



### 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,

A handwritten signature in black ink that reads "Fred J. Fowler".

**Fred J. Fowler**

President and Chief Operating Officer

## BEGINNING A SECOND CENTURY OF SERVICE

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
<b>Franchised Electric</b>					
Sales, gigawatt-hours	<b>82,708</b>	82,828	83,783	79,685	84,766
Nuclear capacity factor <sup>a</sup>	<b>90%</b>	91%	95%	92%	92%
Average number of customers	<b>2,197,000</b>	2,160,000	2,117,000	2,117,000	2,072,000

<sup>a</sup> Includes 100 percent of Catawba Nuclear Station, which is 12.5 percent owned by Duke Power.

## REFOCUS ON GROWTH

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.

<b>Operating Data</b>	<b>2004</b>	2003	2002	2001	2000
<b>Natural Gas Transmission</b>					
Throughput, trillion British thermal units (Tbtu) <sup>a</sup>	<b>3,332</b>	3,362	3,160	1,781	1,771
Storage capacity, billion cubic feet	<b>258</b>	257	254	101	98

<sup>a</sup> Represents share of capacity owned by DEGT.

## A YEAR OF RECORD RETURNS

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
<b>Field Services</b>					
Natural gas gathered and processed/transported, TBtu/day	<b>7.3</b>	7.4	7.9	8.0	7.0
Natural gas liquids production, thousand barrels per day	<b>363</b>	353	379	384	343
Average natural gas price per million Btu	<b>\$ 6.14</b>	\$ 5.39	\$ 3.22	\$ 4.27	\$ 3.89
Average natural gas liquids price per gallon	<b>\$ 0.68</b>	\$ 0.53	\$ 0.38	\$ 0.45	\$ 0.53

## REALIGNING OUR PORTFOLIO

### 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
<b>Duke Energy North America</b>					
Actual plant production, gigawatt-hours	<b>21,884</b>	24,046	24,962	20,516	18,523
Proportional capacity in operation, megawatts <sup>a</sup>	<b>9,890</b>	15,820	14,157	6,799	5,134

<sup>a</sup> 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
<b>International Energy</b>					
Sales, gigawatt-hours	<b>17,776</b>	16,374	18,350	15,749	14,154
Proportional capacity in operation, megawatts <sup>a</sup>	<b>4,139</b>	4,121	3,917	3,968	3,768

<sup>a</sup> Represents share of capacity owned by DEI.

## MEETING THE CHALLENGE

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
<b>Crescent Resources</b>					
Residential lots sold	<b>2,473</b>	2,060	1,221	1,075	955
Commercial square footage sold, in millions	<b>2.1</b>	1.7	1.2	3.1	2.0
Multi-family units sold	<b>273</b>	950	—	—	—
Surplus (legacy) land sold, acres	<b>9,087</b>	5,088	10,982	11,402	8,562