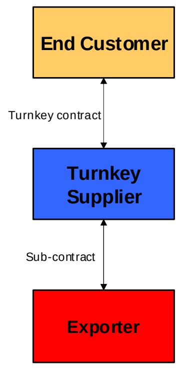
Payment Security in the concept of „Nominated Subcontractor“

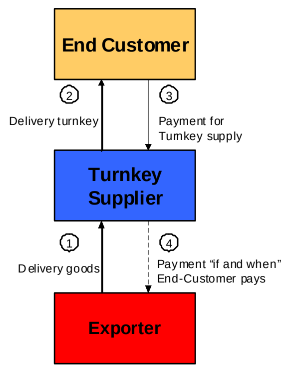
With an increasingly globalized economical environment and with a growing demand from customers out of emerging markets, an increasing number of exporters find themselves confronted with complex delivery structures, international syndicates and consortiums. By entering into such complex transactions and by serving new customers in new markets, exporters are often exposed to payment risks. These payment risks may be difficult to evaluate correctly or even worse, are not even identified as such.

A typical scenario arises when an exporter (the "Exporter") delivers goods to a customer (the "Turnkey Supplier") which has entered into a turnkey contract with an end-customer (the "End-Customer").



The Exporter has already entered into a business relationship with the Turnkey Supplier and has confidence in its solvency. However, the Exporter fears that a payment default of the End-Customer could also affect the payment of the Turnkey Supplier towards the Exporter. Especially since such transactions are usually agreed under "if and when" payment terms (i.e. the Turnkey Supplier will pay the Exporter only if and when he has received payment from the End-Customer).

If a Swiss Exporter now wants to cover the payment risk, the Swiss Export Risk Insurance "SERV" may only cover the risk of the Exporter's direct customer, the Turnkey Supplier, and not the risk of payment related to the End Customer (this would be the case with "if and when" conditions), as there is no direct contractual relation between the Exporter and the End Customer.

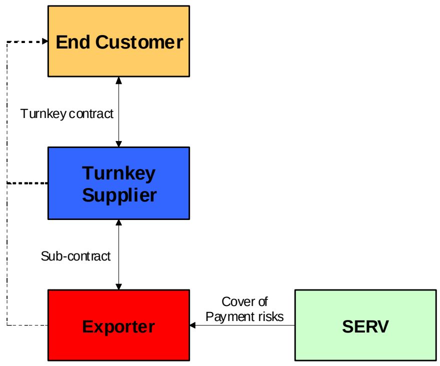


Similar problems may occur if the Turnkey Supplier itself is as well a Swiss company (not eligible for SERV) or the Turnkey Supplier is too small or has an unsatisfactory creditworthiness for SERV.

Such obstacles can be overcome if the Exporter is designated as nominated subcontractor under the Turnkey contract and so can enforce a direct payment claim towards the End Customer.

The possibility of using similar structures is known in trade finance circles. However, it is challenging to structure a tailor-made solution and a wording, enabling a direct payment claim, which is in line with the terms and conditions set by SERV.

AIL Structured Finance, in cooperation with a specialized law firm, has developed the details of such a concept and the wording thereof for a transaction in favour of a Swiss exporter. SERV has recently given its preliminary approval for the proposed structure and the transaction.



Where your company may face these or similar issues regarding payment security in your international business, we are glad to assist you in minimizing your international payment risks.

EEII (Eastern Energy & Infrastructure Invest) AG – Company Update

EEII is a SIX-listed company with an investment focus of maximizing long-term returns to its shareholders through investments in strategically selected companies active in the energy and infrastructure sectors, with a special focus on emerging markets and in particular the former Soviet Union. The Company is currently invested in ten Ukrainian utility companies, Ukrnafta, the premier Ukrainian oil company and Russian Gazprom, the world's biggest gas company. AIL is the investment manager of the Company.

The year 2010 was an outstanding one for the investment portfolio of EEII. During the reporting period, EEII's net asset value ("NAV") increased by more than 104% from CHF 13.75 to CHF 27.98 per share.

The boost in the net asset value was mainly driven by an exceptional performance of one of the main stock holdings, Ukrnafta. The equity holdings in the leading Ukrainian oil producer rocketed by more than 250% in the year 2010. The main reasons for this impressive performance of Ukrnafta's share price were improved operating results, surprisingly good financial indicators in 2010, and a positive outlook also with regard to expected further dividend payments. The operating improvements were amongst other aspects also due to the Ukrainian government's ability to dictate auction prices for crude oil extracted by Ukrnafta to be set at a higher value in 2010 than in the previous years.

EEII's equity holdings of Ukrainian electricity companies also showed a positive performance overall and increased by 9% during the year. Nevertheless the performance by sector diverged significantly. After keeping electricity prices artificially low since autumn 2008, the National Electricity Regulatory Commission of the Ukraine has loosened its grip since May 2010 and allowed generators (GenCos) to increase electricity prices. This had a positive affect on the profitability and the general outlook for the Ukrainian generating sector GenCos. As a result the GenCos within the EEII investment portfolio advanced on average by 36 % in 2010. The electricity distributors, the so-called Oblenergos, had a rather weak year and posted an average loss of 19%. In November the Government of Ukraine adopted a decision which excludes GenCos and Oblenergos from the list of strategic enterprises, thus creating the opportunity for their further privatization. The potential sale of stateowned stakes in GenCos and Oblenergos might become a further catalyst for the upcoming performance of the whole power sector in the Ukraine.

Ukraine's economy is set to expand approximately 4.7% in 2011 after an expected growth rate of 4.5% for 2010. The Ukrainian Government's draft 2011 budget with an envisaged deficit of 3.1% of GDP is broadly compatible with IMF targets. The deficit of the state budget will constitute 3.1% of GDP in 2011, down from 5% of GDP in 2010. On the back of rising utility tariffs and recovering domestic demand, inflation is expected to remain in the range of 9%-10% in 2011. Despite the balance of payments appearing to be fundamentally healthy, the Ukrainian currency Hryvnia probably remains under depreciation pressure due to the robust demand for cash foreign exchange. At the end of 2010 the International Monetary Fund IMF gave the green light to the disbursement of their second loan tranche.

Looking forward, pending privatizations in the telecom as in the power sectors might provide attractive investment opportunities, as well as reduce the government's role in the Ukrainian economy and support the financing of the fiscal gap in the coming years. This development should in the mid-term fundamentally improve the Ukraine's sovereign risk profile and is favorable to macro performance. In addition the preparations for the European Football Championship in 2012 are facilitating the attraction of foreign capital and stimulating infrastructure investments in the region.

Rosstat recently announced its estimate of Russia's 2010 GDP growth, which came in at 4.0%, and thereof can be named as a positive surprise since this growth rate exceeds the government's and market's original expectations. Most probably a main driver of 2010 GDP growth was caused by restocking, and 2011 growth will largely depend on whether the economy can translate these inventories into final demand. The Central Bank of Russia CBR decided to keep the refinancing rate unchanged even though CBR officials expressed concerns over recent price growths. At the same time the regulator increased reserve requirements on banks' short-term foreign borrowing, addressing the risk of unwanted hot money flowing into Russia. The regulator currently seems to choose supporting economic growth over addressing inflationary risks.

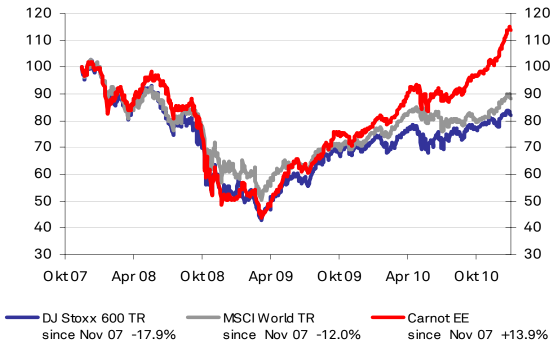
It is fair to state that an increasing number of indicators point to a further recovery of the markets relevant for EEII and that structural developments in Russia and in the Ukraine might further aid EEII's stock holdings in the future.

Happy Birthday, Carnot Capital Ltd

Carnot Capital AG 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 AG is an associated company of AIL Structured Finance Ltd. For further Information: www.carnotcapital.com

3 Years Carnot Efficient Energy! In mid-November, Carnot celebrated the third anniversary of the Carnot Efficient Energy Fund. Three years is an important milestone for an equity fund and so Rolf Helbling and Andres Gujan, the two founding partners of the company, are proud of Carnot Capital's successful track record so far.

Over the 3 year period, the fund has significantly out-performed the relevant stock market indices as well as comparable funds. Indeed, the strategy to invest in companies with energy efficiency products while employing value criteria has proven to be a successful investment case.



Needless to say, the fund was borne into a rather harsh capital market climate back in November 2007. At the start of the fund there was the banking and financial crisis, followed by a heavy recession and an outbound debt crisis which were making investing in listed equities a tricky endeavor. Also shortly after the launch, energy and commodity prices collapsed and Carnot's energy efficiency investment case was challenged as building material companies saw their share prices halve within a short period of time. After this shock, however, these stocks rallied from March 2009 on because the unnecessary waste of energy in buildings has become a major concern of home owners. This development took place regardless of the recession and because most European countries have launched extensive renovation programs.

In the industrial segment, the trend towards improved energy efficiency has not crystallized so clearly yet. Nevertheless, numerous companies report the reduction of energy consumption to be an important reason for clients to take investment decisions. Stocks of electricity producers have been the worst performers within Carnot's investment universe so far. While homeowners and the industry are preparing for rising energy costs, stock prices of electricity producers do not anticipate rising prices yet.

The energy efficiency theme has evolved as an attractive opportunity for equity investors. Carnot's representatives are convinced of being able to capture good investment opportunities within this promising investment environment also in the coming three years.

Structured Finance

We bridge the gap

Newsletter February 2011

Puerto Errado II CSP Project – An Interview with EBL's Project Director

Tobias Andrist is head of business development at EBL, responsible for subjects such as liberalisation of the Swiss electricity market, participation in power generation projects, management of CO2-certificates and asset management. EBL is a Swiss utility company based in Liestal, Canton Basel County, with over 112 years of experience in electricity distribution, grid asset management and renewable energy project execution including new technologies. Tobias is the project director at EBL for the Puerto Errado II concentrating solar power ("CSP") project, which just achieved financial closing. AIL Structured Finance Ltd. ("AILSF") advised EBL on selected aspects of the limited recourse project finance transaction. We have asked Tobias to give us his first "post-closing" impressions:

AIL Structured Finance (AILSF): Your project just achieved financial closing: congratulations. This really represents a key milestone in a long process.

Tobias Andrist (TA): Yes indeed. A process that began a long time ago.

AILSF: First of all: Why did EBL decide to invest in Concentrating Solar Power (CSP) in the first place?

TA: This was the result of a long process. Historically, EBL was able to participate indirectly in the ownership of electricity generating assets through a participation in the Swiss utility company ATEL (now Alpiq). With the reorganisation of the ownership structure of ATEL and the merger with EOS (to what is now Alpiq), this traditional opportunity disappeared. At the same time, it has always been EBL's strategy to hold producing assets. Hence, the board of EBL took the decision to substantially strengthen the asset base through direct investments, mainly in renewable energy, however with an option for investments in heat & power as well as combined-cycle power projects. A careful evaluation of market / technology opportunities was then performed in 2008, where many technologies were systematically evaluated, including wind (on- and offshore), solar (PV and CSP), biomass, hydro and geothermal electricity production. Similarly, for each of these technologies we evaluated country risk/reward profiles. It was decided to focus on wind power in Italy and solar thermal power in Spain.

AILSF: Was it then that you started to work on PE II?

TA: Exactly. After the evaluation of several project opportunities, EBL decided in the fall of 2008 to perform a full due diligence for the PEII-Project, which included legal, tax and technical aspects.

AILSF: Tell us about the Project.

TA: The project is a 30 MW concentrating solar power plant with Linear Fresnel technology located in southern Spain (near Murcia), to be constructed by the German company Novatec. Annual electricity production will be 49 GWh. The main benefit over other CSP-technologies is that it uses much less resources in terms of material to complete the plant and uses much less water during operation. This latter point is of particular significance, as the preferred location of CSP-projects is in dry and arid places with a lot of direct sunshine (and little water).

AILSF: Why did you focus on solar thermal energy?

TA: Because we believe CSP is a young technology with a significant potential for utility scale power plants in the "solar belt" regions. Further developments in combination with heat storage and/or fossil fuel co-firing will lead to base load quality electricity and will thus contribute to network stability.

AILSF: So you started your full due diligence in the fall of 2008, which was pretty much when the financial crisis fully developed, with the US investment bank Lehman Brothers filing for chapter 11 protection in mid September 2008. Has your project been affected by these events?

TA: Oh yes, indeed. In early 2009, we lost our EPC Contractor and our lead bank due to the financial crisis. We found ourselves without a construction contractor and without financing in the middle of the crisis. Together with the project developer, we managed then to form a new banking group by the summer of 2009, and brought in export credit cover from Euler-Hermes.

AILSF: That is quite an achievement!

TA: Well, not only did the financial crisis hit us. Changes in the regulatory system in Spain in the spring and summer of 2009 related to feed-in tariffs for electricity caused quite nerve-wracking moments. The relief came towards the end of 2009, when PEII was officially accepted under the Spanish feed-in tariff regime.

AILSF: How did the financing process work?

TA: It was quite a long and eventful process, but we are very proud that we made it. Initially, the key issue was that we intended to execute a limited recourse project financing transaction, but chose a technology that was not yet fully commercially proven. We had a lot of convincing to do, and it was extremely helpful that there was an existing pilot plant that was in operation, albeit at a much smaller scale. With the help of our technical advisors, we were able to demonstrate that the technical risks were in an acceptable range for the lenders and for the involved export credit agency.

AILSF: Are there any "lessons learned" out of the financing process?

TA: There are several points worth mentioning. Firstly, we realized that our initial financing plan was not robust enough to withstand the financial crisis. We learned that dealing with an export credit agency has its complexities, but significantly stabilises the financing plan. Secondly, it is essential to work with banks that understand the technology involved, and that are really willing to work with the project sponsors to shape a deal. And thirdly, as contradictory as this may sound, we learned that hiring consultants, if they are experienced, efficient and reasonable, actually contributes to a reduction in the overall transaction costs.

AILSF: Thank you very much!

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