AIL Structured Finance

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Newsletter July 2011

Austria / Stadler – Successful Closing, AIL advises Stadler Rail on the export of customized railcars and panorama coaches for the Mariazell Railway, Austria

At the beginning of 2011, AIL closed a payment security for a rolling stock transaction in Austria with NÖVOG (Niederösterreichische Verkehrsorganisationsgesellschaft m.b.H.). AIL acted as financial advisor to the Swiss railway manufacturer Stadler Rail.

NÖVOG, which is owned by the federal state of Lower Austria (Niederösterreich), ordered nine customized three-part railcars and four panorama coaches from Stadler Bussnang AG for service on the world-famous Mariazell Railway (Mariazellerbahn). The Mariazell Railway is an electrically operated narrow-gauge railway (with a track gauge of 760 mm) located in eastern Austria, in the southern part of the province of Lower Austria. In December 2010, the state railway ÖBB handed over the operation of the Mariazell Railway to NÖVOG.

The 85 kilometer stretch connects the Lower Austrian capital of St Pölten with the Styrian pilgrimage centre of Mariazell, which was one of Austria-Hungary's most popular destinations for foreigners in the 19th century. The railway runs partially through one of the most remote and sparsely populated mountain areas of Austria, approximately 80 kilometers from Vienna.

The new Stadler trains and panorama coaches have been ordered by NÖVOG in order to improve passenger services and to promote tourism on the Mariazell Railway. The three-part trainsets have a seating capacity of 127 and are designed to reach a maximum speed of 90 kilometers per hour. Each panorama coach has a seating capacity of 36, and with their large window surface area they will provide for an enjoyable journey through the impressive scenery. The vehicles will be built in Bussnang, Switzerland, and delivered during 2012/2013.

AIL advised Stadler Rail on risk management issues and structured a security package, covered by the Swiss Export Credit Agency, SERV. The security package comprises a cover for export risks during the manufacturing period, as well as a security covering the payment by NÖVOG to Stadler Rail.

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 investment period 2011 so far has been volatile for the investment portfolio of EEII. The first quarter 2011 was excellent and the performance of EEII's net asset value was underpinned by a strong performance of the two main investments Ukrnafta and Gazprom. Both companies have been benefiting from a positive environment in the commodity markets. At the beginning of the second quarter with the turmoil in the international equity markets, EEII's net asset value performance has been partially offset by the strengthening of the Swiss Franc against the US dollar and the Ukrainian Hryvna. Considering these negative side effects, EEII's net asset value performance year to date, which has seen an increase of more than 11 % to, currently, CHF 30.93 per share, is a good result.

The long-term impact of the sad events in Fukushima in Japan still cannot be clearly evaluated, but will have long term repercussions on the future mix of countries' energy balances. Given that coal is perceived as a dirty fuel type and oil may remain relatively expensive, it is a viable assumption that gas will grow significantly at the expense of alternative fuel types. Companies such as Gazprom are certainly in a favorable position to benefit from such a development in the mid-term.

The Ukrainian National Electricity Regulatory Commission voted to increase 2011 electricity tariffs for private household consumption by almost 30% on average. Commercial tariffs are expected to rise approx. 15% in 2011. Due to the hike in the electricity tariffs up to an economically reasonable level, Ukrainian Energy generating companies will most probably be able to reduce their net losses.

Considering that the Ukraine's economy is likely to continue gradually to recover (the revised growth forecast issued by the government predicts GDP growth at 4.7% for 2011), consumer demand and industrial power consumption should keep pace and push prices up. According to the National Bank of Ukraine, consumer inflation is expected to be in the range of 9% to 11% for 2011.

Russia's Ministry of Economic Development recently updated its GDP forecast for 2011. The increase in the oil price assumption has resulted in a decline in the officially expected budget deficit from 3.6% to 0.6-0.8% of GDP and a strengthened Russian ruble. The inflation outlook was upgraded and the GDP growth forecast was left unchanged at 4.2% yoy, the same as under the previous oil assumption.

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 the Ukraine might further aid EEII's stock holdings in the future.

Carnot Capital Ltd: Fukushima and the implications on Energy Markets

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

Fukushima is a tragedy for the people living in the area around the hampered nuclear power station. Moreover, it also has a serious impact on global energy markets. Short term, direct consequences on power generation can be felt in two countries: in Japan, where as a consequence of the damaged power stations 10% of electricity supply is missing; and in Germany, where the government has deliberately ordered the shut down of 7 of the older nuclear power stations, resulting in a reduction of 10% of German power production as well. It therefore comes as no surprise that power prices have started to rise since the earthquake in early March. Short term the missing power production can only be replaced by burning fossil fuels such as gas and coal, resulting in higher CO2-emissions.

Longer term, the fog only disappears slowly. In Europe, fundamental discussions about the use of nuclear power have become intense again. German speaking countries seem to have the strongest political movements against nuclear power. Other countries have slowed down the process of planning / building new nuclear capacity, but currently it does not seem that in these countries the technology is completely off the table for the future. Developing countries have less room to manoeuvre, as power demand is increasing strongly in these countries. Chances are still high that many nuclear power stations will be built in developing countries going forward.

It seems to be common ground that security standards for nuclear power stations will become stricter all around the world in the future. International organizations are developing new rules and regulations that lead to higher cost for both building and maintaining nuclear power stations. Higher costs for power generation are therefore inevitable, resulting in higher power prices. The efficient use of energy (and electricity in particular) is becoming even more important. Today already, there are a good number of technologies available that help to save energy in a meaningful way. On top of that, new technologies will help to find new sources of energy as well as lead to even more energy savings. Government support and subsidies will play a key role in financing R&D and will be available in higher amounts. The beneficiaries of this development remain companies offering technologies which reduce the amount of energy required to provide products and services.

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Opportunities for Project Developers

AIL in its role as financial advisor currently is looking for:

- **Investment Opportunities in Renewable Energy Projects:** For several clients we are looking for investment opportunities (majority or minority equity investments) in solar, biomass, (small) hydro power plants or wind projects in Switzerland, Germany, France, Austria, Italy, Spain and (for hydro power plants) in South Eastern Europe. We are looking for projects that use commercially proven technologies and are either in commercial operation or ready for construction (fully developed and permitted). For any further information please contact Mr. Raphael Steiner, +41 43 299 62 02, raphael.steiner@ailsf.ch

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