



Board Compensation Governance

- **3XCD is the only completely “independent”, financial advisory firm focused exclusively on Board compensation governance issues.**
 - **3XCD advises the Board design from an integrated financial analysis platform.**
 - **We currently do work in Australasia, Canada, EU, South Africa and USA.**
- **3XCD reviews:**
 - **Board Review and Assessment**
 - **Board of Director Compensation and Compensation Trends.**
 - **Board Direction and Strategy**
 - **Board Risk Assessment and Risk Mitigation.**
 - **Executive Succession Planning and Coaching**
 - **Proxy Statement / CD&A (pre-release) Review and Assessment**
 - **Executive and CEO Performance Compensation Design Re-design and Review**
 - **CEO Compensation Audit on Performance-based Compensation Review.**
 - **Executive (broad-based) Pay-for-Performance Compensation:**
 - **Appropriate Peer Group determination.**
 - **Comparative financial and compensation performance.**
 - **Linkage and re-design of compensation components: base salary, short-term, mid-term and long-term incentive, retirement and perquisites.**
 - **Diagnostic financial assessment and compensation redesign.**
 - **Advisors to Institutional Capital Investors.**

3XCD's Mandate

- **3XCD** was the first independent Board compensation advisory firm built in Canada. It was built by 3 eXecutive Compensation Design consultants (3XCD).
- There was a better way to address executive compensation design and strategy linkage. 3XCD's approach is financial performance-based, not just pay-based.
 - Based on absolute and comparative detailed financial performance of the company.
 - Based on REAL and approved compensation and real, normalized financial data.
 - Over 21,000 global companies financial and compensation held within 3XCD.
 - Current business is 30% Canadian, 30% US and 40% International.
 - Links compensation to performance and provides diagnostic methodology by pay component for Boards to compare comparative, financial-based compensation:

“Are we really paying for performance?”

“Have we always been paying for performance?”

“How does our performance linkage fit and compare with our competitors?”

- **Board Members** asked if our approach could be applied to Board Compensation.
 - Strategic Board of Director compensation analysis was completed.
- **Institutional Investors** asked if we could apply our approach to buy/sell.
- **Insurance Advisors** asked if we could apply our approach to Risk Management.
 - Risk Management Analysis and assessment was developed.

Example: Board Member Compensation and Trends

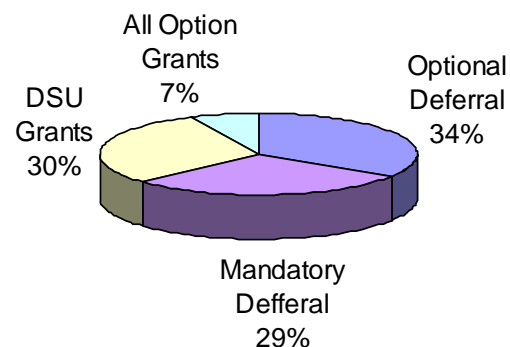
- **Board member responsibility has raised several issues on Board Compensation:**
 - Is the Board being paid the right compensation in right format for the duties they perform?
 - Does Board compensation include Deferred Share Unit (DSU) or stock options plan?
 - Is the plan appropriate for US and Canadian citizens? (409A)
 - How competitive is comparative assessment on Board compensation?
 - How does the Board compensation structure and cost compare to other Boards?
- **Board Compensation Requests:**
 - Some Boards look at similar sized companies to benchmark compensation (e.g.. Commercial)
 - Strategic Boards also track trends

Committee Chair Retainer (previous year)			Committee Chair Retainer (current year)		
	Audit	Non-Audit		Audit	Non-Audit
75th Percentile	\$15,200	\$10,000	75th Percentile	\$20,000	\$12,975
Median	\$10,000	\$7,500	Median	\$15,000	\$10,000
25th Percentile	\$7,000	\$6,000	25th Percentile	\$10,000	\$7,000
Average	\$18,300	\$9,600	Average	\$17,477	\$11,897

- Some Boards look at industry to benchmark compensation (e.g.. Gold).

Committee Chair Retainer			Committee Member Retainer		
	Audit	Non-Audit		Audit	Non-Audit
75th Percentile	\$7,125	\$5,125	75th Percentile	\$3,250	\$2,125
Median	\$4,000	\$3,750	Median	\$2,100	\$2,000
25th Percentile	\$3,750	\$3,000	25th Percentile	\$1,750	\$1,750
Average	\$9,305	\$7,366	Average	\$5,393	\$1,875

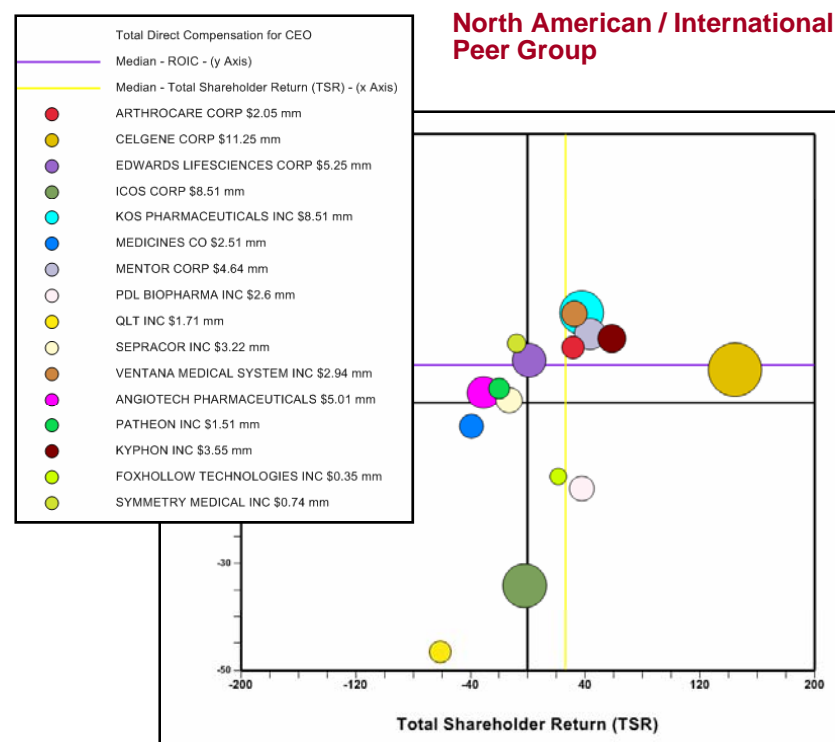
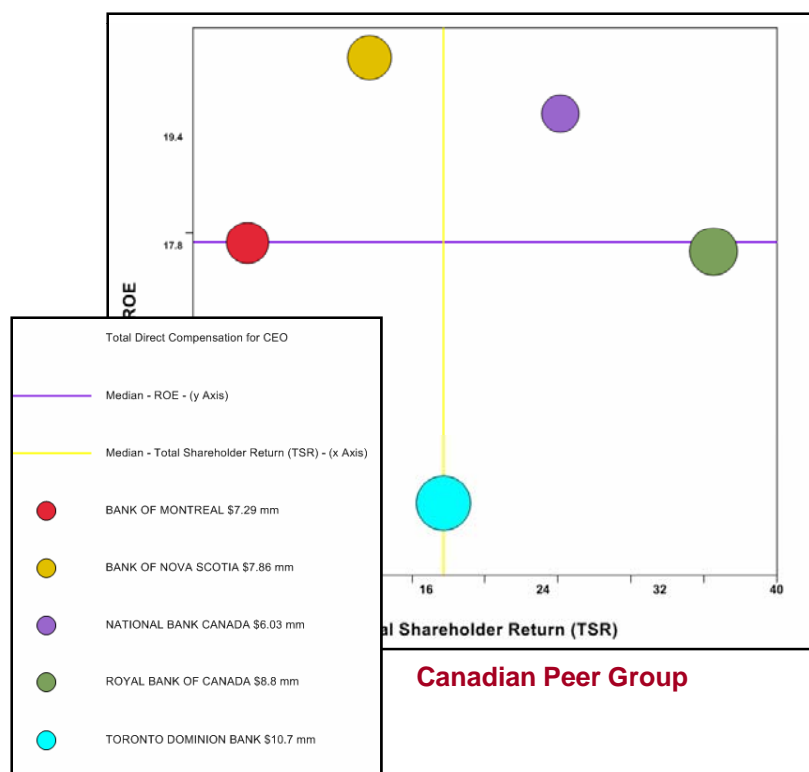
Board Member Stock Ownership Plans 2005 – 60 Companies



Example: Industry Comparative Company Assessment

“Have the Board been assisting total shareholder return and performance-based compensation?”

- **Built on a Financial Platform:**
 - Boards can assess if company is performing and whether the compensation system is really paying for performance (bonus, mid-term and long-term incentive are tested)



Example: Performance Linkage and Executive Compensation

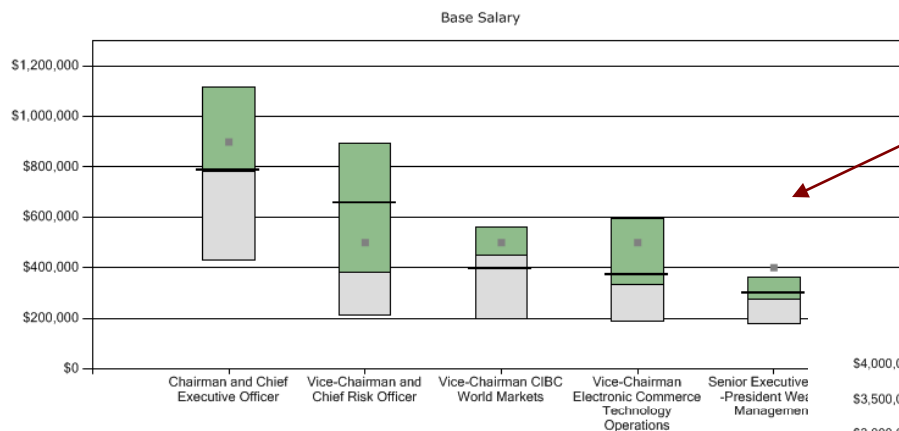
- In addressing Executive Compensation, Boards have “ownership” of the pay-for-performance process for the CEO:
 - Is the Board receiving executive-based, executive compensation data?
 - Is it real and accurate information or is it SURVEY information?
 - Is it provided by a company that can/would provide executives other services?
 - Presents significant conflict of interest.
 - Is it compensation data and does it include detailed comparative financial performance?
 - Does it accommodate cross-border executive attraction and retention?
 - Does it link compensation to comparative financial performance?
 - Does it provide a Board diagnostic assessment or is it a “snapshot” in time?
- Can the pay consultant provide detailed, independent, financial data to support performance linkage to pay?

“3XCD’s corporate strategy allows complete, unrelated, independent review of executive compensation pay-for-performance linkage. Your firm, unlike most other Executive Compensation consultants, works exclusively for the Board of Directors.”

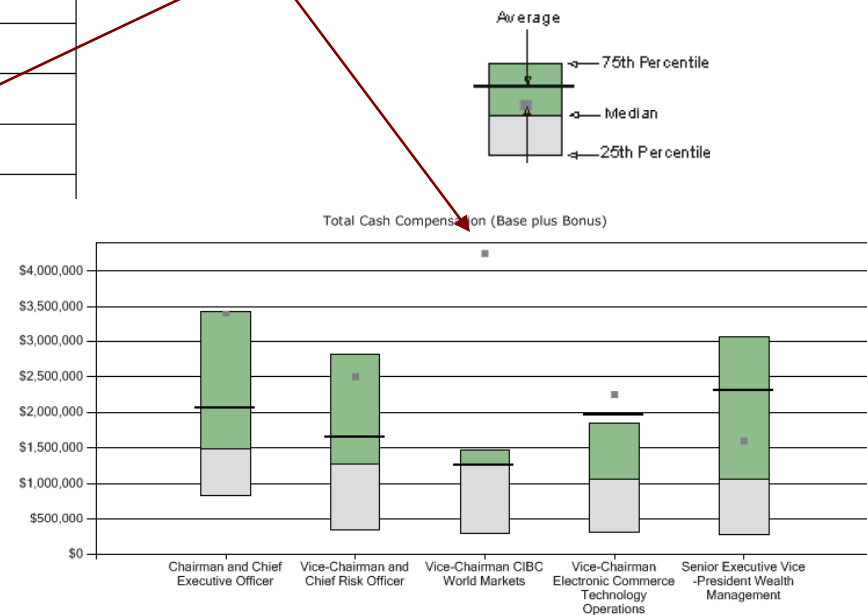
David R Beatty, Managing Director Canadian Coalition for Good Governance, Lead Director - Inmet Mining, Director - Bank of Montreal.

Example: Executive Compensation Comparison

- Most pay companies provide the following, do they have the right peer group?
- Is pay data REAL or SURVEY-based?
- Is this a Canadian peer group, or is it North American or International?



Executive Compensation



Financial Performance Assessment Should be Included

A Performance-based Executive Compensation Report is always appropriate:

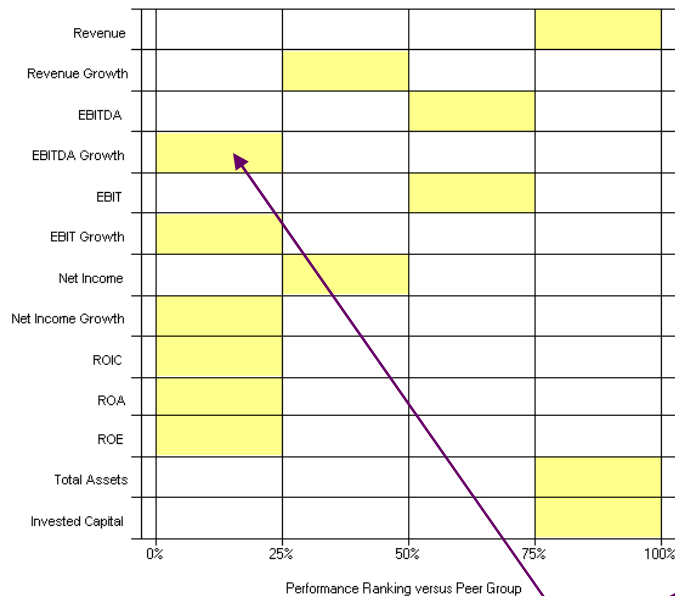
“Linking pay for performance to strategy and strategic direction is an innovative concept for many Canadian Boards today. 3XCD’s Comparative Financial Performance Report is an outstanding management tool....”

J Lorne Braithwaite, Corporate Director, Bata Worldwide, Enbridge Inc.

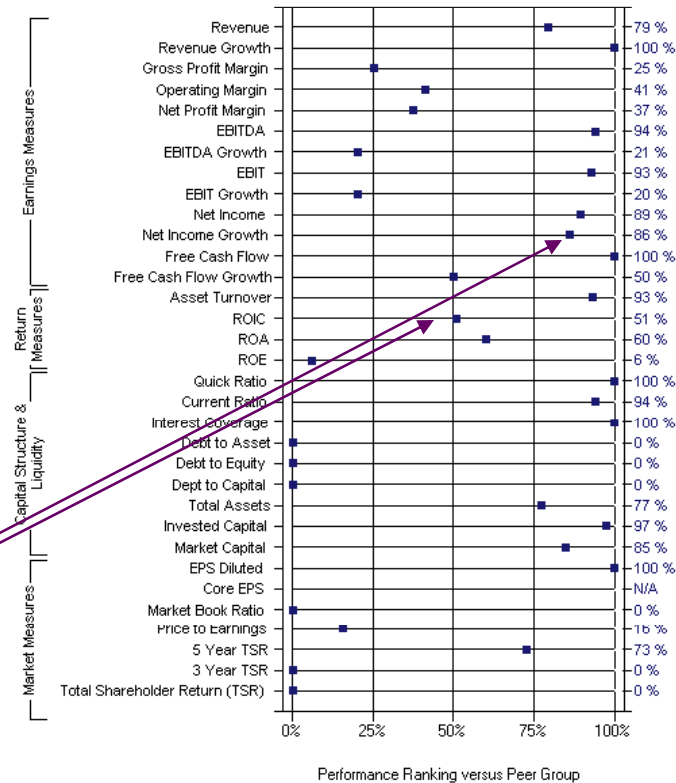
Example: Corporate Financial Performance

- **Comparative, normalized, financial performance is always addressed.**
 - Mitigates risk to the Board of Directors.

MAPLE LEAF FOODS INC's Fiscal 2003 Performance versus Peer Group



MAGNA INTERNATIONAL -CL A's Fiscal 2004 Performance versus Peer Group



Are these the right performance measures?

Performance-Based Compensation Assessments include all mentioned PLUS...

For Board Members / Board Advisors Only

“3XCD have been extremely responsive to any requests and deliver the required information in a very timely manner”

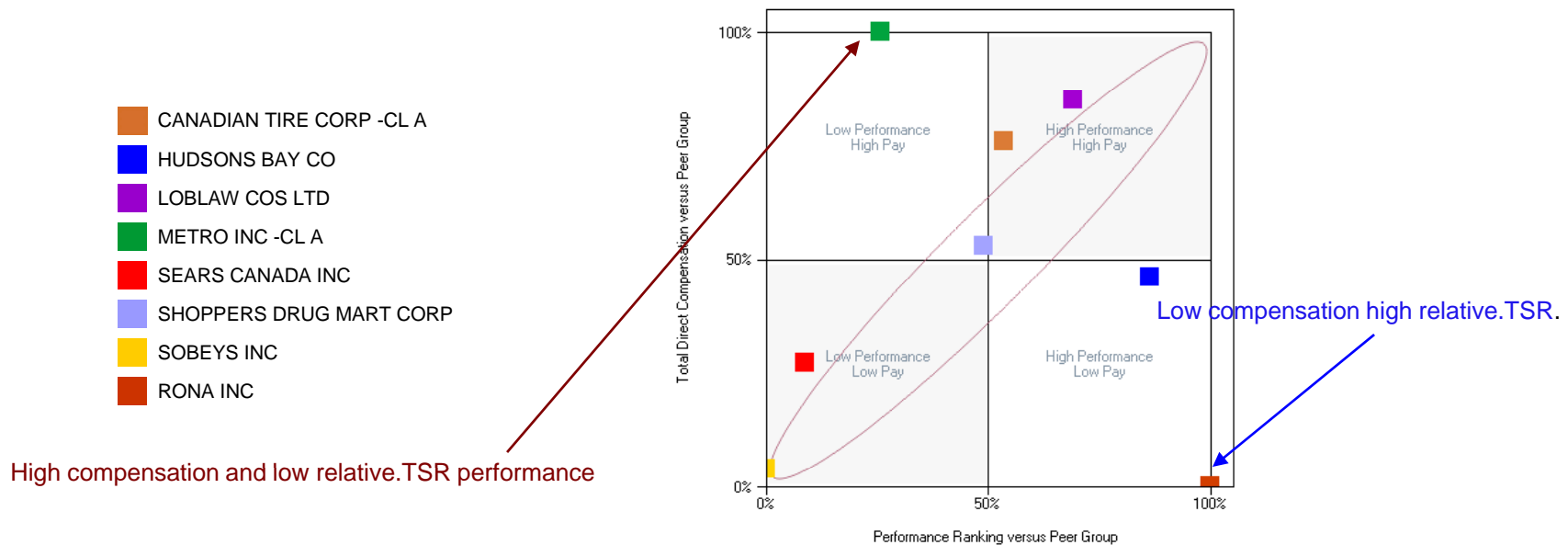
Peter B. M. Eby, Chair Governance, Human Resource, Nominating and Compensation Committee. George Weston Limited.

Example: Performance-Based Compensation Linkage

- **3XCD reviews historical compensation and relative market measures over multiple definitive time periods. This is plotted for each executive.**
 - This should tie compensation to relative peer group performance.
 - Compensation modification or redesign can be provided to meet national tax strategies.

How does your compensation design compare?

Fiscal 2003 1 year Pay for Performance Analysis



Executive Succession Planning and Coaching

- **Executive succession planning assessment and coaching give rise to key issues on corporate culture and appropriate succession planning design.**
- **3XCD has developed a relationship with Pineridge Consulting Inc that focuses exclusively on these key areas.**
- **Executive succession planning, coaching and assessment is primarily focused on areas pertaining to:**
 - leadership development,
 - productivity improvement,
 - acquisition integration and
 - corporate culture determination and implementation.

Executive Succession Planning and Coaching

- **Mandate of executive succession plans and coaching are focused on:**
 - **Audit of the current succession plan for the Board.**
 - **Succession plan objectives**
 - **Identification of key skills required for top executives**
 - **Review key performance drivers of these individuals**
 - **Assess internal/external individuals who can fulfill key identified roles**
 - **Discuss executive coaching requirements as necessary**
- **As time changes, have we modified our corporate culture? Does the succession plan link to the new corporate culture?**
- **In a continuously moving environment...**
 - **Do we complete an annual review of succession plan?**
 - **Is succession plan still relevant?**
 - **Do we have internal successors or external successors?**
 - **Are successors flexible, patient and knowledgeable?**

Risk Management Assessment

- **Executive performance-based compensation is a pre-indicator for corporate risk assessment and risk management.**
 - **Implications for D&O Liability Coverage , Risk Identification and Risk Transfer:**
 - **Is the company continually improving its value to shareholders?**
 - **Is the Board overseeing future strategy and value creation for the long-run?**
 - **Have skills and performance targets been identified for future executives to support corporate value creation?**
 - **Does the Board contain board members with appropriate skill-sets?**
 - **Is the Board stable in membership? If it isn't, why?**
- **In 2006, 3XCD ran assessments for Hallmark Group of Companies.**
 - **As a provider of insurance services – Hallmark acknowledged the integrity of this process in working with D&O Liability Coverage and Risk Transfer.**
- **Summary of the guideline process and its linkage to Board - Executive Risk Assessment follow.**

Risk Management Assessment

Director Strategic Duty & Enterprise Risk Health Check

Place a “Y” for Yes, “N” for No, or “DK” for Don't Know in the columns.

#	ENTERPRISE RISK INDICATORS	Condition is Met	Action Taken
FINANCIAL MARKETS RISK			
1	Has the enterprise created a cumulative after tax profit over 3 years greater than its cost of capital? (<i>Our Financial Analysis</i>)	Y	
ORGANIZATION STRUCTURE & ENTERPRISE RISK MANAGEMENT			
7	Do the CEO / NEO metrics for role performance evaluation reach beyond 1 to 2 year performance measures from current business operations? (<i>Our review of Proxy Statement or supplied docs</i>)	N	
EXECUTIVE PAY FOR PERFORMANCE RISK			
12	Did recent executive compensation decisions compare the 3-year cumulative TOTAL compensation to the financial value created over the same time period? (<i>Proxy Statement, MD&A or supplied docs</i>)	Y	
EXECUTIVE LEADERSHIP RISK			
15	Has the Board developed a clearly defined and documented CEO Role / Skills profile for succession planning / performance management linked to the business strategy? (<i>Supplied docs</i>)	Y	
BOARD ASSESSMENT			

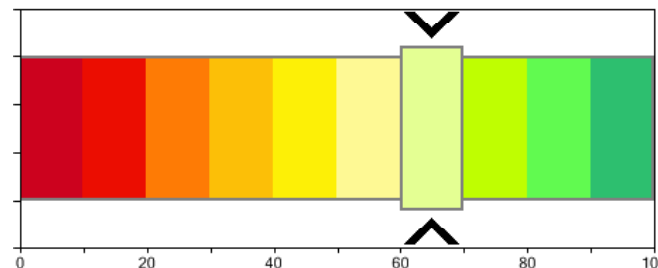
© Copyright 2006, Not to be Shared Without Permission

Summary Estimated Risk Minimization

“Is our Board cognizant of the Risk we carry?”

“Are we improving our Risk Management?”

“Does Risk Management tie to Risk Transfer?”



Other Governance / Communication services include:

- **Proxy Statement and/or CD&A disclosure review:**
 - Review of corporate disclosures including proxies and CD&As to ensure:
 - Accuracy of design
 - Disclosure meets all regulatory and exchange requirements
 - OSC/SEC requirements
 - TSX/NYSE guidelines
 - Others: ASX, LSE, JSE etc.
- **Internal and/or External corporate disclosure document writing:**
 - Draft proxy writing services
 - Executive compensation philosophies and plans
 - Executive Compensation “handbooks”
 - Corporate Total Remuneration Reports and Statements
 - Short Term Incentives
 - Mid-term Incentives
 - Long Term Incentives
 - Benefits and Perquisites

Sample of Services Currently Involved In:



- **In Canada:**

- **Canadian Coalition for Good Governance**

- Advise and deliver data to CCGG.

- **Conference Board of Canada:**

- Presenter at *The Directors College*

- Board Compensation and Executive Pay-for-Performance.

- Presenter at *Human Resource and Compensation Committee* advanced sessions.

- Faculty of the Conference Board of Canada.

- **Institute of Corporate Directors:**

- Guest presenter at *ICD Corporate Governance College*

- Member.

- **Institutional Investors:**

- Supply key Institutional Investors specific Pay-for-Performance data:

- *Ontario Teachers Pension Plan.*



- **In USA:**

- *Directors & Boards and The Corporate Library.*

- Member of *National Association of Corporate Directors*



- **In Australia:**

- Member of *Corporate Directors Association of Australia*

Contact and Reports

- **Questions?**
 - Call us at (416) 493-1869 OR (416) 214-7831 OR Toll Free (866) 505-2899
 - E-mail us at BoardCG@3XCD.com
 - Go to: www.3XCD.com
- **3XCD Reports.**
 - Board of Director Compensation Analysis
 - Board-based Executive Compensation and Pay-for-Performance Analysis
 - Board Diagnostics on Executive Compensation.
 - Institutional Investor Assessments
 - Risk Management Assessment

In Canada:

*1 Yonge St, Suite 1801
Toronto, Ontario M5E 1W7*

*4 Lansing Square Suite 206
North York, Ontario M2J 5A2*

*1055 West Hasting Street, Suite 300
Vancouver, BC V6E 2E9*

Australia

Canada

USA