

From: emartin@nalcoreenergy.com
Sent: Wednesday, February 24, 2016 4:05 PM
To: Bown, Charles
Cc: Derrick Sturge
Subject: Fw: Governance Deck
Attachments: Corporate Governance January 2016.pptx

Charles,

I sent you the wrong deck in the previous email, please insert this one instead for number 1 - it has some important additions and perspectives

tk

Ed

----- Forwarded by Ed Martin/NLHydro on 02/24/2016 04:04 PM -----

From: Derrick Sturge/NLHydro
To: Ed Martin/NLHydro@NLHydro
Date: 02/24/2016 04:00 PM
Subject: Governance Deck

Ed, attached is the latest governance deck.....the one you sent to Charles & Julia was from February 2015.

Derrick



Corporate Governance January 2016.pptx



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Corporate Governance Model

Boundless Energy



January 13, 2016



Purpose / Overview

- To provide an overview of the current corporate governance model at Nalcor:
 - Benefits of Strong Corporate Governance
 - Evolution of Corporate Governance Practices
 - Corporate Governance Model
 - Director Skill / Experience Matrix
 - Key Board Focus Areas

Benefits of Strong Corporate Governance

- Nalcor has made significant progress in formalizing and improving the quality of its corporate governance and public accountability activities over the past 7-8 years.
- The company is now moving to the next phase of its development and the time is right to consider the improvements required to bring the corporate governance and accountability model to the next level.
- Key Benefits:
 - Provide confidence to key stakeholders that a strong corporate governance model exists to provide oversight of Nalcor and its subsidiaries on behalf of the Shareholder
 - Provides comfort to the Province's financiers and lenders that strong governance exists related to key energy assets that create a heritage fund of significant future value to the Province
 - An effective corporate governance process to enable the Shareholder and Management to advance the organization to the next level in its development
 - Increased ability to execute the vision of Nalcor and have continuity of the vision required to implement and execute on the long-term strategy and investments
 - Bring depth of knowledge, contacts, advice to the company to make the company better.

Evolution of Corporate Governance Practices



Corporate Governance Framework

- It is common practice that the corporate governance needs and requirements in an organization evolve over time – particularly in organizations like Nalcor that are undergoing significant growth and change
- In 2006 the Board undertook a review of existing corporate governance practices and benchmarked itself against general best practices in other leading crown corporations and publicly-traded corporations
- The focus of the review was to prepare the governance structure for the new phase in its evolution that the company was entering
- A Corporate Governance Committee of the Board was created and this Committee worked with senior management to undertake the review
- The review highlighted a number of opportunities for improvement, all of which have been implemented by the Board
- The remaining outstanding items include those related to the appointment of directors, specifically:
 - The process to identify and appoint directors
 - Compensation levels for directors

Corporate Governance Framework

- The corporate governance review initiated by the Board in 2006 focused on the following five primary areas:
 - 1) Determining and defining roles of the Board, Committees of the Board and Management (the “What”)
 - 2) Ensuring we were doing all the right things to ensure the appropriate Board Composition (the “Who”)
 - 3) Determining how the Board should effectively and efficiently operate (the “How and When”)
 - 4) Identify the key supporting policies, procedures, and other infrastructure required to achieve success.
 - 5) Framework to ensure the company is demonstrating its public accountability.

Current Status

	Status
Determining Roles	
Board Mandate and Charter	Complete
Committee Mandates	Complete
Corporate Governance Committee	Complete
Board and Management Roles	Complete
Board Composition	
Director Independence / Conflict of Interest	Complete
Director Skills/Experience Matrix	Complete
Director Appointment Process	Outstanding
Subsidiary Boards	Complete
Board Operations	
Meeting plans, frequency, structure	Complete
Understanding the Business	Complete
Quality and timeliness of Board Materials	Complete
Board Self-Assessment	Complete
In-Camera Sessions	Complete
CEO and Management Performance	Complete

	Status
Supporting Policies, Procedures & Infrastructure	
Code of Ethics	Complete
Whistle-Blower Process	Implementation In Progress
Internal Audit	Complete
External Audit	Complete
Independence Guidelines	Complete
Director Orientation	Complete
Director Education	Complete
Director Compensation	Outstanding – data for selection of other entities provided in KBRS report
Audit Committee	Complete
Pre-Approval of Non-Audit Services	Complete
Public Accountability	
Annual Consolidated Financial Statements	Complete
Quarterly Financial Statements	Complete
Management Discussion and Analysis (MD&A)	Complete
Timeliness of Financial Reporting	Complete – meeting timelines established for public companies
Annual General Meeting	Complete
Annual Report	Complete
Transparency & Accountability Report	Complete

Corporate Governance Model



Factors Influencing Corporate Governance Model

- The corporate governance model currently being used by Nalcor was designed to reflect the following considerations:
 - High level of integration and commonality of interests between various legal entities
 - Need to ensure strategic alignment between the legal entities
 - Need to respect the specific accountabilities of each subsidiary Board
 - Desire to protect assets in one entity from potential risks created in another entity
 - Minority ownership by HQ in CF(L)Co. (and Shareholders Agreement in place)
 - Emera minority ownership interest in Labrador-Island Link (LIL)
 - Need to ensure tax-exempt status of Nalcor and subsidiaries is protected
 - Compliance with Nalcor legislation impacting certain corporate governance issues
 - Conditions imposed by LCP Financing and Federal Loan Guarantee Agreements

Key Characteristics of Corporate Governance Model

CIMFP Exhibit P-03574

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- To address the factors influencing corporate governance, a corporate governance model evolved that reflects the following features:
 - Thirteen separate legal entities, each with a separate Board of directors
 - At least two external directors independent from the Nalcor Board or any other subsidiary on all new subsidiaries created
 - For most Board's the CEO is the only internal director
 - in a limited number of subsidiaries there are some managements representatives on the Board
 - Cross appointment of directors from the parent company Board on Boards of most subsidiary companies
 - Common Board chair for most of the legal entities
 - High degree of commonality of the Officers amongst the legal entities
 - “Super-independent” directors on several LCP subsidiary Boards to satisfy financing requirements
 - Separate Audit and Safety, Health and Environment Committees for CF(L)Co as required by the Shareholders' Agreement
 - Common Committee structure at Nalcor level supporting all other subsidiary boards (Audit; Corporate Governance; Compensation; Safety, Health, Environment & Community)

Director / Skill Experience Matrix



Director Skill / Experience Matrix

- In late 2014 Nalcor engaged Knightsbridge – Robertson Surette (“KBRS”) to develop a matrix of the required skill sets that should be considered in making director appointments.
- The process recommended by KBRS with respect to the appointment of new directors is two-fold:
 - Core competencies expected in all directors
 - Specific functional expertise, industry expertise, geographical coverage, cultural and gender diversity
- The Core Competencies identified by KBRS include:
 - Strong conceptual skill and intellectual insight
 - Nalcor values orientation
 - Judgment and risk assessment savvy
 - Sophistication and sensitivity in dealing with multi-stakeholder environments
 - International orientation
 - Board level contributor and /or senior business leadership acumen
 - Diversity

Director Skill / Experience Matrix

- In assessing whether the Board has the appropriate coverage of diversity, geographic, functional and industry experience, KBRS developed a matrix that included the following considerations:

<p>Geographic Considerations:</p> <ul style="list-style-type: none"> ▪ Newfoundland and Labrador ▪ Maritimes ▪ Quebec ▪ Ontario ▪ Western Canada ▪ Europe ▪ New England ▪ Texas / US Oil & Gas Regions ▪ Other – USA ▪ Other 	<p>Functional Experience:</p> <ul style="list-style-type: none"> ▪ 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 ▪ International Markets ▪ Other
<p>Diversity:</p> <ul style="list-style-type: none"> ▪ Cultural ▪ Gender ▪ Other 	<p>Industry Experience:</p> <ul style="list-style-type: none"> ▪ Oil & Gas ▪ Electricity ▪ Energy Marketing / Transportation ▪ Regulated Utility ▪ Finance / Banking / Private Equity ▪ Construction ▪ Consulting / Law ▪ Government ▪ Other
<p>Other Considerations:</p> <ul style="list-style-type: none"> ▪ ICD Designation ▪ Large Public / Crown Board Experience 	

Key Board Focus Areas



Profile of New Directors

- In considering new directors, the following factors should be considered:
 - A target board of 8-10 directors
 - Some geographic coverage from outside NL
 - Start to bring some diversity to the Board
 - Start to get some broader industry / functional area coverage based on the KBRS work
 - Recruit some directors with experience in large company Boards

Common Focus Areas

- The Parent company Board and subsidiary Boards have the following common focus areas:
 - Annual Budget (Operating & Capital)
 - Annual Audited Financial Statements
 - Quarterly Financial Statements
 - Annual Financial Risk Management Plan (if applicable)
 - Five-Year Corporate Plan
 - Corporate Strategy
 - Understanding Key Risks
 - Emerging Business Issues
 - President's Report (actual performance against corporate plan)
 - Financial Performance (actual performance against budget)
 - Appointment of Officers
 - New Debt Financing
 - Key Commercial Arrangements

Focus Areas Specific to the Nalcor Board

- The following focus areas are specific to the Nalcor Board:
 - Quarterly and Annual MD&A
 - Annual Report
 - Business Unit Reports
 - Board Committee Reports
 - Relationship with External Auditor, including:
 - appointment of external auditors,
 - annual external audit plan, and
 - establishment of audit fees for the group
 - Oversight of Internal Audit Activities
 - Key Accounting Policies to be adopted by the group
 - Financial Risk Management Policy to be adopted by the group
 - Enterprise Risk Management Framework and Policies to be adopted by the group
 - Compensation Framework and Policies to be adopted by the group
 - Corporate Governance Model and Policies for the group
 - Corporate Strategic Planning Process
 - Annual Corporate Financing Plan
 - Annual Transparency & Accountability Report