BUILDING BRIDGES TO A LOW-CARBON FUTURE

2007|2008 Sustainability Report

Duke Energy®

Our Mission

We make people's lives better by providing gas and electric services in a sustainable way. This requires us to constantly look for ways to improve, to grow and to reduce our impact on the environment.

OUR DIRECTION IN 2008 AND BEYOND

We must pursue a balanced approach to meeting future energy needs.

- In pursuing new supply options, we consider whether they are available, affordable, reliable and clean. By carefully balancing these criteria, we can make the best decisions for our customers and our company.
- Our options include energy efficiency, coal gasification, advanced pulverized coal, nuclear, natural gas-fired generation and renewable energy.

We must balance the reality of a carbon-constrained future with our customers' energy demands.

- Environmental legislation will significantly affect Duke Energy. We aim for fairness for our customers and shareholders.
- In our regulated and commercial businesses, we will pursue low-carbon solutions – like clean coal and natural gas – and no-carbon solutions – like nuclear and renewable energy. We will also pursue innovative energy efficiency and utility of the future (advanced power grid) initiatives.
- We will push for the development of new technologies to reduce carbon emissions. Until those technologies are available, we will meet demand with current options.

We must find the path to success during this era of rising costs.

- We expect to see increased costs from modernizing our grid and developing new generation. We will effectively manage the costs of these and other capital projects.
- By running our business well and providing excellent customer service, we can minimize price impacts to our customers and maintain the financial health of the company.

We must deliver on our commitments.

- We will steadily grow earnings – making our company attractive to investors – and achieve our employee incentive target of $1.27 per ongoing diluted share.
- We will continue to balance our regulated and commercial investments based on the business environment.
- We will strive to be "simply the best."

OUR VALUES

- **Caring** – We look out for each other. We strive to make the environment and communities around us better places to live.
- **Integrity** – We do the right thing. We honor our commitments. We admit when we're wrong.
- **Openness** – We're open to change and to new ideas from our co-workers, customers and other stakeholders. We explore ways to grow our business and make it better.
- **Passion** – We're passionate about what we do. We strive for excellence. We take personal accountability for our actions.
- **Respect** – We value diverse talents, perspectives and experiences. We treat others the way we want to be treated.
- **Safety** – We put safety first in all we do.

Dow Jones Sustainability Indexes
Member 2007/08

- Duke Energy has been named to the Dow Jones Sustainability Index for North American companies in the electric utility sector.

SUSTAINABILITY DEFINED

- The Dow Jones Sustainability Index defines corporate sustainability as "a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments."
- Duke Energy has internalized sustainability to mean we do business in a way that is good for people, the planet and profits.

CONTENTS

ABOUT THIS REPORT:

In 2007, we published Duke Energy's first sustainability plan and report following the company's merger with Cinergy. This *2007|2008 Sustainability Report* updates our performance against our five-year sustainability plan.

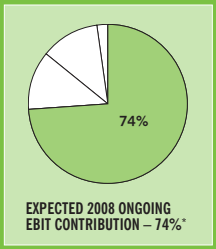
The fold out on pages 10-13 provides Duke Energy's sustainability plan "at a glance" as well as our management approach. The content in the rest of this publication was selected to build on – rather than repeat – information from the 2006|2007 report. On the pages that follow, we report on our 2007 progress, highlight significant developments toward achieving our sustainability goals and address the issues that our stakeholders tell us are most important to them. Additional information and updates to data in this report are available on www.duke-energy.com.

A broad index to the Global Reporting Initiative (GRI) indicators is on page 41. A more detailed index to the GRI indicators can be found at www.duke-energy.com/environment/sustainability.asp. With this report and the information on our Web site, we believe we meet GRI Application Level B.

Over the past year, we have made progress integrating sustainability into our core business. The company's recently updated mission statement now explicitly references sustainability. And, Duke Energy's *2007 Summary Annual Report* and this *Sustainability Report* share a common theme – "building bridges to a low-carbon future." Both publications review our response to the imperative to reduce greenhouse gas emissions.

Corporate Profile

U.S. FRANCHISED ELECTRIC AND GAS



U.S. Franchised Electric and Gas (USFE&G) consists of Duke Energy's regulated generation, electric and gas transmission and distribution systems. Its generation portfolio is a mix of fuel sources – coal, oil/natural gas, nuclear and hydroelectric. USFE&G is Duke Energy's largest business segment and primary source of earnings growth.

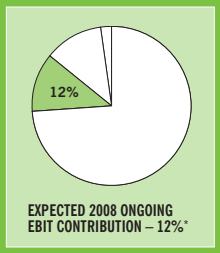
Electric Operations

- Owns approximately 28,000 megawatts of generating capacity
- Supplies electric service to approximately 3.9 million customers
- Serves territories in five states – North Carolina, South Carolina, Ohio, Indiana and Kentucky – that total about 47,000 square miles
- Operates 148,700 miles of electric distribution lines and a 20,900-mile electric transmission system

Gas Operations

- Provides regulated gas transmission and distribution service to approximately 500,000 customers over a 3,000-square-mile service territory in Ohio and Kentucky

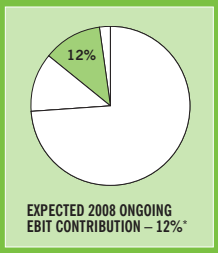
COMMERCIAL POWER



Commercial Power owns, operates and manages nonregulated power plants, primarily in the Midwest. Commercial Power also includes Duke Energy Generation Services (DEGS), which develops, owns and operates generation sources (including wind assets) that serve large energy consumers, municipalities, utilities and industrial facilities.

- Owns and operates a balanced generation portfolio of approximately 8,000 megawatts
- Most of the generation output in Ohio, over 21 million megawatt-hours annually, is supplied to regulated customers
- DEGS has contracted to purchase wind turbines that are capable of generating approximately 240 megawatts when placed in commercial operation beginning in 2008 and 2009

DUKE ENERGY INTERNATIONAL

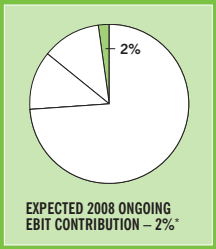


Duke Energy International (DEI) operates and manages power generation facilities located in the Central and South American countries of Argentina, Brazil, Ecuador, El Salvador, Guatemala and Peru. DEI also owns equity investments in Saudi Arabia and Greece.

- Owns, operates or has substantial interests in approximately 4,000 net megawatts of generation facilities
- About 75 percent of DEI's generating capacity is hydroelectric, and approximately 90 percent is either currently contracted or receives a system capacity payment

* Percent of 2008 forecasted ongoing total segment Earnings Before Interest and Taxes (EBIT) does not include results for the operations labeled as Other.

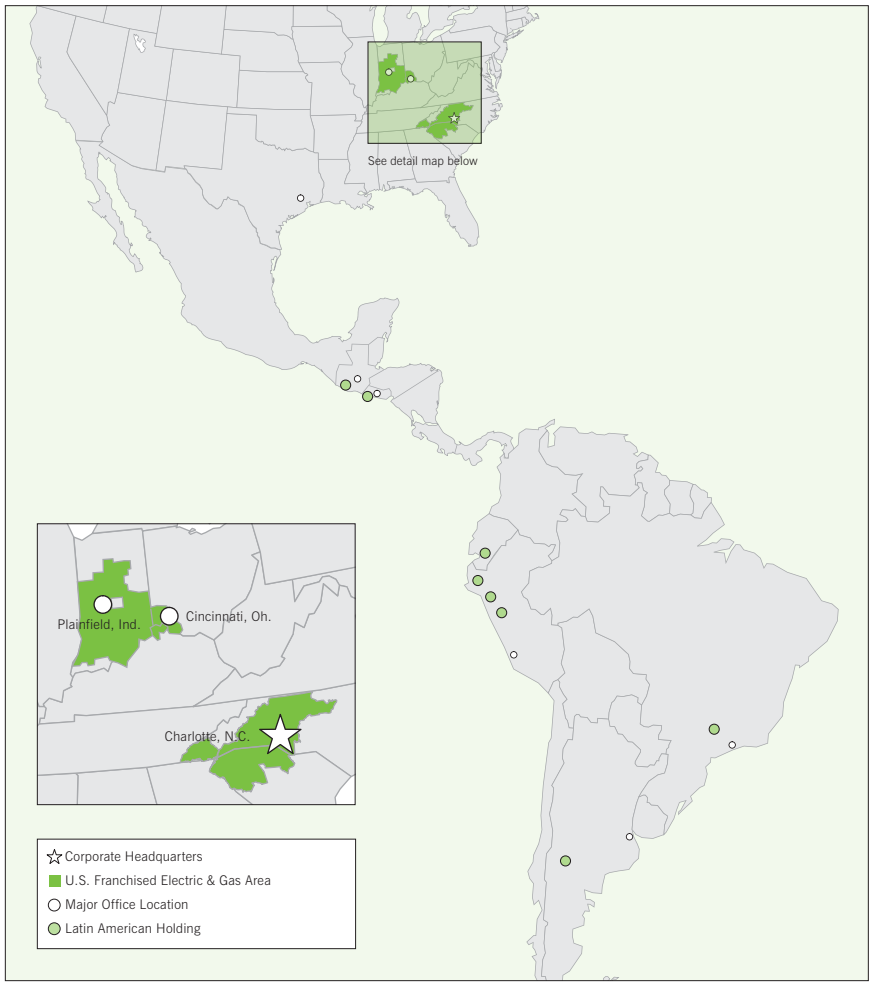
CRESCENT RESOURCES



Crescent Resources is effectively a 50-50 joint venture with Morgan Stanley Real Estate Fund. Crescent manages land holdings and develops high-quality commercial, residential and multi-family real estate projects.

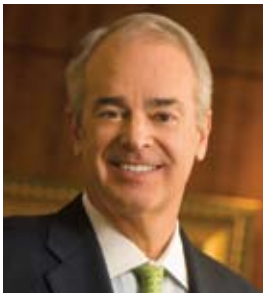
- Located in 10 states, primarily in the southeastern and southwestern United States
- Owns 900,000 square feet of commercial, industrial and retail space, with an additional 500,000 square feet under construction
- Manages approximately 122,608 acres of land

* Percent of 2008 forecasted ongoing total segment Earnings Before Interest and Taxes (EBIT) does not include results for the operations labeled as Other.



DUKE ENERGY SERVES RETAIL AND WHOLESALE CUSTOMERS IN PORTIONS OF INDIANA, KENTUCKY, NORTH CAROLINA, OHIO AND SOUTH CAROLINA. WE ALSO OWN, OPERATE AND/OR MANAGE ENERGY FACILITIES THROUGHOUT THE UNITED STATES. OUR HYDROPOWER AND THERMAL STATIONS IN CENTRAL AND SOUTH AMERICA PROVIDE US WITH THE FOURTH LARGEST ELECTRIC GENERATION CAPACITY IN THAT REGION.

Letter from the Chairman



Dear Stakeholders:

This year, our *2007|2008 Sustainability Report* and 2007 *Summary Annual Report* share a common theme: building bridges to a low-carbon future. I think this illustrates how integral sustainability has become to our company. Sustainability issues *are* bedrock business issues for Duke Energy.

A commitment to sustainability recognizes that our company is not measured by financial results alone. We must also be responsible stewards of the environment and responsive to the changing expectations of our stakeholders. We work hard to strike the right balance between economic, environmental and social considerations – a goal that is imprecise, subjective and essential to the continued viability of our company and our world.

From both a sustainability and business standpoint, global climate change is the most pressing and complex issue we are facing. It challenges our inventiveness and technology. It challenges our policies and diplomacy. It challenges the balance of our economies and environment. And it challenges our humanity.

As the third largest emitter of carbon dioxide (CO_2) in the U.S., we recognize our special responsibility to be part of the solution to global climate change. We have deep expertise in energy production, distribution and use, and a long legacy of leadership.

Conversations with you, our stakeholders, have challenged us to lead in this area. And at every level of our corporation – from our board of directors to our operating staff – we are challenging ourselves to respond.

From a policy perspective, we continue our leadership role in the U.S. Climate Action Partnership, a coalition of companies and other organizations committed to a cap-and-trade approach to lowering carbon emissions. We have also testified twice before Congress and have spoken at countless business and industry forums. Recognizing the global reach of the issue, I have had the opportunity to address the United Nations and the World Business Council for Sustainable Development to advance our policy priorities.

A BOLD CHALLENGE: CUT CO_2 EMISSIONS IN HALF BY 2030

While legislation is being debated, we are taking action within our company to prepare for a low-carbon future.

I have challenged our team to try to cut our CO_2 emissions in half by 2030 – while maintaining the reliability and competitive prices that our customers expect of us. It is a bold aspiration – an overarching sustainability objective – that I expect will spark breakthrough thinking by our employees and our business partners.

To be clear – no CEO can predict results two quarters from now – let alone two decades from now. What is also clear is that achieving significant carbon reductions over the next two decades will require more than incremental change. We need a whole new way of thinking about energy – how we generate it and how we use it. It will mean investing in new energy infrastructure, and redesigning our business model and our regulatory framework to span the gulf between today's conventional wisdom and tomorrow's possibilities. It will mean finding new ways to create value for our customers and other stakeholders in a low-carbon world.

Can we reduce our carbon emissions by more than 50 million tons by 2030 while preserving our customers' competitiveness and the strength of our business? We don't know the answer to that question... yet.

Beginning on page 8, we share one possible scenario where we can accomplish those objectives – *if* all of our planning assumptions prove true. The considerations and assumptions that guide our work vividly demonstrate both the complexity of the issue – and the need to consider all sustainability criteria – economic, environmental and social factors. In the months and years ahead, we will continue to collaborate with our many stakeholders to better inform our planning.

"A commitment to sustainability recognizes that our company is not measured by financial results alone. We also need to be responsible stewards of the environment and responsive to the changing expectations of our stakeholders."

BUILDING BRIDGES TO A LOW-CARBON FUTURE

In our *2007 Summary Annual Report*, you can read about some of the people who will be guiding Duke Energy through this transformative period of change. We believe the bridges to a low-carbon future will be built on new and improved technology, enabling public policy, and customers who use energy more efficiently and are "carbon literate" in all aspects of their lives. One measure of our commitment is that, over the next five years, we plan to invest approximately $23 billion to make our system more efficient, retire inefficient plants and increase renewable generation.

On the pages that follow, we discuss our progress in each of these areas, using the framework of our sustainability goals and objectives.

DUKE ENERGY'S SUSTAINABILITY PLAN

While carbon reduction is the centerpiece of our sustainability plan, we affect our world in many other ways. Duke Energy's sustainability plan has five areas of focus:

- Provide innovative products and services for a carbon-constrained, competitive world
- Reduce our environmental footprint
- Attract and retain a diverse, high-quality workforce
- Help build strong communities
- Be profitable and demonstrate strong governance and transparency

Here are some highlights of our progress in 2007:

Products and Services

By the year 2030, U.S. demand for electricity is expected to grow by approximately 35 percent – even more in high-growth regions like the Carolinas. In deciding how to generate electricity to serve our customers, we ask ourselves four questions:

- Is the technology available?
- Is it affordable?
- Is it reliable?
- Is it clean?

Most of the electricity produced today comes from four fuels: coal, nuclear, natural gas and water. As we build bridges to a low-carbon future, we think we should focus as much on the demand side of the equation – how our customers *use* electricity – as we have traditionally focused on the supply side – how we *generate* it. That's why we've come to think of energy efficiency as the "fifth fuel."

In 2007, we developed a business model around energy efficiency – the save-a-watt model – and filed for regulatory approval in North Carolina, South Carolina and Indiana. We will be filing the plan with state regulators in Ohio and Kentucky in 2008.

New York Times columnist Tom Friedman called our save-a-watt model "the mother of all energy paradigm shifts." It creates a whole new business model for utilities – where we would be compensated for *saving* watts just as we are for *producing* them.

This sea change in our business model will be sparked by dramatic technological change – beginning with the transformation of our power delivery system. Over the next five years, we plan to invest almost $1 billion in smart grid technology. These innovations in technology and regulatory policy support our vision of helping make the communities we serve the most energy efficient in the world.

Environmental Footprint

A key objective in last year's sustainability plan was to improve our environmental goals. This year, you'll see improved measures for air, water and waste that will drive reductions in our environmental footprint.

In 2007, we increased our ownership of renewable energy. In May, we acquired the wind assets of Tierra Energy. The purchase included more than 1,000 megawatts of wind assets under development in the western and southwestern U.S. Additionally, we issued requests for proposals in the Carolinas and Indiana to meet energy demand with a greater amount of renewable energy, including wind, biomass, solar power and hydro.

Indiana regulators approved our four-year plan to build a cleaner-coal integrated gasification combined cycle (IGCC) plant. The 630-megawatt (MW) Edwardsport plant is currently expected to cost approximately $2 billion. To encourage this new technology, the project will receive $460 million in local, state and federal tax incentives and credits.

"One measure of our commitment is that, over the next five years, we plan to invest approximately $23 billion to make our system more efficient, retire inefficient plants and increase renewables generation."

The new plant will be one of the cleanest and most efficient coal-fired power plants in the world. It will emit less sulfur dioxide (SO_2), nitrogen oxides (NOx) and particulates than the plant it replaces – while providing more than 10 times the power of the existing plant. The current 160-MW plant emits about 13,000 tons of SO_2, NOx and particulates annually and runs about 30 percent of the time. By comparison, a new 630-MW IGCC plant running 100 percent of the time will emit about 2,900 tons of the same pollutants. It will also use about 11 million gallons of water a day, compared to the current plant, which uses almost 190 million gallons daily.

Eventually, we hope to be able to capture and permanently store the CO_2 emitted from this plant in nearby underground formations, keeping it out of the atmosphere.

I cannot write this letter without addressing the Cliffside Modernization Project and the new, 800-MW advanced pulverized coal unit – Unit 6 – at the site. In late January 2008, we received final approval from state regulators to proceed with construction.

During the approval process, we were criticized by some for proposing the plant in light of our views on climate change. While I recognize that it appears counter-intuitive to reduce emissions by building a new coal plant, here are some of the benefits of the Cliffside project:

- Once Unit 6 is completed, the modernized Cliffside plant is expected to generate over twice the electricity of the existing five units, but emit one-seventh of the SO_2, one-third of the NOx and one-half of the mercury compared to the units there today.
- We have worked with state regulators to develop a first-of-its-kind carbon mitigation plan under which we will retire approximately 1,000 MW of older, less efficient coal-fired plants and take additional actions to make Cliffside 6 "carbon neutral" by 2018.
- The new unit's air permit includes limits on SO_2 and NOx emissions that are stricter than current state and federal rules. The state's mercury limits are already more stringent than federal mercury rules. The project will receive $125 million in federal clean-coal tax credits.

We view the improved environmental efficiency of Cliffside 6, coupled with this carbon mitigation plan, as an important bridge to new technology. We're not building an IGCC plant in North Carolina because the geology there is not suitable for carbon sequestration. Cliffside 6 will likely be the last new coal plant we build in North Carolina for at least 20 years. By then, we expect carbon capture technology to advance so it can be used on virtually any coal plant, regardless of the geology.

In 2007, we also announced plans to build more than 1,200 MW of natural gas-fired plants in North Carolina so that we can meet the region's increasing demand and retire some of our older coal units.

We are also applying our more than 30 years of safe nuclear operations experience to plan a new, 2,234-MW nuclear station in South Carolina. We applied for a construction and operating license for the plant with the U.S. Nuclear Regulatory Commission in December 2007. Nuclear energy produces no greenhouse gas emissions and it has a proven record for safety and reliability. But, the used fuel issue remains unresolved. While the U.S. government continues to debate a decision on long-term storage facilities for used fuel, we are exploring other alternatives, including fuel recycling.

For many of our customers, 2007 may be remembered as the year of the drought. It was one of the driest years on record in our Carolinas service area, which tested our ability to balance electric generating requirements with other community water needs. Under Duke Energy's coordination, a new collaborative of municipalities, water utilities, large industrials and resource agencies was formed to manage through the drought by sharing information, responding with conservation measures and contingency planning. In the year ahead, we will conduct water balance surveys in the areas we serve with stressed water supply to improve our management and use of this increasingly scarce resource.

Quality Workforce

It is almost a corporate cliché to say "employees are our greatest asset," but it is also true: Talent is a key differentiator.

With the major changes facing our industry and our estimate that we will have to replace about one-third of our workforce in the next five years, we are taking a number of aggressive actions to preserve Duke Energy's talent advantage:

- We are building a corporate culture centered on sustainability. By making sustainability part of our "corporate DNA," we believe it will spark innovation and aid in recruitment.
- We are rethinking the way we work and our workplace practices, broadening telecommuting, improving employee training, and promoting employee health and wellness.

Safety remains a cornerstone of our company and we measure our safety performance against a goal of zero fatalities.

- With sadness, I must report two fatalities in 2007. These fatalities overshadow every other aspect of our performance and deepen our resolve to improve.
- In that spirit, we completed 2007 with a 17 percent improvement in our Total Incident Case Rate – an important indicator of safety. This means that we ended the year with 65 fewer employee injuries than in 2006.

Strong Communities

The success of Duke Energy is inextricably linked to the success of the communities we serve.

In 2007, we worked with economic development officials to help attract approximately $3.7 billion in capital investment and 15,270 new jobs to the five-state region we serve – vastly exceeding our goals. And, we awarded approximately $18 million in charitable grants within our service areas.

Governance and Transparency

For a company to be sustainable over the long term, it must be profitable. We ended 2007 with $1.24 in ongoing diluted earnings per share. Total shareholder return, that is, change in stock price plus dividends, was more than 9 percent.

We participate in a number of efforts to benchmark and improve our governance practices and company performance. In 2007, we saw significant improvement in our corporate governance ratings by RiskMetrics Group (formerly ISS Governance Services). We began the year with very low rankings and ended among the leaders, both among companies in general and within the utility industry. And, we were again included in the 2007 Dow Jones Sustainability Index for North America.

Collaboration, communication and stakeholder engagement are key attributes of a successful, sustainable business. Your feedback and diverse viewpoints make us better. I invite you to contact us via our Web site, www.duke-energy.com, to let us know what you think about our sustainability plan and progress. With your input and support, we can build stronger and more lasting bridges to a low-carbon and sustainable future.

Sincerely,

Jim Rogers
Chairman, President and CEO
March 25, 2008

World Business Council for Sustainable Development

WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Duke Energy was invited to become a member of the World Business Council for Sustainable Development. The Council provides a forum for companies to explore sustainable development; to share knowledge, experiences and best practices; and to advocate business positions on sustainable development issues.

EEI ADVOCACY EXCELLENCE AWARD

In January 2008, Duke Energy received the prestigious Advocacy Excellence Award from the Edison Electric Institute, the trade association for investor-owned electric utilities. We were recognized for our comprehensive program to promote energy efficiency at the federal, state and local levels. A departure from traditional regulatory approaches, Duke Energy's model rewards the company only for energy efficiency results. Customers who actively participate in the programs would reduce their power bills – enough to more than offset program costs.

2030 Challenge

Can Duke Energy cut its carbon dioxide (CO_2) emissions in half between 2006 and 2030?

Approximately 70 percent of the electricity that Duke Energy generates in the U.S. comes from coal-burning power plants. The remaining 30 percent comes from lower or zero carbon emitting sources such as nuclear, natural gas and hydropower.

A large number of our coal plants are located in the Midwest, an area that has an abundant supply of consistently priced, low-cost coal. Decisions to build these plants were driven by the price and availability of domestic coal and were made before there were concerns about climate change.

As part of our strategic planning process, we develop core beliefs and assumptions that drive our scenario planning. Here are just some of those considerations:

CORE QUESTIONS:

- What will be the future demand for electricity in the areas we serve?
- What will be the regulated price of electricity and natural gas in our service areas? How will that affect our customers?
- What will be the impact on our investors? Will we remain a strong business?

NEW AND IMPROVED TECHNOLOGY

- What technologies will be commercially available to generate electricity with less or no carbon emissions? Will they be economical?
  - Renewable energy resources – solar, wind, biomass, hydro
  - Carbon capture and sequestration technology
  - Nuclear energy
  - New generating technology?
- How will technology improve the efficiency of electricity use? How will that reduce the need for new generation?
  - Smart grid and smart meter technology
  - Improved energy efficiency in all applications of electricity, including manufacturing, buildings, etc.

ENABLING PUBLIC POLICY

- Will save-a-watt – or similar models for rate recovery for investments in energy efficiency – be approved by state regulators?
- What level of carbon emission reductions will be set by Congress and what model will they follow? How will allowances be distributed?
- How will the carbon market evolve? What will be the price on carbon? What role will offsets play?

CUSTOMER BEHAVIOR

- Will customers change their behavior to reduce energy use?
- Will customers accept and/or optimize advanced technologies available through the smarter electric network?
- If customer incentives are needed, will cost recovery be allowed? Will they be sufficient to drive these changes?

SUSTAINABILITY AND COLLABORATION

- What are the environmental impacts of each type of generation?
- What are the community and other social implications of each type of generation?
- Will stakeholders support the direction?
- What new ideas will come from collaboration?

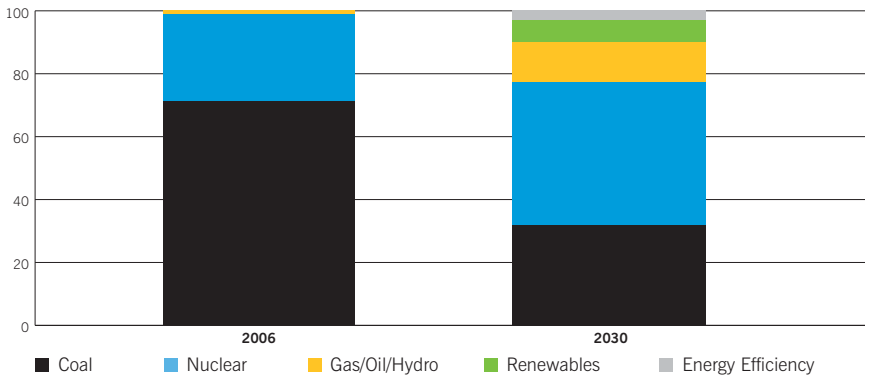
2030 SCENARIO

Our initial work has resulted in one possible scenario that would enable us to cut our 2006 CO_2 emissions in half – by approximately 50 million tons – by 2030, while meeting our customers' increasing demands for electricity. This scenario is a first step to help us better understand the carbon emissions challenge we may face. Under this scenario, we would take all of the following actions in the Midwest and Carolinas:

ACTIONS THAT WOULD ENABLE US TO HALVE CO_2 EMISSIONS BY 2030	IN THE MIDWEST	IN THE CAROLINAS
Retire coal-fired generation	About one-fourth of existing fleet	About one-third of existing fleet
Add carbon capture and sequestration technology	To most of the remaining major coal plants beginning in approximately 2020	Unlikely before 2030
Increase nuclear generation	Unlikely	To nearly double the existing fleet
Increase natural gas-fired generation	To nearly double the existing fleet	To nearly triple the existing fleet
Add renewable generation	To about 3 percent of summer peak capacity and about 10 percent of energy contribution in 2030	
Implement energy efficiency to:		
■ Reduce the average annual growth rate in peak demand	By about 25 percent	By about 15 percent
■ Reduce the average annual growth rate in energy consumption	By about 20 percent	By about 25 percent

As shown in the chart below, this scenario would significantly change the fuel mix in Duke Energy's U.S. generating portfolio. We would move from a coal-intensive portfolio to one that has a large percentage of lower or zero carbon-emitting sources.

2006 vs. 2030 Fuel Mix to Halve CO_2 Emissions
(Percent of total megawatt-hours generated)
For Discussion Purposes Only



IMPLICATIONS AND NEXT STEPS

Here are a few key implications of this scenario:

- **New generation must be built:** A considerable amount of new generation – approximately 18,500 megawatts, or 55 percent, of our current installed capacity – would have to be built between now and 2030.
- **Nuclear must make a comeback:** A significant portion of the new generation would need to be nuclear, making it imperative for us to have nuclear as a supply option.
- **High hopes for carbon capture and sequestration:** This scenario anticipates the commercial availability of carbon capture and sequestration technology.
- **Much larger role for energy efficiency, renewables and natural gas:** Energy efficiency, renewables and natural gas would have to play a much larger role in our supply portfolio than they do today.
- **Customer rates could increase significantly:** Customer rates, with inflation included, could increase 70 to 120 percent. The increase could be even larger if CO_2 allowances have to be purchased.

This work represents one possible scenario to significantly reduce our carbon emissions. Technology, customer expectations and public policy are constantly changing, and our planning must be equally agile. We will continue to improve our assumptions and analyses based on new developments and input from our many stakeholders. We are committed to stretching our creativity and thinking to build bridges to a low-carbon future.

Duke Energy Sustainability Plan and Progress at a Glance

This sustainability plan reflects Duke Energy's commitment to operate our company in a way that is good for people, the planet and profits. It recognizes and addresses the key economic, environmental and social opportunities and risks facing our industry today and in the future. The plan expands on the company's business strategy and values. It does not focus on every sustainability initiative at Duke Energy – and there are many.

Instead, we focus on the areas that are most material from a sustainability perspective. We listen and incorporate feedback from our stakeholders into this plan and review it each year to reflect new developments. Unless otherwise noted, our intent is to achieve the goals in this plan by 2012. The progress we have made so far is summarized at the right. A detailed description of our progress against these goals can be found in the following pages of this sustainability report.

PROGRESS KEY

- TARGET ACHIEVED OR ON TRACK
- RESULTS CURRENTLY NOT ON TRACK
- NEW GOAL

1

INNOVATIVE PRODUCTS AND SERVICES

Provide innovative products and services for a carbon-constrained, competitive world

Why it matters: Our customers want products and services that keep them competitive regionally and globally, yet respond to environmental concerns.

PROGRESS | GOALS

- Champion energy efficiency as a top industry issue and collaborate with regulators, customers and other key stakeholders to advance innovative policies and programs
- Aggressively pursue "smarter grid and meter" technologies that can deliver significant operational and customer benefits
- Expand green power options to customers in every state we operate
- Keep rates competitive and achieve top quartile customer satisfaction in all markets as measured by national benchmark surveys

BRUCE RAIBLE, METER READER, USES ADVANCED METERING TECHNOLOGY TO TEST A CUSTOMER'S METER.

2

ENVIRONMENTAL FOOTPRINT

Reduce our environmental footprint

Why it matters: As an energy company, we have a large impact on the environment and depend on natural resources for much of our fuel.

PROGRESS | GOALS

Diversify our fuel mix and address the climate change issue by:

- Promoting U.S. federal policy mandating economy-wide reductions of greenhouse gas emissions
- Creating the option to build new nuclear (carbon free) generation
- Piloting clean coal and other innovative technologies, e.g., advanced integrated gasification combined cycle technology, geological carbon dioxide sequestration
- Securing cost-effective alternative sources of energy
- Reducing, avoiding and/or sequestering at least 10 million tons of carbon dioxide equivalents between 2007 and 2015

- Continue to focus on safe, reliable and efficient power plant operations

New Goals for 2008

Continue and expand our efforts to improve air quality by:

- ☐ Reducing the nitrogen oxide and sulfur dioxide emission rates of the coal-fired power plants we operate 10% and 35%, respectively, by 2008 compared to 2006
- ☐ Reducing the nitrogen oxide, volatile organic compound, particulate matter and carbon monoxide emissions from our on-road and non-road vehicle fleet by an average of 35% by 2012 compared to 2006
- ☐ Continuing to replace older natural gas lines thereby reducing the number of leaks repaired 20% by 2012 compared to 2007
- ☐ Increasing employee participation in our transit subsidy and telecommuting programs

Minimize the amount of waste requiring disposal by:

- ☐ Reducing the amount of low-level radioactive waste (class B and C) generated at our nuclear power plants 25% by 2012 compared to the 2002-2006 average
- ☐ Increasing the sale of coal combustion byproducts for beneficial reuse 10% by 2012 compared to 2007
- ☐ Measuring solid waste and recycling streams across the company in 2008 to establish baseline data for goal setting and improvement purposes

Address long-term water supply issues by:

- ☐ Conducting water balance surveys during 2008 at plants in areas with scarce or stressed water supply to better understand how water is currently being utilized
- ☐ Collaborating with other large water users and withdrawers in the Carolinas as the region experiences continued population growth and drought conditions

- ☐ Reduce energy consumption at our largest commercial buildings 10% by 2012 compared to the 2005-2007 average

JESSE ARIAS, SCIENCE TECHNICIAN III, AND LAUREN PHILSON, TECHNICIAN, ANALYZE THOUSANDS OF WATER AND COAL SAMPLES EACH YEAR AT THE DUKE ENERGY ENVIRONMENTAL CENTER LOCATED IN HUNTERSVILLE, N.C.

3

QUALITY WORKFORCE

Attract and retain a diverse, high quality workforce

Why it matters: Energy companies will be differentiated by the quality, creativity and customer focus of their employees.

PROGRESS | GOALS

- Achieve zero fatalities and top decile safety performance in total incident case rate (TICR)
- Develop a culture of wellness by encouraging, supporting and rewarding improved employee health and well-being

  Attract, retain and engage a diverse, talented workforce by:

  - Implementing a more effective employee recruitment and development plan
  - Developing and implementing innovative employee programs and benefits, e.g., alternative work locations
  - Launching ways to transfer or retain critical knowledge given that approximately one-third of the workforce may retire in the next five years
- Drive understanding of the value of sustainability within the company to inspire ideas and innovation

4

STRONG COMMUNITIES

Help build strong communities

Why it matters: Our success is linked to the health and prosperity of the communities we serve.

PROGRESS | GOALS

- ☐ Partner to stimulate economic growth in our communities by attracting 14,400 jobs and $2.8 billion in capital investment in 2008 (The 2007 target of 12,500 jobs and $2.4 billion in capital investment was exceeded)
- Invest over $17 million annually in community programs that improve the quality of life in our communities
- Implement tools for our communities to use that will support their long-term planning
- Increase spending with diverse suppliers by 5% a year
- Implement initiatives to support public safety in our communities

5

GOVERNANCE AND TRANSPARENCY

Be profitable and demonstrate strong governance and transparency

Why it matters: Creating shareholder value and earning the trust and confidence of our many stakeholders keeps us in business.

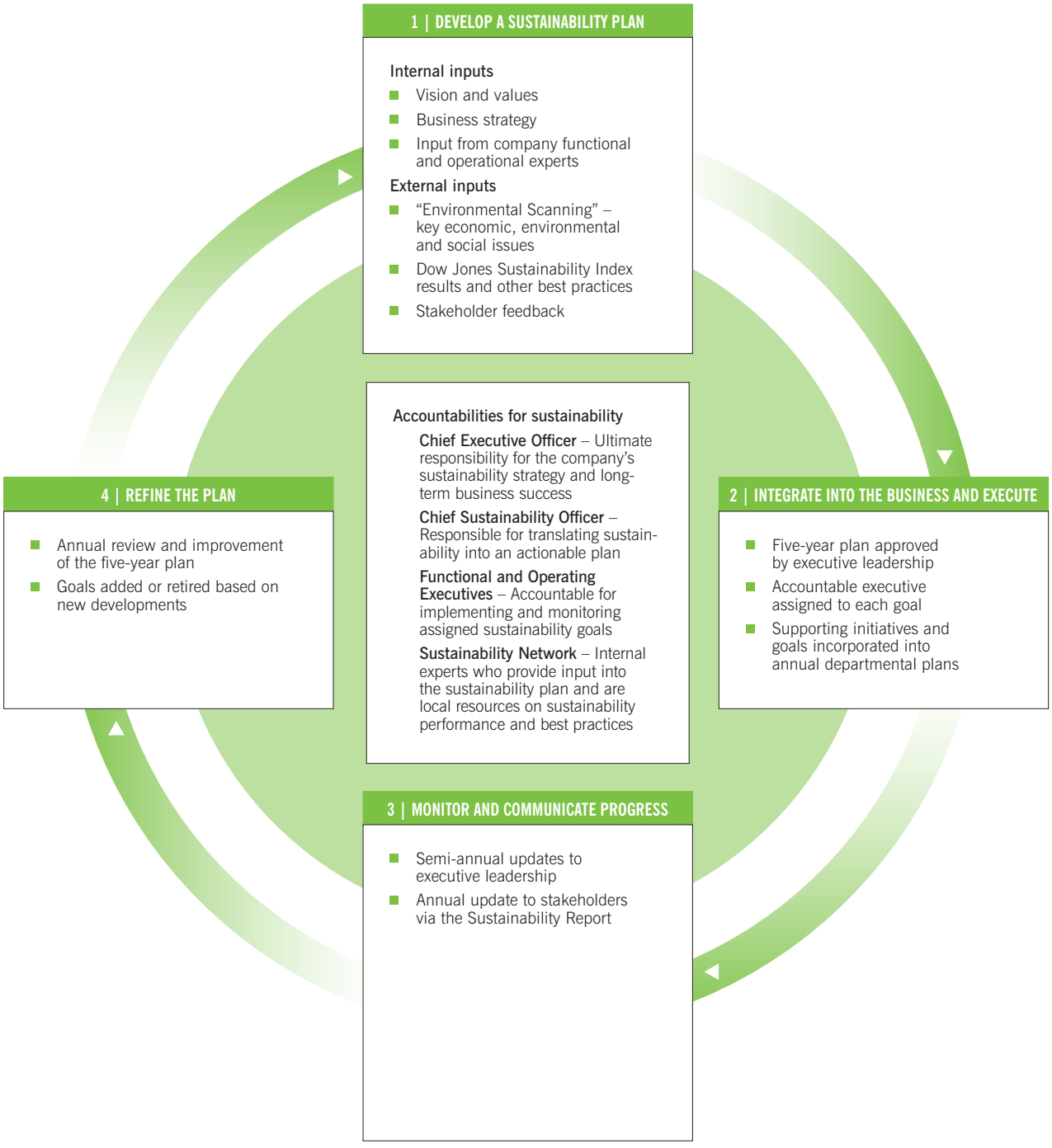
PROGRESS | GOALS

- Provide investors a superior and sustainable return on their investment
- Assure that we have effective ethics and compliance programs
- Regularly benchmark our corporate governance practices against best-in-class and industry peers and recommend revisions as appropriate
- Assess our supply chain (services and products) from a sustainability perspective and implement appropriate follow-up actions
- Communicate clearly and frequently with our stakeholders

LEFT: JENNIFER HYNES, STATION EQUIPMENT EXPERT; BELOW: STEVE HIGHTOWER, CEO, HIGHTOWERS PETROLEUM

SEAN TRAUSCHKE, SENIOR VICE PRESIDENT, INVESTOR RELATIONS AND FINANCIAL PLANNING AND DAVID MALTZ, VICE PRESIDENT, LEGAL

Duke Energy's Management Approach to Sustainability



Innovative Products and Services

2007 CHALLENGE

- Develop innovative and economical energy efficient products and services

WHAT WE DID IN 2007

- Promoted energy efficiency as the "fifth fuel"
- Created the save-a-watt business model

2007 OPPORTUNITIES

- Build the smarter utility system (utility of the future)
- Ensure constructive rate treatment

WHAT WE DID IN 2007

- Pursued research for the best combination of technologies to bring the smart grid into operation
- Developed strategic plan to transform our power delivery system
- Began installing infrastructure for the smart grid and building smart utility labs in the Carolinas and Midwest to showcase the technology
- Filed for regulatory approval of the save-a-watt model in Ind., N.C., and S.C.; Ohio and Ky. planned for 2008
- Developed regulatory approaches for smart grid investments

REAL-TIME ELECTRIC METERS MAY SHOW THE COST OF OPERATING DEVICES JUST AS SPEEDOMETERS SHOW ACTUAL SPEED. THIS CAPABILITY WILL BE FAR MORE USEFUL FOR ENERGY MANAGEMENT PURPOSES THAN THE MONTHLY "LOOK BACK" THAT CURRENT SYSTEMS PROVIDE.

Energy efficiency as the "fifth fuel"

Energy is the lifeline of our economy, and Duke Energy's core business is meeting the electricity and gas needs of its customers. According to U.S. Department of Energy statistics, electricity demand is expected to increase by approximately 35 percent by 2030, even higher in fast growing regions like the Carolinas.

The traditional answer to rising electricity demand has been to increase supply – to build more power plants fueled by coal, natural gas, nuclear and renewables. We believe that energy efficiency can play an important role in reducing customer demand – becoming the "fifth fuel." And, because the cleanest power plant is the one that is never built, we believe that energy efficiency is the greatest untapped resource in reducing greenhouse gases in the near term.

Of course, energy efficiency isn't a new idea. Utilities have offered demand-side programs for years – with varied results. In 2007, Duke Energy worked with a number of stakeholders and industry peers to develop a different model – the save-a-watt model – so that energy efficiency can become an important bridge to a low-carbon future.

"Saving energy should be as much a part of a utility's mission as generating and delivering electricity."
– Jim Rogers

How save-a-watt will work

The goal of Duke Energy's save-a-watt model is to help our customers save energy – and money – and still earn a return for our investors. Under current regulations, utilities make money by earning a return on their investment in physical assets such as power plants, poles and wires, and by charging customers for each kilowatt-hour of electricity they use. Under the save-a-watt model, we would be allowed to earn a return on our investments that help customers save energy.

In essence, the save-a-watt model treats investments in energy efficiency just like investments in a new generating station – removing the regulatory incentive to build new power plants. It is a win for our customers, a win for the company and a win for the environment.

POTENTIAL SAVINGS

We are adding about 60,000 new customers per year in the Carolinas and our Midwest service areas. To meet that demand, we will require more than 6,000 megawatts of new capacity by 2012. Energy efficiency as our fifth fuel and the save-a-watt model are critical components to avoid building new, carbon-emitting generation.

REGULATORY STATUS

In 2007, we filed for regulatory approval of programs developed under the save-a-watt model in North Carolina, South Carolina, and Indiana. We are planning to file for similar energy efficiency programs in Ohio and Kentucky in 2008. We hope to receive regulatory approval for the save-a-watt model in 2008.

THE SAVE-A-WATT MODEL

Duke Energy's save-a-watt model starts with a simple premise: the most efficient and environmentally sound plant is the one we don't have to build.
The save-a-watt model proposes the following regulatory changes:

- We would earn a rate of return based on about 85 to 90 percent of what it would have cost to build and operate a plant to produce the amount of electricity the program saves. **Under this plan, all customers will receive an approximate 10 to 15 percent discount, even if they do not participate in an efficiency program.**
- Duke Energy will be rewarded only for energy savings actually realized by customers. Each year, an independent auditor will verify actual energy savings achieved through energy efficiency programs.

SAVE-A-WATT ENDORSEMENTS

Three national advocacy groups have reached agreement with Duke Energy to support the save-a-watt model. The Alliance to Save Energy, the American Council for an Energy-Efficient Economy and the Energy Future Coalition endorse the initiative as "an innovative and promising new direction for the company and its customers." While supporting the save-a-watt model, the advocacy groups will look to regulators in each state to determine an appropriate and reasonable level of compensation.

"This (save-a-watt model) is a simple, brilliant idea. It has the ability to fundamentally change what we do in the United States."
– Former President Bill Clinton

Energy efficiency: leading the way

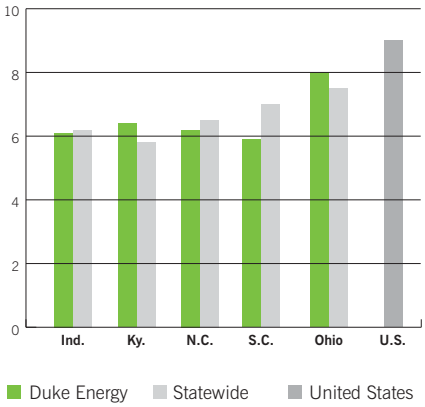
Duke Energy is helping to lead energy efficiency efforts both nationally and internationally.

- **National Action Plan for Energy Efficiency (NAPEE)** – Jim Rogers serves as co-chair of this organization, which presents policy recommendations for an aggressive and sustainable national commitment to energy efficiency. Several other company leaders are involved in key components of the NAPEE process. http://www.epa.gov/solar/energy-programs/napee/index.html
- **Alliance to Save Energy** – Jim Rogers also serves as co-chair of this organization, which helps implement energy efficiency forums and legislative advocacy efforts in Washington. http://www.ase.org/
- **Electric Power Research Institute (EPRI) Energy Efficiency** – Duke Energy Vice President of Energy Efficiency Ted Schultz and Chief Technology Officer David Mohler serve on EPRI's executive advisory committee for energy efficiency. They are leaders in the discussion on innovative services that are possible with a new business model and advanced technologies. http://my.epri.com
- **The Clinton Global Initiative** – In 2007, Duke Energy led a consortium of eight utilities committing to increase investments in energy efficiency to reduce greenhouse gas emissions, pending the approval of the save-a-watt model or similar regulatory action. Offered in conjunction with the Clinton Global Initiative, the utilities also spearheaded the creation of the Institute of Electric Efficiency to advance best practices in energy efficiency. The Edison Electric Institute is implementing the Institute of Electric Efficiency in 2008. http://www.clintonglobalinitiative.org

Keeping electric rates competitive

Electric rates and reliability remain the primary drivers of customer satisfaction. In 2007, our costs of service were below the national average and near or below statewide averages. However, the cost to produce energy is rising, and we are not immune to rising market prices. Worldwide demand for steel, cement, skilled labor and all other inputs to power plant construction, operation and maintenance have already forced us to raise cost estimates for major construction projects. We are working to stabilize prices and minimize impacts on customers through long-term contracts and other commitments with contractors and vendors.

Comparison of Average Electric Rates
(Cents per kilowatt-hour)



Source: EEI Typical Bills and Average Rates Report, June 30, 2007

In Kentucky, we received permission from the Public Service Commission to raise annual revenues by approximately 20 percent, effective January 1, 2007. This was the first rate increase for Kentucky customers in 16 years. In Ohio, we received permission from the Public Utilities Commission to increase our revenues by over 10 percent through periodic riders. We will continue efforts there to address long-term rate and generation supply uncertainties.

It is occasionally appropriate to reduce rates and still be fiducially responsible to investors. In North Carolina, we reached an agreement to reduce annual revenues by 5.4 percent beginning in 2008 and by 7.6 percent beginning in 2009. The reduction in rate revenue is offset by a reduction in expenses resulting in an immaterial impact to earnings.

There were no specific rate actions in Indiana or South Carolina in 2007 other than the annual adjustments for items like fuel costs.

Providing customers with green power options

Duke Energy offers its customers special programs to purchase energy generated from renewable sources such as wind, solar, biomass and hydro.

NC GREENPOWER

Duke Energy participates in the NC GreenPower program, which was established to improve the state's environment through voluntary contributions toward renewable energy. Approximately 7,200 Duke Energy customers in North Carolina – less than 1 percent – participated in NC GreenPower in 2007, purchasing nearly 12,000 blocks of 100-kilowatt-hours each for an investment of over $45,000.

In February 2008, Duke Energy filed its intent with the N.C. Utilities Commission to expand the existing GreenPower program to offer customers the opportunity to purchase carbon offsets. Funds collected through the program, if approved, could be used to support carbon-reducing projects such as renewable energy, energy efficiency and reforestation. We plan to pursue similar programs in all the states where we operate.

PALMETTO CLEAN ENERGY (PaCE)

South Carolina customers can now contribute to PaCE, a nonprofit organization that promotes renewable resources for electric generation, through their Duke Energy bills. Each $4, whether by voluntary regular monthly additions to the bill or one-time contributions, will add a 100-kilowatt-hour block of renewable energy to the S.C. power supply.

GOGREEN POWER

Duke Energy customers in Ohio and Indiana may also purchase blocks of green power on a monthly basis. We are working to establish a program for Kentucky customers in 2008. For additional information on customer options, visit www.duke-energy.com.

SOLAR INSTALLATION PROJECTS ARE PART OF OUR ONGOING COMMITMENT TO STUDY SOLAR POWER AS A VIABLE RENEWABLE ENERGY SOURCE.

WATT A BRIGHT IDEA

Duke Energy customers in Ohio were the first to participate in a one-of-a-kind collaboration between Duke Energy, General Electric and Wal-Mart to make energy efficiency even more affordable. We provided our customers with coupons offering $3 off three-packs of GE compact fluorescent light bulbs (CFLs) redeemable at Wal-Mart stores. Some 30,000 customers redeemed coupons to buy more than 225,000 CFLs during the promotion. Given the success of the offer, we have expanded our retail partnerships to include Sam's Club, The Home Depot and Lowe's.

OUR CUSTOMER SATISFACTION PLEDGE:
We will do it right the first time. We will take ownership.
We will follow through.

ENERGY AUDIT MAKES OPRAH WINFREY SHOW

Duke Energy's Home Energy House Call program was featured on the Oprah Winfrey Show's 2007 Earth Day special. The program provides a free in-home energy analysis to help customers determine the most cost-effective steps they can take in their homes to save energy. The TV episode, highlighting viewers who are living a "green lifestyle," featured a House Call field auditor helping a Northern Kentucky couple identify the steps they could take to reduce energy consumption. The audience members were given energy saving kits during the show.

WEATHERIZATION FOR LOW-INCOME CUSTOMERS

For more than 20 years, Duke Energy has collaborated with People Working Cooperatively (PWC) to provide free home weatherization improvements to eligible customers in the Greater Cincinnati and Northern Kentucky areas. PWC is a nonprofit organization that provides critical home repairs and services to low-income, elderly and disabled homeowners. Through our program, qualified customers receive a furnace or heat pump cleaning and tune-up, energy efficient light bulbs, a water heater wrap and weather stripping. The result is a more comfortable, energy efficient home with lower energy bills.

Customer satisfaction

We have work to do to achieve our goal of top quartile customer satisfaction in all markets we serve by 2012. Among business customers that spend between $500 and $50,000 monthly on electricity, we ranked in the second quartile in the South and the third quartile in the Midwest, according to the Feb. 2008 J.D. Power and Associates Electric Utility Business Customer Satisfaction Study.

The Key Accounts National Benchmark survey, conducted by TQS Research Inc., is based on interviews with each utility company's largest customers, which are usually major manufacturers and institutions. Duke Energy ranked fifth best overall in the U.S. in the August 2007 study. While the survey is based on the entire company, the results indicate that Duke Energy Carolinas would have ranked second in the South. Duke Energy Ohio/Kentucky and Duke Energy Indiana would have ranked second and third, respectively, in the Midwest.

Residential customer satisfaction results were mixed in 2007. In the July 2007 J.D. Power and Associates Electric Utility Residential Customer Satisfaction Study, Duke Energy ranked in the top quartile in the South and the third quartile in the Midwest.

We have several major initiatives to improve customer satisfaction.

- Improve service reliability for our customers: We plan to significantly increase our investments to modernize poorly performing distribution circuits. And, we plan to improve outage-related customer communications.
- Partner with customers to lower and manage their bills: From innovative partnerships with retailers, to expanding our energy saving product offerings, to new ways to engage customers, we are aggressively pursuing energy efficiency options to meet future growth and to increase the energy value delivered to our customers.
- Broaden our internal "I Can Help" program: Every employee now has access to telephone or e-mail resources to make sure he or she can quickly and satisfactorily address customer questions and needs.

Power reliability improved

Continued attention to power reliability in 2007 resulted in real improvement, with fewer outages per customer and shorter outages when they did occur. These results place us in the top quartile among peer electric utilities when compared to 2006, the most recent data available from the Southeastern Electric Exchange.

(PER CUSTOMER)	2006 ACTUAL	2007 GOAL	**2007 ACTUAL**
Average time without power*	164 min.	160 min.	**133 min.**
Average number of outages*	1.3	1.3	**1.13**

* Longer than five minutes

Smarter utility services

We've made good progress on the utility of the future strategy since we introduced the concept in last year's Sustainability Report.

We expect to invest almost $1 billion through 2012 to transform our energy delivery system for the needs of the 21st century. Advanced digital technology will replace analog technology, enabling near-instantaneous communication between our customers and our distribution system. For example, we believe it will be possible to program refrigerators, freezers, and other high-use electrical appliances to reduce operations when demand on our generating stations is especially high. Customers will be able to adjust heating and air conditioning for high comfort at lower cost. Real-time electric meters may show the cost of operating devices just as speedometers show actual speed. This capability will be far more useful for energy management purposes than the monthly "look back" that current systems provide. When the smarter technology is fully implemented, every customer will have access to advanced energy efficiency measures that will run in the background of their home or business.

In addition to smart customer meters, smart grids – substations, transformers and line sensors – will operate and communicate together much like a computer network. Abrupt changes in electric flow, as monitored through the smart grid, will alert us to the approximate location of outages more quickly than present systems, allowing faster service restoration.

We filed information to support these system upgrades with the Public Utilities Commission of Ohio in 2007, and are planning to file in the other states we serve in 2008. We also joined the Gridwise Alliance to work with like-minded companies involved in this complex transformation of the nationwide electric system.

In 2007, we began projects in N.C. and S.C. to test different components of the smart grid technology. We are also opening public demonstration sites in N.C., S.C. and Ky. to provide a "hands-on" experience with the new technologies. More information will be available at www.duke-energy.com.

GRIDWISE

A Collaborative Venture of the U.S. Department of Energy and the GridWise Alliance. Duke Energy is a member of this consortium of public and private stakeholders who are aligned around a shared vision of an integrated electric system. Ideally, energy can be generated, distributed and consumed more efficiently and cost effectively to achieve a more resilient, secure and reliable system. www.gridwise.org

LED LIGHTING THE FUTURE

In October 2007, Duke Energy teamed with Cree Inc. and launched a project to evaluate the use of light-emitting diodes (LED) for widespread commercial purposes. Cree has installed 19 outdoor LED lights at the company's Durham, N.C., office to replace standard high-pressure sodium light fixtures. The project will provide data to evaluate the technology's energy efficiency and longevity. It also may demonstrate that LEDs are viable alternatives to existing commercial lighting.

Reduce Our Environmental Footprint

Duke Energy's greatest sustainability risks and opportunities are in this environmental focus area. In 2007, we developed additional goals to reduce our air, water, and waste footprints; they can be found on page 11.

2007 CHALLENGES

- Ensure reliable and cost-effective energy supplies while minimizing impact on the environment
- Help address and meet the challenge of reducing greenhouse gases (GHGs)

WHAT WE DID IN 2007

- Completed NOx and SO_2 emission control projects at several generating stations
- Obtained approvals to build two cleaner coal-fired power plants
- Proceeded with plans to build nuclear and combustion turbine power plants
- Issued requests for proposals for renewable energy supplies
- Acquired the wind assets of Tierra Energy
- Promoted federal policy mandating economy-wide reductions of GHGs
- Undertook voluntary actions to reduce our own GHG emissions

2007 OPPORTUNITY

- Share our expertise, ideas and leadership to demonstrate the need for multiple supply and demand options

WHAT WE DID IN 2007

- Pursued plans using all five fuels: coal, nuclear, natural gas, renewables and energy efficiency

POLICY PRIORITIES:

We are working with stakeholders to promote a climate change policy that will result in long-term greenhouse gas reductions that most climate scientists think are necessary. An acceptable policy must also protect customers in states that depend on coal-fired generation. **Twenty-five states receive more than half of their electric power from coal-fired sources.** They must not bear an unfair share of the economic burden of the transition to a low-carbon economy.

Responding to global climate change

In last year's report, we shared our view on global climate change policy. In 2007, we continued to advance policy priorities designed to reduce greenhouse gas emissions while minimizing economic and social disruption to our customers and economies.

REDUCING GREENHOUSE GAS EMISSIONS

Duke Energy is the third largest emitter of carbon dioxide in the U.S. While we don't know the specific timing or requirements of federal carbon legislation, we do know that it is coming. And, we know that the decisions we make today about energy production and use can help build bridges to a low-carbon future.

As discussed earlier in this report, we are evaluating what it would take to cut our 2006 CO_2 emissions in half – by approximately 50 million tons – by 2030. Clearly, many things can happen between now and 2030, and a number of things *must* happen if we're going to be able to achieve this level of emission reduction while meeting projected demand and keeping electric rates competitive.

"Edwardsport Station could be one of the first demonstrations of carbon capture and storage at a power plant. This project is technologically important not just for Indiana, but for the nation."
– Duke Energy Indiana President Jim Stanley

THE NEW EDWARDSPORT IGCC STATION IS UNDER CONSTRUCTION ON THE BANKS OF THE WHITE RIVER. THE SITE WAS FIRST HOME TO A POWER PLANT IN 1918. THAT UNIT IS LONG GONE, BUT THREE ADDITIONAL UNITS WERE BUILT BETWEEN 1944 AND 1951.

Building bridges with technology

We are working to reduce our greenhouse gas emissions with new technologies on both the supply and demand sides. The previous section reviewed some of our initiatives to reduce energy demand. On the supply side, we're looking at a number of different technologies – some proven, others emerging.

- We are building a cleaner-coal integrated gasification combined cycle (IGCC) plant – a plant that will replace a half century-old coal plant. The 630-megawatt (MW) plant is being built in Edwardsport, Ind., where the limestone geology is believed to be conducive to geologic sequestration of carbon. Sequestration involves securely storing CO_2 in deep underground formations such as saline reservoirs, depleted oil or gas fields, or unmineable coal seams.
- Duke Energy is also participating in three of the seven U.S. Department of Energy projects to test CO_2 capture and storage. These partnerships form the core of a nationwide effort to assess the technical and economic viability of capturing and permanently storing CO_2 through carbon sequestration.
- In the Carolinas, we're building an advanced, highly efficient 800-MW coal plant – Unit 6 – at the Cliffside Steam Station. Cliffside 6 is expected to generate over twice the electricity of the existing five units, while emitting one-seventh of the sulfur dioxide, one-third of the nitrogen oxides and one-half of the mercury. Additionally, we have developed with N.C. regulators a plan to retire approximately 1,000 MW of older, less efficient coal-fired plants and take additional actions to make Cliffside 6 "carbon neutral" by 2018. We're not building an IGCC plant in North Carolina because the geology is not suitable for carbon sequestration. Cliffside 6 will likely be the last new coal plant we build in North Carolina for at least 20 years. By then, we expect carbon capture technology to advance so it can be used on virtually any coal plant, regardless of the geology.
- Also in North Carolina, we're planning to build more than 1,200 MW of natural gas-fired generation capacity to meet increasing demand. These lower-emitting natural gas units will also help us fill the need for electricity as we retire older coal units.
- We're using our more than three decades of experience in building and operating nuclear plants to plan a new, 2,234-MW nuclear power plant in South Carolina – a plant that will have zero greenhouse gas emissions.

LEADERSHIP ON CLIMATE DISCLOSURE

We have joined forces with other organizations – nationally and internationally – to report our emissions and associated risks and opportunities.

FEDERAL REPORTING

We have reported our GHG emissions to the U.S. Department of Energy and Environmental Protection Agency since 1995. Our Securities and Exchange Commission Form 10-K for 2007 included a detailed assessment of the climate policy debate in Washington and potential costs customers could see under specific legislative proposals.

CARBON DISCLOSURE PROJECT (CDP)

For the past five years, we have provided information to CDP, an independent organization that works with shareholders and companies to assess the business risks and opportunities due to climate change. www.cdproject.net.

THE CLIMATE REGISTRY

Duke Energy is a Founding Member of this U.S., Canadian and Mexican organization dedicated to providing an accurate, complete, consistent, transparent and verified set of greenhouse gas emissions data from reporting entities. www.theclimateregistry.org.

WILDLIFE AND INDUSTRY TOGETHER

Duke Energy's Riverbend Steam Station has seen its wildlife population thrive in recent years. The station is among several Duke Energy properties that have been certified as part of the North Carolina Wildlife Federation's Wildlife and Industry Together (WAIT) program. WAIT pairs companies with volunteers and community groups to develop company land into natural habitat. As part of Riverbend's five-year WAIT plan, Boy Scout troops from the surrounding Belmont, N.C. area are partnering with the station to complete 14 environmental projects, including erecting nature-trail bridges, bird houses and a wildlife feed plot that is ideal for deer, turkey and other animals.

Investing in renewables

Duke Energy launched several initiatives to bolster its renewable energy portfolio in 2007.

- In May, we acquired the wind power assets of Tierra Energy, a leading development company located in Austin, Texas. The purchase included more than 1,000 MW of wind assets under development in the western and southwestern U.S. Duke Energy plans to spend approximately $430 million in 2008 to complete the first three wind development projects acquired from Tierra. We recently made purchase commitments for 155 wind turbines, with a total capacity of 240 MW, to support this effort into 2010.
- We issued a request for proposals (RFP) for up to 2,100 MW of renewable energy in the Carolinas in April 2007. Many bids were received, and the evaluations are underway.
- Duke Energy Indiana also issued an RFP in October 2007 for up to 200 MW of renewable energy. Those bids are due in early 2008 and will take several months to evaluate. This is in addition to the 100 MW of wind power that Duke Energy Indiana will begin purchasing in 2008 based on agreements that were finalized in 2006.
- Duke Energy Carolinas completed successful tests of biomass co-firing in 2007 and assessed the availability of commercial quantities of biomass near our fossil stations.

From its roots in 1904 as a hydroelectric station operator along the Catawba River, Duke Energy is today the second largest investor-owned hydroelectric operator in the U.S. And, we have more than 3,100 MW of hydroelectric capacity in South America.

Power plant options

With about 60,000 new Duke Energy customers each year, it will take time for the benefits of energy efficiency to significantly curb demand. We use four criteria to evaluate energy supply options: Is the supply affordable? Is it available? Is it reliable? Is it clean? This table summarizes the current state of power plant technology and economics for our service areas.

	PURPOSE	AFFORDABLE	AVAILABLE	RELIABLE	CLEAN
Cleaner Coal					
■ Supercritical Pulverized	Baseload	Yes	Yes	Yes	Yes, except for CO_2 emissions
■ Integrated Gasification Combined Cycle (IGCC)	Baseload	Yes	Yes, but limited utility applications	Yes	Yes, except for CO_2 emissions
Note: Future carbon capture and sequestration could address CO_2; likely easier with IGCC.					
Nuclear	Baseload	Yes	Yes, but must restart nuclear industry	Yes	Yes, except for waste issues
Natural Gas					
■ Simple Cycle	Peaking	Yes, but volatile fuel prices	Yes	Yes	Yes, lower CO_2 emissions than coal
■ Combined Cycle	Intermediate	Yes, but volatile fuel prices	Yes	Yes	Yes, lower CO_2 emissions than coal
Renewables					
■ Solar	Intermittent	No, very expensive now	Yes, on small scale	Yes, if resource available	Yes
■ Wind	Intermittent	Among least cost renewables	Yes, but geographically limited	Yes, if resource available	Yes
■ Hydro	Peaking	Yes	Yes, but most sites have been developed	Yes, if resource available	Yes, except for stream flow impacts
■ Biomass	Baseload	Among least cost renewables	Yes, on small scale	Yes, if fuel available	Yes, but not as clean as other renewables
Energy Efficiency					
■ Demand Response	Peaking	Yes, less than generation alternatives	Yes, but customer response uncertain	Yes, once installed	Yes
■ Conservation	Baseload	Yes, less than generation alternatives	Yes, but customer response uncertain	Yes, once installed	Yes

Baseload – Large power plants that operate continuously at near full load (except for maintenance) to meet the 24/7 electric demand.
Peaking – Power plants that operate for short periods, often for just a few hours on especially hot or cold days, to meet spikes in demand.
Intermediate – Power plants that operate between the extremes of baseload and peaking electric demands.
Intermittent – Power plants that are expected to operate 15 to 30 percent of the time.

CHILDREN'S PROJECT GOES WILD

In 2007, approximately 2,000 students from Rowan-Salisbury Schools in Rowan County, N.C. participated in the outdoor classroom at Duke Energy's Buck Steam Station. This environmental education experience is part of Project WILD, a joint effort between Duke Energy, the North Carolina Wildlife Resources Commission, Horizons Unlimited of Rowan-Salisbury Schools and Ducks Unlimited. The program provides opportunities for fifth-graders to see and learn about wetlands, meadows, birds and animals in their natural settings.

GETTING OUR OWN "HOUSE" IN ORDER: ENERGY EFFICIENCY AT DUKE ENERGY OFFICES

We are improving energy efficiency in the office space we own or lease across our five-state service area. Lighting upgrades undertaken in 2007 and planned for 2008 are expected to save approximately 1.5 gigawatt-hours of electricity per year, which is equivalent to the total energy needs of about 125 homes.

Greenhouse gas reduction measures

GREENHOUSE GAS REDUCTION FUND – EFFICIENCY BEGINS AT HOME

Duke Energy promotes energy efficiency as an essential part of the solution for curtailing greenhouse gas emissions. To emphasize our commitment, we established a Greenhouse Gas Reduction Fund to stimulate innovation and energy efficiency within our own operations.

The fund's goal is to help reduce, avoid or sequester 10 million tons in CO_2 equivalents (CO_2e)* by 2015. In 2007, we awarded $3 million to fund 46 efficiency projects at generating stations and office facilities, as well as renewable energy projects. Those projects resulted in the avoidance of approximately 300,000 tons of CO_2e in 2007. Many of the projects will accrue additional tons avoided in 2008 and beyond.

In 2008, another $3 million has been allocated to fund 36 projects that will enhance efficiency and reduce the company's carbon footprint.

GREENHOUSE GAS REDUCTIONS IN GAS OPERATIONS

Duke Energy provides natural gas and electric service in the Greater Cincinnati region. For many years, we have purchased landfill gas that has been extracted from the Rumpke Landfill and processed. In 2007, the largest "landfill gas to pipeline" plant in the world was completed by GSF Energy LLC. The new plant significantly increases the productive capabilities at the landfill. Duke Energy will buy all of the landfill gas from this project, equivalent to the needs of about 17,500 homes.

Capture and sale of landfill gas, which is about half methane and half carbon dioxide, not only supplements gas supplies from traditional pipelines for Duke Energy customers; it also prevents a significant amount of greenhouse gas from being released to the atmosphere. The methane is piped to our customers and the captured CO_2 is sold to other businesses.

* **CO_2 equivalent:** CO_2e is a measure of the global warming potential over a period of time (typically 100 years) for different gases. CO_2 is given a reference value of 1 and all other gases are multiples of CO_2. For example, one ton of methane has the global warming potential of 23 tons of CO_2.

COWANS FORD DAM CREATED LAKE NORMAN, THE LARGEST MAN-MADE BODY OF FRESH WATER IN NORTH CAROLINA.

Water as a sustainability issue: The drought's effects on the Carolinas

Duke Energy owns and manages 13 hydropower stations and 11 reservoirs on the Catawba-Wateree River system, covering over 200 river-miles in North Carolina and South Carolina. The river and reservoirs are the backbone of our generation fleet, providing over 830 megawatts of renewable hydropower and cooling water to more than 8,100 megawatts of fossil and nuclear generation, approximately 45 percent of Duke Energy Carolinas' generating capacity.

ELECTRIC GENERATION

In 2007, North Carolina experienced the driest year and South Carolina experienced the fifth driest year in the 113 years that rainfall records have been maintained. In total, the Duke Energy Carolinas service area received less than 28 inches of rainfall in 2007, or 40 percent below the long-term average. Despite the drought and record-high temperatures, Duke Energy Carolinas' employees kept our power plants operating and managed lake levels to keep municipal and industrial water intakes covered. When drought conditions intensified during April, we began to reduce our use of hydroelectric generation throughout the Duke Energy Carolinas service area to preserve water in the reservoirs. This resulted in a systemwide reduction in hydroelectric generation of 67 percent during April-December compared to the average for the same months during the previous four years.

We also established an in-house Drought Mitigation Team to monitor and forecast drought effects on lake system storage throughout Duke Energy Carolinas' service area and to make plans if the drought continues through the summer of 2008. As a result, several equipment and procedural modifications are either under way or being planned at nuclear and fossil stations to reduce drought-related risks. We also purchased an option for additional generating capacity that can be used during 2008, as another step to help ensure that the energy needs of our customers are met.

REGIONAL WATER SUPPLIES

Many of the company's reservoirs in the Carolinas also provide raw water to public water systems and industrial process water. As part of our Comprehensive Relicensing Agreement for the Catawba-Wateree Hydroelectric Project, we joined with 24 public water systems, several large industrial plants and state and federal agencies to form a Drought Management Advisory Group. This group designed and implemented a regional drought response plan. For the first time, Duke Energy and the other water intake owners across the Catawba-Wateree River Basin have coordinated their actions to reduce water consumption. The resulting savings have kept all large water intakes covered and operating. We also worked with public water systems that withdraw water from our other hydro reservoirs to encourage aggressive water conservation measures.

COORDINATED ACTION

To improve long-term management of water resources in our region, Duke Energy and 15 public water system owners formed a nonprofit corporation called the Catawba-Wateree Water Management Group (WMG). Supported by member dues and other funding, the WMG will take actions to enhance water quantity and quality in the Catawba-Wateree River Basin, such as:

- Establishing a groundwater monitoring network to improve the understanding of how groundwater affects surface water availability during droughts
- Modifying existing water intakes to allow operation at lower lake levels
- Optimizing water intake and return locations
- Establishing water demand-side management goals and a plan to achieve them

The WMG is a first-of-its-kind partnership for a power company and public water system owners to pool their resources to protect and enhance their common water supply.

For up-to-date information on the drought and our response to it, visit www.duke-energy.com/lakes/carolinas-drought-info.asp.

Investing in research and development

Duke Energy directs much of its research effort toward projects coordinated by the Electric Power Research Institute (EPRI). In 2007, we invested $8.4 million in EPRI membership dues to pay for applied research and another $2.1 million in supplemental projects. Duke Energy participates in 47 non-nuclear programs and the entire EPRI nuclear program.

NUCLEAR FLEET EXCELS

The Duke Energy-operated seven-unit nuclear fleet (McGuire Station shown above) set an all-time operating record in September 2007. All seven generating units operated continuously for 107 days, surpassing the previous record of 89 days. Additionally, three nuclear units set electric production records in 2007. The company maintains its nuclear units around-the-clock by following a rigorous protocol to identify and repair problems before they impact operations. The nuclear fleet played an important role in the company's ability to respond to the summer-long heat wave in the Carolinas, which resulted in record-breaking customer demand.

REEL-LESS WIRE DELIVERIES

Duke Energy works with its suppliers to reduce environmental impacts in unlikely places. Wire and cable were traditionally delivered on large, heavy wooden reels (shown in background) that were returned to the manufacturer, but had limited life-spans. We teamed up with Southwire, one of our major suppliers, to develop a delivery method that does not require reels. Now, we place the reel-less wire bundles on reusable steel spools (foreground) for mounting on our trucks. Since 2002, we have eliminated the need for almost 7.7 million pounds of wood and saved an estimated $2.3 million.

CERTIFIED PAPER HELPS CONSERVATION EFFORTS.

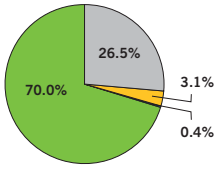
Duke Energy is reaffirming its commitment to preserve natural resources by increasing its use of Forest Stewardship Council (FSC)-certified paper. In 2007, Duke Energy developed guidelines to establish the use of FSC-certified papers across the company and make FSC certification mandatory for contract printers. Beginning in 2008, FSC-certified paper will be used for printed materials that carry the Duke Energy logo.

EPEAT COMPUTERS REDUCE HAZARDOUS WASTE

Duke Energy transitioned to fully EPEAT-registered (Electronic Product Environmental Assessment Tool) computer workstations and monitors in 2007. These business-class machines have reduced levels of cadmium, lead and mercury to better protect human health and the environment during manufacture and disposal. To achieve EPEAT registration, equipment must also comply with Energy Star, a program of the U.S. Environmental Protection Agency and Department of Energy.

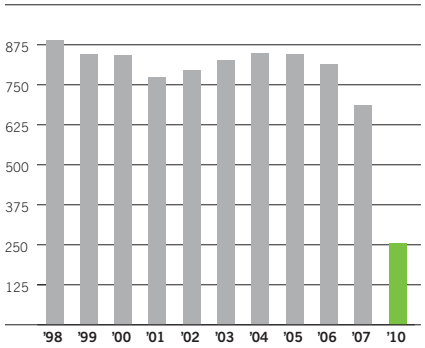
Electric generation statistics

2007 Net U.S. Megawatt-hour Generation[1]

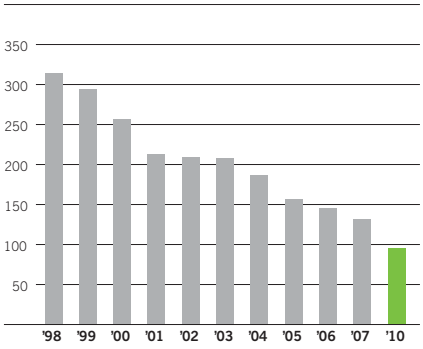


	Thousand MWH	
Coal	106,970	70.0%
Nuclear	40,490	26.5%
Natural Gas/Oil	4,670	3.1%
Hydro	660	0.4%
Total	**152,790**	**100.0%**

U.S. Sulfur Dioxide Emissions
(Thousand tons)[2]



U.S. Nitrogen Oxides Emissions
(Thousand tons)[2]



1 Data reflects output from fully-owned units and Duke Energy's share of output from co-owned units.

2010 emissions are estimates.

	2005	2006	**2007**
U.S. Sulfur Dioxide Emissions (Tons)[2]	844,500	812,600	**684,000**
U.S. Nitrogen Oxides Emissions (Tons)[2]	160,400	148,600	**131,000**
Carbon Dioxide Emissions (Thousand tons)[3]			
U.S.	104,600	102,200	**108,500**
Latin America	2,600	3,000	**3,100**
Total	107,200	105,200	**111,600**

2 SO_2 and NOx reported from U.S. electric generation based on Dec. 31, 2007 ownership share of stations. Combustion turbines not equipped with continuous emission monitors and facilities operated or owned by Duke Energy Generation Services are not included.

3 CO_2 reported from U.S. electric generation and Duke Energy International operations, and based on Dec. 31, 2007 ownership share of stations. CO_2 emissions increased in 2007 versus 2006 due to U.S. electric generation being about 3.8% higher to meet increased customer demand. The additional generation came from coal and natural gas plants.

	2006	**2007**
Fuels Consumed for U.S. Electric Generation[4]		
Coal (Thousand tons)	46,500	**46,779**
Oil (Thousand gallons)	Not compiled	**23,018**
Natural Gas (Thousand decatherms)	Not compiled	**33,652**

	2006	**2007**
U.S. Coal Combustion Byproducts – CCB (Thousand tons)[4]		
Total CCB Produced	5,530	**6,015**
Permanently Disposed	1,990	**3,962**
Beneficial Use	3,540	**2,052**

4 Generating plants owned and operated by Duke Energy

	2005	**2006**
U.S. Toxic Release Inventory (Pounds)[5]		
Releases to Air	80,172,829	**75,751,707**
Releases to Water	247,542	**195,247**
Releases to Land	15,234,393	**14,223,652**
Off-Site Transfers	77,123	**64,365**
Total	95,731,887	**90,234,971**

5 2007 data will not be available before July 2008. Data pertains to facilities owned by Duke Energy.

	2006	**2007**
Regulatory Citations (Includes Duke Energy International)[6]		
Citations	13	**12**
Fines/penalties (Dollars)	$12,713	**$15,500**

6 Of the 12 citations, no fine was associated with eight. Three resulted in fines of $15,500. Finally, the State Environmental Agency of Parana, Brazil has alleged improper maintenance of existing reforested areas. Duke Energy International believes it has properly maintained the areas and will contest the proposed fine of $150,000.

	2006	**2007**
U.S. Reportable Oil Spills	75	**79**
Gallons	3,251	**28,864**

More information on our air emissions is available at www.duke-energy.com/environment/air-quality.asp.

Quality Workforce

OUR SAFETY VISION:

Duke Energy employees and contractors at every level demonstrate personal commitment to continuous safety improvement, resulting in a zero injury and zero work-related illness culture.

2007 CHALLENGES

- Improve employee and contractor safety
- Compete with other companies and industries for the best talent

WHAT WE DID IN 2007

- Improved total incident case rate by 17 percent
- Did not meet goal of zero fatalities
- Developed a workforce needs forecast and revitalized our recruiting efforts
- Established additional partnerships and collaborations with educational institutions to prepare future workers

2007 OPPORTUNITIES

- Become the leader in safe work practices
- Maintain reputation as a preferred employer and attract top talent

WHAT WE DID IN 2007

- Focused on safety culture, training and process improvements
- Benchmarked leading companies to ensure competitive compensation and benefits

Safety update

We measure safety performance through two measures:

- Zero fatalities
- Total Incident Case Rate (TICR) – the number of recordable incidents per 100 employees (based on Occupational Safety and Health Administration criteria)

We failed to reach our goal of zero fatalities in 2007. We are saddened to report the accidental deaths of two Duke Energy employees. A Gas Operations employee was fatally injured by an automobile while working on a natural gas line in Ohio. Another teammate was killed while preparing to tow a vehicle in Peru. These tragedies remind us that we work in a hazardous environment and must be extra vigilant to the safety risks around us.

We completed 2007 with a TICR of 1.25, a 17 percent improvement over 2006. This translates to 65 fewer employees being injured in 2007. We also saw a 26 percent improvement in our lost workday case rate (LWCR) from 2006 to 2007, and those employees who missed work due to injuries returned sooner. TICR and LWCR were both better than our 2007 targets.

Our goal is to achieve top decile TICR performance by 2012. While we improved in 2007, we still lag the leaders in our industry. Among the largest investor-owned electric utilities, those in the top decile for safety performance in 2006 (the most recent data available from the Edison Electric Institute (EEI)) had a TICR of 0.76 or lower.

CONTRACTOR SAFETY

The Duke Energy Foundation sponsored the National Contractor Safety Summit in 2006. As a result of their involvement in the Summit, in 2007, the U.S. National Institute for Occupational Safety and Health, the Occupational Safety and Health Administration and the Bureau of Labor Statistics established a national working group to improve the collection of contractor safety statistics. We are also directly involved in various research projects to improve contractor safety. The results will be available to interested parties. And, through Duke Energy leadership, the EEI executive committee adopted Health and Safety Principles, a first for EEI.

Internally, we have improved our contractor safety data collection methods. Safety Summits were held in the Carolinas and Midwest to communicate our safety values and expectations to senior managers and project managers of contracting companies.

ERGONOMICS

Several business units have focused on reducing injuries due to poor workplace design or practices. Injuries to Power Delivery line technicians dropped by 25 percent in 2007 as a result of ergonomic safety improvements. Fleet Services and Nuclear Operations have implemented specific programs to identify risks and improve ergonomic safety.

Recruiting, developing and retaining employees

Duke Energy is facing major change not only in its business environment, but within the company as well. We see dual challenges ahead:

- Competing for the best talent: hiring replacements for the approximately one-third of our employees who may retire in the next five years.
- Preserving specialized knowledge: systematically capturing the critical knowledge of our employees before they retire.

Duke Energy has a number of efforts designed to attract, retain and develop employees:

- We are identifying the core skills and jobs that we will staff internally, and those that we will contract with others to provide.
- We have developed knowledge management and aging worker retention strategies, including support for federal pension reform so retirement-eligible workers can work part-time and draw from a retirement plan without penalty.
- We have revamped our training and development, including a new Strategic Leadership Program developed in conjunction with the University of North Carolina's Kenan-Flagler School of Business.
- We are developing and testing a software tool to help employees find courses and other training opportunities.
- We implemented a new software tool for performance management, employee development planning and succession planning.
- We are using rotational programs to attract and develop early career professionals.
- We are working in partnership with community colleges and technical schools on development and recruiting for technician positions.
- We are expanding internship and co-op programs in nuclear, engineering and technical services, power delivery and the commercial businesses.
- We are expanding opportunities for employee networking and collaboration through Employee Resource Groups, safety steering teams and project teams.
- We regularly benchmark leading companies to offer competitive compensation and benefits, and progressive workplace programs.
- We conduct periodic employee opinion surveys to assess and improve our culture and workplace practices.

TOP PHOTO: BRANDY STARNES, SCIENCE TECH II; MIDDLE PHOTO: LEFT BOB DOBY, SCIENCE TECH III, AND MICHAEL ABNEY, SCIENTIST II; BOTTOM PHOTO: CALEB SCHRUM, FOSSIL TECH II. EMPLOYEES WORK IN VARIOUS ENVIRONMENTS TO GET THE JOB DONE – FROM ANALYZING DATA AND FISH SAMPLES TO REPAIRING HEAVY EQUIPMENT.

TOP TO BOTTOM: LARRY WESSEL AND MELISSA SPRADLING, SENIOR MAINTENANCE ELECTRICIANS; RICK MCCLAIN, GENERAL SUPERVISOR, TRANSMISSION AND DISTRIBUTION; AND DEBBIE FIELDS, ELECTRIC OPERATIONS CLERK

Employee career development opportunities

Once hired, employees are encouraged to continue their education through in-company courses or outside classes. For some positions, especially in the craft and technician roles, employees must complete specific training modules to retain their jobs. In 2007, we implemented a new online tool to register for classes and track training records. Through this system, we recorded more than 17,400 employees taking nearly 500,000 hours of in-house training.

Workforce Statistics

	AS OF 1/31/07*	AS OF 12/31/07
Full and Part-Time Employees	18,053	18,117
■ United States	17,100	17,045
■ Duke Energy International	953	1,072
Collective Bargaining Unit/Union Members as Percent of Workforce		
■ U.S. (Members of a Collective Bargaining Unit)	27.1%	25.5%
■ Duke Energy International (Members of a Union)	35.3%	30.2%

United States Workforce Demographics**

Ethnic Diversity as Percent of Workforce		
■ White	86.6%	86.6%
■ Black/African American	11.2%	11.3%
■ Hispanic/Latino	0.9%	0.9%
■ Asian/Pacific Islander	0.9%	0.8%
■ American Indian/Alaska Nation	0.3%	0.3%
■ Not Specified	0.1%	0.2%
Females/Minorities as Percent of Workforce/Management		
■ Females as Percent of Workforce	22.6%	22.6%
■ Females as Percent of Management	17.6%	17.2%
■ Minorities as Percent of Workforce	13.3%	13.3%
■ Minorities as Percent of Management	7.8%	8.0%

* After Spectra Energy spinoff

**Ethnic diversity and gender data are not captured for Duke Energy International employees

While there's tremendous power in a shared culture and sense of purpose, we recognize and value the diversity of our employees.

Building a culture of sustainability and diversity

We believe that driving the concepts of sustainability throughout Duke Energy – making it "part of our DNA" – will create long-term value and differentiation. In 2008, we will be undertaking a comprehensive training and education effort to build a corporate culture of sustainability. We expect it to lead to innovative approaches to our business issues and to align our employees around the principles of sustainability.

While there's tremendous power in a shared culture and sense of purpose, we recognize and value the diversity of our employees. Our diversity efforts include:

- A Diversity Council, comprised of a cross section of company officers and employees, provides oversight of diversity and inclusion efforts, including company policies, programs and initiatives. Diversity Steering Teams are used to improve diversity awareness and help create an inclusive culture.
- Employee Resource Groups: The company supports a number of employee groups to bring together colleagues of similar interests and backgrounds. Regardless of the name, each group is open to any employee. The groups provide educational, networking, professional development and community service opportunities, and include the following:
  - African-American Network
  - Business Women's Network
  - Latino Network (Under development)
  - Leadership Development Network

The company also supports employee participation in local chapters of national groups such as the American Association of Blacks in Energy, North American Young Generation in Nuclear and Women in Nuclear.

Employee turnover

The average Duke Energy employee is about 48 years old with 20 years of service to the company. Employee turnover in 2007 was about 6 percent. Nearly 85 percent of the employees who left the company did so voluntarily. Employees affected by restructuring were offered help in finding new positions, either within Duke Energy or outside the company through career assistance. We also offered voluntary severance packages to encourage reductions in specific business areas.

2007 Turnover Summary

Reason	Number	Percent of Total
Severance package volunteers	405	39.4
Resignations	244	23.8
Retirements	218	21.2
Separations of employees who were notified they did not have a position in the new organization*	114	11.1
Dismissals	46	4.5
Total	**1,027**	**100**

* Employees whose jobs were affected by restructuring were offered an option to transfer into a "transition pool" for a six-month period where they could look for another job internal to the company, look for another job outside the company or terminate employment immediately.

AMERICAN ASSOCIATION OF BLACKS IN ENERGY ENERGIZE OUR YOUTH

AABE is dedicated to ensuring the input of minorities into energy policy decisions, research and development technologies and environmental issues. AABE members also mentor high school students, award scholarships to college students and develop young professionals within the energy industry. Since 2001, the Cincinnati AABE chapter has raised over $100,000 and awarded 50 student scholarships based on academic achievement and financial need. This chapter has been recognized as one of the most outstanding in the country six times since 2001.

DEI SPOTLIGHTED FOR WORKPLACE EXCELLENCE

Duke Energy International (DEI) received several honors acknowledging our workplace best practices in 2007.

- DEI Brazil was named to the list of 100 Best Companies to Work for in Latin America by the Great Place to Work® Institute.
- DEI Brazil also won a silver Eloy Chavez Medal for having a low employee and contractor accident rate.
- DEI El Salvador received the 3M Industrial Safety Award for its work in protection and industrial safety programs.
- DEI Egenor was recognized by the Great Place to Work® Institute as being one of the 25 best places to work in Peru for the fifth consecutive year.

Employee wellness

In 2007, Duke Energy expanded its Live Well program to all U.S.-based employees. The program is designed to improve health and wellness and reduce health care costs through educational programs and incentives for healthy living. Employees are encouraged to set up a personal profile and participate in an online assessment. The system also allows employees to track their participation and progress, including generating "credits," redeemable for an incentive of up to $200 into their Health Care Spending Accounts.

@Work pilot a success

In 2007, Duke Energy expanded its telecommuting pilot to a more formalized program called "@Work," in which participants worked from home an average of three or more days a week. Future participants will use shared workspace when they are in the office. Because the pilot resulted in stable productivity and enhanced employee satisfaction, @Work is being expanded in 2008. Over the long-term, we expect to see lower facility costs and reduced carbon emissions also resulting from this program.

2007 James B. Duke award recipients

Each year, Duke Energy presents its highest employee honor – the James B. Duke Award – to employees who exemplify our values and goals. The award is named for noted industrialist and visionary "Buck" Duke, who was one of the company's founders more than a century ago. Winners of the James B. Duke award are nominated and selected by their peers.

The accomplishments of our Duke Award winners touch on many aspects of sustainability. These outstanding employees are advocates, ambassadors, innovators, inventors and yes, even heroes.

- **Norman Barnes,** Service Mechanic A, Cincinnati – saved the lives of three people when he continued to search for tenants of an apartment building that had been evacuated following a gas leak.
- **Peter Hastings**, Licensing Manager, Nuclear Plant Development, Charlotte – led the effort to complete the 8,000-page construction and operating license application for two new nuclear units in South Carolina. The application was submitted to the Nuclear Regulatory Commission in December 2007 after more than two years of preparation. (See pages 6 and 21.)
- **Kelley Karn**, Associate General Counsel, Plainfield – oversaw the regulatory approval process of the Edwardsport integrated gasification combined cycle (IGCC) plant. Edwardsport is the first major power plant to be built in Indiana in more than 20 years. (See pages 5 and 21.)
- **Marilyn Lineberger**, Communications Manager II, Charlotte and **Sandy Tallant**, Business Relations Executive, Hendersonville, N.C. – led the communications, community relations and stakeholder engagement supporting the Cliffside Modernization Project. Construction of the plant is now under way. (See pages 6 and 21.)
- **Dr. Larry McKenzie**, Nuclear Station Instructor, Catawba Nuclear Station, S.C. – spearheaded a radiation protection technology program at Spartanburg Community College – the first of its kind in the nation. This program fills a company need for technical skills and provides job opportunities for the community.
- **Harry Poovey**, Economic Development Manager, Hickory, N.C. – served as the company's primary point of contact to attract the Google facility to North Carolina. (See page 34.)
- **Dee Putnam**, Senior Health and Safety Specialist, Charlotte – helped implement a new safety device that resulted in 100 percent fall protection for employees who climb wooden poles in their work.
- **Rob Smith**, Meter Reader, Cincinnati – was the first responder to an accident he encountered on a highway. By applying CPR skills he learned on the job, he saved the driver's life.
- **Ron Thompson**, Planner, Work Management, Zimmer Station, Ohio and **Phil Williamson**, Station Equipment Expert, Miami Fort Station, Ohio – are teaching important lessons of respect and tolerance to a new generation of students. They share the tragic history of the Transatlantic Slave Trade with students at Three Rivers Middle School and elsewhere to ensure these lessons of history are not forgotten.

Employee opinion survey

2007 was a year of great change within Duke Energy. Our natural gas pipeline business was spun off in January. There were also many changes to familiar systems and programs as we consolidated the company. As we do each year, employees were given an opportunity to complete an opinion survey. In 2007, 65 percent of our employee population replied.

Headlines from the survey:

- **Supervisor-employee relationships:** This aspect of work life received high marks in many areas. The overall "supervisory skills" category received a 72 percent positive rating.

  Response: Although we are doing well, we are determined to do better. A variety of training programs are available, and will be required for new supervisors, to further develop the skills needed to lead employees effectively.

- **Company strategy and leadership:** Slightly less than half of the employees who responded to the survey felt they understood the company's strategy.

  Response: In 2008, the company's updated mission, values and direction are being broadly communicated. Additionally, executive management members host monthly "Open Forums" and other employee discussions at various locations throughout our service areas. We are experimenting with other communications, such as internal blogs, to address employee questions and comments.

- **Workload and resources:** Employees felt their workload was increasing due to cost and workforce reductions.

  Response: To improve efficiency, we are identifying unnecessary work to help eliminate the "we've always done it that way" problem. We are also hiring additional people in selected areas and targeting specific work that can be completed more effectively by contractors.

- **Productivity:** Sixty-six percent said they had the right knowledge and skills to be productive at work, which is a slight improvement since the previous year's survey.

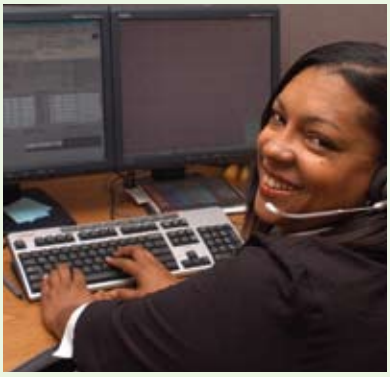
  Response: We seem to be on the right track, but again, there is room for improvement. We have an increased commitment to employee training and development through online and hard-copy resources, as well as classes, seminars, and craft and technical training opportunities.

- **Rewards:** Many employees felt they were not rewarded for good work.

  Response: Since the survey was taken, job titles and pay structures have been standardized across the company. Most jobs have been matched to external market surveys. And, new performance management processes are in place for 2008.

Although the positive responses were not as high as we would have liked in many areas, the negative ratings were generally in the single-digit or low-teen percentages. Responses that were neutral made up a large middle segment, which may be expected as employees become accustomed to the new company.

TOP TO BOTTOM: LEILA LIGON, ORDER PROCESS REPRESENTATIVE; CHRISTIAN NICHOLS, SENIOR MAINTENANCE ELECTRICIAN



Build Strong Communities

2007 CHALLENGE

- Help keep our service regions competitive with other locations

WHAT WE DID IN 2007

- Preserved electric rates below national averages
- Helped attract approximately $3.7 billion in capital investment and 15,270 jobs in our service areas

2007 OPPORTUNITY

- Use our customer and community programs to help differentiate the regions we serve

WHAT WE DID IN 2007

- Received high satisfaction marks from community leaders
- Awarded approximately $18 million in contributions to community programs in our service areas

"This company (Google) will provide hundreds of good-paying, knowledge-based jobs that North Carolina citizens want. It will help reinvigorate an area hard hit by the loss of furniture and textile jobs with 21st century opportunities."
– North Carolina Governor Mike Easley

Economic development exceeds expectations

Duke Energy's success is directly linked to the communities we serve. We partner with economic development specialists in our five-state service territory to help attract new business and industry. Energy prices and reliability – coupled with the overall quality of life – are important criteria when businesses determine where to locate.

In 2007, Duke Energy's economic development specialists worked with state and regional government officials to help attract approximately $3.7 billion in capital investments and 15,270 new jobs to the five states we serve. That exceeded our goals of 12,500 new jobs and $2.4 billion in investment.

While our representatives in each state were involved in dozens of successful projects, a few stand out:

- **Google** – Internet search leader Google is building a data storage center in Caldwell County, N.C. The company plans to invest up to $600 million on its new facility and create 210 new and relatively well-paying jobs in the next four years.
- **Honda Jet** – This subsidiary of Honda Motors announced plans to locate its world headquarters and airframe assembly plant at Piedmont Triad International Airport in N.C. Honda will invest up to $100 million and create more than 280 jobs with average wages of more than $70,000 per year. The plant will produce the company's eight-person, twin engine private jet.
- **Cummins Engine** – It is often better to re-use existing structures than to build new ones. Cummins Inc. will invest $250 million and create more than 600 new jobs to produce a new light-duty diesel engine at its Columbus, Ind., plant. The building is a former heavy-duty engine assembly plant that closed in 2002.
- **Amylin Pharmaceuticals** – This biotech firm demonstrates the popularity of southern Ohio for specialized manufacturing. Amylin is expanding a facility that was already under construction into a $400 million project. About 500 new jobs will be created in Butler County, Ohio, to produce a new, once-a-week drug to treat Type 2 diabetes.
- **Tata Consultancy Services (TCS)** "Insourcing" is a new term that perfectly describes this new development in the Greater Cincinnati region in 2007. TCS, the largest business conglomerate in India, announced that its North American Service Delivery Center would come to the area. The $20 million development is expected to eventually employ approximately 1,000 software engineers, information technology consultants, sales staff and administrative support personnel.

Each of these projects will have a multiplier effect on the number of jobs created as suppliers, support industries, and general retailers arrive to serve their customers.

"Bioscience brings highways, jobs, investment in research and medical breakthroughs that benefit the people of Ohio and people around the world."
– Ohio Governor Ted Strickland

One of the top utilities

Site Selection magazine named Duke Energy as one of the "Top 10 Utility Companies of the Year" in economic development for the ninth consecutive year. The magazine based its selection on total capital investment, investment per capita, total jobs created and jobs created per capita.

Sustainable communities

The cost and reliability of energy supplies are only two of many factors that concern our customers and communities. Less obvious aspects of economic development include the quality of educational facilities, parks and recreational opportunities and arts and cultural amenities, all of which make cities and towns desirable and sustainable places to grow a business. To help make our communities more sustainable, Duke Energy offers a Web-based assessment tool for community leaders at www.global-community.org/duke-energy.

WABASH RIVER ENHANCEMENT CORP.

The Duke Energy Foundation contributed toward phase 1 of the four-county Wabash River (Ind.) Corridor master plan. This plan will focus on sustainable opportunities for economic development, recreation, education, health and environmental management. This is the first regional planning effort for the entire corridor and not just for a section within a specific political jurisdiction.

CAROLINA THREAD TRAIL

Duke Energy is the lead corporate sponsor of this effort to connect 15 counties in N.C. and S.C. with a system of greenways and trails. We have committed $4.5 million in cash, land, and in-kind resources toward this project that future generations will enjoy. The Trust for Public Land will provide technical assistance to communities throughout the planning and design process. Catawba Lands Conservancy is the lead agency for the project.

STUDENTS GET HANDS-ON TRAINING IN ARGENTINA

As part of its community relations and sustainability program, DEI Argentina started a training school, Generar, to provide training on power plant operations, maintenance and safety to technical school students. Through Generar, Duke Energy contributes to the development and education of young men and women interested in a career in the energy industry.

CINCINNATI ZOO AND BOTANICAL GARDEN

Duke Energy was a significant contributor to the Leadership in Energy and Environmental Design (LEED) certification for a new education center. Solar panels should cut the energy usage by 40 percent.

TOP TO BOTTOM: KIM GLENN, SUPERVISOR – DISTRIBUTION DESIGN AND CHIP WOOD, VICE PRESIDENT, BUSINESS AND COMMUNITY RELATIONS; BRIAN MEYER, MANAGER, SUBSTATION ENGINEERING; AND DELIA FISHER, MANAGER, PORTFOLIO ADMINISTRATION. EMPLOYEES MAKE A DIFFERENCE BY PARTICIPATING IN NUMEROUS COMMUNITY BEAUTIFICATION PROJECTS DURING OUR GLOBAL SERVICE EVENT.

Public safety outreach

Duke Energy launched a comprehensive outreach and education campaign in 2007 to promote public safety and educate people on how to avoid the dangers of electricity and natural gas. The project was a joint effort between Duke Energy's public safety team and various vendors.

As part of the outreach campaign, a safety training kit was created for outside contractors, emergency response agencies and schools. Nearly 80,000 kits containing a safety brochure and poster were distributed. The kits also included information on how to receive additional safety booklets, equipment decals and a DVD/CD containing a video, PowerPoint slide show, presenter notes and a trainer's guide.

Duke Energy also uses bill inserts on safety to reach customers. Radio ads promote electric and natural gas safety, complementing safety demonstrations. We reached more than 11,000 individuals with face-to-face presentations.

To learn more about public safety, visit our Web site at: www.duke-energy.com/safety/.

Diverse supplier spending

Spending for goods and services provided by minority- and woman-owned businesses increased considerably, from $143.2 million in 2006 to $187 million in 2007. This 31 percent increase significantly exceeded our goal of a 5 percent increase, or $150.4 million.

There were two major reasons: One was a large increase in spending with a principal supplier; the other was improved record-keeping. We are consolidating data from accounts payable systems used by our Midwest and Carolinas operations and have better data on small purchases made with company credit cards. Both improvements help us better track purchases from diverse suppliers.

Global Service Event: part of the Duke Energy brand

Each spring, Duke Energy's Global Service Event (GSE) encourages volunteerism and teamwork by helping employees identify, plan and execute projects that make a difference in their communities. 2007 was the 10th year of GSE – and the volunteer event has become an integral part of our company's brand.

During the 2007 GSE, more than 4,500 employees tackled 500 projects in 156 communities, benefiting 376 different nonprofits. To put this into perspective, Duke Energy volunteers dedicated the equivalent of seven working years – roughly 15,000 hours – to community service projects.

Volunteerism and service to community continues after retirement. In 2007, Duke Energy retirees in our 23 chapters volunteered an estimated 245,000 hours to support hundreds of charitable projects.

2007 community giving summary

Duke Energy contributes to its communities through civic leadership, volunteerism and contributions. While we often talk about the company's giving in terms of the Duke Energy Foundation, that's only part of the story.

Each year, we aggregate all of the contributions made by Duke Energy, including Foundation and other cash contributions; in-kind gifts and services; and the contributions and the value of volunteerism of our employees and retirees. **In 2007, charitable giving from the Duke Energy Foundation, Duke Energy Corporation and its employees and retirees totaled more than $31 million.**

FUNDING SOURCE	$ MILLIONS	COMMENTS
Strategic charitable grants supporting the Duke Energy Foundation's philanthropic focus areas.	$18.2	Duke Energy charitable dollars are allocated across the states we serve, and are evaluated locally by regional contributions councils. Our direct charitable giving supported these focus areas: ■ Community vitality – 61% ■ Economic development, including education initiatives – 23% ■ Environment and energy efficiency – 16%
Other contributions, goods and services	$2.4	Charitable sponsorships, donations of goods, property and services.
Subtotal: Charitable Giving	**$20.6**	Each year we compare our charitable giving to industry benchmarks. Our total charitable giving of over $20 million in 2007 is on par with industry benchmarks at just under 1 percent of pre-tax net income.
Leveraged funds and value of volunteerism	$10.8	Duke Energy employee and retirees also generously contribute volunteer time as well as cash contributions through company supported programs such as matching gifts, volunteer grants and United Way campaigns.
Total Giving	**$31.4**	

2007 HIGHLIGHTS

- In 2007, Duke Energy, its employees and retirees contributed nearly $5 million to United Way agencies in the U.S. The United Way of Central Indiana recognized Duke Energy for the largest increase in corporate giving in 2007, 47 percent over the previous year.
- Duke Energy worked hard in 2007 to create positive outcomes in the safety area by providing nearly $1.3 million to charitable organizations that provided educational programs on safety and advocacy for safe work habits, and healthcare or other services for victims of accidents.
- Duke Energy Kentucky recently received the *Outstanding Corporate Leadership – Large Business Award* at the 2007 Northern Kentucky Celebration of Philanthropy.

In addition to the $31 million in charitable contributions, Duke Energy invested over $17.5 million in our communities through regulatory and other business initiatives, including:

- Duke Energy Carolinas' shared profits from bulk power marketing (BPM) through a series of innovative programs with industrial customers, economic developers and public assistance agencies in the Carolinas. Contributions from BPM in 2007 totaled over $7.2 million, including $2.65 million for programs for low-income customers such as Share the Warmth, Cooling Assistance and Fan Relief; approximately $3 million to the North Carolina Community College Grant Program; and $1.58 million to education in South Carolina through AdvanceSC. Although the majority of these dollars provided services in 2007, a portion of the dollars are held in community funds to be distributed in coming years.
- Low-income energy assistance programs in Ohio (HeatShare), Kentucky (WinterCare), and Indiana (Helping Hand) received over $750,000 from Duke Energy and close to an additional $225,000 from employee and customer contributions. Programs for low-income customers in the Carolinas – Share the Warmth, Cooling Assistance and Fan Relief – are funded from a variety of sources, including customer and employee contributions, BPM profit sharing and the Duke Energy Foundation.
- We announced a unique partnership, valued at $1.5 million, with Furman University in South Carolina to showcase the latest technology in sustainability and energy efficiency.
- As part of the Catawba-Wateree hydro relicensing process, we donated $9.32 million to support the purchase of land in the Catawba-Wateree River Basin by the states of North Carolina and South Carolina for public recreation, wildlife habitat and/or compatible permanent conservation.

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**
Total Operating Revenues	$10,607	**$12,720**
Total Operating Expenses	$9,210	**$10,222**
Net Income	$1,863	**$1,500**
Earnings per Share, Diluted	$1.57	**$1.18**
Dividends per Share	$1.26	**$0.86**
Total Assets	$68,700	**$49,704**
Long-Term Debt	$18,118	**$9,498**

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
Total	**$13,500**	**$254,400**	**$253,000**

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.

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

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.

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.

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
The Corporate Library			
TCL Rating	B	B[1]	A-F (no E)
Governance Risk Assessment	Low	Low[1]	Low, Moderate or High
RiskMetrics Group – Corporate Governance Quotient (CGQ)			
Index Ranking	13.8	91.1[2]	0-100
Industry Ranking	30.7	93.6[2]	0-100
GovernanceMetrics International			
Overall Global	9.0	9.5[3]	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.

2 As of Feb. 7, 2008. The CGQ scores are published by ISS Governance Services. For further information, go to 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.

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
Customers	■ Reasonable costs ■ Reliable supply ■ Good customer service ■ Safe operations ■ Minimal air and water emissions ■ Energy efficiency advice ■ Community involvement	■ Strong management systems ■ Efficient cost control practices ■ Business relations managers' accessibility ■ Customer satisfaction surveys ■ Environmental compliance ■ Customer communication and Web site information ■ Volunteerism
Employees	■ Safe workplace ■ Competitive pay and benefits ■ Open communications ■ Career development opportunities ■ Fair and consistent treatment ■ Strong corporate reputation	■ Safe work practice policies and training ■ The Portal (online corporate information resource) ■ Career training and development ■ Benchmarking with industry peers ■ Open Forums with executives ■ Confidential ethics hotline ■ Community involvement
Communities	■ Economic development ■ Involvement with local initiatives ■ Public safety ■ Employment opportunities ■ Volunteerism ■ Rapid service restoration	■ Business relations managers' involvement in communities ■ Economic development assistance ■ Global Service Event and other volunteer efforts ■ Duke Foundation grants ■ Cooperative service restoration agreements with other utilities
Suppliers	■ Fair dealing ■ Timely payment ■ Opportunities to grow their businesses	■ Supplier Code of Conduct ■ Competitive bidding process ■ Confidential ethics hotline ■ Minority/women/veterans business procurement practices
Investors	■ Competitive returns ■ Strong board governance ■ Management accountability ■ Regulatory compliance ■ Strong corporate reputation ■ Transparent reporting	■ Strong financial performance ■ 82 years of cash dividends ■ Comprehensive management and ethics policies ■ www.duke-energy.com/investors ■ Investment grade credit ratings ■ Strong balance sheet
Regulators	■ Reasonable cost and reliable supply ■ Regulatory compliance ■ Transparent reporting ■ Collaborative policy debates ■ Community involvement	■ Effective management policies and systems ■ "No surprises" practices ■ Policy leadership
Non-Government Organizations	■ Transparent reporting ■ Accessibility ■ Problem-solving engagement ■ Research and policy leadership	■ Partnerships and collaboratives on several issues and at various levels ■ Annual sustainability and financial reports ■ Joint research projects ■ Stakeholder dialogues

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.

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Human Rights Indicators
See our detailed index at www.duke-energy.com/environment/global-reporting-initiative.asp.

Society Indicators
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Business for Social Responsibility

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 Cliffside 6 coal-fired plant and outlines the steps the company is taking to minimize and offset its CO_2 emissions. The letter also discuses 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
Manager, Energy & Extractives Practice
Business for Social Responsibility
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
Diluted EPS, ongoing	**$1.24**

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)	–	$(0.02)
Costs to achieve the Cinergy merger	(54)	19	(0.03)
IT severance costs	(12)	4	–
Settlement reserves and adjustments	24	(9)	0.01
Total Diluted EPS impact			**$(0.04)**

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

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PRINTING INFORMATION

This report was printed in the USA on Neenah Environment PC100, which is made from 100% post-consumer recycled fiber.

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www.fsc.org Cert no. XXX-XXX-000
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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.