2.59	$ 2.43	$ 1.12
Basic (loss) earnings per share (from discontinued operations)	**$ (0.17)**	$ (0.31)	$ (0.01)	$ (0.04)	$ 0.01
Basic (loss) earnings per share (before extraordinary items and cumulative effect of change in accounting principles)	**$ (1.30)**	$ 1.22	$ 2.58	$ 2.39	$ 1.13
Basic (loss) earnings per share	**$ (1.48)**	$ 1.22	$ 2.45	$ 2.39	$ 2.04
Dividends per share	**$ 1.10**	$ 1.10	$ 1.10	$ 1.10	$ 1.10
Cash flows from operating activities	**$ 3,929**	$ 4,547	$ 4,357	$ 2,011	$ 2,684
Cash flows from investing activities	**$ (931)**	$ (6,809)	$ (6,043)	$ (4,716)	$ (3,751)
Cash flows from financing activities	**$ (2,657)**	$ 2,846	$ 1,354	$ 2,714	$ 1,600
Total assets	**$ 56,203**	$ 60,122	$ 49,624	$ 59,276	$ 34,388
Total debt	**$ 21,952**	$ 22,465	$ 14,185	$ 12,980	$ 9,432
Capitalization					
Common equity	**37%**	36%	41%	37%	42%
Preferred stock[c]	**0%**	1%	1%	1%	1%
Trust preferred securities[c]	**0%**	3%	5%	5%	7%
Total common equity and preferred securities	**37%**	40%	47%	43%	50%
Minority interests[c]	**5%**	5%	7%	9%	6%
Total debt[c]	**58%**	55%	46%	48%	44%

[a] (Loss) earnings before interest and taxes from continuing operations is a non-GAAP financial measure as defined by the Securities and Exchange Commission (SEC) under Regulation G. See page 22 of this report for additional information.

[b] Includes financing expenses related to securities of subsidiaries of $55 million, $130 million, $161 million, $122 million and $87 million for the twelve months ended Dec. 31, 2003, 2002, 2001, 2000 and 1999, respectively. The expense related to these securities is now accounted for in interest expense.

[c] As a result of the implementation of SFAS No. 150 and FIN 46R, approximately $900 million related to trust preferred securities and preferred stock with sinking fund requirements has been reclassified to debt and remains outstanding as of Dec. 31, 2003. Additionally, debt excludes approximately $880 million of debt that has been reclassified as liabilities associated with assets held for sale as of Dec. 31, 2003.

Certain non-GAAP financial measures such as (loss) earnings before interest and taxes from continuing operations and ongoing (loss) earnings per share are used in this report. See page 22 for more information. Included in this Summary Annual Report are financial and operating highlights and consolidated financial statements. Audited financial statements along with related footnotes are included in the company's 2003 SEC Form 10-K. To obtain a copy of the 2003 SEC Form 10-K, please refer to the instructions for Financial Publications inside the back cover of this report.

Relative to many others in the industry, Duke Energy is in an enviable position. Our financial strength provided us choices and flexibility, while others had their options sharply curtailed. We've maintained operational excellence in all of our energy businesses and continued to deliver reliably to our customers. We sold non-core assets to reduce debt, but we weren't forced into a fire sale or to surrender assets vital to our future growth. Our employees, while reduced in number, are re-energized and focused on restoring shareholder value and reclaiming our place as an industry leader.

The work to restore value began in 2003, well before I arrived on the scene. The company reacted forcefully to avoid being caught by the liquidity wave that hurt so many others. In 2003, we generated net proceeds of approximately $2 billion from the sale of non-core assets. We reduced debt and trust preferred securities by $2.2 billion, net of new debt issued and including nearly $400 million of debt assumed in asset sales. We slashed our capital spending to $2.8 billion – versus our original forecast of $3.2 billion – and exited proprietary trading. We undertook a major cost-cutting effort that included significant voluntary and involuntary staff reductions. Our liquidity position is solid, and included over $1 billion in cash and cash equivalents at year-end.

The year culminated in additional dramatic steps to restructure our business portfolio. We have decided to sell our merchant plants in the southeastern U.S. and to forgo further investment in our deferred plants in the West. These actions, combined with others, such as the planned sale of our Australian assets and our exit from Europe, resulted in a $3.4 billion pre-tax write-down in the fourth quarter.

We resolved a number of regulatory and legal issues. In July, the Federal Energy Regulatory Commission (FERC) cleared Duke Energy of charges of withholding electricity from its California power plants. In September, Duke Energy Trading & Marketing announced a $28 million settlement with the Commodity Futures Trading Commission, closing the agency's investigation of natural gas price reporting. In December, we reached a settlement with FERC, ending their inquiry into our trading and marketing practices in the western U.S. market, leaving only the refund proceeding related to the California energy crisis still outstanding at FERC.

I am confident that the tough decisions we made last year will serve us well long-term – but they didn't come without some near-term pain: We reported a net loss of $1.3 billion for 2003, or ($1.48) per share. Our fourth-quarter loss of $2 billion was the largest in company history. Ongoing earnings per share for the year, excluding special items, were $1.28, compared to $1.88 in ongoing EPS in 2002.

Our Investment Proposition

At year-end, we revised our investment proposition to emphasize income and modest growth. The high growth aspirations of the past are simply not in the best interests of our long-term investors. The Board has reaffirmed our commitment to maintain an annual dividend level of $1.10 per share.

As we go forward, our work will be guided by the charter printed on the following page. We have introduced it to our employees, as well as publicly, as the document that defines us as a company, articulates our values, and sets out our management priorities and how we will measure success. I urge you to read the charter and more about the management priorities on the pages that follow. They are the roadmap we will follow to restore our credibility, strengthen our financial performance and meet the needs of our stakeholders.

In 2004, we celebrate the 100th anniversary of Duke Power, the first of Duke Energy's companies. We appreciate those of you who have supported us and have had confidence in us over many years. In my mind, there's no end-goal in the quest to build confidence. The most successful and enduring companies are those that continually strive to do more. When you look at Duke Energy today, I hope you see a company with a renewed sense of purpose, candor and commitment to the long term. As we enter our second hundred years, I pledge to you that Duke Energy will work harder than ever to win your investment, your business and your trust.

Sincerely,

Paul Anderson

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

March 15, 2004

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

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

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

- Deliver on our financial plan and preserve the dividend of $1.10/share.
- Resize and realign our asset portfolio to reflect current and future market realities and to improve return on capital.
- Significantly improve execution of essential management and operating systems, reducing bureaucracy and overhead.
- Build a high performance organization with clear accountabilities in which every individual accepts responsibility and is rewarded for results.
- Restore credibility and earn the trust of employees, customers, suppliers, regulators, legislators, communities and investors.

In conducting our business, we value:

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

We will be successful when:

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

Duke Energy's Roadmap to Success.

Duke Energy's charter, printed on the facing page, sets out who we are, what we do, how we do it and how we'll know when we succeed. The purpose, values and measures of success will be constants, while the five "musts" are management's immediate priorities. These have shaped the company's financial and operational goals for 2004. As our goals are achieved and new challenges are identified, these priorities will change over time. Below we outline what we must do to provide a stable platform for future growth, and our strategy for getting there.

Deliver on our financial plan and preserve the dividend of $1.10 per share.

Duke Energy took decisive steps in 2003 to improve our financial flexibility. We cut costs, reduced debt and generated cash. We expect to pay down debt by $3.5 to $4 billion in 2004.

We are well-positioned to generate cash this year from the conversion of outstanding equity units, from operations and from asset sales. These funds will be used to reduce debt, pay the dividend and provide capital for maintenance and modest expansion.

Resize and realign our asset portfolio to reflect current and future market realities and to improve return on capital.

In 2003, Duke Energy strengthened and streamlined its portfolio of energy businesses and assets. We sold non-core assets, reduced the size and scope of our domestic merchant energy business and our international operations, and are exiting non-core businesses, including Duke Capital Partners and Duke/Fluor Daniel. These moves reduce our exposure to international and merchant risk, and focus our resources on areas that promise better returns.

A major focus for 2004 will be to complete the execution of the plans we announced for our merchant and international businesses, including the sale of our assets in the southeastern U.S. and Australia, and our exit from Europe.

Our capital investment going forward will be primarily in Duke Power, our franchised electric utility, and Duke Energy Gas Transmission (DEGT), our natural gas pipeline business – both of which deliver stable earnings and strong cash flows. We're investing in these assets to be sure they are well-maintained and we can capture appropriate and attractive high-return growth opportunities. We will also continue to invest capital in Crescent Resources, one of the country's premier real estate development companies, which contributes substantial cash to our enterprise.

Duke Energy Field Services (DEFS) continues to be one of the top players in the North American midstream natural gas sector, enjoying an approximately 20 percent market share in natural gas liquids (NGLs) production. In 2003, DEFS benefited from higher NGL prices and improved "frac spreads" (the difference between the thermal value of NGLs and natural gas). The business also worked to improve cash flow, optimize its assets, realign its contract mix to reduce the impact of commodity price fluctuations, and reduce debt. Going forward, we'll selectively pursue growth opportunities and expand and contract our DEFS asset base in response to changing market cycles.

In merchant and international operations, we are focusing on regions that we expect to yield the highest returns when energy markets improve. In the United States, we will remain in the northeastern, midwestern and western regions where demand is likely to recover sooner than in other regions, and where transmission and regulatory policies better support wholesale power markets. Internationally, we will focus on Latin America. The consolidation of Duke Energy North America (DENA) and Duke Energy International (DEI) reflects our narrowed focus and will result in greater efficiencies.

Duke Energy has an enviable portfolio of energy assets, both regulated and non-regulated. To serve its franchised territory in the Carolinas, Duke Power has the advantage of fuel diversity: nuclear, coal, hydroelectric and natural gas. Our natural gas pipelines and storage facilities are strategically situated to serve major supply basins and high-growth markets. Our merchant plants in the U.S. Northeast, Midwest and West will be well-positioned to contribute strong earnings when demand recovers.

Significantly improve execution of essential management and operating systems, reducing bureaucracy and overhead.

A top-to-bottom expectation of all businesses and corporate functions is to simplify and flatten their organizations and eliminate overlap. For example, the risk management organization now reports to the Chief Financial Officer to align the risk and finance functions and provide a single point of accountability. The role of the Chief Administrative Officer was eliminated. By creating Duke Energy Americas, we combined under one leader the administrative functions for DENA and DEI, and other efficiencies will follow.

The actions we took in 2003 to resize the business and workforce will result in permanent cost savings of more than $200 million a year, and we continue to press for increased efficiency in all areas of the business.

Build a high performance organization with clear accountabilities in which every individual accepts responsibility and is rewarded for results.

Duke Energy's new management team has clearly defined accountabilities, and their compensation is tied to their success. Foremost is achieving the company's minimum earnings per share (EPS) goal of $1.10 – without it, the 12-member executive team will receive zero short-term bonus for the year, no matter how successful they may have been in reaching other goals. The target EPS portion of the incentive plan – which triggers a 100 percent payout for that portion only – is $1.20 a share. In addition to the EPS goal, Executive Committee members and business unit leaders have specific goals that align with and support the management priorities in the charter.

Rewards will be linked to results at all levels of the organization. In 2004, most Duke Energy employees will have EPS as a component of their incentive plan. Additionally for those employees, if 2004 earnings fall below $1.10 a share, the payout for all measures will be capped at 50 percent.

The ultimate example of pay tied to performance is the compensation plan for CEO Paul Anderson. Anderson's compensation is entirely stock-based with a provision that all shares received must be held until he leaves the company. Additionally, there is no provision for a cash severance payment should his employment be terminated by the Board of Directors before his contract ends in 2007.

If our compensation plan emphasizes accountability, so do the company's governance practices. Even before Sarbanes-Oxley was signed into law in 2002, Duke Energy's policies and practices guarded against conflict of interest, supported independent and involved oversight of management by the Board of Directors, and provided other safeguards now required by the legislation or recommended by the New York Stock Exchange.

Duke Energy is subject to regulatory codes and standards of conduct that address business activities between regulated companies and their affiliates. These rules prevent regulated businesses from subsidizing the activities of their affiliates, and prevent the affiliates from gaining an unfair advantage because of their relationship with the regulated businesses. Duke Energy complies with both the letter and the spirit of these standards and works to ensure that all employees understand and follow them.

Like ethical conduct, safety is a key aspect of successful performance. Duke Energy's long-range safety goal is simple – zero injuries, work-related illnesses and fatalities. Management and employees must continually renew their commitment to safety in order to reach that goal. Improvements in corporate-wide safety results begin by establishing accountability at every level, starting with the company's leaders. Business units are expected to set challenging safety targets, and to provide quarterly safety performance reviews. We foster a culture in which individual employees accept accountability for the safety of their co-workers, their customers, their communities and themselves.

Restore credibility and earn the trust of employees, customers, suppliers, regulators, legislators, communities and investors.

There is no doubt that our reputation has taken some hits. We are committed to restoring confidence in Duke Energy by reliably serving our customers, by delivering superior returns to investors, by being good neighbors in communities where we operate, and by providing our employees with a sense of purpose and direction.

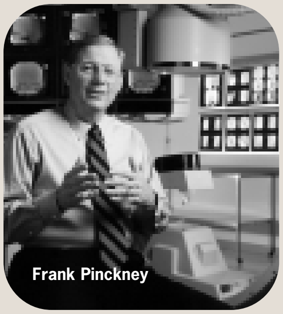
Duke Energy is recommitting itself to creating win-win relationships with every customer we serve, and with regulatory agencies charged with representing consumer interests.

We're working hard to enhance the customer experience in every facet of Duke Energy. From ensuring natural gas delivery to a Canadian power generator during the August blackout, to helping a South Carolina hospital operate around the clock, to supplying reliable electricity to a manufacturer in Brazil – we're committed to delivering dependable and cost-effective energy and service. You'll hear directly from a few of our customers in the pages that follow.

We work openly and productively with the regulatory agencies that oversee our businesses. Duke Power, for example, has been able to work with utility commissions in North Carolina and South Carolina to develop win-win approaches to such issues as clean air legislation and the company's resulting environmental investments.

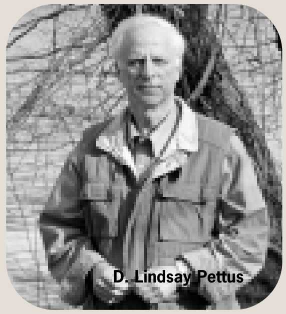
We bring more than natural gas and power to our communities. For instance, DEGT is committed to increasing aboriginal participation in its workforce in British Columbia through employment and contracting opportunities. Duke Power has renewed its commitment to economic development in the Carolinas, partnering with government and community interests to attract new industry and jobs to the region. Reflecting the company's community spirit, Duke Energy employees and retirees volunteered more than 235,000 hours to nonprofit organizations in 2003.

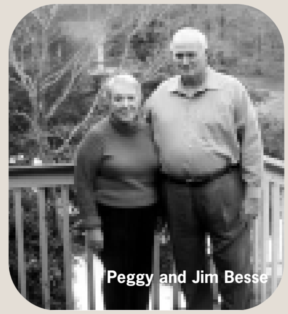
Duke Energy is committed to restoring its reputation as an industry leader. In all of our interactions with investors, customers, neighbors and employees, we are working hard to regain their trust.


Frank Pinckney

"As one of the largest hospital systems in the state, our physicians, nurses and patients depend on Duke Power. Together we save lives and keep patients breathing hour after hour, every day of the week."

Frank Pinckney, CEO and President
Greenville Hospital System
Greenville, S.C.


D. Lindsay Pettus


Peggy and Jim Besse

"In view of the prices of other services available to retirees who live on fixed incomes, such as health insurance and medication, you and your company are standouts for efficiency and concern for your customers."

Peggy and Jim Besse,
Duke Power customers
Hickory, N.C.

"For a glass packaging manufacturer, electric energy is one of the main raw materials in the industrial process. Choosing Duke Energy as our electric energy supplier assured Cisper a real competitive advantage. Our partnership has always been based on clear and objective negotiations."

José Antonio Ramos Lorente,
President, Cisper S/A
(affiliated company of Owens-Illinois Inc.)
São Paulo, São Paulo, Brazil

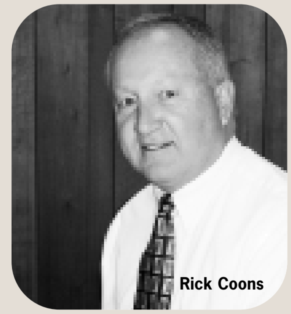

José Antonio Ramos Lorente

"Crescent Resources has been exceptionally responsive in working with our organization over the years. Our third land purchase from the company is now pending, and we hope to continue to partner with Crescent in our efforts to protect the natural resources and water quality of the Catawba River valley."

D. Lindsay Pettus, President
The Katawba Valley Land Trust
Lancaster, S.C.

"We have worked closely with Duke Energy when we wanted to obtain more ownership of electric generation facilities. Duke Energy's experience and ability to react to our needs has made them a company with whom we have enjoyed a positive business relationship."

Rick Coons,
Chief Operating Officer
Wabash Valley Power Association
Indianapolis, Ind.


Rick Coons

"Texas Parks and Wildlife has accomplished a lot at San Jacinto Battleground over the past few years. Restoration, revegetation, interpretation and construction projects have become realities, thanks to our partners. Some of our partners donate materials or money. Other partners donate volunteer labor. Duke Energy contributes both. TPW and Duke Energy are not just partners; we're members of a team, and in some ways, that's the most valuable donation of all!"

Ted Hollingsworth,
Cultural Resources Manager
Texas Parks and Wildlife Dept.
La Porte, Texas


Ted Hollingsworth

"Over the last 10 years, the Capital City has enjoyed tremendous economic growth, placing a great demand on the infrastructure. One of the City's greatest assets is the power plant. In 1996 the City of Dover became partners with Duke Energy for the management and operation of that plant. I can honestly say that was one of the smartest decisions this City has ever made to protect that asset."

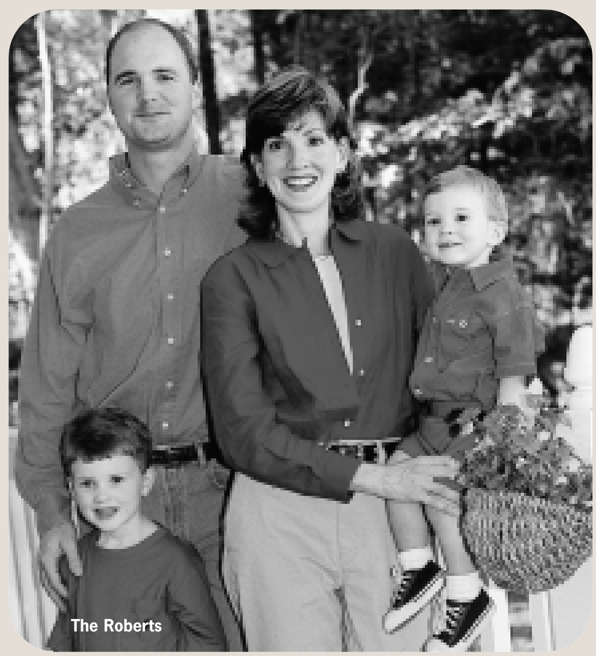
James L. Hutchison, Mayor
City of Dover, Del.


James L. Hutchison


Del Fischer

"While planning our Pinedale field development, we recognized the need for a large pipeline expansion to meet our growth projections. We were pleased that Duke was willing to work out a mutually beneficial solution that met both our timing and capacity needs. "

Del Fischer,
Gas Planning and Transportation
Shell Exploration & Production Co.
Houston, Texas


The Roberts


Ken Lacivita

"During the massive power blackout in August 2003, Union Gas personnel were able to assist OPGI in sourcing and supplying natural gas to the Lennox Generating Station near Kingston, Ontario. By ensuring natural gas was available, the station was able to continue to operate and contributed to meeting the electricity needs of Ontario consumers during a very difficult time."

Ken Lacivita,
Director, Electricity Trading
Ontario Power Generation Inc.
Toronto, Ontario

"After Isabel ripped through, Gloucester was left powerless and gloomy. We wouldn't have gotten power as fast as we did if it weren't for your crews. I thought my family was not going to have power for a month. We got it in a week! Thank you so much for all you did."

Drew Whitlow, 7th grade student
Page Middle School
Gloucester, Va.


Drew Whitlow

"Our relationship with Duke Energy is all about them understanding our business, from our perspective, as evidenced during a compressor station outage this winter. They shared critical information with us, so that we could understand how the outage might affect our system operations. We consider the Duke team to be our partner in delivering safe, reliable energy to our customers, every day."

Dennis E. Welch,
President and
Chief Operating Officer
Yankee Gas Services Co.
Berlin, Conn.


Dennis E. Welch

"Sugarloaf was the first place we saw that had all the things we wanted in one place – golf, lakes, a pool for our kids, sidewalks for bikes, good schools and a sense of security."

Dawn and Scott Roberts,
Crescent community homeowners
Sugarloaf Country Club,
Duluth, Ga.

We come to work every day to serve these and all of our customers. We know that we will succeed as a company if we serve them well. On the following pages, we describe our main business units, their primary areas of focus, and how they are meeting customer expectations and responding to changing markets.

WHAT WE DO

Duke Energy is a diversified energy company with a portfolio of natural gas and electric businesses, both regulated and non-regulated, and an affiliated real estate company. Duke Energy supplies, delivers and processes energy for customers in North America and selected international markets. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

DUKE POWER

Profile: Duke Power is one of the nation's largest electric utilities and provides safe, reliable, competitively priced electricity and value-added products and services to more than 2 million customers in North Carolina and South Carolina. In 2004, Duke Power celebrates 100 years of service. The company operates three nuclear generating stations, eight coal-fired stations, 31 hydroelectric stations and numerous combustion turbine units. Total system generating capability is approximately 19,900 megawatts. Duke Power is based in Charlotte.

Operating Data:

	2003	2002	2001	2000	1999
Franchised Electric					
Sales, gigawatt-hours	**82,828**	83,783	79,685	84,766	81,548
Nuclear capacity factor[a]	**91%**	95%	92%	92%	90%
Average number of customers	**2,160,000**	2,117,000	2,117,000	2,072,000	2,023,000

[a] Includes 100 percent of Catawba Nuclear Station, which is 12.5 percent owned by Duke Power.

Performance Highlights:

- Duke Power achieved a critical milestone last year, with the Nuclear Regulatory Commission's renewal of Catawba and McGuire Nuclear Stations' operating licenses – allowing the stations to continue providing electricity, jobs and revenue into the 2040s. Oconee Nuclear Station's license renewal was approved in 2000. Duke Power is the first utility in the United States to have seven nuclear units with extended licenses.
- Oconee celebrated 30 years of operation in 2003, and was the first U.S. nuclear station to reach 500 million megawatt-hours of electric generation. McGuire generated more electricity than in any previous year, and also set station records for reliability and cost efficiency. Even with planned maintenance and refueling outages, Duke Power's three nuclear stations produced at more than 91 percent of their capacity in 2003.
- Duke Power's fossil and hydroelectric fleets achieved 98 percent commercial availability for the second year, and the hydro stations set a new generation record of 6.4 million megawatt-hours.
- Duke Power is investing nearly $2.2 billion in emission controls for its fossil-fueled power plants over the next decade, to bring air emissions well under current federal limits. At Belews Creek, Duke Power's largest coal-fired station, new environmental equipment is expected to reduce the utility's nitrogen oxide emissions by 75 percent from 1998 levels by this summer.
- The formal relicensing process is underway for Duke Power's Catawba-Wateree hydroelectric operations. The utility is working closely with stakeholder groups to ensure that its hydro facilities continue to serve customers and communities in an environmentally responsible manner.
- In 2003, Duke Power renewed its commitment to economic development in its service area, the surest way to draw new customers to the region and keep existing ones. The Carolinas have seen substantial and ongoing declines in traditional industries such as textiles, furniture, chemicals and tobacco, and Duke Power is working with government and community interests to spur a more diverse business and manufacturing economy. It's working – General Dynamics has moved a division headquarters to Charlotte and will open a plant in the area, and Sterilite is building a manufacturing facility in Laurens, S.C.

- Duke Power received the 2003 Edison Electric Institute Emergency Response Award, recognizing the swift restoration of electric service to 1.4 million customers affected by the December 2002 ice storm. That unprecedented effort heightened the utility's readiness for weather events like Hurricane Isabel, which hit the U.S. East Coast in September. After restoring service to thousands of Duke Power customers, crews moved on to help Dominion repair Isabel's damage in harder-hit areas in Virginia and eastern North Carolina.
- Duke Power launched an electronic billing and payment service in 2003. This new service allows customers to receive and pay their bills online. Nearly 5 percent of customers have already signed up for e-Bill, saving the mailing of more than a million bills annually. If just half of Duke Power's customers were to choose this option, the utility would save approximately $2 million per year.
- Mill Creek Combustion Turbine Station is the newest addition to Duke Power's generation fleet. The $300 million, 640-megawatt natural gas-fired station in Cherokee County, S.C., can generate enough power to serve more than 500,000 homes.

Strategy Going Forward:

- Deliver on the financial plan through management of cash, costs and capital, and through win-win regulatory policy.
- Operate assets with superior safety, reliability, efficiency, availability and responsibility.
- Improve customer satisfaction and deliver valued products and services.
- Create and realize opportunities for sustainable sales growth.
- Earn trust and build confidence with employees, customers, communities, regulators and elected officials.

DUKE ENERGY GAS TRANSMISSION

Profile: Duke Energy Gas Transmission (DEGT) transports and stores natural gas from North America's major supply areas for customers in the northeastern and southeastern United States and in Canada. DEGT also distributes natural gas to retail customers in Ontario, and gathers and processes natural gas for customers in western Canada. DEGT is based in Houston.

Operating Data:

	2003	2002	2001	2000	1999
Natural Gas Transmission					
Throughput, trillion British thermal units (TBtu)[a]	**3,362**	3,160	1,781	1,771	1,893
Storage capacity, billion cubic feet	**257**	254	101	98	75

[a] Represents share of capacity owned by DEGT.

Performance Highlights:

- DEGT capped a great year in 2003 by placing five major pipeline expansion projects into service in three key growth regions – in time for the winter heating season. The five expansions provide a combined 850 million cubic feet per day of added capacity for customers in the northeastern and southeastern United States, eastern Canada, British Columbia and the U.S. Pacific Northwest.
- DEGT is moving forward with plans to construct the Dominion Expansion Project, which will transport natural gas for distribution by DEGT customer Dominion Transmission in Maryland and Virginia, increasing the reliability and efficiency of natural gas supplies in the Mid-Atlantic region.
- January 2004 brought the U.S. Northeast some of the lowest temperatures in two decades. DEGT's Algonquin and Texas Eastern systems had some of their top delivery days in company history in that region. DEGT's pipelines and storage facilities met shippers' supply demands with the consistently reliable service they expect from DEGT. More than 99 percent of DEGT's Northeast shippers whose contracts came up for renewal in 2003 showed their satisfaction by renewing agreements with the company.

- Natural gas storage has become an increasingly critical part of the energy infrastructure in North America. In August, customers began preparing for winter by storing natural gas in the new Saltville Gas Storage facility in southwest Virginia, the only salt cavern storage facility in the South Atlantic market. Jointly developed by DEGT and NUI Corp.'s Virginia Gas Co., the field has storage capacity for 1 billion cubic feet of natural gas; that capacity will double in 2004 and expand to a planned 6 billion cubic feet by 2007. DEGT also has storage capacity in Texas, Louisiana, Pennsylvania and Maryland, and the largest natural gas storage facility in North America, Union Gas' Dawn facility in Ontario.
- The Gulfstream Natural Gas System, jointly developed by DEGT and Williams, signed a 23-year agreement with Florida Power & Light Co. (FPL), to transport up to 350 million cubic feet of natural gas per day beginning in 2005. Gulfstream, the first interstate transmission pipeline across the Gulf of Mexico, is extending its Florida mainline by approximately 110 miles to enable two FPL plants to serve an additional 400,000 customers on Florida's East Coast.
- DEGT's Union Gas provided transportation and distribution of 1,250 billion cubic feet of natural gas and experienced a net increase of 24,000 customers.
- DEGT's U.S. operations recorded their lowest ever number of preventable safety incidents in 2003, achieving a 17.6 percent reduction over 2002. Eighty-two U.S. transmission locations were accident-free, and five have recorded more than 1 million work-hours without a lost-time injury.
- In Canada, DEGT's BC Pipeline and Field Services group exceeded its safety performance targets by 45 percent for personal injuries and 22 percent for vehicle accidents, and incurred no lost-time incidents.
- In line with Duke Energy's strategy to strengthen its financial position by selling non-core assets, the company sold ownership interests in a number of pipeline systems and related facilities in 2003.

Strategy Going Forward:

- Produce superior financial results through increased productivity and balanced growth.
- Provide superior customer service.
- Optimize existing asset portfolio.
- Capture efficiencies and control costs.
- Develop new high-return expansion projects.

DUKE ENERGY FIELD SERVICES

Profile: Duke Energy Field Services (DEFS) gathers, processes, transports, markets and stores natural gas, and produces, transports and markets natural gas liquids (NGLs) like propane, butane and ethane. DEFS gathers natural gas from producers' wells in western Canada and from Wyoming to the Gulf Coast, and processes it at more than 60 plants.

Headquartered in Denver, DEFS is the largest producer of NGLs in North America – with twice the production of its nearest competitor – and one of the largest marketers. DEFS also owns the general partner of TEPPCO, a master limited partnership which owns and operates pipelines for refined products, NGLs and crude oil, and owns natural gas gathering assets. Duke Energy owns approximately 70 percent of DEFS, and ConocoPhillips owns the remainder.

Operating Data:

	2003	2002	2001	2000	1999
Field Services					
Natural gas gathered and processed/transported, TBtu/day	**7.7**	8.1	8.3	7.3	4.9
Natural gas liquids production, thousand barrels per day	**365.3**	388.7	394.0	354.9	186.3
Average natural gas price per million Btu	**$ 5.39**	$ 3.22	$ 4.27	$ 3.89	$ 2.27
Average natural gas liquids price per gallon	**$ 0.53**	$ 0.38	$ 0.45	$ 0.53	$ 0.34

Performance Highlights:

- DEFS has benefited from higher NGL prices, which have risen with increasing demand for NGLs along with natural gas and crude oil, and the "frac spread" (the difference between the thermal value of NGLs and natural gas) has increased as well. DEFS continues to lead the NGL industry with 20 percent of market share.
- DEFS has realized strong margins from its natural gas processing business, especially on percent-of-proceeds contracts, under which DEFS keeps a percentage of the natural gas and NGLs as payment for services.
- One of DEFS' strategies for 2003 was to support the growth strategy at TEPPCO. TEPPCO expanded the pipeline and processing capacity on its Jonah Gas Gathering System in Wyoming, and increased to 50 percent its ownership interest in the Centennial Pipeline from the Gulf Coast to the Midwest.
- DEFS sold several non-strategic assets according to plan in 2003, including various gas processing plants and gathering pipelines in the Gulf Coast region and Oklahoma.

Strategy Going Forward:

- Capitalize on size and focus of existing operations.
- Be a top-3 player in every producing region where DEFS has assets.
- Optimize and rationalize the asset base.
- Focus on operational and commercial excellence.
- Maintain strong financial position and self-funding status.
- Support the growth of TEPPCO.

DUKE ENERGY AMERICAS

As 2003 drew to a close, Duke Energy took a close look at opportunities to streamline operations for higher efficiency. As a result, in January 2004, the major merchant energy businesses, Duke Energy North America (DENA) and Duke Energy International (DEI), were combined into Duke Energy Americas, based in Houston. These businesses will more narrowly focus on key markets in North America and Latin America.

Duke Energy North America

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

Of all of Duke Energy's business units, DENA faced the toughest challenges in 2003. A period of rapid growth in merchant power markets was followed by regulatory and market upheavals and the aftershocks of Enron's collapse. An oversupply of merchant generation in many regions and low spark spreads (the difference between the cost of natural gas and the price of the electricity it generates) have prevented many DENA facilities from generating power profitably. As a result, the company made the strategic decision to exit the Southeast region in 2004, but to retain operations in the West, Northeast and Midwest regions – markets that have value for the company long-term.

Operating Data:

	2003	2002	2001	2000	1999
Duke Energy North America					
Actual plant production, gigawatt-hours	**24,046**	24,962	20,516	18,523	11,307
Capacity in operation, megawatts[a]	**15,820**	14,157	6,799	5,134	3,532

[a] Represents share of capacity owned by DENA.

Performance Highlights:

- DENA reduced the scope and scale of its trading and marketing organization to align with current market conditions, limited commercial transactions to those that directly benefit DENA operations and customers, and implemented new levels of control and risk management.
- In May, DENA announced it would end proprietary (purely financial) trading, which typically represented less than 10 percent of DENA's gross margin. In 2003, DENA also began to wind down the Duke Energy Trading & Marketing joint venture, which is 60 percent owned by Duke Energy and 40 percent by ExxonMobil. DENA's stand-alone trading and marketing operation continues with a focus around the company's own assets.
- DENA sold 15 significant new tolls related to its plants. A toll is an agreement to sell all or part of the generating capacity of a power plant for a fee. Duke Energy expects tolling deals to play an increasingly important role in merchant energy, allowing DENA to capture margin at relatively low risk.
- In 2003, DENA initiated a new customer relationship program, enhancing and renewing ties with key providers and buyers in the areas where DENA plants are located.
- Consistent with its sharpened focus on its merchant natural gas-fired fleet, DENA sold its interest in American Ref-Fuel, which converts municipal solid waste into energy, and Duke Energy Hydrocarbons, which was involved in the exploration and production of natural gas and petroleum, primarily in the Gulf of Mexico.
- As DENA employees faced tough challenges in 2003, their resolve to work safely resulted in a 50 percent reduction in recordable injuries.

Strategy Going Forward:

- Selectively reduce merchant energy exposure by selling plants in the southeastern United States, and by selling DENA's interest in deferred plants in Washington, Nevada and New Mexico, or seeking a partner to fund their completion.
- Rationalize the natural gas transportation and storage business around DENA's generation assets.
- Return the base business to profitability as the market recovers.
- Retain an option for future regional growth in wholesale merchant energy.

Duke Energy International

Profile: Duke Energy International operates power generation facilities, and engages in sales and marketing of electric power and natural gas outside the United States and Canada. Its primary focus is on power generation activities in Latin America, where it owns approximately 4,100 net megawatts of capacity in seven countries.

During 2003, DEI made the strategic decision to exit the European and Asia-Pacific markets, reducing the overall exposure of Duke Energy to international markets. DEI sold its investment in Indonesia, a power plant in northwest France and its Dutch gas marketing business, collectively generating gross proceeds of over $400 million for Duke Energy. Duke Energy retains a diversified portfolio of generating assets that are well-positioned to benefit from strengthening energy markets and economies in Latin America. This table presents operating data for DEI's continuing operations.

Operating Data:

	2003	2002	2001	2000	1999
International Energy					
Sales, gigawatt-hours	**16,374**	18,350	15,749	14,154	4,812
Capacity in operation, megawatts[a]	**4,121**	3,917	3,968	3,768	2,415

[a] Represents share of capacity owned by DEI.

Performance Highlights:

- 2003 was a solid year from an operating standpoint for DEI's continuing operations in Latin America and its investment in National Methanol Company in Saudi Arabia.
- Strong operating results were driven by successful recontracting efforts in Brazil, stronger market prices in Peru, completion of the second phase of a greenfield plant in Guatemala, solid results from National Methanol and significant cost reductions of approximately $30 million over 2002.
- DEI Guatemala brought the second phase of the 160-megawatt Planta Arizona on line, and is completing a conversion this year which will allow the plant to run on Orimulsion® in addition to fuel oil. The plant's dual-fuel capability will position Planta Arizona as one of the most flexible, efficient and low-cost generators in the region.
- DEI Peru became the first company in Peru, and the first Duke Energy company, to obtain simultaneous international certifications for operations management (ISO 9001), environmental management (ISO 14001) and occupational health and safety practices (OHSAS 18001).
- For the second consecutive year, DEI Brazil Paranapanema received the Medalha Eloy Chaves Award as recognition for the best safety record in the Brazilian electric generation sector. It is the only company ever to have received this award for two consecutive years. DEI Brazil also reached 4 million work-hours without a lost-time incident.

Strategy Going Forward:

- Focus on Latin America, with an emphasis on increasing overall returns through:
  – Organic growth through sales and marketing efforts
  – Asset optimization for all facilities
  – Cost reduction
  – Portfolio/balance sheet management.
- Identify and assess opportunities in Latin America to capitalize on economic growth, regulatory reform and strengths of the existing portfolio.
- Complete exit from the European and Asia-Pacific regions.

CRESCENT RESOURCES

Profile: As part of Duke Energy for over 40 years, Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups. The company is based in Charlotte.

Operating Data:

	2003	2002	2001	2000	1999
Crescent Resources					
Residential lots sold	**2,060**	1,221	1,075	955	1,049
Commercial square footage sold, in millions	**1.7**	1.2	3.1	2.0	2.0
Multi-family units sold	**950**	—	—	—	—
Surplus (legacy) land sold, acres	**5,088**	10,982	11,402	8,562	29,648

Performance Highlights:

- Crescent is the master developer of Potomac Yard, a 300-acre mixed-use development adjacent to Reagan National Airport in Arlington and Alexandria, Va. The approved plans for Potomac Yard include high-quality mixed-use communities of townhouses, apartments, hotels, retail stores, offices, open space, pedestrian-friendly neighborhoods, parks, playfields and a transit system. In 2003, Crescent sold two parcels of land for apartment and condominium units and retail developments, and began work on two office buildings.

- Two major transactions underway in 2003 demonstrate Crescent's commitment to strike a balance between property developed in an environmentally sensitive manner and land sold for long-term preservation.
  - The N.C. Wildlife Resources Commission will manage the 4,400-acre Needmore area that hosts a diverse array of aquatic and forest wildlife along a 27-mile stretch of the Little Tennessee River in the N.C. mountains. Supported by individual donations and environmental groups, the N.C. chapter of The Nature Conservancy worked with the state and Crescent to facilitate the purchase, completed in January 2004.
  - In December 2003, Crescent accepted a letter of intent from The Katawba Valley Land Trust (KVLT) to buy the Heritage Tract, a 2,000-acre area of environmental, cultural and historical significance along the Catawba River in South Carolina. Crescent has sold more than 1,200 acres to KVLT for the expansion of Landsford Canal State Park, home of the world's largest known colony of the rare Rocky Shoals spider lilies. In recent years, Crescent has also conveyed several conservation easements along the stream banks feeding into the Catawba River to KVLT for permanent stewardship.
- More than one-third of the property in Palmetto Bluff, Crescent's 20,000-acre recreational and residential community in South Carolina's lowcountry, will remain undeveloped, including a 6,500-acre managed forest. Crescent has sold close to $50 million in residential real estate at Palmetto Bluff since sales opened last year. A luxury inn and spa and an 18-hole Nicklaus Signature Golf Course are set to open in 2004.
- In 2003, Crescent maintained strong market share in its residential markets.
  - The company sold 57 percent of the total value of homesites with an average price of $50,000 or more in new communities in the greater Charlotte, N.C., area.
  - In the metro Atlanta area, Sugarloaf Country Club has been the top-selling luxury golf club community for million-dollar homes for the past six years.
  - In Palm Coast, Fla., Crescent's residential venture partner LandMar Group's Grand Haven exceeded 2003 sales projections by 55 percent.
  - Crescent welcomed the first families to its new country club community in the Atlanta area, the River Club, on the Chattahoochee River in Suwanee, Ga.
  - Crescent opened three new communities at Lake Keowee in South Carolina, and announced plans for a new family-oriented residential development near Lake Norman in North Carolina.
- Since establishing its retail division three years ago, Crescent's strategy has been to sell select neighborhood retail centers it develops and re-invest in the development of new retail centers. The company closed four sales in the month of December 2003 alone for more than $50 million, and has five retail centers under development.
- Crescent's multi-family division realized a gain of $11.6 million when it sold two apartment communities in 2003. Both Lighthouse Court in the Jacksonville, Fla., area and CrossWynde in the Tampa vicinity opened less than two years ago.

Strategy Going Forward:

- Generate earnings through:
  - Opportunity-driven development in carefully selected target markets
  - Land sales that maximize the return to shareholders.
- Continue to focus on existing business lines, executing a proven development strategy without significantly increasing risk.
- Continue to generate significant cash flows through asset sales, while maintaining current capital expenditure levels.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)	2003	2002	2001
	Years Ended December 31		
Operating Revenues			
Non-regulated electric, natural gas, natural gas liquids and other	**$ 14,561**	$ 9,109	$ 12,405
Regulated electric	**5,026**	4,880	5,088
Regulated natural gas	**2,942**	2,200	922
Total operating revenues	**22,529**	16,189	18,415
Operating Expenses			
Natural gas and petroleum products purchased	**11,568**	5,436	6,986
Fuel used in electric generation and purchased power	**2,087**	2,191	2,022
Operation and maintenance	**3,959**	3,441	3,991
Depreciation and amortization	**1,803**	1,515	1,262
Property and other taxes	**527**	535	431
Impairment and other related charges	**2,956**	364	—
Impairment of goodwill	**254**	—	36
Total operating expenses	**23,154**	13,482	14,728
(Losses) Gains on Sales of Other Assets, net	**(199)**	32	238
Operating (Loss) Income	**(824)**	2,739	3,925
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	**123**	218	164
Gains on sales of equity investments	**279**	32	—
Other income and expenses, net	**154**	129	147
Total other income and expenses	**556**	379	311
Interest Expense	**1,380**	1,097	760
Minority Interest Expense	**64**	115	327
(Loss) Earnings from Continuing Operations Before Income Taxes	**(1,712)**	1,906	3,149
Income Tax (Benefit) Expense from Continuing Operations	**(707)**	611	1,150
(Loss) Income from Continuing Operations	**(1,005)**	1,295	1,999
Discontinued Operations			
Net operating loss, net of tax	**(27)**	(261)	(5)
Net loss on dispositions, net of tax	**(129)**	—	—
Loss from Discontinued Operations	**(156)**	(261)	(5)
(Loss) Income Before Cumulative Effect of Change in Accounting Principle	**(1,161)**	1,034	1,994
Cumulative Effect of Change in Accounting Principle, net of tax and minority interest	**(162)**	—	(96)
Net (Loss) Income	**(1,323)**	1,034	1,898
Dividends and Premiums on Redemption of Preferred and Preference Stock	**15**	13	14
(Loss) Earnings Available for Common Stockholders	**$ (1,338)**	$ 1,021	$ 1,884

CONSOLIDATED BALANCE SHEETS

(In millions)	December 31 2003	2002
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,160**	$ 874
Receivables (net of allowance for doubtful accounts of $280 at 2003 and $349 at 2002)	**2,888**	4,861
Inventory	**1,156**	1,134
Assets held for sale	**424**	—
Unrealized gains on mark-to-market and hedging transactions	**1,566**	2,144
Other	**694**	887
Total current assets	**7,888**	9,900
Investments and Other Assets		
Investments in unconsolidated affiliates	**1,398**	2,015
Nuclear decommissioning trust funds	**925**	708
Goodwill	**3,962**	3,747
Notes receivable	**260**	589
Unrealized gains on mark-to-market and hedging transactions	**1,857**	2,480
Assets held for sale	**1,444**	—
Other	**1,117**	1,645
Total investments and other assets	**10,963**	11,184
Property, Plant and Equipment		
Cost	**47,157**	48,677
Less accumulated depreciation and amortization	**12,171**	11,298
Net property, plant and equipment	**34,986**	37,379
Regulatory Assets and Deferred Debits		
Deferred debt expense	**275**	263
Regulatory asset related to income taxes	**1,152**	936
Other	**939**	460
Total regulatory assets and deferred debits	**2,366**	1,659
Total Assets	**$ 56,203**	$ 60,122

(In millions)	December 31 2003	2002
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 2,331**	$ 3,637
Notes payable and commercial paper	**130**	915
Taxes accrued	**—**	156
Interest accrued	**304**	310
Liabilities associated with assets held for sale	**651**	—
Current maturities of long-term debt and preferred stock	**1,200**	1,331
Unrealized losses on mark-to-market and hedging transactions	**1,283**	1,918
Other	**1,799**	1,770
Total current liabilities	**7,698**	10,037
Long-term Debt, including debt to affiliates of $876 at 2003	**20,622**	20,221
Deferred Credits and Other Liabilities		
Deferred income taxes	**4,120**	4,834
Investment tax credit	**165**	176
Unrealized losses on mark-to-market and hedging transactions	**1,754**	1,548
Liabilities associated with assets held for sale	**737**	—
Other	**5,524**	4,893
Total deferred credits and other liabilities	**12,300**	11,451
Commitments and Contingencies		
Guaranteed Preferred Beneficial Interests in Subordinated Notes of Duke Energy Corporation or Subsidiaries	**—**	1,408
Minority Interests	**1,701**	1,904
Preferred and Preference Stock		
Preferred and preference stock with sinking fund requirements	**—**	23
Preferred and preference stock without sinking fund requirements	**134**	134
Total preferred and preference stock	**134**	157
Common Stockholders' Equity		
Common stock, no par, 2 billion shares authorized; 911 million and 895 million shares outstanding at December 31, 2003 and 2002, respectively	**9,519**	9,236
Retained earnings	**4,060**	6,417
Accumulated other comprehensive income (loss)	**169**	(709)
Total common stockholders' equity	**13,748**	14,944
Total Liabilities and Common Stockholders' Equity	**$ 56,203**	$ 60,122

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Years Ended December 31 2003	2002	2001
Cash Flows from Operating Activities			
Net (loss) income	**$ (1,323)**	$ 1,034	$ 1,898
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	**1,987**	1,692	1,450
Cumulative effect of change in accounting principles	**162**	—	96
Gain on sales of equity investments and other assets	**(86)**	(81)	(238)
Impairment charges	**3,495**	545	36
Deferred income taxes	**(534)**	495	129
Purchased capacity levelization	**194**	175	156
Contribution to company-sponsored pension plan	**(181)**	—	—
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	**(15)**	596	91
Receivables	**1,126**	12	3,166
Inventory	**(30)**	134	(192)
Other current assets	**(77)**	(335)	694
Increase (decrease) in			
Accounts payable	**(1,030)**	798	(3,545)
Taxes accrued	**(168)**	(332)	183
Other current liabilities	**79**	(194)	325
Other, assets	**349**	380	351
Other, liabilities	**(19)**	(372)	(243)
Net cash provided by operating activities	**3,929**	4,547	4,357
Cash Flows from Investing Activities			
Capital expenditures, net of refund	**(2,471)**	(4,924)	(5,930)
Investment expenditures	**(290)**	(641)	(1,093)
Acquisition of Westcoast Energy Inc., net of cash acquired	**—**	(1,707)	—
Net proceeds from the sale of equity investments and other assets, and sales of and collections on notes receivable	**1,966**	516	943
Other	**(136)**	(53)	37
Net cash used in investing activities	**(931)**	(6,809)	(6,043)
Cash Flows from Financing Activities			
Proceeds from the			
Issuance of long-term debt	**3,009**	5,114	2,673
Issuance of common stock and common stock related to employee benefit plans	**277**	1,323	1,432
Payments for the redemption of			
Long-term debt	**(2,849)**	(1,837)	(1,298)
Preferred and preference stock and preferred member interests	**(38)**	(88)	(33)
Guaranteed preferred beneficial interests in subordinated notes	**(250)**	—	—
Notes payable and commercial paper	**(1,702)**	(1,067)	(246)
Distributions to minority interests	**(2,508)**	(2,260)	(3,063)
Contributions from minority interests	**2,432**	2,535	2,733
Dividends paid	**(1,051)**	(938)	(871)
Other	**23**	64	27
Net cash (used in) provided by financing activities	**(2,657)**	2,846	1,354
Changes in cash and cash equivalents associated with assets held for sale	**(55)**	—	—
Net increase (decrease) in cash and cash equivalents	**286**	584	(332)
Cash and cash equivalents at beginning of period	**874**	290	622
Cash and cash equivalents at end of period	**$ 1,160**	$ 874	290
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	**$ 1,324**	$ 1,011	$ 733
Cash (refunded) paid for income taxes	**(18)**	$ 344	$ 770
Significant non-cash transactions:			
Acquisition of Westcoast Energy Inc.			
Fair value of assets acquired	**$ —**	$ 9,254	$ —
Liabilities assumed, including debt and minority interests	**—**	8,047	—
Issuance of common stock	**—**	1,702	—
Capital lease obligations related to property, plant and equipment	**$ —**	$ 117	$ —

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

				Accumulated Other Comprehensive Income (Loss)			
(In millions)	Common Stock Shares	Common Stock	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	Total
Balance December 31, 2000	**739**	**$ 4,797**	**$ 5,379**	**$ (120)**	**$ —**	**$ —**	**$10,056**
Net income			1,898				1,898
Other comprehensive income							
Cumulative change in accounting principle[a]					(921)		(921)
Foreign currency translation adjustments				(187)			(187)
Net unrealized gains on cash flow hedges[c]					1,324		1,324
Reclassification into earnings from cash flow hedges[d]					84		84
Total comprehensive income							2,198
Dividend reinvestment and employee benefits	13	329					329
Equity offering	25	1,091					1,091
Common stock dividends, including equity units contract adjustment			(973)				(973)
Preferred and preference stock dividends			(14)				(14)
Other capital stock transactions, net			2				2
Balance December 31, 2001	**777**	**$ 6,217**	**$ 6,292**	**$ (307)**	**$ 487**	**$ —**	**$12,689**
Net income			1,034				1,034
Other comprehensive income							
Foreign currency translation adjustments				(340)			(340)
Net unrealized gains on cash flow hedges[c]					37		37
Reclassification into earnings from cash flow hedges[d]					(102)		(102)
Minimum pension liability adjustment[e]						(484)	(484)
Total comprehensive income							145
Dividend reinvestment and employee benefits	13	342					342
Equity offering	55	975					975
Westcoast acquisition	50	1,702					1,702
Common stock dividends, including equity units contract adjustment			(905)				(905)
Preferred and preference stock dividends			(13)				(13)
Other capital stock transactions, net			9				9
Balance December 31, 2002	**895**	**$ 9,236**	**$ 6,417**	**$ (647)**	**$ 422**	**$ (484)**	**$14,944**
Net loss			(1,323)				(1,323)
Other comprehensive loss							
Foreign currency translation adjustments[b]				962			962
Net unrealized gains on cash flow hedges[c]					116		116
Reclassification into earnings from cash flow hedges[d]					(240)		(240)
Minimum pension liability adjustment[e]						40	40
Total comprehensive loss							(445)
Dividend reinvestment and employee benefits	16	283	(6)				277
Common stock dividends, including equity units contract adjustment			(993)				(993)
Preferred and preference stock dividends			(15)				(15)
Other capital stock transactions, net			(20)				(20)
Balance December 31, 2003	**911**	**$ 9,519**	**$ 4,060**	**$ 315**	**$ 298**	**$ (444)**	**$13,748**

[a] Cumulative change in accounting principle, net of $573 tax benefit in 2001.

[b] Foreign currency translation adjustments, net of $114 million tax benefit in 2003.

[c] Net unrealized gains on cash flow hedges, net of $49 tax expense in 2003, $72 tax expense in 2002 and $748 tax expense in 2001.

[d] Reclassification into earnings from cash flow hedges, net of $130 tax benefit in 2003, $94 tax benefit in 2002 and $116 tax expense in 2001.

[e] Minimum pension liability adjustment, net of $27 tax expense in 2003 and $309 tax benefit in 2002.

Non-GAAP Financial Measures

(Loss) earnings before interest and taxes from continuing operations and ongoing (loss) earnings per share are non-GAAP (generally accepted accounting principles) financial measures as defined by the Securities and Exchange Commission under Regulation G.

(Loss) earnings before interest and taxes from continuing operations is one of the measures used by management to assess consolidated performance for continuing operations. It represents the combination of operating (loss) income, and other income and expenses as presented on the Consolidated Statements of Operations, and it excludes results and impacts of discontinued operations. Additionally, management believes its investors use (loss) earnings before interest and taxes from continuing operations as a supplemental measure to evaluate the company's consolidated results from continuing operations.

The company's management uses ongoing (loss) earnings per share, which represents net income adjusted for special items, as one of the measures to evaluate operations of the company. Special items represent certain charges or gains which management believes are not representative of the ongoing operations of the company. Management believes that the presentation and use of ongoing (loss) earnings per share provide useful information to investors, allowing them to more accurately compare the company's ongoing performance across all periods presented.

The following is a reconciliation of ongoing (loss) earnings per share to GAAP reported basic (loss) earnings per share for 2003 and 2002:

2003	Pre-tax Amount	Tax Effect	Full-year EPS
Earnings per share, ongoing			**$1.28**
DENA plant impairments and DETM charges	$(2,826)	$1,046	(1.97)
DENA redesignation of hedging contracts to mark-to-market	(262)	97	(0.18)
Charges and impairments for Australia and Europe	(292)	69	(0.25)
Cumulative effect of accounting changes	(256)	94	(0.18)
DENA goodwill write-off	(254)	90	(0.18)
Severance and related charges	(153)	55	(0.11)
Net gain on asset sales	185	(66)	0.13
DEI reserve and charges for environmental settlements in Brazil	(26)	10	(0.02)
Write-off of risk management system	(51)	19	(0.04)
Settlement with the South Carolina Public Service Commission	(46)	18	(0.03)
Settlement with the Commodity Futures Trading Commission	(17)	—	(0.02)
Tax benefit on 2002 impairment of goodwill at DEI for European gas trading	—	52	0.06
Tax adjustments	—	23	0.03
			(2.76)
Earnings per share, as reported			**$(1.48)**

2002	Pre-tax Amount	Tax Effect	Full-year EPS
Earnings per share, ongoing			**$1.88**
Impairment of goodwill at DEI for European gas trading	$(194)	$ —	(0.22)
Expenses at Franchised Electric associated with December 2002 ice storm	(89)	35	(0.06)
Severance charges associated with workforce reduction	(103)	40	(0.08)
Partial impairment of a merchant plant as a result of current market outlook	(31)	9	(0.04)
Asset impairments at Field Services	(28)	10	(0.02)
Termination of certain turbines on order, plus write-down of other uninstalled turbines	(163)	59	(0.13)
Write-off of site development costs, primarily in California and Brazil	(80)	30	(0.06)
Information technology system write-off at DENA	(24)	9	(0.02)
Demobilization costs at DENA	(22)	8	(0.02)
Settlement with North Carolina Utility Commission and Public Service Commission of South Carolina	(19)	7	(0.01)
			(0.66)
Earnings per share, as reported			**$1.22**

LEADERSHIP

Executive Committee

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

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

Anderson has lead responsibility for positioning Duke Energy as a company that achieves superior results, optimizing the focus of the entire organization, improving execution and ensuring clear accountability. He chairs the Executive Committee and the Expanded Executive Committee.

Fred J. Fowler
President and Chief Operating Officer

Fowler chairs Duke Energy's Operating Committee, with responsibility for the operational, commercial and financial results of the company's energy-related businesses.

David L. Hauser
Group Vice President and Chief Financial Officer

Hauser is responsible for treasury, accounting, tax and risk management. His duties include certifying financial statements and overseeing risk control policies and systems.

Jim W. Mogg
Group Vice President and
Chief Development Officer

Mogg oversees strategy and corporate transactions, corporate and human resources development, mergers and acquisitions, diversity and the company's real estate affiliate.

Richard J. Osborne
Group Vice President, Public and Regulatory Policy

Osborne has responsibility for Duke Energy's public policy agenda and relationships with regulators, legislators, communities and other key stakeholders.

Martha B. Wyrsch
Group Vice President, General Counsel
and Secretary

Wyrsch is responsible for the company's legal affairs, compliance activities and the office of Corporate Secretary, as well as audit, ethics, security, business continuity and insurance.

Gregory L. Ebel
Secretary to the Executive Committee
Vice President, Investor and Shareholder Relations

Ebel is responsible for relationships and communication with the investment community, and for monitoring changes and trends in investment markets.

Expanded Executive Committee

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

William H. Easter III
Chairman, President and
Chief Executive Officer,
Duke Energy Field Services

Easter leads the company's natural gas gathering and processing and natural gas liquids business.

Robert B. Evans
President,
Duke Energy Americas

Evans is responsible for Duke Energy's North American and Latin American wholesale energy generation business.

A.R. Mullinax
Group Vice President,
Duke Energy Business Services

Mullinax directs global sourcing and logistics, information technology services, corporate real estate services and human resources services.

Greg Ebel, Ruth Shaw, David Hauser and (seated) Bobby Evans

Fred Fowler, Paul Anderson and Martha Wyrsch

A. R. Mullinax, Jim Mogg, Tom O'Connor, Bill Easter and (seated) Rich Osborne

Thomas C. O'Connor
President,
Duke Energy Gas Transmission

O'Connor leads Duke Energy's natural gas pipeline business in the United States and Canada.

Ruth G. Shaw
President,
Duke Power Company

Shaw oversees the electric utility that serves more than 2 million customers in North Carolina and South Carolina.

BOARD OF DIRECTORS

Paul M. Anderson, 58, Chairman of the Board and Chief Executive Officer, Duke Energy. Director since 2003. Paul Anderson rejoined Duke Energy in November, having served as its first President and Chief Operating Officer after the 1997 merger of Duke Power and PanEnergy.

G. Alex Bernhardt, Sr., 61, Chairman and Chief Executive Officer, Bernhardt Furniture Company. Audit Committee. Nuclear Oversight Committee. Director since 1991. Besides leading the family business in Lenoir, N.C., Bernhardt serves as a director of Cities in Schools and Smart Start, and on the Davidson College Board of Trustees.

Robert J. Brown, 69, Chairman and Chief Executive Officer, B&C Associates Inc. Audit Committee. Corporate Governance Committee. Director since 1994. Brown founded B&C Associates Inc., a marketing research and public relations firm in High Point, N.C. He serves on the Board of Trustees of the National Urban League.

William T. Esrey, 64, Chairman Emeritus, Sprint Corporation. Chairman, Japan Telecom. Audit Committee. Director since 1985. Esrey joined Sprint in 1980, and went on to serve as the company's Chief Financial Officer, President, Chief Executive Officer and Chairman. He joined Japan Telecom in 2003.

Ann Maynard Gray, 58, Former President, Diversified Publishing Group of ABC Inc. Corporate Governance Committee. Compensation Committee. Nuclear Oversight Committee. Finance and Risk Management Committee. Director since 1994. At American Broadcasting Companies Inc., Gray also held positions as Treasurer and Vice President of Planning. She currently serves as a trustee for J.P. Morgan funds.

George Dean Johnson, Jr., 61, Chief Executive Officer and Director, Extended Stay America Inc. Chairman, Finance and Risk Management Committee. Director since 1986. Johnson is also Chairman of Johnson Development Associates Inc. He served in the S.C. House of Representatives and as a director of the Federal Reserve Bank of Richmond.

Max Lennon, 63, President, Education and Research Services. Chairman, Audit Committee. Director since 1988. Lennon is a former president of Clemson University and Mars Hill College. He also served as President and Chief Executive Officer of Eastern Foods Inc.

Leo E. Linbeck, Jr., 69, Senior Chairman, Linbeck Corporation. Chairman, Compensation Committee. Finance and Risk Management Committee. Director since 1986. Linbeck Corp. is a group of two construction-related firms headquartered in Houston, Texas. Linbeck is past Chairman and director of the Federal Reserve Bank of Dallas.

James G. Martin, 68, Corporate Vice President, Carolinas HealthCare System. Chairman, Corporate Governance Committee. Compensation Committee. Nuclear Oversight Committee. Director since 1994. Martin was Governor of the state of North Carolina from 1985 to 1993, and previously was a U.S. Congressman. He is Chairman of the Global TransPark Foundation Inc.

Michael E.J. Phelps, 56, Chairman, Dornoch Capital Inc. Chairman, Duke Energy Canadian Advisory Council. Corporate Governance Committee. Finance and Risk Management Committee. Director since 2002. Phelps is former Chairman of the Board and Chief Executive Officer of Westcoast Energy Inc., acquired by Duke Energy in 2002.

James T. Rhodes, 62, Retired Chairman, President and Chief Executive Officer, Institute of Nuclear Power Operations. Chairman, Nuclear Oversight Committee. Audit Committee. Director since 2001. Rhodes was formerly President and Chief Executive Officer of Virginia Power. He currently serves on the Executive Committee of the Nuclear Energy Institute.

In October 2003, Rick Priory announced his retirement and stepped down as Chairman and CEO. Duke Energy thanks him for his leadership and contributions over his 27 years with the company, and wishes him well in his retirement.

INVESTOR INFORMATION

Annual Meeting
The 2004 Annual Meeting of Duke Energy Shareholders will be:
Date: Thursday, May 13, 2004
Time: 10 a.m.
Place: O.J. Miller Auditorium, Energy Center
526 South Church Street
Charlotte, NC 28202

Shareholder Services
Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Send e-mail requests to InvestDUK@duke-energy.com. Send written requests to:

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

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

Web Site Address
www.duke-energy.com

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

Financial Publications
Duke Energy will furnish to any shareholder, without charge, printed copies of the 2003 Summary Annual Report and SEC Form 10-K. Those and other financial publications can also be found on our Web site.

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

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

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

Dividend Payment
Duke Energy has paid quarterly cash dividends on its common stock for 77 consecutive years. Dividends on common and preferred stock are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 16, Sept. 16 and Dec. 16, 2004.

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

JPMorgan Chase Bank
Institutional Trust Services
P.O. Box 2320
Dallas, TX 75221-2320

We welcome your opinion on Duke Energy's 2003 Annual Report. Please visit the Investors section of www.duke-energy.com, where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

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