



James E. Rogers
President and Chief Executive Officer

Dear fellow investors, customers, employees and others who have a vested interest in our success — our policymakers, regulators, suppliers, partners and communities:

The best way to celebrate the traditions and the people of two strong companies is by building an even stronger company on the combined foundations of each.

Cinergy and Duke Energy each have a long and proud history with many successes. Of course, we have each had some missteps, as is true with all companies. However, as a combined company, we will honor our past achievements and the people who came before us by building on their accomplishments. As we plan for the future, we will remember the lessons learned from both our past successes and mistakes.

Combined, we are a very large company. But I am mindful that bigger doesn't necessarily mean better. To me, being better means having a relentless focus on what we do well. It means listening to our stakeholders and then working to balance their sometimes competing needs. It's knowing that we must earn the right to serve all of our stakeholders each and every day.

As the CEO of the new Duke Energy, my number one objective is to create an effective team of dedicated employees who come to work every day with the purpose of earning the right to serve you. Our team must be unrelenting and uncompromising in its drive to deliver on our promises. A team, simply put, that is accountable to be good stewards.

MEETING OUR FUTURE CHALLENGES

In his preceding letter, Paul Anderson gave you a good overview of Duke Energy as a whole. My focus here is primarily on the outlook for our combined franchised electric and gas utilities, competitive Midwest generation, and wholesale marketing and trading businesses. Our merger greatly increases the value of these businesses. We believe they can be significant contributors to our future earnings growth.

As Paul notes in his letter, our industry is stalled between regulation and deregulation. Efforts by states to provide retail customers with energy choices have essentially come to a halt. As federal regulators continue to regionalize our nation's power grid, wholesale competition is taking incremental but uneven steps forward.

Successful companies will be those who can operate comfortably in both regulated and competitive markets and create customer value in each. The new Duke Energy will be one of those companies. Here's why:

We have combined two premier, franchised electric utility businesses with long histories of reliably supplying energy at costs below the national average. Each company is known for its ability to consistently provide superior customer satisfaction. We view low rates and attentive customer service as essential investments in our future growth. One result of low rates and top-tier customer service is increased credibility in the regulatory arena.

Our diverse customer base will benefit from our aspiration to rank among the top performers in our industry for safety, efficiency, low costs, and reliable generation and distribution performance. Also, our fuel diversity — nuclear, coal, gas and hydro — will reduce our sensitivity to volatility caused by changes in commodity costs, weather and economic conditions.

Our combined commercial generation assets straddle the seam between the Midwest ISO and PJM Interconnection regional transmission organizations, two of the most developed and dynamic power markets in the United States. These assets represent a diverse mix of baseload, midmerit and peaking generation that give us the flexibility to meet diverse customer needs in still-evolving competitive supply markets.

Our energy marketing and trading organization is positioned to continue to take advantage of opportunities in competitive gas and electric markets in a low-risk manner. We believe we've created the right size platform with the right level of risk tolerance to be able to contribute steady, incremental earnings to the overall portfolio.

A NEW VALUE PROPOSITION

Over the past decade, we've seen dramatic shifts in how investors view the power industry. Not long ago, the market favored merchant players with greater earnings growth potential but also higher levels of volatility. As the commodity cycle bottomed out, investors exited the merchant sector and returned to traditional regulated utilities. This "back to basics" approach has taken utility stock valuations to record levels for many companies.

As a result, our industry has significantly out-performed the S&P 500 in both 2004 and 2005. Of course, history shows that it is rare for any one industry sector to beat the broader market for three consecutive years. Since interest rates have risen, the utility sector's opportunity to do so for a third consecutive year will be significantly challenged. I hope that 2006 proves history wrong.

But however the industry fares, in my view, our business model allows us to out-perform comparable companies in our industry. We have the ability to deliver stable, predictable earnings from low-cost, regulated operations, and we can also manage low-risk growth in competitive wholesale markets. As such, we believe our combined company will have the earnings diversity and financial flexibility to weather changes in the regulatory landscape and investor sentiment.

With these perspectives as background, and based on the 2006 Charter objectives Paul introduced in his letter, here are our priorities for the rest of this year and beyond:

- **Build an effective management team committed to one company, one stock and one team.** Our team will create a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.
- **Harvest the savings from our merger.** We expect to realize approximately \$650 million in aggregate net savings during the initial five years after the merger closes. These savings will help drive our earnings growth for shareholders and — through equitable sharing mechanisms with customers and shareholders — our aspiration to be a low-cost supplier for our customers.
- **Comply with more stringent environmental rules.** We intend to reduce sulfur dioxide (SO₂), nitrogen oxides (NO_x) and mercury emissions from our coal-fired generation plants with the installation of new pollution control equipment on our largest units. We are also preparing for a future in which we believe new environmental laws and regulations will regulate the emissions of greenhouse gases.
- **Continue planning for new power plant construction to meet longer-term customer demand.** Given the long lead times to build new baseload plants and the increased complexities of environmental compliance, we must place a strong emphasis on developing long-range plans to ensure that we maintain adequate generation reserves in all of our jurisdictions. As we carefully assess estimates of future supply and demand, we will evaluate all types of generation — coal, nuclear, coal gasification, hydroelectric, natural gas and renewable energy. We will continue to find cost-effective ways to lessen our exposure to the economic and environmental risks associated with any one fuel. For example, we intend to relicense our hydroelectric fleet and modernize our most economic coal units.
- **Minimize the impact of volatile fuel prices on customers.** Generation fuel expense is one of the primary drivers of electricity prices. We intend to take advantage of our fuel diversity, purchasing power and efficient fuel delivery systems to minimize the impact of fuel price swings on our customers.
- **Renew our focus on energy conservation and efficiency.** We will pursue policies promoting conservation, efficiency and wise energy use. In the past, our customers benefited from these programs, which help them use less energy without compromising their quality of life. In collaboration with our state utility regulatory commissions and consumer advocates, there is so much more we can and will do.
- **Modernize and expand our aging transmission and distribution systems.** We expect to invest approximately \$2.3 billion in our regulated operations over the next three years to improve the reliability of our regulated gas and electric delivery systems.
- **Maintain low risk in our energy marketing and trading businesses.** We will continue to have a conservative, low-risk focus in our marketing and trading businesses with narrow risk parameters for products offered and committed capital. We will focus strictly on near-term, credit-advantaged opportunities.
- **Support the economic well-being of our communities.** The average organic growth rate of our regulated franchises (demand in kilowatt-hours) is expected to be approximately 1.5 percent over the

next three years. We will work with community and political leaders to focus on local economic development, which should increase this rate over time.

In all, you can expect us to work on these priorities to achieve predictable earnings and dividend growth.

CINERGY — A HISTORY OF SUCCESS

I would like to review my experience at Cinergy both for former Cinergy shareholders who are new to Duke Energy, as well as for those shareholders who owned Duke Energy prior to the merger. I am proud of the people of Cinergy because they bring a rich heritage of accomplishments to this merger. As the new CEO of Duke Energy, I am grounded in this history and inspired to build on these successes. Because we chose not to issue a final Cinergy annual report, I will briefly highlight our accomplishments during Cinergy's nearly 12 years of existence.

Total Return Focus: Since the merger of PSI Energy and Cincinnati Gas & Electric to create Cinergy in 1994, we provided our investors with an average annual total shareholder return of 11.9 percent through 2005. During that time, we beat the S&P 500, the S&P 500 Electric Utility and the Philadelphia Stock Exchange Utility indexes, and we returned approximately \$3.5 billion in cash dividends to shareholders.

Governance Leadership: Institutional Shareholder Services has consistently ranked Cinergy as one of the top 10 companies in the S&P 500 for its governance. I believe this recognition reflects the Cinergy board's consistent focus on what constitutes good corporate governance. The board created one of the first corporate governance committees in the United States in 1994, shortly after the company was formed.

Customer Focused: Our customers enjoy some of the lowest electric and natural gas rates in Ohio and Kentucky. In 2005, our Indiana electric rates were the same as they were in 1988 when I became CEO of PSI Energy, while our investors have earned a fair return. Across the board, our rates are significantly below the national average, and keeping our rates competitive has been a commitment to our customers.

For many years, we've ranked in the top quartile of Midwest utilities for customer satisfaction. For two consecutive years — 2005 and 2006 — our call centers have been certified for providing "An Outstanding Customer Service Experience" by J.D. Power and Associates. We were the first energy company in the United States to earn this prestigious certification.

Emergency Response: I'm proud of the way our employees have responded to emergencies in our communities and elsewhere. Last year, we sent crews to the Gulf States following Hurricanes Katrina and Rita. After a severe ice storm in December, Cinergy crews worked alongside their Duke Power counterparts to restore service to 700,000 customers in the Carolinas. For the last two years, the Edison Electric Institute, our industry's leading trade organization, has recognized our emergency assistance to other utilities.

Employer of Choice: We earned the U.S. secretary of labor's top diversity award for our efforts to recognize the talents and respect the differences of our employees. Also, for nine consecutive years — 1997–2006 — Cinergy was named one of the 100 best companies for working mothers by Working

Mother magazine, and for many of those years we were the only utility listed. Last year, AARP recognized Cinergy as a top employer for employees over age 50.

No Surprises for Regulators and Policymakers: Our relationships with federal, state and local regulators and policymakers have been consistently based on a powerful but simple premise: “No surprises.” Our efforts to balance the needs of our investors and customers resulted in many regulatory wins for both, including most recently, our rate stabilization plan in Ohio and our environmental compliance settlement in Indiana.

Industry Leadership on Public Policy: We worked to mold and shape national energy policy. Along with Duke Energy and other energy companies, we helped to secure passage last year of the Energy Policy Act, probably the most significant energy legislation to be enacted since the 1970s. And we will continue to push for passage of comprehensive multipollutant legislation at the federal level.

Environmental Leadership: As one of the largest users of coal to generate power, we have been a leader on the issue of reducing coal-fired emissions. At the first Cinergy board meeting in 1994, we adopted an environmental leadership pledge — one of the first in our industry. Our pledge illustrated a key operating principle: Accountability starts at the board level.

Cinergy has been one of a handful of utilities with experience in coal gasification. We are using this knowledge to obtain public and private support to build one of the first commercial cleaner-burning coal gasification plants to replace one of our older coal plants.

We earned national recognition for our partnerships on numerous environmental projects. Most recently, the U.S. Department of Energy and the U.S. Environmental Protection Agency recognized Cinergy and BP with its Energy Star award for the operational and environmental efficiency of Cinergy Solutions' cogeneration plant at the BP refinery near Houston.

Over the past 15 years, Cinergy reduced its SO₂ and NO_x emission rates by 50 percent and 45 percent, respectively. Also, we were one of the few utilities that voluntarily committed to reduce our greenhouse gas emissions. In late 2004, we issued our “Air Issues Report to Stakeholders,” and last year we devoted our annual report to climate change. We did this to jump-start a debate on what must be done to prepare our stakeholders for the inevitability of a carbon-constrained world. We owe it to our children and grandchildren to start dealing now with the climate change issue.

Committed to Communities: Our people are involved in virtually every major nonprofit organization in each community we serve. They volunteer their time and talents whenever the need arises. And Cinergy Foundation has given back \$45 million to improve education, community development, health care, social services and culture.

Cinergy has been an industry leader in economic development. We continued to support our communities, even as states such as Ohio were deregulated. We've always considered economic development to be the heart of our organic growth.

Sustainability Leader: Lots of companies talk about sustainability. Many don't think about what it really means. To us, it has meant reducing our environmental footprint in a world where our grandchildren may not be able to take the basics, such as clean air, plentiful water and affordable energy, for granted.

Viewing our business as a whole, we've always known that *responsible actions based on balancing the needs of our stakeholders lead to long-term success*. That is how we have defined sustainability.

In 2005, we were again recognized for sustainability leadership. For the third consecutive year, Cinergy was named to the Dow Jones Sustainability Indexes. We were one of only two utilities in the United States and eight in the world to be so named.

As a further commitment to sustainability, we encourage you to enroll in electronic delivery of our financial information and proxy statements. Besides preserving our natural resources by reducing paper, electronic delivery also significantly reduces the costs of printing and mailing. In 2007, for every shareholder who selects electronic delivery rather than a printed copy of their 2006 Duke Energy annual report, we will donate \$1 to The Nature Conservancy, with whom we've worked on numerous environmental initiatives. (See page 41 for more information.)

EARN THE RIGHT EVERY DAY

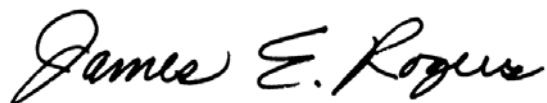
As a combined company, I have no doubt that we will achieve even greater successes in the future. I believe success is about people who want to create a better future. I have confidence that together, this new team of Duke Energy and former Cinergy employees will carry on our best traditions and start new ones.

I thank the employees of Cinergy who have traveled with me on this journey. You never wavered from our vision of "people making history by making a difference." You made a real difference. We would not be where we are today were it not for your hard work and dedication.

I want to thank the past and present officers who helped grow Cinergy into a great company and a great merger partner.

And my thanks to the Cinergy board of directors, especially George Julifs, Tom Petry, Jack Schiff and Phil Sharp, who are departing. Your insights and thoughtful debate helped us to maintain our focus on growth and on serving our stakeholders.

I'm both humbled and excited about being the CEO of Duke Energy. I know it is a company where each of us will strive every day to earn the right to serve you, our stakeholders.



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