We bridge the gap

Newsletter October 2012

Hungary / Stadler Rail – Closing GYSEV

In September 2012, AIL closed a rolling stock transaction of the Swiss railway manufacturer Stadler Rail in Hungary with the regional train company Györ-Sopron-Ebenfurti Vasút Zrt. ("GYSEV"). AIL acted as financial advisor to Stadler Rail.

GYSEV, which is operating a number of regional train routes in the border area between Austria and Hungary, ordered four electric motor trains of the type FLIRT from Stadler Bussnang AG for a total purchase price of about EUR 20 million. The four trains, each consisting of four coaches, will enter into service in spring of 2014 on the 116 km Sopron - Szombathely - Szentgotthárd railway line located in western Hungary, which GYSEV took over from the Hungarian State Railway MÁV in 2006. The procurement of those new trains by GYSEV is part of the entire modernization and electrification of this route.

AIL structured for Stadler Rail a tailor made security package supported by the Swiss Export Credit Agency SERV and mitigated the specific export risks within this transaction.

How exporters should read a term sheet

In international projects, exporters are frequently requested to provide the buyer, in combination with their commercial offer, a financing offer of the goods to be delivered. In many international transactions a tailor made financing offer is even a main evaluation criteria for the award of the contract. Based on our broad experience with such export finance transactions, we herewith highlight some of the main aspects of a respective term sheet, one of the key documents within such a transaction. The most common types of such financing solutions are covered by Export Credit Agencies, such as the Swiss Export Risk Insurance "SERV" in Switzerland. Because of that the term sheet example and the comments below refer to a SERV covered financing solution, but are also valid in principle with other export credit agencies financing solutions.

Within such a process an exporter will contact some banks and ask for an indicative term sheet. The exporter shall be in a position to evaluate these term sheets in order to select the most suitable for his purposes. The exporter has to be aware that certain clauses of the financing can redound upon the exporter itself. Moreover, should the export credit not even enter into force, the execution of the delivery contract itself could be severely threatened. Therefore, it is essential for the exporter to cautiously select the suitable term sheet and tracking the entire financing process very closely until financial closing.

Selected terms and conditions of a typical term sheet are presented hereunder, as well as some answers to the most frequent questions and issues.

Indicative[1] **Term Sheet** for the Project of the "CNC Co" in Turkistan

1. The Commercial Contract

Supplier	Swiss Co AG
Buyer	CNC Co
Scope	Delivery of "x" CNC machines for the factory of CNC Co
Contract amount	EUR 10'000'000
Delivery period	Approx. 12 months
Payment terms	15% Advance payment [2] 85% Pro rata delivery of the machines

2. Indicative Terms and Conditions of a Credit

Type of Financing	Buyer Credit [3]
Purpose	Financing of 85% [2] of the delivery contract plus the SERV premium and the IDC [4]
Borrower	CNC Co
Lender	Bank X
Offshore Guarantor	SERV
Credit Currency	EUR
Credit amount	EUR 8'500'000 [2] plus the SERV premium and the IDC [4]
Total duration	Approx. 6 years
Drawdown period	Approx. 12 months
Disbursements	According to the Commercial Contract, directly to the Supplier [5]
Repayment period	5 years, in 10 equal, consecutive, half-yearly instalments, the first one being due 6 months after the Starting Point [2]
Interest rate	a) Floating rate [6] EURIBOR plus a margin of approx. 1.20% p.a. or b) Fixed rate [6] From the Starting Point, the borrower may select a fixed interest rate, firm until the last repayment. The fixed interest rate will correspond to the average weighted EUR-swap or the refinancing rate of the Lender at that time plus a margin of approx. 1.20% p.a.
Commitment fee	0.60% p.a., calculated during the drawdown period on the

	undrawn amount, payable quarterly in arrear
Management fee	1.00% flat, payable at signing of the Credit
SERV premium	3.00% to 3.80%, calculated on the financed amount, payable before shipment; the premium may be financed
Security structure (7)	…
Conditions precedent	Standard conditions for such type of transactions (8)

The above marked fields are further explained below:

(1) Indicative: a term sheet is always indicative and may be subject to amendments. In that sense, changes in the capital markets or the occurrence of a financial crisis, for instance, have an influence on the final terms and conditions of the credit.

(2) Credits covered by Export Credit Agencies are subject to the OECD "Arrangement on Export Credits". Several terms and conditions such as:
- amount to be financed under an export credit shall not exceed 85% of the total value of the delivery contract
- maximum repayment period (depending on the country and the type of goods)
- equal, consecutive and at least half-yearly repayments (with some exceptions)
- date of the first repayment, being at the latest six months after starting point
- definition of starting point, being the date of each delivery (in case of deliveries only) or the date of start of commercial operation (in case of installations or plants)

are driven by this Arrangement. In addition to the OECD rules, the export credit agencies impose certain minimum requirements regarding sourcing (origin of goods and services under the supply contract).

(3) There are three main types of financing:
- The buyer credit: the bank concludes a credit agreement with the buyer of the goods; the exporter is not a party to this credit agreement
- The supplier credit: for transactions below CHF 10 million, banks prefer this form of financing: the supplier and the buyer agree on deferred payment terms or conclude a separate contract of financing and the bank refinances the supplier
- The bank to bank financing: a local bank concludes a credit agreement with the buyer and is refinanced with a Swiss bank; this type of financing is mainly used in countries with a wanting banking system

Each type of financing has its own characteristics; the exporter shall be aware that he should devote more effort and should be more cautious with a supplier credit

(4) In addition to the financing of 85% of the total value of the delivery contract, the Arrangement of the OECD allows the financing of the premium of SERV and the interest during construction ("IDC"). The IDC are

calculated during the delivery period on the amounts disbursed by the bank under the export credit.

(5) Disbursements: an advantage of an export credit for the supplier is that the funds are paid directly from the lender to the supplier / exporter. This represents an important element of a payment security for the exporter.

(6) The interest rate is composed of the base rate and the credit margin:
- The base rate depends mainly on the capital markets, the currency and the duration of the credit
- The margin reflects the credit risk of the borrower, which is also influenced by the security package (see also note 7)
- The borrower can have the choice between a floating interest rate and a fixed interest rate:
- The base rate of the floating interest rate is the 3 or 6 months EURIBOR; the EURIBOR at each interest payment day applies; this means that the EURIBOR will be different at each interest payment date; the margin usually remains the same during the duration of the credit
- The fixed interest rate is usually fixed when the deliveries have occurred or at beginning of operation; the base rate corresponds to the rate of refinancing of the Lender; the better the rating of the Lender (the Bank), the lower is the fixed base rate. The margin is the same as for the floating rate. It shall be noted that, during the delivery period, a floating interest rate usually applies.

(7) The security structure is an essential part of the term sheet. Depending on the securities required, the financing may become unattractive or even challenging to achieve for the Borrower. As an example, if the Lender requires a guarantee from the house bank of the Borrower and all guarantee limits of the Borrower are already used, a financing could become impossible. On the other hand, valuable and marketable securities will reduce the pricing of the financing.

(8) Frequently, a term sheet does not mention the conditions precedent to a first disbursement, but merely “standard conditions”. The conditions precedent are conditions requested by the Lender to ensure that the financing is complete. Typical conditions precedent are for instance:
- Evidence that the own means have been disbursed,
- Payment of the bank fees (which are payable at financial closing) has been effected,
- All contracts related to the transaction are in force,
- A usual condition precedent, which directly concerns the exporter, is the request of signing of the exporter agreement (“Exporteur Vereinbarung”) between the exporter and the Lender. This exporter agreement regulates the obligations of the exporter in connection with the SERV cover granted for the specific project.

Should certain conditions precedent remain unfulfilled, moneys under the export credit will not be disbursed and the consequence for the exporter could be that not only the export credit agreement, but also the delivery contract could be cancelled.

AIL Structured Finance

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Consultancy Assignment of AIL Structured Finance Ltd in Azerbaijan

AIL Structured Finance Ltd has been mandated to carry out financial consultancy activities in relation with the organizational measures in the context of the rehabilitation of water and wastewater systems in two cities in Azerbaijan.

The rehabilitation needs of the water and wastewater systems in Azerbaijan, and particularly outside Baku, are large. After the Soviet period, investments in the water infrastructure have been neglected and are now in poor state. Azersu OJSC, the water utility of Azerbaijan, together with Kreditanstalt für Wiederaufbau ("KfW"), the German development bank and SECO, the Swiss state secretariat for economic affairs, have launched a project in two cities of Azerbaijan, Ganja (316'000 inhabitants), the second largest town in the country located in the West, and Sheki (64'000 inhabitants) located in the North.

Objective of this project called Open Programme Municipal Infrastructure II (the "Project" or the "Programme") is to improve the living standard of the population of Ganja and Sheki through the rehabilitation of the basic infrastructure for the supply of safe and clean water and building the institutional capacity of water authorities.

Beside the rehabilitation of the infrastructure, the Programme aims to develop the organization of the utilities. The turnaround in institutional matters comprises among other the development of the organization, the implementation of the private sector participation, the rehabilitation of the financials of the local water utilities in Ganja and Sheki and the setting of a tariff covering the costs. The Swiss company IBG Ltd in Volketswil / Zurich ("IBG") has been selected by the Project partners to carry out the institutional part of the Project (the "Accompanying Measures").

The scope of the Accompanying Measures comprises among other an assessment of the current situation of the two water utilities of Ganja and Sheki, the development of the organization (personnel management, customer care, introduction of private sector participation), as well as the elaboration and initiation of a business plan, financing and accounting principles, tools and strategies. AIL Structured Finance has been mandated by IBG to support the water utilities in the finance tasks, which are described below.

During a first stay in Ganja, the current financial situation of the both water utilities has been assessed and the main issues have been pointed out. In a second step, the development of the finance activities and the development and purchase of new tools have been proposed. Finally, a finance model and a business plan have been elaborated.

The finance model aimed among other to support the calculation of a water and wastewater tariff, which allow the utilities to cover their actual costs.

Based on the finance model several business case scenarios have been run to identify the impact of the main assumptions on their financial statements.

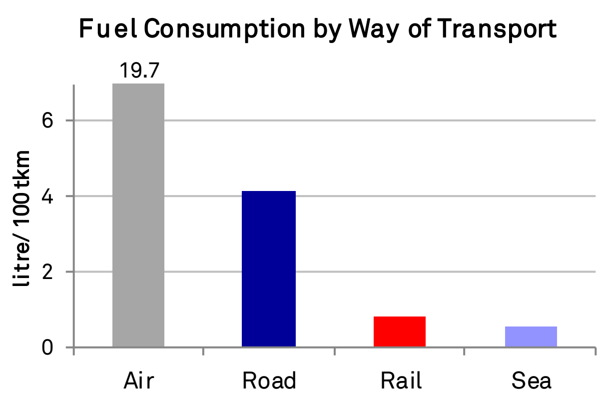
The business plan guidelines the management of the utilities during the phase of rehabilitation of the infrastructure and in the first phase of operation and maintenance of this infrastructure. Various steps of development of the organization were proposed with a defined focus on financial aspects. This in particular against the background to define an appropriate tariff that considers the local purchasing power.

We are glad to support such transactions in so called emerging markets such as Azerbaijan and are positive that our services provided will strengthen the local water and wastewater institutions.

Carnot Capital Ltd: Good Perspectives for Rail Transport

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

About a third of the global energy use is consumed by transport vehicles. From the angle of energy efficiency the transport market is therefore a key sector. Carnot has started to assign a greater part of their Efficient Energy Fund to this theme for a couple of reasons: Fuel prices have risen significantly over recent years making investments in reduced gasoline consumption and the switch to energy efficient means of transportation more attractive. On top of that governments have set rules and incentives to cut greenhouse gas emissions in the transportation sector. As investors in listed equity Carnot sees mainly two themes from which they expect good yields: Rail transport and light weight technology. The fuel cost advantage of rail transport becomes more accentuated in money terms with higher fuel prices since rail transport consumes only about a fifth of the energy in comparison with road transportation (see graph). Even a slight dislocation from road to rail has a large effect on the rail transportation market because trucks carry about ten times as much freight as trains. Additionally, rolling stock and rail infrastructure producers benefit from the traffic congestions in wide parts of the world. Another focus of Carnot is on light weight construction. This is an



Source: EU European Environment Agency

important direction of development not only in the aviation industry but also in the automotive, rail and ship industry. Particularly passenger cars, including ever more safety and comfort features, tend to become bigger and heavier. The VW Golf I of 1974, for instance, was 778kg in weight while the Golf VI of 2008 tips the scales at 1'379kg. Striving for cut fuel consumption all car producers work intensively to reduce the weight of the individual components. Several listed engineering and chemical companies enjoy an excellent business development thanks to the 'downsizing' and 'new materials' trends. They make subsystems smaller and lighter by intelligent design and by replacing metal by high-performance polymers or compound materials.

Contact

AIL Structured Finance Ltd
Schaffhauserstr. 418
CH-8050 Zurich / Switzerland
www.ailsf.ch
Attn: Urs Gerspacher
Phone: +41 43 299 62 01
Email: urs.gerspacher@ailsf.ch