

**From:** Gilbert Bennett <"cn=gilbert bennett/o=nlhydro">  
**Sent:** Saturday, August 24, 2013 4:02 PM  
**To:** Rob Hull  
**Subject:** Re: Fw: Due Diligence CH0007

**Importance:** High

I did.

G

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Rob Hull--08/24/2013 02:51 PM NDT---Didn't you ask Craig to keep this between the limited group versus sending on to the team? Robert L.

From:	Rob Hull
To:	Gilbert Bennett
Date:	08/24/2013 02:51 PM NDT
Subject:	Fw: Fw: Due Diligence CH0007

Didn't you ask Craig to keep this between the limited group versus sending on to the team?

Robert L. Hull, CA, CIRP

General Manager (Treasury and Risk Management) and Chief Risk Officer

Nalcor Energy

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Ed Over

----- Original Message -----

**From:** Ed Over  
**Sent:** 08/24/2013 02:48 PM NDT  
**To:** Craig Hippern; Gilbert Bennett  
**Cc:** Lance Clarke; Rob Hull; Ron Adamcyk; Paul Harrington  
**Subject:** Re: Fw: Due Diligence CH0007

Gentlemen,

I would like to propose that we have a meeting this week with the internal stakeholders to address concerns. We need to be aligned on the selection of the successful bidder and reasons for such selection including the levels of security.

I offer the following information for your consideration:

- We have discussed with our lawyer the inclusion of specific clauses into the contract regarding the retention of contractor's equipment in the event of default. The lawyer does not recommend such clauses and questions their effectiveness when creditor's have priority.
- In the case of Astaldi, they are looking to subcontract the concrete supply (batch plant and rock crusher). On one hand this is good because we can assume this contract in the event bankruptcy, but we can no longer get a security interest.
- We have discussed with our lawyer the possibility of securing title in certain pieces of equipment, but this is not something that can be done easily and requires the agreement of the Contractor. We did this on another project, but it is complex.
- The Contractor has concerns about our ability to pay and has asked for some confirmation that we have the financial capacity. On other projects that I have been involved the owner has posted a parental guarantee.
- When we originally issued the RFP, I believe we asked for a performance letter of credit of 10% of the contract price. Both North American bidders indicated that they would not bid and we collectively agreed to reduce the LOC to \$50M (on the premise that bids would be close to the budget) We have since adjusted the LOC to \$100M. I have obtained LOC for 15% of the contract price, but on much smaller contract values. For contracts of this value and larger, I have obtained LOCs close to 10% of the contract price.

**Ed Over**

Sr. Commercial Advisor

**PROJECT DELIVERY TEAM**

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Craig Hippern---08/24/2013 01:28:37 PM---Hi Ed & Ron, Please see Rob Hull's due diligence comments below.

From: Craig Hippern/NLHydro  
To: Ed Over/LCP/NLHydro@NLHYDRO, Ron Adamcyk/LCP/NLHydro@NLHYDRO,  
Cc: Rob Hull/NLHydro@NLHydro, Lance Clarke/NLHydro@NLHydro  
Date: 08/24/2013 01:28 PM  
Subject: Fw: Due Diligence CH0007

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Hi Ed & Ron,

Please see Rob Hull's due diligence comments below.

Best regards,

Craig

Craig H. Hippern, CA, CPA(IL)

Manager, Financial Planning & Investment Analysis

Investment Evaluation

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Rob Hull

----- Original Message -----

**From:** Rob Hull

**Sent:** 08/23/2013 11:31 AM NDT

**To:** Craig Hippern

**Cc:** Gilbert Bennett; Derrick Sturge

Subject: Re: Due Diligence CH0007

Craig,


I have reviewed the contracts from a treasury/credit perspective. My comments:

1. I believe the Salini JV to be an unacceptable counterparty from a credit perspective. Salini has recently been rated as BB by Fitch, which is near the bottom end of speculative. Further, FCC has a bankrupt subsidiary with allegations of bankruptcy fraud, and seems to be having their own set of problems in Spain, including substantial losses in 2012.

2. That leaves Astaldi. While I am not overly enthusiastic about the outlook for Italy (D&B report states sovereign risk for Italy is moderate, with outlook as deteriorating) and hence exposure to an Italian firm for such a substantial contract, I understand there are commercial reasons as to why these two players comprise the short-list. While Astaldi is not publicly rated, they are publicly traded and we have been able to get access to lots of information to do our own credit assessment. Overall credit score is 61% caused by higher levels of leverage, but on the flip side earnings and cash flow have been stable. Other pluses....they have diversified cash flow to about 2/3 generated outside Italy, they have diversified their banking relationships, and the contract terms for Altaldi appear stronger overall versus the Salini JV. Minus...from a liquidity perspective, their banking relationships are still primarily Italian and other European. I understand the commercial team believes the performance security provided to be the maximum amount we likely could obtain....would like to have seen it higher given the risk and seeing it is below our standard ask of 15%. I also understand Treasury enquired about obtaining security over the batch plant in the event of default...I understand that was rejected and I would like to understand why...on the surface, it would provide more value and also likely to reduce time and cost if they had to be replaced. I understand that Astaldi Canada is the counterparty, and they have not provided financial statements....while we have a parental guarantee and we expect no issues, we should insist of seeing the financial statements of the actual counterparty as a standard due diligence requirement...they were incorporated in February 2012 and therefore they should be available.

My conclusion....the Salini JV should not be considered further. Astaldi is better (less risk) but risks above should be communicated to the decision makers.

Rob

	<p>Robert L. Hull, CA, CIRP                  General Manager (Commercial, Treasury and Risk) and Chief Risk Officer                  Nalcor Energy                  t. 709 737-1325 c. 709 691-3864                  e. <a href="mailto:RobHull@nalcorenergy.com">RobHull@nalcorenergy.com</a>                  w. <a href="http://nalcorenergy.com">nalcorenergy.com</a></p>
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Craig Hippern---08/19/2013 05:57:45 PM---Hi Gilbert & Rob, The MF Powerhouse contract is being negotiated with two potential bidders and at t

From: Craig Hippern/NLHydro

To: Gilbert Bennett/NLHydro@NLHydro, Rob Hull/NLHydro@NLHydro

Date: 08/19/2013 05:57 PM

Subject: Due Diligence CH0007

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Hi Gilbert & Rob,

The MF Powerhouse contract is being negotiated with two potential bidders and at this point you have been added to the cold eyes review team for this agreement.

Attached you will find two contracts (one for each of the two top bidders) redlined to the approved template. Please provided any comments on each of the agreements to me at your earliest convenience but, if possible, no later than Friday, Aug. 23rd.

It obviously goes without saying; however, I am obligated to state that these contracts and the bidders names are highly confidential.

Thanks,

Craig

[attachment "Compare Salini Bidder #4.DOC" deleted by Rob Hull/NLHydro] [attachment "Compare Astaldi Bidder #2.DOC" deleted by Rob Hull/NLHydro]

	<p><b>Craig H. Hippern, CA, CPA (IL)</b> Manager, Financial Planning &amp; Investment Analysis Investment Evaluation Nalcor Energy t. 709-778-6653 c. 709-691-3628 e. <a href="mailto:craighippern@nalcorenergy.com">craighippern@nalcorenergy.com</a> w. <a href="http://nalcorenergy.com">nalcorenergy.com</a></p>
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