

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.

2006 was a transformational year for Duke Energy. By taking decisive actions, we lowered our risk profile and repositioned the company. As a leading pure-play electric company with a strong balance sheet, we are in a favorable position to achieve our 2007 goals, which will drive earnings and dividend growth over the long term.

2006 Major Achievements

- ✓ 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.

Goals for 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.

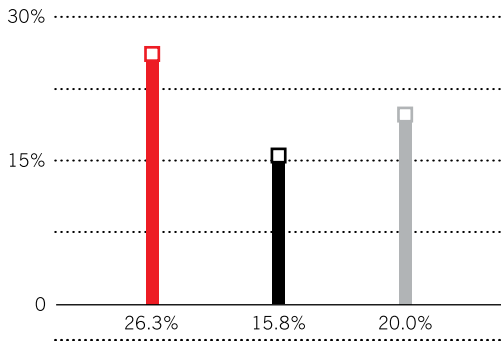
Our newest base load plants — those designed to operate around the clock — were completed in 1986 in the Carolinas and in 1991 in the Midwest. It takes six to 10 years to plan, permit and construct such plants. We are seeking permits now for plants that we’ll need in 2011, when we expect to have more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

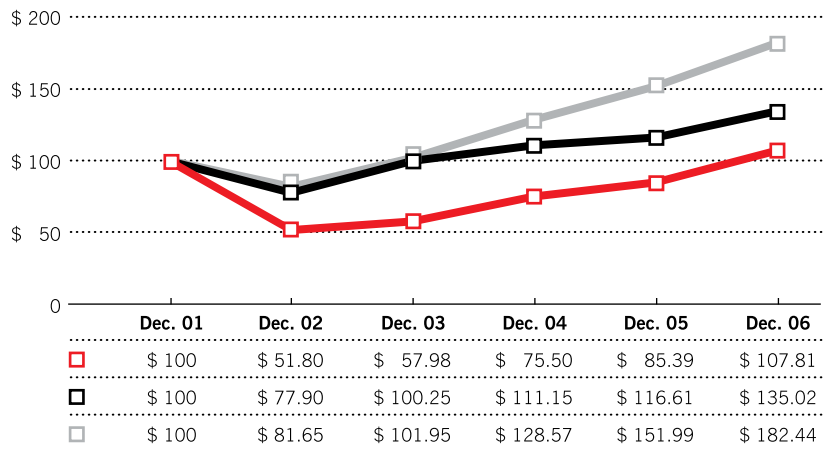
COMPARISON OF 2006 TOTAL RETURN



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

We are Duke Energy, a leading energy company focused on electric power and gas distribution operations in the Americas. We energize our communities and enhance the quality of life for the people who live there. Our purpose is to create superior and sustainable value for our customers, employees, communities and investors through the production, delivery and sale of energy and energy services.

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.

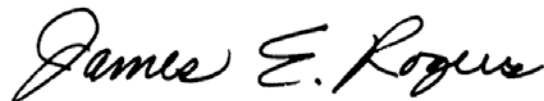
PATIENCE IS NEEDED TO CHANGE MINDS AND HABITS

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