

**CORPORATE PARTICIPANTS****Greg Ebel**

*Duke Energy Corporation - VP-Investor and Shareholder Relations*

**Paul Anderson**

*Duke Energy Corporation - Chairman, CEO*

**David Hauser**

*Duke Energy Corporation - Interim CFO, Senior VP*

**Fred Fowler**

*Duke Energy Corporation - President, COO*

**CONFERENCE CALL PARTICIPANTS****Kit Konolige**

*Morgan Stanley*

**Dan Eggers**

*Credit Suisse First Boston*

**Andrew Davis**

*Harvard Management*

**Jessica Rutledge**

*Lazard Asset Management*

**Maureen Howell**

*RBC Capital Markets*

**Jay Yannello**

*UBS*

**Leslie Rich**

*Bank of America*

**Wen-Wen Chen**

*ABN Amro*

**Brian Chin**

*Smith Barney*

**Jason West**

*Deutsche Bank*

**Ollie Auga**

*Burnham Securities*

**Vic Khaitan**

*Deutsche Asset Management*

**Devin Geoghegan**

*Zimmer Lucas Partners*

**Steve Fleishman**

*Merrill Lynch*

**Michael Goldenberg**

*Luminus Management*

**PRESENTATION****Operator**

Good day, everyone, and welcome to the Duke Energy fourth quarter and year end earnings conference call. Today's call is being recorded.

At this time for opening remarks, I would like to turn the call over to the Vice President of Investor and Shareholder Relations for Duke Energy, Mr. Greg Ebel. Please go ahead, sir.

**Greg Ebel - Duke Energy Corporation - VP-Investor and Shareholder Relations**

Good morning and thank you for joining us this morning. With me today are Paul Anderson, CEO and Chairman of Duke Energy and David Hauser, group vice president and CFO of Duke Energy. In addition, Fred Fowler – Chief Operating Officer, Keith Butler – Corporate Controller, and Myron Caldwell, our Treasurer are with us to assist with questions you may have today.

Today's call will be focused on the results for the fourth quarter and full year 2003. I know many of you are eager to get more information on our medium term outlook following our conference call a few weeks ago. Our key business unit leaders will be in a position to have that discussion with you on February 3<sup>rd</sup> when we come to New York for a half day analyst meeting.

Before we start today let me read to you our Safe Harbor Statement.

Some of the things we will discuss in today's call concerning future company performance will be forward-looking statements within the meaning of securities laws. Actual results may materially differ from those discussed in these forward-looking statements, and you should refer to the additional information contained in our SEC filings concerning factors that could cause those results to be different than contemplated in today's discussion.

In addition, today's discussion includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures will be made available on our investor relations website at: [www.duke-energy.com](http://www.duke-energy.com).

Following Paul's and David's prepared comments we will open the lines for questions.

Now I'll turn to Paul for opening comments.

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Thank you, Greg.

I'd like to begin by noting that 2003 has been a year of transition for Duke Energy. We were quite successful in reversing the trajectory of the company and establishing a stable platform on which we can build. Despite those accomplishments, and to a certain extent because of them, we are reporting the largest loss in the history of the company.

As you have no doubt seen, Duke Energy reported a net loss of \$1.48 per share for 2003, which included \$2.76 in special items which we will cover in more detail in just a minute. Reported earnings for 2002 were \$1.22 per share and included charges for special items totaling 66 cents per share.

Most of our business segments continued to deliver strong results for the quarter and the year. Gas Transmission, Field Services, International and Crescent met their earnings targets and produced good cash flows. Natural Gas Transmission recognized its first full year of earnings from the Westcoast assets and Field Services benefited from higher NGL prices and improving frac spreads. International's Latin American assets delivered expected results and National Methanol had record output during the year.

Decreased earnings for the year at Franchised Electric reflect higher depreciation, amortization and O&M costs. Lower sales in our service territory due to unfavorable weather for the year were offset by higher off-system sales to wholesale customers.

DENA's ongoing results for the year reflect the continued over-supply of merchant generation and low spark spreads which have precluded many of our facilities from generating cost-effective power. And as we discussed in our call earlier this month, we took a number of charges for asset impairments, at both DENA and DEI, and for costs to wind-down the Duke Energy Trading & Marketing joint venture. With these decisions behind us, DENA can now focus on divesting plants in the Southeast and contracting more power supplies from our remaining facilities.

As a part of our cost reduction efforts across the company, Duke Energy incurred approximately \$153 million in severance costs during 2003. Annual cost savings related to the workforce reduction and other cost saving initiatives will reach at least \$200 million in 2004.

Earlier this month I shared with you some charges we planned to take during the fourth quarter. I would like to update you on where we ended up with those charges as well as other charges which make up our special items for 2003.

This table has a lot of numbers on it. I'm not going to walk through each item in this table as we have already provided you with information concerning these charges in previous calls. But I

thought you needed to see a table which summarizes all of the special items included in our reported EBIT numbers.

As you can see the most significant items shown here have to do with the fourth quarter 2003 asset impairments at DENA, the associated disqualified hedges and the wind down of Duke Energy Trading & Marketing. The third quarter goodwill write-down was the most significant charge not in the fourth quarter.

In addition to the numbers shown here, other special items totaling approximately \$170 million are included in our financials as net losses from discontinued operations, net of tax.

We've put this information out to help you better understand what our 2003 ongoing EBIT from continuing operations are for each of our reporting segments.

With that, let me turn things over to David...

**David Hauser - Duke Energy Corporation - Interm CFO, Senior VP**

Thank you, Paul.

For the fourth quarter 2003, Duke Energy reported a loss of \$2.23 per share. Excluding the \$2.45 in special items for fourth quarter discussed earlier, ongoing earnings were 22 cents per share.

As you may likely have noticed we are now reporting Discontinued Operations. This is the first time that we have the income statement line "Discontinued Operations". It is the accounting fall-out associated with our fourth quarter decision to exit certain businesses. The Discontinued Operations line is net of both interest expense and income taxes. As this change affects past periods we have reclassified for prior periods. Looking forward, this should provide you with a better view of our ongoing earnings.

Now let me move on to the specifics at the business segments.

Franchised Electric reported segment EBIT of \$197 million for the fourth quarter of 2003 compared with \$248 million for the same period in 2002. Excluding \$29 million primarily related to severance charges, ongoing segment EBIT for the fourth quarter of 2003 was \$226 million. While our ongoing EBIT was lower than originally anticipated, the cash flow generated in 2003 was in line with our projections.

Primary drivers for the quarter were reduced revenues from milder weather, lower wholesale power sales, and higher depreciation, amortization and O&M expenses. Additional Clean Air amortization and the new Mill Creek plant, along with other capital additions, contributed to higher depreciation and amortization expense.

During the fourth quarter, Franchised Electric increased its North Carolina Clean Air amortization expense by \$10 million from its originally projected amount for a total of \$28 million. Clean Air amortization for the year totaled \$115 million, approximately \$45 million more than our original estimate for 2003.

We saw heating degree hours decrease 12.8% from last year's fourth quarter. This warmer winter weather decreased gigawatt-hour sales by about 7% from the fourth quarter of 2002. Residential and industrial sales decreased by 7% and 5.5% respectively. The number of customers increased by 1.9% compared with fourth quarter last year.

[Annual gigawatt-hour sales decreased 1.2% and customers increased 2.0% during 2003. Heating degree hours increased 1.1% and cooling degree hours decreased 30.4% for the year.]

For the full year you will notice that our reported earnings for Franchised Electric are about \$200 million lower than in 2002. This lower earnings number is consistent with both our current rate base and our allowed returns in North and South Carolina.

Now let me move on to Natural Gas Transmission.

Our gas transmission businesses in the US and Canada delivered \$308 million in segment EBIT for the fourth quarter of 2003 compared with \$294 million in 2002. When adjusted for special items EBIT for both quarters totaled \$303 million.

Special items during the fourth quarter of 2003 included gains on asset sales of \$16 million and an \$11 million charge for severance and related costs.

Flat earnings quarter over quarter was the result of foregone earnings related to asset sales during 2003 partially offset by incremental earnings from expansion projects.

Natural Gas Transmission delivered solid results and exceeded its forecasted annual EBIT target of \$1.2 billion despite foregone earnings associated with certain asset divestitures.

Overall, Field Services' ongoing EBIT for the fourth quarter was about \$10 million higher than last year. Earnings benefited from the improvement in NGL pricing, although hedges against movements in NGL pricing partially offset the price increases.

Field Services realized strong margins from its processing business, especially on percent-of-proceeds contract margins which increased nearly \$35 million over last year's fourth quarter.

Natural gas liquids prices continued to improve over last year from 45 cents in the fourth quarter of 2002 to 54 cents in the fourth quarter this year. NGLs so far in the first quarter of 2004 have averaged about 66 cents per gallon. The frac spread was \$1.81 per MMBtu at the end of the fourth quarter – about a dollar higher than

the third quarter. We've seen frac spreads continue to increase in January as well.

Weighted average NGL prices for the full year also showed similar improvement -- 58¢ compared with 45¢ in 2002.

Operating costs during the quarter were about \$20 million higher than last year primarily due to some \$20 million in 4Q03 charges for severance and other employee-related expenses. Going into 2004, we expect direct operating and G&A expenses to average about \$575-600 million.

Field Services continues to work on adding minimum fee clauses to a portion of its keep-whole contracts. These clauses could be exercised in the event of weak frac spread pricing environments.

And we have also transitioned some keep-whole contracts to percent-of-proceeds contracts. This transition has had the effect of neutralizing the sensitivity to changes in natural gas prices. Field Services' sensitivity to a 10¢ per MMBtu change in the price for natural gas now equates to a less than \$1 million change in segment EBIT with a negative correlation – where it was about \$5 million before.

Sensitivities to NGL prices have also changed – At the Duke Energy level, net of all hedging, the sensitivity is approximately \$6 million in segment EBIT for a 1¢ change in NGL prices. The NGL sensitivity is positively correlated. At the 100% Field Services level, without hedging, a 1¢ per gallon change in NGL prices moves segment EBIT by about \$18 million compared with the prior sensitivity of \$25 million. This reduction is largely driven by the movement from keep-whole contracts to percent-of-proceeds contracts. The transition to more percent-of-proceeds contracts essentially reduces the volatility in earnings related to NGL price fluctuations.

DENA's results for the quarter continue to reflect the poor market conditions for the merchant energy business. Continued downward pressure on spark spreads severely limited our ability to capture value in the marketplace. Higher depreciation expenses associated with new projects added over the last year also contributed to the EBIT loss. DENA reported a fourth quarter ongoing EBIT loss of \$74 million compared with a positive \$63 million last year.

The major variance between reported EBIT and ongoing EBIT is the approximately \$3.1 billion in special items taken in the fourth quarter of 2003. These charges related to the asset impairment of DENA's Southeastern plants and the deferred Western plants, wind-down costs associated with the DETM joint venture and the re-designation of certain hedges from accrual to MTM that are related to the impaired assets.

During the fourth quarter of 2002, DENA had special charges of \$41 million made up of workforce reductions of \$7 million,

demobilization costs of \$10 million and a \$24 million charge for an information management system write-off.

At Duke Energy North America, total gross margin realized in 2003 amounted to \$653 million. Low-risk gross margin totaled approximately \$600 million for the year which is consistent with the amount we have been expecting and have discussed with you previously.

Offsetting total gross margin were operating expenses totaling \$722 million for depreciation, operating and maintenance, G&A and minority interest expenses which results in an annual ongoing EBIT loss before special items of \$69 million.

G&A expenses were higher in the fourth quarter due to charges for bad debt and severance expenses, and a contract dispute reserve.

You can see that we have also included the special items recorded in the fourth quarter of 2003 to reconcile to our reported segment EBIT.

This Committee of Chief Risk Officers table is something that you are all familiar with. I wanted to bring to your attention that we have removed the Southeast assets from all years shown because we are pursuing the sale of these assets. We have also excluded the capacity associated with the deferred plants beginning in 2005 when they were expected to be in service.

You can see that we have sold approximately 93% of our estimated production in 2004 and about 66% in both 2005 and 2006. The average price per MWH for these sales is \$44 in 2004, \$45 in 2005 and \$42 in 2006.

Additionally, we have purchased in excess of 80% of the gas needed to meet production sold for each of the years shown in the table.

For the fourth quarter of 2003, Duke Energy's international operations reported EBIT from continuing operations of \$36 million, including a \$26 million charge for an environmental reserve related to our Brazilian operations. Excluding this charge, ongoing EBIT was \$62 million. Reported EBIT for the fourth quarter of 2002 as restated to remove the effect of discontinued operations was \$23 million. Ongoing EBIT for the fourth quarter of 2002 was \$27 million.

International Energy's ongoing operations produced favorable results for the quarter reflecting positive results from the Latin American operations and National Methanol.

Earnings and special charges from the company's Australian and European businesses as well as results from PJP have been reclassified to discontinued operations for the current and prior years.

For our Other Operations segment, I'd like to briefly review the largest component in that segment – Crescent Resources, our real estate business. Crescent reported 2003 EBIT of approximately \$150 million, which was in line with our expectations for the full year as was their cash generation.

For the entire year we reached a total of more than \$2 billion in gross proceeds from asset sales, far exceeding our original expectation of \$600 million. And it's important to note that these were not fire sales – we realized good value for these assets.

The after-tax proceeds associated with our 2003 asset sales are approximately \$1.8 billion.

For 2003, the impact of foregone operating income was approximately \$150 million. The annualized impact on operating income going forward will be approximately \$245 million.

Proceeds from our 2003 asset sales have contributed greatly to our ability to reduce the company's debt balances.

We are actively pursuing the sale of our generation assets in the Southeast and the sale or IPO of our Australian energy business is well underway. We have hired financial advisors to assist us in these transactions. Expected proceeds from these transactions are approximately \$1.5 billion. The completion of these asset sales will substantially reduce the company's exposure to merchant generation and international operations.

Before I move on to the discussion of debt reductions let me review the change in interest expense.

Duke Energy reported a \$283 million increase in interest expense in 2003 compared to 2002. With our \$2.2 billion reduction in debt during the year, you might reasonably have expected a decrease in interest expense. A few of the significant reasons for the increase are:

- \$136 million decrease in capitalized interest at DENA and Crescent
- \$48 million interest on trust preferred securities reclassified from minority interest expense
- \$46 million due to full year effect of Westcoast acquisition
- \$16 million write-off of unamortized debt costs in Duke Power's settlement with the South Carolina commission

There are myriad other factors affecting interest but these are just some of the more significant items. As we begin to realize the full year effect of the \$2.2 billion decline in debt in 2003 and the additional debt reduction in 2004, we'll see considerably lower interest expense going forward. In 2004, interest expense should be about \$1.3 billion and in 2005 about \$1.1 billion.

This slide illustrates the changes in debt balances for 2003 and 2004. At the end of 2003, we had a total debt balance of approximately \$22 billion.

We have exceeded our plans for debt repayment and reduced overall debt, including trust preferred securities, by \$2.2 billion at Duke Energy. Reductions at Duke Capital reached \$3.7 billion. The total planned debt reduction for 2003 was originally \$1.8 billion.

Over the next 12 months we expect to reduce overall debt by approximately \$3.5 to \$4 billion. These reductions will take place through the mandatory conversion of the equity units in May and November, asset sales, debt maturities and other reductions. We plan to retire all economically callable debt and trust preferred securities in 2004.

Included in this debt reduction amount is the approximately \$900 million of debt related to our Australian business. Because the operations of this business are now considered "Discontinued Operations" for accounting purposes, the debt associated with these operations was reclassified on the balance sheet to "Liabilities Associated with Assets Held for Sale". At the time the assets are sold, the associated debt will be removed from the balance sheet.

The combination of debt reductions of \$3.1 billion, excluding the Australian debt, and new equity issued as a result of the mandatory conversion of debt to equity will significantly improve our debt to cap ratio from 58% to 52% in just one year. Both of these numbers reflect the impact on our equity balance of the impairments taken at the end of 2003.

Strengthening the balance sheet has been a top priority for the company. We have maintained an appropriate level of liquidity and have ready access to funds for our day-to-day business operations. At Duke Energy and Duke Capital, we currently have a total unused capacity of \$2.3 billion in credit facilities and letters of credit.

In addition, we had cash on hand at December 31<sup>st</sup> in excess of \$1 billion for additional liquidity purposes and we expect to maintain this level of cash throughout 2004.

I'll now turn the call back over to Paul for his closing remarks.

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Before we take your questions let me review the company's achievements in 2003. First, we were successful in selling non-strategic assets for more than \$2 billion in gross proceeds.

Our capex for the year totaled less than \$2.8 billion. This is a \$400 million reduction from our original forecast of \$3.2 billion.

These accomplishments allowed Duke Energy to reduce debt in 2003 by approximately \$2.2 billion and approximately \$3.7 billion at Duke Capital. We're off to a strong start in our debt reduction goal having exceeded our 2003 projections. Our current plan, which we shared with you on Jan 7<sup>th</sup>, will result in debt reduction of approximately \$6 billion in the two years ending December 2004 versus our original goal of \$5.5 billion in debt reduction over the three years ending 2005. In other words, we are a year ahead of schedule.

We discussed a change in management's view of DENA and DEI that resulted in approximately \$3.4 billion in pre-tax charges. In 2004, we expect to reduce the size of these operations along with reducing the risk exposures inherent in these businesses. We expect to divest generation assets at DENA, primarily in the Southeastern US, and we are already taking steps to exit DEI's business in Australia. We expect to complete our exit from Europe in the first half of 2004.

While Duke Energy continues to be subject to significant litigation and regulatory challenges, this is also an area which has enjoyed significant successes over the last year. Highlights include the dismissals of the shareholder class action suits arising out of the "round-trip trading;" the settlement of false price reporting allegations with the Commodity Futures Trade Commission (CFTC); and, the Federal Energy Regulatory Commission (FERC) Staff's exoneration of DENA from allegations of physical withholding during the California energy crisis and settlement of all California-related FERC matters except the refund case.

While it's unfortunate that we did not deliver on our earnings goal, reaching and exceeding other financial goals and clearing up significant legal and regulatory issues should not be overlooked.

The company has made a dramatic shift in capital management. Some of my top priorities include the continuing evaluation of the portfolio from a strategic perspective, ensuring strong capital discipline across the organization and focusing on earning appropriate returns on all our investments.

My first few months on the job have been oriented toward providing stability by naming a strong leadership team and making key operational and financial decisions. In doing so we have streamlined the organization – eliminating the role of Chief Administrative Officer, combining DENA and DEI into Duke Energy Americas under Bobby Evans, and a number of smaller yet significant actions.

A few weeks ago, I laid out the high-level goals for Duke Energy and next week we will provide you with more detail on our medium-term expectations for each of our businesses.

Let me assure you that the entire management team is focused on improving the results you see from Duke Energy and providing superior long-term value for our investors.

And let me remind you that my entire compensation is based on Duke stock that cannot be sold before 2007. As such, I am totally aligned with other long-term investors.

With that, let me open the lines for your questions.

## QUESTION AND ANSWER

### Operator

Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please press star one at this time. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Once again, it is star one if you do have a question. We'll take our first question from Kit Konolige with Morgan Stanley.

### Kit Konolige - Morgan Stanley

Good morning. Thanks for all the detail. Wanted to ask a little bit about DENA.

The implication, I think it was you David, overall in your discussion as I understand it was that the fourth quarter net of the special charges and so on should start to reflect kind of what can be expected on an ongoing basis.

So what I wanted to ask was, first of all, the \$74 million negative EBIT at DENA, how does that vary quarterly going forward, and can you give us an idea -- you talked about the \$600 million in low risk gross margin in '03. What would the comparable number be now for '04?

### Paul Anderson - Duke Energy Corporation - Chairman, CEO

This is Paul. First of all, I guess one of the things that we're going to get out of doing is making a bunch of forecasts and then spending all of our time talking about the numbers. We have told the market that we expect DENA to lose as a base case \$300 million.

So, that's sort of our total guidance at this point in time. I'll let David comment on the low risk gross margin.

### David Hauser - Duke Energy Corporation - Interim CFO, Senior VP

Yes. We have talked in the past about low risk gross margin, and we've said it's \$300 million to slightly over \$300 million for 2004, and that's still where we would expect it to be, Kit.

Of course, the drop from this year is because we have less hedges at somewhat lower prices.

### Kit Konolige - Morgan Stanley

I noticed that you have higher production in '05 than '04, now. In fact, my recollection was that it used to be pretty flat. Are you seeing some different expectations now?

### David Hauser - Duke Energy Corporation - Interim CFO, Senior VP

In '05, we've actually reduced our estimated production some. We took out the southeast plants, and we took out the deferred plants in '05.

### Greg Ebel - Duke Energy Corporation - VP-Investor and Shareholder Relations

It's Greg Ebel. The estimated production in the third quarter that we've told you for '04 was about 30 million megawatt hours. Now we're at about 20 million megawatt hours. So it has come down.

### Kit Konolige - Morgan Stanley

I see. Finally, just separate area, can you discuss -- it looked like the tax rate overall in the fourth quarter -- and obviously, there's a lot of things washing back and forth -- was I think we calculated about 24%.

Is there going forward, you know, should we assume a kind of normal corporate tax rate?

### David Hauser - Duke Energy Corporation - Interim CFO, Senior VP

Yes. Of course the tax rate when you have positive earnings from some international operations and then the big losses that we record, the tax rate calculation gets fairly meaningless on a consolidated basis.

But if you look going forward, if you looked at the statutory rate of federal US about 35% and a couple percent per state, you'd be on track.

---

**Kit Konolige - Morgan Stanley**

Very good. Thank you.

---

**Operator**

And moving on, we'll take our next question from Dan Eggers with Credit Suisse First Boston.

---

**Dan Eggers - Credit Suisse First Boston**

Good morning.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Good morning, Dan.

---

**Dan Eggers - Credit Suisse First Boston**

Not to belabor DENA too much, but just from a strategic standpoint, you are talking about 80% hedged on the gas side of that business.

As you approach, I guess, the company in a more maybe conservative manner, is that hedging position going to go up, and are you planning on locking in those positions in the near future, I guess?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

I'm going to turn that over to Fred, because we get that question a lot. And I think the answer is pretty straightforward. But I'd like him to give it.

---

**Fred Fowler - Duke Energy Corporation - President, COO**

Yes, just to clarify, what David said was in excess of 80%.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Yes.

---

**Fred Fowler - Duke Energy Corporation - President, COO**

Okay? That's the first point.

I think the second point is basically, the model that we have, that we use, indicates that you are always a little bit shorter gas than you are your power that you have sold.

We've used that model consistently. We have been through in recent times several pretty big movements, both in all directions on prices, and you will note that we've never had any big hits.

So our model continues to prove out, and work pretty well.

---

**Dan Eggers - Credit Suisse First Boston**

Okay. I guess the other question is, you guys are talking in excess of \$200 million of cost savings in '04 over '03.

Can you give a little more color on where all those pieces are coming? I know some is from O&M. But maybe a little more clarity there.

---

**Fred Fowler - Duke Energy Corporation - President, COO**

The really big driver, if you look at it since September of '02, we have reduced 4,000 people in this company.

It's the accumulation you get off of not only just, you know, the salaries and benefits of the employees, but employees, you know, there's other costs that go along with them that start going away.

Computers start disappearing as the leases roll off. Office space that you had as leases roll off goes away. So you start seeing the cumulative affect.

And that's really -- that along with procurement-type savings is the major drivers.

---

**Dan Eggers - Credit Suisse First Boston**

Okay. Thanks, guys.

---

**Operator**

And moving on, we'll take our next question from Andrew Davis of Harvard Management.

---

**Andrew Davis - Harvard Management**

Good morning. I'm wondering if you could comment on the recent Moody's release which said "management has reiterated its commitment to maintaining investment grade credit rating at Duke Capital. Based on revised metric projections, we anticipate that the parent will need to contribute additional support in 2004".

That runs contrary to what you said in the last conference call. I just wondered if you could comment on early support – needed support, where that kicks in.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Well, we're in good communications with both Moody's and S&P and have met with them and reviewed all our plans with them.

No decision has been made about whether any movement of cash from Duke Energy to Duke Capital will need to occur in '04. I think that depends on the timing of all the cash flows in '04.

But keep in mind as you look at '04, that the vast majority of the debt that comes due in '04 is not until the last quarter of the year.

So we don't anticipate having to move any cash from Duke Energy to Duke Capital, but we'll assess as the year goes and make the right decisions.

---

**Andrew Davis - Harvard Management**

Thanks.

---

**Operator**

And moving on, we'll take our next question from Jessica Rutledge of Lazard Asset Management.

---

**Jessica Rutledge - Lazard Asset Management**

I am hoping to follow-up on your comments about Franchised Electric back at the beginning of your presentation, where you talked about the earnings number being consistent with both the rate base and the allowed returns in North and South Carolina.

What are the realized returns at the utility today, and where does your rate base stand?

---

**Fred Fowler - Duke Energy Corporation - President, COO**

Our realized returns in South Carolina are at 12 ¼%. Our realized returns in North Carolina are slightly above 13%. Anybody in the room know the exact number?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

At the end of the year, they will be a little below 13%.

---

**Fred Fowler - Duke Energy Corporation - President, COO**

A little below 13%. Okay.

---

**Jessica Rutledge - Lazard Asset Management**

And are those levels where you feel that it is a sustainable projection looking forward, where you just basically sit on those return numbers?

---

**Fred Fowler - Duke Energy Corporation - President, COO**

Yeah, I think we're pretty comfortable with those.

That's the allowed number in South Carolina, by the way.

---

**Jessica Rutledge - Lazard Asset Management**

Okay. Excellent.

And also just to follow-up up on Kit's question at the beginning, what was the full year tax rate underlying your operating numbers for this year?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Well, the simple way to look at that is the statutory US tax rate is about 37%. And to the degree things have happened different than 37%, it's because of one-time events.

And so for modeling purposes, you really ought to use a rate of about 37%.

---

**Jessica Rutledge - Lazard Asset Management**

So it's fair to assume in the ongoing earnings numbers that you gave us, you assumed a statutory rate of about 37% and everything else went below the line to the extraordinaries?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Well, I'm with you on up to the 37%, but I don't know about the part below the line.

---

**Jessica Rutledge - Lazard Asset Management**

Okay, I'm sorry, I think I'm being imprecise from an accounting standpoint.

In our GAAP reconciliations, when you talk about the ongoing earnings number, you are using a statutory tax rate to come up with it.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Yes.

---

**Jessica Rutledge - Lazard Asset Management**

Okay. Thank you.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Okay.

---

**Operator**

And next we'll go to Maureen Howell with RBC Capital Markets.

---

**Maureen Howell - RBC Capital Markets**

Thanks very much. You talk about the debt reduction of \$2.2 billion. And I'm just wondering, I realize there's been a re-classification of the preferred securities of about \$900 million.

But also, that's basically offset by the classification discontinued of about \$880 million, I guess associated with the Australia assets. So when I look at the balance sheet, we really only see a reduction in debt of \$500 million.

And in fact, the debt to capital number, you know, increases. Part of that, I guess, would be, you know, foreign exchange translation.

But I'm wondering if you could just reconcile how we go from the \$22.5 billion to the \$21 billion -- or almost \$22 billion, I guess.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Okay. The difference between the \$22.465 billion and the \$21.952 billion that we showed on the quarterly highlights is because of the \$1 billion due to the FX translation and \$1 billion due to the re-classification of the trust preferreds.

---

**Maureen Howell - RBC Capital Markets**

Okay, but that's still -- we're still missing something, right? Because, you know, as I said, that the -- you also have the discontinued \$880 million which kind of offsets the \$900 million, right?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Let me see --

---

**Maureen Howell - RBC Capital Markets**

I'm assuming the \$880 million is not in the \$22 billion. I'm assuming that's what that note means?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

That is correct. Let me clarify one other thing on the \$22 billion. The \$22.465 billion did not include the trust preferreds last year.

---

**Maureen Howell - RBC Capital Markets**

No. I understand that -- oh, okay. Okay.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

I think that may be the difference that you're not picking up.

---

**Maureen Howell - RBC Capital Markets**

So in the 2002 number shown here, the trust preferreds are not in there.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

That's right. Because when the accounting change occurred, you changed it prospectively.

But on that particular change, you did not have to change it retroactively.

---

**Maureen Howell - RBC Capital Markets**

But the Australia numbers have been taken out in both years?

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Yes, that is correct. [The Australian debt that was reclassified in 2003 is included in the 2002 debt numbers as the reclassification as debt held for sale is not a retrospective change. Additionally, it is reflected as a reduction in total debt when comparing 2002 to 2003.]

**Maureen Howell - RBC Capital Markets**

Okay. Yeah, that explains that.

If I could just get a clarification on a previous clarification. In the \$1.28, the tax -- if we had the tax number, the tax calculated would be 37%?

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Yes. It's not exactly 37%, because there are a few permanent differences.

But if you're looking at Duke's tax rate, 37% is a good number.

**Maureen Howell - RBC Capital Markets**

Okay. That's great. Thank you very much.

**Operator**

And next we'll go to Jay Yannello with UBS.

**Jay Yannello - UBS**

Good morning. If we could look at slide six, the delta in Franchise Electric ongoing segment EBIT was, I think, roughly \$144 million.

You gave us a little flavor on that. Could we have a little more dollar value, what was weather, what was lower off-system sales, what was the clean air expenditures, and what was other year over year. If you have those comparison,s that would be good. Because \$144 million is a pretty big number.

**Fred Fowler - Duke Energy Corporation - President, COO**

Yes. Starting off you've got higher D&A of \$137 million, about \$115 million of that is the clean air amortization.

We had lower sales due to unfavorable weather of about \$70 million. We had the South Carolina rate reduction of \$30 million. We had a little bit lower industrial sales of about \$13 million.

And then those were offset by higher bulk power marketing sales of \$112 million, and higher residential and commercial customer sales of about \$38 million.

**Jay Yannello - UBS**

Okay. Thank you.

And the second question, can we have the Crescent property sales number for the fourth quarter this year and the fourth quarter last year?

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

We don't provide that information quarterly, I don't think normally.

**Jay Yannello - UBS**

Okay. Thank you.

**Operator**

And moving on, we'll take our next question from Michael Goldenberg with Luminus Management.

**Michael Goldenberg - Luminus Management**

Good morning, guys.

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Good morning.

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Good morning, Michael. You're a little weak.

**Michael Goldenberg - Luminus Management**

Is it better now?

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Oh, it's much better, thank you.

---

**Michael Goldenberg - Luminus Management**

Could you explain the \$222 million number in other EBIT?

Maybe you could break it out for us if at all possible.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

All right. Let me make sure I'm with you. What slide are you looking at?

---

**Michael Goldenberg - Luminus Management**

Slide four, ongoing segment of EBIT of "other" of \$222 million.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

The biggest part of that, just the lion's share of that is corporate governance. We don't allocate corporate governance back to the business units. So that's the way you ought to look at that.

---

**Michael Goldenberg - Luminus Management**

So what percentage of the \$200 million plus is corporate O&M?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

It's the vast majority.

---

**Michael Goldenberg - Luminus Management**

Okay. And on the Franchise Electric, if I back out the one-time items and I use the \$1.5 billion EBIT versus \$1.4 billion, what is the ROE we're looking at then -- or approximate ROE we'd be getting if we used the \$1.5 billion, versus the \$1.4 billion reported?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

We haven't calculated that. Fred provided the returns based on the reported EBIT.

---

**Michael Goldenberg - Luminus Management**

Okay. Just one final question on the debt maturities, \$4.8 billion. There's obviously a big chunk of the mandatory converts

The other portion, have you guys identified what specifically you can re-pay? Because I'm not sure I'm getting that number with current maturities. So maybe you will be buying back some stuff earlier.

Just wondering if you guys have identified what particular you can pay off early.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Well, we certainly have a list of that. But as I said, it is all of the economically callable debt.

And the big pieces of that would be the trust preferred securities and a project financing we have with one of the banks that's about a billion dollars, as well as one set of retail notes that becomes callable.

---

**Michael Goldenberg - Luminus Management**

Okay. But all of these have actually been identified?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Yes.

You can look in our supplemental information, and you can see what is callable. If you look at the supplemental filing we did at the end of last year that would tell you what the callable debt is.

---

**Michael Goldenberg - Luminus Management**

Great. Thank you very much, guys.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

Okay.

---

**Operator**

And we'll take our next question from Leslie Rich of Bank of America.

---

**Leslie Rich - Bank of America**

Yeah, I wondered if you could clarify the goodwill on the balance sheet.

During 2003, you impaired \$250 million or so of goodwill, yet the goodwill balance increased. And I just wondered what that goodwill is mostly attributable to? Is it all Westcoast or is there some other pieces in there?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

I think the big movement you're seeing in goodwill that you're talking about relates to FX, because you have to move goodwill with FX as the currency changes.

And that applies to Canada as the big driver there. It is Westcoast.

---

**Leslie Rich - Bank of America**

Okay. And then just to clarify in terms of cost savings, the \$200 million, is that incremental 2004 over 2003, or that's sort of cumulative since you began your cost initiative?

---

**Fred Fowler - Duke Energy Corporation - President, COO**

No, that's incremental 2004 over 2003.

---

**Leslie Rich - Bank of America**

Great. Thank you.

---

**Operator**

And moving on, we'll take our next question from Wen-Wen Chen of ABN Amro

---

**Wen-Wen Chen - ABN Amro**

Good morning.

Most of my questions have been answered, but I was wondering if you could comment on timing of any announcement of the sale of the southeast plants?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

We will announce them just as soon as we have a disclosable event.

---

**Wen-Wen Chen - ABN Amro**

Okay. But definitely it's an '04 event?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Certainly our goal and both Fred Fowler's and Jim Mogg's bonuses are based on accomplishing those in 2004.

---

**Wen-Wen Chen - ABN Amro**

Okay. Thanks a lot.

---

**Operator**

And moving on, we'll take our next question from Brian Chin of Smith Barney.

---

**Brian Chin - Smith Barney**

Hi. If we could just circle back to the rate-based question on Franchised Electric, what the rate base is as of the end?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

What's the question?

---

**Brian Chin - Smith Barney**

The question was what was the rate base for Franchised Electric, if you could just kind of center us in terms of the end of the year.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

That number is -- of course it moves around a little bit, but it's between \$8 billion and \$9 billion.

---

**Brian Chin - Smith Barney**

Thank you.

---

**Operator**

And moving on, we'll take our next question from Jason West of Deutsche Bank.

---

**Jason West - Deutsche Bank**

Hi. A couple of questions.

One, if we wanted to calculate just the net income from Franchised Electric, could we do that by taking the EBIT and then subtracting all the interest expense associated with the DUK debt, you know, Duke Energy only debt, and then, you know, put a tax rate on that? I mean, is that a proper way to calculate net income for the utility?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

That would come pretty close. I think you'd have to make some AFUDC adjustments that wouldn't be reflected in EBIT. But other than that, that would bring you pretty close.

I guess my advice would be wait until we file the Duke Energy and Duke Capital 10K's and go look at the differences.

---

**Jason West - Deutsche Bank**

Okay.

And then the other thing, I know this has come up a couple of times already on the call, but just trying to get the number that you guys use for the tax rate in '03 in doing your operating numbers. And I know the forward looking is obviously more important, but looking sort of '03 actuals is also important, I believe.

And I was just wondering what you guys use there.

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

I guess I'm not clear how to answer the question, other than what I have answered.

We use the statutory federal tax rate, and then there are some items such as amortization of ITC and some ESOP dividend distributions that are some permanent differences that impact that. And then of course, the fact that you have some losses and some foreign earnings impact it.

But again, I would be focused on using about a 37% rate going forward.

---

**Jason West - Deutsche Bank**

All right. Thanks a lot.

---

**Operator**

And we'll take our next question from Ollie Auga with Burnham Securities.

---

**Ollie Auga - Burnham Securities**

Thank you.

First question, the gas that you have hedged '04 through '06, could you give us a sense of what price that's been hedged at? You gave us the power side, but could you also give us the gas side?

---

**Fred Fowler - Duke Energy Corporation - President, COO**

No. That's information that we don't disclose.

---

**Ollie Auga - Burnham Securities**

Okay. Fair enough.

Separate question. Could you tell us how much of an impact was the Brazilian currency -- strengthening of the currency -- in the fourth quarter to the international results?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

In Brazil, we have the investment, and then we have substantial debt in Brazil, around \$400 million of debt in Brazil. And that debt is in Brazilian Real.

So the movement of currency in Brazil is not a very important factor for us. So the currency in the fourth quarter in Brazil was not significant to earnings at all.

---

**Ali Aga - Burnham Securities**

Okay. And finally, just wanted to clarify another point. When you gave us your DENA production numbers, '04 through '06, you've taken out the southeast and deferred plants.

Specifically as it relates to the southeast, are you including those in your outlook for '04, or should we expect that they will be discontinued at an early stage this year?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

They become discontinued operations at the time we actually have a sales contract on them.

---

**Operator**

And moving on, we'll take our next question from Vic Khaitan with Deutsche Asset Management.

---

**Vic Khaitan - Deutsche Asset Management**

Thank you. Yes. One follow-up question on this southeast asset sales.

While intention is to do it as soon as possible, but given the FERCS recent issue about looking at these asset sales to utilities or where there may be some competitive issues, so do you see that could be somewhat of a challenge, or do you think that you have sufficient by as to make that thing work?

---

**Fred Fowler - Duke Energy Corporation - President, COO**

I think there's no doubt that will complicate it. Some of the logical buyers are incumbent utilities, there is no doubt about it.

And it looks to be -- it's our feeling that it's going to make that a more difficult transaction to get closed. So we'll have to see.

But to me it makes it probably more -- it's probably more probable that we'll be looking probably at financial buyers as opposed to incumbent utilities, until we start getting a better feel for what this order really means.

---

**Vic Khaitan - Deutsche Asset Management**

So does that mean that the asset sale could be slowed, or you think that you can still accomplish it within your time period?

---

**Fred Fowler - Duke Energy Corporation - President, COO**

Yes, I don't think it will necessarily slow it down. I think it will just provide a smaller potential buyer base.

---

**Vic Khaitan - Deutsche Asset Management**

And the other thing which I'm not sure whether you provided today or not, but the earnings potential for this company, I mean, do you have a long-term view as well as a short-term view?

So is that something which you'll discuss later on or are you willing to discuss today also?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Well, what we've said at our call on the 7th is that we've set the target for management incentive purposes at \$1.20 for the target --

\$1.20 per share for the bonus target. Beyond that, we are not planning to provide guidance in any great detail.

Next week, we'll be giving some outlooks for individual operations for the medium term. But I don't intend to say, you know, earnings will be in a range of X to Y and then spend the rest of the year refining that and defending penny movements off that.

---

**Vic Khaitan - Deutsche Asset Management**

No. I understand that, Paul.

But given your long-term commitment of the share value, you probably have an idea about what this company can potentially do, so that's what we are trying to understand, what are the potential there?

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Sure. Well, we've said that our goal is for income and modest growth.

And, you know, to start defining it precisely, it would just get ourselves in that trap where you get stampeded into putting out numbers and defending them. You know, modest growth is probably in the 4% to 6% range. So, you know, that's what we're looking at.

As a base going forward, obviously we're going to be trying to improve on that. But I don't want to start defining all kinds of forecasts out there and then, you know, spending our life defending them.

---

**Vic Khaitan - Deutsche Asset Management**

I understand the challenge. Thank you so much.

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

Thank you.

---

**Operator**

And we'll take our next question from Devin Geoghegan with Zimmer Lucas Partners.

---

**Devin Geoghegan - Zimmer Lucas Partners**

Hi. Just one question.

Next week will you guys give EBIT guidance by segments? You typically have not given it for other, but you've given it for the four major segments.

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

What item?

---

**Devin Geoghegan - Zimmer Lucas Partners**

EBIT guidance by segment.

---

**Paul Anderson - Duke Energy Corporation - Chairman, CEO**

No. I mean, we'll give guidance as to, are things going to get better or worse.

But as far as saying -- other than the one number we have given you, which is for DENA, the \$300 million loss. But we'll just give sort of trend indications. But we're not going to try to put numbers out there.

---

**Devin Geoghegan - Zimmer Lucas Partners**

Okay. So that makes sense.

Thank you very much.

---

**Operator**

And we'll take our final question today from Steve Fleishman with Merrill Lynch.

---

**Steve Fleishman - Merrill Lynch**

Yeah, hi, good morning. I'm not sure if you have this number, but in 2003, the DENA business -- is it possible to provide any sense of what the southeast plants did in 2003?

Or if you can't specifically do that, some sense of the, you know, loss of \$75 million of EBIT roughly, how the different regions may have performed with that?

---

**David Hauser - Duke Energy Corporation - Interim CFO, Senior VP**

At this point, we have elected not to give regional information for DENA. So I don't think we're going to start down that path right now, Steve.

---

**Steve Fleishman - Merrill Lynch**

Okay. Thank you.

---

**Operator**

And that concludes today's question-and-answer session. Mr. Ebel, I'll turn the conference back over to you for any additional or closing remarks.

---

**Greg Ebel - Duke Energy Corporation - VP-Investor and Shareholder Relations**

Thanks, Paula. Just to say thank you to all of you for your time today. And of course, the team is ready to take your questions throughout the day and help you through the numbers.

Thank you very much, and we'll see many of you next week in New York.

---

**Operator**

And that does conclude today's conference. We do thank you for your participation. At this time, you may now disconnect.