



## INDEPENDENT REVIEW



Business for Social Responsibility (BSR) is pleased to provide our fifth independent review of Duke Energy's annual Sustainability Report. The perspectives we offer below are informed by our knowledge of material social and environmental issues in the electric utilities sector, familiarity with Duke Energy and the company's reporting practice over the past five years, and experience applying international standards for best practice in sustainability reporting. This review neither verifies nor expresses an opinion on the accuracy, materiality or completeness of information provided in this report.

Notable strengths of the 2010 | 2011 Report include its:

- **Reflection on Duke Energy's achievements over the past five years.** Roberta Bowman's Q&A, presentation of multiple years of data and discussion of significant goals attained — such as the company's dramatic reduction of solid waste and improvement in its Total Incident Case Rate since 2007 — highlight the longer arc of cumulative progress it has made since publication of its first Sustainability Plan.
- **Balanced exploration of existing and emerging social and environmental concerns.** Duke Energy continues to directly and openly address long-standing concerns like nuclear safety and ethical conduct, as well as new issues like cyber security for smart grids and stakeholder preoccupations about new renewable energy technologies. However, we would like to see the company tackle long-term questions about the costs, relative CO<sub>2</sub> reductions and environmental impacts of natural gas in greater depth.

- **Clear insight into the “work” of sustainability.** This year's report brings readers to the front lines of sustainability at Duke Energy. For the first time it includes employee as well as executive voices, shares grassroots innovations inspired by sustainability challenges and goals, and starts to document the business returns the company has enjoyed as a result, from cost reduction to investor recognition on the DJSI World Index. These are proof positive that sustainability is increasingly part of Duke Energy's corporate DNA.

In next year's report, we encourage Duke Energy to:

- **Thoroughly address the implications of the Fukushima nuclear crisis.** Even as this report is written, the events unfolding in Japan are fundamentally reshaping the future of nuclear power. We — and the company's stakeholders — will want to know what Duke Energy learned from Fukushima, and the impact those lessons have had on its approach to public policy, transparency and engagement with stakeholders around the costs and benefits of nuclear power, new generation strategy, and technology, design and safety measures at existing and potential nuclear power facilities.
- **Provide more sophisticated and in-depth discussion of supply chain sustainability risks, opportunities and activities.** What does Duke Energy's supply chain look like? How is it changing as its business is transformed? What kind of material social and environmental impacts do its suppliers have on workers and communities? How is the company comprehensively managing sustainability risk and capitalizing on opportunities with suppliers? While this year's report provides greater detail on this topic than ever, we believe there is still room for substantial improvement in its treatment of supply chain sustainability.

- **Share how the company is reinvigorating its approach to sustainability in light of the planned merger with Progress Energy.** This offers both opportunity and challenge. Opportunity to set aggressive new targets, learn from each company's experience, and bring fresh eyes and skills to sustainability management. On the other hand, there will be dramatic changes to the company's structure and leadership, which create great uncertainty for the future of sustainability at Duke Energy. We look forward to hearing how the company is integrating new operations, perspectives, staff, structures and leadership, and how it plans to build on its strong foundation for sustainability moving forward.

We appreciate the opportunity to share our feedback and look forward to following Duke Energy's ongoing journey.

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Business for Social Responsibility  
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## NON-GAAP FINANCIAL MEASURES

### Adjusted Diluted Earnings per Share ("EPS")

Duke Energy's 2010-2011 Sustainability Report references 2010 and 2009 adjusted diluted EPS of \$1.43 and \$1.22, respectively. Adjusted diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure as it represents diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, adjusted for the per share impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. Special items represent certain charges and credits which management believes will not be recurring on a regular basis, although it is reasonably possible such charges and credits could recur. Mark-to-market adjustments reflect the mark-to-market impact of derivative contracts, which is recognized in GAAP earnings immediately as such derivative contracts do not qualify for hedge accounting or regulatory accounting, used in Duke Energy's hedging of a portion of the economic value of certain of its generation assets in the Commercial Power segment. The economic value of the generation assets is subject to fluctuations in fair value due to market price volatility of the input and output commodities (e.g., coal, power) and, as such, the economic hedging involves both purchases and sales of those input and output commodities related to the generation assets. Because the operations of the generation assets are accounted for under the accrual method, management believes that excluding the impact of mark-to-market changes of the economic hedge contracts from adjusted earnings until settlement better matches the financial impacts of the hedge contract with the portion of the economic value of the underlying hedged asset. Management believes that the presentation of adjusted diluted EPS provides useful information to investors, as it provides them an additional relevant comparison of the company's performance across periods. Adjusted diluted EPS is also used as a basis for employee incentive bonuses.

The most directly comparable GAAP measure for adjusted diluted EPS is reported diluted EPS from continuing operations attributable to Duke Energy Corporation common shareholders, which includes the impact of special items and the mark-to-market impacts of economic hedges in the Commercial Power segment. The following is a reconciliation of reported diluted EPS from continuing operations to adjusted diluted EPS for 2010 and 2009:

	2010	2009
Diluted EPS from continuing operations, as reported	\$1.00	\$0.82
Diluted EPS from discontinued operations, as reported	—	0.01
Diluted EPS from extraordinary items, as reported	—	—
Diluted EPS, as reported	\$1.00	\$0.83
Adjustments to reported EPS:		
Diluted EPS from discontinued operations	—	(0.01)
Diluted EPS from extraordinary items	—	—
Diluted EPS impact of special items and mark-to-market in Commercial Power (see below)	0.43	0.40
Diluted EPS, adjusted	\$1.43	\$1.22

The following is the detail of the \$(0.43) per share in special items and mark-to-market in Commercial Power impacting adjusted diluted EPS for 2010:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2010 Diluted EPS Impact
Costs to achieve the Cinergy merger	\$ (27)	\$ 10	\$ (0.01)
Voluntary retirement plan and office consolidation costs	(172)	67	(0.08)
Litigation reserve	(26)	10	(0.01)
Goodwill and other impairments	(660)	58	(0.46)
Asset sales	248	(94)	0.12
Mark-to-market impact of economic hedges	33	(12)	0.01
<b>Total adjusted EPS impact</b>			<b>\$ (0.43)</b>

The following is the detail of the \$(0.40) per share in special items and mark-to-market in Commercial Power impacting adjusted diluted EPS for 2009:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2009 Diluted EPS Impact
Costs to achieve the Cinergy merger	\$ (25)	\$ 10	\$ (0.01)
Crescent related guarantees and tax adjustments	(26)	(3)	(0.02)
International transmission adjustment	(32)	10	(0.02)
Goodwill and other impairments	(431)	21	(0.32)
Mark-to-market impact of economic hedges	(60)	22	(0.03)
<b>Total adjusted EPS impact</b>			<b>\$ (0.40)</b>

## FORWARD-LOOKING INFORMATION

### Cautionary Statements Regarding Forward-Looking Information

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as "may," "will," "should," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "forecast," and other words and terms of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. Duke Energy cautions readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such forward-looking statements include, but are not limited to, statements about the benefits of the proposed merger involving Duke Energy and Progress Energy, including future financial and operating results, Progress Energy's or Duke Energy's plans, objectives, expectations and intentions, the expected timing of completion of the transaction, and other statements that are not historical facts. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include risks and uncertainties relating to: the ability to obtain the requisite Duke Energy and Progress Energy shareholder approvals; the risk that Progress Energy or Duke Energy may be unable to obtain governmental and regulatory approvals required for the merger, or required governmental and regulatory approvals may delay the merger or result in the imposition of conditions that could cause the parties to abandon the merger; the risk that a condition to closing of the merger may not be satisfied; the timing to consummate the proposed merger; the risk that the businesses will not be integrated successfully; the risk that the cost savings and any other synergies from the transaction may not be fully realized or may take longer to realize than expected; disruption from the transaction making it more difficult to maintain relationships with customers, employees or suppliers; the diversion of management time on merger-related issues; general worldwide economic conditions and related uncertainties; the effect of changes in governmental regulations; and other factors we discuss or refer to in the "Risk Factors" section of our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). These risks, as well as other risks associated with the merger, are more fully discussed in the preliminary joint proxy statement/prospectus that is included in the Registration Statement on Form S-4 that was filed by Duke Energy with the SEC on March 17, 2011 in connection with the merger. Additional risks and uncertainties are identified and discussed in Progress Energy's and Duke Energy's reports filed with the SEC and available at the SEC's website at [www.sec.gov](http://www.sec.gov). Each forward-looking statement speaks only as of the date of the particular statement and neither Progress Energy nor Duke Energy undertakes any obligation to update or revise its forward-looking statements, whether as a result of new information, future events or otherwise.

### Additional Information and Where to Find It

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities, or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. In connection with the proposed merger between Duke Energy and Progress Energy, on March 17, 2011, Duke Energy filed with the SEC a Registration Statement on Form S-4 that included a preliminary joint proxy statement of Duke Energy and Progress Energy that also constitutes a preliminary prospectus of Duke Energy. These materials are not yet final and may be amended. Duke Energy and Progress Energy will deliver the definitive joint proxy statement/prospectus to their respective shareholders. **Duke Energy and Progress Energy urge investors and shareholders to read the preliminary joint proxy statement/prospectus regarding the proposed merger and the definitive joint proxy statement/prospectus, when it becomes available, as well as other documents filed with the SEC, because they contain or will contain important information.** You may obtain copies of all documents filed with the SEC regarding this transaction, free of charge, at the SEC's website ([www.sec.gov](http://www.sec.gov)). You may also obtain these documents, free of charge, from Duke Energy's website ([www.duke-energy.com](http://www.duke-energy.com)) under the heading "Investors" and then under the heading "Financials/SEC Filings." You may also obtain these documents, free of charge, from Progress Energy's website ([www.progress-energy.com](http://www.progress-energy.com)) under the tab "Investors" and then under the heading "SEC Filings."

### Participants in the Merger Solicitation

Duke Energy, Progress Energy, and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Duke Energy and Progress Energy shareholders in favor of the merger and related matters. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the solicitation of Duke Energy and Progress Energy shareholders in connection with the proposed merger is contained in the preliminary joint proxy statement/prospectus and will be contained in the definitive joint proxy statement/prospectus when it becomes available. You can find information about Duke Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 17, 2011. You can find information about Progress Energy's executive officers and directors in its definitive proxy statement filed with the SEC on March 31, 2011 and Amendment No. 1 to its Annual Report on Form 10-K filed with the SEC on March 17, 2011. Additional information about Duke Energy's executive officers and directors and Progress Energy's executive officers and directors can be found in the above-referenced Registration Statement on Form S-4. You can obtain free copies of these documents from Duke Energy and Progress Energy using the contact information above.



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