**Date : 1/24/2016 10:24:50 AM**
**From : "Murphy, Tim"**
**To : "Ball, Dwight"**
**Cc : "Parsons, Kelvin"**
**Subject : CONFIDENTIAL: Food for Thought Memo re: Tuesday's P&P Meeting**
**Attachment : Memo to Premier on Muskrat Falls for P&P.docx;**

Premier – attached is the memo I referenced in my BBM of a couple of minutes ago. Kelvin and I have discussed. We can discuss further later today. Safe travels.

Tim

**CONFIDENTIAL**

January 24, 2016

Premier,

This memo has been prepared as food for thought as you think about the discussion planned for P&P on Tuesday.

On Tuesday, Ed Martin and Ken Marshall will appear before you and your colleagues on the Planning and Priorities Committee of Cabinet. They will present a set of slides to you that they were reluctant to commit to paper. While they will use their own presentation skills to make their points, in essence this is what they will be telling you:

1. The Muskrat Falls project will incur a further 12-18 month delay to powerhouse completion;
2. The additional cost to Astaldi is anticipated to be in the $600 million to $800 million range; and
3. This schedule slippage and cost increase are the responsibility of Astaldi.

They will indicate to you that if Astaldi has to incur this additional cost, which is an estimate and may be higher, there is a risk of Astaldi insolvency. If that were to occur, the cost increase to the project will be much higher, accompanied by a longer time required for project completion.

Ed and Ken will pitch to you and your P&P colleagues their proposed solution which evidently has been vetted through various Nalcor Boards. They will recommend that the public treasury of the province cut a cheque in the order of $250 million to $350 million in assistance to Astaldi to offset their cash flow problems to reduce – but far from eliminate – the prospect of further cost increases or schedule slippages. They will also point out, as does their presentation deck on several slides, that this cheque amount may not be sufficient to satisfy Astaldi. So the cheque amount may very well be higher.

If we don't cut the cheque, Ed and Ken will tell you that the actual cost increase will be higher than the $600-$800 million (closer to $1 billion) and the schedule slippage will be greater than 12-18 months (closer to 21-27 months) because Astaldi will slow its progress as a result of not getting its assistance. They will also tell you that the contract with Astaldi is "solid".

Ed and Ken will tell you about the analysis they have done which confirms for them that Astaldi is in a major cash flow crunch, and try to convince you the risk of Astaldi insolvency is real. What is not in the deck and what they may not tell you is the following:

1. Astaldi had revenues in 2014 of 2.7 Billion (Euros);
2. They have over 100 projects in 17 countries;
3. They have 10,000 employees worldwide;
4. In Astaldi's public presentation to financial analysts on their first half of 2015 results, they reported total revenue of 1.4 billion Euros (up 15.8%); they reported net income of 62.4 million Euros (up 82%); they reported a net financial position of 1.1 Billion Euros; and they reported new contracts they had secured valued at 5.3 Billion Euros. The punch line of the Astaldi presentation was "All this has laid the foundations for the next cycle of growth";
5. On December 3, 2015 Moody's reaffirmed the credit rating of Astaldi at B1 corporate family while at the same time changed its watch outlook from stable to negative. In reaffirming Astaldi's rating, here's a snippet of what Moody's said in its news release from just seven weeks ago: "Astaldi's B1 rating reflects the good visibility and predictability of its future revenue generation given the company's strong and relatively well diversified order backlog in execution, the company's geographically fairly well diversified order portfolio, its solid track record of execution and expectations of continued healthy operating margins, and a fairly immature but attractive investment portfolio in concessions"; and
6. In January 2016, a number of analysts from major banks offered their recommendations on Astaldi shares. One recommended buying shares, one recommended holding, a couple were neutral, a couple said reduce and one recommended selling.

I have no idea whether Astaldi is in a cash crunch to the magnitude that Ed and Ken will describe but the above information, which describes a fairly healthy company, is all publicly available online and took me less than an hour to find. I'm sure David Cochrane and James MacLeod and others will find it pretty easy as well.

This is the same company that you and your P&P colleagues will be asked by Ed Martin and Ken Marshall to write a cheque to for $250-$350 million from the public treasury – with no guarantee this will even be enough to satisfy Astaldi, plus it doesn't prevent the schedule slippage referenced above. To me, this situation is, in a word, preposterous. It would clearly be seen by the public as throwing good money after bad with no end in sight. It would be seen as rewarding bad behavior.

Can you imagine appearing before the people of the province to justify such a decision? The same people you have told for the past six weeks that our fiscal circumstance is dire, the same people who now believe that significant layoffs and program reductions are coming, the same people who will know in the next few days that five schools are closing. Can you imagine the reaction of Jerry Earle and other union leaders to news that Government can afford to write this cheque while at the same time Minister Bennett seems to think she can achieve $200 million in concessions from unions – this year alone!

Also not covered in the deck is what happens to our money if one of the 100 or so other major projects Astaldi is involved in runs into a similar overrun. And do any of the other proponents of any of these projects around the world share Nalcor's assessment of the dire cash flow situation, and are they writing big cheques as well? Can Ed and Ken guarantee you on Tuesday that this will be the last over-run or schedule slippage on the project (of course they can't)? Important questions, but all unaddressed.

While this memo will inform your thinking leading into Tuesday's discussion, you will note it doesn't address your options in response to the proposal Ed and Ken will pitch. That's because the collective we need to do much more analysis of the implications before we are in a position to provide you with that advice. This next decision and steps by you and your government on this project are critical, and the due diligence needs to be done to ensure the next decisions are made based on well-informed analysis. We have some ideas on who to engage to assist in that regard which we can discuss.

Tim Murphy

C.c. Kelvin Parsons