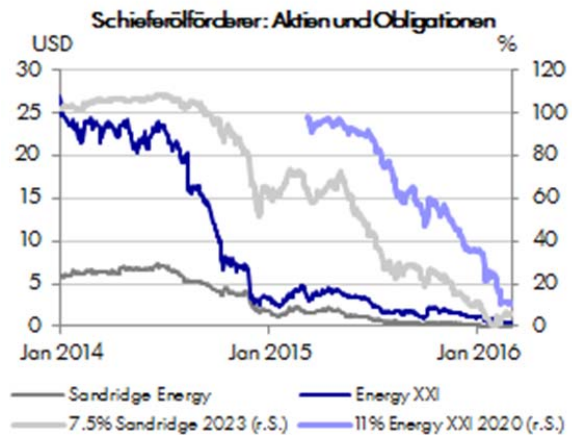


**Carnot Capital Ltd: Stress in the energy sector**

Carnot Capital Ltd is an asset management company, established in July 2007, which manages an investment fund open to qualified investors. The fund pursues a value approach and concentrates on companies within the energy sector. Specifically the fund invests in listed companies that create value by enabling a more efficient use of energy. Carnot Capital Ltd is an associated company of ALL Structured Finance Ltd. For further information: <http://www.carnotcapital.com>

An environment of low oil prices is increasingly having its impact on oil and gas companies. In 2015 already a few smaller producers were going out of business, now this destiny is threatening larger companies. Sandridge Energy and Energy XXI, two US companies extracting oil and gas from shale formations, both with debt of more than USD 3bn each, interrupted payments due on their bonds. Both companies are threatened with bankruptcy procedures. Even countries such as Venezuela, which are depending on export of fossil fuels, are in difficulties to meet their obligations. A clearing up of the energy sector seems to be imminent: 'Good' companies (and countries) with low cost of production and solid financing will rise after this.



Some industrial companies in the Carnot-Portfolio are supplying to the energy sector. ABB, Flowserve or Rotork, for example, were hit hard by reduced investment levels in the energy sector. As with the oil price itself, an overshooting can be observed, as energy companies cut their investments in the struggle for survival. Expenditures are cut in areas such as transport and processing energy, where the price of oil is considered to be of reduced relevance. Even maintenance and projects with low payback times are being suspended - the impact on oil production will be felt with some delay. Investments in the energy sector fell by 25% in 2015 and are forecast to drop another 5% to 10% in 2016, according to Bloomberg. Consolidation amongst suppliers to the energy sector will be a consequence, 'good' companies with high margins, solid financing and good cash flows will snap the bad companies and thereby improve their market position.

### **Impact on Carnot**

We expect oil production to see a downward trend - with the exception of Iran, where capacities are being increased with the end of sanctions against the country. Recent production statistics from the US already show lower production rates. Energy consumption, at the same time, will continue to increase, driven by higher demand from emerging markets. The oil market approaches its equilibrium, with a subsequent normalization of investment activity in the sector. The outlook of some of our portfolio companies is brightening up soon.

### **Private Risk Insurance Cover for a Project of Stadler Rail**

AIL Structured Finance has acted as financial advisor to Stadler Rail for the structuring of a payment security scheme in relation with a delivery contract between Stadler Rail and the Hungarian train operator MÁV Start Zrt. Stadler's delivery scope under the delivery contract includes 21 suburban FLIRT EMUs for a total value of approximately EUR 125 million. The trains are financed with European Union funds through its integrated Transport Development Operational Program for the years 2015 and 2016.

To mitigate the payments risks of Stadler in relation to the project, AIL Structured Finance has invited several private risk insurers for the cover of the following risks:

- Political risks
- Risks of non-payment and insolvency of MAV Start
- Contractual payment obligations of MAV Start in case the project related EU project funds are not available
- Risk coverage has to include both manufacturing risk (prior to delivery) as well as the payment risk (after delivery)

Unlike European Credit Agencies ("ECA") such as SERV, private insurers do not provide a common standardized approach for the issuance of a cover for such risks; differences can be identified in particular with regard to:

<b>Customer profile</b>	Certain insurers cover only public entities, while other insurers favor private buyers
<b>Risk assessment</b>	Insurers may qualify the manufacturing and the payment security risk as two independent and separate risks, while others examine the overall risk exposure profile of the project, without separating the manufacturing from the payment risks
<b>Insurance premium</b>	The premium amount often depends on the specific risk appetite of an insurance company for the individual project and so may reflect the insurer's preferences regarding insured amount, country, risk duration, customers' credit rating analysis, etc.
<b>Cover ratio</b>	The cover ratio/maximum indemnification from a private risk insurer is often limited to 90%, whereas ECAs indemnify up to 95%
<b>Terms &amp; definitions</b>	Certain terms and definitions, such as e.g.: <ul style="list-style-type: none"> <li>- the definition of the costs covered under a pre-shipment insurance may vary and may have to be clarified precisely in the insurance policy</li> <li>- Termination clause: e.g. early termination right for the benefit of the insurance company for events not attributed to the insured cannot be accepted.</li> </ul>

As described above it is worthwhile for the beneficiary of the insurance policy to analyze carefully the drafted insurance policy in a methodical way and where necessary, to waive not applicable terms and clauses and to add or clarify the requested specific terms and conditions. At the end of the day it is worth mentioning that a clear definition of the risks insured within an insurance policy also helps to optimize the insurance premium amount.

AIL supported Stadler throughout the entire risk mitigation process and eventually arranged the tailor-made risk insurance coverage for the project.

## Jérôme Gaeschlin joined AIL Structured Finance

We are very pleased that Mr. Jérôme Gaeschlin has recently joined AIL as a partner. Jérôme Gaeschlin will mainly be active and serve our clients in the fields of export financing as well as project structuring and the arrangement of equity and debt capital. Additionally he will also focus on business development activities.

Jérôme Gaeschlin is an experienced expert in the fields of structured export financing with a 20 years track record in the sector. Previously Jérôme has worked for several international banks and prime industrial companies and organizations such as e.g. Credit Suisse, Calyon, ABB or the Swiss Export Credit Agency.



### Contact

AIL Structured Finance Ltd  
Schaffhauserstr. 418  
CH-8050 Zurich / Switzerland  
[www.ailsf.ch](http://www.ailsf.ch)

Attn: Jérôme Geaschlin  
Phone: +41 43 299 62 03  
Mobile: +41 79 214 86 15  
Email: [jerome.gaeschlin@ailsf.ch](mailto:jerome.gaeschlin@ailsf.ch)