

A MESSAGE FROM THE CHAIRMAN



Jim Rogers has had a varied career, serving as a reporter, a consumer advocate, an attorney specializing in utility issues and now as a utility executive. Throughout his career, he has been a strong voice for sustainability.

Welcome to Duke Energy's first sustainability report.

Sustainability is shorthand for our business philosophy; simply put, we believe that responsible actions lead to long-term success. Sustainability is more than good corporate citizenship. It's about pursuing our vision of tomorrow while serving our stakeholders well today. It's also about facing challenges honestly and head-on, without sacrificing profitability.

This sustainability report gives you a closer look at some of the broader issues – beyond financial performance and business strategy – that Duke Energy confronts. Here we report on our environmental performance, our safety record, the investments we make in our communities and the values that underlie all of our actions.

LIVING OUR VALUES

Our company's business values are closely linked to performance in all areas. Duke Energy's charter, which precedes this letter, describes our purpose, our objectives, our values and our measures of success. Our Code of Business Ethics, posted on our Web site, guides employees to do the right thing when they contend with tough ethical decisions.

As a company, we face challenging decisions as well:

- How do we meet our customers' growing demand for energy, while reducing our environmental footprint?
- How can we keep our employees and contractors safe?
- How can we attract and retain the right kind of new talent?
- How can we help our communities thrive in a changing economy?

- How can we provide a sustainable return on our shareholders' investments?

THE NEW ENERGY EQUATION

These questions get to the heart of what we call the "new energy equation," which can be solved in part through our focus on sustainability. Achieving the new energy equation will require us to balance the needs of all our stakeholders and challenge conventional wisdom with new thinking and innovation. With that in mind, here's how we're currently addressing each of these complex issues:

Energy and the Environment – Providing the energy we need while protecting the environment is one of the most critical issues of our time. Duke Energy is committed to developing more efficient electric generation with fewer emissions, including the greenhouse gases that contribute to global warming. We are strong advocates for energy efficiency, as shown by our participation in organizations such as the National Action Plan for Energy Efficiency and the Alliance to Save Energy. I am also a founding member of the U.S. Climate Action Partnership, a coalition of business and environmental leaders who advocate taking swift action on federal legislation that will put mandatory limits on greenhouse gas emissions in all economic sectors.

Safety – 2006 was a failure for Duke Energy in this very important area. Four people died due to accidents on the job. The only acceptable goal is zero fatalities – and we have put financial incentives in place for all employees if we reach that goal in 2007. In addition, we have set a goal based on our injury rate, with financial penalties for management if we fall short of that threshold. Employees and contractors will

be safer at work and at home only if we change our mindset and our behavior. We simply must do a better job in this important area.

A Quality Workforce – Employees are the foundation of our company, and they should share in the rewards of our success. The bright, talented people that we hope to attract to Duke Energy expect a company committed to sustainability; they're looking for companies that want to make a real difference in people's lives. Our goal is to have employees of all ages and backgrounds who want to work for an organization that values their contributions, supports their development and helps them find balance in their work and personal lives.

Strong Communities – Helping our communities thrive and grow is important to Duke Energy. We have a long tradition of community support and partnership in the Midwest and Carolinas. Our wide-ranging economic development efforts help create new jobs. Business relations managers throughout our service territory serve as two-way channels of information about community needs and the programs we have in place to meet them. We provide financial support to countless worthwhile causes, and our employees and retirees volunteer in virtually every community we serve.

A Sustainable Return – Our obligation to shareholders means investing their dollars wisely and accepting accountability for achieving our goals. We have reduced much of our company's risk by divesting some of our more volatile businesses, including our trading and marketing operations and much of our wholesale electric generation. Duke Energy's strategy today focuses on our regulated power business, which was greatly expanded in

the merger with Cinergy. We are keeping the promises of that merger by achieving economies of scale and sharing those savings with our customers and investors. The company's financial performance, detailed in our Summary Annual Report, is achieved within a broader framework of personal and corporate ethical behavior. We comply with both the letter and the spirit of the laws that govern our operations.

A TEST OF TIME

As a grandfather of seven, I believe there is one sure test of our success: How will our grandchildren view our actions in the future? Years from now, will they know we took the right steps to improve our environment, our communities and our quality of life? Will they believe we made the right ethical decisions, treated our employees fairly and gave customers their money's worth? Or will they wonder why we didn't do more? By anticipating our future generations' answers to those questions, we'll make better decisions that will stand the test of time.

You can find more information about our company's sustainable approach to doing business on our Web site, www.duke-energy.com, where you can also contact us if you have questions or concerns. Thank you for your interest in our ongoing commitment to sustainability.

Sincerely,



Jim Rogers
Chairman, President and Chief Executive Officer
March 26, 2007

OUR RESPONSIBILITY

A child's hand within an adult's symbolizes the responsibility we have to leave our world a better place. The five fingers also help reinforce the five focus areas of our sustainability plan.

