PART I.

Item 1. Business.

GENERAL

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 the seven business segments described below.

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 the East Coast and Southern U.S. and in Canada. Natural Gas Transmission also provides distribution service to retail customers in Ontario and Western Canada, and gas gathering and processing services to customers in Western Canada. Natural Gas Transmission does business primarily through Duke Energy Gas Transmission Corporation. Duke Energy acquired Westcoast Energy Inc. (Westcoast) on March 14, 2002 (see Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions"). Duke Energy Gas Transmission's natural gas transmission and storage operations in the U.S. are subject to the FERC's and the Texas Railroad Commission's rules and regulations, while natural gas gathering, processing, transmission, distribution and storage operations in Canada are subject to the rules and regulations of the National Energy Board, the Ontario Energy Board and the British Columbia Utilities Commission.

Field Services gathers, compresses, treats, processes, transports, trades and markets, and stores natural gas; and produces, transports, trades and markets, and stores natural gas liquids (NGLs). It conducts operations primarily through Duke Energy Field Services, LLC (DEFS), which is approximately 30% owned by ConocoPhillips and approximately 70% owned by Duke Energy. Field Services gathers natural gas from production wellheads in Western Canada and 11 contiguous states in the U.S. Those systems serve major natural gas-producing regions in the Western Canadian Sedimentary Basin, Rocky Mountain, Permian Basin, Mid-Continent and East Texas-Austin Chalk-North Louisiana areas, as well as onshore and offshore Gulf Coast areas.

Duke Energy North America (DENA) develops, operates and manages merchant power generation facilities and engages in commodity sales and services related to natural gas and electric power. DENA conducts business throughout the U.S. and Canada through Duke Energy North America, LLC and Duke Energy Trading and Marketing, LLC (DETM). DETM is approximately 40% owned by ExxonMobil Corporation and approximately 60% owned by Duke Energy. Prior to April 1, 2002, the DENA business segment was combined with Duke Energy Merchants Holdings, LLC (DEM) to form a segment called North American Wholesale Energy. In 2002, management combined DEM with the Other Energy Services segment. Previous periods have been reclassified to conform to the current presentation.

International Energy develops, operates and manages natural gas transportation and power generation facilities, and engages in sales and marketing of natural gas and electric power outside the U.S. and Canada. It conducts operations primarily through Duke Energy International, LLC (DEI) and its activities target power generation in Latin America, power generation and natural gas transmission in Asia-Pacific and natural gas marketing in Northwest Europe.

Other Energy Services is composed of diverse energy businesses, operating primarily through DEM, Duke/Fluor Daniel (D/FD) and Energy Delivery Services (EDS). DEM engages in commodity buying and selling, and risk management and financial services in non-regulated energy commodity markets other than physical natural gas and power (such as petroleum products). D/FD provides comprehensive engineering, procurement, construction, commissioning and operating plant services for fossil-fueled electric power generating facilities worldwide. D/FD is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc., a wholly owned subsidiary of Fluor Corporation. EDS is an engineering, construction, maintenance and technical services firm specializing in electric transmission and distribution lines and substation projects. It was formed in the second quarter of 2002 from the transmission and distribution services component of Duke Engineering & Services, Inc. (DE&S). This component was excluded from the sale of DE&S to Framatome ANP, Inc. on May 1, 2002. Other Energy Services also retained other portions of DE&S that were not part of the sale, as well as a portion of DukeSolutions, Inc. (DukeSolutions) that was not sold on May 1, 2002 to Ameresco, Inc. DE&S and DukeSolutions were included in Other Energy Services through the dates of their sales. (See Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions," for additional information on the sales of DE&S and DukeSolutions.)

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 and Southwestern U.S. DukeNet develops and manages fiber optic communications systems for wireless, local and long distance communications companies; and selected educational, governmental, financial and health care entities. DCP, a wholly owned merchant finance company, provides debt and equity capital and financial advisory services primarily to the energy industry. In March 2003, Duke Energy announced that it will exit the merchant finance business at DCP in an orderly manner.

Duke Energy is a North Carolina corporation. Its principal executive offices are located at 526 South Church Street, Charlotte, North Carolina 28202-1803. The telephone number is 704-594-6200. Additional information about Duke Energy, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, is available through Duke Energy's web site at http://www.duke-energy.com. Such reports are accessible at no charge through Duke Energy's web site, and are made available as soon as reasonably practicable after such material is filed with or furnished to the Securities and Exchange Commission.

Terms used to describe Duke Energy's business are defined below.

Allowance for Funds Used During Construction. A non-cash accounting convention of regulatory utilities that represents the estimated composite interest costs of debt and a return on equity funds used to finance construction. The allowance is capitalized in the property accounts and included in income.

Asset Optimization. The process of maximizing the returns on a portfolio of assets through the use of hedging strategies involving energy contracts.

British Thermal Unit (Btu). A standard unit for measuring thermal energy or heat commonly used as a gauge for the energy content of natural gas and other fuels.

Cubic Foot (cf). The most common unit of measurement of gas volume; the amount of natural gas required to fill a volume of one cubic foot under stated conditions of temperature, pressure and water vapor.

Decommissioning. The process of closing down a nuclear facility and reducing the residual radioactivity to a level that permits the release of the property and termination of the license. Nuclear power plants are required by the Nuclear Regulatory Commission to set aside funds for their decommissioning costs during operation.

Derivative. A contract in which its price is based on the value of underlying securities, equity indices, debt instruments, commodities or other benchmarks. Often used to hedge risk, derivatives involve the trading of rights or obligations, but not the direct transfer of property.

Distribution. The system of lines, transformers, switches and mains that connect electric and natural gas transmission systems to customers.

Estimated Available Production. Estimated physical generation capability of owned generation assets as adjusted for scheduled maintenance transmission availability and an estimate for unplanned outages.

Federal Energy Regulatory Commission (FERC). The U.S. agency that regulates the transportation of electricity and natural gas in interstate commerce and authorizes the buying and selling of energy commodities at market-based rates.

Forward Contract. A contract in which the buyer is obligated to take delivery, and the seller is obligated to deliver a fixed amount of a commodity at a predetermined price on a specified future date, at which time payment is due in full.

Fractionation/Fractionate The process of separating liquid hydrocarbons from natural gas into propane, butane, ethane, etc.

Gathering System. Pipeline, processing and related facilities that access production and other sources of natural gas supplies for delivery to mainline transmission systems.

Generation. The process of transforming other forms of energy, such as nuclear or fossil fuels, into electricity. Also, the amount of electric energy produced, expressed in megawatt-hours.

Greenfield Development. The development of a new power generating facility on an undeveloped site.

Independent System Operator (ISO). An entity that ensures non-discriminatory access to a regional transmission system, providing all customers access to the power exchange and clearing all bilateral contract requests for use of the electric transmission system. Also responsible for maintaining bulk electric system reliability.

Integrated Logistics. The coordinated effort to optimally deliver physical product to the end user.

Light-off Fuel. Fuel oil used to light the coal prior to generating electricity.

Liquefied Natural Gas (LNG). Natural gas that has been converted to a liquid by cooling it to -260 degrees Fahrenheit.

Liquid Market. A market in which selling and buying can be accomplished with minimal price change; such a market has a high level of trading activity and open interest.

Local Distribution Company (LDC). A company that obtains the major portion of its revenues from the operations of a retail distribution system for the delivery of electricity or gas for ultimate consumption.

Logistics & Optimization. The act of maximizing physical positions through arbitrage, especially on contractual assets such as storage, transportation, generation and transmission.

Mark-to-Market. The process whereby derivatives or energy trading contracts are adjusted to market value, and the unrealized gain or loss is recognized in current earnings and on the balance sheet.

Natural Gas. A naturally occurring mixture of hydrocarbon and non-hydrocarbon gases found in porous geological formations beneath the earth's surface, often in association with petroleum. The principal constituent is methane.

Natural Gas Liquids (NGLs). Liquid hydrocarbons extracted during the processing of natural gas. Principal commercial NGLs include butanes, propane, natural gasoline and ethane.

No-notice Bundled Service. A pipeline delivery service which allows customers to receive or deliver gas on demand without making prior nominations to meet service needs and without paying daily balancing and scheduling penalties.

Origination. Identification and execution of physical energy related transactions throughout the value chain.

Peak Load. The amount of electricity required during periods of highest demand. Peak periods fluctuate by season, generally occurring in the morning hours in winter and in late afternoon during the summer.

Regional Transmission Organization (RTO). An independent entity which is established to have "functional control" over utilities' transmission systems, in order to expedite wholesale wheeling. FERC proposes to have RTOs or other independent transmission providers operate transmission systems in all regions of the country.

Reliability Must Run. Generation that the California ISO determines is required to be on-line to meet applicable reliability criteria requirements.

Throughput. The amount of natural gas or natural gas liquids transported through a pipeline system.

Tolling. Process whereby a party moves fuel to a power generator and receives kilowatt hours in return for a pre-established fee.

Transmission System (Electric). An interconnected group of electric transmission lines and related equipment for moving or transferring electric energy in bulk between points of supply and points at which it is transformed for delivery over a distribution system to customers, or for delivery to other electric transmission systems.

Transmission System (Natural Gas). An interconnected group of natural gas pipelines and associated facilities for transporting natural gas in bulk between points of supply and delivery points to industrial customers, local distribution companies, or for delivery to other natural gas transmission systems.

Volatility. An annualized measure of the fluctuation in the price of an energy contract. Implied volatility is a measure of what the market values volatility to be, as reflected in the option's price.

Watt. A measure of power production or usage equal to one joule per second.

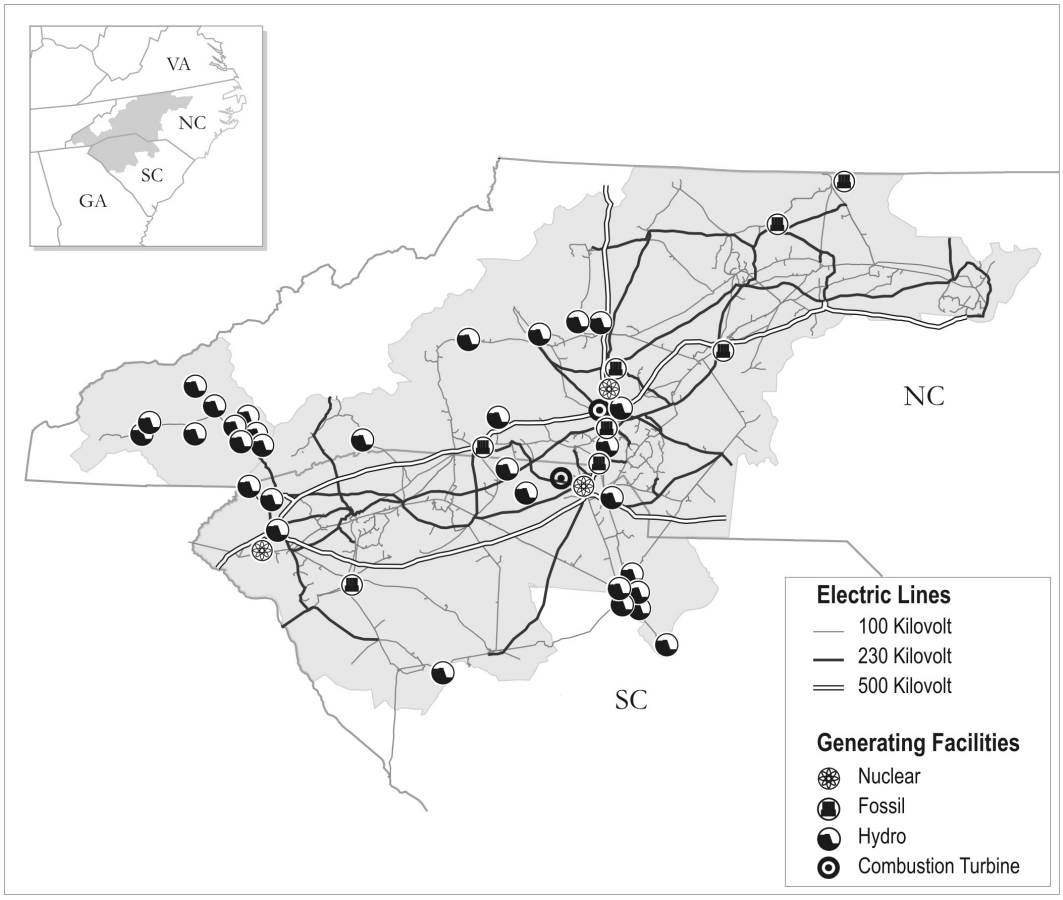
The following sections describe the business and operations of each of Duke Energy's business segments. (For more information on the operating outlook of Duke Energy and its segments, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Introduction—Business Strategy." For financial information on Duke Energy's business segments, see Note 3 to the Consolidated Financial Statements, "Business Segments.")

FRANCHISED ELECTRIC

Service Area and Customers

Franchised Electric generates, transmits, distributes and sells electricity. Its service area covers about 22,000 square miles with an estimated population of 5.7 million in central and western North Carolina and western South Carolina. Franchised Electric supplies electric service to approximately two million residential, commercial and industrial customers over 94,000 miles of distribution lines and a 13,300 mile transmission system. Electricity is sold wholesale to incorporated municipalities and to public and private utilities. In addition, municipal and cooperative customers who purchased portions of the Catawba Nuclear Station buy power through contractual agreements. (For statistics related to gigawatt-hour sales by customer type, see "Operating Statistics" in this section. For more information on the Catawba Nuclear Station joint ownership, see Note 5 to the Consolidated Financial Statements, "Joint Ownership of Generating Facilities.")

Industrial and commercial development in Franchised Electric's service area is highly diversified. The textile industry, machinery and equipment manufacturing, and chemical industries are of major significance to the area's economy. Other industries operating in the area include rubber and plastic products, paper and related products, and other manufacturing and service businesses. The textile industry, the largest industry served by Franchised Electric, accounted for approximately $335 million of Franchised Electric's revenues for 2002, representing 7% of total electric revenues and 31% of industrial revenues. Franchised Electric normally experiences seasonal peak loads in summer and winter.



Energy Capacity and Resources

Electric energy for Franchised Electric's customers is generated by three nuclear generating stations with a combined net capacity of 5,020 megawatts (MW) (including Duke Energy's 12.5% ownership in the Catawba Nuclear Station), eight coal-fired stations with a combined capacity of 7,699 MW, 31 hydroelectric stations (including two pumped-storage facilities) with a combined capacity of 2,806 MW and seven combustion turbine stations with a combined capacity of 2,135 MW. Energy and capacity are also supplied through contracts with other generators and purchased on the open market. Franchised Electric has interconnections and arrangements with its neighboring utilities to facilitate planning, emergency assistance, exchange of capacity and energy, and reliability of power supply. Franchised Electric expects that additional construction, purchased power contracts and open market purchases will meet customers' energy needs in the future. (For statistics on sources of electric energy, see "Operating Statistics" in this section.)

Fuel Supply

Franchised Electric relies principally on coal and nuclear fuel for its generation of electric energy. The following table lists Franchised Electric's sources of power and fuel costs for the three years ending December 31, 2002.

	Generation by Source (Percent)			Cost of Fuel per Net Kilowatt-hour Generated (Cents)		
	2002	2001	2000	2002	2001	2000
Coal	51.2	50.9	50.9	1.54	1.48	1.29
Nuclear(a)	48.3	48.6	48.1	0.42	0.42	0.42
Oil and gas(b)	0.1	0.2	0.5	11.89	11.48	7.32
All fuels (cost based on weighted average)(a)	99.6	99.7	99.5	1.01	0.98	0.91
Hydroelectric(c)	0.4	0.3	0.5			
	100.0	100.0	100.0			

(a) Statistics related to nuclear generation and all fuels reflect Franchised Electric's 12.5% ownership interest in the Catawba Nuclear Station.
(b) Cost statistics include amounts for light-off fuel at Franchised Electric's coal-fired stations.
(c) Generating figures are net of output required to replenish pumped storage units during off-peak periods.

Coal. Franchised Electric meets its coal demand through purchase supply contracts and spot agreements. Large amounts of coal are obtained under supply contracts with mining operators who mine both underground and at the surface. Franchised Electric has an adequate supply of coal to fuel its current operations. Expiration dates for its supply contracts, which have price adjustment provisions, range from 2003 to 2005. Duke Energy expects to renew these contracts or enter into similar contracts with other suppliers for the quantities and quality of coal required. The coal purchased under these contracts is produced from mines in eastern Kentucky, southern West Virginia and southwestern Virginia. Franchised Electric uses spot market purchases to meet coal requirements not met by supply contracts.

The average sulfur content of coal purchased by Franchised Electric is approximately 1%. This satisfies the current emission limitation for sulfur dioxide for existing facilities. (See Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies—Environmental," for additional information regarding particulate matter.)

Nuclear. Developing nuclear generating fuel generally involves the mining and milling of uranium ore to produce uranium concentrates, the conversion of uranium concentrates to uranium hexafluoride gas, enrichment of that gas, and then the fabrication of the enriched uranium hexafluoride into usable fuel assemblies.

Franchised Electric has contracted for uranium materials and services required to fuel the Oconee, McGuire and Catawba Nuclear Stations. Uranium concentrates, conversion services and enrichment services are primarily met through a diversified portfolio of long-term supply contracts. The contracts are diversified by supplier, country of origin and pricing. Franchised Electric staggers its contracting so that its portfolio of long-term contracts covers the majority of its fuel requirements at Oconee, McGuire and Catawba in the near term, but so that its level of coverage decreases each year into the future. Due to the technical complexities of changing suppliers of fuel fabrication services, Franchised Electric generally sole sources these services to domestic suppliers on a plant by plant basis using multi-year contracts.

Based upon current projections, Franchised Electric's existing portfolio of contracts will meet the requirements of Oconee, McGuire and Catawba Nuclear Stations through the following years:

Nuclear Station	Uranium Material	Conversion Service	Enrichment Service	Fabrication Service
Oconee	2005	2005	2007	2006
McGuire	2005	2005	2007	2009
Catawba	2005	2005	2007	2009

After the years indicated above, a portion of the fuel requirements at Oconee, McGuire and Catawba are covered by long-term contracts. For requirements not covered under long-term contracts, Duke Energy believes it will be able to renew contracts as they expire, or enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services. Near-term requirements not met by long-term supply contracts have been and are expected to be fulfilled with uranium spot market purchases.

Duke Power, a division of Duke Energy, has entered into a contract under which Duke Power has agreed to prepare the McGuire and Catawba nuclear reactors for use of mixed oxide fuel and to purchase mixed oxide fuel for use in such reactors. Mixed oxide fuel is fabricated from the U.S. government's surplus plutonium and is similar to conventional uranium fuel. Before using the fuel, Duke Energy must apply for and obtain amendments to the facilities' operating licenses from the Nuclear Regulatory Commission (NRC). (See Note 17 to the Consolidated Financial Statements, "Guarantees and Indemnifications," for additional information.)

Insurance and Decommissioning

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. (See Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies—Nuclear Insurance," for more information.)

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. (See Note 12 to the Consolidated Financial Statements, "Nuclear Decommissioning Costs," for more information.)

After spent fuel is removed from a nuclear reactor, it is cooled in a spent fuel pool at the nuclear station. Under provisions of the Nuclear Waste Policy Act of 1982, Duke Energy has contracted with the U.S.

Department of Energy (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.

Competition

Duke Energy continues to monitor electric industry restructuring and actively participates in regulatory reform deliberations in North Carolina and South Carolina. However, movement toward retail deregulation in these and other states has recently slowed. (For more information, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Current Issues—Electric Competition.")

Franchised Electric competes in some areas with government-owned power systems, municipally owned electric systems, rural electric cooperatives and other private utilities. By statute, the NCUC and the PSCSC assign all service areas outside municipalities in North Carolina and South Carolina to regulated electric utilities and rural electric cooperatives. Substantially all of the territory comprising Franchised Electric's service area has been assigned in this manner. In unassigned areas, Franchised Electric's business remains subject to competition. A decision of the North Carolina Supreme Court limits, in some instances, the right of North Carolina municipalities to serve customers outside their corporate limits. In South Carolina, competition continues between municipalities and other electric suppliers outside the municipalities' corporate limits, subject to the regulation of the PSCSC. In addition, Franchised Electric continues to compete with natural gas providers.

Regulation

The NCUC and the PSCSC approve rates for retail electric sales within their respective states. The FERC approves Franchised Electric's rates for some electric sales to wholesale customers. (For more information on rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters—Franchised Electric.") The FERC, the NCUC and the PSCSC also have authority over the construction and operation of Franchised Electric's facilities. Certificates of public convenience and necessity issued by the FERC, the NCUC and the PSCSC authorize Franchised Electric to construct and operate its electric facilities, and to sell electricity to retail and wholesale customers. Prior approval from the NCUC and the PSCSC is required to issue securities.

NCUC, PSCSC and FERC regulations govern access to regulated electric customer data by non-regulated entities, and services provided between regulated and non-regulated affiliated entities. These regulations affect DENA's and Other Energy Services' activities with Franchised Electric.

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 also 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 Power and the franchised electric units of two other investor-owned utilities, Progress Energy (formerly known as Carolina Power & Light Company) and South Carolina Electric & Gas Company, planned to establish GridSouth Transco, LLC (GridSouth), as an RTO responsible for the functional control of the companies' combined transmission systems. As of December 31, 2002, Duke Energy had invested $37 million in GridSouth, including carrying costs. This amount is included in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets. The sponsors expected that GridSouth would be substantially operational by the FERC's Order 2000 "deadline" date of December 15, 2001. In March 2001, GridSouth received provisional approval from the FERC. However, in July 2001 the FERC ordered GridSouth and other utilities in the Southeast to join in a mediation to negotiate terms of a Southeastern RTO. It does not appear that the FERC will issue an order specifically based on that proceeding. In 2002, the GridSouth sponsors withdrew their applications to the NCUC and the PSCSC for approval of the transfer of functional control of their electric transmission assets to GridSouth, and announced that development of the GridSouth implementation project had been suspended until the sponsors have an opportunity to further consider regulatory circumstances and the outcome of initiatives such as the FERC's Notice of Proposed Rulemaking (NOPR) on Standard Market Design (SMD) and the RTO cost/benefit study initiated by the Southeastern Association of Regulatory Utility Commissioners (SEARUC). The SEARUC cost/benefit study, issued in November 2002, states that under most scenarios neither RTOs nor SMDs provide net benefits to retail customers in the Southeast over the next few years. The final rule from the SMDNOPR is not expected to be issued until after July 2003. Duke Energy believes that more open wholesale electric markets will at some point provide benefits to consumers and other market participants. Duke Energy continues to examine its specific options relative to RTOs in light of the existing complex regulatory environment. Management believes its investment in GridSouth is probable of recovery.

Franchised Electric is subject to the NRC jurisdiction for the design, construction and operation of its nuclear generating facilities. In 2000, the NRC renewed the operating license for Duke Energy's three Oconee nuclear units through 2033 and 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. Franchised Electric's hydroelectric generating facilities are licensed by the FERC under Part I of the Federal Power Act, with license terms expiring from 2005 to 2036. The FERC has authority to extend hydroelectric generating licenses. Other hydroelectric facilities whose licenses expire between 2005 and 2008 are in various stages of relicensing.

Franchised Electric is subject to the jurisdiction of the Environmental Protection Agency (EPA) and state environmental agencies. (For a discussion of environmental regulation, see "Environmental Matters" in this section.)

NATURAL GAS TRANSMISSION

Natural Gas Transmission provides transportation and storage of natural gas for customers throughout the East Coast and Southern U.S. and in Canada. Natural Gas Transmission also provides distribution services to retail customers in Ontario and Western Canada, and gas gathering and processing service to customers in Western Canada. Natural Gas Transmission does business primarily through Duke Energy Gas Transmission Corporation. Duke Energy acquired Westcoast on March 14, 2002. (See Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions.")

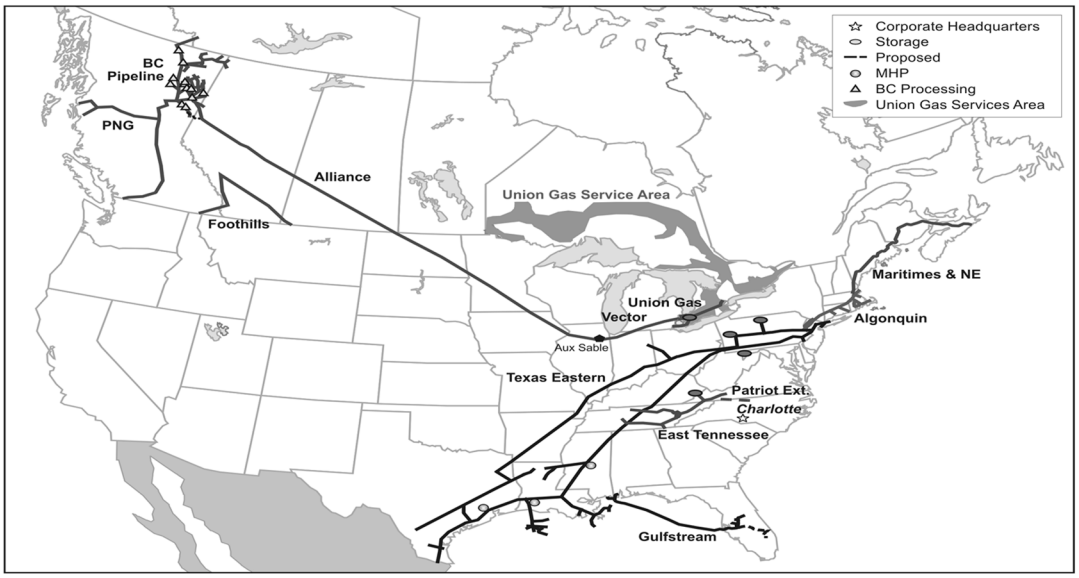
Natural Gas Transmission's significant investments include Gulfstream Natural Gas System, LLC (Gulfstream), an interstate natural gas pipeline system owned and operated jointly by Duke Energy and The Williams Companies, Inc. The Gulfstream gas pipeline has a capacity of 1.1 billion cubic feet (Bcf) of natural

gas per day and transports gas from the Mobile Bay area, across the Gulf of Mexico, to growing gas markets in south and central Florida. Gulfstream went in-service in May 2002.

Alliance Pipeline, in which Natural Gas Transmission owns a 23.6% equity interest, is a natural gas transmission pipeline with a daily transportation capacity of 1.3 Bcf of natural gas per day from northeastern British Columbia, through Alberta and Saskatchewan, to a terminus near Chicago, Illinois.

Vector Pipeline, in which Natural Gas Transmission owns a 30% equity interest, is a natural gas transmission pipeline from a point near Chicago, Illinois to Union Gas Limited's (Union Gas) Dawn hub in Ontario. The Vector Pipeline connects with the Alliance Pipeline and the Northern Border Pipeline near Chicago, Illinois and delivers gas into markets in Indiana, Michigan and Ontario. The Vector Pipeline has a capacity of approximately 1 Bcf per day.

For 2002, Natural Gas Transmission's proportional throughput for its pipelines totaled 3,160 trillion British thermal units (TBtu), compared to 1,781 TBtu in 2001, a 77% increase mainly due to the Westcoast acquisition. This includes throughput on Natural Gas Transmission's wholly owned U.S. and Canadian pipelines and its proportional share of throughput on pipelines that are not wholly owned. (See natural gas delivery statistics under "Operating Statistics" in this section.) A majority of Natural Gas Transmission's contracted transportation volumes are under long-term firm service agreements with local distribution company (LDC) customers in the pipelines' market areas. Firm transportation services are also provided to gas marketers, producers, other pipelines, electric power generators and a variety of end-users. In addition, the pipelines provide both firm and interruptible transportation to various customers on a short-term or seasonal basis. Demand on Natural Gas Transmission's pipeline systems is seasonal, with the highest throughput occurring during colder periods in the first and fourth calendar quarters. Natural Gas Transmission's deliveries are in Canada (primarily the Western and Atlantic regions of Canada, plus Ontario and Quebec), and the U.S. (primarily Connecticut, Maine, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, Rhode Island, Tennessee and Virginia). Natural Gas Transmission provides distribution services through its Union Gas and Pacific Northern Gas (PNG) subsidiaries. Union Gas' distribution service area encompasses approximately 400 communities and extends throughout northern Ontario from the Manitoba border to the North Bay/Muskoka area, through southern Ontario from Windsor to just west of Toronto, and across eastern Ontario from Port Hope to Cornwall. Union Gas' distribution system consists of approximately 20,000 miles of distribution lines serving approximately 1.17 million residential, commercial and industrial customers. PNG serves approximately 39,000 customers in west-central and northeastern British Columbia.



Natural Gas Transmission's pipeline systems consist of over 18,000 miles of transmission pipelines. The pipeline systems receive natural gas from major North American producing regions for delivery to markets primarily in British Columbia, the Western U.S., Ontario, the Pacific Northwest, and the Mid-Atlantic, Southeastern and New England states. (For detailed descriptions of Natural Gas Transmission's pipeline systems, see "Properties, Natural Gas Transmission.")

Natural Gas Transmission, through Market Hub Partners (MHP), wholly owns natural gas salt cavern facilities in south Texas and Louisiana with a total storage capacity of approximately 29 Bcf. MHP markets natural gas storage services to pipelines, LDCs, producers, end users and natural gas marketers. Texas Eastern Transmission, LP (Texas Eastern) and East Tennessee Natural Gas (ETNG) also provide firm and interruptible open-access storage services. Storage is offered as a stand-alone unbundled service or as part of a no-notice bundled service with transportation. Texas Eastern has two joint-venture storage facilities in Pennsylvania and one wholly owned and operated storage field in Maryland. Texas Eastern's certificated working capacity in these three fields is 75 Bcf. ETNG has a liquefied natural gas storage facility in Tennessee with a certificated working capacity of 1.2 Bcf. Union Gas owns approximately 150 Bcf of natural gas storage capacity in 20 underground facilities located in depleted gas fields near Sarnia, Ontario.

Competition

Natural Gas Transmission's pipeline, storage and field services businesses compete with other pipeline and storage facilities in the transportation, processing and storage of natural gas. Natural Gas Transmission competes directly with other pipelines serving the Mid-Atlantic, Northeastern, Southeastern and Pacific Northwestern states, Western Canada, Ontario and along Canada's Atlantic coast. Natural Gas Transmission also competes directly with other natural gas storage facilities in south Texas, Louisiana and Ontario. The principal elements of competition are rates, terms of service, and flexibility and reliability of service.

Union Gas' sales to industrial customers are affected by economic conditions and the price of competitive energy sources. Most of Union Gas' industrial and commercial customers, and a portion of residential customers, purchase their natural gas supply directly from suppliers or marketers. As Union Gas earns income from the distribution of natural gas and not the sale of the natural gas commodity, the gas distribution margin is not affected by the source of the customer's gas supply.

Natural gas competes with other forms of energy available to Duke Energy's customers and end-users, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability or price of natural gas and other forms of energy, the level of business activity, conservation, legislation, governmental regulations, the capability to convert to alternative fuels, weather and other factors affect the demand for natural gas in the areas served by Duke Energy.

Regulation

The FERC has authority to regulate rates and charges for natural gas transported or stored for U.S. interstate commerce or sold by a natural gas company via interstate commerce for resale. (For more information on rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters—Natural Gas Transmission.") The FERC also has authority over the construction and operation of U.S. pipelines and related facilities used in the transportation, storage and sale of natural gas in interstate commerce, including the extension, enlargement or abandonment of such facilities. Texas Eastern, Algonquin Gas Transmision Company (Algonquin), ETNG, Gulfstream, Alliance Pipeline, Vector Pipeline, MHP and Maritimes & Northeast Pipeline (M&N Pipeline) hold certificates of public convenience and necessity issued by the FERC, authorizing them to construct and operate pipelines, facilities and related properties, and to transport and store natural gas via interstate commerce. The MHP storage assets located in Texas are also subject to the Texas Railroad Commission's rules and regulations.

As required by FERC Order 636, Natural Gas Transmission's U.S. pipelines operate as open-access transporters of natural gas, providing unbundled firm and interruptible transportation and storage services on an equal basis for all gas supplies, whether purchased from the pipeline or from another gas supplier.

The FERC regulations govern access to regulated natural gas transmission customer data by non-regulated entities and to services provided between regulated and non-regulated affiliated entities. These regulations affect the activities of DENA with Natural Gas Transmission.

Natural Gas Transmission's U.S. operations are subject to the jurisdiction of the EPA and state environmental agencies. (For a discussion of environmental regulation, see "Environmental Matters" in this section.) Natural Gas Transmission's interstate natural gas pipelines are subject to the regulations of the U.S. Department of Transportation (DOT) concerning pipeline safety. DOT regulations have incorporated certain provisions of the Natural Gas Pipeline Safety Act of 1968, which regulates gas pipeline and liquefied natural gas plant safety requirements. In addition, the DOT is developing regulations that will require pipelines to implement integrity management programs, including more frequent inspections and other safety protections in areas where the consequences of potential pipeline accidents pose the greatest risk to people and their property. The Pipeline Safety Improvement Act of 2002, which was enacted on December 17, 2002, establishes mandatory inspections of high-consequence areas for all U.S. oil and natural gas pipelines within 10 years.

The natural gas gathering, processing, transmission, storage and distribution operations in Canada are subject to regulation by the National Energy Board and provincial agencies in Canada, such as the Ontario Energy Board and the British Columbia Utilities Commission. These agencies have authorization similar to the FERC for setting rates, regulating the operations of facilities and construction of any additional facilities.

FIELD SERVICES

Field Services gathers, compresses, treats, processes, transports, trades and markets, and stores natural gas; and produces, transports, trades and markets, and stores NGLs. It conducts operations primarily through DEFS. Field Services gathers natural gas from production wellheads in Western Canada and 11 contiguous states in the U.S. Those systems serve major gas-producing regions in the Western Canadian Sedimentary Basin, Rocky Mountain, Permian Basin, Mid-Continent and East Texas-Austin Chalk-North Louisiana areas, as well as onshore and offshore Gulf Coast areas. Field Services owns and operates approximately 60,000 miles of natural gas gathering systems with approximately 35,000 active receipt points. Field Services conducts its operations primarily through DEFS, which is approximately 30% owned by ConocoPhillips.

Duke Energy and ConocoPhillips are currently in discussions regarding possible changes to DEFS' ownership. Member interests in DEFS are currently held approximately 70% by Duke Energy and approximately 30% by ConocoPhillips. The discussions are focused on a possible change in the ownership structure that would be driven by the possible contribution by ConocoPhillips of certain midstream natural gas assets to DEFS. There is no certainty that these discussions will lead to a transaction in which ConocoPhillips would contribute these assets to DEFS or what might be the terms of such a transaction.

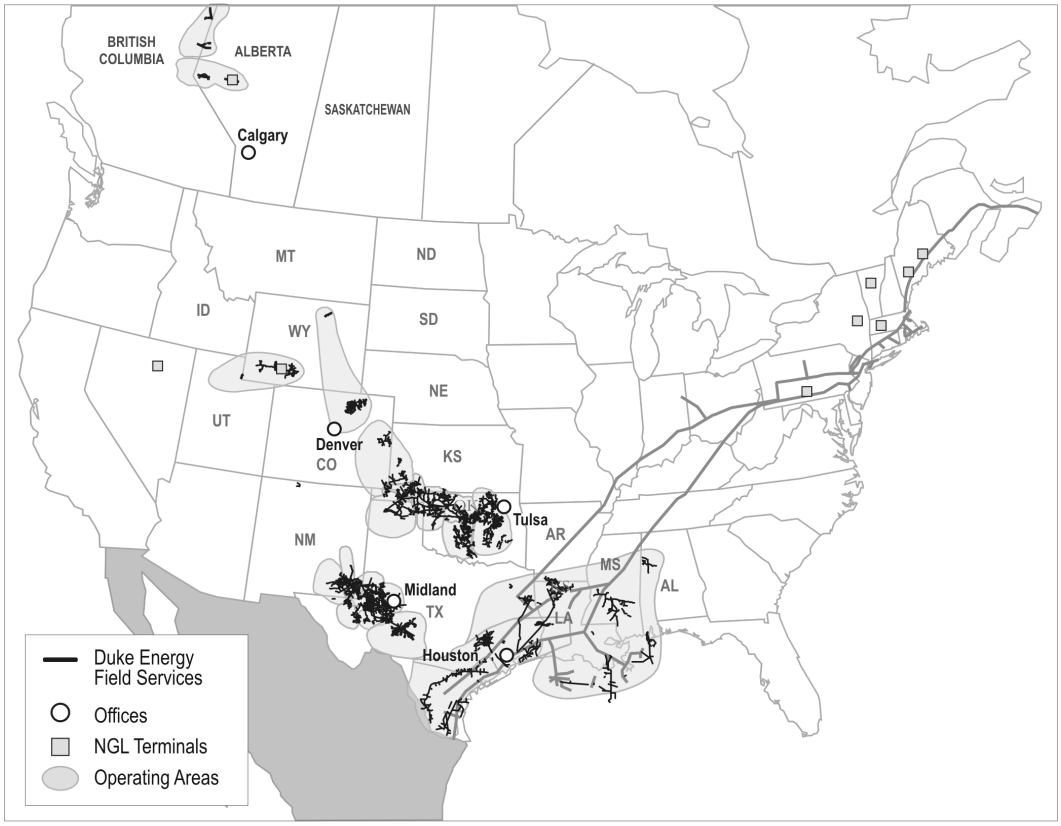
Field Services' natural gas processing operations separate raw natural gas that has been gathered on its systems and third-party systems into condensate, NGLs and residue gas. Field Services processes the raw natural gas at the 60 natural gas processing facilities that it owns and operates and at 11 third-party operated facilities in which it has an equity interest.

The NGLs separated from the raw natural gas are either sold and transported as NGL raw mix, or further separated through a fractionation process into their individual components (ethane, propane, butanes and natural gasoline) and then sold as components. Field Services fractionates NGL raw mix at 11 processing facilities that it owns and operates and at two third-party-operated facilities in which it has an equity interest. In addition, Field Services operates a propane wholesale marketing business. Field Services sells NGLs to a variety of customers ranging from large, multinational petrochemical and refining companies to small regional retail propane distributors. Substantially all of its NGL sales are at market-based prices.

The residue gas separated from the raw natural gas is sold at market-based prices to marketers or end-users, including large industrial customers and natural gas and electric utilities serving individual consumers. Field Services markets residue gas directly or through its wholly owned gas marketing company and its affiliates. Field Services also stores residue gas at its 7.5 billion-cubic-foot natural gas storage facility.

Field Services uses NGL trading and storage at the Mont Belvieu, Texas and Conway, Kansas NGL market centers to manage its price risk and to provide additional services to its customers. Gas trading and marketing activities are supported by ownership of the Spindletop storage facility and various intrastate pipelines which provide access to market centers/hubs such as Waha, Texas; Katy, Texas and the Houston Ship Channel. Field Services undertakes these NGL and gas trading activities through the use of fixed forward sales, basis and spread trades, storage opportunities, put/call options, term contracts and spot marketing trading. Field Services believes there are additional opportunities to grow its services with its customer base.

The following map includes Field Services' natural gas gathering systems, intrastate pipelines, regional offices and supply areas. The map also shows Natural Gas Transmission's interstate pipeline systems.



Field Services also owns Texas Eastern Products Pipeline Company, LLC (TEPPCO), the general partner of TEPPCO Partners, L.P., a publicly traded limited partnership which owns one of the largest common carrier pipelines of refined petroleum products and liquefied petroleum gases in the U. S., as well as, natural gas gathering systems, petrochemical and natural gas liquid pipelines, and is engaged in crude oil transportation, storage, gathering and marketing. TEPPCO is responsible for the management and operations of TEPPCO Partners, L.P.

Field Services' operating results are significantly impacted by changes in NGL prices, which decreased approximately 16% in 2002 compared to 2001. (See "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk" for a discussion of Field Services' exposure to changes in commodity prices.)

Field Services' activities can fluctuate in response to seasonal demand for natural gas. (See Field Services' "Operating Statistics" in this section.)

Competition

Field Services competes with major integrated oil companies, major interstate and intrastate pipelines, national and local natural gas gatherers, and brokers, marketers and distributors for natural gas supplies, in gathering and processing natural gas and in marketing and transporting natural gas and NGLs. Competition for natural gas supplies is based primarily on the reputation, efficiency and reliability of operations, the availability of gathering and transportation to high-demand markets, the pricing arrangement offered by the gatherer/processor and the ability of the gatherer/processor to obtain a satisfactory price for the producer's residue gas and extracted NGLs. Competition for sales to customers is based primarily upon reliability, services offered, and price of delivered natural gas and NGLs.

Regulation

The intrastate pipelines owned by Field Services are subject to state regulation. To the extent they provide services under Section 311 of the Natural Gas Policy Act of 1978, they are also subject to FERC regulation. However, most of Field Services' natural gas gathering activities are not subject to FERC regulation.

Field Services is subject to the jurisdiction of the EPA and state environmental agencies. (For more information, see "Environmental Matters" in this section.) Some of Field Services' operations are subject to the jurisdiction of the DOT and state transportation agencies. The regulations from these agencies, which incorporate certain provisions of the Natural Gas Pipeline Safety Act, control the design, installation, testing, construction, operation, replacement and management of Field Services' pipeline operations.

In addition, Field Services' interstate natural gas pipelines are subject to the regulations of the DOT concerning pipeline safety. The DOT is developing regulations that will require pipelines to implement integrity management programs, including more frequent inspections and other safety protections in areas where the consequences of potential pipeline accidents pose the greatest risk to people and their property. The Pipeline Safety Improvement Act of 2002, which was enacted on December 17, 2002, establishes mandatory inspections of high-consequence areas for all U.S. oil and natural gas pipelines within 10 years.

Field Services' Canadian assets are regulated by the Alberta Energy and Utilities Board and the National Energy Board.

DUKE ENERGY NORTH AMERICA

DENA develops, operates and manages merchant power generation facilities and engages in commodity sales and services related to natural gas and electric power. DENA conducts business throughout the U.S. and Canada through Duke Energy North America, LLC and DETM. DETM is approximately 40% owned by ExxonMobil Corporation and approximately 60% owned by Duke Energy. Prior to April 1, 2002, the DENA business segment was combined with DEM to form a segment called North American Wholesale Energy. In 2002, management combined DEM with the Other Energy Services segment.

DENA is an integrated energy business that develops, owns and manages a portfolio of merchant generation facilities. Through its portfolio management strategy, DENA invests and divests in selected markets as conditions warrant. DENA captures additional value by combining its project development, commercial and risk management expertise with the technical and operational skills of other Duke Energy business units to build and manage projects with maximum efficiency. DENA also supplies competitively priced energy, integrated logistics and asset optimization services, as well as risk management products, to wholesale energy customers.

DENA currently owns or operates approximately 14,157 net MW of operating generation and has approximately 1,860 net MW of projects under construction, slated for completion to meet summer 2003 peak

demand. In addition, in September 2002, DENA deferred construction on approximately 2,450 net MW of projects, including its Moapa, Grays Harbor and Luna plants.

The following map shows DENA's power generation facilities.

DETM markets natural gas, electricity and other energy-related products to a wide range of customers across North America. Duke Energy owns a 60% interest in DETM's natural gas and electric power trading operations, with ExxonMobil Corporation owning a 40% minority interest.

DETM markets natural gas primarily to LDCs, electric power generators (including DENA's generation facilities), municipalities, large industrial end-users and energy marketing companies. DETM markets electricity to investor-owned utilities, municipal power generators and other power marketers. DETM also provides energy management services, such as supply and market aggregation, peaking services, dispatching, balancing, transportation, storage, tolling, contract negotiation and administration, as well as energy commodity risk management products and services.

Natural gas marketing operations encompass both on-system and off-system supplies. On system, DETM generally purchases natural gas from producers connected to Field Services' facilities and delivers the gas to an intrastate or interstate pipeline for redelivery to another customer, using Natural Gas Transmission's pipelines when prudent. Off system, DETM purchases natural gas from producers, pipelines and other suppliers not connected with Duke Energy's facilities for resale to customers. DETM was previously committed to market substantially all of ExxonMobil's U.S. and Canadian natural gas production through 2006. However, Duke Energy and ExxonMobil subsidiaries have reached an agreement to modify DETM's gas supply from the ExxonMobil subsidiaries, so that a substantial amount of the gas will be released to ExxonMobil beginning as early as March 2003.

DETM's electricity marketing operations involve purchasing electricity from third-party suppliers and from DENA's domestic generation facilities for resale to customers.

The vast majority of DETM's portfolio of short-term and long-term sales agreements incorporates market-sensitive pricing terms. Long-term gas purchase agreements with producers also generally include market-sensitive pricing provisions. Purchase and sales commitments involving significant price and location risk are generally hedged with offsetting commitments and commodity futures, swaps and options. (For information concerning DETM's risk-management activities, see "Management's Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk" and Note 7 to the Consolidated Financial Statements, "Derivative Instruments, Hedging Activities and Credit Risk.")

DETM's activities can fluctuate in response to seasonal demand for electricity, natural gas and other energy-related commodities. (See "Operating Statistics" in this section.)

Competition

DETM competes for natural gas supplies and in marketing natural gas, electricity and other energy-related commodities. Competitors include major integrated oil companies, major interstate pipelines and their marketing affiliates, brokers, marketers and distributors, electric utilities, certain financial institutions engaged in commodity trading and other domestic and international electric power and natural gas marketers. The price of commodities and services delivered, along with the quality and reliability of services provided, drive competition in the energy marketing business.

DENA experiences substantial competition from utilities as well as other merchant electric generation companies in the U.S.

Regulation

Most of DENA's and DETM's operations are subject to market-based rate regulation. However, to the extent that DENA's generating stations in California sell electricity to the California Independent System Operator under "reliability must run" agreements, those sales are made at FERC regulated rates.

DENA's and DETM's energy marketing activities are, in some circumstances, subject to the jurisdiction of the FERC. Current FERC policies permit DENA's trading and marketing entities to market natural gas, electricity and other energy-related commodities at market-based rates, subject to FERC jurisdiction.

From June, 20, 2002 through October 30, 2002, the price at which DETM could sell wholesale electricity in the Western Electricity Coordinating Council was subject to a floating price cap imposed by a FERC order. However, subject to the FERC's approval, DETM could sell at prices in excess of the cap in effect at the time if it provided justification. On October 31, 2002, the FERC imposed a soft price cap for the sale of energy throughout the Western Electricity Coordinating Council of $250 per MW hour.

Several legal and regulatory proceedings at the state and federal levels are ongoing related to DENA's activities in California during the electricity supply situation and related to trading activities. (See Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies – Litigation – Western Power Disputes" for further discussion.)

The operation and maintenance of DENA's power plants in California will be subject to regulation pursuant to rules that are currently being promulgated by state authorities. The new rules will purport to increase the reliability of the generation supply in California by setting maintenance standards and regulating when plants may be taken out of service for routine maintenance. Duke Energy does not believe that the new rules, when finalized, will have a material impact on the operation of its power plants in California.

DENA is subject to federal, state and local environmental regulations. (For a discussion of environmental regulation, see "Environmental Matters" in this section.)

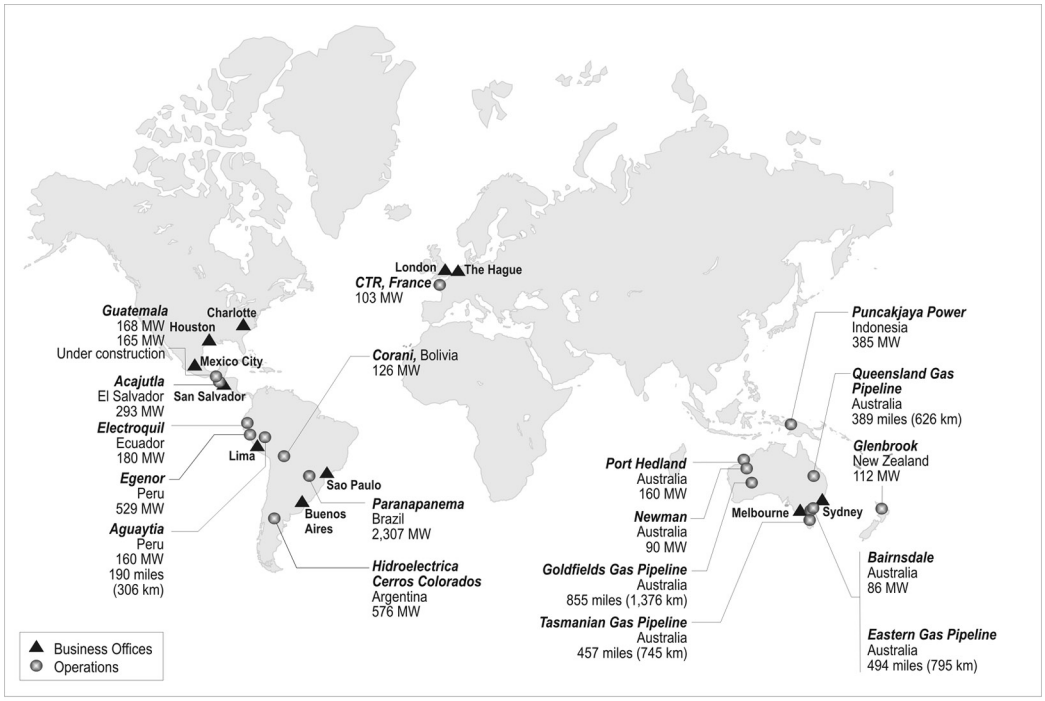
INTERNATIONAL ENERGY

International Energy develops, operates and manages natural gas transportation and power generation facilities, and engages in sales and marketing of natural gas and electric power outside the U.S. and Canada. It conducts operations primarily through DEI and its activities target power generation in Latin America, power generation and natural gas transmission in Asia-Pacific and natural gas marketing in Northwest Europe.

From its platform of assets, International Energy provides customers with energy supply at competitive prices, manages the logistics associated with natural gas and power delivery, and offers services that allow customers to improve energy efficiency and hedge their commodity price exposure. International Energy's customers include retail distributors, electric utilities, independent power producers, large industrial companies, governments, gas and oil producers and mining operations. International Energy is committed to building integrated regional businesses that provide customers with a full range of innovative and competitively priced energy services.

International Energy's current strategy is focused on maximizing the returns and cash flow from its current portfolio of energy businesses by creating organic growth through its sales and marketing efforts in all regions, optimizing the output and efficiency of its various facilities, controlling and reducing costs and divesting selected assets.

International Energy owns, operates or has substantial interests in approximately 4,792 net MW of generation facilities and 2,400 miles of pipeline systems in operation. The following map shows the locations of International Energy's worldwide energy facilities, including projects under construction or under contract. The capacities shown in the map are gross MW values, for net MW values see "Properties, International Energy."



Competition and Regulation

International Energy's operations are subject to country and region-specific market and competition regulations. Commonly addressed regulatory issues include rules, rates and tariffs governing open and competitive access to gas and power transmission grids, rules for merchant power plant dispatch and remuneration, and rules that support the emergence of competitive gas and power trading and marketing. International Energy's operations are subject to international environmental regulations. (See "Environmental Matters" in this section.)

OTHER ENERGY SERVICES

Other Energy Services is composed of diverse energy businesses, operating primarily through DEM, D/FD and EDS. Prior to the sales of DE&S on May 1, 2002, and DukeSolutions on May 1, 2002, those businesses were included in Other Energy Services. (For more information on the sales, see Note 2 to the Consolidated Financial Statements, "Business Acquisitions and Dispositions.") Other Energy Services also includes other portions of DE&S and DukeSolutions that were not part of the sales.

DEM engages in commodity buying and selling, and risk management and financial services in non-regulated energy commodity markets other than physical natural gas and power (such as petroleum products). DEM's activities can fluctuate in response to seasonal demand for other energy-related commodities.

D/FD, operating through several entities, provides full-service siting, permitting, licensing, engineering, procurement, construction, start-up, operating and maintenance services for fossil-fired plants, both domestically and internationally. Subsidiaries of Duke Energy and Fluor Enterprises, Inc. each own 50% of D/FD.

EDS is an engineering, construction, maintenance and technical services firm specializing in electric transmission and distribution lines and substation projects. It was formed in the second quarter of 2002 from the transmission and distribution services component of DE&S and was excluded from the sale of DE&S.

Competition and Regulation

DEM competes for other energy-related commodities. Competitors include major integrated oil companies, major interstate pipelines and their marketing affiliates, brokers and distributors. D/FD competes with major companies who provide engineering, procurement, construction, start-up and maintenance services for fossil fueled power generation facilities. EDS' competition includes companies that provide engineering, procurement, construction and maintenance services for transmission lines, distribution lines and substation facilities.

Other Energy Services is subject to the jurisdiction of the EPA and international, state and local environmental agencies. (For a discussion of environmental regulation, see "Environmental Matters" in this section.)

DUKE VENTURES

Duke Ventures is composed of other diverse businesses, primarily operating through Crescent, DukeNet and DCP.

Crescent develops high-quality commercial, residential and multi-family real estate projects, and manages land holdings, primarily in the Southeastern and Southwestern U.S. On December 31, 2002, Crescent owned 2.6 million square feet of commercial, industrial and retail space, with an additional 0.6 million square feet under construction. This portfolio included 1.3 million square feet of office space, 1.3 million square feet of warehouse space and 0.6 million square feet of retail space. Crescent's residential developments include high-end country club and golf course communities, with individual lots sold to custom builders and tract developments sold to

national builders. In 2002, Crescent had six multi-family communities, including three operating properties and three properties under development. On December 31, 2002, Crescent also managed approximately 129,000 acres of land.

DukeNet provides telecommunications bandwidth capacity for industrial and commercial customers through its fiber optic network. It owns and operates a fiber optic communications network centered in North Carolina and South Carolina and is interconnected with a fiber optic communications network through affiliate agreements with third parties.

DCP, a wholly owned merchant finance company, provides financing, investment banking and asset management services to wholesale and commercial markets in the energy and real estate industries. In March 2003, Duke Energy announced that it will exit the merchant finance business at DCP in an orderly manner.

ENVIRONMENTAL MATTERS

Duke Energy is subject to international, federal, state and local regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Environmental regulations affecting Duke Energy include, but are not limited to:

- The Clean Air Act and the 1990 amendments to the Act, as well as state laws and regulations impacting air emissions, including State Implementation Plans related to existing and new national ambient air quality standards for ozone. Owners and/or operators of air emissions sources are responsible for obtaining permits and for annual compliance and reporting.
- The Federal Water Pollution Control Act which requires permits for facilities that discharge treated wastewater into the environment.
- The Comprehensive Environmental Response, Compensation and Liability Act, which can require any individual or entity that may have owned or operated a disposal site, as well as transporters or generators of hazardous wastes sent to such site, to share in remediation costs.
- The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act, which requires certain solid wastes, including hazardous wastes, to be managed pursuant to a comprehensive regulatory regime.
- The National Environmental Policy Act, which requires consideration of potential environmental impacts by federal agencies in their decisions, including siting approvals.

(For more information on environmental matters involving Duke Energy, including possible liability and capital costs, see Note 16 to the Consolidated Financial Statements, “Commitments and Contingencies—Environmental.”)

Compliance with international, federal, state and local provisions regulating the discharge of materials into the environment, or otherwise protecting the environment, is not expected to have a material adverse effect on the competitive position, consolidated results of operations, cash flows or financial position of Duke Energy.

GEOGRAPHIC REGIONS

For a discussion of Duke Energy’s foreign operations and the risks associated with them, see “Management’s Discussion and Analysis of Results of Operations and Financial Condition, Quantitative and Qualitative Disclosures About Market Risk—Foreign Currency Risk,” and Notes 3 and 7 to the Consolidated Financial Statements, “Business Segments” and “Risk Management Instruments, Hedging Activities and Credit Risk.”

EMPLOYEES

On December 31, 2002, Duke Energy had approximately 22,000 employees. A total of 3,700 operating and maintenance employees were represented by unions. This amount consists of the following:

- 1,421 employees represented by the International Brotherhood of Electrical Workers
- 1,187 employees represented by the Communications, Energy and Paperworkers of Canada
- 269 employees represented by the United Steel Workers of America
- 198 employees represented by the Canadian Pipeline Employees Association
- 99 employees represented by Sindicato de Trabajadores del Sector Electrico
- 85 employees represented by Sindicato de Trabajadores del Sector Petroquimico
- 81 employees represented by Sindicato dos Trabalhadores na Industria da Energia Hidroeletrica de Ipaussu
- 79 employees represented by the Paper, Allied, Chemical and Energy Workers Union
- 77 employees represented by the International Union of Operating Engineers
- 34 employees represented by Asociacion del Personal Jerarquico del Agua y la Energia
- 29 employees represented by Sindicato dos Trabalhadores na Industria de Energia Eletrica de Campinas
- 28 employees represented by Sindicato Unico de Centrales de Generacion Canion del Pato
- 24 employees represented by Federacion Argentina de Trabajadores de Luz y Fuerza
- 23 employees represented by Sindicato Unico de Generacion Electrica Carhuaquero
- 21 employees represented by the United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industries of the U.S. and Canada
- 20 employees represented by Sindicato Corani
- 13 employees represented by Sindicato dos Trabalhadores nas Industrias de Energia Eletrica de Sao Paulo
- 12 employees represented by the National Distribution Union

OPERATING STATISTICS

	Years Ended December 31,				
	2002	2001	2000	1999	1998
Franchised Electric					
Sources of Electric Energy, GWh(a)					
Generated—net output:					
Coal	43,561	41,796	43,526	41,306	42,164
Nuclear	41,155	39,922	41,073	39,263	38,366
Hydro	317	224	394	638	1,714
Oil and gas	98	139	459	662	846
Total generation	85,131	82,081	85,452	81,869	83,090
Purchased power and net interchange	4,102	3,050	4,497	3,617	2,659
Total output	89,233	85,131	89,949	85,486	85,749
Plus: Purchases from other Catawba joint owners	—	—	150	1,233	1,656
Total sources of energy	89,233	85,131	90,099	86,719	87,405
Less: Line loss and company usage	5,450	5,446	5,333	5,171	5,394
Total GWh sales	83,783	79,685	84,766	81,548	82,011
Electric Energy Sales, GWh					
Residential	24,466	23,272	22,884	21,897	22,002
General service	24,242	23,666	22,845	21,807	21,093
Industrial					
Textile	8,443	8,829	10,819	11,201	11,981
Other	17,816	18,074	18,952	18,704	18,668
Other energy and wholesale	8,706	6,979	8,671	7,715	8,933
Total GWh sales billed	83,673	80,820	84,171	81,324	82,677
Unbilled GWh sales	110	(1,135)	595	224	(666)
Total GWh sales	83,783	79,685	84,766	81,548	82,011
Natural Gas Transmission					
Proportional Throughput Volumes, TBtu(b)(c)	3,160	1,781	1,771	1,893	1,459
Field Services					
Natural Gas Gathered and Processed/Transported, TBtu/d(d)	8.3	8.6	7.6	5.1	3.6
NGL Production, MBbl/d(e)	391.9	397.2	358.5	192.4	110.2
Natural Gas Marketed, TBtu/d	1.6	1.6	0.7	0.5	0.4
Average Natural Gas Price per MMBtu(f)	$ 3.22	$ 4.27	$ 3.89	$ 2.27	$ 2.11
Average NGL Price per Gallon	$ 0.38	$ 0.45	$ 0.53	$ 0.34	$ 0.26
Duke Energy North America					
Natural Gas Marketed, TBtu/d	17.7	12.3	11.9	10.5	8.0
Electricity Marketed and Traded, GWh	546,245	334,517	275,258	109,634	98,991
Duke Energy International					
Sales, GWh	21,443	18,896	16,949	—	—
Natural Gas Marketed, TBtu/d	4.2	2.7	1.0	—	—
Electricity Marketed and Traded, GWh	95,591	12,719	4,208	—	—

(a) Gigawatt-hour
(b) Trillion British thermal units
(c) Includes throughput of Westcoast acquired March 14, 2002, and excludes throughput of pipelines sold in March 1999: 328 TBtu (1999); 1,141 TBtu (1998)
(d) Trillion British thermal units per day
(e) Thousand barrels per day
(f) Million British thermal units

EXECUTIVE OFFICERS OF DUKE ENERGY

RICHARD B. PRIORY, 56, Chairman of the Board and Chief Executive Officer. Mr. Priory served as President and Chief Operating Officer from 1994 until he assumed the position of Chairman of the Board, President and Chief Executive Officer in 1997.

RICHARD W. BLACKBURN, 60, Executive Vice President, General Counsel, Chief Administrative Officer and Secretary. Mr. Blackburn was Executive Vice President, General Counsel and Secretary from 1997 until assuming his present position in 2003.

ROBERT P. BRACE, 53, Executive Vice President and Chief Financial Officer. Mr. Brace joined Duke Energy in 2000. Previously, he served as Group Finance Director of British Telecommunications plc starting in 1993.

KEITH G. BUTLER, 42, Senior Vice President and Controller. Mr. Butler was named Senior Vice President and Chief Financial Officer of Duke Energy Global and its affiliated companies in February 1998, Senior Vice President and Chief Financial Officer of Duke Energy North America in July 1998, and Chief Operating Officer of DukeSolutions in September 1999 before he assumed his current position in August 2001.

FRED J. FOWLER, 57, President and Chief Operating Officer. Mr. Fowler assumed his current position in November 2002. Mr. Fowler served as Group Vice President of PanEnergy from 1996 until the PanEnergy merger in 1997, when he was named Group President, Energy Transmission.

DAVID L. HAUSER, 51, Senior Vice President and Treasurer. Mr. Hauser held various positions, including Controller, at Duke Power before being named Senior Vice President, Global Asset Development in 1997. He was appointed to his current position in 1998.

RICHARD J. OSBORNE, 52, Executive Vice President and Chief Risk Officer. Mr. Osborne assumed his present position in May 2000. He previously served as Executive Vice President and Chief Financial Officer. Beginning in 1994, Mr. Osborne was Senior Vice President and Chief Financial Officer.

RUTH G. SHAW, 55, President, Duke Power. Ms. Shaw assumed her current position in February 2003. Ms. Shaw served as Senior Vice President, Corporate Resources, from 1994 until the PanEnergy merger in 1997, when she was named Executive Vice President and Chief Administrative Officer.

Executive officers are elected annually by the Board of Directors. They serve until the first meeting of the Board of Directors following the annual meeting of shareholders and until their successors are duly elected.

There are no family relationships between any of the executive officers, nor any arrangement or understanding between any executive officer and any other person involved in officer selection.

Item 2. Properties.

FRANCHISED ELECTRIC

As of December 31, 2002, Franchised Electric operated three nuclear generating stations with a combined net capacity of 5,020 MW (including a 12.5% ownership in the Catawba Nuclear Station), eight coal-fired stations with a combined capacity of 7,699 MW, 31 hydroelectric stations with a combined capacity of 2,806 MW and seven combustion turbine stations with a combined capacity of 2,135 MW. All of the stations are located in North Carolina or South Carolina.

In addition, Franchised Electric owned, as of December 31, 2002, approximately 13,300 conductor miles of electric transmission lines, including 600 miles of 525 kilovolts, 2,600 miles of 230 kilovolts, 6,700 miles of 100 to 161 kilovolts, and 3,400 miles of 13 to 66 kilovolts. Franchised Electric also owned approximately 94,000 conductor miles of electric distribution lines, including 62,800 miles of rural overhead lines, 15,700 miles of urban overhead lines, 8,400 miles of rural underground lines and 7,100 miles of urban underground lines. As of December 31, 2002, the electric transmission and distribution systems had approximately 1,600 substations.

Substantially all of Franchised Electric's electric plant in service is mortgaged under the indenture relating to Duke Energy's various series of First and Refunding Mortgage Bonds.

NATURAL GAS TRANSMISSION

Texas Eastern's gas transmission system extends approximately 1,700 miles from producing fields in the Gulf Coast region of Texas and Louisiana to Ohio, Pennsylvania, New Jersey and New York. It consists of two parallel systems, one with three large-diameter parallel pipelines and the other with one to three large-diameter pipelines. Texas Eastern's system consists of approximately 8,600 miles of pipeline and 73 compressor stations.

Texas Eastern also owns and operates two offshore Louisiana pipeline systems, which extend over 100 miles into the Gulf of Mexico and include approximately 470 miles of Texas Eastern's pipelines.

Algonquin's transmission system connects with Texas Eastern's facilities in New Jersey, and extends approximately 250 miles through New Jersey, New York, Connecticut, Rhode Island and Massachusetts. The system consists of approximately 1,070 miles of pipeline with seven compressor stations.

ETNG's transmission system crosses Texas Eastern's system at two points in Tennessee and consists of two mainline systems totaling approximately 1,185 miles of pipeline in Tennessee and Virginia, with 18 compressor stations.

M&N Pipeline's transmission system extends approximately 800 miles from producing fields in Nova Scotia through New Brunswick, Maine, New Hampshire and Massachusetts. It has two compressor stations on the system.

The British Columbia Pipeline System (BC Pipeline) consists of the field services division, with more than 1,840 miles of gathering pipelines in British Columbia, Alberta, the Yukon Territory and the Northwest Territories, as well as 22 field compressor stations; four gas processing plants located in British Columbia at Fort Nelson, Taylor, Pine River and in the Sikanni area northwest of Fort St. John, with a total contractible capacity of approximately 1.8 Bcf of residue gas per day; and three elemental sulphur recovery plants located at Fort Nelson, Taylor and Pine River. The pipeline division has approximately 1,740 miles of transmission pipelines in British Columbia and Alberta, as well as 18 mainline compressor stations.

Union Gas owns and operates natural gas transmission, distribution and storage facilities in Ontario. Union Gas distributes natural gas to customers in northern, southwestern and eastern Ontario and provides storage,

transportation and related services to utilities and other industry participants in the gas markets of Ontario, Quebec and the Central and Eastern U.S. Union Gas' underground natural gas storage facilities have a working capacity of approximately 150 Bcf in 20 underground facilities located in depleted gas fields. Its transmission system consists of approximately 3,000 miles of pipeline and six mainline compressor stations. Union Gas' distribution service area encompasses approximately 400 communities. Its distribution system consists of approximately 20,000 miles of distribution lines serving approximately 1.17 million residential, commercial, and industrial customers.

PNG is a gas transmission and distribution utility which serves customers in west-central and northeastern British Columbia of which Duke Energy owns 40% of the non-voting participating stock and 100% of the voting participating stock. PNG's transmission system connects with the BC Pipeline system near Summit Lake, British Columbia and extends approximately 370 miles to the West Coast of British Columbia. In addition, PNG owns and operates distribution facilities in various communities located throughout its service area.

MHP owns and operates two natural gas storage facilities: Moss Bluff and Egan. The Moss Bluff facility consists of three storage caverns located in Liberty and Chambers counties near Houston, Texas and has access to five pipelines. The Egan facility consists of three storage caverns located in Acadia Parish in the south central part of Louisiana and has access to seven pipeline facilities.

(For a map showing natural gas transmission and storage properties and additional information on Natural Gas Transmission's properties, see "Business, Natural Gas Transmission.")

FIELD SERVICES

(For information and a map showing Field Services' properties, see "Business, Field Services" earlier in this section.)

DUKE ENERGY NORTH AMERICA

As of December 31, 2002, DENA's generation portfolio in operation included:

Name	Gross MW	Net MW	Fuel	Location	Ownership Interest (percentage)
Moss Landing(a)	2,538	2,538	Natural gas	CA	100%
Morro Bay(a)	1,002	1,002	Natural gas	CA	100
Murray(a)	1,240	1,240	Natural gas	GA	100
South Bay(a)	700	700	Natural gas	CA	100
Vermillion(b)	648	648	Natural gas	IN	100
Lee(b)	640	640	Natural gas	IL	100
Enterprise Energy(b)	640	640	Natural gas	MS	100
Southhaven(b)	640	640	Natural gas	MS	100
Sandersville(b)	640	640	Natural gas	GA	100
Marshall County(b)	640	640	Natural gas	KY	100
Hot Spring(a)	620	620	Natural gas	AR	100
Washington(a)	610	610	Natural gas	OH	100
Griffith Energy(a)	600	300	Natural gas	AZ	50
Arlington Valley(a)	570	570	Natural gas	AZ	100
Hinds(a)	520	520	Natural gas	MS	100
Maine Independence(a)	520	520	Natural gas	ME	100
Bridgeport(a)	500	333	Natural gas	CT	67
St. Francis(a)	494	248	Natural gas	MO	50
New Albany Energy(b)	385	385	Natural gas	MS	100
American Ref-Fuel(c)	380	190	Waste-to-energy	CT, MA, NJ, NY, PA	50
Bayside(a)	265	199	Natural gas	NB	75
Oakland(b)	165	165	Oil	CA	100
McMahon(d)	117	59	Natural gas	BC	50
Ft. Frances(d)	110	110	Natural gas	ON	100
Total	15,184	14,157			

(a) Facilities are combined cycle plants
(b) Facilities are peaker plants
(c) Facilities are waste to energy plants
(d) Facilities are cogeneration plants

DENA had approximately 1,860 net MW under construction for completion to meet summer 2003 peak demands. In addition to facilities in operation or under construction, in September 2002, DENA deferred construction on approximately 2,450 net MW of projects, including its Moapa, Grays Harbor and Luna plants.

(For additional information and a map showing DENA's properties, see "Business, Duke Energy North America.")

INTERNATIONAL ENERGY

As of December 31, 2002, International Energy's generation portfolio in operation included:

Name	Gross MW	Net MW	Fuel	Location	Approximate Ownership Interest (percentage)
Paranapanema	2,307	2,185	Hydro	Brazil	95%
Hidroelectrica Cerros Colorados	576	523	Hydro/Natural gas	Argentina	91
Egenor	529	528	Hydro/Diesel/HFO	Peru	100
Puncakjaya Power	385	330	Coal/Diesel	Indonesia	86
Acajutla	293	265	HFO/Diesel	El Salvador	90
Western Australia Power	250	247	Natural Gas/Diesel	Australia	100
Electroquil	180	125	Diesel	Ecuador	69
DEI Guatemala y Cia	168	168	HFO/Diesel	Guatemala	100
Aquaytia	160	61	Natural Gas	Peru	38
Empressa Electrica Corani	126	63	Hydro	Bolivia	50
Glenbrook Power Station	112	108	Natural Gas/Kiln Gases	New Zealand	100
Compagnie Thermique du Rouvray	103	103	Natural Gas	France	100
Bairnsdale	86	86	Natural Gas	Australia	100
Total	5,275	4,792			

As of December 31, 2002, DEI had approximately 165 net MW under construction in Latin America and owned approximately 1,340 miles of pipeline systems in Australia. Additionally, DEI had an 11.84% ownership interest in 855 miles of pipeline systems in Australia and a 37.83% ownership interest in 190 miles of pipeline systems in Peru. Also, as of December 31, 2002, DEI had 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. In addition, DEI had a 50% non-controlling ownership interest in the Campeche project, a natural gas compression facility in Mexico and a 30% indirect interest in the Cantarell project, a large nitrogen extraction facility in Mexico.

(For additional information and a map showing International Energy's properties, see "Business, International Energy.")

DUKE VENTURES

(For information regarding Duke Ventures' properties, see "Business, Duke Ventures" earlier in this section.)

OTHER

None of the properties used in Duke Energy's other business activities are considered material to Duke Energy's operations as a whole.

Item 3. Legal Proceedings.

For information regarding legal proceedings, including regulatory and environmental matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters—Franchised Electric" and Note 16 to the Consolidated Financial Statements, "Commitments and Contingencies—Litigation" and "Commitments and Contingencies—Environmental."

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of Duke Energy's security holders during the fourth quarter of 2002.