

Progress Energy, Inc. Corporate Governance Guidelines

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Table of Contents

	Page
Introduction.....	1
I. Board Responsibilities.....	1
II. Code of Ethics	2
III. Selection and Leadership of the Board	3
A. Board Membership Criteria	3
B. Selection and Orientation of New Directors	3
C. Board Leadership	4
IV. Board Composition and Performance.....	5
A. Size of the Board.....	5
B. Board Independence	5
C. Director Elections.....	8
D. Directors’ Resignation due to Failure to Receive Majority Vote	8
E. Term Limits.....	8
F. Directors’ Retirement and Board Tenure Policy	9
G. Change in Directors’ Job Responsibilities or Other Factors Relating To Their Selection.....	9
H. Board Compensation.....	9
I. Stock Ownership.....	10
J. Evaluation of the Chief Executive Officer	11
K. Evaluation of Board Performance.....	11
V. Information and Board Communication	11

A. Disclosure Policy	11
B. Board Interaction with External Entities	11
C. Board Access to Management and Independent Advisors	11
D. Board Meetings	12
E. Agendas and Board Materials	12
F. Executive Sessions of Independent Directors	12
G. Regular Attendance of Non-Directors at Board Meetings	12
VI. Committees	12
A. Delegation of Authority to Committees	12
B. Assignment and Rotation of Committee Members	13
C. Frequency and Length of Committee Meetings	13
VII. Leadership Development	13
A. Succession Planning	13
B. Director Continuing Education	14
VIII. Strategic Plan	14
A. Strategic Planning	14
IX. Shareholder Control Over Equity-Compensation Plans	14
A. Shareholder Opportunity to Vote on Equity-Compensation Plans	14

PROGRESS ENERGY, INC.
CORPORATE GOVERNANCE GUIDELINES

Introduction

The Directors of Progress Energy, Inc., are the representatives of the Company's shareholders and direct the management of the Company on the shareholders' behalf. The shareholders' main interest is in optimizing the Company's financial success within the bounds of our legal and regulatory system. In its undertaking, the Board of Directors must also consider the interests of others, including customers, employees, regulators, elected officials, and the communities where the Company does business. The Board recognizes that these responsibilities can be best met through a sound corporate governance philosophy and through policies and practices that maximize the Board's focus and overall effectiveness.

The first principle embraced by the Board of Progress Energy is **integrity**. This Board will nominate for director positions and include among its rank only those persons of the highest integrity and honesty. Similarly the Board will accept only managers that demonstrate the highest standard of behavior and ethical conduct.

The second principle of this Board is **accountability**. The Board recognizes that it represents the interests of shareholders and expects that it will be held accountable for doing so. The Board also holds management accountable for producing results that serve the shareholders' interests.

The third principle is **independence**. The board believes that it can only meet its obligations if it can exercise free and independent judgment, unclouded by economic or other entanglements with the Company. The Board will ensure that a substantial majority of its members are independent from the Company and will operate with due independence.

The Board is committed to these principles and has adopted a set of governance measures structured around them. These Corporate Governance Guidelines document the Board's responsibilities, structure and internal practices. The Corporate Governance Committee shall review these guidelines on a regular basis and make recommendations to the Board on items that will improve its governance.

I. Board Responsibilities

To be effective the Board must have a clear and shared understanding of its role and responsibilities. The Board's essential role is to oversee and direct the management of the Company's activities. This is done through setting appropriate policies, appointing a sound management team, and reviewing management's and the Company's actions diligently.

The Board's primary functions are:

- Selecting, evaluating and compensating the Company's Chief Executive Officer (and approving the selection of other senior management members)
- Planning for management succession
- Reviewing and monitoring implementation of the Company's strategic plan
- Reviewing annual operating plans and budgets
- Ensuring the integrity and clarity of the Company's financial statements and financial reporting
- Engaging outside auditors and evaluating independence issues
- Advising management on significant issues facing the Company
- Reviewing and approving significant corporate actions
- Nominating directors and Committee members and overseeing effective corporate governance
- Ensuring compliance with the law and the Company's Articles of Incorporation and Bylaws.

Directors must spend the time and effort necessary to properly discharge these responsibilities. To do so, directors are expected to attend regular meetings of the Board and the Committees on which they sit. Directors must also become knowledgeable about the business of the Company and about the operation of the Board.

The Board delegates to the Chief Executive Officer (and through him or her to other senior management) the authority and responsibility for managing the daily affairs of the Company. Under the Board's direction, the Chief Executive Officer and Senior Management are responsible for operating the Company in an ethical manner. To ensure this occurs, the Board requires that the Company have:

- A Chief Executive Officer of integrity who sets a strong ethical tone for the organization
- Comprehensive internal controls that produce clear and accurate financial reports
- A Code of Ethics for all employees, and for the Board of Directors.

In addition to setting the standard for integrity, the CEO is responsible for operating the corporation in an effective manner. The board believes the CEO should oversee and implement the strategic plan for the Company. To do so, the CEO must be aware of the major risks and issues facing the Company and have a strategy to resolve them. The CEO is responsible for supervising the Company's financial reporting and internal controls and processes, including budgeting and planning. The Board also holds the CEO accountable for selecting qualified management and establishing an effective organizational structure.

II. Code of Ethics

The Board of Directors believes that a strong ethics program, including a comprehensive written Code of Ethics, is essential for the successful operation of the Company's business. The Board requires that the Company have a Code of Ethics that incorporates

an effective reporting and enforcement mechanism. The Board has also adopted the Company's Code of Ethics as its own standard and requires its members to acknowledge their adherence to it by reviewing and signing it annually. Employees must have a means of alerting management and the Board to potential misconduct without fear of retribution. Violations of the Code must be addressed promptly and effectively. The Progress Energy ethics program is a powerful commitment to ethical behavior by employees, management and members of the Board. Waivers of the Code of Ethics for employees, management or directors are prohibited.

III. Selection and Leadership of the Board

A. Board Membership Criteria

The Board believes that having directors with extensive business and industry experience is beneficial to the Board as a whole and to the Company. The Company values diversity among its Board members and seeks to create a Board that reflects the demographics of the areas we serve. The Company works to identify and select independent directors who will best serve the interests of our shareholders and uphold the Board's values of integrity, accountability and independence. The Corporate Governance Committee is responsible for reviewing with the Board, on an annual basis, the qualification standards required of Board members in the context of the current make-up of the Board. These criteria include:

- Integrity
- Sound Judgment
- Independence
- Financial acumen
- Strategic thinking
- Ability to work effectively as a team member
- Demonstrated leadership and excellence in a chosen field of endeavor
- Experience in a field of business, professional or other activities that bear a relationship to the Company's mission and operations
- Appreciation of the business and social environment in which the Company operates
- An understanding of the Company's responsibilities to shareholders, employees, customers and the communities it serves, and
- Service on other boards of directors that could detract from service on this Board.

These criteria are assessed against the perceived needs of the Board. A substantial majority of the Board will be independent and not employees of the Company.

B. Selection and Orientation of New Directors

The Board is responsible for selecting its own candidates for membership and recommending them for election by the shareholders. The Board has delegated responsibility for identifying, screening and recommending potential directors to the Corporate Governance Committee. The Board and the Company have an orientation process for new directors that includes reviewing background material, meeting with Senior Management and visiting Company facilities.

C. Board Leadership

The Chairman of the Board is elected by the Board from its members. The Chairman chairs the Executive Committee and also has the following responsibilities:

- Prepares, with appropriate input from the Lead Director, agendas and materials for all Board, Committee and Shareholder meetings that cover all matters necessary for the Board to exercise its duties properly.
- Presides at all full meetings of the Board in a manner that utilizes the Board effectively and takes full advantage of the expertise and experience of each director.
- Provides leadership to the Board in establishing and adopting positions the Board should take in terms of governance, shareholder proposals, and other appropriate matters.
- Provides input and support to the Chairs of Board Committees on matters within the scope of those committees.
- Ensures the Board is fully informed about the material and financial condition of the Company, its businesses, and the environments in which they operate.
- Facilitates open and constructive communication within the Board and between the Board and management.
- Presides at meetings of shareholders.
- Performs additional services as required by the Board.
- Develops, with the oversight and concurrence of the Board, a management succession plan.

The Board believes that a key element of its independence is its ability to choose its Chairman and the Chief Executive Officer in the manner it deems best for the Company. Therefore, the Board does not have a set policy on whether the Chairman and Chief Executive Officer positions should be separate or whether the Chairman should be an employee or non-employee Director. The Board believes that when the Chairman is not the Chief Executive Officer or an employee, the Chairman will direct the executive sessions of the Board. When the Chairman is the Chief Executive Officer or an employee, the Board appoints a Lead Director. The Lead Director's responsibilities are detailed in the Company's Policy on Lead Director Qualifications, which is attached hereto as Exhibit B.

IV. Board Composition and Performance

A. Size of the Board

The number of directors of the Company is set by its bylaws and shall not be less than eleven (11) nor more than fifteen (15). A majority of Directors may increase the size of the Board, within the specified limits, and may also fill vacancies that occur between shareholder elections.

B. Board Independence

In order for a director to be deemed “independent,” the Board of Directors of the Company must affirmatively determine that the director has no material relationship with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. In making this determination, the Board of Directors shall apply the following standards:

1. A director who is, or has been within the last three years, an employee of the Company, or whose immediate family member is, or has been within the last three years, an executive officer, of the Company, is not independent. Employment as an interim Chairman or Chief Executive Officer will not disqualify a director from being considered independent following such employment.
2. A director who has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pensions or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service) is not independent. Compensation received by a director for former service as an interim Chairman or Chief Executive Officer will not be considered in determining independence under this standard. Compensation received by a director’s immediate family member for service as an employee of the Company (other than as an executive officer) will not be considered in determining independence under this standard.
3. A director who is or has been within the last three years affiliated with or employed by (or whose immediate family member is or has been within the last three years affiliated with or employed by) a present or former internal or external auditor of the Company is not independent.
4. A director who is, or has been within the last three years, or whose immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company’s present executives at the same time serve or served on that company’s compensation committee is not independent.
5. A director who is an executive officer or an employee (or whose immediate family member is an executive officer) of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company’s consolidated gross revenues is not independent.
6. A director who has or whose immediate family member has received any compensation from the Company directly or indirectly as an advisor or consultant

is not independent until at least three years after he or she ceases to receive such compensation.

7. A director who is or whose immediate family member is an officer, director, or trustee of a foundation, university, or other tax-exempt organization that received from the Company, in any single year within the preceding three years, contributions in an amount which exceeded the greater of \$1 million or 2% of such tax-exempt organization's consolidated gross revenues is not independent.
8. Neither a director nor his/her immediate family member shall receive any personal loans from the Company.
9. A director who had or whose immediate family member had, during the Company's last fiscal year, a relationship that must be disclosed under Item 404(a) of Regulation S-K is not independent.
10. Relationships not specifically mentioned above, or transactions that may have taken place prior to the adoption of these independence standards, may, in the Board's judgment, be deemed not to be material and the director will be deemed independent, if after taking into account all relevant facts and circumstances, the Board determines that the existence of such relationship or transaction would not impair the director's exercise of independent judgment.
11. Any transaction that Item 404(a) of Regulation S-K exempts from disclosure (or subjects to only limited disclosure) shall be deemed categorically immaterial for purposes of these Guidelines. These transactions include, but are not limited to, the following:
 - executive compensation arrangements otherwise reported under Item 402 of Reg. S-K (other than in the case of an immediate family member);
 - indebtedness incurred in connection with the purchase of goods and services on usual trade terms; ordinary business travel and expense payments; and other transactions in the ordinary course of business;
 - loans from banks, savings and loans and broker-dealers made in the ordinary course of business on prevailing market terms and not involving more than the normal risk of collectibility;
 - transactions in which the related person's interest arises solely because of his/her position as a director of and/or ownership of less than a 10% equity in another entity that is a party to the transaction;
 - transactions in which the related person's interest arises only from his/her position as a limited partner in a partnership in which the person and all other related persons have an interest of less than 10%;
 - transactions where the rates or charges involved are determined by competitive bids;
 - transactions that involve the rendering of services as a public utility at rates or charges fixed in conformity with law or a governmental authority; and

- transactions in which the related person's interest arises solely from the ownership of a class of equity securities of the Company and all holders of such class of Company equity securities received the same benefit on a pro rata basis.

For purposes of these Guidelines, the following definitions shall apply:

- a. "affiliate" means any subsidiary of the Company and any other Company or entity that controls, is controlled by or is under common control of the Company.
- b. "immediate family" means a director's spouse, parents, stepparents, children, stepchildren, siblings, mothers-and fathers-in-law, sons-and daughters-in-law, brothers-and sisters-in-law and anyone (other than employees) who shares the director's home or who is financially dependent on the director.

The Board shall undertake an annual review of the independence of all non-employee Directors. In advance of the meeting at which this review occurs, each non-employee Director shall be asked to provide the Board with full information regarding the Director's business and other relationships with the Company and its affiliates and with senior management and their affiliates to enable the Board to evaluate the Director's independence.

Directors have an affirmative obligation to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as "independent" and to comply with the Company's Policy and Procedures with Respect to Related Person Transactions, which is attached hereto as Exhibit A. This obligation includes all business relationships between, on the one hand Directors or members of their immediate family, and, on the other hand, the Company and its affiliates or members of senior management and their affiliates, whether or not such business relationships are subject to the approval requirement set forth in the following provision.

The Board believes that having the Chief Executive Officer as a member of the Board is appropriate and can increase the Board's effectiveness and comprehension of the Company's business. Whether employees other than the Chief Executive Officer should serve on the Board is a matter determined based on the circumstances and what is deemed by the Board to be in the Company's best interest.

The identity of the independent directors will be disclosed in the Company's annual proxy statement.

C. Director Elections

Under the Company's bylaws, Directors are elected at each annual meeting of the shareholders. Each Director is elected for a term of one-year.

D. Directors' Resignation due to Failure to Receive Majority Vote

Effective as of the election of directors at the 2007 Annual Meeting of the Company's Shareholders, if an incumbent director is nominated, but not re-elected, that director shall tender his or her resignation to the Board of Directors. The Corporate Governance Committee of the Board shall consider the resignation and make a recommendation to the full Board as to whether to accept or reject the resignation. The full Board will make a determination and publicly disclose its decision and rationale within 90 days after receipt of the tendered resignation.

Any Director who tenders his or her resignation pursuant to this provision shall not participate in the Governance Committee recommendation or Board of Directors action regarding whether to accept the resignation offer; provided, however, that if each member of the Governance Committee fails to receive a sufficient vote for re-election, then the independent Directors who did receive a sufficient vote shall appoint a committee amongst themselves to consider the resignation offers and recommend to the Board of Directors whether to accept them. If the only Directors who do not fail to receive a sufficient vote for re-election constitute three or fewer Directors, then all Directors may participate in the action regarding whether to accept the resignation offers.

E. Term Limits

The Board does not believe that term limits are in the best interest of the shareholders and thus does not advocate such a policy. Term limits arguably could help bring fresh ideas and viewpoints to the Board, but they could also result in the loss of directors who have developed increasing insight into the Company and its operations and can provide an increasing contribution to the Board and the shareholders. The Board believes a better approach is to evaluate each director's performance annually when directors are nominated to continue in office.

F. Directors' Retirement and Board Tenure Policy

Members of the Board who are full-time employees of the Company must retire from the Board at the age of 65 years. However, the Chairman of the Board, if then a full-time employee of the Company, shall be eligible to continue as a member of the Board after reaching age 65 for one year, if so requested by the Board. Those persons who are not full-time employees of the Company must retire from the Board at the age of 73 years, unless requested by the Chairman of the Board to remain and approved on an annual basis by the full Board. Such retirement shall take effect at the Annual Shareholders' Meeting in the year in which the Director reaches age 73.

G. Limiting Directorships on Public Company Boards

Since service to the Company's Board of Directors may involve significant time and responsibility commitments, non-management directors are required to limit the number of other public company boards on which they serve to a maximum of four, including the Company's Board. Directors should also inform the Chairman of the Board in advance of accepting an invitation to serve on another public company board.

Because of the Audit Committee's demanding role and responsibilities, a director who is a member of the Company's audit committee shall not serve on the audit committees of more than three public companies, including the Company's Audit Committee.

H. Change in Directors' Job Responsibilities or Other Factors Relating To Their Selection

The Board, in selecting its members, considers a number of factors, including the personal circumstances at the time of selection. The Board believes that material changes in circumstances in individual cases should lead to a re-examination of the director's role on the Board. Thus, directors whose job responsibilities or other factors relating to their selection to the Board change materially after their election should submit a letter of resignation to the Board.

A director whose job responsibilities or other factors relating to their selection to the Board change materially should not necessarily leave the Board. The Board should have an opportunity to review the continued appropriateness of the individual's Board membership under these circumstances. The Governance Committee will make the initial recommendation in such cases.

I. Board Compensation

The Board believes that director compensation should be aligned with the Company's overall performance and long-term stock value. The current components of director compensation are designed to ensure this alignment.

To create a direct link between director compensation and corporate performance, a portion of the annual retainer paid to directors is automatically deferred under the directors' Deferred Compensation Plan. The deferred fees are subject to the same incentive matching provisions related to attainment of Service Company goals that apply to the Company's 401(k) Savings & Stock Ownership Plan for employees.

The Board also has a Stock Unit Plan for non-employee directors. The Stock Unit Plan provides for an annual grant of stock units equivalent to \$60,000.00 to each non-employee director.

Pursuant to the Company's Equity Incentive Plan, directors were eligible to receive annual grants of 2,000 non-qualified stock options. For years 2002, 2003 and 2004, grants were made on May 1 pursuant to individual stock option agreements between the Company and each director. Effective with Board action on December 8, 2004, the stock component of Directors' compensation was changed, and the annual grant of stock options was eliminated. All stock options granted prior to January 1, 2005 remain valid in accordance with their terms and conditions.

The Corporate Governance Committee reviews Board compensation on a regular basis and recommends changes to the full Board for approval.

J. Stock Ownership

Directors and senior executives should focus on improving the Company's long-term value to shareholders. In order to achieve this focus, the Board requires that directors and senior Company officers align their interests with the shareholders by owning stock in the Company. Within the first year of service, a director shall acquire a beneficial interest in shares of the common stock of the Company; by the end of the second year of service, a director shall have acquired a beneficial interest in 1,000 shares of the Company's common stock. Directors are required within five years of their initial appointment as a director to acquire and hold Company stock, and equivalent units tied to the value of the Company's common stock, with a value equal to at least 5,000 shares of the Company's common stock.

The Chief Executive Officer is required within five years of his or her initial appointment to acquire and hold Company stock with a value equal to at least five times his or her annual base salary paid by the Company.

The Chief Operating Officer is required within five years of his or her initial appointment to acquire and hold Company stock with a value equal to at least four times his or her annual base salary paid by the Company.

The Chief Financial Officer is required within five years of his or her initial appointment to acquire and hold Company stock with a value equal to at least three times his or her annual base salary paid by the Company.

Executive officers (other than the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer) are required within five years of the date of their initial appointment to acquire and hold Company stock with a value equal to at least three times their annual base salary paid by the Company.

Vice Presidents and Department Heads are required within five years of the date of their initial appointment to acquire and hold Company stock with a value equal to at least their annual base salary paid by the Company.

For purposes of these stock ownership guidelines, the following shall be considered as stock owned by the Company executives:

- Stock held in any defined benefit, defined contribution, ESOP, or other stock-based plan
- Performance shares/units or phantom stock deferred under an annual incentive plan, base salary deferral plan or long-term incentive plan account
- Vested and unvested restricted stock awards and restricted stock units
- Stock held in a family trust or immediate family holdings.

K. Evaluation of the Chief Executive Officer

The Organization and Compensation Committee, comprised entirely of independent directors, evaluates the performance of the Chief Executive Officer on an annual basis. The evaluation is based on objective criteria including financial and operating performance of the Company, total shareholder return, accomplishment of long-term strategic objectives, development of management and other relevant considerations. The Committee communicates the results of the evaluation to the Board, which uses those results in its deliberations regarding compensation for the Chief Executive Officer.

L. Evaluation of Board Performance

The Board believes that an effective mechanism for evaluating its performance on a periodic basis is a key component of good governance. The Corporate Governance Committee is responsible for conducting an annual assessment of the performance and effectiveness of the Board and its standing committees. The results of this assessment are reported to the full Board annually.

The Corporate Governance Committee also evaluates whether the individuals on the board have the necessary skills and expertise for directing the corporation and whether the individual director is making an appropriate contribution. The Committee evaluates a director's ability to continue to contribute to the board each time the director is considered for re-nomination.

V. Information and Board Communication

A. Disclosure Policy

The Company has a responsibility to furnish information that is honest, intelligible, meaningful, timely, and broadly disseminated. The Board holds the Chief Executive Officer responsible for the dissemination of this information. The Board's policy is that timely and accurate disclosure shall be made in compliance with applicable laws, rules and regulations on all material matters.

B. Board Interaction with External Entities

Directors receiving inquiries about the Company should interact with investors, the media, and other third parties only after discussion with and concurrence by the Chief Executive Officer.

C. Board Access to Management and Independent Advisors

Board independence is furthered when the Board has unfiltered access to the key sources of information about the Company. Accordingly, Board members have complete access to the Company's management. In addition, the Board can retain, at Company expense, independent advisors or consultants to assist the Board in fulfilling its responsibilities, as it deems necessary.

D. Board Meetings

The Board meets in full complement at five regular Board meetings each year. The Board believes this schedule is sufficient and appropriate to the fulfillment of its

responsibilities. The Board believes the Chief Executive Officer should convene special meetings of the Board (or appropriate committees) as circumstances warrant or as the Chief Executive Officer desires guidance from the Board. The Board requires that written minutes be kept of each of its meetings and that those minutes be maintained with the books and records of the Company.

E. Agendas and Board Materials

The Chairman of the Board and the Chief Executive Officer, with input from other members of Senior Management and the Board, establishes the agenda for each Board meeting. Information important to the Directors' understanding of the business and their deliberations and actions shall be distributed in appropriate format and detail to the Board sufficiently in advance of any meeting to allow for review.

F. Executive Sessions of Independent Directors

The Board believes that independence and candid discussion can be fostered by meeting in executive session without Company employees present. The Board's policy is that the non-employee directors will meet in executive session on a regularly scheduled basis. Executive sessions will be chaired either by the Chairman or Lead Director (as described in Section III. C), whose name shall be publicly disclosed in addition to a means for shareholders to communicate with the non-employee directors.

G. Regular Attendance of Non-Directors at Board Meetings

The only non-Board members who regularly attend each Board meeting are members of the Executive Council and the Corporate Secretary. Others are present from time to time upon invitation.

VI. Committees

A. Delegation of Authority to Committees

As is customary in many organizations, the Board delegates certain areas of oversight to its Committees, including the Executive Committee (which may under controlling law exercise the authority of the full Board on certain matters requiring Board approval). The six standing Committees of the Board are:

- Audit and Corporate Performance
- Corporate Governance
- Executive
- Finance
- Operations and Nuclear Oversight
- Organization and Compensation.

The Board shall appoint its members to the various Committees. A majority of the Board has the authority to create and dissolve Committees comprised of two or more members.

The responsibilities of each Committee shall be clearly defined in a written charter, approved by the Board. The Committees' membership, with the exception of the Executive Committee, shall consist only of independent directors. The requirements of the Listing Standards of the New York Stock Exchange for the Corporate Governance, Audit and Corporate Performance, and Organization and Compensation Committees shall be met. Each Committee shall deliver a report of its meeting to the Board, including a description of all actions taken by the Committee at the meeting. The Committee shall keep written minutes of its meetings, which will be maintained with the books and records of the Company.

B. Assignment and Rotation of Committee Members

The Board, after considering the recommendations of the Corporate Governance Committee, assigns directors to the various Committees and chair positions. A majority of the Board is required to appoint directors to fill vacancies on the Committees.

The Board does not believe a mandatory rotation policy with a fixed term is beneficial to the shareholders' interests. The members and the chairs of the various Committees should be rotated based upon the needs and factors existing at the time rotation is considered.

C. Frequency and Length of Committee Meetings

The frequency of the meetings of each Committee is specified in individual Committee Charters. The length of each meeting is a function of the agenda items and the wishes of the Committee members. The Chairman of the Committee, in consultation with the appropriate members of Senior Management and staff, will develop the Committee's agenda.

VII. Leadership Development

A. Succession Planning

The Board believes that orderly succession planning is essential for the Company to maximize its financial performance. The Chief Executive Officer shall report to the Board annually on management succession planning and development.

The Board of Directors will develop and adopt a plan of succession for the Chairman and/or Chief Executive Officer, in the event of either of their deaths, disability, removal, resignation, or retirement. The Board will review this plan at least annually.

B. Director Continuing Education

All directors are encouraged to attend educational opportunities enabling them to better perform their duties and recognize and deal with various issues that may arise during their tenure as directors, including ongoing Corporate Governance and other educational programs related to their service on the Board. This training will be done at Company expense.

VIII. Strategic Plan

A. Strategic Planning

In view of the increasingly competitive environment within the energy industry and the various legislative and regulatory initiatives affecting the industry as well as the Company's diversification activities, a long-term strategic plan should be implemented and updated. The plan should document the long-term goals of the Company and the course of action it will pursue to meet those goals. The Board plays an integral role in the development and approval of the Company's long-term strategic plan. The Board currently conducts a two-day strategic planning conference to focus on the Plan each year. In addition to the annual conference, the Board discusses and revises the plan as needed.

IX. Shareholder Control Over Equity-Compensation Plans

A. Shareholder Opportunity to Vote on Equity-Compensation Plans

The Board believes that equity-compensation plans can help align shareholder and management interests, but shareholders should agree with that alignment by having the opportunity to approve equity-compensation plans and any material revisions to the terms of such plans. This will provide checks and balances on the process of earmarking shares used for equity-based awards and also provide shareholders a voice regarding the resulting dilution. In the case of certain plans exempt from such approval, the Organizational and Compensation Committee shall approve the plans.

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Revised 12/09

**POLICY AND PROCEDURES WITH RESPECT TO
RELATED PERSON TRANSACTIONS**

A. Policy Statement

The Company's Board of Directors (the "Board") recognizes that Related Person Transactions (as defined below) can present heightened risks of conflicts of interest or improper valuation or the perception thereof. Accordingly, the Company's general policy is to avoid Related Person Transactions. Nevertheless, the Company recognizes that there are situations where Related Person Transactions might be in, or might not be inconsistent with, the best interests of the Company and its stockholders. These situations could include (but are not limited to) situations where the Company might obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when the Company provides products or services to Related Persons (as defined below) on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. The Company, therefore, has adopted the procedures set forth below for the review, approval or ratification of Related Person Transactions.

This Policy has been approved by the Board. The Corporate Governance Committee (the "Committee") will review and may recommend to the Board amendments to this Policy from time to time.

B. Related Person Transactions

For the purposes of this Policy, a "Related Person Transaction" is a transaction, arrangement or relationship, including any indebtedness or guarantee of indebtedness, (or any series of similar transactions, arrangements or relationships) in which the Company (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds \$120,000, and in which any Related Person had, has or will have a direct or indirect material interest.

For purposes of this Policy, a "Related Person" means:

1. any person who is, or at any time since the beginning of the Company's last fiscal year was, a director or executive officer (i.e. members of the Senior Management Committee and the Controller) of the Company, Progress Energy Carolinas, Inc., or Progress Energy Florida, Inc. or a nominee to become a director of the Company, Progress Energy Carolinas, Inc., or Progress Energy Florida, Inc.;
2. any person who is known to be the beneficial owner of more than 5% of any class of the voting securities of the Company or its subsidiaries;
3. any immediate family member of any of the foregoing persons, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law,

son-in-law, daughter-in-law, brother-in-law, or sister-in-law of the director, executive officer, nominee or more than 5% beneficial owner, and any person (other than a tenant or employee) sharing the household of such director, executive officer, nominee or more than 5% beneficial owner; and

4. any firm, corporation or other entity in which any of the foregoing persons is employed or is a general partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

C. Approval Procedures

1. The Board has determined that the Committee is best suited to review and approve Related Person Transactions. Accordingly, at each calendar year's first regularly scheduled Committee meeting, management shall recommend Related Person Transactions to be entered into by the Company for that calendar year, including the proposed aggregate value of such transactions if applicable. After review, the Committee shall approve or disapprove such transactions and at each subsequently scheduled meeting, management shall update the Committee as to any material change to those proposed transactions.
2. In determining whether to approve or disapprove each related person transaction, the Committee will consider various factors, including the following:
 - the identity of the related person;
 - the nature of the related person's interest in the particular transaction;
 - the approximate dollar amount involved in the transaction;
 - the approximate dollar value of the related person's interest in the transaction;
 - whether the related person's interest in the transaction conflicts with his obligations to the Company and its shareholders;
 - whether the transaction will provide the related person with an unfair advantage in his dealings with the Company; and
 - whether the transaction will affect the related person's ability to act in the best interests of the Company and its shareholders

The Committee will only approve those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its shareholders.

3. In the event management recommends any further Related Person Transactions subsequent to the first calendar year meeting, such transactions may be presented to the Committee for approval at the next Committee meeting. In these instances in which the Legal Department, in consultation with the President and Chief Operating Officer, determines that it is not practicable or desirable for the Company to wait until the next Committee meeting, any further Related Person Transactions shall be submitted to the Chair of the Committee (who will possess delegated authority to act between Committee meetings). The Chair of the Committee shall report to the Committee at the next Committee meeting any approval under this Policy pursuant to his/her delegated authority.

4. No member of the Committee shall participate in any review, consideration or approval of any Related Person Transaction with respect to which such member or any of his or her immediate family members is the Related Person. The Committee (or the Chair) shall approve only those Related Person Transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders, as the Committee (or the Chair) determines in good faith. The Committee or Chair, as applicable, shall convey the decision to the President and Chief Operating Officer, who shall convey the decision to the appropriate persons within the Company.

D. Ratification Procedures

In the event the Company's Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer or General Counsel becomes aware of a Related Person Transaction that has not been previously approved or previously ratified under this Policy, said officer shall immediately notify the Committee or Chair of the Committee, and the Committee or Chair shall consider all of the relevant facts and circumstances regarding the Related Person Transaction. Based on the conclusions reached, the Committee or the Chair shall evaluate all options, including but not limited to ratification, amendment, termination or recession of the Related Person Transaction, and determine how to proceed.

E. Review of Ongoing Transactions

At the Committee's first meeting of each calendar year, the Committee shall review any previously approved or ratified Related Person Transactions that remain ongoing and have a remaining term of more than six months or remaining amounts payable to or receivable from the Company of more than \$120,000. Based on all relevant facts and circumstances, taking into consideration the Company's contractual obligations, the Committee shall determine if it is in the best interests of the Company and its stockholders to continue, modify or terminate the Related Person Transaction.

F. Disclosure

All Related Person Transactions are to be disclosed in the filings of the Company, Progress Energy Carolinas, Inc. or Progress Energy Florida, Inc., as applicable, with the Securities and Exchange Commission as required by the Securities Act of 1933 and the Securities Exchange Act of 1934 and related rules. Furthermore, all Related Person Transactions shall be disclosed to the Corporate Governance Committee of the Board and any material Related Person Transaction shall be disclosed to the full Board of Directors.

The material features of this Policy shall be disclosed in the Company's annual report on Form 10-K or in the Company's proxy statement, as required by applicable laws, rules and regulations.

POLICY ON LEAD DIRECTOR QUALIFICATIONS AND SELECTION

The Company's Lead Director is the Chair of the Governance Committee and a member of the Organization and Compensation Committee. The Lead Director must be independent as determined by the Securities Exchange Commission and as set forth in the New York Stock Exchange rules. In addition, the Lead Director will have the following responsibilities:

- Preside over executive sessions and other meetings of the non-management and independent directors and provide feedback to the Chair/CEO from those meetings
- Provide the Chair/CEO with input on the preparation and content of agendas for Board meetings and other meetings, as appropriate
- Serve as a mentor and advisor to the Chair/CEO
- Ensure the Chair/CEO and Board members understand each other on critical matters
- Assist the Board and the Chair/CEO in assuring effective communication between all Board members and between the Board and management
- Lead the annual assessment of Board effectiveness and individual director performance
- Chair the Board when Chair is incapacitated

Additional Responsibilities

- Appropriately challenge and support management
- Ensure that the board maintains its independence from the CEO-chair
- Serve as a facilitator of the corporate governance process
- Support effective shareholder communication

The Company will identify a Lead Director who will best serve the interests of shareholders and uphold the Board's values of integrity, accountability and independence. When choosing the Lead Director, the Board will consider the following factors, as well as other relevant matters.

- Integrity – demonstrates highest ethical standards
- Sound, informed judgment
- Independence
- Financial acumen
- Strong interpersonal/communication skills
- Strategic thinker
- Demonstrated leadership and excellence in chosen field of endeavor
- Significant management and business experience
- Understanding of the Company's responsibility to shareholders and stakeholders
- Ability to work effectively as a team member
- Accumulated experience and knowledge of the Company's operations and the characteristics of the sector, including tenure on the Board

The Corporate Governance Committee will be responsible for recommending the lead director nominee to the board for election each year.