
The Power of Focus

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total assets
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'97
'01

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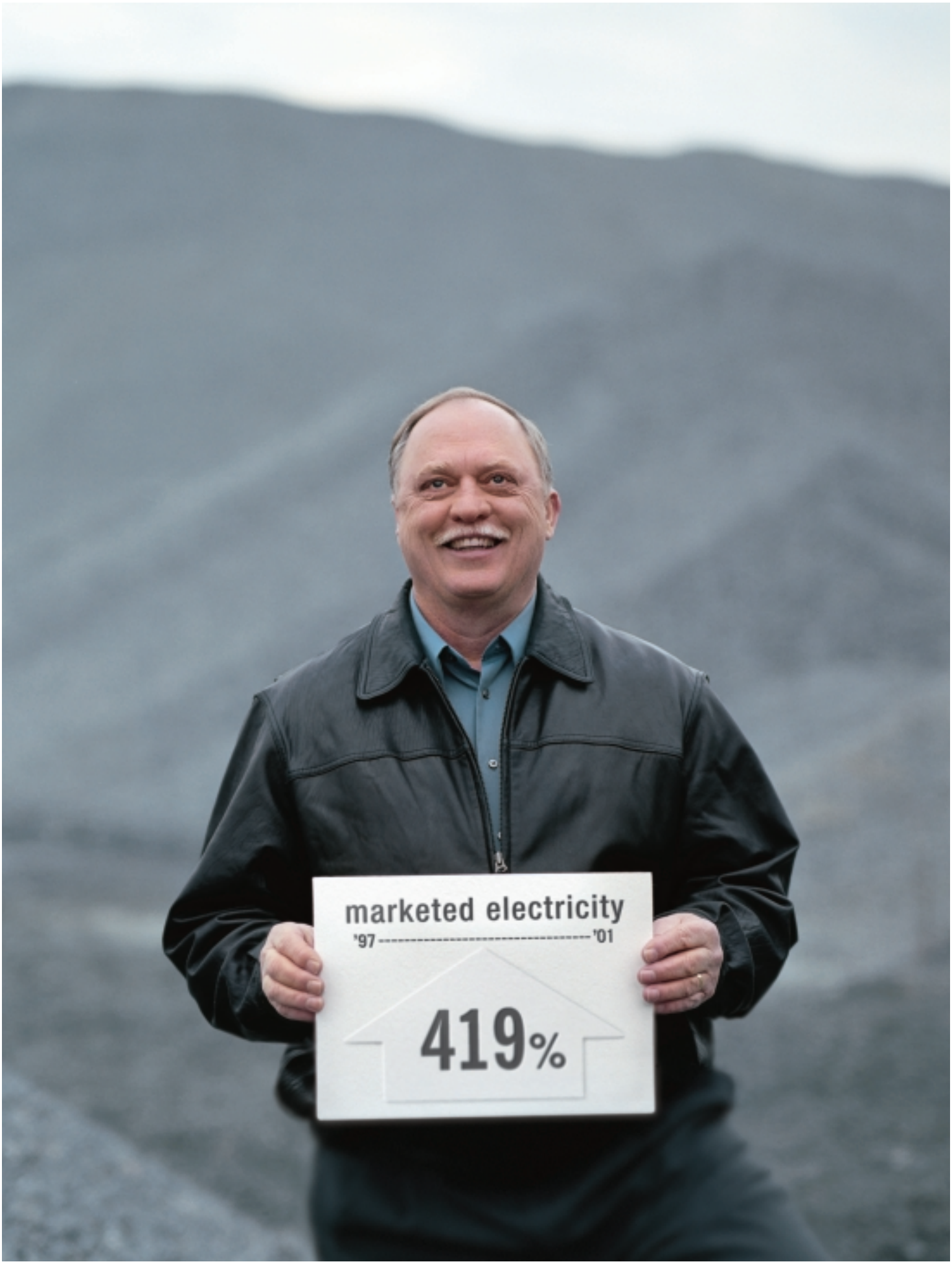

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This year, perhaps more than in any other, we see a world changed around us. 2001 underscored the importance of staying focused on the essentials. We are pleased to share the results of what a company can accomplish when it is focused. A company some 24,000 people strong – focused on performance, a strategy, a plan. Focused on a philosophy – a way of thinking. Focused not on obstacles or limits, but on potential and possibility. We've had a banner year of growth. We've grown assets. We've grown revenues. We've grown earnings. And our focus, our driving motivation, is a powerful way of thinking. It's looking forward and seeing clearly. It's doing the right things, and doing what's right. It's living our strategy, sticking to the basics and never losing sight of what's important.

The Power of Focus

TO OUR SHAREHOLDERS:

We live in remarkable times. And for Duke Energy, 2001 was a year of remarkable change, challenge – and results. On the preceding pages, you saw impressive numbers, delivered by an outstanding team. You'll recognize achievement and value growth in the numbers and charts – and focus, integrity and intellect in the people behind them.

In a year that sometimes seemed "out of focus," Duke Energy posted its strongest-ever earnings. In the midst of economic downturn, an industry in transition and the cycles of an erratic market, we delivered on our promises to investors and customers. The power of focus helped us hold our ground in 2001 – and realize new gains as well.

As I write this letter in late February, investors in the U.S. and around the world are trying to make sense of things. Following fast on the heels of the dot.com demise of 2000, the bankruptcies of two major energy companies created new shockwaves from Wall Street to Main Street. Many investors I talk with feel stung by these experiences. Some are reluctant and confused. All are skeptical.

This more sober investor outlook is a positive development. As a manic market of inflated highs and tailspin lows is replaced by more measured expectations and clear-headedness, we return to basics. Basics in business strategy and direction. In performance measures and valuations. In customer service and corporate values. And in clear, straightforward communications.

We applaud this shift back to basics. The investing public deserves – and should demand – reliable information, candor and accountability. It is time for realism, rationality and forthright reporting. It is time for straight talk.

In that spirit, here are six questions I would ask when investing in any company:

[1] What business is the company in?

Sounds simple, doesn't it? But as companies have diversified, merged and morphed, the lines aren't as clear as they once were.

Not all companies with energy in their names are equally invested in energy. Many have diversified broadly into non-energy ventures. Duke Energy *is* an energy company. We have been for nearly a century, and our future success will play out in the vital, growing marketplace of world energy.

In North America and key regions around the world, our strategy is the same. We gather, process, transport, store and market natural gas. We design, build, own and operate electric generating facilities. We manage and trade energy. We provide millions of customers with reliable energy.

This integrated approach gives us the ability to avoid the market vulnerabilities of "pure plays" in our industry – the pure merchant generators or the pure traders. We pursue related lines of business, but always with a measured, disciplined approach. And as we have broadened our horizons, we have stuck close to our roots of energy expertise and experience.

We build our business on more than power plants and pipelines. We also build our business on relationships. We take a partnering approach with our customers, and focus on delivering solutions, solving problems and making a positive difference in their businesses. For example, to help our customers navigate the complexities of energy supply and demand for both natural gas and power, we have developed e-systems through which they can access energy information and complete transactions in real time.

Large or small, retail or wholesale, our customers have vastly different needs. But they all expect two things – reliable service and reasonable prices. We put all of our resources to work to make sure our customers get both.

[2] How does the company make money?

Our integrated business model – combining natural gas and power assets with trading and marketing – is what differentiates Duke Energy. Our generating facilities, gas processing plants, pipelines and wires are more than just steel, concrete and machinery – they are the building blocks of value and growth. Our trading and marketing skills help us mitigate risk, navigate changing commodity cycles and economic conditions, and protect and

DUKE ENERGY CORPORATION

financial highlights

In millions, except where noted	YEARS ENDED DECEMBER 31 2001	2000	1999
Operating revenues	$ 59,503	$ 49,318	$ 21,766
Earnings before interest and taxes	4,256	4,014	2,043
Income before extraordinary item and cumulative effect of change in accounting principle	1,994	1,776	847
Net income	1,898	1,776	1,507
Earnings available for common stockholders	1,884	1,757	1,487
COMMON STOCK DATA[a]			
Weighted-average shares outstanding	767	736	729
Basic earnings per share (before extraordinary item and cumulative effect of change in accounting principle)	$ 2.58	$ 2.39	$ 1.13
Basic earnings per share	2.45	2.39	2.04
Dividends per share	1.10	1.10	1.10
CAPITALIZATION			
Common equity	41%	37%	42%
Minority interests	7%	9%	6%
Preferred stock	1%	1%	1%
Trust preferred securities	5%	5%	7%
Total debt	46%	48%	44%
SEC fixed charges coverage	3.8	3.6	2.7
Total assets	$ 48,375	$ 58,232	$ 33,409
Total debt	14,185	12,980	9,432
Cash flows from operating activities	4,595	2,225	2,684
Cash flows used in investing activities	(6,281)	(4,930)	(3,751)
Cash flows from financing activities	1,354	2,714	1,600
OPERATING DATA[b]			
Franchised Electric's sales, GWh	79,685	84,766	81,548
Natural Gas Transmission's proportional throughput, TBtu	1,710	1,771	1,893
Natural gas marketed, TBtu/d[c]	14.0	12.6	11.0
Electricity marketed and traded, GWh[d]	335,210	275,258	109,634
Field Services' natural gas gathered and processed/transported, TBtu/d	8.6	7.6	5.1
Field Services' natural gas liquids production, MBbl/d	397.2	358.5	192.4

[a] Year 2000 and 1999 amounts are 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] Includes volumes for both North American Wholesale Energy and Field Services.

[d] Includes volumes for North American Wholesale Energy only.

enhance the value of our assets. By linking hard assets with trading and marketing capabilities, we increase – manyfold – our ability to deliver strong and consistent shareholder value.

Our portfolio of assets is fluid and flexible. We buy, build, manage and sell energy assets and products in much the same way investors manage their investment portfolios: We strive to buy low and sell high! Our practice of acquiring and selling positions is critical to capturing value and aligning our business with market realities, so you'll continue to see movement within the Duke Energy portfolio.

We build our businesses, plants and pipelines in the pathways of growth, developing the systems and facilities to efficiently connect supply and demand. It's like the secret of ice hockey great Wayne Gretsky's success – "skating where the puck is going to be." We build for tomorrow's growth.

The $8 billion acquisition of Westcoast Energy is the latest milestone in that grow-forward strategy. Westcoast is a natural gas pipeline, storage and distribution company based in Vancouver, British Columbia. It's the perfect fit for Duke Energy – ideally positioned, linking complementary assets, and advancing our long-term earnings potential.

With the addition of Westcoast's network, Duke Energy will have unparalleled access to North America's major natural gas supply basins and markets. Westcoast also brings an impressive network of gas gathering and processing services and gas storage capacity, as well as a talented team that will complement our own.

In financial terms, the Westcoast acquisition will be immediately accretive to earnings upon closing, and will spur future growth in our gas transmission and other businesses. We retain our strong balance sheet and financial flexibility with the acquisition, consistent with our commitment to maintain solid creditworthiness.

Operational excellence. Portfolio diversity. The overlay of energy trading and origination. Strategic acquisitions and divestitures. Financial strength. Those are our business model basics. When you put them together, you get sustainable growth and shareholder value.

[3] How has the company performed?

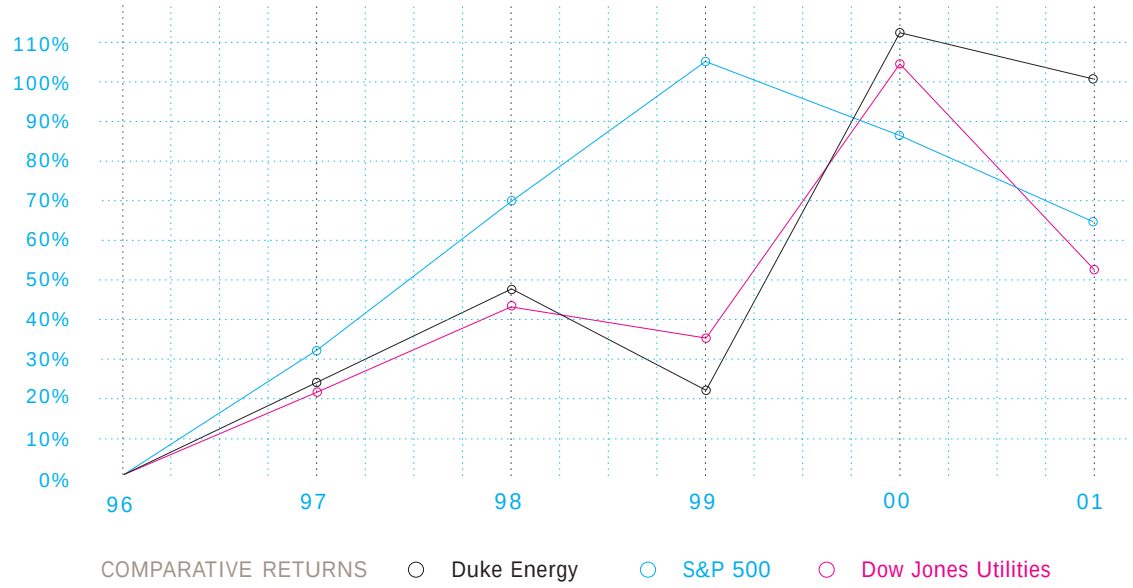
Today's investors seek real, reliable financial performance. Not platitudes. Not lofty talk of potential earnings and growth. Financial performance is the most basic of the basics, and we haven't lost sight of that fundamental at Duke Energy.

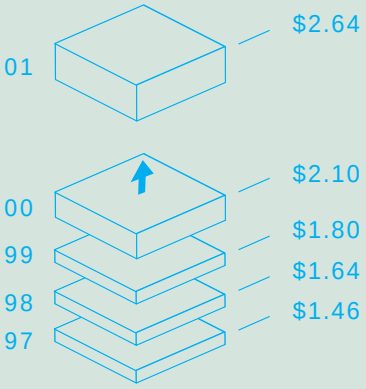
You'll see many impressive numbers in this report. Here are a few that matter the most in our business: A sound, sustainable earnings stream. The ability to deliver superior returns on capital. A debt level that gives us ready and secure access to that capital. And the ability to effectively manage risk exposure.

In 2001, revenues grew by 21 percent to nearly $60 billion, and earnings per share from our ongoing operations increased a record 26 percent. Reported earnings per share have seen a compound annual growth rate of 13 percent per year since 1998.

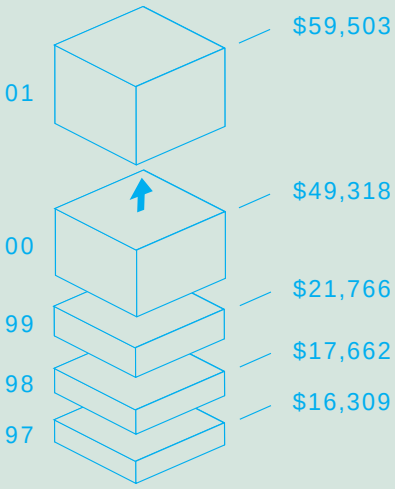
Our "A" Standard & Poor's credit rating – the strongest in our industry – allows us to initiate projects and see them through. We've worked hard to protect and strengthen our credit standing. In 2001, those efforts paid off when we completed the largest-ever combined equity and equity-linked transaction in the industry. We expect to see attractive acquisition opportunities in 2002 and beyond, and our credit muscle lets us move quickly on new growth opportunities.

We have access to capital – and we earn superior returns on that capital. Since 1998, Duke Energy has ranked in the top five of a 20-company peer group in return on capital employed. Our debt-to-capital ratio is a solid 46 percent, and we lead the industry with 17 percent return on equity.





Ongoing Earnings per Share



Revenues (in millions)

Like you, we're less than satisfied with Duke Energy's stock performance for the year, down 8 percent at year end. In context, we held our own, outperforming the S&P 500 and most of our energy peers. We exceeded our earnings estimates for 2001 and overcame the negative impacts of general economic uncertainty and energy sector weakness.

Financial performance is important. So is financial transparency. Investors need access to information so they can make informed decisions. And they need to know that their company has a clear picture of its risks and exposures at any given moment in time.

[4] How does the company manage its risk?

Duke Energy has one of the most comprehensive risk control structures in the energy industry. Led by our chief risk officer, systems and personnel throughout the organization ensure compliance with both internal controls and external regulatory procedures.

We monitor "daily earnings at risk" due to energy price fluctuations. By analyzing historic commodity prices, we can estimate the impact of future price movements on our portfolio. By design, the level of our daily earnings at risk is moderate, and it is constantly measured and monitored.

Duke Energy owns and operates more than 30,000 megawatts of electric generation worldwide.

Effective risk management is embedded in our trading operations as well. We apply rigorous hedging discipline to all of our merchant generation and gas processing capacity, often selling future production through long-term contracts to lock in the spreads (the difference between the cost of production and the market price). That discipline protects us from dramatic swings in commodity prices. In the current market, we have hedged 91 percent of our merchant generation output for 2002, and 62 percent for 2003 and 2004.

You'll find detailed explanations of our risk management and accounting practices in the Management's Discussion and Analysis section of this report.

[5] What is the company's future outlook?

Not even a crystal ball can guarantee a perfect answer here, but there are signs to look for: a demonstrated track record, strong competitive positioning and the market's capacity for growth.

A year ago, Duke Energy increased its earnings growth goal to 10 to 15 percent compounded annually, from a base of $2.10 per share in 2000. We outpaced that pledge in 2001, and we expect to achieve the high end of that range in 2002.

After a turbulent year, the U.S. energy market remains resilient and healthy. Despite the exodus of key energy players in 2001, our industry – larger than any one company – remains strong. Customers take flight to quality, and companies like Duke Energy – with size, scope and a reputation for dependability – have an opportunity to forge new customer relationships.

The energy market continues to function efficiently and effectively. Buyers and sellers who trade electronically are moving to strong and stable energy trading platforms like the InterContinental Exchange, which Duke Energy helped create in 2000.

We also have confidence in the growth potential of the energy market, even in current economic conditions. Reliable, efficient, affordable energy is key to global economic growth. The U.S. Energy

* 2001 RECOGNITION	Energy Company of the Year Global Energy Awards FINANCIAL TIMES	Best Company in North America Energy Services and Electricity GLOBAL FINANCE	Safety Achievement Award American Gas Association
Top 100 E-Businesses INTERNET WEEK	Most Admired Energy Company FORTUNE	Dow Jones Sustainability World Index	Conservation Achievement Award National Wildlife Federation

Information Agency predicts that world energy consumption will increase by more than 50 percent by the year 2020. Even in a stalled economy, U.S. energy demand continues to grow by 1 to 2 percent annually.

For our part, we're building and acquiring thousands of megawatts of electric generation and thousands of miles of natural gas pipeline to serve North American and global energy markets. We're also adding capacity to store natural gas, produce natural gas liquids and transport petroleum products.

We've developed 12,000 megawatts of gas-fired power generation in the U.S. since 1997, including six new facilities brought on line for last summer's peak – an unprecedented accomplishment. We're building 11 more facilities to begin operation this summer, and generating facilities at five more locations are under construction for 2003.

We're also judiciously expanding our international operations – building generation capacity to meet growing demand in Latin America, extending our pipeline system in Australia, and pursuing new investments in liberalizing markets in Europe.

[6] What about the company's character?

In the energy business – in any business – integrity, character, trust and respect are critical success factors.

Tough times test a company's character and staying power. In 2001, we faced challenges and disruptions, in our industry and our world. The California energy crisis. Major energy companies in bankruptcy or decline. Downward pressure on energy prices. An economy in recession. The horrific events and aftershocks of September 11.

Our company's strength comes from its focus on resolving problems, not avoiding them. It's a simple formula: We run a good business, we tell the truth, we work from facts and we find solutions.

In California, for example, through all the political rhetoric, we focused on real solutions – keeping the plants running, and adding new supply to smooth out price volatility in wholesale markets for the long term. I'm extremely proud of our employees, who worked long hours under intense scrutiny to keep the lights on during the crisis.

Turbulent times and volatile markets call for strong leadership.

The seven executives who join me on Duke Energy's policy committee are at the top of their fields. They bring together diverse backgrounds and expertise, and set the true-north direction of our company. Behind them we have bench strength – an outstanding management team leading 24,000 talented energy professionals who span the disciplines of our business.

Ours is a team that does well from a business perspective, and does good from the perspective of our many stakeholders. The men and women of Duke Energy work to improve their communities and better the lives of their neighbors with charitable giving, volunteer work and civic involvement. And to prepare the next generation for a better tomorrow, we invest our time, talent and resources to support advancements in education at all levels.

The company's core values, business model, earnings ability, demonstrated performance, management discipline and future outlook – those are the critical elements I would question as an investor. The answers speak to a company's character, progress and potential.

Our company rose to the challenges of 2001 by focusing on the basics: Value creation. Consistently strong financial performance. Integrity and candor in our financial reporting. Positioning our businesses for future growth and opportunity. Diversity and balance. Trust and respect.

I believe those basics are the mark of a good company and of a good investment. They are the foundation that grounds us – and the spark that inspires us to new heights.

Richard B. Priory

FEBRUARY 19, 2002

Amy Statler Risk Management Duke Energy International

Richard B. Priory 55 Chairman of the Board, President and Chief Executive Officer

Rick Priory has led Duke Energy as its chairman and CEO since Duke Power's 1997 merger with PanEnergy, one of the energy industry's first and most successful convergence alignments. A former college professor, Priory joined the company as a design engineer in 1976. His unique combination of academic and technical expertise led to his advancement to president of Duke Power in 1994. He was recently recognized as one of the world's top 25 managers by *Business Week*.

Richard W. Blackburn 59 Executive Vice President, General Counsel and Secretary

Responsible for Duke Energy's legal, governmental affairs and energy policy and strategy, Dick Blackburn has spent much of his career in senior legal positions. Before joining Duke Energy in 1997, he served as president and group executive for NYNEX Worldwide Communications and Media Group, where he had lead responsibility for expansion of the corporation's global telecommunications businesses.

Robert P. Brace 52 Executive Vice President and Chief Financial Officer

Corporate finance, accounting, taxes and investor relations are the responsibility of Robert Brace, who has an extensive background in international finance, strategic planning, mergers and acquisitions. He came to Duke Energy in 2001 from British Telecommunications plc, where he served as group finance director, the company's lead financial post.

RICHARD B. PRIORY
FRED J. FOWLER
RICHARD W. BLACKBURN
RICHARD J. OSBORNE
ROBERT P. BRACE
HARVEY J. PADEWER
WILLIAM A. COLEY
RUTH G. SHAW








William A. Coley 58 Group President, Duke Power

Bill Coley joined Duke Power as a plant engineer in 1966, and today oversees the generation and delivery of electricity to more than 2 million customers in the Carolinas. His 36-year career spans responsibility for engineering, information systems, operations, power delivery and customer service. Coley serves on South Carolina's Palmetto Business Forum and on the North Carolina Economic Development Board.

Fred J. Fowler 56 Group President, Energy Transmission

Fred Fowler is responsible for Duke Energy's interstate natural gas pipeline system and natural gas gathering and processing business. He joined PanEnergy in 1985, bringing strong expertise in natural gas trading, marketing and transportation. He serves on the boards of directors of the Interstate Natural Gas Association of America and the Gas Research Institute.

Richard J. Osborne 51 Executive Vice President and Chief Risk Officer

Overseeing Duke Energy's risk control policies, risk portfolio management and strategic planning, Rich Osborne is also responsible for the company's Duke Ventures group of non-energy businesses – Crescent Resources, DukeNet and Duke Capital Partners. A summer internship led him to join Duke Energy as a financial analyst in 1975, and by 1991 he had advanced to become chief financial officer.

Harvey J. Padewer 54 Group President, Energy Services

Harvey Padewer leads Duke Energy North America, Duke Energy Generation Services, Duke/Fluor Daniel and Duke Energy Global Markets. He joined Duke Energy in 1998, having served as senior vice president and general manager of Utilicorp Energy Group, and vice chairman of the board of Aquila Pipeline Company. Padewer has a distinguished track record in growing energy-related businesses to become market leaders.

Ruth G. Shaw 54 Executive Vice President and Chief Administrative Officer

Ruth Shaw leads an array of corporate functions, ranging from human resources to information technology. She has also guided major strategic initiatives such as e-business and energy issues. She joined Duke Power as vice president of corporate communications in 1992, following a distinguished career in higher education. She is an active civic leader and president of the Duke Energy Foundation.

RICHARD B. PRIORY 55
Chairman of the Board,
President and Chief Executive Officer.
Corporate Governance Committee;
Finance Committee.
Director since 1990.

G. ALEX BERNHARDT, SR. 58
Chairman and Chief Executive Officer,
Bernhardt Furniture Company.
Chairman, Corporate
Performance Review Committee;
Finance Committee.
Director since 1991.

ROBERT J. BROWN 67
Chairman and Chief Executive Officer,
B&C Associates Inc.
Finance Committee; Corporate
Performance Review Committee.
Director since 1994.

WILLIAM A. COLEY 58
Group President, Duke Power.
Director since 1990.

WILLIAM T. ESREY 62
Chairman and Chief Executive Officer,
Sprint Corporation.
Compensation Committee;
Corporate Governance Committee.
Director since 1985.

ANN MAYNARD GRAY 56
Former President, Diversified
Publishing Group of ABC Inc.
Audit Committee; Corporate
Performance Review Committee.
Director since 1994.

DENNIS R. HENDRIX 62
Retired Chairman and Chief
Executive Officer, PanEnergy Corp.
Corporate Governance Committee;
Corporate Performance
Review Committee.
Director since 1990.

HAROLD S. HOOK 70
Owner and President, Main Event
Management Corporation.
Audit Committee; Corporate
Performance Review Committee.
Director since 1978.

GEORGE DEAN JOHNSON, JR. 59
Chief Executive Officer and Director,
Extended Stay America Inc.
Chairman, Finance Committee;
Compensation Committee.
Director since 1986.

MAX LENNON 61
Former President, Mars Hill College.
Chairman, Audit Committee;
Compensation Committee.
Director since 1988.

LEO E. LINBECK, JR. 67
Chairman of the Board, President and
Chief Executive Officer, Linbeck Corporation.
Chairman, Compensation Committee;
Audit Committee.
Director since 1986.

JAMES G. MARTIN 66
Corporate Vice President,
Carolinas HealthCare System.
Chairman, Corporate
Governance Committee;
Compensation Committee.
Director since 1994.

JAMES T. RHODES 60
Retired Chairman, President and
Chief Executive Officer,
Institute of Nuclear Power Operations.
Audit Committee; Corporate
Performance Review Committee.
Director since 2001.

Management Team

Richard B. Priory Chairman of the Board, President and Chief Executive Officer, Duke Energy

DUKE POWER William A. Coley Group President, Duke Power E.O. Ferrell III Senior Vice President, Electric Distribution Jimmy R. Hicks Senior Vice President, Electric Transmission Sandra P. Meyer Senior Vice President, Retail Services Ellen T. Ruff Senior Vice President, Asset Management Angeline M. Clinton Vice President, Information Systems J. Wilfred Neal President, Duke Communication Services Deborah T. Patton Vice President, Human Resources Carol E. Shrum Vice President, Duke Power Planning and Finance Steven K. Young Vice President, Rates and Regulatory Affairs

ENERGY TRANSMISSION Fred J. Fowler Group President, Energy Transmission Jimmy W. Mogg Chairman, President and Chief Executive Officer, Duke Energy Field Services Robert B. Evans President, Duke Energy Gas Transmission Barry R. Pearl President and Chief Operating Officer, TEPPCO Dorothy M. Ables Senior Vice President, Finance and Administration, and Chief Financial Officer, Duke Energy Gas 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

ENERGY SERVICES Harvey J. Padewer Group President, Energy Services James M. Donnell President and Chief Executive Officer, Duke Energy North America Jeff L. Faulk President and Chief Executive Officer, Duke/Fluor Daniel Clarence L. Ray, Jr. President and Chief Executive Officer, Duke Energy Generation Services Bruce A. Williamson President and Chief Executive Officer, Duke Energy Global Markets C. Neal Alexander, Jr. Senior Vice President, Human Resources Kirk B. Michael Senior Vice President and Chief Financial Officer Richard M. Sherrill Executive Vice President and Chief Operating Officer, Duke Energy North America Michael S. Tuckman Executive Vice President, Nuclear Generation Curtis H. Davis Senior Vice President, Power Generation Michael J. Kimner President and Chief Executive Officer, Duke Energy Merchants Richard K. McGee President and Chief Executive Officer, Duke Energy International

GENERAL COUNSEL Richard W. Blackburn Executive Vice President, General Counsel and Secretary Brent C. Bailey Senior Vice President and General Counsel William F. Hall III Senior Vice President, Energy Policy and Strategy Donald E. Hatley Senior Vice President, Governmental Affairs Martha B. Wyrsch Senior Vice President and General Counsel

FINANCE Robert P. Brace Executive Vice President and Chief Financial Officer Sue A. Becht Senior Vice President, Investor Relations Keith G. Butler Senior Vice President and Controller Cary D. Flynn Senior Vice President, Corporate Tax David L. Hauser Senior Vice President and Treasurer Jeffrey L. Boyer Vice President, Financial Analysis

ENTERPRISE RISK MANAGEMENT AND DUKE VENTURES Richard J. Osborne Executive Vice President and Chief Risk Officer Robert S. Lilien President, Duke Ventures Leonard B. Gatewood Senior Vice President, Strategic Planning and Development George V. Brown Vice President, Corporate Risk Management and Chief Credit Officer C. Jeffery Triplette Vice President, Insurance Sara S. Whitney Vice President, Audit Services A.R. Mullinax Senior Vice President, Duke Ventures Arthur W. Fields President, Crescent Resources, LLC Robert T. Ladd President and Chief Executive Officer, Duke Capital Partners, LLC Marion H. Smith, Jr. President and Chief Executive Officer, DukeNet Communications, LLC

CORPORATE RESOURCES Ruth G. Shaw Executive Vice President and Chief Administrative Officer Roberta B. Bowman Senior Vice President, Public Affairs Christopher C. Rolfe Senior Vice President, Human Resources Cecil O. Smith, Jr. Senior Vice President, Information Management James W. Chuber Vice President, Global Sourcing and Logistics Jacquelyn B. Gates Vice President, Diversity, Ethics and Compliance James R. Hendricks, Jr. Vice President, Corporate Environment, Health and Safety Donald H. Steele III Vice President, Corporate Services

FINANCIAL CONTENTS

INTRODUCTION

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

BUSINESS SEGMENTS Duke Energy Corporation (collectively with its subsidiaries, Duke Energy), an integrated provider of energy and energy services, offers 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 electricity in central and western North Carolina and western South Carolina. It conducts operations 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 transportation and storage of natural gas for customers throughout North America, primarily in the Mid-Atlantic, New England and southeastern states. It conducts operations primarily through Duke Energy Gas Transmission Corporation. Interstate natural gas transmission and storage operations are subject to the FERC's rules and regulations.

Field Services gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores natural gas liquids (NGLs). It conducts operations primarily through Duke Energy Field Services, LLC (DEFS), which is approximately 30% owned by Phillips Petroleum. Field Services operates gathering systems in western Canada and 11 contiguous states in the U.S. Those systems serve major natural gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, and onshore and offshore Gulf Coast areas.

North American Wholesale Energy (NAWE) develops, operates and manages merchant generation facilities and engages in commodity sales and services related to natural gas and electric power. NAWE conducts these operations primarily through Duke Energy North America, LLC (DENA) and Duke Energy Trading and Marketing, LLC (DETM). DETM is approximately 40% owned by Exxon Mobil Corporation. NAWE also includes Duke Energy Merchants Holdings, LLC, which develops new business lines in the evolving energy commodity markets other than natural gas and power. NAWE conducts business primarily throughout the U.S. and Canada.

International Energy develops, operates and manages natural gas transportation and power generation facilities and engages in energy trading and marketing of natural gas and electric power. It conducts operations primarily through Duke Energy International, LLC and its activities target 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., a wholly owned subsidiary of Fluor Corporation. (See Note 8 to the Consolidated Financial Statements.) On January 31, 2002, Duke Energy announced the planned sale of DE&S to Framatome ANP, Inc. (See Current Issues – Subsequent Event.)

Duke Ventures is composed of other diverse businesses, operating primarily through Crescent Resources, LLC (Crescent), DukeNet Communications, LLC (DukeNet) and Duke Capital Partners, LLC (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 wholly owned merchant banking company, provides debt and equity capital and financial advisory services to the energy industry.

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 extensive capabilities. Domestically, Duke Energy is investing as opportunities arise in new merchant power plants throughout the U.S., expanding its natural gas pipeline infrastructure, advancing 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. Planned expansion for 2002 includes the pending acquisition of Westcoast Energy Inc. (Westcoast) for approximately $8 billion, including the assumption of debt. Westcoast, head-

quartered in Vancouver, British Columbia, is a North American energy company with interests in natural gas gathering, processing, transmission, storage and distribution, as well as power generation and international energy businesses. (See Current Issues – Pending Acquisition of Westcoast Energy Inc.) Internationally, Duke Energy is currently focusing on electric and natural gas opportunities in Latin America, Asia Pacific and Europe.

Franchised Electric continues to increase its customer base, maintain low costs and deliver high-quality customer service in the Piedmont Carolinas. Franchised Electric is expected to grow moderately. Expansion will primarily result from continued growth in the residential and general service sectors, partially offset by a continuing decline in the textile industry.

Natural Gas Transmission plans to continue 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 significant size and scope in natural gas gathering and 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. DENA, through its portfolio management strategy, seeks opportunities to invest in energy assets in U.S. 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' growth opportunities will be primarily related to D/FD. Other Energy Services plans to grow by providing an expanding customer base with a variety of engineering, operating, procurement and construction services in areas related to energy assets.

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 may 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 progress in industry restructuring in North Carolina and South Carolina.

RESULTS OF OPERATIONS

In 2001, earnings available for common stockholders were $1,884 million, or $2.45 per basic share, compared to $1,757 million, or $2.39 per basic share, in 2000. The increase was due primarily to a 6% increase in earnings before interest and taxes (EBIT), as described below. Current-year EBIT increases on a comparative basis were partially offset by the prior year's pre-tax gain of $407 million (an after-tax gain of $0.34 per basic share) on the sale of Duke Energy's 20% interest in BellSouth Carolina PCS, and a current-year, one-time net-of-tax charge of $96 million (or $0.13 per basic share). This one-time charge was the cumulative effect of a change in accounting principle for the January 1, 2001 adoption of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." (See Note 1 to the Consolidated Financial Statements.)

Earnings available for common stockholders increased $270 million in 2000, from 1999 earnings of $1,487 million, or $2.04 per basic share. The increase was due primarily to a 96% increase in EBIT, as described below, including the BellSouth Carolina PCS gain. Partially offsetting the increase in EBIT on a comparative basis was a 1999 after-tax extraordinary gain of $660 million, or $0.91 per basic share. This gain was from the sale of Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, along with Trunkline LNG Company. Higher interest and minority interest expense in 2000 also partially offset the increase in EBIT.

Earnings per share information provided above has been restated to reflect the two-for-one common stock split effective January 26, 2001. (See Note 16 to the Consolidated Financial Statements.)

Operating income for 2001 was $4,100 million, compared to $3,813 million in 2000 and $1,819 million in 1999. EBIT was $4,256 million in 2001, $4,014 million in 2000 and $2,043 million in 1999. Operating income and EBIT are affected by the same fluctuations for Duke Energy and each of its business segments as described above. Beginning January 1, 2001, Duke Energy discontinued allocating corporate governance costs for its business segment analysis. Prior-year business segment EBIT amounts have been restated to conform to the current-year presentation of corporate cost allocations. (See Note 3 to the Consolidated Financial Statements for more information on business segments.) The following table shows the components of EBIT and a reconciliation from EBIT to net income.

RECONCILIATION OF OPERATING INCOME TO NET INCOME

In millions	Years ended December 31 2001	2000	1999
Operating income	$ 4,100	$ 3,813	$ 1,819
Other income and expenses	156	201	224
EBIT	4,256	4,014	2,043
Interest expense	785	911	601
Minority interest expense	327	307	142
Earnings before income taxes	3,144	2,796	1,300
Income taxes	1,150	1,020	453
Income before extraordinary item and cumulative effect of change in accounting principle	1,994	1,776	847
Extraordinary gain, net of tax	-	-	660
Cumulative effect of change in accounting principle, net of tax	(96)	-	-
Net Income	$ 1,898	$ 1,776	$ 1,507

EBIT is the main performance measure used by management to evaluate segment performance. As an indicator of Duke Energy's operating performance or liquidity, EBIT should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with generally accepted accounting principles. Duke Energy's EBIT may not be comparable to a similarly titled measure of another company. Business segment EBIT is summarized in the following table, and detailed discussions follow.

EBIT BY BUSINESS SEGMENT

In millions	Years ended December 31 2001	2000	1999
Franchised Electric	$ 1,631	$ 1,820	$ 942
Natural Gas Transmission	608	562	656
Field Services	336	311	156
North American Wholesale Energy	1,351	434	219
International Energy	286	341	44
Other Energy Services	(13)	(59)	(86)
Duke Ventures	183	568	165
Other Operations	(357)	(194)	(145)
EBIT attributable to minority interests	231	231	92
Consolidated EBIT	$ 4,256	$ 4,014	$ 2,043

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

FRANCHISED ELECTRIC	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 4,746	$ 4,946	$ 4,700
Operating expenses	3,185	3,200	3,880
Operating income	1,561	1,746	820
Other income, net of expenses	70	74	122
EBIT	$ 1,631	$ 1,820	$ 942
Sales, GWh[a]	79,685	84,766	81,548

[a] Gigawatt-hours

Franchised Electric's EBIT decreased $189 million in 2001 as compared to 2000, due primarily to much milder weather in Franchised Electric's service territory during the latter part of 2001 and decreased sales to industrial customers, which were a result of the slowing economy. These decreased sales were slightly offset by growth in the average number of residential and general service customers in Franchised Electric's service territory. The 2001 results also include a $36 million reduction in unbilled revenue receivables, resulting from a refinement in the estimates used to calculate unbilled kilowatt-hour sales (see Note 1 to the Consolidated Financial Statements), and $33 million in mutual insurance distributions that were reclassified from earnings to a deferred credit account as required by the NCUC, pending final outcome of a regulatory audit which will likely determine the treatment of those distributions. (See Current Issues – Regulatory Matters.) The decrease in operating revenues, due to the decrease in GWh sales, caused an overall decrease in operating expenses, as variable fuel costs decreased because less fuel was needed. This decrease was partially offset by increased costs for nuclear and fossil-fueled plant outages for repairs and maintenance.

In 2000, Franchised Electric's EBIT increased $878 million over 1999, due primarily to an $800 million expense in 1999 for estimated injuries and damages claims. (See Note 15 to the Consolidated Financial Statements.) Overall favorable weather and growth in the average number of customers in Franchised Electric's service territory resulted in an increase in GWh sales, which also contributed to the increase in EBIT for 2000. This increase was partially offset by increased operating costs.

The following table shows the changes in GWh sales and average number of customers for the past two years.

Increase (decrease) over prior year	2001	2000
Residential sales	1.7 %	4.4 %
General service sales	3.6 %	4.7 %
Industrial sales	(9.6)%	(0.5)%
Total Franchised Electric sales	(6.0)%	3.9 %
Average number of customers	2.0 %	2.5 %

NATURAL GAS TRANSMISSION	Years ended December 31		
In millions, except where noted	2001	2000	1999
Operating revenues	$ 1,105	$ 1,131	$ 1,230
Operating expenses	504	581	586
Operating income	601	550	644
Other income, net of expenses	7	12	12
EBIT	$ 608	$ 562	$ 656
Proportional throughput, TBtu[a]	1,710	1,771	1,893

[a] Trillion British thermal units

In 2001, EBIT for Natural Gas Transmission increased $46 million compared to 2000, primarily from earnings of East Tennessee Natural Gas Company (ETNG) and Market Hub Partners (MHP) (acquired in March and September 2000, respectively; see Note 2 to the Consolidated Financial Statements) and earnings from other market expansion projects. The decrease in operating revenues for

2001, which was offset by a decrease in operating expenses, resulted from $112 million in rate reductions, which became effective in December 2000. These reduced rates reflect lower recovery requirements for operating costs at Texas Eastern Transmission, LP, which consists primarily of system fuel and FERC Order 636 transition costs.

Future results of Natural Gas Transmission are expected to be positively impacted by the pending acquisition of Westcoast. (See Current Issues – Pending Acquisition of Westcoast Energy Inc.)

EBIT for Natural Gas Transmission decreased $94 million in 2000 compared to 1999, due primarily to $135 million of EBIT in 1999 that did not recur in 2000. These earnings in 1999 resulted from $73 million of EBIT from the pipelines sold to CMS Energy Corporation (CMS) in March 1999; a $24 million gain from the sale of Duke Energy's interest in the Alliance Pipeline project; and benefits totaling $38 million from the completion of certain environmental cleanup programs below estimated costs. These items were partially offset by increased earnings from market expansion projects, joint ventures such as the Maritimes & Northeast Pipeline, which was placed into service in December 1999, and earnings from ETNG and MHP.

FIELD SERVICES

In millions, except where noted	Years ended December 31 2001	2000	1999
Operating revenues	$ 9,651	$ 9,060	$ 3,590
Operating expenses	9,154	8,620	3,432
Operating income	497	440	158
Other income, net of expenses	1	6	(2)
Minority interest expense	162	135	-
EBIT	$ 336	$ 311	$ 156
Natural gas gathered and processed/transported, TBtu/d[a]	8.6	7.6	5.1
NGL production, MBbl/d[b]	397.2	358.5	192.4
Natural gas marketed, Tbtu/d	1.6	0.7	0.5
Average natural gas price per MMBtu[c]	$ 4.27	$ 3.89	$ 2.27
Average NGL price per gallon[d]	$ 0.45	$ 0.53	$ 0.34

[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 $25 million in 2001 from 2000. Operating revenues increased due primarily to recognizing a full year of the results of the combination of Field Services' natural gas gathering, processing and marketing business with Phillips Petroleum's gas gathering, processing and marketing unit's midstream natural gas business (the Phillips combination) in March 2000. (See Note 2 to the Consolidated Financial Statements.) This increase was partially offset by lower average NGL prices that decreased $0.08 per gallon from the prior year. (See Quantitative and Qualitative Disclosures about Market Risk – Commodity Price Risk for information on NGL price sensitivity.) Increased operating expenses due primarily to the Phillips combination were partially offset by savings from cost reduction efforts and plant consolidations, and by the interaction of Field Services' natural gas and NGL purchase contracts with lower average NGL prices and higher average natural gas prices. The 11% increase in NGL production, due primarily to the Phillips combination, was offset by reduced recoveries at facilities, resulting from tightened fractionation spreads driven by higher average natural gas prices.

In 2000, Field Services' EBIT increased $155 million compared to 1999. The increase in EBIT and volume activity was primarily due to the Phillips combination; the acquisition of the natural gas gathering, processing, fractionation and NGL pipeline business from Union Pacific Resources in April 1999; and other acquisitions and plant expansions. Improved average NGL prices, which increased 56% over 1999 prices, also contributed significantly to the increase in EBIT.

NORTH AMERICAN WHOLESALE ENERGY

In millions, except where noted	Years ended December 31 2001	2000	1999
Operating revenues	$ 43,197	$ 33,874	$ 11,801
Operating expenses	41,809	33,370	11,581
Operating income	1,388	504	220
Other income, net of expenses	7	3	60
Minority interest expense	44	73	61
EBIT	$ 1,351	$ 434	$ 219
Natural gas marketed, TBtu/d	12.4	11.9	10.5
Electricity marketed and traded, GWh	335,210	275,258	109,634
Proportional megawatt capacity in operation	6,799	5,134	3,532
Proportional megawatt capacity owned[a]	15,569	8,984	5,799

[a] Includes under construction or under contract at period end

Compared to 2000, NAWE's EBIT increased $917 million in 2001. The increase in EBIT reflects a 32% increase in the proportional megawatt capacity of generation assets in operation. Increased earnings also resulted from a 4% increase in the marketing of natural gas volumes and a 22% increase in the marketing and trading of electricity volumes. Additionally, EBIT increased $63 million over the prior year due to the sale of NAWE's interests in generating facilities, consistent with its portfolio management strategy, and $110 million due to a charge in 2000 related to receivables for energy sales in California. These increases were partially offset by increased operating and development costs associated with business expansion and a current-year charge of $36 million for non-collateralized accounting exposure to Enron Corporation, which filed for bankruptcy in 2001. (See Quantitative and Qualitative Disclosures About Market Risk – Credit Risk.) Changes in the ownership percentage of NAWE's waste-to-energy plants and decreased earnings at DETM resulted in a $29 million decrease in minority interest expense compared to the prior year.

In 2001, NAWE experienced strong growth rates by taking advantage of significant volatility in the marketplace. While management is taking steps to continue to increase earnings, 2001 results may not be indicative of NAWE's future earnings trends.

In 2000, EBIT for NAWE increased $215 million from 1999, 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. Operating revenues and expenses increased as the volumes of natural gas and electricity marketed increased 13% and 151%, respectively. These increases were partially offset by the $110 million charge related to receivables for energy sales in California, and increased operating and development costs associated with business expansion.

INTERNATIONAL ENERGY

In millions, except where noted	Years ended December 31 2001	2000	1999
Operating revenues	$ 2,090	$ 1,067	$ 357
Operating expenses	1,817	745	290
Operating income	273	322	67
Other income, net of expenses	36	42	8
Minority interest expense	23	23	31
EBIT	$ 286	$ 341	$ 44
Proportional megawatt capacity in operation	4,568	4,226	2,974
Proportional megawatt capacity owned[a]	5,386	4,876	2,974
Proportional maximum pipeline capacity in operation, MMcf/d[b]	255	255	83
Proportional maximum pipeline capacity owned[a], MMcf/d	363	363	255

[a] Includes under construction or under contract at period end

[b] Million cubic feet per day

International Energy's EBIT decreased $55 million in 2001 compared to 2000. The decrease was due primarily to a $54 million gain recognized in 2000 from the sale of liquefied natural gas ships, and the impact in 2001 of foreign currency devaluation on the earnings of international operations. However, these were offset by inflation adjustment clauses in certain contracts and stronger Latin American operational results.

In 2000, International Energy's EBIT increased $297 million 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 liquefied natural gas ships.

OTHER ENERGY SERVICES

In millions	Years ended December 31 2001	2000	1999
Operating revenues	$ 565	$ 695	$ 989
Operating expenses	578	754	1,075
EBIT	$ (13)	$ (59)	$ (86)

In 2001, EBIT for Other Energy Services improved $46 million compared to 2000. Current-year results included approximately $36 million of charges at DE&S and DukeSolutions for goodwill impairment. These charges were offset by the prior year's loss on a D/FD project of $62 million and a $27 million charge at DE&S to reflect a more conservative revenue recognition approach on its projects. D/FD uses the percentage-of-completion method to recognize income. (See Note 1 to the Consolidated Financial Statements for a discussion of revenue recognition.) Operating revenues and expenses also decreased compared to 2000, due to cessation of retail commodity trading at DukeSolutions. On January 31, 2002, Duke Energy announced the planned sale of DE&S to Framatome ANP, Inc. (See Current Issues – Subsequent Event.)

EBIT for Other Energy Services improved $27 million in 2000 compared to 1999. New business activity and decreased operating expenses at DukeSolutions and earnings related to new projects at D/FD were responsible for improved EBIT in 2000. The results for 2000 also included the D/FD project loss and the DE&S charge mentioned above. Partially offsetting these amounts were 1999 charges of $38 million at DE&S and $35 million at DukeSolutions, related to expenses for severance and office closings associated with repositioning the companies.

DUKE VENTURES

In millions	Years ended December 31 2001	2000	1999
Operating revenues	$ 646	$ 797	$ 433
Operating expenses	461	229	268
Operating income	185	568	165
Minority interest expense	2	-	-
EBIT	$ 183	$ 568	$ 165

EBIT for Duke Ventures decreased $385 million in 2001 compared to 2000, due mainly to DukeNet's sale of its 20% interest in BellSouth Carolina PCS to BellSouth Corporation in 2000, for a pre-tax gain of $407 million. This decrease was minimally offset by increased earnings at Crescent, related primarily to increased commercial project sales, and the absence of losses related to DukeNet's BellSouth Carolina PCS investment. Excluding the gain on the sale in 2000, operating revenues and expenses increased due to DCP, which began operations in late 2000.

In 2000, EBIT for Duke Ventures increased $403 million compared to 1999. This increase, primarily attributable to the DukeNet gain on the sale mentioned above, was slightly offset by a decrease in commercial project sales and land sales at Crescent.

OTHER OPERATIONS EBIT for Other Operations decreased $163 million in 2001 and $49 million in 2000. The decrease for 2001 was due primarily to increased contributions to the Duke Energy Foundation (an independent, Internal Revenue Code section 501(c)(3) entity that funds Duke Energy's charitable contributions), mark-to-market losses on corporately managed energy risk positions used to hedge exposure to commodity prices, increased unallocated corporate costs and a prior-year interest refund from a Revenue Agency Ruling. The decrease in 2000 was due primarily to increased unallocated corporate costs.

OTHER IMPACTS ON EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS Interest expense decreased $126 million in 2001, due primarily to lower interest rates. In 2000, interest expense increased $310 million due to higher average outstanding debt balances, resulting from acquisitions and expansion.

Minority interest expense increased $20 million in 2001 and $165 million in 2000. Minority interest expense includes expense related to regular distributions on preferred securities of Duke Energy and its subsidiaries. This expense increased $39 million in 2001 and $14 million in 2000 related to Catawba River Associates, LLC (Catawba), which was formed by Duke Energy in September 2000. (See Note 13 to the Consolidated Financial Statements.) In 2000, this expense increased $21 million due to additional issuances of Duke Energy's trust preferred securities during 1999. (See Note 12 to the Consolidated Financial Statements.)

Minority interest expense as shown and discussed in the preceding business segment EBIT discussions includes only minority interest expense related to EBIT of Duke Energy's joint ventures. It does not include minority interest expense related to interest and taxes of the joint ventures. Total minority interest expense related to the joint ventures (including the portion related to interest and taxes) decreased $19 million in 2001 and increased $130 million in 2000. The 2001 decrease is due to changes in the ownership percentage of NAWE's waste-to-energy plants and decreased earnings by DETM, NAWE's joint venture with Exxon Mobil Corporation, offset slightly by increased minority interest expense for Field Services' joint venture with Phillips Petroleum. The 2000 increase was primarily due to increased minority interest expense at Field Services and NAWE, partially offset by decreased minority interest expense at International Energy due to its 1999 and 2000 acquisitions. (See Notes 2 and 8 to the Consolidated Financial Statements for more information on acquisitions and new joint venture projects.)

Duke Energy's effective tax rate was approximately 37% for 2001, 37% for 2000 and 35% for 1999.

During 2001, Duke Energy recorded a one-time net-of-tax charge of $96 million related to the cumulative effect of a change in accounting principle for the January 1, 2001 adoption of SFAS No. 133. This charge related to contracts that either did not meet the definition of a derivative under previous accounting guidance or do not qualify as hedge positions under new accounting requirements. (See Notes 1 and 7 to the Consolidated Financial Statements.)

The sale of PEPL, Trunkline and additional storage related to those systems, along with Trunkline LNG Company to CMS, closed in March 1999 and resulted in a $660 million extraordinary gain, after income tax of $404 million. (See Note 1 to the Consolidated Financial Statements.)

CRITICAL ACCOUNTING POLICIES

See Quantitative and Qualitative Disclosures About Market Risk – Risk and Accounting Policies for a discussion of Mark-to-Market Accounting, Hedge Accounting and Normal Purchases and Normal Sales, Special Exemption. Also see Note 1 to the Consolidated Financial Statements for a discussion of significant accounting policies.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2001, Duke Energy had $290 million in Cash and Cash Equivalents on the Consolidated Balance Sheets. This compares to $622 million as of December 31, 2000 and $613 million as of December 31, 1999.

OPERATING CASH FLOWS Net cash provided by operations increased $2,370 million in 2001 and decreased $459 million in 2000. The 2001 increase is due primarily to price movements in the energy commodities markets which have a direct impact on Duke Energy's use and generation of cash from operations. Earnings increase as natural gas and electricity prices move favorably with respect to contracts that Duke Energy holds. In addition, counterparties may be required to post collateral in cash or letters of credit if price moves benefit Duke Energy. This mechanism gives Duke Energy use of those funds on a short-term basis. Conversely, negative price impacts reduce earnings and may require Duke Energy to post collateral with its counterparties. Cash collateral posted by Duke Energy is included in Other Current Assets and cash collateral collected by Duke Energy is included in Other Current Liabilities on the Consolidated Balance Sheets. In 2000, Duke Energy posted more collateral with counterparties, reducing cash from operations. In addition, Duke Energy made tax payments in 2000 related to the sale of pipelines in 1999. These accounted for the reduced operating cash flows for 2000 compared to 1999.

INVESTING CASH FLOWS Cash used in investing activities increased $1,351 million in 2001 and $1,179 million in 2000. The primary use of cash for investing activities is capital and investment expenditures, which are detailed by business segment in the following table.

CAPITAL AND INVESTMENT EXPENDITURES BY BUSINESS SEGMENT[a]

In millions	Years ended December 31 2001	2000	1999
Franchised Electric	$ 1,115	$ 661	$ 759
Natural Gas Transmission	748	973	261
Field Services	587	376	1,630
North American Wholesale Energy	3,272	1,937	1,028
International Energy	442	980	1,779
Other Energy Services	13	28	94
Duke Ventures	773	643	382
Other Operations	90	36	3
Total consolidated	$ 7,040	$ 5,634	$ 5,936

[a] Amounts are gross of cash received from acquisitions

Capital and investment expenditures increased $1,406 million in 2001 compared to 2000. The increase reflects additional expansion and development expenditures (especially related to NAWE's generating facilities), refurbishment and upgrades to existing assets (primarily related to Franchised Electric) and minor acquisitions of businesses and assets. Also in 2001, Natural Gas Transmission invested in a 50% interest in Gulfstream Natural Gas System, LLC, a joint interstate natural gas pipeline development that will extend from Mississippi and Alabama across the Gulf of Mexico to Florida. These increases were partially offset by Natural Gas Transmission's acquisition of ETNG for approximately $390 million and of MHP for approximately $250 million in cash, and International Energy's approximately $280 million tender offer for Companhia de Geracao de Energia Elétrica Paranapanema (Paranapanema) in 2000. (See Note 2 to the Consolidated Financial Statements for more information about significant acquisitions.)

Capital and investment expenditures decreased by $302 million in 2000 compared to 1999. In 2000, Natural Gas Transmission's capital expenditures increased primarily for business expansion related to the acquisitions of ETNG and MHP. Also in 2000, NAWE began construction of a number of power generation plants in the U.S. and continued capital expenditures on ongoing projects. International Energy's business expansion included completion of the Paranapanema tender offer and 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 sale of Duke Energy's 20% interest in BellSouth Carolina PCS in 2000 and $1,900 million from the sale of pipelines to CMS in 1999. (See Note 1 to the Consolidated Financial Statements for more information on the sale of the pipelines.)

Projected 2002 capital and investment expenditures for Duke Energy are approximately $8.0 billion, of which over 80% is planned for competitive business segments not subject to state rate regulation. This projection includes approximately $6.5 billion for acquisitions and other expansion opportunities and $1.5 billion for existing plant upgrades. The above amounts do not include the pending acquisition of Westcoast for approximately $8 billion, including the assumption of debt.

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.

The consideration to Westcoast shareholders will be composed of 50% cash and 50% stock. Management plans to largely utilize equity-linked securities to fund the cash consideration. In November 2001, Duke Energy sold $750 million of mandatorily convertible securities (Equity Units). The net proceeds from the offering will provide a component of the permanent financing for the pending acquisition of Westcoast. Management plans to use short-term borrowings to provide the additional cash requirements at closing. The timing for additional financing needs will be determined after the close of the transaction. (See Liquidity and Capital Resources – Financing Cash Flows.)

Duke Energy's growth initiatives, along with dividends, debt repayments and operating requirements are expected to be funded by cash from operations, debt and capital market financings, project financings, common stock issuances through its InvestorDirect Choice Plan and employee benefit plans, and proceeds from the sale of assets. These financing opportunities are dependent upon the opportunities presented and favorable market conditions. Additionally, internal cash generation should fund approximately half of the capital needs. Management believes Duke Energy has adequate financial resources to meet its future needs.

FINANCING CASH FLOWS Duke Energy's consolidated capital structure at December 31, 2001, including short-term debt, was 46% debt, 41% common equity, 7% minority interests, 5% trust preferred securities and 1% preferred stock. Fixed charges coverage, calculated using Securities and Exchange Commission (SEC) guidelines, was 3.8 times for 2001, 3.6 times for 2000 and 2.7 times for 1999.

During 2001, DEFS issued $250 million of 6.875% senior unsecured notes due in 2011 and $300 million of 5.75% senior unsecured notes due in 2006. The proceeds were used to repay DEFS' short-term debt. Also during 2001, Duke Capital Corporation (a wholly owned subsidiary of Duke Energy), increased its note payable to D/FD by $427 million, to $568 million as of December 31, 2001. The weighted-average interest rate on this note for 2001 was 4.05%. (See Notes 8 and 10 to the Consolidated Financial Statements.)

In March 2001, Duke Energy completed an offering of 25 million shares of common stock, priced at $38.98 per share, before underwriting discount and other offering expenses. In addition, Duke Energy completed an offering of approximately 31 million Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation (which are included in Long-term Debt on the Consolidated Balance Sheets; see Note 10 to the Consolidated Financial Statements), and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. Also in March 2001, the underwriters exercised options granted to them to purchase an additional 3.75 million shares of common stock and four million Equity Units at the original issue prices, less underwriting discounts, to cover over-allotments made during the offerings. Total net proceeds from the offerings, approximately $1.9 billion, were used to repay short-term debt and for other corporate purposes.

In November 2001, Duke Energy completed an offering of 30 million Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation (which are included in Long-term Debt on the Consolidated Balance Sheets; see Note 10 to the Consolidated Financial Statements), and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. The net proceeds from the offering of approximately $731 million will provide a component of the permanent financing for the pending acquisition of Westcoast. Pending the close of the Westcoast acquisition, the net proceeds of the offering will be used to manage working capital needs.

During 2001, Duke Energy redeemed eight issues of its first and refunding mortgage bonds to take advantage of the general decline in interest rates. The total face value of the redeemed bonds was $511 million, with interest rates ranging from 5.875% to 8.3%. To fund these redemptions, Duke Energy issued commercial paper and used cash proceeds generated from short-term investments.

In January 2002, Duke Energy issued $750 million of 6.25% senior unsecured bonds due in 2012 and $250 million of floating rate (based on the three-month London Interbank Offered Rate (LIBOR) plus 0.35%) senior unsecured bonds due in 2005. The proceeds from these issuances were used to manage working capital needs.

In February 2002, Duke Capital Corporation issued $500 million of 6.25% senior unsecured bonds due in 2013 and $250 million of 6.75% senior unsecured bonds due in 2032. In addition, Duke Capital Corporation, through a private placement transaction, issued $500 million of floating rate (based on the one-month LIBOR plus 0.65%) senior unsecured bonds due in 2003. The proceeds from these issuances will be used to manage working capital needs and to fund a portion of the cash consideration for the pending acquisition of Westcoast.

Under its commercial paper, medium-term notes and extendible commercial notes (ECNs) programs, Duke Energy had the ability to borrow up to $5,358 million at December 31, 2001 compared with $5,720 million at December 31, 2000. These programs do not have termination dates. The following table summarizes the commercial paper, medium-term notes and ECNs as of December 31, 2001.

In millions	Duke Energy	Duke Capital Corporation[a]	Duke Energy Field Services	Duke Energy International	Total
Commercial paper	$ 1,250	$ 1,550	$ 675	$ 383[b]	$ 3,858
ECNs	500	1,000	-	-	1,500
Total	$ 1,750	$ 2,550	$ 675	$ 383	$ 5,358

[a] Duke Capital Corporation provides financing and credit enhancement services for its subsidiaries.
[b] Includes ability to issue medium-term notes

The total amount of Duke Energy's bank credit facilities was approximately $4,606 million as of December 31, 2001 compared with $4,205 million as of December 31, 2000. Some of the credit facilities support the issuance of commercial paper; therefore, the issuance of commercial paper reduces the amount available under these credit facilities. As of December 31, 2001, approximately $2,970 million

was outstanding in the form of commercial paper, medium-term notes and ECNs, and approximately $38 million of borrowings were outstanding under the bank credit facilities. The credit facilities expire from 2002 to 2004 and are not subject to minimum cash requirements; however, borrowings and issuances of letters of credit under approximately $1,100 million of these facilities are subject to and dependent on the senior unsecured debt ratings of Duke Capital Corporation (currently rated A3/A/A). Ratings of Baa2, BBB or the equivalent by at least two of Moody's Investors Service, Standard & Poor's and Fitch, Inc. must be maintained to obtain additional borrowings and issuances of letters of credit. Any outstanding borrowings would not become due and payable. (See Note 10 to the Consolidated Financial Statements for more information on the bank credit facilities.)

As of December 31, 2001, Duke Energy and its subsidiaries had effective SEC shelf registrations for up to $3,500 million in gross proceeds from debt and other securities. Subsequent to December 31, 2001, these SEC shelf registrations have been reduced by $1,750 million for the senior and unsecured bonds issued in January and February 2002, excluding the private placement transaction. Under the SEC shelf registrations, 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.

In 2000, Duke Energy issued $250 million 7.125% senior unsecured bonds due in 2012 with a put option that gives investors the choice to put the bond to Duke Energy at par value in September 2002 or extend the maturity until 2012. If extended, the bonds would be recouponed at 5.7% plus the Duke Energy 10-year credit spread on the extension date. Also in 2000, Duke Capital Corporation issued $150 million senior unsecured bonds due in 2003 that become due and payable if Duke Capital Corporation's debt ratings fall below BBB.

In 2000, Catawba, a fully consolidated financing entity managed by a subsidiary of Duke Energy, issued $1,025 million of preferred member interests to a third-party investor. Catawba subsequently advanced the proceeds from the sale to DE Power Generation, LLC, a wholly owned subsidiary of Duke Energy, which indirectly owns or leases six merchant power generation facilities located in California, Maine and Indiana. Catawba is a limited liability company with a separate existence and identity from its preferred members, and the assets of Catawba are separate and legally distinct from Duke Energy. The preferred member interests receive quarterly a preferred return equal to an adjusted floating reference rate (approximately 5.20% for the full year ended December 31, 2001). (See Note 13 to the Consolidated Financial Statements for more information.)

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 2000 that maintains dividends at the current quarterly rate of $0.275 per share, subject to declaration 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 75 consecutive years. Dividends on common and preferred stocks in 2002 are expected to be paid on March 15, June 17, September 16 and December 16, 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 2001, 2000 or 1999.

Duke Energy used authorized but unissued shares of its common stock to meet 2001 and 2000 employee benefit plan contribution requirements. This practice is expected to continue in 2002.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS As part of its normal business, Duke Energy is a party to various financial guarantees, performance guarantees and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees and other third parties. These arrangements are largely entered into by Duke Capital Corporation. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Consolidated Balance Sheets. The possibility of Duke Energy having to honor its contingencies is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events. Duke Energy would record a reserve if events occurred that required that one be established. (See Note 15 to the Consolidated Financial Statements for more information on financial guarantees.)

In addition, Duke Energy enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts), take-or-pay arrangements, transportation or throughput agreements and other contracts that may or may not be recognized on the Consolidated Balance Sheets. Some of these arrangements may be recognized at market value on the Consolidated Balance Sheets as trading contracts or qualifying hedge positions included in Unrealized Gains or Losses on Mark-to-Market and Hedging Transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK AND ACCOUNTING POLICIES Duke Energy is exposed to market risks associated with commodity prices, credit exposure, interest rates, equity prices and foreign currency exchange rates. Management has established comprehensive risk management policies 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 composed of senior executives who receive periodic updates from the Chief Risk Officer (CRO) on market risk positions, corporate exposures, credit exposures and overall risk management activities. The CRO is responsible for the overall management of credit risk and commodity price risk, including monitoring exposure limits.

_MARK-TO-MARKET ACCOUNTING (MTM ACCOUNTING) Under the MTM accounting method, an asset or liability is recognized at fair value and the change in the fair value of that asset or liability is recognized in earnings during the current period. This accounting method has been used by other industries for many years, and in 1998 the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) issued guidance that required MTM accounting for energy trading contracts. MTM accounting reports contracts at their "fair value," (the value a willing third party would pay for the particular contract at the time a valuation is made).

When available, quoted market prices are used to record a contract's fair value. However, market values for energy trading contracts may not be readily determinable because the duration of the contracts exceeds the liquid activity in a particular market. If no active trading market exists for a commodity or for a contract's duration, holders of these contracts must calculate fair value using pricing models or matrix pricing based on contracts with similar terms and risks. This is validated by an internal group independent of Duke Energy's trading area. Holders of thinly traded securities or investments (mutual funds, for example) use similar techniques to price such holdings. Correlation and volatility are two significant factors used in the computation of fair values. Duke Energy validates its internally developed fair values by comparing locations/durations that are highly correlated, using forecasted market intelligence and mathematical extrapolation techniques. While Duke Energy uses industry best practices to develop its pricing models, changes in Duke Energy's pricing methodologies or the underlying assumptions could result in significantly different fair values, income recognition and realization in future periods.

_HEDGE ACCOUNTING Hedging typically refers to the mechanism that Duke Energy uses to mitigate the impact of volatility associated with price fluctuations. Hedge accounting treatment is used when Duke Energy contracts to buy or sell a commodity such as natural gas or electricity at a fixed price for future delivery corresponding with anticipated physical sales or purchases of natural gas and power (cash flow hedge). In addition, hedge accounting treatment is used when Duke Energy holds firm commitments or asset positions, and enters into transactions that "hedge" the risk that the price of natural gas or power may change between the contract's inception and the physical delivery date of the commodity (fair value hedge). While the majority of Duke Energy's hedging transactions are used to protect the value of future cash flows related to its physical assets, to the extent the hedge is effective, Duke Energy recognizes in earnings the value of the contract when the commodity is purchased or sold, or the hedged transaction occurs or settles.

_NORMAL PURCHASES AND NORMAL SALES, SPECIAL EXEMPTION A unique characteristic of the electric power industry is that electricity cannot be readily stored in significant quantities. As a result, some of the contracts to buy and sell electricity allow the buyer some flexibility in determining when to take electricity and in what quantity to match fluctuating demand. These contracts would normally meet the definition of a derivative requiring MTM or hedge accounting. However, because electricity cannot be readily stored in significant quantities and an entity engaged in selling electricity is obligated to maintain sufficient capacity to meet the electricity needs of its customer base, an option contract for the purchase of electricity qualifies for the normal purchases and sales exemption described in Paragraph 10 of SFAS No. 133 and Derivative Implementation Group (DIG) Issue No. C15, "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity." Therefore, contracts that Duke Energy holds for the sale of power in future periods that meet the criteria in DIG Issue No. C15 have been designated as "normal purchase, normal sales" contracts, and are exempted from recognition in the Consolidated Financial Statements until power is delivered. Duke Energy tracks these contracts separately in its hedge portfolio, but no value for these contracts is included in the Consolidated Financial Statements until power is actually delivered.

Duke Energy's wholesale energy portfolio in North America includes the merchant generation facilities and trading contracts held for power, natural gas, crude oil and petroleum products. Of the total estimated value of this portfolio, approximately 80% is attributed to the anticipated value of merchant generation facility capacity owned or controlled by Duke Energy. This portion of the value of the

merchant generation portfolio is anticipated to be realized in future periods as the generation facilities are dispatched. A portion of this future value is secured by hedge contracts. Of the unhedged capacity, dispatch performance, and in some cases price, has been further secured through contracts designated as normal purchases and normal sales. Only the contracts designated and effective as qualifying hedges are reflected on Duke Energy's Consolidated Balance Sheets at fair value. Changes in the fair value of hedging contracts do not affect current-period earnings. Normal purchase and normal sales contracts are not subject to accounting recognition until contract performance occurs. The remaining percentage of the total estimated value of the merchant generation portfolio is attributed to the current value of trading contracts. These contracts are subject to MTM accounting and changes in the contract fair value are recorded as part of current-period earnings. The table below represents the value by year of Duke Energy's North American merchant generation portfolio. It does not include the value of trading positions, or hedges of other commodity risks or exposures.

NORTH AMERICAN MERCHANT GENERATION PORTFOLIO VALUE AS OF DECEMBER 31, 2001

In millions

Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter[a]	Total Portfolio Value
$ 814	$ 819	$ 835	$ 3,930	$ 6,398

[a] For purposes of calculating total portfolio value, model valuations were calculated through 2010.

As of December 31, 2001, the portion hedged of NAWE's expected output of its merchant generation portfolio was 91%, 62% and 62% for 2002, 2003 and 2004, respectively, through derivative contracts such as forward natural gas purchases and forward power sales.

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 for trading purposes and for activity other than trading activity (primarily hedge strategies). (See Notes 1 and 7 to the Consolidated Financial Statements.)

_TRADING The risk in the trading portfolio is measured and monitored on a daily basis utilizing a Value-at-Risk model to determine the potential one-day favorable or unfavorable Daily Earnings at Risk (DER) as described below. DER is monitored daily in comparison to established thresholds. Other measures are also used to limit and monitor risk in the trading portfolio (which includes all trading contracts not designated as hedge positions) on monthly and annual bases. These measures include limits on the nominal size of positions and periodic loss limits.

DER computations are based on historical simulation, which uses price movements over a specified period (generally ranging from seven to 14 days) to simulate forward price curves in the energy markets to estimate the potential 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. 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 amounts for instruments held for trading purposes are shown in the following table.

DAILY EARNINGS AT RISK

In millions

	Estimated Average One-Day Impact on EBIT for 2001[a]	Estimated Average One-Day Impact on EBIT for 2000	High One-Day Impact on EBIT for 2001[a]	Low One-Day Impact on EBIT for 2001
Calculated DER	$ 21	$ 18	$ 86	$ 7

[a] Amounts include the impact of one origination contract that was initiated and hedged during the current year. Duke Energy's Risk Management Committee approved increased DER limits for this specific contract. Excluding this contract, average and one-day high 2001 DER amounts would have been $16 million and $43 million, respectively.

DER is an estimate based on historical price volatility. Actual volatility can exceed assumed results. DER also assumes a normal distribution of price changes; thus, if the actual distribution is not normal, the DER may understate or overstate actual results. DER is

used to estimate the risk of the entire portfolio, and for locations that do not have daily trading activity, it may not accurately estimate risk due to limited price information. Stress tests are employed in addition to DER to measure risk where market data information is limited. In the current DER methodology, options are modeled in a manner equivalent to forward contracts which may understate the risk.

Duke Energy's exposure to commodity price risk is influenced by a number of factors, including contract size, length, market liquidity, location and unique or specific contract terms. The following table illustrates the movements in the fair value of Duke Energy's trading instruments during 2001.

CHANGES IN FAIR VALUE OF TRADING CONTRACTS

In millions

Fair value of contracts outstanding at the beginning of the year	$ 605
Contracts realized or otherwise settled during the year	(746)
Fair value of contracts entered into during the year	622
Changes in fair value amounts attributable to changes in valuation techniques	(6)
Other changes in fair values	749
Fair value of contracts before SFAS No. 133 transition adjustment	1,224
SFAS No. 133 transition adjustment	(155)
Fair value of contracts outstanding at the end of the year	$ 1,069

For the year ended December 31, 2001, the unrealized net margin recognized in operating income was $619 million as compared to $139 million for 2000 and $41 million for 1999. The fair value of these contracts is expected to be realized in future periods, as detailed in the following table. The amount of cash ultimately realized for these contracts will differ from the amounts shown in the following table due to factors such as market volatility, counterparty default and other unforeseen events that could impact the amount and/or realization of these values. At December 31, 2001, Duke Energy held cash or letters of credit of $1,071 million to secure such future performance, and had deposited with counterparties $178 million of such collateral to secure its obligations to provide such future services. Collateral amounts held or posted vary depending on the value of the underlying contracts and cover trading, normal purchases and normal sales, and hedging contracts outstanding. Duke Energy may be required to return held collateral and post additional collateral should price movements adversely impact the value of open contracts or positions.

When available, Duke Energy uses observable market prices for valuing its trading instruments. When quoted market prices are not available, management uses established guidelines for the valuation of these contracts. Management may use a variety of reasonable methods to assist in determining the valuation of a trading instrument, including analogy to reliable quotations of similar trading instruments, pricing models, matrix pricing and other formula-based pricing methods. These methodologies incorporate factors for which published market data may be available. All valuation methods employed by Duke Energy are approved by an independent internal corporate risk management organization.

The following table shows the fair value of Duke Energy's trading portfolio as of December 31, 2001.

FAIR VALUE OF TRADING CONTRACTS AS OF DECEMBER 31, 2001

In millions

Sources of Fair Value	Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter	Total Fair Value
Prices supported by quoted market prices and other external sources	$ 457	$ 153	$ 9	$ 26	$ 645
Prices based on models and other valuation methods	(104)	11	128	389	424
Total	$ 353	$ 164	$ 137	$ 415	$ 1,069

The "prices supported by quoted market prices and other external sources" category includes Duke Energy's New York Mercantile Exchange (NYMEX) futures positions in natural gas and crude oil. The NYMEX has currently quoted prices for the next 32 months. In

addition, this category includes Duke Energy's forward positions and options in natural gas and power and natural gas basis swaps at points for which over-the-counter (OTC) broker quotes are available. On average, OTC quotes for natural gas and power forwards and swaps extend 22 and 32 months into the future, respectively. OTC quotes for natural gas and power options extend 12 months into the future, on average. Duke Energy values these positions against internally developed forward market price curves that are constantly validated and recalibrated against OTC broker quotes. This category also includes "strip" transactions whose prices are obtained from external sources and then modeled to daily or monthly prices as appropriate.

The "prices based on models and other valuation methods" category includes (i) the value of options not quoted by an exchange or OTC broker, (ii) the value of transactions for which an internally developed price curve was constructed as a result of the long dated nature of the transaction or the illiquidity of the market point, and (iii) the value of structured transactions. It is important to understand that in certain instances structured transactions can be decomposed and modeled by Duke Energy as simple forwards and options based on prices actively quoted. Although the valuation of the simple structures might not be different from the valuation of contracts in other categories, the effective model price for any given period is a combination of prices from two or more different instruments and therefore have been included in this category due to the complex nature of these transactions.

The value of Duke Energy's trading portfolio valuation adjustments for liquidity, credit and cost of service is reflected in the above amounts.

_HEDGING STRATEGIES Some Duke Energy subsidiaries are exposed to market fluctuations in the prices of energy commodities related to their power generating and natural gas gathering, processing and marketing activities. Duke Energy closely monitors the risks associated with these commodity price changes on its future operations and, where appropriate, uses various commodity instruments such as electricity, natural gas, crude oil and NGL contracts to hedge the value of its assets and operations from such price risks. In accordance with SFAS No. 133, Duke Energy's primary use of energy commodity derivatives is to hedge the output and production of assets it physically owns. Contract terms are up to 13 years; however, since these contracts are designated and qualify as effective hedge positions of future cash flows, or fair values of assets owned by Duke Energy, to the extent that the hedge relationships are effective, their market value change impacts are not recognized in current earnings. The unrealized gains or losses on these contracts are deferred in Other Comprehensive Income (OCI) or included in Other Current or Noncurrent Assets or Liabilities on the Consolidated Balance Sheets, in accordance with SFAS No. 133. Amounts deferred in OCI are realized in earnings concurrently with the transaction being hedged. (See Notes 1 and 7 to the Consolidated Financial Statements.) However, in instances where the hedging contract no longer qualifies for hedge accounting, amounts included in OCI through the date of de-designation remain in OCI until the underlying transaction actually occurs. The derivative contract (if continued as an open position) will be marked to market currently through earnings. Several factors influence the effectiveness of a hedge contract, including counterparty credit risk.

The following table shows when gains and losses deferred on the Consolidated Balance Sheets for derivative instruments qualifying as effective hedges of firm commitments or anticipated future transactions will be recognized into earnings. Contracts with terms extending several years are generally valued using models and assumptions developed internally or by industry standards. However, as mentioned previously, the gains and losses for these contracts are not recognized in earnings until settlement at their then market price. Therefore, assumptions and valuation techniques for these contracts have no impact on reported earnings prior to settlement.

The fair value of Duke Energy's qualifying hedge positions at a point in time is not necessarily indicative of the value realized when such contracts settle.

FAIR VALUE OF HEDGE POSITION CONTRACTS AS OF DECEMBER 31, 2001

In millions

Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter	Total Contract Value
$ 454	$ 156	$ 71	$ (38)	$ 643

In addition to the hedge contracts described above and recorded on the Consolidated Balance Sheets, Duke Energy enters into other contracts that qualify for the normal purchases and sales exemption described in Paragraph 10 of SFAS No. 133 and DIG Issue No. C15. These contracts, generally forward agreements to sell power, bear the same counterparty credit risk as the hedge contracts described above. Under the same risk reduction guidelines used for other contracts, normal purchases and sales contracts are also subject to collateral requirements. Income recognition and realization related to these contracts coincide with the physical delivery of power.

Based on a sensitivity analysis as of December 31, 2001, it was estimated that a difference of one cent per gallon in the average price of NGLs in 2002 would have a corresponding effect on EBIT of approximately $6 million, after considering the effect of Duke Energy's commodity hedge positions. Comparatively, the same sensitivity analysis as of December 31, 2000 estimated that EBIT would have changed by approximately $8 million in 2001. 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, 2001 or 2000. Duke Energy's qualifying hedge positions protect it from immediate earnings impact for adverse price movements. The resulting gains and losses are deferred on the Consolidated Balance Sheets until cash settlement occurs, provided that the hedge positions remain effective.

These hypothetical adverse impacts do not consider the likely positive impact that price movements would have on Duke Energy's physical purchases and sales of natural gas and electricity which these contracts hedge. The hedge contracts are intended to mitigate the impact that price changes have on Duke Energy's physical positions. Therefore, although the fair value of these positions may decline with adverse price changes, the impact on results would be minimal as Duke Energy's physical positions are inversely affected by such changes.

CREDIT RISK Duke Energy's principal customers for power and natural gas marketing services are industrial end-users and utilities located throughout the U.S., Canada, Asia Pacific, Europe 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. Where 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 those limits on an ongoing basis. Duke Energy frequently uses master collateral agreements to mitigate credit exposure. The collateral agreement provides for a counterparty to post cash or letters of credit for exposure in excess of the established threshold. The threshold amount represents an open credit limit, determined in accordance with the corporate credit policy. The collateral agreement also provides that the inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

The change in market value of NYMEX-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Financial derivatives are generally cash settled periodically throughout the contract term. However, these transactions are also generally subject to margin agreements with many of Duke Energy's counterparties.

As of December 31, 2001, Duke Energy had a pre-tax bad debt provision of $90 million related to receivables for energy sales in California. (See Current Issues – California Issues.) Following the bankruptcy of Enron Corporation, Duke Energy terminated substantially all contracts with Enron Corporation and its affiliated companies (collectively, Enron). As a result, Duke Energy recorded, as a charge, a non-collateralized accounting exposure of $43 million. The $43 million non-collateralized accounting exposure is comprised of charges of $36 million at NAWE, $3 million at International Energy, $3 million at Field Services and $1 million at Natural Gas Transmission. These amounts are stated on a pre-tax basis as charges against the reporting segment's earnings.

The transactions between Enron and Duke Energy consisted of the following:

- NAWE – forward contracts, swaps, options and physical contracts used to trade natural gas, power, crude oil, liquefied petroleum gas and coal
- International Energy – forward contracts and options used to trade and hedge natural gas, power and oil
- Field Services – physical purchase/sale contracts for natural gas and NGLs; forward contracts, swaps and options used to trade natural gas and NGLs; transportation and storage
- Natural Gas Transmission – forward financial sales of NGLs

The $43 million charge was a direct reduction to earnings before income taxes and was a result of charging the full amount of unsettled mark-to-market earnings previously recognized, and all derivative assets and accounts receivable that became impaired due to Enron's financial deterioration. All assets written off or reserved for were net of the margin (cash collateral) posted by Enron of $330 million and applied by Duke Energy in connection with transactions between the companies.

Duke Energy's determination of its bankruptcy claims against Enron is still under review, and its claims made in the bankruptcy case are likely to exceed $43 million. Any bankruptcy claims that exceed this amount would primarily relate to termination and settlement rights under contracts and transactions with Enron that would have been recognized in future periods, and not in the historical periods covered by the financial statements to which the $43 million charge relates.

Substantially all contracts with Enron were completed or terminated prior to December 31, 2001. Duke Energy has continuing contractual relationships with certain Enron affiliates, which are not in bankruptcy. In Brazil, a power purchase agreement between a Duke Energy affiliate, Paranapanema, and Elektro Eletricidade e Servicos S/A (Elektro), a distribution company 40% owned by Enron, will expire December 31, 2005. The contract was executed by Duke Energy's predecessor in interest in Paranapanema, and obligates Paranapanema to provide energy to Elektro on an irrevocable basis for the contract period. In addition, a purchase/sale agreement expiring September 1, 2005 between a Duke Energy affiliate and Citrus Trading Corporation (Citrus), a 50/50 joint venture between Enron and El Paso Corporation, continues to be in effect. The contract requires the Duke Energy affiliate to provide liquefied natural gas to Citrus. Citrus has provided a letter of credit in favor of Duke Energy to cover its exposure.

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-to-floating interest rate swaps, commercial paper and auction market preferred stock. 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 also enters into financial derivative instruments, including, but not limited to, interest rate swaps, options, swaptions and lock agreements to manage and mitigate interest rate risk exposure. (See Notes 1, 7, 10, 12 and 14 to the Consolidated Financial Statements.)

Based on a sensitivity analysis as of December 31, 2001, it was estimated that if market interest rates average 1% higher (lower) in 2002 than in 2001, earnings before income taxes would decrease (increase) by approximately $57 million. Comparatively, based on a sensitivity analysis as of December 31, 2000, had interest rates averaged 1% higher (lower) in 2001 than in 2000, it was estimated that earnings before income taxes would have decreased (increased) by approximately $53 million. These amounts include the effects of interest rate hedges and were determined by considering the impact of the hypothetical interest rates on the variable-rate securities outstanding as of December 31, 2001 and 2000. The increase in interest rate sensitivity is primarily due to the increase in outstanding variable-rate commercial paper. If interest rates changed significantly, 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.

EQUITY PRICE RISK Duke Energy maintains trust funds, as required by the Nuclear Regulatory Commission (NRC), to fund certain costs of nuclear decommissioning. (See Note 11 to the Consolidated Financial Statements.) As of December 31, 2001 and 2000, these funds were invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Duke Energy has an agreement with the NRC that these funds will only be used for activities relating to nuclear decommissioning. 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. (See Current Issues – Nuclear Decommissioning Costs.)

FOREIGN CURRENCY RISK 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, transactions are denominated in or indexed to the U.S. dollar and/or local inflation rates, or investments may be hedged through debt denominated or issued 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 devaluation of the foreign currencies to which it has exposure.

As of December 31, 2001, Duke Energy's primary foreign currency 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, 2001, a 10% devaluation in the currency exchange rate in any or all of these foreign currencies would be insignificant to Duke Energy's Consolidated Statements of Income. Significant devaluations may impact Duke Energy's Consolidated Balance Sheets by decreasing the value of Duke Energy's net investments through a reduction in the cumulative translation adjustment in OCI.

Since 1991, the Argentine peso has been pegged to the U.S. dollar at a fixed 1:1 exchange ratio. In December 2001, the Argentine government imposed a restriction that limited cash withdrawals above a certain amount and foreign money transfers. Financial institu-

tions were allowed to conduct limited activity as a bank and exchange holiday was announced, and currency exchange activity was essentially halted. In January 2002, the Argentine government announced the creation of a dual-currency system. Subsequently, however, the Argentine government has decided to use a free-floating currency.

Duke Energy's investment in Argentina was U.S. dollar functional as of December 31, 2001. Once a functional currency determination has been made, that determination must be adhered to consistently, unless significant changes in economic factors indicate that the entity's functional currency has changed. The recent events in Argentina require a change. In January 2002, the functional currency of Duke Energy's investment in Argentina changed from the U.S. dollar to the Argentine peso. In compliance with SFAS No. 52, "Foreign Currency Translation," the change in functional currency will be made prospectively. Management believes that the events in Argentina will have no material adverse effect on Duke Energy's future 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 rules, provides energy suppliers, including Duke Energy, with opportunities to sell and deliver capacity and energy at market-based prices. From the FERC's open-access rule, Franchised Electric obtained 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.

In 1999 and 2000, the FERC issued its Order 2000 and Order 2000-A regarding Regional Transmission Organizations (RTOs). These orders set minimum characteristics and functions RTOs must meet, including independent authority to establish the terms and conditions of transmission service over the facilities they control. The orders provide for an open and flexible RTO structure to meet the needs of the market, and for the possibility of incentive ratemaking and other benefits for transmission owners that participate.

As a result of these rulemakings, Duke Energy and two other investor-owned utilities, Carolina Power & Light Company and South Carolina Electric & Gas Company, planned to establish GridSouth Transco, LLC (GridSouth), as an RTO responsible for the control of the companies' combined transmission systems. In March 2001, GridSouth received provisional approval from the FERC. However, in July 2001, the FERC issued orders recommending that utilities throughout the U.S. combine their transmission systems to create four large independent regional operators, one each in the Northeast, Southeast, Midwest and West. The FERC ordered GridSouth and other utilities in the Southeast to join in 45 days of mediation to negotiate terms of a Southeast RTO. The FERC has not issued an order specifically based on those proceedings.

Duke Energy, Carolina Power & Light Company and South Carolina Electric & Gas Company remain committed to the GridSouth RTO, but due to regulatory uncertainties in the RTO arena, the companies have withdrawn their applications to the PSCSC and NCUC to transfer functional control of their electric transmission assets to GridSouth. The companies intend to file new applications before the state commissions in the near future, including a revised GridSouth structure designed to meet the needs of customers and regulators. Also, in January of 2002, GridSouth signed a memorandum of understanding with the representatives of SeTrans Grid Company (SeTrans), a group of investor-owned utilities and public power entities in several southeastern states seeking to form an RTO, to cooperate in discussing potential operational relationships between GridSouth and SeTrans and the structure of wholesale electric markets in the southeast U.S.

The actual structure of GridSouth or an alternative combined transmission structure and the date it will become operational depend upon the resolution of all regulatory approvals and technical issues. Management believes that the result of this process, and the establishment and operation of GridSouth or an alternative combined transmission system structure, will have no 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 throughout the U.S. and 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. In 1997, North

Carolina passed a bill that established a study commission, including legislators, customers, utilities and a member of an environmental group, to examine whether competition should be implemented in the state. In 2000, the study commission unanimously approved a set of recommendations on electric restructuring and submitted a report containing these recommendations to the General Assembly. The report recommended retail deregulation beginning partially in 2005 and fully in 2006. However, events in California's power market have led the study commission to evaluate whether, and to what extent, proposed legislation should be introduced. 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 $1.0 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 In 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 interstate pipelines to 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 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 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 2001, Duke Energy's interstate pipelines submitted revised pro forma tariff sheets to update the filings originally submitted in 2000. These filings are currently subject to review and approval by the FERC.

Management believes that the effects of these matters will have no material adverse 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. While natural gas retail deregulation is in the very early stages of development, management believes the effects of this matter will have no material adverse effect on Duke Energy's 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 (studies are completed every five years). Duke Energy contributes to an external decommissioning trust fund and maintains an internal reserve to fund these costs.

The balance of the external funds was $716 million as of December 31, 2001 and $717 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Nuclear Decommissioning Trust Funds (asset) and Nuclear Decommissioning Costs Externally Funded (liability). The balance of the internal reserve was $239 million as of December 31, 2001 and $231 million as of December 31, 2000, 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 the decommissioning costs being recovered through rates, when coupled with expected fund earnings, are sufficient to provide for the cost of decommissioning. Additionally, 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.)

The external decommissioning trust fund is invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Duke Energy has an agreement with the NRC that these funds will only be used for activities relating to nuclear decommissioning. 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 RELICENSING In 2000, the NRC renewed the operating license for Duke Energy's three Oconee nuclear units through 2033 to 2034. Applications to renew the operating licenses for Duke Energy's Catawba and McGuire nuclear units were filed with the NRC in June 2001. These operating licenses currently expire between 2021 and 2026.

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 operated manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of former manufactured gas plant sites to investigate and, where necessary, remediate those contaminated sites. Regulators consider Duke Energy to be a potentially responsible party, possibly subject to future liability at six federal and two state Superfund sites. While remediation costs may be substantial, Duke Energy will share in any liability associated with contamination at these sites with other potentially responsible parties. Management believes that resolution of these matters will have no material adverse effect on consolidated results of operations, cash flows or financial position.

_PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEANUP PROGRAMS In 2001, Texas Eastern Transmission, LP, a wholly owned subsidiary of Duke Energy, completed the remaining requirements of a 1989 U.S. Consent Decree regarding the cleanup of PCB-contaminated sites. The Environmental Protection Agency (EPA) certified the completion of all work under the Consent Decree in January 2002. Monitoring of groundwater and remediation at certain sites may continue as required by various state authorities.

In March 1999, Duke Energy sold PEPL and Trunkline to CMS. (See Note 1 to the Consolidated Financial Statements for more information on the sale of the pipelines.) Under the terms of the sales agreement with CMS, 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, management believes the resolution of matters relating to the environmental issues discussed above will have no material adverse effect on consolidated results of operations, cash flows or financial position.

_AIR QUALITY CONTROL In 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 rule was challenged in court by various states, industry and other interests, including Duke Energy and the states of North Carolina and South Carolina. In 2000, the court upheld most aspects of the EPA rule. The same court subsequently extended the compliance deadline for implementation of emission reductions to May 31, 2004.

In 2000, the EPA finalized another ozone-related rule under Section 126 of the Clean Air Act (CAA). Section 126 of the CAA has virtually identical emission control requirements as the 1998 action, and specified a May 1, 2003 compliance date. While the emission

reduction requirements of the rule have been upheld in court, the implementation date for the rule has been revised to May 2004 as a result of a legal challenge and the resulting court order. Management estimates that Duke Energy will spend from $500 million to $900 million in capital costs for additional emission controls through 2007 to comply with the new EPA rules.

Both North Carolina and South Carolina have revised their SIPs in response to the EPA's 1998 rule, and are awaiting EPA approval. Legislation was introduced in the North Carolina General Assembly in 2001 and passed by the state Senate that would require North Carolina electric utilities, including Duke Energy, to make significant reductions in emissions of sulfur dioxide and nitrogen oxides from coal-fired power plants over the next seven to 11 years. Management estimates Duke Energy's cost of achieving the proposed emission reductions to be approximately $1.5 billion. A provision in the proposed North Carolina legislation allows Duke Energy to recover those costs from customers through an environmental compliance expenditure-recovery factor that is separate from the electric utility's base rates. If passed into law, the final provisions could be significantly different from the proposal.

Emission control retrofits needed to comply with the new rules 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.

In 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 claims 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 asks the court to order Duke Energy to stop operating the coal-fired units identified in the complaint, install additional emission controls and pay unspecified civil penalties. This complaint is 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 is defending itself vigorously against these alleged violations. The U.S. Vice President's National Energy Policy Development Group has ordered the EPA to review its NSR rules and has ordered the Department of Justice to review the appropriateness of the enforcement cases. The EPA review was scheduled to be completed by August 2001, but has not yet been concluded. In January 2002, the Department of Justice released a report concluding that it was not improper for the Department of Justice to initiate the enforcement cases brought on behalf of the EPA. It specifically declined to address whether the EPA's enforcement actions are wise as a matter of national energy policy. 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. The high-level operational framework for implementing the Kyoto Protocol was agreed to in November 2001. If the Kyoto Protocol were to be implemented in developed countries where Duke Energy operates, 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 in discussions with those developing public policy initiatives and continuously assesses the commercial implications for its markets around the world.

NOTICE OF PROPOSED RULEMAKING (NOPR) On September 27, 2001, the FERC issued a NOPR announcing that it is considering new regulations regarding standards of conduct that would apply uniformly to natural gas pipelines and electric transmitting public utilities that are currently subject to different gas or electric standards. The proposed standards would change how companies and their affili-

ates interact and share information by broadening the definition of "affiliate" covered by the standards of conduct, from the more narrow definition in the existing regulations. The NOPR also seeks comment on whether the standards of conduct should be broadened to include the separation of those involved in the bundled retail electric sales function from those in the transmission function, as the current standards apply only to those involved in wholesale activities. Various entities filed comments on the NOPR with the FERC, including Duke Energy which filed on December 20, 2001. The FERC has indicated that they appreciate the complexity of the issues and that they would prefer having a technical conference before entering directly into a final rulemaking. No notice of a technical conference has been given at this time.

REGULATORY MATTERS In 2001, the NCUC and PSCSC began a joint investigation, along with the Public Staff of the NCUC, regarding certain Duke Power regulatory accounting entries for 1998. In its internal review of the 14 entries in question, Duke Energy concluded that nine items were correctly classified for regulatory accounting. Four items were incorrectly classified for regulatory purposes for 1998 only, and did not recur. The classification of the remaining item, distributions from a mutual insurance company, is subject to differing regulatory interpretations. Duke Energy believes this item was appropriately classified, but is evaluating its classification for future years. As part of their investigation, the NCUC and PSCSC have jointly engaged an independent firm to conduct an audit of Duke Power's accounting records for reporting periods from 1998 through June 30, 2001. Duke Energy continues to fully cooperate with the commissions in their investigation. As requested by the NCUC, Duke Energy has recorded the 2001 mutual insurance distribution, approximately $33 million, in a deferred credit account on the Consolidated Balance Sheets, pending final outcome of the independent audit.

CALIFORNIA ISSUES Duke Energy, some of its subsidiaries and three current or former executives have been named as defendants, among other corporate and individual defendants, in one or more of a total of six lawsuits brought by or on behalf of electricity consumers in the State of California. The plaintiffs seek damages as a result of the defendants' alleged unlawful manipulation of the California wholesale electricity markets. DENA and DETM are among 16 defendants in a class-action lawsuit (the Gordon lawsuit) filed against generators and traders of electricity in California markets. DETM was also 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, traders and other unnamed providers of electricity in California markets. A sixth lawsuit (the Bustamante lawsuit) was brought by the Lieutenant Governor of the State of California and a State Assemblywoman, on their own behalf as citizens and on behalf of the general public, and includes Duke Energy, some of its subsidiaries and three current or former executives of Duke Energy among other corporate and individual defendants. The Gordon and Hendricks class-action lawsuits were filed in the Superior Court of the State of California, San Diego County, in November 2000. Three other lawsuits were filed in January 2001, one in Superior Court, San Diego County, and the other two in Superior Court, County of San Francisco. The Bustamante lawsuit was filed in May 2001 in Superior Court, Los Angeles County. These lawsuits 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. The plaintiffs seek aggregate damages of billions of dollars. The lawsuits seek the refund of alleged unlawfully obtained revenues for electricity sales and, in four lawsuits, an award of treble damages. These suits have been consolidated before a state court judge in San Diego. While these matters are in their earliest stages, management believes, based on its analysis of the facts and the asserted claims, that their resolution will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

In addition to the lawsuits, several investigations and regulatory proceedings at the state and federal levels are looking into the causes of high wholesale electricity prices in the western U.S. At the federal level, numerous proceedings are before the FERC. Some parties to those proceedings have made claims for billions of dollars of refunds from sellers of wholesale electricity, including DETM. Some parties have also sought to revoke the authority of DETM and other DENA-affiliated electricity marketers to sell electricity at market-based rates. The FERC is also conducting its own wholesale pricing investigation. As a result, the FERC has ordered some sellers, including DETM, to refund, or to offset against outstanding accounts receivable, amounts billed for electricity sales in excess of a FERC-established proxy price. The proxy price represents what the FERC believes would have been the market-clearing price in a perfectly competitive market. In June 2001, DETM offset approximately $20 million against amounts owed by the California Independent System Operator and the California Power Exchange for electricity sales during January and February 2001. This offset reduced the $110 million reserve established in 2000 to $90 million. Proceedings are ongoing to determine, among other issues, the amount of any refunds or offsets for periods prior to January 2001, and the method to be used to determine the proxy price in future months.

At the state level, the California Public Utilities Commission is conducting formal and informal investigations to determine if power plant operators in California, including some Duke Energy entities, have improperly "withheld," either economically or physically, generation output from the market to manipulate market prices. In addition, the California State Senate formed a Select Committee to Investigate Price Manipulation of the Wholesale Energy Market (Select Committee). The Select Committee has served a subpoena on Duke Energy and some of its subsidiaries seeking data concerning their California market activities. The Select Committee has heard testimony from several witnesses but no one from Duke Energy has yet been subpoenaed to testify.

The California Attorney General is also conducting an investigation to determine if any market participants engaged in illegal activity, including antitrust violation, in the course of their electricity sales into wholesale markets in the western U.S. The Attorneys General of Washington and Oregon are participating in the California Attorney General's investigation. The San Diego District Attorney is conducting a separate investigation into market activities and has issued subpoenas to DETM and a DENA subsidiary.

The California Attorney General has also convened a grand jury to determine whether criminal charges should be brought against any market participants. To date, no Duke Energy employee has been called to testify before the grand jury nor have any criminal charges been filed against Duke Energy or any of its officers, directors or employees in connection with the wholesale electricity markets in the states of the western U.S.

Throughout 2001, Duke Energy conducted its business in California to supply the maximum possible electricity to meet the needs of the state, limit its exposure to non-creditworthy counterparties and manage the output limitations on its power plants imposed by applicable permits and laws. Since December 31, 2000, Duke Energy has closely managed the balance of doubtful receivables, and believes that the current pre-tax bad debt provision of $90 million is appropriate. No additional provisions for California receivables were recorded in 2001. Management believes, based on its analysis of the facts and the asserted claims, that the resolution of these matters will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

LITIGATION AND CONTINGENCIES _EXXON MOBIL CORPORATION ARBITRATION In 2000, three Duke Energy subsidiaries initiated binding arbitration against three Exxon Mobil Corporation subsidiaries (the Exxon Mobil entities) concerning the parties' joint ownership of DETM and related affiliates (the Ventures). At issue is a buy-out right provision under the joint venture agreements for these entities. If there is a material business dispute between the parties, which Duke Energy alleges has occurred, the buy-out provision gives Duke Energy the right to purchase Exxon Mobil's 40% interest in DETM. Exxon Mobil does not have a similar right under the joint venture agreements and once Duke Energy exercises the buy-out right, each party has the right to "unwind" the buy-out under certain specific circumstances. In December 2000, Duke Energy exercised its right to buy the Exxon Mobil entities' interest in the Ventures. 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 has also made additional claims against the Exxon Mobil entities for breach of the agreements governing the Ventures.

In January 2001, the Exxon Mobil entities made counterclaims in the arbitration and, in a separate Texas state court action, alleged that Duke Energy breached its obligations to the Ventures and to the Exxon Mobil entities. In April 2001, the state court stayed its action, compelling the Exxon Mobil entities to arbitrate their claims. The Exxon Mobil entities proceeded with the arbitration of their claims and have not challenged this order in an appellate court. In early October 2001, the arbitration panel convened an evidentiary hearing regarding the buy-out right provision and Duke Energy's and Exxon Mobil's claims against each other. The panel has not yet ruled but Duke Energy expects a final decision from the panel in early 2002. Management believes that the final disposition of this action will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

Duke Energy and its subsidiaries are involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will have no material adverse effect on consolidated results of operations, cash flows or financial position. (See Note 15 to the Consolidated Financial Statements for information concerning litigation and other commitments and contingencies.)

NEW ACCOUNTING STANDARDS In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets."

SFAS No. 141 requires that all business combinations initiated (as defined by the standard) after June 30, 2001 be accounted for

using the purchase method. Companies may no longer use the pooling method of accounting for future combinations.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, and was adopted by Duke Energy as of January 1, 2002. SFAS No. 142 requires that goodwill no longer be amortized over an estimated useful life, as previously required. Instead, goodwill amounts will be subject to a fair-value-based annual impairment assessment. The standard also requires certain identifiable intangible assets to be recognized separately and amortized as appropriate. No such intangibles have been identified at Duke Energy. Duke Energy expects the adoption of SFAS No. 142 to have an impact on future financial statements, due to the discontinuation of goodwill amortization expense. For 2001, pre-tax goodwill amortization expense was $101 million. The FASB and the EITF continue to respond to questions to clarify key aspects of SFAS No. 142. Duke Energy has determined the effect of implementing SFAS No. 142 and does not expect to record any impairment in 2002.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. It is effective for fiscal years beginning after June 15, 2002, and early adoption is permitted. Duke Energy is currently assessing the new standard and has not yet determined the impact on its consolidated results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The new rules supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The new rules retain many of the fundamental recognition and measurement provisions, but significantly change the criteria for classifying an asset as held-for-sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Duke Energy has evaluated the new standard, and management believes that it will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

ENERGY INDUSTRY AND ACCOUNTING PRACTICES The energy industry landscape changed during 2001. The bankruptcy of Enron (See Quantitative and Qualitative Disclosures About Market Risk – Credit Risk), the tragic events of September 11, 2001 and the global economic downturn will likely have continued impacts on the industry.

Near-term economic growth is likely to be lower and more cyclical than in the recent past. As a result, industrial or commercial customers and trading counterparties could reduce their business volume with Duke Energy. However, overall demand for power is still on the rise. Current estimates place demand growth for power between 1% and 2% annually over the next decade. Duke Energy will continue to seek opportunities to reduce the risks associated with economic impacts on its customers, and help markets achieve desired supply/demand equilibrium and infrastructure reliability.

The situation surrounding Enron's bankruptcy has forced regulators and legislators to take a renewed look at accounting practices, financial disclosures, companies' relationships with their independent auditors and retirement plan practices. Duke Energy cannot predict the ultimate impact of any future changes in laws or regulations. However, Duke Energy is committed to complying with all laws and regulations and will continue to play an active role in helping to shape future laws and regulations as they evolve.

PENDING ACQUISITION OF WESTCOAST ENERGY INC. In September 2001, Duke Energy announced its plans to acquire Westcoast for approximately $8 billion, including the assumption of debt. Westcoast, headquartered in Vancouver, British Columbia, is a North American energy company with interests in natural gas gathering, processing, transmission, storage and distribution, as well as power generation and international energy businesses. In the pending transaction, Duke Energy would acquire all outstanding common shares of Westcoast in exchange for a combination of cash, Duke Energy common shares and exchangeable shares of a Canadian subsidiary of Duke Energy such that 50% of the consideration will be paid in cash and 50% in stock. The transaction is expected to close by the end of the first quarter of 2002, subject to regulatory approvals. The transaction will be accounted for using the purchase method of accounting.

SUBSEQUENT EVENT On January 31, 2002, Duke Energy announced the planned sale of its DE&S business unit to Framatome ANP, Inc. (a nuclear supplier) for approximately $84 million. Two components of DE&S are not part of the sale. Duke Energy will establish Duke Energy – Energy Delivery Services, formed by the power delivery services component of DE&S, which will continue to supply power delivery solutions to customers. Leadership of the U.S. Department of Energy Mixed Oxide Fuel project will also remain with Duke Energy. The transaction will require a Hart Scott Rodino filing and is expected to close in the second quarter of 2002.

FORWARD-LOOKING STATEMENTS Duke Energy's reports, filings and other public announcements may include statements that reflect 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. Generally, the words "may," "could," "project," "believe," "anticipate," "expect," "estimate," "plan," "forecast," "intend" and similar words identify forward-looking statements, which generally are not historical in nature. All such statements (other than statements of historical facts), including statements regarding operating performance, financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations and events or developments that we expect or anticipate will occur in the future, are forward looking. Forward-looking statements are subject to certain risks and uncertainties that could, and often do, cause actual results to differ from Duke Energy's historical experience and our present expectations or projections. Accordingly, there can be no assurance that actual results will not differ materially from those expressed or implied by the forward-looking statements. Caution should be taken not to place undue reliance on any such forward-looking statements.

Factors that could cause actual results to differ materially from the expectations expressed or implied in such forward-looking statements include, but are not limited to: 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; level of creditworthiness of counterparties to transactions; growth 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	2001	2000	1999[a]	1998	1997[b]
INCOME STATEMENT					
Operating revenues	$ 59,503	$ 49,318	$ 21,766	$ 17,662	$ 16,309
Operating expenses	55,403	45,505	19,947	15,177	14,339
Operating income	4,100	3,813	1,819	2,485	1,970
Other income and expenses	156	201	224	162	138
Interest expense	785	911	601	514	472
Minority interest expense	327	307	142	96	23
Earnings before income taxes	3,144	2,796	1,300	2,037	1,613
Income taxes	1,150	1,020	453	777	639
Income before extraordinary item and cumulative effect of change in accounting principle	1,994	1,776	847	1,260	974
Extraordinary gain (loss), net of tax	-	-	660	(8)	-
Cumulative effect of change in accounting principle, net of tax	(96)	-	-	-	-
Net income	1,898	1,776	1,507	1,252	974
Preferred and preference stock dividends	14	19	20	21	72
Earnings available for common stockholders	$ 1,884	$ 1,757	$ 1,487	$ 1,231	$ 902
BALANCE SHEET					
Total assets	$ 48,375	$ 58,232	$ 33,409	$ 26,806	$ 24,029
Long-term debt, less current maturities	12,321	10,717	8,683	6,272	6,530

[a] Financial information reflects a pre-tax $800 million charge for estimated injuries and damages claims. The earnings-per-share effect of this charge was $0.67 per share. (See Note 15 to the Consolidated Financial Statements.)

[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, 1997.

Selected Financial Data

In millions, except per-share amounts	2001	2000	1999[a]	1998	1997[b]
COMMON STOCK DATA[c]					
Shares of common stock outstanding					
Year end	777	739	733	726	720
Weighted average	767	736	729	722	720
Earnings per share (before extraordinary item and cumulative effect of change in accounting principle)					
Basic	$ 2.58	$ 2.39	$ 1.13	$ 1.72	$ 1.26
Diluted	2.56	2.38	1.13	1.71	1.25
Earnings per share					
Basic	$ 2.45	$ 2.39	$ 2.04	$ 1.70	$ 1.26
Diluted	2.44	2.38	2.03	1.70	1.25
Dividends per share	1.10	1.10	1.10	1.10	0.95

COMMON STOCK DATA BY QUARTER[c]

	2001			2000		
	Dividends Per Share	Stock Price[d] High	Stock Price[d] Low	Dividends Per Share	Stock Price High	Stock Price Low
First quarter	$ 0.275	$ 43.50	$ 32.41	$ 0.275	$ 28.94	$ 23.19
Second quarter	0.55	47.74	38.40	0.55	31.25	26.16
Third quarter	-	42.85	34.39	-	42.88	28.31
Fourth quarter	0.275	41.35	32.22	0.275	44.97	40.22

[a] Financial information reflects a pre-tax $800 million charge for estimated injuries and damages claims. The earnings-per-share effect of this charge was $0.67 per share. (See Note 15 to the Consolidated Financial Statements.)

[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, 1997.

[c] Amounts prior to 2001 were restated to reflect the two-for-one common stock split effective January 26, 2001.

[d] The current-year stock prices represent the intra-day high and low stock price.

Consolidated Statements of Income

In millions, except per-share amounts	Years ended December 31 2001	2000	1999
OPERATING REVENUES			
Sales, trading and marketing of natural gas and petroleum products (Notes 1 and 7)	$ 33,364	$ 28,284	$ 10,922
Trading and marketing of electricity (Notes 1 and 7)	18,010	13,086	3,745
Generation, transmission and distribution of electricity (Notes 1 and 4)	5,410	5,315	4,799
Transportation and storage of natural gas (Notes 1 and 4)	996	1,045	1,139
Gain on sale of equity investment (Note 2)	-	407	-
Other (Note 8)	1,723	1,181	1,161
Total operating revenues	59,503	49,318	21,766
OPERATING EXPENSES			
Natural gas and petroleum products purchased (Note 1)	32,021	27,670	10,636
Net interchange and purchased power (Notes 1, 4 and 5)	16,515	12,000	3,507
Fuel used in electric generation (Notes 1 and 11)	965	781	764
Other operation and maintenance (Notes 4 and 11)	4,135	3,469	3,701
Depreciation and amortization (Notes 1 and 5)	1,336	1,167	968
Property and other taxes	431	418	371
Total operating expenses	55,403	45,505	19,947
OPERATING INCOME	4,100	3,813	1,819
OTHER INCOME AND EXPENSES	156	201	224
INTEREST EXPENSE (Notes 7 and 10)	785	911	601
MINORITY INTEREST EXPENSE (Notes 2, 12 and 13)	327	307	142
EARNINGS BEFORE INCOME TAXES	3,144	2,796	1,300
INCOME TAXES (Notes 1 and 6)	1,150	1,020	453
INCOME BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,994	1,776	847
EXTRAORDINARY GAIN, NET OF TAX (Note 1)	-	-	660
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX (Note 1)	(96)	-	-
NET INCOME	1,898	1,776	1,507
PREFERRED AND PREFERENCE STOCK DIVIDENDS (Note 14)	14	19	20
EARNINGS AVAILABLE FOR COMMON STOCKHOLDERS	$ 1,884	$ 1,757	$ 1,487
COMMON STOCK DATA (Note 1)			
Weighted-average shares outstanding	767	736	729
Earnings per share (before extraordinary item and cumulative effect of change in accounting principle)			
Basic	$ 2.58	$ 2.39	$ 1.13
Diluted	$ 2.56	$ 2.38	$ 1.13
Earnings per share			
Basic	$ 2.45	$ 2.39	$ 2.04
Diluted	$ 2.44	$ 2.38	$ 2.03
Dividends per share	$ 1.10	$ 1.10	$ 1.10

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

In millions	Years ended December 31 2001	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 1,898	$ 1,776	$ 1,507
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,450	1,348	1,151
Cumulative effect of change in accounting principle	96	-	-
Extraordinary gain, net of tax	-	-	(660)
Gain on sale of equity investment	-	(407)	-
Provision on NAWE's California receivables	-	110	-
Impairment charges	36	-	-
Injuries and damages accrual	-	-	800
Deferred income taxes	129	152	(210)
Purchased capacity levelization	156	138	104
Transition cost recoveries, net	-	82	95
(Increase) decrease in			
Net unrealized mark-to-market and hedging transactions	91	(464)	(24)
Receivables	3,166	(5,167)	(659)
Inventory	(192)	(100)	(89)
Other current assets	694	(796)	(138)
Increase (decrease) in			
Accounts payable	(3,545)	4,867	477
Taxes accrued	183	(439)	(57)
Interest accrued	28	64	32
Other current liabilities	297	1,116	73
Other, assets	351	175	221
Other, liabilities	(243)	(230)	61
Net cash provided by operating activities	4,595	2,225	2,684
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(5,930)	(4,568)	(5,291)
Investment expenditures	(1,093)	(966)	(596)
Proceeds from sale of subsidiaries and equity investment	-	400	1,900
Notes receivable	201	(158)	83
Other	541	362	153
Net cash used in investing activities	(6,281)	(4,930)	(3,751)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of			
Long-term debt	2,673	3,206	3,221
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy Corporation or subsidiaries	-	-	484
Common stock and stock options	1,432	230	162
Payments for the redemption of			
Long-term debt	(1,298)	(1,191)	(1,505)
Preferred and preference stock	(33)	(33)	(20)
Net change in notes payable and commercial paper	(246)	1,484	58
Distributions to minority interests	(329)	(1,216)	-
Contributions from minority interests	-	1,116	-
Dividends paid	(871)	(828)	(822)
Other	26	(54)	22
Net cash provided by financing activities	1,354	2,714	1,600
Net (decrease) increase in cash and cash equivalents	(332)	9	533
Cash and cash equivalents at beginning of period	622	613	80
Cash and cash equivalents at end of period	$ 290	$ 622	$ 613
SUPPLEMENTAL DISCLOSURES			
Cash paid for interest, net of amount capitalized	$ 733	$ 817	$ 541
Cash paid for income taxes	$ 770	$ 1,177	$ 732

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In millions	December 31 2001	2000
ASSETS		
CURRENT ASSETS (Note 1)		
Cash and cash equivalents (Note 7)	$ 290	$ 622
Receivables (Notes 1 and 7)	5,301	8,648
Inventory (Note 1)	1,017	739
Current portion of purchased capacity costs (Note 5)	160	149
Unrealized gains on mark-to-market and hedging transactions (Notes 1 and 7)	2,326	11,038
Other	451	1,317
Total current assets	9,545	22,513
INVESTMENTS AND OTHER ASSETS		
Investments in affiliates (Note 8)	1,480	1,387
Nuclear decommissioning trust funds (Note 11)	716	717
Pre-funded pension costs (Note 18)	313	304
Goodwill, net of accumulated amortization (Notes 1 and 2)	1,730	1,566
Notes receivable	576	462
Unrealized gains on mark-to-market and hedging transactions (Notes 1 and 7)	3,117	4,218
Other	1,299	1,143
Total investments and other assets	9,231	9,797
PROPERTY, PLANT AND EQUIPMENT (Notes 1, 5, 9, 10 and 11)		
Cost	39,464	34,598
Less accumulated depreciation and amortization	11,049	10,146
Net property, plant and equipment	28,415	24,452
REGULATORY ASSETS AND DEFERRED DEBITS (Notes 1 and 4)		
Purchased capacity costs (Note 5)	189	356
Deferred debt expense	203	208
Regulatory asset related to income taxes	510	506
Other (Notes 4 and 15)	282	400
Total regulatory assets and deferred debits	1,184	1,470
TOTAL ASSETS	$ 48,375	$ 58,232

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

In millions	December 31 2001	2000
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 4,231	$ 7,733
Notes payable and commercial paper (Notes 7 and 10)	1,603	1,826
Taxes accrued (Note 1)	443	261
Interest accrued	239	208
Current maturities of long-term debt and preferred stock (Notes 10 and 14)	274	470
Unrealized losses on mark-to-market and hedging transactions (Notes 1 and 7)	1,519	11,070
Other (Notes 1 and 15)	2,118	1,769
Total current liabilities	10,427	23,337
LONG-TERM DEBT (Notes 7 and 10)	12,321	10,717
DEFERRED CREDITS AND OTHER LIABILITIES (Note 1)		
Deferred income taxes (Note 6)	4,307	3,851
Investment tax credit (Note 6)	189	211
Nuclear decommissioning costs externally funded (Note 11)	716	717
Environmental cleanup liabilities (Note 15)	85	100
Unrealized losses on mark-to-market and hedging transactions (Notes 1 and 7)	2,212	3,581
Other (Notes 4 and 15)	1,542	1,574
Total deferred credits and other liabilities	9,051	10,034
COMMITMENTS AND CONTINGENCIES (Notes 5, 11 and 15)		
GUARANTEED PREFERRED BENEFICIAL INTERESTS IN SUBORDINATED NOTES OF DUKE ENERGY CORPORATION OR SUBSIDIARIES (Notes 7 and 12)	1,407	1,406
MINORITY INTERESTS IN FINANCING SUBSIDIARY (Note 13)	1,025	1,025
MINORITY INTERESTS (Note 2)	1,221	1,410
PREFERRED AND PREFERENCE STOCK (Notes 7 and 14)		
Preferred and preference stock with sinking fund requirements	25	38
Preferred and preference stock without sinking fund requirements	209	209
Total preferred and preference stock	234	247
COMMON STOCKHOLDERS' EQUITY (Notes 1, 16 and 17)		
Common stock, no par, 2 billion shares authorized; 777 million and 739 million shares outstanding at December 31, 2001 and 2000, respectively	6,217	4,797
Retained earnings	6,292	5,379
Accumulated other comprehensive income (loss)	180	(120)
Total common stockholders' equity	12,689	10,056
TOTAL LIABILITIES AND COMMON STOCKHOLDERS' EQUITY	$ 48,375	$ 58,232

See Notes to Consolidated Financial Statements.

Consolidated Statements of Common Stockholders' Equity and Comprehensive Income

In millions	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total	Total Comprehensive Income
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 17)	154			154	
Common stock dividends		(802)		(802)	
Preferred and preference stock dividends (Note 14)		(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 17)	194			194	
Common stock dividends		(809)		(809)	
Preferred and preference stock dividends (Note 14)		(19)		(19)	
Other capital stock transactions, net		34		34	
BALANCE DECEMBER 31, 2000	$ 4,797	$ 5,379	$ (120)	$ 10,056	
Net income		1,898		1,898	$ 1,898
Other comprehensive income[a]					
Cumulative effect of change in accounting principle (Note 1)			(921)	(921)	(921)
Foreign currency translation adjustments (Note 1)			(187)	(187)	(187)
Net unrealized gains on cash flow hedges (Notes 1 and 7)			1,324	1,324	1,324
Reclassification into earnings (Notes 1 and 7)			84	84	84
Total comprehensive income					$ 2,198
Dividend reinvestment and employee benefits (Note 17)	329			329	
Equity offering (Note 16)	1,091			1,091	
Common stock dividends, including equity units contract adjustment (Note 16)		(973)		(973)	
Preferred and preference stock dividends (Note 14)		(14)		(14)	
Other capital stock transactions, net		2		2	
BALANCE DECEMBER 31, 2001	$ 6,217	$ 6,292	$ 180	$ 12,689	

[a] Other Comprehensive Income amounts are net of tax, except for foreign currency translation.

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION The Consolidated Financial Statements include the accounts of Duke Energy Corporation and all majority-owned subsidiaries, after eliminating significant intercompany transactions and balances. Investments in businesses not controlled by Duke Energy Corporation, but over which it has significant influence, are accounted for using the equity method.

Conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Although these estimates are based on management's best available knowledge of current and expected future events, actual results could be different from those estimates.

In these Notes, "Duke Energy" refers to Duke Energy Corporation and its subsidiaries.

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

INVENTORY Inventory, excluding inventory held for trading, 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. This inventory is recorded at the lower of cost or market value, primarily using the average cost method. Inventory held for trading is marked to market.

ACCOUNTING FOR HEDGES AND TRADING ACTIVITIES All derivatives not qualifying for the normal purchases and sales exemption under Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," are recorded on the Consolidated Balance Sheets at their fair value as Unrealized Gains or Unrealized Losses on Mark-to-Market and Hedging Transactions. On the date that swaps, futures, forwards or option contracts are entered into, Duke Energy designates the derivative as either held for trading (trading instrument); as a hedge of a forecasted transaction or future cash flows (cash flow hedge); as a hedge of a recognized asset, liability or firm commitment (fair value hedge); as a normal purchase or sale contract; or leaves the derivative undesignated and marks it to market.

For hedge contracts, Duke Energy formally assesses, both at the hedge contract's inception and on an ongoing basis, whether the hedge contract is highly effective in offsetting changes in fair values or cash flows of hedged items. The time value of options of $1 million was excluded in the assessment and measurement of hedge effectiveness for the year ended December 31, 2001.

When available, quoted market prices or prices obtained through external sources are used to verify a contract's fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on pricing models developed primarily from historical and expected correlations with quoted market prices.

Values are adjusted to reflect the potential impact of liquidating the positions held in an orderly manner over a reasonable time period under current conditions. Changes in market price and management estimates directly affect the estimated fair value of these contracts. Accordingly, it is reasonably possible that such estimates may change in the near term.

_TRADING Prior to settlement of any energy contract held for trading purposes, a favorable or unfavorable price movement is reported as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power, in the Consolidated Statements of Income. An offsetting amount is recorded on the Consolidated Balance Sheets as Unrealized Gains or Unrealized Losses on Mark-to-Market and Hedging Transactions. When a contract to sell is physically settled, the fair value entries are reversed and the gross amount invoiced to the customer is included as Sales, Trading and Marketing of Natural Gas and Petroleum Products, or Trading and Marketing of Electricity, in the Consolidated Statements of Income. Similarly, when a contract to purchase is physically settled, the purchase price is included as Natural Gas and Petroleum Products Purchased, or Net Interchange and Purchased Power, in the Consolidated Statements of Income. If a contract is not financially settled, the unrealized gain or loss on the Consolidated Balance Sheets is reversed and reclassified to a receivable or payable account. For income statement purposes, financial settlement has no revenue presentation effect on the Consolidated Statements of Income.

_CASH FLOW HEDGES Changes in the fair value of a derivative designated and qualified as a cash flow hedge are included in the Consolidated Statements of Common Stockholders' Equity and Comprehensive Income as Other Comprehensive Income (OCI) until earnings are affected by the hedged item. Settlement amounts and ineffective portions of cash flow hedges are removed from OCI and recorded in the Consolidated Statements of Income in the same accounts as the item being hedged. Duke Energy discontinues hedge accounting prospectively when it is determined that the derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged transaction will occur. When hedge accounting is discontinued because the derivative no longer qualifies as an effective hedge, the derivative continues to be carried on the Consolidated Balance Sheets at its fair value, with subsequent changes

in its fair value recognized in current-period earnings. Gains and losses related to discontinued hedges that were previously accumulated in OCI will remain in OCI until earnings are affected by the hedged item, unless it is no longer probable that the hedged transaction will occur. Gains and losses that were accumulated in OCI will be immediately recognized in current-period earnings.

_FAIR VALUE HEDGES Duke Energy enters into interest rate swaps to convert some of its fixed-rate long-term debt to floating-rate long-term debt and designates such interest rate swaps as fair value hedges. Duke Energy also enters into electricity derivative instruments such as swaps, futures and forwards to manage the fair value risk associated with some of its unrecognized firm commitments to sell generated power due to changes in the market price of power. Upon designation of such derivatives as fair value hedges, prospective changes in the fair value of the derivative and the hedged item are recognized in current earnings in a manner consistent with the earnings effect of the hedged risk. All components of each derivative gain or loss are included in the assessment of hedge effectiveness, unless otherwise noted.

GOODWILL Goodwill is the cost of an acquisition less the fair value of the net assets of the acquired business. Prior to January 1, 2002, Duke Energy amortized goodwill on a straight-line basis over the useful lives of the acquired assets, ranging from 10 to 40 years. The amount of goodwill reported on the Consolidated Balance Sheets as of December 31, 2001 was $1,730 million, net of accumulated amortization of $388 million. The amount of goodwill as of December 31, 2000 was $1,566 million, net of accumulated amortization of $291 million. Duke Energy has implemented SFAS No. 142, "Goodwill and Other Intangible Assets" as of January 1, 2002. For information on the impact of SFAS No. 142 on goodwill and goodwill amortization, see the New Accounting Standards section of this footnote. (See Note 2 for information on significant goodwill additions.)

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at historical cost less accumulated depreciation. 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 funds used during construction. The cost of renewals and betterments that extend the useful life of property, plant and equipment is also capitalized. The cost of repairs, replacements and major maintenance projects is expensed as it is incurred. Depreciation is generally computed using the straight-line method. The composite weighted-average depreciation rates, excluding nuclear fuel, were 4.01% for 2001, 3.97% for 2000 and 3.73% for 1999.

When Duke Energy retires its regulated property, plant and equipment, it charges the original cost plus the cost of retirement, less salvage, to accumulated depreciation and amortization. When it sells entire regulated operating units, or retires or sells non-regulated properties, the property and related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded as income, unless otherwise required by the Federal Energy Regulatory Commission (FERC).

IMPAIRMENT OF LONG-LIVED ASSETS Duke Energy reviews the recoverability of long-lived and intangible assets when circumstances indicate that the carrying amount of the asset may not be recoverable. This evaluation is based on various analyses, including undiscounted cash flow projections.

UNAMORTIZED DEBT PREMIUM, DISCOUNT AND EXPENSE Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt 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, where appropriate.

ENVIRONMENTAL EXPENDITURES Duke Energy expenses environmental expenditures that relate to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate 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 SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." The economic effects of regulation can result in a regulated company recording costs that have been or are expected to be allowed in the rate-setting process in a period different from the period in which the costs would be charged to expense

by an unregulated enterprise. Accordingly, Duke Energy records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP 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. (See Note 4.) Duke Energy periodically evaluates the applicability of SFAS No. 71, and considers factors such as regulatory changes and the impact of competition. If cost-based regulation ends or competition increases, companies may have to reduce their asset balances to reflect a market basis less than cost, and write off their associated regulatory assets.

STOCK-BASED COMPENSATION Duke Energy accounts for stock-based compensation under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," by which compensation cost is the quoted market price of Duke Energy stock on the date of the grant minus the amount an employee must pay to acquire the stock. Restricted stock grants and company performance awards are recorded over the required vesting period as compensation cost, based on the market value on the date of the grant. (See Note 17 for pro forma disclosures using the fair value accounting method.) 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 16 for more information on the stock split.)

REVENUES Revenues on sales of electricity and on natural gas transportation and storage are recognized when the service is provided. Revenues on sales of natural gas and petroleum products, as well as electricity, natural gas and other energy products marketed, are recognized in the delivery period. The allowance for doubtful accounts was $265 million as of December 31, 2001 and $200 million as of December 31, 2000. Receivables on the Consolidated Balance Sheets included $177 million as of December 31, 2001 and $244 million as of December 31, 2000 for electric service provided but not yet billed. The amount for 2001 includes a $36 million reduction in unbilled revenue receivables, resulting from a refinement in the estimates used to calculate unbilled kilowatt-hour sales. Pending final approval of rate cases, a portion of revenues is subject to possible refund, and reserves are established where required.

Long-term contracts, primarily in the Other Energy Services segment, are accounted for using the percentage-of-completion method. Under the percentage-of-completion method, sales and gross profit are recognized as the work is performed based on the relationship between costs incurred and total estimated costs at completion. Sales and gross profit are adjusted prospectively for revisions in estimated total contract costs and contract values. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is recorded in that period. The provision for the loss arises because estimated cost for the contract exceeds estimated revenue.

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, recorded in accordance with SFAS No. 71, represent the estimated financing costs associated with funding regulatory assets that primarily arise 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. The amount of deferred returns included in Other Income and Expenses was $43 million in 2001, $50 million in 2000 and $67 million in 1999.

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 Property, Plant and Equipment cost, 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, by including them in the rate base and in the depreciation provision. The total amount of AFUDC included in Other Income and Expenses and Interest Expense was $39 million in 2001, $20 million in 2000 and $23 million in 1999.

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

FOREIGN CURRENCY TRANSLATION Duke Energy translates assets and liabilities for its international operations, where the local currency is the functional currency, at year-end exchange rates. Revenues and expenses are translated using average exchange rates

during the year. Foreign Currency Translation Adjustments are included in the Consolidated Statements of Common Stockholders' Equity and Comprehensive Income. In the financial statements for international operations, where the U.S. dollar is the functional currency, transactions denominated in the local currency have been remeasured in U.S. dollars. Remeasurement 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. These occur when there are differences between the GAAP and tax carrying amounts of assets and liabilities. These differences create taxable or tax-deductible amounts for future periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties.

EXCISE AND OTHER PASS-THROUGH TAXES Duke Energy generally presents revenues net of pass-through taxes on the Consolidated Statements of Income.

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 and equity units, were exercised or converted into common stock. The numerator for the calculation of both basic and diluted earnings per share is earnings available for common stockholders. The following table shows the denominator for basic and diluted earnings per share.

DENOMINATOR FOR EARNINGS PER SHARE

In millions	2001	2000	1999
Denominator for basic earnings per share (weighted-average shares outstanding)	767.5	735.7	729.3
Assumed exercise of diluted stock equivalents	5.4	3.7	1.6
Denominator for diluted earnings per share	772.9	739.4	730.9

Prior years' common stock amounts have been adjusted to reflect the two-for-one common stock split effective January 26, 2001. (See Note 16.)

Options to purchase approximately 6.0 million shares of common stock as of December 31, 2001, 3.3 million shares as of December 31, 2000 and 4.7 million shares as of December 31, 1999 were not included in the computation of diluted earnings per share because the option exercise prices were greater than the average market price of the common shares during the periods.

CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE Duke Energy adopted SFAS No. 133 as amended and interpreted on January 1, 2001. In accordance with the transition provisions of SFAS No. 133, Duke Energy recorded a net-of-tax cumulative effect adjustment of $96 million, or $0.13 per basic share, as a reduction in earnings. The net-of-tax cumulative effect adjustment reducing OCI and Common Stockholders' Equity was $921 million. For the 12 months ended December 31, 2001, Duke Energy reclassified as earnings $222 million of losses from OCI for derivatives included in the transition adjustment related to hedge transactions that settled. The amount reclassified out of OCI will be different from the amount included in the transition adjustment due to market price changes since January 1, 2001.

The Financial Accounting Standards Board's (FASB) Derivative Implementation Group (DIG), while no longer an active group, was active during 2001. In December 2001, the DIG issued a final revision to Issue C15, "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forwards Contracts in Electricity." Under the guidance of Issue C15, if certain electricity contracts meet the criteria, they could qualify as normal purchases or sales under SFAS No. 133. This new guidance will be effective April 1, 2002. The original wording of Issue C15, which was effective beginning July 1, 2001, will apply through the first quarter of 2002. For contracts previously designated as hedges, Duke Energy treated the change as a de-designation under SFAS No. 133, and the fair value for each qualifying contract on July 1, 2001 became the contract's net carrying amount. Duke Energy is continuing to determine the impact of the revision on its future consolidated results of operations, cash flows and financial position.

EXTRAORDINARY ITEMS In 1999, Duke Energy realized an extraordinary after-tax gain of $660 million, or $0.91 per share, from the sale of Panhandle Eastern Pipe Line Company (PEPL), Trunkline Gas Company (Trunkline) and additional storage related to those systems, along with Trunkline LNG Company, to CMS Energy Corporation (CMS).

NEW ACCOUNTING STANDARDS In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142.

SFAS No. 141 requires that all business combinations initiated (as defined by the standard) after June 30, 2001 be accounted for using the purchase method. Companies may no longer use the pooling method of accounting for future combinations.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, and was adopted by Duke Energy as of January 1, 2002. SFAS No. 142 requires that goodwill no longer be amortized over an estimated useful life, as previously required. Instead, goodwill amounts will be subject to a fair-value-based annual impairment assessment. The standard also requires certain identifiable intangible assets to be recognized separately and amortized as appropriate. No such intangibles have been identified at Duke Energy. Duke Energy expects the adoption of SFAS No. 142 to have an impact on future financial statements, due to the discontinuation of goodwill amortization expense. For 2001, pre-tax goodwill amortization expense was $101 million. The FASB and the Emerging Issues Task Force (EITF) continue to respond to questions to clarify key aspects of SFAS No. 142. Duke Energy has determined the effect of implementing SFAS No. 142 and does not expect to record any impairment in 2002.

In July 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides the accounting requirements for retirement obligations associated with tangible long-lived assets. It is effective for fiscal years beginning after June 15, 2002, and early adoption is permitted. Duke Energy is currently assessing the new standard and has not yet determined the impact on its consolidated results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The new rules supersede SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The new rules retain many of the fundamental recognition and measurement provisions, but significantly change the criteria for classifying an asset as held-for-sale. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Duke Energy has evaluated the new standard, and management believes that it will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

RECLASSIFICATIONS Certain amounts reported in prior periods have been reclassified in the Consolidated Financial Statements to conform to current classifications.

2. BUSINESS ACQUISITIONS AND DISPOSITIONS

BUSINESS ACQUISITIONS Using the purchase method for acquisitions, Duke Energy consolidates assets and liabilities as of the purchase date, and includes earnings from acquisitions in consolidated earnings after the purchase date. Assets acquired and liabilities assumed are recorded at estimated fair values on the date of acquisition. The purchase price minus the estimated fair value of the acquired assets and liabilities is recorded as goodwill. In accordance with SFAS No. 142, goodwill is subject to a fair-value-based annual impairment assessment beginning January 1, 2002. The allocation of the purchase price may be adjusted if additional information on 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 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. Approximately $228 million of goodwill was recorded in the transaction. MHP debt agreements required a tender offer for $115 million of the assumed debt. As of December 31, 2001, approximately $88 million of this debt was retired.

_PHILLIPS PETROLEUM'S GAS GATHERING, PROCESSING AND MARKETING UNIT In March 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $1.7 billion transaction that combined Field Services' and Phillips Petroleum's gas gathering, processing and marketing business to form a new midstream company, Duke Energy Field Services, LLC (DEFS). In connection with the combination, DEFS issued approximately $2.75 billion of commercial paper in April 2000 and used the proceeds 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 $432 million was recorded in the transaction.

_EAST TENNESSEE NATURAL GAS COMPANY (ETNG) In March 2000, Duke Energy, through a wholly owned subsidiary, completed the approximately $390 million acquisition of ETNG from El Paso Energy. ETNG owns a 1,100-mile interstate natural gas pipeline system that crosses Duke Energy's Texas Eastern Transmission, LP's pipeline and serves the southeastern region of the U.S. Goodwill of approximately $125 million was recorded in the transaction.

_DOMINION RESOURCES' HYDROELECTRIC, NATURAL GAS AND DIESEL POWER GENERATION BUSINESSES In April 2000, Duke Energy, through its wholly owned subsidiary Duke Energy International, LLC (DEI), completed the acquisition (which began, and parts of which had already closed, in 1999) of Dominion Resources Inc.'s 1,200-megawatt portfolio of hydroelectric, natural gas and diesel power generation businesses in Latin America. The total purchase price was approximately $405 million. Goodwill totaling $109 million was recorded in the transaction.

_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 the transaction.

_PENDING ACQUISITION OF WESTCOAST ENERGY INC. (WESTCOAST) In September 2001, Duke Energy announced its plans to acquire Westcoast for approximately $8 billion, including the assumption of debt. Westcoast, headquartered in Vancouver, British Columbia, is a North American energy company with interests in natural gas gathering, processing, transmission, storage and distribution, as well as power generation and international energy businesses. In the pending transaction, Duke Energy would acquire all outstanding common shares of Westcoast in exchange for a combination of cash, Duke Energy common shares and exchangeable shares of a Canadian subsidiary of Duke Energy such that 50% of the consideration will be paid in cash and 50% in stock. The transaction is expected to close by the end of the first quarter of 2002, subject to regulatory approvals. The transaction will be accounted for using the purchase method of accounting.

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

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

3. BUSINESS SEGMENTS

Duke Energy, an integrated provider of energy and energy services, offers 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 electricity in central and western North Carolina and western South Carolina. It conducts operations 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 transportation and storage of natural gas for customers throughout North America, primarily in the Mid-Atlantic, New England and southeastern states. It conducts operations primarily through Duke Energy Gas Transmission Corporation. Interstate natural gas transmission and storage operations are subject to the FERC's rules and regulations.

Field Services gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores NGLs. It conducts operations primarily through DEFS, which is approximately 30% owned by Phillips Petroleum. Field Services operates gathering systems in western Canada and 11 contiguous states in the U.S. Those systems serve major natural gas-producing regions in the Rocky Mountain, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, and onshore and offshore Gulf Coast areas.

North American Wholesale Energy (NAWE) develops, operates and manages merchant generation facilities and engages in commodity sales and services related to natural gas and electric power. NAWE conducts these operations primarily through Duke Energy North America, LLC (DENA) and Duke Energy Trading and Marketing, LLC (DETM). DETM is approximately 40% owned by Exxon Mobil Corporation. NAWE also includes Duke Energy Merchants Holdings, LLC, which develops new business lines in the evolving energy commodity markets other than natural gas and power. NAWE conducts business primarily throughout the U.S. and Canada.

International Energy develops, operates and manages natural gas transportation and power generation facilities and engages in energy trading and marketing of natural gas and electric power. It conducts operations primarily through DEI and its activities target 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. D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc., a wholly owned subsidiary of Fluor Corporation. (See Note 8.) On January 31, 2002, Duke Energy announced the planned sale of DE&S to Framatome ANP, Inc. (See Note 20.)

Duke Ventures is composed of other diverse businesses, operating primarily through Crescent Resources, LLC (Crescent), DukeNet and Duke Capital Partners, LLC (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 wholly owned merchant banking company, provides debt and equity capital and financial advisory services to the energy industry.

Duke Energy's reportable segments offer different products and services and are managed separately as strategic business units. Their accounting policies are the same as those described in Note 1. Management evaluates segment performance based on earnings before interest and taxes (EBIT) after deducting minority interests. EBIT is calculated as follows:

RECONCILIATION OF OPERATING INCOME TO EBIT

In millions	Years ended December 31 2001	2000	1999
Operating income	$ 4,100	$ 3,813	$ 1,819
Other income and expenses	156	201	224
EBIT	$ 4,256	$ 4,014	$ 2,043

EBIT is the main performance measure used by management to evaluate segment performance. As an indicator of Duke Energy's operating performance or liquidity, EBIT should not be considered an alternative to, or more meaningful than, net income or cash flow as determined in accordance with GAAP. Duke Energy's EBIT may not be comparable to a similarly titled measure of another company.

Beginning January 1, 2001, Duke Energy discontinued allocating corporate governance costs for its business segment analysis. Information for the 2000 and 1999 periods has been reclassified to conform to the current-year presentation. Other Operations primarily includes certain unallocated corporate costs.

In the accompanying table, EBIT includes intersegment sales at prices representative of unaffiliated party transactions. Capital and investment expenditures are gross of cash received from acquisitions. The table also provides information on segment assets, net of intercompany advances, intercompany notes receivable, intercompany current assets, intercompany derivative assets and investments in subsidiaries.

BUSINESS SEGMENT DATA In millions	Unaffiliated Revenues	Intersegment Revenues	Total Revenues	EBIT	Depreciation and Amortization	Capital and Investment Expenditures	Segment Assets
YEAR ENDED DECEMBER 31, 2001							
Franchised Electric	$ 4,737	$ 9	$ 4,746	$ 1,631	$ 588	$ 1,115	$ 12,964
Natural Gas Transmission	967	138	1,105	608	141	748	5,027
Field Services	7,997	1,654	9,651	336	285	587	7,113
North American Wholesale Energy	42,815	382	43,197	1,351	132	3,272	14,562
International Energy	2,074	16	2,090	286	97	442	5,115
Other Energy Services	267	298	565	(13)	42	13	145
Duke Ventures	646	-	646	183	20	773	1,926
Other Operations	-	62	62	(357)	31	90	2,369
Eliminations and minority interests	-	(2,559)	(2,559)	231	-	-	(846)
Total consolidated	$ 59,503	$ -	$ 59,503	$ 4,256	$ 1,336	$ 7,040	$ 48,375
YEAR ENDED DECEMBER 31, 2000							
Franchised Electric	$ 4,946	$ -	$ 4,946	$ 1,820	$ 565	$ 661	$ 12,819
Natural Gas Transmission	998	133	1,131	562	131	973	4,995
Field Services	7,601	1,459	9,060	311	240	376	6,624
North American Wholesale Energy	33,590	284	33,874	434	75	1,937	28,213
International Energy	1,060	7	1,067	341	97	980	4,551
Other Energy Services	326	369	695	(59)	13	28	543
Duke Ventures	797	-	797	568	17	643	1,967
Other Operations	-	(134)	(134)	(194)	29	36	2,749
Eliminations and minority interests	-	(2,118)	(2,118)	231	-	-	(4,229)
Total consolidated	$ 49,318	$ -	$ 49,318	$ 4,014	$ 1,167	$ 5,634	$ 58,232
YEAR ENDED DECEMBER 31, 1999							
Franchised Electric	$ 4,700	$ -	$ 4,700	$ 942	$ 542	$ 759	$ 13,133
Natural Gas Transmission	1,124	106	1,230	656	126	261	3,897
Field Services	2,883	707	3,590	156	131	1,630	3,565
North American Wholesale Energy	11,623	178	11,801	219	57	1,028	6,268
International Energy	323	34	357	44	58	1,779	4,459
Other Energy Services	680	309	989	(86)	14	94	612
Duke Ventures	433	-	433	165	13	382	1,031
Other Operations	-	(162)	(162)	(145)	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

GEOGRAPHIC DATA In millions	U.S.	Canada	Latin America	Other Foreign	Consolidated
2001					
Consolidated revenues	$ 51,723	$ 5,690	$ 628	$ 1,462	$ 59,503
Consolidated long-term assets	34,150	516	2,573	1,594	38,833
2000					
Consolidated revenues	$ 43,282	$ 4,964	$ 512	$ 560	$ 49,318
Consolidated long-term assets	30,772	900	2,823	1,222	35,717
1999					
Consolidated revenues	$ 19,336	$ 2,007	$ 171	$ 252	$ 21,766
Consolidated long-term assets	22,995	250	2,708	901	26,854

4. REGULATORY MATTERS

REGULATORY ASSETS AND LIABILITIES Duke Energy's regulated operations are subject to SFAS No. 71. Accordingly, Duke Energy records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. (See Note 1.) The following table details Duke Energy's regulatory assets and liabilities.

REGULATORY ASSETS AND LIABILITIES In millions	December 31 2001	2000
ASSETS (LIABILITIES)		
Purchased capacity costs (see Note 5)	$ 349	$ 505
Deferred debt expense	203	208
Regulatory asset related to income taxes	510	506
Department of Energy (DOE) assessment fee[a]	53	62
Emission allowance control[a]	10	14
Demand-side management costs[a]	57	71
Environmental cleanup costs[a]	29	28
Nuclear property and liabilility reserves[b]	(100)	(100)
Fuel cost liabilities[b]	(17)	(45)

[a] Included in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets
[b] Included in Other Deferred Credits and Other Liabilities on the Consolidated Balance Sheets

FRANCHISED ELECTRIC The NCUC and the PSCSC approve rates for retail electric sales within their states. The FERC approves Franchised Electric's rates for electric sales to wholesale customers, excluding the other joint owners of the Catawba Nuclear Station. Electric sales to the other joint owners of the Catawba Nuclear Station are set through contractual agreements. (See Note 5 for ownership interests in Catawba Nuclear Station.)

Fuel costs are reviewed semiannually by the FERC and annually by the PSCSC, with provisions for reviewing those costs in base rates. The NCUC reviews fuel costs in rates 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. The difference between actual fuel costs incurred for electric operations and fuel costs recovered through rates is reflected in revenues.

In 1999 and 2000, the FERC issued its Order 2000 and Order 2000-A regarding Regional Transmission Organizations (RTOs). These orders set minimum characteristics and functions RTOs must meet, including independent authority to establish the terms and conditions of transmission service over the facilities they control. The orders provide for an open and flexible RTO structure to meet the needs of the market, and for the possibility of incentive ratemaking and other benefits for transmission owners that participate.

As a result of these rulemakings, Duke Energy and two other investor-owned utilities, Carolina Power & Light Company and South Carolina Electric & Gas Company, planned to establish GridSouth Transco, LLC (GridSouth), as an RTO responsible for the control of the companies' combined transmission systems. In March 2001, GridSouth received provisional approval from the FERC. However, in July 2001, the FERC issued orders recommending that utilities throughout the U.S. combine their transmission systems to create four large independent regional operators, one each in the Northeast, Southeast, Midwest and West. The FERC ordered GridSouth and other utilities in the Southeast to join in 45 days of mediation to negotiate terms of a Southeast RTO. The FERC has not issued an order specifically based on those proceedings.

Duke Energy, Carolina Power & Light Company and South Carolina Electric & Gas Company remain committed to the GridSouth RTO, but due to regulatory uncertainties in the RTO arena, the companies have withdrawn their applications to the PSCSC and NCUC to transfer functional control of their electric transmission assets to GridSouth. The companies intend to file new applications before the state commissions in the near future, including a revised GridSouth structure designed to meet the needs of customers and regulators. Also, in January of 2002, GridSouth signed a memorandum of understanding with the representatives of SeTrans Grid Company (SeTrans), a group of investor-owned utilities and public power entities in several southeastern states seeking to form an RTO, to cooperate in discussing potential operational relationships between GridSouth and SeTrans and the structure of the wholesale electric markets in the southeast U.S.

The actual structure of GridSouth or an alternative combined transmission structure and the date it will become operational depend upon the resolution of all regulatory approvals and technical issues. Management believes that the result of this process, and the establishment and operation of GridSouth or an alternative combined transmission system structure, will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

In 2001, the NCUC and PSCSC began a joint investigation, along with the Public Staff of the NCUC, regarding certain Duke Power regulatory accounting entries for 1998. In its internal review of the 14 entries in question, Duke Energy concluded that nine items were correctly classified for regulatory accounting. Four items were incorrectly classified for regulatory purposes for 1998 only, and did not recur. The classification of the remaining item, distributions from a mutual insurance company, is subject to differing regulatory interpretations. Duke Energy believes this item was appropriately classified, but is evaluating its classification for future years. As part of their investigation, the NCUC and PSCSC have jointly engaged an independent firm to conduct an audit of Duke Power's accounting records for reporting periods from 1998 through June 30, 2001. Duke Energy continues to fully cooperate with the commissions in their investigation. As requested by the NCUC, Duke Energy has recorded the 2001 mutual insurance distribution, approximately $33 million, in a deferred credit account on the Consolidated Balance Sheets, pending final outcome of the independent audit.

NATURAL GAS TRANSMISSION In 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 interstate pipelines to 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 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 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 2001, Duke Energy's interstate pipelines submitted revised pro forma tariff sheets to update the filings originally submitted in 2000. These filings are currently subject to review and approval by the FERC.

Management believes that the effects of these matters will have no material adverse effect on Duke Energy's future consolidated results of operations, cash flows or financial position.

NOTICE OF PROPOSED RULEMAKING (NOPR) On September 27, 2001, the FERC issued a NOPR announcing that it is considering new regulations regarding standards of conduct that would apply uniformly to natural gas pipelines and electric transmitting public utilities that are currently subject to different gas or electric standards. The proposed standards would change how companies and their affiliates interact and share information by broadening the definition of "affiliate" covered by the standards of conduct, from the more narrow definition in the existing regulations. The NOPR also seeks comment on whether the standards of conduct should be broadened to include the separation of those involved in the bundled retail electric sales function from those in the transmission function, as the current standards apply only to those involved in wholesale activities. Various entities filed comments on the NOPR with the FERC, including Duke Energy which filed on December 20, 2001. The FERC has indicated that they appreciate the complexity of the issues and that they would prefer having a technical conference before entering directly into a final rulemaking. No notice of a technical conference has been given at this time.

5. JOINT OWNERSHIP OF GENERATING FACILITIES

JOINT OWNERSHIP OF CATAWBA NUCLEAR STATION[a]

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%

[a] Facility operated by Duke Energy

As of December 31, 2001, $536 million of property, plant and equipment and $296 million of accumulated depreciation and amortization represented Duke Energy's undivided interest in Catawba Nuclear Station Units 1 and 2. Duke Energy's share of operating costs is included in the Consolidated Statements of Income.

Contractual agreements to purchase declining percentages of the generating capacity and energy from the station through the year 2000, resulted in purchased capacity costs subject to rate levelization and deferral. The cost of capacity purchased but not reflected in current rates is reported in the Consolidated Balance Sheets as Current Portion of Purchased Capacity Costs and Purchased Capacity Costs. Those costs were $349 million as of December 31, 2001 and $505 million as of December 31, 2000. Duke Energy expects to recover the accumulated balance, including returns on the deferred balance, through 2004. The amounts levelized in rates are intended to recover total costs, including deferred returns, and are subject to adjustments, including final true-ups. Purchased capacity and energy costs from the other joint owners were not material for 2001, but were approximately $7 million for 2000 and $62 million for 1999. After adjustments for current rates, these amounts 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 what they retain from the station or acquire elsewhere. NCEMC, Saluda River and NCMPA have elected to buy power outside of these contractual agreements effective January 1, 2001. Management believes this will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position. PMPA will continue to receive supplemental power sales from Duke Energy through December 31, 2005.

6. INCOME TAXES

INCOME TAX EXPENSE

In millions	Years ended December 31 2001	2000	1999
Current income taxes			
Federal	$ 826	$ 679	$ 525
State	106	109	138
Foreign	24	18	1
Total current income taxes	956	806	664
Deferred income taxes, net			
Federal	165	187	(126)
State	9	13	(65)
Foreign	33	29	(1)
Total deferred income taxes, net	207	229	(192)
Investment tax credit amortization[c]	(13)	(15)	(19)
Total income tax expense	$ 1,150[a]	$ 1,020	$ 453[b]

a Excludes $59 million of deferred federal and state tax benefits related to the cumulative effect of change in accounting principle recorded net of tax. (See Note 1.)

b Excludes $404 million of current federal and state tax expense related to the extraordinary item recorded net of tax. (See Note 1.)

c Unamortized investment tax credit was $189 million at December 31, 2001.

INCOME TAX EXPENSE RECONCILIATION TO STATUTORY RATE

In millions	Years ended December 31 2001	2000	1999
Income tax, computed at the statutory rate of 35%	$ 1,100	$ 979	$ 455
Adjustments resulting from			
State income tax, net of federal income tax effect	74	75	47
Favorable resolution of federal tax issues	(11)	(18)	(30)
Other items, net	(13)	(16)	(19)
Total income tax expense	$ 1,150	$ 1,020	$ 453
Effective tax rate	36.6%	36.5%	34.9%

NET DEFERRED INCOME TAX LIABILITY COMPONENTS

In millions	December 31 2001	2000
Deferred credits and other liabilities	$ 507	$ 429
International property, plant and equipment	109	153
Other	58	10
Total deferred income tax assets	674	592
Valuation allowance	(17)	(9)
Net deferred income tax assets	657	583
Investments and other assets	(711)	(320)
Accelerated depreciation rates	(2,885)	(2,707)
Regulatory assets and deferred debits	(290)	(326)
Regulatory asset related to restating to pre-tax basis	(465)	(429)
Total deferred income tax liability	(4,351)	(3,782)
State deferred income tax, net of federal tax effect	(333)	(320)
Total net deferred income tax liability	$ (4,027)	$ (3,519)

7. DERIVATIVE INSTRUMENTS, HEDGING ACTIVITIES AND CREDIT 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 for trading purposes and for activity other than trading activity (primarily hedge strategies). The following table shows the fair value of Duke Energy's derivative portfolio as of December 31, 2001.

FAIR VALUE OF CONTRACTS AS OF DECEMBER 31, 2001
In millions

Type of Contract	Maturity in 2002	Maturity in 2003	Maturity in 2004	Maturity in 2005 and Thereafter	Total Fair Value
Trading contracts	$ 353	$ 164	$ 137	$ 415	$ 1,069
Hedge contracts	454	156	71	(38)	643
Total	$ 807	$ 320	$ 208	$ 377	$ 1,712

COMMODITY CASH FLOW HEDGES Some Duke Energy subsidiaries are exposed to market fluctuations in the prices of various commodities related to their ongoing power generating and natural gas gathering, processing and marketing activities. Duke Energy closely monitors the potential impacts of commodity price changes and, where appropriate, enters into contracts to protect margins for a portion of future sales and generation revenues. Duke Energy uses commodity instruments, consisting of swaps, futures, forwards and collared options, as cash flow hedges for natural gas, electricity and NGL transactions. Duke Energy is hedging exposures to the price variability of these commodities for a maximum of nine years.

The ineffective portion of commodity cash flow hedges and the amount recognized for transactions that no longer qualified as cash flow hedges were not material in 2001. As of December 31, 2001, $323 million of after-tax deferred net gains on derivative instruments accumulated in OCI are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities markets, the corresponding value in OCI is subject to change prior to its reclassification into earnings.

COMMODITY FAIR VALUE HEDGES Some Duke Energy subsidiaries are exposed to changes in the fair value of unrecognized firm commitments to sell generated power or natural gas due to market fluctuations in the underlying commodity prices. Duke Energy actively evaluates changes in the fair value of such unrecognized firm commitments due to commodity price changes and, where appropriate, uses various instruments to hedge its market risk. These commodity instruments, consisting of swaps, futures and forwards, serve as fair value hedges for the firm commitments associated with generated power and natural gas sales. Duke Energy is hedging exposures to the market risk of such items for a maximum of 13 years. For 2001, the ineffective portion of commodity fair value hedges was not material.

TRADING CONTRACTS Duke Energy provides energy supply, structured origination, trading and marketing, risk management and commercial optimization services to large energy customers, energy aggregators and other wholesale companies. These services require Duke Energy to use natural gas, electricity, NGL and transportation derivatives and contracts that expose it to a variety of market risks. Duke Energy manages its trading exposure with strict policies that limit its market risk and require daily reporting of potential financial exposure to management. These policies include statistical risk tolerance limits using historical price movements to calculate a daily earnings at risk measurement.

INTEREST RATE (FAIR VALUE OR CASH FLOW) HEDGES Changes in interest rates expose Duke Energy to risk as a result of its issuance of variable-rate debt, fixed-to-floating interest rate swaps, commercial paper and auction market preferred stock. 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 also enters into financial derivative instru-

ments, including, but not limited to, interest rate swaps, options, swaptions and lock agreements to manage and mitigate interest rate risk exposure. Duke Energy's existing interest rate derivative instruments and related ineffectiveness were not material to its consolidated results of operations, cash flows or financial position in 2001.

INTEREST RATE DERIVATIVES

Dollars in millions	December 31 2001 Notional Amounts	2001 Fair Value	2001 Contracts Expire	2000 Notional Amounts	2000 Fair Value	2000 Contracts Expire
Fixed-to-floating rate swaps	$ 875	$ 20	2003 - 2019	$ 275	$ 27	2009
Cancelable fixed-to-floating rate swaps	455	7	2014 - 2025	630	20	2004 - 2022
CP[a] floating-to-fixed rate swaps	-	-	-	100	(1)	2001
Interest rate locks	-	-	-	275	(9)	2011

[a] Commercial paper

Gains and losses deferred in anticipation of planned financing transactions on interest rate swap derivatives are included in OCI and amortized over the life of the underlying debt once issued. These deferred gains and losses were not material in 2001 or 2000. 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 2001	2000	1999
Fixed-to-floating rate swaps	3.92%	6.50%	5.71%
Cancelable fixed-to-floating rate swaps	3.23%	5.09%	-
Commercial paper swaps	-	6.11%	4.95%

FOREIGN CURRENCY (FAIR VALUE OR CASH FLOW) HEDGES 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, transactions are denominated in or indexed to the U.S. dollar and/or local inflation rates, or investments may be hedged through debt denominated or issued in the foreign currency. Duke Energy also uses foreign currency derivatives, where possible, to manage its risk related to foreign currency fluctuations. In 2001, the impact of Duke Energy's foreign currency derivative instruments was not material to its consolidated results of operations, cash flows or financial position.

FINANCIAL INSTRUMENTS The fair value of financial instruments not currently carried at market value 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, 2001 and 2000, are not necessarily indicative of the amounts Duke Energy could have realized in current markets.

FINANCIAL INSTRUMENTS

In millions	2001 Book Value	2001 Approximate Fair Value	2000 Book Value	2000 Approximate Fair Value
Long-term debt[a]	$ 12,582	$ 13,239	$ 11,154	$ 11,896
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries	1,407	1,440	1,406	1,389
Preferred stock[a]	247	242	280	275

[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.

CREDIT RISK Duke Energy's principal customers for power and natural gas marketing services are industrial end-users and utilities located throughout the U.S., Canada, Asia Pacific, Europe 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. Where 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 those limits on an ongoing basis. Duke Energy frequently uses master collateral agreements to mitigate credit exposure. The collateral agreement provides for a counterparty to post cash or letters of credit for exposure in excess of the established threshold. The threshold amount represents an open credit limit, determined in accordance with the corporate credit policy. The collateral agreement also provides that the inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

The change in market value of New York Mercantile Exchange-traded futures and options contracts requires daily cash settlement in margin accounts with brokers. Financial derivatives are generally cash settled periodically throughout the contract term. However, these transactions are also generally subject to margin agreements with many of Duke Energy's counterparties.

As of December 31, 2001, Duke Energy had a pre-tax bad debt provision of $90 million related to receivables for energy sales in California. (See Note 15 for further information regarding market and credit exposure.) Following the bankruptcy of Enron Corporation, Duke Energy terminated substantially all contracts with Enron Corporation and its affiliated companies (collectively, Enron). As a result, Duke Energy recorded, as a charge, a non-collateralized accounting exposure of $43 million. The $43 million non-collateralized accounting exposure is comprised of charges of $36 million at NAWE, $3 million at International Energy, $3 million at Field Services and $1 million at Natural Gas Transmission. These amounts are stated on a pre-tax basis as charges against the reporting segment's earnings.

The transactions between Enron and Duke Energy consisted of the following:

- NAWE - forward contracts, swaps, options and physical contracts used to trade natural gas, power, crude oil, liquefied petroleum gas and coal
- International Energy - forward contracts and options used to trade and hedge natural gas, power and oil
- Field Services - physical purchase/sale contracts for natural gas and NGLs; forward contracts, swaps and options used to trade natural gas and NGLs; transportation and storage
- Natural Gas Transmission - forward financial sales of NGLs

The $43 million charge was a direct reduction to earnings before income taxes and was a result of charging the full amount of unsettled mark-to-market earnings previously recognized, and all derivative assets and accounts receivable that became impaired due to Enron's financial deterioration. All assets written off or reserved for were net of the margin (cash collateral) posted by Enron of $330 million and applied by Duke Energy in connection with transactions between the companies.

Duke Energy's determination of its bankruptcy claims against Enron is still under review, and its claims made in the bankruptcy case are likely to exceed $43 million. Any bankruptcy claims that exceed this amount would primarily relate to termination and settlement rights under contracts and transactions with Enron that would have been recognized in future periods, and not in the historical periods covered by the financial statements to which the $43 million charge relates.

Substantially all contracts with Enron were completed or terminated prior to December 31, 2001. Duke Energy has continuing contractual relationships with certain Enron affiliates, which are not in bankruptcy. In Brazil, a power purchase agreement between a Duke Energy affiliate, Paranapanema, and Elektro Eletricidade e Servicos S/A (Elektro), a distribution company 40% owned by Enron, will expire December 31, 2005. The contract was executed by Duke Energy's predecessor in interest in Paranapanema, and obligates Paranapanema to provide energy to Elektro on an irrevocable basis for the contract period. In addition, a purchase/sale agreement expiring September 1, 2005 between a Duke Energy affiliate and Citrus Trading Corporation (Citrus), a 50/50 joint venture between Enron and El Paso Corporation, continues to be in effect. The contract requires the Duke Energy affiliate to provide liquefied natural gas to Citrus. Citrus has provided a letter of credit in favor of Duke Energy to cover its exposure.

8. INVESTMENT IN AFFILIATES AND RELATED PARTY TRANSACTIONS

Investments in domestic and international affiliates that are not controlled by Duke Energy, but over which it has significant influence, are accounted for by the equity method. These investments include undistributed earnings of $166 million in 2001 and $70 million in 2000. Duke Energy received distributions of $158 million in 2001, $138 million in 2000 and $111 million in 1999 from these investments. 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 a 37.5% interest in the Maritimes & Northeast Pipeline and a 50% interest in Gulfstream Natural Gas System, LLC. The Maritimes & Northeast Pipeline is composed of Canadian and U.S. natural gas pipeline joint ventures that together transport natural gas into the U.S. from Canada. Gulfstream Natural Gas System, LLC is a joint interstate natural gas pipeline development that will extend from Mississippi and Alabama across the Gulf of Mexico to Florida.

FIELD SERVICES Investments primarily include a 21.1% ownership interest in TEPPCO Partners, LP, a publicly traded limited partnership which owns and operates a network of pipelines for refined products and crude oil.

NORTH AMERICAN WHOLESALE ENERGY Significant investments include a 50% interest in American Ref-Fuel Company, LLC and a 50% interest in Southwest Power Partners, LLC. American Ref-Fuel Company, LLC owns and operates facilities that convert waste to energy. Southwest Power Partners, LLC is a gas-fired combined-cycle facility under construction in Arizona. Once completed, this facility will serve markets in Arizona, Nevada and California.

INTERNATIONAL ENERGY 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 participation in various construction and support activities for fossil-fueled generating plants.

DUKE VENTURES Significant investments include various real estate development projects.

INVESTMENT IN AFFILIATES

In millions	December 31, 2001			December 31, 2000			December 31, 1999		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 565	$ 88	$ 653	$ 82	$ 88	$ 170	$ 67	$ 83	$ 150
Field Services	252	-	252	373	-	373	439	-	439
North American Wholesale Energy	315	-	315	635	9	644	425	-	425
International Energy	-	165	165	-	154	154	-	224	224
Other Energy Services	53	7	60	11	7	18	51	6	57
Duke Ventures	30	-	30	23	-	23	10	-	10
Other Operations	5	-	5	5	-	5	-	-	-
Total	$ 1,220	$ 260	$ 1,480	$ 1,129	$ 258	$ 1,387	$ 992	$ 313	$ 1,305

EQUITY IN EARNINGS OF INVESTMENT

In millions	Year Ended December 31, 2001			Year Ended December 31, 2000			Year Ended December 31, 1999		
	Domestic	International	Total	Domestic	International	Total	Domestic	International	Total
Natural Gas Transmission	$ 38	$ 7	$ 45	$ 13	$ 4	$ 17	$ 16	$ 9	$ 25
Field Services	45	-	45	39	-	39	44	-	44
North American Wholesale Energy	35	-	35	36	-	36	47	-	47
International Energy	-	39	39	-	43	43	-	10	10
Other Energy Services	49	-	49	(13)	-	(13)	10	3	13
Duke Ventures	2	-	2	(9)	-	(9)	(22)	-	(22)
Other Operations	(47)	-	(47)	(10)	-	(10)	(5)	-	(5)
Total	$ 122	$ 46	$ 168	$ 56	$ 47	$ 103	$ 90	$ 22	$ 112

SUMMARIZED COMBINED FINANCIAL INFORMATION OF UNCONSOLIDATED AFFILIATES

In millions	December 31 2001	2000	1999
BALANCE SHEET			
Current assets	$ 1,239	$ 1,242	$ 1,544
Noncurrent assets	8,199	6,588	7,826
Current liabilities	1,202	888	1,155
Noncurrent liabilities	4,400	4,404	4,727
Net assets	$ 3,836	$ 2,538	$ 3,488
INCOME STATEMENT			
Operating revenues	$ 5,202	$ 4,617	$ 3,510
Operating expenses	4,525	4,039	3,104
Net income	499	440	193

RELATED PARTY TRANSACTIONS Outstanding notes receivable from affiliates were $25 million as of December 31, 2001 and $70 million as of December 31, 2000.

Duke Energy and Fluor Enterprises, Inc. formed the D/FD 50/50 partnership in 1989. The partnership provides full-service siting, permitting, licensing, engineering, procurement, construction, start-up, operating and maintenance services for fossil-fired plants in the U.S. and internationally. D/FD is the primary builder for NAWE's merchant generation plants currently under construction. Fifty percent of the profit earned by D/FD for the construction of NAWE's merchant generation plants, which is associated with Duke Energy's ownership, is deferred in consolidation until the plant is sold as part of NAWE's portfolio management strategy, or once the plant becomes operational it is amortized over the plant's useful life. Fifty percent of the profit earned by D/FD for operating and maintenance services, which is associated with Duke Energy's ownership, is eliminated in consolidation. For the year ended December 31, 2001, Duke Energy deferred profit of $54 million for D/FD construction contracts, and eliminated profit of $9 million for operating and maintenance services. For the year ended December 31, 2000, Duke Energy deferred profit of $16 million for construction contracts. There was no profit from operating and maintenance services to be eliminated in 2000. For the year ended December 31, 1999, Duke Energy deferred profit of $6 million for construction contracts. There was no profit from operating and maintenance services to be eliminated in 1999. In addition, as part of the D/FD partnership agreement, excess cash is loaned at current market rates to Duke Energy and Fluor Enterprises, Inc. (See Note 10.)

In the normal course of business, Duke Energy's consolidated subsidiaries enter into energy trading contracts with one another. On a stand-alone basis, the accounting for such contracts may differ by counterparty. For example, DETM, an energy-trading subsidiary within the scope of EITF Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities," may enter into a contract to purchase natural gas storage from DEFS. DEFS may treat this contract as a hedge position, and DETM may mark to market the contract through its current earnings. In the consolidation process, the effects of this contract are eliminated, and not reflected in Duke Energy's Consolidated Financial Statements. In all cases, energy trading contracts (and any resulting mark-to-market gains or losses) between consolidated subsidiaries are eliminated in the consolidation process.

Also see Note 13, Minority Interest Financing, for additional related party information.

9. PROPERTY, PLANT AND EQUIPMENT

NET PROPERTY, PLANT AND EQUIPMENT

In millions	December 31 2001	2000
Land	$ 49	$ 36
Plant		
Electric generation, distribution and transmission	19,792	18,669
Natural gas transmission	6,200	5,449
Gathering and processing facilities	4,106	4,470
Other buildings and improvements	1,346	1,339
Leasehold improvements	4	14
Nuclear fuel	788	761
Equipment	251	108
Vehicles	69	36
Construction in process	5,068	2,192
Other	1,791	1,524
Total property, plant and equipment	39,464	34,598
Total accumulated depreciation[a]	(11,049)	(10,146)
Total net property, plant and equipment	$ 28,415	$ 24,452

[a] Includes accumulated amortization of nuclear fuel: 2001 - $546 million; 2000 - $503 million

Capitalized interest of $167 million for 2001, $67 million for 2000 and $52 million for 1999 is included in the Consolidated Statements of Income.

10. DEBT AND CREDIT FACILITIES

DEBT

In millions	Year Due	December 31 2001	2000
DUKE ENERGY			
First and refunding mortgage bonds			
6.125% - 6.625%	2003	$ 175	$ 175
6.75% - 7.5%	2023 - 2025	450	450
7.0% - 8.95%	2027 - 2033	165	165
Pollution control debt, 3.85% - 5.8%	2012 - 2017	172	172
Notes			
5.375% - 9.21%	2009 - 2016	809	811
6.0% - 6.6%	2028 - 2038	500	500
Commercial paper, 1.93% and 6.52% weighted-average rate at December 31, 2001 and 2000, respectively[a]		1,087	1,256
Other debt		19	18
Fair value hedge carrying value adjustment	2010 - 2014	(10)	-
Notes matured during 2001		-	661

(Table continued on next page)

DEBT (continued)

In millions	Year Due	December 31 2001	2000
DUKE CAPITAL CORPORATION[b]			
Senior notes			
4.73% - 7.5%	2003 - 2009	$ 1,400	$ 1,400
6.75% - 8.5%	2018 - 2019	650	650
4.32%[c]	2006	750	-
5.87%[c]	2006	875	-
Commercial paper, 2.16% and 6.71% weighted-average rate at December 31, 2001 and 2000, respectively[a]		1,456	1,378
Note payable to D/FD, 4.05% and 6.14% weighted-average rate at December 31, 2001 and 2000, respectively		568	141
Fair value hedge carrying value adjustment	2009 - 2025	30	-
SUBSIDIARY DEBT GUARANTEED BY DUKE CAPITAL CORPORATION			
Duke Energy Australia Pty Ltd.			
Medium-term note, 7.25%[d]	2004	128	139
Credit facilities, 6.41% and 6.13% weighted-average rate at December 31, 2001 and 2000, respectively		38	44
Commercial paper, 5.96% and 6.4% weighted-average rate at December 31, 2001 and 2000, respectively[d]		231	223
Hidroelectrica Cerros Colorados S.A.			
Notes, 3.8%	2002	68	95
Duke Energy South Bay, LLC			
Capital leases	2009	94	272
PANENERGY CORP			
Bonds			
7.75%	2022	328	328
8.625% debentures	2025	100	100
Notes, 7.0% - 9.9%, maturing serially	2003 - 2006	372	384
Fair value hedge carrying value adjustment		7	-
TEXAS EASTERN TRANSMISSION, LP			
Notes			
7.3% - 8.25%	2002 - 2010	500	500
Medium-term, Series A, 7.92% - 9.07%	2004 - 2012	35	51
Notes matured during 2001		-	100
ALGONQUIN GAS TRANSMISSION COMPANY			
Notes, 9.13%	2002 - 2003	67	100

(Table continued on next page)

DEBT (continued)

In millions	Year Due	December 31 2001	2000
DUKE ENERGY FIELD SERVICES, LLC			
Notes			
7.5% - 8.125%	2005 - 2030	$ 1,700	$ 1,700
5.75% - 6.875%	2006 - 2011	550	-
Commercial paper, 2.53% and 7.39% weighted-average rate at December 31, 2001 and 2000, respectively		213	346
Capital leases		3	-
Fair value hedge carrying value adjustment	2009 - 2025	(5)	-
CRESCENT, LLC[e]			
Construction and mortgage loans, 2.73% - 10.0%	2002 - 2005	73	67
OTHER DEBT OF SUBSIDIARIES			
Duke Energy Western Australia Holdings Notes, 5.35%[d]	2004 - 2013	124	138
Paranapanema Notes, 6.0% – 10.0%[f]	2002 - 2017	427	477
Duke Energy Vermillion Notes, 6.8%	2002	5	-
Other international debt of subsidiaries		76	127
Other domestic debt of subsidiaries		61	103
Unamortized debt discount and premium, net		(106)	(91)
Total debt		14,185	12,980
Current maturities of long-term debt		(261)	(437)
Short-term notes payable and commercial paper		(1,603)	(1,826)
Total long-term debt		$ 12,321	$ 10,717

[a] Amounts include extendible commercial notes.

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

[c] Component of mandatorily convertible securities (Equity Units) (See Note 16.)

[d] Debt denominated in Australian dollars

[e] A portion of Crescent's real estate development projects, land and buildings are pledged as collateral.

[f] Debt denominated in Brazilian reais and principal is indexed annually to inflation

In January 2002, Duke Energy issued $750 million of 6.25% senior unsecured bonds due in 2012 and $250 million of floating rate (based on the three-month London Interbank Offered Rate (LIBOR) plus 0.35%) senior unsecured bonds due in 2005. The proceeds from these issuances were used to manage working capital needs.

In February 2002, Duke Capital Corporation issued $500 million of 6.25% senior unsecured bonds due in 2013 and $250 million of 6.75% senior unsecured bonds due in 2032. In addition, Duke Capital Corporation, through a private placement transaction, issued $500 million of floating rate (based on the one-month LIBOR plus 0.65%) senior unsecured bonds due in 2003. The proceeds from these issuances will be used to manage working capital needs and to fund a portion of the cash consideration for the pending acquisition of Westcoast.

The weighted-average interest rate on outstanding short-term notes payable and commercial paper was 3.13% as of December 31, 2001 and 6.8% as of December 31, 2000.

ANNUAL MATURITIES

In millions	
2002	$ 261
2003	576
2004	883
2005	1,016
2006	2,101
Thereafter	7,745
Total long-term debt	$ 12,582

Annual maturities after 2006 include $1,360 million of long-term debt with call options, meaning Duke Energy has the option to repay the debt early. Based on the years in which Duke Energy may first exercise its redemption options, it could potentially repay $1,033 million in 2002, $227 million in 2003 and $100 million in 2005.

In 2000, Duke Energy issued $250 million 7.125% senior unsecured bonds due in 2012 with a put option that gives investors the choice to put the bond to Duke Energy at par value in September 2002 or extend the maturity until 2012. If extended, the bonds would be recouponed at 5.7% plus the Duke Energy 10-year credit spread on the extension date. Also in 2000, Duke Capital Corporation issued $150 million senior unsecured bonds due in 2003 that become due and payable if Duke Capital Corporation's debt ratings fall below BBB.

CREDIT FACILITIES

In millions	December 31, 2001		December 31, 2000	
	Credit Facilities	Outstanding	Credit Facilities	Outstanding
Bridge facility	$ 250	$ -	$ -	$ -
364-day facilities[a]	2,716	-	1,796	-
Three-year revolving facilities[a]	1,640	38	84	44
Four-year revolving facilities	-	-	125	-
Five-year revolving facilities[a]	-	-	2,200	-
Total consolidated	$ 4,606	$ 38	$ 4,205	$ 44

[a] Majority of facilities support commercial paper facilities

The credit facilities expire from 2002 to 2004 and are not subject to minimum cash requirements; however, borrowings and issuances of letters of credit under approximately $1,100 million of these facilities are subject to and dependent on the senior unsecured debt ratings of Duke Capital Corporation (currently rated A3/A/A). Ratings of Baa2, BBB or the equivalent by at least two of Moody's Investors Service, Standard & Poor's and Fitch, Inc. must be maintained to obtain additional borrowings and issuances of letters of credit. Any outstanding borrowings would not become due and payable.

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 (studies are completed every five years). This includes costs related to Duke Energy's 12.5% ownership in the Catawba Nuclear Station. The other joint owners of the Catawba Nuclear Station are responsible for decommissioning costs related to their ownership interests in the station. Both the NCUC and the PSCSC have allowed Duke Energy to recover 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. In 2000, Duke Energy was granted a license renewal for the Oconee Nuclear Station. Applications to renew the operating licenses for Duke Energy's other nuclear units were filed with the Nuclear Regulatory Commission (NRC) in June 2001. Duke Energy's nuclear units are currently licensed 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 2001 and 2000, Duke Energy expensed approximately $57 million, and a corresponding amount of cash was contributed to 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 was $716 million as of December 31, 2001 and $717 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Nuclear Decommissioning Trust Funds (asset) and Nuclear Decommissioning Costs Externally Funded (liability). The balance of the internal reserve was $239 million as of December 31, 2001 and $231 million as of December 31, 2000, and is reflected in the Consolidated Balance Sheets as Accumulated Depreciation and Amortization. The external decommissioning trust fund is invested primarily in domestic and international equity securities, fixed-rate, fixed-income securities and cash and cash equivalents. Duke Energy has an agreement with the NRC that these funds will only be used for activities relating to nuclear decommissioning. 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. Management believes that the decommissioning costs being recovered through rates, when coupled with expected fund earnings, are 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 DOE's 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. In 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 refunds all assessments paid. The annual assessment is recorded in the Consolidated Statements of Income as Fuel Used in Electric Generation. Duke Energy has paid $96 million into the fund, including $11 million during 2001. The remaining liability and regulatory assets of $53 million as of December 31, 2001 and $62 million as of December 31, 2000 are reflected in the Consolidated Balance Sheets as Deferred Credits and Other Liabilities, and Regulatory Assets and Deferred Debits.

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 spent nuclear fuel on January 31, 1998, the date specified by the Nuclear Waste Policy Act and in Duke Energy's contract with the DOE. In 1998, Duke Energy filed a claim with the U.S. Court of Federal Claims against the DOE related to the DOE's failure to accept commercial spent nuclear fuel by the required date. Damages claimed in the lawsuit are based upon Duke Energy's costs incurred as a result of the DOE's partial material breach of its contract, including the cost of 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 one of its subsidiaries have formed business trusts for which they own all the 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	2001	2000
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			(43)	(44)
			$ 1,407	$ 1,406

These trust preferred securities represent preferred undivided beneficial interests in the assets of the respective trusts. Distribution payments on these preferred securities are guaranteed by the respective parent companies, but only to the extent that the trusts have funds legally and immediately available to make distributions. Dividends related to the trust preferred securities were $108 million for 2001, $108 million for 2000 and $87 million for 1999, and have been included in the Consolidated Statements of Income as Minority Interest Expense.

13. MINORITY INTEREST FINANCING

In 2000, Catawba River Associates, LLC (Catawba), a fully consolidated financing entity managed by a subsidiary of Duke Energy, issued $1,025 million of preferred member interests to a third-party investor. Catawba subsequently advanced the proceeds from the sale to DE Power Generation, LLC (DEPG), a wholly owned subsidiary of Duke Energy, which indirectly owns or leases six merchant power generation facilities located in California, Maine and Indiana. Catawba is a limited liability company with a separate existence and identity from its preferred members, and the assets of Catawba are separate and legally distinct from Duke Energy. The preferred member interests receive quarterly a preferred return equal to an adjusted floating reference rate (approximately 5.20% for the full year ended December 31, 2001).

The purpose of the transaction was to reimburse Duke Energy for a portion of its prior investment in the DEPG assets in a separate venture financing with third-party investors not requiring direct recourse to the credit of Duke Energy. The results of operations, cash flows and financial position of Catawba are consolidated with Duke Energy for financial reporting purposes. The preferred member interests are included in Minority Interest in Financing Subsidiary on the Consolidated Balance Sheets, and the payments made with respect to the preferred return are included in Minority Interest Expense on the Consolidated Statements of Income of Duke Energy.

The initial term of the financing ends in September 2005, at which time Catawba must either (a) reset the preferred rate as agreed by the existing preferred investors, (b) re-market the preferred member interests to other preferred investors, (c) redeem the outstanding preferred member interests, in whole or in part, plus any accrued and unpaid return, or (d) commence an orderly liquidation of DEPG and Catawba. This could impact Duke Energy's liquidity at the time if it were to elect to redeem the preferred member interests or, alternatively, result in the loss of the future associated earnings contribution to Duke Energy of the assets of DEPG in the event of an orderly liquidation.

Duke Energy and Catawba have the right to redeem the preferred member interests at any time, and the holder of the preferred member interests may require an early liquidation of the assets of DEPG and Catawba and a redemption of the preferred member interests from the available liquidation proceeds upon the occurrence of specified events (such as failure to make required payments or to perform other obligations).

Duke Capital Corporation has the right to borrow certain amounts from DEPG and Catawba as demand loans. If Duke Capital Corporation's credit rating (currently A3/A) declines below investment grade (Baa3/BBB-), the preferred members may and will likely require that these loans be repaid. In addition, if there were such a downgrade, the preferred investor could cause an increase in the quarterly payments and a recharacterization of the preferred member interests as a debt obligation on the Consolidated Financial Statements of Duke Energy.

14. PREFERRED AND PREFERENCE STOCK

AUTHORIZED SHARES OF STOCK AS OF DECEMBER 31, 2001 AND 2000

	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, 2001 and 2000, 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, 2001	December 31 2001	2000
6.20% D (Preferred Stock A)	1992	-	$ -	$ 20
6.30% U	1992	-	-	13
6.40% V	1992	130,000	13	13
6.75% X	1993	250,000	25	25
Total			$ 38	$ 71

The annual sinking fund requirements are $13 million for 2002 and $2 million each year for 2003 through 2006. 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, 2001	December 31 2001	2000
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 outstanding preferred stock specify redemption prices not exceeding 104% of par value, plus accumulated dividends to the redemption date.

15. COMMITMENTS AND CONTINGENCIES

NUCLEAR INSURANCE Duke Energy owns and operates the McGuire and Oconee Nuclear Stations and operates and has a partial ownership interest in the Catawba Nuclear Station. The McGuire and Catawba Nuclear Stations have two nuclear reactors each and Oconee has three. Nuclear insurance includes: liability coverage; property, decontamination and decommissioning coverage; and business interruption and/or extra expense coverage. The other joint owners of the Catawba Nuclear Station reimburse Duke Energy for certain expenses associated with nuclear insurance premiums.

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

_PRIMARY LIABILITY INSURANCE Duke Energy has purchased the maximum required private primary liability insurance, $200 million, 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 is the sum of the current potential cumulative retrospective premium assessments of $88 million per licensed commercial nuclear reactor. This would be increased by $88 million for each additional commercial nuclear reactor licensed, or reduced by $88 million for nuclear reactors 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 U.S. If such an incident should occur 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 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 three policy programs:

_PRIMARY PROPERTY INSURANCE This policy provides $500 million of 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: $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 McGuire and Catawba unit is insured for up to approximately $4 million per week, and the Oconee units are insured for up to approximately $3 million per week. Coverage amounts 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 exceed its reserves for any of the above three programs, Duke Energy is liable for assessments of up to 10 times its annual premiums. The current potential maximum assessments are: Primary Property Insurance – $31 million, Excess Property Insurance – $36 million and Business Interruption Insurance – $29 million.

The other joint owners of the Catawba Nuclear Station are obligated to assume their pro rata share of liability 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 operated manufactured gas plants until the early 1950s and has entered into a cooperative effort with the State of North Carolina and other owners of former manufactured gas plant sites to investigate and, where necessary, remediate those contaminated sites. Regulators consider Duke Energy to be a potentially responsible party, possibly subject to future liability at six federal and two state Superfund sites. While remediation costs may be substantial, Duke Energy will share in any liability associated with contamination at these sites with other potentially responsible parties. Management believes that resolution of these matters will have no material adverse effect on consolidated results of operations, cash flows or financial position.

_PCB (POLYCHLORINATED BIPHENYL) ASSESSMENT AND CLEANUP PROGRAMS In 2001, Texas Eastern Transmission, LP, a wholly owned subsidiary of Duke Energy, completed the remaining requirements of a 1989 U.S. Consent Decree regarding the cleanup of PCB-contaminated sites. The Environmental Protection Agency (EPA) certified the completion of all work under the Consent Decree in January 2002. Monitoring of groundwater and remediation at certain sites may continue as required by various state authorities.

In March 1999, Duke Energy sold PEPL and Trunkline to CMS. (See Note 1 for more information on the sale of the pipelines.) Under the terms of the sales agreement with CMS, 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, management believes the resolution of matters relating to the environmental issues discussed above will have no material adverse effect on consolidated results of operations, cash flows or financial position.

_AIR QUALITY CONTROL In 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 rule was challenged in court by various states, industry and other interests, including Duke Energy and the states of North Carolina and South Carolina. In 2000, the court upheld most aspects of the EPA rule. The same court subsequently extended the compliance deadline for implementation of emission reductions to May 31, 2004.

In 2000, the EPA finalized another ozone-related rule under Section 126 of the Clean Air Act (CAA). Section 126 of the CAA has virtually identical emission control requirements as the 1998 action, and specified a May 1, 2003 compliance date. While the emission reduction requirements of the rule have been upheld in court, the implementation date for the rule has been revised to May 2004 as a result of a legal challenge and the resulting court order.

Both North Carolina and South Carolina have revised their SIPs in response to the EPA's 1998 rule, and are awaiting EPA approval. Legislation was introduced in the North Carolina General Assembly in 2001 and passed by the state Senate that would require North Carolina electric utilities, including Duke Energy, to make significant reductions in emissions of sulfur dioxide and nitrogen oxides from coal-fired power plants over the next seven to 11 years. A provision in the proposed North Carolina legislation allows Duke Energy to recover costs of achieving the proposed emission reductions from customers through an environmental compliance expenditure-recovery factor that is separate from the electric utility's base rates. If passed into law, the final provisions could be significantly different from the proposal.

Emission control retrofits needed to comply with the new rules 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.

In 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 claims 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 asks the court to order Duke Energy to stop operating the coal-fired units identified in the complaint, install additional emission controls and pay unspecified civil penalties. This complaint is 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 is defending itself vigorously against these alleged violations. The U.S. Vice President's National Energy Policy Development Group has ordered the EPA to review its NSR rules and has ordered the Department of Justice to review the appropriateness of the enforcement cases. The EPA review was scheduled to be completed by August 2001, but has not yet been concluded. In January 2002, the Department of Justice released a report concluding that it was not improper for the Department of Justice to initiate the enforcement cases brought on behalf of the EPA. It specifically declined to address whether the EPA's enforcement actions are wise as a matter of national energy policy. 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.

CALIFORNIA ISSUES Duke Energy, some of its subsidiaries and three current or former executives have been named as defendants, among other corporate and individual defendants, in one or more of a total of six lawsuits brought by or on behalf of electricity consumers in the State of California. The plaintiffs seek damages as a result of the defendants' alleged unlawful manipulation of the California wholesale electricity markets. DENA and DETM are among 16 defendants in a class-action lawsuit (the Gordon lawsuit) filed against generators and traders of electricity in California markets. DETM was also 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, traders

and other unnamed providers of electricity in California markets. A sixth lawsuit (the Bustamante lawsuit) was brought by the Lieutenant Governor of the State of California and a State Assemblywoman, on their own behalf as citizens and on behalf of the general public, and includes Duke Energy, some of its subsidiaries and three current or former executives of Duke Energy among other corporate and individual defendants. The Gordon and Hendricks class-action lawsuits were filed in the Superior Court of the State of California, San Diego County, in November 2000. Three other lawsuits were filed in January 2001, one in Superior Court, San Diego County, and the other two in Superior Court, County of San Francisco. The Bustamante lawsuit was filed in May 2001 in Superior Court, Los Angeles County. These lawsuits 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. The plaintiffs seek aggregate damages of billions of dollars. The lawsuits seek the refund of alleged unlawfully obtained revenues for electricity sales and, in four lawsuits, an award of treble damages. These suits have been consolidated before a state court judge in San Diego. While these matters are in their earliest stages, management believes, based on its analysis of the facts and the asserted claims, that their resolution will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

In addition to the lawsuits, several investigations and regulatory proceedings at the state and federal levels are looking into the causes of high wholesale electricity prices in the western U.S. At the federal level, numerous proceedings are before the FERC. Some parties to those proceedings have made claims for billions of dollars of refunds from sellers of wholesale electricity, including DETM. Some parties have also sought to revoke the authority of DETM and other DENA-affiliated electricity marketers to sell electricity at market-based rates. The FERC is also conducting its own wholesale pricing investigation. As a result, the FERC has ordered some sellers, including DETM, to refund, or to offset against outstanding accounts receivable, amounts billed for electricity sales in excess of a FERC-established proxy price. The proxy price represents what the FERC believes would have been the market-clearing price in a perfectly competitive market. In June 2001, DETM offset approximately $20 million against amounts owed by the California Independent System Operator and the California Power Exchange for electricity sales during January and February 2001. This offset reduced the $110 million reserve established in 2000 to $90 million. Proceedings are ongoing to determine, among other issues, the amount of any refunds or offsets for periods prior to January 2001, and the method to be used to determine the proxy price in future months.

At the state level, the California Public Utilities Commission is conducting formal and informal investigations to determine if power plant operators in California, including some Duke Energy entities, have improperly "withheld," either economically or physically, generation output from the market to manipulate market prices. In addition, the California State Senate formed a Select Committee to Investigate Price Manipulation of the Wholesale Energy Market (Select Committee). The Select Committee has served a subpoena on Duke Energy and some of its subsidiaries seeking data concerning their California market activities. The Select Committee has heard testimony from several witnesses but no one from Duke Energy has yet been subpoenaed to testify.

The California Attorney General is also conducting an investigation to determine if any market participants engaged in illegal activity, including antitrust violations, in the course of their electricity sales into wholesale markets in the western U.S. The Attorneys General of Washington and Oregon are participating in the California Attorney General's investigation. The San Diego District Attorney is conducting a separate investigation into market activities and has issued subpoenas to DETM and a DENA subsidiary.

The California Attorney General has also convened a grand jury to determine whether criminal charges should be brought against any market participants. To date, no Duke Energy employee has been called to testify before the grand jury nor have any criminal charges been filed against Duke Energy or any of its officers, directors or employees in connection with the wholesale electricity markets in the states of the western U.S.

Throughout 2001, Duke Energy conducted its business in California to supply the maximum possible electricity to meet the needs of the state, limit its exposure to non-creditworthy counterparties and manage the output limitations on its power plants imposed by applicable permits and laws. Since December 31, 2000, Duke Energy has closely managed the balance of doubtful receivables, and believes that the current pre-tax bad debt provision of $90 million is appropriate. No additional provisions for California receivables were recorded in 2001. Management believes, based on its analysis of the facts and the asserted claims, that the resolution of these matters will have no material adverse effect on Duke Energy's consolidated results of operations, cash flows or financial position.

LITIGATION AND CONTINGENCIES _EXXON MOBIL CORPORATION ARBITRATION In 2000, three Duke Energy subsidiaries initiated binding arbitration against three Exxon Mobil Corporation subsidiaries (the Exxon Mobil entities) concerning the parties' joint ownership of DETM and related affiliates (the Ventures). At issue is a buy-out right provision under the joint venture agreements for these entities. If there

is a material business dispute between the parties, which Duke Energy alleges has occurred, the buy-out provision gives Duke Energy the right to purchase Exxon Mobil's 40% interest in DETM. Exxon Mobil does not have a similar right under the joint venture agreements and once Duke Energy exercises the buy-out right, each party has the right to "unwind" the buy-out under certain specific circumstances. In December 2000, Duke Energy exercised its right to buy the Exxon Mobil entities' interest in the Ventures. 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 has also made additional claims against the Exxon Mobil entities for breach of the agreements governing the Ventures.

In January 2001, the Exxon Mobil entities made counterclaims in the arbitration and, in a separate Texas state court action, alleged that Duke Energy breached its obligations to the Ventures and to the Exxon Mobil entities. In April 2001, the state court stayed its action, compelling the Exxon Mobil entities to arbitrate their claims. The Exxon Mobil entities proceeded with the arbitration of their claims and have not challenged this order in an appellate court. In early October 2001, the arbitration panel convened an evidentiary hearing regarding the buy-out right provision and Duke Energy's and Exxon Mobil's claims against each other. The panel has not yet ruled but Duke Energy expects a final decision from the panel in early 2002. Management believes that the final disposition of this action will have no material adverse effect on Duke Energy's consolidated results of operations or financial position.

Duke Energy and its subsidiaries are involved in other legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding performance, contracts and other matters arising in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will have no material adverse effect on consolidated results of operations, cash flows or financial position.

INJURIES AND DAMAGES CLAIMS Duke Energy has experienced numerous claims relating to damages for personal injuries 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, 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 injuries 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.

OTHER COMMITMENTS AND CONTINGENCIES As part of its normal business, Duke Energy is a party to various financial guarantees, performance guarantees and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees and other third parties. These arrangements are largely entered into by Duke Capital Corporation. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Consolidated Balance Sheets. The possibility of Duke Energy having to honor its contingencies is largely dependent upon future operations of various subsidiaries, investees and other third parties, or the occurrence of certain future events. Duke Energy would record a reserve if events occurred that required that one be established.

In addition, Duke Energy enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts), take-or-pay arrangements, transportation or throughput agreements and other contracts that may or may not be recognized on the Consolidated Balance Sheets. Some of these arrangements may be recognized at market value on the Consolidated Balance Sheets as trading contracts or qualifying hedge positions included in Unrealized Gains or Losses on Mark-to-Market and Hedging Transactions.

_FINANCIAL GUARANTEES Some Duke Energy subsidiaries have guaranteed affiliates' debt agreements and have provided surety bonds and letters of credit, totaling approximately $579 million as of December 31, 2001 and $1.9 billion as of December 31, 2000. The decrease in these obligations is due primarily to decreasing support for margin deposits and power exchange participation.

LEASES Duke Energy leases assets in several areas of its operations. Consolidated rental expense for operating leases was $114 million in 2001, $90 million in 2000 and $87 million in 1999. Future minimum rental payments under operating leases for the years 2002 through 2006 are $87 million, $70 million, $57 million, $43 million and $34 million, respectively.

16. COMMON STOCK AND EQUITY OFFERINGS

In March 2001, Duke Energy completed an offering of 25 million shares of common stock, priced at $38.98 per share, before underwriting discount and other offering expenses. In addition, Duke Energy completed an offering of approximately 31 million units of Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation, and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. Also in March 2001, the underwriters exercised options granted to them to purchase an additional 3.75 million shares of common stock and four million Equity Units at the original issue prices, less underwriting discounts, to cover over-allotments made during the offerings. Total net proceeds from the offerings, approximately $1.9 billion, were used to repay short-term debt and for other corporate purposes.

In November 2001, Duke Energy completed an offering of 30 million Equity Units, at $25 per unit, before underwriting discount and other offering expenses. The Equity Units consist of senior notes of Duke Capital Corporation, and purchase contracts obligating the investors to purchase shares of Duke Energy's common stock in 2004. The number of shares to be issued in 2004 will be based on the price of the common stock at conversion. The net proceeds from the offering of approximately $731 million will provide a component of the permanent financing for the pending acquisition of Westcoast. Pending the close of the Westcoast acquisition, the net proceeds of the offering will be used to manage working capital needs.

The Duke Capital Corporation senior notes that are part of the Equity Units are included in Long-term Debt on the Consolidated Balance Sheets. (See Note 10.) The value of the forward purchase contracts associated with the Equity Units were assumed to be zero at inception as the offerings were done at market prices. The return on the Equity Units consists of interest on the debt component and a contract adjustment payment. The contract adjustment was recorded as a declared dividend and its present value was recorded in Other Current and Noncurrent Liabilities on the Consolidated Balance Sheets.

At Duke Energy's Annual Meeting of Shareholders held on April 26, 2001, shareholders approved an amendment to the Articles of Incorporation to increase the authorized common stock from one billion to two billion shares.

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 2000 and 1999 outstanding share and per share amounts have been restated to reflect the stock split. Appropriate adjustments have been made in the exercise price and number of shares subject to stock options, as well as in 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.

17. STOCK-BASED COMPENSATION

The following information regarding outstanding common stock shares and options reflects the two-for-one common stock split discussed in Note 16.

Duke Energy's 1998 Long-term Incentive Plan, as amended (the 1998 Plan), reserved 60 million shares of common stock for company performance awards to employees and outside directors. Incentive stock options may only be granted to key employees. Under the 1998 Plan, the exercise price of each option granted cannot be 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.

STOCK OPTION ACTIVITY

	Options (In thousands)	Weighted-Average Exercise Price
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
Granted	7,090	37
Exercised	(2,285)	25
Forfeited	(905)	33
Outstanding at December 31, 2001	26,406	33

STOCK OPTIONS AT DECEMBER 31, 2001

	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 $8	21	2.2	$ 8	21	$ 8
$9 to $12	784	2.4	10	784	10
$13 to $16	168	4.1	14	168	14
$17 to $22	186	5.1	22	186	22
$23 to $27	5,278	8.0	25	2,317	25
$28 to $33	6,565	6.7	29	3,049	29
$34 to $39	7,236	9.9	38	-	-
> $39	6,168	9.0	43	1,412	43
Total	26,406			7,937	28

On December 31, 2000, Duke Energy had 5.2 million exercisable options with a $23 weighted-average exercise price. On December 31, 1999, Duke Energy had 3.6 million exercisable options with a $17 weighted-average exercise price.

The weighted-average fair value per option granted was $10 during 2001, $10 during 2000 and $5 during 1999. 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	2001	2000	1999
Stock dividend yield	3.4%	3.7%	4.1%
Expected stock price volatility	29.5%	25.1%	18.8%
Risk-free interest rates	5.0%	5.3%	5.9%
Expected option lives	7 years	7 years	7 years

Duke Energy's net income for 2001 would have been $1,876 million, or $2.42 per basic share, had compensation expense for stock-based compensation been based on the fair value at the grant dates. Net income for 2000 would have been $1,764 million, or $2.37 per basic share, and 1999 net income would have been $1,498 million, or $2.03 per basic share.

The 1998 Plan allows for a maximum of six million shares of common stock to be issued under restricted stock awards, performance awards and phantom stock awards. Performance awards granted under the 1998 Plan vest over periods from one to seven

years. Duke Energy awarded 24,000 shares (fair value of approximately $1 million at grant dates) in 2001, 225,000 shares (fair value of approximately $7 million at grant dates) in 2000 and 986,400 shares (fair value of approximately $26 million at grant dates) in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and totaled $6 million in 2001, $7 million in 2000 and $3 million in 1999.

Phantom stock awards granted under the 1998 Plan vest over periods from one to four years. Duke Energy awarded 457,700 shares (fair value of approximately $17 million at grant dates) in 2001 and 168,500 shares (fair value of approximately $7 million at grant dates) in 2000. No phantom stock awards were granted in 1999. Compensation expense for the stock grants is charged to earnings over the vesting period, and totaled $4 million in 2001, and was less than $1 million in 2000. There was no compensation expense for stock grants in 1999.

Duke Energy's 1996 Stock Incentive Plan (the 1996 Plan) reserved four million shares of common stock for awards to employees. Restricted stock grants under the 1996 Plan vest over periods ranging from one to five years. Duke Energy awarded 124,005 restricted shares (fair value of approximately $5 million at grant dates) in 2001, 294,526 restricted shares (fair value of approximately $8 million at grant dates) in 2000 and 131,700 restricted shares (fair value of approximately $4 million at grant dates) in 1999. Compensation expense for the grants is charged to earnings over the restriction period and totaled $4 million in 2001, $4 million in 2000, and $1 million in 1999.

18. EMPLOYEE BENEFIT PLANS

RETIREMENT PLANS Duke Energy and its subsidiaries maintain a non-contributory defined benefit retirement plan. It covers 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.

Duke Energy's policy is to fund amounts 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 2001 or 2000. The net unrecognized transition asset, resulting from the implementation of accrual accounting, is amortized over approximately 20 years. Investment gains or losses are amortized over five years.

COMPONENTS OF NET PERIODIC PENSION COSTS

	Years Ended December 31		
In millions	2001	2000	1999
Service cost benefit earned during the year	$ 74	$ 70	$ 72
Interest cost on projected benefit obligation	188	184	165
Expected return on plan assets	(264)	(244)	(224)
Amortization of prior service cost	(3)	(3)	(3)
Amortization of net transition asset	(4)	(4)	(4)
Recognized net actuarial loss	-	-	12
Net periodic pension costs	$ (9)	$ 3	$ 18

RECONCILIATION OF FUNDED STATUS TO PRE-FUNDED PENSION COSTS	December 31	
In millions	2001	2000
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	$ 2,586	$ 2,446
Service cost	74	70
Interest cost	188	184
Actuarial (gain) loss	(147)	16
Plan amendments	1	-
Benefits paid	(174)	(130)
Benefit obligation at end of year	$ 2,528	$ 2,586
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 3,038	$ 3,121
Actual return on plan assets	(394)	47
Benefits paid	(174)	(130)
Fair value of plan assets at end of year[a]	$ 2,470	$ 3,038
Funded status	$ (58)	$ 452
Unrecognized net experience loss (gain)	400	(110)
Unrecognized prior service cost reduction	(17)	(22)
Unrecognized net transition asset	(12)	(16)
Pre-funded pension costs	$ 313	$ 304

[a] Principally equity and fixed-income securities. For measurement purposes, plan assets were valued as of September 30.

ASSUMPTIONS USED FOR PENSION BENEFITS ACCOUNTING[a]			
Percent	2001	2000	1999
Discount rate	7.25	7.50	7.50
Salary increase	4.94	4.53	4.50
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. Duke Energy expensed employer matching contributions of $69 million in 2001, $66 million in 2000 and $68 million in 1999.

OTHER POST-RETIREMENT BENEFITS Duke Energy and most of its subsidiaries provide some health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees are eligible for these benefits if they have met 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.

These benefit costs are accrued over an employee's active service period to the date of full benefits eligibility. The net unrecognized transition obligation, resulting from accrual accounting, is amortized over approximately 20 years.

COMPONENTS OF NET PERIODIC POST-RETIREMENT BENEFIT COSTS	Years Ended December 31		
In millions	2001	2000	1999
Service cost benefit earned during the year	$ 5	$ 5	$ 7
Interest cost on accumulated post-retirement benefit obligation	44	43	40
Expected return on plan assets	(24)	(23)	(21)
Amortization of prior service cost	1	1	1
Amortization of net transition obligation	18	18	18
Recognized net actuarial gain	-	-	(1)
Plan curtailments	(3)	-	-
Net periodic post-retirement benefit costs	$ 41	$ 44	$ 44

RECONCILIATION OF FUNDED STATUS TO ACCRUED POST-RETIREMENT BENEFIT COSTS	December 31	
In millions	2001	2000
CHANGE IN BENEFIT OBLIGATION		
Accumulated post-retirement benefit obligation at beginning of year	$ 614	$ 562
Service cost	5	5
Interest cost	44	43
Plan participants' contributions	9	7
Actuarial loss	104	39
Benefits paid	(61)	(42)
Plan curtailments	(3)	-
Accumulated post-retirement benefit obligation at end of year	$ 712	$ 614
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year[a]	$ 325	$ 327
Actual return on plan assets	(40)	8
Employer contributions	32	25
Plan participants' contributions	9	7
Benefits paid	(61)	(42)
Fair market value of plan assets at end of year[a]	$ 265	$ 325
Funded status	$ (447)	$ (289)
Employer contributions	11	9
Unrecognized net experience loss (gain)	111	(56)
Unrecognized prior service cost	4	5
Unrecognized transition obligation	196	214
Accrued post-retirement benefit costs	$ (125)	$ (117)

[a] Principally equity and fixed-income securities. For measurement purposes, plan assets were valued as of September 30.

ASSUMPTIONS USED FOR POST-RETIREMENT BENEFITS ACCOUNTING[a]

Percent	2001	2000	1999
Discount rate	7.25	7.50	7.50
Salary increase	4.94	4.53	4.50
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 post-retirement benefits

For measurement purposes, the net per capita cost of covered health care benefits for employees who have not retired are assumed to have an initial annual rate increase of 11.5% in 2002 that will gradually decrease to 6% in 2008. For employees that have retired, an initial annual rate of increase of 14.5% in 2002 will gradually decrease to 6% in 2011. 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 post-retirement benefit obligation	47	(40)

19. QUARTERLY FINANCIAL DATA (UNAUDITED)

In millions, except per-share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2001					
Operating revenues	$ 16,491	$ 15,580	$ 16,718	$ 10,714	$ 59,503
Operating income	1,182	880	1,492	546	4,100
EBIT	1,254	902	1,529	571	4,256
Income before cumulative effect of change in accounting principle	554	419	796	225	1,994
Net income	458	419	796	225	1,898
Earnings per share (before cumulative effect of change in accounting principle)					
Basic	$ 0.74	$ 0.54	$ 1.02	$ 0.29	$ 2.58
Diluted	$ 0.73	$ 0.53	$ 1.01	$ 0.28	$ 2.56
Earnings per share					
Basic	$ 0.61	$ 0.54	$ 1.02	$ 0.29	$ 2.45
Diluted	$ 0.60	$ 0.53	$ 1.01	$ 0.28	$ 2.44
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

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

During the fourth quarter of 2001, Duke Energy recorded a $43 million provision for non-collateralized accounting exposure to Enron, as well as a $36 million reduction in unbilled revenue receivables, resulting from a refinement in the estimates used to calculate unbilled kilowatt-hour sales.

20. SUBSEQUENT EVENT

On January 31, 2002, Duke Energy announced the planned sale of its DE&S business unit to Framatome ANP, Inc. (a nuclear supplier) for approximately $84 million. Two components of DE&S are not part of the sale. Duke Energy will establish Duke Energy – Energy Delivery Services, formed by the power delivery services component of DE&S, which will continue to supply power delivery solutions to customers. Leadership of the U.S. Department of Energy Mixed Oxide Fuel project will also remain with Duke Energy. The transaction will require a Hart Scott Rodino filing and is expected to close in the second quarter of 2002.

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, 2001 and 2000, 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, 2001. 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, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
CHARLOTTE, NC
February 19, 2002

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.

KEITH G. BUTLER
Senior Vice President
and Controller

SHAREHOLDER INFORMATION

Annual Meeting The 2002 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, April 25, 2002
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 2001 report on SEC Form 10-K and the 2001 Statistical Supplement.

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 75 consecutive years. Dividends on common and preferred stock in 2002 are expected to be paid, subject to declaration by the Board of Directors, on March 15, June 17, September 16 and December 16.

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

JPMorgan Chase Bank
Corporate Trust Services
PO Box 2320
Dallas, Texas 75221-2320

CORPORATE OFFICE _526 South Church Street _Charlotte, North Carolina 28202-1802
704.594.6200 www.duke-energy.com