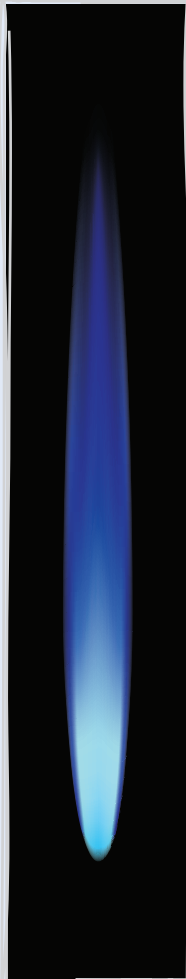


Highlights

- We generated diluted earnings per share of \$1.51 and net income of \$957 million.
- The launch of our master limited partnership, Spectra Energy Partners, returned net proceeds of \$345 million at a record yield of 5.45 percent.
- We maintained a strong balance sheet that will enable us to seize emerging opportunities.
- We reduced corporate and administrative costs by \$20 million – surpassing our target to achieve that level of cost savings by year-end 2008.
- Throughput increased in all of our U.S. pipelines, and our assets under long-term contract received stable cash flows.
- Our midstream natural gas liquids business returned strong earnings.
- We placed 13 strategic new pipeline and storage growth projects into service.

We achieved these successes in increasingly competitive markets with new entrants and despite industry-wide challenges, including escalating costs of materials and services, skilled contract labor shortages and difficulties attracting and retaining top talent. We made progress in addressing these issues in 2007, and we are developing strategies and capabilities to manage them over the long-term.

Natural Gas as a Part of North America's Energy Future



North America faces the dual challenge of addressing global climate change concerns and ensuring a reliable supply of energy to meet growing demand. As the most environmentally friendly fossil fuel, natural gas has an important role to play in addressing both. It is safe, efficient and – with a third less carbon footprint than oil – cleaner burning. The demand for natural gas as the energy source of choice is accelerating as it bridges the gap between today's energy mix and tomorrow's technological solutions.

Since natural gas produces significantly less air pollutants and about half the carbon footprint of coal-fired power plants, the demand for natural gas stands to increase by 50 percent over the next decade as utilities cancel plans for coal-fired plants and increase their reliance on gas-fired plants for electricity generation.

While energy security and environmental concerns encourage renewable alternatives, solar and wind power combined address less than one percent of North America's current energy consumption. Also, both solar and wind power require reliable sources of energy, like natural gas, to even out production variations during peak demand and adverse wind and sunlight conditions.

The landscape of natural gas supply is changing as well. Non-conventional sources of domestic natural gas supply – previously too difficult and costly to produce – are now accessible thanks to technological advances that increase the availability of gas from shale, tight sands and coal-bed methane. Increasing production from the Rockies, North Texas and the mid-continent shales and significant new discoveries in Western Canada and Appalachia have the potential to offset declines from conventional sources and traditional producing regions.

Supply growth is essential, because – unless circumstances change dramatically – the increasing demand for energy and the environmental benefits of natural gas will continue to drive the essential role natural gas will play over the decades ahead.

With our favorable positioning of assets that connect growing supply sources to strong demand markets, we are well-situated to benefit from these trends. Through our expansion projects, we are building the infrastructure to meet the future energy needs of our customers and fueling our continued growth.