



Paul M. Anderson
Chairman of the Board

Dear Fellow Stakeholder,

This report comes to you at an important juncture in our company's history — actually, in the history of two companies.

Many of you have recently become Duke Energy shareholders as a result of our merger with Cinergy. I welcome you to Duke Energy, and I welcome this opportunity to give all of our investors a first glimpse of the combined company. We believe this merger is good for everyone who has a stake in our success, and this report will tell you why. But first, let me recap the events of 2005 that brought us to where we are today.

For Duke Energy, 2005 was a year of transition. We repositioned the company to reduce risk, capture value for shareholders and create a flexible platform for future growth. We took a number of decisive steps and implemented them swiftly, but deliberately. The result is a whole “new” Duke Energy, with a revised business model for our electric operations and greater flexibility for the rest of the portfolio.

CAPTURING VALUE

We began the year by announcing the transfer of a 19.7 percent interest in Duke Energy Field Services (DEFS) to our partner ConocoPhillips for about \$1.1 billion in cash and assets. At the same time, DEFS sold its interest in TEPPCO for another \$1.1 billion. The company used part of those proceeds to buy back 32.6 million shares of common stock, and raised the quarterly dividend by 12.7 percent.

The assets transferred as part of the DEFS/ConocoPhillips deal positioned DEFS to launch a new master limited partnership (DCP Midstream Partners) in the United States, and allowed Duke Energy

Gas Transmission (DEGT) to create a similar investment vehicle in Canada. These tax-efficient vehicles feature a lower cost of capital, allowing us to better compete for future acquisitions.

At the operating level, each of our major businesses met their profit goals while pursuing growth opportunities. Later in this report, you will find their 2005 highlights, along with those of Cinergy's businesses. I would only add that I am quite proud of their performance.

On a less dramatic scale, we continued to reduce our backlog of litigation and to exit from non-core legacy projects and businesses. That relentless focus helped us to exceed our profit targets for the year.

POSITIONING FOR THE FUTURE

We took two major actions to position ourselves for the future. The first was the decision to merge with Cinergy to create the foundation for our future electric business. The second was the decision to exit all of Duke Energy North America's (DENA's) trading positions and operations, except for assets in the Midwest.

For the foreseeable future, it appears that the electric industry will remain stalled somewhere between a regulated/integrated model and an unregulated/disaggregated model. Many states are testing their models, but none appear eager for wholesale change. As a result, the rules of the regulatory game are evolving.

At the same time, increasingly stringent environmental standards, growing concern about greenhouse gases, skyrocketing fossil-fuel prices and a need to develop the next generation of capacity will challenge the industry like it has never been challenged before. Massive investments will be required at a time when customers are becoming more and more concerned about price and reliability.

The combination of these factors will drive the industry to create super-regional consolidated players that have economies of scale, financial strength and organizational flexibility. It is a pattern we have seen in banking and other industries under similar circumstances.

Duke Energy intends to be a consolidator in this new environment. The merger with Cinergy is a first step, providing not only scale and diversity, but also an opportunity to remodel our electric business to better face future challenges, while continuing to provide reliable and affordable service to our customers. The new model provides the opportunity for growth beyond Duke Power's historical service territory, giving our electric operations the scale and flexibility to operate as a stand-alone business in this changing environment.

REDUCING RISK

Our newly combined electric fleet uses a diverse combination of fuels — nuclear, coal, gas and hydro — reducing our dependence on any one commodity. We also operate in diverse markets, blending higher-growth opportunities in the Carolinas with more moderate but steady growth in the Midwest. Our geographic diversity reduces year-to-year weather volatility. And operations in five separate regulatory

jurisdictions allow us to pursue regulatory initiatives specific to the needs of customers in each service area, while broadly applying best practices in customer service.

Our decision to exit DENA outside the Midwest was a logical follow-on to our decision to merge with Cinergy. DENA's gas-fired plants in the Midwest complement Cinergy's merchant assets, providing a more flexible fleet in the short term and reduced environmental compliance costs in the longer term. However, much of the rest of DENA's portfolio was encumbered by long-dated contracts that limited our ability to develop a sustainable business model. We ultimately decided that we would realize the greatest shareholder value by exiting DENA's operations outside the Midwest.

We have disposed of most of DENA's electricity and natural gas contracts, and expect to close on the pending sale of our remaining eight merchant power plants, as well as unwind any remaining contracts, by mid-year. The net result of our exit from DENA is a substantial reduction in market risk and a much more focused merchant operation.

ASSESSING OUR PERFORMANCE

Our Charter provides four measures of success which are useful in assessing our performance in 2005. We feel we did well against all of them.

Our investors realize a superior return on their investment.

It was a good year relative to the S&P 500. We provided total shareholder return (TSR) of 13 percent, compared to the S&P's TSR of just under 5 percent. However, we fell short of the Dow Jones Utilities' 25 percent. We attribute that lag to uncertainties around the merger with Cinergy, as investors stood by to see if and when it would come to fruition. Now that the merger is complete, we're expecting to see a rebound in the stock price.

Shareholders did see their annual dividend increase to \$1.24 per share in 2005, and ongoing basic earnings per share were \$1.79, topping our employee incentive target of \$1.65.

Our customers and suppliers benefit from our business relationships.

The year 2005 will long be remembered for its devastating hurricanes. Duke Power crews were there — more than 1,500 employees and contractors — to help rebuild the electric grid after Katrina and Rita hit the Gulf Coast. Not a single contracted DEGT customer missed a delivery during the hurricanes, thanks to our storage capacity and some creative solutions — like building a new interconnect to bypass a heavily damaged processing plant. DEGT is also working with industry peers on new standards to ensure pipeline and storage facility safety in case of future disasters.

Customers ranked Duke Power "Highest in Customer Satisfaction With Residential Electric Service in the Southern U.S.," based on a 2005 J.D. Power and Associates study and, in a separate benchmark survey conducted by TQS Research, manufacturing and institutional customers ranked the utility first in the Southeast and third nationally.

As for suppliers, we are encouraging them to improve safety for their employees, and many are following our lead. We are also working to improve supplier diversity — we made progress in 2005, but we can still do better.

The communities in which we operate value our citizenship.

Our employees, retirees and The Duke Energy Foundation gave more than \$800,000 in hurricane and tsunami relief. We gave more than \$5 million to the U.S. United Way and more than \$1 million to the Canadian United Way in 2005. Total Foundation and companywide giving for the year — including in-kind donations, contributions from employees and retirees, and the value of volunteer service — exceeded \$32 million.

Employees collected tons of food and other essentials for displaced hurricane victims, and thousands of Duke Energy employees and retirees completed some 450 community service projects during our 2005 Global Service Event. Employees also received financial support for their volunteer projects with more than \$200,000 in grants from the Foundation. On this page you will find examples of the many ways our communities recognized Duke Energy for business integrity and environmental stewardship in 2005.

Every employee starts each day with a sense of purpose, and ends each day with a sense of accomplishment.

Overall employee satisfaction is at its highest level in more than five years. In our 2005 employee survey, most employees expressed confidence in the company's future and pride in Duke Energy and their work. Nine out of 10 employees ranked the company favorably for environmental, health and safety practices.

In 2005 we made a recommitment to professional development, which had been somewhat on the back burner for several years. Employees seized those opportunities — training hours were up 83 percent in 2005 over 2004. Along with other members of the executive team, I personally participated in advanced leadership training for some 2,700 managers.

For 2006, we're adding to this measure of success — that employees end each day **safely**. The year 2005 was a sad one for five families who lost fathers and husbands who were contractors

Community Recognition in 2005

- An Environmental Excellence Award from the Southern Gas Association for DEGT's leadership in developing the Texas Corporate Wetlands Restoration Partnership.
- The Newcomen Award honoring Duke Power for its outstanding business accomplishments, stewardship and integrity. Duke Power is the only three-time recipient of the award.
- A Corporate Stewardship Award from the South Carolina Department of Archives and History for archaeology and historic preservation at Crescent Resources' Palmetto Bluff community.
- An Environmental Achievement and Education Award to DEGT from the City of Calgary for development of an Urban Ecology Program for schools.
- An Award of Recognition from the British Columbia School Superintendents Association for DEGT's contributions to public education through the Northern Opportunities program.
- A Corporate Plus Award from the Charlotte chapter of INROADS for Duke Energy's support of the organization's mission to provide internship opportunities for minority students.
- The 2005 Diversity Best Practices Award from the Charlotte Chamber of Commerce, honoring Duke Energy for its multicultural involvement in the community.
- A Community Service Award from the Hale Reservation for Duke Energy's role in restoring the organization's environmental education facilities and preserving natural resources in the Boston area.

at work for Duke Energy. We can't say any year has been truly successful if we don't keep our workers safe.

MOVING FORWARD

Our new Charter objectives spell out what you can expect from us in 2006.

The first imperative is to **establish an industry-leading electric power platform through successful execution of the merger with Cinergy.**

We know that we have to earn the right to pursue other consolidations in the future, by demonstrating that this merger benefits all of our stakeholders — employees, shareholders, customers, regulators and our communities. We intend to do just that.

We will **continue to build a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.**

Both Duke Energy and Cinergy have a deep bench of talent, and we put both companies' best minds to work on an integration plan to create a winning combination of leadership and resources. We share the same business values, and a commitment to serve our stakeholders with integrity from a position of industry leadership. Our compatible company cultures create a strong foundation for organic growth and for future mergers and acquisitions.

We intend to **deliver on our 2006 financial objectives and position the company for growth in 2007 and beyond.**

All employees have an incentive target of \$1.90 per ongoing diluted share in 2006. (This year, we are framing our objectives in terms of diluted as opposed to basic shares, consistent with Wall Street's comparison of earnings on a fully diluted basis.) We see this as a challenging but realistic goal, based on the groundwork we have laid and opportunities ahead. It assumes synergy savings from the merger and a sharing of those savings with customers, but excludes costs to achieve as those are considered one-time items.

Long-term management incentives are tied to total shareholder return. Working safely also remains an important measure of our success. Top leaders will see a 5 percent reduction in their short-term bonus payouts in the event of an employee, contractor or subcontractor fatality in 2006.

We plan to **complete the Duke Energy North America exit and pursue strategic portfolio opportunities.**

With the merger complete, our focus moves to the question of whether to separate our gas and power businesses and to new opportunities for electric utility consolidation. As with the Cinergy merger, our litmus test for all decisions will continue to be the degree to which they create value for investors and other stakeholders.

Finally, we will continue to **build credibility through leadership on key policy issues, transparent communications and excellent customer service.**

Our aggressive position on global climate change ruffled more than a few feathers in 2005. Last year, Cinergy devoted nearly its entire annual report to this issue, so be assured that Jim Rogers shares my commitment to facing facts about its potential effect on our industry. We share a philosophy that it is better to help shape the future with solutions, than to ignore reality and hope the tough problems just go away.

Jim and I also share a strong belief in straightforward communication with our shareholders and all of our constituents, and in providing superior service to customers, the lifeblood of our company. You will read more about Jim's plans as your new CEO in his letter, which follows.

I heartily welcome Jim and our new leaders from Cinergy to Duke Energy's management team. I will continue in my leadership role as chairman of the board. Let me take this opportunity to also welcome our new board members — Bill Barnet and Jim Hance, who joined the board in 2005, and five new board members from Cinergy — Michael Browning, Phil Cox, Mary Schapiro, Dudley Taft and of course Jim Rogers. Our outgoing board members, Max Lennon and Jim Martin, deserve special thanks for their years of dedicated service during a turbulent period in our company's history.

As I settle into my role as chairman, I thank you for your support during my time as CEO. When I accepted that position in November 2003, my objective was to restore our credibility and financial health, and meet the needs of our stakeholders. Thanks to your support and the contributions of thousands of employees, we have largely achieved those goals.

I now feel comfortable handing over the CEO role to Jim Rogers, who shares my strong belief in the future of Duke Energy and its people. It is a good feeling to know that I am leaving in his capable hands a company that is financially strong, has a bright future and is positioned to be an industry leader.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul M. Anderson". The signature is fluid and cursive, with a large initial "P" and "A".

Paul M. Anderson
Chairman of the Board

April 3, 2006



2006 Duke Energy Charter

We are Duke Energy, a leading energy company located in the Americas with an affiliated real estate operation.

Our purpose is to create superior and sustainable value for our customers, employees, communities and investors through the production, conversion, delivery and sale of energy and energy services.

To be a leader in a new era of growth, we must:

- Establish an industry-leading electric power platform through successful execution of the merger with Cinergy.
- Continue to build a high-performance culture focused on safety, diversity and inclusion, employee development, leadership and results.
- Deliver on our 2006 financial objectives and position the company for growth in 2007 and beyond.
- Complete the Duke Energy North America exit and pursue strategic portfolio opportunities.
- Build credibility through leadership on key policy issues, transparent communications and excellent customer service.

In conducting our business, we value:

- **Stewardship** – A commitment to health, safety, environmental responsibility and our communities.
- **Integrity** – Ethically and honestly doing what we say we will do.
- **Respect for the Individual** – Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- **High Performance** – Achieving superior business results and stretching our capabilities.
- **Win-Win Relationships** – Having relationships which focus on the creation of value for all parties.
- **Initiative** – Having the courage, creativity and discipline to lead change and shape the future.

We will be successful when:

- Our investors realize a superior return on their investment.
- Our customers and suppliers benefit from our business relationships.
- The communities in which we operate value our citizenship.
- Every employee starts each day with a sense of purpose, and ends each day safely with a sense of accomplishment.