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Supplemental Information
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**BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO**

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In the Matter of the Application of)	
Duke Energy Ohio, Inc.)	Case No. 08-709-EL-AIR
For an Increase in Electric Rates)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc.)	Case No. 08-710-EL-ATA
For Tariff Approval)	
)	
In the Matter of the Application of)	
Duke Energy Ohio, Inc. for Approval)	Case No. 08-711-EL-AAM
To Change Accounting Methods)	

VOLUME 8

SUPPLEMENTAL INFORMATION
(C)(5)

July 25, 2008

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DUKE ENERGY OHIO, INC.

Case No. 08-709-EL-AIR

Supplemental Information (C)(5)

Annual reports to shareholders of the applicant, and/or parent company if applicant is wholly-owned subsidiary, for the most recent five years and the most recent statistical supplement.

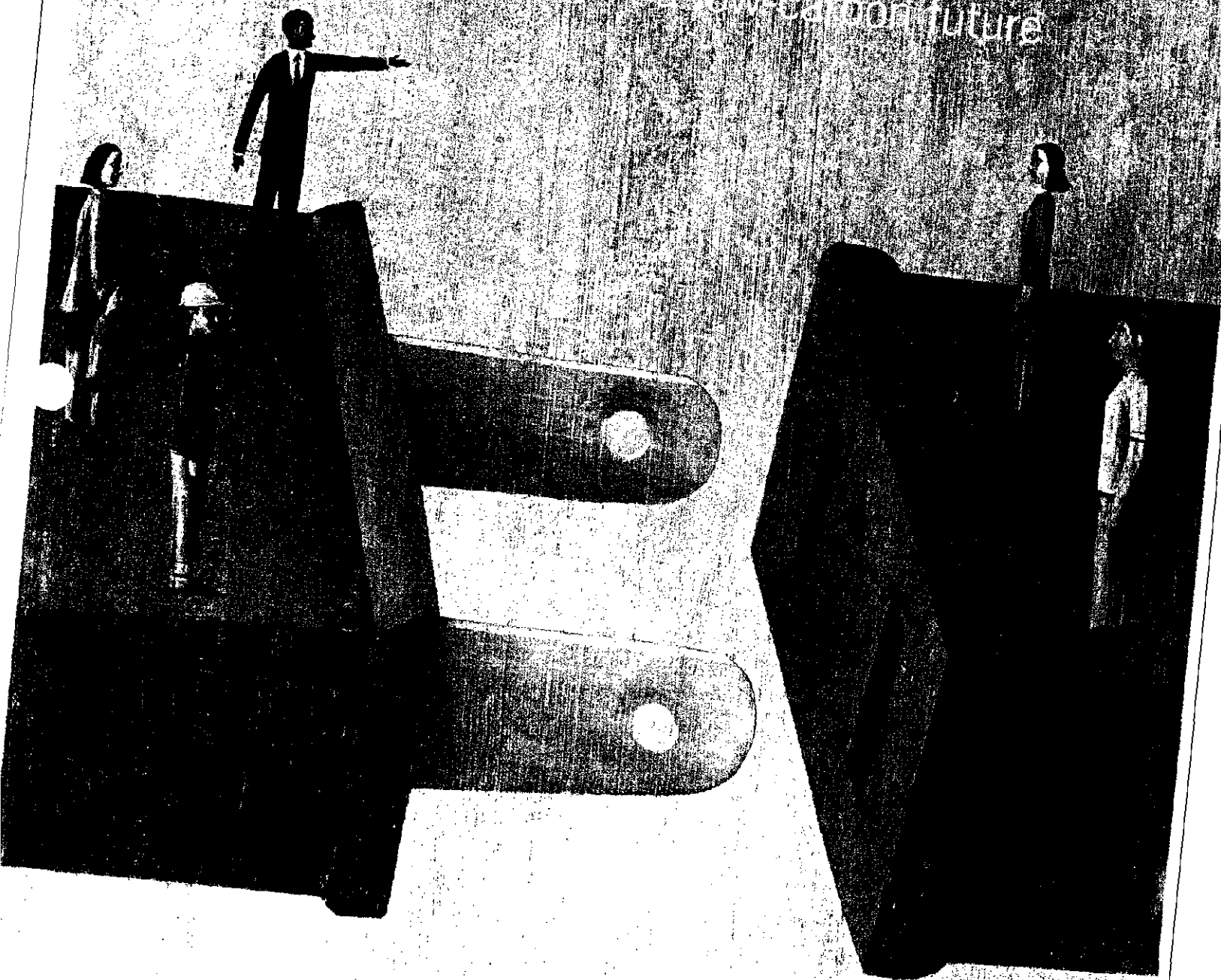
Response: See Attached. Cinergy Corp did not file an annual report for 2005 or 2006 due to the pending merger with Duke Energy Corporation.

Sponsoring Witness: Peggy A. Laub



2007 SUMMARY ANNUAL REPORT

Building bridges to
a low-carbon future



In 2007, we provided energy when our customers needed it, made plans to build new plants to meet growing demand, developed a new way to promote energy efficiency and continued to confront our industry's biggest challenge — global climate change. As one of the largest emitters of carbon dioxide in the world, we believe we have the responsibility to lead in bridging the gap between today's high-carbon economy and a low-carbon future. This report examines the bridges we are building to reduce our carbon footprint to benefit our current and future stakeholders.

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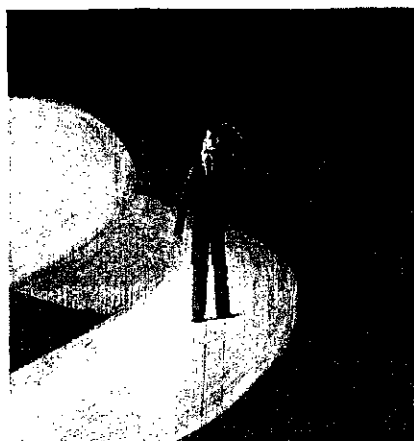
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BUILDING BRIDGES TO A LOW-CARBON FUTURE:



Where we are now 10

We are the third largest emitter of carbon dioxide (CO₂) in the United States — emitting more than 100 million tons last year. We've significantly reduced our non-carbon emissions over the last 20 years and with the right technologies, we believe we can do the same with CO₂. We are working to find solutions to this challenge that will protect and benefit our stakeholders.



Where we are going 12

We are assessing what it would take to cut our CO₂ emissions in half — to approximately 50 million tons — by 2030 and the implications of such an effort. By then, we will likely have replaced our oldest coal-fired power plants with advanced cleaner-coal and other technologies, including nuclear power, natural gas, renewable energy and greater use of energy efficiency.



How we will get there 14

We are taking five major steps to build bridges to a low-carbon future. We're shaping public policy, pursuing new technology, building projects and talent, balancing diverse interests and taking a long view so we can continue to create value for our stakeholders in the future.

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For more information about our sustainability activities and environmental progress, please see the Duke Energy 2007|2008 Sustainability Report on the company Web site: www.duke-energy.com.

2007 Financial Highlights^a

(In millions, except per-share amounts)	2007	2006	2005	2004	2003 ^c
Statement of Operations					
Total operating revenues	\$12,720	\$10,607	\$ 6,906	\$ 6,357	\$ 6,006
Total operating expenses	10,222	9,210	5,586	5,074	6,550
Gains on sales of investments in commercial and multi-family real estate	—	201	191	192	84
(Losses) gains on sales of other assets and other, net	(5)	223	(55)	(435)	(202)
Operating income (loss)	2,493	1,821	1,456	1,040	(662)
Total other income and expenses	428	354	217	180	326
Interest expense	685	632	381	425	431
Minority interest expense (benefit)	2	13	24	(15)	(79)
Income (loss) from continuing operations before income taxes	2,234	1,530	1,268	810	(688)
Income tax expense (benefit) from continuing operations	712	450	375	192	(288)
Income (loss) from continuing operations	1,522	1,080	893	618	(400)
(Loss) income from discontinued operations, net of tax	(22)	783	935	872	(761)
Income (loss) before cumulative effect of change in accounting principle	1,500	1,863	1,828	1,490	(1,161)
Cumulative effect of change in accounting principle, net of tax and minority interest	—	—	(4)	—	(162)
Net income (loss)	1,500	1,863	1,824	1,490	(1,323)
Dividends and premiums on redemption of preferred and preference stock	—	—	12	9	15
Earnings (loss) available for common stockholders	\$ 1,500	\$ 1,863	\$ 1,812	\$ 1,481	\$ (1,338)
Ratio of Earnings to Fixed Charges	3.7	2.6	2.4	1.6	— ^b
Common Stock Data					
Shares of common stock outstanding ^d					
Year-end	1,262	1,257	928	957	911
Weighted average — basic	1,260	1,170	934	931	903
Weighted average — diluted	1,266	1,188	970	966	904
Earnings (loss) per share (from continuing operations)					
Basic	\$ 1.21	\$ 0.92	\$ 0.94	\$ 0.65	\$ (0.44)
Diluted	1.20	0.91	0.92	0.64	(0.44)
(Loss) earnings per share (from discontinued operations)					
Basic	\$ (0.02)	\$ 0.67	\$ 1.00	\$ 0.94	\$ (0.86)
Diluted	(0.02)	0.66	0.96	0.90	(0.86)
Earnings (loss) per share (before cumulative effect of change in accounting principle)					
Basic	\$ 1.19	\$ 1.59	\$ 1.94	\$ 1.59	\$ (1.30)
Diluted	1.18	1.57	1.88	1.54	(1.30)
Earnings (loss) per share					
Basic	\$ 1.19	\$ 1.59	\$ 1.94	\$ 1.59	\$ (1.48)
Diluted	1.18	1.57	1.88	1.54	(1.48)
Dividends per share ^e	0.86	1.26	1.17	1.10	1.10
Balance Sheet					
Total assets	\$49,704	\$68,700	\$54,723	\$55,770	\$57,485
Long-term debt including capital leases, less current maturities	\$ 9,498	\$18,118	\$14,547	\$16,932	\$20,622

a Significant transactions reflected in the results above include: 2007 spinoff of the natural gas businesses (see Note 1 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Summary of Significant Accounting Policies"), 2006 merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Acquisitions and Dispositions"), 2006 Crescent joint venture transaction and subsequent deconsolidation effective September 7, 2006 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Acquisitions and Dispositions"), 2005 DENA disposition (see Note 13 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Discontinued Operations and Assets Held for Sale"), 2005 deconsolidation of DCP Midstream effective July 1, 2005 (see Note 13 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Discontinued Operations and Assets Held for Sale"), 2005 DCP Midstream sale of TEPPCO (see Note 13 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Discontinued Operations and Assets Held for Sale") and 2004 sale of the former DENA Southeast plants.

b Earnings were inadequate to cover fixed charges by \$746 million for the year ended December 31, 2003.

c As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force (EITF) 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) and SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles.

d 2006 increase primarily attributable to issuance of approximately 313 million shares in connection with Duke Energy's merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2007 Form 10-K, "Acquisitions and Dispositions").

e 2007 decrease due to the spinoff of the natural gas businesses to shareholders on January 2, 2007 as dividends subsequent to the spinoff were split proportionately between Duke Energy and Spectra Energy such that the sum of the dividends of the two stand-alone companies approximates the former total dividend of Duke Energy prior to the spinoff.

See Notes to Consolidated Financial Statements in Duke Energy's 2007 Form 10-K.

Chairman's Letter to Stakeholders

Dear fellow investors, customers, employees and all who have an interest in our success — our partners, suppliers, policymakers, regulators and communities:

We believe that all companies should have great aspirations. At Duke Energy, we have two aspirations that guide our planning and serve as a bridge to the future: (1) Modernize and decarbonize our generation fleet, and (2) Help make the communities we serve the most energy efficient in the world.

These aspirations are grounded in our commitments to provide our customers with clean, affordable and reliable electric and gas services, and to allocate capital over the long term to grow earnings for investors.

Our aspirations are also shaped by the ongoing debate over how to address global climate change. They are action-based. They recognize our intent to ensure that rules limiting greenhouse gas (GHG) emissions will fairly balance the needs of all of our stakeholders.

In this letter I will describe how we are building bridges to a low-carbon future. My confidence in our ability to succeed is based on the dedication of our people. Their hard work and perseverance was evident in our 2007 results.



JAMES E. ROGERS
*Chairman, President and
Chief Executive Officer*

"Most of the electricity generated in this country is fueled by four natural resources: coal, uranium, natural gas and water. We include a fifth fuel — energy efficiency. By helping our customers use power more efficiently, we can help them save money and reduce the need for new power plants."

2007 — A STRONG, PRODUCTIVE YEAR

Last year, we faced weather-related challenges of record-setting summer heat throughout our service territory and a persistent drought in the Carolinas. We continued to make progress in integrating our 2006 merger with Cinergy, and we completed the spinoff of our natural gas businesses. The people of Duke Energy met these challenges while achieving solid results in customer service and operations.

■ **We increased earnings per share and total return:** Ongoing diluted earnings per share of \$1.24 in 2007 exceeded 2006 ongoing diluted earnings per share of \$0.99. Duke Energy's total shareholder return (TSR) — a combination of the change in stock price plus dividends paid out — was more than 9 percent in 2007. This beat the S&P 500 index TSR of 5.5 percent.

■ **We achieved constructive legislative and regulatory outcomes:** We received approvals to build two new advanced coal plants in Indiana and North Carolina. Thanks to the diligent work of our teams, we received final air permits for both in January 2008. We helped pass comprehensive energy legislation in North Carolina and South Carolina. The legislation enables the more timely recovery of certain operating costs, such as the reagents and chemicals we use in our environmental equipment on our coal plants. And it allows more timely recovery of the financing costs associated with the construction of new baseload generation. In North Carolina, we settled our rate case, which reduced industrial, commercial and residential

rates without a material impact on 2008 earnings. In Ohio, we continue to support legislation that will ensure future rate certainty for our customers in that state.

■ **We grew our renewable energy portfolio:** Our Commercial Businesses acquired 1,000 megawatts of wind power assets planned or under development in the western and southwestern United States. We also began construction of two small hydroelectric power plants in Brazil.

■ **We dedicated ourselves to customer service and economic development:** We achieved improvements in our key internal satisfaction measures for all customer classes. Economic development efforts helped stimulate new capital investments and new jobs in our five-state service territory.

■ **We met productivity targets:** Our nuclear and coal plants performed superbly when we needed them the most. Our nuclear fleet had its third-best year ever for capacity. Despite the drought, careful management of our coal and hydro units enabled us to successfully meet our customers' record demand for both peak and baseload power.

BUILDING BRIDGES TO A LOW-CARBON FUTURE

In 2008, we'll continue to focus on delivering results for both customers and investors in our basic business. At the same time, we will continue to chip away at the most difficult challenge in the history of our industry: global climate change.

Demand for electricity is growing locally and globally. Each year, Duke Energy alone is adding approximately 40,000 to 60,000 new customers in the Carolinas, and 11,000 to 16,000 new customers in the Midwest. This means we will need more than 6,000 megawatts of new generating capacity by 2012. According to the U.S. Department of Energy, nationwide power demand will grow approximately 35 percent by 2030.

At the same time, evidence is growing that carbon dioxide (CO₂) released into the atmosphere from burning fossil fuels is creating conditions that could change our way of life. Scientists know climate change is a problem, yet they aren't able to accurately predict its full scope. I leave the science to the scientists, but as an energy company CEO, I have a responsibility to protect our assets against such risks — to meet the need for power, without risking our children's futures.

We must plan ahead. It takes five or more years to build a new baseload coal plant, and 10 to 15 years to build a new nuclear plant. To ensure we can deliver reliable and affordable power to our customers, we have to start now. But today, we lack advanced technologies that can achieve this seemingly impossible dual mission: high growth and low carbon. Consequently, we have developed a multi-pronged strategy to bridge the gap between our current high-carbon economy and a low-carbon future.

Let me explain in this letter how the people of Duke Energy are building four bridges: (1) from "production" (making watts) to "efficiency" (saving watts); (2) from conventional to unconventional generating technologies; (3) spanning

2007 MAJOR ACHIEVEMENTS

investor expectations and new regulatory rules; and (4) from following the status quo to leading with forward-looking policies.

THE FIRST BRIDGE: FROM PRODUCTION (MAKING WATTS) TO EFFICIENCY (SAVING WATTS)

Most of the electricity generated in this country is fueled by four natural resources: coal, uranium, natural gas and water. We include a fifth fuel — energy efficiency. By helping our customers use power more efficiently, we can help them save money and reduce the need for new power plants. In aggregate, energy efficiency investments are the least expensive and most environmentally benign source of energy for our customers.

Why isn't more being done to promote energy efficiency? As co-chair of the National Action Plan on Energy Efficiency and the Alliance to Save Energy, I reviewed state regulatory plans for energy efficiency. We found that many utilities don't invest in such programs, because the current regulatory framework is biased against investments in energy efficiency in favor of putting steel in the ground. Our goal is to change that regulatory paradigm so that earnings from energy efficiency are on a par with earnings from investments in new power plants.

In 2007, we introduced Duke Energy's energy efficiency plan, which is designed to set investment returns for the costs and savings of energy efficiency programs. Customers would benefit because they would pay 10 to 15 percent less for energy efficiency than for a new power plant. We filed for regulatory approval of this plan in Indiana, North Carolina and South Carolina. As I was writing this letter, we reached

FIRST QUARTER

- Completed the spinoff of Spectra Energy.
- Received approval to build an 800-megawatt advanced coal-fired unit at our Cliffside station in western North Carolina (final air permit received in January 2008).

SECOND QUARTER

- Issued first Sustainability Report.
- Filed energy efficiency plan in North Carolina.
- Helped pass comprehensive energy legislation in South Carolina that provides for the recovery of new nuclear plant financing costs during the construction phase and allows recovery of costs of certain reagents used in emission removal.
- Acquired 1,000 megawatts of wind energy assets under development in the western and southwestern United States.

THIRD QUARTER

- Met customers' demand for electricity during record-setting summer heat throughout the service territory and record-setting drought in the Carolinas.
- Helped pass comprehensive energy legislation in North Carolina that enables the recovery of new plant financing costs during the construction phase and allows recovery of costs of certain reagents used in emission removal. The legislation includes a workable renewable energy and energy efficiency portfolio standard.
- Filed energy efficiency plan in South Carolina.

FOURTH QUARTER

- Filed energy efficiency plan in Indiana.
- Received remand order affirming the Ohio rate stabilization plan. The ruling maintains the current price and provides for the continuation of existing rate components.
- Received approval to build a 630-megawatt cleaner-coal integrated gasification combined cycle (IGCC) power plant in southwestern Indiana (final air permit received in January 2008).
- Settled rate case in North Carolina, which reduced industrial, commercial and residential rates with no material impact on 2008 earnings.
- Filed applications with state regulators for certificates of public convenience and necessity to add two 620-megawatt combined cycle, natural gas-fired units at two existing power plants in North Carolina.
- Submitted a combined construction and operating license application to the U.S. Nuclear Regulatory Commission for the proposed 2,234-megawatt Lee Nuclear Station in Cherokee County, S.C.
- 2007 ongoing diluted earnings per share of \$1.24 exceeded 2006 ongoing diluted earnings per share of \$0.99.

FULL YEAR

- Continued push for federal cap-and-trade legislation limiting greenhouse gas emissions.

"In aggregate, energy efficiency investments are the least expensive and most environmentally benign source of energy for our customers."

a partial settlement in South Carolina for our plan. We expect to file similar plans in Ohio and Kentucky in 2008.

We were pleased that in February 2008, the Alliance to Save Energy, the American Council for an Energy-Efficient Economy and the Energy Future Coalition endorsed our energy efficiency model as "an innovative and promising new direction for the company and its customers."

Building the smart grid — the backbone of reliability

In 2007, we began installing smart meters in Charlotte, N.C., Cincinnati, Ohio, and northwestern South Carolina. Turning analog meters into digital or smart meters enables real-time communication between our power grids and our customers' homes. This will help our customers monitor and manage their power consumption. We have about 7,500 smart meters in place today. With appropriate regulatory recovery, we expect to install an additional 60,000 by the end of 2009.

Over the next five years, we plan to spend about \$1 billion to digitize our distribution system. These improvements will help us better balance supply and demand, pinpoint trouble sooner, and restore outages faster or avoid them altogether.

THE SECOND BRIDGE: FROM CONVENTIONAL TO UNCONVENTIONAL GENERATING TECHNOLOGIES

Our energy efficiency focus is vital to providing reliable and cost-effective electricity in the future. But efficiency alone cannot satisfy growing demand and at the same time reduce our CO₂ emissions. We must do more. Instead

of looking for a "silver bullet" strategy, we are taking a "silver buckshot" approach. Using new technologies, we plan to build an efficient generation portfolio powered by coal, nuclear, natural gas and renewables. Over the next five years, we plan to invest approximately \$23 billion (almost equal to our current market cap) to make our entire system more efficient, retire inefficient plants and increase renewable generation.

Advanced coal technologies

When people ask, "How can a company committed to a low-carbon future continue to build new coal plants?" I remind them of these key facts: Today, coal accounts for about 50 percent of our nation's total electric generation. In the United States, Duke Energy's system is about 70 percent coal. We burn coal today because it is the most abundant and economical fuel available for large-scale reliable power generation. We are finding ways to use coal more efficiently and cleanly.

Indiana regulators approved our four-year plan to build a cleaner-coal integrated gasification combined cycle (IGCC) plant. The 630-megawatt Edwardsport plant is currently expected to cost approximately \$2 billion. To encourage this new technology, the project will receive \$460 million in local, state and federal tax incentives and credits.

The new plant will be one of the cleanest and most efficient coal-fired power plants in the world. It will emit less sulfur dioxide (SO₂), nitrogen oxides (NO_x) and particulates than the plant it replaces — while providing more than 10 times the power of the existing plant. The current 160-megawatt plant emits about 13,000 tons of SO₂, NO_x and particulates

annually and runs about 30 percent of the time. By comparison, a new 630-megawatt IGCC plant running 100 percent of the time will emit about 2,900 tons of the same pollutants. It will also use about 11 million gallons of water a day, compared to the current plant, which uses almost 190 million gallons daily.

Eventually we hope to be able to capture and permanently store the CO₂ emitted from this plant in nearby underground formations, keeping it out of the atmosphere.

North Carolina regulators approved our plan to build a new 800-megawatt unit at our Cliffside Steam Station. At a cost of approximately \$2.4 billion, this plant will use supercritical coal-combustion technology, which is 30 percent more efficient than the units it will replace. As a result, it will generate twice the amount of electricity of the existing plant with only one-seventh of the SO₂, one-third of the NO_x and one-half the mercury emissions. The new unit's air permit includes limits on SO₂ and NO_x emissions that are stricter than current state and federal rules. The state's mercury limits are already more stringent than federal rules. The project will receive \$125 million in federal clean-coal tax credits.

We also agreed to implement a unique CO₂ mitigation plan for Cliffside. As part of that plan, we will retire the plant's four older coal units by 2012 and shut down 800 megawatts of other older coal units by 2018. In addition, we agreed to invest 1 percent or approximately \$50 million of our North Carolina revenues from our regulated operations each year in energy efficiency, pending appropriate regulatory approval.

Natural gas

Natural gas emits less CO₂ than coal, but it is more expensive — so we use it judiciously in our portfolio. We filed with our regulators to build two 620-megawatt gas-fired units, one each at our Buck and Dan River steam stations in North Carolina. Last year, we purchased nearly 1,300 megawatts of gas-fired generation in the Midwest and North Carolina, adding to our existing gas assets.

Non-fossil fuel: nuclear and renewable energy

Today, approximately 28 percent of the power we generate in the United States comes from zero CO₂-emitting nuclear and renewable energy — about 5,000 megawatts of nuclear capacity and about 3,200 megawatts of hydroelectric capacity. We also have more than 3,100 megawatts of hydroelectric capacity in South America.

To reduce CO₂ emissions and meet demand growth, nuclear power must play an even larger role in our portfolio. In December, we filed an application with the Nuclear Regulatory Commission for a combined construction and operating license for our proposed two-unit, 2,234-megawatt Lee Nuclear Station in South Carolina. We also filed with South Carolina regulators to invest and recover up to \$230 million in the plant's upfront development costs. We saw similar cost recovery assurance legislation pass in North Carolina. Assuming timely regulatory approvals, we would anticipate unit 1 coming on line in 2018.

We will also increase our use of renewable energy, by adding wind, solar and biomass to our hydroelectric capacity. We will add up to 200 megawatts from renew-

able sources to serve our Indiana customers, and we are purchasing renewable energy capacity to supply our North Carolina customers starting in 2012. As noted earlier, our nonregulated business is also building a renewable energy portfolio. When completed, these projects will sell wholesale power to other utilities. We expect the first 240 megawatts of these nonregulated assets to come on line in 2008 and 2009.

THE THIRD BRIDGE: SPANNING INVESTOR EXPECTATIONS AND NEW REGULATORY RULES

During the 1970s and 1980s, the industry invested trillions of dollars to build new baseload generation. The result was a sobering demonstration of the limitations of traditional rate-of-return regulation — for both customers and investors. This construction binge resulted in rate shocks for customers, cost overruns, the cancellation of half-finished plants and ultimately red ink for shareholders.

In the 1990s, we turned to the deregulation of power markets, relying on market signals to build new generation cost-effectively. But these experiments produced other undesirable outcomes: overbuilding in premium fuels such as natural gas and the under-recovery of true investment costs.

The lessons are clear to customers, investors, regulators and policymakers. We need new rules based on what we learned from both building eras. Customers and investors can both benefit when regulators reduce the time between when we invest and when we start recovering our investments.

OUR MISSION, OUR VALUES

Our Mission

At Duke Energy, we make people's lives better by providing gas and electric services in a sustainable way. This requires us to constantly look for ways to improve, to grow and to reduce our impact on the environment.

Our Values

- **Caring** — We look out for each other. We strive to make the environment and communities around us better places to live.
- **Integrity** — We do the right thing. We honor our commitments. We admit when we're wrong.
- **Openness** — We're open to change and to new ideas from our co-workers, customers and other stakeholders. We explore ways to grow our business and make it better.
- **Passion** — We're passionate about what we do. We strive for excellence. We take personal accountability for our actions.
- **Respect** — We value diverse talents, perspectives and experiences. We treat others the way we want to be treated.
- **Safety** — We put safety first in all we do.

"As the third largest emitter of CO₂ in the United States, I believe we have a responsibility to provide policy leadership. We must imagine a low-carbon future for our grandchildren and act to lower CO₂ emissions now. Achieving a low-carbon future will require rigorous engineering solutions, continuing technological discoveries, the political will to bridge local interests and global needs, and leaps of imagination."

In 2007, South Carolina passed comprehensive energy legislation that includes provisions allowing recovery of new nuclear plant financing costs during the construction phase. Similarly, North Carolina lawmakers passed legislation that allows us to seek plant financing costs through a rate case. This legislation enables us to synchronize capital spending and rate cases associated with our major investments. The North Carolina law also provided a workable renewable energy and energy efficiency portfolio standard requiring investor-owned utilities to supply 12.5 percent of their power from renewable energy sources by 2021.

This far-thinking leadership will allow us to build new plants so we can deliver reliable and affordable service to our customers while reducing the risk of regulatory lag.

Our strong balance sheet allows us to fund our ambitious five-year building program without issuing public equity. Beginning in 2010, we expect to raise equity of about \$200 million per year through our dividend reinvestment and internal benefit programs.

THE FOURTH BRIDGE: FROM FOLLOWING THE STATUS QUO TO LEADING WITH FORWARD-LOOKING POLICIES

I've described actions we are taking in our service territory to meet our growing demand for power and reduce our carbon footprint. With these steps, we will achieve our aspirations of modernizing and decarbonizing our fleet and making our communities more energy efficient.

But we must do more. As the third largest emitter of CO₂ in the United States,

I believe we have a responsibility to provide policy leadership. We must imagine a low-carbon future for our grandchildren and act to lower CO₂ emissions now. Achieving a low-carbon future will require rigorous engineering solutions, continuing technological discoveries, the political will to bridge local interests and global needs, and leaps of imagination.

In 2007, we worked to win Congressional support of cap-and-trade rules to control GHG emissions, so that all businesses can calculate the investment needed to reduce their carbon footprints. We advocated for legislation that treats all industries and regions of the nation fairly and ensures that utility customers in high coal-using states aren't penalized. We believe a cap-and-trade approach is the fairest and most equitable and practical way to achieve a 60 to 80 percent reduction in our nation's GHG emissions by 2050.

We also need new ways to fund research, development and deployment of CO₂-reducing technologies. Without such funding, we won't make it across the bridge to a low-carbon future.

More business, political and community leaders are stepping forward to cross that bridge. They're not waiting for others to act. Such leaders are also emerging in our company. They and their colleagues know it's easier not to rock the boat. Yet they've chosen to act and to take personal responsibility for their results. They've chosen to lead with integrity, discipline, vision and compassion — and help prepare and develop our workforce for the future.

During the next five years, we expect almost a third of that workforce to retire. This presents both a recruitment challenge

and a great opportunity to grow talent within the company. One of my team's top priorities is development of a highly talented workforce that has the skill and the will to position us for a low-carbon future.

FOCUSED ON GROWTH

Based on current assumptions, we expect to grow ongoing diluted earnings at 5 to 7 percent compounded annually through 2012. We've set our 2008 employee incentive target at \$1.27, based on ongoing diluted earnings per share. Our growth objectives are supported by our commitment to balance the needs of our stakeholders, including future generations.

Our many accomplishments this past year were possible because of the diligence, hard work and imagination of the people of Duke Energy. I thank them on your behalf, and mine.

The catalysts to increase future earnings will be continuing cost management, execution on our investment-recovery strategy and steady organic growth. This represents a strong value proposition for our investors, and one that allows us to honor commitments to all of our stakeholders.

We will focus on these priorities as we continue to build bridges to a low-carbon future. I look forward to working together with you to achieve that goal.



JAMES E. ROGERS
*Chairman, President and
Chief Executive Officer*

March 7, 2008

Leadership on Climate Disclosure

Investors, customers and other stakeholders need to know the risks and opportunities the company will face in a world of tightening greenhouse gas constraints. They also want to know what the company is doing to position itself for success in a low-carbon future.

As part of its commitment to transparency, Duke Energy has been reporting its carbon dioxide (CO₂) emissions to the U.S. Department of Energy and to the U.S. Environmental Protection Agency since 1995. For the past five years, the company has also participated in the Carbon Disclosure Project (CDP). The CDP is an independent organization that works with shareholders and participating companies who voluntarily share their assessment of the business risks and opportunities they face due to climate change and the associated regulatory requirements. Duke Energy's current CDP report can be found at www.cdproject.net and on the company Web site at www.duke-energy.com/environment/reports/carbon-disclosure-project.asp.

Duke Energy's SEC Form 10-K for 2007 included a detailed assessment of the climate policy debate in Washington and potential costs customers could see under specific legislative proposals. (This form can also be accessed on the company Web site.) The company pointed out that compliance costs will be highly dependent on allowance prices, and will be tied closely to Congress' decision with respect to the allocation of allowances.

In January 2008, Duke Energy agreed to participate in The Climate Registry (TCR) as a Founding Reporter. TCR represents a collaboration of 39 U.S. states, seven Canadian provinces and two Mexican states. Participants in the registry agree to report their greenhouse gas emissions using a common platform. A more detailed description can be found by visiting www.theclimateregistry.org.

In 2007, Duke Energy joined the Advisory Committee of the Climate Disclosure Standards Board (CDSB) — an international partnership of seven organizations formed to establish a generally accepted framework for corporate climate change risk-related reporting. The board's long-term goal is to ensure that companies file these reports with regulatory authorities as part of their annual financial reporting. More information is available at www.weforum.org.

Duke Energy has agreed to participate this year in the CDSB's pilot program to "road test" the template, which includes emissions disclosure, physical risks, regulatory risks and risk management strategy. Once the program is up and running in 2009, completed reports will be posted on the Web sites of participating companies.

These are some of the ways Duke Energy is working to keep its stakeholders informed about its strategy for addressing climate change and the associated regulatory risk, now and in the future. For more information on the company's climate disclosure and overall transparency efforts, please also see Duke Energy's 2007/2008 Sustainability Report on the company Web site.



Where we are now

Duke Energy is one of the largest electricity suppliers in North and South America. We serve our retail and wholesale customers reliably and affordably with approximately 40,000 megawatts of electric generating capacity fueled from coal, nuclear, natural gas, hydroelectric and a growing portfolio of renewable energy. In the United States, about 70 percent of the power we generate today comes from coal, which releases carbon dioxide (CO₂) into the atmosphere and is linked to climate change.

CO₂ and most other greenhouse gases (GHG) have always been present, keeping the earth hospitable for life by trapping heat that would otherwise escape into space. We know this as the greenhouse effect. Since the industrial revolution, however, the concentration of GHG in the atmosphere from the burning of fossil fuels and other human activities has increased, trapping more heat and amplifying the natural greenhouse effect.

A majority of the public and policymakers now believe that the earth's climate is changing, caused in part by GHG emitted into the atmosphere from human activity.

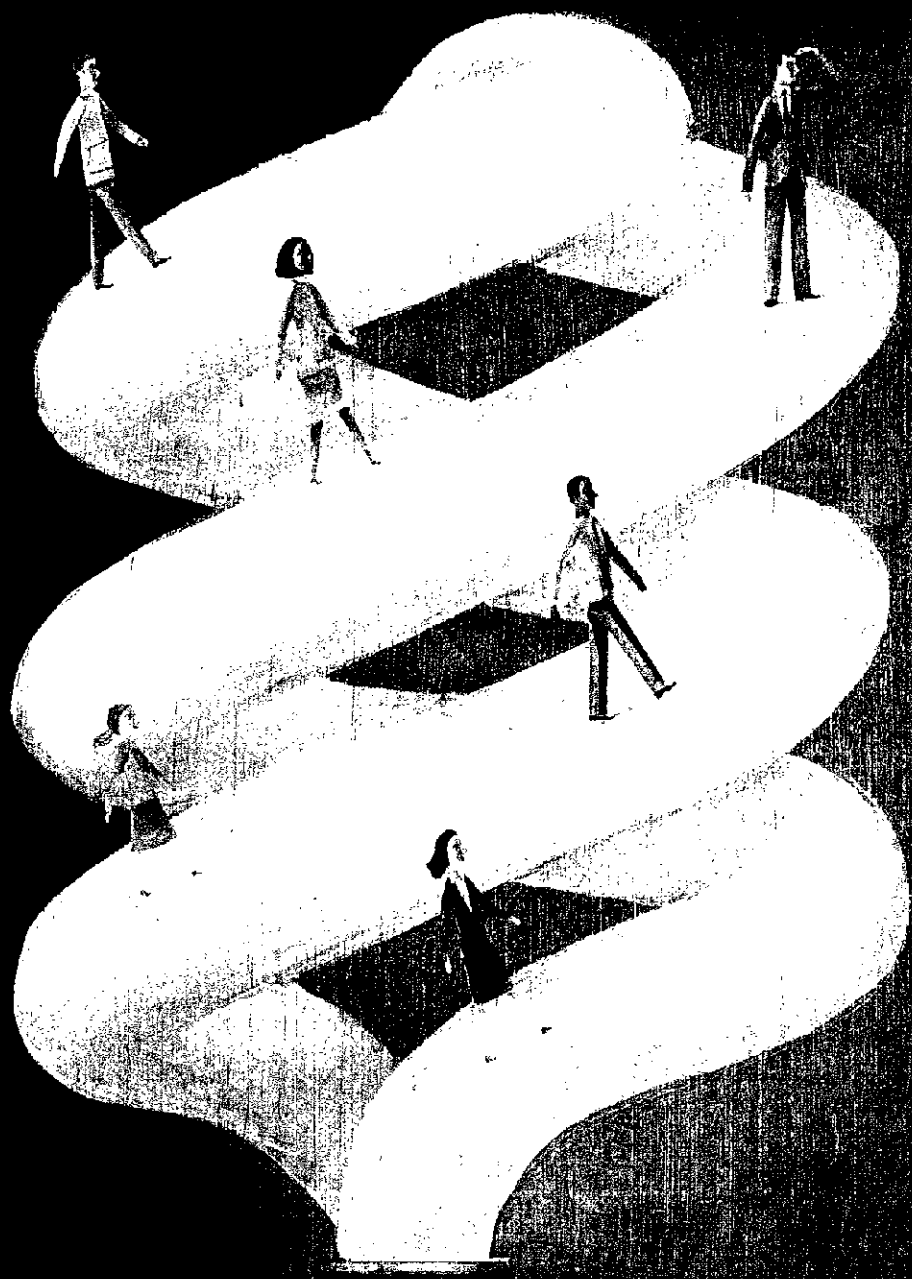
As the third largest emitter of CO₂ in the United States — more than 100 million tons annually, the equivalent of about 10 million cars on the highway — we realize we have a special responsibility to address this issue.

Our focus is on finding practical solutions that will benefit our stakeholders, our nation, our world and future generations.



"I monitor and analyze emerging environmental issues for the company. Over the last few years, the debate over global climate change has intensified. We believe it is no longer a question of if Congress will enact carbon limits, but when — and what will be required. We have to be ready to comply in a way that keeps customer prices competitive."

MIKE STOBEN
*Director, Environmental Policy Analysis
& Strategy*
Duke Energy
Charlotte, N.C.



Where we are going

We are taking actions today to build a sustainable business that allows our stakeholders and our company to prosper while balancing environmental, social and economic needs.

We don't know when federal restrictions on GHG emissions will be enacted, but we must assume they are coming. Some believe it is premature to set specific emission-reduction targets. But without a stake in the ground, we can't expect to make meaningful progress. We believe that preparing for a carbon-constrained world now carries substantially less risk for our customers and our shareholders than if we wait.

To be ready, we are assessing what it would take to cut our CO₂ emissions in half — approximately 50 million tons — by 2030. By then, we will likely have replaced our oldest coal-fired power plants with advanced cleaner-coal and other technologies including nuclear power, natural gas, renewable energy and energy efficiency.

To achieve that reduction and meet our projected electricity demand while keeping our prices competitive, a number of things must happen. These include new technology developments and workable legislative and regulatory solutions.

We will need new, lower-emitting coal-based generating technologies so we can continue using coal, our nation's most abundant and economical fuel. We will need advanced zero-emitting nuclear generation. We will need approval of a new business model to significantly expand energy efficiency.

As we realize our vision, we will be ready to adopt new technologies and address unexpected challenges that will surely come along.



"If we are serious about addressing climate change, we have to be serious about nuclear power. Nuclear power plants safely generate more than 70 percent of all carbon-free electricity in the United States. Along with advanced coal, natural gas, renewable energy and energy efficiency, nuclear power must be part of the mix to meet our need for clean, affordable and reliable electricity."

DAVID JONES
Director, Nuclear Policy & Strategy
Duke Energy
Charlotte, N.C.



How we will get there

We are taking five steps to build our bridges to a low-carbon future:

First, we are working to shape public policy. We are pursuing passage of federal carbon legislation that will give the electric utility industry the time it needs to make the transition to low-carbon generation, without severe damage to our economy and our customers.

Second, we are pursuing new technology for generation and distribution of electricity and for energy efficiency to reduce our carbon footprint.

Third, we are building new generation plants. We are also developing our talent base so we have the workforce we need to successfully transition to a low-carbon future.

Fourth, we are balancing diverse interests. We are engaging with stakeholders to understand all viewpoints and find the best path to sustainable carbon reduction.

Fifth, we are taking a long view. Halving our CO₂ emissions won't happen overnight. This is a marathon, not a sprint — but the sooner we start, the greater the benefits.

The following pages describe these five steps in greater detail.



"I've been a meter reader and worked in Customer Service, Accounting and Human Resources. In my current role, I bring the customer perspective to lawmakers and their staffs on Capitol Hill. This helps them better understand how we are trying to minimize the impact on our customers as we work to reduce our greenhouse gas emissions."

JOHN HAYSBERT
*Manager, Federal Governmental Affairs
Duke Energy
Washington, D.C.*



STEP

1

MARITZA BEGAN HER CAREER WITH DUKE ENERGY IN 1999 AS ONE OF THE COMPANY'S FIRST BILINGUAL CUSTOMER SPECIALISTS. SHE LEADS A TEAM RESPONSIBLE FOR FULFILLING CUSTOMER SERVICE REQUESTS, INCLUDING THROUGH THE INTERNET.

Shaping public policy

"Customers are concerned about energy costs. They want to know what they and their families can do to reduce their power bills. In that sense, I think Duke Energy's focus on energy efficiency is coming at the right time."

MARITZA RIVERA
Call Center Team Lead
Duke Energy
Charlotte, N.C.

Congress could pass legislation enacting a greenhouse gas (GHG) cap-and-trade program as early as 2009. As we strive to shape that legislation, we are working to:

- Better understand the impact alternative policy approaches could have on our industry, our operations and our customers.
- Better understand the technology gap for low- and zero-emitting power generation and promote the funding mechanisms needed to close that gap.
- Communicate with policymakers and other stakeholders, who can help mold and shape federal policy while new technologies develop. This report and our 2007/2008 Sustainability Report are part of that communication process.

Most pending federal legislation calls for reducing our nation's GHG emissions by 60 to 80 percent by 2050. Scientists say the United States and other carbon-

intensive nations need to achieve this reduction level by the middle of this century to slow, stop and reverse the effects of climate change. For Duke Energy, we expect that all of our currently operating baseload nuclear and coal-fired generating units will be retired by 2050, with the possible exception of one of our "newest" coal plants in Ohio, which will then be 59 years old.

Given the unknowns — the timing of new low-carbon generation technologies and future carbon dioxide (CO₂) emission constraints — we decided to look instead at what it might take to cut our CO₂ emissions in half — by approximately 50 million tons — by 2030. Due to their relicensing, our three nuclear plants will still be operating, and our planned fourth nuclear plant, Lee Nuclear Station, will have been on line for about 12 years, based on the current schedule. 2030 gives us a more realistic horizon over which to evaluate potential emission-reduction strategies.

With passage of the right cap-and-trade legislation and new technologies, we believe we could successfully reduce our CO₂ emissions like we have our nitrogen oxide (NO_x) and sulfur dioxide (SO₂) emissions. Through 2010, we will have invested approximately \$5 billion to further reduce our SO₂ and NO_x emissions. We project that by 2010, those emissions will be about 70 percent lower than they were in 1997. The SO₂ and NO_x controls we have been installing have the added benefit of capturing a significant amount of mercury.

The point is, we acted proactively before to achieve workable regulations and made the necessary investments in new technology to comply. We can do that again with carbon legislation and forge a solution that protects our customers, our business and our nation's economy.



STEP

2

CVILKIN'S TEAM
SIMULATES LOAD
PROFILES FOR DUKE
ENERGY'S VARIOUS
CUSTOMER RATE CLASSES.
ANALYSIS OF THIS
INFORMATION
RATE
FOR

Pursuing new technology

"The Load Research team studies how and when our customers are using energy. This information helps to plan for our customers' future needs and to identify the role that emerging technologies and energy efficiency will play in meeting those needs."

WILLIAM BAKER
Manager, Load Research
Duke Energy
Charlotte, N.C.

We are using new technologies to reduce our GHG emissions on both the supply and demand sides. On the supply side, we're building a cleaner-coal integrated gasification combined cycle (IGCC) plant that will replace a half-century-old coal plant. We're building this 630-megawatt plant in southwestern Indiana, where the geology is conducive to underground capture and permanent storage of CO₂ emissions. As that technology develops, we will evaluate its eventual use at the site.

In the Carolinas, we're building an advanced 800-megawatt coal plant that will eventually replace 1,000 megawatts of old higher-emitting coal units in North Carolina. We're not building an IGCC plant as the geology there is not suitable for CO₂ storage, but this will likely be the last new coal plant we build in North Carolina for at least 20 years. By then, we would expect CO₂ capture technology to advance so it can be used on virtually any coal plant, regardless of the geology. Also in North Carolina, we have applied to build

more than 1,200 megawatts of natural gas-fired generation capacity to meet increasing demand. This lower-emitting gas generation will also replace older coal units.

We are using our more than three decades of experience in building and operating nuclear plants to plan a new 2,234-megawatt nuclear power plant in South Carolina — a plant that will have zero CO₂ emissions.

We are increasing our use of renewable energy by purchasing renewable capacity to help meet our domestic energy demand with wind, biomass and solar power. Our Commercial Businesses are planning and developing more than 1,000 megawatts of wind power.

On the demand side, we are transforming our passive analog distribution grids into digital information networks to further improve reliability and expand energy efficiency. We are installing "smart" meters, remotely controlled appliance sensors and other energy-saving technologies in customers' homes.

We intend to make energy efficiency part of our standard service offering. This includes providing customers with tools to reduce their energy use without sacrificing comfort, convenience or productivity.

Technology and energy efficiency breakthroughs won't happen without the right regulatory treatment. We seek state regulations that treat energy efficiency as the "fifth fuel" — just like coal, nuclear, natural gas and renewable energy in meeting growing demand. We seek to earn a return on the avoided cost of building new power plants through our energy efficiency gains.



STEP

3

NEETA STUDIES AND
SELECTS EMERGING
TECHNOLOGIES FOR
USE AT DUKE ENERGY.
SHE ALSO DEVELOPS
ADAPTATION STRATEGIES
FOR NEW TECHNOLOGIES
THAT HAVE THE POTENTIAL
TO CONTRIBUTE TO
FUTURE EARNINGS.

Building projects and talent

"I seek out and evaluate emerging technologies that can help bring Duke Energy's vision of the future to life. Technology forces us to examine how we do things. In doing so, we discover ways to work more effectively, enhance the customer experience, achieve operational breakthroughs and reduce our environmental impact — all critical to preparing for a low-carbon future."

NEETA PATEL

Director, Technology Development & Application

Duke Energy

Cincinnati, Ohio

Building new baseload power plants requires sophisticated coordination of planning, labor and materials. We have a long tradition of hands-on involvement in large-scale construction projects. In fact, our existing generation fleet was almost entirely engineered and built and is now operated by our own workforce.

Before the merger of Cinergy and Duke Energy in April 2006, both companies were in the process of completing large environmental retrofits — installing scrubbers and SCR (selective catalytic reduction) systems on some of their largest coal-fired units. Experience gained on those projects by our project management teams and through partnerships with design, engineering and construction firms is being transferred to the new power plant projects.

For example, in the Carolinas, project and construction management team leaders from the Marshall Steam Station scrubber project are moving to work on the new Cliffside unit and the scrubber

installation on an existing unit of that plant. Project and construction management team leaders working on the scrubber at Belews Creek Steam Station will transition to the new gas-fired units being planned on the sites of the Buck and Dan River steam stations. These project management teams will also work on the new Lee Nuclear Station in South Carolina. In the Midwest, Duke's project management teams completing environmental retrofits at the Gibson and Gallagher coal-fired plants in Indiana are transitioning to the new Edwardsport IGCC plant.

Global demand for engineering, equipment, materials and labor has increased. But with our existing relationships with contractors and suppliers and our use of fixed-price purchase orders, we have already locked in much of the costs for the new coal and gas plants.

We also completed a workforce planning effort to better understand the effects of an aging workforce on our future plans. We found that, due to expected retirements and attrition, we will need to replace almost a third of our workforce over the next five years. Many of our contractors face similar challenges.

Our response strategies include supporting state and local workforce development efforts, providing an employment proposition attractive to a diverse population, broadening existing and initiating new programs to ensure access to top talent, and significantly expanding our employee development, engagement and retention programs.

We have already taken a number of actions, including expanding our staffing functions, ramping up our co-op and summer student hiring programs, developing knowledge transfer strategies, increasing the frequency of internal talent reviews from annually to quarterly, and enhancing our professional development and supervisory/management training programs.

We have also become more active in industry, state and local efforts to develop the workforce of the future. For example, we are supporting K-12 science, technology and math education, and we have partnered with community colleges and technical schools to train technicians to work for us or our contractors. We also advise universities on how to keep curriculum current.



STEP

4

SINCE 2000, CARL HAS
BEEN WITH ADVANCED
ENERGY, A NOT-FOR-PROFIT
COMPANY THAT WORKS
WITH UTILITIES AND
THEIR STAKEHOLDERS TO
CREATE AND IMPLEMENT
ENERGY EFFICIENCY AND
RENEWABLE ENERGY
PRODUCTS AND SERVICES

Balancing diverse interests

"My job is building relationships. Last year, I coordinated and hosted Duke Energy's 15 'collaboratives' on its proposed energy efficiency plans for North Carolina and South Carolina. These sessions brought together a broad array of stakeholders to find ways to put energy efficiency on a more equal footing with new power plants — a position ultimately endorsed by the North Carolina legislature in a bill passed last summer."

CARL WILKINS
Director, Utility Services
Advanced Energy Corp.
Raleigh, N.C.

The new rules of engagement in our world, our nation and our industry are conversation and collaboration. To effectively address the climate change problem, we are working to engage all of our stakeholders in the debate and in our plans. Climate change doesn't respect borders, so to build support for our strategy we are defining our community broadly.

As a sustainable business, our connections with and among stakeholders are increasingly important to achieving our goals. As we work to build bridges between stakeholder groups, we must also balance their frequently competing needs.

As noted earlier, we will have a greater reliance on energy efficiency to meet our customers' future energy needs. How we develop and implement this new regulatory paradigm will largely be decided by state utility regulators. But the momentum to get the job done is coming from many sectors, including utilities, customer groups and the environmental community.

Last year, we conducted a series of energy efficiency summits in collaboration with a broad range of stakeholders and nationally known energy efficiency experts. These gatherings focused on the benefits an effective energy efficiency program can offer customers and utilities. A dialogue began on the best way to move energy efficiency forward in each state. These efforts also provided a framework for building grassroots support for research and development funding for new clean energy technologies, and most importantly, for federal cap-and-trade legislation to reduce GHG emissions.

On the national level, we joined with seven other utilities — representing nearly 20 million customers in 22 states — who committed to a combined investment in energy efficiency of about \$1.5 billion annually. When fully implemented in 10 years, this increased level of investment in energy efficiency will reduce CO₂ emissions by about 30 million tons — avoiding the need for 50 500-megawatt peaking power plants.

We also helped form the U.S. Climate Action Partnership (USCAP), a group of businesses and leading environmental organizations united in calling on the federal government to move quickly to enact strong national legislation to reduce GHG emissions.

Recognizing that this isn't just a national problem, we're also working very closely with Combat Climate Change (3C), a group of 46 leading companies located around the world. The 3C coalition is committed to finding a common framework for addressing global climate change by 2013.

We believe that engaging diverse stakeholders in our service areas, the nation and around the world will lead to carbon reduction policies that are fair and sustainable for the long term and for all the world's people.



STEP

5

REBI IS RESPONSIBLE FOR BUDGETING, REPORTING AND PROJECT TRACKING FOR DUKE ENERGY'S DEVELOPING ENERGY PROGRAM. PREVIOUSLY, SHE WAS A CONTROL GROUP MANAGER IN THE DIVISION OF ENERGY. AT THAT, SHE WAS A MANAGER IN OTHER COMPANIES.

Taking the long view

"I feel that being in wind energy is the best place to be right now. As the technology has advanced and our nation's demand for electricity continues to grow, renewable energy is a growth opportunity for our company and supports our strategy to significantly reduce our carbon emissions."

HEIDI HENTSCHEL

Director, Finance — Wind Energy

Duke Energy Generation Services

Austin, Texas

People today aren't used to looking far into the future or contemplating issues of the scale and complexity of global climate change. We focus on the quick fix. We deal with problems now — then we move on to the next one. Climate change is different. The future can only be changed if we begin today and keep going. Hitting a big target in 2030 or 2050 may be helpful, but to hit longer-term objectives, we need to change the technologies that are vital to a modern society — including those used to generate and distribute electricity.

Today's concentration of CO₂ in the atmosphere is about 380 parts per million (ppm) — only about 100 ppm more than in pre-industrial times. If we continue to use the same technologies, projections of CO₂ concentrations by the end of this century will top 900 ppm. The earth hasn't seen that level of CO₂ for about 35 million years, when things were a lot hotter and wetter than they are today. Scientists say

we need to take the first steps to lower our emissions so that future concentrations don't exceed 450 to 550 ppm.

Emissions from less-developed countries will continue to grow as those societies simply improve their lives. This increases the urgency to get to work to develop new non-emitting technologies and lower their cost so they can also be built in the developing world.

The task for our generation is to get the policy right, get started and stick to it. We need to develop the least costly way to address climate change and do it right. That means policies need to be market based and cover most, if not all, of the economy. The early years of a cap should encourage more energy efficiency and lower-cost actions that can slow, stop and begin to reverse the growth in CO₂ emissions. Policies should encourage the development and commercialization of technologies we will need to make the necessary deep reductions. Policymakers need to avoid the temptation to demand immediate deep emissions cuts, which would result in a greater reliance on natural gas. We must give clean coal technologies the time to develop so that we may deploy them as we retire current technologies.

Future generations will continue this work. The technologies we develop today around CO₂ capture and storage will serve as a bridge for the next generation of technologies. Our grandchildren will need new energy sources, whether advanced solar, space-based solar or even nuclear fusion. We may also find new technologies to remove CO₂ from the atmosphere, perhaps using a combination of biomass and carbon capture and storage. There will be plenty of opportunity for innovation and adaptation to a warmer world.

We think of this as "cathedral thinking" — remembering that the architects and builders of the great cathedrals of Europe never saw them completed. Frequently these inspired creations were not finished until the builders' grandchildren were themselves old. Yet that didn't cause them to lose faith, nor did it dull their vision of what might be if they merely began — despite the work, despite the cost and despite the fact they'd never see the end result. Such a commitment is needed for achieving a low-carbon future.

Board of Directors



**WILLIAM
BARNET III**

WILLIAM BARNET III

*Chairman, President and CEO,
The Barnett Co. Inc. and
Barnet Development Corp.;
Chair, Finance and Risk Management
Committee; Member, Nuclear Oversight
Committee*

Director of Duke Energy and its predecessor companies since 2005. Barnett is the mayor of Spartanburg, S.C. He serves on the board of Bank of America and is a trustee of the Duke Endowment.

G. ALEX BERNHARDT SR.

*Chairman and CEO,
Bernhardt Furniture Co.;
Member, Audit and Nuclear Oversight
Committees*

Director of Duke Energy and its predecessor companies since 1991. Besides leading the family business in Lenoir, N.C., Bernhardt serves on the board of Communities In Schools. He is past president of the American Furniture Manufacturers Association and of the International Home Furnishings Marketing Association.



**G. ALEX
BERNHARDT SR.**



**MICHAEL G.
BROWNING**

MICHAEL G. BROWNING

*President and Chairman of the Board,
Browning Investments Inc.;
Member, Compensation, Corporate Governance,
and Finance and Risk Management Committees*

Director of Duke Energy and its predecessor companies since 1990. Browning serves on the boards of the Indianapolis Convention & Visitors Association and the Indianapolis Museum of Art. He is a member of the Indiana Public Officer Compensation Committee.

PHILLIP R. COX

*President and CEO,
Cox Financial Corp.;
Chair, Audit Committee*

Director of Duke Energy and its predecessor companies since 1994. Cox is chairman of the board of Cincinnati Bell and serves on the boards of The Timken Company, Diebold Inc., the Cincinnati Business Committee, Touchstone Mutual Funds and the University of Cincinnati.



PHILLIP R. COX



DANIEL R. DIMICCO

DANIEL R. DIMICCO

*Chairman, President and Chief Executive Officer,
Nucor Corporation;
Member, Compensation and Corporate
Governance Committees*

Director of Duke Energy since 2007. DiMicco began his career with Nucor Corporation in 1982 and held a number of senior positions before being named chairman in 2006. He is a former chair of the American Iron and Steel Institute.

ANN MAYNARD GRAY

*Former President,
Diversified Publishing Group of ABC Inc.;
Lead Director; Chair, Corporate Governance
Committee; Member, Compensation and
Finance and Risk Management Committees*

Director of Duke Energy and its predecessor companies since 1994. Gray has held a number of senior positions with American Broadcasting Companies and serves on the boards of the Phoenix Companies and Elan Corp. plc.



**ANN MAYNARD
GRAY**



JAMES H. HANCE JR.



JAMES T. RHODES



JAMES E. ROGERS



MARY L. SCHAPIRO



PHILIP R. SHARP



DUDLEY S. TAFT

JAMES H. HANCE JR.

Retired Vice Chairman, Chief Financial Officer and Board Member, Bank of America Corp.; Chair, Compensation Committee; Member, Finance and Risk Management Committee

Director of Duke Energy and its predecessor companies since 2005. A certified public accountant, Hance spent 17 years with Price Waterhouse. He serves on the boards of Sprint Nextel Corp., Cousins Properties Inc. and Rayonier Corp.

JAMES T. RHODES

Retired Chairman, President and CEO, Institute of Nuclear Power Operations (INPO); Chair, Nuclear Oversight Committee; Member, Audit Committee

Director of Duke Energy and its predecessor companies since 2001. Rhodes is a member of the Electric Power Research Institute's advisory council and a former board member of INPO, the Nuclear Energy Institute, Edison Electric Institute and the Southeastern Electric Exchange.

JAMES E. ROGERS

Chairman, President and CEO, Duke Energy

Rogers became president and CEO of Duke Energy in 2006, having served as chairman and CEO of Cinergy Corp. since 1994 and PSI Energy since 1988. He is chairman of the Institute for Electric Efficiency and the Edison Foundation, and serves as co-chair of the National Action Plan for Energy Efficiency and the Alliance to Save Energy. He is a director of Fifth Third Bancorp and Cigna Corp. and serves on the boards and Executive Committees of the World Business Council for Sustainable Development and the Edison Electric Institute. He is also a board member of the Nuclear Energy Institute, the Institute of Nuclear Power Operations and the Nicholas Institute for Environmental Policy Solutions.

MARY L. SCHAPIRO

Chief Executive Officer, Financial Industry Regulatory Authority; Member, Audit and Corporate Governance Committees

Director of Duke Energy and its predecessor companies since 1999. Schapiro previously served as chairman and CEO of the National Association of Securities Dealers, as chairman of the Commodity Futures Trading Commission and on the Securities and Exchange Commission. She currently serves on the board of Kraft Foods Inc.

PHILIP R. SHARP

President, Resources for the Future; Member, Audit and Nuclear Oversight Committees

Director of Duke Energy since 2007, having served on one of its predecessor companies from 1995 to 2006. A former member of the Indiana delegation to the U.S. House of Representatives, Sharp served as Congressional chair of the National Commission on Energy Policy and was a member of the House Energy and Commerce Committee.

DUDLEY S. TAFT

President and CEO, Taft Broadcasting Co.; Member, Compensation and Finance and Risk Management Committees

Director of Duke Energy and its predecessor companies since 1985. Taft serves on the boards of the Unifi Mutual Holding Co. and Fifth Third Bancorp. He is chairman of the Cincinnati Association for the Arts and a trustee of the Cincinnati Convention & Visitors Bureau.

Executive Management



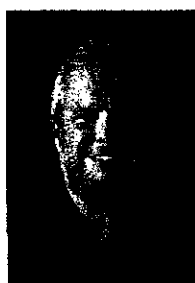
HENRY B. BARRON JR.



STEPHEN G. DE MAY



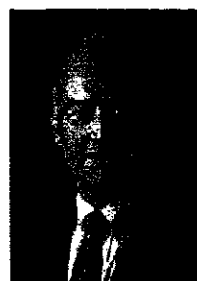
LYNN J. GOOD



DAVID L. HAUSER



JULIA S. JANSON



MARC E. MANLY



BEVERLY K. MARSHALL



SANDRA P. MEYER



DAVID W. MOHLER

HENRY B. BARRON JR.

*Group Executive and
Chief Nuclear Officer*

Barron became Duke Energy's chief nuclear officer in 2004. He has been responsible for the safe operation of the company's nuclear generating stations. He joined the company in 1972 as a nuclear power plant engineer. Barron plans to retire March 31, 2008.

STEPHEN G. DE MAY

Vice President and Treasurer

De May leads the treasury function for Duke Energy, as well as risk management, insurance, and administration of pension and retirement plan assets. He previously served as general manager, corporate finance and assistant treasurer.

LYNN J. GOOD

*Group Executive and President,
Commercial Businesses*

Good is responsible for Duke Energy's Midwest nonregulated generation, Duke Energy International, Duke Energy Generation Services, the telecommunications businesses, and all corporate development and merger and acquisition activities. She previously served as senior vice president and treasurer.

DAVID L. HAUSER

*Group Executive and
Chief Financial Officer*

Hauser became Duke Energy's chief financial officer in 2004. He leads the financial function, which includes the controller's office, treasury, tax, risk management and insurance. Hauser joined the company in 1973.

JULIA S. JANSON

*Senior Vice President, Ethics and
Compliance and Corporate Secretary*

Janson directs Duke Energy's ethics and compliance program and serves as corporate secretary. She served as Cinergy's chief compliance officer since 2004 and corporate secretary since 2000.

MARC E. MANLY

Group Executive and Chief Legal Officer

Manly leads Duke Energy's office of general counsel, which includes legal, internal audit, ethics and compliance, human resources and the corporate secretary. He served as Cinergy's executive vice president and chief legal officer since 2002.

BEVERLY K. MARSHALL

*Vice President, Federal Policy and
Government Affairs*

Marshall manages Duke Energy's Washington, D.C., office and serves as the company's primary liaison with the U.S. Congress. She joined the company in 1999 and has 20 years of experience in government affairs.

SANDRA P. MEYER

*President,
Duke Energy Ohio and Duke Energy Kentucky*

Meyer leads Duke Energy's Ohio and Kentucky operations, which serve more than 820,000 customers. She previously served as group vice president of customer service, sales and marketing for Duke Power.

DAVID W. MOHLER

Vice President and Chief Technology Officer

Mohler is responsible for the development and application of technologies in support of Duke Energy's strategic objectives. He previously served as vice president of strategic planning.



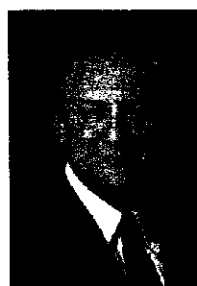
CATHY S. ROCHE



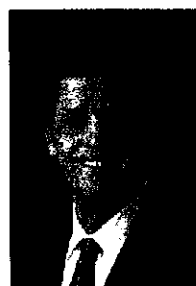
CHRISTOPHER C.
ROLFE



ELLEN T. RUFF



JIM L. STANLEY



R. SEAN TRAUSCHKE



B. KEITH TRENT



JAMES L. TURNER



STEVEN K. YOUNG

CATHY S. ROCHE
*Senior Vice President and
Chief Communications Officer*

Roche is responsible for directing and managing Duke Energy's communications with internal and external audiences, as well as executive communications, corporate publications, advertising, and brand management and strategy.

CHRISTOPHER C. ROLFE
*Group Executive and
Chief Administrative Officer*

Rolfe leads several of Duke Energy's corporate functions, including supply chain, information technology, operations services and other administrative activities. He previously served as group executive and chief human resources officer.

ELLEN T. RUFF
*President,
Duke Energy Carolinas*

Ruff leads Duke Energy's utility business in North Carolina and South Carolina, which serves more than 2.3 million customers. She was formerly group vice president of planning and external relations for Duke Power.

JIM L. STANLEY
*President,
Duke Energy Indiana*

Stanley leads Duke Energy's Indiana utility business, which serves more than 770,000 customers. He previously served as vice president of field operations for Duke Energy's Midwest service area.

R. SEAN TRAUSCHKE
*Senior Vice President,
Investor Relations and Financial Planning*

Trauschke is responsible for monitoring trends in investment markets and for maintaining key relationships with investors, financial analysts and financial institutions. He also has oversight of corporate financial planning and analysis.

B. KEITH TRENT
*Group Executive and Chief Strategy,
Policy and Regulatory Officer*

Trent is responsible for strategy, federal policy and government affairs, energy efficiency and technology initiatives, environmental health and safety policy, corporate communications, and sustainability and community affairs. He also has oversight of the regulated utility companies in five states.

JAMES L. TURNER
*Group Executive; President and
Chief Operating Officer,
U.S. Franchised Electric and Gas*

Turner has overall profit and loss responsibility for Duke Energy's U.S. Franchised Electric and Gas business, which serves approximately 3.9 million customers in five states. He leads the company's fossil/hydro generation, power delivery, gas distribution, customer service, wholesale business and new generation projects organizations.

STEVEN K. YOUNG
Senior Vice President and Controller

Young is responsible for planning and directing the accounting affairs of Duke Energy, including preparation of financial statements and accounting and regulatory reports. He joined the company in 1980 as a financial assistant.

Duke Energy at a Glance

U.S. Franchised Electric and Gas

EXPECTED 2008
ONGOING EARNINGS
BEFORE INTEREST
AND TAXES (EBIT)
CONTRIBUTION

74%*



BUSINESS DESCRIPTION

U.S. Franchised Electric and Gas (USFE&G) consists of Duke Energy's regulated generation, electric and gas transmission and distribution systems. Its generation portfolio is a mix of fuel sources — coal, oil/natural gas, nuclear and hydro-electric. USFE&G is Duke Energy's largest business segment and primary source of earnings growth.

NOTABLE STATISTICS

Electric Operations

- Owns approximately 28,000 megawatts of generating capacity
- Supplies electric service to approximately 3.9 million customers
- Serves territories in five states — North Carolina, South Carolina, Ohio, Indiana and Kentucky — that total about 47,000 square miles
- Operates 148,700 miles of distribution lines and a 20,900-mile transmission system

Gas Operations

- Provides regulated transmission and distribution service to approximately 500,000 customers over a 3,000-square-mile service territory in Ohio and Kentucky

Commercial Power

EXPECTED 2008
ONGOING EBIT
CONTRIBUTION

12%*



BUSINESS DESCRIPTION

Commercial Power owns, operates and manages nonregulated power plants, primarily in the Midwest. Commercial Power also includes Duke Energy Generation Services (DEGS), which develops, owns and operates generation sources (including wind assets) that serve large energy consumers, municipalities, utilities and industrial facilities.

NOTABLE STATISTICS

- Owns and operates a balanced generation portfolio of approximately 8,000 megawatts
- Most of the generation output in Ohio, over 21 million megawatt-hours annually, is supplied to regulated customers
- DEGS has contracted to purchase wind turbines that are capable of generating approximately 240 megawatts when placed in commercial operation beginning in 2008 and 2009

Duke Energy International

EXPECTED 2008
ONGOING EBIT
CONTRIBUTION

12%*



BUSINESS DESCRIPTION

Duke Energy International (DEI) operates and manages power generation facilities located in the Central and South American countries of Argentina, Brazil, Ecuador, El Salvador, Guatemala and Peru. DEI also owns equity investments in Saudi Arabia and Greece.

NOTABLE STATISTICS

- Owns, operates or has substantial interests in approximately 4,000 net megawatts of generation facilities
- About 75 percent of DEI's generating capacity is hydroelectric, and approximately 90 percent is either currently contracted or receives a system capacity payment

Crescent Resources

EXPECTED 2008
ONGOING EBIT
CONTRIBUTION

2%*



BUSINESS DESCRIPTION

Crescent Resources is effectively a 50-50 joint venture with Morgan Stanley Real Estate Fund. Crescent manages land holdings and develops high-quality commercial, residential and multi-family real estate projects.

NOTABLE STATISTICS

- Located in 10 states, primarily in the southeastern and southwestern United States
- Owns 900,000 square feet of commercial, industrial and retail space, with an additional 500,000 square feet under construction
- Manages approximately 122,608 acres of land

Non-GAAP Financial Measures

2007 AND 2006 ONGOING DILUTED EARNINGS PER SHARE ("EPS")

Duke Energy's 2007 Summary Annual Report references 2007 and 2006 ongoing diluted EPS of \$1.24 and \$0.99, respectively. Ongoing diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents diluted EPS from continuing operations, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported diluted EPS from continuing operations to ongoing diluted EPS for 2007 and 2006:

	2007	2006
Diluted EPS from continuing operations, as reported	\$ 1.20	\$ 0.91
Diluted EPS from discontinued operations, as reported	(0.02)	0.66
Diluted EPS, as reported	1.18	\$ 1.57
Adjustments to reported EPS:		
Diluted EPS from discontinued operations	0.02	(0.66)
Diluted EPS impact of special items (see detail below)	0.04	0.08
Diluted EPS, ongoing	\$ 1.24	\$ 0.99

The following is the detail of the \$(0.04) in special items impacting diluted EPS for 2007:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2007 Diluted EPS Impact
Convertible debt costs associated with the spinoff of Spectra Energy	\$(21)	—	\$(0.02)
Costs to achieve the Cinergy merger	(54)	19	(0.03)
IT severance costs	(12)	4	—
Settlement reserves and adjustments	24	(9)	0.01
Total Diluted EPS impact			\$(0.04)

The following is the detail of the \$(0.08) in special items impacting diluted EPS for 2006:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2006 Diluted EPS Impact
Settlement reserves	\$(165)	58	\$(0.09)
Gain on sale of interest in Crescent	246	(124)	0.10
Impairment of Campeche investment	(50)	—	(0.04)
Costs to achieve the Cinergy merger	(128)	45	(0.07)
Tax adjustments		27	0.02
Total Diluted EPS impact			\$(0.08)

2008 EMPLOYEE INCENTIVE TARGET MEASURE

Duke Energy's 2007 Summary Annual Report references the company's 2008 employee incentive target. The EPS measure used for employee incentive bonuses is based on ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable

GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast special items for future periods.

ANTICIPATED ONGOING DILUTED EPS GROWTH RATES THROUGH 2012

Duke Energy's 2007 Summary Annual Report references the expected range of growth of 5 to 7 percent in ongoing diluted EPS through 2012 on a compound annual growth rate ("CAGR") basis. These growth percentages are based on anticipated ongoing diluted EPS amounts for future periods. Ongoing diluted EPS is a non-GAAP financial measure as it represents anticipated diluted EPS from continuing operations, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations which includes the impact of special items. Due to the forward-looking nature of ongoing diluted EPS and related growth rates for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast special items for future periods.

FORECASTED 2008 ONGOING SEGMENT AND ONGOING TOTAL SEGMENT EBIT

Duke Energy's 2007 Summary Annual Report includes a discussion of forecasted 2008 ongoing EBIT for each of Duke Energy's reportable segments as a percentage of forecasted 2008 ongoing total segment EBIT. Forecasted 2008 ongoing segment and total segment EBIT amounts are non-GAAP financial measures, as they reflect segment and total segment EBIT, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for forecasted ongoing segment EBIT is reported segment EBIT from continuing operations, which includes the impact of special items. The most directly comparable GAAP measure for ongoing total segment EBIT is reported total segment EBIT, which includes the impact of special items. Due to the forward-looking nature of these non-GAAP financial measures for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast special items for future periods.

Investor Information

Annual Meeting

The 2008 Annual Meeting of Duke Energy Shareholders will be:
Date: Thursday, May 8, 2008
Time: 10 a.m.
Place: O.J. Miller Auditorium,
Energy Center
526 South Church Street
Charlotte, NC 28202

Shareholder Services

Shareholders may call 800-488-3853 or 704-382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet.

Send written requests to:

Investor Relations
Duke Energy
P.O. Box 1005
Charlotte, NC 28201-1005

For electronic correspondence, visit www.duke-energy.com/contactIR.

Stock Exchange Listing

Duke Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

Web Site Addresses

Corporate home page:
www.duke-energy.com
Investor Relations:
www.duke-energy.com/investors

InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available.

The plan also provides for full reinvestment, direct deposit or cash payment of dividends. Additionally, participants may register for DUK-Online, our online account management tool.

Financial Publications

Duke Energy's summary annual report, SEC Form 10-K and related financial publications can be found on our Web site at www.duke-energy.com/investors. Printed copies are also available free of charge upon request.

Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common stock issues.

Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 81 consecutive years. For the rest of 2008, dividends on common stock are expected to be paid, subject to declaration by the Board of Directors, on June 16, Sept. 16 and Dec. 16, 2008.

Bond Trustee

If you have questions regarding your bond account, call 800-275-2048, or write to:

The Bank of New York
Global Trust Services
101 Barclay Street
New York, NY 10286

Send Us Feedback

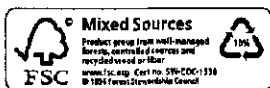
We welcome your opinion on this summary annual report. Please visit www.duke-energy.com/investors, where you can view and provide feedback on both the print and online versions of this report. Or contact Investor Relations directly.

Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities.

Forward-Looking Statement

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to: state, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements; state, federal and foreign legislation and regulatory initiatives that affect cost and investment recovery, or have an impact on rate structures; costs and effects of legal and administrative proceedings, settlements, investigations and claims; industrial, commercial and residential growth in Duke Energy Corporation's (Duke Energy) service territories; additional competition in electric markets and continued industry consolidation; political and regulatory uncertainty in other countries in which Duke Energy conducts business; the influence of weather and other natural phenomena on Duke Energy operations, including the economic, operational and other effects of hurricanes, droughts, ice storms and tornadoes; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints; the performance of electric generation and of projects undertaken by Duke Energy's nonregulated businesses; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions; declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans; the level of creditworthiness of counterparties to Duke Energy's transactions; employee workforce factors, including the potential inability to attract and retain key personnel; growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power and other projects; the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; and the ability to successfully complete merger, acquisition or divestiture plans.

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 Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



Products with a Mixed Sources label support the development of responsible forest management worldwide. The wood comes from Forest Stewardship Council (FSC)-certified well-managed forests, company-controlled sources and/or recycled material. The recycling symbol identifies post-consumer recycled content in these products.



526 South Church Street
Charlotte, NC 28202-1802
704-594-6200
www.duke-energy.com

OUR DIRECTION IN 2008 AND BEYOND

We must pursue a balanced approach to meeting future energy needs.

- In pursuing new supply options, we consider whether they are available, affordable, reliable and clean.
- By carefully balancing these criteria, we can make the best decisions for our customers and our company.
- Our options include energy efficiency, coal gasification, advanced pulverized coal, nuclear, natural gas-fired generation and renewable energy.

We must balance the reality of a carbon-constrained future with our customers' energy demands.

- Environmental legislation will significantly affect Duke Energy. We aim for fairness for our customers and shareholders.
- In our regulated and commercial businesses, we will pursue low-carbon solutions — like clean coal and natural gas — and no-carbon solutions — like nuclear and renewable energy. We will also pursue innovative energy efficiency and Utility of the Future (advanced power grid) initiatives.

- We will push for the development of new technologies to reduce carbon emissions. Until those technologies are available, we will meet demand with current options.

We must find the path to success during this era of rising costs.

- We expect to see increased costs from modernizing our grid and developing new generation. We will effectively manage the costs of these and other capital projects.
- By running our business well and providing excellent customer service, we can minimize price impacts to our customers and maintain the financial health of the company.

We must deliver on our commitments.

- We will steadily grow earnings — making our company attractive to investors — and achieve our employee incentive target of \$1.27 of ongoing diluted earnings per share.
- We will continue to balance our regulated and commercial investments based on the business environment.
- We will strive to be simply the best.



Changing minds. Changing habits.

2006 SUMMARY ANNUAL REPORT





THE INFORMATION STATEMENT

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... to solve the new energy equation.

We face a new energy equation with many variables. Increasing demand for energy is a key driver of rising energy prices. As a result, there is a renewed focus on renewable energy and energy efficiency — “save-a-watts” vs. megawatts. There is mounting concern about global climate change and further reducing air emissions. And, we must continue to grow earnings and dividends.

These variables present both challenges and opportunities. We believe we can solve this new equation with our sustainability focus. This means working to balance the needs of all of our stakeholders. These efforts will keep our prices affordable and our service reliable as we continue to work to reduce our environmental footprint and earn superior returns.

This delicate balancing act requires us to challenge conventional wisdom with new thinking and innovation. It means changing our own minds and habits and those of our stakeholders. We must still generate megawatts, but we believe we can produce significant save-a-watts as well. In 2006, we repositioned Duke Energy to do just that. Read on ...



Dear fellow investors, customers, employees and all who have a vested interest in our success — our partners, suppliers, policymakers, regulators and communities:

I want to thank the entire Duke Energy team for accomplishing both a merger and a spinoff last year. Never before in my career have I seen people work so hard to resolve so many complex issues. Our many financial, operational and policy accomplishments in 2006 were the result of your dedication and support.

For our other stakeholders, let me summarize our key accomplishments simply by saying that we did what we said we would do in our 2006 Charter.

2006 ongoing diluted earnings per share of \$1.81 exceeded 2005 ongoing diluted earnings per share of \$1.73. Duke Energy's total shareholder return for 2006, before the spinoff of Spectra Energy in early 2007, was 26.3 percent. We outperformed both the Philadelphia Stock Exchange Utility Sector Index (20 percent) and the S&P 500 Index (15.8 percent).

The strategic steps we took last year positioned the company for growth in 2007 and beyond. We established an industry-leading electric power platform through the successful execution of the merger with Cinergy — and we did it in 11 months.

(LEFT) JAMES E. ROGERS, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Looking back. Looking forward.

- ✓ Merged with Cinergy to increase the scale and scope of our power business.
- ✓ Reduced our risk profile by selling our unregulated power plants outside the Midwest and by selling our Commercial Marketing and Trading business.
- ✓ Formed a joint venture with Morgan Stanley Real Estate Fund for Crescent Resources.
- ✓ Repurchased \$500 million of stock.
- ✓ Acquired, filed for certificate, or announced our intent to build new generation assets throughout our five states. We estimate that we will need to increase our generating capacity by approximately 6,400 megawatts over the next 10 years.
- ✓ Announced numerous expansions of our gas transmission system.
- ✓ Achieved our 2006 employee incentive target.
- ✓ Spun off Spectra Energy on Jan. 2, 2007.

Establish the identity and culture of the new Duke Energy, unifying our people, values, strategy, processes and systems.

Optimize our operations by focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development.

Achieve public policy, regulatory and legislative outcomes that balance our customers' needs for reliable energy at competitive prices with our shareholders' expectation of superior returns.

Invest in energy infrastructure that meets rising customer demands for reliable energy in an efficient and environmentally sound manner.

Achieve 2007 financial objectives and position the company to meet future growth targets.

*See the 2007 Duke Energy Charter on page 9.

We reduced our earnings volatility and business risk by selling our commercial marketing and trading operations, and effectively half of our real estate development company, Crescent Resources. These transactions raised almost \$2 billion in after-tax cash, most of which will be invested in our lower-risk, energy infrastructure businesses.

In customer satisfaction, we have consistently ranked in the top quartile in several independent utility studies. Last year, our utility companies in the South and Midwest finished in the top 10 nationally in the Key Account Benchmark Study. In addition, we ranked first in the South and best in the nation among small and mid-sized business customers, according to J.D. Power and Associates.

We provided leadership on industry issues. I currently serve as chairman of Edison Electric Institute and I co-chair the National Action Plan on Energy Efficiency and the Alliance to Save Energy. Other members of the Duke Energy leadership team also help to shape the state and federal policy decisions that affect our business.

We continued to build a high-performance, sustainability-focused culture characterized by diversity, inclusion, employee development and leadership. And we established new safety incentives for 2007 to reinforce our concern for each other and our customers.

SO WHY DID WE CHOOSE TO GET LARGER AND THEN GET SMALLER?

Very simply, scale and focus.

Our merger with Cinergy in April 2006 gave our electric business the scale it needed to stand alone. To unlock even greater value, three months later we announced that we would separate our natural gas business and our electric business into two strong pure-play companies: Spectra Energy for gas and Duke Energy for electric power. We completed the spinoff of Spectra Energy in January 2007. Today Duke Energy is one of the top five electric companies in the United States in market capitalization.

Having the strategic focus of a pure-play electric company will help us meet the challenges and seize the opportunities to solve what we call the new energy equation.

In this equation, we must meet our customers' needs for affordable and reliable electric power while meeting more stringent environmental rules that will inevitably increase costs.

We must raise capital for long-term investments in more environmentally friendly generation capacity, renewable energy and energy efficiency. And we must reassure investors who may be wary of long-term capital construction programs.

Balancing these factors and solving the new energy equation will require a new approach to utility regulation. It will require us to change minds and change habits. It will require us to see and understand the goals of each of our stakeholder groups. This letter and the rest of this report will detail our plans to do that.

WHAT INVESTORS CAN EXPECT IN 2007 AND BEYOND

Our strategy to increase earnings and dividends in the long term is straightforward:

- Steadily improve our sales growth
- Earn solid returns on our significant capital investments, and
- Continue achieving additional cost reductions from the merger and from our continuous improvement efforts.

These three drivers — sales, investments and cost savings — are essential to achieving both our 2007 financial objectives and long-term growth.

You can read all of our 2007 objectives in our Charter on page 9. Our 2007 employee incentive target of \$1.15 per share is based on ongoing diluted earnings. The \$1.15 serves as the basis for 4 to 6 percent annual earnings growth through the end of 2009. We expect dividend growth to be in line with earnings growth.

Our business plan projects a quarterly dividend increase of \$0.01 beginning in the third quarter of 2007. This dividend increase — to be decided by the board of directors — would be in line with our expectation to increase dividends consistent with a 70 to 75 percent payout target.

SOLVING THE NEW ENERGY EQUATION: CHANGING MINDS AND CHANGING HABITS

Our actions in 2006 put us in a strong position to grow as we address the variables of the new energy equation:

- Building new power plants to meet steadily increasing demand
- Using a diverse mix of fuels and technologies at our new plants to limit our future price, reliability and environmental risks
- Deploying new technologies to modernize our transmission and distribution grids to boost efficiency and reliability, and to support new energy efficiency initiatives
- Obtaining legislation and regulatory treatment that will let us recover our financing costs as we build new and more efficient power plants (megawatts) and as we promote energy efficiency ("save-a-watts") with new initiatives on both sides of the meter
- Realizing the efficiencies and cost savings from the merger while maintaining our operational excellence, and
- Shaping new federal rules that limit carbon emissions to ensure our customers and other stakeholders are fairly treated.

We will solve the new energy equation by challenging conventional wisdom. We will invest in new technology. We will balance the variables by working collaboratively with all stakeholders to find the best and fairest solutions.

Let me briefly highlight each variable and spell out our strategy for addressing it. This will also give you a good overview of our near-term and long-term growth strategies.

Building new power plants to meet steadily increasing demand. In the Carolinas, we are adding between 40,000 and 60,000 new customers annually. In Indiana, Kentucky and Ohio, we are adding 11,000 to 16,000 new customers each year. For the next three years, we expect annual kilowatt-hour sales growth of about 1.5 percent in the Carolinas and about 1 percent in the Midwest.

We are required by law to meet the electric power needs of our customers as economically and reliably as possible. Each year, we perform an extensive analysis to update our

forecasts for customer power demand and study all viable and economical options to meet that demand. In the past, we have been successful in meeting our customer growth by operating our power plants efficiently, by purchasing peaking power plants and by buying power on the wholesale market as needed.

Today's growth projections suggest that we will need to increase our generating capacity by approximately 6,400 megawatts over the next 10 years. Most of this new capacity will be in the Carolinas, and the remainder in Indiana.

Even now, we need nearly 1,500 megawatts of new generation in Ohio to meet existing demand. We plan to build or buy new generation there if the state enacts legislation that will allow utilities to own generation facilities.

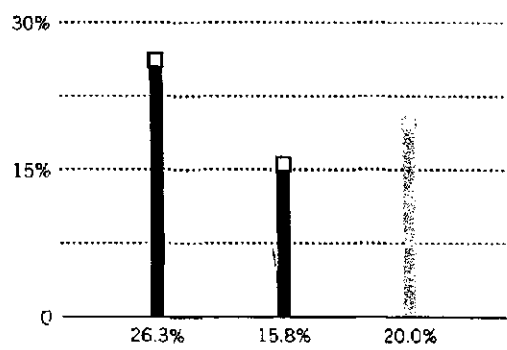
Our newest base load plants — those designed to operate around the clock — were completed in 1986 in the Carolinas and in 1991 in the Midwest. It takes six to 10 years to plan, permit and construct such plants. We are seeking permits now for plants that we'll need in 2011, when we expect to have more than 250,000 additional customers.

We anticipate annual capital expenditures of approximately \$3.5 billion from 2007 through 2009 for expansion of our generation capacity, environmental retrofits, nuclear fuel, maintenance and other expenses. Included in this amount is expansion capital for:

- Expanding generation in North Carolina
- Planning a new cleaner-coal integrated gasification combined cycle (IGCC) plant in Indiana, and
- Exploring the development of a new nuclear plant in South Carolina.

We expect that new generation and other infrastructure investments over the next three years will increase the total rate base in our five states by about 25 percent from the current \$16 billion to \$20 billion (less depreciation and amortization). The returns generated from a growing rate base will ultimately translate into long-term earnings growth — and we expect our rates to remain below the national average.

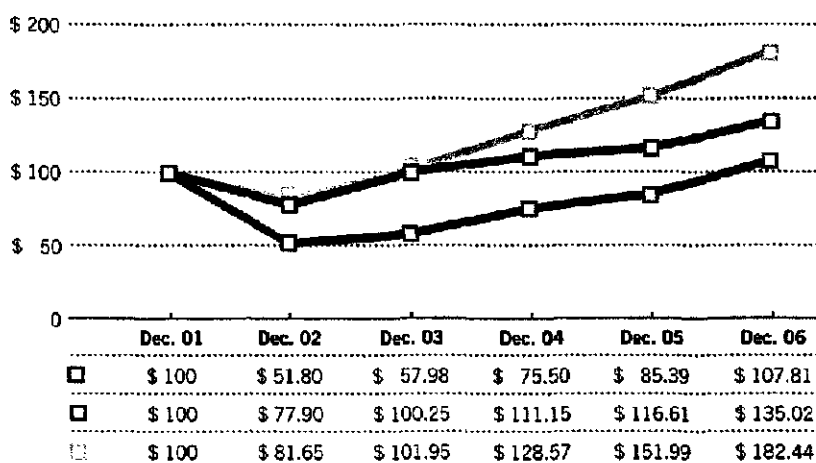
COMPARISON OF 2006 TOTAL RETURN



LEGEND

- Duke Energy Corporation
- S&P 500 Index
- ▨ Philadelphia Stock Exchange Utility Sector Index

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN



Assumes \$100 was invested on December 31, 2001 in company common stock and each index. Values are as of December 31 assuming dividends are reinvested.

OVER A FIVE-YEAR PERIOD BEGINNING DECEMBER 31, 2001, DUKE ENERGY'S TOTAL SHAREHOLDER RETURN (TSR) HAS LAGGED BOTH THE S&P 500 INDEX AND THE PHILADELPHIA STOCK EXCHANGE UTILITY INDEX. BUT, IN 2006, INVESTORS RESPONDED FAVORABLY TO THE DECISIVE ACTIONS WE TOOK TO LOWER OUR RISK PROFILE AND REPOSITION DUKE ENERGY AS A LEADING PURE-PLAY ELECTRIC COMPANY. DUKE ENERGY'S TSR FOR 2006 (PRE-SPINOFF OF SPECTRA ENERGY) WAS 26.3 PERCENT, WHICH EXCEEDED THE PHILADELPHIA STOCK EXCHANGE UTILITY SECTOR INDEX (20 PERCENT) AND THE S&P 500 INDEX (15.8 PERCENT).

Using a diverse mix of fuels and technologies at our new plants to limit our future price, reliability and environmental risks. One of the reasons our average price for electricity is below the national average is that 98 percent of our energy is generated from coal and nuclear power.

For our Cliffside Station, we proposed building two new 800-megawatt units using supercritical coal technology. This is the most environmentally efficient pulverized coal technology available today. Because of their increased efficiencies, these plants typically burn 10 percent less coal than conventional units and emit significantly less sulfur dioxide and nitrogen oxide.

As I was finishing this letter, we received a notice of decision from the North Carolina Utilities Commission (NCUC), which authorized building one of the two units. The commission also accepted our commitment to invest 1 percent of our revenues in the Carolinas for energy efficiency, subject to appropriate regulatory treatment, and our plan to retire older, less efficient units.

Our cost estimates were based on two units, and we still need an air permit for this project. So as you read this, we are studying the Cliffside project to determine how to proceed. We won't make a decision until we have a clearer understanding of the overall costs as well as the conditions of the air permit. We are also evaluating the possibility of enhancing and accelerating natural gas-fired plants in our portfolio.

In Indiana, we continue to explore development of a new 630-megawatt IGCC plant. IGCC technology is less proven, but has the potential to significantly reduce emissions. Additionally, the geology of the plant location is conducive to underground storage of captured carbon emissions. We believe that investing in this next generation of coal-plant technology is an important part of meeting our environmental commitments.

Because the Cliffside and IGCC projects use more environmentally friendly technologies, they were authorized for significant federal tax credits by the U.S. Department of Energy upon their completion. This is further evidence that Duke Energy is on the forefront of new cleaner coal technology.

We are also proposing to build a new nuclear plant in South Carolina. New nuclear plants will encounter challenges, including used fuel storage, cost recovery and a new licensing process. But nuclear energy has one big advantage: It produces no greenhouse gas emissions, and we believe that will help offset the other challenges.

Deploying new technologies to modernize our transmission and distribution grids to boost efficiency and reliability, and to support new energy efficiency initiatives. Complementing our capital investments in new generation is our renewed commitment to energy efficiency. Our job is to educate and support our customers — to change minds and habits — to help them better manage their energy use to reduce both peak and overall demand.

Energy efficiency can be measured in save-a-watts, the number of megawatts we don't need to supply when customers are being smart about their energy consumption. Efficient energy practices are just as important as coal, nuclear, natural gas and renewable energy. That's why we think of efficiency as the "fifth fuel."

With our strong customer relationships and back office systems, we are well positioned to make energy efficiency a significant part of our portfolio. Duke Energy has appointed a vice president of energy efficiency, a chief technology officer and a vice president of regulatory strategy. You will meet them in the pages that follow. We believe that their focused approach will make energy efficiency a new asset for all of our stakeholders, especially our customers and investors.

Energy efficiency is the core of our commitment to building a sustainable business model. We intend to manage financial, environmental and social opportunities and risks effectively, so we'll still be doing business many years from now.

You can be part of our commitment to sustainability leadership, too. We are again offering to make a \$1 donation to The Nature Conservancy for every shareholder who signs up for electronic delivery of our annual report, proxy statement and our other financial information. Currently, more than 80,000 of you have chosen electronic delivery, and we intend to make an equivalent donation in dollars to The Nature Conservancy. Electronic delivery helps us in two ways: It preserves our natural resources, and it significantly

reduces our printing and mailing costs. You need to sign up only once, and you can do so at this Web link: <https://www.icsdelivery.com/duk/index.html>.

Obtaining legislation and regulatory treatment that will let us recover our financing costs as we build new and more efficient power plants (megawatts) and as we promote energy efficiency (save-a-watts) with new initiatives on both sides of the meter. We are working this year to create a regulatory framework that balances the needs of our customers, our investors and our environment. Allowing us to recover financing costs as we incur them would lower the overall cost of projects as well as allow us to spread out rate increases over the course of the building cycle, avoiding large one-time increases.

We are pursuing such legislation in the Carolinas that would cover both the Cliffside station in North Carolina and a proposed new nuclear station in South Carolina. We are also seeking to recover our upfront development costs for the nuclear plant. We have been clear that we will not move forward with a nuclear plant unless we know that we can recover our financing costs in rates as we build.

In Ohio, we are pursuing a two-part regulatory strategy: First, we filed a request to extend the Rate Stabilization Plan through 2010. Second, we are also promoting legislation that would allow a regulated distribution company the choice of whether to build or to purchase new generation.

Success on this front depends on our ability to change minds. We need to persuade legislators and regulators to give energy efficiency investments the same weight as new generation investments. Conventional wisdom says that regulators reward us for selling more of our product, not less. We want to change the paradigm, by persuading them that utilities should be rewarded for energy efficiency as well as sales. If we can earn almost as much for saving a watt as for making a watt, everyone will benefit. With this kind of economic impartiality, we can provide reliable service, conserve precious resources and reduce emissions while still delivering a fair return to our investors.

We believe we can succeed with our regulatory agenda. We are seeking a consensus on policies that balance the needs of all of our stakeholders. This collaborative approach has produced constructive regulatory outcomes for our stakeholders before.

2007 Duke Energy Charter

To be successful in 2007 and beyond, we must:

Establish the identity and culture of the new Duke Energy, unifying our people, values, strategy, processes and systems.

Optimize our operations by focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development.

Achieve public policy, regulatory and legislative outcomes that balance our customers' needs for *reliable energy* at competitive prices with our shareholders' expectation of superior returns.

Invest in energy infrastructure that meets rising customer demands for reliable energy in an energy efficient and environmentally sound manner.

Achieve 2007 financial objectives and position the company to meet future growth targets.

In conducting our business, we value:

Stewardship — A commitment to health, safety, environmental responsibility and our communities.

Integrity — Ethically and honestly doing what we say we will do.

Safety — A relentless commitment to working safely and looking out for the safety of our co-workers and others with whom we do business.

Respect for the Individual — Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.

High Performance — Achieving superior business results, stretching our capabilities and valuing the contributions of every employee.

Win-Win Relationships — Having relationships which focus on the creation of value for all parties.

Initiative — Having the courage, creativity and discipline to lead change and shape the future.

We will be successful when:

Our investors realize a superior return on their investment over time.

Our customers, suppliers and communities benefit from our business relationships.

Every employee starts each day with a sense of purpose, and ends each day safely with a sense of accomplishment.

"Our challenges are as great as our opportunities, but I am confident that by listening to all of our stakeholders and engaging them in our efforts, we will solve the new energy equation — for the benefit of all."

Realizing the efficiencies and cost savings from the merger while maintaining our operational excellence.

We are on track to realize \$650 million in net savings from the Cinergy merger over the first five years. We are beginning to see the full benefits of those savings as most of the merger-related rate reductions expire this year. In 2007, we are focusing on continuous improvement. We intend to carefully manage our costs and simplify our operations to deliver our products and services as reliably and efficiently as possible.

Shaping new federal rules that limit carbon emissions to ensure our customers and other stakeholders are fairly treated.

Duke Energy is the third-largest consumer of coal in the United States, so we are mindful of our environmental responsibilities. A growing body of scientific evidence suggests that the burning of fossil fuels is changing our climate. We are committed to making the best technology choices, ones that will limit our emissions and optimize our investments so that we can keep our prices competitive.

Reducing greenhouse gases with advanced power generation technology will take decades and cost billions of dollars. The work will continue well into this century. But if we don't begin to solve the problem now, the costs will go even higher.

To demonstrate our corporate commitment to tackling this issue, in January 2007, Duke Energy joined the United States Climate Action Partnership (USCAP). This diverse coalition of businesses and environmental groups includes Alcoa, DuPont, Caterpillar, General Electric and other utilities — FPL Group, PG&E Corp. and PNM Resources — as well as Environmental Defense, Natural Resources Defense Council, World Resources Institute and the Pew Center on Global Climate Change. Together, we have begun a dialogue and offered recommendations on national policies for dealing with this pressing issue. Additionally,

in partnership with the U.S. Department of Energy, we are researching underground carbon storage at our East Bend Station in Kentucky.


PATIENCE IS NEEDED TO CHANGE MINDS AND HABITS

The strategies I've outlined will position Duke Energy to be a leader on several fronts, including new technologies, energy efficiency, continuous improvement and sustainability. Our challenges are as great as our opportunities, but I am confident that by listening to all of our stakeholders and engaging them in our efforts, we will solve the new energy equation — for the benefit of all.

I again thank our employees, management and board of directors — both past and present — for our many successes in 2006. You achieved our strategic agenda while keeping the gas flowing and the lights on.

I thank our investors for your support during the merger and the spinoff. Your confidence in us is the best evidence that the new direction we have taken to become one of the nation's premier electric companies is the right direction.

We are energized by the prospects of a bright future. We have a solid investment proposition, and we are in a strong position to change minds and habits to create significant value for all of our stakeholders. From a sustainability standpoint, I believe that our grandchildren will be proud of how we are addressing the energy and environmental issues of our day.



James E. Rogers
Chairman, President and Chief Executive Officer

March 2, 2007

FINANCIAL HIGHLIGHTS^a

(In millions, except per-share amounts)	2006	2005	2004	2003 ^c	2002
Statement of Operations					
Operating revenues	\$ 15,184	\$ 16,297	\$ 19,596	\$ 17,623	\$ 14,757
Operating expenses	12,493	13,416	16,441	16,632	12,313
Gains on sales of investments in commercial and multi-family real estate	201	191	192	84	106
Gains (losses) on sales of other assets and other, net	276	534	(416)	(199)	32
Operating income	3,168	3,606	2,931	876	2,582
Other income and expenses, net	1,008	1,809	304	550	352
Interest expense	1,253	1,066	1,282	1,331	1,116
Minority interest expense	61	538	200	62	91
Earnings from continuing operations before income taxes	2,862	3,811	1,753	33	1,727
Income tax expense (benefit) from continuing operations	843	1,282	507	(52)	544
Income from continuing operations	2,019	2,529	1,246	85	1,183
(Loss) income from discontinued operations, net of tax	(156)	(701)	244	(1,246)	(149)
Income (loss) before cumulative effect of change in accounting principle	1,863	1,828	1,490	(1,161)	1,034
Cumulative effect of change in accounting principle, net of tax and minority interest	—	(4)	—	(162)	—
Net income (loss)	1,863	1,824	1,490	(1,323)	1,034
Dividends and premiums on redemption of preferred and preference stock	—	12	9	15	13
Earnings (loss) available for common stockholders	\$ 1,863	\$ 1,812	\$ 1,481	\$ (1,338)	\$ 1,021
Ratio of Earnings to Fixed Charges^d	3.2	4.7	2.3	—^e	2.0
Common Stock Data					
Shares of common stock outstanding ^e					
Year-end	1,257	928	957	911	895
Weighted average – basic	1,170	934	931	903	836
Weighted average – diluted	1,188	970	966	904	838
Earnings (loss) per share					
Basic	\$ 1.59	\$ 1.94	\$ 1.59	\$ (1.48)	\$ 1.22
Diluted	\$ 1.57	\$ 1.88	\$ 1.54	\$ (1.48)	\$ 1.22
Dividends per share	\$ 1.26	\$ 1.17	\$ 1.10	\$ 1.10	\$ 1.10
Balance Sheet					
Total assets	\$ 68,700	\$ 54,723	\$ 55,770	\$ 57,485	\$ 60,122
Long-term debt including capital leases, less current maturities	\$ 18,118	\$ 14,547	\$ 16,932	\$ 20,622	\$ 20,221
Capitalization					
Common equity	55%	50%	45%	37%	36%
Preferred stock	0%	0%	0%	0%	1%
Trust preferred securities	0%	0%	0%	0%	3%
Total common equity and preferred securities	55%	50%	45%	37%	40%
Minority interests	2%	2%	4%	5%	5%
Total debt	43%	48%	51%	58%	55%

^a Significant transactions reflected in the results above include: 2006 merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2006 Crescent joint venture transaction and subsequent deconsolidation effective September 7, 2006 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2005 DENA disposition (see Note 13 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Discontinued Operations and Assets Held for Sale"), 2005 deconsolidation of DEFS effective July 1, 2005 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2005 DEFS sale of TEPPCO (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions") and 2004 DENA sale of the Southeast plants (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

^b Earnings were inadequate to cover fixed charges by \$241 million for the year ended December 31, 2003.

^c As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force (EITF) 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) and SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), in accordance with the transition guidance for these standards. Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles. (See Note 1 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Summary of Significant Accounting Policies," for further discussion.)

^d Includes pre-tax gains of approximately \$0.9 billion, net of minority interest, related to the sale of TEPPCO GP and LP in 2005 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

^e 2005 increase primarily attributable to issuance of approximately 313 million shares in connection with Duke Energy's merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.



Changing minds by thinking differently

Over the next three years, Duke Energy's regulated businesses plan to invest more than \$9 billion to strengthen customer service and reliability, and to meet steadily growing demand. Besides investing in additional megawatt-hours from new plants, we are supporting a "save-a-watt" business model focused on energy efficiency to offset the need for more plants, even as demand continues to grow. With this new model, energy efficiency becomes a sustainable system resource that plays a more significant role in our plans to meet customers' increasing demand for electricity.

We are working with policy makers to find the best way to address the need for these investments. We believe the benefits of reducing costs as we build and maintain our system framework that encourages investment in efficiency will result in smaller rate increases. That is a win-win proposition for our customers and our investors. We also know that investments in energy efficiency can add to an overall return with investments in new capacity. With comparable earnings on investments, we could be economically impartial to meeting our customers' growing demand for electricity, but investing in efficiency, efficiency or new generation.

BEVERLY MARSHALL (LEFT), VICE PRESIDENT FOR FEDERAL POLICY AND GOVERNMENT AFFAIRS AT DUKE ENERGY, AND JULIE GRIFFITH, VICE PRESIDENT FOR STATE GOVERNMENT AFFAIRS AT DUKE ENERGY INDIANA, ARE TWO KEY MEMBERS OF DUKE ENERGY'S PUBLIC AFFAIRS TEAM.

Defining the new energy equation

For more than a century, we have supplied our customers with affordable and reliable electricity. Our product is considered an essential service. It has also made possible many innovative technologies that enhance our customers' standard of living. And it has helped keep our local and state economies competitive in the global marketplace.

Providing adequate power was once as simple as balancing supply and demand. Although that is still the core of what we do, times have changed. Today, we face the unprecedented challenge of solving a new energy equation.

During a time of rising and volatile fuel prices, historic environmental challenges and industry restructuring, the demand for electricity continues to grow. With our commitment to sustainability, we must balance the growing demand for power with the investments needed to supply it — while reducing our environmental impact and keeping prices affordable.

This requires new thinking on both the policy and technology fronts.

To meet the growing demand for power, we are investing in a new generation of highly efficient and environmentally advanced power plants, new environmental controls for existing plants, and transmission and distribution system upgrades. Our emphasis on new energy efficiency programs and technologies will help meet growing demand.

We call energy efficiency the "fifth fuel" because it complements coal, nuclear power, natural gas and renewable energy, the four primary sources of electric power for the future. We see it as one of our most promising solutions, because the most environmentally sound, inexpensive and reliable kilowatt-hour is the one we don't have to produce. Generating "save-a-watts" is just one part of the equation that requires our customers to change how they use electricity. We are looking at ways to help them do that.

UNDERSTANDING THE VARIABLES

Solving the new energy equation means understanding all of its variables. One of the most significant and unpredictable variables is future environmental regulation. Today's irregular patchwork of federal and state environmental requirements has already prompted substantial investments.

Recognition of global warming as a serious problem has increased the call for regulation of greenhouse gases, primarily carbon. Mandatory carbon dioxide (CO₂) emission reductions are being considered in Congress. When legislation passes, utilities will need to make substantial investments to comply. It is critical that any such carbon regulations be phased in to avoid causing economic disruption and that the affected companies receive emission allowances to defray the cost of compliance.

POLICY LEADERSHIP

Our stakeholders, particularly our customers, investors and communities, expect us to play a leading role in shaping a national policy that addresses this national and global challenge. We take that responsibility seriously. Our goal is a policy that will slow the growth of greenhouse gases and then begin to reduce them — while protecting the economy and our customers from price shocks.

Another variable is the prospect of mandatory renewable portfolio standards (RPS) at both the federal and state level. Twenty-two states currently have such standards, which require electric utilities to generate anywhere from 5 to 20 percent of their power from "climate-friendly" renewable energy sources such as solar, wind, geothermal and agricultural waste, over varying periods of time. Congress is evaluating legislative proposals for a national RPS.

As a company focused on sustainability, we have invested in pilot projects involving wind and agricultural waste so that we can gain an understanding of the technologies and costs that would be required on a larger scale before mandatory standards are put in place. Today, we are also the second-largest generator of renewable hydroelectric power in the United States among investor-owned utilities.

Like any other publicly traded company, we have a responsibility to meet our customers' needs while recovering our investments and earning a good return on those investments for our shareholders. To solve the new energy equation, we must use nuclear, coal, natural gas, renewable energy and energy efficiency. Our strategy for doing so is outlined on the following pages.



MANAGING THE FUTURE

When you flip that light switch, adjust your air conditioning, turn your television on or boot up your computer, you expect power. But do you think about where it comes from? Duke Energy generates electricity from a variety of fuels: coal, natural gas, nuclear and renewable hydroelectric sources. Energy efficiency, the "fifth fuel," is also part of the mix. This diversity means that we're not overly dependent on any single fuel, and it helps us address fuel price fluctuations and environmental risks. We must also keep our fuel mix in balance to meet steadily growing demand. This is all part of the company's Integrated Resource Plan, which determines the best options to meet our customers' electricity needs over the next 20 years. Using input from many stakeholders, we update the plan periodically with the goal of finding the most efficient and economical resources — both in power generation and in energy efficiency — to meet future demand.

JANICE HAGER IS MANAGING DIRECTOR OF INTEGRATED RESOURCE PLANNING FOR DUKE ENERGY. HER TEAM ENSURES THAT DUKE ENERGY'S SUPPLY OF ELECTRICITY KEEPS PACE WITH GROWING CUSTOMER DEMAND WHILE COMPLYING WITH ENVIRONMENTAL REQUIREMENTS.



Leading the regulated and non-regulated issues

When electric generation was deregulated in Ohio in 2001, many people expected a fully competitive market to develop in the first five years. But that didn't happen. As the end of that five-year period drew near, regulators, utilities and customers realized that an immediate shift to market-based rates in 2006 would probably result in large price increases over a short time, as had occurred in other states. To minimize rate shock and to permit a gradual transition to market-based rates, state regulators worked with Ohio's electric utilities, including Duke Energy Ohio, to develop rate stabilization plans (RSPs). These plans provide customers with stable, predictable rates for a number of years — in Duke Energy's case, from 2006 through 2008. In late 2006, Duke Energy Ohio asked regulators to extend its RSP by an additional two years, through 2010. Under the proposed extension, which is being reviewed, the utility's unregulated generating assets in Ohio would continue to serve the state's retail customers. The plan supports continued electric system reliability and sends clear price signals to customers, while helping to maintain a stable revenue stream for the company.

**DAVE CELONA, VICE PRESIDENT FOR GOVERNMENT AND REGULATORY AFFAIRS
AT DUKE ENERGY OHIO, IS WORKING TO PROVIDE STABILITY TO OHIO'S ELECTRIC INDUSTRY BY PROMOTING
THE EXTENSION OF THE COMPANY'S RATE STABILIZATION PLAN.**



Reliability and Quality

Just as demand for electric power is increasing, so is the demand for even greater reliability of that power supply. This is primarily driven by our increasingly digital society. More and more appliances and equipment — from plasma televisions to automated assembly lines — are using more kilowatt-hours to power more digital circuits. A power interruption of even a few seconds is not only inconvenient, but it can have a major economic impact as well. At Duke Energy, we work around the clock to supply power reliably. One way we do that is to ensure that we operate our supply and delivery operations — generation, transmission and distribution — efficiently and safely, and in a way that protects the environment. This balanced approach helps keep our reliability and customer satisfaction high, and it helps us better manage our operation and maintenance costs, which is important to our investors. Our power delivery networks play a critical role in our energy efficiency and reliability efforts. Investing in a smart grid will help us achieve our "fifth fuel" initiatives and enhance our service and reliability.

THEOPOLIS HOLEMAN IS SENIOR VICE PRESIDENT OF POWER DELIVERY FOR DUKE ENERGY'S U.S. FRANCHISED ELECTRIC AND GAS OPERATIONS. HIS TEAM IS RESPONSIBLE FOR KEEPING POWER QUALITY AND RELIABILITY HIGH — 24/7.



Changing habits with a smarter grid

We believe we can change energy habits, including our own, by deploying new energy-saving technologies. The enabling technology available now is advanced metering — the replacement of the simple billing meter with one capable of two-way communication over our distribution grid. The day when all of our customers will be able to log in to our Web site and see their hourly energy use is not far off.

With our customers' permission, these new meters would give us the ability to control high-energy-use appliances and equipment during peak demand times, without inconveniencing customers or business owners, who would also share in the savings.

Smart meters will also enhance our ability to measure and verify the impacts of our energy efficiency programs. This is critical for energy efficiency to become a reliable system resource to meet customer demand for electricity. Remote monitoring over our network would also let us proactively pinpoint outages and restore power. This solution should be more economical than building for a new power plant, and most of the investment cost would be offset by the operational and procurement savings.

Advanced metering is just one of the smart and cost-saving technologies we are exploring to change minds and habits.

DAVID MOHLER (LEFT) IS VICE-PRESIDENT AND CHIEF TECHNOLOGY OFFICER AT DUKE ENERGY. TED SCHULTZ IS VICE PRESIDENT FOR ENERGY EFFICIENCY. THEIR TEAMS ARE COMMITTED TO DEPLOYING THE BEST PRACTICES AND TECHNOLOGIES TO HELP OUR CUSTOMERS USE ENERGY MORE WISELY.

Solving the new energy equation

It is clear that we need to invest in enhanced reliability and in the expansion of our capacity to generate electricity to meet growing customer demand. We know that investments in new state-of-the-art generation, renewables and energy efficiency can be made reasonably with appropriate and timely cost recovery.

Historically, regulators have rewarded utilities for selling more of their product, not less. To solve the new energy equation, we need to change minds about the types of investments that should be eligible for recovery through rates.

We are especially interested in building public support for investments in energy efficiency — the “fifth fuel,” which lowers overall customer demand and reduces or eliminates greenhouse gases and other emissions.

We are working to shift the paradigm in the way regulators treat the business of energy efficiency and in the way utilities develop and deliver such programs. We believe utilities are uniquely positioned to provide universal access to energy efficiency services and new technologies to their customers. This would dramatically change the way utilities develop and deliver energy efficiency programs as part of their standard customer offerings.

To create a sustainable "fifth fuel" system resource accessible by all customers, energy efficiency investments must be on par with new generation investments.

STRIKING A BALANCE

Changing the regulatory paradigm will also help us avoid some of the price jumps that can occur when a new plant, project, initiative or program finally gets up and running. Such constructive regulatory treatment would give us and others in our industry further incentives to explore and invest in these programs and projects.

BUILDING A CONSENSUS

To achieve this goal, we are collaborating with numerous stakeholder groups. We hope to build a consensus that will convince lawmakers and regulators that everyone wins with appropriate regulatory treatment of investments in efficiency and renewable energy.

Our new chief technology officer and new vice president of energy efficiency and their teams are committed to achieving success on these two fronts. They know that our customers need innovative products and services to help them better manage their energy costs and reduce their own environmental footprints — while maintaining the comfort and conveniences they want and expect.

We believe that this balanced strategy is a winning proposition for all stakeholders. Our customers will save money, the environment will be cleaner and our investors will earn fair returns on their investments.




The U.S. Environmental Protection Agency (EPA) facility at Research Triangle Park in North Carolina is the agency's major center for air pollution research and regulation. With 1.2 million square feet for laboratories, computing facilities and offices, it is the largest facility ever designed and built by the EPA. To lead by example, the EPA designed the complex — which was completed in 2001 — to operate with sustainable building practices, including energy efficiency. "The key to energy efficiency is having the right information," says Sam Pagan, the facility's energy director. "Our plans called for a unified system to monitor and meter all of our energy use, and we tried numerous vendors and technologies. Duke Energy was the only company to come up with and deliver a viable solution — a Web-based system that monitors in real time how much water, natural gas, fuel oil and electricity we are using. We now have the mechanism to better manage our annual energy needs and save the EPA considerable energy dollars."

SAM PAGAN IS DIRECTOR OF THE ENERGY MANAGEMENT AND CONSERVATION STAFF AT THE EPA'S RESEARCH TRIANGLE PARK FACILITY IN NORTH CAROLINA. THE SPRAWLING COMPLEX OF LABS, OFFICES, AND COMPUTING FACILITIES USES AN ENERGY-MONITORING SOLUTION CREATED BY DUKE ENERGY.



(FROM LEFT) JOHN BOONE, BUSINESS DEVELOPMENT MANAGER, TOM FENIMORE, MANAGER OF ENERGY MANAGEMENT SERVICES, AND KEN KERNODLE, CUSTOMER RELATIONS MANAGER, WORKED ON THE DUKE ENERGY TEAMS THAT DESIGNED, DEVELOPED AND DELIVERED AN ENERGY MANAGEMENT SOLUTION FOR THE EPA.



Advancing the "fifth fuel" — U.S. EPA case study

As Sam Pagán of the U.S. Environmental Protection Agency (EPA) notes on a previous page, when the agency needed an energy management and monitoring system for its massive complex of labs, offices and computing facilities in Research Triangle Park in North Carolina, Duke Energy delivered. Three teams from Duke Energy — account management, business development and custom delivery — collaborated with the EPA's energy management team to get the job done.

The first idea was to measure the allocation of power and its costs building by building. But it soon became apparent that to achieve the EPA's objective of viewing total energy use in real time, that data — a more comprehensive solution would be required.

The teams worked together to replace inefficient old metering and monitoring systems with a new, real-time monitoring and reporting system. The new system tracks the use of city water, natural gas, steam, chilled and heated water, and electricity for the entire complex. It collects the data on a secure web site and makes it available to campus energy management systems. Controllers working from a control room or from anywhere on campus with a wireless laptop computer, can monitor and project the energy needs for individual buildings or for the entire complex.

The Duke Energy team also earned the right to install and maintain the system, which may serve as a model for other EPA facilities. As part of the company's renewed focus on energy efficiency, Duke Energy consults with its other large business customers on the benefits of total energy measurement systems.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per-share amounts)	Years Ended December 31,		
	2006	2005	2004
Operating Revenues			
Non-regulated electric, natural gas, natural gas liquids, and other	\$ 3,158	\$ 7,212	\$11,322
Regulated electric	7,678	5,406	5,041
Regulated natural gas and natural gas liquids	4,348	3,679	3,233
Total operating revenues	15,184	16,297	19,596
Operating Expenses			
Natural gas and petroleum products purchased	1,829	5,827	9,225
Operation, maintenance and other	4,415	3,540	3,313
Fuel used in electric generation and purchased power	3,403	1,610	1,576
Depreciation and amortization	2,049	1,728	1,750
Property and other taxes	769	571	513
Impairments and other charges	28	140	64
Total operating expenses	12,493	13,416	16,441
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	201	191	192
Gains (Losses) on Sales of Other Assets and Other, net	276	534	(416)
Operating Income	3,168	3,606	2,931
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	732	479	161
(Losses) Gains on sales and impairments of equity investments	(20)	1,225	(4)
Gain on sale of subsidiary stock	15	—	—
Other income and expenses, net	281	105	147
Total other income and expenses	1,008	1,809	304
Interest Expense	1,253	1,066	1,282
Minority Interest Expense	61	538	200
Earnings From Continuing Operations Before Income Taxes	2,862	3,811	1,753
Income Tax Expense from Continuing Operations	843	1,282	507
Income From Continuing Operations	2,019	2,529	1,246
(Loss) Income From Discontinued Operations, net of tax	(156)	(701)	244
Income Before Cumulative Effect of Change in Accounting Principle	1,863	1,828	1,490
Cumulative Effect of Change in Accounting Principle, net of tax and minority interest	—	(4)	—
Net Income	1,863	1,824	1,490
Dividends and Premiums on Redemption of Preferred and Preference Stock	—	12	9
Earnings Available For Common Stockholders	\$ 1,863	\$ 1,812	\$ 1,481
Common Stock Data			
Weighted-average shares outstanding			
Basic	1,170	934	931
Diluted	1,188	970	956
Earnings per share (from continuing operations)			
Basic	\$ 1.73	\$ 2.69	\$ 1.33
Diluted	\$ 1.70	\$ 2.60	\$ 1.29
(Loss) earnings per share (from discontinued operations)			
Basic	\$ (0.14)	\$ (0.75)	\$ 0.26
Diluted	\$ (0.13)	\$ (0.72)	\$ 0.25
Earnings per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.59	\$ 1.94	\$ 1.59
Diluted	\$ 1.57	\$ 1.88	\$ 1.54
Earnings per share			
Basic	\$ 1.59	\$ 1.94	\$ 1.59
Diluted	\$ 1.57	\$ 1.88	\$ 1.54
Dividends per share	\$ 1.26	\$ 1.17	\$ 1.10

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

CONSOLIDATED BALANCE SHEETS

(In millions, except per-share amounts)	December 31,	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 948	\$ 511
Short-term investments	1,514	632
Receivables (net of allowance for doubtful accounts of \$94 at December 31, 2006 and \$127 at December 31, 2005)	2,256	2,580
Inventory	1,358	863
Assets held for sale	28	1,528
Unrealized gains on mark-to-market and hedging transactions	107	87
Other	729	1,756
Total current assets	6,940	7,957
Investments and Other Assets		
Investments in unconsolidated affiliates	2,305	1,933
Nuclear decommissioning trust funds	1,775	1,504
Goodwill	8,175	3,775
Intangibles, net	905	65
Notes receivable	224	138
Unrealized gains on mark-to-market and hedging transactions	248	62
Assets held for sale	134	3,597
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$17 at December 31, 2005)	—	1,281
Other	2,304	2,678
Total investments and other assets	16,070	15,033
Property, Plant and Equipment		
Cost	58,330	40,823
Less accumulated depreciation and amortization	16,883	11,623
Net property, plant and equipment	41,447	29,200
Regulatory Assets and Deferred Debits		
Deferred debt expense	320	269
Regulatory assets related to income taxes	1,361	1,338
Other	2,562	926
Total regulatory assets and deferred debits	4,243	2,533
Total Assets	\$68,700	\$54,723
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,686	\$ 2,431
Notes payable and commercial paper	450	83
Taxes accrued	434	327
Interest accrued	302	230
Liabilities associated with assets held for sale	26	1,488
Current maturities of long-term debt	1,605	1,400
Unrealized losses on mark-to-market and hedging transactions	134	204
Other	1,976	2,255
Total current liabilities	6,613	8,418
Long-term Debt		
	18,118	14,547
Deferred Credits and Other Liabilities		
Deferred income taxes	7,003	5,253
Investment tax credit	175	144
Unrealized losses on mark-to-market and hedging transactions	238	10
Liabilities associated with assets held for sale	18	2,085
Asset retirement obligations	2,301	2,058
Other	7,327	5,020
Total deferred credits and other liabilities	17,062	14,570
Commitments and Contingencies		
Minority Interests		
	805	749
Common Stockholders' Equity		
Common stock, \$0.001 per value, 2 billion shares authorized; 1,257 million and zero shares outstanding at December 31, 2006 and December 31, 2005, respectively	1	—
Common stock, no par, 2 billion shares authorized; zero and 928 million shares outstanding at December 31, 2006 and December 31, 2005, respectively	—	10,446
Additional paid-in capital	19,854	—
Retained earnings	5,652	5,277
Accumulated other comprehensive income	595	716
Total common stockholders' equity	26,102	16,439
Total Liabilities and Common Stockholders' Equity	\$68,700	\$54,723

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Years Ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,863	\$ 1,824	\$ 1,490
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	2,215	1,884	2,037
Cumulative effect of change in accounting principle	—	4	—
Gains on sales of investments in commercial and multi-family real estate	(201)	(191)	(201)
Gains on sales of equity investments and other assets	(365)	(1,771)	(193)
Impairment charges	48	159	194
Deferred income taxes	250	282	867
Minority interest	61	538	195
Equity in earnings of unconsolidated affiliates	(732)	(479)	(161)
Purchased capacity levelization	(14)	(14)	92
Contributions to company-sponsored pension plans	(172)	(45)	(279)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	(134)	443	216
Receivables	844	(249)	(231)
Inventory	(24)	(80)	(48)
Other current assets	1,276	(944)	(33)
Increase (decrease) in:			
Accounts payable	(1,524)	117	(5)
Taxes accrued	(69)	53	188
Other current liabilities	(594)	622	91
Capital expenditures for residential real estate	(322)	(355)	(322)
Cost of residential real estate sold	143	294	268
Other, assets	1,005	193	(155)
Other, liabilities	194	533	158
Net cash provided by operating activities	3,748	2,818	4,168
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(3,381)	(2,327)	(2,161)
Investment expenditures	(89)	(43)	(46)
Acquisitions, net of cash acquired	(284)	(294)	—
Cash acquired from acquisition of Cinergy	147	—	—
Purchases of available-for-sale securities	(33,436)	(40,317)	(65,929)
Proceeds from sales and maturities of available-for-sale securities	32,596	40,131	65,098
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	2,861	2,375	1,619
Proceeds from the sales of commercial and multi-family real estate	254	372	606
Settlement of net investment hedges and other investing derivatives	(163)	(295)	—
Distributions from equity investments	152	383	—
Purchases of emission allowances	(228)	(18)	—
Sales of emission allowances	194	—	—
Other	49	(92)	20
Net cash used in investing activities	(1,328)	(126)	(793)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the:			
Issuance of long-term debt	2,369	543	153
Issuance of common stock and common stock related to employee benefit plans	127	41	1,704
Payments for the redemption of:			
Long-term debt	(2,098)	(1,346)	(3,646)
Preferred stock of a subsidiary	(12)	(134)	(176)
Decrease in cash overdrafts	(2)	—	—
Notes payable and commercial paper	(412)	165	(67)
Distributions to minority interests	(304)	(861)	(1,477)
Contributions from minority interests	247	779	1,277
Dividends paid	(1,488)	(1,105)	(1,065)
Repurchase of common shares	(500)	(933)	—
Proceeds from Duke Energy Income Fund	104	110	—
Other	8	24	19
Net cash used in financing activities	(1,961)	(2,717)	(3,278)
Changes in cash and cash equivalents included in assets held for sale	(22)	3	39
Net increase (decrease) in cash and cash equivalents	437	(22)	136
Cash and cash equivalents at beginning of period	511	533	397
Cash and cash equivalents at end of period	\$ 948	\$ 511	\$ 533
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	\$ 1,154	\$ 1,089	\$ 1,323
Cash paid (refunded) for income taxes	\$ 460	\$ 546	\$ (339)
Acquisition of Cinergy Corp.			
Fair value of assets acquired	\$ 17,304	\$ —	\$ —
Liabilities assumed	\$ 12,709	\$ —	\$ —
Issuance of common stock	\$ 8,993	\$ —	\$ —
Significant non-cash transactions:			
Conversion of convertible notes to stock	\$ 632	\$ 28	\$ —
AFUDC-equity component	\$ 58	\$ 30	\$ 25
Transfer of DEFS Canadian Facilities	\$ —	\$ 97	\$ —
Debt retired in connection with disposition of business	\$ —	\$ —	\$ 840
Note receivable from sale of southeastern plants	\$ —	\$ —	\$ 48
Remarketing of senior notes	\$ —	\$ —	\$ 1,625

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In millions)	Accumulated Other Comprehensive Income (Loss)									Total
	Common Stock Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	SFAS No. 158 Adjustment	Other	
Balance December 31, 2003	911	\$ 9,513	\$ —	\$ 4,066	\$315	\$ 298	\$(444)	\$ —	\$ —	\$ 13,748
Net income	—	—	—	1,490	—	—	—	—	—	1,490
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	279	—	—	—	—	279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business	—	—	—	—	(54)	—	—	—	—	(54)
Net unrealized gains on cash flow hedges ^b	—	—	—	—	—	311	—	—	—	311
Reclassification into earnings from cash flow hedges ^c	—	—	—	—	—	(83)	—	—	—	(83)
Minimum pension liability adjustment ^d	—	—	—	—	—	—	28	—	—	28
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,971
Dividend reinvestment and employee benefits	5	128	—	—	—	—	—	—	—	128
Equity offering	41	1,525	—	—	—	—	—	—	—	1,525
Common stock dividends	—	—	—	(1,018)	—	—	—	—	—	(1,018)
Preferred and preference stock dividends	—	—	—	(9)	—	—	—	—	—	(9)
Other capital stock transactions, net	—	—	—	(4)	—	—	—	—	—	(4)
Balance December 31, 2004	957	\$11,266	\$ —	\$ 4,525	\$540	\$ 526	\$(416)	\$ —	\$ —	\$16,441
Net income	—	—	—	1,824	—	—	—	—	—	1,824
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments ^a	—	—	—	—	306	—	—	—	—	306
Net unrealized gains on cash flow hedges ^b	—	—	—	—	—	413	—	—	—	413
Reclassification into earnings from cash flow hedges ^c	—	—	—	—	—	(1,026)	—	—	—	(1,026)
Minimum pension liability adjustment ^d	—	—	—	—	—	—	356	—	—	356
Other ^f	—	—	—	—	—	—	—	—	17	17
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,890
Dividend reinvestment and employee benefits	3	85	—	—	—	—	—	—	—	85
Stock repurchase	(33)	(933)	—	—	—	—	—	—	—	(933)
Conversion of debt	1	28	—	—	—	—	—	—	—	28
Common stock dividends	—	—	—	(1,093)	—	—	—	—	—	(1,093)
Preferred and preference stock dividends	—	—	—	(12)	—	—	—	—	—	(12)
Other capital stock transactions, net	—	—	—	33	—	—	—	—	—	33
Balance December 31, 2005	928	\$10,446	\$ —	\$ 5,277	\$846	\$ (87)	\$ (60)	\$ —	\$ 17	\$16,439
Net income	—	—	—	1,863	—	—	—	—	—	1,863
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	103	—	—	—	—	103
Net unrealized gains on cash flow hedges ^b	—	—	—	—	—	6	—	—	—	6
Reclassification into earnings from cash flow hedges ^c	—	—	—	—	—	36	—	—	—	36
Minimum pension liability adjustment ^d	—	—	—	—	—	—	(11)	—	—	(11)
Other ^f	—	—	—	—	—	—	—	—	(15)	(15)
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,992
Retirement of old Duke Energy shares	(927)	(10,399)	—	—	—	—	—	—	—	(10,399)
Issuance of new Duke Energy shares	927	1	10,398	—	—	—	—	—	—	10,399
Common stock issued in connection with Cinergy merger	313	—	8,993	—	—	—	—	—	—	8,993
Conversion of Cinergy options to Duke Energy options	—	—	59	—	—	—	—	—	—	59
Dividend reinvestment and employee benefits	6	22	172	—	—	—	—	—	—	194
Stock repurchase	(17)	(69)	(431)	—	—	—	—	—	—	(500)
Common stock dividends	—	—	—	(1,488)	—	—	—	—	—	(1,488)
Conversion of debt to equity	27	—	632	—	—	—	—	—	—	632
Tax benefit due to conversion of debt to equity	—	—	34	—	—	—	—	—	—	34
Adjustment due to SFAS No. 158 adoption ^e	—	—	—	—	—	—	61	(311)	—	(250)
Other capital stock transactions, net	—	—	(3)	—	—	—	—	—	—	(3)
Balance December 31, 2006	1,257	\$ 1	\$19,854	\$ 5,652	\$949	\$ (45)	\$ —	\$(311)	\$ 2	\$26,102

^a Foreign currency translation adjustments, net of \$62 tax benefit in 2005. The 2005 tax benefit related to the settled net investment hedges (see Note 8 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K). Substantially all of the 2005 tax benefit is a correction of an immaterial accounting error related to prior periods.

^b Net unrealized gains on cash flow hedges, net of \$3 tax expense in 2006, \$233 tax expense in 2005, and \$170 tax expense in 2004.

^c Reclassification into earnings from cash flow hedges, net of \$19 tax expense in 2006, \$583 tax benefit in 2005, and \$45 tax benefit in 2004. Reclassification into earnings from cash flow hedges in 2006, is due primarily to the recognition of Duke Energy North America's (DENA) unrealized net gains related to hedges on forecasted transactions which will no longer occur as a result of the sale to LS Power of substantially all of DENA's assets and contracts outside of the Midwestern United States and certain contractual positions related to the Midwestern assets (see Notes 8 and 13 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K).

^d Minimum pension liability adjustment, net of \$0 tax benefit in 2006, \$228 tax expense in 2005, and \$18 tax expense in 2004.

^e Adjustment due to SFAS No. 158 adoption, net of \$144 tax benefit in 2006. Excludes \$595 recorded as a regulatory asset (see Note 22 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K).

^f Net of \$9 tax benefit in 2006, and \$10 tax expense in 2005.

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.



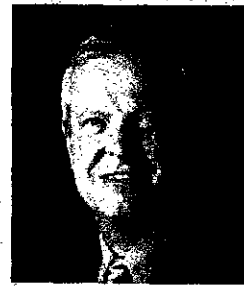
HENRY B. BARRON JR.



PAUL H. BARRY



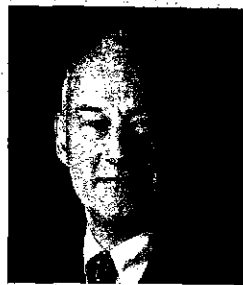
LYNN J. GOOD



DAVID L. HAUSER



JULIA S. JANSON



MARC E. MANLY



WILLIAM R. MCCOLLUM JR.



SANDRA P. MEYER



THOMAS C. O'CONNOR



CATHY S. ROCHE



CHRISTOPHER C. ROLFE



ELLEN T. RUFF



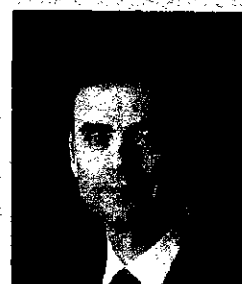
JIM L. STANLEY



R. SEAN TRAUSCHKE



B. KEITH TRENT



JAMES L. TURNER

EXECUTIVE MANAGEMENT

Henry B. Barron Jr.

Group Executive and Chief Nuclear Officer

Barron became Duke Energy's chief nuclear officer in 2004. He is responsible for the safe operation of the company's three nuclear generating stations. He joined Duke Power in 1972 as a nuclear power plant engineer.

Paul H. Barry

Senior Vice President and Chief Development Officer

Barry is responsible for all corporate development, mergers and acquisitions. He previously served as group executive and president of Duke Energy Americas, where his responsibilities included non-regulated generation and services, trading and marketing, and international operations.

Lynn J. Good

Senior Vice President and Treasurer

Good leads the treasury functions for the company, as well as insurance, market and credit risk management, and corporate financial planning and analysis. She previously served as executive vice president and chief financial officer for Cinergy.

David L. Hauser

Group Executive and Chief Financial Officer

Hauser became Duke Energy's CFO in 2004. He leads the financial function, which includes the controller's office, treasury, tax, risk management and insurance. Since Hauser joined Duke Power in 1973, he has held various leadership positions, including controller.

Julia S. Janson

Senior Vice President, Ethics and Compliance, and Corporate Secretary

Janson directs Duke Energy's ethics and compliance program and serves as corporate secretary. Until the recent merger, she was with Cinergy, where she was named corporate secretary in 2000, and chief compliance officer in 2004.

Marc E. Manly

Group Executive and Chief Legal Officer

Manly leads a group that comprises the legal department, internal audit services, the ethics and compliance office, and the corporate secretary. He served as Cinergy's executive vice president and chief legal officer from 2002 until Cinergy merged with Duke Energy.

William R. McCollum Jr.

Group Executive and Chief Regulated Generation Officer

McCollum is responsible for the company's regulated fossil fuel and hydroelectric power generation, including portfolio optimization, engineering, construction, project management and procurement. He joined Duke Power as a nuclear power plant engineer in 1974.

Sandra P. Meyer

President, Duke Energy Ohio and Duke Energy Kentucky

Meyer leads Duke Energy's Ohio and Kentucky operations, which serve more than 810,000 customers. She was formerly group vice president of customer service, sales and marketing for Duke Power.

Thomas C. O'Connor

Group Executive and President, Commercial Businesses

O'Connor is responsible for the Midwest non-regulated generation, Duke Energy International, Duke Energy Generation Services, the telecommunications businesses, the company's equity interest in Crescent Resources, and all corporate development and merger and acquisition activities.

Cathy S. Roche

Senior Vice President and Chief Communications Officer

Roche is responsible for directing and managing Duke Energy's communications with internal and external audiences, as well as executive communications, corporate publications, advertising, and brand management and strategy.

Christopher C. Rolfe

Group Executive and Chief Administrative Officer

Rolfe leads several of Duke Energy's corporate functions, including human resources, information technology and operations services. He previously served as group executive and chief human resources officer.

Ellen T. Ruff

President, Duke Energy Carolinas

Ruff leads Duke Energy's utility business in North Carolina and South Carolina, which serves more than 2.2 million customers. She was formerly group vice president of planning and external relations for Duke Power.

Jim L. Stanley

President, Duke Energy Indiana

Stanley leads Duke Energy's Indiana utility business, which serves more than 760,000 customers. He previously served as vice president of field operations for Duke Energy's Midwest service area.

R. Sean Trauschke

Vice President, Investor Relations

Trauschke is responsible for monitoring trends in investment markets and for maintaining key relationships with investors, financial analysts and financial institutions. He was formerly the company's vice president of risk management, chief risk officer and chief credit officer.

B. Keith Trent

Group Executive and Chief Strategy and Policy Officer

Trent is responsible for strategy, federal policy and government affairs, energy efficiency and technology initiatives, environmental health and safety policy, corporate communications, and sustainability and community affairs. He was formerly chief development officer and general counsel.

James L. Turner

Group Executive and President, U.S. Franchised Electric and Gas

Turner has overall profit and loss responsibility for the company's U.S. Franchised Electric and Gas business, which serves 3.9 million customers in five states. Prior to the merger of Duke Energy and Cinergy, Turner served as president of Cinergy.

NON-GAAP FINANCIAL MEASURES

2006 AND 2005 ONGOING DILUTED EARNINGS PER SHARE ("EPS")

Duke Energy's 2006 Summary Annual Report references 2006 and 2005 ongoing diluted EPS of \$1.81 and \$1.73, respectively. Ongoing diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents diluted EPS from continuing operations plus the per-share effect of any discontinued operations from our Crescent Resources real estate development company ("Crescent") prior to the deconsolidation of Crescent in September 2006, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported diluted EPS from continuing operations to ongoing diluted EPS for 2006 and 2005:

	2006	2005
Diluted EPS from continuing operations, as reported	\$ 1.70	\$ 2.60
Diluted EPS from discontinued operations, as reported	(0.13)	(0.72)
Diluted EPS, as reported	1.57	1.88
Adjustments to reported EPS:		
Diluted EPS from discontinued operations excluding Crescent Resources, and cumulative effect of change in accounting principle	0.13	0.73
Diluted EPS impact of special items (see detail below)	0.11	(0.88)
Diluted EPS, ongoing	\$1.81	\$1.73

The following is the detail of the \$(0.11) in special items impacting diluted EPS for 2006:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2006 Diluted EPS Impact
Natural Gas Transmission gain on contract settlement	\$ 24	\$ (8)	\$ 0.01
Duke Energy portion of gain on Duke Energy Field Services' ("DEFS") asset sale	14	(5)	0.01
Costs to achieve the Cinergy merger	(128)	45	(0.07)
Costs to achieve the spinoff of Spectra Energy	(60)	7	(0.05)
Impairment of Campeche investment	(50)	—	(0.04)
Gain on sale of interest in Crescent	246	(124)	0.10
Gain related to the issuance of units of Natural Gas Transmission's Canadian income fund	15	(5)	0.01
Settlement reserves	(165)	58	(0.09)
Impairment of Bolivia investment	(28)	31	—
Tax adjustment	—	8	0.01
Total Diluted EPS impact			\$(0.11)

The following is the detail of the \$0.88 in special items impacting diluted EPS for 2005:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2005 Diluted EPS Impact
Gain on sale of TEPPCO GP (net of minority interest of \$343 million)	\$791	\$(293)	\$ 0.51
Gain on sale of TEPPCO LP units	97	(36)	0.06
Loss on de-designation of Field Services' hedges, net of settlements on 2005 positions	(23)	9	(0.01)
Additional liabilities related to mutual insurance companies	(28)	10	(0.02)
Gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	(213)	0.37
Impairment of Campeche investment	(20)	6	(0.01)
Initial and subsequent net mark-to-market gains on de-designating Southeast Duke Energy North America ("DENA") hedges	21	(8)	0.01
Loss on Southeast DENA contract termination	(75)	28	(0.04)
Tax adjustments	—	12	0.01
Total Diluted EPS impact			\$ 0.88

PROCEEDS FROM CERTAIN SIGNIFICANT 2006 DISPOSITION TRANSACTIONS

Duke Energy's 2006 Summary Annual Report references the nearly \$2 billion in after-tax proceeds raised from selling the commercial marketing and trading ("CMT") operations and effectively half of Crescent. The following represents the components of the after-tax proceeds from these transactions:

(In millions)	
Proceeds related to Creation of Crescent Joint Venture	
Net proceeds from issuance of debt by Crescent	\$1,190
Proceeds received from sale of equity interest	415
Estimated income tax payments resulting from transaction	(135)
Reduction in reported cash due to deconsolidation of Crescent	(30)
Net after-tax proceeds	\$1,440
Proceeds on Sale of CMT	
Net proceeds received (including working capital and base price)	\$700
Estimated income tax payments resulting from transaction	(145)
Net after-tax proceeds	\$555
Total combined net after-tax proceeds	\$1,995

2007 EMPLOYEE INCENTIVE TARGET MEASURE

Duke Energy's 2006 Summary Annual Report references the company's 2007 employee incentive target. The EPS measure used for employee incentive bonuses is based on ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast any special items for any future periods.

ANTICIPATED ONGOING DILUTED EPS GROWTH PERCENTAGES

Duke Energy's 2006 Summary Annual Report references the company's anticipated growth in ongoing diluted EPS through the end of 2009. These growth percentages are based on anticipated ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure, as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast any special items for any future periods.

FORECASTED 2007 ONGOING SEGMENT AND TOTAL SEGMENT EBIT

Duke Energy's 2006 Summary Annual Report includes a discussion of forecasted 2007 ongoing EBIT for each of Duke Energy's reportable segments as a percentage of forecasted 2007 ongoing total segment EBIT. Forecasted 2007 ongoing segment and total segment EBIT amounts are non-GAAP financial measures, as they reflect segment and total segment EBIT, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for forecasted ongoing segment EBIT is reported segment EBIT from continuing operations, which includes the impact of special items. The most directly comparable GAAP measure for ongoing total segment EBIT is reported total segment EBIT, which includes the impact of special items. Due to the forward-looking nature of these non-GAAP financial measures for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast any special items for any future periods.

INVESTOR INFORMATION

Annual Meeting

The 2007 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 10, 2007

Time: 10 a.m.

Place: O.J. Miller Auditorium,
Energy Center
526 South Church Street,
Charlotte, NC 28202

Shareholder Services

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet.

Send written requests to:

Investor Relations
Duke Energy
P.O. Box 1005
Charlotte, NC 28201-1005

For electronic correspondence, visit www.duke-energy.com/contactIR.

Stock Exchange Listing

Duke Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

Web Site Addresses

Corporate home page:
www.duke-energy.com
Investor Relations:
www.duke-energy.com/investors

InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or

cash payment of dividends. Additionally, participants may register for DUK-Online, our online account management tool.

Financial Publications

Duke Energy's current annual report, SEC Form 10-K and related financial publications can be found on our Web site at www.duke-energy.com/investors. Printed copies are also available free of charge upon request.

Electronic Delivery

As part of our commitment to sustainability leadership, we are again offering to make a \$1 donation to The Nature Conservancy for every shareholder who signs up for electronic delivery of our annual report, proxy statement and our other financial information. Currently, more than 80,000 of you have chosen electronic delivery, and we intend to make an equivalent donation in dollars to The Nature Conservancy. This effort helps preserve our natural resources and significantly reduces our printing and mailing costs.

You only need to sign up once.

To enroll in electronic delivery, go to <https://www.icsdelivery.com/duk/index.html>. To learn more about the work of The Nature Conservancy, visit <http://www.nature.org>.

Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common stock issues.

Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 80 consecutive years. For the rest of 2007, dividends on common stock are expected to be paid, subject to declaration by the Board of Directors, on June 18, Sept. 17 and Dec. 17, 2007.

Bond Trustee

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

The Bank of New York
Global Trust Services
101 Barclay Street
New York, NY 10286

NYSE CEO Certification

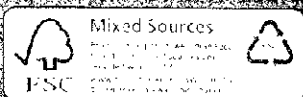
Duke Energy Corporation has filed the certification of its chief executive officer and chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2006. In November 2006, Duke Energy Corporation's chief executive officer, as required by Section 303A.12(a) of the NYSE Listed Company Manual, certified to the NYSE that he was not aware of any violation by Duke Energy Corporation of the NYSE's corporate governance listing standards.

Send Us Feedback

We welcome your opinion on Duke Energy's 2006 Summary Annual Report. Please visit www.duke-energy.com/investors, where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

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Sustainability At Duke Energy



Products with a Mixed Sources label are made from wood from responsible forest management. The label is a Forest Stewardship Council (FSC) label, which is a company-controlled source and symbol of the forest's sustainability.



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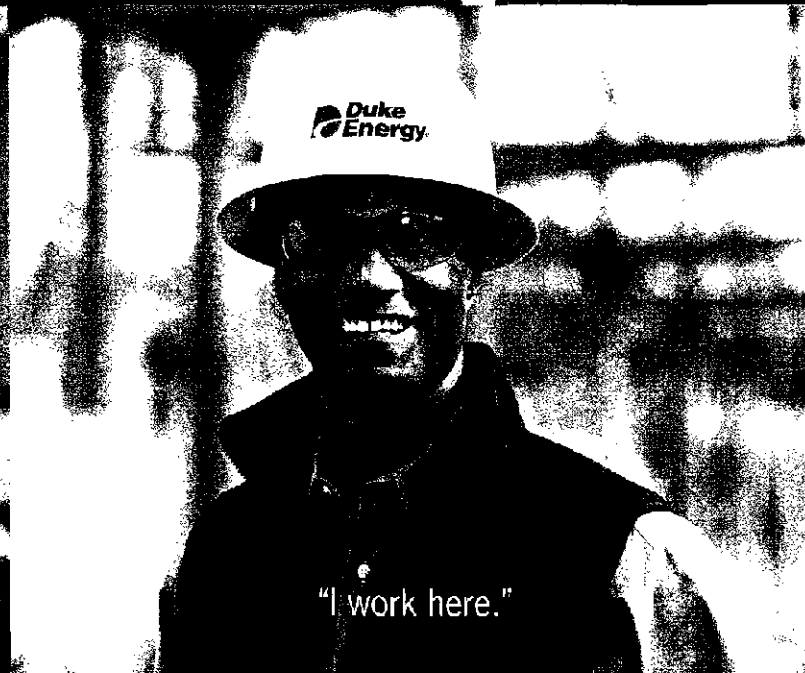
"I'm a shareholder."



"We are customers."



"This is my community."



"I work here."

"What can we expect from the merger
of Duke Energy and Cinergy?"

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document contains forward-looking information which is subject to risks and uncertainties that could cause actual results to be different than those contemplated, including, but not limited to: changes in state, federal or international regulatory environments; commercial, industrial and residential growth in the company's service territory; 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; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject, or other external factors over which Duke Energy has no control; the results of financing efforts; the effect of accounting pronouncements; growth in opportunities for Duke Energy's business units; and other risks described in the 2005 Form 10-Ks filed by Duke Energy and Cinergy Corp., the registration statement on Form S-4 filed by Duke Energy and other Securities and Exchange Commission filings. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

What can you expect from this merger?

You can expect a company committed to its many stakeholders.

That means increasing value for our investors.

Delivering reliable and affordable service to our customers.

Supporting and enhancing our local communities.

Providing a safe and rewarding workplace for our employees.

Growing our business, while sustaining the environment and quality of life.

To find out more, read on...

FINANCIAL HIGHLIGHTS^a

(In millions, except per-share amounts)	2005	2004	2003 ^c	2002	2001
Statement of Operations					
Operating revenues	\$ 16,746	\$ 20,549	\$ 18,021	\$ 14,752	\$ 15,383
Operating expenses	13,855	17,376	17,087	12,393	13,036
Gains on sales of investments in commercial and multi-family real estate	191	192	84	106	106
Gains (losses) on sales of other assets, net	534	(404)	(199)	32	238
Operating income	3,616	2,961	819	2,497	2,691
Other income and expenses, net	1,800	305	550	369	293
Interest expense	1,062	1,281	1,330	1,116	777
Minority interest expense	538	200	62	91	268
Earnings (loss) from continuing operations before income taxes	3,816	1,785	(23)	1,659	1,939
Income tax expense (benefit) from continuing operations	1,283	533	(94)	514	713
Income from continuing operations	2,533	1,252	71	1,145	1,226
(Loss) income from discontinued operations, net of tax	(705)	238	(1,232)	(111)	768
Income (loss) before cumulative effect of change in accounting principle	1,828	1,490	(1,161)	1,034	1,994
Cumulative effect of change in accounting principle, net of tax and minority interest	(4)	—	(162)	—	(96)
Net income (loss)	1,824	1,490	(1,323)	1,034	1,898
Dividends and premiums on redemption of preferred and preference stock	12	9	15	13	14
Earnings (loss) available for common stockholders	\$ 1,812	\$ 1,481	\$ (1,338)	\$ 1,021	\$ 1,884
Ratio of Earnings to Fixed Charges^d	4.7	2.4	— ^b	2.1	2.8
Common Stock Data					
Shares of common stock outstanding					
Year-end	928	957	911	895	777
Weighted average—basic	934	931	903	836	767
Weighted average—diluted	970	966	904	838	773
Earnings (loss) per share					
Basic	\$1.94	\$1.59	\$(1.48)	\$1.22	\$2.45
Diluted	1.88	1.54	(1.48)	1.22	2.44
Dividends per share	1.17	1.10	1.10	1.10	1.10
Balance Sheet					
Total assets	\$ 54,723	\$ 55,770	\$ 57,485	\$ 60,122	\$ 49,624
Long-term debt including capital leases, less current maturities	\$ 14,547	\$ 16,932	\$ 20,622	\$ 20,221	\$ 12,321
Capitalization					
Common equity	50%	45%	37%	36%	41%
Preferred stock	0%	0%	0%	1%	1%
Trust preferred securities	0%	0%	0%	3%	5%
Total common equity and preferred securities	50%	45%	37%	40%	47%
Minority interests	2%	4%	5%	5%	7%
Total debt	48%	51%	58%	55%	46%

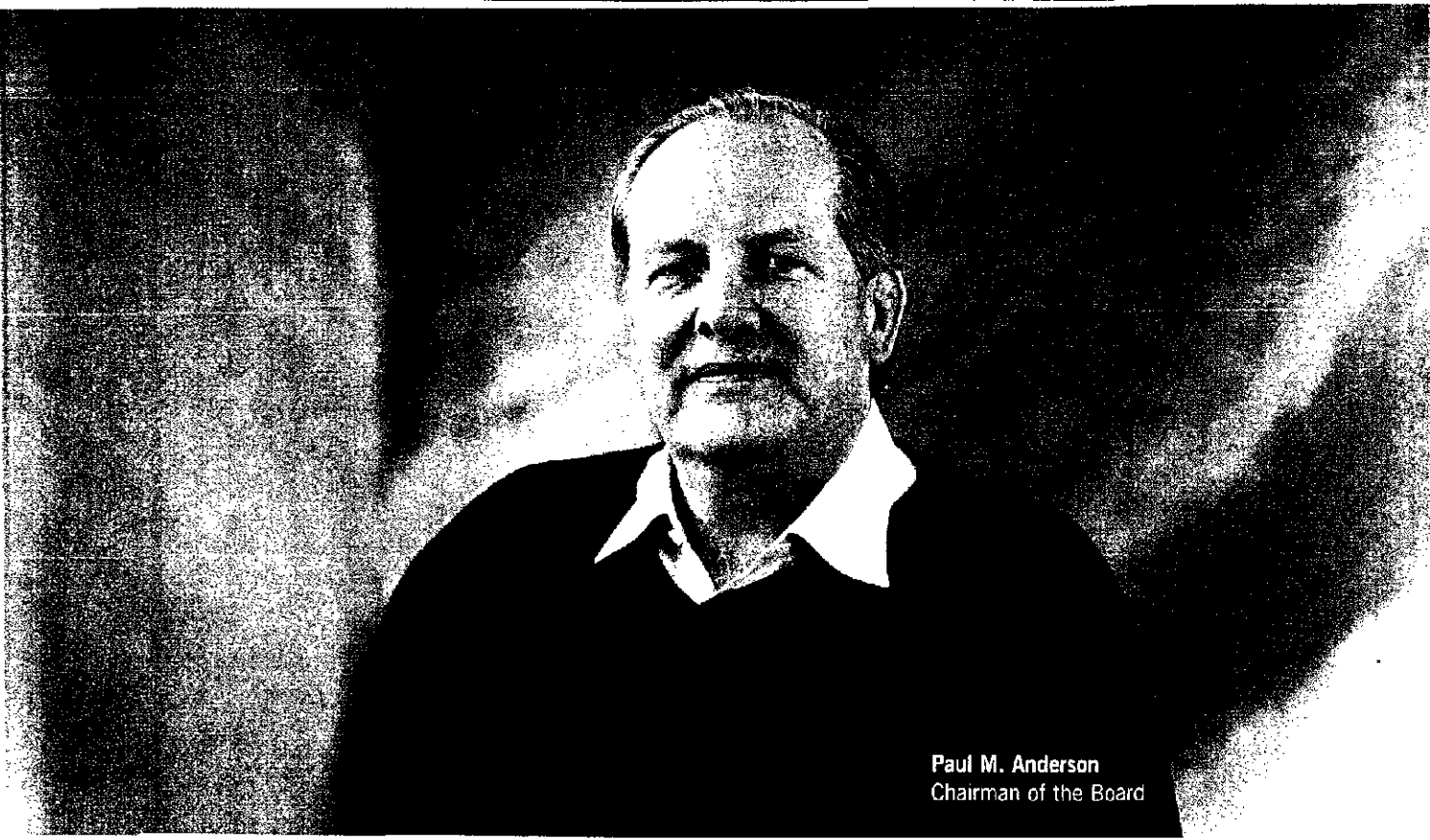
^a Significant transactions reflected in the results above include: 2005 DENA disposition (see Note 13 to the Consolidated Financial Statements, "Discontinued Operations and Assets Held for Sale"), 2005 deconsolidation of DEFS effective July 1, 2005 (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions"), 2005 DEFS sale of TEPPCO (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions"), 2004 DENA sale of the Southeast plants (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions") and 2003 DENA charges (see Note 13 to the Consolidated Financial Statements, "Discontinued Operations and Assets Held for Sale").

^b Earnings were inadequate to cover fixed charges by \$19 million for the year ended December 31, 2003.

^c As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force (EITF) 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) and SFAS No. 143, "Accounting for Asset Retirement Obligations." In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles. (See Note 1 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies," for further discussion.)

^d Includes pre-tax gains on the sale of TEPPCO GP and LP of approximately \$0.9 billion, net of minority interest, in 2005.

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.



Paul M. Anderson
Chairman of the Board

Dear Fellow Stakeholder,

This report comes to you at an important juncture in our company's history — actually, in the history of two companies.

Many of you have recently become Duke Energy shareholders as a result of our merger with Cinergy. I welcome you to Duke Energy, and I welcome this opportunity to give all of our investors a first glimpse of the combined company. We believe this merger is good for everyone who has a stake in our success, and this report will tell you why. But first, let me recap the events of 2005 that brought us to where we are today.

For Duke Energy, 2005 was a year of transition. We repositioned the company to reduce risk, capture value for shareholders and create a flexible platform for future growth. We took a number of decisive steps and implemented them swiftly, but deliberately. The result is a whole “new” Duke Energy, with a revised business model for our electric operations and greater flexibility for the rest of the portfolio.

CAPTURING VALUE

We began the year by announcing the transfer of a 19.7 percent interest in Duke Energy Field Services (DEFS) to our partner ConocoPhillips for about \$1.1 billion in cash and assets. At the same time, DEFS sold its interest in TEPPCO for another \$1.1 billion. The company used part of those proceeds to buy back 32.6 million shares of common stock, and raised the quarterly dividend by 12.7 percent.

The assets transferred as part of the DEFS/ConocoPhillips deal positioned DEFS to launch a new master limited partnership (DCP Midstream Partners) in the United States, and allowed Duke Energy

Gas Transmission (DEGT) to create a similar investment vehicle in Canada. These tax-efficient vehicles feature a lower cost of capital, allowing us to better compete for future acquisitions.

At the operating level, each of our major businesses met their profit goals while pursuing growth opportunities. Later in this report, you will find their 2005 highlights, along with those of Cinergy's businesses. I would only add that I am quite proud of their performance.

On a less dramatic scale, we continued to reduce our backlog of litigation and to exit from non-core legacy projects and businesses. That relentless focus helped us to exceed our profit targets for the year.

POSITIONING FOR THE FUTURE

We took two major actions to position ourselves for the future. The first was the decision to merge with Cinergy to create the foundation for our future electric business. The second was the decision to exit all of Duke Energy North America's (DENA's) trading positions and operations, except for assets in the Midwest.

For the foreseeable future, it appears that the electric industry will remain stalled somewhere between a regulated/integrated model and an unregulated/disaggregated model. Many states are testing their models, but none appear eager for wholesale change. As a result, the rules of the regulatory game are evolving.

At the same time, increasingly stringent environmental standards, growing concern about greenhouse gases, skyrocketing fossil-fuel prices and a need to develop the next generation of capacity will challenge the industry like it has never been challenged before. Massive investments will be required at a time when customers are becoming more and more concerned about price and reliability.

The combination of these factors will drive the industry to create super-regional consolidated players that have economies of scale, financial strength and organizational flexibility. It is a pattern we have seen in banking and other industries under similar circumstances.

Duke Energy intends to be a consolidator in this new environment. The merger with Cinergy is a first step, providing not only scale and diversity, but also an opportunity to remodel our electric business to better face future challenges, while continuing to provide reliable and affordable service to our customers. The new model provides the opportunity for growth beyond Duke Power's historical service territory, giving our electric operations the scale and flexibility to operate as a stand-alone business in this changing environment.

REDUCING RISK

Our newly combined electric fleet uses a diverse combination of fuels — nuclear, coal, gas and hydro — reducing our dependence on any one commodity. We also operate in diverse markets, blending higher-growth opportunities in the Carolinas with more moderate but steady growth in the Midwest. Our geographic diversity reduces year-to-year weather volatility. And operations in five separate regulatory

jurisdictions allow us to pursue regulatory initiatives specific to the needs of customers in each service area, while broadly applying best practices in customer service.

Our decision to exit DENA outside the Midwest was a logical follow-on to our decision to merge with Cinergy. DENA's gas-fired plants in the Midwest complement Cinergy's merchant assets, providing a more flexible fleet in the short term and reduced environmental compliance costs in the longer term. However, much of the rest of DENA's portfolio was encumbered by long-dated contracts that limited our ability to develop a sustainable business model. We ultimately decided that we would realize the greatest shareholder value by exiting DENA's operations outside the Midwest.

We have disposed of most of DENA's electricity and natural gas contracts, and expect to close on the pending sale of our remaining eight merchant power plants, as well as unwind any remaining contracts, by mid-year. The net result of our exit from DENA is a substantial reduction in market risk and a much more focused merchant operation.

ASSESSING OUR PERFORMANCE

Our Charter provides four measures of success which are useful in assessing our performance in 2005. We feel we did well against all of them.

Our investors realize a superior return on their investment.

It was a good year relative to the S&P 500. We provided total shareholder return (TSR) of 13 percent, compared to the S&P's TSR of just under 5 percent. However, we fell short of the Dow Jones Utilities' 25 percent. We attribute that lag to uncertainties around the merger with Cinergy, as investors stood by to see if and when it would come to fruition. Now that the merger is complete, we're expecting to see a rebound in the stock price.

Shareholders did see their annual dividend increase to \$1.24 per share in 2005, and ongoing basic earnings per share were \$1.79, topping our employee incentive target of \$1.65.

Our customers and suppliers benefit from our business relationships.

The year 2005 will long be remembered for its devastating hurricanes. Duke Power crews were there — more than 1,500 employees and contractors — to help rebuild the electric grid after Katrina and Rita hit the Gulf Coast. Not a single contracted DEGT customer missed a delivery during the hurricanes, thanks to our storage capacity and some creative solutions — like building a new interconnect to bypass a heavily damaged processing plant. DEGT is also working with industry peers on new standards to ensure pipeline and storage facility safety in case of future disasters.

Customers ranked Duke Power "Highest in Customer Satisfaction With Residential Electric Service in the Southern U.S.," based on a 2005 J.D. Power and Associates study and, in a separate benchmark survey conducted by TQS Research, manufacturing and institutional customers ranked the utility first in the Southeast and third nationally.

As for suppliers, we are encouraging them to improve safety for their employees, and many are following our lead. We are also working to improve supplier diversity — we made progress in 2005, but we can still do better.

The communities in which we operate value our citizenship.

Our employees, retirees and The Duke Energy Foundation gave more than \$800,000 in hurricane and tsunami relief. We gave more than \$5 million to the U.S. United Way and more than \$1 million to the Canadian United Way in 2005. Total Foundation and companywide giving for the year — including in-kind donations, contributions from employees and retirees, and the value of volunteer service — exceeded \$32 million.

Employees collected tons of food and other essentials for displaced hurricane victims, and thousands of Duke Energy employees and retirees completed some 450 community service projects during our 2005 Global Service Event. Employees also received financial support for their volunteer projects with more than \$200,000 in grants from the Foundation. On this page you will find examples of the many ways our communities recognized Duke Energy for business integrity and environmental stewardship in 2005.

Every employee starts each day with a sense of purpose, and ends each day with a sense of accomplishment.

Overall employee satisfaction is at its highest level in more than five years. In our 2005 employee survey, most employees expressed confidence in the company's future and pride in Duke Energy and their work. Nine out of 10 employees ranked the company favorably for environmental, health and safety practices.

In 2005 we made a recommitment to professional development, which had been somewhat on the back burner for several years. Employees seized those opportunities — training hours were up 83 percent in 2005 over 2004. Along with other members of the executive team, I personally participated in advanced leadership training for some 2,700 managers.

For 2006, we're adding to this measure of success — that employees end each day **safely**. The year 2005 was a sad one for five families who lost fathers and husbands who were contractors

Community Recognition in 2005

- An Environmental Excellence Award from the Southern Gas Association for DEGT's leadership in developing the Texas Corporate Wetlands Restoration Partnership.
- The Newcomen Award honoring Duke Power for its outstanding business accomplishments, stewardship and integrity. Duke Power is the only three-time recipient of the award.
- A Corporate Stewardship Award from the South Carolina Department of Archives and History for archaeology and historic preservation at Crescent Resources' Palmetto Bluff community.
- An Environmental Achievement and Education Award to DEGT from the City of Calgary for development of an Urban Ecology Program for schools.
- An Award of Recognition from the British Columbia School Superintendents Association for DEGT's contributions to public education through the Northern Opportunities program.
- A Corporate Plus Award from the Charlotte chapter of INROADS for Duke Energy's support of the organization's mission to provide internship opportunities for minority students.
- The 2005 Diversity Best Practices Award from the Charlotte Chamber of Commerce, honoring Duke Energy for its multicultural involvement in the community.
- A Community Service Award from the Hale Reservation for Duke Energy's role in restoring the organization's environmental education facilities and preserving natural resources in the Boston area.

at work for Duke Energy. We can't say any year has been truly successful if we don't keep our workers safe.

MOVING FORWARD

Our new Charter objectives spell out what you can expect from us in 2006.

The first imperative is to **establish an industry-leading electric power platform through successful execution of the merger with Cinergy.**

We know that we have to earn the right to pursue other consolidations in the future, by demonstrating that this merger benefits all of our stakeholders — employees, shareholders, customers, regulators and our communities. We intend to do just that.

We will **continue to build a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.**

Both Duke Energy and Cinergy have a deep bench of talent, and we put both companies' best minds to work on an integration plan to create a winning combination of leadership and resources. We share the same business values, and a commitment to serve our stakeholders with integrity from a position of industry leadership. Our compatible company cultures create a strong foundation for organic growth and for future mergers and acquisitions.

We intend to **deliver on our 2006 financial objectives and position the company for growth in 2007 and beyond.**

All employees have an incentive target of \$1.90 per ongoing diluted share in 2006. (This year, we are framing our objectives in terms of diluted as opposed to basic shares, consistent with Wall Street's comparison of earnings on a fully diluted basis.) We see this as a challenging but realistic goal, based on the groundwork we have laid and opportunities ahead. It assumes synergy savings from the merger and a sharing of those savings with customers, but excludes costs to achieve as those are considered one-time items.

Long-term management incentives are tied to total shareholder return. Working safely also remains an important measure of our success. Top leaders will see a 5 percent reduction in their short-term bonus payouts in the event of an employee, contractor or subcontractor fatality in 2006.

We plan to **complete the Duke Energy North America exit and pursue strategic portfolio opportunities.**

With the merger complete, our focus moves to the question of whether to separate our gas and power businesses and to new opportunities for electric utility consolidation. As with the Cinergy merger, our litmus test for all decisions will continue to be the degree to which they create value for investors and other stakeholders.

Finally, we will continue to **build credibility through leadership on key policy issues, transparent communications and excellent customer service.**

Our aggressive position on global climate change ruffled more than a few feathers in 2005. Last year, Cinergy devoted nearly its entire annual report to this issue, so be assured that Jim Rogers shares my commitment to facing facts about its potential effect on our industry. We share a philosophy that it is better to help shape the future with solutions, than to ignore reality and hope the tough problems just go away.

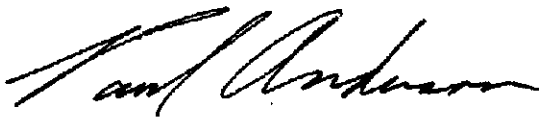
Jim and I also share a strong belief in straightforward communication with our shareholders and all of our constituents, and in providing superior service to customers, the lifeblood of our company. You will read more about Jim's plans as your new CEO in his letter, which follows.

I heartily welcome Jim and our new leaders from Cinergy to Duke Energy's management team. I will continue in my leadership role as chairman of the board. Let me take this opportunity to also welcome our new board members — Bill Barnet and Jim Hance, who joined the board in 2005, and five new board members from Cinergy — Michael Browning, Phil Cox, Mary Schapiro, Dudley Taft and of course Jim Rogers. Our outgoing board members, Max Lennon and Jim Martin, deserve special thanks for their years of dedicated service during a turbulent period in our company's history.

As I settle into my role as chairman, I thank you for your support during my time as CEO. When I accepted that position in November 2003, my objective was to restore our credibility and financial health, and meet the needs of our stakeholders. Thanks to your support and the contributions of thousands of employees, we have largely achieved those goals.

I now feel comfortable handing over the CEO role to Jim Rogers, who shares my strong belief in the future of Duke Energy and its people. It is a good feeling to know that I am leaving in his capable hands a company that is financially strong, has a bright future and is positioned to be an industry leader.

Sincerely,



Paul M. Anderson
Chairman of the Board

April 3, 2006



2006 Duke Energy Charter

We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.

Our purpose is to create superior and sustainable value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.

To be a leader in a new era of growth, we must:

- Establish an industry-leading electric power platform through successful execution of the merger with Cinergy.
- Continue to build a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.
- Deliver on our 2006 financial objectives and position the company for growth in 2007 and beyond.
- Complete the Duke Energy North America exit and pursue strategic portfolio opportunities.
- Build credibility through leadership on key policy issues, transparent communications and excellent customer service.

In conducting our business, we value:

- **Stewardship** – A commitment to health, safety, environmental responsibility and our communities.
- **Integrity** – Ethically and honestly doing what we say we will do.
- **Respect for the Individual** – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- **High Performance** – Achieving superior business results and stretching our capabilities.
- **Win-Win Relationships** – Having relationships which focus on the creation of value for all parties.
- **Initiative** – Having the courage, creativity and discipline to lead change and shape the future.

We will be successful when:

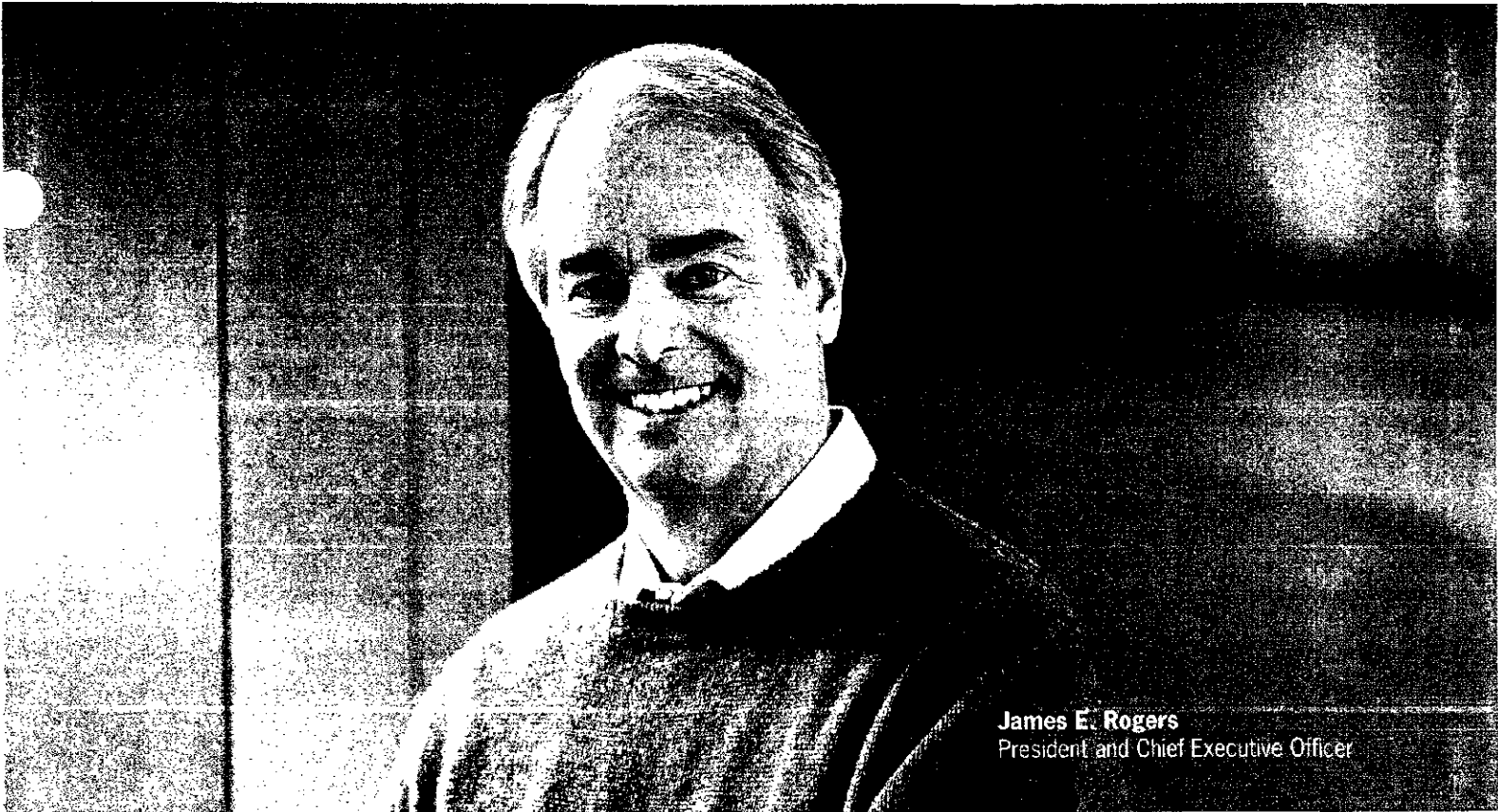
- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose, and ends each day safely with a sense of accomplishment.

How will we know our merger is successful?

We have developed a scorecard to track key measures, including savings, customer and employee satisfaction, reliability, safety and sustainability.

And we will share our progress with our stakeholders on a regular basis.

Read more about what
success will look like at
the new Duke Energy ...



James E. Rogers
President and Chief Executive Officer

Dear fellow investors, customers, employees and others who have a vested interest in our success — our policymakers, regulators, suppliers, partners and communities:

The best way to celebrate the traditions and the people of two strong companies is by building an even stronger company on the combined foundations of each.

Cinergy and Duke Energy each have a long and proud history with many successes. Of course, we have each had some missteps, as is true with all companies. However, as a combined company, we will honor our past achievements and the people who came before us by building on their accomplishments. As we plan for the future, we will remember the lessons learned from both our past successes and mistakes.

Combined, we are a very large company. But I am mindful that bigger doesn't necessarily mean better. To me, being better means having a relentless focus on what we do well. It means listening to our stakeholders and then working to balance their sometimes competing needs. It's knowing that we must earn the right to serve all of our stakeholders each and every day.

As the CEO of the new Duke Energy, my number one objective is to create an effective team of dedicated employees who come to work every day with the purpose of earning the right to serve you. Our team must be unrelenting and uncompromising in its drive to deliver on our promises. A team, simply put, that is accountable to be good stewards.

MEETING OUR FUTURE CHALLENGES

In his preceding letter, Paul Anderson gave you a good overview of Duke Energy as a whole. My focus here is primarily on the outlook for our combined franchised electric and gas utilities, competitive Midwest generation, and wholesale marketing and trading businesses. Our merger greatly increases the value of these businesses. We believe they can be significant contributors to our future earnings growth.

As Paul notes in his letter, our industry is stalled between regulation and deregulation. Efforts by states to provide retail customers with energy choices have essentially come to a halt. As federal regulators continue to regionalize our nation's power grid, wholesale competition is taking incremental but uneven steps forward.

Successful companies will be those who can operate comfortably in both regulated and competitive markets and create customer value in each. The new Duke Energy will be one of those companies. Here's why:

We have combined two premier, franchised electric utility businesses with long histories of reliably supplying energy at costs below the national average. Each company is known for its ability to consistently provide superior customer satisfaction. We view low rates and attentive customer service as essential investments in our future growth. One result of low rates and top-tier customer service is increased credibility in the regulatory arena.

Our diverse customer base will benefit from our aspiration to rank among the top performers in our industry for safety, efficiency, low costs, and reliable generation and distribution performance. Also, our fuel diversity — nuclear, coal, gas and hydro — will reduce our sensitivity to volatility caused by changes in commodity costs, weather and economic conditions.

Our combined commercial generation assets straddle the seam between the Midwest ISO and PJM Interconnection regional transmission organizations, two of the most developed and dynamic power markets in the United States. These assets represent a diverse mix of baseload, midmerit and peaking generation that give us the flexibility to meet diverse customer needs in still-evolving competitive supply markets.

Our energy marketing and trading organization is positioned to continue to take advantage of opportunities in competitive gas and electric markets in a low-risk manner. We believe we've created the right size platform with the right level of risk tolerance to be able to contribute steady, incremental earnings to the overall portfolio.

A NEW VALUE PROPOSITION

Over the past decade, we've seen dramatic shifts in how investors view the power industry. Not long ago, the market favored merchant players with greater earnings growth potential but also higher levels of volatility. As the commodity cycle bottomed out, investors exited the merchant sector and returned to traditional regulated utilities. This "back to basics" approach has taken utility stock valuations to record levels for many companies.

As a result, our industry has significantly out-performed the S&P 500 in both 2004 and 2005. Of course, history shows that it is rare for any one industry sector to beat the broader market for three consecutive years. Since interest rates have risen, the utility sector's opportunity to do so for a third consecutive year will be significantly challenged. I hope that 2006 proves history wrong.

But however the industry fares, in my view, our business model allows us to out-perform comparable companies in our industry. We have the ability to deliver stable, predictable earnings from low-cost, regulated operations, and we can also manage low-risk growth in competitive wholesale markets. As such, we believe our combined company will have the earnings diversity and financial flexibility to weather changes in the regulatory landscape and investor sentiment.

With these perspectives as background, and based on the 2006 Charter objectives Paul introduced in his letter, here are our priorities for the rest of this year and beyond:

- **Build an effective management team committed to one company, one stock and one team.** Our team will create a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.
- **Harvest the savings from our merger.** We expect to realize approximately \$650 million in aggregate net savings during the initial five years after the merger closes. These savings will help drive our earnings growth for shareholders and — through equitable sharing mechanisms with customers and shareholders — our aspiration to be a low-cost supplier for our customers.
- **Comply with more stringent environmental rules.** We intend to reduce sulfur dioxide (SO₂), nitrogen oxides (NO_x) and mercury emissions from our coal-fired generation plants with the installation of new pollution control equipment on our largest units. We are also preparing for a future in which we believe new environmental laws and regulations will regulate the emissions of greenhouse gases.
- **Continue planning for new power plant construction to meet longer-term customer demand.** Given the long lead times to build new baseload plants and the increased complexities of environmental compliance, we must place a strong emphasis on developing long-range plans to ensure that we maintain adequate generation reserves in all of our jurisdictions. As we carefully assess estimates of future supply and demand, we will evaluate all types of generation — coal, nuclear, coal gasification, hydroelectric, natural gas and renewable energy. We will continue to find cost-effective ways to lessen our exposure to the economic and environmental risks associated with any one fuel. For example, we intend to relicense our hydroelectric fleet and modernize our most economic coal units.
- **Minimize the impact of volatile fuel prices on customers.** Generation fuel expense is one of the primary drivers of electricity prices. We intend to take advantage of our fuel diversity, purchasing power and efficient fuel delivery systems to minimize the impact of fuel price swings on our customers.
- **Renew our focus on energy conservation and efficiency.** We will pursue policies promoting conservation, efficiency and wise energy use. In the past, our customers benefited from these programs, which help them use less energy without compromising their quality of life. In collaboration with our state utility regulatory commissions and consumer advocates, there is so much more we can and will do.
- **Modernize and expand our aging transmission and distribution systems.** We expect to invest approximately \$2.3 billion in our regulated operations over the next three years to improve the reliability of our regulated gas and electric delivery systems.
- **Maintain low risk in our energy marketing and trading businesses.** We will continue to have a conservative, low-risk focus in our marketing and trading businesses with narrow risk parameters for products offered and committed capital. We will focus strictly on near-term, credit-advantaged opportunities.
- **Support the economic well-being of our communities.** The average organic growth rate of our regulated franchises (demand in kilowatt-hours) is expected to be approximately 1.5 percent over the

next three years. We will work with community and political leaders to focus on local economic development, which should increase this rate over time.

In all, you can expect us to work on these priorities to achieve predictable earnings and dividend growth.

CINERGY — A HISTORY OF SUCCESS

I would like to review my experience at Cinergy both for former Cinergy shareholders who are new to Duke Energy, as well as for those shareholders who owned Duke Energy prior to the merger. I am proud of the people of Cinergy because they bring a rich heritage of accomplishments to this merger. As the new CEO of Duke Energy, I am grounded in this history and inspired to build on these successes. Because we chose not to issue a final Cinergy annual report, I will briefly highlight our accomplishments during Cinergy's nearly 12 years of existence.

Total Return Focus: Since the merger of PSI Energy and Cincinnati Gas & Electric to create Cinergy in 1994, we provided our investors with an average annual total shareholder return of 11.9 percent through 2005. During that time, we beat the S&P 500, the S&P 500 Electric Utility and the Philadelphia Stock Exchange Utility indexes, and we returned approximately \$3.5 billion in cash dividends to shareholders.

Governance Leadership: Institutional Shareholder Services has consistently ranked Cinergy as one of the top 10 companies in the S&P 500 for its governance. I believe this recognition reflects the Cinergy board's consistent focus on what constitutes good corporate governance. The board created one of the first corporate governance committees in the United States in 1994, shortly after the company was formed.

Customer Focused: Our customers enjoy some of the lowest electric and natural gas rates in Ohio and Kentucky. In 2005, our Indiana electric rates were the same as they were in 1988 when I became CEO of PSI Energy, while our investors have earned a fair return. Across the board, our rates are significantly below the national average, and keeping our rates competitive has been a commitment to our customers.

For many years, we've ranked in the top quartile of Midwest utilities for customer satisfaction. For two consecutive years — 2005 and 2006 — our call centers have been certified for providing "An Outstanding Customer Service Experience" by J.D. Power and Associates. We were the first energy company in the United States to earn this prestigious certification.

Emergency Response: I'm proud of the way our employees have responded to emergencies in our communities and elsewhere. Last year, we sent crews to the Gulf States following Hurricanes Katrina and Rita. After a severe ice storm in December, Cinergy crews worked alongside their Duke Power counterparts to restore service to 700,000 customers in the Carolinas. For the last two years, the Edison Electric Institute, our industry's leading trade organization, has recognized our emergency assistance to other utilities.

Employer of Choice: We earned the U.S. secretary of labor's top diversity award for our efforts to recognize the talents and respect the differences of our employees. Also, for nine consecutive years — 1997–2006 — Cinergy was named one of the 100 best companies for working mothers by Working

Mother magazine, and for many of those years we were the only utility listed. Last year, AARP recognized Cinergy as a top employer for employees over age 50.

No Surprises for Regulators and Policymakers: Our relationships with federal, state and local regulators and policymakers have been consistently based on a powerful but simple premise: "No surprises." Our efforts to balance the needs of our investors and customers resulted in many regulatory wins for both, including most recently, our rate stabilization plan in Ohio and our environmental compliance settlement in Indiana.

Industry Leadership on Public Policy: We worked to mold and shape national energy policy. Along with Duke Energy and other energy companies, we helped to secure passage last year of the Energy Policy Act, probably the most significant energy legislation to be enacted since the 1970s. And we will continue to push for passage of comprehensive multipollutant legislation at the federal level.

Environmental Leadership: As one of the largest users of coal to generate power, we have been a leader on the issue of reducing coal-fired emissions. At the first Cinergy board meeting in 1994, we adopted an environmental leadership pledge — one of the first in our industry. Our pledge illustrated a key operating principle: Accountability starts at the board level.

Cinergy has been one of a handful of utilities with experience in coal gasification. We are using this knowledge to obtain public and private support to build one of the first commercial cleaner-burning coal gasification plants to replace one of our older coal plants.

We earned national recognition for our partnerships on numerous environmental projects. Most recently, the U.S. Department of Energy and the U.S. Environmental Protection Agency recognized Cinergy and BP with its Energy Star award for the operational and environmental efficiency of Cinergy Solutions' cogeneration plant at the BP refinery near Houston.

Over the past 15 years, Cinergy reduced its SO₂ and NO_x emission rates by 50 percent and 45 percent, respectively. Also, we were one of the few utilities that voluntarily committed to reduce our greenhouse gas emissions. In late 2004, we issued our "Air Issues Report to Stakeholders," and last year we devoted our annual report to climate change. We did this to jump-start a debate on what must be done to prepare our stakeholders for the inevitability of a carbon-constrained world. We owe it to our children and grandchildren to start dealing now with the climate change issue.

Committed to Communities: Our people are involved in virtually every major nonprofit organization in each community we serve. They volunteer their time and talents whenever the need arises. And Cinergy Foundation has given back \$45 million to improve education, community development, health care, social services and culture.

Cinergy has been an industry leader in economic development. We continued to support our communities, even as states such as Ohio were deregulated. We've always considered economic development to be the heart of our organic growth.

Sustainability Leader: Lots of companies talk about sustainability. Many don't think about what it really means. To us, it has meant reducing our environmental footprint in a world where our grandchildren may not be able to take the basics, such as clean air, plentiful water and affordable energy, for granted.

Viewing our business as a whole, we've always known that *responsible actions based on balancing the needs of our stakeholders lead to long-term success*. That is how we have defined sustainability.

In 2005, we were again recognized for sustainability leadership. For the third consecutive year, Cinergy was named to the Dow Jones Sustainability Indexes. We were one of only two utilities in the United States and eight in the world to be so named.

As a further commitment to sustainability, we encourage you to enroll in electronic delivery of our financial information and proxy statements. Besides preserving our natural resources by reducing paper, electronic delivery also significantly reduces the costs of printing and mailing. In 2007, for every shareholder who selects electronic delivery rather than a printed copy of their 2006 Duke Energy annual report, we will donate \$1 to The Nature Conservancy, with whom we've worked on numerous environmental initiatives. (See page 41 for more information.)

EARN THE RIGHT EVERY DAY

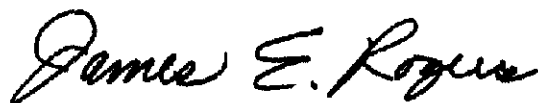
As a combined company, I have no doubt that we will achieve even greater successes in the future. I believe success is about people who want to create a better future. I have confidence that together, this new team of Duke Energy and former Cinergy employees will carry on our best traditions and start new ones.

I thank the employees of Cinergy who have traveled with me on this journey. You never wavered from our vision of "people making history by making a difference." You made a real difference. We would not be where we are today were it not for your hard work and dedication.

I want to thank the past and present officers who helped grow Cinergy into a great company and a great merger partner.

And my thanks to the Cinergy board of directors, especially George Juilfs, Tom Petry, Jack Schiff and Phil Sharp, who are departing. Your insights and thoughtful debate helped us to maintain our focus on growth and on serving our stakeholders.

I'm both humbled and excited about being the CEO of Duke Energy. I know it is a company where each of us will strive every day to earn the right to serve you, our stakeholders.



James E. Rogers

President and Chief Executive Officer

April 3, 2006

What does the new Duke Energy look like?

The merger of Duke Energy and Cinergy creates a premier energy company serving 3.8 million electric customers in five states, and 1.7 million gas customers.

Our six major lines of business form a strong platform for future growth, and give Duke Energy the ability to succeed in both regulated and nonregulated markets.

On the pages that follow, you will learn more about how the new Duke Energy is structured for future growth, highlights of our combined companies' 2005 accomplishments, and a strategic look ahead.

You will also see the benefits of the merger from the perspective of our shareholders, our customers, our employees and our communities.

Read on...



As an investor, what can I expect from this merger?

We expect the financial strength of the new Duke Energy to deliver steady earnings-per-share (EPS) growth. Our targeted earnings will be \$2 per ongoing diluted share in 2007, our first full year as a combined company, and 4 to 6 percent ongoing annual EPS growth thereafter. Our diverse portfolio of assets and operations, both regulated and nonregulated, will enable us to sustain that growth. With the merger complete, we are resuming our stock buyback program and will consider increasing the dividend, based on our target payout ratio of 70 percent.

Farmer, conservationist and Duke Energy shareholder Ernie Averett. The Averett family has owned and operated Flatwood Farms in Oxford, N.C., for seven generations. Averett began investing in Duke Energy more than 10 years ago to smooth out his seasonal income with reliable dividends.

DUKE ENERGY + CINERGY = THE NEW DUKE ENERGY

With this merger, our newly combined power business joins our natural gas businesses to rank among the largest in North America. While the merger benefits our entire company and all of its stakeholders, the key advantages are largely related to our electric business:

- The combined strength and diversity of our franchised electric utilities put us in a better position for sustained growth, and our greater size and scope give us a stronger platform for participation in the consolidation of the electric power industry.
- We will continue to grow our earnings by investing in the expansion and reliability of our operations — focusing on new generating capacity, environmental controls and the modernization of our power delivery system.
- In our competitive supply markets, we will reap the benefits of fuel, asset and geographic diversity.
- Approximately \$650 million in net cost savings aggregated over the first five years will be shared equitably with customers and shareholders.
- Our public voice on energy and environmental policy issues will be stronger and heard more broadly.
- We can better maintain our commitments to support our communities and to be the “employer of choice.”
- Most importantly, this merger reinforces our focus on understanding and balancing the needs of all of our stakeholders, which is fundamental to continued leadership as a sustainable business.

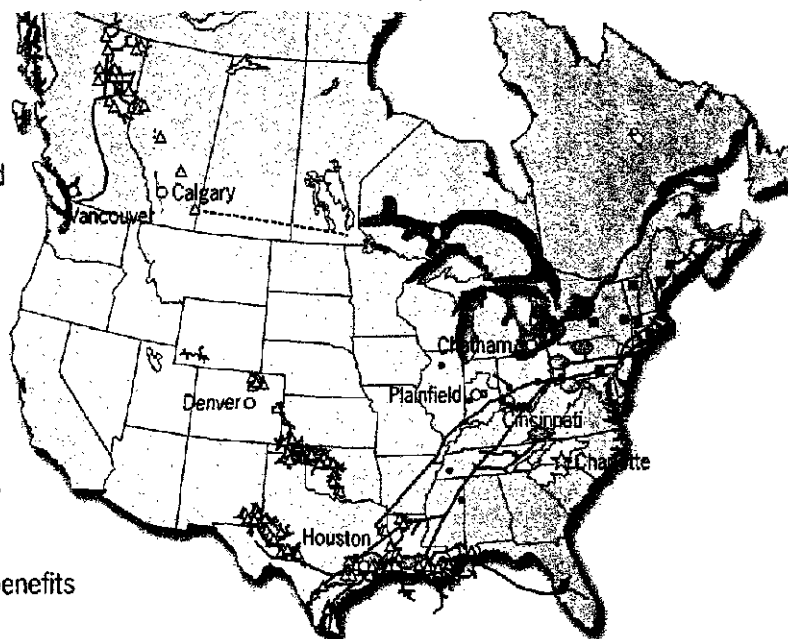
With the merger, some of our business names have changed. What has not changed is their commitment to our shared purpose: to create value for our investors, customers, communities and employees.

Our U.S. franchised electric and gas utilities — formerly Duke Power in the Carolinas, Cincinnati Gas & Electric in Ohio, Union Light, Heat and Power in Kentucky and PSI Energy in Indiana — are now known simply as Duke Energy.

Cinergy Solutions is now Duke Energy Generation Services. Duke Energy Americas, Duke Energy International, Duke Energy Gas Transmission, Duke Energy Field Services, Crescent Resources and Union Gas, our local distribution company in Canada, retain their names.

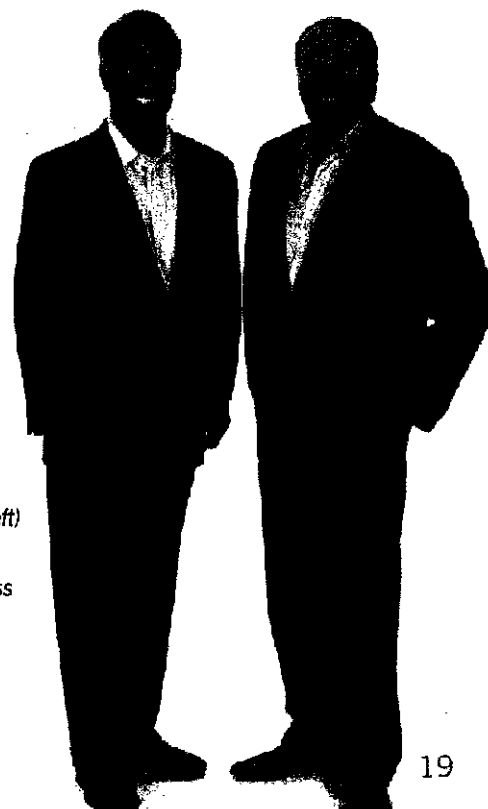
The following summaries recap the primary accomplishments of our major businesses in 2005 and their main areas of focus going forward.

Combined North American Assets



- ☆ Corporate Headquarters
- Major Office Location
- ◉ Natural Gas Storage
- △ DEGT-Natural Gas Processing Plant
- Natural Gas Transmission Pipeline
- Natural Gas Liquids (NGL) Pipeline
- Union Gas Distribution Service Area
- ◁ Franchised Electric Service Area
- △ DEFS-Processing Plant
- Natural Gas Gathering Pipeline
- Propane Terminal
- Wholesale Generation Plant

President and CEO Jim Rogers (left) is responsible for the company's day-to-day operations and business decisions, while Chairman Paul Anderson's role focuses on high-level strategy development and management succession.





As customers, what can we expect from this merger?

We know that the energy and related services we supply to millions of customers are essential to their way of life. We are committed to keeping our electric and gas utility rates, which in 2005 were below the U.S. national average, as competitive and stable as possible, while earning a fair return for our investors. We will continue to strive for the highest standards in customer service and satisfaction. We will work diligently to maintain outstanding system reliability and safety, and to help our customers find the energy solutions they need.

Heather Hallenberg, Frank Satogata and their son Sean, at their home in Cincinnati's Mount Washington neighborhood. The Satogatas have been Cincinnati Gas & Electric customers for nearly 20 years. Active in the Greater Cincinnati arts community, Frank is a graphic designer and painter, Heather is arts services director of Cincinnati's Fine Arts Fund, and Sean is a freshman in high school.

U.S. FRANCHISED ELECTRIC AND GAS

Duke Energy's franchised electric and gas operations deliver safe, reliable and competitively priced electricity to more than 3.8 million electric customers in North Carolina, South Carolina, Ohio, Indiana and Kentucky. A diverse fuel mix of nuclear, coal-fired, hydroelectric and combustion-turbine generation provides approximately 28,000 megawatts of total generating capability. These operations also serve more than 500,000 natural gas customers in Ohio and Kentucky.

Our regulated utilities are focused on revenue growth, operational performance and continued partnerships with customers and communities. For the first time in 20 years, future demand is projected to outpace generation capacity — in the Carolinas alone, we foresee a need for 20 percent more capacity, about 4,000 megawatts, by 2015, and we are pursuing options to build both coal and nuclear generation plants. In Indiana, we are evaluating the construction of a state-of-the-art coal gasification project to replace a more than 50-year-old coal-fired plant. New generation will support our already diverse portfolio of low-cost coal and nuclear baseload generation, supplemented by hydro-electric, combustion-turbine and purchased power for peak periods.

The successful integration of our franchised electric businesses will achieve cost savings and enhance customer service and reliability across all service territories.

Ongoing segment earnings before interest and taxes (EBIT) for U.S. Franchised Electric and Gas in 2006 is expected to be approximately \$1.95 billion.

2005 Highlights

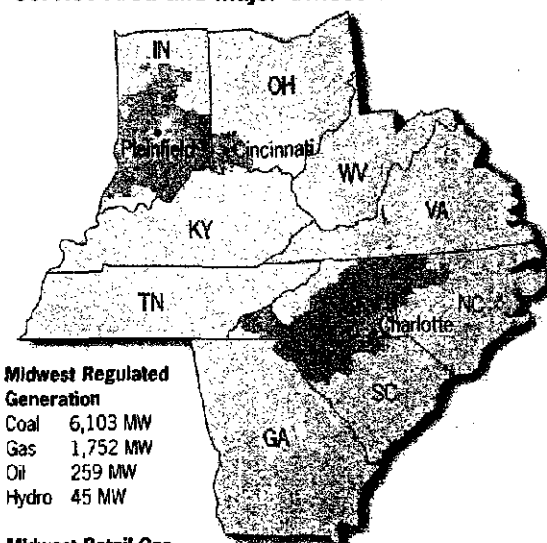
Duke Power

Duke Power contributed approximately \$1.5 billion in segment EBIT in 2005, slightly higher than 2004 segment EBIT of \$1.47 billion due to favorable weather, strong bulk power sales and the impact of continued economic development efforts — partially offset by a charge for December ice storm expenses and by higher operating and maintenance expenses.

Population growth — and demand for Duke Power's attractive electric rates — continue in the Piedmont Carolinas. New high-tech industries such as biotechnology and automotive research moved to the region, replacing lost business and jobs in the textile sector.

These leaders are responsible for providing franchised electric and gas customers with efficient and reliable operations (from left): Patty Walker, group vice president, Ohio and Kentucky gas operations; Brew Barron, group vice president, nuclear generation and chief nuclear officer; Bill McCollum, group vice president, regulated fossil/hydro generation; Theopolis Holeman, group vice president, power delivery; and Todd Arnold, group vice president, customer service.

U.S. Franchised Electric and Gas Service Area and Major Offices





What can my community expect from this merger?

We are committed to maintaining a local presence with “go to” people who live in and are actively involved in the communities we serve. We will continue to support local economic development efforts — in many communities, we’re already a catalyst for those efforts. We will help provide energy assistance to our low-income customers through flexible billing and assistance programs. We pledge that our corporate foundation giving in support of community health, education and cultural enrichment will continue. And we will provide leadership in environmental responsibility and sustainability — a corporate priority.

Charlotte Otto, Global External Relations Officer for The Procter & Gamble Co. Active in her community's business and cultural life, Otto currently chairs the Cincinnati USA Regional Chamber and Downtown Cincinnati Inc., and serves on the board of Cincinnati Playhouse in the Park.

Regional growth continued to add to Duke Power's total customer base, which grew by 43,000 customers — about a 2 percent net increase — in 2005. In July, the company set a new peak demand record of 18,687 megawatts.

To meet growing demand, Duke Power focused on new generation plans — and on operating its current generation and delivery systems as efficiently as possible. In 2005, the company's fossil/hydro fleet set a new all-time generation record, beating the previous record by more than 2 million megawatt-hours. Duke Power's two largest steam stations, Marshall and Belews Creek, were ranked second and third in efficiency among U.S. coal-fired stations by Electric Light & Power magazine. And our nuclear fleet achieved its second highest capacity factor ever — 93.68 percent, up from 2004's 90.23 percent. (Capacity factor measures how much electricity the system produces as a percent of its total capability.)

In October, Duke Power confirmed it is proceeding with the federal application process for a combined construction and operating license for two Westinghouse AP1000 nuclear reactors. A potential site in South Carolina has been selected for a joint project with Southern Company.

Cinergy

Cinergy's regulated businesses contributed approximately \$645 million in adjusted EBIT in 2005, compared to approximately \$586 million in 2004, while advancements in reliability and customer service were recognized by regulatory authorities and earned national recognition.

Ohio regulators approved a \$51.5 million electric distribution rate increase, the first in a decade, for Cincinnati Gas & Electric Co. (CG&E). Effective in 2006, the increase recognized CG&E's reliability improvements over the past 12 years. Kentucky regulators approved an \$8.1 million natural gas distribution rate increase for Union Light, Heat and Power (ULH&P) for continued improvement of its gas distribution system. PSI Energy (PSI) reached a settlement to recover approximately \$1 billion to comply with new federal clean air and mercury rules. The five-year plan will result in further significant reductions in the emissions of sulfur dioxide and nitrogen oxides as well as mercury emissions.

These leaders are the face of Duke Energy in their business communities (from left): Bill Easter, president and CEO, Duke Energy Field Services; Martha Wyrsh, president, Duke Energy Gas Transmission; Art Fields, president and CEO, Crescent Resources; Ellen Ruff, president, Duke Energy Carolinas; Sandra Meyer, president, Duke Energy Ohio and Kentucky; Kay Pashos, president, Duke Energy Indiana; and Richard McGee, president, Duke Energy International.





As an employee, what can I expect from this merger?

We recognize that employees are the foundation of our company. They create value for our stakeholders, day in and day out. We believe our larger scale and scope will help us maintain competitive pay and benefits, and provide more opportunities for employees to grow and develop in their careers. We will continue to recognize employees for their work and to foster a diverse, inclusive, performance-based culture where they feel valued and can reach their full potential. Above all, we are committed to our employees' health and safety, both on and off the job.

James W. Bowden, General Manager of Power Delivery Operations for Duke Power's Northern Region. Bowden oversees the operation, modification and maintenance of Duke Power's transmission system in a region serving 830,000 customers. His family history with Duke Power goes back more than 100 years — his grandfather joined the company in 1905 and his father also worked for Duke Power.

And state and federal regulators also agreed to the transfer of approximately 1,100 megawatts of generation assets from CG&E to ULH&P to meet future customer demand.

In January 2006, the CG&E and PSI customer call centers in Ohio and Indiana were recertified by J.D. Power and Associates. Last year, Cinergy was the first energy company in the United States to be certified for providing "An Outstanding Customer Service Experience." (Duke Power was the second.) And, for the second year in a row, Cinergy received the Edison Electric Institute's emergency assistance award, this time for the help it gave Gulf Coast utilities in the wake of Hurricanes Katrina and Rita last fall. In December after a severe ice storm, Cinergy crews worked alongside their Duke Power counterparts in the Carolinas to restore service to 700,000 customers.

DUKE ENERGY GAS TRANSMISSION

Duke Energy Gas Transmission has more than 17,500 miles of transmission pipelines; 250 billion cubic feet of natural gas storage; gathering and processing assets; a natural gas liquids processing operation; and a local distribution company serving more than 1.2 million customers in Canada. DEGT is well positioned to connect new and existing natural gas supplies to growing markets, with timely pipeline expansions and the development of highly flexible natural gas storage capacity.

Duke Energy Gas Transmission (DEGT) continues to make a consistent contribution to cash flow and earnings by providing natural gas transmission and storage, gathering and processing, and local distribution services to premium markets in North America.

Going forward, DEGT is expected to deliver ongoing segment EBIT of approximately \$1.39 billion, which is essentially flat with 2005. Ongoing earnings for this business are anticipated to grow by 3 to 5 percent annually — driven by opportunities for continued pipeline development, optimization of existing transmission, distribution, gathering and processing systems, storage development and control of costs. Demand for natural gas is expected to grow 2 to 3 percent in DEGT's key markets.

2005 Highlights

DEGT contributed approximately \$1.39 billion in segment EBIT, compared to approximately \$1.33 billion in 2004 — an increase driven by improved operations, U.S. system expansions, newly acquired Canadian assets and a favorable currency exchange rate.

The geographic strength of DEGT's system was evident following last year's devastating hurricanes. Although the company's Gulf Coast-area assets were temporarily affected, not a single contracted customer in our Northeast market area missed a natural gas delivery during that trying time.

Other key 2005 successes included:

- An agreement with CenterPoint Energy on a proposed pipeline to connect supply from East Texas basins to growing eastern U.S. markets
- Acquisition from AGL Resources of the remaining 50 percent interest in Saltville Gas Storage, strengthening DEGT's storage position in the Mid-Atlantic
- A high rate of long-term contract renewals
- Successful regulatory settlements which reduced volatility and created a stable rate environment for customers
- In Canada, acquisition of the Empress liquids processing system, the transfer of Duke Energy Field Services' gas processing operations to DEGT and the establishment of the Duke Energy Income Fund investment vehicle

- Agreements to expand Union Gas' Dawn-Trafalgar transportation system to reach markets in Ontario, Quebec and the U.S. Northeast
- Precedent agreements to expand the Maritimes & Northeast pipeline to transport natural gas to U.S. and Canadian markets from proposed liquefied natural gas import terminals in Atlantic Canada.

DUKE ENERGY FIELD SERVICES

Duke Energy Field Services gathers, treats, compresses, processes, transports, markets and stores natural gas; and produces, fractionates, transports, trades and markets natural gas liquids (NGL). DEFS is one of the largest natural gas gatherers in the United States, the largest NGL producer and one of the largest NGL marketers. DEFS owns or operates 54 plants and 56,000 miles of pipeline. It is a 50-50 joint venture between Duke Energy and ConocoPhillips.

Duke Energy Field Services (DEFS) is moving from a period of rapid growth to focus on selective growth and performance excellence — rigorously driving improvement in operations and in commercial and support activities. DEFS' new master limited partnership, DCP Midstream Partners, will be an important growth vehicle, allowing for capital-efficient growth and solid cash flow. DEFS' solid financial position provides options for deploying cash through reinvestment, debt repayment and dividends to its parent companies, Duke Energy and ConocoPhillips.

For 2006, ongoing equity earnings to Duke Energy are anticipated to be approximately \$500 million, assuming an average crude oil price of \$61 per barrel.

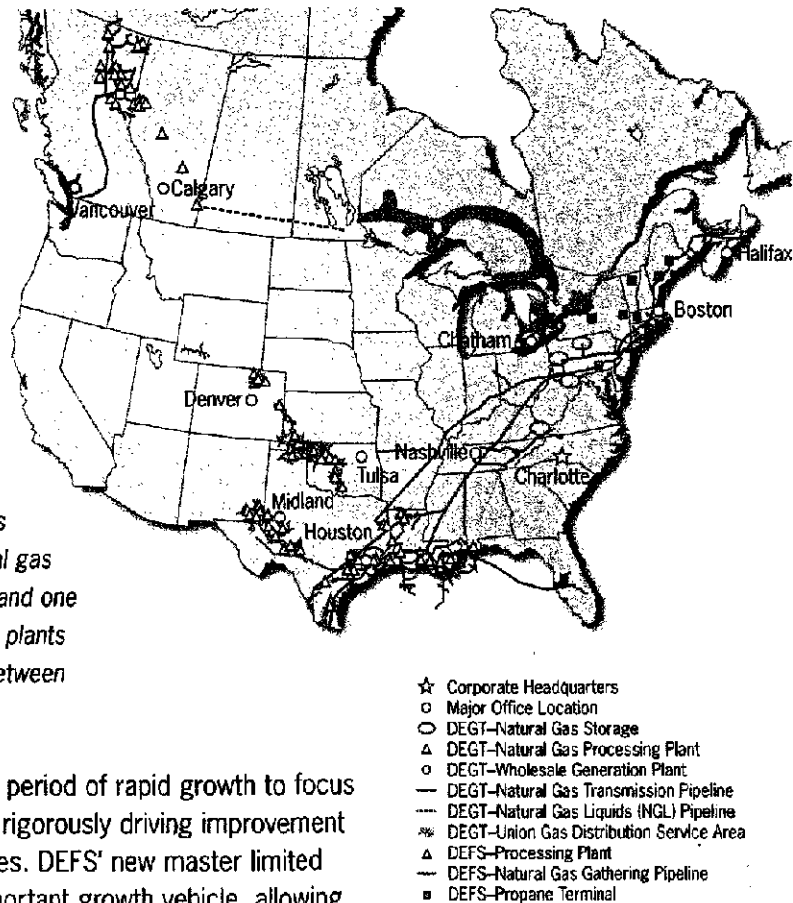
2005 Highlights

Strong commodity prices as well as operational and commercial improvements more than offset disruptions from the Gulf Coast hurricanes to net record earnings for DEFS, which contributed \$291 million in ongoing segment EBIT for the first six months of 2005. For the second half of the year, DEFS contributed \$214 million in ongoing equity earnings as a result of a change in ownership with ConocoPhillips.

It was a year to position DEFS for future success. In a restructuring move, Duke Energy sold nearly 20 percent of its ownership interest to DEFS partner ConocoPhillips, forming a 50/50 joint venture. DEFS' natural gas gathering and processing assets in western Canada moved to Duke Energy Gas Transmission.

DEFS also sold the general partner of TEPPCO to Enterprise GP Holdings L.P. for more than \$1.1 billion, and created a new master limited partnership (MLP), DCP Midstream Partners LP. DEFS owns the general partner of the new MLP and operates its assets in Texas and Louisiana.

Natural Gas Operations



DUKE ENERGY AMERICAS

Duke Energy Americas includes the company's major wholesale energy operations and commercial businesses. With approximately 7,000 megawatts and 4,000 megawatts, respectively, in the United States and internationally, Duke Energy Americas has a diverse mix of power generation facilities, and is engaged in the sale and marketing of electric power, natural gas and generation services.

Duke Energy International

Duke Energy International (DEI) will continue to pursue organic growth opportunities for our existing generation assets in Latin America and improve operational efficiency to increase the returns on those assets.

For 2006, DEI is expected to deliver ongoing segment EBIT of approximately \$275 million.

2005 Highlights

DEI exceeded expectations with segment EBIT of \$314 million, compared to \$222 million in 2004. Those results were largely driven by improved Latin American operations (due primarily to favorable pricing and weather conditions in Peru and Argentina), favorable currency exchange impacts in Brazil and record earnings from National Methanol Co. due to higher commodity prices.

The improved results achieved by DEI in total, as well as on its portfolio of Latin American generation assets, continued a positive earnings trend that began in 2003.

DEI's operations continued to generate strong cash flow. During 2005, DEI took advantage of a one-time opportunity to repatriate more than \$500 million in foreign earnings to Duke Energy Corp. at a lower tax rate.

North American Nonregulated Generation and Marketing

The merger with Cinergy gives our nonregulated generation and trading and marketing businesses a fresh start. CG&E's coal-fired merchant generation portfolio gains fuel diversity and reliability with the addition of DENA's Midwest fleet of new and efficient natural gas-fired plants. Now that the exit from DENA's legacy trading business is nearly complete, we are moving to Cinergy's commercial business model which focuses on transactions with contract terms of less than one year — a stronger platform for growth.

Ongoing segment EBIT for North American Nonregulated Generation and Marketing in 2006 is expected to be approximately \$325 million.

2005 Highlights

Cinergy

Cinergy's commercial businesses contributed approximately \$443 million in adjusted EBIT in 2005, compared to approximately \$345 million in 2004. Power Operations, the group responsible for operating and maintaining Cinergy's nonregulated power generation assets, set records for generation, productivity and safety last year. The 26,608,001 megawatt-hours (MWH) of generation and an average 40,503 MWH generated per employee beat previous Cinergy records set in 2000. Power Operations employees and contractors also achieved their best-ever safety incident rate and logged the lowest number of recordable incidents in company history.

The Power Trading and Portfolio Optimization groups each benefited from market conditions to deliver a solid year. Power Trading gross margins were up \$46 million from the prior year. Portfolio Optimization sold emission allowances no longer needed to meet future non-retail commitments, which increased emission allowance gross margins by \$121 million.

Cinergy's commercial businesses also realized a \$37 million increase in retail margins, primarily resulting from implementation of our rate stabilization plan in Ohio.

Cinergy Solutions implemented new efficiency measures for Procter & Gamble manufacturing plants, and was engaged to design, build, own and operate a new steam generating plant for Dow Chemical's Union Carbide subsidiary.

Duke Energy North America

Duke Energy put most of Duke Energy North America's (DENA) assets up for sale in September 2005, and announced in November the transfer of virtually all of DENA's trading book of outstanding gas and power derivative contracts to Barclays Bank. That move essentially eliminated all credit, collateral, market and legal risk associated with DENA's derivative trading positions.

In January 2006, Duke Energy announced an agreement to sell DENA's 6,200 megawatts of power generation in the western and northeastern United States to LS Power Equity Partners for approximately \$1.5 billion. DENA's remaining 3,600 megawatts of generation in the Midwest are being combined with Cinergy's commercial operations.

(Note: For 2005, approximately \$120 million of ongoing EBIT losses for DENA's continuing operations were included in Other, and its discontinued results are reported in Discontinued Operations.)

CRESCENT RESOURCES

Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups.

Crescent Resources continues to focus on real estate development in growth markets, primarily in the southeastern and southwestern United States. The company will invest in commercial and residential opportunities based on earnings potential and geographic market demand.

Crescent Resources is expected to deliver ongoing segment EBIT of approximately \$250 million in 2006.

2005 Highlights

Crescent Resources continued to benefit from robust commercial and residential real estate markets, to end 2005 with segment EBIT of \$314 million, compared to \$240 million in 2004 — generating more earnings than anticipated for the second consecutive year.

Crescent actively managed its real estate holdings to achieve gains on the sale of a site in Nashville, Tenn., to Nissan for its North American corporate headquarters, a legacy land tract in South Carolina, its interest in a portfolio of office buildings in Georgia and Florida, and 2,483 residential lots in the Carolinas, Georgia, Florida, Texas and Arizona.

The book value of Crescent's portfolio was \$1.3 billion at year-end 2005, compared with \$1.1 billion at the end of 2004.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31		
(In millions, except per-share amounts)	2005	2004	2003
Operating Revenues			
Nonregulated electric, natural gas, natural gas liquids, and other	\$ 7,661	\$ 12,232	\$ 10,088
Regulated electric	5,406	5,041	4,851
Regulated natural gas and natural gas liquids	3,679	3,276	3,082
Total operating revenues	16,746	20,549	18,021
Operating Expenses			
Natural gas and petroleum products purchased	6,279	10,156	8,479
Operation, maintenance and other	3,553	3,317	3,496
Fuel used in electric generation and purchased power	1,584	1,576	1,465
Depreciation and amortization	1,728	1,750	1,675
Property and other taxes	571	513	499
Impairments and other charges	140	64	1,219
Impairment of goodwill	—	—	254
Total operating expenses	13,855	17,376	17,087
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	191	192	84
Gains (Losses) on Sales of Other Assets, net	534	(404)	(199)
Operating Income	3,616	2,961	819
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	479	161	123
Gains (Losses) on sales and impairments of equity method investments	1,225	(4)	279
Other income and expenses, net	96	148	148
Total other income and expenses	1,800	305	550
Interest Expense	1,062	1,281	1,330
Minority Interest Expense	538	200	62
Earnings (Loss) from Continuing Operations Before Income Taxes	3,816	1,785	(23)
Income Tax Expense (Benefit) from Continuing Operations	1,283	533	(94)
Income from Continuing Operations	2,533	1,252	71
(Loss) Income from Discontinued Operations, net of tax	(705)	238	(1,232)
Income (Loss) Before Cumulative Effect of Change in Accounting Principle	1,828	1,490	(1,161)
Cumulative Effect of Change in Accounting Principle, net of tax and minority interest	(4)	—	(162)
Net Income (Loss)	1,824	1,490	(1,323)
Dividends and Premiums on Redemption of Preferred and Preference Stock	12	9	15
Earnings (Loss) Available for Common Stockholders	\$ 1,812	\$ 1,481	\$ (1,338)
Common Stock Data			
Weighted-average shares outstanding			
Basic	934	931	903
Diluted	970	966	904
Earnings per share (from continuing operations)			
Basic	\$ 2.69	\$ 1.33	\$ 0.06
Diluted	\$ 2.61	\$ 1.29	\$ 0.06
(Loss) Earnings per share (from discontinued operations)			
Basic	\$(0.75)	\$0.26	\$(1.36)
Diluted	\$(0.73)	\$0.25	\$(1.36)
Earnings (Loss) per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.94	\$ 1.59	\$(1.30)
Diluted	\$ 1.88	\$ 1.54	\$(1.30)
Earnings (Loss) per share			
Basic	\$ 1.94	\$ 1.59	\$(1.48)
Diluted	\$ 1.88	\$ 1.54	\$(1.48)
Dividends per share	\$ 1.17	\$ 1.10	\$ 1.10

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

CONSOLIDATED BALANCE SHEETS

December 31

(In millions)	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 511	\$ 533
Short-term investments	632	1,319
Receivables (net of allowance for doubtful accounts of \$127 at December 31, 2005 and \$135 at December 31, 2004)	2,580	3,184
Inventory	863	942
Assets held for sale	1,528	40
Unrealized gains on mark-to-market and hedging transactions	87	962
Other	1,756	938
Total current assets	7,957	7,918
Investments and Other Assets		
Investments in unconsolidated affiliates	1,933	1,292
Nuclear decommissioning trust funds	1,504	1,374
Goodwill	3,775	4,148
Notes receivable	138	232
Unrealized gains on mark-to-market and hedging transactions	62	1,379
Assets held for sale	3,597	84
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$17 at December 31, 2005, and \$15 at December 31, 2004)	1,281	1,128
Other	2,743	1,949
Total investments and other assets	15,033	11,586
Property, Plant and Equipment		
Cost	40,574	46,806
Less accumulated depreciation and amortization	11,374	13,000
Net property, plant and equipment	29,200	33,806
Regulatory Assets and Deferred Debits		
Deferred debt expense	269	297
Regulatory assets related to income taxes	1,338	1,269
Other	926	894
Total regulatory assets and deferred debits	2,533	2,460
Total Assets	\$ 54,723	\$ 55,770

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

December 31

(In millions)	2005	2004
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 2,431	\$ 2,414
Notes payable and commercial paper	83	68
Taxes accrued	327	273
Interest accrued	230	287
Liabilities associated with assets held for sale	1,488	30
Current maturities of long-term debt	1,400	1,832
Unrealized losses on mark-to-market and hedging transactions	204	819
Other	2,255	1,779
Total current liabilities	8,418	7,502
Long-term Debt	14,547	16,932
Deferred Credits and Other Liabilities		
Deferred income taxes	5,253	5,228
Investment tax credit	144	154
Unrealized losses on mark-to-market and hedging transactions	10	971
Liabilities associated with assets held for sale	2,085	14
Asset retirement obligations	2,058	1,926
Other	5,020	4,982
Total deferred credits and other liabilities	14,570	13,275
Commitments and Contingencies		
Minority Interests	749	1,486
Preferred and Preference Stock without Sinking Fund Requirements	—	134
Common Stockholders' Equity		
Common stock, no par, 2 billion shares authorized; 928 million and 957 million shares outstanding at December 31, 2005, and December 31, 2004, respectively	10,388	11,252
Retained earnings	5,335	4,539
Accumulated other comprehensive income	716	650
Total common stockholders' equity	16,439	16,441
Total Liabilities and Common Stockholders' Equity	\$ 54,723	\$ 55,770

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31

(In millions)	2005	2004	2003
Cash Flows from Operating Activities			
Net income (loss)	\$ 1,824	\$ 1,490	\$ (1,323)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	1,884	2,037	1,987
Cumulative effect of change in accounting principle	4	—	162
Gains on sales of investments in commercial and multi-family real estate	(191)	(201)	(103)
Gain on sales of equity investments and other assets	(1,646)	(193)	(86)
Impairment charges	36	194	3,495
Deferred income taxes	282	867	(534)
Minority interest	538	195	61
Equity in earnings of unconsolidated affiliates	(479)	(161)	(123)
Purchased capacity levelization	(14)	92	194
Contribution to company-sponsored pension plans	(45)	(279)	(194)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	468	216	(15)
Receivables	(255)	(231)	1,188
Inventory	(80)	(48)	(30)
Other current assets	(944)	(33)	(104)
Increase (decrease) in:			
Accounts payable	81	(5)	(1,047)
Taxes accrued	53	188	(168)
Other current liabilities	622	91	70
Capital expenditures for residential real estate	(355)	(322)	(196)
Cost of residential real estate sold	294	268	167
Other, assets	191	(155)	(162)
Other, liabilities	533	158	165
Net cash provided by operating activities	2,801	4,168	3,404
Cash Flows from Investing Activities			
Capital expenditures	(2,309)	(2,161)	(2,260)
Investment expenditures, net of refund	(43)	(46)	(153)
Acquisitions, net of cash acquired	(294)	—	—
Purchases of available-for-sale securities	(41,073)	(65,929)	(40,451)
Proceeds from sales and maturities of available-for-sale securities	40,887	65,098	40,004
Net proceeds from the sales of and distributions from equity investments and other assets, and sales of and collections on notes receivable	2,375	1,619	1,976
Proceeds from the sales of commercial and multi-family real estate	372	606	314
Settlement of net investment hedges and other investing derivatives	(321)	—	—
Distributions from equity investments	383	—	—
Other	(86)	20	(106)
Net cash used in investing activities	(109)	(793)	(676)
Cash Flows from Financing Activities			
Proceeds from the:			
Issuance of long-term debt	543	153	3,009
Issuance of common stock and common stock related to employee benefit plans	41	1,704	277
Payments for the redemption of:			
Long-term debt	(1,346)	(3,646)	(2,849)
Preferred stock of a subsidiary	—	(176)	(38)
Preferred and preference stock	(134)	—	—
Guaranteed preferred beneficial interests in subordinated notes	—	—	(250)
Notes payable and commercial paper	165	(67)	(1,702)
Distributions to minority interests	(861)	(1,477)	(2,508)
Contributions from minority interests	779	1,277	2,432
Dividends paid	(1,105)	(1,065)	(1,051)
Repurchase of common shares	(933)	—	—
Proceeds from Duke Energy Income Fund	110	—	—
Other	24	19	23
Net cash used in financing activities	(2,717)	(3,278)	(2,657)
Changes in cash and cash equivalents included in assets held for sale	3	39	(55)
Net (decrease) increase in cash and cash equivalents	(22)	136	16
Cash and cash equivalents at beginning of period	533	397	381
Cash and cash equivalents at end of period	\$ 511	\$ 533	\$ 397
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	\$ 1,089	\$ 1,323	\$ 1,324
Cash paid (refunded) for income taxes	\$ 546	\$ (339)	\$ (18)
Significant non-cash transactions:			
Transfer of DEFS Canadian facilities	\$ 97	\$ —	\$ —
AFUDC—equity component	\$ 30	\$ 25	\$ 74
Conversion of convertible notes to stock	\$ 28	\$ —	\$ —
Debt retired in connection with disposition of businesses	\$ —	\$ 840	\$ 387
Note receivable from sale of southeastern plants	\$ —	\$ 48	\$ —
Remarketing of senior notes	\$ —	\$ 1,625	\$ —

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)

(In millions)	Accumulated Other Comprehensive Income (Loss)							Total
	Common Stock Shares	Common Stock	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	Other	
Balance December 31, 2002	895	\$ 9,236	\$ 6,417	\$ (647)	\$ 422	\$ (484)	\$ —	\$14,944
Net loss			(1,323)					(1,323)
Other comprehensive loss								
Foreign currency translation adjustments ^a				986				986
Foreign currency translation adjustments reclassified into earnings as a result of the sale of European operations				(24)				(24)
Net unrealized gains on cash flow hedges ^b					116			116
Reclassification into earnings from cash flow hedges ^c					(240)			(240)
Minimum pension liability adjustment ^d						40		40
Total comprehensive loss								(445)
Dividend reinvestment and employee benefits	16	283	(6)					277
Common stock dividends			(993)					(993)
Preferred and preference stock dividends			(15)					(15)
Other capital stock transactions, net			(20)					(20)
Balance December 31, 2003	911	\$ 9,519	\$ 4,060	\$ 315	\$ 298	\$ (444)	\$ —	\$13,748
Net income			1,490					1,490
Other comprehensive income								
Foreign currency translation adjustments				279				279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business				(54)				(54)
Net unrealized gains on cash flow hedges ^b					311			311
Reclassification into earnings from cash flow hedges ^c					(83)			(83)
Minimum pension liability adjustment ^d						28		28
Total comprehensive income								1,971
Dividend reinvestment and employee benefits	5	108	20					128
Equity offering	41	1,625						1,625
Common stock dividends			(1,018)					(1,018)
Preferred and preference stock dividends			(9)					(9)
Other capital stock transactions, net			(4)					(4)
Balance December 31, 2004	957	\$11,252	\$ 4,539	\$ 540	\$ 526	\$ (416)	\$ —	\$16,441
Net income			1,824					1,824
Other comprehensive income								
Foreign currency translation adjustments				306				306
Net unrealized gains on cash flow hedges ^b					413			413
Reclassification into earnings from cash flow hedges ^c					(1,026)			(1,026)
Minimum pension liability adjustment ^d						356		356
Other ^e							17	17
Total comprehensive income								1,890
Dividend reinvestment and employee benefits	3	41	44					85
Stock repurchase	(33)	(933)						(933)
Conversion of debt	1	28						28
Common stock dividends			(1,093)					(1,093)
Preferred and preference stock dividends			(12)					(12)
Other capital stock transactions, net			33					33
Balance December 31, 2005	928	\$10,388	\$ 5,335	\$ 846	\$ (87)	\$ (60)	\$17	\$16,439

^a Foreign currency translation adjustments, net of \$62 tax benefit in 2005 and \$114 tax benefit in 2003. The 2005 tax benefit related to the settled net investment hedges (see Note B).

Substantially all of the 2005 tax benefit is an immaterial correction of an accounting error related to prior periods.

^b Net unrealized gains on cash flow hedges, net of \$233 tax expense in 2005, \$170 tax expense in 2004, and \$49 tax expense in 2003.

^c Reclassification into earnings from cash flow hedges, net of \$583 tax benefit in 2005, \$45 tax benefit in 2004, and \$130 tax benefit in 2003. Reclassification into earnings from cash flow hedges for the year ended December 31, 2005, is due primarily to the recognition of Duke Energy North America's (DENA's) unrealized net gains related to hedges on forecasted transactions which will no longer occur as a result of the plan to sell or otherwise dispose of substantially all of DENA's assets and contracts outside of the Midwestern United States and certain contractual positions related to the Midwestern assets (see Notes 8 and 13).

^d Minimum pension liability adjustment, net of \$228 tax expense in 2005, \$18 tax expense in 2004, and \$27 tax expense in 2003.

^e Net of \$10 tax expense in 2005.

See Notes to Consolidated Financial Statements in Duke Energy's 2005 Form 10-K.

BOARD OF DIRECTORS



Roger Agnelli

President and Chief Executive Officer (CEO), Companhia Vale do Rio Doce (CVRD), Rio de Janeiro, Brazil. Compensation and Finance and Risk Management Committees. Agnelli became a member of Duke Energy's board of directors in 2004. He joined CVRD as chairman of the board in

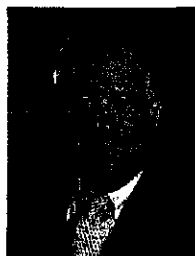
2000. He serves on the boards of Swiss-based ABB Ltd. and Suzano Petroquímica, and is a member of the International Investments Council, the New York Stock Exchange International Committee, and the Economic and Social Development Council (CDES), an advisory council to the president of Brazil.



Paul M. Anderson

Chairman of the Board, Duke Energy. Anderson rejoined Duke Energy as chairman and CEO in 2003, after retiring as managing director and CEO of Australia-based BHP Billiton. He was Duke Energy's first president and chief operating officer after the 1997 merger of Duke Power and PanEnergy.

Anderson is a director of Qantas Airways Limited, a global counselor for the Conference Board and adjunct professor in global sustainability at RMIT University in Melbourne, Victoria. He was recently appointed to the President's Council of Advisors on Science and Technology.



William Barnett III

President, The Barnett Co. Inc., and Chairman, William Barnett & Son LLC. Audit and Nuclear Oversight Committees. Barnett, who joined Duke Energy's board in 2005, is president of a real estate and investment firm and chairman of a 108-year old textile company. He has been mayor of

Spartanburg, S.C., since 2002. He serves on the board of directors of Bank of America and is a trustee of The Duke Endowment. Barnett was named to the South Carolina Business Hall of Fame in 2004.



G. Alex Bernhardt Sr.

Chairman and CEO, Bernhardt Furniture Co. Audit and Nuclear Oversight Committees. Bernhardt joined Duke Energy's board in 1991. Besides leading the family business in Lenoir, S.C., he serves on the board of directors of Cities in Schools. He is director emeritus and past president

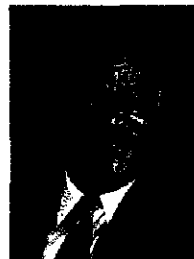
of the American Furniture Manufacturers Association, and past president of the International Home Furnishings Marketing Association.



Michael G. Browning

President and Chairman of the Board, Browning Investments Inc. Corporate Governance and Nuclear Oversight Committees. Browning joined Cinergy's board in 1994 and is a director of PSI Energy. He is a member of the boards of directors of the Indianapolis Economic Development Commission,

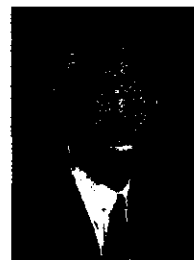
Indianapolis Downtown Inc. and the Indianapolis Museum of Art. He serves on the St. Vincent Hospital and Health Care Center advisory board and the State of Indiana Public Officers Compensation Commission.



Phillip R. Cox

President and CEO, Cox Financial Corp. Chair, Audit Committee. Cox became a Cinergy director in 1994 and is a former director of Cincinnati Gas & Electric. He is chairman of the boards of Cincinnati Bell and the University of Cincinnati, chairman of the Federal Reserve Bank's Audit

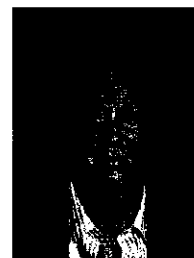
Committee, and board member of Bethesda Hospital, Touchstone Mutual Funds and Timken Co. He also chairs the Cincinnati Business Committee.



William T. Esrey

Chairman Emeritus, Sprint Corp. Audit and Corporate Governance Committees. Esrey joined Duke Energy's board in 1985. His career in telecommunications has spanned more than 40 years. He joined Sprint in 1980 and went on to serve as the company's chief financial officer, president,

CEO and chairman. He also served as chairman of Japan Telecom from 2003 to 2004. Esrey serves on the board of directors of General Mills, and is a member of The Business Council.



Ann Maynard Gray

Former President, Diversified Publishing Group of ABC Inc. Lead Director. Chair, Corporate Governance Committee. Compensation and Finance and Risk Management Committees.

Gray became a Duke Energy director in 1994. She held a number of senior positions with American Broadcasting

Companies including senior vice president of finance, treasurer and vice president of planning. She serves on the boards of The Phoenix Companies and Elan Corp., and is a past member of the board of trustees of J.P. Morgan Funds.



James H. Hance Jr.

Retired Vice Chairman, Chief Financial Officer and Board member, Bank of America. Chair, Compensation Committee. Finance and Risk Management Committee. Hance joined Duke Energy's board in 2005. A certified public accountant, he spent 17 years with Price Waterhouse. He

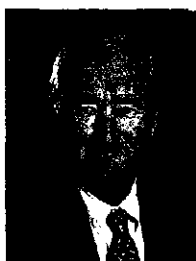
serves on the boards of directors for Sprint Nextel Corp., EnPro Industries, Cousins Properties Inc. and Rayonier Corp. He is a trustee of Washington University and serves on the boards of the Foundation of the University of North Carolina at Charlotte and the March of Dimes.



James E. Rogers

President and CEO, Duke Energy. Rogers was chairman and CEO of Cinergy before its merger with Duke Energy, and was formerly chairman, president and CEO of PSI Energy. He serves on the boards of Fifth Third Bancorp and Fifth Third Bank, the American Gas Association, the U.S.

Chamber of Commerce, the Business Roundtable, the National Coal Council and the Nicholas Institute for Environmental Policy Solutions, as well as on the Edison Electric Institute's Executive Committee.



Dennis R. Hendrix

Retired Chairman of the Board, PanEnergy Corp. Compensation, Corporate Governance and Finance and Risk Management Committees. Hendrix rejoined Duke Energy's board in 2004, having previously served from 1997 to 2002. He was chairman of PanEnergy prior to its merger with

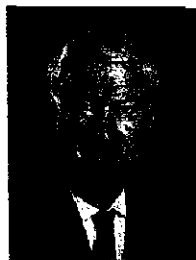
Duke Power in 1997, and previously CEO and president. He serves on the boards of Allied Waste Industries Inc., Newfield Exploration Co. and Grant Prideco, and is director of the Robert A. Welch Foundation.



Mary L. Schapiro

Vice Chairman, National Association of Securities Dealers (NASD) and President of the Regulatory Policy and Oversight Division. Audit and Corporate Governance Committees. Schapiro became a Cinergy director in 1999. She is a member of the board of governors of NASD, the world's

largest private sector securities regulator. Previously, as chairman of the Commodity Futures Trading Commission, she participated in the President's Working Group on Financial Markets. She also served as a commissioner of the Securities and Exchange Commission for six years.



Michael E.J. Phelps

Chairman, Dornoch Capital Inc. Chair, Finance and Risk Management Committee. Corporate Governance Committee. Phelps was chairman and CEO of Westcoast Energy Inc. before its merger with Duke Energy in 2002, when he joined Duke Energy's board. He is a member of the boards of

directors of Canadian Pacific Railway Co., Canfor Corp. and the Fairborne Energy Trust, and serves as chairman of the boards of the GLOBE Foundation of Canada and Kodiak Exploration Ltd.



Dudley S. Taft

President, Taft Broadcasting Co. Compensation and Nuclear Oversight Committees. Taft served on Cinergy's board beginning in 1994 and was a director of Cincinnati Gas & Electric from 1985 until 1995. He serves on the boards of The Union Central Life Insurance Co., Fifth Third Bancorp,

Fifth Third Bank and Tribune Co. He is chairman of the Cincinnati Association for the Arts and a trustee of Boys and Girls Clubs of Greater Cincinnati.



James T. Rhodes

Retired Chairman, President and CEO, Institute of Nuclear Power Operations (INPO). Chair, Nuclear Oversight Committee. Audit Committee. Rhodes became a director of Duke Energy in 2001. The former president and CEO of Virginia Power, he is a member of the Electric Power Research Institute's

advisory council. Rhodes is a former board member of INPO, the Nuclear Energy Institute, Virginia Electric and Power Co., Dominion Resources Inc., Edison Electric Institute, the Southeastern Electric Exchange and NationsBank N.A.



Advisor to Chairman of the Board

Jim W. Mogg

Mogg was group vice president and chief development officer before the merger with Cinergy. He was responsible for Duke Energy strategy and corporate transactions, mergers and acquisitions, human resources, diversity, employee development and

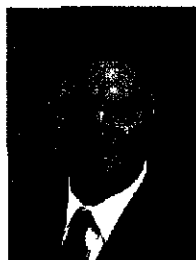
Crescent Resources, the company's real estate affiliate. Crescent continues to report to him in his new position. Mogg previously served as chairman, president and CEO of Duke Energy Field Services.



James E. Rogers

President and Chief Executive Officer
Rogers led Cinergy as CEO since it was formed in 1994, and was formerly CEO of Cinergy's affiliate PSI Energy. Before joining PSI in 1988, he was executive vice president, interstate pipelines, for the Enron Gas Pipeline Group. Previously, as partner in a Dallas law firm, Rogers

represented energy companies before the Federal Energy Regulatory Commission (FERC), the Department of Energy, Congressional committees and federal courts. Earlier, he directed litigation and enforcement as deputy general counsel for FERC.



Paul H. Barry

Group Executive and President, Duke Energy Americas
Barry leads North American Nonregulated Generation and Marketing, Duke Energy International (DEI) and Duke Energy Generation Services (formerly Cinergy Solutions). He joined Duke Energy in 2002 as vice president of mergers and

acquisitions. His previous experience includes positions as vice president of business development for General Electric Capital Services Structured Finance Group, director of corporate finance for CBS Corp. (formerly Westinghouse Electric Corp.), and director of acquisitions and divestitures for Amoco Production Co.



Julie A. Dill

Group Executive – Investor Relations, and Chief Communications Officer
Dill joined DEI in 1998 as senior vice president of planning and finance and chief financial officer. In 2001 she was named executive vice president, Asia Pacific, where she was responsible for assets and operations in Australia, New

Zealand and Indonesia. In 2002 she was named one of the top 50 Women in Energy. She became vice president of investor and shareholder relations in 2005. Before joining Duke Energy, Dill spent 17 years with Shell Oil Co., most recently as fiscal director of transportation for Equilon Enterprises, a Royal Dutch Shell company.



W.H. (Bill) Easter III

President and Chief Executive Officer, Duke Energy Field Services
Easter's career in natural gas supply and marketing, transportation, refining and petroleum marketing has spanned 35 years. Before joining Duke Energy in 2004, he held a number of positions with Conoco and later ConocoPhillips,

Duke Energy's joint-venture partner in DEFS. Easter serves on the boards of Junior Achievement Rocky Mountain and the University of Colorado at Denver Business School. He is a member of the Executive Leadership Council, and was named one of the Most Powerful African Americans in Corporate America by Black Enterprise magazine in 2005.



Fred J. Fowler

Group Executive and President, Duke Energy Gas
Fowler leads the company's gas businesses, Duke Energy Gas Transmission and Duke Energy Field Services. He has been Duke Energy's president and chief operating officer since 2002. He began his energy career in 1968 and held

senior-level positions with Panhandle Eastern Pipe Line Co., Trunkline Gas Co., Texas Eastern Transmission Corp. and PanEnergy Corp. He was named group president of energy transmission when PanEnergy merged with Duke Power in 1997. Fowler is past chairman of the Interstate Natural Gas Association of America.



David L. Hauser

Group Executive and Chief Financial Officer
Hauser became Duke Energy's CFO in 2004. He joined Duke Power in 1973. Positions he has held include controller, vice president of procurement services and materials, senior vice president of global asset development, and senior

vice president and treasurer. Hauser has chaired the Southeastern Electric Exchange Accounting and Finance Division, and the Edison Electric Institute's FERC Accounting Liaison Group and General Accounting Committee. He serves on the Business Advisory Council for the University of North Carolina at Charlotte.



Marc E. Manly

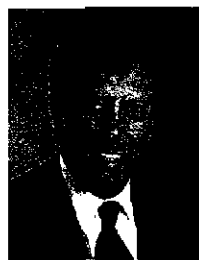
Group Executive and Chief Legal Officer
Manly leads Duke Energy's legal group, which also includes federal affairs, internal audit, ethics and compliance, and the corporate secretary. He served as Cinergy's executive vice president and chief legal officer from 2002 until the merger with Duke Energy. Before joining

Cinergy, Manly was managing director for law and governmental affairs, general counsel and corporate secretary at NewPower Holdings Inc. Previously, he was vice president and solicitor general for AT&T Corp. and prior to that a partner in a law firm.

**Thomas C. O'Connor**

Group Executive and Chief Operating Officer, U.S. Franchised Electric and Gas
O'Connor joined Algonquin Gas Transmission Co. in 1987. He went on to serve as senior vice president of marketing and capacity management, vice president of marketing, vice president of East Coast marketing for the Northeast Pipeline

Group and president of PanEnergy Development Co. O'Connor was named president of Duke Energy Gas Transmission's (DEGT) U.S. operations and then president and CEO of DEGT in 2002, and group vice president of corporate strategy in 2005.

**Christopher C. Rolfe**

Group Executive and Chief Human Resources Officer

Rolfe joined Duke Power in 1972 as an engineering assistant, and eventually worked on most of the utility's fossil, hydroelectric and nuclear generation projects. He later managed the company's research and development activities and

led corporate quality initiatives. He was named vice president of corporate human resources in 1997 and vice president of human resources in 2000. Rolfe is a board member of the Charlotte-Mecklenburg Public Schools Foundation and chairman of the North Carolina Commission on Workforce Development.

**Ruth G. Shaw**

Group Executive – Public Policy, and President – Duke Nuclear

Shaw is responsible for the company's nuclear power strategy and operations, as well as public policy and sustainability. She was formerly president and chief executive officer of Duke Power.

Previously, she served as Duke Energy's executive vice president and chief administrative officer, president of the Duke Energy Foundation, senior vice president of corporate resources and vice president of corporate communications. Shaw serves on the boards of directors of Edison Electric Institute, the Nuclear Energy Institute and the Institute of Nuclear Power Operations.

**B. Keith Trent**

Group Executive and Chief Development Officer

Trent is responsible for corporate strategy, mergers and acquisitions, as well as for the company's telecommunications and investment businesses. He served as group vice president, general counsel and secretary before the merger with

Cinergy. He joined Duke Energy in 2002 as general counsel, litigation, with responsibility for major litigation, government investigations, and the company's labor and employment and environment, health and safety legal teams. His energy career began in 1982 as a reservoir/production engineer with Arco Oil & Gas in Houston.

**James L. Turner**

Group Executive and Chief Commercial Officer, U.S. Franchised Electric and Gas
Turner leads U.S. franchised electric and gas commercial functions. He was formerly president of Cinergy with responsibility for the regulated operations of PSI Energy, Cincinnati Gas & Electric Co. and Union Light, Heat and Power Co., as

well as for corporate development and strategic planning. He previously served as Cinergy's executive vice president and chief financial officer. Before joining Cinergy, Turner was a principal in an Indianapolis law firm and previous to that, as Indiana utility consumer counselor, he led an agency which represented utility consumers.

**Martha B. Wyrsh**

President, Duke Energy Gas Transmission

Wyrsh leads Duke Energy's natural gas transmission, storage and distribution business, and well as the gathering and processing and liquids businesses in western Canada. She has held a number of legal executive positions since she

joined Duke Energy in 1999, including group vice president, general counsel and secretary, and senior vice president and general counsel of energy transmission and distribution. She serves on the boards of directors of the Interstate Natural Gas Association of America, the Greater Houston Partnership and the United Way of the Texas Gulf Coast.

NON-GAAP FINANCIAL MEASURES

2005 Earnings-per-share Incentive Target Measure

Duke Energy's 2005 Summary Annual Report references 2005 ongoing basic earnings per share (EPS) of \$1.79, which topped our incentive target of \$1.65. Ongoing basic EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents basic EPS from continuing operations plus the per-share effect of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported basic EPS from continuing operations to ongoing basic EPS for 2005:

Basic EPS from continuing operations, as reported	\$ 2.69
Basic EPS from discontinued operations, as reported	(0.75)
Basic EPS, as reported	1.94
Adjustments to reported basic EPS:	
Basic EPS from discontinued operations excluding Crescent Resources, and cumulative effect of change in accounting principle	0.76
Basic EPS impact of special items (see detail below)	(0.91)
Basic EPS, ongoing	\$1.79

The following is the detail of the \$0.91 in special items impacting basic EPS for 2005:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2005 Basic EPS Impact
Gain on sale of TEPPCO GP (net of minority interest of \$343 million)	\$791	\$(293)	\$0.53
Gain on sale of TEPPCO LP units	97	(36)	0.07
Loss on de-designation of Field Services' hedges, net of settlements on 2005 positions	(23)	9	(0.01)
Additional liabilities related to mutual insurance companies	(28)	10	(0.02)
Gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	(213)	0.39
Impairment of DEFS investment in Campeche	(20)	6	(0.02)
Initial and subsequent net mark-to-market gains on de-designating Southeast DENA hedges	21	(8)	0.01
Loss on Southeast DENA contract termination	(75)	28	(0.05)
Tax adjustments	-	12	0.01
Total Basic EPS Impact			\$0.91

2005 EBIT from Continuing Operations for Duke Energy North America

Duke Energy's 2005 Summary Annual Report references ongoing EBIT (earnings before interest and taxes) losses for Duke Energy North America's (DENA) continuing operations of approximately \$120 million, which are included in Other. Ongoing EBIT losses for DENA's continuing operations is a non-GAAP financial measure, as it represents reported Other EBIT adjusted to include only the results of DENA's continuing operations, excluding special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing EBIT losses for DENA's continuing operations is reported in Other EBIT, which includes DENA's EBIT losses from continuing operations, including any special items, in addition to certain other amounts that are reported as part of Other.

The following is a reconciliation of ongoing EBIT losses for DENA's continuing operations to reported Other EBIT for the year ended Dec. 31, 2005:

(In millions)	Year Ended Dec. 31, 2005
Ongoing EBIT losses for DENA's continuing operations	\$ (119)
Special items:	
Initial and subsequent net pretax mark-to-market gains on de-designating Southeast DENA hedges	21
Pretax loss on Southeast DENA contract termination	(75)
Reported EBIT losses for DENA's continuing operations	(173)
Other items included in Other EBIT ⁽¹⁾	(472)
Reported Other EBIT Loss	\$(645)

⁽¹⁾ Primarily consists of losses on de-designated hedges, captive insurance losses and corporate governance costs.

2005 Ongoing Segment EBIT Amounts for Duke Energy Field Services

Duke Energy's 2005 Summary Annual Report references ongoing segment EBIT for Field Services of \$291 million for the first six months of 2005 and \$214 million in ongoing equity earnings for the second half of 2005. Following the deconsolidation of Duke Energy Field Services LLC effective July 1, 2005, ongoing segment EBIT approximated ongoing equity earnings in Field Services. Ongoing segment EBIT is a non-GAAP financial measure, as it represents reported segment EBIT adjusted for special items, which represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items.

The following is a reconciliation of Field Services' ongoing segment EBIT to reported segment EBIT for the six months ended June 30, 2005, and the six months ended Dec. 31, 2005:

(In millions)	Six Months Ended June 30, 2005	
Ongoing segment EBIT		\$ 291
Special items:		
Pretax gain on sale of TEPPCO GP (net of minority interest of \$343 million)	791	
Pretax gain on sale of TEPPCO LP units	97	
Pretax loss on de-designation of Field Services' hedges, net of settlements	(96)	792
Reported segment EBIT		\$1,083

(In millions)	Six Months Ended Dec. 31, 2005	
Ongoing segment EBIT (equity earnings)		\$ 214
Special items:		
Pretax gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	
Reversal of pretax loss on de-designation of Field Services' hedges, net of settlements	73	649
Reported segment EBIT (equity earnings)		\$ 863
Total reported segment EBIT for 2005		\$1,946

2005 Adjusted Segment EBIT for Cinergy Corp.

Duke Energy's 2005 Summary Annual Report includes a discussion of Cinergy's adjusted segment EBIT results for 2004 and 2005 for certain segments. Adjusted segment EBIT for Cinergy represents a non-GAAP financial measure, as it reflects reported segment profit adjusted for interest, taxes and items not related to Cinergy's ongoing, underlying business or which distort comparability of results. A reconciliation of adjusted segment EBIT to reported segment profit is provided below:

(In millions)	2005		2004	
	Regulated Business Unit	Commercial Business Unit	Regulated Business Unit	Commercial Business Unit
Adjusted segment EBIT	\$ 645	\$ 443	\$ 586	\$ 345
Reconciling items:				
Mark-to-market effect on asset hedges	-	(62)	-	6
Merger costs	(16)	(9)	-	-
Severance costs	(10)	(10)	-	-
EBIT from synthetic fuel production	-	(96)	-	(70)
Write-down and/or disposal of certain investments and other charges	-	-	(7)	(29)
Preferred dividends	(2)	(1)	(3)	-
Interest	(154)	(127)	(145)	(125)
Income Taxes	(174)	72	(173)	57
Discontinued operations, net of tax	-	3	-	(10)
Cumulative effect of change in accounting principle, net of tax	-	(3)	-	-
Reported segment profit	\$ 289	\$ 210	\$ 258	\$ 174

2006 Earnings-per-share Incentive Target Measure

Duke Energy's 2005 Summary Annual Report includes a discussion of the company's 2006 EPS incentive target of \$1.90. This EPS measure is used for employee incentive bonuses and should track ongoing diluted EPS, which is a non-GAAP financial measure as it represents diluted EPS from continuing operations plus the per-share effect of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to project any special items for 2006.

2006 and Beyond Ongoing Segment EBIT and Related Growth Percentages

Duke Energy's 2005 Summary Annual Report includes discussion of forecasted ongoing EBIT for 2006 for certain segments, including a discussion of ongoing equity earnings for Duke Energy Field Services and, for Duke Energy Gas Transmission, a discussion of forecasted ongoing segment EBIT growth rates, which are based on historical and forecasted ongoing segment EBIT.

Ongoing segment EBIT and related growth rates are non-GAAP financial measures, as they represent reported segment EBIT adjusted for special items, which represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items. Due to the forward-looking nature of forecasted ongoing segment EBIT and related growth rates for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as the company is unable to project special items for any future periods.

2006 Ongoing Segment EBIT for Crescent Resources

Duke Energy's 2005 Summary Annual Report includes a discussion of Crescent Resources' forecasted ongoing segment EBIT from continuing and discontinued operations for 2006. As the company's segment GAAP measure is EBIT from continuing operations, the combination of segment EBIT from continuing and discontinued operations represents a non-GAAP financial measure. The most directly comparable GAAP measure for Crescent's segment EBIT from continuing and discontinued operations is reported segment EBIT from continuing operations. Information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to forecast which Crescent operations, if any, will be discontinued operations during 2006.

2007 Ongoing Diluted EPS and Related Future Growth Percentages

Duke Energy's 2005 Summary Annual Report includes a discussion of forecasted 2007 ongoing diluted EPS and related forecasted growth percentages thereafter. Ongoing diluted EPS and related growth rates are non-GAAP financial measures, as they represent diluted EPS from continuing operations plus the per-share effects of any discontinued operations from the company's Crescent Resources real estate unit, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of ongoing diluted EPS for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as the company is unable to forecast any special items for 2007 or for any future periods.

INVESTOR INFORMATION

The first of these is the fact that the
 world is not a flat surface. It is a
 sphere, and this means that the
 distance between two points on the
 surface is not the same as the
 distance between two points in
 space. This is why the shortest
 distance between two points on the
 surface of the Earth is not a straight
 line, but a curve. This is why the
 shortest distance between two points
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Stock Exchange Listing

of the Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is **BEK**.

Web Site Addresses

Corporate home page

www.duke-energy.com

Investor Relations

WWW.DUKEENERGY.COM/INVESTORS

1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 2426, 2427, 2428, 2429, 2430, 2431, 2432, 2433, 2434, 2435, 2436, 2437, 2438, 2439, 2440, 2441, 2442, 2443, 2444, 2445, 2446, 2447, 2448, 2449, 2450, 2451, 2452, 2453, 2454, 2455, 2456, 2457, 2458, 2459, 2460, 2461, 2462, 2463, 2464, 2465, 2466, 2467, 2468, 2469, 2470, 2471, 2472, 2473, 2474, 2475, 2476, 2477, 2478, 2479, 2480, 2481, 2482, 2483, 2484, 2485, 2486, 2487, 2488, 2489, 2490, 2491, 2492, 2493, 2494, 2495, 2496, 2497, 2498, 2499, 2500, 2501, 2502, 2503, 2504, 2505, 2506, 2507, 2508, 2509, 2510, 2511, 2512, 2513, 2514, 2515, 2516, 2517, 2518, 2519, 2520, 2521, 2522, 2523, 2524, 2525, 2526, 2527, 2528, 2529, 2530, 2531, 2532, 2533, 2534, 2535, 2536, 2537, 2538, 2539, 2540, 2541, 2542, 2543, 2544, 2545, 2546, 2547, 2548, 2549, 2550, 2551, 2552, 2553, 2554, 2555, 2556, 2557, 2558, 2559, 2560, 2561, 2562, 2563, 2564, 2565, 2566, 2567, 2568, 2569, 2570, 2571, 2572, 2573, 2574, 2575, 2576, 2577, 2578, 2579, 2580, 2581, 2582, 2583, 2584, 2585, 2586, 2587, 2588, 2589, 2590, 2591, 2592, 2593, 2594, 2595, 2596, 2597, 2598, 2599, 2600, 2601, 2602, 2603, 2604, 2605, 2606, 2607, 2608, 2609, 2610, 2611, 2612, 2613, 2614, 2615, 2616, 2617, 2618, 2619, 2620, 2621, 2622, 2623, 2624, 2625, 2626, 2627, 2628, 2629, 2630, 2631, 2632, 2633, 2634, 2635, 2636, 2637, 2638, 2639, 2640, 2641, 2642, 2643, 2644, 2645, 2646, 2647, 2648, 2649, 2650, 2651, 2652, 2653, 2654, 2655, 2656, 2657, 2658, 2659, 2660, 2661, 2662, 2663, 2664, 2665, 2666, 2667, 2668, 2669, 2670, 2671, 2672, 2673, 2674, 2675, 2676, 2677, 2678, 26

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LEADERSHIP

the fact that the number of people who are not in the labor force is increasing. This is a result of the fact that the population is aging, and more people are retiring. This is a problem for the economy, as it means that there are fewer people working and producing goods and services. This can lead to a decrease in the economy's growth rate, and it can also lead to a decrease in the government's tax revenue. This is a problem that needs to be addressed, and there are a number of ways that it can be addressed. One way is to encourage people to work longer, and another way is to encourage people to start working earlier. Both of these ways can help to increase the number of people in the labor force, and this can help to increase the economy's growth rate and the government's tax revenue.

1. **Estimate the average number of people**
 2. **in your household who have a computer.**

1. The first two variables, *Age* and *Gender*, are categorical variables. *Age* is a continuous variable, and *Gender* is a categorical variable. *Age* is measured in years, and *Gender* is measured in male and female. *Age* is measured on a scale from 18 to 65, and *Gender* is measured on a scale from 1 to 2. *Age* is measured on a scale from 18 to 65, and *Gender* is measured on a scale from 1 to 2. *Age* is measured on a scale from 18 to 65, and *Gender* is measured on a scale from 1 to 2.

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REFERENCES

[illegible]

1. *Phylogenetic relationships*—Phylogenetic relationships among the 10 species were determined using the parsimony method of Farris (1993) with the computer program PAUP (version 4.0; Farris, 1996). The parsimony method was chosen because of the lack of a priori knowledge of the evolutionary relationships among the species. The parsimony method was used to determine the most parsimonious tree (MPT) for the 10 species. The MPT was determined by the computer program PAUP (version 4.0; Farris, 1996). The MPT was determined by the computer program PAUP (version 4.0; Farris, 1996). The MPT was determined by the computer program PAUP (version 4.0; Farris, 1996).

the 1990s, the number of people in the United States who are obese has increased by 50 percent. In the United Kingdom, the prevalence of obesity has increased by 100 percent in the last 20 years. In the United States, the prevalence of obesity has increased by 100 percent in the last 20 years. In the United Kingdom, the prevalence of obesity has increased by 100 percent in the last 20 years. In the United States, the prevalence of obesity has increased by 100 percent in the last 20 years.





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Charlotte, NC 28202-1802

704.594.6200

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2004 OBJECTIVES

Paul M. Anderson



2004 OBJECTIVES

Generate cash and reduce debt

\$4.6 Billion - Home Run!

Preserve the dividend of \$1.10 per share

Yes!!

Resize and realign our asset portfolio

Good start

Improve safety record

Major disappointment - unacceptable

Invest in maintenance and modest expansion

Yes

Reduce losses in merchant generation

Yes, but miles to go

Streamline systems to reduce bureaucracy and overhead

Unfinished business

Set clear accountabilities, linking rewards to results

Will done & results show it

Restore credibility with key stakeholders

Making progress

Resolve regulatory and legal issues

Mostly behind us

Shareholder return of 30% vs. 11% for S&P 500

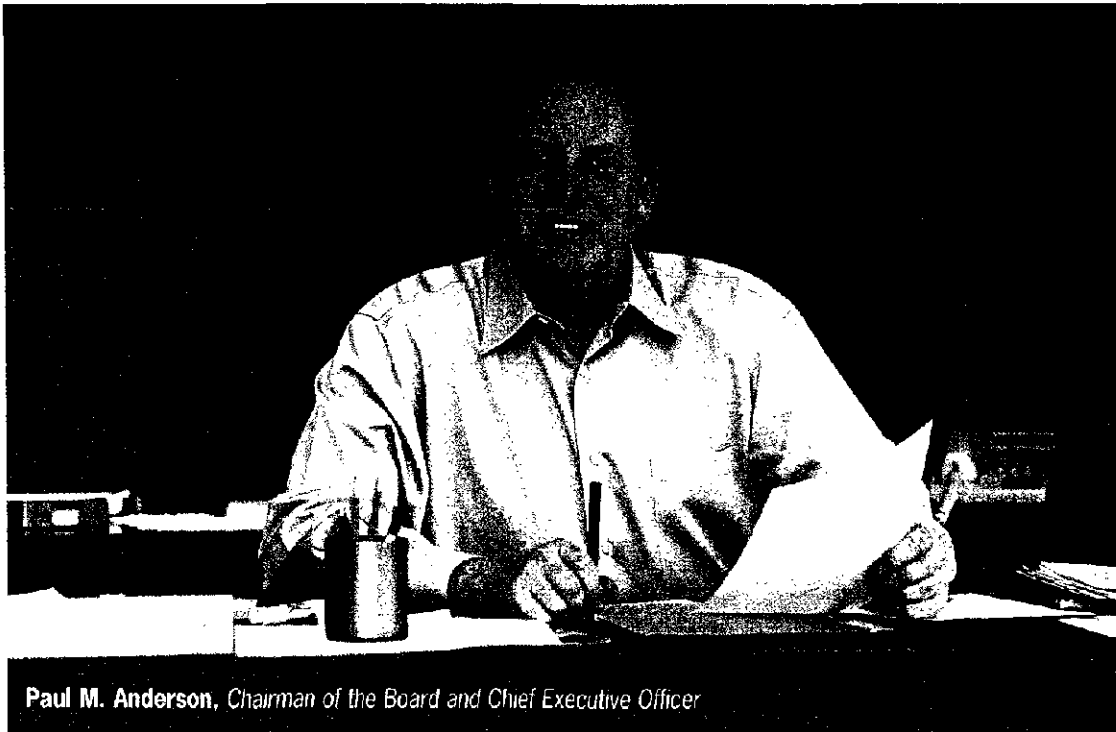
Not bad!

IN THIS REPORT

- 1 CHAIRMAN'S LETTER TO SHAREHOLDERS**
- 2 FINANCIAL HIGHLIGHTS**
- 5 OUR 2005 CHARTER**
- 6 PRESIDENT'S REPORT ON OPERATIONS**
 - 9 DUKE POWER**
 - 10 DUKE ENERGY GAS TRANSMISSION**
 - 11 DUKE ENERGY FIELD SERVICES**
 - 12 DUKE ENERGY AMERICAS**
 - 14 CRESCENT RESOURCES**
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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This document contains forward-looking information which is subject to risks and uncertainties that could cause actual results to be different than those contemplated, including, but not limited to: changes in state, federal or international regulatory environments; commercial, industrial and residential growth in the company's service territory; 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; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject, or other external factors over which Duke Energy has no control; the results of financing efforts; the effect of accounting pronouncements; growth in opportunities for Duke Energy's business units; and other risks described in the company's 2004 SEC Form 10-K and other Securities and Exchange Commission filings. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



Paul M. Anderson, *Chairman of the Board and Chief Executive Officer*

Dear Fellow Shareholder,

My letter to you last year focused on the challenges our company faced as we sought to redefine our position in an industry which was itself emerging from a painful restructuring. At that time, we were long on promises and resolve, but rather short on results. We had assessed our situation, implemented some organizational changes, articulated an investment proposition and developed a charter for the company.

The charter listed five imperatives which formed the basis for a number of specific objectives for 2004. Assessing our performance against those objectives gives me a sense of accomplishment – even cautious pride – which is tempered by deep disappointment over where we have failed. We also have some unfinished business to address.

Our Accomplishments

In January 2004, we detailed a financial plan for our investors. At that time, many in the financial community were skeptical as to our ability to achieve that plan, but we ended up significantly exceeding each of our commitments. We maintained the dividend of \$1.10 per share, beat our ongoing basic earnings-per-share goal of \$1.20 by 18 cents, reduced debt by \$4.6 billion (lowering debt as a percent of total capital to 51 percent from 58 percent), maintained liquidity well over \$1 billion and voluntarily contributed more than \$500 million to our U.S. pension plan and nuclear decommissioning funds.

We were also able to significantly reduce DENA's (Duke Energy North America's) mark-to-market exposure and close out a number of legal and regulatory uncertainties that the company was facing. As a result, our credit rating stabilized, and the market also responded positively, as our share price rose by 25 percent to close the year at \$25.33. We delivered a total return to shareholders of 30 percent for 2004 – outpacing the S&P 500's 11 percent.

Much of our financial plan was achieved by aggressively realigning our portfolio. We realized over \$3.1 billion of proceeds from the sale of assets, such as our merchant plants in the southeast United States, our asset portfolios in the Asia-Pacific region and Europe, and two of our three deferred plants. (The sale of the third plant is expected to close in March 2005.)

FINANCIAL HIGHLIGHTS

	Years Ended December 31				
(In millions, except per-share amounts)	2004	2003 ^b	2002	2001	2000
Statement of Operations					
Operating revenues	\$ 22,503	\$ 22,080	\$ 15,860	\$ 17,889	\$ 15,800
Operating expenses	19,456	22,818	13,258	14,311	12,775
Gains on sales of investments in commercial and multi-family real estate	192	84	106	106	75
(Losses) gains on sales of other assets, net	(225)	(199)	32	238	214
Operating income (loss)	3,014	(853)	2,740	3,922	3,314
Other income and expenses, net	302	584	379	311	707
Interest expense	1,349	1,380	1,097	760	887
Minority interest expense	195	61	116	326	302
Earnings (loss) from continuing operations before income taxes	1,772	(1,710)	1,906	3,147	2,832
Income tax expense (benefit) from continuing operations	540	(707)	611	1,149	1,032
Income (loss) from continuing operations	1,232	(1,003)	1,295	1,998	1,800
Income (loss) from discontinued operations, net of tax	258	(158)	(261)	(4)	(24)
Income (loss) before cumulative effect of change in accounting principle	1,490	(1,161)	1,034	1,994	1,776
Cumulative effect of change in accounting principle, net of tax and minority interest	—	(162)	—	(96)	—
Net income (loss)	1,490	(1,323)	1,034	1,898	1,776
Dividends and premiums on redemption of preferred and preference stock	9	15	13	14	19
Earnings (loss) available for common stockholders	\$ 1,481	\$ (1,338)	\$ 1,021	\$ 1,884	\$ 1,757
Ratio of Earnings to Fixed Charges	2.3	— ^c	2.2	3.9	3.7
Common Stock Data^a					
Shares of common stock outstanding					
Year-end	957	911	895	777	739
Weighted average	931	903	836	767	736
Earnings (loss) per share (from continuing operations)					
Basic	\$ 1.31	\$ (1.13)	\$ 1.53	\$ 2.59	\$ 2.42
Diluted	1.27	(1.13)	1.53	2.57	2.41
Earnings (loss) per share (from discontinued operations)					
Basic	\$ 0.28	\$ (0.17)	\$ (0.31)	\$ (0.01)	\$ (0.03)
Diluted	0.27	(0.17)	(0.31)	(0.01)	(0.03)
Earnings (loss) per share (before cumulative effect of change in accounting principle)					
Basic	\$ 1.59	\$ (1.30)	\$ 1.22	\$ 2.58	\$ 2.39
Diluted	1.54	(1.30)	1.22	2.56	2.38
Earnings (loss) per share					
Basic	\$ 1.59	\$ (1.48)	\$ 1.22	\$ 2.45	\$ 2.39
Diluted	1.54	(1.48)	1.22	2.44	2.38
Dividends per share	1.10	1.10	1.10	1.10	1.10
Balance Sheet					
Total assets	\$ 55,470	\$ 57,225	\$ 60,122	\$ 49,624	\$ 59,276
Long-term debt including capital leases, less current maturities	\$ 16,932	\$ 20,622	\$ 20,221	\$ 12,321	\$ 10,717
Capitalization					
Common equity	45%	37%	36%	41%	37%
Preferred stock	0%	0%	1%	1%	1%
Trust preferred securities	0%	0%	3%	5%	5%
Total common equity and preferred securities	45%	37%	40%	47%	43%
Minority interests	4%	5%	5%	7%	9%
Total debt	51%	58%	55%	46%	48%

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

^b As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force 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" and Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations," in accordance with the transition guidance for these standards. Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles.

^c Earnings were inadequate to cover fixed charges by \$1,707 million for the year ended December 31, 2003.

In addition to generating funds, those sales repositioned Duke Energy as a company focused on the Americas and eliminated some of our lowest-return assets. We also challenged our real estate subsidiary, Crescent Resources, to become a major contributor of cash, and it responded with a stunning contribution of more than \$440 million.

We moved into 2005 with a solid earnings base and the financial flexibility to once again control our own destiny. In February, we announced that we would buy back up to \$2.5 billion in common stock over the next three years, based on our strong cash position. This share repurchase program will create value for shareholders, without inhibiting our ability to pursue future growth opportunities. We plan to pursue new growth cautiously, remaining mindful that we spent the year 2004 recovering from the effects of what in hindsight was an overly aggressive growth strategy.

Pride in the Organization

Given the significant achievements of the last 12 months, it is noteworthy that the members of the team that accomplished them were, with few exceptions, already here when I rejoined the company in November 2003. It is a tribute to that depth of talent that I was not forced to go outside the company to renew the organization. Using existing bench strength, we have significantly refreshed the organization and taken a number of steps to further develop the talent we have.

I am quite proud of the team we have in place today. Employees at all levels recognized the challenges that the company faced and stepped up to accept responsibility for resolving them. The company has done its part by aligning rewards with results, refocusing on talent management and reinvigorating a number of employee development programs. Particular attention has been focused on diversity, training, performance management and management development. During December 2004, the senior management team underwent a 360-degree evaluation, and a number of executive rotations were set in motion to ensure that we are developing the next generation of leadership at all levels.

Another source of pride was the contribution that Duke employees made to their communities. To commemorate Duke Power's 100th anniversary in 2004, our annual month-long Global Service Event was expanded to 100 days. An estimated 9,000 employees and retirees spent approximately 27,000 hours completing more than 500 service projects in the United States, Canada, Brazil and Peru.

Also in 2004, Duke Power proactively engaged leaders in business, industry, government, education and the nonprofit sector in economic development summits in North Carolina and South Carolina. In the Carolinas and elsewhere, Duke is actively involved in the communities in which we operate.

We also made progress in increasing our focus on customers and working with regulators to achieve win-win outcomes. For example, regulators in the Carolinas embraced an innovative approach where we share profits from Duke Power's bulk power marketing sales with our customers. Those dollars are funding job retraining programs and providing energy assistance to low-income households – improving the quality of life in our region. In North Carolina, some of these funds are also being used to reduce industrial rates, allowing those customers to offer more cost-competitive products and services.

We began a process of renewal at the Board level, beginning with an in-depth assessment led by an independent third party. As a result, we established a lead director, formed a Nuclear Oversight Committee, rotated committee heads and welcomed two new Board members, Roger Agnelli and Dennis Hendrix. We thank Bob Brown, George Dean Johnson and Leo Linbeck for their many contributions over the years; they will be retiring from the Board in May 2005.

Disappointments

While we are proud of our successes, we cannot ignore our failures. The biggest disappointment of 2004 was our unacceptable safety record. A number of measures can be used to judge an organization's safety record, but none is so personal or powerful as the number of employee and contractor fatalities. In 2004, one employee and three contractors lost their lives while working for Duke Energy. This is more than unacceptable – it is a tragedy for which I feel personally responsible. I would like to rationalize

why those fatalities occurred, but I simply cannot. Safety is not something that can be prescribed or controlled through process alone. It relies on a culture that is nurtured from the top, and Duke's top management cannot allow safety to be overshadowed by other priorities.

Another disappointment was the fire last August at our Moss Bluff natural gas storage facility near Houston. Thankfully, no employee or contractor was injured, yet it is disappointing that such an incident could occur.

We have taken a number of steps to improve our safety focus. Later on in this report, Fred Fowler will address some of them. For my part, I will not feel that we have had a truly successful year unless that year is free of fatalities and major operational incidents.

Unfinished Business

We made significant progress in a number of areas, but we are left with unfinished business. Developing a sustainable business model for DENA is one such area. We made substantial progress in restructuring DENA and expect it will cut its losses by nearly half in 2005, but it may take a combination with one or more other parties, including other merchant generators, to provide the scope, scale and fuel diversity needed to realize an acceptable return on that investment.

A tremendous effort and significant funds were expended to comply with Sarbanes-Oxley Section 404, which mandates a thorough self-assessment of our internal controls over financial reporting. Despite the frustration of a rigid process and a challenging time frame, the effort proved very beneficial in helping us understand where we could improve our processes and systems. In 2005, we will build on what we have learned and re-engineer our financial systems, simplify our organization and reduce bureaucracy. Ultimately, this effort should greatly reduce our overhead costs in future years.

Looking Forward

As we enter 2005 and beyond, I am optimistic. The management objectives in our 2005 charter reflect the progress we made in 2004 to reclaim control of our future. This year, we are pursuing growth opportunities and reasserting our role as an industry leader.

The financial objective for 2005 is to **deliver on our financial plan and provide superior total shareholder return**. This reflects how far we have come – 2004's financial goal was to defend the dividend. We had an ongoing basic earnings-per-share target of \$1.20 for employee incentive payouts in 2004. For 2005, we have increased that target by 33 percent to ongoing basic earnings per share of \$1.60.

Another management objective is to **establish industry-leading positions in core businesses and identify new energy-related growth strategies**. We are in a position to grow any of our existing businesses if we find the right opportunity, and we will evaluate new but related lines of business to fuel future growth.

One 2005 objective relates to the unfinished business I discussed earlier: to **position DENA to be a successful merchant operator with a sustainable business model**.

We will also **enhance a high-performance culture by focusing on safety, inclusion and diversity, employee development, business structure and process simplification**. The highest priority here is to improve our safety culture. We have created a shared safety goal for 2005 for the top 700 leaders in the company. If any Duke employee, contractor or subcontractor loses his or her life while doing work for us, this group will have their total short-term incentive payout reduced.

Our final objective for 2005 is to **build stakeholder relationships and future shareholder value through effective leadership on key policy issues related to energy, regulation and the environment**. It is clear that the United States needs cohesive environmental and energy policies that break the continuing logjam, and we intend to take a leadership role in developing and advancing those policies. For example, we will be proactive on the issue of global climate change. By helping shape public policy, we can advance the interests of our investors and customers, while also addressing the issue itself. Ideally,

U.S. public policy should encourage a transition to a lower-carbon-intensive economy through a broad-based approach, such as a carbon tax or other mechanism which addresses all sectors of the economy.

As I close this letter, I would be remiss if I did not address the most critical concern I wrote of last year: restoring credibility with our key constituents. In 2004, I believe we made significant progress in re-earning their trust. While trust and credibility are hard to measure, we see positive indicators – in the tone and tenor of questions from our many stakeholders, in the spirit and resilience of our employees, and in the contracts and handshakes with our partners and customers. As I said last year, the task of building confidence will always be unfinished business for us, but I hope that you share my sense of real progress in this area and a positive view of our company's future.

I appreciate your many comments and suggestions over the past year and thank you for your continued investment in Duke Energy.

Sincerely,



Paul M. Anderson

Chairman of the Board and Chief Executive Officer

March 15, 2005

OUR 2005 CHARTER

We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.

Our purpose is to create superior value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.

To provide a stable platform for future growth, we must:

- Enhance a high-performance culture by focusing on safety, inclusion and diversity, employee development, business structure and process simplification.
- Position DENA to be a successful merchant operator with a sustainable business model.
- Deliver on our financial plan and provide superior total shareholder return.
- Establish industry-leading positions in core businesses and identify new energy-related growth strategies.
- Build stakeholder relationships and future shareholder value through effective leadership on key policy issues related to energy, regulation and the environment.

In conducting our business, we value:

- Stewardship – A commitment to health, safety, environmental responsibility and our communities.
- Integrity – Ethically and honestly doing what we say we will do.
- Respect for the Individual – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- High Performance – The excitement and fulfillment of achieving superior business results and stretching our capabilities.
- Win-Win Relationships – Having relationships which focus on the creation of value for all parties.
- Initiative – Having the courage, creativity and discipline to lead change and shape the future.

We will be successful when:

- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose, and ends each day with a sense of accomplishment.



Dear Shareholders,

Overall, 2004 was a year of considerable progress in Duke Energy's operations. I welcome this opportunity to report on those results, and review some of the past year's successes and disappointments.

Duke Energy's diverse portfolio allows us to balance the market risk in our nonregulated businesses with the relatively stable earnings that our regulated companies provide.

Regulated Businesses Generated Steady Earnings

Duke Power contributed \$1.47 billion in segment earnings before interest and taxes (EBIT) in 2004. The utility provides us with a solid base of earnings and cash flow. Duke Power is working hard at diversifying its customer base and attracting new business to our area. Duke Power's customers pay essentially the same average rate per kilowatt-hour today as in 1986. At about 21 percent below the national average (due to efficient operations, cost management and lower-cost nuclear generation) those competitive rates offer an important advantage to customers in our service territory, and are especially attractive to potential new industries.

In 2004, Duke Energy Gas Transmission's (DEGT's) 17,500 miles of transmission pipeline continued to move natural gas to key distribution companies along the U.S. East Coast and in Canada, contributing \$1.31 billion in segment EBIT. Expansion activity has been brisk over the past year, with infrastructure projects completed in western Canada and in the U.S. Northeast, Mid-Atlantic, Southeast and Gulf Coast regions. Transportation reliability was also strong, with DEGT operations in both the United States and Canada setting numerous all-time peak volume records. Reliability, combined with outstanding customer service, contributed to contract renewal levels of nearly 100 percent in our northeast U.S. market.

Weather – as it relates to heating and cooling needs – has a major impact on both DEGT and Duke Power, but the weather created a different challenge in 2004. For most of the southeastern United States, 2004 will be remembered as the year of the hurricanes. Several of our businesses experienced minor disruptions, but Duke Power's transmission and distribution system was

2004 operations leadership (above, left to right): Ruth Shaw, Duke Power; Bill Easter, Duke Energy Field Services; Fred Fowler, President and Chief Operating Officer, Duke Energy; Bobby Evans, Duke Energy Americas; Tom O'Connor, Duke Energy Gas Transmission; Art Fields, Crescent Resources

largely spared from effects of the hurricanes. That allowed our line crews to provide needed support to utility customers in Florida and throughout the Southeast.

Unregulated Businesses Saw Challenges and Opportunities

Paul provided an overview of our progress with Duke Energy Americas, which includes Duke Energy North America (DENA) and Duke Energy International (DEI). Those businesses ended 2004 with very different scale and scope than when they began. The sale of DEI's Asia-Pacific assets allows us to focus on our operations in Latin America. In 2004, DEI generated segment EBIT from continuing operations of \$222 million and is looking for a 2 to 3 percent compound annual growth rate over the next three years, based on its 2004 ongoing segment EBIT of \$236 million.

While unfinished business remains for DENA in 2005, we should not overlook the significant progress made in 2004. We sold our generating portfolio in the Southeast as well as two deferred plants in the West – and expect to close on the sale of a third in March 2005. We also changed the DENA business model to focus on contracting a larger share of electric generation through tolls and capacity sales. (Tolls are agreements to sell all or part of a plant's capacity or production for a fee.) We are now beginning to see the benefits of that approach. For example, in 2004 DENA sold more than 50 major tolls and future capacity contracts to investor-owned utilities, municipalities and other customers, adding significantly to DENA revenue for 2005 and beyond. Additionally, DENA reduced operating expenses by nearly \$180 million. We expect to cut DENA's \$288 million ongoing segment EBIT loss from continuing operations in 2004 roughly in half, to a projected ongoing EBIT loss of approximately \$150 million in 2005. We continue to pursue various options that will create a sustainable business model for DENA, including consideration of potential business partners.



Duke Energy North America's Moss Landing facility in California is one of the largest and most efficient generating plants in the state. (Photo: David Sievert)

While market conditions have challenged DENA, they have provided opportunities for our other businesses. Record-high crude oil prices meant a blockbuster year for Duke Energy Field Services (DEFS), generating EBIT from continuing operations of \$380 million to Duke Energy. DEFS is the largest processor of natural gas liquids (NGLs) in the United States, and NGL prices roughly track the price of crude oil. But it is not only the price of crude that is helping DEFS. Even in a record-breaking year, DEFS initiated business improvements that reduced costs for its ongoing operations by \$30 million.

In February 2005, we reached agreement with ConocoPhillips to restructure our 70 percent ownership of DEFS into an equal partnership, which will reduce our exposure to commodity price risk and provide more than \$500 million in pre-tax cash to Duke Energy. The deal will also transfer DEFS' natural gas gathering and processing facilities and ConocoPhillips' natural gas liquids system in western Canada to DEGT – adding significantly to the scope, scale and diversity of DEGT's Canadian operations.

Crescent Resources, our real estate and land management subsidiary, concentrated on the strongest segments of the U.S. real estate market in 2004, generating record results of \$240 million in segment EBIT from continuing operations. While Crescent regularly refreshes its property holdings, 2004 results reflected an opportunistic sale of property in the Washington, D.C. area. Going forward, we expect Crescent's segment EBIT contribution to return to a more historic level of approximately \$150 million in 2005.

Legal Issues Resolved

We made tremendous progress in 2004 in resolving many of the company's regulatory and legal risks. Most significantly, a comprehensive settlement with western U.S. power market participants, approved by the Federal Energy Regulatory Commission in December, provided needed closure to issues that arose in that market in 2000 and 2001. We were also gratified that the U.S. Attorney closed an investigation into Duke Power's 1998 to 2000 accounting practices, concluding that no action was warranted against the company or its employees.

Safety Performance Must Improve

Regarding safety, I can only say that our performance in 2004 was, in a word, unacceptable. Four people who came to work at Duke Energy facilities last year did not go home to their families. In response, we are building a zero-injury safety culture to prevent employee and contractor injuries.

- We have communicated a new safety vision to all employees that aims for zero injuries through continuous safety improvement, and we are setting the same expectations for our contractors.
- We are leading this culture change from the top – every member of the Expanded Executive Committee has personal safety objectives that spell out exactly how they will lead their organization to an improved safety record.
- I will discuss in person our safety expectations with more than 2,500 managers and supervisors in 2005.
- Business units are conducting employee safety perception surveys, and I will personally review the safety improvement plans developed in response to those surveys.



Hector Gutierrez and Pilar Dávila of Duke Energy Peru's Lima office brighten the educational experience for local elementary students with a fresh coat of paint for their desks.

We Gave Back to Our Communities

To customers and communities, our employees are the face of Duke Energy. Corporate giving and volunteerism remain hallmarks of Duke Energy, and in 2004 we continued to make a real difference in our communities in the following ways:

- Duke Energy marks its birthday each year with a Global Service Event. In 2004, thousands of employees and retirees participated in more than 500 volunteer projects in 170 communities where Duke Energy operates. Most of the projects helped improve the lives of children, senior citizens and disabled individuals. In Peru, for example, employees focused on children and education. They donated books and school supplies, painted classrooms, served lunch and organized activities.
- Duke Energy employees were recognized with Ethics in Action's Community Care Award for developing innovative community partnerships and programs serving the residents of British Columbia.
- In the Carolinas, we are leading economic development efforts to diversify our region's economy and provide opportunities for growth. That's good for Duke Power and good for the region. In 2004, Duke Power contracted more than \$23.3 million of new annual electric load (compared to \$6.2 million for 2003), and nearly 200 additional projects are pending.
- Crescent Resources won accolades from community leaders and state officials for committing to sell nearly 3,000 acres and to make a one-time multi-million-dollar gift to the state of North Carolina to expand Lake James State Park almost sixfold.
- The Texas Corporate Wetlands Restoration Partnership, led by DEGT employees, participated in one of only 12 projects honored nationwide by Coastal America – a partnership of federal agencies and state and local private organizations. Our work on the San Jacinto battleground project near Houston contributed to the restoration of 115 acres of historic marshland as well as adjacent prairie and bottomland forest.

These are just a few examples of the many ways the people of Duke Energy work to improve our communities, economy and environment. On the following pages, the leaders of our businesses will tell you more about their performance and future objectives.

Sincerely,

Fred J. Fowler

President and Chief Operating Officer

In 2004, Duke Power celebrated its 100th anniversary in a way that honored our heritage -- by taking a leading role in advancing economic development in the Carolinas.

In recent years, textiles and other industries that were once the bedrock of the region's economy have steadily declined. Our competitive electric rates are one way to attract new business. But energy costs are just one aspect of a region's commercial appeal. Much like our founders, who used electricity to help drive the textile boom early in the 20th century, we are working to strengthen and diversify our economy and expand our customer base by attracting new business and industry to our service territory.

Major accomplishments:

- ✓ Duke Power jump-started the economic development engine by bringing more than 500 business, industry, government, nonprofit and academic leaders together for two Carolinas Competitiveness Forums in 2004.
- ✓ We are already seeing results from our push to help recruit and retain manufacturing. Major companies like Merck and Dell, and many smaller businesses, have announced plans to locate facilities in Duke Power's service territory.
- ✓ Regulators embraced our plan to share some of the profits from our bulk power marketing sales 50-50 with shareholders and customers. Programs funded by these sharing arrangements help pay energy bills for low-income residents, fund workforce training at community colleges, help reduce industrial rates in North Carolina, and support energy-efficient industrial improvements and local economic development initiatives in South Carolina.
- ✓ Duke Power's generating fleet continues to excel in reliability and efficiency. Catawba Nuclear Station set a new company reliability record in September, operating for 531 continuous days, and Electric Light & Power magazine named Marshall Steam Station the most efficient coal-fired station in the United States.



Catawba Nuclear Station in York County, S.C., set a new Duke Power reliability record in 2004, and was recognized by the U.S. Nuclear Regulatory Commission for safe operations.

No amount of business achievement can make up for the tragic loss of three of our contractors in 2004. Ensuring the safety of employees, contractors and customers remains a core Duke Power value, and we are focused intently on both the cultural and process changes needed to reduce avoidable accidents, injury and risk.

Looking ahead, our growth forecasts indicate a need for new base-load generation within the next decade. We are evaluating options to meet that need in ways that are both economical and environmentally sound. We are upgrading a number of our existing coal-fired stations with state-of-the-art environmental equipment, and evaluating emerging clean-coal technologies. The relicensing of our hydroelectric facilities, currently underway, will ensure the continuation of hydropower as an economical and emission-free energy resource, while preserving water quality and recreational access. And to secure the option of future nuclear generation capacity, we are in the initial stages of preparing a combined construction and operating license application for a new, advanced-design nuclear plant.

As Duke Power enters its second century, we continue to build on the fundamentals of customer service, operational performance, safety, responsible citizenship and innovation.

— **Ruth Shaw**, *President and Chief Executive Officer, Duke Power*

Profile: One of the largest investor-owned electric utilities in the United States, Duke Power delivers safe, reliable and economically priced electricity to more than 2 million customers in North Carolina and South Carolina.

Operating Data	2004	2003	2002	2001	2000
Franchised Electric					
Sales, gigawatt-hours	82,708	82,828	83,783	79,685	84,766
Nuclear capacity factor ^a	90%	91%	95%	92%	92%
Average number of customers	2,197,000	2,160,000	2,117,000	2,117,000	2,072,000

^a Includes 100 percent of Catawba Nuclear Station, which is 12.5 percent owned by Duke Power.

Duke Energy Gas Transmission (DEGT) pipelines are strategically located with access to diverse supply basins and growing markets throughout North America, and our storage facilities offer customers reliability and seasonal flexibility.

We expect demand for natural gas to grow by an average 2 to 3 percent annually in our key markets over the next five years. Our challenge is to keep pace with that demand, by developing the infrastructure needed to connect new supplies to growing markets.

Major accomplishments:

- ✓ Three natural gas pipeline and two gas storage expansion projects began to serve DEGT customers in 2004, adding delivery capacity for customers in the U.S. Northeast, Southeast and Mid-Atlantic states. Storage facility expansions in Louisiana and Virginia increased available gas storage capacity by 1.8 billion cubic feet.
- ✓ The 110-mile extension of the Gulfstream pipeline from central Florida to the state's east coast was completed in February 2005, doubling the pipeline's firm contracted capacity. (Gulfstream is a joint development of Duke Energy and Williams.)
- ✓ Multiple peak-volume days on our Texas Eastern, Algonquin, East Tennessee, Gulfstream and Union Gas systems demonstrated our ability to operate reliably and provide access to growing markets.
- ✓ In August, DEGT employees mobilized quickly and effectively in response to a fire at our Moss Bluff gas storage facility near Houston. We regret that this incident occurred and the inconvenience that it caused our neighbors and customers.
- ✓ A successful "open season" in the northeast United States and eastern Canada signaled strong customer demand for new natural gas transportation and storage solutions. Many of those responses should result in new contracts and several expansion projects over the next three to five years.
- ✓ Union Gas added more than 31,000 new customers in 2004 through focused marketing efforts and reliable service.
- ✓ Rate proceedings involving our BC Pipeline and Union Gas businesses were resolved fairly for both customers and shareholders.



Plant operator Charles Barker monitors storage operations at the Kingsport liquefied natural gas storage facility, on DEGT's East Tennessee Natural Gas pipeline system.

Over the next several years, we plan to invest more than \$1 billion in DEGT facility expansions. We expect liquefied natural gas (LNG) to play a major role in North America's future natural gas supply. LNG import terminals are proposed along the Gulf Coast and the northern East Coast, including the Canadian Maritimes, and most of them would have ready access to Duke Energy's existing pipelines and storage facilities. We intend to be a major player in providing the pipeline expansion and storage needed to connect this new supply to growth markets.

Our assets are equally well-positioned in the growing Western Canadian Sedimentary Basin, and the addition of ConocoPhillips' natural gas liquids operations and DEFS' gathering and processing facilities to our system in 2005 will enhance that position. We are ready and willing to expand further, as natural gas drilling activity increases in northeastern British Columbia.

As I move on to pursue new career opportunities at Duke Energy, I am confident about the continued success of the business that Martha Wyrsh will now lead.

— **Tom O'Connor**, President and Chief Executive Officer, Duke Energy Gas Transmission

Profile: Duke Energy Gas Transmission serves its customers by transporting natural gas from North America's major supply areas to growing markets in the northeastern and southeastern United States and in Canada. DEGT also stores natural gas, distributes natural gas to retail customers in Ontario, and gathers and processes natural gas for customers in western Canada.

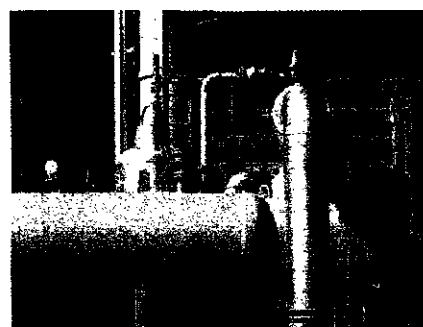
Operating Data	2004	2003	2002	2001	2000
Natural Gas Transmission					
Throughput, trillion British thermal units (Tbtu) ^a	3,332	3,362	3,160	1,781	1,771
Storage capacity, billion cubic feet	258	257	254	101	98

^a Represents share of capacity owned by DEGT.

Duke Energy Field Services (DEFS) captured enormous value from strong natural gas liquids (NGL) prices and gas processing margins in 2004. We also improved operating and commercial performance, and benefited from increased production and a strategic acquisition. *The combination of these factors resulted in record earnings for the DEFS joint venture.*

Major accomplishments:

- ✓ We were able to handle higher natural gas volumes in many areas in 2004, due to increased drilling by our customers, with little or no additional investment. For example, we successfully processed and delivered almost 10 percent more gas on our Oklahoma "supersystem" by redistributing the flow of natural gas among the system's four plants.
- ✓ We delivered strong marketing results and continued to renegotiate natural gas supply contracts in order to better align our interests with those of producers, reduce earnings volatility and improve profitability.
- ✓ DEFS acquired natural gas gathering, processing and transmission assets in southeast New Mexico from ConocoPhillips for \$74 million. The acquisition included three processing plants and more than 1,000 miles of gathering pipeline. In addition to adding new customers and volumes, these assets, in combination with our existing facilities, improve market access and reliability for our customers.
- ✓ The number and severity of employee and contractor injuries declined at DEFS in 2004, as evidenced by a 40 percent reduction in safety-related lost workdays and more than a 50 percent reduction in contractor injuries versus 2003. Tragically, an employee of our former TEPPCO affiliate lost his life in a work-related accident, underscoring the importance of maintaining safety as our top priority.
- ✓ We successfully consolidated our computer operations into Duke Energy's computing center in Charlotte, eliminating our Denver data center and generating significant efficiency and cost improvements.



The Platteville facility is one of DEFS' newest gathering and processing plants, built to process increased natural gas production in the Denver-Julesburg Basin area of Colorado.

DEFS is poised to deliver another exceptional year of earnings in 2005. We expect commodity prices to remain above traditional levels, though perhaps somewhat lower than 2004.

In this, my second year at the helm at DEFS, we are working to further improve our underlying operational and commercial performance through continued application of best practices, by capturing efficiencies inherent in our large operating scale and scope, and by continually improving our processes and information systems.

Two 2005 transactions will allow us to focus on further strengthening our competitive position in the United States. As part of the pending restructuring of DEFS into a 50/50 joint venture with ConocoPhillips, we expect to receive additional U.S. midstream assets and our Canadian operations will move to DEGT. In addition, with the February 2005 sale of TEPPCO, our affiliated master limited partnership, we exited the business of transporting refined products and crude oil, as well as selected natural gas and NGL activities. Going forward, we will invest to improve the capability of our existing assets and pursue selective growth opportunities. Given today's competitive landscape, we will also evaluate the merits of establishing another master limited partnership.

— **Bill Easter**, Chairman, President and Chief Executive Officer, Duke Energy Field Services

Profile: The largest producer of natural gas liquids in North America and one of the largest marketers, Duke Energy Field Services gathers, processes, transports, markets and stores natural gas and produces, transports and markets NGLs. DEFS is a joint venture of Duke Energy and ConocoPhillips.

Operating Data	2004	2003	2002	2001	2000
Field Services					
Natural gas gathered and processed/transported, TBtu/day	7.3	7.4	7.9	8.0	7.0
Natural gas liquids production, thousand barrels per day	363	353	379	384	343
Average natural gas price per million Btu	\$ 6.14	\$ 5.39	\$ 3.22	\$ 4.27	\$ 3.89
Average natural gas liquids price per gallon	\$ 0.68	\$ 0.53	\$ 0.38	\$ 0.45	\$ 0.53

2004 Annual Report

Duke Energy North America – Reducing Merchant Risk

Our goal for DENA in 2004 was to stabilize the business. We accomplished that through asset sales and cost efficiencies, and by moving from a commodity trading model to a stronger focus on marketing energy to customers from our own assets. An anticipated \$300 million ongoing segment EBIT loss came in at \$288 million, including unanticipated mark-to-market losses of \$25 million. A team of employees committed to controlling costs and optimizing resources made it possible to achieve our financial goal.

Major accomplishments:

- ✓ The sale of our fleet of eight merchant plants in the southeast United States came sooner than many predicted. Completed in August, the sale boosted Duke Energy's 2004 divestiture proceeds by approximately \$975 million, including about \$500 million in tax benefits and a note receivable of approximately \$50 million.
- ✓ We sold two partially completed plants in 2004 (Luna in New Mexico and Moapa in Nevada), as well as surplus turbines and related equipment. Proceeds from those transactions totaled approximately \$600 million, including about \$270 million in tax benefits. At year-end, we signed an agreement to sell a third deferred-construction plant (Grays Harbor in Washington state).
- ✓ We mitigated our earnings volatility by significantly reducing the exposure to fluctuating commodity prices associated with our mark-to-market portfolio.
- ✓ DENA strengthened its position in long-term gas storage capacity, providing flexibility to fuel our own plants as well as serve other customers.
- ✓ Duke Energy's settlement of refund proceedings and other litigation related to the 2000-2001 western U.S. energy crisis cleared the way for some of the large utilities in those markets to return as DENA customers.
- ✓ DENA's Lee facility in Illinois added "black start" capability in 2004 that will allow the unit to start without any outside electrical supply. Even during a blackout, it can be brought into service to help ensure the stability and reliability of the electric grid in the Midwest.
- ✓ We made substantial progress on winding down the Duke Energy Trading and Marketing joint venture with ExxonMobil. By the end of 2004, we had completed or signed transactions to sell about 90 percent of that business.



Production technicians Mike Armstrong, Benny King and Steve Anderson ensure that the Washington Energy Facility in southeastern Ohio operates safely and reliably. The plant has had no recordable injuries since it opened in 2001.

Success at DENA is measured in relative terms. We are determined to reduce DENA's losses and return the business to profitability. We expect to cut our ongoing EBIT loss nearly in half in 2005, to approximately \$150 million. By the end of 2006, on an ongoing basis, we anticipate breaking even, and we look forward to being profitable again in 2007.

We will continue to control costs and manage our portfolio with smart business decisions. We have strong assets in growing areas, and energy demand continues to grow. We intend to be a strong player in the merchant energy market.

As in the rest of Duke Energy, we are renewing our emphasis on safety. Many of our plants have perfect safety records. We are challenging ourselves to spread that zero-injury culture across our entire fleet.

Profile: Duke Energy North America owns and operates merchant power generation facilities, and markets electricity, natural gas, energy management and related services to wholesale customers throughout North America.

Operating Data	2004	2003	2002	2001	2000
Duke Energy North America					
Actual plant production, gigawatt-hours	21,884	24,046	24,962	20,516	18,523
Proportional capacity in operation, megawatts ^a	9,890	15,820	14,157	6,799	5,134

^a Represents share of capacity owned by DENA.

Duke Energy International – A Sharper Focus

Duke Energy International (DEI) began 2004 with a goal of exiting the European and Asia-Pacific markets – to focus on increasing the returns from our power generation business in Latin America. Energy demand in that part of the world is growing at 4 to 6 percent a year, two to three times the growth rate in North America, and DEI owns generation assets in seven Latin American countries.

DEI's continuing operations delivered solid results in 2004, contributing \$222 million in EBIT toward Duke Energy's overall goals.

Major accomplishments:

- ✓ With the US\$1.2 billion sale of our assets in Australia and New Zealand in April (including \$840 million of debt assumed by the buyer), Duke Energy reached its 2004 divestiture target just four months into the year. In May, DEI sold its 30 percent equity interest in the Cantarell nitrogen facility in Mexico, and by year-end, our exit from Europe was largely complete.
- ✓ Planta Arizona in Guatemala completed its dual-fuel conversion, making it one of the most efficient thermal plants in Central America. By using a mix of different fuels, Duke Energy has become one of the lowest-cost energy providers in that region.
- ✓ In Brazil, a successful contracting strategy significantly reduced our exposure to low-price spot markets in 2004 and eliminated that exposure for 2005. At the same time, we are preserving capacity for 2006 and beyond, in anticipation of improving market conditions and price levels.
- ✓ DEI's overall safety record improved in 2004. DEI Brazil became the first company to earn the Eloy Chaves Medal, the most prestigious safety award in the country's electric power industry, for three consecutive years.
- ✓ Our employees in Brazil have worked for more than five years without a lost-time incident, and our Peru and Argentina facilities recently surpassed two years without a lost-time incident.
- ✓ Duke Energy Peru became the first company in Peru, and the first in the Duke Energy system, to obtain simultaneous international certifications for operations management, environmental management, and occupational health and safety practices, based on International Organization for Standardization (ISO) guidelines.



The 160-megawatt Planta Arizona in Guatemala generates electricity efficiently and at low cost, using dual-fuel technology.

DEI's operations are well-positioned to achieve higher earnings and returns in the near term, and to benefit from continued growth in energy demand in Latin America.

— Bobby Evans, President and Chief Executive Officer, Duke Energy Americas

Profile: Duke Energy International owns and operates power generation facilities, and sells electric power and natural gas. Its primary focus is on power generation activities in Latin America.

Operating Data	2004	2003	2002	2001	2000
International Energy					
Sales, gigawatt-hours	17,776	16,374	18,350	15,749	14,154
Proportional capacity in operation, megawatts ^a	4,139	4,121	3,917	3,968	3,768

^a Represents share of capacity owned by DEI.

Our challenge in 2004 was to contribute \$400 million in cash and \$155 million in EBIT to Duke Energy. We hit those targets – and then some – thanks to continuing strong demand for investment-grade real estate. At the same time, we kept all of our platforms – commercial, residential and multi-family – growing and well-positioned for 2005 and beyond. We didn't hold a liquidation sale to meet 2004's financial goals. We executed our strategy, continued to invest in our base of assets and enhanced our development and land management practices, upholding our reputation as a "green" developer. Every segment of our business contributed to our success in 2004.

Major accomplishments:

- ✓ Crescent completed master planning for Potomac Yard, a 300-acre mixed-use site adjacent to Reagan National Airport, and sold most of the property to other developers in 2004. We retain ownership of two office buildings under construction, and the General Services Administration has leased 405,000 square feet of that space for the Environmental Protection Agency.
- ✓ In the residential market, Crescent reached its all-time record of more than \$413 million in individual homesite sales.
- ✓ Property sales are brisk at Palmetto Bluff, an environmental preserve and residential community in South Carolina's lowcountry. A portion of every real estate transaction funds the Palmetto Bluff Conservancy, a nonprofit organization dedicated to natural resource protection on the property.
- ✓ We sold nearly 3,000 acres of lakefront property and made a one-time multi-million-dollar gift to the state of North Carolina to expand Lake James State Park. The sale, which closed in January, is a key component in a master plan to drive economic growth in the Lake James region and preserve the lake environment for wildlife and recreation.
- ✓ We're participating in the development of a major mixed-use development in Charlotte, N.C., that will include the new corporate headquarters for Piedmont Natural Gas.



The Auberge Inn at Crescent's Palmetto Bluff community in South Carolina opened in 2004, along with the Jack Nicklaus-designed May River golf course.

Most segments of the real estate market held strong in 2004, and Crescent is well-positioned for the future regardless of market conditions. We are investing primarily in the Southeast and the Southwest – growing regions with diverse economies. Studies show that 85 percent of growth in the United States is occurring in the coastal states, plus Arizona and Nevada.

Within this geographic area, we offer a diversified mix of high-growth product types, including second homes and retirement homes for baby boomers. We're broadening our reach into that market with more diverse real estate offerings, and branching out into residential condominiums, primarily in Florida. We'll continue to adjust our portfolio to invest in both residential and commercial growth markets.

It should be noted that 2004 was a banner year, and it's unrealistic to expect the same results on an annual basis. We can promise, however, to continue to capitalize on opportunities without taking undue risks, and to fulfill our commitments to Duke Energy and its investors.

— **Art Fields**, President and Chief Executive Officer, Crescent Resources

Profile: Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects in nine states. Crescent Resources has received numerous awards for its environmentally sensitive property development strategies and partnerships with environmental and wildlife groups.

Operating Data	2004	2003	2002	2001	2000
Crescent Resources					
Residential lots sold	2,473	2,060	1,221	1,075	955
Commercial square footage sold, in millions	2.1	1.7	1.2	3.1	2.0
Multi-family units sold	273	950	—	—	—
Surplus (legacy) land sold, acres	9,087	5,088	10,982	11,402	8,562

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31		
(In millions, except per-share amounts)	2004	2003	2002
Operating Revenues			
Non-regulated electric, natural gas, natural gas liquids and other	\$ 14,275	\$14,178	\$ 8,780
Regulated electric	5,111	4,960	4,880
Regulated natural gas	3,117	2,942	2,200
Total operating revenues	22,503	22,080	15,860
Operating Expenses			
Natural gas and petroleum products purchased	11,335	11,419	5,360
Operation, maintenance and other	3,568	3,796	3,304
Fuel used in electric generation and purchased power	2,098	2,075	2,191
Depreciation and amortization	1,851	1,792	1,506
Property and other taxes	539	526	533
Impairment and other related charges	65	2,956	364
Impairments of goodwill	—	254	—
Total operating expenses	19,456	22,818	13,258
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	192	84	106
(Losses) Gains on Sales of Other Assets, net	(225)	(199)	32
Operating Income (Loss)	3,014	(853)	2,740
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	161	123	218
(Losses) Gains on sales and impairments of equity investments	(4)	279	32
Other income and expenses, net	145	182	129
Total other income and expenses	302	584	379
Interest Expense	1,349	1,380	1,097
Minority Interest Expense	195	61	116
Earnings (Loss) from Continuing Operations Before Income Taxes	1,772	(1,710)	1,906
Income Tax Expense (Benefit) from Continuing Operations	540	(707)	611
Income (Loss) from Continuing Operations	1,232	(1,003)	1,295
Discontinued Operations			
Net operating loss, net of tax	(10)	(27)	(261)
Net gain (loss) on dispositions, net of tax	268	(131)	—
Income (Loss) from Discontinued Operations	258	(158)	(261)
Income (Loss) Before Cumulative Effect of Change in Accounting Principle	1,490	(1,161)	1,034
Cumulative Effect of Change in Accounting Principle, net of tax and minority interest	—	(162)	—
Net Income (Loss)	1,490	(1,323)	1,034
Dividends and Premiums on Redemption of Preferred and Preference Stock	9	15	13
Earnings (Loss) Available for Common Stockholders	\$ 1,481	\$ (1,338)	\$ 1,021
Common Stock Data			
Weighted-average shares outstanding	931	903	836
Earnings (Loss) per share (from continuing operations)			
Basic	\$ 1.31	\$ (1.13)	\$ 1.53
Diluted	\$ 1.27	\$ (1.13)	\$ 1.53
Earnings (Loss) per share (from discontinued operations)			
Basic	\$ 0.28	\$ (0.17)	\$ (0.31)
Diluted	\$ 0.27	\$ (0.17)	\$ (0.31)
Earnings (Loss) per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.59	\$ (1.30)	\$ 1.22
Diluted	\$ 1.54	\$ (1.30)	\$ 1.22
Earnings (Loss) per share			
Basic	\$ 1.59	\$ (1.48)	\$ 1.22
Diluted	\$ 1.54	\$ (1.48)	\$ 1.22
Dividends per share	\$ 1.10	\$ 1.10	\$ 1.10

CONSOLIDATED BALANCE SHEETS

	December 31	
(in millions)	2004	2003
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 533	\$ 397
Short-term investments	1,319	763
Receivables (net of allowance for doubtful accounts of \$276 at 2004 and \$280 at 2003)	3,237	2,953
Inventory	942	941
Assets held for sale	40	361
Unrealized gains on mark-to-market and hedging transactions	962	1,566
Other	938	694
Total current assets	7,971	7,675
Investments and Other Assets		
Investments in unconsolidated affiliates	1,292	1,398
Nuclear decommissioning trust funds	1,374	925
Goodwill	4,148	3,962
Notes receivable	232	260
Unrealized gains on mark-to-market and hedging transactions	1,379	1,857
Assets held for sale	84	1,444
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$15 and \$32 at December 31, 2004 and 2003, respectively)	1,128	1,353
Other	1,896	2,137
Total investments and other assets	11,533	13,336
Property, Plant and Equipment		
Cost	46,806	45,987
Less accumulated depreciation and amortization	13,300	12,139
Net property, plant and equipment	33,506	33,848
Regulatory Assets and Deferred Debits		
Deferred debt expense	297	275
Regulatory assets related to income taxes	1,269	1,152
Other	894	939
Total regulatory assets and deferred debits	2,460	2,366
Total Assets	\$ 55,470	\$ 57,225

December 31

(In millions)

2004

2003

LIABILITIES AND COMMON STOCKHOLDERS' EQUITY**Current Liabilities**

Accounts payable	\$ 2,414	\$ 2,317
Notes payable and commercial paper	68	130
Taxes accrued	273	14
Interest accrued	287	304
Liabilities associated with assets held for sale	30	651
Current maturities of long-term debt	1,832	1,200
Unrealized losses on mark-to-market and hedging transactions	819	1,283
Other	1,815	1,849

Total current liabilities**7,538****7,748****Long-term Debt, including debt to affiliates of \$876 at 2003****16,932****20,622****Deferred Credits and Other Liabilities**

Deferred income taxes	5,228	4,120
Investment tax credit	154	165
Unrealized losses on mark-to-market and hedging transactions	971	1,754
Liabilities associated with assets held for sale	14	737
Asset retirement obligations	1,926	1,707
Other	4,646	4,789

Total deferred credits and other liabilities**12,939****13,272****Commitments and Contingencies****Minority Interests****1,486****1,701****Preferred and Preference Stock without Sinking Fund Requirements****134****134****Common Stockholders' Equity**

Common stock, no par, 2 billion shares authorized; 957 million and 911 million shares outstanding at December 31, 2004 and 2003, respectively

11,252**9,519**

Retained earnings

4,539**4,060**

Accumulated other comprehensive income

650**169****Total common stockholders' equity****16,441****13,748****Total Liabilities and Common Stockholders' Equity****\$ 55,470****\$ 57,225**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
(In millions)	2004	2003	2002
Cash Flows from Operating Activities			
Net income (loss)	\$ 1,490	\$ (1,323)	\$ 1,034
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	2,037	1,987	1,692
Cumulative effect of change in accounting principle	—	162	—
Gains on sales of investments in commercial and multi-family real estate	(201)	(103)	(106)
Gains on sales of equity investments and other assets	(193)	(86)	(81)
Impairment charges	194	3,495	545
Deferred income taxes	867	(534)	495
Purchased capacity levelization	92	194	175
Contribution to company-sponsored pension plans	(278)	(192)	(9)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	216	(15)	596
Receivables	(188)	1,126	12
Inventory	(48)	(30)	134
Other current assets	(35)	(77)	(335)
Increase (decrease) in:			
Accounts payable	(5)	(1,047)	798
Taxes accrued	188	(168)	(332)
Other current liabilities	116	79	(194)
Capital expenditures for residential real estate	(322)	(196)	(179)
Cost of residential real estate sold	268	167	117
Other, assets	(305)	(249)	205
Other, liabilities	246	206	(368)
Net cash provided by operating activities	4,139	3,396	4,199
Cash Flows from Investing Activities			
Capital expenditures, net of refund	(2,055)	(2,242)	(4,745)
Investment expenditures	(46)	(153)	(584)
Acquisition of Westcoast Energy Inc., net of cash acquired	—	—	(1,707)
Purchases of available-for-sale securities	(64,594)	(40,032)	(12,393)
Proceeds from sales and maturities of available-for-sale securities	64,092	39,641	11,859
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	1,542	1,966	516
Proceeds from the sales of commercial and multi-family real estate	606	314	169
Other	(309)	(162)	(69)
Net cash used in investing activities	(764)	(668)	(6,954)
Cash Flows from Financing Activities			
Proceeds from the:			
Issuance of long-term debt	153	3,009	5,114
Issuance of common stock and common stock related to employee benefit plans	1,704	277	1,323
Payments for the redemption of:			
Long-term debt	(3,646)	(2,849)	(1,837)
Preferred stock of a subsidiary	(176)	(38)	—
Preferred and preference stock	—	—	(88)
Guaranteed preferred beneficial interests in subordinated notes	—	(250)	—
Notes payable and commercial paper	(67)	(1,702)	(1,067)
Distributions to minority interests	(1,477)	(2,508)	(2,260)
Contributions from minority interests	1,277	2,432	2,535
Dividends paid	(1,065)	(1,051)	(938)
Other	19	23	54
Net cash (used in) provided by financing activities	(3,278)	(2,657)	2,846
Changes in cash and cash equivalents associated with assets held for sale	39	(55)	—
Net increase in cash and cash equivalents	136	16	91
Cash and cash equivalents at beginning of year	397	381	290
Cash and cash equivalents at end of year	\$ 533	\$ 397	\$ 381
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	\$ 1,323	\$ 1,324	\$ 1,011
Cash (refunded) paid for income taxes	\$ (339)	\$ (18)	\$ 344
Significant non-cash transactions:			
Debt retired in connection with disposition of businesses	\$ 840	\$ 387	\$ —
Note receivable from sale of southeast plants	\$ 48	\$ —	\$ —
Remarketing of senior notes	\$ 1,625	\$ —	\$ —
Acquisition of Westcoast Energy Inc.			
Fair value of assets acquired	\$ —	\$ —	\$ 9,254
Liabilities assumed, including debt and minority interests	—	—	8,047
Issuance of common stock	—	—	1,702
Capital lease obligations related to property, plant and equipment	\$ —	\$ —	\$ 117

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)

(In millions)	Accumulated Other Comprehensive Income (Loss)						
	Common Stock Shares	Common Stock	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	Total
Balance December 31, 2001	777	\$ 6,217	\$ 6,292	\$ (307)	\$ 487	\$ —	\$12,689
Net income			1,034				1,034
Other Comprehensive Income							
Foreign currency translation adjustments				(340)			(340)
Net unrealized gains on cash flow hedges ^b					37		37
Reclassification into earnings from cash flow hedges ^c					(102)		(102)
Minimum pension liability adjustment ^d						(484)	(484)
Total comprehensive income							145
Dividend reinvestment and employee benefits	13	342					342
Equity offering	55	975					975
Westcoast acquisition	50	1,702					1,702
Common stock dividends			(905)				(905)
Preferred and preference stock dividends			(13)				(13)
Other capital stock transactions, net			9				9
Balance December 31, 2002	895	\$ 9,236	\$ 6,417	\$ (647)	\$ 422	\$ (484)	\$14,944
Net loss			(1,323)				(1,323)
Other Comprehensive Loss							
Foreign currency translation adjustments ^a				986			986
Foreign currency translation adjustments reclassified into earnings as a result of the sale of European operations				(24)			(24)
Net unrealized gains on cash flow hedges ^b					116		116
Reclassification into earnings from cash flow hedges ^c					(240)		(240)
Minimum pension liability adjustment ^d						40	40
Total comprehensive loss							(445)
Dividend reinvestment and employee benefits	16	283	(6)				277
Common stock dividends			(993)				(993)
Preferred and preference stock dividends			(15)				(15)
Other capital stock transactions, net			(20)				(20)
Balance December 31, 2003	911	\$ 9,519	\$ 4,060	\$ 315	\$ 298	\$ (444)	\$13,748
Net income			1,490				1,490
Other Comprehensive Income							
Foreign currency translation adjustments				279			279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business				(54)			(54)
Net unrealized gains on cash flow hedges ^b					311		311
Reclassification into earnings from cash flow hedges ^c					(83)		(83)
Minimum pension liability adjustment ^d						28	28
Total comprehensive income							1,971
Dividend reinvestment and employee benefits	5	108	20				128
Equity offering	41	1,625					1,625
Common stock dividends			(1,018)				(1,018)
Preferred and preference stock dividends			(9)				(9)
Other capital stock transactions, net			(4)				(4)
Balance December 31, 2004	957	\$11,252	\$ 4,539	\$ 540	\$ 526	\$ (416)	\$16,441

^a Foreign currency translation adjustments, net of \$114 tax benefit in 2003

^b Net unrealized gains on cash flow hedges, net of \$170 tax expense in 2004, \$49 tax expense in 2003 and \$72 tax expense in 2002

^c Reclassification into earnings from cash flow hedges, net of \$45 tax benefit in 2004, \$130 tax benefit in 2003 and \$94 tax benefit in 2002

^d Minimum pension liability adjustment, net of \$18 tax expense in 2004, \$27 tax expense in 2003 and \$309 tax benefit in 2002

Pages 1 and 4 of the Chairman's letter reference a 2004 ongoing basic earnings-per-share goal of \$1.20, which we beat by 18 cents. Page 4 of the Chairman's letter also references the 2005 ongoing basic earnings-per-share target of \$1.60. Ongoing basic earnings per share is a non-GAAP (generally accepted accounting principles) financial measure because it excludes the per-share effects of any "special items," which represent certain income or charges which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure is basic earnings per share.

Information to reconcile the 2005 ongoing basic earnings-per-share target to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items for 2005. The following is a reconciliation of ongoing to reported basic earnings per share for 2004:

Ongoing Basic Earnings per Share – 2004

(In millions, except earnings per share)

	Pre-tax Amount	Tax Effect	Basic EPS Impact
Ongoing Basic Earnings per Share			\$ 1.38
Net gain on sale of discontinued operations (net of minority interest of \$7 million)	\$ 278	\$ (16)	0.28
Net loss on asset sales, primarily sale of southeast U.S. plants (including minority interest benefit of \$25 million)	(206)	72	(0.14)
Impairments and other related charges (net of minority interest of \$12 million)	(25)	9	(0.02)
Litigation reserves and settlements (net of minority interest of \$5 million) and contract termination charges	(5)	2	0.00
Tax benefit from restructuring	–	48	0.05
Adjustment to captive insurance reserve	64	(22)	0.04
Net loss on sales of equity investments (including minority interest benefit of \$7 million) and loss on asset exchanges	(8)	3	0.00
Total basic earnings-per-share impact of special items			0.21
Basic Earnings per Share, as Reported			\$ 1.59

Page 1 of the Chairman's letter references a debt reduction of \$4.6 billion. This amount represents a non-GAAP measure because it includes changes in amounts presented in the Consolidated Balance Sheets as other than "debt," including amounts classified as "liabilities associated with assets held for sale" and "minority interests." The following is a reconciliation of the \$4.6 billion to the changes in the amounts reported in the Consolidated Balance Sheets as "debt":

Reconciliation of Debt Paydown to Consolidated Balance Sheets – 2004

(In millions)

	12/31/03	12/31/04	Difference
Long-term debt	\$20,622	\$16,932	\$ (3,690)
Current maturities of long-term debt and preferred stock	1,200	1,832	632
Notes payable and commercial paper	130	68	(62)
Total Debt	21,952	18,832	(3,120)
Changes due to foreign currency			(300)
Other cash changes			(89)
Sub-total			(389)
Redeem Australia debt			(890)
Redeem Westcoast Energy, Inc. preferred securities			(176)
Total Change			\$ (4,575)
Total debt paydown disclosed			\$ (4,600)

Page 1 of the Chairman's letter references \$3.1 billion of proceeds from asset sales in 2004. This amount represents a non-GAAP measure because it includes amounts that are presented in the Consolidated Statements of Cash Flows as other than net "proceeds from sales of equity investments and other assets, and sales of and collections on notes receivable," including \$750 million of tax benefits and \$840 million of non-cash debt reductions.

The Financial Highlights on page 2 include amounts for "earnings (loss) before interest and taxes from continuing operations." This non-GAAP measure represents the combination of "operating income (loss)" and "other income and expenses" as presented in the Consolidated Statements of Operations, and it excludes results and impacts from discontinued operations.

Page 3 of the Chairman's letter mentions a 2004 contribution from Crescent Resources of more than \$440 million. This amount represents the cash that Crescent Resources generated from its operating and investing activities and contributed to Duke Energy.

In this report, for certain segments we use ongoing segment EBIT (earnings before interest and taxes) as a measure of historical and anticipated future performance. For some segments we also use a forecasted ongoing segment EBIT growth rate, which is based on historical and forecasted ongoing segment EBIT, as an indicator of anticipated future compound annual growth rates. When used for future periods, ongoing segment EBIT may also include amounts that may be reported as discontinued operations. Ongoing segment EBIT and related growth rates are non-GAAP financial measures because they represent reported segment EBIT adjusted for special items. The most directly comparable GAAP measure for ongoing segment EBIT is reported segment EBIT, which represents EBIT from continuing operations, including any special items.

For future periods, information to reconcile ongoing segment EBIT and related growth rates to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast special items or amounts that may be reported as discontinued operations. The following is a reconciliation of ongoing segment EBIT to reported segment EBIT for 2004:

Reconciliation of Ongoing to Reported Segment EBIT - 2004

(In millions)

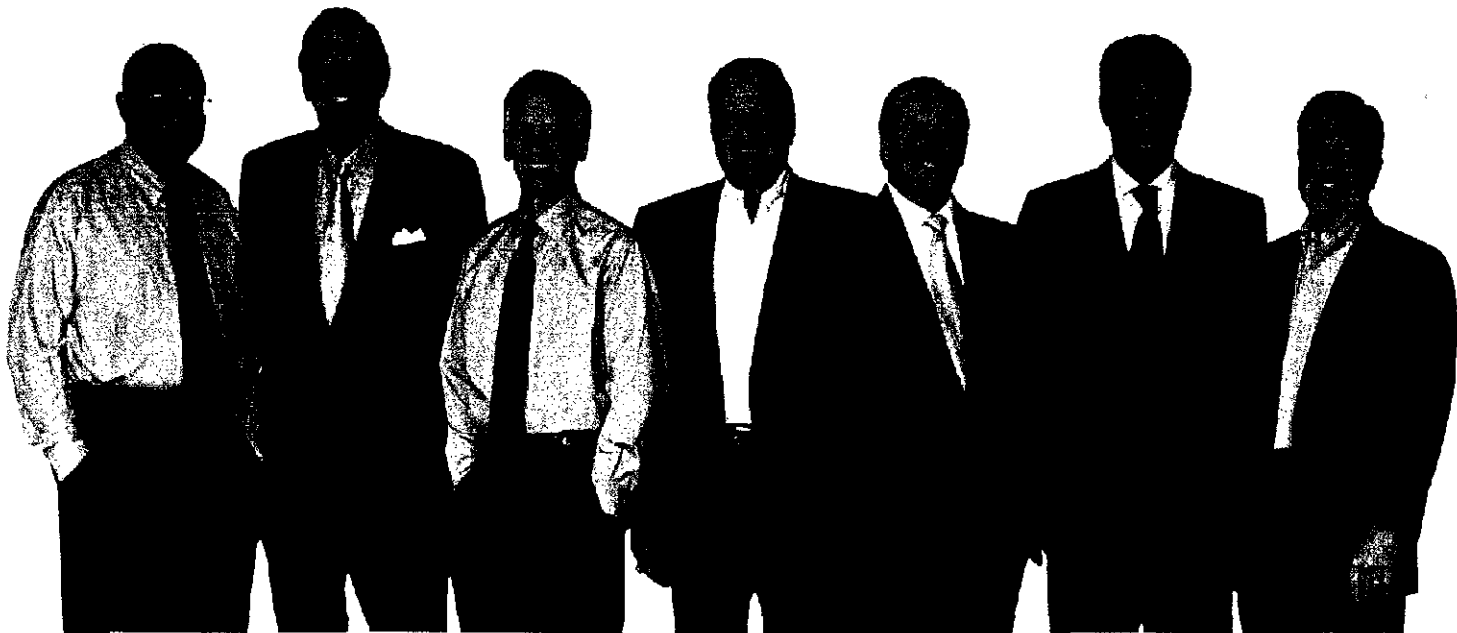
	Special Items							
	Ongoing Segment EBIT	Gains (Losses) on Sales of Assets	Gains (Losses) on Sales of Equity Investments	Impairment and Other Related Charges	Early Contract Termination Charges	Enron/California Settlements, net	Total	Reported Segment EBIT
Earnings Before Interest and Taxes from Continuing Operations								
Duke Energy North America	\$(288)	\$(228) ^a	\$—	\$ (2)	\$(20) ^b	\$3 ^{b,c}	\$(247)	\$(535)
International Energy	236	(2)	1	(13) ^b	—	—	(14)	222

^a Net of minority interest benefit of \$26 million

^b Recorded in operation and maintenance expense

^c Net of minority interest of \$5 million

BOARD OF DIRECTORS



(Left to right) Robert J. Brown, George Dean Johnson Jr., G. Alex Bernhardt Sr., A. Max Lennon, Paul M. Anderson, Roger Agnelli, James T. Rhodes

BOARD MEMBERS

Roger Agnelli, 45, *President and Chief Executive Officer, Companhia Vale do Rio Doce (CVRD), Brazil. Compensation Committee. Finance and Risk Management Committee. Director since 2004.* Agnelli leads CVRD, a global mining company and the world's largest producer of iron ore. For several years he held various positions at Bradesco, a Brazilian financial conglomerate. Agnelli joined Duke Energy's Board of Directors in November 2004.

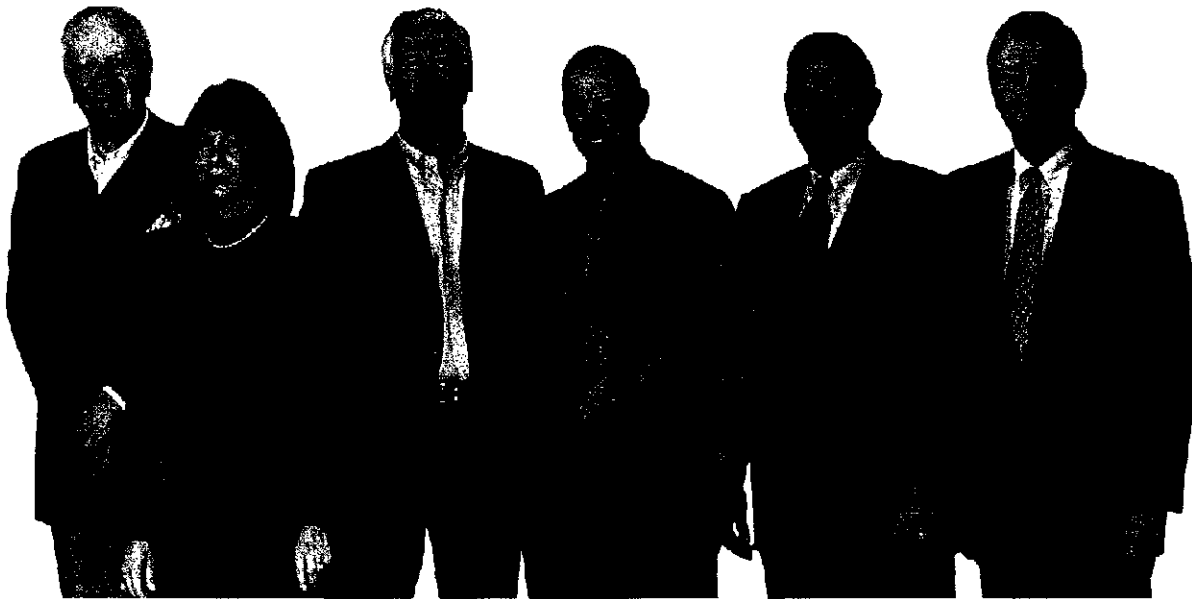
Paul M. Anderson, 59, *Chairman of the Board and Chief Executive Officer, Duke Energy. Director since 2003.* Anderson rejoined Duke Energy in 2003, having served as its first president and chief operating officer in 1997 and 1998, and with Duke Energy predecessor companies since 1977. He retired as managing director and chief executive officer of Australia-based BHP Billiton Ltd. in 2002.

G. Alex Bernhardt Sr., 62, *Chairman and Chief Executive Officer, Bernhardt Furniture Co. Audit Committee. Nuclear Oversight Committee. Director since 1991.* Besides leading the family business in Lenoir, N.C., Bernhardt serves as a director of Cities in Schools and Smart Start, and on the Davidson College Board of Trustees.

Robert J. Brown, 70, *Chairman and Chief Executive Officer, B&C Associates Inc. Audit Committee. Corporate Governance Committee. Director since 1994.* Brown founded B&C Associates Inc., a marketing research and public relations firm in High Point, N.C. He serves on the Board of Trustees of the National Urban League. Brown will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

William T. Esrey, 65, *Chairman Emeritus, Sprint Corp. Chair, Audit Committee. Director since 1985.* Esrey joined Sprint in 1980, and went on to serve as the company's chief financial officer, president, chief executive officer and chairman. He also served as chairman of Japan Telecom from 2003 to 2004.

Ann Maynard Gray, 59, *Former President, Diversified Publishing Group of ABC Inc. Lead Director. Chair, Corporate Governance Committee. Compensation Committee. Finance and Risk Management Committee. Nuclear Oversight Committee. Director since 1994.* At American Broadcasting Companies Inc., Gray also held positions as treasurer and vice president of planning. She currently serves as a trustee for J.P. Morgan Funds.



(Left to right) Leo E. Linbeck Jr., Ann Maynard Gray, Michael E.J. Phelps, William T. Esrey, James G. Martin, Dennis R. Hendrix

Dennis R. Hendrix, 65, Retired Chairman of the Board, PanEnergy Corp. *Compensation Committee. Finance and Risk Management Committee. Director since 2004.* Hendrix rejoined the Board of Directors in December 2004. He was chairman of the board of PanEnergy Corp prior to the 1997 merger of Duke Power and PanEnergy.

George Dean Johnson Jr., 62, Owner, Johnson Development Associates Inc. *Finance and Risk Management Committee. Director since 1986.* Johnson was formerly chief executive officer and director of Extended Stay America Inc. He served in the S.C. House of Representatives and as a director of the Federal Reserve Bank of Richmond. Johnson will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

A. Max Lennon, 64, President, Education and Research Services. *Audit Committee. Director since 1988.* Lennon is a former president of Clemson University and Mars Hill College. He also served as president and chief executive officer of Eastern Foods Inc.

Leo E. Linbeck Jr., 70, Senior Chairman, Linbeck Corp. *Compensation Committee. Finance and Risk Management Committee. Director since 1986.* Linbeck Corp. is a group of four construction-related firms headquartered in Houston, Texas. Linbeck is past chairman and director of the Federal Reserve Bank of Dallas. He will retire from the Duke Energy Board of Directors at the 2005 Annual Meeting.

James G. Martin, 69, Corporate Vice President, Carolinas HealthCare System. *Chair, Compensation Committee. Corporate Governance Committee. Nuclear Oversight Committee. Director since 1994.* Martin was governor of the state of North Carolina from 1985 to 1993, and previously served as a U.S. congressman. He is chairman of the Global TransPark Foundation Inc.

Michael E.J. Phelps, 57, Chairman, Dornoch Capital Inc. *Chairman, Duke Energy Canadian Advisory Council. Chair, Finance and Risk Management Committee. Corporate Governance Committee. Director since 2002.* Phelps is former chairman of the board and chief executive officer of Westcoast Energy Inc., acquired by Duke Energy in 2002.

James T. Rhodes, 63, Retired Chairman, President and Chief Executive Officer, Institute of Nuclear Power Operations. *Chair, Nuclear Oversight Committee. Audit Committee. Director since 2001.* Rhodes was formerly president and chief executive officer of Virginia Power. He is a member of the Advisory Council of the Electric Power Research Institute.



2004 Executive Committee (left to right): A.R. Mullinax, Fred Fowler, Martha Wyrsh, Jim Mogg, Paul Anderson, David Hauser, Julie Dill, Rich Osborne

EXECUTIVE COMMITTEE

Duke Energy's Executive Committee is responsible for driving a strategy that generates shareholder value by providing a stable platform for growth and continued profitability. This group develops corporate strategy, allocates capital, outlines enterprise goals, implements Board direction, and in general leads the enterprise.

Paul M. Anderson, *Chairman of the Board and Chief Executive Officer*. Anderson has lead responsibility for positioning Duke Energy as a company that achieves superior results, focusing the organization on its vision and purpose, improving execution and ensuring clear accountability. He chairs the Executive Committee and the Expanded Executive Committee.

Fred J. Fowler, *President and Chief Operating Officer*. Fowler chairs Duke Energy's Enterprise Performance Committee, with responsibility for the operational, commercial and financial results of the company's energy-related businesses.

David L. Hauser, *Group Vice President and Chief Financial Officer*. Hauser is responsible for treasury, accounting, tax and risk management. His duties include certifying financial statements and overseeing risk control policies and systems.

Jim W. Mogg, *Group Vice President and Chief Development Officer*. Mogg oversees strategy and corporate transactions, corporate and human resources development, mergers and acquisitions, diversity and the company's real estate affiliate.

A.R. Mullinax, *Group Vice President and Chief Information Officer*. Mullinax leads information technology and is responsible for global sourcing and logistics, corporate real estate services and human resources services.

Richard J. Osborne, *Group Vice President, Public and Regulatory Policy*. Osborne has responsibility for Duke Energy's public policy agenda and relationships with regulators, legislators, communities and other key stakeholders.

Martha B. Wyrsh. Wyrsh served as group vice president, general counsel and secretary until March 1, 2005, when she became president and chief executive officer of Duke Energy Gas Transmission.

Julie A. Dill, *Secretary to the Executive Committee and Vice President, Investor and Shareholder Relations*. Dill is responsible for relationships and communication with the investment community, and for monitoring changes and trends in investment markets.

EXPANDED EXECUTIVE COMMITTEE

The Expanded Executive Committee includes the Executive Committee members as well as the heads of the major business units. This group is responsible for corporate policies and programs that reach across the business units.

(Pictured on page 6)

William H. Easter III, *Chairman, President and Chief Executive Officer, Duke Energy Field Services*. Easter leads the company's natural gas gathering and processing and natural gas liquids business.

Robert B. Evans, *President and Chief Executive Officer, Duke Energy Americas*. Evans is responsible for Duke Energy's North American and Latin American wholesale energy generation business.

Thomas C. O'Connor. O'Connor served as president and chief executive officer of Duke Energy Gas Transmission until March 1, 2005. He will have responsibilities for corporate strategy upon his completion of Harvard University's Advanced Management Program, and will be joining the Executive Committee later in 2005.

Ruth G. Shaw, *President and Chief Executive Officer, Duke Power Company*. Shaw oversees the electric utility that serves more than 2 million customers in North Carolina and South Carolina.

Annual Meeting

The 2005 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 12, 2005

Time: 10 a.m.

Place: O.J. Miller Auditorium,
Energy Center
526 South Church Street
Charlotte, NC 28202

Shareholder Services

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet.

Send written requests to:

Investor Relations

Duke Energy

P.O. Box 1005

Charlotte, NC 28201-1005

For electronic correspondence, please go to "Contact Investor Relations" at: www.duke-energy.com/investors.

Stock Exchange Listing

Duke Energy's common stock and certain issues of first and refunding mortgage bonds, preferred securities and senior notes are listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

Web Site Addresses

Corporate home page:

www.duke-energy.com

Investor Relations:

www.duke-energy.com/investors

InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or cash payment of dividends. Additionally, participants may register for DUK-Online.

Financial Publications

Duke Energy will furnish to any shareholder, without charge, printed copies of the 2004 Summary Annual Report and SEC Form 10-K. Those and other financial publications can also be found on our Web site at www.duke-energy.com/investors.

Electronic Delivery

With a shareholder's consent, we can stop mailing paper copies of financial information and proxy statements. You can go to www.icsdelivery.com/duk to enroll in electronic delivery. You will need to provide your Social Security number or Tax I.D. number, your e-mail address, and a PIN number of your choice for electronic voting.

Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common and preferred stock issues.

Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 78 consecutive years. Dividends on common and preferred stock are expected to be paid, subject to declaration by the Board of Directors, on March 16, June 16, Sept. 16 and Dec. 16, 2005.

Bond Trustee

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

JPMorgan Chase Bank
Institutional Trust Services
P.O. Box 2320
Dallas, TX 75221-2320

We welcome your opinion on Duke Energy's 2004 Annual Report. Please visit www.duke-energy.com/investors, where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

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