



# Second Quarter 2004 Earnings Review

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## Safe Harbor Statement

### Under the Private Securities Litigation Act of 1995

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

## Regulation G

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

# Second Quarter Highlights

	<b>2Q04</b>	<b>2Q03</b>
Reported EPS	\$ 0.46	\$ 0.46
Special Items	(0.04)	(0.16)
EPS excluding special items	<u>\$ 0.42</u>	<u>\$ 0.30</u>

## ■ Key Events for Second Quarter 2004

- Regulated businesses continue to deliver solid earnings and strong cash flow
- Field Services benefited from strong NGL prices and operating improvements
- Crescent benefited from increased commercial and land sales
- Recorded a \$130 million pre-tax benefit related to the Enron settlement and a \$105 million pre-tax charge related to the western energy markets settlement
- DENA realized positive EBIT impact of \$24 million from mark-to-market (MTM) fluctuations and a \$10 million loss on liquidation of DETM contracts
- Announced asset sales have exceeded target for the year; \$2.8 billion in cash proceeds including \$650 million in tax benefits
- Debt reductions have reached \$1.7 billion of the \$3.5 to \$4 billion target for the year

# Franchised Electric

## ■ Second Quarter 2004

- Favorable weather increased sales to residential and commercial customers but were partially offset by lower bulk power marketing sales
- Company took steps to share bulk power marketing profits in NC and SC resulting in a \$27 million charge for YTD activity for profit sharing and related contributions

Segment EBIT  
(\$ millions)

<b>Quarter</b>	<b>2Q04</b>	<b>2Q03</b>
Reported Segment EBIT	\$ 338	\$ 316
Special item	(3)	---
Ongoing EBIT	<u>\$ 335</u>	<u>\$ 316</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 762	\$ 770
Special item	(3)	(1)
Ongoing EBIT	<u>\$ 759</u>	<u>\$ 769</u>

# Natural Gas Transmission

- Second Quarter 2004
  - Benefited from business expansion projects and stronger operating results at Gulfstream and Union Gas
  - Recognized a \$9 million gain on sale of gas inventory
  - Foreign currency translation related to the Canadian dollar also benefited results for the quarter by \$12 million
  - Resolution of ad valorem tax issues in several states increased EBIT by \$17 million
- Second Quarter 2003 results included a \$31 million gain related to asset sales and \$4 million in EBIT related to assets sold

Segment EBIT  
(\$ millions)

<b>Quarter</b>	<b>2Q04</b>	<b>2Q03</b>
Reported Segment EBIT	\$ 311	\$ 306
Special items	(9)	(31)
Ongoing EBIT	<u>\$ 302</u>	<u>\$ 275</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 709	\$ 729
Special items	(9)	(46)
Ongoing EBIT	<u>\$ 700</u>	<u>\$ 683</u>

# Field Services

- Second Quarter 2004
  - Favorable results for the quarter were primarily due to strong NGL prices
  - Other positive contributions from:
    - Lower operating expenses
    - New margins related to acquisition from ConocoPhillips
    - Increased earnings from TEPPCO
- Second Quarter 2003 results included an \$11 million gain on sale of TEPPCO units
- Operating Income sensitivity for full year 2005 (net to Duke, without additional hedging)
  - NGL: + / - 1¢/gal = + / - \$12 million EBIT
- DEFS paid \$87 million dividend to its parent companies; Duke Energy's share was \$61 million

Segment EBIT from continuing operations  
(\$ millions)

<b>Quarter</b>	<b>2Q04</b>	<b>2Q03</b>
Reported Segment EBIT	\$ 94	\$ 53
Special items	(1)	(11)
Ongoing EBIT	<u>\$ 93</u>	<u>\$ 42</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 186	\$ 83
Special items	(1)	(11)
Ongoing EBIT	<u>\$ 185</u>	<u>\$ 72</u>

# Duke Energy North America

## ■ Second Quarter 2004

- Increased losses from energy generation due to lower spark spreads were partially offset by improved margins from structured contracts, primarily gas
- Lower depreciation and G&A expenses were partially offset by higher O&M expenses
- Special items during the quarter included:
  - \$108 million pre-tax benefit, net of minority interest, related to the Enron settlement
  - \$105 million pre-tax charge related to the settlement in the western US energy markets
  - Loss on asset sales of \$10 million, net of minority interest, related to contract liquidation at DETM
- Results for the quarter were positively affected by \$24 million, net of minority interest, due to commodity price changes in the MTM portfolio

- Second Quarter 2003 included a pre-tax gain on asset sale of \$175 million and \$14 million of EBIT related to assets sold last year

## Segment EBIT (\$ millions)

<b>Quarter</b>	<b>2Q04</b>	<b>2Q03</b>
Reported Segment EBIT	\$ (39)	\$ 211
Special Items	7	(175)
MTM gain	(24)	(51)
Segment EBIT before special items and MTM	<u>\$ (56)</u>	<u>\$ (15)</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ (596)	\$ 234
Special Items	366	(175)
MTM loss (gain)	63	(77)
Segment EBIT before special items and MTM	<u>\$ (167)</u>	<u>\$ (18)</u>

# EBIT Analysis

(\$ in millions)

	<u>2Q04 Actual</u>
Total Gross Margin from Accrual Portfolio	\$ 104
Expenses:	
O&M	(82)
Depreciation	(39)
General and administrative	(46)
Minority interest benefit	4
Other income	3
Total Expenses	<u>(160)</u>
Segment EBIT before special items and MTM change	\$ (56)
Enron settlement	108 *
Western energy market settlement	(105)
Loss on asset sale at DETM	(10) **
Changes in MTM portfolio	24 ***
Reported Segment EBIT	<u>\$ (39)</u>

\* \$113 million, before minority interest

\*\* \$16 million loss, before minority interest

\*\*\* \$22 million, before minority interest

# International Energy

- Second Quarter 2004
  - Higher earnings from Latin American assets and lower operating expenses
- Second Quarter 2003 benefited from:
  - Favorable regulatory audit in Brazil for \$19 million
  - Early termination of a natural gas sales contract for \$18 million
- Closing of sale of Cantarell facility expected in the third quarter
- Current year and prior year earnings and related charges for Australian and European operations are included in Discontinued Operations

Segment EBIT from continuing operations  
(\$ millions)

<b>Quarter</b>	<b>2Q04</b>	<b>2Q03</b>
Reported Segment EBIT	\$ 68	\$ 91
Special Item	---	(1)
Ongoing EBIT	<u>\$ 68</u>	<u>\$ 90</u>
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 97	\$ 131
Special item	13	(1)
Ongoing EBIT	<u>\$ 110</u>	<u>\$ 130</u>

# Crescent Resources

- Second Quarter 2004
  - Higher earnings from commercial land sales, primarily at Potomac Yard in Virginia
  - Increased residential developed lot sales

Segment EBIT from continuing operations  
(\$ millions)

<b>Quarter</b>	<b>2Q04</b>	<b>2Q03</b>
Reported Segment EBIT	\$ 87	\$ 21
<b>Year-to-date</b>	<b>2004</b>	<b>2003</b>
Reported Segment EBIT	\$ 147	\$ 21

# Progress Made on Financial Plans

- ✓ Debt reduction has reached approximately \$1.7 billion as of June 30
  - \$900 million in Australian debt (1)
  - \$350 million of Duke Energy trust preferred securities
  - \$250 million of Duke Energy trust preferred securities
  - \$200 million of Duke Energy retail notes
  - \$100 million of Duke Capital bonds
  - \$100 million of Duke Capital floating rate notes
  - \$75 million of Westcoast preferred shares (2)
  - Long-term debt reductions of nearly \$2 billion were partially offset by higher commercial paper borrowings of approximately \$300 million
- ✓ Capital spending for 2004 is expected to be about \$2.5 billion
- ✓ 2004 gross proceeds from announced asset sales have reached \$2.8 billion including approximately \$650 million in tax benefits
- ✓ No longer issuing new common stock shares for employee retirement plan and dividend reinvestment program for shareholders; now using market purchases

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

(2) *Classified in Minority Interests*

# Liquidity Position

(as of June 30, 2004)

	Duke Energy	Duke Capital	Other *	Total
<b>TOTAL CREDIT FACILITIES CAPACITY</b>	\$650 million	\$1,200 million	\$696 million	<b>\$2.5 billion</b>
<b>CP Outstanding</b>	\$546 million	n/a	n/a	\$546 million
<b>LOC Outstanding</b>	n/a	\$618 million	n/a	\$618 million
<b>Other Borrowings</b>	n/a	n/a	n/a	n/a
<b>TOTAL OUTSTANDING</b>				<b>\$1.2 billion</b>
<b>TOTAL UNUSED CAPACITY</b>				<b>\$1.3 billion</b>
<b>Cash and Cash Equivalents</b>				<b>\$2.6 billion</b>

\* Includes Westcoast, Union Gas and Field Services.

# Progress Toward Year-end Goals

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- Financial plans
  - Exceeded asset sales goal for the year
  - Debt reductions underway and ahead of schedule for the year
  - Ongoing EPS of 76¢ for first six months of 2004
- Continued progress at DENA toward reducing losses and mitigating risks
- Other businesses are performing well; delivering solid results and strong cash flows
- Significantly reduced legal and regulatory exposures
- Financial strength and flexibility creates ability to pursue opportunities

Special items for the quarter include:

(\$ in Millions)	Pre-Tax Amount	Tax Effect	2004 EPS Impact	2003 EPS Impact
<b>Second quarter 2004</b>				
• Enron settlement (net of minority interest)	\$130	(\$46)	\$0.09	
• True-up on net gain on sale of International Energy assets	38	(9)	0.03	
• California and western U.S. energy markets settlement	(105)	37	(0.07)	
• Net losses on asset sales (net of minority interest)	(5)	2	---	
• Interest related to litigation reserve	(12)	4	(0.01)	
<b>Second quarter 2003</b>				
• Gains on asset sales (net of minority interest)	\$229	(\$83)		0.16
<b>Total EPS Impact</b>				
			<b>\$0.04</b>	<b>\$0.16</b>
EPS, as reported			\$0.46	\$0.46
EPS, ongoing *			\$0.42	\$0.30

\* Includes results from operations primarily in International Energy and Field Services that have been discontinued.

Special items for the first quarter include:

(\$ in Millions)	Pre-Tax Amount	Tax Effect	2004 EPS Impact	2003 EPS Impact
<b>First Quarter 2004</b>				
Gain on sale of Australian assets	\$256	(\$18)	\$0.26	--
Net loss on sale of DENA assets, primarily anticipated sale of southeast U.S. plants	(359)	134	(0.25)	--
Gains on sale of other assets, including Caribbean Nitrogen Co.	14	(5)	0.01	--
Charge related to planned sale of Cantarell investment	(13)	5	(0.01)	--
<b>First quarter 2003</b>				
2003 gain on asset sales	16	(5)	--	\$0.01
2003 change in accounting principles	(256)	94	--	(0.18)
<b>TOTAL EPS IMPACT</b>			<b>\$0.01</b>	<b>(\$0.17)</b>
EPS, as reported			\$0.34	\$0.25
EPS, ongoing			\$0.33	\$0.42

Special items EPS year-to-date impact:

	<b>2004</b>	<b>2003</b>
First quarter	\$0.01	(\$0.17)
Second quarter	0.04	0.16
Impact of change in shares outstanding	(0.01)	--
<b>Total EPS Impact</b>	<b>\$0.04</b>	<b>(\$0.01)</b>
Year-to-date EPS, as reported	\$0.80	\$0.71
Year-to-date EPS, ongoing *	\$0.76	\$0.72

\* Includes results from operations primarily in International Energy and Field Services that have been discontinued.

**Duke Energy Corporation**

Anticipated cash proceeds and tax benefits from sale of DENA southeast plants and Moapa

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	(in millions)
Cash proceeds	\$ 657
Tax benefits	<u>648</u>
	<u>\$ 1,305</u>
Rounded	<u><u>\$1,300</u></u>

## Duke Energy Corporation

### Debt reduction reconciliation - Estimated for calendar year 2004

	(in millions)	
	Low	High
Issuances of long-term debt, per condensed cash flow statement	\$ 112	\$ 112
Payments for the redemption of long-term debt, preferred stock of subsidiary and net paydown of commercial paper and notes payable, per condensed cash flow statement	(2,729)	(3,229)
Debt in Australian asset sales (non-cash)	<u>(883)</u>	<u>(883)</u>
Total anticipated debt reduction, per earnings release slides	<u>\$ (3,500)</u>	<u>\$ (4,000)</u>

### Debt reduction reconciliation - Six months ending June 30, 2004

	(in millions)	
Issuances of long-term debt, per condensed cash flow statement	\$ 112	
Payments for the redemption of long-term debt, preferred stock of subsidiary and net paydown of commercial paper and notes payable, per condensed cash flow statement	(917)	
Debt in Australian asset sales (non-cash)	<u>(883)</u>	
Total debt reduction, per earnings release slides	<u>\$ (1,688)</u>	
	Rounded	<u>\$ (1,700)</u>

**Duke Energy Corporation**

Calendar year 2004 Estimated Capital Spending

(in millions)

Capital and investment expenditures, net of refund - presented as investing cash flows

\$ 2,254

Capital expenditures for Crescent residential real estate - presented as operating cash flows

242

\$ 2,496

Rounded

\$ 2,500

Duke Energy Corporation  
Regulation G Reconciliation Schedules  
Second Quarter 2004 Earnings Release

2004 DENA Segment EBIT

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

# Duke Energy North America

## Reconciliation of Merchant Energy Gross Margin and EBIT Analysis

### From the Earnings Release Supplemental Disclosures to the Earnings Release Slide

Quarter-to-date June 30, 2004

(\$ in millions)

	From quarterly supplemental disclosures	Difference	from earnings release slide (non-GAAP)
<b>Merchant Energy Gross Margin</b>			
Mark-to-market gross margin (loss)	\$ 22	\$ 2 a)	\$ 24
Accrual gross margin (loss)	104		104
Total gross margin	126	2	128
Reconciliation to Segment EBIT:			
Plant depreciation	(39)		(39)
Plant operating and maintenance expenses	(82)		(82)
General and administrative and other expenses	(38)	(8) b)	(46)
Minority interest	7	(3) a),b),c)	4
Other income, net of expenses	3		3
Gain (loss) on sale of other assets	(16)	6 c)	(10)
Other items presented in the earnings release slide:			
Enron settlement		108 b)	108
Western energy market settlement		(105) b)	(105)
DENA Segment EBIT	<u>\$ (39)</u>	<u>\$ -</u>	<u>\$ (39)</u>

a) \$2 represents a minority interest benefit which is included in changes in MTM portfolio in the earnings release slide.

b) (\$8) represents the following items shown separately in the earnings release slide: (i) \$108 Enron settlement and (ii) (\$105) Western energy market settlement. In addition, the \$108 Enron is net of \$5 in minority interest expense (and minority interest is shown separately in the supplemental disclosures).

c) \$6 represents the minority interest benefit for charges related to DETM losses on sale of other assets.