



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

(In millions, except per-share amounts)	Years Ended December 31				
	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.