Whistles Don't Pull Trains.

Duke Energy®

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This is a basic truth: Noise does not move companies. People move companies. Smart people. Motivated people. Bold, confident people. Duke Energy is a company of intelligent, driven people who don't just talk — they act. They have common sense, wisdom and enthusiasm. They move forward with intuitive certainty. The year 2000 has been a year of groundbreaking initiatives, of bold action, of ambitious innovation. Not a year of show and tell, but a year of smart choices and decisive, profitable results.

RICHARD B. PRIORY

CHAIRMAN OF THE BOARD

PRESIDENT

CHIEF EXECUTIVE OFFICER

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

Value Creation Drives Us

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

We enjoyed a lot of good days in 2000!

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

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

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

Those are the highlights of an outstanding year.

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

It All Begins With Customers

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

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

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

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

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

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

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

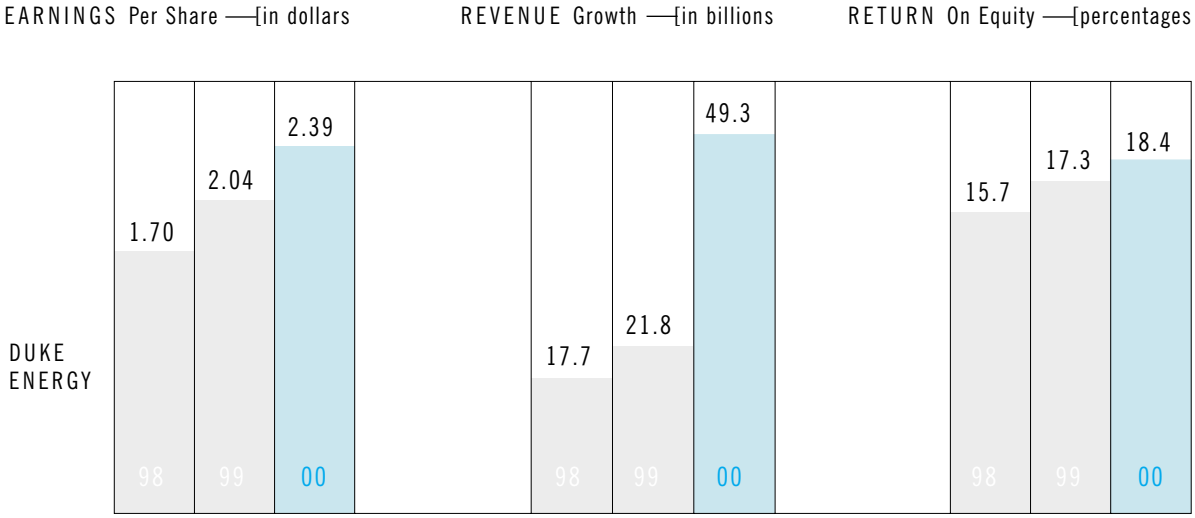
People Drive Results

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

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

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

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



Do Good Business

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

Stay Alert; Look Ahead

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

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

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

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

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

Drive Value Forward

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

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

RICHARD B. PRIORY
February 23, 2001

FINANCIAL HIGHLIGHTS

DUKE ENERGY

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

a - Restated to reflect the two-for-one common stock split effective January 26, 2001. • b - Units of measure used are gigawatt-hours (GWh), trillion British thermal units (TBtu), trillion British thermal units per day (TBtu/d), and thousand barrels per day (MBbl/d), as applicable. • c - Franchised Electric only.• d - Includes North American Wholesale Energy and Field Services volumes. • e - Excludes Franchised Electric volumes.

Confucius,
Flip On
The Light.

If 1 decigram of matter could be converted to pure energy, it could light a 100-watt light bulb for over 2,500 years. That's like leaving a porch light on from the time of Confucius to now. It's called potential energy — energy waiting for someone to use it. Think about that. Now think about this. A third of our world today is without electricity. And, in the U.S., power demand will grow 50 percent in the next 20 years. "Duke Energy is building power plants and natural gas pipelines to fuel them in the highest growth areas of the U.S. as well as internationally. With our disciplined strategy and capabilities, we're poised for exceptional growth in targeted markets around the world. That's what I'd call potential energy."

Discipline

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

PERFORMANCE OVERVIEW

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

A company that's disciplined. Dynamic. Agile.

Leading change, not adapting to it.

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

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

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

SMART MOVES

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

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

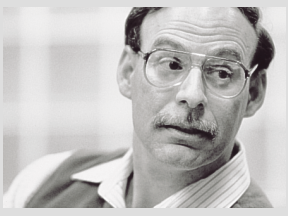
In the U.S., we are building regional energy businesses in gas, power, trading and marketing. And we are replicating that success to create a strong foothold in newly competitive international markets. Duke Energy is supplying and moving energy to targeted growth markets in North America, Latin America,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

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

TIMING

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

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



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

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

SPEED TO MARKET

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

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

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

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

DEMAND DRIVEN

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

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

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

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

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

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

NUMBER ONE

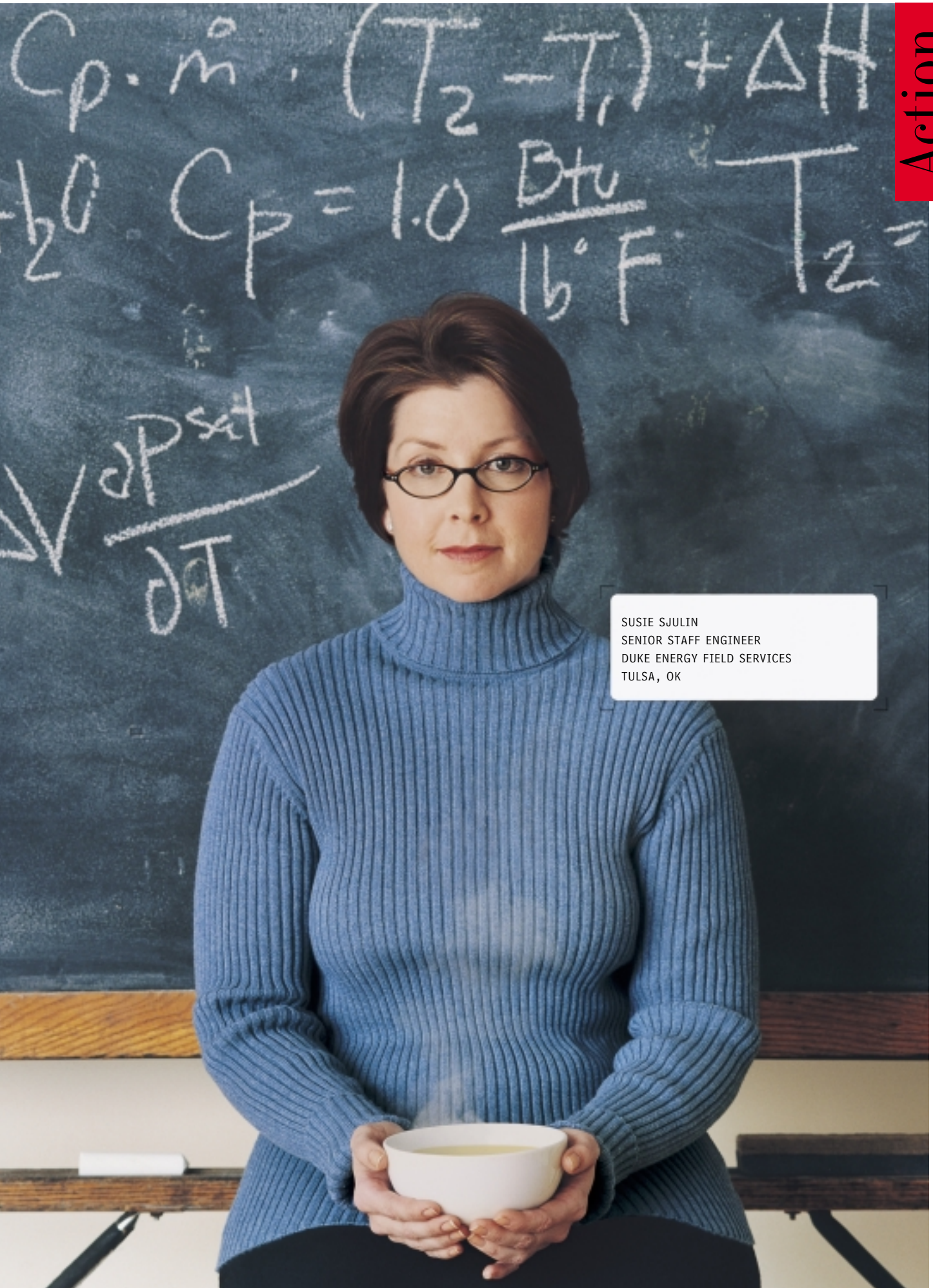
In March 2000, Duke Energy merged its field services business with Phillips Petroleum's gas gathering, processing and marketing unit to form a new midstream company – Duke Energy Field Services (DEFS).

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

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

The
Soup's
Too Hot.

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



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

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

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

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

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

LATIN AMERICA

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

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

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

ASIA PACIFIC

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

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

EUROPE

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

That Antelope Won't Jump.

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

MICHAEL DULANEY
VICE PRESIDENT
DUKE ENERGY INTERNATIONAL
SÃO PAULO, BRAZIL

MANAGING RISK

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

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

PLAYING TO OUR STRENGTHS

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

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

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

OUR VISION

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

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

No
Beached
Lobsters.

A lobster, stranded on rocks at low tide, will wait for the tide to return rather than crawl into the water. Even if the water comes within a few feet, he'll stay where he is. Dawdling is deadly. At Duke Energy, we don't squander time waiting for high tide. We dive in. Some companies are resisting the inevitable restructuring of the electric industry. We see it as opportunity. "Duke Energy is moving swiftly into changing markets, in the U.S. and internationally. We're targeting areas with high-growth potential. We're supplying and trading energy in competitive wholesale markets. And we're helping our customers to use energy wisely and efficiently in a restructured environment. One thing is certain – we won't be left high and dry."

Change

SABRINA AUSTIN
SENIOR REGULATORY ANALYST
DUKESOLUTIONS
CHARLOTTE, NC

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INTRODUCTION

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

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

–FRANCHISED ELECTRIC generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina. Its operations are conducted primarily through Duke Power and Nantahala Power and Light. These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

–NATURAL GAS TRANSMISSION provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic, New England and southeastern states. Its operations are conducted primarily through Duke Energy Gas Transmission Corporation. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

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

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

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

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

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

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

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

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

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

[a] Gigawatt-hours

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

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

NATURAL GAS TRANSMISSION | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31

	2000	1999	1998
Operating revenues	$1,131	$1,230	$1,542
Operating expenses	609	615	864
Operating income	522	615	678
Other income, net of expenses	12	12	24
EBIT	$ 534	$ 627	$ 702
Throughput – TBtu[a]	1,717	1,893	2,593

[a] Trillion British thermal units

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

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

FIELD SERVICES | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31

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

[a] Trillion British thermal units per day

[b] Thousand barrels per day

[c] Million British thermal units

[d] Does not reflect results of commodity hedges

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

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

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

NORTH AMERICAN WHOLESALE ENERGY | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31

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

[a] Includes under construction or under contract

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

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

INTERNATIONAL ENERGY | IN MILLIONS, EXCEPT WHERE NOTED | YEARS ENDED DECEMBER 31

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

[a] Includes under construction or under contract

[b] Million cubic feet per day

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

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

OTHER ENERGY SERVICES | IN MILLIONS | YEARS ENDED

	DECEMBER 31		
	2000	1999	1998
Operating revenues	$ 695	$ 989	$ 521
Operating expenses	756	1,083	511
EBIT	$ (61)	$ (94)	$ 10

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

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

DUKE VENTURES | IN MILLIONS | YEARS ENDED

	DECEMBER 31		
	2000	1999	1998
Operating revenues	$ 642	$ 232	$ 171
Operating expenses	79	70	49
EBIT	$ 563	$ 162	$ 122

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[c] Includes ability to issue medium-term notes

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

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

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

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

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

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

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

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

DAILY EARNINGS AT RISK | IN MILLIONS[a]

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

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

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

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

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

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

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

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

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

CURRENT ISSUES

ELECTRIC COMPETITION —WHOLESALE COMPETITION The Energy Policy Act of 1992 and the FERC's subsequent rulemaking activities opened the wholesale energy market to competition.

Open-access transmission for wholesale customers as defined by the FERC's final rules provides energy suppliers, including Duke Energy, with opportunities to sell and deliver capacity and energy at market-based prices. Franchised Electric obtained from the FERC's open-access rule the rights to sell capacity and energy at market-based rates from its own assets, which allows Franchised Electric to purchase, at attractive rates, a portion of its capacity and energy requirements resulting in lower overall costs to customers. Open access also provides Franchised Electric's existing wholesale customers with competitive opportunities to seek other suppliers for their capacity and energy requirements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COMMON STOCK DATA BY QUARTER[c]

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

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

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

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

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

See Notes to Consolidated Financial Statements.

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

See Notes to Consolidated Financial Statements.

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

See Notes to Consolidated Financial Statements.

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

See Notes to Consolidated Financial Statements.

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

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DENOMINATOR FOR EARNINGS PER SHARE | IN MILLIONS

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

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

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

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

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

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

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

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

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

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

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

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

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

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

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

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

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

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

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

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

3. BUSINESS SEGMENTS

Duke Energy is an integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the U.S. and abroad. Duke Energy provides these and other services through seven business segments.

–[FRANCHISED ELECTRIC generates, transmits, distributes and sells electric energy in central and western North Carolina and the western portion of South Carolina. Its operations are conducted primarily through Duke Power and Nantahala Power and Light. These electric operations are subject to the rules and regulations of the FERC, the North Carolina Utilities Commission (NCUC) and the Public Service Commission of South Carolina (PSCSC).

–[NATURAL GAS TRANSMISSION provides interstate transportation and storage of natural gas for customers primarily in the Mid-Atlantic, New England and southeastern states. Its operations are conducted primarily through Duke Energy Gas Transmission Corporation. The interstate natural gas transmission and storage operations are subject to the rules and regulations of the FERC.

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

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

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

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

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

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

Other Operations primarily include certain unallocated corporate items.

BUSINESS SEGMENT DATA | IN MILLIONS

YEAR ENDED DECEMBER 31, 2000	Unaffiliated Revenues	Intersegment Revenues	Total Revenues	EBIT	Depreciation and Amortization	Capital and Investment Expenditures	Segment Assets
Franchised Electric	$ 4,946	$ -	$ 4,946	$ 1,704	$ 565	$ 661	$ 12,819
Natural Gas Transmission	998	133	1,131	534	131	973	4,995
Field Services	7,601	1,459	9,060	296	240	376	6,266
North American Wholesale Energy	33,590	284	33,874	418	75	1,937	28,213
International Energy	1,060	7	1,067	331	97	980	4,551
Other Energy Services	528	167	695	(61)	13	28	543
Duke Ventures	642	-	642	563	17	643	1,967
Other Operations	(47)	68	21	(2)	29	36	2,749
Eliminations and minority interests	-	(2,118)	(2,118)	231	-	-	(3,927)
Total consolidated	$ 49,318	$ -	$ 49,318	$ 4,014	$ 1,167	$ 5,634	$ 58,176

YEAR ENDED DECEMBER 31, 1999							
Franchised Electric	$ 4,700	$ -	$ 4,700	$ 856	$ 542	$ 759	$ 13,133
Natural Gas Transmission	1,124	106	1,230	627	126	261	3,897
Field Services	2,883	707	3,590	144	131	1,630	3,565
North American Wholesale Energy	11,623	178	11,801	209	57	1,028	6,268
International Energy	323	34	357	42	58	1,779	4,459
Other Energy Services	886	103	989	(94)	14	94	612
Duke Ventures	232	-	232	162	13	382	1,031
Other Operations	(5)	44	39	5	27	3	1,250
Eliminations and minority interests	-	(1,172)	(1,172)	92	-	-	(806)
Total consolidated	$ 21,766	$ -	$ 21,766	$ 2,043	$ 968	$ 5,936	$ 33,409

YEAR ENDED DECEMBER 31, 1998							
Franchised Electric	$ 4,626	$ -	$ 4,626	$ 1,513	$ 522	$ 586	$ 12,953
Natural Gas Transmission	1,440	102	1,542	702	215	290	4,996
Field Services	2,132	545	2,677	76	80	304	1,893
North American Wholesale Energy	8,727	56	8,783	133	27	796	4,394
International Energy	125	34	159	12	15	239	900
Other Energy Services	436	85	521	10	12	41	376
Duke Ventures	171	-	171	122	10	232	818
Other Operations	5	26	31	22	28	12	874
Eliminations and minority interests	-	(848)	(848)	57	-	-	(398)
Total consolidated	$ 17,662	$ -	$ 17,662	$ 2,647	$ 909	$ 2,500	$ 26,806

GEOGRAPHIC DATA | IN MILLIONS

	U.S.	Canada	Latin America	Other Foreign	Consolidated
2000					
Consolidated revenues	$ 43,282	$ 4,964	$ 512	$ 560	$ 49,318
Consolidated long-term assets	31,074	900	2,823	1,222	36,019
1999					
Consolidated revenues	$ 19,336	$ 2,007	$ 171	$ 252	$ 21,766
Consolidated long-term assets	22,995	250	2,708	901	26,854
1998					
Consolidated revenues	$ 16,589	$ 996	$ 31	$ 46	$ 17,662
Consolidated long-term assets	20,982	140	207	632	21,961

4. REGULATORY MATTERS

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

Fuel costs are reviewed semiannually in the wholesale jurisdiction and annually in the South Carolina retail jurisdiction, with provisions for reviewing such costs in base rates. In the North Carolina retail jurisdiction, a review of fuel costs in rates is required annually and during general rate case proceedings. All jurisdictions allow Duke Energy to adjust electric rates for past over- or under-recovery of fuel costs. Therefore, the difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues.

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

As a result of these rulemakings, on October 16, 2000, Duke Energy and two other investor-owned utilities, Progress Energy and South Carolina Electric & Gas, filed with the FERC to establish GridSouth Transco, LLC (GridSouth), as an RTO. If approved, GridSouth will be a for-profit, independent transmission company, responsible for operating and planning the companies' combined transmission systems. The target date for formation of GridSouth is December 15, 2001. However, the actual date that GridSouth becomes operational will depend upon the resolution of all necessary regulatory approvals and resolving all technical issues. Management believes that the establishment of GridSouth will not have a material adverse effect on future consolidated results of operations, cash flows or financial position.

NATURAL GAS TRANSMISSION On February 9, 2000, the FERC issued Order 637, which sets forth revisions to its regulations governing short-term natural gas transportation services and policies governing the regulation of interstate natural gas pipelines. "Short-term" has been defined as all transactions of less than one year. Among the significant actions taken are the lifting of the price cap for short-term capacity release by pipeline customers for an experimental 2 1/2-year period ending September 1, 2002, and requiring that interstate pipelines file pro forma tariff sheets to (i) provide for nomination equality between capacity release and primary pipeline capacity; (ii) implement imbalance management services (for which interstate pipelines may charge fees) while at the same time reducing the use of operational flow orders and penalties; and (iii) provide segmentation rights if operationally feasible. Order 637 also narrows the right of first refusal to remove economic biases perceived in the current rule. Order 637 imposes significant new reporting requirements for interstate pipelines that were implemented by Duke Energy during the third quarter of 2000. Additionally, Order 637 permits pipelines to propose peak/off-peak rates and term-differentiated rates, and encourages pipelines to propose experimental capacity auctions. By Order 637-A, issued

in February 2000, the FERC generally denied requests for rehearing and several parties, including Duke Energy, have filed appeals in the District of Columbia Court of Appeals seeking court review of various aspects of the Order. During the third quarter of 2000, Duke Energy's interstate pipelines made the required pro forma tariff sheet filings. These filings are currently subject to review and approval by the FERC.

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

5. JOINT OWNERSHIP OF GENERATING FACILITIES

JOINT OWNERSHIP OF CATAWBA NUCLEAR STATION

Owner	Ownership Interest
North Carolina Municipal Power Agency Number 1 (NCMPA)	37.5%
North Carolina Electric Membership Corporation (NCEMC)	28.1%
Duke Energy Corporation	**12.5%**
Piedmont Municipal Power Agency (PMPA)	12.5%
Saluda River Electric Cooperative, Inc. (Saluda River)	9.4%
	100.0%

As of December 31, 2000, $525 million of property, plant and equipment and $268 million of accumulated depreciation and amortization represented Duke Energy's investment in Catawba Nuclear Station Units 1 and 2. Duke Energy's share of operating costs is included in the Consolidated Statements of Income.

Duke Energy entered into contractual interconnection agreements with the other joint owners of Catawba Nuclear Station to purchase declining percentages of the generating capacity and energy from the station, which expired during 2000.

The portion of purchased capacity costs subject to levelization in rates was deferred. As of December 31, 2000 and 1999, $505 million and $643 million, respectively, associated with the cost of capacity purchased but not reflected in current rates have been accumulated in the Consolidated Balance Sheets as Purchased Capacity Costs and Current Portion of Purchased Capacity Costs. Duke Energy is recovering the accumulated balance, including returns on the deferred balance, over a period expected to end in 2004. Jurisdictional levelizations are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. For the years ended December 31, 2000, 1999 and 1998, purchased capacity and energy costs from the other joint owners were approximately $7 million, $62 million and $88 million, respectively. These amounts, after adjustments for amounts in current rates, are included in the Consolidated Statements of Income as Net Interchange and Purchased Power.

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

6. INCOME TAXES

INCOME TAX EXPENSE | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Current income taxes			
Federal	$ 679	$ 525	$ 673
State	109	138	138
Foreign	18	1	-
Total current income taxes	806	664	811
Deferred income taxes, net			
Federal	187	(126)	(15)
State	13	(65)	(4)
Foreign	29	(1)	-
Total deferred income taxes, net	229	(192)	(19)
Investment tax credit amortization	(15)	(19)	(15)
Total	income tax expense	$ 1,020	$ 453	$ 777

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Income tax, computed at the statutory rate of 35%	$ 979	$ 455	$ 713
Adjustments resulting from:			
State income tax, net of federal income tax effect	75	47	90
Favorable resolution of federal tax issues	(18)	(30)	-
Other items, net	(16)	(19)	(26)
Total	income tax expense	$ 1,020	$ 453	$ 777
Effective tax rate	36.5%	34.9%	38.1%

NET DEFERRED INCOME TAX LIABILITY COMPONENTS | IN MILLIONS DECEMBER 31

	2000	1999
Deferred credits and other liabilities	$ 429	$ 500
International property, plant, & equipment	153	-
Other	10	8
Total deferred income tax assets	592	508
Valuation allowance	(9)	(6)
Net deferred income tax assets	583	502
Investments and other assets	(320)	(245)
Property, plant and equipment	(2,707)	(2,483)
Regulatory assets and deferred debits	(326)	(427)
Regulatory asset related to restating to pre-tax basis	(429)	(432)
Total deferred income tax liability	(3,782)	(3,587)
State deferred income tax, net of federal tax effect	(320)	(340)
Total	net deferred income tax liability	$ (3,519)	$ (3,425)

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

COMMODITY DERIVATIVES – TRADING Duke Energy provides risk management services to its customers through forward contracts, futures, over-the-counter swap agreements and options (collectively, "commodity derivatives"). Duke Energy engages in the trading of commodity derivatives, and therefore experiences net open positions, which are managed with strict policies that limit its exposure to market risk and require daily reporting to management of potential financial exposure. These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement. The weighted-average life of Duke Energy's commodity trading portfolio was approximately 25 months at December 31, 2000.

NET GAINS RECOGNIZED FROM TRADING ACTIVITIES | IN MILLIONS

	2000	1999	1998
Natural gas	$ 212	$ 83	$ 114
Electricity	368	41	14
Other[a]	46	-	-

[a] Other includes refined products, fertilizer, crude oil and other miscellaneous commodities

ABSOLUTE NOTIONAL CONTRACT QUANTITY OF COMMODITY DERIVATIVES HELD FOR TRADING PURPOSES

	DECEMBER 31	
	2000	1999
Natural gas, in billion cubic feet	39,716	17,248
Electricity, in gigawatt hours	289,109	185,536
Fertilizer contracts, in thousands of tonnes	141,619	-
Refined products, in thousands of barrels	451,133	-

FAIR VALUES OF COMMODITY DERIVATIVES – TRADING | IN MILLIONS

	2000		1999	
	Assets	Liabilities	Assets	Liabilities
Fair values at December 31,				
Natural gas	$ 45,423	$ 45,104	$ 2,966	$ 2,855
Electricity	9,436	9,254	1,302	1,271
Fertilizer contracts	5,886	5,850	-	-
Refined products	1,192	1,159	-	-
Other[a]	303	268	-	-
Eliminations	(46,984)	(46,984)	(2,447)	(2,447)
Total fair values	$ 15,256	$ 14,651	$ 1,821	$1,679
Average fair values for the year				
Natural gas	20,150	19,801	2,401	2,269
Electricity	6,650	6,558	962	900
Fertilizer contracts	3,002	2,974	-	-
Refined products	1,345	1,309	-	-
Other[a]	437	427	-	-

[a] Other includes crude oil and other miscellaneous commodities

COMMODITY DERIVATIVES – NON-TRADING Duke Energy also manages its exposure to risk from existing assets, liabilities and commitments by hedging the impact of market fluctuations. At December 31, 2000 and 1999, Duke Energy held or issued several commodity derivatives, primarily in the form of swaps, that reduce exposure to market price fluctuations for certain power and NGL production facilities. At December 31, 2000, these commodity derivatives extended for periods up to 10 years and generally contain margin requirements. The gains, losses and costs related to non-trading commodity derivatives are not recognized until the underlying physical transaction closes. At December 31, 2000 and 1999, Duke Energy had unrealized net losses of $1,642 million and $120 million, respectively, related to non-trading commodity derivatives. These unrealized losses partially offset the unrealized market value gains related to future cash flows from underlying asset positions.

ABSOLUTE NOTIONAL CONTRACT QUANTITY OF COMMODITY DERIVATIVES HELD FOR NON-TRADING PURPOSES — DECEMBER 31

	2000	1999
Natural gas, in billion cubic feet	401	592
Electricity, in gigawatt hours	75,932	45,877
Power capacity, in megawatt months	35,325	25,950
Crude oil, in thousands of barrels	43,991	32,764

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

INTEREST RATE DERIVATIVES | DOLLARS IN MILLIONS — DECEMBER 31

	2000			1999		
	Notional Amounts	Fair Value	Contracts Expire	Notional Amounts	Fair Value	Contracts Expire
Fixed-to-floating rate swaps	$ 275	$ 27	2009	$ 100	$ 1	2000
Cancelable fixed-to-floating rate swaps	630	20	2004–2022	-	-	-
CP[a] floating-to-fixed rate swap	100	(1)	2001	500	1	2000
Interest rate locks	275	(9)	2011	-	-	-

[a] Commercial paper

Gains and losses that had been deferred in anticipation of planned financing transactions on interest rate swap derivatives have been capitalized and are being amortized over the life of the underlying debt. These deferred gains and losses were not material in 2000 or 1999. As a result of the interest rate swap contracts, interest expense for the relative notional amount is recognized at the weighted-average rates as depicted in the following table.

WEIGHTED-AVERAGE RATES FOR INTEREST RATE SWAPS | YEARS ENDED — DECEMBER 31

	2000	1999	1998
Fixed-to-floating rate swaps	6.50%	5.71%	6.04%
Cancelable fixed-to-floating rate swaps	5.09%	-	-
Commercial paper swaps	6.11%	4.95%	-

FOREIGN CURRENCY DERIVATIVES NAWE enters into foreign currency swap agreements to manage foreign currency risks associated with energy contracts denominated in foreign currencies, primarily in the Canadian dollar. As of December 31, 2000, the agreements had a notional contract amount of approximately $1,396 million, beginning in the year 2001 and extending through the year 2005, and had a weighted-average fixed exchange rate of 1.4672 Canadian dollars to one U.S. dollar. As of December 31, 1999, the agreements had a notional contract amount of approximately $762 million, beginning in the year 2000 and extending to the year 2005, and had a weighted-average fixed exchange rate of 1.470 Canadian dollars to one U.S. dollar. The fair value of foreign currency swap agreements was not material at December 31, 2000 or 1999.

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

The change in market value of New York Mercantile Exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Physical forward contracts and financial derivatives are generally settled at the expiration of the contract term or each delivery period; however, these transactions are also generally subject to margin agreements with the majority of Duke Energy's counterparties.

FINANCIAL INSTRUMENTS The fair value of financial instruments is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2000 and 1999, are not necessarily indicative of the amounts Duke Energy could have realized in current markets. The majority of the estimated fair value amounts were obtained from independent parties.

FINANCIAL INSTRUMENTS | IN MILLIONS

	2000		1999	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
Long-term debt[a]	$ 11,456	$ 12,198	$ 9,165	$ 8,891
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	1,406	1,389	1,404	1,207
Preferred stock[a]	280	275	313	303

[a] Includes current maturities

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

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

8. INVESTMENT IN AFFILIATES

Investments in domestic and international affiliates that are not controlled by Duke Energy but where Duke Energy has significant influence over operations are accounted for by the equity method. These investments include undistributed earnings of $70 million and $6 million in 2000 and 1999, respectively. Duke Energy's share of net income from these affiliates is reflected in the Consolidated Statements of Income as Other Operating Revenues.

NATURAL GAS TRANSMISSION Investments primarily include ownership interests in natural gas pipeline joint ventures which transport natural gas to the U.S. from Canada. Investments include a 37.5% ownership interest in Maritimes & Northeast Pipeline, LLC.

FIELD SERVICES Investments primarily include a 37% interest in a partnership which owns natural gas gathering systems in the Gulf of Mexico (Dauphin Island Gathering Partners) and a 21.1% ownership interest in TEPPCO.

⊙ **NORTH AMERICAN WHOLESALE ENERGY** Significant investments include a 50% indirect interest in VMC Generating Company, a merchant electric generating company, a 32.5% indirect interest in American Ref-Fuel, LLC and a 50% interest in Southwest Power Partners.

⊙ **INTERNATIONAL ENERGY** International Energy has investments in various natural gas and electric generation and transmission facilities in its targeted geographic areas. Significant investments include a 25% indirect interest in National Methanol Company, which owns and operates a methanol and MTBE (methyl tertiary butyl ether) business in Jubail, Saudi Arabia.

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

⊙ **DUKE VENTURES** Significant investments include various real estate development projects and a 20% interest in the BellSouth PCS joint venture until its sale in 2000.

INVESTMENT IN AFFILIATES | IN MILLIONS DECEMBER 31

	2000			1999			1998		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 82	$ 88	$ 170	$ 67	$ 83	$ 150	$ 104	$ 37	$ 141
Field Services	373	-	373	439	-	439	303	-	303
North American Wholesale Energy	635	9	644	425	-	425	171	-	171
International Energy	-	154	154	-	224	224	-	223	223
Other Energy Services	11	7	18	51	6	57	19	23	42
Duke Ventures	23	-	23	10	-	10	24	-	24
Other Operations	(12)	-	(12)	(6)	-	(6)	(2)	-	(2)
Total	$ 1,112	$ 258	$ 1,370	$ 986	$ 313	$ 1,299	$ 619	$ 283	$ 902

EQUITY IN EARNINGS OF INVESTMENT | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000			1999			1998		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 13	$ 4	$ 17	$ 16	$ 9	$ 25	$ 14	$ 3	$ 17
Field Services	39	-	39	44	-	44	9	-	9
North American Wholesale Energy	36	-	36	47	-	47	50	-	50
International Energy	-	43	43	-	10	10	-	18	18
Other Energy Services	(13)	-	(13)	10	3	13	1	13	14
Duke Ventures	(9)	-	(9)	(22)	-	(22)	(29)	-	(29)
Other Operations	(10)	-	(10)	(5)	-	(5)	-	-	-
Total	$ 56	$ 47	$ 103	$ 90	$ 22	$ 112	$ 45	$ 34	$ 79

SUMMARIZED COMBINED FINANCIAL INFORMATION OF UNCONSOLIDATED AFFILIATES | IN MILLIONS

	DECEMBER 31		
	2000	1999	1998
Balance sheet			
Current assets	$ 1,242	$ 1,544	$ 848
Noncurrent assets	6,588	7,826	7,340
Current liabilities	888	1,155	1,084
Noncurrent liabilities	4,404	4,727	3,884
Net assets	$ 2,538	$ 3,488	$ 3,220
Income statement			
Operating revenues	$ 4,617	$ 3,510	$ 1,667
Operating expenses	4,039	3,104	1,166
Net income	440	193	263

Duke Energy had outstanding notes receivable from certain affiliates of $70 million and $72 million at December 31, 2000 and 1999, respectively.

9. PROPERTY, PLANT AND EQUIPMENT

NET PROPERTY, PLANT AND EQUIPMENT | IN MILLIONS

	DECEMBER 31	
	2000	1999
Land	$ 36	$ 25
Plant:		
Electric generation and transmission	11,734	11,717
Natural gas transmission	11,281	10,290
Gathering and processing facilities	4,434	2,466
Other buildings and improvements	1,339	1,310
Leasehold improvements	14	8
Nuclear fuel	761	741
Equipment	92	83
Vehicles	36	37
Construction in process	2,209	1,220
Other	2,679	2,539
Total | property, plant and equipment	$ 34,615	$ 30,436
Total | accumulated depreciation[a]	$(10,146)	$ (9,441)
Total | net property, plant and equipment	$ 24,469	$ 20,995

[a] Includes amortization of nuclear fuel: 2000 - $503 million; 1999 - $444 million

Capitalized interest of $67 million, $52 million and $28 million is included in the Consolidated Statements of Income for the years ended December 31, 2000, 1999 and 1998, respectively.

10. DEBT AND CREDIT FACILITIES

LONG-TERM DEBT | IN MILLIONS

	Year Due	DECEMBER 31 2000	1999
DUKE ENERGY			
First and refunding mortgage bonds[a]			
5.875%–6.375%	2001–2008	$ 625	$ 625
6.750%–8.30%	2023–2025	661	661
7.0%–8.950%	2027–2033	165	165
Pollution control debt, 3.850%–5.80%	2012–2017	172	172
Notes:			
5.375%–9.210%	2009–2016	811	264
6.0%–6.60%	2028–2038	500	500
Commercial paper, 6.510% and 5.840% weighted-average rate at December 31, 2000 and 1999, respectively[b]		1,256	1,184
Other debt		18	21
Notes matured during 2000		-	200
DUKE CAPITAL CORPORATION			
Senior notes:			
6.250%–7.50%	2004–2009	1,400	1,250
6.750%–8.50%	2018–2019	650	650
Commercial paper, 6.660% and 5.910% weighted-average rate at December 31, 2000 and 1999, respectively[b]		1,378	535
Note payable to affiliate 6.140% and 5.030% weighted-average rate at December 31, 2000 and 1999, respectively		141	86
PANENERGY CORP			
Bonds:			
7.750%	2022	328	328
8.625% debentures	2025	100	100
Notes:			
7.0%–9.90%, maturing serially	2003–2006	384	395
TETCO			
Notes:			
7.30%–10.375%	2001–2010	600	500
Medium-term, Series A, 7.640%–9.070%	2001–2012	51	51
ALGONQUIN GAS TRANSMISSION COMPANY			
9.130% Notes	2003	100	100

[a] Substantially all of Franchised Electric's plant was mortgaged

[b] Extendible commercial notes are included in the 2000 amounts

LONG-TERM DEBT (CONTINUED) | IN MILLIONS

	Year Due	DECEMBER 31 2000	1999
DEFS			
Notes, 7.50%–8.125%	2005–2030	$ 1,700	$ -
Commercial paper, 7.390% weighted-average rate at December 31, 2000		346	-
DENA			
Bonds, 7.50%–10.0%	2010–2030	302	-
Capital leases	2009–2028	272	207
Notes matured during 2000		-	380
DEI			
Medium-term note 7.250%	2004	139	162
Notes:			
4.50%–18.0%	2001–2024	222	107
7.90%	2004–2013	138	161
6.0%–10.0%[c]	2013–2017	477	485
Credit facilities, 6.130% and 6.010% weighted-average rate at December 31, 2000 and 1999, respectively		44	80
Commercial paper, 6.40% and 5.510% weighted-average rate at December 31, 2000 and 1999, respectively		223	49
CRESCENT[d]			
Construction and mortgage loans, 6.30%–9.50%	2001–2010	67	46
Other debt of subsidiaries		103	34
Unamortized debt discount and premium, net		(91)	(66)
Total long-term debt		13,282	9,432
Current maturities of long-term debt		(437)	(482)
Short-term notes payable and commercial paper		(1,826)	(267)
Total | long-term portion		$ 11,019	$ 8,683

[c] Paranapanema (Brazil) debt; principal is indexed annually to inflation.

[d] Substantial amounts of Crescent's real estate development projects, land and buildings were pledged as collateral.

The weighted-average interest rate on outstanding short-term notes payable and commercial paper at December 31, 2000 and 1999, was 6.80% and 5.720%, respectively.

ANNUAL MATURITIES | IN MILLIONS

2001	$ 437
2002	263
2003	475
2004	956
2005	922
Thereafter	8,403
Total | long-term debt	$ 11,456

Included in the annual maturities after 2005 is $1,536 million of long-term debt that has call options whereby Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise its redemption options, $95 million could potentially be repaid in 2001, $1,114 million in 2002, $227 million in 2003 and $100 million in 2005.

CREDIT FACILITIES | IN MILLIONS — DECEMBER 31

	2000		1999	
	Credit Facilities	Outstanding	Credit Facilities	Outstanding
364-day facilities[a]	$ 1,796	$ -	$ 823	$ 10
Three-year revolving facilities	84	44	565	450
Four-year revolving facilities	125	-	125	-
Five-year revolving facilities[a]	2,200	-	2,200	-
Total | consolidated	$ 4,205	$ 44	$ 3,713	$ 460

[a] Supported commercial paper facilities

11. NUCLEAR DECOMMISSIONING COSTS

NUCLEAR DECOMMISSIONING COSTS Estimated site-specific nuclear decommissioning costs, including the cost of decommissioning plant components not subject to radioactive contamination, total approximately $1.9 billion stated in 1999 dollars based on decommissioning studies completed in 1999. This amount includes Duke Energy's 12.5% ownership in the Catawba Nuclear Station. The other joint owners of Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station. Both the NCUC and the PSCSC have granted Duke Energy recovery of estimated decommissioning costs through retail rates over the expected remaining service periods of Duke Energy's nuclear stations. The operating licenses for Duke Energy's nuclear units are subject to extension. On May 23, 2000, Duke Energy was granted a license renewal for Oconee. The current operating licenses for Duke Energy's nuclear units are as follows:

OPERATING LICENSES FOR NUCLEAR UNITS

Unit	Year
McGuire 1	2021
McGuire 2	2023
Catawba 1	2024
Catawba 2	2026
Oconee 1 and 2	2033
Oconee 3	2034

During 2000 and 1999, Duke Energy expensed approximately $57 million, which was contributed to the external funds for decommissioning costs, and accrued an additional $8 million to the internal reserve. Nuclear units are depreciated at an annual rate of 4.7%, of which 1.61% is for decommissioning. The balance of the external funds as of December 31, 2000 and 1999, was $717 million and $703 million, respectively. The balance of the internal reserve as of December 31, 2000 and 1999, was $231 million and $223 million, respectively, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization. Management believes that the decommissioning costs being recovered through rates, when coupled with expected fund earnings, are currently sufficient to provide for the cost of decommissioning.

A provision in the Energy Policy Act of 1992 established a fund for the decontamination and decommissioning of the Department of Energy's (DOE) uranium enrichment plants, (the D&D Fund). Licensees are subject to an annual assessment for 15 years based on their pro rata share of past enrichment services. On June 12, 1998, Duke Energy and 21 other utilities filed a lawsuit challenging the constitutionality of the D&D Fund and seeking an injunction that prohibits the government from collecting the assessment and a refund of all assessments paid. The annual assessment is recorded in the Consolidated Statements

of Income as Fuel Used in Electric Generation. Duke Energy paid $10 million during 2000 and has paid $85 million cumulatively related to its ownership interests in nuclear plants. The remaining liability and regulatory assets of $62 million and $70 million at December 31, 2000 and 1999, respectively, are reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities, and Regulatory Assets and Deferred Debits, respectively.

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

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

Duke Energy and certain subsidiaries have each formed business trusts for which they own all the respective common securities. The trusts issue and sell preferred securities and invest the gross proceeds in junior subordinated notes issued by the respective parent companies.

TRUST PREFERRED SECURITIES | IN MILLIONS

			DECEMBER 31	
Issued	Rate	Due	2000	1999
1997	7.20%	2037	$ 350	$ 350
1998	7.375%	2038	350	350
1998	7.375%	2038	250	250
1999	8.375%	2029	250	250
1999	7.20%	2039	250	250
Unamortized debt discount			(44)	(46)
			$ 1,406	$ 1,404

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts. Payment of distributions on these preferred securities is guaranteed by the respective parent company, but only to the extent the trusts have funds legally and immediately available to make such distributions. Dividends of $108 million, $87 million and $44 million related to the trust preferred securities have been included in the Consolidated Statements of Income as Minority Interest Expense for the years ended December 31, 2000, 1999 and 1998, respectively.

13. PREFERRED AND PREFERENCE STOCK

AUTHORIZED SHARES OF STOCK | AS OF DECEMBER 31, 2000 AND 1999

	Par Value	Shares (IN MILLIONS)
Preferred Stock	$ 100	12.5
Preferred Stock A	$ 25	10.0
Preference Stock	$ 100	1.5

As of December 31, 2000 and 1999, there were no shares of preference stock outstanding.

PREFERRED STOCK WITH SINKING FUND REQUIREMENTS | DOLLARS IN MILLIONS

Rate/Series	Year Issued	Shares Outstanding at December 31, 2000	DECEMBER 31 2000	1999
6.20% D (Preferred Stock A)	1992	800,000	$ 20	$ 20
6.30% U	1992	130,000	13	13
6.40% V	1992	130,000	13	13
6.75% X	1993	250,000	25	25
6.10% C (Preferred Stock A)[a]	1992	-	-	20
6.20% T[a]	1992	-	-	13
Total			$ 71	$ 104

[a] Preferred stock series C and T redeemed in September and December, 2000, respectively.

The annual sinking fund requirements for 2001 through 2005 are $33 million, $13 million, $2 million, $2 million and $2 million, respectively. Some additional redemptions are permitted at Duke Energy's option.

PREFERRED STOCK WITHOUT SINKING FUND REQUIREMENTS | DOLLARS IN MILLIONS

Rate/Series	Year Issued	Shares Outstanding at December 31, 2000	DECEMBER 31 2000	1999
4.50% C	1964	175,000	$ 18	$ 18
7.85% S	1992	300,000	30	30
7.00% W	1993	249,989	25	25
7.04% Y	1993	299,995	30	30
6.375% (Preferred Stock A)	1993	1,257,185	31	31
Auction Series A	1990	750,000	75	75
Total			$ 209	$ 209

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

14. COMMITMENTS AND CONTINGENCIES

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

Pursuant to the Price-Anderson Act, Duke Energy is required to insure against public liability claims resulting from nuclear incidents to the full limit of liability of approximately $9.5 billion.

–[PRIMARY LIABILITY INSURANCE The maximum required private primary liability insurance of $200 million has been purchased along with a like amount to cover certain worker tort claims.

–[EXCESS LIABILITY INSURANCE This policy currently provides approximately $9.3 billion of coverage through the Price-Anderson Act's mandatory industry-wide excess secondary insurance program of risk pooling. The $9.3 billion of coverage is the sum of the current potential cumulative retrospective premium assessments of $88 million per licensed commercial nuclear reactor. This $9.3 billion will be increased by $88 million as each additional commercial nuclear reactor is licensed, or reduced by $88 million for certain nuclear reactors that are no longer operational and may be exempted from the risk pooling insurance program. Under this program, licensees could be assessed retrospective premiums to compensate for damages in the event of a nuclear incident at any licensed facility in the nation. If such an incident occurs and public liability damages exceed primary insurances,

licensees may be assessed up to $88 million for each of their licensed reactors, payable at a rate not to exceed $10 million a year per licensed reactor for each incident. The $88 million amount is subject to indexing for inflation and may be subject to state premium taxes.

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

–[PRIMARY PROPERTY INSURANCE This policy provides $500 million in primary property damage coverage for each of Duke Energy's nuclear facilities.

–[EXCESS PROPERTY INSURANCE This policy provides excess property, decontamination and decommissioning liability insurance in the following amounts: $2.25 billion for the Catawba Nuclear Station and $1.5 billion each for the Oconee and McGuire Nuclear Stations.

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

If NEIL's losses ever exceed its reserves for any of the above three programs, Duke Energy will be liable for assessments of up to five times its annual premiums. The current potential maximum assessments are as follows: Primary Property Insurance – $18 million; Excess Property Insurance – $18 million; Business Interruption Insurance – $15 million.

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

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

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

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

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

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

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

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

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

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

⊙ **INJURY AND DAMAGES CLAIMS** Duke Energy has experienced numerous claims relating to damages for personal injury alleged to have arisen from the exposure to or use of asbestos in connection with construction and maintenance activities conducted by Duke Energy on its electric generation plants during the 1960s and 1970s. During 1999, Duke Energy experienced a significant increase in the number of these claims. This increase, coupled with its cumulative experience in claims received, prompted Duke Energy to conduct a comprehensive review which was completed in late 1999 and to record an $800 million accrual, which is included in Other Deferred Credits and Other Liabilities in the Consolidated Balance Sheets, to reflect the purchase of a third-party insurance policy as well as estimated amounts for future claims not recoverable under such policy. The insurance policy, combined with amounts covered by self-insurance reserves, provides for claims paid up to an aggregate of $1.6 billion. Duke Energy currently believes the estimated claims relating to this exposure will not exceed such amount. While Duke Energy is uncertain as to the timing of when claims will be received, portions of the estimated claims may not be received and paid for 30 or more years.

While Duke Energy has recorded an accrual related to this estimated liability, such estimates cannot be made with certainty. Factors, such as the frequency and magnitude of claims, could result in changes in the estimates of the injury and damages liability and insurance recoveries. Such changes could result in, over time, a difference from the amount currently reflected in

the financial statements. However, due to Duke Energy's insurance program relating to this liability, management believes that any changes in the estimates would not have a material adverse effect on consolidated results of operations, cash flows or financial position.

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

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

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

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

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

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

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

⊙ **OTHER COMMITMENTS AND CONTINGENCIES** —FINANCIAL GUARANTEES Certain subsidiaries of Duke Energy have guaranteed debt agreements of affiliates and have provided surety bonds and letters of credit, all of which totaled approximately $1.9 billion and $853 million as of December 31, 2000 and 1999, respectively. The increase in the amount of these obligations is primarily due to increasing support for margin deposits and power exchange participation.

⊙ **LEASES** Duke Energy utilizes assets under operating leases in several areas of operations. Consolidated rental expense amounted to $90 million, $87 million and $80 million in 2000, 1999 and 1998, respectively. Future minimum rental payments under Duke Energy's various operating leases for the years 2001 through 2005 are $74 million, $60 million, $51 million, $44 million and $38 million, respectively.

15. COMMON STOCK

On December 20, 2000, Duke Energy announced a two-for-one common stock split effective January 26, 2001, to shareholders of record on January 3, 2001. All outstanding share and per share amounts have been restated to reflect the stock split, and appropriate adjustments have been made in the exercise price and number of shares subject to stock options along with appropriate adjustments to stock amounts and other employee benefit programs. Effective with the stock split, the quarterly cash dividend rate on common stock is $0.275 per share, subject to declaration from time to time by the Board of Directors.

At its December 20, 2000 meeting, the Board of Directors approved a proposal to increase the number of authorized shares of common stock from one billion to two billion. Such an increase is subject to shareholder approval at the Duke Energy Corporation Annual Meeting of Shareholders to be held on April 26, 2001.

16. STOCK-BASED COMPENSATION

All of the following information regarding outstanding common stock shares and options has been restated to reflect the two-for-one common stock split discussed in Note 15 to the Consolidated Financial Statements.

Under Duke Energy's 1998 Long-term Incentive Plan (the 1998 Plan), stock options for up to 30 million shares of common stock may be granted to key employees. Under the 1998 Plan, the exercise price of each option granted is required to be no less than the market price of Duke Energy's common stock on the date of grant. Vesting periods range from one to five years with a maximum term of 10 years. An amendment to the 1998 Plan, subject to shareholder approval at the Duke Energy Corporation Annual Meeting of Shareholders to be held on April 26, 2001, will increase the number of shares of common stock available under the 1998 Plan to 60 million shares.

STOCK OPTION ACTIVITY

	Options (IN THOUSANDS)	Weighted-Average Exercise Price
Outstanding at December 31, 1997	5,459	$12
Granted	7,096	29
Exercised	(1,896)	11
Forfeited	(1,736)	29
Outstanding at December 31, 1998	8,923	23
Granted	10,308	27
Exercised	(856)	12
Forfeited	(750)	29
Outstanding at December 31, 1999	17,625	25
Granted	7,594	41
Exercised	(2,047)	21
Forfeited	(666)	27
Outstanding at December 31, 2000	22,506	31

STOCK OPTIONS | AT DECEMBER 31, 2000

	Outstanding			Exercisable	
Range of Exercise Prices	Number (IN THOUSANDS)	Weighted-Average Remaining Life (IN YEARS)	Weighted-Average Exercise Price	Number (IN THOUSANDS)	Weighted-Average Exercise Price
$5 to $7	7	1.3	$ 7	7	$ 7
$8 to $10	944	3.1	10	944	10
$11 to $12	203	3.3	12	203	12
$13 to $16	220	5.1	14	220	14
$21 to $25	6,115	8.9	25	1,532	24
$26 to $30	7,726	7.7	29	2,111	29
$31 to $34	578	8.0	32	185	33
>$34	6,713	10.0	43	-	-
Total	22,506			5,202	$23

Duke Energy had 3.6 million and 3.0 million options exercisable at December 31, 1999 and 1998, with weighted-average exercise prices of $17 and $11 per option, respectively.

The weighted-average fair value of options granted was $10, $5 and $4 per option during 2000, 1999 and 1998, respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model.

WEIGHTED-AVERAGE ASSUMPTIONS FOR OPTION-PRICING

	2000	1999	1998
Stock dividend yield	3.7%	4.1%	4.2%
Expected stock price volatility	25.1%	18.8%	15.1%
Risk-free interest rates	5.3%	5.9%	5.6%
Expected option lives	7 years	7 years	7 years

Had compensation expense for stock-based compensation been determined based on the fair value at the grant dates, 2000 net income would have been $1,764 million, or $2.37 per basic share; 1999 net income would have been $1,498 million, or $2.03 per basic share; and 1998 net income would have been $1,250 million, or $1.70 per basic share.

Under Duke Energy's 1996 Stock Incentive Plan (the 1996 Plan), four million shares of common stock were reserved for awards to employees. Restricted stock grants made under the 1996 Plan vest over periods ranging from one to five years. Duke Energy awarded 294,526 restricted shares (fair value at grant dates of approximately $8 million) in 2000 and 131,700 restricted shares (fair value at grant dates of approximately $4 million) in 1999. Compensation expense for the grants is charged to earnings over the restriction period and amounted to $4 million in 2000 and was not material in 1999 or 1998.

Duke Energy granted Company Performance Awards under the 1998 Plan, under which 30 million shares of common stock have been reserved for employee and outside director awards. These share grants under the 1998 Plan vest over periods ranging between one and seven years. Duke Energy awarded 225,000 of these shares (fair value at grant dates of $7 million) in 2000 and 986,400 of these shares (fair value at grant dates of $26 million) in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and amounted to $7 million in 2000, $3 million in 1999 and zero in 1998.

17. EMPLOYEE BENEFIT PLANS

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

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

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

In connection with the 1999 sale of the Midwest Pipelines to CMS, benefit accruals under the PanEnergy plan were frozen on December 31, 1998, for all participants who, as a result of the sale, became employees of CMS and its subsidiaries. Once the transfer of the benefit obligation and related assets of the affected participants to CMS was completed, the PanEnergy plan was merged into the Duke Energy Plan.

Duke Energy's policy is to fund amounts, as necessary, on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. No contributions to the Duke Energy Plan were necessary in 2000 or 1999. The net unrecognized transition asset, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

COMPONENTS OF NET PERIODIC PENSION COSTS | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Service cost benefit earned during the year	$ 70	$ 72	$ 63
Interest cost on projected benefit obligation	184	165	169
Expected return on plan assets	(244)	(224)	(218)
Amortization of prior service cost	(3)	(3)	(4)
Amortization of net transition asset	(4)	(4)	(4)
Recognized net actuarial loss	-	12	10
Settlement gain	-	-	(10)
Net periodic pension costs	$ 3	$ 18	$ 6

RECONCILIATION OF FUNDED STATUS TO PRE-FUNDED PENSION COSTS | IN MILLIONS	DECEMBER 31	
	2000	1999
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 2,446	$ 2,540
Service cost	70	72
Interest cost	184	165
Actuarial (gain) loss	16	(41)
Transfer to CMS	-	(85)
Benefits paid	(130)	(205)
Benefit obligation at end of year	$ 2,586	$ 2,446
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 3,121	$ 2,920
Actual return on plan assets	47	491
Transfer to CMS	-	(85)
Benefits paid	(130)	(205)
Fair value of plan assets at end of year[a]	$ 3,038	$ 3,121
Funded status	$ 452	$ 675
Unrecognized net experience gain	(110)	(315)
Unrecognized prior service cost reduction	(22)	(24)
Unrecognized net transition asset	(16)	(21)
Pre-funded pension costs	$ 304	$ 315

[a] Principally equity and fixed-income securities

ASSUMPTIONS USED FOR PENSION BENEFITS ACCOUNTING[a]			
PERCENT	2000	1999	1998
Discount rate	7.50	7.50	6.75
Salary increase	4.53	4.50	4.67
Expected long-term rate of return on plan assets	9.25	9.25	9.25

[a] Reflects weighted averages across all plans

Duke Energy also sponsors employee savings plans that cover substantially all employees. Employer matching contributions of $66 million, $68 million and $53 million were expensed in 2000, 1999 and 1998, respectively.

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

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

COMPONENTS OF NET PERIODIC POSTRETIREMENT BENEFIT COSTS | IN MILLIONS | YEARS ENDED DECEMBER 31

	2000	1999	1998
Service cost benefit earned during the year	$ 5	$ 7	$ 10
Interest cost on accumulated postretirement benefit obligation	43	40	43
Expected return on plan assets	(23)	(21)	(18)
Amortization of prior service cost	1	1	7
Amortization of net transition obligation	18	18	16
Recognized net actuarial (gain) loss	-	(1)	1
Net periodic postretirement benefit costs	$ 44	$ 44	$ 59

RECONCILIATION OF FUNDED STATUS TO ACCRUED POSTRETIREMENT BENEFIT COSTS | IN MILLIONS DECEMBER 31

	2000	1999
CHANGE IN BENEFIT OBLIGATION		
Accumulated postretirement benefit obligation at beginning of year	$ 562	$ 625
Service cost	5	7
Interest cost	43	40
Plan participants' contributions	7	7
Actuarial (gain) loss	39	(68)
Benefits paid	(42)	(49)
Accumulated postretirement benefit obligation at end of year	$ 614	$ 562
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 327	$ 305
Actual return on plan assets	8	41
Employer contributions	25	23
Plan participants' contributions	7	7
Benefits paid	(42)	(49)
Fair market value of plan assets at end of year[a]	$ 325	$ 327
Funded status	$ (289)	$ (235)
Unrecognized net experience gain	(47)	(110)
Unrecognized prior service cost	5	8
Unrecognized transition obligation	214	229
Accrued postretirement benefit costs	$ (117)	$ (108)

[a] Principally equity and fixed-income securities

ASSUMPTIONS USED FOR POSTRETIREMENT BENEFITS ACCOUNTING[a]

PERCENT	2000	1999	1998
Discount rate	7.50	7.50	6.75
Salary increase	4.53	4.50	4.67
Expected long-term rate of return on assets	9.25	9.25	9.25
Assumed tax rate[b]	39.60	39.60	39.60

[a] Reflects weighted averages across all plans
[b] Applicable to the health care portion of funded postretirement benefits

For measurement purposes, a 6% average annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000 and beyond. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.

SENSITIVITY TO CHANGES IN ASSUMED HEALTH CARE COST TREND RATES | IN MILLIONS

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest costs	$ 2	$ (2)
Effect on postretirement benefit obligation	27	(25)

18. QUARTERLY FINANCIAL DATA | UNAUDITED

IN MILLIONS, EXCEPT PER SHARE DATA	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2000					
Operating revenues	$ 7,290	$ 10,926	$ 15,691	$ 15,411	$ 49,318
Operating income	812	794	1,501	706	3,813
EBIT	859	837	1,556	762	4,014
Net income	393	329	770	284	1,776
Earnings per share[a]					
Basic	$ 0.53	$ 0.44	$ 1.04	$ 0.38	$ 2.39
Diluted	$ 0.53	$ 0.44	$ 1.03	$ 0.38	$ 2.38
1999					
Operating revenues	$ 4,178	$ 4,691	$ 6,676	$ 6,221	$ 21,766
Operating income	645	531	866	(223)	1,819
EBIT	683	568	908	(116)	2,043
Income before extraordinary item	307	288	441	(189)	847
Net income	967	288	441	(189)	1,507
Earnings per share (before extraordinary item)[a]					
Basic	$ 0.41	$ 0.39	$ 0.60	$ (0.27)	$ 1.13
Diluted	$ 0.41	$ 0.39	$ 0.60	$ (0.27)	$ 1.13
Earnings per share[a]					
Basic	$ 1.32	$ 0.39	$ 0.60	$ (0.27)	$ 2.04
Diluted	$ 1.32	$ 0.39	$ 0.60	$ (0.27)	$ 2.03

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

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Duke Energy Corporation

We have audited the accompanying consolidated balance sheets of Duke Energy Corporation and subsidiaries (Duke Energy) as of December 31, 2000 and 1999, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of Duke Energy's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Duke Energy as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP
Charlotte, North Carolina
January 18, 2001

RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

SANDRA P. MEYER
Senior Vice President and Corporate Controller

RICHARD B. PRIORY 54 Chairman of the Board, President and Chief Executive Officer
Corporate Governance Committee | Finance Committee
DIRECTOR SINCE 1990.

ALEX BERNHARDT, SR. 57 Chairman and Chief Executive Officer, Bernhardt Furniture Company
Chairman, Corporate Performance Review Committee | Finance Committee
DIRECTOR SINCE 1991.

ROBERT J. BROWN 66 Chairman and President, B&C Associates, Inc.
Corporate Performance Review Committee | Finance Committee
DIRECTOR SINCE 1994.

WILLIAM A. COLEY 57 Group President, Duke Power
DIRECTOR SINCE 1990.

WILLIAM T. ESREY 61 Chairman and Chief Executive Officer, Sprint Corporation
Compensation Committee | Corporate Governance Committee
DIRECTOR SINCE 1985.

ANN MAYNARD GRAY 55 Former President, Diversified Publishing Group of ABC, Inc.
Audit Committee | Corporate Performance Review Committee
DIRECTOR SINCE 1994.

DENNIS R. HENDRIX 61 Retired Chairman and Chief Executive Officer, PanEnergy Corp
Corporate Governance Committee | Corporate Performance Review Committee
DIRECTOR SINCE 1990.

HAROLD S. HOOK 69 Retired Chairman and Chief Executive Officer, American General Corporation
Audit Committee | Corporate Performance Review Committee
DIRECTOR SINCE 1978.

GEORGE DEAN JOHNSON, JR. 58 President and Chief Executive Officer, Extended Stay America
Chairman, Finance Committee | Compensation Committee
DIRECTOR SINCE 1986.

MAX LENNON 60 President, Mars Hill College
Chairman, Audit Committee | Compensation Committee
DIRECTOR SINCE 1988.

LEO E. LINBECK, JR. 66 Chairman of the Board and Chief Executive Officer, Linbeck Corporation
Chairman, Compensation Committee | Audit Committee
DIRECTOR SINCE 1986.

JAMES G. MARTIN 65 Vice President, Carolinas HealthCare System
Chairman, Corporate Governance Committee | Compensation Committee
DIRECTOR SINCE 1994.

RUSSELL B. ROBINSON, II 69 Attorney-at-Law, Robinson, Bradshaw & Hinson, P.A.
Audit Committee | Corporate Governance Committee
DIRECTOR SINCE 1995. (RESIGNED FROM THE BOARD OF DIRECTORS EFFECTIVE FEBRUARY 27, 2001.)

Board of Directors

RICHARD B. PRIORY 54 Chairman of the Board | President and Chief Executive Officer joined Duke Energy in 1976; elected President of Duke Power in 1994; elected Chairman and Chief Executive Officer in 1997; elected President in 1998.

RICHARD W. BLACKBURN 58 Executive Vice President | General Counsel and Secretary joined Duke Energy in 1997. Prior to joining Duke Energy, Mr. Blackburn was President and Group Executive with NYNEX Worldwide Communications and Media Group.

ROBERT P. BRACE 50 Executive Vice President and Chief Financial Officer joined Duke Energy in 2001. Prior to joining Duke Energy, Mr. Brace was Group Finance Director of British Telecommunications plc.

WILLIAM A. COLEY 57 Group President, Duke Power joined Duke Energy in 1966; elected President of Duke Power Company's Associated Enterprises Group in 1994; elected Group President of Duke Power in 1997.

FRED J. FOWLER 55 Group President, Energy Transmission joined Duke Energy in 1985; elected President of Trunkline Gas Company in 1991; elected President of 1Source Corporation in 1993; elected President of Texas Eastern Transmission Corporation in 1994; elected Group President of Energy Transmission in 1997.

RICHARD J. OSBORNE 50 Executive Vice President and Chief Risk Officer joined Duke Energy in 1975; elected Vice President and Chief Financial Officer in 1991; elected Executive Vice President and Chief Financial Officer in 1997.

HARVEY J. PADEWER 53 Group President, Energy Services joined Duke Energy in 1998. Prior to joining Duke Energy, Mr. Padewer was Senior Vice President and General Manager of Utilicorp Energy Group.

RUTH G. SHAW 53 Executive Vice President and Chief Administrative Officer joined Duke Energy in 1992 as Vice President, Corporate Communications; elected Senior Vice President, Corporate Resources, in 1994; elected Executive Vice President and Chief Administrative Officer in 1997.

Policy Committee

Management Team

DUKE ENERGY CORPORATION
RICHARD B. PRIORY
Chairman of the Board, President and Chief Executive Officer

DUKE POWER
WILLIAM A. COLEY
Group President, Duke Power

MICHAEL S. TUCKMAN
Executive Vice President, Nuclear Generation

CURTIS H. DAVIS
Senior Vice President, Power Generation

E. O. FERRELL III
Senior Vice President, Electric Distribution

JIMMY R. HICKS
Senior Vice President, Retail Services

C. NEAL ALEXANDER
Vice President, Group Human Services

JEFFREY L. BOYER
Vice President, Duke Power Planning and Finance

BUDDY E. DAVIS
Vice President, Group Environmental, Health and Safety

JOHN W. PHILLIPS, JR.
Vice President, Information Management

STEVEN K. YOUNG
Vice President, Rates and Regulatory Affairs

ENERGY TRANSMISSION
FRED J. FOWLER
Group President, Energy Transmission

JIM W. MOGG
Chief Executive Officer
Duke Energy Field Services

WILLIAM L. THACKER, JR.
Chairman, President and Chief Executive Officer
TEPPCO

ROBERT B. EVANS
President
Duke Energy Gas Transmission

DOROTHY M. ABLES
Senior Vice President and Chief Financial Officer
Duke Energy Gas Transmission

JAMES D. HINTON
Senior Vice President, Electric Transmission

THEOPOLIS HOLEMAN
Senior Vice President, Transmission and Engineering
Duke Energy Gas Transmission

RICHARD J. KRUSE
Senior Vice President, Industry Initiatives, Pricing and Regulatory Affairs
Duke Energy Gas Transmission

TOM C. O'CONNOR
Senior Vice President, Marketing and Capacity Management
Duke Energy Gas Transmission

J. WILFRED NEAL
President
Duke Communication Services

ENERGY SERVICES
HARVEY J. PADEWER
Group President, Energy Services

JAMES M. DONNELL
President and Chief Executive Officer
Duke Energy North America

RONALD F. GREEN
President and Chief Executive Officer
Duke Engineering & Services

CLARENCE L. RAY, JR.
President and Chief Executive Officer
Duke/Fluor Daniel

BRUCE A. WILLIAMSON
President and Chief Executive Officer
Duke Energy International

KEITH G. BUTLER
Chief Operating Officer, DukeSolutions

KIRK B. MICHAEL
Vice President and Chief Financial Officer
Finance and Planning

ENTERPRISE RISK MANAGEMENT AND DUKE VENTURES
RICHARD J. OSBORNE
Executive Vice President and Chief Risk Officer

LEONARD B. GATEWOOD
Senior Vice President, Strategic Planning and Development

GEORGE V. BROWN
Vice President and Chief Credit Officer
Corporate Risk Management

C. JEFFERY TRIPLETTE
Vice President, Insurance

SARA S. WHITNEY
Vice President, Audit Services

ROBERT S. LILIEN
President, Duke Ventures

ARTHUR W. FIELDS
President, Crescent Resources

ROBERT T. LADD
President and Chief Executive Officer
Duke Capital Partners, LLC

MARION H. SMITH, JR.
Chief Executive Officer
DukeNet Communications

GENERAL COUNSEL
RICHARD W. BLACKBURN
Executive Vice President, General Counsel and Secretary

DONALD E. HATLEY
Senior Vice President, Governmental Affairs

RICHARD K. MCGEE
Senior Vice President and General Counsel
Energy Services

ELLEN T. RUFF
Senior Vice President and General Counsel
Corporate and Electric Operations

MARTHA B. WYRSCH
Senior Vice President and General Counsel
Energy Transmission

FINANCE
ROBERT P. BRACE
Executive Vice President and Chief Financial Officer

SUE A. BECHT
Senior Vice President, Investor Relations

CARY D. FLYNN
Senior Vice President, Corporate Tax

DAVID L. HAUSER
Senior Vice President and Treasurer

SANDRA P. MEYER
Senior Vice President and Corporate Controller

CORPORATE RESOURCES
RUTH G. SHAW
Executive Vice President and Chief Administrative Officer

ROBERTA B. BOWMAN
Senior Vice President, Public Affairs

A. R. MULLINAX
Senior Vice President, Global Sourcing and Logistics

CHRISTOPHER C. ROLFE
Senior Vice President, Human Resources

CECIL O. SMITH, JR.
Senior Vice President, Information Management

JACQUELYN B. GATES
Vice President, Diversity and Ethics

JAMES R. HENDRICKS, JR.
Vice President, Corporate Environment, Health and Safety

DONALD H. STEELE III
Vice President, Corporate Services

ANNUAL MEETING

The 2001 Annual Meeting of Duke Energy Shareholders will be:

DATE: THURSDAY | APRIL 26, 2001
TIME: 10 A.M.
PLACE: O.J. MILLER AUDITORIUM | ENERGY CENTER
526 SOUTH CHURCH STREET
CHARLOTTE, NORTH CAROLINA 28202

SHAREHOLDER SERVICES

Shareholders with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services should call (800) 488-3853 or (704) 382-3853. E-mail requests should be sent to InvestDUK@duke-energy.com. Written requests should be addressed to:

INVESTOR RELATIONS
DUKE ENERGY CORPORATION
PO BOX 1005
CHARLOTTE, NORTH CAROLINA 28201-1005

STOCK EXCHANGE LISTING

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

WEB SITE ADDRESS: www.duke-energy.com

INVESTORDIRECT CHOICE PLAN

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

FINANCIAL PUBLICATIONS

Duke Energy will furnish to any shareholder, without charge, copies of the 2000 report on SEC Form 10-K, the 2000 Statistical Supplement and an audiotape recording of excerpts from the 2000 Annual Report.

DUPLICATE MAILINGS

You will receive duplicate mailings of annual reports, proxy statements and other shareholder mailings if your shares are registered in different accounts. If you receive such duplications, please call Investor Relations for instructions on eliminating the duplicate mailings or combining your accounts.

TRANSFER AGENT AND REGISTRAR

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

DIVIDEND PAYMENT

Duke Energy has paid quarterly cash dividends on its common stock for 74 consecutive years. Dividends on common and preferred stock in 2001 are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 18, September 17 and December 17.

BOND TRUSTEE

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

THE CHASE BANK OF TEXAS N.A.
CORPORATE TRUST SERVICES
PO BOX 2320
DALLAS, TEXAS 75221-2320

Shareholder information

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