

**Charter of the  
Audit Committee  
of the Board of Directors  
of Cinergy Corp.**

**I. Purpose**

The purpose of the Audit Committee (or the "Committee") is to (a) assist the Board of Directors with respect to its oversight of: (i) the integrity of Cinergy's financial statements; (ii) Cinergy's compliance with legal and regulatory requirements; (iii) the independent auditor's qualifications and independence; and (iv) the performance of Cinergy's internal auditing function and independent auditors; and (b) prepare the audit committee report as required by the Securities and Exchange Commission ("SEC"), to be included in Cinergy's annual proxy statement.

**II. Membership**

The Audit Committee shall be comprised of three or more independent directors.

The members of the Audit Committee shall be qualified to serve on the Committee pursuant to the requirements of the New York Stock Exchange and the Sarbanes-Oxley Act of 2002 (the "Act") and the rules and regulations promulgated by the SEC pursuant to the Act.

No director may serve as a member of the Audit Committee if such director serves on the audit committee of more than two other public companies unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee. Any such determination must be disclosed in Cinergy's annual proxy statement.

All members of the Audit Committee shall be, or within a reasonable time after appointment shall become, financially literate. The chairperson of the Audit Committee shall have accounting or related financial management expertise as may be required by the New York Stock Exchange.

The members shall be nominated by the Corporate Governance Committee of the Board of Directors and appointed by the Board of Directors. The Corporate Governance Committee shall recommend, and the Board of Directors shall designate, one member of the Audit Committee as Chair. Members shall serve until their resignation, retirement, removal by the Board of Directors or until their successors shall be appointed and qualified. No member of the Audit Committee shall be removed except by majority vote of the independent directors then in office.

### **III. Meetings and Procedures**

The Audit Committee shall meet once every fiscal quarter or more frequently as it believes is necessary or appropriate to fulfill its duties and responsibilities.

The Committee shall also meet at least quarterly, in separate executive sessions, with (a) Cinergy's management, (b) Cinergy's internal auditors, and (c) Cinergy's independent auditors.

The Committee shall fix its own rules of procedure, which shall be consistent with Cinergy's By-laws and this Charter. The Chairperson of the Audit Committee or a majority of the members of the Committee may call a special meeting of the Audit Committee. A majority of the members of the Audit Committee shall constitute a quorum.

If the Committee deems it necessary, the Committee, at its sole discretion, may retain special accounting, legal or other advisors to assist it in carrying out its duties, the cost of such independent expert advisors to be borne by Cinergy. The Committee shall have access to all books, records, facilities and personnel of Cinergy. The Committee may request any Cinergy personnel, or outside legal counsel or outside auditors, to meet with the Committee or any of its members or advisors.

Following each of its meetings, the Audit Committee shall deliver a report on the meeting to the Board of Directors, including a description of all actions taken by the Audit Committee at the meeting. The Audit Committee shall keep written minutes of its meetings, which minutes shall be maintained with the books and records of Cinergy.

### **IV. Duties and Responsibilities**

The Audit Committee shall:

#### **Outside Auditors**

1. Have direct responsibility for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for Cinergy.
2. In consultation with management, review and, at the sole discretion of the Audit Committee, approve in advance all audit, and as provided in the Act, all permitted non-audit services. Approval of audit and permitted non-audit services may be made by one or more members of the Audit Committee as shall be designated by the Audit Committee, and the

persons granting such approval, shall report such approval to the Audit Committee at each of the scheduled meetings of the Audit Committee.

3. At least annually, obtain and review a report by the independent auditors addressing: the independent auditor's internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to address such issues; and (to assess the auditor's independence) all relationships between the independent auditor and Cinergy.
4. Discuss with the independent auditors any disclosed relationships or services that may affect their objectivity and/or independence.
5. Consider whether it is in Cinergy's best interest to rotate independent auditors or lead and reviewing audit partners more frequently than as required by applicable rules and regulations, and monitor the independent auditor's compliance with administrative, and all other applicable, rules and regulations.
6. Instruct Cinergy's independent auditors that they are ultimately accountable to the Audit Committee and that the Audit Committee is responsible for the selection, oversight, evaluation and termination of the independent auditors.
7. Review with the independent auditors any audit problems or difficulties including any restrictions on the scope of the independent auditor's activities or on access to requested information and management's response. Items to consider for review with the independent auditors include any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); any communications between the audit team and the audit firm's national office respecting auditing or accounting issues presented by the engagement; any "management" or "internal control" letter issued, or proposed to be issued, by the audit firm to the company; and the responsibilities, budget and staffing of Cinergy's internal audit function.
8. Determine hiring policies for employees or former employees of the independent auditor.
9. Attempt to resolve all disagreements between Cinergy's independent auditors and management regarding financial reporting.

10. Receive and review a report from the independent auditors on matters including:
  - (a) Critical accounting policies and practices to be used;
  - (b) Alternative GAAP treatments of financial information that have been discussed with management, the ramifications of these alternative treatments and the independent auditor's preferred method; and
  - (c) All written communications between the independent auditors and management, such as management letters or schedules of unadjusted differences.
11. Evaluate the independent auditor's qualifications, performance and independence and present the Committee's conclusions to the full board.

### **Financial Statements and Audit Results**

12. At least quarterly, and as may be appropriate, discuss with management and the independent auditors the results of the independent auditors' review of Cinergy's interim financial statements, prior to Cinergy's quarterly earnings release or to the filing of its Form 10-Q, whichever is earlier, as well as Cinergy's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A").
13. Review and discuss Cinergy's audited financial statements and the related auditors' report with management and the independent auditors prior to recommending their approval and inclusion in Cinergy's Form 10-K to the Board, as well as Cinergy's MD&A. In particular, as applicable before, during and after the audit process:
  - (a) Discuss with financial management and the independent auditors any new auditing and accounting principles and practices that must or may be adopted and their impact on Cinergy's financial statements.
  - (b) Determine through discussion with the independent auditors that no limitations were placed by management on the scope of their audit or its implementation and that there was a free exchange of information between Cinergy personnel and the independent auditors.
  - (c) Discuss with the independent auditors their judgment about the quality, as well as the acceptability, of the accounting principles, which Cinergy applies in its financial reporting.

- (d) Periodically discuss areas of known financial risk and uncertainty with management and management's plans to deal with these risks and uncertainties.

At least annually, the Committee must also review: (i) major issues regarding accounting principles and financial statement presentations (including changes in Cinergy's selection or application of accounting principles) and the adequacy of Cinergy's internal controls and special audit steps adopted in light of material control deficiencies; (ii) analyses setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements (including analysis of the effects of alternative GAAP methods on the financial statements); and (iii) the effect of regulatory and accounting initiatives, as well as off balance sheet structures on Cinergy's financial statements.

### **Internal Accounting Procedures and Controls**

- 14. Review with management, including Cinergy's executive responsible for internal auditing, and the independent auditors, reports and recommendations relating to the integrity of Cinergy's internal accounting procedures and controls, including, but not limited to:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Cinergy's ability to record, process, summarize, and report financial data identified by the independent auditor.
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in Cinergy's internal control over financial reporting.
- 15. Review Cinergy's plans for implementing any necessary or desirable improvements to its internal accounting procedures and controls.
- 16. Monitor Cinergy's progress toward implementing any identified improvements.
- 17. Review and evaluate the performance of the internal auditing function, including a review of the performance of Cinergy's executive responsible for internal auditing and, if appropriate, recommend the selection of a new person.

### **V. Proxy Statement Reports**

- 18. The Audit Committee shall prepare the audit committee report as required by the SEC to be included in Cinergy's annual proxy statement.

## **VI. Miscellaneous**

19. Discuss Cinergy's earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies.
20. Discuss policies with respect to risk assessment and risk management as well as Cinergy's major financial risk exposures and steps management has taken to monitor and control such exposures.
21. Establish procedures for (i) the receipt, retention and treatment of complaints received by Cinergy regarding accounting, internal control or auditing matters, and (ii) the confidential submission by employees of Cinergy of concerns regarding questionable accounting or auditing matters.
22. Meet separately, periodically, with management, with internal auditors (or other personnel responsible for internal audit function) and with independent auditors.
23. Report regularly to the full board.

## **VII. Limits of Responsibility**

24. The Committee shall be mindful that its role is one of oversight and that it is not the duty or responsibility of the Committee to conduct audits or to determine if Cinergy's financial statements are complete and accurate and in accordance with generally accepted accounting principles. It is the responsibility of Cinergy's management to prepare the financial statements and the responsibility of Cinergy's independent auditors to conduct the audit.

## **VIII. Performance Evaluation**

The Audit Committee shall conduct an annual self-evaluation of its performance.

In conducting this review, the Audit Committee shall evaluate whether this Charter appropriately addresses the matters that are or should be within its scope.

In conducting this review, the Audit Committee shall address all matters that it considers relevant to its performance, including at least the following: the adequacy, appropriateness and quality of the information and recommendations presented by the Audit Committee to the Board of Directors, the manner in which

they were discussed or debated, and whether the number and length of meetings of the Audit Committee were adequate for the Audit Committee to complete its work in a thorough and thoughtful manner.

The Audit Committee shall deliver to the Board of Directors a report setting forth the results of its evaluation, including any recommended amendments to this Charter and any recommended changes to the policies and procedures of Cinergy and/or its Board of Directors.