



# Third Quarter 2004 Earnings Review

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## Safe Harbor Statement

### Under the Private Securities Litigation Act of 1995

This document contains forward looking information which is subject to risks and uncertainties, including, but not limited to, changes in the utility regulatory environment, the impact of competition from other energy suppliers, industrial, commercial and residential growth in the Company's service territory, the results of financing efforts, the effect of accounting pronouncements, growth in opportunities for the Company's subsidiaries and diversified operations, and other risks described in the Company's Securities and Exchange Commission filings.

## Regulation G

This document includes certain non-GAAP financial measures as defined under SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is included in the printed version of these slides which can be downloaded from our investor relations website at:  
[www.duke-energy.com/investors/financial/gaap/](http://www.duke-energy.com/investors/financial/gaap/)

# Highlights

	<u>3Q04</u>	<u>3Q03</u>
Reported EPS	\$ 0.41	\$ 0.05
Special Items	(0.03)	0.30
EPS excluding special items	<u>\$ 0.38</u>	<u>\$ 0.35</u>

- Regulated businesses continue to deliver solid earnings and strong cash flow
- Field Services benefited from strong NGL prices
- DENA realized positive Segment EBIT impact of \$40 million, net of minority interest, from mark-to-market (MTM) fluctuations
- Debt reductions have reached \$2.4 billion; now expect debt reductions to exceed \$4 billion by year end
  - Lower interest expense driven by accelerated debt reduction
- Asset sales have exceeded target for the year; \$3 billion in cash proceeds including \$650 million in tax benefits

# Franchised Electric

## ■ Third Quarter 2004

- Higher non-nuclear O&M primarily related to inventory write-down and storm costs, and lower bulk power sales
  - Partially offset by higher sales related to customer growth
  - Third quarter NC Clean Air amortization increased by \$56 million and was offset by Catawba purchased capacity amortization which expired in 2Q04
- Expect 2004 NC Clean Air amortization to be in excess of \$210 million

Segment EBIT  
(\$ millions)

<b>Quarter</b>	<b>3Q04</b>	<b>3Q03</b>
Reported Segment EBIT	\$ 453	\$ 436
Special items	--	75
Ongoing Segment EBIT	<u>\$ 453</u>	<u>\$ 511</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 1,215	\$ 1,206
Special items	(3)	74
Ongoing Segment EBIT	<u>\$ 1,212</u>	<u>\$ 1,280</u>

# Natural Gas Transmission

- **Third Quarter 2004**
  - Increased earnings from expansion projects, primarily at Patriot and HubLine pipelines
  - Foreign currency translation related to the Canadian dollar benefited results by \$12 million
  - Recognized \$7 million of gains on asset sales, primarily related to ownership interest in Millennium Pipeline project
  
- **Third Quarter 2003**
  - Special items included \$31 million of gains related to asset sales and an \$18 million charge for severance and related costs
  - Ongoing results included a \$17 million benefit from the reduction in certain tax reserves

Segment EBIT  
(\$ millions)

<b>Quarter</b>	<b>3Q04</b>	<b>3Q03</b>
Reported Segment EBIT	\$ 265	\$ 280
Special items	(7)	(13)
Ongoing Segment EBIT	<u>\$ 258</u>	<u>\$ 267</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 974	\$ 1,009
Special items	(16)	(59)
Ongoing Segment EBIT	<u>\$ 958</u>	<u>\$ 950</u>

# Field Services

- Third Quarter 2004
  - Favorable results were primarily due to continuing strong NGL prices
  - Partially offset by a \$26 million impairment charge, net of minority interest
- Operating income sensitivity for 2005 (net to Duke, 48% hedged at Sept 30)
  - NGL: + / - 1¢/gal = + / - \$7 million
- DEFS paid \$140 million dividend to its parent companies; Duke Energy's share was \$98 million

Segment EBIT from continuing operations  
(\$ millions)

<b>Quarter</b>	<b>3Q04</b>	<b>3Q03</b>
Reported Segment EBIT	\$ 67	\$ 51
Special items	25	--
Ongoing Segment EBIT	<u>\$ 92</u>	<u>\$ 51</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 253	\$ 136
Special items	24	(11)
Ongoing Segment EBIT	<u>\$ 277</u>	<u>\$ 125</u>

# Duke Energy North America

- Third Quarter 2004
  - Lower margins from energy generation due to lower spark spreads
  - Results for the quarter were positively affected by \$40 million\* due to commodity price changes in the MTM portfolio
  - Lower depreciation, G&A and O&M expenses benefited the quarter
  - 3Q04 special item primarily due to true-up on sale of SE generation plants
- Third Quarter 2003 included a \$254 million goodwill impairment, an \$81 million loss on asset sales, a \$17 million\* charge related to the CFTC settlement and a \$5 million charge for severance and related costs

## Segment EBIT from continuing operations (\$ millions)

<b>Quarter</b>	<b>3Q04</b>	<b>3Q03</b>
Reported Segment EBIT	\$ (17)	\$ (411)
Special Items	6	357
MTM loss (gain) *	(40)	30
Ongoing Segment EBIT before special items and MTM	<u>\$ (51)</u>	<u>\$ (24)</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ (612)	\$ (177)
Special Items	372	182
MTM loss (gain) *	23	(47)
Ongoing Segment EBIT before special items and MTM	<u>\$ (217)</u>	<u>\$ (42)</u>

# Segment EBIT Analysis

(\$ in millions)

	<b>3Q04 Actual</b>
Total Gross Margin from Accrual Portfolio	\$ 83
Expenses:	
O&M	\$ (61)
Depreciation	(39)
General and administrative	(35)
Minority interest expense	(6)
Other income	7
Total Expenses	<u>\$ (134)</u>
Ongoing EBIT from continuing operations before special items and MTM change	<u>\$ (51)</u>
Loss on asset sales at DENA	(6)
Changes in MTM portfolio	<u>40 *</u>
Reported Segment EBIT from continuing operations	<u><u>\$ (17)</u></u>

\* \$47 million, before minority interest

# International Energy

- Third Quarter 2004
  - Higher earnings from Brazilian operations, primarily related to the reduction of environmental reserves
  - Higher earnings from National Methanol driven by higher MTBE prices
  - Special item is a \$1 million gain on sale of investment in Cantarell facility
- Third Quarter 2003 included a \$3 million charge for severance and related costs and a \$1 million gain on asset sale
- Current year and prior year earnings and related charges for Australian and European operations are included in Discontinued Operations

Segment EBIT from continuing operations  
(\$ millions)

<b>Quarter</b>	<b>3Q04</b>	<b>3Q03</b>
Reported Segment EBIT	\$ 64	\$ 44
Special Items	(1)	2
Ongoing Segment EBIT	<u>\$ 63</u>	<u>\$ 46</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 161	\$ 175
Special items	11	1
Ongoing Segment EBIT	<u>\$ 172</u>	<u>\$ 176</u>

# Crescent Resources

- Third Quarter 2004
  - Higher earnings from commercial and residential sales were mostly offset by lower land sales
- Expect full year 2004 segment EBIT from continuing operations to be in excess of \$200 million

Segment EBIT from continuing operations  
(\$ millions)

<b>Quarter</b>	<b>3Q04</b>	<b>3Q03</b>
Reported Segment EBIT	\$ 43	\$ 39
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 190	\$ 61

# Progress Made on Debt Reduction Plan

- Debt reduction has reached approximately \$2.4 billion as of Sept 30
  - \$890 million in Australian debt (1)
  - \$350 million of Duke Energy trust preferred securities
  - \$250 million of Duke Energy trust preferred securities
  - \$250 million of Duke Capital trust preferred securities
  - \$200 million of Duke Energy retail notes
  - \$300 million of Duke Capital bonds and floating rate notes
  - \$75 million of Westcoast preferred shares (2)
  - Other non-cash and FX changes
- Now expect 2004 debt reduction to exceed \$4 billion
- Accelerated debt reduction contributed to lower interest expense

(1) *Classified in Liabilities Associated with Assets Held for Sale at year-end 2003*

(2) *Classified in Minority Interest*

# Corporate Items

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- \$2.9 billion of cash and cash equivalents on hand at Sept 30
- Reduced income tax expense of \$48 million on sale of Southeast generation assets resulting from DEA restructuring
- Tax loss carryforwards of more than \$500 million into 2005
- Fourth quarter
  - Voluntary cash contribution of \$250 million to US pension plan
  - Equity issuance of approximately 18.7 million shares in November, related to remaining tranche of mandatory convertibles

# Progress Toward Year-end Goals

- Positioned to meet or exceed all 2004 financial goals
  - Franchised Electric, Gas Transmission, Field Services, Crescent and International Energy are performing well and delivering solid results and strong cash flows
  - Continued progress at DENA toward reducing losses and mitigating risks
  - Exceeded asset sales goal for the year: \$3 billion in proceeds and tax benefits
  - Debt reductions expected to exceed \$4 billion for the year
  - Ongoing EPS of \$1.15 for first nine months of 2004
- Financial strength and flexibility supports ability to pursue opportunities



Duke Energy Corporation  
 Nine Months Ended September 30, 2004  
 Ongoing Earnings per Share  
 (amounts in millions, except EPS)

	<u>Pre-tax Amount</u>	<u>Tax Effect</u>	<u>EPS Impact</u>
Special Items:			
<u>First Quarter 2004</u>			
- Gain on sale of Australian assets	\$256	(\$18)	\$0.26
- Net loss on sale of DENA assets, primarily anticipated sale of southeast U.S. plants	(359)	134	(0.25)
- Gains on sale of other assets, including Caribbean Nitrogen Co.	14	(5)	0.01
- Charge related to planned sale of Cantarell investment	(13)	5	(0.01)
subtotal first quarter 2004			<u>0.01</u>
<u>Second Quarter 2004</u>			
- Enron settlement (net of minority interest of \$5 million)	130	(46)	0.09
- True up on net gain on sale of International Energy Assets	38	(9)	0.03
- California and western U.S. energy markets settlement	(105)	37	(0.07)
- Net losses on asset sales (net of minority interests of \$6 million)	(5)	2	0.00
Interest on related litigation reserve	(12)	4	(0.01)
subtotal second quarter 2004			<u>0.04</u>
<u>Third Quarter 2004</u>			
- Tax benefit from restructuring	0	48	0.05
- Asset impairments, losses on asset sales and write down of equity investment at DEFS (net of minority interest of \$26 million)	(42)	16	(0.03)
- Net gains on asset sales	4	(2)	0.00
- Tax true up on sale of Australian assets	0	5	0.01
subtotal third quarter 2004			<u>0.03</u>
Total EPS impact of special items year-to-date			0.08
Impact of changes in shares outstanding			(0.01)
Year-to-date EPS, as reported			1.22
Year-to-date EPS, ongoing			<u>\$1.15</u>

Duke Energy Corporation  
 Quarters ended September 30, 2004 and 2003  
 Ongoing Earnings per Share  
 (amounts in millions, except EPS)

<u>Special Items</u>	<u>Pre-tax Amount</u>	<u>Tax Effect</u>	<u>2004 EPS Impact</u>	<u>2003 EPS Impact</u>
<u>Third Quarter 2004</u>				
- Tax benefit from restructuring	\$0	\$48	\$0.05	
- Asset impairments, losses on asset sales and write down of equity investment at DEFS (net of minority interest of \$26 million)	(42)	16	(0.03)	
- Net gains on asset sales	4	(2)	0.00	
- Tax true up on sale of Australian assets	0	5	0.01	
<u>Third Quarter 2003</u>				
- Tax benefit on 2002 goodwill impairment of International Energy European gas trading	0	52		\$0.06
- Net gain/loss on asset sales	(71)	28		(0.05)
- DENA goodwill write-off	(254)	90		(0.18)
- Severance cost associated with work force reduction	(105)	37		(0.08)
- Settlement with the S. C. Public Service Commission	(46)	18		(0.03)
- Settlement with the Commodity Futures Trading Commission (net of minority interest of \$11 million)	(17)	0		(0.02)
Total EPS Impact			0.03	(0.30)
EPS, as reported			0.41	0.05
EPS, ongoing			<u>0.38</u>	<u>0.35</u>

DUKE ENERGY  
 REPORTED TO ONGOING SEGMENT EBIT RECONCILIATION  
 September 2004 Quarter and Year-to-date  
 (Dollars in Millions)

	Special Items							Total	Reported Segment EBIT
	Ongoing Segment EBIT	Gain (Loss) on Sale of Assets	Loss on Sale of SE Plants	Impairment	Gain on Sale of Equity Investment	Enron Settlement	California and Western US Energy Markets Settlement		
<b>EARNINGS BEFORE INTEREST AND TAXES FROM CONTINUING OPERATIONS</b>									
<i>September 2004 Quarter to Date</i>									
Franchised Electric	\$ 453							\$ -	\$ 453
Gas Transmission	258	2			5			7	265
Field Services	92	1		(26) C				(25)	67
Duke Energy North America	(11)	(2)	(4)					(6)	(17)
International Energy	63				1			1	64
Crescent	43							-	43
<i>September 2004 Year to Date</i>									
Franchised Electric	\$ 1,212	\$ 3						\$ 3	\$ 1,215
Gas Transmission	958	11			5			16	974
Field Services	277	1		(26)		1		(24)	253
Duke Energy North America	(240)	(10) B	(365)			108 A	(105)	(372)	(612)
International Energy	172	1		(13)	1			(11)	161
Crescent	190							-	190

A - Net of minority interest of \$5 million.  
 B - Net of minority interest of \$5 million.  
 C - Net of minority interest of \$18 million

DUKE ENERGY  
 REPORTED TO ONGOING SEGMENT EBIT RECONCILIATION  
 Sept 2003 Quarter and Year-to-date  
 (Dollars in Millions)

	Special Items						Total	Reported Segment EBIT
	Ongoing Segment EBIT	Gain (Loss) on Sale of Assets	DENA goodwill write-off	Severance and related costs associated with work force reduction	Settlement with the S.C. Public Service Commission	Settlement with the Commodity Futures Trading Commission		
<b>EARNINGS BEFORE INTEREST AND TAXES FROM CONTINUING OPERATIONS</b>								
<i>September 2003 Quarter to Date</i>								
Franchised Electric	\$ 511	\$ 1		\$ (46)	\$ (30)		\$ (75)	\$ 436
Gas Transmission	267	31		(18)			13	280
Field Services	51			-			-	51
Duke Energy North America	(54)	(81)	(254)	(5)		(17) A	(357)	(411)
International Energy	46	1		(3)			(2)	44
Crescent	39			-			-	39
<i>September 2003 Year to Date</i>								
Franchised Electric	\$ 1,280	\$ 2		\$ (46)	\$ (30)		\$ (74)	\$ 1,206
Gas Transmission	950	77		(18)			59	1,009
Field Services	125	11		-			11	136
Duke Energy North America	5	94	(254)	(5)		(17) A	(182)	(177)
International Energy	176	2		(3)			(1)	175
Crescent	61			-			-	61

A - Net of minority interest of \$11 million.

## Duke Energy Corporation

### Debt reduction reconciliation - Nine months ending September 30, 2004

	(in millions)
Issuances of long-term debt, per condensed cash flow statement	\$ 166
Payments for the redemption of long-term debt, preferred stock of subsidiary and net paydown of commercial paper and notes payable, per condensed cash flow statement	<u>(1,726)</u>
Total debt reduction - GAAP basis	<u>(1,560)</u>
Debt retired by buyer of Australian assets (non-cash transaction)	<u>840</u>
Total debt reduction, per earnings release slides	<u><u>\$ (2,400)</u></u>

### Anticipated 2004 cash proceeds from asset sales announced and closed

	(in millions)	
	Pre-tax Cash Proceeds	After-tax Cash Proceeds
<b>Announced/Closed</b>		
Discontinued operations: Australian Assets	\$ 1,237 (1)	\$ 1,223 (1)
Discontinued operations: Waha	62	62
DEGT: Inventory	10 (3)	10
DENA: Southeast Assets	468 (4)	992 (4)
DENA: Moapa	182 *	330
DENA: Vermillion	44	44
DENA: DEEP Equipment	93 (2)	126 (2)
DENA: Energy Delivery	10	8
DETM: Contracts	(78) (3)	(51)
DEI: Cantarell	60	60
Duke Capital Partners contracts	37	37
Other: Caribbean Nitrogen Company	29	24
Other Miscellaneous Sales	103	103
Total Proceeds 2004	<u><u>\$ 2,257</u></u>	<u><u>\$ 2,968</u></u>
	Rounded <u><u>\$2,300</u></u>	<u><u>\$3,000</u></u>

(1) Includes a non-cash debt assumption by the buyer of approximately \$840 million.

(2) Net of \$45 million cash payment to GE.

(3) The cash paid/received for these transactions are included in cash flows from operating activities.

(4) Includes a note receivable of approximately \$48 million

\* Closed in October 2004

Duke Energy Corporation  
Non-GAAP Reconciliation Schedules  
Third Quarter 2004 Earnings Release

2004 DENA Segment EBIT Loss from Continuing Operations

The Company's prepared remarks related to the Third Quarter 2004 Earnings Review include a discussion of DENA's adjusted 2004 segment EBIT loss from continuing operations projection of \$300 million. This measure of DENA's segment EBIT loss from continuing operations is a non-GAAP financial measure as it excludes any mark-to-market (MTM) earnings and "special items", as defined by the Company, occurring during the year. The most directly comparable GAAP measure is DENA reported segment EBIT loss from continuing operations for 2004. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile such non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time as the Company is unable to forecast the volatility of mark-to-market movements or the value of such movements and we are unable to forecast any future "special items" for the remainder of 2004.