Cinergy Corporation and Subsidiary Companies 2006 Third Quarter Financial Reports

FINANCIAL INFORMATION

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Cinergy Corp. and Subsidiary Companies

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CINERGY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)
(dollars in thousands)

	Successor		Predecessor		
	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Operating Revenues					
Non-regulated electric, natural gas, natural gas liquids, and other	**$ 468,179**	**$ 932,660**	$ 551,658	$ 445,832	$ 1,193,114
Regulated electric	**805,465**	**1,555,614**	702,701	722,800	1,883,344
Regulated natural gas and natural gas liquids	**70,830**	**164,068**	321,316	81,381	474,128
Total operating revenues	**1,344,474**	**2,652,342**	1,575,675	1,250,013	3,550,586
Operating Expenses					
Natural gas and petroleum products purchased	**31,030**	**82,023**	232,006	30,446	295,135
Operation, maintenance, and other	**296,192**	**656,263**	400,358	270,211	855,993
Fuel used in electric generation and purchased power	**561,683**	**1,092,979**	416,531	447,739	1,038,303
Costs of fuel resold	**17,765**	**57,751**	146,298	118,620	297,469
Depreciation and amortization	**182,659**	**366,436**	162,039	161,758	460,559
Property and other taxes	**70,144**	**140,883**	86,083	64,539	206,436
Total operating expenses	**1,159,473**	**2,396,335**	1,443,315	1,093,313	3,153,895
(Losses) Gains on Sales of Other Assets and Other, net	**(2,848)**	**(8,075)**	26,069	33,161	103,846
Operating Income	**182,153**	**247,932**	158,429	189,861	500,537
Other Income and Expenses					
Equity in earnings of unconsolidated affiliates	**7,981**	**13,587**	4,095	6,795	25,206
Other income and expenses, net	**22,988**	**45,956**	16,667	16,305	33,874
Total other income and expenses	**30,969**	**59,543**	20,762	23,100	59,080
Interest Expense	**80,112**	**161,767**	85,939	77,569	210,792
Minority Interest Benefit	**(89)**	**(224)**	(2,006)	(1,172)	(2,735)
Preferred dividend requirement of subsidiaries	**-**	**38**	277	603	2,319
Income from Continuing Operations Before Income Taxes	**133,099**	**145,894**	94,981	135,961	349,241
Income Tax Expense from Continuing Operations	**53,442**	**59,421**	16,883	18,979	64,755
Income from Continuing Operations	**79,657**	**86,473**	78,098	116,982	284,486
Income from Discontinued Operations, net of tax	**14,965**	**8,894**	4,759	14,955	15,515
Cumulative Effect of a Change in Accounting Principle, net of tax	**-**	**-**	(3,493)	-	-
Net Income	**$ 94,622**	**$ 95,367**	$ 79,364	$ 131,937	$ 300,001

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

ASSETS	Successor September 30, 2006	Predecessor December 31, 2005
Current Assets		
Cash and cash equivalents	**$ 129,391**	$ 146,056
Receivables (net of allowance for doubtful accounts of $5,533 at September 30, 2006 and $4,767 at December 31, 2005)	**469,769**	1,659,411
Inventory	**272,965**	473,440
Assets held for sale	**1,359,183**	15,803
Unrealized gains on mark-to-market and hedging transactions	**61,018**	1,002,131
Other	**123,845**	398,096
Total current assets	**2,416,171**	3,694,937
Investments and Other Assets		
Restricted funds held in trust	**261,404**	301,800
Investments in unconsolidated affiliates	**440,683**	479,466
Goodwill	**4,311,227**	33,352
Intangible assets	**913,229**	310,294
Notes receivable	**152,549**	171,325
Unrealized gains on mark-to-market and hedging transactions	**86,852**	306,959
Assets held for sale	**496,184**	18,412
Other	**305,435**	208,214
Total investments and other assets	**6,967,563**	1,829,822
Property, Plant, and Equipment		
Cost	**16,670,898**	15,990,864
Less accumulated depreciation and amortization	**4,412,977**	5,477,782
Net property, plant, and equipment	**12,257,921**	10,513,082
Regulatory Assets and Deferred Debits		
Deferred debt expense	**75,868**	91,538
Regulatory assets related to income taxes	**102,736**	98,146
Other	**1,179,649**	926,315
Total regulatory assets and deferred debits	**1,358,253**	1,115,999
Total Assets	**$ 22,999,908**	$ 17,153,840

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands, except per share amounts)

LIABILITIES AND COMMON STOCKHOLDER'S EQUITY	Successor September 30, 2006	Predecessor December 31, 2005
Current Liabilities		
Accounts payable	$ 496,985	$ 1,647,106
Notes payable and commercial paper	931,555	923,600
Taxes accrued	157,989	219,469
Interest accrued	69,355	64,725
Liabilities associated with assets held for sale	812,809	5,721
Current maturities of long-term debt and preferred stock	369,124	360,730
Unrealized losses on mark-to-market and hedging transactions	72,072	1,010,585
Other	208,648	417,643
Total current liabilities	3,118,537	4,649,579
Long-term Debt	4,890,266	4,459,694
Deferred Credits and Other Liabilities		
Deferred income taxes	1,665,205	1,523,070
Investment tax credit	41,050	90,852
Accrued pension and other postretirement benefit costs	1,148,907	729,221
Regulatory liabilities	672,470	546,047
Unrealized losses on mark-to-market and hedging transactions	72,933	341,671
Liabilities associated with assets held for sale	299,910	23,155
Asset retirement obligations	59,494	57,425
Other	411,708	123,988
Total deferred credits and other liabilities	4,371,677	3,435,429
Commitments and Contingencies	-	-
Cumulative Preferred Stock of Subsidiaries Not Subject to Mandatory Redemption	-	31,743
Common Stockholder's Equity		
Common stock, $.01 par value; 1,000 shares authorized, 100 shares issued and outstanding at September 30, 2006; 600,000,000 shares authorized, 199,707,338 shares issued, and 199,565,684 shares outstanding at December 31, 2005	-	1,997
Paid-in capital	10,562,696	2,982,625
Retained earnings	95,367	1,721,716
Treasury shares at cost – 0 shares at September 30, 2006 and 141,654 shares at December 31, 2005	-	(4,823)
Accumulated other comprehensive loss	(38,635)	(124,120)
Total common stockholder's equity	10,619,428	4,577,395
Total Liabilities and Common Stockholder's Equity	$ 22,999,908	$ 17,153,840

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME (LOSS)
(unaudited)
(dollars in thousands, except per share amounts)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stockholder's Equity
Successor						
Six Months Ended September 30, 2006						
Balance at April 1, 2006	**$ -**	**$ 9,110,505**	**$ -**	**$ -**	**$ -**	**$ 9,110,505**
Net income			**95,367**			**95,367**
Other Comprehensive Income						**-**
Other comprehensive loss, net of tax effect of $861						**-**
Foreign currency translation adjustment					**127**	**127**
Unrealized gain on investment trusts					**231**	**231**
Cash flow hedges					**724**	**724**
Total comprehensive loss						**96,449**
Transfer of generating assets from Duke Energy[1]		**1,452,191**			**(39,656)**	**1,412,535**
Other					**(61)**	**(61)**
Balance at September 30, 2006	**$ -**	**$ 10,562,696**	**$ 95,367**	**$ -**	**$ (38,635)**	**$ 10,619,428**
Predecessor						
Three Months Ended March 31, 2006						
Balance at January 1, 2006 (199,565,684 shares)	$ 1,997	$ 2,982,625	$ 1,721,716	$ (4,823)	$ (124,120)	$ 4,577,395
Net income			79,364			79,364
Other comprehensive income, net of tax effect of $(5,413)						
Foreign currency translation adjustment					120	120
Unrealized gain on investment trusts					1,530	1,530
Minimum pension liability adjustment					916	916
Cash flow hedges					7,539	7,539
Total comprehensive income						89,469
Issuance of common stock (946,650 shares)	10	28,862				28,872
Treasury shares purchased (4,959 shares)				(224)		(224)
Dividends on common stock ($.64 per share)			(127,314)			(127,314)
Other		6,092	(27)			6,065
Balance at March 31, 2006 (200,507,375 shares)	$ 2,007	$ 3,017,579	$ 1,673,739	$ (5,047)	$ (114,015)	$ 4,574,263
Nine Months Ended September 30, 2005						
Balance at January 1, 2005 (187,524,229 shares)	$ 1,877	$ 2,559,715	$ 1,613,340	$ (4,336)	$ (54,674)	$ 4,115,922
Net income			300,001			300,001
Other comprehensive income, net of tax effect of $441						
Foreign currency translation adjustment					(13,392)	(13,392)
Unrealized gain on investment trusts					150	150
Minimum pension liability adjustment					(571)	(571)
Cash flow hedges					8,375	8,375
Total comprehensive income						294,563
Issuance of common stock (11,626,880 shares)	116	403,374				403,490
Treasury shares purchased (11,141 shares)				(440)		(440)
Dividends on common stock ($1.92 per share)			(378,196)			(378,196)
Other		6,014	(393)			5,621
Balance at September 30, 2005 (199,139,968 shares)	$ 1,993	$ 2,969,103	$ 1,534,752	$ (4,776)	$ (60,112)	$ 4,440,960

[1] Includes $39,656 (net of tax benefit of $23,793) related to deferred losses on terminated cash flow hedges included in Accumulated Other Comprehensive Income (Loss). See Note 11 to the Consolidated Financial Statements.

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(unaudited)

	Successor	Predecessor	
	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006	Nine Months Ended September 30, 2005
Cash Flows from Operating Activities			
Net income	**$ 95,367**	$ 79,364	$ 300,001
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**371,712**	162,074	460,559
Return on equity investments	**19,229**	4,857	28,931
(Gains) losses on sales of equity investments and other assets	**8,075**	(26,069)	(103,846)
Impairment charges	**-**	7,398	7,542
Deferred income taxes	**44,714**	(39,864)	(35,177)
Equity earnings of unconsolidated affiliates	**(13,587)**	(4,095)	(25,206)
Regulatory asset/liability amortization	**18,901**	13,367	19,453
Cumulative effect of change in accounting principle	**-**	3,493	-
Accrued pension and postretirement benefit costs	**64,609**	32,330	86,843
Contributions to company-sponsored pension plans	**(124,100)**	-	(102,000)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	**23,500**	(155,731)	259,793
Receivables	**315,101**	503,549	(290,571)
Inventory	**(24,061)**	102,863	(126,391)
Other current assets	**(72,442)**	22,317	(380,353)
Increase (decrease) in:			
Accounts payable	**(352,571)**	(420,806)	304,188
Taxes accrued	**20,044**	(60,576)	(28,504)
Other current liabilities	**(131,118)**	(120,416)	379,309
Regulatory asset/liability deferrals	**155,588**	(21,465)	(180,624)
Other assets	**(55,786)**	58,895	57,851
Other liabilities	**2,644**	29,309	(34,318)
Net cash provided by operating activities	**365,819**	170,794	597,480
Cash Flows from Investing Activities			
Capital expenditures	**(517,740)**	(298,117)	(777,382)
Purchase of emission allowances	**(179,494)**	(187,069)	(443,823)
Sale of emission allowances	**160,523**	100,594	339,999
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	**17,887**	6,946	45,224
Other	**1,875**	(3,061)	(2,674)
Net cash used in investing activities	**(516,949)**	(380,707)	(838,656)
Cash Flows from Financing Activities			
Issuance of long-term debt	**402,257**	174,069	54,183
Issuance of common stock	**-**	28,872	403,490
Redemption of long-term debt	**(451,598)**	(13,612)	(144,799)
Redemption of preferred stock of subsidiaries	**(11,258)**	(20,485)	(31,075)
Notes payable and commercial paper	**158,539**	166,891	239,760
Dividends paid	**-**	(127,314)	(282,541)
Other	**-**	2,993	-
Net cash provided by financing activities	**97,940**	211,414	239,018
Changes in cash and cash equivalents included in assets held for sale	**35,024**	-	1,724
Net increase (decrease) in cash and cash equivalents	**(18,166)**	1,501	(434)
Cash and cash equivalents at beginning of period	**147,557**	146,056	162,525
Cash and cash equivalents at end of period	**$ 129,391**	$ 147,557	$ 162,091
Supplemental Disclosures			
Significant non-cash transactions:			
Purchase accounting adjustments	**4,536,242**	-	-
Allowance for funds used during construction (AFUDC) – equity component	**(11,367)**	(3,065)	(4,402)
Transfer of generating assets from Duke Energy	**1,452,191**	-	-

See Notes to Unaudited Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Nature of Operations and Basis of Consolidation

Cinergy Corp. (collectively with its subsidiaries, Cinergy), is an energy company primarily located in Ohio, Indiana, Kentucky and Texas. These Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Cinergy and all majority-owned subsidiaries where Cinergy has control, and those variable interest entities where Cinergy is the primary beneficiary. Cinergy, a Delaware corporation organized in 1993, owns all outstanding common stock of its public utility companies, Duke Energy Ohio, Inc. (Duke Energy Ohio) (formerly The Cincinnati Gas & Electric Company) and Duke Energy Indiana, Inc. (Duke Energy Indiana) (formerly PSI Energy, Inc.), as well as Cinergy Investments, Inc. (Investments) and Duke Energy Shared Services (DESS). Investments, which is Cinergy's non-regulated investment holding company, is involved in (a) cogeneration and energy efficiency investments and (b) natural gas and power marketing and trading operations, conducted primarily through one of Cinergy's subsidiaries, Cinergy Marketing & Trading, LP (Marketing & Trading). DESS provides administrative, management, and support services to Cinergy's subsidiaries.

On April 3, 2006, in accordance with their previously announced merger agreement, Duke Energy Corporation (Old Duke Energy) and Cinergy merged into wholly owned subsidiaries of Duke Energy Holding Corp. (Duke Energy HC), resulting in Duke Energy HC becoming the parent entity. In connection with the closing of the merger transactions, Duke Energy HC changed its name to Duke Energy Corporation (New Duke Energy or Duke Energy) and Old Duke Energy converted into a limited liability company named Duke Power Company LLC (subsequently renamed Duke Energy Carolinas, LLC). As a result of the merger transactions, each outstanding share of Cinergy common stock was converted into 1.56 shares of Duke Energy common stock, which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. See Note 2 for additional information regarding the merger. Both Old Duke Energy and New Duke Energy are referred to as Duke Energy herein.

These Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Cinergy's financial position and results of operations. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, the timing of maintenance on electric generating units, changes in mark-to-market (MTM) valuations, changing commodity prices, and other factors. These Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes in Cinergy's Form 10-K for the year ended December 31, 2005 (2005 10-K).

Predecessor and Successor Reporting

In connection with the Duke Energy merger, Duke Energy acquired all of the outstanding common stock of Cinergy. The merger has been accounted for under the purchase method of accounting with Duke Energy treated as the acquirer for accounting purposes. As a result, purchase accounting impacts, including goodwill recognition, have been "pushed down" to Cinergy resulting in the assets and liabilities of Cinergy being recorded at their respective fair values as of April 3, 2006, the merger consummation date. For accounting purposes, the effective date of the merger was April 1, 2006. Except for an adjustment related to pension and other postretirement benefit obligations, as mandated by Statement of Financial Accounting Standards (SFAS) No. 87, "*Employers' Accounting for Pensions*" and SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*," the accompanying consolidated financial statements do not reflect any proforma adjustments related to Cinergy's regulated operations that are accounted for pursuant to SFAS No. 71, "*Accounting for the Effects of Certain Types of Regulation,"* (SFAS No. 71), which are comprised of Duke Energy Ohio's regulated transmission and distribution, Duke Energy Indiana and Duke Energy Kentucky, Inc. (Duke Energy Kentucky) (formerly Union Light, Heat and Power Company). Under the rate setting and recovery provisions currently in place for these regulated operations

which provide revenues derived from cost, the fair values of the individual tangible and intangible assets and liabilities are considered to approximate their carrying values.

Cinergy's Consolidated Statements of Operations subsequent to the merger include amortization expense relating to purchase accounting adjustments and depreciation of fixed assets based upon their fair value. Therefore, the Cinergy financial data prior to the merger will not generally be comparable to its financial data subsequent to the merger. See Note 2 for additional information.

Due to the impact of the push-down accounting, the financial statement and certain note presentations separate Cinergy's presentations into two distinct periods, the period before the consummation of the merger (labeled "Predecessor") and the period after that date (labeled "Successor"), to indicate the application of different bases of accounting between the periods presented.

The fair values of the assets acquired and liabilities assumed for Cinergy are preliminary and are subject to change as valuation analyses are finalized and remaining information on the fair values is received. The purchase price pushed down to Cinergy is based on preliminary estimates of Cinergy's fair value. Adjustments to this preliminary allocation could be material and such adjustments could directly impact the amount recorded in Cinergy's common stockholder's equity. See Note 2 for additional information.

Reclassifications and Revisions

Business Segments and Performance Measures

As a result of the merger with Duke Energy, effective in the second quarter of 2006, Cinergy adopted new business segments, and the segment performance measure has been changed to earnings before interest and taxes (EBIT) from continuing operations, after deducting minority interest expense related to those profits. As a result, certain prior period amounts have been retroactively adjusted to conform to the new segment presentation and measures. See Note 10 for further discussion of segments.

Conforming Changes in Accounting and Reporting

Emission Allowance Accounting

Effective with the merger between Duke Energy and Cinergy, Cinergy classifies emission allowances as Intangible Assets in the accompanying Consolidated Balance Sheets and includes cash flows from purchases and sales of emission allowances as investing activities. Historically, Cinergy classified emission allowances as Inventory and Other non-current assets in the Consolidated Balance Sheets, presented revenues from sales of emission allowances as operating revenues and the cost of emission allowances sold as cost of fuel resold in the Consolidated Statements of Operations and presented cash flows from purchases and sales of emission allowances as operating activities in the accompanying Consolidated Statements of Cash Flows. The classification of Inventory or Other non-current assets was determined by the emission allowances vintage year. Cinergy changed its method of accounting for emission allowances in connection with their application of push-down accounting in order to conform to the accounting policies of Duke Energy. Emission allowances, which do not have an expiration date, are recognized in earnings as they are consumed or sold. As a result of this change in classification, gains or losses on sales of emission allowances are presented on a net basis in Gain (Loss) on Sales of Other Assets and Other, net in the accompanying Consolidated Statements of Operations. For regulated businesses, that provide for direct recovery of emission allowances, any gains or losses on sales of recoverable emission allowances are included in the rate structure of the regulated entity and are deferred as a regulatory asset or liability. Future rates charged to retail customers are impacted by any gain or loss on sales of recoverable emission allowances and, therefore, as the recovery of the gain or loss is recognized in operating revenues, the regulatory asset or liability related to the emission allowance activity is recognized in Fuel Used in Electric Generation and Purchased Power in the Consolidated Statements of Operations. For regulated businesses that do not provide for direct recovery of emission allowances through a cost tracking mechanism, gains and losses on sales of emission allowances are included in (Losses) Gains on Sales of Other Assets and Other, net in the Consolidated Statements of Operations, or are deferred, depending on level of regulatory certainty. Purchases and sales of emission allowances are presented gross as investing activities on the Consolidated Statements of Cash Flows.

Cinergy recorded the change in accounting policy in accordance with SFAS No. 154, "*Accounting Changes and Error Corrections - A Replacement of Accounting Principles Board (APB) Opinion No. 20 and SFAS No. 3*". SFAS No. 154 requires that a change in accounting policy be made through retrospective application of the new policy to all prior periods presented. This change does not impact income from continuing operations, net income, total assets, or cash flows from financing activities as previously presented. A summary of the financial statement items affected by the retroactive application of this change in accounting principle is as follows:

	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Total Operating Revenues			*(in millions)*		
Before reclassification of emission allowances	**$ 1,393**	**$ 2,743**	$ 1,620	$ 1,295	$ 3,687
Effect of emission allowance reclassification	**(49)**	**(91)**	(44)	(45)	(136)
After reclassification of emission allowances	**$ 1,344**	**$ 2,652**	$ 1,576	$ 1,250	$ 3,551
Total Operating Expenses					
Before reclassification of emission allowances	**$ 1,218**	**$ 2,502**	$ 1,461	$ 1,105	$ 3,186
Effect of emission allowance reclassification	**(59)**	**(106)**	(18)	(12)	(32)
After reclassification of emission allowances	**$ 1,159**	**$ 2,396**	$ 1,443	$ 1,093	$ 3,154
(Losses) Gains on Sales of Other Assets and Other, net					
Before reclassification of emission allowances	**$ 7**	**$ 7**	$ -	$ -	$ -
Effect of emission allowance reclassification	**(10)**	**(15)**	26	33	104
After reclassification of emission allowances	**$ (3)**	**$ (8)**	$ 26	$ 33	$ 104

(1) See Note 1 for additional information on Predecessor and Successor reporting.

	Successor[1]	**Predecessor**[1]
	September 30, 2006	December 31, 2005
	(in millions)	
Inventory		
Before reclassification of emission allowances	**$ 415**	$ 589
Effect of emission allowance reclassification	**(142)**	(116)
After reclassification of emission allowances	**$ 273**	$ 473
Other Assets		
Before reclassification of emission allowances	**$ 800**	$ 267
Effect of emission allowance reclassification	**(495)**	(59)
After reclassification of emission allowances	**$ 305**	$ 208
Intangible Assets		
Before reclassification of emission allowances	**$ 276**	$ 135
Effect of emission allowance reclassification	**637**	175
After reclassification of emission allowances	**$ 913**	$ 310

(1) See Note 1 for additional information on Predecessor and Successor reporting.

	Successor[1]	Predecessor[1]	
	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006	Nine Months Ended September 30, 2005
		(in millions)	
Cash Flows from Operating Activities			
Before reclassification of emission allowances	**$ 346**	$ 89	$ 493
Effect of emission allowance reclassification	**20**	82	104
After reclassification of emission allowances	**$ 366**	$ 171	$ 597
Cash Flows from Investing Activities			
Before reclassification of emission allowances	**$ (497)**	$ (299)	$ (735)
Effect of emission allowance reclassification	**(20)**	(82)	(104)
After reclassification of emission allowances	**$ (517)**	$ (381)	$ (839)

[1] See Note 1 for additional information on Predecessor and Successor reporting.

Assets Held for Sale

When a determination was made that a long-lived asset or asset group should be classified as an asset "held for sale" pursuant to SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", the long-lived asset or asset group are presented on the Consolidated Balance Sheet with the current and noncurrent portions separately presented based upon their previous classification (prior to meeting the "held for sale" criteria). Prior period balance sheets are not retrospectively adjusted for current period discontinued operations to conform to the current year presentation. Historically, Cinergy classified all "held for sale" amounts as noncurrent and adjusted their Consolidated Balance Sheets retrospectively to conform to the current presentation. This change in presentation has been adopted in order for the Cinergy financial statements to conform to the Duke Energy presentation as a result of push-down accounting.

Reclassifications

The financial statements have been reclassified to conform with Duke Energy's format. Certain other prior period amounts have been reclassified to conform to current year presentation. Such reclassifications include the reclassification of income from continuing operations from Cinergy's commercial marketing and trading business to discontinued operations. See Note 9 for additional information.

Use of Estimates

To conform with generally accepted accounting principles (GAAP) in the United States, management makes estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and Notes to Consolidated Financial Statements. Although these estimates are based on management's best available knowledge at the time, actual results could differ from these estimates.

Accounting for Excise Taxes

Certain excise taxes levied by state or local governments are collected by Cinergy from its customers. These taxes, which are required to be paid regardless of Cinergy's ability to collect from the customer, are accounted for on a gross basis. When Cinergy acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis.

Cinergy's excise taxes accounted for on a gross basis and recorded as revenues in the accompanying Consolidated Statements of Operations for the three months ended September 30, 2006, March 31, 2006, and September 30, 2005, the six months ended September 30, 2006 and the nine months ended September 30, 2005 were as follows:

Successor[1]		**Predecessor**[1]		
Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
		(in millions)		
$ 35	**$ 69**	$ 44	$ 31	$ 105

(1) See Note 1 for additional information on Predecessor and Successor reporting.

Regulation

Cinergy's utility operating companies use the same accounting policies and practices for financial reporting purposes as non-regulated companies under GAAP. However, sometimes actions by the Federal Energy Regulatory Commission (FERC) and the state utility commissions result in accounting treatment different from that used by non-regulated companies. When this occurs, Cinergy applies the provisions of SFAS No. 71. In accordance with SFAS No. 71 Cinergy records regulatory assets and liabilities (expenses deferred for future recovery from customers or amounts provided in current rates to cover costs to be incurred in the future, respectively) on its Balance Sheets.

Pursuant to the consummation of the merger between Duke Energy and Cinergy and the application of purchase accounting, a revaluation of the defined benefit plans was completed and resulted in the recognition of a regulatory asset of approximately $403 million for Cinergy. For additional information on purchase accounting, see Notes 1 and 2.

Cinergy has a Regulatory Transition Charge (RTC) of approximately $350.6 million and $413.7 million as of September 30, 2006 and December 31, 2005, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets. The RTC resulted from comprehensive deregulation legislation passed in the state of Ohio in 1999 and has been approved by the Public Utilities Commission of Ohio (PUCO) to be recovered over a ten-year period beginning January 1, 2001.

2. Duke Energy/Cinergy Merger

On April 3, 2006, the previously announced merger between Duke Energy and Cinergy was consummated (see Note 1 for additional information on the merger, purchase accounting and Predecessor and Successor reporting). For accounting purposes, the effective date of the merger was April 1, 2006. The merger combines the Duke Energy and Cinergy regulated franchises as well as deregulated generation in the Midwestern United States (Midwest). The merger is anticipated to provide more regulatory, geographic, and weather diversity to Duke Energy's earnings. In connection with the merger, Duke Energy issued 1.56 shares of Duke Energy common stock for each outstanding share of Cinergy common stock, which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. Based on the market price of Duke Energy common stock during the period, including the two trading days before, through the two trading days after, May 9, 2005, the date Duke Energy and Cinergy announced the merger, the transaction is valued at approximately $9.1 billion and has resulted in preliminary goodwill recorded at Cinergy of approximately $4.5 billion.

The amount of goodwill results from significant strategic and financial benefits expected to be realized by Cinergy including:

- increased financial strength and flexibility;
- stronger utility business platform;
- greater scale and fuel diversity, as well as improved operational efficiencies for the merchant generation business;
- broadened electric distribution platform;
- improved reliability and customer service through the sharing of best practices;
- increased scale and scope of the electric and gas businesses with stand-alone strength;
- complementary positions in the Midwest;
- greater customer diversity;
- combined expertise; and
- significant cost savings synergies.

Purchase price allocation and goodwill

The following table summarizes the differences between the estimated fair values and the carrying values of the Cinergy assets and liabilities at the date of acquisition (certain fair values are preliminary and are subject to change including the amount of goodwill in total as valuation analyses are finalized and remaining information on the fair values is received)

	(in millions, except per share amount)	
Purchase price		
Cinergy common shares outstanding		200.51
Exchange ratio		1.56
Duke Energy HC common shares issued		312.80
Purchase price per Duke Energy HC common share[1]		$ 28.75
		$ 8,993
Fair value of vested employee stock options issued		59
Duke Energy HC direct acquisition costs		59
Total purchase price		$ 9,111
Less Cinergy net book value at acquisition		(4,574)
Excess purchase price		$ 4,537
Preliminary Fair value adjustments to assets acquired [(Increase) Decrease]		
Current assets	$ 11	
Property, plant, and equipment[2]	107	
Intangibles	(676)	
Regulatory assets and deferred debits	(392)	
Preliminary Fair value adjustments to liabilities assumed [Increase (Decrease)]		
Current liabilities	80	
Accrued pension and post-retirement benefit costs	582	
Deferred taxes	58	
Other non-current liabilities	159	
		(71)
Goodwill resulting from merger		$ 4,466
Less: Preliminary goodwill associated with Assets held for sale[3]		(155)
Goodwill at September 30, 2006		$ 4,311

(1) Price based on average price of Duke Energy stock during the period two days prior to merger announcement through two days after.

(2) Amounts recorded for regulated property, plant, and equipment by Cinergy on the acquisition date include approximately $3,995 million related to accumulated depreciation of acquired assets.

(3) In June 2006, an agreement was reached to sell Marketing & Trading. Approximately $155 million of goodwill has been preliminarily allocated to that business and was classified as held for sale at September 30, 2006. See Note 9 for additional information.

Goodwill recorded as of September 30, 2006 resulting from Duke Energy's merger with Cinergy is $4,466 million. Of this amount, approximately $155 million has been allocated to assets held for sale related to the disposition of Marketing & Trading and Cinergy Canada, Inc. See Note 9 for additional information. The approximate $177 million increase in goodwill from the merger at September 30, 2006 from the June 30, 2006 initial allocation relates primarily to decreases in property plant and equipment valuations as a result of additional information received after the June 30, 2006 preliminary valuation. The valuation and other assessment procedures required to allocate this goodwill to the appropriate reporting units and reportable segments are currently in process and are anticipated to be completed during 2006. While the allocation is not yet complete, Cinergy anticipates that the goodwill be allocated to the U.S. Franchised Electric and Gas and Commercial Power segments, as well as Other, with the majority of the goodwill being allocated to the U.S. Franchised Electric and Gas segment (see Note 8).

The following unaudited consolidated pro forma financial results are presented as if the merger with Duke Energy had occurred at the beginning of each of the periods presented:

Unaudited Consolidated Pro Forma Results (Predecessor) [1]

	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
		(in millions)	
Operating revenues	$ 1,588	$ 1,258	$ 3,568
Income from continuing operations	57	94	210
Net income	59	108	226

[1] See Note 1 for additional information on Predecessor and Successor reporting

Pro forma results for the three and six months ended September 30, 2006 are not presented since the merger occurred at the beginning of the period presented. Additionally, pro forma results do not include any significant transactions completed by Cinergy other than the merger with Duke Energy. The pre-tax impacts of purchase accounting on the results of operations of Cinergy are expected to be charges of approximately $100 million during 2006.

Prior to consummation of the merger, certain regulatory approvals were received from the state utility commissions and the FERC. See Note 12 for a discussion of the regulatory impacts of the merger.

The consummation of the merger triggered certain "change in control" provisions that provided enhanced and/or accelerated benefits to management level employees in the event of a qualifying transaction. See Note 18 for additional information on these payments.

3. Common Stock and Stock-based Compensation

Common Stock Outstanding

Prior to its merger with Duke Energy, Cinergy issued new Cinergy Corp. common stock shares to satisfy obligations under certain of its employee stock plans and the Direct Stock Purchase and Dividend Reinvestment Plan. Cinergy issued 1.7 million shares of stock under these plans in the quarter ended March 31, 2006. After the merger, obligations under these plans were satisfied through open market purchases of Duke Energy common stock.

Cash dividends declared for the quarter ended March 31, 2006 included dividends of $0.48 per share, which were declared by the Board of Directors on January 16, 2006 and partial dividends of $0.1564 per share, which were declared on March 10, 2006.

In April 2006, Duke Energy Ohio filed a petition with the FERC for a declaratory ruling that its payment of dividends out of its paid-in capital account, using the balance transferred from the retained earnings account,

resulting from purchase accounting arising from the Duke Energy/Cinergy merger, would not violate section 305(a) of the Federal Power Act, which generally precludes dividends out of paid-in capital. Such a ruling was necessary because purchase/push-down accounting reset retained earnings to zero as of April 3, 2006, thus precluding Duke Energy Ohio from using pre-merger retained earnings to pay dividends. Without this approval, Duke Energy Ohio's ability to pay dividends would have been constrained to earnings since April 3, 2006. In May 2006, the FERC issued an order approving Duke Energy Ohio's petition.

Cinergy owns all of the common stock of Duke Energy Ohio and Duke Energy Indiana. In April 2006, Duke Energy acquired 100 percent of Cinergy's outstanding stock for 1.56 shares of Duke Energy common stock per outstanding share of Cinergy common stock. This conversion resulted in the issuance of approximately 313 million shares of Duke Energy common stock. See Note 2 for additional information.

Stock-based Compensation Plans

Subsequent to the closing of the merger, Cinergy and its subsidiaries are allocated stock-based compensation expense from Duke Energy as certain of its employees participate in Duke Energy's stock-based compensation programs. In December of 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)), which replaces SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123) and supersedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*". SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. For Cinergy, timing for implementation of SFAS No. 123(R) was January 1, 2006. Cinergy is required to determine an appropriate expense for stock-based compensation and record compensation expense in the Consolidated Statements of Operations for stock options. Cinergy implemented SFAS No. 123(R) using the modified prospective transition method. In 2003, Cinergy prospectively adopted accounting for its stock-based compensation plans using the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, "*Accounting for Stock-Based Compensation – Transition and Disclosure – an Amendment of FASB Statement No. 123*;" for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of SFAS No. 123(R) on stock options and remaining awards was not material. See Note 16 for additional information regarding this new standard.

Compensation expense for awards with graded vesting provisions is recognized in accordance with FASB Interpretation No. (FIN) 28, "*Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*." Duke Energy and Cinergy elected to adopt the modified prospective application method as provided by SFAS No.123(R), and accordingly, financial statement amounts from the prior periods presented in these consolidated financial statements have not been restated. There were no modifications to outstanding stock options prior to the adoption of SFAS No. 123(R). See Note 16 for additional information regarding this new standard.

Prior to the merger with Duke Energy, Cinergy had the following stock-based compensation plans:

- Cinergy 1996 Long-term Incentive Compensation Plan (LTIP);
- Cinergy Stock Option Plan (SOP);
- Employee Stock Purchase and Savings Plan;
- Retirement Plan for Directors;
- Directors' Equity Compensation Plan;
- Directors' Deferred Compensation Plan;
- 401(k) Plans; and
- 401(k) Excess Plan.

The LTIP and SOP programs are discussed below. The activity in 2006 and 2005 for the remaining stock-based compensation plans was not significant.

Cinergy recorded stock-based compensation expense for the three months ended March 31, 2006 and September 30, 2006, and September 30, 2005, the six months ended September 30, 2006 and the nine months ended September 30, 2005 as follows, the components of which are further described below:

	Successor[1]		Predecessor[1]		
	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
			(in millions)		
Stock Options	**$ 2**	**$ 4**	$ 3	$ -	$ 6
Phantom Stock	**3**	**6**	1	1	2
Performance Awards	**1**	**2**	12	2	2
Other Stock Awards	**-**	**-**	-	-	2
Total	**$ 6**	**$ 12**	$ 16	$ 3	$ 12

[1] See Note 1 for additional information on Predecessor and Successor reporting.

The tax benefit associated with the recorded expense for the three months ended September 30, 2006, March 31, 2006, and September 30, 2005, the six months ended September 30, 2006 and the nine months ended September 30, 2005 was $2 million, $6 million, $1 million, $5 million, and $5 million, respectively. Costs associated with the immediate vesting of shares and options in conjunction with the consummation of the merger with Duke Energy, as discussed below, were accounted for as part of purchase accounting.

LTIP

Under the LTIP plan, certain key employees may be granted incentive and non-qualified stock options, stock appreciation rights, non-vested stock awards, dividend equivalents, phantom stock, the opportunity to earn performance-based shares, and certain other stock-based awards. Stock options are granted to participants with an option price equal to or greater than the fair market value on the grant date, and generally with a vesting period of three years. The vesting period begins on the grant date and all options expire within 10 years from that date. Expense for stock options granted to retirement eligible employees is recognized immediately as these employees are deemed to immediately vest in their stock options.

Most options granted prior to May 8, 2005 were immediately vested upon consummation of the merger with Duke Energy, and all such options were converted into Duke Energy options on April 3, 2006 at the 1.56 conversion rate. All options granted after May 8, 2005 will continue to be expensed over the remaining portion of the three-year vesting period unless granted to retirement eligible employees in which case they are expensed immediately. Duke Energy plans to issue new Duke Energy common shares when the above options are exercised.

Previously, performance-based share awards were paid 50 percent in common stock and 50 percent in cash. As of December 31, 2005, all performance shares were classified as liabilities as management intends to pay all outstanding awards in cash. As a result, the expected cash payout portion of the performance shares were reported in Current Liabilities - Other and Deferred Credits and Other Liabilities. All performance awards vested immediately with the consummation of the merger. Management paid all outstanding awards in cash. Total cash paid for the performance-based share liabilities for the three months ended March 31, 2006, the six months ended September 30, 2006 and the nine months ended September 30, 2005 were $5 million, $55 million, and $14 million, respectively.

Target grants of performance-based shares were made for the following Cycles:

Cycle	Grant Date	Performance Period	Target Grant of Shares
			(in thousands)
VIII	1/2004	2004-2006	366
IX	1/2005	2005-2007	340
X	1/2006	2006-2008	351

All performance shares under Cycles VIII and IX vested immediately at 200 percent of target upon consummation of the merger. Cycle X performance shares vested on a pro-rata basis also at 200 percent of target at the consummation of the merger. Executives who left Cinergy received the remaining prorated share of Cycle X shares paid out at target.

Stock-based performance awards outstanding vest over three years. Certain performance awards granted in 2006 contain market conditions based on the total shareholder return (TSR) of Duke Energy stock. These awards are valued using a path-dependent model that incorporates expected relative TSR into the fair value determination of Duke Energy's performance-based share awards with the adoption of SFAS No. 123(R). The model uses three year historical volatilities and correlations for all companies in the pre-defined peer group, including Duke Energy, to simulate Duke Energy's relative TSR as of the end of the performance period. For each simulation, Duke Energy's relative TSR associated with the simulated stock price at the end of the performance period plus expected dividends within the period results in a value per share for the award portfolio. The average of these simulations is the expected portfolio value per share. Actual life to date results of Duke Energy's relative TSR for each grant is incorporated within the model. Other awards not containing market conditions are measured at grant date price. Duke Energy awarded 540,360 shares (fair value of approximately $13 million) to **Cinergy** employees in the nine months ended September 30, 2006.

The following table summarizes information about stock-based performance awards issued to Cinergy employees and outstanding at September 30, 2006:

	Shares	Weighted Average Grant Date Fair Value
Number of Stock-based Performance Awards:		
Outstanding at April 1, 2006	-	$ -
Granted	540,360	25
Vested	-	-
Forfeited	(1,010)	18
Canceled	-	-
Outstanding at September 30, 2006	539,350	$ 25

As of September 30, 2006, Cinergy had approximately $11 million of compensation expense which is expected to be recognized over a weighted-average period of 2.3 years.

Phantom stock awards outstanding vest over periods from one to five years. Duke Energy awarded 403,040 shares to Cinergy employees (fair value of approximately $12 million based on the market price of Duke Energy's common stock at the grant dates) in the nine months ended June 30, 2006. Converted Cinergy phantom stock awards are paid in cash and are measured and recorded as liability awards. Total cash paid for phantom stock awards for the 6 months ended September 30, 2006 was $6 million. Cash paid in prior periods reported was immaterial.

The following table summarizes information about phantom stock awards issued to Cinergy employees and outstanding at September 30, 2006:

	Shares	Weighted Average Grant Date Fair Value
Number of Phantom Stock Awards:		
Outstanding at April 1, 2006[1]	32,162	$ 29
Granted	403,040	29
Vested	(44,913)	29
Forfeited	(5,229)	29
Canceled	-	-
Outstanding at September 30, 2006	385,060	$ 29

(1) Balance of converted **Cinergy** awards.

The total fair value of the shares vested during the six months ended September 30, 2006 was approximately $1 million. As of September 30, 2006, Cinergy had approximately $7 million of compensation expense which is expected to be recognized over a weighted-average period of 3.0 years.

Cinergy had other stock awards outstanding under the LTIP that vested upon the change in control due to the consummation of the merger. The fair value of the shares vested during the six months ended September 30, 2006 was approximately $1 million.

Stock Option Activity

Most options granted prior to May 8, 2005 under the LTIP and SOP plans were immediately vested upon consummation of the merger with Duke Energy, and all such options were converted into Duke Energy options at the 1.56 conversion rate. All options granted after May 8, 2005 will continue to be expensed over the remaining portion of the three-year vesting period unless granted to retirement eligible employees in which case they are expensed immediately. Duke Energy plans to issue new Duke Energy common shares when the above options are exercised.

Stock option activity for options issued to Cinergy employees for the three months ended March 31, 2006 is summarized as follows:

	LTIP and SOP - Predecessor			
	Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
				(in millions)
Balance at December 31, 2005	5,484,649	$ 34.72		
Options granted[1]	682,400	42.45		
Options exercised	(1,488,171)	33.37		$ 16
Options forfeited/expired	(6,300)	41.11		
Balance at March 31, 2006	4,672,578	$ 36.31	6.32 yrs	$ 43
Options Exercisable at March 31, 2006[2]	2,433,378	$ 32.94	4.27 yrs	$ 30

(1) Options granted to Cinergy employees upon consummation of the merger with Duke Energy.
(2) 475,867 options exercisable pertain to the SOP.

Stock option activity for options issued to Cinergy employees for the six months ended September 30, 2006 is summarized as follows:

	LTIP and SOP - Successor			
	Shares Subject to Option	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
				(in millions)
Balance at April 1, 2006	**7,289,222**	**$ 23**		
Options granted[1]	**1,877,646**	**29**		
Options exercised	**(1,284,575)**	**20**		**$ 11**
Options forfeited/expired	**(56,004)**	**27**		
Balance at September 30, 2006	**7,826,289**	**$ 25**	**6.8 yrs**	**$ 40**
Options Exercisable at September 30, 2006	**5,244,303**	**$ 23**	**5.5 yrs**	**$ 36**

[1] Options granted to Cinergy employees upon consummation of the merger with Duke Energy.

For the six months ended September 30, 2006 and the three months ended March 31, 2006, Cinergy received $26 million and $29 million, respectively, in cash from the exercise of outstanding stock options. The tax benefit realized from these exercised options for the three months ended March 31, 2006 was $14 million. The total compensation expense related to unvested options at September 30, 2006 was $9 million which will be recognized over a weighted average period of 2.4 years. The total fair-value of options granted during the three months ended March 31, 2006, the six months ended September 30, 2006 and the nine months ended September 30, 2005, was $6.07 per share, $5.45 per share, and $5.65 per share, respectively. The total intrinsic value of options exercised was $16 million, $11 million, and $6 million for the three months ended March 31, 2006, the six months ended September 30, 2006 and the nine months ended September 30, 2005, respectively.

There were no options granted in the three months ended September 30, 2006. The fair value of options granted was determined using a Black-Scholes model using the assumptions listed in the following table for the periods presented:

	LTIP		
	Successor[1]	Predecessor[1][2]	
	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006	Nine Months Ended September 30, 2005
Risk-free interest rate	**4.78 %**[7]	4.33 %[3]	3.62 %[3]
Expected dividend yield	**4.40 %**[8]	4.41 %[4]	4.52 %[4]
Expected life[5]	**6.29 yrs**	5.01 yrs	4.99 yrs
Expected volatility	**24.00 %**[9]	22.43 %[6]	21.25 %

[1] See Note 1 for additional information on Predecessor and Successor reporting.
[2] There were no stock options granted during the three months ended Septmber 30, 2005.
[3] The risk-free rate is based upon the U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options.
[4] The expected dividend yield is based upon annualized dividends and the closing stock price on the grant date.
[5] The expected term of options is derived from historical data.
[6] Volatility is based upon the historical volatility with a look back period equal to the expected term of the options.
[7] The risk-free rate is based upon the U.S. Treasury Constant Maturity rates as of the grant date.
[8] The expected dividend yield is based upon annualized dividends and the 1-year average closing stock price.
[9] Volatility is based upon 50 percent historical and 50 percent implied volatility. Historic volatility is based on the weighted average between Duke Energy and **Cinergy** historical volatility over six years using daily stock prices. Implied volatility is the average for all option contracts with a term greater than six months using the strike price closest to the stock price on the valuation date.

4. Inventory

Inventory is recorded at the lower of cost or market value, primarily using the average cost method.

	Successor[1]	Predecessor[1]
	September 30, 2006	December 31, 2005
	(in millions)	
Inventory		
Fuel for use in electric production	**$ 149**	$ 121
Other materials and supplies	**119**	109
Gas stored for current use	**5**	243
Total Inventory	**$ 273**	$ 473

[1] See Note 1 for additional information on Predecessor and Successor reporting.

5. Debt, Credit Facilities and Preferred Stock

During June 2006, Cinergy and its subsidiaries amended their multi-year syndicated $2 billion revolving credit facility to extend the expiration date, to reduce costs, and to conform the terms to those found in the legacy Duke Energy facilities.

Cinergy's credit agreement contains various financial and other covenants; however, Cinergy's credit agreement does not include a material adverse change clause or any covenants based on credit ratings. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the

agreement. As of September 30, 2006, Cinergy was in compliance with those covenants. In addition, the credit agreement allows for acceleration of payments or termination of the agreement due to nonpayment or to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries.

Cinergy's short-term borrowings consist primarily of unsecured revolving lines of credit and sale of commercial paper. Cinergy's revolving credit facility and commercial paper program also support the short-term borrowing needs of its subsidiaries. In addition, Cinergy, and its subsidiaries maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance.

As of September 30, 2006, approximately $307 million of pollution control bonds which are short-term obligations by nature were classified as long-term debt on the Consolidated Balance Sheets due to Cinergy's intent and ability to utilize such borrowings as long-term financing. Cinergy's credit facility with non-cancelable terms in excess of one year as of the balance sheet date gives Cinergy the ability to refinance these short-term obligations on a long-term basis. As of December 31, 2005, approximately $323 million of pollution control bonds were classified as a component of Notes Payable and Commercial Paper on the Consolidated Balance Sheets.

Credit Facilities Summary as of September 30, 2006 (in millions)

	Expiration Date	Credit Facilities Capacity	Amounts Outstanding: Commercial Paper	Amounts Outstanding: Letters of Credit		Amounts Outstanding: Total
				(in millions)		
Cinergy [1][2][3]						
$2,000 multi-year syndicated	June 2011	$ 2,000	$ 932	$ 16		$ 948

(1) Credit facility contains an option allowing borrowing up to the full amount of the facility on the day of initial expiration for up to one year.
(2) Credit facility contains a covenant requiring the debt-to-total capitalization ratio to not exceed 65 percent.
(3) Contains $500 million borrowing sub limits each for Duke Energy Ohio and Duke Energy Indiana, and $100 million borrowing sub limit for Duke Energy Kentucky. In June 2006, credit facility expiration date was extended from September 2010 to June 2011.

Long-term Debt

In June 2006, Duke Energy Indiana issued $325 million principal amount of 6.05% senior unsecured notes due June 15, 2016. Proceeds from the issuance were used to repay $325 million of 6.65% First Mortgage Bonds that matured on June 15, 2006.

In August 2006, Duke Energy Kentucky issued approximately $77 million principal amount of floating rate tax-exempt notes due August 1, 2027. Proceeds from the issuance were used to refund a like amount of debt on September 1, 2006 outstanding at Duke Energy Ohio. The Duke Energy Ohio debt was assumed by Duke Energy Kentucky as part of the transfer of generating assets from Duke Energy Ohio to Duke Energy Kentucky. Approximately $27 million of the floating rate debt was swapped to a fixed rate concurrent with closing.

Preferred Stock

In March 2006, Duke Energy Ohio redeemed all outstanding shares of its $16.98 million notional amount 4% Cumulative Preferred Stock and its $3.5 million notional amount 4.75% Cumulative Preferred Stock at a price of $108 per share and $101 per share, respectively, plus accrued and unpaid dividends.

In May 2006, Duke Energy Indiana redeemed all outstanding shares of its $3.7 million notional amount 3.5% Cumulative Preferred Stock, its $3.9 million notional amount 4.32% Cumulative Preferred Stock, and its $3.7 million notional amount 4.16% Cumulative Preferred Stock at par, plus accrued and unpaid dividends.

6. Employee Benefit Obligations

As discussed in the 2005 10-K, Cinergy sponsors both pension and other postretirement benefits plans. Cinergy's qualified defined benefit pension plans cover substantially all United States employees meeting certain minimum age and service requirements. Funding for the qualified defined benefit pension plans is based on actuarially determined contributions, the maximum of which is generally the amount deductible for tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended. The pension plans' assets consist of investments in equity and debt securities. In addition, Cinergy sponsors non-qualified pension plans (plans that do not meet the criteria for certain tax benefits) that cover officers, certain other key employees, and non-employee directors. Cinergy also provides certain health care and life insurance benefits to retired United States employees and their eligible dependents. These benefits are subject to minimum age and service requirements. The health care benefits include medical coverage, dental coverage, and prescription drug coverage and are subject to certain limitations, such as deductibles and co-payments.

There were no qualified pension benefit contributions for the three months ended March 31, 2006. Cinergy contributed approximately $124 million to the legacy Cinergy qualified pension plans in the third quarter 2006. No additional contributions are planned for 2006.

Cinergy's benefit plans' costs for the periods presented include the following components:

	Successor[1]		Predecessor[1]		
	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Qualified Pension Benefits					
Service cost	**$ 12.6**	**$ 25.2**	$ 10.9	$ 9.6	$ 28.8
Interest cost	**27.5**	**55.0**	24.7	24.1	72.2
Expected return on plans' assets	**(24.7)**	**(49.4)**	(23.4)	(22.0)	(66.1)
Amortization of transition (asset) obligation	**-[2]**	**-[2]**	-	(0.1)	(0.2)
Amortization of prior service cost	**-[2]**	**-[2]**	0.9	1.1	3.4
Amortization of actuarial loss	**-[2]**	**-[2]**	4.6	2.0	5.9
Net periodic benefit cost	**$ 15.4**	**$ 30.8**	$ 17.7	$ 14.7	$ 44.0
Non-Qualified Pension Benefits					
Service cost	**$ 0.5**	**$ 1.0**	$ 1.4	$ 1.4	$ 4.2
Interest cost	**1.5**	**3.0**	2.1	1.8	5.4
Amortization of prior service cost	**-[2]**	**-[2]**	0.6	0.5	1.5
Amortization of actuarial loss	**-[2]**	**-[2]**	1.0	0.6	1.8
Net periodic benefit cost	**$ 2.0**	**$ 4.0**	$ 5.1	$ 4.3	$ 12.9
Other Postretirement Benefits					
Service cost	**$ 1.8**	**$ 3.6**	$ 1.6	$ 1.6	$ 4.8
Interest cost	**6.8**	**13.6**	5.6	5.7	17.1
Amortization of transition (asset) obligation	**-[2]**	**-[2]**	-	0.1	0.3
Amortization of prior service cost	**-[2]**	**-[2]**	(0.2)	(0.1)	(0.5)
Amortization of actuarial loss	**-[2]**	**-[2]**	2.5	2.7	8.2
Net periodic benefit cost	**$ 8.6**	**$ 17.2**	$ 9.5	$ 10.0	$ 29.9

(1) See Note 1 for additional information on Predecessor and Successor reporting.
(2) All of these previously unrecognized amounts were eliminated with the application of purchase accounting.

Upon consummation of the merger with Duke Energy, all defined benefit plan obligations were remeasured. Cinergy updated the assumptions used to determine its accrued benefit obligations and prospective net periodic benefit cost. The weighted-average assumptions used to determine benefit obligations are as follows:

	Qualified Pension Benefits	**Non-Qualified Pension Benefits**	**Other Postretirement Benefits**
Discount rate	6.00%	6.00%	6.00%
Salary increase	5.00%	5.00%	5.00%
Expected long-term rate of return on plan assets	8.50%	N/A	N/A

The assumed health care cost trend rates are as follows:

	Not Medicare Eligible	Medicare Eligible
Health care cost trend rate assumed for 2006	8.50 %	11.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.50 %	5.50 %
Year that the rate reaches the ultimate trend rate	2009	2012

7. Acquisitions and Dispositions

Transfer of Duke Energy Generating Assets to Duke Energy Ohio

In April 2006, Duke Energy contributed to Duke Energy Ohio its ownership interest in five plants, representing a mix of combined cycle and peaking plants, with a combined capacity of 3,600 megawatts (MWs), as follows:

Generating Plant	Location	Ownership Interest	Fuel Type	Owned MW Capacity
Fayette	Fayette County, Pennsylvania	100 %	Gas	620
Hanging Rock	Lawrence County, Ohio	100	Gas	1,240
Lee	Lee County, Illinois	100	Gas	640
Vermillion	Vermillion County, Indiana	75	Gas	480
Washington	Washington County, Ohio	100	Gas	620
				3,600

The transaction was effective in April 2006 and was accounted for at Duke Energy's net book value for these assets. The entities holding these generating plants, which were indirect subsidiaries of Duke Energy, were first distributed to Duke Energy, which then contributed them to Cinergy which, in turn, contributed them to Duke Energy Ohio. In the final step, the entities were then merged into Duke Energy Ohio.

In connection with the contribution of these assets, Duke Energy Ohio assumed certain related liabilities. In particular, Duke Energy Ohio assumed from Duke Energy all payment, performance, and other obligations of Duke Energy, with respect to certain deferred tax liabilities related to the assets. The following table summarizes this transaction for Duke Energy Ohio:

	(in millions)
Assets Received	
Generating Assets	$ 1,563
Other Assets	74
Total Assets Received	$ 1,637
Liabilities Assumed	
Deferred Tax Liabilities	$ 181
Other	4
Total Liabilities Assumed	$ 185
Contributed Capital from Duke Energy	$ 1,452

The following unaudited consolidated pro forma financial results for Cinergy are presented as if the transaction had occurred at the beginning of each of the periods presented:

Unaudited Consolidated Pro Forma Results (Predecessor) [1]

	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
		(in millions)	
Operating revenues	$ 1,584	$ 1,293	$ 3,678
Income from continuing operations	67	109	261
Net income	68	124	277

(1) See Note 1 for additional information on Predecessor and Successor reporting.

These pro forma results do not include any significant transactions completed by Cinergy other than the impact of the transfer of the ownership interest in the five plants. As part of this transaction, Duke Capital LLC (Duke Capital), a subsidiary of Duke Energy, agreed to reimburse Duke Energy Ohio through April 2016 in the event of certain cash shortfalls that may result from Duke Energy Ohio's ownership of the five stations. During the third quarter of 2006, Duke Capital reimbursed Duke Energy Ohio $1.9 million for cash shortfalls that occurred during the second quarter. However, as a result of the calculation pertaining to the 3rd quarter 2006 performance of the five stations, the $1.9 million received by Duke Energy Ohio from Duke Capital will be returned to Duke Capital during the fourth quarter of 2006. Cinergy reflects any payments received or the return of amounts previously received in Common Stockholder's Equity.

8. Goodwill and Intangibles

Goodwill

Cinergy evaluates the impairment of goodwill under the guidance of SFAS No. 142, "*Goodwill and Other Intangible Assets"* (SFAS No. 142). As discussed further in Note 2, in April 2006, Duke Energy and Cinergy consummated the merger, which resulted in Cinergy recording preliminary goodwill of approximately $4.3 billion. The following table shows the components of goodwill for Cinergy at September 30, 2006:

Carrying Amount of Goodwill

Successor [1]			**Predecessor** [1]		
Balance at April 1, 2006	**Changes**	**Balance at September 30, 2006**	**Balance at December 31, 2005**	**Changes**	**Balance at March 31, 2006** [2]
		(in millions)			
$ 4,289	$ 22[3]	**$ 4,311**	$ 33	$ 4	$ 37

(1) See Note 1 for additional information on Predecessor and Successor reporting.
(2) All existing goodwill at March 31, 2006 was eliminated in purchase accounting.
(3) Includes an approximate $177 million increase in goodwill from the merger related primarily to decreases in property, plant and equipment valuations as a result of additional information received after the June 30, 2006 preliminary valuation. Also includes a $155 decrease related to goodwill allocated assets held for sale related to the disposition of Marketing & Trading and Cinergy Canada, Inc. See Note 2 and Note 9 for additional information.

Intangible Assets

Effective with the merger between Duke Energy and Cinergy, Cinergy's emission allowances are classified as and accounted for as Intangible assets under SFAS No. 142. The predecessor amounts also have been reclassified to show this presentation. Emission allowances were previously included in Inventory and Other non-current assets. See Note 1 for more information on this change in accounting principle.

The carrying amount and accumulated amortization of intangible assets are as follows:

	Successor[1]	Predecessor[1]	Weighted Average Life
	September 30, 2006	December 31, 2005	June 30, 2006[2]
	(in millions)		
Emission allowances	**$ 637**	$ 175	
Gas, coal, and power contracts	**299**	32	19 yrs.
Other	**21**	125	8 yrs.
Total gross carrying amount	**957**	332	
Accumulated amortization - gas, coal, and power contracts	**(31)**	(10)	
Accumulated amortization – other	**(13)**	(12)	
Total accumulated amortization	**(44)**	(22)	
Total intangible assets, net	**$ 913**	$ 310	

(1) See Note 1 for additional information on Predecessor and Successor reporting.
(2) Emission allowances do not have a contractual term or expiration date.

The carrying value of emission allowances sold or consumed for Cinergy were as follows:

Successor[1]		Predecessor[1]		
Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
(in millions)				
$ 146	**$ 273**	$ 64	$ 125	$ 242

(1) See Note 1 for additional information on Predecessor and Successor reporting.

Amortization expense for Cinergy for the remaining intangible assets is presented for the periods below:

Successor[1]		Predecessor[1]		
Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
(in millions)				
$ 14	**$ 29**	$ 7	$ 2	$ 5

(1) See Note 1 for additional information on Predecessor and Successor reporting.

The table below shows the expected amortization expense for the next five years for intangibles (including emission allowances) as of September 30, 2006. The expected amortization expense includes estimates of emission allowance consumption and estimates of consumption of commodities such as gas and coal under existing contracts.

2007	2008	2009	2010	2011
$ 186	$ 105	$ 93	$ 233	$ 10

The amortization amounts discussed above are estimates. Actual amounts may differ from these estimates due to such factors as changes in consumption patterns, sales or impairments of emission allowances, additional intangible asset acquisitions and other events.

Intangible Liabilities

Cinergy has intangible liabilities associated with the Market Based Standard Service Offer (MBSSO) in Ohio that will be recognized in earnings over the remaining regulatory period, which ends on December 31, 2008. The carrying amount of this intangible liability was approximately $89 million at September 30, 2006. Amortization expense related to the MBSSO is estimated to amount to approximately $5 million for the remainder of 2006, $27 million of income in 2007 and $67 million of income in 2008. Cinergy also has intangible liabilities associated with other power sale contracts. The carrying amount of this intangible liability was approximately $45 million at September 30, 2006. This balance will be amortized to income as follows: $5 million during the remainder of 2006, approximately $17 million in 2007, approximately $6 million in each of the years 2008 through 2010, and approximately $4 million in 2011.

9. Discontinued Operations

In June 2006, Duke Energy announced it had reached an agreement to sell CMT, as well as certain Duke Energy Ohio trading contracts, to Fortis, a Benelux-based financial services group. Results of operations for CMT, as well as certain Duke Energy Ohio trading contracts, have been reflected in Income from Discontinued Operations, net of tax, from the date of the Cinergy acquisition to September 30, 2006. In October 2006, the sale transaction was completed. Under the purchase and sale agreement, Fortis purchased CMT at a base price of approximately $210 million. In addition, Fortis paid approximately $200 million for the portfolio of contracts and an amount equal to the estimated net working capital associated with these companies at the time of close. In October 2006, Duke Energy received total pre-tax cash proceeds of approximately $700 million and recorded an approximate $25 million gain on the sale..

In October 2006, in connection with this transaction, Duke Energy entered into a series of Total Return Swaps (TRS) with Fortis, which are accounted for as mark to market derivatives. The TRS offsets the net fair value of the underlying contracts being transferred to Fortis. The TRS will be cancelled for each underlying contracts as each is transferred to Fortis. All economic and credit risk associated with the contracts has been transferred to Fortis as of the date of the sale through the TRS.

In December 2005, Cinergy completed the sale of a wholly owned subsidiary in the Czech Republic that was engaged in the generation and sale of heat and electricity. At the time of the sale, the subsidiary had assets of approximately $113 million and liabilities of approximately $12 million. The net, after-tax, gain from the sale was approximately $18 million (including a net, after-tax, cumulative currency translation gain of approximately $24 million).

In December 2005, Cinergy began taking steps to sell its wholly owned North American energy management and energy performance contracting business. In December 2005, Cinergy recognized a $17 million pre-tax impairment charge to value this business to its estimated fair value less cost to sell in accordance with it being deemed held for sale. In April 2006, Cinergy completed the sale of this business. The net, after tax, loss on the sale was immaterial (excluding the $17 million impairment charge recognized in December 2005).

These consolidated entities have been presented as Income from Discontinued Operations, net of tax, in Cinergy's Consolidated Statements of Operations and as Assets held for sale and Liabilities associated with assets held for sale in Cinergy's Consolidated Balance Sheets. The discontinued operations were part of Commercial Power and Other.

The following tables reflect the assets and liabilities, the results of operations, and the income on disposal related to discontinued operations for the three months and six months ended September 30, 2006, three months ended March 31, 2006, and September 30, 2005, and the nine months ended September 30, 2005:

	Successor[1]		**Predecessor**[1]		
	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
			(in millions)		
Operating Revenues[2]	**$ 32.1**	**$ 34.3**	$ 42.5	$ 71.7	$ 139.3
Operating Gain (Loss)					
Pre-tax Operating Gain	**$ 11.7**	**$ 0.8**	$ 10.2	$ 29.6	$ 30.7
Income Tax Expense	**7.8**	**5.2**	3.4	14.6	15.2
Operating Gain (Loss), net of tax	**$ 3.9**	**$ (4.4)**	$ 6.8	$ 15.0	$ 15.5
Net Gain (Loss) on Dispositions					
Pre-tax Gain (Loss) on dispositions	**$ 14.4**	**$ 8.0**	$ (3.0)	$ -	$ -
Income tax expense (benefit)	**3.3**	**(5.3)**	(1.0)	-	-
Gain (Loss) on dispositions, net of tax	**$ 11.1**	**$ 13.3**	$ (2.0)	$ -	$ -
Total Income from Discontinued Operations, net of tax	**$ 15.0**	**$ 8.9**	$ 4.8	$ 15.0	$ 15.5

(1) See Note 1 for additional information on Predecessor and Successor reporting.
(2) Presented for informational purposes only. All results of operations are reported net in Cinergy's Statements of Operations.

	Successor[1] September 30, 2006	Predecessor[1] December 31, 2005
	(in millions)	
Assets		
Current assets	**$ 1,359**	$ 16
Property, Plant & Equipment	**130**	-
Other assets	**366**	18
Total Assets	**$ 1,855**	34
Liabilities		
Current liabilities	**$ 813**	$ 6
Long-term debt	**-**	18
Other	**300**	5
Total Liabilities	**$ 1,113**	$ 29

[1] See Note 1 for additional information on Predecessor and Successor reporting.

10. Business Segments

In conjunction with the merger with Duke Energy, effective April 3, 2006, Cinergy has adopted new business segments that management believes properly align the various operations of the merged companies with how the chief operating decision makers will view the business. Accordingly, effective with the second quarter of 2006, the new reportable business segments pertinent to Cinergy are: U.S. Franchised Electric & Gas, Commercial Power, and International. All prior period amounts have been restated to reflect the current segment presentation. Cinergy's chief operating decision makers regularly review financial information about each of these business units in deciding how to allocate resources and evaluate performance. All of the business units are considered reportable segments under SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*."

The remainders of Cinergy's operations are presented as "Other." While it is not considered a business segment, "Other" for Cinergy primarily includes Cinergy's telecommunications, shared services, governance costs, and certain international investments.

U.S. Franchised Electric & Gas consists of Duke Energy Indiana's regulated generation and transmission and distribution operations and Duke Energy Ohio and its subsidiaries' regulated electric and gas transmission and distribution systems and its regulated electric generation in Kentucky. U.S. Franchised Electric & Gas plans, constructs, operates and maintains Cinergy's transmission and distribution systems and delivers gas and electric energy to consumers. U.S. Franchised Electric & Gas also earns revenues from wholesale customers primarily by these customers transmitting electric power through Cinergy's transmission system. These businesses are subject to cost of service rate making where rates to be charged to customers are based on prudently incurred costs over a test period plus a reasonable rate of return.

Commercial Power primarily consists of Duke Energy Ohio's non-regulated generation in Ohio and the recently acquired merchant generation assets, discussed in Note 7, and manages energy marketing and trading activities. Commercial Power also performs energy risk management activities and provides customized energy solutions. In June 2006, an agreement was reached to sell Commercial Power's energy marketing and trading activities. These activities are included in the Commercial Power segment balance sheet presentation, however, they are not included in the revenue presentation since they are below the EBIT line on the income statement. See Note 9 for additional information.

International primarily directs and manages an international business holding which supplies and sells natural gas to international customers. International earns equity earnings from this unconsolidated company.

Cinergy's reportable segments offer different products and services and are managed separately as business units. Management evaluates segment performance based on EBIT from continuing operations, after deducting minority interest expense related to those profits. Cash, cash equivalents, and short-term investments are managed

centrally by Cinergy, so the associated realized and unrealized gains and losses from foreign currency transactions and interest and dividend income on those balances are excluded from the segments' EBIT.

Transactions between reportable segments are accounted for on the same basis as unaffiliated revenues and expenses in the accompanying Consolidated Financial Statements.

Cinergy Business Segment Data[1]

	Unaffiliated Revenues	Intersegment Revenues	Total Revenues	Segment EBIT/Consolidated Income from Continuing Operations Before Income Taxes
		(in millions)		
Successor[2]				
Three Months Ended September 30, 2006				
U.S. Franchised Electric & Gas	**$ 878**	**$ -**	**$ 878**	**$ 181**
Commercial Power	**483**	**2**	**485**	**60**
International	**-**	**-**	**-**	**(2)**
Total reportable segments	**1,361**	**2**	**1,363**	**239**
Other	**(17)**	**-**	**(17)**	**(37)**
Eliminations	**-**	**(2)**	**(2)**	**-**
Interest expense	**-**	**-**	**-**	**(80)**
Interest income and other[3]	**-**	**-**	**-**	**11**
Total consolidated	**$ 1,344**	**$ -**	**$ 1,344**	**$ 133**
Six Months Ended September 30, 2006				
U.S. Franchised Electric & Gas	**$ 1,723**	**$ -**	**$ 1,723**	**$ 272**
Commercial Power	**923**	**12**	**935**	**82**
International	**-**	**-**	**-**	**(2)**
Total reportable segments	**2,646**	**12**	**2,658**	**352**
Other	**6**	**-**	**6**	**(69)**
Eliminations	**-**	**(12)**	**(12)**	**-**
Interest expense	**-**	**-**	**-**	**(162)**
Interest income and other[3]	**-**	**-**	**-**	**25**
Total consolidated	**$ 2,652**	**$ -**	**$ 2,652**	**$ 146**
Predecessor[2]				
Three Months Ended March 31, 2006				
U.S. Franchised Electric & Gas	$ 1,025	$ -	$ 1,025	$ 167
Commercial Power	546	12	558	120
International	-	-	-	1
Total reportable segments	1,571	12	1,583	288
Other	5	-	5	(128)
Eliminations	-	(12)	(12)	-
Interest expense	-	-	-	(86)
Interest income and other[3]	-	-	-	21
Total consolidated	$ 1,576	$ -	$ 1,576	$ 95
Three Months Ended September 30, 2005				
U.S. Franchised Electric & Gas	$ 863	$ -	$ 863	$ 206
Commercial Power	384	53	437	36
International	-	-	-	(1)
Total reportable segments	1,247	53	1,300	241
Other	3	-	3	(40)
Eliminations	-	(53)	(53)	-
Interest expense	-	-	-	(78)
Interest income and other[3]	-	-	-	13
Total consolidated	$ 1,250	$ -	$ 1,250	$ 136
Nine Months Ended September 30, 2005				
U.S. Franchised Electric & Gas	$ 2,496	$ -	$ 2,496	$ 537

Commercial Power	1,044	161	1,205	127
International	-	-	-	(2)
Total reportable segments	3,540	161	3,701	662
Other	11	-	11	(136)
Eliminations	-	(161)	(161)	-
Interest expense	-	-	-	(211)
Interest income and other[3]	-	-	-	34
Total consolidated	$ 3,551	$ -	$ 3,551	$ 349

[1] Segment results exclude results of discontinued operations.
[2] See Note 1 for additional information on Predecessor and Successor reporting.
[3] Other includes foreign currency transaction gains and losses not allocated to the segment results.

Segment assets in the following table are net of intercompany advances, intercompany notes receivable, intercompany current assets, intercompany derivative assets, and investments in subsidiaries.

Total segment assets at September 30, 2006 and December 31, 2005 are as indicated below:

	Successor[1]	**Predecessor**[1]
	September 30, 2006	December 31, 2005
	(in millions)	
Cinergy Segment Assets		
U.S. Franchised Electric & Gas	**$ 10,402**	$ 9,601
Commercial Power	**7,680**	6,757
International	**78**	94
Total reportable segments	**18,160**	16,452
Unallocated goodwill	**4,311**[3]	-
Other	**383**	437
Eliminations and reclassifications[2]	**146**	265
Total consolidated assets	**$ 23,000**	$ 17,154

[1] See Note 1 for additional information on Predecessor and Successor reporting.
[2] Eliminations and reclassifications include accounts and notes receivable from affiliates and short- and long-term intercompany energy risk management assets.
[3] Includes $4,311 million of Goodwill for Cinergy which has not been allocated to the segments.

11. Risk Management Instruments

Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by Duke Energy's Corporate Credit Policy. Written guidelines approved by Duke Energy's Chief Risk Officer documents various required credit activities including credit limit delegation and approval limits, underwriting rating criteria, and certain other credit management standards. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. As of September 30, 2006, 87 percent of Cinergy's credit exposure, net of credit collateral, related to energy trading and marketing activity was with counterparties rated investment grade or the counterparties' obligations were guaranteed or secured by an investment grade entity. The majority of these investment grade counterparties are externally rated. If a counterparty has an external rating, the lower of Standard & Poor's Ratings Services or Moody's Investors Service is used; otherwise, Duke Energy's internal rating of the counterparty is used. Cinergy's remaining 13 percent represents net credit exposure of $118 million with counterparties rated non-investment grade.

As of September 30, 2006, Cinergy did not have a concentration of trading credit exposure with any counterparty accounting for greater than 10 percent of its total trading credit exposure.

Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

Cinergy continually reviews and monitors its credit exposure to all counterparties and secondary counterparties. If appropriate, Cinergy may adjust the credit reserves to attempt to compensate for increased credit risk within the industry. Counterparty credit limits may be adjusted on a daily basis in response to changes in a counterparty's financial status or public debt ratings.

Derivatives

Hedges of Natural Gas Held in Storage

Cinergy designates derivatives as fair value hedges for certain volumes of its natural gas held in storage. Hedging instruments for gas held in storage are designated entirely for Marketing & Trading operations. Thus, all amounts are included in discontinued operations in Cinergy's Consolidated Statement of Operations. See Note 9 for additional information. Cinergy assesses the effectiveness of the derivatives in offsetting the change in fair value of the gas held in storage on a quarterly basis. Selected information on Cinergy's hedge accounting activities for the three and six months ended September 30, 2006, three months ended March 31, 2006 and September 30, 2005, and the nine months ended September 30, 2005 were as follows:

	Successor[1]		**Predecessor**[1]		
	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
			(in millions)		
Loss on hedging instruments determined to be ineffective	**$ -**	**$ (1)**	$ (5)	$ (25)	$ (24)
(Loss) gain on hedging instruments related to changes in time value excluded from assessment of ineffectiveness	**2**	**(1)**	36	28	24
Total ineffectiveness	**$ 2**	**$ (2)**	$ 31	$ 3	$ -

(1) See Note 1 for additional information on Predecessor and Successor reporting.

Generation Portfolio Optimization

Duke Energy Ohio optimizes the value of its non-regulated portfolio. The portfolio includes generation assets (power and capacity), fuel, and emission allowances. Modeled forecasts of future generation output, fuel requirements, and emission allowance requirements are based on forward power, fuel and emission allowance markets. The component pieces of the portfolio are bought and sold based on this model in order to manage the economic value of the portfolio. The majority of the component pieces of the portfolio are accounted for using the accrual method. However, with the issuance of SFAS No. 149, *"Amendment of Statement 133 on Derivative Instruments and Hedging Activities"* (SFAS No. 149), certain forward power transactions and certain coal transactions from management of the portfolio are accounted for at fair value. As a result, these forward sales and purchases are subject to earnings volatility via mark-to-market gains or losses from changes in the value of the contracts accounted for using fair value. In addition, the generation portfolio not utilized to serve native load or committed load is subject to commodity price fluctuations. This is primarily related to the Midwestern generation assets retained from Duke Energy. A spark spread sensitivity on these megawatt hour (MWh) was immaterial at September 30, 2006.

Forward Starting Interest Rate Swaps

In June 2005, Duke Energy Indiana executed two forward starting swaps with a combined notional amount of $325 million. The forward starting swaps effectively fixed the benchmark interest rate of an anticipated issuance of fixed rate debt from June 2005 through June 2006, the expected date of issuance of the debt securities. Both forward starting swaps were designated as cash flow hedges under the provisions of SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities."* As the terms of these swap agreements mirrored the terms of the forecasted debt issuance, Duke Energy Indiana anticipated that they would be highly effective hedges. In June 2006, Duke Energy Indiana terminated these swaps at a value of approximately $26 million, when it issued $325

million 6.05% senior unsecured notes at Duke Energy Indiana. The $26 million gain on the hedge has been accumulated on the Consolidated Balance Sheet in Accumulated Other Comprehensive Income (AOCI) and will be recognized as reclassifications from AOCI to interest expense over the life of the related bond. As of September 30, 2006, $2.6 million of the gain on the hedge is expected to be recognized in earnings during the next 12 months.

Trading & Marketing

Cinergy measures the market risk inherent in the trading portfolio employing value at risk (VaR) analysis, as discussed in the 2005 10-K. The change in VaR from the 2005 10-K was not material to Cinergy's financial position or results of operations.

Generation Related Cash Flow Hedges

In connection with Duke Energy's contribution of its unregulated generating assets to Duke Energy Ohio, Duke Energy Ohio assumed approximately $63 million of pre-tax deferred losses associated with contracts formerly designated as cash flow hedges of forecasted power sales and gas purchases from Duke Energy's Midwestern generation fleet. See Note 7 for additional information. These contracts were sold by Duke Energy in 2005 and the deferred losses remain on the Consolidated Balance Sheet in Additional Other Comprehensive Income (AOCI) until the related hedged transactions (gas purchases and power sales) occur. As of September 30, 2006, $26 million of the pre-tax deferred net losses on derivative instruments related to commodity cash flow hedges were accumulated on the Consolidated Balance Sheet in AOCI, and are expected to be recognized in earnings during the next 12 months as the hedged transactions occur.

Total Return Swap

In connection with the Fortis transaction discussed in Note 9, on October 1, 2006 Duke Energy entered into a series of Total Return Swaps (TRS) with Fortis, which will be accounted for as mark-to-market derivatives. The fair value of the TRS offsets the net fair value of the underlying contracts that will be transferred to Fortis. The TRS will be cancelled as the underlying contracts are transferred to Fortis.

Also in connection with the sale to Fortis, Cinergy provided Fortis cash equal to the net cash collateral received by Cinergy under the contracts.

12. Regulatory Matters

Regulatory Merger Approvals

As discussed in Note 2, on April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the Public Utilities Commission of Ohio (PUCO) and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be shared with consumers in Ohio and Kentucky, respectively. The commissions also required Duke Energy Holding Corp., Cinergy, Duke Energy Ohio, and Duke Energy Kentucky to meet additional conditions. While the merger itself was not subject to approval by the Indiana Utility Regulatory Commission (IURC), the IURC approved certain affiliate agreements in connection with the merger subject to similar conditions. Key elements of these conditions include:

- The PUCO required that Duke Energy Ohio provide (i) a rate reduction of approximately $15 million for one year to facilitate economic development in a time of increasing rates and market prices and (ii) a reduction of approximately $21 million to Duke Energy Ohio's gas and electric consumers in Ohio for one year, with both reductions beginning January 1, 2006. In April 2006, the Office of the Ohio Consumers' Counsel (OCC) filed a Notice of Appeal with the Supreme Court of Ohio, requesting the Court remand the PUCO's merger approval for a full evidentiary hearing. The OCC alleged that the PUCO improperly failed to: (i) set the matter for a full evidentiary hearing; (ii) consider evidence regarding the transfer of certain Duke Energy assets to Duke Energy Ohio; and (iii) lift the stay on discovery. Duke Energy Ohio and the OCC settled this matter and in June 2006, the Court granted the

OCC's motion to dismiss. As of September 30, 2006, Duke Energy Ohio has returned $11 million and $15 million, respectively, on each of these rate reductions.

- The IURC required that Duke Energy Indiana provide a rate reduction of $40 million to Duke Energy Indiana customers over a one year period and $5 million over a five year period for low-income energy assistance and clean coal technology. In April 2006, Citizens Action Coalition of Indiana, Inc., an intervenor in the merger proceeding, filed a Verified Petition for Rehearing and Reconsideration claiming that Duke Energy Indiana should be ordered to provide an additional $5 million in rate reductions to customers to be consistent with the terms of the North Carolina Utility Commission's order approving the merger. In May 2006, the IURC denied the petition for rehearing and reconsideration. As of September 30, 2006, Duke Energy Indiana has returned approximately $17 million to customers on this rate reduction.

- The KPSC required that Duke Energy Kentucky provide $8 million in rate reductions to Duke Energy Kentucky customers over five years, ending when new rates are established in the next rate case after January 1, 2008. As of September 30, 2006, Duke Energy Kentucky has returned $1 million to customers on this rate reduction.

- The FERC approved the merger without conditions. In January 2006, Public Citizen's Energy Program, Citizens Action Coalition of Indiana, Inc., Ohio Partners for Affordable Energy and Southern Alliance for Clean Energy requested rehearing of the FERC approval. In February 2006, the FERC issued an order granting rehearing of FERC's order for further consideration. A decision by the FERC is expected in the fourth quarter of 2006.

U.S. Franchised Electric and Gas. *Rate Related Information.* The IURC and KPSC approve rates for retail electric and gas sales within their states. The PUCO approves rates and market prices for retail electric and gas sales within Ohio. The FERC approves rates for electric sales to wholesale customers served under cost-based rates.

Duke Energy Indiana Environmental Compliance Case. In November 2004, Duke Energy Indiana applied to the IURC for approval of its plan for complying with sulfur dioxide (SO_2), nitrogen oxides (NO_X), and mercury emission reduction requirements. Duke Energy Indiana also requested approval of cost recovery for certain proposed compliance projects. An evidentiary hearing was held in May 2005. In December 2005, Duke Energy Indiana, the Indiana Office of Utility Consumer Counselor (OUCC), and the Duke Energy Indiana Industrial Group filed a Settlement Agreement providing for approval of Duke Energy Indiana's compliance plan and approval of financing, depreciation, and operation and maintenance cost recovery. In May 2006, the IURC approved the Settlement Agreement in its entirety. The approved Settlement Agreement provides for: (1) the construction of Phase 1 Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR) projects with estimated expenditures of approximately $1.08 billion, (2) timely recovery of financing, construction, operation and maintenance cost, and depreciation associated with the Phase 1 CAIR and CAMR plan, (3) recovery of emission allowances in connection with SO_2, NO_X, and mercury, (4) accelerated 20 year depreciation rate, (5) timely recovery of Phase 1 plan development and presentation costs and Phase 2 plan development, engineering and pre-construction, and coal and equipment testing costs, and (6) authority to defer post-in-service allowance for funds used during construction (AFUDC), depreciation costs and operation and maintenance cost until applicable costs are reflected in rates.

Duke Energy Ohio Electric Rate Filings. Duke Energy Ohio operates under a MBSSO which was approved by the PUCO in November 2004. In March 2005, the OCC appealed the PUCO's approval of the MBSSO to the Supreme Court of Ohio (Supreme Court). The Supreme Court recently upheld the MBSSO in all substantive respects, but did remand two issues to the Commission. First, the Supreme Court instructed the PUCO to adequately explain its reasoning and site evidence of record in adopting the MBSSO. Second, the PUCO must examine agreements between Duke Energy Ohio and the signatory parties to the stipulation and determine whether there was serious bargaining among experienced and knowledgeable parties. Cinergy cannot predict the outcome of this proceeding.

Duke Energy Ohio's MBSSO includes a fuel clause recovery component which is audited annually by the PUCO. The parties to the proceeding agreed upon and filed a settlement resolving all open issues identified in the 2005 audit, which the PUCO approved in February 2006. The agreement does not have a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

Duke Energy Ohio filed a distribution rate case to recover certain distribution costs and certain costs that were deferred in 2004 and 2005 pursuant to its MBSSO. The parties to the proceeding agreed upon and filed a settlement setting the recommended annual revenue increase at approximately $50 million. In December 2005, the PUCO issued an order approving the settlement agreement.

Duke Energy Kentucky Electric Rate Case. In May 2006, Duke Energy Kentucky filed an application for an increase in its base electric rates. The application, which seeks an increase of approximately $67 million in revenue, or approximately 28 percent, to be effective in January 2007 was filed pursuant to the KPSC's 2003 Order approving the transfer of 1,100 MW of generating assets from Duke Energy Ohio to Duke Energy Kentucky. Duke Energy Kentucky also seeks to reinstitute its fuel cost recovery mechanism which has been frozen since 2001, and has proposed to refresh the pricing for the back-up power supply contract to reflect current market pricing. After Duke Energy Kentucky supplemented its filing in June 2006, the KPSC issued an order in June 2006, shortening the notice period for new rates from 30 to 20 days and suspending rates for six months, until January 6, 2007. Duke Energy Kentucky has reached a settlement agreement in principle with all parties to this proceeding resolving all the issues raised in the proceeding. Among other things, the settlement agreement provides for a $49 million increase in Duke Energy Kentucky's base electric rates. The KPSC is expected to render a decision on the settlement agreement during the fourth quarter of 2006. At this time, Duke Energy Kentucky cannot predict the outcome of this matter.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditure. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the Court dismiss these cases. At the present time, Duke Energy Kentucky cannot predict the timing or outcome of this litigation.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase is attributable to recovery of the accelerated main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs. At this time, Duke Energy Kentucky cannot predict the outcome of this litigation.

Integrated Gasification Combined Cycle (IGCC). Duke Energy Indiana filed an application with the IURC for approval of study and preconstruction costs related to the joint development of an IGCC project with Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (Vectren). Duke Energy Indiana and Vectren reached a Settlement Agreement with the OUCC providing for the recovery of such costs if the IGCC project is approved and constructed and for the partial recovery of such costs if the IGCC project does not go forward. The IURC issued an order on July 26, 2006 approving the Settlement Agreement in its entirety.

On September 7, 2006, Duke Energy Indiana and Vectren filed a joint petition with the IURC seeking certificates of public convenience and necessity for the construction of a 630 MW IGCC power plant at Duke Energy Indiana's Edwardsport Generating Station in Knox County, Indiana. The petition describes the applicants' need for additional baseload generating capacity and requests timely recovery of all construction and operating costs related to the proposed generating station, including financing costs, together with certain incentive ratemaking treatment. Duke Energy Indiana and Vectren filed their cases in chief with the IURC on October 24, 2006. A

prehearing conference and preliminary hearing was held on November 28, 2006. A hearing on the petition is expected during the first quarter of 2007.

Wind Energy Purchased Power Contract. On August 15, 2006, Duke Energy Indiana filed a petition with the IURC requesting recovery of its costs of purchasing electricity to be produced by a 100 MW wind energy farm under development pursuant to a 20-year purchased power agreement between Duke Energy Indiana and Benton County Wind Farm, LLC. Duke Energy Indiana and the OUCC have both filed testimony and an evidentiary hearing was conducted before the IURC on October 24, 2006. An order is expected on this case by the end of 2006.

Fuel Adjustment Clause. Duke Energy Indiana recovers its actual fuel costs quarterly through a rate adjustment mechanism. In two recent fuel clause proceedings, certain industrial customers and the Citizens Action Coalition of Indiana, Inc. have intervened and sub-dockets have been established to address issues raised by the OUCC and the intervenors concerning the allocation of fuel costs between native load customers and non-native load sales, the reasonableness of various Midwest Independent System Operator, Inc. (Midwest ISO) costs for which Duke Energy Indiana has sought recovery and Duke Energy Indiana's recovery of costs associated with certain power hedging activities. Duke Energy Indiana is defending its practices, its costs, and the allocation of such costs. A hearing was conducted in one of these proceedings on September 20, 2006. A decision is not expected before the end of the year. Duke Energy Indiana has been authorized to collect through rates its costs for which it sought recovery in the two sub-docket proceedings, subject to refund pending the outcome of these proceedings. Duke Energy Indiana cannot predict the outcome of these proceedings but does not expect the outcome to be material to its consolidated results of operations, cash flows, or financial position.

PUCO Gas Pipeline System Investigation. In April 2005, the PUCO issued an order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. At this time, Duke Energy Ohio cannot predict the outcome or the impact of the statewide investigation.

Midwest ISO Revenue Sufficiency Guarantee (RSG). In April 2006, the FERC issued an order on the Midwest ISO's revisions to its Transmission and Energy Markets Tariffs regarding its RSG. The FERC found that the Midwest ISO violated the tariffs when it did not charge RSG costs to virtual supply offers. The FERC, among other things, ordered the Midwest ISO to recalculate the rate and make refunds to customers, with interest, to reflect the correct allocation of RSG costs. Duke Energy Shared Services, on behalf of Duke Energy Indiana and Duke Energy Ohio, has filed a Request for Rehearing, and in October 2006, the FERC issued an order which, among other things, granted rehearing on the issue of refunds. The FERC stated that it would not require recalculation of the rates and, as such, refunds are no longer required. As a result, neither Duke Energy Ohio nor Duke Energy Indiana believe that this issue will have a material effect on their results of operations, cash flows, or financial position.

13. Commitments and Contingencies

Environmental

Emission Reduction Rulemakings. In October 1998, the Environmental Protection Agency (EPA) finalized its ozone transport rule, also known as the NOX State Implementation Plan (SIP) Call, which addresses wind-blown ozone and ozone precursors that impact air quality in downwind states. The EPA's final rule, which applies to 22 states in the eastern United States including Ohio, Kentucky and Indiana, required states to develop rules to reduce NOX emissions from utility and industrial sources.

Duke Energy Ohio, and Duke Energy Indiana have installed selective catalytic reduction units and other pollution controls and implemented certain combustion improvements at various generating stations to comply with the NO_X SIP Call. Cinergy also utilizes the NO_X emission allowance market to buy or sell NO_X emission allowances as appropriate. As of September 30, 2006, Cinergy has incurred approximately $823 million in capital costs to comply with this program and does not anticipate significant additional costs.

The EPA finalized its CAIR in May 2005. The rule limits total annual and summertime NO_X emissions and annual SO_2 emissions from electric generating facilities across the Eastern United States through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_X and in 2010 for SO_2. Phase 2 begins in 2015 for both NO_X and SO_2. The rule requires region wide SO_2 and NO_X emissions to be cut by 70 percent and 65 percent,

respectively, by 2015. The rule gives states the option of participating in the national emissions allowance trading program. If a state chooses not to participate, then the rule sets a fixed limit on the emissions from that state's affected sources.

The EPA finalized its CAMR in May 2005. The rule limits total annual mercury emissions from coal-fired power plants across the United States through a two-phased cap-and-trade program. Phase 1 begins in 2010 and Phase 2 begins in 2018. The rule gives states the option of participating in the national emissions allowance trading program. If a state chooses not to participate, then the rule sets a fixed limit on annual mercury emissions from that state's coal-fired power plants.

Numerous states, environmental organizations, industry groups, including some of which Cinergy is a member, and individual companies have challenged various portions of the rules. Those challenges are currently pending in the United States Circuit Court for the District of Columbia. On October 21, 2005, the EPA agreed to reconsider certain aspects of the CAMR as well as the determination not to regulate mercury under Section 112 of the Clean Air Act (CAA). On June 9, 2006, the EPA took final action on the issues being reconsidered and determined that its original decisions were reasonable and should not be changed. At this time, Cinergy cannot predict the outcome of these matters.

Duke Energy Ohio and Duke Energy Indiana have spent approximately $0.2 billion and 0.3 billion, respectively through 2005 to comply with Phase 1 of the CAIR and CAMR rules and currently estimate that they will spend an additional approximately $0.5 billion and $0.7 billion, respectively, over the 2006-2011 time period. The projected expenditures include estimated costs to comply at plants that Duke Energy Ohio and Duke Energy Indiana own, but do not operate and could change when taking into consideration compliance plans of co-owners or operators involved. Moreover, as market conditions change, additional compliance options may become available and Duke Energy Ohio's and Duke Energy Indiana's plans will be adjusted accordingly. The IURC recently issued an order granting Duke Energy Indiana approximately $1.08 billion in rate recovery. Duke Energy Indiana believes all costs determined to be prudently incurred to comply with such rules will be recovered through rates approved by the IURC. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its MBSSO. Duke Energy Ohio believes all costs determined to have been prudently incurred to comply with such rules will be recovered through rates approved by the PUCO or KPSC. See Note 12 for more details.

The EPA made final state non-attainment area designations to implement the revised ozone standard and to implement the new fine particulate standard in June 2004 and April 2005, respectively. Several counties in which Cinergy operates have been designated as being in non-attainment with the new ozone standard and/or fine particulate standard. States with counties that are designated as being in non-attainment with the new ozone and/or fine particulate standards are required to develop a plan of compliance by June 2007 and April 2008, respectively. Industrial sources in or near those counties are potentially subject to requirements for installation of additional pollution controls. In March 2005, various states, local governments, environmental groups, and industry groups, including some of which Cinergy is a member, filed petitions for review in the U.S. Court of Appeals for the D.C. Circuit to challenge the EPA's particulate matter non-attainment designations. Although the EPA has attempted to structure CAIR to resolve purported utility contributions to ozone and fine particulate non-attainment, at this time, Cinergy cannot predict the effect of current or future non-attainment designations on its consolidated results of operations, cash flows or financial position.

In July 2005, the EPA issued its final regional haze rules and implemented guidelines in response to a 2002 judicial ruling overturning key provisions of the original program. The regional haze program is aimed at reducing certain emissions impacting visibility in national parks and wilderness areas. The EPA has announced that it can foresee no circumstances where the requirements of the regional haze rule would require utility controls beyond those required under CAIR. The EPA also found that states participating in the CAIR cap and trade program need not require electric generating units to adhere to best available retrofit technology requirements. The states have until December 2007 to finalize their SIPs addressing compliance with EPA regulations. The states may choose to implement more stringent guidelines than promulgated by the EPA, and therefore, it is not possible to predict whether the regional haze rule will have a material effect on Cinergy's consolidated results of operations, cash flows or financial position.

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states including Ohio, Kentucky, and Indiana, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP) that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial.

Clean Water Act Rulemaking. The EPA's final Clean Water Act Section 316(b) rule became effective July 9, 2004. The rule establishes aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Six of Cinergy's eleven coal-fueled generating facilities in which Cinergy is either a whole or partial owner are affected sources under the rule. The rule requires a Comprehensive Demonstration Study (CDS) for each affected facility to provide information needed to determine necessary facility-specific modifications and cost estimates for implementation. These studies will be completed over the next three to five years. Once compliance measures are determined and approved by regulators, a facility will typically have five or more years to implement the measures. Due to the wide range of measures potentially applicable to a given facility, and since the final selection of compliance measures will be at least partially dependent upon the CDS information, Cinergy is not able to estimate its cost for complying with the rule at this time.

Clean Air Act Lawsuits. In November 1999, and through subsequent amendments, the United States brought a lawsuit in the United States Federal District Court for the Southern District of Indiana against Cinergy, Duke Energy Ohio and Duke Energy Indiana alleging various violations of the CAA. Specifically, the lawsuit alleges that Cinergy, Duke Energy Ohio and Duke Energy Indiana violated the CAA by not obtaining Prevention of Significant Deterioration (PSD), Non-Attainment New Source Review (NSR), and Ohio and Indiana SIP permits for various projects at Cinergy's, Duke Energy Ohio's and Duke Energy Indiana's owned and co-owned generating stations. Additionally, the suit claims that Cinergy, Duke Energy Ohio and Duke Energy Indiana violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's SIP provisions governing particulate matter at Unit 1 at Duke Energy Ohio's W.C. Beckjord Station. The suit seeks (1) injunctive relief to require installation of pollution control technology on various generating units at Duke Energy Ohio's W.C. Beckjord and Miami Fort Stations, and Duke Energy Indiana's Cayuga, Gallagher, Wabash River, and Gibson Stations, and (2) civil penalties in amounts of up to $27,500 per day for each violation. In addition, three Northeast states and two environmental groups have intervened in the case. In August 2005, the district court issued a ruling regarding the emissions test that it will apply to Cinergy, Duke Energy Ohio and Duke Energy Indiana at the trial of the case. Contrary to Cinergy's, Duke Energy Ohio's and Duke Energy Indiana's argument, the district court ruled that in determining whether a project was projected to increase annual emissions, it would not hold hours of operation constant. However, the district court subsequently certified the matter for interlocutory appeal to the Seventh Circuit Court of Appeals, which has accepted the appeal. In August 2006, the Seventh Circuit upheld the district court's opinion. This issue is before the Supreme Court in the Duke Energy NSR case, and Cinergy does not expect further dispositive legal proceedings in this case until after the Supreme Court ruling.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly-owned by CSP, The Dayton Power and Light Company (DP&L), and Duke Energy Ohio. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is pending.

In addition, Cinergy and Duke Energy Ohio have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a

station operated by DP&L and jointly-owned by DP&L, CSP, and Duke Energy Ohio. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery in front of the same judge who has the CSP case.

At this time, Cinergy is unable to predict whether resolution of these matters would have a material effect on its consolidated results of operations, cash flows or financial position.. Cinergy intends to vigorously defend against these allegations.

Litigation

Carbon Dixoxide (CO_2) Lawsuit. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin, and the City of New York brought a lawsuit in the United States District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the United States District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the district court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral argument was held before the Second Circuit Court of Appeals in June 2006. Cinergy is not able to predict whether resolution of these matters would have a material effect on its consolidated results of operations, cash flows or financial position.

Zimmer Generating Station (Zimmer Station) Lawsuit. In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. The plaintiff filed a motion for class certification, which is fully briefed and pending decision. At this time, Cinergy cannot predict whether the outcome of this matter will have a material impact on its consolidated results of operations, cash flows or financial position.. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

Manufactured Gas Plant (MGP) Sites. Coal tar residues, related hydrocarbons, and various metals have been found in at least 23 sites that Duke Energy Indiana or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 23 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and Duke Energy Indiana entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities among them. Thus far, Duke Energy Indiana has primary responsibility for investigating, monitoring, and, if necessary, remediating nine of these sites. In December 2003, Duke Energy Indiana entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the nine sites. The Indiana Department of Environmental Management oversees investigation and cleanup of all of these sites.

In April 1998, Duke Energy Indiana filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. Duke Energy Indiana sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against Duke Energy Indiana and compensate Duke Energy Indiana for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay Duke Energy Indiana's cost of defense. Duke Energy Indiana settled, in principle, its claims with

all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against Duke Energy Indiana in February 2005 on 6 of the 23 sites. Duke Energy Indiana appealed this decision, which was affirmed by the Indiana Court of Appeals. In September, 2006, the Indiana Supreme Court declined to accept the appeal. Duke Energy Indiana is evaluating the impact of this decision.

Duke Energy Indiana has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. Duke Energy Indiana will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed Duke Energy Indiana will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, Cinergy is unable to determine the overall impact on its consolidated results of operations, cash flows or financial position.

Duke Energy Ohio has performed site assessments on certain of its sites where MGP activities are believed to have occurred at some point in the past and have found no imminent risk to the environment. At this time, Cinergy cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

Asbestos Claims Litigation. Duke Energy Indiana and Duke Energy Ohio have been named as defendants or co-defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 130 pending lawsuits (the majority of which are Duke Energy Indiana cases). In these lawsuits, plaintiffs claim to have been exposed to asbestos-containing products in the course of their work as outside contractors. The plaintiffs further claim that as the property owner of the generating stations, Duke Energy Indiana and Duke Energy Ohio should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. The impact on Cinergy's consolidated results of operations, cash flows or financial position to date has not been material.

Of these lawsuits, one case filed against Duke Energy Indiana has been tried to verdict. The jury returned a verdict against Duke Energy Indiana on a negligence claim and a verdict for Duke Energy Indiana on punitive damages. Duke Energy Indiana appealed this decision up to the Indiana Supreme Court. In October 2005, the Indiana Supreme Court upheld the jury's verdict. Duke Energy Indiana paid the judgment of approximately $630,000 in the fourth quarter of 2005. In addition, Duke Energy Indiana has settled over 150 other claims for amounts which neither individually nor in the aggregate are material to Cinergy's consolidated results of operations, cash flows or financial position. Based on estimates under varying assumptions, concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Indiana generating plants; (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Indiana estimates that the range of reasonably possible exposure in existing and future suits over the next 50 years could range from an immaterial amount to approximately $60 million, exclusive of costs to defend these cases. This estimated range of exposure may change as additional settlements occur and claims are made in Indiana and more case law is established.

Duke Energy Ohio has been named in fewer than 10 cases and as a result has virtually no settlement history for asbestos cases. Thus, Cinergy is not able to reasonably estimate the range of potential loss from current or future lawsuits. However, potential judgments or settlements of existing or future claims could be material to Cinergy.

Dunavan Waste Superfund Site. In July and October 2005, Duke Energy Indiana received notices from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, Cinergy does not have any further information regarding the scope of potential liability associated with this matter.

Ontario, Canada Lawsuit. Duke Energy Ohio and Duke Energy Indiana understand that a class action lawsuit was filed in Superior Court in Ontario, Canada against Duke Energy Ohio and Duke Energy Indiana and approximately 20 other utility and power generation companies alleging various claims relating to environmental emissions from coal-fired power generation facilities in the United States and Canada and damages of approximately $50 billion, with continuing damages in the amount of approximately $4 billion annually. Duke Energy Ohio and

Duke Energy Indiana understand that the lawsuit also claims entitlement to punitive and exemplary damages in the amount of $1 billion. Duke Energy Ohio and Duke Energy Indiana have not yet been served in this lawsuit; however, if served, Duke Energy Ohio and Duke Energy Indiana intend to defend this lawsuit vigorously in court. At this time, Cinergy is not able to predict whether resolution of this matter would have a material effect on its consolidated results of operations, cash flows or financial position.

Hurricane Katrina Lawsuit. In April, 2006, Cinergy was named in the third amended complaint of a purported class action filed in the United States District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, is liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants', greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. . In October 2006, Cinergy was served with this lawsuit. It is not possible to predict with certainty whether Cinergy will incur any liability or to estimate the damages, if any, that Cinergy might incur in connection with this matter.

Other

Synthetic Fuel Production. Cinergy produces synthetic fuel from a facility that qualifies for tax credits (through 2007) in accordance with Section 29/45K of the Internal Revenue Code if certain requirements are satisfied. These credits reduce Cinergy's income tax liability and therefore Cinergy's effective tax rate. Cinergy's sale of synthetic fuel has generated $339 million in tax credits through December 31, 2005. After reducing for the possibility of phase-outs in 2006, the amount of additional credits generated through September 30, 2006 is immaterial. Section 29/45K provides for a phase-out of the credit if the average price of crude oil during a calendar year exceeds a specified threshold. The phase-out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices, Cinergy believes that for 2006 and 2007 the amount of the tax credits will be reduced, perhaps significantly. Through September 2006, oil prices were at a level where Cinergy had idled the plant, as the value of the credits may not have exceeded the net costs to produce the synthetic fuel during that time period. During the first quarter of 2006, an agreement was in place with the plant operator which would indemnify Cinergy in the event that tax credits are insufficient to support operating expenses. This agreement did not continue in the second and third quarters of 2006. Cinergy's net investment in the plant at September 30, 2006 was approximately $20 million. As a result of the decline in oil prices, the plant began production in October 2006 under a similar indemnification agreement as referenced above.

In August 2006, Cinergy successfully completed the sale of one of its synthetic fuel facilities resulting in a gain of approximately $6 million. This sale was driven by Internal Revenue Service (IRS) requirements that stipulate that in order to qualify for tax credits in accordance with Section 29/45K, the sales of the synthetic fuel must be made to an unrelated third party.

The Internal Revenue Service (IRS) has completed the audit of Cinergy for the 2002, 2003, and 2004 tax years including the synthetic fuel facility owned during that period. That facility represents $219 million of tax credits generated during that audit period. The IRS has not proposed any adjustment that would disallow the credits claimed during that period. Subsequent periods are still subject to audit. Cinergy believes that it operates in conformity with all the necessary requirements to be allowed such credits under Section 29/45K.

FirstEnergy Lawsuit. A FirstEnergy subsidiary has filed a lawsuit in the Court of Common Pleas in Summit County, Ohio against Cinergy with respect to a transaction between Cinergy and a subsidiary of FirstEnergy, relating to a joint venture company, Avon Energy Partners Holdings (Avon). In 1999, the FirstEnergy subsidiary acquired Cinergy's share of Avon which it subsequently sold to a third party. The original transaction documents included an indemnity by Cinergy with respect to a certain investment owned by Avon. FirstEnergy claims that this indemnity was triggered by its sale of Avon to a third party, and is seeking to recover $15 million from Cinergy. On April 28, 2006, the court granted Cinergy's motion for summary judgment, thus ruling that Cinergy is not obligated to pay the $15 million sought by FirstEnergy. FirstEnergy has appealed this decision. At this time, Cinergy cannot predict the outcome of this matter.

Other Litigation and Legal Proceedings. Cinergy is involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which could involve substantial amounts. Management believes

that the final disposition of these proceedings will not have a material adverse effect on Cinergy's consolidated results of operations, cash flows or financial position.

Cinergy has exposure to certain legal matters that are described herein. As of September 30, 2006 and December 31, 2005, Cinergy has recorded immaterial reserves for these proceedings and exposures. Cinergy expenses legal costs related to the defense of loss contingencies as incurred.

As part of its normal business, Cinergy is party to various financial guarantees, performance guarantees, and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees, and other third parties. To varying degrees, these guarantees involve elements of performance and credit risk, which are not included on the Consolidated Balance Sheets. The possibility of Cinergy having to honor its contingencies is largely dependent upon future operations of various subsidiaries, investees, and other third parties, or the occurrence of certain future events. For further information, see Note14.

In addition, Cinergy enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts), take-or-pay arrangements, transportation or throughput agreements, and other contracts that may or may not be recognized on the Consolidated Balance Sheets. Some of these arrangements may be recognized at market value on the Consolidated Balance Sheets as trading contracts or qualifying hedge positions included in Unrealized Gains or Losses on MTM and Hedging transactions.

14. Guarantees and Indemnifications

Cinergy has various financial and performance guarantees and indemnifications which are issued in the normal course of business. As discussed below, these contracts include performance guarantees, stand-by letters of credit and indemnifications. Cinergy and its subsidiaries enter into these arrangements to facilitate a commercial transaction with a third party by enhancing the value of the transaction to the third party.

In many cases, the maximum potential amount of an outstanding guarantee is an express term, set forth in the guarantee agreement, representing the maximum potential obligation of Cinergy under that guarantee (excluding, at times, certain legal fees to which a guaranty beneficiary may be entitled). In those cases where there is no maximum potential amount expressly set forth in the guarantee agreement, Cinergy calculates the maximum potential amount by considering the terms of the guaranteed transactions, to the extent such amount is estimable.

Cinergy has issued performance guarantees to customers and other third parties that guarantee the payment and performance of certain non-wholly-owned consolidated entities. The maximum potential amount of future payments Cinergy could have been required to make under these performance guarantees as of September 30, 2006 was approximately $113 million. Approximately $101 million of the performance guarantees expire between 2009 and 2019, with the remaining performance guarantees having no contractual expiration.

Cinergy uses bank-issued stand-by letters of credit to secure the performance of non-wholly-owned entities to a third party or customer. Under these arrangements, Cinergy has payment obligations to the issuing bank which are triggered by a draw by the third party or customer due to the failure of the non-wholly-owned entity to perform according to the terms of its underlying contract. The maximum potential amount of future payments Cinergy could have been required to make under these letters of credit as of September 30, 2006 was approximately $15 million. Substantially all of these letters of credit were issued on behalf of less than wholly-owned consolidated entities and expire in 2006 or 2007.

Cinergy has entered into contracts that include indemnification provisions as a routine part of its business activities. Examples of these contracts include purchase and sale agreements and operating agreements. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties and covenants contained in the contract. In some cases, particularly with respect to purchase and sale agreements, the potential liability for certain indemnification obligations is capped, in whole or in part (generally at an aggregate amount not exceeding the sale price), and subject to a deductible amount before any payments would become due. In other cases (such as indemnifications for willful misconduct of employees in a joint venture), the maximum potential liability is not estimable given that the magnitude of any claims under those indemnifications would be a

function of the extent of damages actually incurred. Cinergy has estimated the maximum potential liability, where estimable, to be $137 million under these indemnification provisions. The termination period for the majority of matters provided by indemnification provisions in these types of agreements generally ranges from 2006 to 2010.

Cinergy believes the likelihood that it would be required to perform or otherwise incur any significant losses associated with any or all of the guarantees described in the preceding paragraphs is remote.

15. Related Party Transactions

Cinergy engages in related party transactions. These transactions are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Consolidated Balance Sheets as of September 30, 2006 are as follows:

	September 30, 2006
	(in millions)
Current assets	$ 8
Non-current assets	$ 54
Current liabilities	$ 1
Non-current liabilities	$ 97

Cinergy is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. Additionally, Duke Energy and its subsidiaries are allocated their proportionate share of corporate governance costs from a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other costs.

The revenues and expenses associated with corporate governance and other service costs for Cinergy for the three and six months ended September 30, 2006, for the three months ended March 31, 2006 and September 30, 2005 and the nine months ended September 30, 2005 were as follows:

	Successor[1]		**Predecessor**[1]		
	Three Months Ended September 30, 2006	**Six Months Ended September 30, 2006**	Three Months Ended March 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
			(in millions)		
Corporate governance and other service revenues	**$ 40**	**$ 61**	$ -	$ -	$ -
Corporate governance and other service expenses	**$ 72**	**$ 124**	**$ -**	**$ -**	**$ -**

(1) See Note 1 for additional information on Predecessor and Successor reporting.

Additionally, certain trade receivables have been sold by Cinergy to Cinergy Receivables Company, LLC (Cinergy Receivables), an unconsolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified by Cinergy as Receivables in the Consolidated Balance Sheets and was approximately $91 million and $265 million as of September 30, 2006 and December 31, 2005, respectively.

See Note 7 for a discussion of amounts paid to Duke Energy Ohio as a result of the agreement between Duke Capital and Duke Energy Ohio related to Duke Energy's contribution of its ownership interests in five plants to Duke Energy Ohio.

16. New Accounting Standards

The following new accounting standards were adopted by Cinergy and its subsidiaries subsequent to September 30, 2005, and the impacts of such adoptions, if applicable, have been presented in the accompanying Consolidated Financial Statements:

Statement of Financial Accounting Standards (SFAS) No. 123(R) "Share-Based Payment" (SFAS No. 123(R). In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. For Cinergy, timing for implementation of SFAS No. 123(R) was January 1, 2006. The pro forma disclosures previously permitted under SFAS No. 123 are no longer an acceptable alternative. Instead, Cinergy is required to determine an appropriate expense for stock options and record compensation expense in the Consolidated Statements of Operations for stock options. Cinergy implemented SFAS No. 123(R) using the modified prospective transition method. In 2003, Cinergy prospectively adopted accounting for its stock-based compensation plans using the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, "*Accounting for Stock-Based Compensation-Transition and Disclosure,*" for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of SFAS No. 123(R) on stock options and remaining awards was not material. See additional detail regarding Cinergy's stock-based compensation plans in Note 3.

Cinergy currently also has retirement eligible employees with outstanding share-based payment awards (unvested stock awards, stock based performance awards, and phantom stock awards). Compensation cost related to those awards was previously expensed over the stated vesting period or until actual retirement occurred. Effective January 1, 2006, Cinergy is required to recognize compensation cost for new awards granted to employees over the requisite service period, which generally begins on the date the award is granted through the earlier of the date the award vests or the date the employee becomes retirement eligible. Awards, including stock options, granted to employees that are already retirement eligible will be deemed to have vested immediately upon issuance, and therefore, compensation cost for those awards will be recognized on the date such awards are granted.

Most options granted prior to May 8, 2005 were immediately vested upon consummation of the April 3, 2006 merger with Duke Energy and resulted in additional purchase accounting adjustments of $59 million (See Note 2). Options granted after May 8, 2005 will continue to be expensed over the remaining portion of the three-year vesting period, unless granted to retirement eligible employees. The remaining options to be expensed under SFAS No. 123(R) are not anticipated to have a material impact on Cinergy's consolidated results of operations, cash flows, or financial position. However, the impact to Cinergy in periods subsequent to adoption of SFAS No. 123(R) will be largely dependent upon the nature of any new share-based compensation awards issued to employees (See Note 3).

SFAS No. 153, "Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29" (SFAS No. 153). In December 2004, the FASB issued SFAS No. 153 which amends APB Opinion No. 29, "*Accounting for Nonmonetary Transactions*," by eliminating the exception to the fair-value principle for exchanges of similar productive assets, which were accounted for under APB Opinion No. 29 based on the book value of the asset surrendered with no gain or loss recognition. SFAS No. 153 also eliminates APB Opinion No. 29's concept of culmination of an earnings process. The amendment requires that an exchange of nonmonetary assets be accounted for at fair value if the exchange has commercial substance and fair value is determinable within reasonable limits. Commercial substance is assessed by comparing the entity's expected cash flows immediately before and after the exchange. If the difference is significant, the transaction is considered to have commercial substance and should be recognized at fair value. SFAS No. 153 is effective for nonmonetary transactions occurring on or after July 1, 2005. The adoption of SFAS No. 153 did not have a material impact on Cinergy's consolidated results of operations, cash flows, or financial position.

Staff Accounting Bulletin (SAB) No. 107, "Share-Based Payment" (SAB 107). On March 29, 2005, the SEC staff issued SAB 107 to express the views of the staff regarding the interaction between SFAS No. 123(R) and

certain SEC rules and regulations and to provide the staff's views regarding the valuation of share-based payment arrangements for public companies. Cinergy adopted SFAS No. 123(R) and SAB 107 effective January 1, 2006.

FASB Interpretation (FIN) No. 47 "Accounting for Conditional Asset Retirement Obligations" (FIN No. 47). In March 2005, the FASB issued FIN No. 47, which clarifies the accounting for conditional asset retirement obligations as used in SFAS No. 143, "*Accounting for Asset Retirement Obligations,*" (SFAS No. 143). A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Therefore, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation under SFAS No. 143 if the fair value of the liability can be reasonably estimated. The provisions of FIN No. 47 were effective for Cinergy and its subsidiaries as of December 31, 2005. Cinergy recognized a loss of approximately $3 million (net of tax) for the cumulative effect of this change in accounting principle. The effect of adoption for Cinergy included balance sheet reclassifications of approximately $35 million from Regulatory liabilities. The increases in asset retirement obligations from adopting FIN No. 47 were $51 million for Cinergy.

FASB Staff Position (FSP) No. APB 18-1, "Accounting by an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for under the Equity Method in Accordance with APB Opinion No. 18 upon a Loss of Significant Influence" (FSP No. APB 18-1). In July 2005, the FASB staff issued FSP No. APB 18-1 which provides guidance for how an investor should account for its proportionate share of an investee's equity adjustments for other comprehensive income (OCI) upon a loss of significant influence. APB Opinion No. 18, *"The Equity Method of Accounting for Investments in Common Stock"* (APB Opinion No. 18), requires a transaction of an equity method investee of a capital nature be accounted for as if the investee were a consolidated subsidiary, which requires the investor to record its proportionate share of the investee's adjustments for OCI as increases or decreases to the investment account with corresponding adjustments in equity. FSP No. APB 18-1 requires that an investor's proportionate share of an investee's adjustments for OCI as increases or decreases to the investment account with corresponding adjustments in equity. FSP No. APB 18-1 requires that an investor's proportionate share of an investee's equity adjustments for OCI should be offset against the carrying value of the investment at the time significant influence is lost and equity method accounting is no longer appropriate. However, to the extent that the offset results in a carrying value of the investment that is less than zero, an investor should (a) reduce the carrying value of the investment to zero and (b) record the remaining balance in income. The adoption of FSP No. APB 18-1 did not have a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

FSP No. FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event," (FSP No. FAS 123(R)-4). In February 2006, the FASB staff issued FSP No. FAS 123(R)-4 to address the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event. The guidance amends SFAS No. 123(R). FSP No. FAS 123(R)-4 provides that cash settlement features that can be exercised only upon the occurrence of a contingent event that is outside the employee's control does not require classifying the option or similar instrument as a liability until it becomes probable that the event will occur. FSP No. FAS 123(R)-4 applies only to options or similar instruments issued as part of employee compensation arrangements. The guidance in FSP No. FAS 123(R)-4 was effective for Cinergy as of April 1, 2006. Cinergy adopted SFAS No. 123(R) as of January 1, 2006 (see Note 3). The adoption of FSP No. FAS 123(R)-4 did not have a material impact on Cinergy's consolidated results of operations, cash flows, or financial position.

FSP No. FAS 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" (FSP No. FAS 115-1 and 124-1). The FASB issued FSP No. FAS 115-1 and 124-1 in November 2005, which was effective for Cinergy and its subsidiaries beginning January 1, 2006. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations," and APB Opinion No. 18. The

adoption of FSP No. FAS 115-1 and 124-1 did not have a material impact on Cinergy's consolidated results of operations, cash flows, or financial position.

FSP No. FIN 46 (R)-6, "Determining the Variability to Be Considered In Applying FASB Interpretation No. 46(R) (FSP No.FIN 46(R)-6)." In April 2006, the FASB staff issued FSP No. FIN 46 (R)-6 to address how to determine the variability to be considered in applying FIN 46(R), *"Consolidation of Variable Interest Entities"*. The variability that is considered in applying FIN 46(R) affects the determination of whether the entity is a variable interest entity (VIE), which interests are variable interests in the entity, and which party, if any, is the primary beneficiary of the VIE. The variability affects the calculation of expected losses and expected residual returns. This guidance is effective for all entities with which Cinergy first becomes involved or existing entities for which a reconsideration event occurs after July 1, 2006. The adoption of FSP No. FIN 46 (R)-6 did not have a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

EITF Issue No. 05-1, "Accounting for the Conversion of an Instrument that Becomes Convertible Upon the Issuer's Exercise of a Call Option" (EITF No. 05-1). In June 2006, the EITF reached a consensus on EITF No. 05-1. The consensus requires that the issuance of equity securities to settle a debt instrument (pursuant to the instrument's original conversion terms) that became convertible upon the issuer's exercise of a call option be accounted for as a conversion if the debt instrument contained a substantive conversion feature as of its issuance date. If the debt instrument did not contain a substantive conversion option as of its issuance date, the issuance of equity securities to settle the debt instrument should be accounted for as a debt extinguishment. The consensus was effective for Cinergy for all conversions within its scope that resulted from the exercise of call options beginning July 1, 2006. The adoption of EITF No. 05-1 did not have a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

The following new accounting standards have been issued but have not yet been adopted by Cinergy and its subsidiaries as of September 30, 2006:

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB SFAS No. 133 and 140" (SFAS No. 155). In February 2006, the FASB issued SFAS No. 155, which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*,"* (SFAS No. 140). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for at fair value at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for Cinergy for all financial instruments acquired, issued, or subject to remeasurement after January 1, 2007, and for certain hybrid financial instruments that have been bifurcated prior to the effective date, for which the effect is to be reported as a cumulative-effect adjustment to beginning retained earnings. Cinergy does not anticipate the adoption of SFAS No. 155 will have any material impact on its consolidated results of operations, cash flows, or financial position.

SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB SFAS No. 140" (SFAS No. 156). In March 2006, the FASB issued SFAS No. 156, which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*,"*. SFAS No. 156 requires recognition of a servicing asset or liability when an entity enters into arrangements to service financial instruments in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to subsequently measure its servicing assets or servicing liabilities using either an amortization method or a fair value method. SFAS No. 156 is effective for Cinergy and its subsidiaries as of January 1, 2007, and must be applied prospectively, except that where an entity elects to remeasure separately recognized existing arrangements and reclassify certain available-for-sale securities to trading securities, any effects must be reported as a cumulative-effect adjustment to retained earnings. Cinergy is currently evaluating the impact of adopting SFAS No. 156 on its accounts receivable sales program. Currently, Cinergy is unable to predict whether the implementation of this accounting standard will have a material impact on its consolidated results of operations, cash flows, or financial position.

SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands

disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, in some cases, the application of SFAS No. 157 may change Cinergy's current practice for measuring and disclosing fair values under other accounting pronouncements that require or permit fair value measurements. For Cinergy, SFAS No. 157 is effective as of January 1, 2008 and must be applied prospectively except in certain cases. Cinergy is currently evaluating the impact of adopting SFAS No. 157, and cannot currently estimate the impact of SFAS No. 157 on its consolidated results of operations, cash flows or financial position.

SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment to of FASB Statements No. 87, 88, 106, and 132(R)*" (SFAS No. 158).* In October 2006, the FASB issued SFAS No. 158, which changes the recognition and disclosure provisions and measurement date requirements for an employer's accounting for defined benefit pension and other postretirement plans. The recognition and disclosure provisions require an employer to (1) recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position, (2) recognize as a component of OCI, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, and (3) disclose in the notes to financial statements certain additional information. SFAS No. 158 does not change the amounts recognized in the income statement as net periodic benefit cost. Cinergy is required to initially recognize the funded status of its defined benefit pension and other postretirement plans and to provide the required additional disclosures as of December 31, 2006. Retrospective application is not permitted. Cinergy anticipates that adoption of SFAS No. 158 recognition and disclosure provisions will result in an increase in total assets of approximately $10 million, an increase in total liabilities of approximately $26 million and a decrease in accumulated other comprehensive income, net of tax, of approximately $16 million as of December 31, 2006. Cinergy does not anticipate the adoption of SFAS No. 158 will have any material impact on its consolidated results of operations or cash flows.

Under the measurement date requirements of SFAS No. 158, an employer is required to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Historically, Cinergy has measured its plan assets and obligations up to three months prior to the fiscal year-end, as allowed under the authoritative accounting literature. The measurement date requirement is effective for the year ending December 31, 2008, and early application is encouraged. Cinergy intends to adopt the change in measurement date effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date, pursuant to the transition requirements of SFAS No. 158. Net periodic benefit cost for the three-month period between September 30, 2006 and December 31, 2006 will be recognized, net of tax, as a separate adjustment of retained earnings as of January 1, 2007, except for any gain or loss arising from any curtailment or settlement, if any, during that three-month period, which would be recognized in earnings in 2006. Additionally, changes in plan assets and plan obligations between September 30, 2006 and December 31, 2006 not related to net periodic benefit cost will be recognized, net of tax, as an adjustment to Other Comprehensive Income (OCI).

SAB No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB No. 108). In September 2006 the SEC issued SAB No. 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Traditionally, there have been two widely-recognized approaches for quantifying the effects of financial statement misstatements. The income statement approach focuses primarily on the impact of a misstatement on the income statement--including the reversing effect of prior year misstatements--but its use can lead to the accumulation of misstatements in the balance sheet. The balance sheet approach, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach (a "dual approach") and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB No. 108 is effective for Cinergy's year ending December 31, 2006. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been used or (ii), under certain circumstances, recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Cinergy currently uses a dual approach for quantifying identified financial statement misstatements. Therefore,

Cinergy does not anticipate the adoption of SAB No. 108 will have any material impact on its consolidated results of operations, cash flows or financial position.

FIN No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN No. 48) On July 13, 2006, the FASB issued FIN No. 48, which interprets SFAS No. 109, "Accounting for Income Taxes." FIN No. 48 provides guidance for the recognition, measurement, classification, and disclosure of the financial statement effects of a position taken or expected to be taken in a tax return ("tax position"). The financial statement effects of a tax position must be recognized when there is a likelihood of more than 50 percent that, based on technical merits, the position will be sustained upon examination and resolution of the related appeals or litigation processes, if any. A tax position that meets the recognition threshold must be measured initially and subsequently as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. The Interpretation is effective for Cinergy as of January 1, 2007. Cinergy is currently evaluating the impact of adopting FIN No. 48, and cannot currently estimate the impact of FIN No. 48 on its consolidated results of operations, cash flows or financial position.

FSP No. FAS 123(R)-5, "Amendment of FASB Staff Position FAS 123(R)-1" (FSP No. FAS 123(R)-5). In October 2006, the FASB staff issued FSP No. FAS 123(R)-5 to address whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FSP No. FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R) (FSP No. FAS 123(R)-1)." In August 2005, the FASB staff issued FSP FAS 123(R)-1 to defer indefinitely the effective date of paragraphs A230–A232 of SFAS No. 123(R), and thereby require entities to apply the recognition and measurement provisions of SFAS No. 123(R) throughout the life of an instrument, unless the instrument is modified when the holder is no longer an employee. The recognition and measurement of an instrument that is modified when the holder is no longer an employee should be determined by other applicable generally accepted accounting principles. FSP No. FAS 123(R)-5 addresses modifications of stock-based awards made in connection with an equity restructuring and clarifies that for instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or the measurement (due to a change in classification) of those instruments will result if certain conditions are met. This FSP is effective for Cinergy as of January 1, 2007. Cinergy is currently evaluating the impact of adopting FSP No. FAS 123(R)-5 and cannot currently estimate the impact of adopting FAS 123(R)-5 on its consolidated results of operations, cash flows or financial position.

FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities," (FSP AUG AIR-1). In September 2006, the FASB Staff issued FSP No. AUG AIR-1. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods, if no liability is required to be recorded for an asset retirement obligation based on a legal obligation for which the event obligating the entity has occurred. The FSP also requires disclosures regarding the method of accounting for planned major maintenance activities and the effects of implementing the FSP. The guidance in this FSP is effective for Cinergy as of January 1, 2007 and will be applied and retrospectively for all financial statements presented. Cinergy does not anticipate the adoption of FSP No. AUG-AIR-1 will have any material impact on its consolidated results of operations, cash flows or financial position.

Emerging Issues Task Force (EITF) Issue No. 06-3, "*How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF No. 06-3)*." In June 2006, the EITF reached a consensus on EITF No. 06-3 to address any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales, use, value added, and some excise taxes. For taxes within the Issue's scope, the consensus requires that entities present such taxes on either a gross (i.e., include in revenues and costs) or net (i.e., exclude from revenues) basis according to their accounting policies, which should be disclosed. If such taxes are reported gross and are significant, entities should disclose the amounts of those taxes. Disclosures may be made on an aggregate basis. The consensus is effective for Cinergy beginning January 1, 2007; however, Cinergy and its subsidiaries have disclosed the impacts of certain excise taxes on their revenues. (See Note 1) Cinergy does not anticipate the adoption of EITF Issue 06-3 will have any material impact on its consolidated results of operations.

EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4" (EITF No. 06-5). In June 2006, the EITF reached a consensus on the accounting for corporate-owned and bank-owned life insurance policies. EITF No. 06-5 requires that a policyholder consider the cash surrender value and any additional amounts to be received under the contractual terms of the policy in determining the amount that could be realized under the insurance contract. Amounts that are recoverable by the policyholder at the discretion of the insurance company must be excluded from the amount that could be realized. Fixed amounts that are recoverable by the policyholder in future periods in excess of one year from the surrender of the policy must be recognized at their present value. EITF No. 06-5 is effective for Cinergy as of January 1, 2007 and must be applied as a change in accounting principle through a cumulative-effect adjustment to retained earnings or other components of equity as of January 1, 2007. Cinergy is currently evaluating the impact of adopting EITF No. 06-5, and cannot currently estimate the impact of EITF No. 06-5 on its consolidated results of operations, cash flows or financial position.

17. Income Tax Expense

Although the outcome of tax audits is uncertain, management believes that adequate provisions for income and other taxes have been made for potential liabilities resulting from such matters. As of September 30, 2006, Cinergy has total provisions of approximately $39 million for uncertain tax positions, as compared to approximately $56 million as of December 31, 2005, including interest. Management is not aware of any issues for open tax years that upon final resolution are expected to have a material adverse effect on Cinergy's consolidated results of operations, cash flows or financial position.

The effective tax rate on income from continuing operations for the three months ended September 30, 2006 was approximately 40.2% as compared to the effective tax rate of 14% for the same period in 2005. The effective tax rate on income from continuing operations for the six months ended September 30, 2006 was approximately 40.7% as compared to the effective tax rate of 18.5% for the nine-month period ended September 30, 2005. The increase in the effective tax rate for the three and six months ended September 30, 2006 as compared to the same periods in the prior year primarily relates to expected lower synthetic fuel tax credits in 2006 as compared to 2005 due to the high price of oil. The accrual of additional income taxes made during the third quarter of 2006 establishes a year to date effective tax rate which is reflective of the ongoing operations of Cinergy.

18. Severance

Merger-Related Obligations

Several of Cinergy's benefit plans contain "change-in-control" clauses that provide enhanced, and/or accelerated benefits to management level employees in the event of a qualifying transaction such as occurred with the consummation of the merger with Duke Energy as discussed in Note 2. These include benefits paid pursuant to the LTIP and certain payments under Cinergy's Annual Incentive Plan. Certain employees are also entitled to additional severance and benefits in the event they are involuntarily terminated without "cause" or voluntarily terminate for "good reason" (as such terms are defined in their employment agreements) in connection with or following the merger.

On December 30, 2005, Cinergy entered into agreements with 28 employees to accelerate the payment of a portion of the amounts discussed above, otherwise expected to be paid after December 31, 2005. Payments totaling $70 million were made in December pursuant to these agreements. The agreements amended the employees' employment agreements, and benefit plans in which they participate, to accelerate into 2005 the payment of certain amounts that they have previously earned or are expected to earn after December 31, 2005. Among other things, Cinergy prepaid performance shares under the LTIP and severance payments for certain individuals. In the event an employee who received such amounts voluntarily terminated his or her employment prior to the closing of the merger, the employee would have been obligated to repay all of the payments, and if the merger did not close on or prior to December 15, 2006, the employee would have been obligated to repay half of the payments, to reflect his or her estimated tax liability upon receipt of the accelerated payments; in each case, less any amounts that the employee has already earned through such date. None of the 28 employees invoked this payback provision. By accelerating these payments, Cinergy mitigated taxes and related expenses that it would otherwise have incurred if it had waited until after 2005 to make these payments.

The majority of these payments were recorded as prepaid compensation in Current Assets - Other. Approximately half of these payments were accounted for as a retention bonus and expensed over the period between January 1, 2006 and the closing of the merger with Duke Energy. The remainder, representing the half that executives must repay if the merger was never consummated, remained in Current Assets - Other until the merger closed and were accounted for as part of purchase/push-down accounting.

In addition to payments made in December, based on certain assumptions and using Cinergy's current best estimates, Cinergy's remaining contractual obligations that were triggered upon merger consummation, including severance payments for those executives that have indicated their intention to terminate for "good reason", were approximately $90 million ($42 million of which is related to severance), and these amounts were accounted for in April 2006 when the merger closed. The payments will be paid in 2006 and, under certain circumstances, in subsequent years. These payments only included amounts payable pursuant to existing benefit arrangements, employment contracts, and severance accepted by employees and contingent on the merger closing. These payments do not include the value of accelerated stock options and retirement benefits earned prior to the merger.

Below is a table showing the reconciliation of changes in the severance provision from April 1, 2006 to September 30, 2006:

Balance at April 1, 2006[(1)]	**Provision**[(2)]	**Cash Reductions**	**Balance at September 30, 2006**
		(in millions)	
$ 42	$ 6	$ (26)	**$ 22**

(1) Of the $42 million recorded to severance as of April 1, 2006, $38 million was recorded in goodwill, $3 million was charged to operating expenses, and $1 million was recorded in regulatory assets.

(2) The $6 million recorded to severance during the six months ended September 30, 2006 was charged to operating expenses.

19. Subsequent Events

For information on subsequent events related to discontinued operations, risk management instruments and regulatory matters, see Notes 9, 11 and 12, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report and the combined Form 10-K for the year ended December 31, 2005 (2005 10-K). Cinergy Corp. (Cinergy) has reclassified certain prior-year amounts in the consolidated financial statements to conform to current presentation (See Note 1 of the Consolidated Financial Statements for further details). The following discussions of results are not necessarily indicative of the results to be expected in any future period.

CINERGY MERGER WITH DUKE ENERGY

On April 3, 2006, in accordance with their previously announced merger agreement, Duke Energy Corporation (Old Duke Energy) and Cinergy merged into wholly owned subsidiaries of Duke Energy Holding Corp. (Duke Energy HC), resulting in Duke Energy HC becoming the parent entity. In connection with the closing of the merger transactions, Duke Energy HC changed its name to Duke Energy Corporation ("New Duke Energy" or "Duke Energy") and Old Duke Energy converted into a limited liability company named Duke Power Company LLC. As a result of the merger transactions, each outstanding share of Cinergy common stock was converted into 1.56 shares of Duke Energy common stock which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. Both Old Duke Energy and New Duke Energy are referred to as Duke Energy herein.

The merger has been accounted for under the purchase method of accounting with Duke Energy treated as the acquirer for accounting purposes. As a result, the assets and liabilities of Cinergy were recorded at their respective fair values as of April 3, 2006. Except for an adjustment related to pension and other postretirement benefit obligations, as mandated by Statement of Financial Accounting Standards (SFAS) No. 87, "*Employers' Accounting for Pensions*" and SFAS No. 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*," the accompanying consolidated financial statements do not reflect any pro forma adjustments related to Cinergy's regulated operations that are accounted for pursuant to SFAS No. 71, "*Accounting for the Effects of Certain Types of Regulation*," (SFAS No. 71) which are comprised of Duke Energy Ohio, Inc's regulated transmission and distribution and Duke Energy Kentucky, Inc. Under the rate setting and recovery provisions currently in place for these regulated operations which provide revenues derived from cost, the fair values of the individual tangible and intangible assets and liabilities are considered to approximate their carrying values.

The fair values of the assets acquired and liabilities assumed are preliminary and are subject to change as valuation analyses are finalized and remaining information on the fair values is received. However, Cinergy does not currently anticipate any such changes to have a material impact on its consolidated results of operations, cash flows, or financial position.

As discussed above, in connection with the merger, Duke Energy issued 1.56 shares of Duke Energy common stock for each outstanding share of Cinergy common stock, which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. Based on the market price of Duke Energy common stock during the period, including the two trading days before, through the two trading days after May 9, 2005, the date Duke Energy and Cinergy announced the merger, the transaction is valued at approximately $9.1 billion and has resulted in preliminary goodwill for Cinergy of approximately $4.5 billion. The amount of goodwill results from significant strategic and financial benefits expected to be realized by Cinergy including:

- increased financial strength and flexibility;
- stronger utility business platform;
- greater scale and fuel diversity, as well as improved operational efficiencies for the merchant generation business;
- broadened electric distribution platform;
- improved reliability and customer service through the sharing of best practices;
- increased scale and scope of the electric and gas businesses with stand-alone strength;
- complementary positions in the Midwestern United States (Midwest);
- greater customer diversity;
- combined expertise; and

- significant cost savings synergies.

As discussed in Note 1 of the Consolidated Financial Statements, purchase accounting impacts, including goodwill recognition, have been "pushed down" to Cinergy, resulting in the assets and liabilities of Cinergy being recorded at their respective fair values as of April 3, 2006.

RESULTS OF OPERATIONS

Basis of Presentation

The Results of Operations discussion for Cinergy is presented in a reduced disclosure format.

Results of Operations and Variances

Summary of Results for the six months ended September 30 (in millions)

	Six Months Ended September 30,		
	Successor[1] **2006**	**Predecessor**[1] 2005	Increase (Decrease)
Operating revenues	**$ 2,652**	$ 2,302	$ 350
Operating expenses	**2,396**	2,060	336
(Losses) gains on sales of other assets and other, net	**(8)**	73	(81)
Operating income	**248**	315	(67)
Equity in earnings of unconsolidated affiliates	**13**	20	(7)
Other income and expenses, net	**46**	30	16
Interest expense	**162**	147	15
Minority interest benefit	**-**	(3)	3
Preferred dividend requirement of subsidiaries	**-**	1	(1)
Income tax expense from continuing operations	**59**	40	19
Income from discontinued operations, net of tax	**9**	3	6
Net income	**$ 95**	$ 183	$ (88)

(1) See Note 1 of the Consolidated Financial Statements for additional information on Predecessor and Successor reporting.

Net Income

The 48 percent decrease in Cinergy's net income was primarily due to the following factors:

Operating Revenues

Increased operating revenues were primarily due to the following factors:

- Increased retail operating revenues from Cinergy's Market-Based Standard Service Offer (MBSSO), primarily due to its implementation for residential customers in Ohio beginning in January 2006 and increased revenues from non-residential customers related to the timing of collection of fuel and other costs;
- An increase in fuel revenues in Indiana driven by new rates implemented in second quarter 2006 to compensate for the under-collection of fuel costs from customers in 2005 and first quarter of 2006;
- An increase in Ohio's retail distribution base rate implemented in January 2006;
- The contribution by Duke Energy of its five Midwest generating plants to Cinergy in the second quarter of 2006; and
- Mark-to-market (MTM) gains on generation power hedges.

Partially offsetting these increases were the following factors:

- A decline in sales of synthetic fuel due to the facilities being idle for most of the second and third quarters of 2006;
- Milder weather in 2006 as compared to 2005; and
- Temporary rate reductions associated with regulatory approvals of the Duke Energy merger.

Operating Expenses

Increased operating expenses were primarily due to the following factors:

- Increased fuel costs associated with the increases in Ohio retail revenues discussed above;
- An increase in fuel costs in Indiana driven by the under-collection of fuel costs from customers in 2005 and first quarter of 2006;
- Purchase accounting adjustments and related amortization recorded in the second quarter of 2006;
- Increase in reserves associated with the clean up of manufactured gas plant sites in Indiana;
- Costs incurred as a result of the Duke Energy merger, including integration costs and corporate allocations;
- Operating expenses related to the contribution by Duke Energy of its five Midwest generating plants to Cinergy in the second quarter of 2006; and
- MTM losses on generation fuel hedges.

Partially offsetting these increases was a decrease in costs of fuel resold due to the synthetic fuel facilities being idle for most of the second and third quarters of 2006.

(Losses) Gains on Sales of Other Assets and Other, net

The decrease in (Losses) Gains on Sales of Other Assets and Other, net is due to the decrease in Emission allowance sales activity due to less volatility in power and coal market prices. The decrease is also due to the impacts of purchase accounting resulting in emission allowances being reflected on the balance sheet at their estimated fair values as of April 1, 2006. Prior to the impacts of purchase accounting, these emission allowances had a lower carrying value, resulting in larger gains on sales.

Other Income and Expenses, net

The increase in Other Income and Expenses, net was primarily due to an increase in Allowance for Funds Used during construction related to equity resulting form additional capital spending for on-going construction projects relating to assets not yet placed in service. The increase was also due to and increase in interest income primarily related to the sale of trade receivables.

Income Tax Expense from Continuing Operations

The increase in Income Tax Expense from Continuing Operations was due to an increase in pre-tax earnings. The effective tax rate on income from continuing operations for the six months ended September 30, 2006 was 40.7% as compared to the effective tax rate of 18.2% for the same period in 2005. The increase in the effective tax rate primarily relates to lower synthetic fuel tax credits expected to be realized in 2006 as compared to 2005 due to lower synthetic fuel generation.

Discontinued Operations, net of tax

Income from Discontinued Operations, net of tax, for 2006 and 2005 is primarily related to the marketing and trading operations, which were classified as discontinued operations in connection with the June 2006 announcement to sell Cinergy Marketing & Trading, LP (Marketing & Trading), and Cinergy Canada, Inc., as well as associated contracts, to Fortis.

Basis of Presentation

Results of Operations and Variances

Summary of Results for the three months ended March 31 (in millions)

	Three Months Ended March 31,		
	Predecessor[1]		
	2006	2005	Increase (Decrease)
Operating revenues	**$ 1,576**	$ 1,249	$ 327
Operating expenses	**1,443**	1,094	349
Gains on sales of other assets and other, net	**26**	31	(5)
Operating income	**159**	186	(27)
Equity in earnings of unconsolidated affiliates	**4**	5	(1)
Other income and expenses, net	**16**	3	13
Interest expense	**86**	64	22
Minority interest benefit	**(2)**	-	(2)
Preferred dividend requirement of subsidiaries	**-**	1	(1)
Income tax expense from continuing operations	**17**	25	(8)
Income from discontinued operations, net of tax	**4**	13	(9)
Cumulative effect of a change in accounting principle, net of tax	**(3)**	-	(3)
Net income	**$ 79**	$ 117	$ (38)

[1] See Note 1 of the Consolidated Financial Statements for additional information on Predecessor and Successor reporting.

Net Income

The 32 percent decrease in net income was primarily due to the following factors:

Operating Revenues

Increased operating revenues were primarily due to the following factors:

- An increase in retail operating revenues from the MBSSO, primarily due to its implementation for residential customers in Ohio beginning in January 2006;
- Increased revenues from non-residential customers related to the timing of collection of fuel, purchased power, and emission allowance costs;
- MTM gains on generation power hedges;
- An increase in the average price received per megawatt hour (MWH), primarily due to the return of certain retail customers to full electric service in Ohio;
- An increase in retail distribution base rates implemented in January 2006;
- Increased revenues at the synthetic fuel facilities, primarily related to a new facility purchased in the second quarter of 2005; and
- The timing of gas cost recovery.

Partially offsetting these increases was a decrease due to milder weather in the first quarter of 2006, as compared to 2005.

Operating Expenses

Increased operating expenses were primarily due to the following factors:

- An increase in costs of fuel sold at the synthetic fuel facilities, primarily related to a new facility purchased in the second quarter of 2005;
- An increase in operation, maintenance and other expenses, including significant merger related costs in the first quarter of 2006; and
- MTM losses on generation fuel hedges.

Interest Expense

The increase in Interest Expense is primarily due to interest on a tax contingency and an increase in average long-term debt outstanding.

Discontinued Operations, net of tax

Income from Discontinued Operations, net of tax, for 2006 and 2005 is primarily related to the marketing and trading operations, which were classified as discontinued operations in connection with the June 2006 announcement to sell Marketing & Trading, and Cinergy Canada, Inc., as well as associated contracts, to Fortis. The lower results from Income from Discontinued Operations, net of tax, was primarily due to lower trading activity during 2006 as compared to 2005.

Other

Cinergy's estimated costs associated with the potential construction of an Integrated Gasification and Combined Cycle plant in Indiana have increased. Cinergy's publicly filed testimony with the Indiana Utility Regulatory Commission indicates that industry (EPRI) total capital requirement estimates for a facility of this type and size are now in the range of $1.6 billion to $2.1 billion (including escalation to 2011 and owner's specific site costs).