

March 3, 2015

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Dear Mr. Martin,

It has been a pleasure working with you and Mr. Sturge in the preparation of the materials required to enhance the capability of the Board of Nalcor.

This document will serve as the summary of activities to date. In it is the outline of how the process has gotten to this point, recommended next steps, recommendation on the number of directors and an overview of board compensation for Atlantic based companies and energy companies. The compensation report is not exhaustive, only representative. If you would like, we can make the report far more exhaustive but I thought this would give you a fair representation of the current state.

Process to Date

Following our discussion in late December, we proceeded to develop a set of competencies that were representative of an ideal board member. These sets of competencies were both of a hard nature (location, industry, functional experience) and of a soft nature (values, diversity, style).

After a number of iterations between Nalcor and ourselves, we were able to reach clear agreement on the profile of an ideal director and the profile of an ideal board. We next developed a set of matrices upon which to adjudicate existing (and new) board members which when taken together would give us a composite board profile. Along with this we established a process to identify gaps in board composition, which would then serve to inform any recruiting activities. This gap analysis allows Nalcor to specify the competencies necessary in any new board member to better and more fully round out the board.

The objective of this process and document is to give Nalcor a benchmark for the existing board and to outline a process and evaluation scheme necessary when recruiting new board members.

Next Steps

Now that we have the Board Competency Matrix completed the next steps include the following:

1. Self assessment of existing board members to populate the matrix;
2. Review of the self assessment by Governance Committee to ensure consistency;
3. Identification of gaps in existing board;
4. Development of profile for new board member based upon the completed Matrix and the corresponding gaps; and
5. Commence recruiting activities based upon the gap analysis profile.

We would estimate that to complete the next 5 steps would take approximately 3 months from start until you have a commitment from candidates to join the Nalcor Board.

One additional item that needs to be undertaken is the decision around board compensation. This is an item that needs to be addressed internally but must be completed prior to gaining agreement from candidates to join the Nalcor Board.

Ideal Number of Directors

Boards range in size and there is little rationale to it. The range is most typically from 6 to about 15. There are outliers, mostly at the upper end as we have seen boards reach the size of 16+ on occasion. However the mean seems to be in the range of 12. For Nalcor, we are recommending that at the outset the Board be constituted at 10 members. This will provide reasonable opportunity for diversity of experience yet keep the Board at a manageable size while keeping costs down. Once the Board has been functioning effectively for a few years, you can always increase the size to 12, which appears to be the optimum number for an organization the size and complexity of Nalcor.

Board Compensation

Board compensation varies greatly from organization to organization. Industry, region, type of organization, history, share structure, all tend to have an effect on directors compensation. The following matrix provides some insight into what a number of relevant organizations are currently paying. The matrix contains Atlantic based firms, utilities and energy companies, all of which we believe are comparable organizations to Nalcor.

We would be happy to engage in a discussion as to what the appropriate level of compensation is for a Nalcor Director.

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Management Information Circular Compensation Survey

	Name of Company	Number of Board Members	Board Retainer	Board Meeting Fee	Board Chair Retainer	Committee Chair Retainer	Committee Member Retainer	Committee Meeting Fee
1	Private Atlantic Canadian Healthcare Company	10	\$25,000	\$1,600				\$1,600
2	Provincial Power Utility	10	\$57,000	\$1,750	\$130,000	\$15,000		\$1,250
3	Publicly Traded Power Utility	10	\$75,000	\$1,750	\$220,000	\$8,000-\$15,000	\$3,000-\$5,000	\$833
4	Provincial Power Utility	6	\$10,000	\$1,000				
5	Publicly Traded Aviation Company	7	\$65,000	\$0	\$110,000	\$7,500-\$15,000	\$2,500-\$5,000	\$0
6	Publicly Traded Holding Company	5	\$25,000	\$1,000	\$5,000	\$5,000		\$1,000
7	Publicly Traded Consumer Good Company	11	\$45,000	\$2,000	\$100,000	\$15,000		\$2,000

Management Information Circular Compensation Survey

	Name of Company	Number of Board Members	Board Retainer	Board Meeting Fee	Board Chair Retainer	Committee Chair Retainer	Committee Member Retainer	Committee Meeting Fee
8	Publicly Traded Bank	16	\$30,000/\$90,000 (Dedicated/Regular)	\$2,000	\$350,000	\$20,000-\$40,000	\$3,000-\$6,000	\$2,000
9	Provincial Power Utility	12	\$25, 000	\$750 OR \$1, 500	\$150,000	\$8,000	\$3,000-\$8,000	\$750-\$1, 500
10	Provincial Power Utility	14	\$25,000	\$900	\$150,000	\$3,000		\$900
11	Provincial Power Utility	14	\$25,000	\$750	\$40,000	\$2,500-\$3, 500		\$750
12	Publicly Traded Oil and Gas Company	13	\$50,000	\$1,500	\$250,000	\$10,000-\$25, 000	\$5,000-\$6,000	\$1,500
13	Publicly Traded Gold Mining Company	9	\$75,000	\$4,688	\$175,000	\$10, 000-\$15,000		\$1,667
14	Publicly Traded Media Company	10	\$25,000	\$1,000	\$35,000	\$12,500		\$1,000

Management Information Circular Compensation Survey

	Name of Company	Number of Board Members	Board Retainer	Board Meeting Fee	Board Chair Retainer	Committee Chair Retainer	Committee Member Retainer	Committee Meeting Fee
15	Natural Resource Crown Corporation	12	\$50,000	\$1,500	\$75,000	\$10,000-\$25,000	\$5,000	\$1,500
16	Publicly Traded Power Utility	9	\$29,130	\$1,456.50	\$242,750	\$7,283		\$1,456.50
17	Publicly Traded Healthcare Company	6	\$15,000	\$1,000	\$25,000	\$10,000		\$1,000
18	Publicly Traded Holding Company	15	\$90,000	\$2,000	\$300,000	\$10,000-\$25,000	\$3,000-\$5,000	\$2,000
19	Publicly Traded Oil and Gas Company	15	\$120,000	\$24,000	\$130,000	\$10,000-\$20,000	\$5,000-\$15,000	\$4,000
20	Publicly Traded Oil and Gas Company	12	\$210,000	\$21,000	\$260,000	\$10,000-\$25,000		\$4,000
21	Publicly Traded Oil and Gas Company	13	\$50,000	\$1,700	\$200,000	\$15,000-\$25,000	\$6,000-\$10,000	\$1,700

Management Information Circular Compensation Survey

	Name of Company	Number of Board Members	Board Retainer	Board Meeting Fee	Board Chair Retainer	Committee Chair Retainer	Committee Member Retainer	Committee Meeting Fee
22	Publicly Traded Oil and Gas Company	9	\$30,000	\$1,500	\$250,000	\$7,500		\$1,500
23	Natural Resource Crown Corporation	9	\$24,000	\$1,500	\$29,000	\$5,000		\$1,500

Summary

Attached to this document is the actual Nalcor Board Competency Matrix which has been developed for the existing board, as per the process listed above. I would be happy to explain the workings of the Matrix to the current Board or any other Stakeholders you deem appropriate.

It has been a pleasure working with you and Mr. Sturge on this important project and I look forward to bringing it through to fruition.

Let me know how you would like me to proceed.

Warm regards,



Mark J. Surrette

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Nalcor Board Competency Matrix

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Stronger organization.

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1. Composite Nalcor Energy Board Specification

Overall Philosophy

To attract outstanding individuals to the Nalcor Energy Board who bring a true oversight and counseling orientation with the requisite competencies and experiences (set out below), including a cultural fit that seeks to contribute to a highly collaborative but independent-minded board.

Required Competencies

1. Strong Conceptual Skill and Intellectual Insight

- ◆ Ability to assimilate, understand and effectively monitor Nalcor's approach to business and the drivers of its success;
- ◆ Evident intellectual interest in, and commitment to, understanding Nalcor's business;
- ◆ High level of analytical capability; and
- ◆ Willingness and capability to delve into and understand complex business dealings and long term investments.

2. Nalcor Values Orientation

- ◆ Ability to communicate openly and foster an environment where information moves freely in a timely manner;
- ◆ Demonstrates a high level of accountability through holding oneself responsible for actions and performance;
- ◆ Evident commitment to safety by protecting oneself, colleagues and the community
- ◆ Committed to being sincere and demonstrates honesty and trust;
- ◆ Evident teamwork capabilities;
- ◆ Shows respect and dignity by appreciating the individuality of others;
- ◆ Ability to provide leadership and empower individuals.

3. Judgment and Risk Assessment Savvy

- ◆ Ability to effectively oversee Nalcor's overall investment strategy;
- ◆ Up-to-date knowledge of the Canadian and international business;
- ◆ Experience with multiple perspectives on risk and risk management;
- ◆ International capital markets exposure; and
- ◆ Ability to understand the unique investment characteristics of long term assets, infrastructure, and real estate.

4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments

- ◆ Experience and reputation for success in operating at the interface of the private sector and with public policy/public stewards; and
- ◆ Ability to contribute to the strategic thinking and proactive influence required to ensure Nalcor's independence and founding legislative mandate.

5. International Orientation

- ◆ Knowledge of international markets and business operations, especially where the Nalcor will be active in securing investment capital and partnerships.

6. Board-Level Contributor and/or Senior Leadership Business Acumen

- ◆ Accomplished senior business or professional leadership experience;
- ◆ Experience in contributing effectively to strategy discussions and their implementation;
- ◆ Experience in a growing and increasingly complex organization, including success in building, consolidating and overseeing at a board/senior leadership level an organization's infrastructure (i.e., IT, HR, Finance, Enterprise Risk Management, etc.);
- ◆ Tolerance for ambiguity (i.e., comfort in making decisions with imperfect information in highly changeable external circumstances; taking calculated risk);
- ◆ Experience in making decisions that are long term in nature;
- ◆ Experience in the leadership, oversight, attraction and retention of talent; and
- ◆ Expertise and familiarity with financial information, public accountability, performance metrics, and reporting.

7. Diversity

- ◆ Visible minority / first nations;
- ◆ Exposure / experience dealing with first nations issues;
- ◆ Gender balance;
- ◆ Able to bring a diverse perspective to the board; and
- ◆ Demonstrates cultural competence.

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2. Current Board Analysis – Nalcor Board Competency Matrix

		Ken Marshall	Gerry Shortall	Tom Clift	Erin Breen	Leo Abass	Ed Martin	Board Member 7	Board Member 8	Board Member 9	Board Member 10
Info and Diversity	Age										
	Years on Board										
	Cultural										
	Gender										
Location	Newfoundland and Labrador										
	Maritimes										
	Quebec										
	Ontario										
	Western Canada										
	Europe										
	New England										
	Texas / California / US Oil & Gas Regions										
	Other – USA										
Functional Experience	Other										
	Large Construction Projects										
	Large Operations										
	Accounting/Financial Reporting										
	Financing / Capital Markets										
	Commercial Law										
	Technology										
	Electricity Markets										
	Geology / Subsurface / Exploration										
	Human Resources										
	Government Relations / Public Affairs										
Industry Experience	International Markets										
	Other										
	Oil and Gas										
	Electricity										
	Energy Marketing / Transportation										
	Regulated Utility										
	Finance / Banking / Private Equity										
	Construction										
	Consulting / Law										
	Government										
	Other										
	Other Large Public / Crown Board Experience / ICD Designation										

Footnotes:

1. Closest year total, as at <<DATE>>, 2015 – date of analysis.
2. Prioritized to reflect the two or three perceived most prevalent functions of expertise in the board member's professional background.
3. Functional experience excludes oversight of specific functions gained as either a board member or chief executive officer.
4. Primary and secondary industries

3. Current Board Composite Profile & Gap Assessment¹

Board Competency Matrix			
Competency		Current Assessment	Comment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight		
	2. Nalcor Values Orientation		
	3. Judgment and Risk Savvy		
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments		
	5. International Orientation		
	6. Board-Level Contributor and/or Senior Leadership Business Acumen		
	7. Diversity		

Legend

- Fully in Evidence
- ◐ Significant Experience
- ◑ Reasonable Experience
- ◒ Limited Experience
- No Experience

1. Closest year total, as at <<DATE>>, 2015 – date of analysis.

Average Age: _____ Gender Mix: _____ Average Tenure: _____
Locations: _____

Individual Board Member Profiles

First Name: _____

Last Name: _____

Legend	
<input checked="" type="radio"/>	Fully in Evidence
<input type="radio"/>	Significant Experience
<input type="radio"/>	Reasonable Experience
<input type="radio"/>	Limited Experience
<input type="radio"/>	No Experience

Individual Competency Matrix		
Competency		Self Assessment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	
	2. Nalcor Values Orientation	
	3. Judgment and Risk Savvy	
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments	
	5. International Orientation	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	
	7. Diversity	

Age: _____ **Gender:** _____ **Years on Board:** _____

Location: _____

Functional Experience: _____

Industry Experience: _____

First Name: _____
Last Name: _____

Legend	
<input type="radio"/>	Fully in Evidence
<input type="radio"/>	Significant Experience
<input type="radio"/>	Reasonable Experience
<input type="radio"/>	Limited Experience
<input type="radio"/>	No Experience

Individual Competency Matrix		
Competency		Self Assessment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	
	2. Nalcor Values Orientation	
	3. Judgment and Risk Savvy	
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments	
	5. International Orientation	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	
	7. Diversity	

Age: _____ **Gender:** _____ **Years on Board:** _____
Location: _____
Functional Experience: _____
Industry Experience: _____

First Name: _____
Last Name: _____

Legend	
<input type="radio"/>	Fully in Evidence
<input type="radio"/>	Significant Experience
<input type="radio"/>	Reasonable Experience
<input type="radio"/>	Limited Experience
<input type="radio"/>	No Experience

Individual Competency Matrix		
Competency		Self Assessment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	
	2. Nalcor Values Orientation	
	3. Judgment and Risk Savvy	
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments	
	5. International Orientation	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	
	7. Diversity	

Age: _____ **Gender:** _____ **Years on Board:** _____

Location: _____

Functional Experience: _____

Industry Experience: _____

First Name: _____
Last Name: _____

Legend	
<input checked="" type="radio"/>	Fully in Evidence
<input type="radio"/>	Significant Experience
<input type="radio"/>	Reasonable Experience
<input type="radio"/>	Limited Experience
<input type="radio"/>	No Experience

Individual Competency Matrix		
Competency		Self Assessment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	
	2. Nalcor Values Orientation	
	3. Judgment and Risk Savvy	
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	5. International Orientation	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	
	7. Diversity	

Age: _____ **Gender:** _____ **Years on Board:** _____
Location: _____
Functional Experience: _____
Industry Experience: _____

First Name: _____
Last Name: _____

Legend	
<input type="radio"/>	Fully in Evidence
<input type="radio"/>	Significant Experience
<input type="radio"/>	Reasonable Experience
<input type="radio"/>	Limited Experience
<input type="radio"/>	No Experience

Individual Competency Matrix		
Competency		Self Assessment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	
	2. Nalcor Values Orientation	
	3. Judgment and Risk Savvy	
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments	
	5. International Orientation	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	
	7. Diversity	

Age: _____ **Gender:** _____ **Years on Board:** _____
Location: _____
Functional Experience: _____
Industry Experience: _____

First Name: _____
Last Name: _____

Legend	
<input type="radio"/>	Fully in Evidence
<input type="radio"/>	Significant Experience
<input type="radio"/>	Reasonable Experience
<input type="radio"/>	Limited Experience
<input type="radio"/>	No Experience

Individual Competency Matrix		
Competency		Self Assessment
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	
	2. Nalcor Values Orientation	
	3. Judgment and Risk Savvy	
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments	
	5. International Orientation	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	
	7. Diversity	

Age: _____ **Gender:** _____ **Years on Board:** _____
Location: _____
Functional Experience: _____
Industry Experience: _____

Board Composition Observations Will Inform Both the New Board Composition as well as Future Recruitment Efforts





Observations from Pro Forma Board Analysis:







- ◆ Opportunity to enhance board diversity in light of its current composition.
- ◆ Average Board tenure is reasonable (7.4 years) in light of recent additions.
- ◆ Capital intensive investment oversight/broad responsibility remains a priority.
- ◆ Global energy and financial market “inter-connectivity” underscores desire for enhanced global markets/investments experience.
- ◆ Additional functional skills in risk management (ideally in a global/international setting) still welcome.
- ◆ International experience/exposure is still not a defining characteristic of the Board.
- ◆ Limited other organizational infrastructure building expertise, encompassing HR, IT, and Engineering expertise, with Board overall.

Implications for Future Board Placements:

- ◆ Sourcing qualified diversity candidates is an ongoing consideration in all Nalcor searches.
- ◆ International experience remains an opportunity area – especially in light of the Nalcor’s continuing geographic diversification of its need for capital.
- ◆ Experience in the attraction and retention of world-class human capital through use of sophisticated HR practices is an opportunity area.
- ◆ Experience in the “scaling up” of key infrastructure and managerial processes (i.e., IT, finance, Eng) – in sophisticated and complex enterprises could still be enhanced.
- ◆ Ideally targeting candidate profiles that can contribute to a long possible tenure with the Board – but will balance this aspiration with the distinctiveness of the overall candidate profile.

Nalcor Board Search Focus

Priority for this Search:	
	Essential
	Priority
	Opportunity
	"Nice to Have"
	Unlikely / Not required

-  **1. Strong Conceptual Skill and Intellectual Insight**
 - ◆ Ability to assimilate, understand and effectively monitor Nalcor's approach to business and the drivers of its success;
 - ◆ Evident intellectual interest in, and commitment to, understanding Nalcor's business;
 - ◆ High level of analytical capability; and
 - ◆ Willingness and capability to delve into and understand complex business dealings and long term investments.
-  **2. Nalcor Values Orientation**
 - ◆ Ability to communicate openly and foster an environment where information moves freely in a timely manner;
 - ◆ Demonstrates a high level of accountability through holding oneself responsible for actions and performance;
 - ◆ Evident commitment to safety by protecting oneself, colleagues and the community
 - ◆ Committed to being sincere and demonstrates honesty and trust;
 - ◆ Evident teamwork capabilities;
 - ◆ Shows respect and dignity by appreciating the individuality of others;
 - ◆ Ability to provide leadership and empower individuals.
-  **3. Judgment and Risk Assessment Savvy**
 - ◆ Ability to effectively add value to Nalcor's overall investment;
 - ◆ Up-to-date knowledge of the Canadian and international business;
 - ◆ Experience with multiple perspectives on risk and risk management;
 - ◆ International capital markets exposure; and
 - ◆ Ability to understand the unique investment characteristics required of long term assets, infrastructure, and real estate.
-  **4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments**
 - ◆ Experience and reputation for success in operating at the interface of the private sector and with public policy/public stewards; and
 - ◆ Ability to contribute to the strategic thinking and proactive influence required to ensure Nalcor's independence and founding legislative mandate.
-  **5. International Orientation**
 - ◆ Knowledge of international markets and business operations, especially where the Nalcor will be active in securing investment capital and partnerships.
-  **6. Board-Level Contributor and/or Senior Leadership Business Acumen**
 - ◆ Accomplished senior business or professional leadership experience, preferably in a large and complex organization;
 - ◆ Experience in contributing effectively to strategy discussions and their implementation;
 - ◆ Experience in a growing and increasingly complex organization, including success in building, consolidating and overseeing at a board/senior leadership level an organization's infrastructure (i.e., IT, HR, Finance, Enterprise Risk Management, etc.);
 - ◆ Tolerance for ambiguity (i.e., comfort in making decisions with imperfect information in highly changeable external circumstances; taking calculated risk);
 - ◆ Experience in making decisions that are long term in nature;

- ◆ Experience in the leadership, oversight, attraction and retention of talent; and
- ◆ Expertise and familiarity with financial information, safety orientation, performance metrics, and reporting.

7. Diversity

- ◆ Visible minority / first nations;
- ◆ Exposure / experience dealing with first nations issues;
- ◆ Gender balance;
- ◆ Able to bring a diverse perspective to the board; and
- ◆ Demonstrates cultural competence.

Preferred Locations _____

Preferred Functional Experiences _____








Preferred Industry Experiences _____

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Profile(s) for the Search of Additional Board Member(s)

First Name: _____

Last Name: _____

Competency Selection Matrix			
Competency		Ideal	Actual
Selection Criteria	1. Strong Conceptual Skill and Intellectual Insight	Essential 	
	2. Nalcor Values Orientation	Essential 	
	3. Judgment and Risk Savvy	Opportunity 	
	4. Sophistication and Sensitivity in Dealing with Multi-Stakeholder Environments	Priority 	
	5. International Orientation	Opportunity 	
	6. Board-Level Contributor and/or Senior Leadership Business Acumen	Priority 	
	7. Diversity	Priority 	

Age: _____

Gender: _____

Location: _____

Functional Experience: _____

Industry Experience: _____