

# **Cinergy Corp. Board of Directors** **Corporate Governance Guidelines**

## **THE MISSION OF THE CINERGY CORP. BOARD OF DIRECTORS**

The mission of the Board of Directors (the “Board”) is to foster the long-term success of Cinergy Corp. (“Cinergy” or the “Company”) consistent with its fiduciary responsibilities to shareholders. The Board performs a central role in achieving this goal by ensuring that management is capable of implementing its duties and achieving its objectives consistent with the Company’s commitment to Corporate Sustainability – a fundamental principle that recognizes that the implementation of the Company’s core values leads to improved quality of life and the long-term success of the Company and its stakeholders. Cinergy’s core values of Social Responsibility, Economic Progress, and Environmental Improvement are bound within the framework of ethical business practices. Consequently, the Board requires the directors, officers and employees of Cinergy to comply with all legal and regulatory requirements and encourages them to adhere to the highest ethical standards in the performance of their duties.

Directors must perform their duties, keeping in mind their primary fiduciary duty to the shareholders and Cinergy. That duty includes the obligation to ensure that the Company’s disclosures contain accurate information that fairly presents the Company and its operations to shareholders and the public in conformity with applicable laws, rules and regulations.

## **CORPORATE GOVERNANCE GUIDELINES**

### **I. Board Responsibilities**

#### **1. Description of Board Responsibilities**

The Board of Directors’ role is to maximize long-term shareholder value. The Board is responsible for oversight of strategy, the operation of the business and performance evaluation, so as to promote the long-term successful performance of the Company. In order to maximize long-term shareholder value, the directors’ primary functions are:

- Assure that Management develops sound business strategies.
- Review, and where appropriate, approve and evaluate financial and internal controls.
- Select the Chief Executive Officer and other senior officers and review management succession planning.

- Ensure that the Company's business is conducted with the highest standards of ethical conduct and in conformity with applicable laws and regulations.

A director is expected to spend the time and effort necessary to properly discharge such director's responsibilities. Accordingly, a director is expected to regularly attend meetings of the Board and committees on which such director sits, with the understanding that on occasion a director may be unable to attend a meeting. A director who is unable to attend a meeting is expected to notify the Chairman of the Board, the Chair of the appropriate committee, or the Company's Corporate Secretary in advance of such meeting.

Directors must be committed to devoting the time and effort necessary to learn the business of the Company and the Board.

All directors, within three years of the later of (i) August 28, 2002, or (ii) their initial appointment to the Board, shall attend educational opportunities, including programs accredited by Institutional Shareholder Services ("ISS"), thereby enabling them to better perform their duties and recognize and deal with various issues that may arise during their tenure as directors. Subsequently, the directors shall attend ongoing Corporate Governance and other educational programs related to their service on the Board.

## 2. Code of Business Conduct and Ethics

The Board believes that in order to oversee the successful perpetuation of the Company's business, the Board should set policies (the "Code of Conduct") regarding: (i) conflicts of interest; (ii) corporate opportunities; (iii) confidentiality; (iv) fair dealing; (v) protection and proper use of company assets; (vi) compliance with laws, rules and regulations; and (vii) such other matters as the Board deems appropriate. The Code of Conduct should encourage the reporting of unethical or illegal behavior and ensure prompt and consistent action against violations of the Code of Conduct. The Code of Conduct should be disclosed and any waivers of the Code of Conduct for directors or executive officers may be made only by the Board or a Board committee, if so delegated, and must be publicly disclosed in a prompt manner.

## **II. Selection and Composition of the Board**

### 1. Board Size

The Board of Directors shall consist of a number of directors as set forth in the Company's Bylaws.

## 2. Co-Lead Directors

The Board shall appoint two Co-Lead Directors, who shall be the Chair of the Corporate Governance Committee and the Chair of the Compensation Committee. The Co-Lead Directors shall be responsible for chairing the Executive Sessions (described below). The Co-Lead Directors, together with the Chairman shall maintain a process for communications between Cinergy shareholders and themselves.

## 3. Independence of the Board

The Board shall be comprised of a majority of directors who qualify as independent directors ("Independent Directors") under the listing standards of the New York Stock Exchange. The Board will review annually the relationship that each director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Following such annual review, only those directors who the Board affirmatively determines have no material relationship with the Company will be considered Independent Directors, subject to additional qualifications prescribed under the listing standards of the New York Stock Exchange. The basis for any determination that a relationship is not material shall be disclosed in accordance with applicable rules and regulations.

## 4. Board Membership Criteria

The Corporate Governance Committee, comprised entirely of Independent Directors, is responsible for identifying, screening, recruiting and recommending directors for nomination by the Board for election as members of the Board.

The Board as a whole should have competency in the following areas, with at least one director contributing knowledge, experience and skill in each area: (i) accounting and finance; (ii) business judgment; (iii) management; (iv) crisis response; (v) industry knowledge; (vi) international markets; (vii) leadership; and (viii) strategy/vision.

An assessment of the skills and characteristics needed by the Board in the context of the current status of the Board must be performed on a regular basis. Skills and characteristics to consider are: (i) mature judgment; (ii) diversity; (iii) experience; (iv) skills; (v) accountability and integrity; (vi) financial literacy; (vii) high performance standards; (viii) time; (ix) other board appointments; (x) industry knowledge; (xi) networking/contacts; and (xii) degree of independence from management.

Shareholders shall have an opportunity to suggest processes and criteria for director selection, and to influence the composition of the Board.

In determining whether a director should stand for re-election, consideration should be given to the director's attendance at meetings and achievement of satisfactory performance.

5. Selection of New Directors

The Corporate Governance Committee is responsible for identifying and recommending to the Board candidates for election as directors; shareholders also have the opportunity to nominate directors in accordance with the Bylaws of the Company.

The Board delegates the process of screening director candidates to the Corporate Governance Committee, which may solicit advice from other members of the Board and the Chief Executive Officer.

After the screening process is completed, the Board nominates an appropriate slate of director candidates for election.

6. Extending the Invitation to a Potential Director to Join the Board

The invitation to join the Board is extended on behalf of the Board by the Chairman of the Board (the "Chairman") and/or Chief Executive Officer and some combination of the remaining directors, as appropriate.

7. Outside Directorships

No director may serve on the board of directors of more than four other unaffiliated, public companies.

**III. Board Leadership**

1. Chairman of the Board and Chief Executive Officer

The Chairman, who may also be the Chief Executive Officer, shall be a director and presides at all meetings of the Board and, in the absence or inability to act of the Chief Executive Officer, meetings of the shareholders. The director who is appointed Chairman is appointed on an annual basis by at least a majority vote of the remaining directors.

The Chief Executive Officer, who may also be the Chairman, shall be a director and presides at all meetings of the shareholders and, in the absence or inability to act of the Chairman (and the Vice Chairman, if there be one), meetings of the Board. The director who is appointed Chief Executive Officer will be so appointed on an annual basis by at least a majority vote of the remaining directors.

2. Former Chairman or Chief Executive Officer's Board Membership

If the Chairman or Chief Executive Officer tenders a resignation to the Board from that position, he or she shall submit a resignation for the Board's consideration. A former Chief Executive Officer who is allowed to stay on the Board will not be considered an Independent Director for purposes of corporate governance for a period of at least 3 years following termination of employment. However, a director who serves as an interim Chief Executive Officer may be deemed an Independent Director immediately after his services as Chief Executive Officer ends, so long as the director meets the remaining requirements for independence.

3. Change in Job Responsibilities of Directors

Directors who change the primary job responsibility they held at the time of their election to the Board shall offer a letter of resignation for Board consideration. The Board shall, in its sole discretion, determine whether such change in responsibilities will impair the director's ability to effectively serve on the Board, and may waive such requirement for resignation where it has determined the ability of the director to serve is not impaired.

4. Term of Office and Term Limits

The Board shall be divided into three (3) classes; Class I, Class II and Class III, as determined by the Board. One class of directors will be elected every year, such that each class will serve for a three-year term.

The Board shall consider annually whether the institution of term limits is in the Company's best interest, and if so, set forth such term limits.

5. Retirement

No person who is, at the time of nomination, 70 years of age or older shall be eligible for election as a director.

**IV. Board Communications**

1. Disclosure Policy

The Board believes that it is imperative that timely and accurate disclosure in compliance with applicable laws, rules and regulations is made on all material matters, including: (i) the Company's financial condition; (ii) performance; (iii) foreseeable risk factors; (iv) ownership; and (v) the amount and nature of equity compensation paid to directors and senior management.

The Company has a responsibility to furnish information that is honest, intelligible, meaningful, timely, and broadly disseminated. The Chief Executive Officer may be solely responsible for the dissemination of information. Otherwise, a director or senior executive may act in conjunction with a corporate decision-maker who authorizes in advance the material facts known to the director or senior executive before the information is disclosed. All Company communications are subject to the Cinergy Corp. Regulation FD Policy (the "Regulation FD Policy").

2. Board's Interaction with Institutional Investors, Press, Customers, etc.

Directors receiving inquiries about the Company should interact with press and other third parties only in concurrence with the Chief Executive Officer or his designee and in accordance with the Regulation FD Policy.

**V. Board Performance**

1. Group Performance

The Corporate Governance Committee shall sponsor and oversee an annual performance evaluation of the Board to determine whether it is functioning effectively. This evaluation focuses on the performance of the Board as a whole, concentrating on areas where performance might be improved. The Board shall administer an annual self-evaluation and evaluation of its committees to determine the same.

2. Individual Performance

The Corporate Governance Committee shall administer an annual performance evaluation of each director, with consideration being given to skills and expertise, group dynamics, core competencies, personal characteristics, accomplishment of specific responsibilities, attendance, participation and candor. The Chairman or Chief Executive Officer shall communicate the results of the evaluation to each director.

**VI. Board Compensation**

1. Board Compensation

Directors (other than employees of the Company or any of its subsidiaries) are entitled to receive reasonable compensation for their services, as may be determined from time to time by the Corporate Governance Committee as well as reimbursement of expenses.

Reasonable compensation also may be paid to any person (other than employees of the Company or any of its subsidiaries) formally requested by the Board to attend a meeting.

## **VII. Board Meetings**

### **1. Agenda Items**

Agenda Items are designated by the Chairman in consultation with other Board members, the Chief Executive Officer, management, shareholders, or others as determined by the Chairman.

### **2. Distribution of Board Materials in Advance**

Materials for review, discussion and/or action of the Board should, to the extent practicable, be distributed sufficiently in advance of meetings, thereby allowing time for review prior to the meeting. The method of distribution may include, but is not limited to: (i) posting to the Board Vantage site, which allows instant accessibility; (ii) other electronic means; (iii) regular mail; (iv) fax; (v) courier; or (vi) overnight mail. However, it is recognized that certain exigent circumstances may cause written materials to be unavailable in advance of the meeting.

### **3. Executive Sessions of Non-Management Directors**

The non-management directors will meet in Executive Session on a regularly scheduled basis. Executive Sessions will be chaired by one or both of the Co-Lead Directors. The names of the Co-Lead Directors shall be disclosed in accordance with applicable rules and regulations.

## **VIII. Board Relationship To Senior Management**

### **1. Attendance of Non-Directors At Board Meetings**

The Board welcomes Company management to attend, from time to time, Board meetings, thereby providing certain expertise and/or insight into items that may be open for discussion.

The Board, in its sole discretion, also welcomes independent advisors to attend Board meetings.

### **2. Board Access to Senior Management and Independent Advisors**

Board members are granted complete access to the Company's management, (nevertheless ensuring that such contact does not interfere with the operation of the Company's ordinary business). If such contact is in written form, the Board

will provide a copy of such written contact(s) to the Chairman and Chief Executive Officer.

The Board, in its sole discretion, also shall have access to any independent advisors.

## **IX. Stock Ownership**

Directors are required to, within three years of the later of (i) August 28, 2002, or (ii) their initial appointment as a Company director, acquire and hold Company stock with a value equal to at least twice the amount of their annual retainer for service as a director of the Company.

The Chief Executive Officer is required to, within three years of the later of (i) August 28, 2002, or (ii) his or her initial appointment as Chief Executive Officer, acquire and hold Company stock with a value equal to at least five times his or her annual base salary paid by the Company.

Executive officers (other than the Chief Executive Officer) whose initial appointment as an executive officer of the Company occurred prior to January 1, 1993 are required to, within three years of August 28, 2002, acquire and hold Company stock with a value equal to at least three times their annual base salary paid by the Company. Executive officers (other than the Chief Executive Officer) whose initial appointment occurred on or after January 1, 1993 are required to, within five years of the later of (i) August 28, 2002, or (ii) their initial appointment as an executive officer of the Company, acquire and hold Company stock with a value equal to at least three times their annual base salary paid by the Company.

## **X. Leadership Development**

### **1. Succession Planning**

The Board shall 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 or resignation. This plan will be reviewed by the Board at least annually.

### **2. Management Development**

The Board shall direct the creation and maintenance of a program for management development. The Chief Executive Officer will review the program annually with the Board.



## **XI. Committee Matters**

### **1. Number, Structure and Independence of Committees**

There shall be an Executive Committee, Corporate Governance Committee, Audit Committee, Compensation Committee and such other committees as the Board deems advisable. The purpose and responsibilities of each of these committees will be outlined in committee charters adopted by the Board. The Board may, subject to limitations in the Company Bylaws, appoint such additional standing or temporary committees from time to time as the directors see fit, delegating to such committees all or part of the Board's powers. The Corporate Governance Committee, Audit Committee and Compensation Committee shall be comprised entirely of Independent Directors as required pursuant to applicable law or prescribed under the listing standards of the New York Stock Exchange.

### **2. Compensation of Committee Members**

The members of committees are entitled to receive such fees as the Corporate Governance Committee determines. The compensation received by the members of the Audit Committee from the Company is specifically limited to those fees paid for their service as a director and member or chair of any committees of the Board.

### **3. Selection of Committee Chairs**

The Corporate Governance Committee shall recommend to the Board for appointment the directors to chair the Board committees.

The Chief Executive Officer shall chair the Executive Committee.

### **4. Assignment and Rotation of Committee Members and Chairs**

The Chairman and the Vice Chairman, if there be one, shall be members of the Executive Committee.

The Corporate Governance Committee shall recommend to the Board for approval the directors for committee membership.

The Corporate Governance Committee shall consider on a periodic basis whether it is in the Company's best interest to rotate chairs and/or members within and among committees.