AIL Structured Finance

We bridge the gap

Newsletter April 2012

SERV has revised its General Terms & Conditions

After five years of existence, SERV has gained broad experience with the General Terms & Conditions (GT&C) of its various products. Based on this experience, several amendments have been carried out, which took effect March 31, 2012.

The most significant changes from an exporter's perspective are explained below in detail.

Cover of Pre-shipment risk between Delivery and Effectiveness of Claims

The GT&C of the Pre-shipment Risk Insurance cover the fabrication risk until the date of delivery only. As soon as a good is shipped, the pre-shipment risk is no longer covered by this SERV policy.

If the exporter contractually agrees with its customer that claims under the export contract only becomes valid if certain conditions have been fulfilled or events occurred (e.g. final acceptance) which are planned only after delivery, the period of time from delivery until the fulfillment of these conditions or this event was not automatically covered by the SERV Pre-shipment Insurance.

With the new GT&C being in place, this gap may be covered. However, two different cases shall be considered: a) cash transaction or supplier's credit and b) buyer's credit.

In the first case, the gap in cover is automatically closed. This means that starting with the beginning of the Supplier Credit Insurance (date of delivery) all costs incurred by the policyholder for the supply of goods and services defined in the export agreement (excluding exporter's margin) are automatically covered under the new Supplier Credit Insurance and this without premium supplement.

In the case of a buyer's credit, the gap is not covered automatically. The exporter has to apply additionally for a supplier's credit insurance with regard to the period between the delivery of the goods and the effectiveness of the claims under the export contract. In line with the provisions of the fabrication / pre shipment risk insurance, an amount up to the total costs for the supply of goods and services defined in the export agreement (excluding exporter's margin) is covered.

Partial claims occurring in Switzerland

The new GT&C have introduced the possibility to cover claims partially occurring in Switzerland: If the exporter, in its delivery contract with a foreign customer, has agreed that certain services (e.g. training) will occur in Switzerland and that these services are invoiced separately (claim is becoming effective), a cover is possible under the new GT&C.

Cancellation of currency / interest fixing contracts

Production costs for cancelling currency hedging transactions now can be included in the pre-shipment insurance policy. Therefore, an exporter who must or wants to cover, independently from the financing under a buyer's credit facility of its export contract, the risks of pre-shipment and of a premature cancellation of a contract to fix currencies or interest rates (e.g. so-called "swap breakage costs" under a swap or hedge contract), may apply with the new GT&C for a Pre-shipment insurance including such cancellation costs. The cover of all pre-shipment costs amount up to a maximum of the total project costs (as defined in the pre-shipment insurance terms and conditions).

Reinsurance

Under the new GT&C for supplier's credit and buyer's credit insurances, the insured having applied for a cover, (usually the exporter for a supplier's credit insurance and a bank for a buyer's credit insurance) automatically consents that SERV may provide information to other ECAs and private insurers for the purpose of reinsurance. In certain cases, in particular in low rated countries and for significant amounts to be covered, reinsurance may anyway be a pre-condition for the insurance cover of SERV. Therefore, we suppose this amendment does not constitute a significant change or a disadvantage for the insured.

Currencies

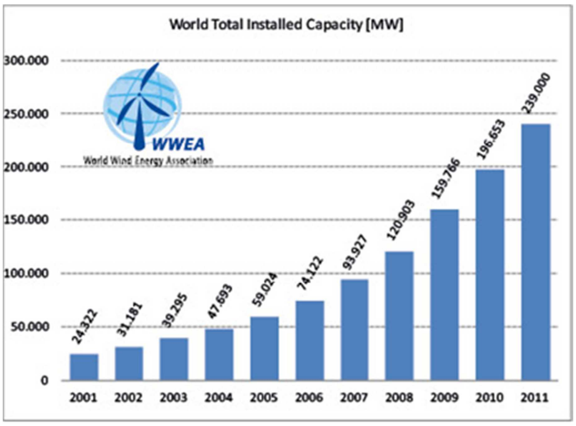
The new GT&C gives a higher grade of flexibility with regard of the choice of the currency, being with regard to the insurance policy, with regard to the payment in an event of loss or with regard to the payment of the insurance premium.

Residual risk

Under the old GT&C for buyer's credit insurances, the bank or financial institution insured could cover up to 95% of the credit amount and was not allowed to insure further its residual risk, i.e. shall bear this risk itself. For projects in certain low rated countries, this could cause significant difficulties to finance projects. With the new GT&C, this interdiction has been abolished. In the future, the bank or financial institution is allowed to insure the residual risk with another (private) insurer or pass it on the exporter.

In our opinion, the exporter shall absolutely be aware of this change in regulation and shall make sure that i) either the bank bears the residual risk (as in the past), ii) or it can pass on the residual risk to a private risk insurer or iii) he possibly considers this risk exposure as a pure cost component in its entire project calculation.

Global Windmarket 2011: - record with newly installed wind capacity of 42 GW



The world market for wind turbines set a new record with 42 Gigawatt (GW) new installed capacity during 2011, after 37.6 GW in 2010. By the end of last year, total installed capacity amounted to 239 GW. While the wind market in several industrialized countries stagnated, emerging markets are taking the lead. Amongst the individual wind markets, China once again is the global leader with a newly installed wind capacity of 18 GW. With a total installed capacity of 63 GW, which is one fourth of the global wind capacity, China remains by far the largest wind market in the world. The second largest market for new wind turbines was the USA with 6.8 GW, followed by India (2.7 GW), Germany (2 GW) and Canada (1.3 GW). Spain, France and Italy added each around 1 GW. Within the last two years, the worldwide installed capacity has been increased by almost 50%.

Country	Total Capacity end of 2011 [MW]	Added Capacity 2011 [MW]	Total Capacity end 2010 [MW]	Added Capacity 2010 [MW]	Total Capacity end 2009 [MW]
China *	62.733	18.000	44.733	18.928	25.810
USA	46.919	6.810	40.180	5.600	35.159
Germany	29.075	2.007	27.215	1.551	25.777
Spain	21.673	1.050	20.676	1.515	18.865
India *	15.800	2.700	13.065	1.258	11.807
Italy *	6.747	950	5.797	950	4.850
France	6.640	980	5.660	1.086	4.574
United Kingdom	6.018	730	5.203	962	4.245
Canada	5.265	1.267	4.008	690	3.319
Portugal *	4.290	588	3.702	345	3.357
Denmark	3.927	180	3.803	309	3.460
Sweden	2.816	746	2.052	603	1.450
Japan	2.501	167	2.334	251	2.083
Rest of the World*	24.200	6.000	18.201	3.191	15.010
Total*	238.604	42.175	196.629	37.642	159.766
*- Preliminary Data					© WWEA 2012

Source: World Wind Energy Association

The outlook for the wind industry is showing a mixed picture. For 2012 global wind installations are assumed to show a significant growth, as developers bring on new capacity ahead of the expected expiry of support schemes. High growth rates are still expected in emerging markets and offshore wind. However for 2013 the global wind market fell short of optimistic expectations and a first decline in growth is expected for the first time since 2004. The main reasons are ongoing uncertainties about the future regulatory environment and the effects of the economic crisis. For instance, struggling countries such as Spain already started to revise their support schemes for renewable energy. Also the second biggest wind market, the US, is currently discussing its tax incentive system which encourages the development of clean energy projects. The respective tax incentive will expire in 2012 unless Congress takes action.

Also for the wind turbine suppliers the "opposing wind trends" in 2012 are perceptible and the competition within the global market place remains fierce: A persistent price pressure, resulting from worldwide production overcapacities, will most probably have a significant impact on the results of the wind turbine manufacturers in 2012 and support a further consolidation process in the industry. In 2011, although loosening market shares, Vestas was able to maintain its position as the world's largest turbine manufacturer, in spite of the strength of the Chinese turbine manufacturer in their somewhat protected 17.6GW domestic market. Vestas showed a strong performance in the Americas, while in the European market Vestas was surpassed by Enercon as market leader. Enercon was particularly strong in the booming German onshore market and in Southern European countries such as France and Italy. China's manufacturer Goldwind climbed to number two spot while the U.S. conglomerate GE kept its No. 3 ranking in front of Spain's Gamesa.

The top 10 wind turbine manufacturers for 2011, with their respective market share, were as follows:

Company	Country	2011 Market share (pct)	2010 Market share (pct)
1) Vestas	Denmark	12.9	14.8
2) Goldwind	China	9.4	9.5
3) GE	United States	8.8	9.6
4) Gamesa	Spain	8.2	6.6
5) Enercon	Germany	7.9	7.2
6) Suzlon	India	7.7	6.9
7) Sinovel	China	7.3	11.1
8) United Power	China	7.1	4.2
9) Siemens	Germany	6.3	5.9
10) Mingyang	China	2.9	N/A

Source: BTM Consult Market Share report

All information, datas & figures base on sources such as the BTM Consult Market Share report, information from the Word Wind Energy Association, Bloomberg and New Energy Magazine

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

EEII is a SIX-listed company with an investment focus to maximize 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, Russian Gazprom, the world's biggest gas company and ENRC. AIL is the investment manager of the Company.

EEII's net asset value per share ("NAV") started the year 2012 with a decrease of 23% from CHF 22.44 to CHF 17.28. This decrease is mainly caused by the negative share performance of one of the main holdings Ukrnafta. Ukrnafta almost lost 22 % or CHF 2.9 million in value during the first quarter 2012. ENRC lost 7 % of its share value while one the other hand the Russian Gazprom gained 10% in the first quarter 2012. EEII distributed for the year 2011 a total dividend amount of CHF 5.3 million to its shareholders in the first quarter 2012 to return part of its gains directly to the shareholders.

Ukraine remains the primary investment region for the Company. Its gross domestic product increased by almost 5% in 2011, with domestic consumption as the main driver of the economic growth. Capitalizing on gains from this strong economic growth in the year 2011, we believe that the Ukrainian economy is well prepared to withstand global turbulences also in 2012. Ukraine's officials recently have stated that the stand-by loan program with the IMF is currently frozen and can only be unlocked after Ukraine's October's parliamentary elections. Nevertheless in order to service its existing IMF debt in 2012 (USD 3.4 bln) Ukraine must identify alternative financial sources from the international debt markets most likely to a high risk premium.

The Russian economy managed to grow between 4.5% and 5.5% in 2011. This growth is primarily attributable to an increasing domestic consumption and a recovery in the construction sector. The macroeconomic trend in both mentioned countries is generally positive; however the continuing concern of a European or possibly global economic recession is keeping some pressure on the domestic equity markets as the pull-out of international investors from riskier markets such as Russia and the Ukraine manifested itself in large capital outflows from both countries in 2011.

Looking forward it seems that long-pending privatizations actions in the Ukrainian power sectors might eventually take place and thus the government's role in the Ukrainian economy will continue to decrease. This development will help in the mid-term to fundamentally improve Ukraine's sovereign risk profile and have a positive investment and valuation impact in particular on the overregulated Ukrainian energy sector. 2012 is shaping up to be pivotal for the global economy in general, and commodities markets in particular. One of the biggest issues facing the global economy is the European sovereign debt situation and its resolution will also impact commodity markets. If the uncertainty continues this will impact on commodity prices throughout the year, consequently we expect a high degree of volatility for 2012 in the commodity markets, in particular with regard to commodities tied to industrial demand, such as copper, steel and oil & gas.

It is fair to say that EEII continuously faces country risks in its relevant investment markets. Nevertheless we are convinced that the emerging markets within the investment universe of EEII and for the energy and infrastructure sector maintain their superior growth.

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