

## Governance and Transparency

### 2007 CHALLENGE

- Earn the trust of our stakeholders

### WHAT WE DID IN 2007

- Delivered total shareholder return of more than 9 percent
- Continued to seek and use feedback from stakeholders

### 2007 OPPORTUNITIES

- Differentiate Duke Energy for its strong governance practices
- Achieve synergies and competitive advantages from the Cinergy merger

### WHAT WE DID IN 2007

- Named one of the most ethical companies in the world by *Ethisphere* magazine
- Achieved high scores by various governance rating organizations
- Communicated our forecast to achieve 5 to 7 percent growth in ongoing diluted earning per share through 2012

## Financial performance

Profitability is the foundation of any sustainable business. In 2007, total shareholder return, or change in stock price plus dividends, was more than 9 percent. This exceeded the S&P 500 index of 5.5 percent.

### Financial Highlights

(IN MILLIONS EXCEPT FOR PER SHARE DATA)	2006	2007
<b>Total Operating Revenues</b>	\$10,607	<b>\$12,720</b>
<b>Total Operating Expenses</b>	\$9,210	<b>\$10,222</b>
<b>Net Income</b>	\$1,863	<b>\$1,500</b>
<b>Earnings per Share, Diluted</b>	\$1.57	<b>\$1.18</b>
<b>Dividends per Share</b>	\$1.26	<b>\$0.86</b>
<b>Total Assets</b>	\$68,700	<b>\$49,704</b>
<b>Long-Term Debt</b>	\$18,118	<b>\$9,498</b>

See 2007 Summary Annual Report, "2007 Financial Highlights" for detailed notes and explanations of figures above.

## Influencing legislation and regulation

The greatest risks Duke Energy faces are "stroke of the pen" risks from legislation and regulation. In 2007, we spent approximately \$2.8 million on federal lobbying efforts to ensure the voices of our company, shareholders and other stakeholders were heard. Our lobbyists study proposed bills and regulations, consult with technical and financial specialists, and provide information to lawmakers so they can make informed decisions.

The Honest Leadership and Open Government Act of 2007 was enacted in September to amend parts of the Lobbying Disclosure Act of 1995. Among other provisions, the law now requires quarterly reports of lobbying activity and funding. Our first report under this law will be filed in April 2008.

### WHAT PRICE CLIMATE LEGISLATION?

The importance of Duke Energy participating in the political process can be illustrated by the proposed Lieberman-Warner climate legislation considered by Congress in 2007. If that proposal were to be enacted in its current form, our customers' bills could increase dramatically. We will continue to work with Congress to craft legislation that helps reduce greenhouse gas emissions without unfairly targeting customers who rely primarily on coal for energy generation.

## Political involvement: DUKEPAC

DUKEPAC is a voluntary, nonpartisan political action committee that encourages employee participation in the political process and makes contributions to qualified candidates for public office. Administrative costs associated with operating DUKEPAC are paid by Duke Energy, as allowed by law. Employee contributions, all of which are voluntary, go to federal, state and local candidates. DUKEPAC is governed by a Board of Trustees comprised of company employees. Any DUKEPAC member may make a recommendation on candidates deserving support, but decisions on which candidates receive contributions are made by the DUKEPAC Board.

### DUKEPAC Contributions – 2007

	LOCAL & REGIONAL OFFICE	STATE OFFICE	FEDERAL OFFICE
Indiana	\$500	\$40,250	\$0
Kentucky	\$0	\$2,700	\$0
North Carolina	\$0	\$43,750	\$0
Ohio	\$13,000	\$84,150	\$0
Pennsylvania	\$0	\$2,000	\$0
South Carolina	\$0	\$52,000	\$0
Various States	\$0	\$0	\$137,000
Political Parties	\$0	\$28,950	\$0
Leadership PACS	\$0	\$0	\$71,000
National Parties	\$0	\$0	\$45,000
Other	\$0	\$600	\$0
<b>Total</b>	<b>\$13,500</b>	<b>\$254,400</b>	<b>\$253,000</b>

## Standards of business conduct

All Duke Energy employees are subject to one or more specific codes of ethical conduct. The company conducts computer-based training and/or classes to ensure understanding and compliance with company policies and government regulations. The more far-reaching codes and the employees affected include:

- **Code of Business Ethics** – All employees
- **Code of Business Conduct and Ethics** – Board of Directors
- **Federal Energy Regulatory Commission Standards/Code of Conduct** – Employees with physical or electronic access to transmission or marketing information
- **State Codes of Conduct** – Employees who purchase or account for goods and services within or across state jurisdictions
- **State Ethics Acts** – Employees who interact with state public officials
- **Honest Leadership and Open Government Act (HLOGA)** – Lobbyists as defined by HLOGA

### GRASSROOTS INVOLVEMENT

Voices in Politics (VIP) is Duke Energy's grassroots organization to educate employees on political issues and to seek their support on legislation important to the company. The VIP Web site for employees includes a variety of information, from how to register to vote to the most effective ways to communicate with legislators.

### WORLD'S MOST ETHICAL COMPANIES

Duke Energy has been named one of the World's Most Ethical Companies by *Ethisphere* magazine, a national publication dedicated to the important correlation between ethics and profitability. Only three electric utilities were selected and fewer than 100 companies were identified worldwide.

### REPORTING CONCERNS

Duke Energy strives to provide an environment in which employees feel free to raise work-related concerns without fear of intimidation or retaliation. Employees are encouraged to speak to their supervisors, but may seek resolution by talking to other members of management or to human resource specialists. Those who wish to remain anonymous have access to an independent external reporting system. All allegations are investigated and the results are reported to the Audit Committee of the board of directors.

## Board of directors

An effective board of directors is considered one of the strongest indicators of shareholder value and good governance. Elected annually, the 2008 slate of directors consists of 10 outside members in addition to Jim Rogers, Duke Energy's chairman, president and CEO. Ann Maynard Gray serves as lead director. In 2007, two new directors, Daniel R. DiMicco and Philip R. Sharp, were elected to the board. Information on all board members is available at [www.duke-energy.com/corporate-governance/board-of-directors/board.asp](http://www.duke-energy.com/corporate-governance/board-of-directors/board.asp).

Several corporate governance changes and clarifications were made in 2007. These changes and clarifications included:

- Clarification of the lead director's duties and responsibilities
- Restriction on the number of other public company boards on which our directors may serve
- Implementation of individual directors' annual self-assessments
- Implementation of an annual recommendation by the board of directors regarding a chief executive officer succession plan
- Prohibition on executive officers selling company stock until such officer is in compliance with the company's stock ownership requirements

Following the departure of board members who became directors of Spectra Energy Corp, the Duke Energy board determined that Jim Rogers is its only non-independent director. Additional information on corporate governance can be found at [www.duke-energy.com/investors/default.asp](http://www.duke-energy.com/investors/default.asp).

## Governance ratings

A number of independent organizations evaluate corporate governance. While we do not set goals for each rating, we do use them for benchmarking purposes.

RATING ORGANIZATION	DUKE ENERGY SCORE 2006	DUKE ENERGY SCORE 2007	SCALE
<b>The Corporate Library</b>			
■ TCL Rating	B	B <sup>1</sup>	A-F (no E)
■ Governance Risk Assessment	Low	Low <sup>1</sup>	Low, Moderate or High
<b>RiskMetrics Group – Corporate Governance Quotient (CGQ)</b>			
■ Index Ranking	13.8	91.1 <sup>2</sup>	0-100
■ Industry Ranking	30.7	93.6 <sup>2</sup>	0-100
<b>GovernanceMetrics International</b>			
■ Overall Global	9.0	9.5 <sup>3</sup>	0-10

- 1 As of Dec. 5, 2007. The TCL Rating and Governance Risk Assessment values are published by permission from The Corporate Library LLC. For further explanation and information, go to [www.thecorporatelibrary.com](http://www.thecorporatelibrary.com).
- 2 As of Feb. 7, 2008. The CGQ scores are published by ISS Governance Services. For further information, go to [www.riskmetrics.com](http://www.riskmetrics.com).
- 3 As of Nov. 30, 2007. GovernanceMetrics International score is published by GovernanceMetrics International. For further information, go to [www.gmiratings.com](http://www.gmiratings.com).

## Collaboration and stakeholder engagement

Building bridges from today to a low-carbon future will require the best minds – and best leadership – of our time. Collaboration, communication and stakeholder engagement are defining characteristics of successful corporations. We have actively engaged stakeholders in energy efficiency collaboratives in each of our five states, organized dialogues among national advocacy groups, participated in regional discussions with water-use stakeholders and conducted regular focus group sessions with customers. On page 41, we summarize some of the expectations of our stakeholders and how we respond to them.

## Stakeholder expectations

Duke Energy is committed to balancing the interests of our stakeholders. We have several pathways and programs to hear and respond to stakeholders' needs.

STAKEHOLDERS	EXPECTATIONS	FULFILLMENTS
<b>Customers</b>	<ul style="list-style-type: none"> <li>■ Reasonable costs</li> <li>■ Reliable supply</li> <li>■ Good customer service</li> <li>■ Safe operations</li> <li>■ Minimal air and water emissions</li> <li>■ Energy efficiency advice</li> <li>■ Community involvement</li> </ul>	<ul style="list-style-type: none"> <li>■ Strong management systems</li> <li>■ Efficient cost control practices</li> <li>■ Business relations managers' accessibility</li> <li>■ Customer satisfaction surveys</li> <li>■ Environmental compliance</li> <li>■ Customer communication and Web site information</li> <li>■ Volunteerism</li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>■ Safe workplace</li> <li>■ Competitive pay and benefits</li> <li>■ Open communications</li> <li>■ Career development opportunities</li> <li>■ Fair and consistent treatment</li> <li>■ Strong corporate reputation</li> </ul>	<ul style="list-style-type: none"> <li>■ Safe work practice policies and training</li> <li>■ The Portal (online corporate information resource)</li> <li>■ Career training and development</li> <li>■ Benchmarking with industry peers</li> <li>■ Open Forums with executives</li> <li>■ Confidential ethics hotline</li> <li>■ Community involvement</li> </ul>
<b>Communities</b>	<ul style="list-style-type: none"> <li>■ Economic development</li> <li>■ Involvement with local initiatives</li> <li>■ Public safety</li> <li>■ Employment opportunities</li> <li>■ Volunteerism</li> <li>■ Rapid service restoration</li> </ul>	<ul style="list-style-type: none"> <li>■ Business relations managers' involvement in communities</li> <li>■ Economic development assistance</li> <li>■ Global Service Event and other volunteer efforts</li> <li>■ Duke Foundation grants</li> <li>■ Cooperative service restoration agreements with other utilities</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>■ Fair dealing</li> <li>■ Timely payment</li> <li>■ Opportunities to grow their businesses</li> </ul>	<ul style="list-style-type: none"> <li>■ Supplier Code of Conduct</li> <li>■ Competitive bidding process</li> <li>■ Confidential ethics hotline</li> <li>■ Minority/women/veterans business procurement practices</li> </ul>
<b>Investors</b>	<ul style="list-style-type: none"> <li>■ Competitive returns</li> <li>■ Strong board governance</li> <li>■ Management accountability</li> <li>■ Regulatory compliance</li> <li>■ Strong corporate reputation</li> <li>■ Transparent reporting</li> </ul>	<ul style="list-style-type: none"> <li>■ Strong financial performance</li> <li>■ 82 years of cash dividends</li> <li>■ Comprehensive management and ethics policies</li> <li>■ <a href="http://www.duke-energy.com/investors">www.duke-energy.com/investors</a></li> <li>■ Investment grade credit ratings</li> <li>■ Strong balance sheet</li> </ul>
<b>Regulators</b>	<ul style="list-style-type: none"> <li>■ Reasonable cost and reliable supply</li> <li>■ Regulatory compliance</li> <li>■ Transparent reporting</li> <li>■ Collaborative policy debates</li> <li>■ Community involvement</li> </ul>	<ul style="list-style-type: none"> <li>■ Effective management policies and systems</li> <li>■ "No surprises" practices</li> <li>■ Policy leadership</li> </ul>
<b>Non-Government Organizations</b>	<ul style="list-style-type: none"> <li>■ Transparent reporting</li> <li>■ Accessibility</li> <li>■ Problem-solving engagement</li> <li>■ Research and policy leadership</li> </ul>	<ul style="list-style-type: none"> <li>■ Partnerships and collaboratives on several issues and at various levels</li> <li>■ Annual sustainability and financial reports</li> <li>■ Joint research projects</li> <li>■ Stakeholder dialogues</li> </ul>

## GLOBAL REPORTING INITIATIVE (GRI) BROAD INDEX TO INDICATORS

Although this report is not structured in strict conformity with the GRI guidelines, we provide a broad index below and a more detailed index on our Web site at <http://www.duke-energy.com/environment/global-reporting-initiative.asp>. With this report and online information, we believe we meet Application Level B.

Standard Disclosures  
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Human Rights Indicators  
See our detailed index at [www.duke-energy.com/environment/global-reporting-initiative.asp](http://www.duke-energy.com/environment/global-reporting-initiative.asp).

Society Indicators  
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## Independent review

Duke Energy has invited Business for Social Responsibility (BSR) to conduct an independent review of the company's 2007|2008 Sustainability Report. This is the second year we have provided our analysis of Duke Energy's accomplishments and areas for improvement in reporting sustainability performance following the merger of Cinergy and Duke Energy. It should be noted that our review neither verifies nor expresses an opinion on the accuracy, materiality, or completeness of information provided in this report.

The significant strengths and achievements we observed in this year's report include:

- Linking sustainability and business strategy. This report moves beyond general discussions of sustainability risks and opportunities to show how these considerations have shaped core business decisions. For example, the report highlights how sustainability has informed investment in capital improvements, spurred the creation of a new business model, and is changing the future of Duke Energy's generation portfolio.
- Response to stakeholder concerns about coal and nuclear generation. The CEO letter frankly acknowledges stakeholder concern about the public health and climate change impacts of the new Cliffsides 6 coal-fired plant and outlines the steps the company is taking to minimize and offset its CO<sub>2</sub> emissions. The letter also discusses safe disposal of nuclear waste and Duke Energy's active explorations of alternatives such as fuel recycling.

- Transparency. We observed several instances of open and honest discussion of challenging issues and criticism in the report. Duke Energy successfully communicates the complexity and uncertainty involved in striving to reduce carbon emissions given current business, technical, and regulatory constraints (see p.8-9). The company also directly responds to critics who see a contradiction between its pursuit of increased generation using coal technology and its public commitment to reducing climate change (p.6).

In future reports, we encourage Duke Energy to strive for the following:

- Continued improvement in reporting performance. This year's report describes the concrete actions taken to achieve each sustainability goal and reflects a key recommendation from our last review to demonstrate progress against the Sustainability Plan. Next year we look for Duke Energy to enhance its measurement of performance by: including more indicators of the impact of these activities, and placing performance in context by tracking these indicators over time and against the social and environmental outcomes the company seeks to achieve.
- Integrate other voices and perspectives. While the company has acknowledged stakeholder criticism, we encourage Duke to consider including commentaries from independent, external voices in future reports, especially on timely and contentious conversations such

as the role of nuclear power, customer rates, and US climate change policy. By incorporating and responding to different perspectives, the company will deepen stakeholders' knowledge and understanding of how Duke Energy approaches these issues.

- Share how Duke Energy is creating a 'culture of sustainability' to drive innovation. Creating a "culture" of sustainability in the company is identified in this report as a crucial part of achieving the sustainability goals and encouraging the innovation necessary to meet the 2030 carbon challenge. The establishment of a formal management structure for sustainability is a step in this direction. We look forward to hearing how Duke Energy is cultivating a culture of sustainability amongst all employees; finding ways to nurture innovation internally to meet the 2030 challenge; and creatively drawing on the expertise and imagination of external stakeholders in pursuit of these goals.

*Anamaria Nino-Murcia*

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March 19, 2008

## Non-GAAP financial measures

### 2007 ONGOING DILUTED EARNINGS PER SHARE (“EPS”)

Duke Energy's 2007/2008 Sustainability Report references 2007 ongoing diluted EPS of \$1.24. The Sustainability Report also references the company's 2007 employee incentive target of \$1.15. The EPS measure used for employee incentive bonuses is based on ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents diluted EPS from continuing operations, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported diluted EPS from continuing operations to ongoing diluted EPS for 2007:

Diluted EPS from continuing operations, as reported	\$1.20
Diluted EPS from discontinued operations, as reported	(0.02)
Diluted EPS, as reported	1.18
Adjustments to reported EPS:	
Diluted EPS from discontinued operations	0.02
Diluted EPS impact of special items (see detail below)	0.04
<b>Diluted EPS, ongoing</b>	<b>\$1.24</b>

The following is the detail of the \$(0.04) in special items impacting diluted EPS for 2007:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2007 Diluted EPS Impact
Convertible debt costs associated with the spin-off of Spectra	\$(21)	—	\$(0.02)
Costs to achieve the Cinergy merger	(54)	19	(0.03)
IT severance costs	(12)	4	—
Settlement reserves and adjustments	24	(9)	0.01
<b>Total Diluted EPS impact</b>			<b>\$(0.04)</b>

### ANTICIPATED ONGOING DILUTED EPS GROWTH RATES THROUGH 2012

Duke Energy's 2007|2008 Sustainability Report references the expected range of growth of 5 to 7% in ongoing diluted EPS through 2012 (on a compound annual growth rate (“CAGR”) basis). These growth percentages are based on anticipated ongoing diluted EPS amounts for future periods. Ongoing diluted EPS measure is a non-GAAP financial measure as it represents anticipated diluted EPS from continuing operations, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations which includes the impact of special items. Due to the forward-looking nature of ongoing diluted EPS, and related growth rates, for future periods, information to reconcile such non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast special items for future periods.

### FORECASTED 2008 ONGOING SEGMENT AND TOTAL SEGMENT EBIT

Duke Energy's 2007/2008 Sustainability Report includes a discussion of forecasted 2008 ongoing EBIT for each of Duke Energy's reportable segments as a percentage of forecasted 2008 ongoing total segment EBIT. Forecasted 2008 ongoing segment and total segment EBIT amounts are non-GAAP financial measures, as they reflect segment and total segment EBIT, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for forecasted ongoing segment EBIT is reported segment EBIT from continuing operations, which includes the impact of special items. The most directly comparable GAAP measure for ongoing total segment EBIT is reported total segment EBIT, which includes the impact of special items. Due to the forward-looking nature of these non-GAAP financial measures for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast special items for future periods.



### CONTACT INFORMATION

We welcome your comments and questions about this report. Send any feedback to:

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### PRINTING INFORMATION

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This FSC-Certified paper meets the highest standards of the Forest Stewardship Council (FSC) for responsible forest management. The FSC is an international nonprofit organization that supports environmentally appropriate, socially beneficial and economically viable management of the world's forests.



This paper is made with 100% Green-e Certified renewable energy and is manufactured free of chlorine chemistry.

Cover illustration by Steve Adams.



#### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- State, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements;
- State, federal and foreign legislative and regulatory initiatives and rulings that affect cost and investment recovery or have an impact on rate structures;
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims;
- Industrial, commercial and residential growth in Duke Energy Corporation's (Duke Energy) service territories;
- Additional competition in electric markets and continued industry consolidation;
- Political and regulatory uncertainty in other countries in which Duke Energy conducts business;
- The influence of weather and other natural phenomena on Duke Energy's operations, including the economic, operational and other effects of hurricanes, ice storms, droughts and tornados;
- The timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates;
- Unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints;
- The performance of electric generation and of projects undertaken by Duke Energy's non-regulated businesses;
- The results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions;
- Declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans;
- The level of credit worthiness of counterparties to Duke Energy's transactions;
- Employee workforce factors, including the potential inability to attract and retain key personnel;
- Growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power and other projects;
- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies; and
- The ability to successfully complete merger, acquisition or divestiture plans.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.