

“I will work aggressively to ensure that we enter into this next investment cycle with a stable balance sheet that gives us flexibility to execute our growth plan.”

Chief Financial Officer's Letter

Our company's financial goals are unchanged:

- Provide consistent returns to shareholders every year.
- Maintain a strong balance sheet with flexibility to execute our growth plans.
- Manage our costs and capital expenses to minimize future rate increases.

What has changed is the larger role Detroit Edison and MichCon will play in achieving these objectives. Our two utilities have an opportunity to significantly grow net income as we accelerate the pace of capital investments to improve system infrastructure, meet environmental mandates and build new generation. Our goal is to generate as much as 80 percent to 90 percent of our net income from our utilities, with 10 percent to 20 percent coming from our non-utility businesses.

To begin this shift, in 2007 we continued our very successful restructuring of our non-utility businesses. Actions to simplify our portfolio will generate an estimated \$1.7 billion in cash by early 2008. We will use this cash to return value to shareholders by repurchasing \$1 billion in company stock by year end 2008, and by retiring approximately \$700 million in parent-company debt.

To be successful, we must aggressively manage our costs, improve our customer service, and maintain a constructive relationship with our regulators.



Dave Meador, executive vice president and chief financial officer.

We devoted significant time and energy to continuous improvement over the last two years to help offset the major capital investments under way, or in planning. We identified more than \$300 million in cost reductions, with approximately two-thirds of those initiatives already implemented. This effort was just the beginning.

We are continuing to target performance improvements and cost reductions as a way to carefully manage future rate increases. We're sensitive to the impact of our rates on customers and we're doing everything we can to keep them affordable.

We expect to create significant value for our shareholders over the next five years and beyond. I am committed to attaining 5-percent to 6-percent utility earnings growth and supporting investments in non-utility businesses focused on maximizing shareholder value.

I am proud of our long track record of providing shareholders with a consistently attractive dividend yield. This trend continued in 2007 and as our utility earnings grow, we will consider future dividend increases.

Sincerely,

A handwritten signature in black ink that reads "David E. Meador". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

David E. Meador
*Executive Vice President and
Chief Financial Officer*