CONFIDENTIAL MEMO

(Via email)

TO: ED OVER, SNC-LAVALIN; RONALD ADAMCYK, SNC-LAVALIN

FROM: ANDREW SINNOTT, ASSISTANT TREASURER

SUBJECT: CREDITWORTHINESS ASSESSMENT OF BIDDERS FOR CH0007

DATE: SEPTEMBER 25, 2013

CC: SCOTT PELLEY, CORPORATE TREASURER; JAMES MEANEY, GENERAL MANAGER FINANCE; PAT HUSSEY, SUPPLY CHAIN COORDINATOR

Background and Purpose

- At the request of the Nalcor Energy – Lower Churchill Project ("LCP"), Treasury and Risk Management ("TRM") opened a credit worthiness files for the following entities (the "Bidding Entities") in 2012:
  - Aecon, Flatiron, Barnard Joint Venture ("Aecon JV"),
  - IKC-ONE Partnership ("IKC-ONE"),
  - Astaldi Canada Inc. ("Astaldi Canada"),
  - Salini, Impregilo, FCC Joint Venture ("Salini JV").
- The above-noted entities were all prospective bidders on the RFP for the Intake, Powerhouse, Spillway and Transition Dams (CH0007).
- These creditworthiness assessments were required by and conducted in accordance with the *Guidelines for Credit Worthiness Verification* (LCP-PT-MD-0000-FI-PR-0003-01 Rev B.2).
- This confidential memo documents the work performed by TRM from the time the file was opened to September 25th, 2013, and provides conclusions on the creditworthiness of each proponent as well as the basis for those conclusions.
- At the request of LCP, TRM also advised on structuring an appropriate performance security package for credit worthy bidders. In that regard, this confidential memo also documents our understanding of they key risks to be addressed by performance security, as per ongoing

dialogue with LCP up to September 25, 2014, and it presents our recommendation for security to be posted by the successful bidder.

Creditworthiness Verifications: Scope and Key Assumptions

- The Aecon JV consists of three entities; Aecon Constructors (a division of Aecon Construction Group Inc.), Barnard Construction of Canada Limited, and Flatiron Construction Canada Limited.
- The financials statements for the actual JV participants were not provided and we analyzed the December 31, 2012 Audited financial statements for the parent companies; Aecon Group Inc., Barnard Companies Inc., and Flatiron Constructors Inc.
- The IKC-ONE partnership consists of four entities, Innu-Kiewit Constructors ("IKC"), H.J. O'Connell Limited ("H.J. O'Connell"), Neilson Inc. ("Neilson"), and EBC Inc. ("EBC"). IKC is the lead partner and is made up of Peter Kiewit Infrastructure Co. ("PKIC") and Innu Development Limited Partnership.
- For IKC we were provided with financial statements for Peter Kiewit Infrastructure Co. (December 31, 2011 Audit and September 30, 2012 Internal year-to-date statements). PKIC are assuming financial responsibility for IKC. For the other three partners, we were provided with December 31, 2012 Audited financial statements for the participating JV partner.
- **As of the date of this memo, based on direction received from LCP prior to finalizing the creditworthiness verifications, we did not request or assess any interim financial information for periods ended after December 31, 2012 for the Aecon JV or the IKC-ONE partnership.**
- Astaldi Canada did not provide financial information. Instead, we were provided audited financial statements for the parent company, Astaldi SpA, for the years ended December 31, 2010, 2011 and 2012. Interim financial statements for the period-ending June 30, 2013 were assessed via Credit Risk Monitor[1] and the company website, http://www.astaldi.com/home/.
- The Salini JV consists of Salini SpA, Impregilo SpA, and FCC Construcion SA. For Salini we have been provided with Interim financial statements for September 30, 2012, and for FCC we have been provided with December, 31, 2012 statements. The year-end December 31, 2012 statements for Impregilo were obtained from Credit Risk Monitor, and also available on the company website.
- For purposes of foreign exchange conversions from Euro to Canadian dollar, we have used the Bank of Canada daily noon rate as at September 24, 2013[2]
- Where the analysis was carried out using financial information for the ultimate parent companies **it was assumed that each would provide a guarantee to support the bids put forth by their respective Bidding Entities. Where applicable, we will comment below and in the summary.**
- Other data sources used in the analysis are as follows:
    - Data from Credit Risk Monitor (http://www.crmz.com/)
    - Credit reports published by the agencies rating the parent companies

[1] Financial information obtained from Credit Risk Monitor at http://www.crmz.com/
[2] 1 Euro = 1.3887 CAD

Creditworthiness Verifications: Overview of Results

- The results of the creditworthiness assessment are summarized in Appendix 1 of this memo.
- The reader is cautioned that the conclusions outlined in Appendix 1 are based on the effective date of the financial information used in the analysis, and our conclusions are subject to change based on any new information published after that date.

Creditworthiness Verification: Aecon, Flatiron, Barnard JV

- This Joint Venture consists of three entities, and we have reviewed December 31, 2012 Audited financial statements for each joint venturer's parent company.
- The weighted average credit score for the JV (Appendix 1) represents the sum of the weighted average credit scores for each entity pro-rated based on their shares in the JV.[3]
- Aecon Group Inc. has a weighted average credit score of 71%. They are listed on the TSX, and as at September 24, 2013 had a market capitalization of CAD $772 million.
- Flatiron Constructors Inc. has a weighted credit score of 39%. We note this is a drop from 97% based on the December 2011 Audit, as the company suffered a loss in 2012.
- Barnard Companies Inc. has a weighted average credit score is 100%.
- The pro-rated turnover score of the JV is 1.40x and there are no public ratings for any of the companies. The preliminary rating is therefore **LOW**.
- The pro-rated credit score for the JV is 66%, which would result in a **MEDIUM/HIGH** rating in terms of credit strength (See Appendix 1).
- **We note that the JV agreement states that the three partners are not joint and severally liable, and this would be a requirement if they are the successful bidder.**
- **Because the analysis was based on the financial position and results of, Aecon Group Inc., Flatiron Constructors Inc., and Barnard Companies Inc., we would require the guarantees from each parent company. All three partners have indicated that parental guarantees are available.**

Creditworthiness Verification: IKC-ONE Partnership

- The IKC-ONE partnership consists of four entities, Innu-Kiewit Constructors ("IKC"), H.J. O'Connell Limited ("H.J. O'Connell"), Neilson Inc. ("Neilson"), and EBC Inc. ("EBC").
- IKC is the lead partner and is made up of Peter Kiewit Infrastructure Co. ("PKIC") and Innu Development Limited Partnership.
- We have analyzed the financial statements as of December 31, 2012 for each partner, however for IKC we have been provided with statements for its parent, Peter Kiewit Infrastructure Co ("PKIC").
- PKIC has a weighted credit score of 100%.
- H.J. O'Connell has weighted credit score of 100%.

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[3] In this JV, Aecon and Flatiron have a 37.5% share each, and Barnard has a 25% share.

- The statements provided by Neilson are for the 4-month period ending December 31, 2012, and as such we are not able to assign a rating for them. We do not have statements for the parent company, Pomerleau Inc., and we would require these at the selection stage. We have assigned a turnover of 0 and weighted credit score of 0%.
- EBC has a weighted credit score of 100%.
- There are no public ratings for any of the entities above.
- Based on the proportionate shares in the partnership, the pro-rated turnover ratio is 1.17x.[4] This would result in a preliminary rating of LOW.
- The pro-rated credit score for the partnership is 85%, which would result in a final rating of **MEDIUM/HIGH** (see Appendix 1).
- **We note that the JV agreement does not state that the four partners are joint and severally liable. If a contract is awarded to the IKC-ONE partnership, joint and several liability will be a requirement.**
- **We may require a guarantee from Pomerleau Inc. (parent of Neilson Inc.) and we need to confirm that Peter Kiewit Infrastructure Co. is a guarantor for the IKC partnership**

Creditworthiness Verification: Astaldi Canada Inc. ("Astaldi Canada")

- The bidding entity, Astaldi Canada, is a subsidiary of Astaldi SpA.
- Because Astaldi Canada did not provide financial information, a guarantee from Astaldi SpA would be required if the bid was to be awarded to them, and the parent has provided a guarantee document in the bid package. This would need to be reviewed by Nalcor legal counsel and revised if necessary.
- Astaldi SpA is a publicly traded company in Italy, and has a market capitalization of €619 million (CAD $860 million) as at September 25, 2013. The market cap has increased by over €100 million since early July.
- As of June 30, 2013, the company had an asset base of €4 billion (CAD $5.55 billion).

Astaldi: Revenue and Profitability

- At €2.5 billion (CAD $3.4 billion), Astadi SpA's 2012 revenues are 3.1x the target contract price, which is acceptable as per LCP's contractor creditworthiness standards.
- Astaldi has no public ratings, but is followed on Credit Risk Monitor with a Frisk Score of 8 (probability of bankruptcy of 0.23 to 0.38%) and a Z-score of 1.72 (neutral risk). The preliminary rating would be MEDIUM.
- 2012 revenues reflect modest growth over 2011 and 2010 revenues, which were €2.4 billion (CAD $3.3 billion) and €2.1 billion (CAD $2.9 billion) respectively.
- For 2012, net income was €74 million (CAD $102 million). This was up from net income of €71 million (CAD $98 million) in 2011

[4] IKC has a 40% share in the IKC-ONE partnership, while H.J. O'Connell, Neilson and EBC have 20% each.

Astaldi: Balance Sheet, Leverage and Interest Coverage

- At December 31, 2012 the current ratio is acceptable at 1.2x. The quick ratio (highly liquid current assets only) of 0.94x is slightly below Nalcor's target of 1.0x.
- However, as of June 30, 2013, the quick ratio has improved to 1.03x.
- As of June 30, 2013, the company had €396 million (CAD $544 million) in cash, down slightly from the €418M (CAD $575M) cash on hand as at Dec.31, 2012.
- As of December 31, 2012, key financial ratios were: Funds from Operations/Debt of 10% (vs. Nalcor minimum target of 45%), Debt to Capital of 70% (vs. Nalcor maximum target of 35%), Debt to EBITDA of 4.75x (vs. Nalcor maximum target of 2.0x) and EBIT Interest coverage of 2.53x (above Nalcor minimum target of 1.50x).
- The company's debt maturity profile is medium to long-term, which minimizes insolvency risk in the near term, and their strategy has been to obtain committed financing on a project-by-project basis.

Astaldi: Final Ratings and comments

- Overall, Astaldi SpA has a weighted average credit score (WACS) as at December 31, 2012 of 62%. Using June 30, 2013 trailing twelve months, this improved slightly to 63%. This would put the final rating in the mid-point of the **MEDIUM/HIGH** range.
- **Astaldi SpA would be considered creditworthy with the recommended security package, and a guarantee from Astaldi SpA.**

Comments on Country Risk: Italy

- Given the concern over the current economic situation in Italy, we looked at mitigating factors in the company's strategy
- The 2013 Q1 Management Discussion and Analysis highlights the "continuous serious crisis situation in the domestic (Italian) market and uncertain forecasts as regards to the financial markets, that make it more difficult to operate in one of the sectors most heavily affected by the current macroeconomic situation.5"
- Astaldi estimates about 35% of its projected revenue will come from Italy (vs. 40+% in prior years),with the remainder coming from other parts of Europe, South America, United States, and more recently Russia and Canada.
- Their plan to mitigate the risks mentioned above is a well-diversified order backlog in terms of geographical area (less than 20% of a €12 billion order book in Italian construction); and a recent change in strategy to focus more on concessions contracts (build and operate/manage) as well as traditional construction. Concessions represent 40% of the order backlog. Most of the concessions contracts are for the construction and operation (i.e. tolls) of motorways and highways in Europe and the US.

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[5] Taken from Astaldi SpA "Interim report on operations at 31 March 2013", from http://www.astaldi.com

Creditworthiness Verification: Salini, Impregilo, FCC JV

- This Joint Venture consists of three entities, Salini SpA, the lead partner with a 33.34% share, and the other two partners with a 33.3% share each. The ratings for each entity have been pro-rated to come up with the final rating.
- The joint venture agreement states "joint and several" liability for all partners.

Salini SpA

- Salini SpA is a privately-held Italian company, with 2012 revenues of €1.8 billion (CAD $2.5 billion), and net income of €332 million (CAD $461 million). The company had €412 million (CAD $572 million) cash on hand and €600 million (CAD $833 million) in total debt as of Dec.31, 2012.
- Salini has a turnover score of 2.32x and in July 2013 was rated by Fitch (BB / Stable). As this is not an investment-grade rating, the preliminary rating would be LOW.
- As at December 31, 2012 the company had financial ratios of: Funds from operations/Debt of 72% (vs. target of 45%), Debt to capital of 50% (vs. target of 35%), Debt to EBITDA of 1.28x (vs. target max of 2.0x), EBIT Interest coverage of 33x (vs. target of 1.5x), and Quick ratio of 0.85x (vs. target of 1.0x).
- Overall, the weighted credit score is 92%, resulting in a final standalone rating for Salini SpA of **MEDIUM/HIGH**, which would be considered creditworthy with appropriate security.

Impregilo SpA

- Impregilo SpA is publicly traded in Italy, with a market capitalization of €1.41 billion (CAD $1.97 billion). Annual revenues for the Group were €2.3 billion (CAD $3.2B).
- Turnover score is 2.9, and while there are no public ratings, the company is covered by Credit Risk Monitor with a Frisk Score of 9 (probability of bankruptcy of 0.11 to 0.23%) and a Z-score of 2.44 (neutral risk). This would result in a preliminary rating of LOW.
- We note 2012 results showed a profit of €603M (CAD $837 million), however this included €717M profit from discontinued operations (mostly from the sale its EcoRodovias unit during the year). Actual profit from operations was a loss of €114M (CAD $158M).
- With this one-time gain removed, the weighted average credit score is 45% (down from 68% in 2011), as cashflow and interest coverage ratios are negative, and Debt to EBITDA is weak (7.85x vs. target of 2.0x). Only the Debt to capital (28% vs. target maximum of 35%) and Quick ratio (0.99x vs. target of 1.0x) are at or above target levels.
- Based on the credit score of 45%, the final rating for Impregilo SpA on a standalone basis would be **MEDIUM**. They would not be considered creditworthy without significant credit enhancements.

FCC Construccion SA

- The parent holding company of FCC, Fomento de Construcciones y Contratas SA, is publicly traded in Spain, with a market capitalization of €1.92 billion (CAD $2.7 billion). Annual group revenues in 2012 were €11.1 billion (CAD $15.4 billion), with losses of €1.46 billion (CAD $2 billion). The parent is a huge multi-national company involved in construction, real estate, energy, environmental services in over 50 countries.

- FCC Construccion SA is the construction arm of the group. Annual revenues are appx. €5.9B (CAD $8.2 billion), of which two-thirds is outside of Spain (mainly Europe and South America).
- FCC Construccion had a loss of €452 million (CAD $628 million) in 2012, however the majority of this loss (€420 million) was from their Alpine Group unit, based in Austria. The Alpine group results are consolidated into the FCC Construccion results.
- The December 31, 2012 Audit for FCC Construccion stated a concern as to this unit, and at the time, the company was in negotiations with its banks to restructure €625 million in debt. None of this debt has any recourse to FCC. Subsequent press releases on Credit Risk Monitor have indicated that Alpine filed for bankruptcy in June 2013. FCC has indicated it will take a loss of appx €289 million in 2013 from this bankruptcy.
- Since the initial bankruptcy filing, there have been allegations of bankruptcy fraud, and announcements of significant layoffs in Spain.
- Turnover for FCC Construccion is 7.4, and the company is followed on Credit Risk Monitor with a Frisk Score of 6 (probability of bankruptcy of 0.54 to 1.058%) and a Z-score of -0.30 (fiscal danger). Based on these factors, the preliminary rating would be LOW.
- Financial ratios for FCC have deteriorated from the initial EOI evaluation (based on Dec.31, 2011 statements). The overall weighted score has dropped from 80% to 28%, with cashflow and interest coverage being negative
- Adding back the €420M loss from Alpine only slightly improves the financial score to 32
- Based on these results, the final standalone rating for FCC would be **LOW**, and this company would not be considered creditworthy.

<u>Salini-Impregilo Merger (Salini Impregilo SpA)</u>

- In early 2013, Salini made a public tender offer for the shares of Impregilo SpA, at €4 per share. Salini already held 29% of the common shares, and this tender offer would cost appx. €1.13 billion (CAD $1.57 billion). As a result of the offer, Salini have now acquired over 92% of Impregilo shares.
- Salini and Impregilo have long had a relationship, with several common board members, and Salini owning 29% of Impregilo shares prior to this transaction. The two companies see this merger as a way to create a "National Champion" in the industry, benefiting from synergies and improved access to capital markets. By 2016, they project revenues of €7.4 billion (currently €4.1 billion combined) and EBITDA of over €1 billion (currently under €600 million).
- This acquisition was financed 100% with debt, as Salini obtained a €1.41 billion (CAD $1.9 billion) bank facility.
- The shares were pledged as security for the loans, and the repayment terms were €600 million due on June 30, 2013 with the remainder due on Dec.31, 2014 (with provisions to extend this to June 30, 2016).
- The payment due June 30 was paid in part by a new €400 million bond issue and the remainder from cash.

- As part of the offer, Impregilo was to pay a common dividend of €600 million (from its cash reserves of €833 million) to the shareholders of record prior to the purchase, and this took place in May 2013.
- The merger was approved by both Boards in September, and the new company will be known as Salini Impregilo SpA. Anticipated completion is by December 31, 2013, with shareholders of Salini SpA (privately held) receiving 6.45 Impregilo shares for 1 Salini share. The new company will continue to be listed on the MTA.
- The recent public rating by Fitch in July 2013 (BB / Stable) discussed high leverage and underperforming contracts (mainly by Impregilo) as negative drivers.
- The December 31, 2012 pro-forma statements prepared by Ernst & Young result in a combined weighted-average credit score of just 39%, which would be in the **MEDIUM** range.

Overall Assessment of the Salini-Impregilo-FCC JV

- Based on the proportionate shares in the joint venture, the pro-rated turnover ratio is over 3.8, however the only public rating (Salini-Impregilo) is non-investment grade, and there are serious concerns about the viability of FCC. This would result in a preliminary rating of MEDIUM, at best.
- Using the Salini-Impregilo pro-forma rating (39%) and FCC's rating of 28%, the pro-rated credit score for the joint venture is under 50%. **This would result in an overall rating of MEDIUM, meaning significant credit enhancements would be required for them to be considered creditworthy.**
- **In consideration of the risk factors for this particular package (as outlined below), the junk bond rating, and the company's debt load from the acquisition, the Salini JV would not be considered a creditworthy counterparty.**

Contract Risk Profile

- For the purpose of our analysis, it was assumed that the final value of the CH0007 package would be $1,100 million CAD
- The following key points were considered in making a final recommendation on performance security package:
    - At $1,100 million, CH0007 is the largest Muskrat Falls related contract by value
    - CH0007 is on the critical path for schedule, therefore adequate liquidity is critical in the event of a contractor default if delays are to be minimized
    - All bidders have proposed a significant advance on execution of contract, placing LCP at risk in the event the contractor defaults before completing an amount of work commensurate with the value of the advance
- The initial performance security recommendations based on the risk profile were as follows:
    - To address risk around advances for work not completed, obtain a standby letter of credit, equal to 100% of the amounts advanced, which is to remain in effect until such

amounts are recovered in full through subsequent billings, ; this security must be issued from an acceptable Schedule 1 Canadian Bank[6]

- To address performance risk and concerns over maintaining schedule in the face of a contractor default, obtain a standby letter of credit, equal to 15% of the contract value, which is to remain in effect until a Final Completion Certificate has been issued; this security must be issued from an acceptable Schedule 1 Canadian Bank[7].
- To address risks to schedule from subcontractor liens, we recommend obtaining holdback bonds from a surety with a credit rating of A- by Standard & Poor's, or equivalent rating by another rating agency Approved by Company

- Subsequent to initial discussions on the above noted recommendations, we were advised by LCP that the maximum LC the preferred contractor could provide was $200 million. After carving out a $100 million into a separate LC to secure the up-front payment, that left $100 million to address an estimated maximal exposure of $250 million on default of contract[8]
- Based on that, the final performance security recommendations based on the risk profile, and as outlined in the final creditworthiness verification form accompanying this memo, were as follows:
  - To address risk around advances for work not completed, obtain a standby letter of credit, equal to 100% of the amounts advanced, which is to remain in effect until such amounts are recovered in full through subsequent billings, ; this security must be issued from an acceptable Schedule 1 Canadian Bank[9]
  - To address performance risk and concerns over maintaining schedule in the face of a contractor default, obtain a standby letter of credit, equal to $100 million, which is to remain in effect until a Final Completion Certificate has been issued; this security must be issued from an acceptable Schedule 1 Canadian Bank[10]
  - In addition, to address residual performance of $150 million, obtain a $150 million performance bond from a surety with a credit rating of A- by Standard & Poor's, or equivalent rating by another rating agency Approved by Company
  - To address risks to schedule from subcontractor liens, we recommend obtaining holdback bonds from a surety with a credit rating of A- by Standard & Poor's, or equivalent rating by another rating agency Approved by Company

- **The performance security recommendations would have to be revisited if, during the course of negotiating with the successful bidder, the commercial team is considering agreeing to changes in payment structure other than that discussed previously.**

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[6] Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, TD Bank or Bank of Nova Scotia
[7] Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, TD Bank or Bank of Nova Scotia
[8] This estimate is based on discussions with Ron Adamcyk and Ed Over, and assumes the contractor defaults at 30% completion and that LCP pays a premium for a new contractor to complete. Further details can be found in Treasury and Risk's standalone credit file for CH0007
[9] Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, TD Bank or Bank of Nova Scotia
[10] Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, TD Bank or Bank of Nova Scotia

Appendix 1 – Summary of Credit Worthiness Assessment

Nalcor Energy - Lower Churchill Project
Summary of Creditworthiness Verification: CH0007 - Intake, Powerhouse, Spillway & Transition Dams
September 25, 2013

	Turnover Score [1]	3rd Party Information/Ratings Rating and Outlook [2]	Preliminary Nalcor Rating [3]	Post-Balance Sheet and Ratio Analysis [4] Ratio Score	Post-Balance Sheet and Ratio Analysis [4] Comments	Final Nalcor Rating [5]	Conclusion [5]
Aecon-Flatiron-BCCI JV (Aecon Constructors, Flatiron Construction Canada Limited, Barnard Construction of Canada Limited)	1.40x	No public ratings available. Aecon Group Inc. (parent of Aecon Constructors) is covered by Credit Risk Monitor with a Frisk score of 7 (probability of bankruptcy 0.38 to 0.54%) and a Z-score of 1.83 (neutral risk).	LOW	66%	Weakness of Flatiron Constructors in 2012 offset by strong performance of Aecon Group and Barnard Constrcution.	MEDIUM/HIGH	**Partially Crediworthy, with security as recommended and guarantees from parent companies (Aecon Group Inc, Barnard Companies Inc, and Flatiron Constructors Inc.). Also, partners in the JV agreement to be Joint and Several for all liablities**
IKC-ONE, a partnership (Innu Kiewit Constrcutors, H.J. O'Connell Limited, Neilson Inc., and EBC Inc.)	1.17x	No public ratings for any of the partners, however Kiewit Corporation (parent of Peter Kiewit Infrastructure Co.) is rated A+ (Stable) by S&P.	LOW	85%	Strong financial performance and no debt in Peter Kiewit Infrastructure mitigate risks of low turnover score. H.J. O'Connell and EBC are also financially strong.	MEDIUM/HIGH	**Partially Crediworthy, with security as recommended, and guarantee from Peter Kiewit Infrastructure Co. Ltd.**
Astaldi Canda Inc. (financial analysis performed on the parent company, Astaldi SpA)	3.10x	No public ratings available. Coverage by Credit Risk Monitor with a Frisk score of 8 (probability of bankruptcy 0.23 to 0.38%) and a Z-score of 1.72 (neutral risk).	MEDIUM	63%	Turnover score meets requirements and company has shown consitent performance. Diversification outside of Italy in recent years mitigates some of the country risks.	MEDIUM/HIGH	**Partially Crediworthy, with security as recommended and guarantee from Astaldi SpA**
Salini JV (Salini SpA, Impreglio SpA, FCC Construccion SA)	3.83x	The Salini-Impregilo merged company was rated in July 2013 (BB / Stable) by Fitch, a non-investment grade rating. FCC is not rated and has had some issues recently regarding the bankruptcy of their Austian subsidiary.	MEDIUM	36%	While Salina was strong on their own, the newly merged Salini-Impregilo has significant debt and some risks identifed. FCC on their own is not creditworthy. Overall the JV would not be creditworthy without additional security.	MEDIUM	**Not Crediworthy, without significant credit enhancements to mitigate risks.**

1) The minimum threshold for scoring above LOW on the turnover test is annual sales of at least 3.0x contract value. (See Test 1 - Guidelines for Credit Worthiness Verification)
2) Reference to 3rd party ratings here means publically available credit rating reports from Standard and Poors, Moody's, Fitch, DBRS or Dunn & Bradstreet (See Test 2 -Guidelines for Credit Worthiness Verification), if available and/or applicable (i.e. if company is rated). As per the *Guidelines for Creditworthiness Verification*, data from Credit Risk Monitor may also be used.
3) Companies failing the turnover test receive a preliminary rating of LOW. For companies that pass the test, the preliminary rating is based on the magnitude of the turnover score and an assessment of any 3rd party credit information, if available. For a company that passes the turnover test, the lack of third party information for a Company, or 3rd party information that causes concern, results in a preliminary preliminary rating of MEDIUM
4) As outlined in the Guidelines for Creditworthiness Verification, a post-ballance sheet review (Test 3) and a ratio analysis (Test 4) are used to refine the preliminary rating. The ratio analysis results in a weighted average credit score for the company, which serves as a measure of financial capacity
5) The final rating is determined after the Ratio Analysis and Post-Balance Sheet review. Ratings are as per Evaluation Matrix in Guidelines for Credit Worthiness Verification - Page 14

Nalcor Energy - Lower Churchill Project
Bidder Credit Worthiness Verification Form

1. Bidder and Bid Information

Bid package	CH0007 - Intake, Powerhouse, Spillway and Transition Dams
Bidder name (legal entity)	Astaldi Canada Inc.
Parent company	Astaldi SpA
Value (CAD)	$1100 million

2. Details of Credit Worthiness Verification

Verification prepared by	Assistant Treasurer
Entity/Entities verified	Astaldi Canada Inc. Astaldi SpA
Effective date	25-Sep-2013

Documents used in verification

Entity	Document	Date	Comments
Astaldi SpA	Half-Year Report	June 30, 2013	Interim Audit report
Astaldi SpA	Annual Report	December 31, 2012	Unqualified Audit report

Notes:
1. The 63% weighted average credit score below is based on the trailing twelve month period up to June 30, 2013.

3. Results of Credit Worthiness Verification

Credit Rating	N/A
Weighted credit score	63%
Overall rating	MEDIUM-HIGH

Recommendation Accept ____ Reject ____ Accept with Qualifications x

Qualifications:
1. Security to consist of a) guarantee from Astaldi SpA; b) $100 million letter of credit; c) a separate letter of credit issued to fully secure the 10% up front payment; d) $150 million performance bond; and e) 10% holdback bond
(Letters of credit to be issued from an acceptable Canadian Schedule 1 bank, and bonding from an acceptable surety)
2. Receipt of most recent annual financial statements from Astaldi Canada Inc.

4. Authorizations and Approvals

Nalcor Corporate

The following individuals certify that this credit worthiness verification was carried out in accordance with the "Guidelines for CreditWorthiness Verification" and endorse the above noted recommendation based on that process

Corporate Treasurer	[signature]	Date	Sept. 25, 2013
Assistant Treasurer	[signature]	Date	Sept 25/13

Lower Churchill Project

The following individuals have reviewed the results and are in agreement with the recommendations above

Supply Chain Management Representative		Date	
Manager Supply Chain		Date	