AIL Structured Finance

We bridge the gap

Africa is catching up

During the last couple of years, we have been working on several projects in different industries all over the African continent. Due to different circumstances, such as a perception of high political or commercial risks as well as poor governance in some African countries, very few of those projects could reach financial closing.

Against this background, we are very pleased with our latest two project closings in Ethiopia and Tanzania. The need to enhance the public infrastructure in African countries is immense. So are the obstacles to overcome when it comes to mitigating project risks in Africa and to finance infrastructure projects or investment goods on a long-term basis. During the third quarter of 2014 SERV has issued three mid- and long-term insurance policies for projects in Africa, two of which were projects structured and managed by AIL. We are very glad that eventually our tailor-made project structuring approach starts paying out also on the African continent and we are looking forward to continuing to serve our clients by entering challenging emerging markets.

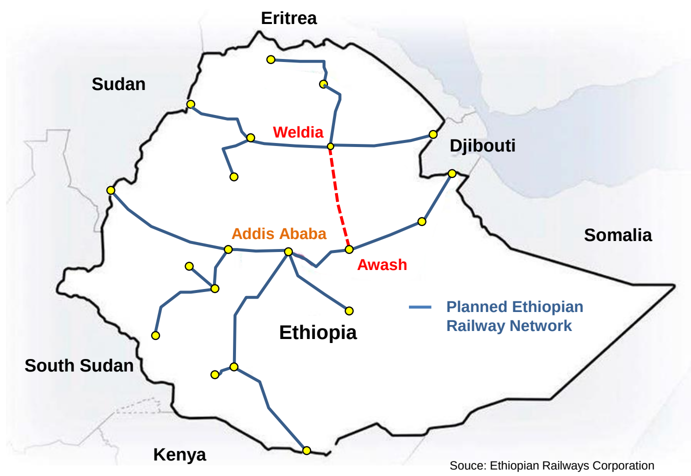
Ethiopian Railway Project – Successful Closing / AIL advises on the Financing of Swiss and Austrian Deliveries and Services related to the Awash-Weldia Railway Project

Ethiopian Railways Corporation (ERC), the national railway company of Ethiopia, closed a USD 1.2 billion financing package, which is funding the construction of the first phase of a new 389 km railway line between the cities of Awash and Weldia in the north of the country. The financing package comprises a loan backed by the Swiss Export Risk Insurance (SERV) for the financing of a major portion of deliveries and services totalling USD 143 million of various Swiss and Austrian exporters. Acting as financial advisor to the main Swiss supplier Molinari Rail Ltd, AIL played a leading role in securing this SERV covered financing.

Benefits of the Awash-Weldia Railway Project

The new Awash-Weldia railway project is of significant importance for Ethiopia as it connects the northern and eastern economic and traffic corridors of Ethiopia. It provides a vital link to the Addis Ababa - Djibouti railway line, which is the main transport corridor for both passenger and freight traffic, and for the transport of imported and exported goods via Djibouti port. This line is currently being rebuilt and electrified. In addition, in the city of Weldia, the line will connect with the main northern railway line, which shall provide a second direct access to the sea in Djibouti.

The Awash-Weldia railway project is part of a five year growth and transformation plan of the Ethiopian Government, which includes various transportation infrastructure initiatives, including development of new railway infrastructure. Under this initiative, ERC plans to develop several new railway lines in the country to increase the entire railway network in Ethiopia to approx. 5'000 km (see figure).



The new railway line between Awash and Weldia comprises the construction of approx. 389 km new electrified railway line, approx. 40 km maintenance and approx. 18 km station lines. It also includes construction of new tunnels, railway stations, maintenance and workshop facilities, depots and necessary signalling and power supply infrastructure.

The overall CAPEX for this line is budgeted to amount to approx. USD 1.7 billion. Yapi Merkezi Insaat Ve Sanayi (Yapi Merkezi), a leading Turkish design and construction company with significant experience in rail systems, has been awarded by ERC with the turnkey construction of the line, which shall be built in the next three years. CAPEX for the first phase of the project amounts to approx. USD 1.2 billion, of which USD 143 million is accounted for deliveries and services of reputable Swiss and Austrian companies acting as sub-suppliers to Yapi Merkezi. Such Swiss and Austrian deliveries and services include workshop design, delivery of workshop, telecom and power supply equipment, supply of catenary and rail welding equipment as well as delivery of railway turnouts and steel bridges.

Financing of first Phase of the Awash-Weldia Railway Line

Credit Suisse has been the leading bank in arranging the project-related finance for funding the most part of the first phase of the Awash-Weldia railway project. The financing consists of:

- a USD 450 million commercial loan,
- a USD 415 million loan backed by the Swedish and Danish Export Credit Agencies as well as by the Swiss Export Risk Insurance (SERV), and
- a USD 300 million direct funding by the Turk Eximbank for the Turkish deliveries and services in relation to the project.

AIL's Role

In close cooperation with Credit Suisse and the contractor Yapi Merkezi, Molinari Rail, a Swiss based engineering and consulting firm active in the railway sector as well as a specialized manufacturer of railway components, and AIL developed and structured the SERV covered financing for all Swiss and Austrian deliveries and services in relation to this project. This long-term tailor-made financing solution is particularly characterized by its innovative contractual delivery set-up including all Swiss and Austrian suppliers, which ultimately enabled the support of SERV. Michele Molinari, owner and CEO of Molinari Rail Ltd is very pleased with this financing: "Due to its extensive experience in structuring of complex financing transactions and its broad financial expertise, AIL's advice and support was important for the success of this financing, which enabled the largest contract in the company's history."

Apart from providing its expertise in structuring the SERV financing, AIL acted as point of contact between SERV, Yapi Merkezi, Credit Suisse and the relevant suppliers in all matters related to the financing of the Swiss and Austrian deliveries, and coordinated the entire financing process. AIL acted on behalf of Molinari Rail Ltd, which has been awarded a contract by Yapi Merkezi to design the required workshop and to supply workshop and telecom equipment, and in particular to coordinate and manage the Swiss and Austrian deliveries and the SERV covered financing during the construction period.

Tulila Hydropower Project, Tanzania – Successful Closing

Project Description

The Project consists in the planning, development, financing, construction and operation of a 5 MW hydropower plant (with a potential expansion to 7 MW) on the Tulila River in south-western Tanzania, in the Ruvuma region.

The project site was identified by the African Benedictine Sisters of St. Agnes, Chipole Convent ("BSSA Convent"), who already operate a small hydropower project in the region for their own electricity supply. The BSSA Convent, founded on June 5, 1938, has around 370 Sisters with a mission to serve people of all walks of life, particularly the poor in the community. It is located at Chipole, approx. 50 km west of Songea, which is the capital city of the Ruvuma Region in south-west Tanzania. The BSSA Convent is providing services for the local people of this rural area in the sectors of health, education, nutrition and orphanage, to mention just the most important contributions

Motivation

The basic idea of the Swiss project sponsor A. Koch is to donate the project to the BSSA Convent in order to create a constant future income stream to finance the charitable activities of the BSSA Convent.

The project has a number of highly beneficial aspects that are rarely combined within one single project: (i) Electrification and Economic Development: generation of electricity in a remote, rural area of the country including connection of approx. 7'500 households to the regional electricity grid (ii) Environmental Improvement: the regional electricity grid, which is currently not interconnected with the national grid, is being supplied with electricity produced with diesel generators with a low reliability. The Tulila Project will allow replacing to a large extent this diesel-generated electricity, which will lead to a significant reduction of CO_2-emissions and will also improve the reliability of the electricity supply in the region; (iii) Charitable use of project surplus: all the profits generated by the project will be distributed to the BSSA Convent, and will be used in accordance with pre-agreed budgets for activities initiated and implemented by the BSSA Convent. Hence, the surplus will be used to finance charitable activities in the region.

Technology

The Tulila Project uses the natural base slope of the Ruvuma River at Tulila. It is constructed as a run-of-river hydroelectric power plant with earth fill dams and a weir system to divert the water to the power plant and to increase the naturally available head. The surface area of the reservoir created by permanent impoundment is about 0.74 km^2. The area around Tulila is lightly populated and the reservoir has little influence on residential areas and agriculture. Water depth at the intake is 7.5 m which results in a total gross head of around 22.5 m.

The powerhouse will be equipped with three equal size turbines (initially only two turbines are being installed) and is located about 190 m downstream of the intake structure. It is connected to the intake structure by three separate penstocks in staggered diameters 2.3 / 2.5 m, each.

Contractual structure

A project company (Tulila Hydro-Electric Plant Company Limited) is acting as Buyer, Owner and Borrower, in order to ring-fence the ownership of the project and to clearly separate the activities of the project from the charitable activities of the BSSA Convent.

All the electricity generated by the project will be sold to the national public utility TANESCO through a 15 year standardized Power Purchase Agreement (the "SPPA"). The project company will contract out all the management and technical tasks, and will not employ any own personnel. As the BSSA Convent already has experience in the technical and administrative operation of a hydropower plant, most these tasks will performed by the Sisters, who will attend further training in Austria (at the premises of the Austrian equipment supplier). General management tasks will also be performed by the Sisters. Other, more specialized tasks, such as major maintenance, accounting or tax and legal matters will be handled by outside firms.

Financing challenge

Financing an infrastructure project in Africa remains a challenge – structuring a limited recourse project financing even more so. This was possible thanks to the favourable regulatory framework in Tanzania for small private renewable energy projects and thanks to the willingness of the financing parties to strongly support the project. Total project cost of approx. USD 26.4 million was financed by way of Equity and Subordinated Debt in an amount of USD 7.9 million, and by an ECA covered Senior Debt Facility of USD 18.5 million.

The equity has been fully committed by the project sponsor, Mr. Albert Koch, whose main objective is to support the BSSA Convent and the population in the project region. The strong support of the Swiss Export Risk Insurance (SERV) combined with the experience of Credit Suisse was the second key financing element. Additional financing could be mobilised in the form of a SECO Start-Up Fund debt facility and a Green Generation Performance Grant (GGPG), approved by the Rural Energy Agency of Tanzania under a World Bank sponsored CDM Renewable Energy Program Fund.

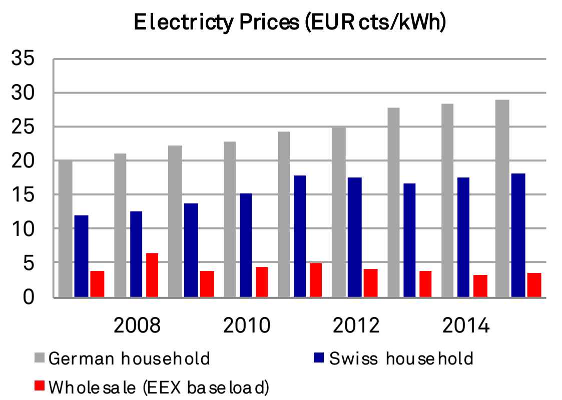
AIL's role

AIL closely worked with the Swiss Project sponsor and with Credit Suisse to structure the project and to apply for the export agency cover with Swiss Export Credit Insurance ("SERV"). An initial task was to structure the supply contract in order to maximize the possible ECA cover, as eligible under SERV and OECD rules. AIL also worked on the overall contractual project structure and the financial model, in order to render the overall structure satisfactory to all the financing parties and insurance providers and to prepare financial projections. In the process, numerous financing alternatives and solutions were discussed (and rejected).

Financial Closing has been achieved end of July 2014, and construction is ongoing. It is currently planned to start commercial operations in mid- 2015.

Carnot Capital Ltd: Diverging Electricity Prices

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 AIL Structured Finance Ltd. For further Information: www.carnotcapital.com



Source: EEX, VSE, Verivox, Carnot

Subsidies reaching hydro: European wholesale prices for electricity fall to new lows every couple of months, caused by massive quantities of solar and wind power flowing into the market. Even negative electricity prices can be observed quite frequently. Thermal power plants are being pushed out of the market, which is absolutely in line with the goal of the European energy policy. However, investments in new hydro power do not pay off either. This is clearly not in line with political goals since hydro is equally ecological and clearly cheaper than photovoltaic and wind power. The Energy Commission of the Swiss Parliament (Nationalrat) is thus suggesting subsidizing up to 40% of major new hydro projects. This looks grotesque when remembering that such plants were very profitable and solid cash generators for the Swiss Cantons over decades. These plans are completely comprehensible from the perspective of the utilities, which have to ensure a reliable power supply.

Energy saving still sensible: Falling electricity prices should not be misinterpreted as a sign of an abundance of cheap power. In fact, consumers have not benefited from the price decline in the wholesale markets and have had to carry higher taxes and levies (Umlagen) almost every year. Today, the power futures curve at the European Energy Exchange (EEX) points downward but the Swiss power producers have announced end-user tariff increases of 3.7% on average for next year. In our view cheap electricity prices are something of the past. Investing in power-saving technology is more sensible than it has ever been.

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