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DUKE ENERGY CORP
Form 424B5
May 01, 2003

The information in this prospectus supplement is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-103515

PROSPECTUS SUPPLEMENT (SUBJECT TO COMPLETION) ISSUED MAY 1, 2003

(TO PROSPECTUS DATED MARCH 13, 2003)

[DUKE ENERGY LOGO]

\$700,000,000

% CONVERTIBLE SENIOR NOTES DUE 2023

The Notes will bear interest at the rate of % per annum. Interest on the Notes is payable on and of each year, beginning on , 2003. Beginning with the six-month interest period commencing on , 2007 we will pay contingent interest during a six-month interest period if the average trading price of a Note is above a specified level as described in this prospectus supplement.

The Notes are convertible during certain periods by holders into shares of our common stock initially at a conversion rate of shares of common stock per \$1,000 principal amount of Notes (subject to adjustment in certain events) under the following circumstances: (1) if the price of our common stock issuable upon conversion reaches specified thresholds described in this prospectus supplement, (2) if we call the Notes for redemption, (3) upon the occurrence of specified corporate transactions described in this prospectus supplement, or (4) if the credit ratings assigned to the Notes decline below the levels specified in this prospectus supplement.

The Notes will mature on , 2023, unless earlier converted, redeemed or purchased by us. We may redeem some or all of the Notes at any time on or after , 2007. The redemption prices are described in this prospectus supplement.

The Notes will be our direct, unsecured and unsubordinated obligations and will rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. Holders will have the right to require us to purchase all or a portion of their Notes in cash at a purchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest including contingent interest, if any, on , 2007, , 2012 and , 2017 or upon a fundamental change as described in this prospectus supplement.

We have also granted the underwriters named in this prospectus supplement an option to purchase within 13 days of the closing of the initial offering up to an additional \$70,000,000 aggregate principal amount of Notes to cover overallotments, if any.

Our common stock is listed on the New York Stock Exchange under the symbol "DUK." The last reported sale price of our common stock on April 30, 2003, was \$17.59 per share.

The Notes will be treated as contingent payment debt instruments that will be subject to special United States federal income tax rules. For a discussion of the special tax rules governing contingent payment debt instruments, see

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"Certain United States Federal Income Tax Considerations."

INVESTING IN THE NOTES INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-13 OF THIS PROSPECTUS SUPPLEMENT AND ON PAGE 4 OF THE ACCOMPANYING PROSPECTUS.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER NOTE -----	TOTAL -----
Public offering price(1).....	%	\$
Underwriting discount.....	%	\$
Proceeds to Duke Energy (before expenses) (1).....	%	\$

(1) Plus accrued interest from _____, 2003, if settlement occurs after that date.

We expect the Notes will be ready for delivery in book-entry form through the facilities of The Depository Trust Company on or about _____, 2003.

Joint Book-Running Managers			
CITIGROUP	JPMORGAN	MORGAN STANLEY	WACHOVIA SECURITIES

BANC ONE CAPITAL MARKETS, INC.	CREDIT SUISSE FIRST BOSTON	UBS WARBURG	
ABN AMRO INCORPORATED	CIBC WORLD MARKETS		
DRESDNER KLEINWORT WASSERSTEIN	SCOTIA CAPITAL	TD SECURITIES	
, 2003			

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of the document containing the information.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in or incorporated by reference into this prospectus supplement.

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to "Duke Energy," "we," "us" and "our" or similar terms are to Duke Energy Corporation and its subsidiaries.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast" and other similar words. Those statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Those factors include:

- state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries;
- the outcomes of litigation and regulatory investigations, proceedings or inquiries;
- industrial, commercial and residential growth in our service territories;
- the weather and other natural phenomena;
- the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates;
- general economic conditions, including any potential effects arising from terrorist attacks, the situation in Iraq and any consequential hostilities or other hostilities;
- changes in environmental and other laws and regulations to which we and our subsidiaries are subject or other external factors over which we have no control;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including our credit ratings and general economic conditions;
- lack of improvement or further declines in the market prices of equity securities and resultant cash funding requirements for our defined benefit pension plans;
- the level of creditworthiness of counterparties to our transactions;
- the amount of collateral required to be posted from time to time in our transactions;
- growth in opportunities for our business units, including the timing and success of efforts to develop domestic and international power, pipeline, gathering, processing and other infrastructure projects;
- the performance of electric generation, pipeline and gas processing facilities;

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- the extent of success in connecting natural gas supplies to gathering and processing systems and in connecting and expanding gas and electric markets; and
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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PROSPECTUS SUPPLEMENT SUMMARY

The following is qualified in its entirety by, and should be read together with, the more detailed information, including "Risk Factors," in this prospectus supplement and the accompanying prospectus, and the financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus. Unless otherwise indicated, all of the following assumes that the underwriters have not exercised their option to purchase additional Notes.

DUKE ENERGY CORPORATION

OVERVIEW

Duke Energy is an integrated provider of energy and energy services that offers physical delivery and management of both electricity and natural gas throughout the United States and abroad. Duke Energy, together with its subsidiaries, provides these and other services through seven business segments:

- Franchised Electric
- Natural Gas Transmission
- Field Services
- Duke Energy North America
- International Energy
- Other Energy Services
- Duke Ventures

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, or FERC, the North Carolina Utilities Commission, or NCUC, and the Public Service Commission of South Carolina, or PSCSC.

NATURAL GAS TRANSMISSION provides transportation and storage of natural gas for customers throughout the east coast and southern portion of the United States 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

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Energy acquired Westcoast Energy Inc. on March 14, 2002. Duke Energy Gas Transmission's natural gas transmission and storage operations in the United States 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, markets and stores natural gas liquids, or NGLs. It conducts operations primarily through Duke Energy Field Services, LLC, 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 United States. 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 develops, operates and manages merchant power generation facilities and engages in commodity sales and services related to natural gas and electric power. Duke Energy North America conducts business throughout the United States and Canada through Duke Energy North

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America, LLC and Duke Energy Trading and Marketing, LLC. Duke Energy Trading and Marketing is approximately 40% owned by ExxonMobil Corporation and approximately 60% owned by Duke Energy. Prior to April 1, 2002, the Duke Energy North America business segment was combined with Duke Energy Merchants Holdings, LLC to form a segment called North American Wholesale Energy. In 2002, management combined Duke Energy Merchants Holdings with the Other Energy Services segment. Previous periods have been reclassified to conform to the current presentation. In April 2003, Duke Energy announced that it would discontinue proprietary trading at Duke Energy North America.

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 United States and Canada. It conducts operations primarily through Duke Energy International, LLC and its activities target power generation in Latin America, power generation and natural gas transmission in the Asia-Pacific region and natural gas marketing in Northwest Europe.

OTHER ENERGY SERVICES is composed of diverse energy businesses, operating primarily through Duke Energy Merchants Holdings, Duke/Fluor Daniel and Energy Delivery Services. Duke Energy Merchants Holdings engages in commodity buying and selling, and risk management and financial services in nonregulated energy commodity markets other than physical natural gas and power (such as petroleum products). In April 2003, Duke Energy announced that it would discontinue proprietary trading at Duke Energy Merchants Holdings. Duke/Fluor Daniel provides comprehensive engineering, procurement, construction, commissioning and operating plant services for fossil-fueled electric power generating facilities worldwide. Duke/Fluor Daniel is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc., a wholly owned subsidiary of Fluor Corporation. Energy Delivery Services 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. This component was excluded from the sale of Duke Engineering & Services to Framatome ANP, Inc. on April 30, 2002. Other Energy Services also retained other

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portions of Duke Engineering & Services that were not part of the sale, as well as a portion of DukeSolutions, Inc. that was not sold on May 1, 2002 to Ameresco, Inc. Duke Engineering & Services and DukeSolutions were included in Other Energy Services through the dates of their sales.

DUKE VENTURES is composed of other diverse businesses, operating primarily through Crescent Resources, LLC, DukeNet Communications, LLC and Duke Capital Partners, LLC. Crescent Resources develops high-quality commercial, residential and multi-family real estate projects and manages land holdings, primarily in the southeastern and southwestern United States. DukeNet Communications develops and manages fiber optic communications systems for wireless, local and long distance communications companies and selected educational, governmental, financial and health care entities. Duke Capital Partners, a wholly owned merchant finance company, provides debt and equity capital and financial advisory services to the energy industry. In March 2003, Duke Energy announced that it will exit this business in an orderly manner.

The foregoing information about Duke Energy and its business segments is only a general summary and is not intended to be comprehensive. For additional information about Duke Energy and its business segments, you should refer to the information described under the caption "Where You Can Find More Information" in this prospectus supplement.

RECENT DEVELOPMENTS

DUKE ENERGY FIRST QUARTER 2003 RESULTS

On April 30, 2003, we issued a press release announcing our unaudited first quarter 2003 results. Duke Energy reported first quarter 2003 earnings of 25 cents per share, or \$225 million in net income, compared to 48 cents per share, or \$382 million in net income in first quarter 2002. Results for first quarter 2003 included an 18 cent, or \$162 million, after-tax charge for the cumulative effect of previously

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announced accounting changes. Before the effect of accounting changes, we earned 43 cents, or \$387 million, in first quarter 2003.

The first quarter 2003 charge related to changes in accounting principles was primarily due to implementation of EITF Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities," which changes the timing of earnings recognition for certain energy contracts. This represents an after-tax charge of \$151 million, or 17 cents per share. The remaining element of this charge, \$11 million, or 1 cent a share, is due to implementation of SFAS No. 143, "Accounting for Asset Retirement Obligations."

Business Unit Results

Below is a reconciliation of consolidated operating income to earnings before interest and taxes, or EBIT (in millions):

	FIRST QUARTER 2003	FIRST QUARTER 2002
	-----	-----
Operating income.....	\$893	\$668

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Other income and expenses.....	81	102
	----	----
EBIT.....	\$974	\$770
	====	====

FRANCHISED ELECTRIC. First quarter 2003 EBIT from Franchised Electric was \$454 million, an 18% increase from first quarter 2002 EBIT of \$384 million. Higher results were due to colder than normal weather during the quarter and increased wholesale power sales. The increase was partially offset by charges of \$35 million for expenses related to 2003 severe winter storms and \$17 million of amortization expense related to the North Carolina 2002 clean air legislation. During the quarter, the capacity utilization at Duke Power's nuclear stations increased to 97% from 95% in first quarter 2002.

NATURAL GAS TRANSMISSION. The Natural Gas Transmission segment reported first quarter 2003 EBIT of \$423 million, a 59% increase over the \$266 million in first quarter 2002. Results included a full quarter of earnings from Westcoast Energy, acquired in March 2002. The two additional months contributed \$135 million to first quarter 2003. First quarter 2003 and 2002 results both include gains of \$14 million from the sales of Duke Energy Gas Transmission's limited partnership interests in Northern Border Partners L.P.

DUKE ENERGY NORTH AMERICA. Duke Energy North America reported EBIT of \$23 million in first quarter 2003, compared to EBIT of \$54 million in first quarter 2002. The decrease was due to lower proprietary trading results, a reduction in mark-to-market earnings due in part to changes in accounting rules and higher depreciation expenses related to new plants, partially offset by lower general and administrative expenses.

INTERNATIONAL ENERGY. For first quarter 2003, International Energy reported EBIT of \$54 million, compared to first quarter 2002 EBIT of \$57 million. Included in Duke Energy International's first quarter 2003 EBIT is a non-recurring, non-cash charge of \$11 million related to the timing of revenue recognition at the Cantarell investment in Mexico, a nitrogen-production plant which was acquired with Westcoast Energy.

FIELD SERVICES. The Field Services business segment, which represents Duke Energy's 70% interest in Duke Energy Field Services, reported first quarter 2003 EBIT of \$33 million compared to \$35 million in first quarter 2002. The effects of significantly higher natural gas prices and hedges on the prices of NGLs substantially offset the favorable impact of strong NGL prices during the period.

OTHER OPERATIONS. The Other Operations segment, including Crescent Resources, DukeNet Communications, Duke Capital Partners, Duke/Fluor Daniel, Duke Energy Merchants and Energy Delivery Services, reported an EBIT loss of \$26 million in first quarter 2003, compared to EBIT of \$17 million in first quarter 2002. Results were negatively affected by charges related to the exiting of

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proprietary trading and hydrocarbons businesses at Duke Energy Merchants. During the first quarter, Duke Energy announced that it is exiting the merchant finance business at its wholly owned subsidiary, Duke Capital Partners, LLC. Approximately \$80 million of its portfolio has been monetized in first quarter 2003.

Interest Expense

Interest expense was \$340 million for first quarter 2003, compared to \$198

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million for first quarter 2002. The increase was primarily due to debt related to the Westcoast Energy acquisition, reduced capitalized interest at Duke Energy North America and additional debt.

Cash Flow

For first quarter 2003, cash flow from operations was \$1.4 billion, compared to \$0.8 billion in first quarter 2002. In 2003, we expect cash flow from operations, which includes real estate sales at Crescent Resources, combined with proceeds from divestitures at other business units, to more than adequately fund capital expenditures of approximately \$3 billion and the approximately \$1 billion needed to fund the \$1.10 per share dividend. Our current business plans for 2003 fully support the dividend at this level.

In 2003, we announced or completed approximately \$1.1 billion in gross proceeds from asset sales. During the quarter, we closed on asset sales of non-strategic assets of approximately \$350 million. We expect asset sales to contribute approximately \$1.5 billion in gross proceeds for 2003. Proceeds in excess of the amounts needed to help fund capital expenditures and pay the dividend will be available to pay down debt.

Liquidity and Capital Resources

Under various credit facilities, Duke Energy, Duke Capital and other subsidiaries had the ability to borrow up to \$5.3 billion as of March 31, 2003. The companies had borrowings and letters of credit outstanding under these programs of approximately \$2.2 billion as of March 31, 2003, resulting in unused capacity of approximately \$3.1 billion. We also had approximately \$1.1 billion in cash and cash equivalents as of March 31, 2003. Subsequent to March 31, 2003, a credit facility at Duke Capital of \$0.5 billion matured and was replaced with a facility of \$0.25 billion.

Revenues

For first quarter 2003, revenues were \$6.2 billion, up from \$3.2 billion in first quarter 2002. The key drivers for the increase include significantly higher natural gas liquid pricing, two additional months of Westcoast operations, greater wholesale power sales and the adoption of the final consensus on EITF 02-03, which requires us to present revenues for certain natural gas transactions on a gross basis in 2003. Adopting this final consensus did not require a change to prior periods and therefore we did not change the 2002 revenue amounts.

Financial Measures

Earnings before interest and taxes, or EBIT, is the primary performance measure used by management to evaluate company and segment performance. On a segment basis, it includes all profits (both operating and non-operating) before deducting interest and taxes, and is net of the minority interest expense related to those profits. Management believes EBIT is a good indicator of each segment's operating performance as it represents the results of our ownership interests in operations without regard to financing methods or capital structures. EBIT should not be considered an alternative to, or more meaningful than, net income, operating income or cash flow as determined in accordance with generally accepted accounting principles. Duke Energy's EBIT may not be comparable to a similarly titled measure of another company.

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In March 2003, the FERC issued staff recommendations involving the electricity supply situation in California and an order in the FERC's refund proceeding related thereto. The recommendations and order address, among other things, modifying the presiding administrative law judge's refund findings with respect to the gas price component and certain other components of the refund calculation contained in the judge's ruling issued in December 2002, and the issuance of show cause orders related to certain energy trading practices. We continue to evaluate the staff recommendations and refund order to analyze the impact they might have on us. Please see "Risk Factors -- Risks Related to Legal Proceedings and Regulatory Investigations" in the accompanying prospectus and Note 16 to our financial statements contained in our annual report for 2002 on Form 10-K for additional details related to the electricity supply situation in California.

In a matter related to the Sonatrach arbitration, a counterparty filed suit in March 2003 against a Duke Energy subsidiary in the District Court of Harris County, Texas alleging that the subsidiary breached the parties' natural gas purchase contract by failing to provide sufficient volumes of gas to the counterparty. We contend that as a result of Sonatrach's actions in breaching our agreements with Sonatrach, we experienced a loss of LNG supply that affected our obligations and termination rights under the agreement with the counterparty. The petition seeks unspecified damages. We subsequently terminated the contract and filed a counterclaim in this Texas action. We continue to evaluate the claims at issue in this matter and intend to vigorously defend ourselves and pursue claims for relief. Please see Note 16 to our financial statements contained in our annual report for 2002 on Form 10-K for additional details related to the Sonatrach arbitration.

On April 24, 2003, we announced a quarterly cash dividend on our common stock of \$0.275 per share, payable on June 16, 2003 to shareholders of record on May 16, 2003.

We are incorporated in North Carolina and the address of our principal executive offices is 526 South Church Street, Charlotte, North Carolina 28202. Our telephone number is (704) 594-6200.

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THE OFFERING

Issuer.....	Duke Energy Corporation, a North Carolina corporation.
Securities Offered.....	\$700,000,000 aggregate principal amount of % Convertible Senior Notes due 2023. We have granted the underwriters an option to purchase up to an additional \$70,000,000 aggregate principal amount of Notes to cover overallotments, if any.
Issue Price.....	Each Note will be issued at a price of \$1,000 per Note.
Maturity.....	, 2023, unless earlier converted, redeemed or purchased by us.
Ranking.....	The Notes will be our direct, unsecured and unsubordinated obligations and will rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and

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senior in right of payment to all of our existing and future subordinated indebtedness. The Notes will effectively rank junior to any of our secured indebtedness to the extent of the assets securing such indebtedness. The Notes will be structurally subordinated to all liabilities of our subsidiaries.

Interest..... % per annum on the principal amount, payable semi-annually in arrears on and of each year, beginning on , 2003.

Contingent Interest..... Beginning with the six-month interest period commencing on , 2007, we will pay contingent interest during a six-month interest period if the average trading price of a Note for the five trading days immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of such Note. The amount of contingent interest payable per Note in respect of any six-month period will equal 0.25% of the average price of a Note for the applicable five trading day reference period. For more information about contingent interest, see "Description of the Notes -- Contingent Interest."

Conversion Rights..... Holders may convert each of their Notes into shares of our common stock only under any of the following circumstances:

- (i) during any calendar quarter (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the conversion price per share of our common stock;
- (ii) if the Notes have been called for redemption by us;
- (iii) upon the occurrence of specified corporate transactions described under "Description of the Notes -- Conversion Rights -- Conversion Upon Specified Corporate Transactions"; or

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- (iv) during any period after the earlier of (a) the date the Notes are rated by both Moody's Investors Service, Inc. and Standard & Poor's Rating Services and (b) May 31, 2003, that

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(i) the long-term credit rating assigned to the Notes by both Moody's and Standard & Poor's is lower than Baa3 and BBB-, respectively, (ii) both Moody's and Standard & Poor's no longer rate the Notes or have withdrawn their ratings with respect to the Notes, and (iii) either Moody's or Standard & Poor's no longer rate the Notes or have withdrawn or suspended such rating and the remaining rating is lower than Baa3 or BBB-, as applicable.

For each \$1,000 principal amount of Notes surrendered for conversion you will receive shares of our common stock. This represents an initial conversion price of \$ per share of common stock based on the issue price per Note. As described in this prospectus supplement, the conversion rate may be adjusted upon the occurrence of certain events, but it will not be adjusted for accrued and unpaid interest. You will not receive any cash payment representing accrued and unpaid interest upon conversion of a Note. Instead, interest will be deemed paid by the common stock issued to you upon conversion. Notes called for redemption may be surrendered for conversion prior to the close of business on the second business day immediately preceding the redemption date.

Sinking Fund..... None.

Optional Redemption..... Prior to , 2007, the Notes will not be redeemable. On or after , 2007, we may redeem for cash all or part of the Notes at any time for a price equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest, including contingent interest, if any, to but excluding the redemption date. For more information about redemption of the Notes at our option, see "Description of the Notes -- Optional Redemption."

Purchase of Notes by Us at the Option of the Holder..... Holders have the right to require us to purchase all or a portion of their Notes for cash on , 2007, , 2012 and , 2017, each of which we refer to as a purchase date. In each case, we will pay a purchase price equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest, including contingent interest, if any, to but excluding the purchase date. For more information about the purchase of Notes by us at the option of the holder, see "Description of the Notes -- Purchase of Notes by Us at the Option of the Holder."

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Fundamental Change..... If we undergo a Fundamental Change (as defined under "Description of the Notes -- Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder") prior to maturity, you will have the right, at your option, to require us to

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purchase any or all of your Notes for cash, or any portion of the principal amount thereof that is equal to \$1,000 or an integral multiple of \$1,000. The cash price we are required to pay is equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, including contingent interest, if any, to but excluding the Fundamental Change purchase date. For more information about the purchase of Notes by us at the option of the holder following a Fundamental Change, see "Description of the Notes -- Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder."

Form..... The Notes will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company ("DTC") and registered in the name of a nominee of DTC. Beneficial interests in any of the Notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities, except in limited circumstances.

United States Federal Income Tax Considerations..... The Notes and the common stock issuable upon conversion of the Notes will be subject to special and complex United States federal income tax rules. Holders are urged to consult their own tax advisors with respect to the federal, state, local and foreign tax consequences of purchasing, owning and disposing of the Notes and common stock issuable upon conversion of the Notes. See "Risk Factors -- Risks Related to the Notes -- You should consider the negative United States federal income tax consequences of owning the Notes" and "Certain United States Federal Income Tax Considerations."

Trading..... We have not applied and do not intend to apply for the listing of the Notes on any securities exchange. Our shares of common stock are traded on the New York Stock Exchange under the symbol "DUK."

Use of Proceeds..... We intend to use the net proceeds from the sale of the Notes, estimated, after deducting the

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underwriting discount and related offering expenses, to be approximately \$ (\$ if the underwriters exercise their overallotment option in full) for general corporate purposes, which may include the reduction of our outstanding commercial paper.

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SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set forth below should be read in conjunction with our consolidated financial statements and the related notes and other financial and operating data incorporated by reference in this prospectus supplement and the accompanying prospectus.

	YEARS ENDED DECEMBER 31,		
	2002	2001	2000 (1)
(IN MILLIONS, EXCEPT PER SHARE DATA)			
CONSOLIDATED STATEMENTS OF INCOME DATA:			
Operating revenues (2).....	\$15,663	\$18,197	\$15,300
Operating expenses (2).....	13,212	14,494	12,200
Gains on sale of other assets, net.....	49	238	200
	-----	-----	-----
Operating income.....	2,500	3,941	3,300
Other income and expenses, net.....	369	315	700
Interest expense.....	1,110	785	900
Minority interest expense.....	107	327	300
	-----	-----	-----
Earnings before income taxes.....	1,652	3,144	2,700
Income taxes.....	618	1,150	1,000
	-----	-----	-----
Income before extraordinary item and cumulative effect of change in accounting principle.....	1,034	1,994	1,700
Cumulative effect of change in accounting principle, net of tax.....	--	(96)	--
	-----	-----	-----
Net income.....	1,034	1,898	1,700
Preferred and preference stock dividends.....	13	14	--
	-----	-----	-----
Earnings available for common stockholders.....	\$ 1,021	\$ 1,884 (3)	\$ 1,700
	=====	=====	=====
Weighted-average common shares outstanding (4).....	836	767	700
Earnings per common share (before cumulative effect of change in accounting principle) (4)			
Basic.....	\$ 1.22	\$ 2.58	\$ 2.43
Diluted.....	1.22	2.56	2.43
Earnings per common share (4)			
Basic.....	\$ 1.22	\$ 2.45 (3)	\$ 2.43
Diluted.....	1.22	2.44 (3)	2.43
Dividends per common share (4).....	1.10	1.10	1.10

(1) Reflects a pre-tax \$407 million gain on the sale of our investment in

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BellSouth PCS. The effect per basic share of common stock of this gain was \$0.34.

- (2) Operating revenues and expenses have been updated to the extent required to show the impact of the gross versus net presentation of revenues under the partial consensus reached in June 2002 on Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading and Risk Management Activities." In the calculation of net revenues, we continued to enhance our methodologies around the application of this complex accounting literature since the third quarter of 2002 when these trading revenues were first reported on a net basis.
- (3) Reflects a net-of-tax cumulative effect adjustment of \$96 million, or \$0.13 per basic share of common stock, as a reduction in earnings in accordance with our adoption of Statement of Financial Accounting Standards No. 133.
- (4) Year ended December 31, 2000 has been restated to reflect the two-for-one common stock split effective January 26, 2001.

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AS OF
DECEMBER 31,
2002

(IN MILLIONS)

CONSOLIDATED BALANCE SHEET DATA:

Total assets.....	\$60,966
Short-term debt, including commercial paper.....	915
Long-term debt, including current maturities.....	21,550
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries.....	1,408
Minority interests.....	1,904
Preferred and preference stock, including current sinking fund obligations.....	159
Common stockholders' equity.....	14,944

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RISK FACTORS

Before purchasing the Notes you should carefully consider the following risk factors as well as the risk factors contained in the accompanying prospectus, the other information contained in this prospectus supplement and the accompanying prospectus and the information incorporated by reference herein and therein in order to evaluate an investment in the Notes.

RISKS RELATED TO THE NOTES

WE MAY NOT HAVE THE ABILITY TO RAISE THE FUNDS NECESSARY TO PURCHASE THE NOTES UPON A FUNDAMENTAL CHANGE OR OTHER PURCHASE DATE, AS REQUIRED BY THE SENIOR INDENTURE GOVERNING THE NOTES.

On _____, 2007, _____, 2012 and _____, 2017, holders of the Notes may require us to purchase their Notes for cash. In addition, holders of the Notes also may require us to purchase their Notes upon a Fundamental Change

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as described under "Description of the Notes -- Fundamental Change Requires Purchases of Notes by Us at the Option of the Holder." A Fundamental Change also may constitute an event of default, and result in the acceleration of the maturity of our then existing indebtedness, under another indenture or other agreement. We cannot assure you that we would have sufficient financial resources, or would be able to arrange financing, to pay the purchase price for the Notes tendered by holders. Failure by us to purchase the Notes when required will result in an event of default with respect to the Notes.

YOU SHOULD CONSIDER THE NEGATIVE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF OWNING THE NOTES.

We and each holder agree in the Senior Indenture to treat the Notes as "contingent payment debt instruments" subject to the contingent payment debt regulations. As a result, a holder will be required to include amounts in income, as original issue discount, in advance of the receipt of the cash or our common stock attributable to such income, and to accrue interest on a constant yield to maturity basis at a rate comparable to the rate at which we would issue a noncontingent, nonconvertible, fixed-rate debt instrument with terms and conditions otherwise comparable to those of the Notes, even though the Notes will have a significantly lower yield to maturity. A holder will recognize taxable income significantly in excess of the cash received while the Notes are outstanding. In addition, a holder will recognize ordinary income, if any, upon a sale, exchange, conversion, redemption or purchase by us of the Notes at a gain. In computing such gain, the amount realized by a holder will include, in the case of a conversion, the amount of any cash and the fair market value of shares of our common stock received. Holders are urged to consult their own tax advisors as to the United States federal, state and other tax consequences of acquiring, owning and disposing of the Notes and shares of our common stock. See "Certain United States Federal Income Tax Considerations."

THE TRADING PRICES FOR THE NOTES WILL BE DIRECTLY AFFECTED BY THE TRADING PRICES OF OUR COMMON STOCK.

The trading prices of the Notes in the secondary market will be directly affected by the trading prices of our common stock, the general level of interest rates and our credit quality. It is impossible to predict whether the price of our common stock or interest rates will rise or fall. Trading prices of our common stock will be influenced by our operating results and prospects and by economic, financial and other factors. In addition, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, and sales of substantial amounts of common stock by us in the market after the offering of the Notes, or the perception that such sales could occur, could affect the price of our common stock. Fluctuations in interest rates may give rise to arbitrage opportunities based upon changes in the relative value of our common stock. Any other arbitrage could, in turn, affect the trading prices of the Notes.

AN ACTIVE TRADING MARKET FOR THE NOTES MAY NOT DEVELOP.

The Notes comprise a new issue of securities for which there is currently no public market. We do not plan to list the Notes on any securities exchange or to include them in any automated quotation system. We cannot assure you that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, your ability to sell the Notes or the price at which you will

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be able to sell your Notes. Future trading prices of the Notes will depend on many factors, including, among other things, prevailing interest rates, our

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operating results, the price of our common stock and the market for similar securities.

IF YOU HOLD NOTES, YOU WILL NOT BE ENTITLED TO ANY RIGHTS WITH RESPECT TO OUR COMMON STOCK, BUT YOU WILL BE SUBJECT TO ALL CHANGES MADE WITH RESPECT TO OUR COMMON STOCK.

If you hold Notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you in exchange for your Notes and in limited cases under the anti-dilution adjustments of the Notes. For example, in the event that an amendment is proposed to our articles of incorporation or by-laws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of the common stock, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

WE MAY ISSUE ADDITIONAL SHARES OF COMMON STOCK AND THEREBY MATERIALLY AND ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK.

We are not restricted from issuing additional common stock during the life of the Notes and have no obligation to consider your interests for any reason. If we issue additional shares of common stock, it may materially and adversely affect the price of our common stock and, in turn, the price of the Notes.

OUR ARTICLES OF INCORPORATION AND BY-LAW PROVISIONS, AND SEVERAL OTHER FACTORS, COULD LIMIT ANOTHER PARTY'S ABILITY TO ACQUIRE US AND COULD DEPRIVE YOU OF THE OPPORTUNITY TO OBTAIN A TAKEOVER PREMIUM FOR YOUR SHARES OF COMMON STOCK.

A number of provisions that are in our articles of incorporation and by-laws will make it difficult for another company to acquire us and for you to receive any related takeover premium for our common stock. See "Certain Anti-Takeover Matters" and "Preference Stock Purchase Rights" under "Description of the Common Stock" in the accompanying prospectus.

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RATIO OF EARNINGS TO FIXED CHARGES

	YEAR ENDED DECEMBER 31,				
	1998	1999	2000	2001	2002
	(UNAUDITED)				
Ratio of Earnings to Fixed Charges.....	4.5	2.7	3.6	3.8	2.1

For purposes of this ratio (a) earnings consist of income from continuing operations before income taxes and fixed charges, and (b) fixed charges consist of all interest deductions, the interest component of rentals and preference security dividends of consolidated subsidiaries.

USE OF PROCEEDS

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The aggregate net proceeds from the sale of the Notes will be approximately \$, after deducting the underwriting discount and related offering expenses. The net proceeds from the sale of the Notes will be used for general corporate purposes, which may include the reduction of our outstanding commercial paper. At December 31, 2002, we had approximately \$881 million of commercial paper outstanding which had a weighted average interest rate of 1.6%, had weighted average days to maturity of approximately 20 days and was incurred for general corporate purposes.

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PRICE RANGE OF COMMON STOCK

Our common stock trades on the New York Stock Exchange, or NYSE, under the symbol "DUK." The following table sets forth on a per share basis the high and low intra-day prices for our common stock for the periods indicated.

For a more detailed discussion of our common stock, we refer you to page 35 of the accompanying prospectus.

	COMMON STOCK PRICE	
	HIGH	LOW
YEAR ENDED 2001:		
First Quarter.....	\$43.50	\$32.41
Second Quarter.....	47.74	38.40
Third Quarter.....	42.85	34.39
Fourth Quarter.....	41.35	32.22
YEAR ENDED 2002:		
First Quarter.....	40.00	31.99
Second Quarter.....	39.60	28.50
Third Quarter.....	31.10	17.81
Fourth Quarter.....	22.00	16.42
YEAR ENDING 2003:		
First Quarter.....	21.57	12.21
Second Quarter (through April 30, 2003).....	17.78	13.51

The reported last sale price of our common stock on April 30, 2003 on the NYSE was \$17.59 per share. As of March 31, 2003, there were approximately 150,000 holders of record of our common stock.

DIVIDENDS

We have paid cash dividends on our common stock without interruption since 1926. We paid a quarterly dividend of \$0.275 per share in each of 2001 and 2002 and the first quarter of 2003. On April 24, 2003, we announced a quarterly cash dividend on our common stock of \$0.275 per share, payable on June 16, 2003 to shareholders of record on May 16, 2003. Future dividends will be declared at the discretion of our board of directors and will depend upon our future earnings, financial condition and other factors affecting dividend policy.

We have an InvestorDirect Choice Plan pursuant to which holders of our common stock may automatically reinvest their common stock dividends in shares of our common stock. Holders who become participants in the plan may also make

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optional cash payments (not more than \$100,000 per calendar year) to be invested in shares of our common stock. For information concerning the InvestorDirect Choice Plan, write us at Duke Energy Corporation, Investor Relations Department, P.O. Box 1005, Charlotte, NC 28201-1005.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2002:

- on an actual basis; and
- on an as adjusted basis to give effect to (i) the issuance of \$500,000,000 First and Refunding Mortgage Bonds, 3.75% Series A due 2008 on February 25, 2003, (ii) the issuance of \$200,000,000 First and Refunding Mortgage Bonds, 4 1/2% Series due 2010 on March 19, 2003, (iii) the issuance of the Notes offered hereby, assuming no exercise by the underwriters of their overallotment option to purchase additional Notes and (iv) the application of the net proceeds from such offerings.

You should read the information in this table together with our consolidated financial statements and the related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

	AS OF DECEMBER 31, 2002	
	ACTUAL	AS ADJUSTED
	(IN MILLIONS)	
Short-term notes payable and commercial paper.....	\$ 915	\$ (1)
Long-term debt, including current maturities:		
First and refunding mortgage bonds.....	690	1,290 (2)
Other long-term debt.....	4,009	4,009
Long-term debt of subsidiaries.....	16,851	16,851
Notes offered hereby.....	--	
Total long-term debt.....	21,550	
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries.....	1,408	1,408
Minority interests.....	1,904	1,904
Preferred and preference stock, including current sinking fund obligations:		
With sinking fund requirements.....	25	25
Without sinking fund requirements.....	134	134
Total preferred stock, including current sinking fund obligations.....	159	159
Common stockholders' equity:		
Common stock, no par; 2 billion shares authorized; 895 million shares outstanding.....	9,236	9,236
Retained earnings.....	6,417	6,417
Accumulated other comprehensive (loss) income.....	(709)	(709)

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Total common stockholders' equity.....	14,944	14,944
Total capitalization.....	\$40,880	\$

- (1) Assumes the repayment of commercial paper with proceeds of the Notes offered hereby.
- (2) Gives effect to \$100 million of our First and Refunding Mortgage Bonds that matured in February 2003, the issuance of \$500 million First and Refunding Mortgage Bonds, 3.75% Series A due 2008 and the issuance of \$200 million First and Refunding Mortgage Bonds, 4 1/2% Series due 2010.

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DESCRIPTION OF THE NOTES

GENERAL

The following description of the terms of the Notes summarizes certain general terms that will apply to the Notes. The Notes will be issued under a Senior Indenture between us and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as trustee, dated as of September 1, 1998, as supplemented from time to time (the "Senior Indenture"), including by the Twelfth Supplemental Indenture, to be dated as of _____, 2003. This description is not complete, and we refer you to the accompanying prospectus and the Senior Indenture. Defined terms have the meanings assigned to them in the Senior Indenture.

The Notes will mature on _____, 2023 unless earlier converted, redeemed or purchased. The Notes will initially be offered at a price to investors of \$1,000 per Note. You have the option, subject to fulfillment of certain conditions and during the periods described below, to convert your Notes into shares of our common stock initially at a conversion rate of shares of common stock per \$1,000 principal amount of Notes. This is equivalent to an initial conversion price of \$ _____ per share of common stock based on the issue price of the Notes. The conversion rate is subject to adjustment if certain events occur. Upon conversion of a Note, you will receive only shares of our common stock and a cash payment to account for fractional shares.

If any interest payment date, maturity date, redemption date or purchase date (including upon the occurrence of a Fundamental Change, as described below) of a Note falls on a day that is not a business day, the required payment will be made on the next succeeding business day with the same force and effect as if made on the date that the payment was due and no additional interest will accrue on that payment for the period from and after the interest payment date, maturity date, redemption date or purchase date (including upon the occurrence of a Fundamental Change), as the case may be, to the date of that payment on the next succeeding business day.

The Notes will be issued only in denominations of \$1,000 principal amount and integral multiples of \$1,000 principal amount. Notes will be issued in an aggregate principal amount of \$700,000,000 (\$770,000,000 if the underwriters exercise in full their overallotment option to purchase additional Notes).

As used in this prospectus supplement, "business day" means, with respect to any Note, any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law,

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regulation or executive order to close in The City of New York.

When we refer to "common stock," we mean Duke Energy Corporation Common Stock (as defined in our articles of incorporation), which is the only outstanding class of our common stock.

RANKING

The Notes will be our direct, unsecured and unsubordinated obligations. The Notes will rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. Our First and Refunding Mortgage Bonds are effectively senior to the Notes to the extent of the value of the properties securing them. As of December 31, 2002, there was approximately \$690 million in aggregate principal amount of First and Refunding Mortgage Bonds outstanding and as of March 31, 2003, after giving effect to additional issuances and maturities, approximately \$1,290 million outstanding. As of December 31, 2002, there was approximately \$4,009 million of unsecured and unsubordinated long-term indebtedness of Duke Energy outstanding. The Notes will be structurally subordinated to all liabilities of our subsidiaries. As of December 31, 2002, our subsidiaries had outstanding approximately \$16,851 million of long-term indebtedness. Our Senior Indenture contains no restrictions on the amount of additional indebtedness that we may issue under it.

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INTEREST

The Notes will bear interest at a rate of _____ % per annum. We also will pay contingent interest on the Notes in the circumstances described under "-- Contingent Interest." Interest, including contingent interest, if any, shall be payable semi-annually in arrears on _____ and _____ of each year, commencing May _____, 2003.

Interest, including contingent interest as described below, will be paid to the person in whose name each Note is registered at the close of business on the fifteenth calendar day next preceding each semi-annual interest payment date (whether or not a business day); provided, however, interest including contingent interest, if any, payable upon redemption or purchase by us will be paid to the person to whom principal is payable, unless the redemption date or purchase date, as the case may be, is an interest payment date. Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months, and will accrue from _____, 2003 or from the most recent interest payment date to which interest has been paid or duly provided for.

CONTINGENT INTEREST

Beginning with the six-month interest period commencing on _____, 2007, we will pay contingent interest during a six-month interest period if the average trading price of a Note for the five trading days immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the Note.

During any period when contingent interest shall be payable, the contingent interest payable per Note in respect of any six-month period will equal 0.25% of the average price of a Note for the applicable five trading day reference period.

We will notify the holders of the Notes upon a determination that they will be entitled to receive contingent interest during a six-month interest period.

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OPTIONAL REDEMPTION

No sinking fund is provided for the Notes. Prior to _____, 2007, the Notes will not be redeemable. On or after _____, 2007, we may redeem for cash all or part of the Notes at any time for a price equal to 100% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest, including contingent interest, if any, to but excluding the redemption date. We will provide not less than 30 nor more than 60 days notice mailed to each registered holder of the Notes to be redeemed. If the redemption notice is given and funds deposited as required, then interest will cease to accrue on and after the redemption date on the Notes or portions of such Notes called for redemption.

If we decide to redeem fewer than all of the outstanding Notes, the Trustee will select the Notes to be redeemed (in principal amounts of \$1,000 or integral multiples thereof) by lot, or on a pro rata basis or by another method the Trustee considers fair and appropriate.

If the Trustee selects a portion of your Notes for partial redemption and you convert a portion of your Notes, the converted portion will be deemed to be from the portion selected for redemption.

CONVERSION RIGHTS

Subject to the conditions and during the periods described below, holders may convert each of their Notes into shares of our common stock initially at a conversion rate of _____ shares of common stock per \$1,000 principal amount of Notes (equivalent to an initial conversion price of \$ _____ per share of common stock based on the issue price per Note). The conversion rate and the equivalent conversion price in effect at any given time are referred to as the "applicable conversion rate" and the "applicable conversion price," respectively, and will be subject to adjustment as described below. A holder may convert fewer than all of such holder's Notes so long as the Notes converted are an integral multiple of \$1,000 principal amount.

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Upon conversion of Notes, a holder will not receive any cash payment of interest (unless such conversion occurs between a regular record date and the interest payment date to which it relates) and we will not adjust the conversion rate to account for accrued and unpaid interest. Our delivery to the holder of the full number of shares of our common stock into which the Note is convertible, together with any cash payment for such holder's fractional shares will be deemed to satisfy our obligation to pay the principal amount of the Note, accrued but unpaid interest, including contingent interest, if any, and accrued original issue discount. As a result, accrued but unpaid interest, including contingent interest, if any, and accrued original issue discount to the conversion date is deemed to be paid in full rather than cancelled, extinguished or forfeited. For a discussion of the tax treatment to you of receiving our common stock upon conversion, see "Certain United States Federal Income Tax Considerations."

If a holder converts Notes, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of our common stock upon the conversion, unless the tax is due because the holder requests the shares to be issued or delivered to a person other than the holder, in which case the holder will pay that tax.

If a holder wishes to exercise its conversion right, such holder must deliver an irrevocable conversion notice, together, if the Notes are in certificated form, with the certificated security, to the conversion agent along

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with appropriate endorsements and transfer documents, if required, and pay any transfer or similar tax, if required. The conversion agent will, on the holder's behalf, convert the Notes into shares of our common stock. Holders may obtain copies of the required form of the conversion notice from the conversion agent. A certificate, or a book-entry transfer through DTC, for the number of full shares of our common stock into which any Notes are converted, together with a cash payment for any fractional shares, will be delivered through the conversion agent as soon as practicable, but no later than the fifth business day, following the conversion date.

If a holder has already delivered a purchase notice as described under either "-- Purchase of Notes by Us at the Option of the Holder" or "-- Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder" with respect to a Note, however, the holder may not surrender that Note for conversion until the holder has withdrawn the purchase notice in accordance with the Senior Indenture.

Holders of Notes at the close of business on a regular record date will receive payment of interest payable on the corresponding interest payment date notwithstanding the conversion of such Notes at any time after the close of business on the applicable regular record date. Notes surrendered for conversion by a holder during the period from the close of business on any regular record date to the opening of business on the next interest payment date must be accompanied by payment of an amount equal to the interest that the holder is to receive on the Notes; provided, however, that no such payment need be made if (1) we have specified a redemption date that is after a record date and on or prior to the next interest payment date, (2) we have specified a purchase date following a Fundamental Change that is during such period or (3) only to the extent of overdue interest or overdue contingent interest, any overdue interest or overdue contingent interest, if any, exists at the time of conversion with respect to such Note.

Holders may surrender their Notes for conversion into shares of our common stock prior to stated maturity in only the following circumstances.

CONVERSION UPON SATISFACTION OF SALE PRICE CONDITION

A holder may surrender any of its Notes for conversion into shares of our common stock in any calendar quarter after the quarter ending June 30, 2003 (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the applicable conversion price per share of our common stock on such last trading day.

The "last reported sale price" of our common stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the bid and asked prices or, if more than one in either case, the average of the average bid and the average asked prices) on that date as reported in

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composite transactions for the principal U.S. securities exchange on which our common stock is traded or, if our common stock is not listed on a U.S. national or regional securities exchange, as reported by the Nasdaq National Market.

If our common stock is not listed for trading on a U.S. national or regional securities exchange and not reported by the Nasdaq National Market on the relevant date, the "last reported sale price" will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date

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as reported by the National Quotation Bureau or similar organization.

If our common stock is not so quoted, the "last reported sale price" will be the average of the mid-point of the last bid and asked prices for our common stock on the relevant date from each of at least three nationally recognized independent investment banking firms selected by us for this purpose.

CONVERSION UPON NOTICE OF REDEMPTION

If we call any or all of the Notes for redemption, holders may convert Notes into our common stock at any time prior to the close of business on the second business day immediately preceding the redemption date, even if the Notes are not otherwise convertible at such time. If a holder already has delivered a purchase notice with respect to a Note, however, the holder may not surrender that Note for conversion until the holder has withdrawn the purchase notice in accordance with the Senior Indenture.

CONVERSION UPON SPECIFIED CORPORATE TRANSACTIONS

If we elect to:

- distribute to all holders of our common stock certain rights entitling them to purchase, for a period expiring within 45 days after the date of the distribution, shares of our common stock at less than the last reported sale price of a share of our common stock on the trading day immediately preceding the declaration date of the distribution, or
- distribute to all holders of our common stock our assets, debt securities or certain rights to purchase our securities, which distribution has a per share value as determined by our board of directors exceeding 15% of the last reported sale price of a share of our common stock on the trading day immediately preceding the declaration date of the distribution,

we must notify the holders of the Notes at least 20 business days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their Notes for conversion at any time until the earlier of the close of business on the business day immediately prior to the ex-dividend date or our announcement that such distribution will not take place, even if the Notes are not otherwise convertible at such time. No holder may exercise this right to convert if the holder otherwise may participate in the distribution without conversion. The ex-dividend date is the first date upon which a sale of the common stock does not automatically transfer the right to receive the relevant distribution from the seller of the common stock to its buyer.

In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which our common stock would be converted into cash or property other than securities, a holder may surrender Notes for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual effective date of such transaction. If we engage in certain reclassifications of our common stock or are a party to a consolidation, merger, binding share exchange or transfer of all or substantially all of our assets pursuant to which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a Note into our common stock will be changed into a right to convert a Note into the kind and amount of cash, securities or other property which the holder would have received if the holder had converted its Notes immediately prior to the applicable record date for such transaction. If we engage in any transaction described in the preceding sentence, the conversion rate will not be adjusted. If the transaction also constitutes a Fundamental Change, as defined below, a holder can require us to purchase

all or a portion of its Notes as described below under "-- Fundamental Change Requires Purchase of Notes by Us at the Option of the Holder."

CONVERSION UPON CREDIT RATINGS EVENT

After the earlier of (a) the date the Notes are rated by both Moody's Investors Service, Inc. and Standard & Poor's Rating Services and (b) May 31, 2003, you may surrender your Notes for conversion into our common stock prior to maturity during any period in which (i) the long-term credit rating assigned to the Notes by both Moody's and Standard & Poor's is lower than Baa3 and BBB-, respectively, (ii) both Moody's and Standard & Poor's no longer rate the Notes or have withdrawn their ratings with respect to the Notes, and (iii) either Moody's or Standard & Poor's no longer rate the Notes or have withdrawn or suspended such rating and the remaining rating is lower than Baa3 or BBB-, as applicable. References to Moody's and Standard & Poor's shall include any successors to these entities.

CONVERSION RATE ADJUSTMENTS

The conversion rate will be subject to adjustment, without duplication, upon the occurrence of any of the following events:

- (1) the payment of dividends or distributions of common stock on common stock;
- (2) the issuance to all holders of common stock of rights, warrants or options (other than pursuant to any dividend reinvestment or share purchase plans) entitling them, for a period of up to 45 days from the date of issuance of the rights, warrants or options to subscribe for or purchase common stock at less than the current market price thereof;
- (3) subdivisions, splits and combinations of common stock;
- (4) distributions to all holders of common stock of evidences of our indebtedness, shares of capital stock, securities, cash, property or assets (excluding any dividend or distribution covered by clause (1) or (2) above and any dividend or distribution paid exclusively in cash); in the event that we make a distribution to all holders of our common stock consisting of capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sales prices of those securities for the 10 trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such dividend or distribution on the New York Stock Exchange or such other national or regional exchange or market on which the securities are then listed or quoted;
- (5) distributions consisting exclusively of cash to all holders of outstanding shares of common stock in an aggregate amount that, together with (1) other all-cash distributions made within the preceding 12 months and (2) any cash and the fair market value, as of the expiration of the tender or exchange offer (other than consideration payable in respect of any odd-lot tender offer) by us or any of our subsidiaries for shares of common stock concluded within the preceding 12 months, exceeds the product of \$1.10 (appropriately adjusted from time to time for any stock dividends on or subdivisions or combinations of our common stock) multiplied by the number of shares of common stock outstanding on the record date for such

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distribution; or

(6) the successful completion of a tender or exchange offer made by us or any of our subsidiaries for shares of common stock which involves an aggregate consideration that, together with (1) any cash and the fair market value of other consideration payable in respect of any tender or exchange offer (other than consideration payable in respect of any odd-lot tender offer) by us or any of our subsidiaries for the common stock concluded within the preceding 12 months and (2) the aggregate amount of any all-cash distributions to all holders of shares of common stock within the preceding 12 months, exceeds the product of \$1.10 (appropriately adjusted from time to time for any stock dividends on or subdivisions or combinations of our common stock) multiplied by the number of shares of common stock outstanding on the expiration of the tender or exchange offer.

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In addition to these adjustments, we may increase the conversion rate as our board of directors deems advisable to avoid or diminish any income tax to holders of our capital stock resulting from any dividend or distribution of capital stock (or rights to acquire capital stock) or from any event treated as such for income tax purposes. We may also, from time to time, to the extent permitted by applicable law, increase the conversion rate by any amount for any period of at least 20 days if our board of directors has determined that such increase would be in our best interests. If our board of directors makes such a determination, it will be conclusive. We will give holders of Notes at least 15 days notice of such an increase in the conversion rate. For a discussion of the United States federal income tax treatment of an adjustment to the conversion rate of the Notes, see "Certain United States Federal Income Tax Considerations -- Adjustments to Interest Accruals on the Notes."

The "current market price" per share of common stock on any day means the average of the daily closing prices for the five consecutive trading days selected by us commencing not more than 30 trading days before, and ending not later than, the earlier of the day in question (including upon the occurrence of a Fundamental Change) and the day before the "ex-dividend trading" with respect to the issuance or distribution requiring the computation. For purposes of this paragraph, the term "ex-dividend trading," when used with respect to any issuance or distribution, will mean the first date on which the common stock trades regular way on the applicable exchange or in the applicable market without the right to receive the issuance or distribution.

No adjustment to the conversion rate or the ability of a holder of a Note to convert will be made if the holder will otherwise participate in the distribution without conversion or in certain other cases.

The applicable conversion rate will not be adjusted:

- upon the issuance of any shares of our common stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on our securities and the investment of additional optional amounts in shares of our common stock under any plan;
- upon the issuance of any shares of our common stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by us or any of our subsidiaries;
- upon the issuance of any shares of our common stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in the preceding bullet and outstanding as of the

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date the Notes were first issued;

- for a change in the par value of the common stock; or
- for accrued and unpaid interest, including contingent interest, if any.

You will receive, upon conversion of the Notes, in addition to common stock, the rights under our rights plan unless, prior to conversion, the rights have expired, terminated or been redeemed or unless the rights have separated from the common stock, in which case the conversion rate will be adjusted at the time of separation as if we distributed to all holders of common stock, shares of our capital stock, evidences of indebtedness or assets as described above, subject to readjustment in the event of subsequent expiration, termination or redemption of such rights.

Adjustments to the applicable conversion rate will be calculated to the nearest 1/10,000th of a share. No adjustment in the applicable conversion rate will be required unless the adjustment would require an increase or decrease of at least 1% of the applicable conversion rate. However, any adjustments which are not required to be made because they would have required an increase or decrease of less than 1% will be carried forward and taken into account in any subsequent adjustment.

PURCHASE OF NOTES BY US AT THE OPTION OF THE HOLDER

Holders have the right to require us to purchase all or a portion of their Notes on _____, 2007, _____, 2012 and _____, 2017 (each, a "purchase date"). Any Note purchased by us on a purchase

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date will be paid for in cash. We will be required to purchase any outstanding Notes for which a holder delivers a written purchase notice to the paying agent. This notice must be delivered during the period beginning at any time from the opening of business on the date that is 20 business days prior to the relevant purchase date until the close of business on the fifth business day prior to the purchase date. If the purchase notice is given and withdrawn during such period, we will not be obligated to purchase the related Notes. Also, as described in the "Risk Factors" section of this prospectus supplement under the caption "We may not have the ability to raise the funds necessary to purchase the Notes upon a Fundamental Change or other purchase date, as required by the indenture governing the Notes," we may not have funds sufficient to purchase the Notes when we are required to do so.

The purchase price payable will be equal to 100% of the principal amount of the Notes to be purchased plus any accrued and unpaid interest, including contingent interest, if any, to but excluding the purchase date.

On or before the 20th business day prior to each purchase date, we will provide to the Trustee, the paying agent and to all holders of the Notes at their addresses shown in the register of the registrar, and to beneficial owners as required by applicable law, a notice stating, among other things:

- the purchase price;
- the name and address of the paying agent and the conversion agent; and
- the procedures that holders must follow to require us to purchase their Notes.

Simultaneously with providing such notice, we will publish a notice

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containing this information in a newspaper of general circulation in The City of New York or publish the information on our web site or through such other public medium as we may use at that time.

A notice electing to require us to purchase your Notes must state:

- if certificated Notes have been issued, the certificate numbers of the Notes;
- the portion of the principal amount of Notes to be purchased, in integral multiples of \$1,000; and
- that the Notes are to be purchased by us pursuant to the applicable provisions of the Notes and the Senior Indenture.

If the Notes are not in certificated form, your notice must comply with appropriate DTC procedures.

No Notes may be purchased at the option of holders if there has occurred and is continuing an event of default other than an event of default that is cured by the payment of the purchase price of the Notes.

You may withdraw any purchase notice in whole or in part by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the purchase date. The notice of withdrawal must state:

- the principal amount of the withdrawn Notes;
- if certificated Notes have been issued, the certificate numbers of the withdrawn Notes; and
- the principal amount, if any, which remains subject to the purchase notice.

If the Notes are not in certificated form, your notice must comply with appropriate DTC procedures.

You must either effect book-entry transfer or deliver the Notes, together with necessary endorsements, to the office of the paying agent after delivery of the purchase notice to receive payment of the purchase price. You will receive payment promptly following the later of the purchase date or the time of book-entry transfer or the delivery of the Notes. If the paying agent holds money or securities sufficient to pay the purchase price of the Notes on the business day following the purchase date, then:

- the Notes will cease to be outstanding and interest will cease to accrue (whether or not book-entry transfer of the Notes is made or whether or not the Note is delivered to the paying agent); and

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- all other rights of the holder will terminate (other than the right to receive the purchase price upon delivery or transfer of the Notes).

FUNDAMENTAL CHANGE REQUIRES PURCHASE OF NOTES BY US AT THE OPTION OF THE HOLDER

If a Fundamental Change (as defined below in this section) occurs at any time prior to maturity, you will have the right, at your option, to require us to purchase any or all of your Notes for cash, or any portion of the principal amount thereof that is equal to \$1,000 or an integral multiple of \$1,000. The

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cash price we are required to pay is equal to 100% of the principal amount of the Notes to be purchased plus accrued and unpaid interest, including contingent interest, if any, to but excluding the Fundamental Change purchase date.

A "Fundamental Change" will be deemed to have occurred at the time after the Notes are originally issued that any of the following occurs:

(1) a "person" or "group" within the meaning of Section 13(d) of the Exchange Act other than us, our subsidiaries or our or their employee benefit plans, files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect ultimate "beneficial owner," as defined in Rule 13d-3 under the Exchange Act, of our common equity representing more than 50% of the voting power of our common equity entitled to vote generally in the election of directors; or

(2) consummation of any share exchange, consolidation or merger of us or any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of us and our subsidiaries, taken as a whole, to any person other than us or one or more of our subsidiaries, pursuant to which our common stock will be converted into cash, securities or other property; provided, however, that a transaction where the holders of our common equity immediately prior to such transaction have directly or indirectly, more than 50% of the aggregate voting power of all classes of common equity of the continuing or surviving corporation or transferee entitled to vote generally in the election of directors immediately after such event shall not be a Fundamental Change.

A Fundamental Change will not be deemed to have occurred in respect of either of the foregoing, however, if either:

(1) the last reported sale price of our common stock for any five trading days within the 10 consecutive trading days ending immediately before the later of the Fundamental Change or the public announcement thereof, equals or exceeds 105% of the applicable conversion price of the Notes immediately before the Fundamental Change or the public announcement thereof, or

(2) at least 90% of the consideration, excluding cash payments for fractional shares, in the transaction or transactions constituting the Fundamental Change consists of shares of capital stock traded on a national securities exchange or quoted on the Nasdaq National Market or which will be so traded or quoted when issued or exchanged in connection with a Fundamental Change (these securities being referred to as "publicly traded securities") and as a result of this transaction or transactions the Notes become convertible into such publicly traded securities, excluding cash payments for fractional shares.

For purposes of the above paragraph the term capital stock of any person means any and all shares (including ordinary shares or American Depositary Shares), interests, participations, or other equivalents however designated of corporate stock or other equity participations, including partnership interests, whether general or limited, of such person and any rights (other than debt securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such person.

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On or before the 30th day after the occurrence of a Fundamental Change, we will provide to all holders of the Notes and the Trustee and paying agent a

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notice of the occurrence of the Fundamental Change and of the resulting purchase right. Such notice shall state, among other things:

- the events causing a Fundamental Change;
- the date of the Fundamental Change;
- the last date on which a holder may exercise the purchase right;
- the Fundamental Change purchase price;
- the Fundamental Change purchase date;
- the name and address of the paying agent and the conversion agent;
- the applicable conversion rate and any adjustments to the applicable conversion rate;
- the Notes with respect to which a Fundamental Change purchase notice has been given by the holder may be converted only if the holder withdraws the Fundamental Change purchase notice in accordance with the terms of the Senior Indenture; and
- the procedures that holders must follow to require us to purchase their Notes.

Simultaneously with providing such notice, we will publish a notice containing this information in a newspaper of general circulation in The City of New York or publish the information on our web site or through such other public medium as we may use at that time.

To exercise the purchase right, you must deliver prior to the close of business on the business day immediately preceding the purchase date, subject to extension to comply with applicable law, the Notes to be purchased, duly endorsed for transfer, together with a written purchase notice and the form entitled "Form of Fundamental Change Purchase Notice" on the reverse side of the Notes duly completed, to the paying agent. Your purchase notice must state:

- if certificated, the certificate numbers of your Notes to be delivered for purchase;
- the portion of the principal amount of Notes to be purchased, which must be \$1,000 or an integral multiple thereof; and
- that the Notes are to be purchased by us pursuant to the applicable provisions of the Notes and the Senior Indenture.

If the Notes are not in certificated form, your notice must comply with appropriate DTC procedures.

You may withdraw any purchase notice (in whole or in part) by a written notice of withdrawal delivered to the paying agent prior to the close of business on the business day prior to the Fundamental Change purchase date. The notice of withdrawal shall state:

- the principal amount of the withdrawn Notes;
- if certificated Notes have been issued, the certificate numbers of the withdrawn Notes; and
- the principal amount, if any, which remains subject to the purchase notice.

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If the Notes are not in certificated form, your notice must comply with appropriate DTC procedures.

We will be required to purchase the Notes no later than 30 days after the date of our notice of the occurrence of the relevant Fundamental Change subject to extension to comply with applicable law. You will receive payment of the Fundamental Change purchase price promptly following the later of the Fundamental Change purchase date or the time of book-entry transfer or the delivery of the Notes. If the

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paying agent holds money or securities sufficient to pay the Fundamental Change purchase price of the Notes on the business day following the Fundamental Change purchase date, then:

- the Notes will cease to be outstanding and interest will cease to accrue (whether or not book-entry transfer of the Notes is made or whether or not the Note is delivered to the paying agent); and
- all other rights of the holder will terminate (other than the right to receive the Fundamental Change purchase price upon delivery or transfer of the Notes).

The rights of the holders to require us to purchase their Notes upon a Fundamental Change could discourage a potential acquirer of us. The Fundamental Change purchase feature, however, is not the result of management's knowledge of any specific effort to accumulate shares of our common stock, to obtain control of us by any means or part of a plan by management to adopt a series of anti-takeover provisions. Instead, the Fundamental Change purchase feature is a standard term contained in other offerings of debt securities similar to the Notes that have been marketed by the underwriters. The terms of the Fundamental Change purchase feature resulted from negotiations between the underwriters and us.

The term Fundamental Change is limited to specified transactions and may not include other events that might adversely affect our financial condition. In addition, the requirement that we offer to purchase the Notes upon a Fundamental Change may not protect holders in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us.

No Notes may be purchased at the option of holders upon a Fundamental Change if there has occurred and is continuing an event of default other than an event of default that is cured by the payment of the Fundamental Change purchase price of the Notes.

The definition of Fundamental Change includes a phrase relating to the conveyance, transfer, sale, lease or disposition of "all or substantially all" of our consolidated assets. There is no precise, established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of the Notes to require us to purchase its Notes as a result of the conveyance, transfer, sale, lease or other disposition of less than all of our assets may be uncertain.

If a Fundamental Change were to occur, we may not have enough funds to pay the Fundamental Change purchase price. See "Risk Factors" under the caption "We may not have the ability to raise the funds necessary to purchase the Notes upon a fundamental change or other purchase date, as required by the Senior Indenture governing the Notes." If we fail to purchase the Notes when required following a Fundamental Change, we will be in default under the Senior Indenture. In

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addition, we have, and may in the future incur, other indebtedness with similar change in control provisions permitting our holders to accelerate or to require us to purchase our indebtedness upon the occurrence of similar events or on some specific dates.

MERGERS AND SALES OF ASSETS

Although the types of transactions described in the accompanying prospectus under the heading "Description of the Senior Notes -- Consolidation, Merger, Conveyance or Transfer" are permitted under the Senior Indenture, certain of these transactions could constitute a Fundamental Change (as defined above) permitting each holder to require us to purchase the Notes of such holder as described above.

EVENTS OF DEFAULT

In addition to those events of default described in the accompanying prospectus under the heading "Description of the Senior Notes -- Events of Default," each of the following constitutes an event of default with respect to the Notes:

- failure to pay when due any interest, including any contingent interest, on any Note that continues for 60 days;

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- default in our obligation to purchase Notes upon the occurrence of a Fundamental Change or exercise by a holder of its option to require us to purchase such holder's Notes;
- default in our obligation to redeem Notes after we have exercised our redemption option; and
- default in our obligation to satisfy our conversion obligation upon exercise of a holder's conversion right.

In addition, the holders of at least a majority in aggregate principal amount of the outstanding Notes may waive an existing default as described in the Senior Indenture with respect to the Notes and its consequences, other than:

(i) any default in any payment of redemption price, purchase price or Fundamental Change purchase price with respect to any Notes; or

(ii) any default which constitutes a failure to convert any Note in accordance with its terms and the terms of the Senior Indenture.

MODIFICATION AND WAIVER

In addition to those provisions described in the accompanying prospectus under the heading "Description of the Senior Notes -- Modification; Waiver," the Senior Indenture (including the terms and conditions of the Notes) cannot be modified or amended without the consent of the holder of each outstanding Note to:

- reduce the redemption price, purchase price or Fundamental Change purchase price of the Notes; and
- make any change that adversely affects the right to convert the Notes.

CALCULATIONS IN RESPECT OF NOTES

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We will be responsible for making all calculations called for under the Notes. These calculations include, but are not limited to, determinations of the market prices of our common stock, accrued interest, including contingent interest, if any, payable on the Notes and the conversion price of the Notes. We will make all these calculations in good faith and, absent manifest error, our calculations will be final and binding on holders of Notes. We will provide a schedule of our calculations to each of the Trustee and the conversion agent, and each of the Trustee and conversion agent is entitled to rely upon the accuracy of our calculations without independent verification. The Trustee will forward our calculations to any holder of Notes upon the request of that holder.

FORM, EXCHANGE, REGISTRATION AND TRANSFER

We will issue the Notes in registered form, without interest coupons. Holders may present Notes for conversion, registration of transfer and exchange at the office maintained by us for such purpose, which will initially be the Corporate Trust Office of the Trustee in The City of New York.

NOTICES

Except as otherwise described herein, notice to registered holders of the Notes will be given by mail to the addresses as they appear in the security register. Notices will be deemed to have been given on the date of such mailing.

CONCERNING THE TRUSTEE

JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank) is the Trustee and is also the bond trustee and the subordinated indenture trustee for Duke Energy under its first and refunding mortgage and subordinated indenture, respectively. Duke Energy and certain of its affiliates maintain deposit accounts and banking relationships with JPMorgan Chase Bank. JPMorgan Chase Bank also serves

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as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy and of certain of its affiliates are outstanding.

The Trustee is under no obligation to exercise any of its powers at the request of any of the holders of the Notes unless those holders have offered to the Trustee security or indemnity satisfactory to it against the cost, expenses and liabilities it might incur as a result. The holders of a majority in principal amount of the Notes outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or the exercise of any trust or power of the Trustee. The Trustee will not be liable for any action that it takes or omits to take in good faith in accordance with any such direction.

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BOOK-ENTRY SYSTEM

We have obtained the information in this section concerning The Depository Trust Company, or DTC, and its book-entry system and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

The Notes initially will be represented by one or more fully registered global notes. Each global note will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co., DTC's nominee.

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You may hold your interests in the global notes in the United States through DTC, either as a participant in such system or indirectly through organizations which are participants in such system. So long as DTC or its nominee is the registered owner of the global securities representing the Notes, DTC or such nominee will be considered the sole owner and holder of the Notes for all purposes of the Notes and the Senior Indenture. Except as provided below, owners of beneficial interests in the Notes will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered the owners or holders of the Notes under the Senior Indenture, including for purposes of receiving any reports that we or the Trustee deliver pursuant to the Senior Indenture. Accordingly, each person owning a beneficial interest in a Note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of Notes.

Unless and until we issue the Notes in fully certificated form under the limited circumstances described below under the heading "-- Certificated Notes":

- you will not be entitled to receive physical delivery of a certificate representing your interest in the Notes;
- all references in this prospectus supplement or in the accompanying prospectus to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and
- all references in this prospectus supplement or the accompanying prospectus to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the Notes, for distribution to you in accordance with DTC procedures.

THE DEPOSITORY TRUST COMPANY

DTC will act as securities depository for the Notes. The Notes will be issued as fully registered notes registered in the name of Cede & Co. DTC is:

- a limited-purpose trust company organized under the New York Banking Law;
- a "banking organization" under the New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" under the New York Uniform Commercial Code; and
- a "clearing agency" registered under the provision of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its direct participants deposit with DTC. DTC also facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants' accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants of DTC include securities brokers and dealers (including underwriters), banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its direct participants and by The New York Stock Exchange, Inc., the American Stock Exchange, Inc. and

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the National Association of Securities Dealers, Inc. Indirect participants of DTC, such as securities brokers and dealers, banks and trust companies, can also access the DTC system if they maintain a custodial relationship with a direct participant.

If you are not a direct participant or an indirect participant and you wish to purchase, sell or otherwise transfer ownership of, or other interests in, the Notes, you must do so through a direct participant or an indirect participant. DTC agrees with and represents to DTC participants that it will administer its book-entry system in accordance with its rules and by-laws and requirements of law. The SEC has on file a set of the rules applicable to DTC and its direct participants.

Purchases of the Notes under DTC's system must be made by or through direct participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive physical delivery of certificates representing their ownership interests in the Notes, except as provided below in "-- Certificated Notes."

To facilitate subsequent transfers, all Notes deposited with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co. has no effect on beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Notes. DTC's records reflect only the identity of the direct participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

BOOK-ENTRY FORMAT

Under the book-entry format, the Trustee will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants or to the beneficial owners. You may experience some delay in receiving your payments under this system.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal and interest, including contingent interest, if any, on the Notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to Notes on your behalf. We and the Trustee have no responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Trustee will not recognize you as a holder under the Senior Indenture, and you can only exercise the rights of a holder indirectly through DTC and its

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direct participants. DTC has advised us that it will only take action regarding a Note if one or more of the direct participants to whom the Note is credited direct DTC to take such action. DTC can only act on behalf of its direct participants. Your ability to pledge Notes to indirect participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your Notes.

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CERTIFICATED NOTES

Unless and until they are exchanged, in whole or in part, for Notes in definitive form in accordance with the terms of the Notes, the Notes may not be transferred except as a whole by DTC to a nominee of DTC; as a whole by a nominee of DTC to DTC or another nominee of DTC; or as a whole by DTC or nominee of DTC to a successor of DTC or a nominee of such successor.

We will issue Notes to you or your nominees, in fully certificated registered form, rather than to DTC or its nominees, only if:

- we advise the Trustee in writing that DTC is no longer willing or able to discharge its responsibilities properly or that DTC is no longer a registered clearing agency under the Securities Exchange Act of 1934, and the Trustee or we are unable to locate a qualified successor within 90 days; or
- we, at our option, elect to terminate use of the book-entry system through DTC.

If any of the two above events occurs, DTC is required to notify all direct participants that Notes in fully certificated registered form are available through DTC. DTC will then surrender the global note representing the Notes along with instructions for re-registration. The Trustee will re-issue the Notes in full certificated registered form and will recognize the registered holders of the certificated Notes as holders under the Senior Indenture.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal income tax consequences of the purchase, ownership, and disposition of the Notes, and where noted, the common stock, as of the date of this prospectus supplement. Except where noted, this summary deals only with a Note held as a capital asset by a U.S. holder (as defined below) who purchases the Notes on original issuance at its initial offering price, and it does not deal with special situations. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, tax-exempt entities or insurance companies;
- tax consequences to persons holding the Notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to U.S. holders of the Notes whose "functional currency" is not the U.S. dollar;

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- alternative minimum tax consequences, if any; or
- any state, local or foreign tax consequences.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and regulations, rulings and judicial decisions as of the date of this prospectus. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those discussed below.

If a partnership holds the Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the Notes, you should consult your own tax advisors.

No statutory or judicial authority directly addresses the treatment of the Notes or instruments similar to the Notes for U.S. federal income tax purposes. The Internal Revenue Service (the IRS) has issued a revenue ruling with respect to instruments similar to the Notes. This ruling supports certain aspects of the treatment described below. However, no rulings have been sought or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences regarding this particular offering. As a result, we cannot assure you that the IRS will agree with the tax characterizations and the tax consequences described below.

IF YOU ARE CONSIDERING PURCHASING THE NOTES, YOU SHOULD CONSULT YOUR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL INCOME TAX CONSEQUENCES IN LIGHT OF YOUR PARTICULAR SITUATION AND ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTION.

U.S. HOLDERS

The following discussion is a summary of certain U.S. federal income tax consequences that will apply to you if you are a U.S. holder of Notes.

For purposes of this discussion, a U.S. holder is a beneficial owner of a Note that is:

- a citizen or resident of the United States;
- a corporation or partnership created or organized in or under the laws of the United States or any political subdivision of the United States;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

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CLASSIFICATION OF THE NOTES

Under the indenture governing the Notes, we and each holder of the Notes agree, for U.S. federal income tax purposes, to treat the Notes as indebtedness that is subject to the regulations governing contingent payment debt instruments (the Contingent Debt Regulations) in the manner described below. The remainder of this discussion assumes that the Notes will be so treated and does not

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address any possible differing treatments of the Notes. However, the application of the Contingent Debt Regulations to instruments such as the Notes is uncertain in several respects, and no rulings have been sought with respect to this particular offering from the IRS or a court with respect to any of the tax consequences discussed below. Accordingly, no assurance can be given that the IRS or a court will agree with the treatment described herein. Any differing treatment could affect the amount, timing and character of income, gain or loss in respect of an investment in the Notes. In particular, a holder might be required to accrue original issue discount at a lower rate, might not recognize income, gain or loss upon conversion of the Notes to common stock, and might recognize capital gain or loss upon a taxable disposition of the Notes. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE TAX TREATMENT OF HOLDING THE NOTES.

ACCRUAL OF INTEREST

Under the Contingent Debt Regulations, actual cash payments on the Notes, including payments of contingent interest, if any, will not be reported separately as taxable income, but will be taken into account under the regulations. As discussed more fully below, the effect of the Contingent Debt Regulations will be to:

- require you, regardless of your usual method of tax accounting, to use the accrual method with respect to the Notes;
- require you to accrue original issue discount at the comparable yield (as described below) which will be substantially in excess of interest payments actually received by you; and
- generally result in ordinary rather than capital treatment of any gain, and to some extent loss, on the sale, exchange, purchase or redemption of the Notes.

You will be required to accrue an amount of original issue discount for U.S. federal income tax purposes, for each accrual period prior to and including the maturity date of the Notes that equals:

- the product of (i) the adjusted issue price (as defined below) of the Notes as of the beginning of the accrual period; and (ii) the comparable yield (as defined below) of the Notes, adjusted for the length of