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## GOVERNANCE AND TRANSPARENCY

### CHALLENGES

- Preserve the trust of our stakeholders at a time when trust in corporations has eroded
- Maintain our strong balance sheet despite economic uncertainties

### OPPORTUNITY

- Differentiate Duke Energy for its strong governance and transparency practices

### 2008 HIGHLIGHTS

- Provided quarterly dividend payout for 82nd consecutive year
- Outperformed S&P 500 Index and Philadelphia Utility Index
- Increased transparency on a number of energy policy issues, including climate change

### SUSTAINABLE FINANCIAL PERFORMANCE

In a year when some companies were forced to close their doors, cut their dividends or lay off employees, we were reminded again that financial strength is a pillar of sustainability.

Our financial performance was down in 2008, but we outperformed the overall markets. Duke Energy's 2008 total shareholder return declined 21.7 percent, compared to a decline of 37.0 percent for the S&P 500 and a decline of 27.2 percent for the Philadelphia Utility Index. Duke Energy also paid a quarterly cash dividend on its common stock – for the 82nd consecutive year – and increased the quarterly dividend payment from 22 cents to 23 cents per share.

During the unprecedented tightening of the credit and capital markets in 2008, our strong balance sheet allowed us to raise capital and maintain our liquidity. From Jan. 1, 2008, through Jan. 31, 2009, we issued approximately \$4.5 billion of fixed-rate debt at a weighted-average rate of 6.05 percent. Additionally, we

### FINANCIAL HIGHLIGHTS (IN MILLIONS EXCEPT FOR PER-SHARE DATA)

	2006	2007	2008
Total Operating Revenues	\$10,607	\$12,720	\$13,207
Total Operating Expenses	\$9,210	\$10,222	\$10,765
Net Income	\$1,863	\$1,500	\$1,362
Earnings Per Share, Diluted	\$1.57	\$1.18	\$1.07
Dividends Per Share	\$1.26	\$0.86	\$0.90
Total Assets	\$68,700	\$49,686	\$53,077
Long-Term Debt Including Capital Leases, Less Current Maturities	\$18,118	\$9,498	\$13,250

\* See 2008 Duke Energy Summary Annual Report "2008 Financial Highlights" for detailed notes and explanations of figures above.

have maintained strong investment-grade credit ratings with a positive outlook from S&P and a stable outlook from Moody's. We will continue to maintain our strong balance sheet and liquidity by aggressively managing costs.

### BUSINESS ETHICS PUT DUKE ENERGY IN GOOD COMPANY



For the second consecutive year, Duke Energy was named one of the World's Most Ethical Companies by Ethisphere Institute. This list recognizes companies that demonstrate best practices in business ethics, global governance, compliance and corporate responsibility.

### ALLIANCE FOR SUPPLIER SUSTAINABILITY

In 2008, Duke Energy joined more than a dozen other U.S. investor-owned electric companies to form the Electric Utility Industry Sustainable Supply Chain Alliance. The goal of the alliance is to work collaboratively with suppliers to reduce the environmental impacts of the products and services we use and advance sustainable business practices in the industry's supply chain.

## EARNING STAKEHOLDER TRUST

The best way to earn trust is by operating with integrity. Trust is also built by transparency and clear, credible communications.

In addition to our regulatory filings and this Sustainability Report, here are a few examples of how we communicate with stakeholders:

- In September 2008, we published our [Report to Shareholders on Climate Change](#), which summarized information on the science of climate change, discussed our position on the issue and detailed our low-carbon business strategy.
- We have contributed to the [Carbon Disclosure Project \(CDP\)](#) for the past six years. CDP is an independent organization that works with companies and shareholders to assess the business risks and opportunities associated with climate change. We are also a founding member of [The Climate Registry](#), a U.S., Canadian and Mexican organization dedicated to compiling accurate, complete, consistent, transparent and validated greenhouse gas emissions data from reporting entities.
- The Duke Energy Web site includes our [Code of Business Ethics](#), governance information, operating data, podcasts and other resources about our business and policy positions. Our site also includes a “Contact Us” button for stakeholders to raise questions or submit comments.

## POLITICAL INVOLVEMENT

We support our employees’ interest and involvement in politics through Voices In Politics (VIP), a grassroots network that educates employees on the political process, and [DUKEPAC](#), a voluntary, nonpartisan political action committee.

DUKEPAC encourages 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 permitted 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 recommend candidates they believe deserve support, but decisions on which candidates receive contributions are made by the DUKEPAC board.

### DUKEPAC CONTRIBUTIONS – 2008

	Local & Regional Office	State Office	Federal Office
Indiana	\$0	\$75,925	\$14,500
Kentucky	\$0	\$14,500	\$4,000
North Carolina	\$0	\$231,250	\$26,500
Ohio	\$2,000	\$46,650	\$31,000
Pennsylvania	\$0	\$5,000	\$3,000
South Carolina	\$0	\$33,750	\$24,000
Other States	\$0	\$0	\$111,000
Political Parties	\$1,600	\$17,100	\$0
Leadership PACs	\$0	\$14,000	\$80,000
National Parties	\$0	\$0	\$37,000
Other	\$0	\$1,750	\$10,000
<b>Total</b>	<b>\$3,600</b>	<b>\$439,925</b>	<b>\$341,000</b>

## 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.

### GOVERNANCE RATINGS

Rating Organization	2006	2007	2008	Scale
<b>The Corporate Library<sup>1</sup></b>				
• TCL Rating	B	B	<b>B</b>	*A-F (no E)
• Governance Risk Assessment	Low	Low	<b>Low</b>	*Low, Mod, High
<b>RiskMetrics Group – Corporate Governance Quotient (GCQ)<sup>2</sup></b>				
• Index Ranking	13.8	91.1	<b>82.5</b>	0-100*
• Industry Ranking	30.7	93.6	<b>90.1</b>	0-100*
<b>GovernanceMetrics International<sup>3</sup></b>				
• Overall Global	9.0	9.5	<b>9.5</b>	0-10*

1 As of December 2008. Published with permission of The Corporate Library LLC.

2 As of December 2008. Published with permission of RiskMetrics Group.

3 As of December 2008. Published with permission of GovernanceMetrics International.

\* Reflects best rating.

## STAKEHOLDER ENGAGEMENT AND COLLABORATION

Working with stakeholders helps us redefine our boundaries and find new solutions. For example, we partnered with other organizations in the U.S. Climate Action Partnership (USCAP) to help create a "[Blueprint for Legislative Action](#)" that was presented to the new Congress in early 2009. Additionally, our work with energy efficiency collaboratives in each of our five states helped us develop our programs and offerings.

At the right, we summarize some of the expectations of our stakeholders and how we respond to them. Listed below are some of the organizations we regularly collaborate with. A more complete list can be found in the [Environment & Sustainability](#) section of our Web site.

## PARTNERSHIPS AND MEMBERSHIPS

Please visit each organization's Web site for additional information.

- The Aspen Institute
- Business for Social Responsibility
- Business Roundtable
- The Climate Group
- Clinton Global Initiative
- Committee Encouraging Corporate Philanthropy
- Global Environmental Management Initiative
- Institute for Electric Efficiency
- Keystone Center
- The Nature Conservancy
- The Pew Center's Business Environmental Leadership Council
- Resources for the Future
- United States Climate Action Partnership
- World Business Council for Sustainable Development
- World Economic Forum
- World Energy Council

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 environmental impacts</li> <li>• Energy efficiency advice</li> <li>• Reliable information about and prompt response to outages</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 stewardship</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>• The Duke Energy Foundation grants</li> <li>• Cooperative service restoration agreements with other utilities</li> </ul>

STAKEHOLDERS	EXPECTATIONS	FULFILLMENTS
Suppliers	<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>
Investors	<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>Web site information</li> <li>Investment-grade credit ratings</li> <li>Strong balance sheet</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>Reasonable cost and reliable supply</li> <li>Regulatory compliance</li> <li>Transparent reporting</li> <li>Collaborative policy development</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>
Non-Government Organizations	<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

The [Global Reporting Initiative \(GRI\)](#) is an internationally accepted framework for reporting on an organization's economic, environmental and social performance. It is intended for use by organizations of any size, regardless of geographic location or purpose.

Our Sustainability Report is not organized according to the GRI list of approximately 120 indicators but addresses many of the indicator topics. We provide a detailed response to all of the GRI indicators on our Web site at [www.duke-energy.com/environment/sustainability](http://www.duke-energy.com/environment/sustainability).

With this report and our online information, we believe we meet GRI Guidelines Application Level B.

### Standard Disclosures

Inside front cover, 1-15, 42-44

### Economic Indicators

15, 23-24, 36-41

### Environmental Indicators

9-10, 13-14, 22-29

### Product Responsibility Indicators

12, 16-21, 29

### Labor Practices and Decent Work Indicators

14, 30-35

### Human Rights Indicators

Please see our detailed index at <http://www.duke-energy.com/environment/sustainability/human-rights-indicators.asp>

### Society Indicators

5-8, 15, 23, 25, 29, 38, 43



## INDEPENDENT REVIEW

This is the third year that Duke Energy has invited [Business for Social Responsibility \(BSR\)](#) to conduct an independent review of the company's annual Sustainability Report. In addition to highlighting the strengths and areas for improvement we see in the 2008|2009 report, we reflect on the progress in Duke Energy's reporting practices since 2006 and how future reports can address a changing business and world. 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.

Significant strengths and achievements include:

- **Capturing the complexity and dynamism of 'sustainability.'** This year's report confronts the changing, and increasingly inter-related, landscape of sustainability issues for Duke Energy and the consequent evolution of the company's sustainability activities. It highlights the emerging issue of water scarcity (p.9) and the re-prioritization of economic development and financial strength in light of the economic crisis, discusses new challenges and opportunities, and shares a commitment to revise the sustainability goals in response. We look forward to hearing how Duke is applying systems thinking to sustainability and adapting efforts to address dynamic social and environmental trends.
- **Insight into sustainability implementation and culture.** The summary of management approach (p.11) responds directly to last year's recommendation to share how Duke Energy is 'building a culture of sustainability'

for *all* employees; its enhancement constitutes leadership practice in reporting.

- **Tone.** We have consistently been impressed by the open, direct, and authentic voice in Duke Energy's reports. Accessible language, clear explanations of complex topics, and straightforward acknowledgement of challenges and criticisms create a balanced and effective report. We hope to see this best practice continue.

In future reports, we encourage Duke Energy to strive to:

- **Clearly track the evolution of material issues and stakeholder expectations.** Duke Energy's new business ventures in wind, solar, biomass, plug-in vehicles, and smart grids raise new sustainability questions and will transform the company's relationships with stakeholders. How will the company tackle security and privacy concerns about smart grid technology? How will the role of customers change with distributed solar generation? Going forward, we recommend that the company more explicitly show readers how 'material' issues and stakeholder expectations are changing over time.
- **Continue to strengthen stakeholder voices.** We were pleased to see Duke Energy incorporate internal and external stakeholder views into the report with quotes and Q&As, adding texture and insight. However, we hope to see the company push the envelope with more critical perspectives and greater alignment of stakeholder voices across both the sustainability and annual reports.

- **Reflect more on cumulative impact.** In the sustainability plan's third year of implementation, we would like to see more reporting of trends and evaluation of cumulative (as well as annual) impact of Duke Energy's sustainability efforts. These reflections as well as inclusion of future targets will provide a more comprehensive view of achievement.
- **Articulate the impact of sustainability on the bottom line.** We encourage Duke Energy to take on the challenge of measuring – and communicating – the business impact of sustainability efforts. Doing so will further concretize the link between sustainability and business success for both internal and external stakeholders, and focus resources on activities with the greatest sustainability *and* business impact. Both are particularly critical during a time of economic stress.

2009 promises to be a watershed year for the future of energy at home and abroad: imminent climate legislation and substantial government investment in energy infrastructure in the U.S., and increasing momentum for concerted international action on climate change suggest fundamental changes are on the horizon. Next year, we look forward to continuing to hear how Duke Energy is working with stakeholders to ask – and answer – 'what should the future of energy look like?'

Julia Nelson  
Manager, Energy & Extractives  
Business for Social Responsibility  
March 30, 2009

## NON-GAAP RECONCILIATIONS

### 2008 Adjusted Diluted Earnings Per Share (EPS)

Duke Energy's 2008|2009 Sustainability Report references 2008 adjusted diluted EPS of \$1.21. Adjusted 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 and the mark-to-market impacts of economic hedges in the Commercial Power segment. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately, as such derivative contracts do not qualify for hedge accounting or regulatory accounting used in Duke Energy's hedging of a portion of the economic value of certain of its generation assets in the Commercial Power segment. The economic value of the generation assets is subject to fluctuations in fair value due to market price volatility of the input and output commodities (e.g., coal, power) and, as such, the economic hedging involves both purchases and sales of those input and output commodities related to the generation assets. Because the operations of the generation assets are accounted for under the accrual method, management believes that excluding the impact of mark-to-market changes of the economic hedge contracts from adjusted earnings until settlement better matches the financial impacts of the hedge contract with the portion of the economic value of the underlying hedged asset. The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. The following is a reconciliation of reported diluted EPS from continuing operations to adjusted diluted EPS for 2008.

	<b>2008</b>
Diluted EPS from continuing operations, as reported	\$1.01
Diluted EPS from discontinued operations, as reported	0.01
Diluted EPS from extraordinary items, as reported	0.05
Diluted EPS, as reported	1.07
Adjustments to reported EPS:	
Diluted EPS from discontinued operations	(0.01)
Diluted EPS from extraordinary items	(0.05)
Diluted EPS impact of special items and mark-to-market in Commercial Power (see below)	0.20
<b>Diluted EPS, adjusted</b>	<b>\$1.21</b>

The following is the detail of the \$(0.20) in special items and mark-to-market in Commercial Power impacting adjusted diluted EPS for 2008:

	Pre-Tax Amount	Tax Effect	2008 Diluted EPS Impact
(In millions, except per-share amounts)			
Costs to achieve the Cinergy merger	\$ (44)	\$17	\$(0.02)
Crescent project impairments	(214)	83	(0.10)
Emission allowances impairment	(82)	30	(0.04)
Mark-to-market impact of economic hedges (75)	(75)	27	(0.04)
<b>Total Adjusted Diluted EPS impact</b>			<b>\$(0.20)</b>

### 2008 Employee Incentive Target Measure

Duke Energy's 2008|2009 Sustainability Report references the company's 2008 employee EPS incentive target. The EPS measure used for employee incentive bonuses is primarily based on adjusted diluted EPS. The materials also reference the forecasted range of growth in adjusted diluted EPS through 2013 (on a compound annual growth rate, or CAGR, basis). Adjusted diluted EPS is a non-GAAP financial measure, as it represents diluted EPS from continuing operations, adjusted for the per-share impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately, as such derivative contracts do not qualify for hedge accounting or regulatory accounting used in Duke Energy's hedging of a portion of the economic value of certain of its generation assets in the Commercial Power segment. The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items or mark-to-market adjustments for future periods.

### Forecasted 2009 Adjusted Segment EBIT

Duke Energy's 2008|2009 Sustainability Report includes a discussion of forecasted 2009 adjusted EBIT for each of Duke Energy's reportable segments as a percentage of forecasted 2009 adjusted total segment EBIT. Forecasted 2009 adjusted segment and total segment EBIT amounts are non-GAAP financial measures, as they represent reported segment EBIT adjusted for the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately, as such derivative contracts do not qualify for hedge accounting or regulatory accounting used in Duke Energy's hedging of a portion of the economic value of certain of its generation assets in the Commercial Power segment. The most directly comparable GAAP measures for adjusted segment EBIT and total segment EBIT are reported segment EBIT and total segment EBIT, which represent segment results from continuing operations, including any special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Due to the forward-looking nature of this non-GAAP financial measure for 2009, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to project special items or mark-to-market adjustments for future periods.

## FORWARD-LOOKING INFORMATION

This report 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's 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 storms, hurricanes, 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 creditworthiness 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; construction and development risks associated with the completion of Duke Energy's capital investment projects in existing and new generation facilities, including risks related to financing, obtaining and complying with terms of permits, meeting construction budgets and schedules, and satisfying operating and environmental performance standards, as well as the ability to recover costs from ratepayers in a timely manner; 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.

## 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.