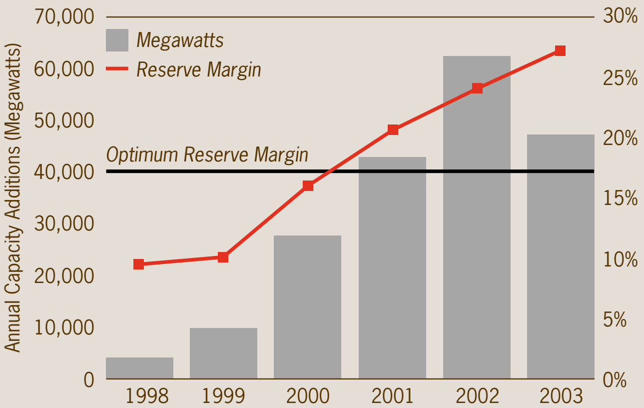
Duke Energy

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 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.

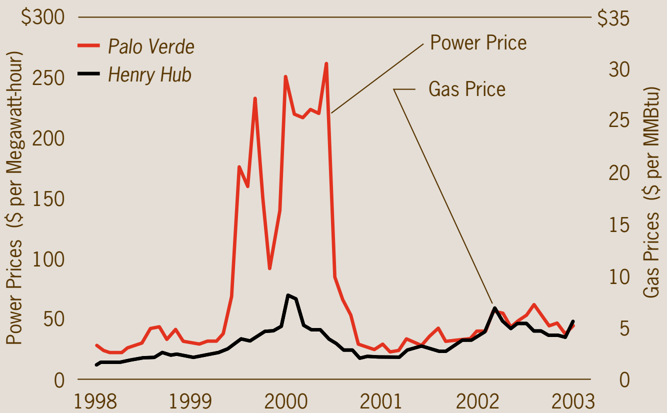
U.S Capacity Additions/Reserve Margins



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.

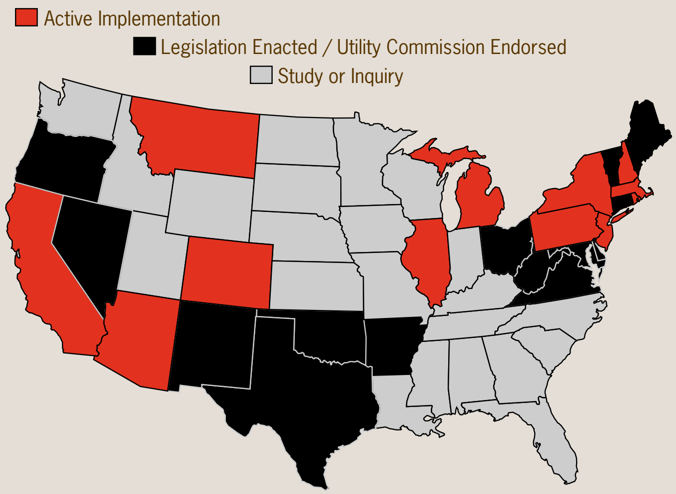
Power and Gas Prices

(Average Monthly)

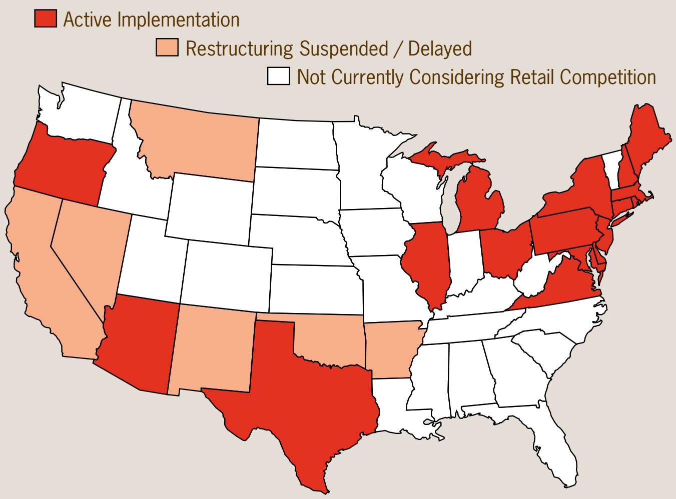


Normal gas and power price relationships gave way to extreme volatility from the late 1990s into mid-2001. When power prices plummeted, so did the profit margins from gas-fired electric generation. (Prices shown are as reported at the Henry Hub and Palo Verde trading centers.)

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.

... 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)	2003	2002	2001	2000	1999
	Years Ended December 31				
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 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.