

Edgar Filing: DUFF & PHELPS UTILITIES INCOME INC - Form N-30B-2

DUFF & PHELPS UTILITIES INCOME INC

Form N-30B-2

November 26, 2001

Dear Fellow Shareholders:

The Fund's Board and Officers extend their thoughts and prayers to everyone affected by the tragic events of September 11, 2001. The operation of your Fund has not been interrupted during this period, and we continue the objective of providing a high level of income to our shareholders.

Performance Review: Your Fund had a total return (market price change plus income) of 1.4% for the third quarter of 2001. In comparison, the S&P Utilities Index had a total return of -18.0%, and a composite of the S&P Utilities Index and the Lehman Utility Bond Index, reflecting the stock and bond ratio of the Fund, had a total return of -12.2%. Year-to-date, total return of your Fund has been 8.1% compared to -28.1% for the S&P Utilities Index and -19.6% for the composite.

During the third quarter of 2001, your Fund paid three monthly 6.5 cent dividends. The 6.5 cent per share monthly rate, without compounding, would be 78 cents annualized, or a 7.27% common stock dividend yield based on the September 28, 2001 closing price of \$10.73 per share. That yield compares favorably with the quarter-end yield of 4.0% on the Dow Jones Utility Index and the 3.4% yield on the S&P Utilities Index.

Post California Regulatory Environment: California energy markets have settled down considerably since the early part of this year, which has given all involved a welcome respite. Initially, when deregulation legislation was passed in California, everyone was expected to benefit; consumers were to purchase lower cost power, distribution companies were to enjoy an annuity-like revenue stream, and generators were to profit from the efficiencies that could be extracted from plant operations that were no longer subjected to regulated rates.

At least two of these three benefits failed to materialize, and California and electricity distribution companies owe electricity generators billions of dollars. Your Fund's management does not believe the problems are the result of deregulation per se, rather the result of a faulty plan. The plan effectively suppressed supply growth at the same time the State's economy, and resulting demand for electricity, was surging. The plan ultimately unraveled due to a drought in the Pacific Northwest, the region which could have supplied California's excess power needs under normal weather conditions. Conversely, other states have successfully implemented deregulation or are currently running pilot programs as a stepping stone to full deregulation. These include Arizona, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Ohio, Pennsylvania, Texas, and Virginia. Nonetheless, the effects of California's problems have affected the attitude of other lawmakers across the country, leading some states to delay or suspend the drafting or implementation of deregulation legislation. These include Arkansas, Montana, Nevada, New Mexico, Oklahoma, and Oregon. Still others--such as Colorado, Florida, Indiana, Kansas, Missouri, and North Carolina--have decided not to touch the issue for some time.

In the long run, we believe that the federal government's broad plan for deregulating the U.S. energy sectors ultimately will be advanced, putting pressure on the lagging states to face the issues involved once again. However, in the interim, the urgency for energy policy action which the Bush

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Administration possessed earlier this summer, has understandably been supplanted by the September 11 tragedy and aftermath. Ultimately, the experience of California can be a guide to other states in what not to do in designing their own deregulation plans. The Fund has benefited by making minimal investments in California and other venues with significant regulatory uncertainty.

The Enron Effect, Dividend Yield, and Sector Performance: At the beginning of 2001, Enron Corp. (ENE) was the leader of the relatively new merchant energy group. ENE was the elite of a new breed of companies that had broken away from the traditional regulated utility model and evolved into growth-oriented energy companies focused on electric generation for the unregulated wholesale market, commodity trading, and energy arbitrage on a regional, national, and in some cases international basis. The energy merchants typically paid little or no dividend to shareholders.

The merchant strategy paid off handsomely last year during a period of high and volatile energy prices. However, this year, the bubble has burst. Over the last nine months, ENE's stock price has plummeted from over \$80.00 to under \$9.00. With ENE encircled by the speculation of bankruptcy, its archrival--Dynergy Inc. (DYN)--has come to the rescue with a merger proposal for less than \$11.00 per share. The Fund sold ENE during the summer of 2000 at a nice profit.

ENE's possible demise results from a combination of factors including: the economic slowdown, declining commodity prices, fears of over capacity in electric generation, and a slowdown in the deregulation movement that is a fallout from the California power crises. However, the biggest contributors to ENE's sudden collapse may have been unprofitable off-balance sheet investments coupled with questionable accounting practices.

The impact on the rest of the utility industry has been immediate. Several companies are rethinking their strategies and are shying away from the high growth merchant energy model. For example, Utilicorp United Inc. has reversed course and decided to buy back the 20% of its Aquila Inc. (ILA) merchant energy subsidiary that was taken public just six months ago. Many companies are gravitating back toward a greater focus on the historic utility model as managements realize that being a more traditional, integrated, dividend-paying electric utility with less economically sensitive earnings is not a bad model to follow.

The S&P Utilities Index includes significant weighting in the large energy merchant companies and the Index performance year-to-date has suffered as a result. The Fund does not have large weightings in merchant companies, as many of these companies do not meet Fund objectives for consistent earnings and dividends. That investment posture has benefited the Fund in 2001.

Board of Directors Meeting--At the regular October Board of Directors' meeting, the Board declared the following monthly dividend:

Cents Per Share Record Date Payable Date  
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6.5 cents... November 30 December 10

The Board next meets in December, when it will establish the year-end dividend, as well as the January and February dividends.

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Automatic Dividend Reinvestment Plan and Direct Deposit Service--The Fund has a dividend reinvestment plan available to all registered shareholders. As long as the market price of the common stock of the Fund exceeds or is equal to the net asset value per share, new shares for the dividend reinvestment program are issued at the greater of either 95% of the market price or the net asset value. If the market price per share of common stock is below the net asset value per share, shares are purchased in the open market at prevailing market prices, plus any brokerage commissions paid by The Bank of New York for all shares purchased by it in the reinvestment of the distribution and credited to the accounts of plan participants.

Those shareholders whose shares are held for them by a brokerage house or nominee in "street-name" may not participate in the Fund's automatic dividend reinvestment plan inasmuch as the Fund cannot communicate directly with those shareholders since the Fund does not have their name and address. Thus for those Fund shareholders in "street-name" desiring automatic dividend reinvestment, we suggest you contact your broker or other nominee.

As an added service, the Fund offers direct deposit service through electronic funds transfer to all registered shareholders currently receiving a monthly dividend check. Direct deposit provides automatic and immediate access to your funds on the dividend payment date and eliminates the possibility of mail delays and lost or stolen checks. This service is offered through The Bank of New York. For more information and/or an authorization form on automatic dividend reinvestment or direct deposit, please contact The Bank of New York (1-877-381-2537 or <http://stock.bankofny.com>).

Visit us on the Web--You can obtain the most recent shareholder financial report and dividend information at our web site <http://www.duffutility.com>.

We appreciate your interest in Duff & Phelps Utilities Income Inc., and we will continue to do our best to be of service to you.

/s/ Claire V. Hansen

/s/ Nathan I. Partain

Claire V. Hansen, CFA

Nathan I. Partain, CFA

Chairman

President and Chief  
Executive Officer

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DUFF & PHELPS UTILITIES INCOME INC.  
STATEMENT OF NET ASSETS  
(UNAUDITED)  
September 30, 2001

COMMON STOCKS--72.6%

Shares	Company	Market Value (Note 1)
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[\_] ELECTRIC--40.2%

1,300,000	Allegheny Energy Inc.....	\$ 47,710,000
1,000,000	Allete Inc.....	25,640,000
796,000	Dominion Resources.....	47,242,600
1,600,000	DTE Energy Co.....	68,880,000
1,300,000	Duke Energy Corp.....	49,205,000
1,593,400	Endesa S.A.....	24,442,756
1,005,000	Entergy Corp.....	35,737,800
1,000,000	Exelon Corp.....	44,600,000
1,299,100	FPL Group Inc.....	69,566,805
1,000,000	Keyspan Corp.....	33,240,000
215,000	National Grid Group PLC ADR.....	6,802,600
770,000	National Grid Group PLC (United Kingdom)...	4,863,426
2,256,600	NiSource Inc.....	52,601,346
1,318,600	NSTAR.....	55,249,340
1,120,000	Pinnacle West Capital Corp.....	44,464,000
1,375,000	Progress Energy Inc.....	59,111,250
1,000,000	Public Service Enterprise Group.....	42,550,000
850,000	Scottish & Southern Energy (United Kingdom)	8,051,514
200,000	Scottish & Southern Energy ADR.....	18,944,460
1,000,000	Scottish Power PLC ADR.....	23,700,000
3,500,000	Southern Co.....	83,930,000
1,000,000	TECO Energy Inc.....	27,100,000
420,748	TXU Corp.....	19,489,047
2,425,000	UtiliCorp United Inc.....	67,924,250
1,500,000	Vectren Corp.....	33,585,000
		-----
		994,631,194

[\_] GAS--7.3%

926,000	AGL Resources.....	18,492,220
704,800	El Paso Energy Corp.....	29,284,440
800,000	National Fuel Gas Co.....	18,424,000
600,000	NICOR Inc.....	23,250,000
600,000	Peoples Energy Corp.....	23,856,000
1,000,000	WGL Holdings Inc.....	26,890,000
1,500,000	Williams Companies Inc.....	40,950,000
		-----
		181,146,660

The accompanying note is an integral part of this financial statement.

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DUFF & PHELPS UTILITIES INCOME INC.  
STATEMENT OF NET ASSETS--(Continued)  
(UNAUDITED)  
September 30, 2001

Shares	Company	Market Value (Note 1)
-----	-----	-----

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[\_] TELECOMMUNICATION--14.5%

1,000,000	Alltell Corp.....	\$ 57,950,000
1,730,000	BellSouth Corp.....	71,881,500
2,137,230	SBC Communications Inc.....	100,706,278
700,000	Swisscom AG ADR.....	19,726,000
856,250	Telecom Corp. of New Zealand Interim ADR	11,901,875
1,068,400	Telstra Corp. ADR.....	13,568,680
1,519,000	Verizon Communications.....	82,193,090
		-----
		357,927,423

[\_] NON-UTILITY--10.6%

223,450	Apartment Investment & Management Co....	10,113,347
75,400	Archstone Communities Trust.....	1,967,940
200,000	Avalon Bay Communities Inc.....	9,550,000
409,000	Boston Properties Inc.....	15,595,170
216,900	Camden Property Trust.....	8,046,990
347,400	CBL & Associates Properties Inc.....	9,466,650
403,600	Centerpoint Properties Corporation.....	19,271,900
200,000	Chelsea GCA Realty Inc.....	9,090,000
495,000	Duke-Weeks Realty Corp.....	11,726,550
766,228	Equity Office Properties Trust.....	24,519,296
225,000	Equity Residential Properties Trust.....	13,140,000
215,000	Essex Property Trust Inc.....	10,556,500
278,100	First Industrial Realty Trust.....	8,343,000
250,000	General Growth Properties, Inc.....	8,692,500
290,000	Green S.L. Realty Properties Inc.....	9,140,800
200,000	Kimco Realty Corp.....	9,710,000
150,000	Mack-Cali Realty Corp.....	4,650,000
75,000	Pan Pacific Retail Properties Inc.....	1,976,250
370,600	ProLogis Trust.....	7,819,660
50,000	Public Storage Inc.....	1,670,000
525,100	Reckson Associates Realty Corp.....	12,681,165
171,545	Reckson Associates Realty Corp. Class B.	4,376,113
125,000	Simon Property Group.....	3,363,750
225,000	Smith Charles E. Residential Realty Inc.	11,587,500
34,500	Storage USA.....	1,366,200
349,000	Summit Properties.....	9,161,250

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DUFF & PHELPS UTILITIES INCOME INC.  
 STATEMENT OF NET ASSETS--(Continued)  
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Shares	Company	Market Value (Note 1)
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465,800 Vornado Realty Trust.....	\$	18,492,260
104,500 Weingarten Realty Investors.....		5,078,700
		261,153,491
Total Common Stocks (Cost--\$1,665,553,206).....		1,794,858,768

PREFERRED STOCKS--8.0%

[ ] NON-UTILITY--1.1%

500,000 Cox Communications Inc. 7% 8/16/02.....		27,285,000
		27,285,000

[ ] UTILITY--6.9%

450,000 Dominion Resources 9 1/2% 11/16/04.....		26,437,500
700,000 Duke Capital Financing Trust III 8 3/8% 8/31/29		18,935,000
1,200,000 Duke Energy 8 1/4% 5/18/04.....		31,560,000
223,500 EIX Trust II Series B 8.60% 10/29/29.....		3,453,075
550,000 MediaOne Group 7.00% 11/15/02.....		14,025,000
500,000 NiSource Industries Inc. 7.75% 2/19/03.....		23,040,000
209,000 P P & L Capital Trust II 8.10% 7/01/27.....		5,245,900
789,100 Texas Utilities Co. 9 1/4% 8/16/02.....		20,500,818
450,900 Utilicorp United Inc. 9 3/4% 11/16/02.....		13,752,450
		156,949,743
Total Preferred Stocks (Cost--\$185,240,399)....		184,234,743

BONDS--21.8%

		Ratings			
Par Value	Company	Fitch IBCA, Duff & Phelps	Moody's	Standard and Poor's	Market Value (Note 1)
		[ ] ELECTRIC--10.3%			
\$ 5,000,000	AES Ironwood Corp. 8.857%, due 11/30/25	Not Rated	Baa3	BBB-	\$ 5,312,885
18,050,000	Comed Financing II 8 1/2%, due 1/15/27.	Not Rated	Baa2	BBB	18,319,847

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STATEMENT OF NET ASSETS--(Continued)  
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Par Value	Company	Ratings			Market Value (Note 1)
		Fitch IBCA, Duff & Phelps	Moody's	Standard and Poor's	
\$ 7,500,000	Commonwealth Edison Co. 9 7/8%, due 6/15/20.....	A-	A3	A-	\$ 8,599,553
8,850,000	Commonwealth Edison Co. 8 5/8%, due 2/01/22.....	A-	A3	A-	9,202,141
5,000,000	Commonwealth Edison Co. 8 3/8%, due 9/15/22.....	A-	A3	A-	5,258,375
10,000,000	Commonwealth Edison Co. 8 3/8%, due 2/15/23.....	A-	A3	A-	10,473,880
6,000,000	Dayton Power and Light 8.15% due 1/15/26.....	AA	A2	BBB+	5,973,684
24,000,000	Dominion Resources Capital Trust 7.83%, due 12/01/27.....	BBB	Baa2	BBB-	23,538,600
5,000,000	Gulf States Utilities 8.94%, due 1/01/22.....	BBB	Baa3	BBB-	5,241,990
1,000,000	Houston Lighting 8 3/4%, due 3/01/22.....	A-	A3	BBB+	1,037,232
19,800,000	Hydro--Quebec 9 3/4%, due 1/15/18.....	AA-	A1	A+	21,325,570
5,000,000	Illinois Power Co. 7 1/2%, due 7/15/25.....	A-	Baa1	BBB+	4,815,960
5,000,000	Louisiana Power & Light Co. 8 3/4%, due 3/01/26.....	BBB+	Baa2	BBB+	5,142,060
4,000,000	New York State Electric & Gas Corp. 8 7/8%, due 11/01/21.....	A	A3	A	4,193,992
5,000,000	Progress Energy Inc. 7 3/4%, due 3/01/31.....	Not Rated	Baa1	BBB	5,371,225
5,000,000	PSEG Power 8 5/8%, due 4/15/31.....	Not Rated	Baa1	BBB	5,673,205
10,000,000	Public Service Co. of Colorado 8 3/4%, due 3/01/22.....	A	A3	A	10,395,330
22,750,000	Puget Capital Trust 8.231%, due 6/01/27.....	Not Rated	Baa3	BB+	21,938,872
13,000,000	Southern Co. Capital Trust 8.14%, due 2/15/27.....	Not Rated	Baa1	BBB+	12,612,327
27,830,000	Texas Utilities Electric Co. 9 3/4%, due 5/01/21.....	A-	A3	BBB+	29,299,006

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STATEMENT OF NET ASSETS--(Continued)  
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Par Value	Company	Ratings			Market Value (Note 1)
		Fitch IBCA, Duff & Phelps	Moody's	Standard and Poor's	
\$12,000,000	UtiliCorp United Inc. 8%, due 3/01/23.....	BBB	Baa3	BBB	\$ 11,396,328
10,000,000	Virginia Electric & Power Co. 8 5/8%, due 10/01/24.....	A+	A2	A	10,666,970
17,700,000	Virginia Electric & Power Co. 8 1/4%, due 3/01/25.....	A+	A2	A	18,384,300
					----- 254,173,332
	[_] GAS--2.7%				
5,125,000	ANR Pipeline Co. 9 5/8%, due 11/01/21.....	Not Rated	Baa1	BBB+	6,049,709
5,000,000	KN Energy Inc. 7 1/4%, due 3/01/28.....	BBB	Baa2	BBB	4,843,090
10,000,000	Northern Border Partners LP 8 7/8%, due 6/15/10.....	BBB+	Baa1	BBB+	11,355,590
5,000,000	Southern California Gas Co. 8 3/4%, due 10/01/21.....	AA	A1	AA-	5,224,175
6,488,000	Southern Union Co. 7.60%, due 2/01/24.....	BBB+	Baa2	BBB+	6,178,204
8,850,000	Southern Union Co. 8 1/4%, due 11/15/29.....	BBB+	Baa2	BBB+	8,975,962
10,000,000	TE Products Pipeline Co. 7.51%, due 1/15/28.....	Not Rated	Baa2	BBB	9,302,990
9,000,000	Trans-Canada Pipeline 9 1/8%, due 4/20/06.....	Not Rated	A3	BBB	10,256,148
4,000,000	Transcontinental Gas Pipeline Co. 8 7/8%, due 9/15/02.....	BBB+	Baa1	BBB+	4,200,988
					----- 66,386,856
	[_] TELECOMMUNICATION--6.8%				
19,000,000	AT&T Corp. 8.35%, due 1/15/25.....	A-	A2	A	19,678,946
15,000,000	AT&T Wireless Services Inc. 8 3/4%, due 3/01/31.....	BBB	Baa2	BBB	16,572,165
10,000,000	Bell South Capital Funding 7 7/8% 2/15/30.....	AA-	Aa3	A+	11,015,190

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DUFF & PHELPS UTILITIES INCOME INC.  
 STATEMENT OF NET ASSETS--(Continued)  
 (UNAUDITED)  
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Par Value	Company	Ratings			Market Value (Note 1)
		Fitch IBCA, Duff & Phelps	Moody's	Standard and Poor's	
\$25,000,000	British Telecom PLC 8 5/8%, due 12/15/30.....	A	Baa1	A-	\$ 28,182,250
11,350,000	France Telecom 8 1/2%, due 3/01/31.....	BBB+	Baa1	BBB+	12,183,998
12,000,000	GTE California Inc. 8.07%, due 4/15/24.....	AA	AA3	A+	12,228,480
17,625,000	GTE Corp. 7.90%, due 2/01/27.....	A+	A2	A+	17,758,122
13,750,000	New England Telephone & Telegraph 9%, due 8/01/31.....	AA	Aa2	A+	14,690,184
9,000,000	New York Telephone Co. 7 5/8%, due 2/01/23.....	AA	A1	A+	9,172,890
9,000,000	Tele-Commun Inc. 9.80%, due 2/01/12.....	A-	A3	A	10,927,755
5,000,000	US West Communications 8 7/8%, due 6/01/31.....	A	A2	BBB+	5,298,950
5,000,000	Vodafone Group PLC 7 7/8% 2/15/30.....	NA	A2	A	5,414,470
5,000,000	Worldcom Inc 8 1/4% 5/15/13.....	A-	A3	BBB+	4,909,750
					----- 168,033,150
	[_] NON-UTILITY--2.0%				
\$17,500,000	Contl Cablevision 9 1/2%, due 8/01/13.....	Not Rated	A3	A-	19,781,545
8,000,000	Dayton Hudson Corp. 9 7/8%, due 7/01/20.....	A	A2	A	10,343,040
19,940,000	EOP Operating LP 7 1/2%, due 4/19/29.....	BBB+	Baa1	BBB+	19,130,715
					----- 49,225,300
	Total Bonds (Cost--\$537,583,571).....				----- 537,848,638 -----

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U.S. TREASURY OBLIGATIONS--0.6%		
\$10,000,000	U.S. Treasury Notes	
	10 3/4%, due 5/15/03.....	\$ 1
2,000,000	U.S. Treasury Bonds	
	10 3/4%, due 8/15/05.....	
	Total U.S. Treasury Obligations (Cost--\$13,566,250).....	1
U.S. GOVERNMENT AGENCY OBLIGATIONS--2.9%		
65,000,000	Federal Home Loan Mortgage Corp.	
	9 3/4%, due 2/14/03.....	7
	Total U.S. Government Agency Obligations (Cost--\$70,759,000).....	7
COMMERCIAL PAPER--2.4%		
60,000,000	General Electric Capital Corp.	
	3.00%, due 10/01/01.....	6
	Total Commercial Paper (Amortized cost--\$60,000,000).....	6
CASH AND OTHER ASSETS LESS LIABILITIES-- (7.7%).....		(18)
NET ASSETS		
(equivalent to \$9.26 per share of common stock based on 212,892,771 shares of common stock outstanding, authorized 250,000,000 shares, \$0.001 par value per share and 5,000 shares remarketed preferred stock outstanding, authorized 100,000,000 shares, liquidation preference \$100,000 per share, par value \$0.001 per share).....		\$2,471

The percentage shown for each investment category is the total value of that category as a percentage of the total net assets of the Fund.

-----  
 (1)The market values for securities are determined as follows: Securities traded on a national securities exchange or traded over-the-counter and quoted on the NASDAQ System are valued at last sales prices. Securities so traded for which there were no sales and other securities are valued at the mean of the most recent bid-asked quotations. Bonds not traded on a securities exchange nor quoted on the NASDAQ System are valued at fair value using a procedure determined in good faith by the Board of Directors which includes the use of a pricing service. Each money market instrument having a maturity of 60 days or less is valued on an amortized cost basis. Other assets and securities are valued at a fair value, as determined in good faith by the Board of Directors.

Board of Directors

WALLACE B. BEHNKE

HARRY J. BRUCE

FRANKLIN A. COLE

GORDON B. DAVIDSON

ROBERT J. GENETSKI

CLAIRE V. HANSEN, CFA

FRANCIS E. JEFFRIES, CFA

NANCY LAMPTON

DAVID J. VITALE

Officers

CLAIRE V. HANSEN, CFA  
Chairman

NATHAN I. PARTAIN, CFA  
President and Chief Executive Officer

T. BROOKS BEITTEL, CFA  
Senior Vice President, Secretary and Treasurer

MICHAEL SCHATT  
Senior Vice President

JOSEPH C. CURRY, JR.  
Vice President

DIANNA P. WENGLER  
Assistant Secretary

Duff & Phelps  
Utilities Income Inc.

Common stock listed on the New York Stock Exchange under the symbol DNP

55 East Monroe Street  
Chicago, Illinois 60603  
(312) 368-5510

Shareholder inquiries please contact

Transfer Agent  
Dividend Disbursing  
Agent and Custodian

The Bank of New York

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Shareholder Relations  
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(877) 381-2537

Investment Adviser

Duff & Phelps  
Investment Management Co.  
55 East Monroe Street  
Chicago, Illinois 60603

Administrator

J.J.B. Hilliard, W.L. Lyons, Inc.  
Hilliard Lyons Center  
Louisville, Kentucky 40202  
(888) 878-7845

Legal Counsel

Mayer, Brown & Platt  
190 South LaSalle Street  
Chicago, Illinois 60603

Independent Public Accountants

Arthur Andersen LLP  
33 West Monroe Street  
Chicago, Illinois 60603

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Duff & Phelps  
Utilities Income Inc.

Third  
Quarter  
Report

September  
30, 2001

[Artwork - 2nd Quarter]