

Energy investments: Siemens Financial Services perspective

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Investing in energy projects: an overview

Rising energy demand

- Globalization and urbanization
- In the absence of regulatory overhaul, energy demand to grow 49% from 2007 to 2035
- Over 1.5 billion people have no access to electricity

Climate change – a major challenge

- World energy-related CO2 emissions to rise 43% from 2007 to 2035
- Efficient technology could lower annual CO2 emissions by 18% to 22%

Growing focus on renewable energy

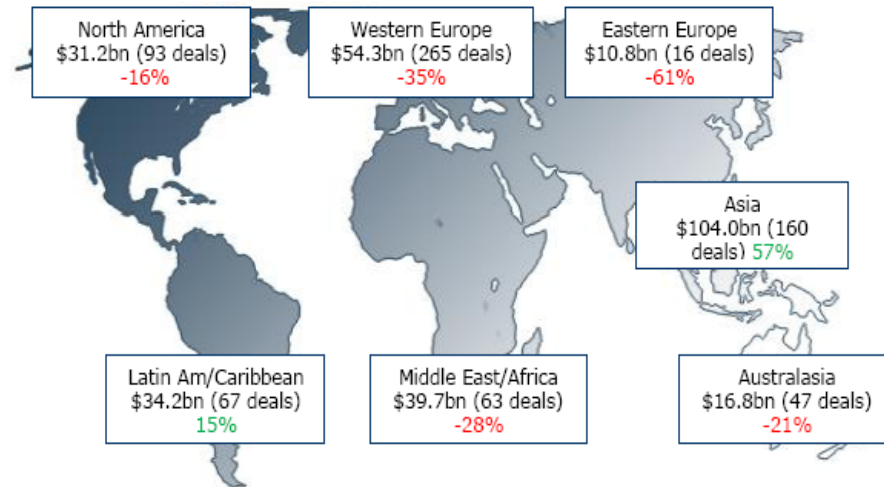
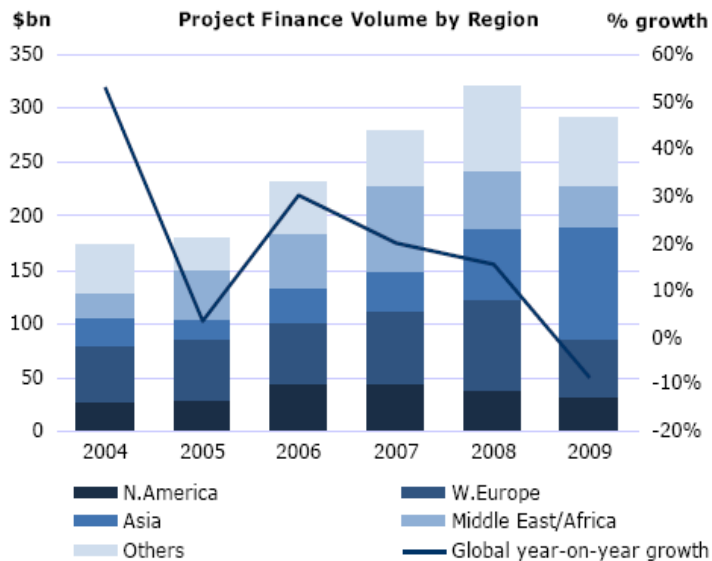
- Alternative power accounts for a quarter of global power-generating capacity
- Renewables to account for 50% of newly installed power capacity in 2010/2011

Government gives impetus to clean energy

- Allocation of \$521 billion as part of “green stimulus” programs globally
- Public-private partnership model gaining ground






Change: Project finance in Eastern Europe has become more difficult



Quelle: Dealogic, 2010

SFS offers solutions to address the changed financing needs



Topic		SFS Solution
Project financing		<ul style="list-style-type: none">▪ Project financing in start-up and development phase▪ Equity investments
Advisory on export and project financing		<ul style="list-style-type: none">▪ Structured finance, external debt finance, letters of credit, guarantees
Equipment financing		<ul style="list-style-type: none">▪ Leasing, performance contracting, loans, managed services, hire purchase
Insurance		<ul style="list-style-type: none">▪ Industrial insurance solutions
Treasury		<ul style="list-style-type: none">▪ Treasury services and solutions▪ Credit warehouse

Preconditions for financing energy projects in today's environment

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- Sound project economics
- Robust contractual and legal framework – permits and government approvals
- Low construction risk – including proven technology, cost and schedule control and contractor experience
- Low political risks, especially in emerging markets
- Extensive due diligence – technical, environmental, economic and legal factors
- Credible partners and credit-worthy counterparties – including suppliers



The goal: create win-win situations that produce stable earnings for public and private partners

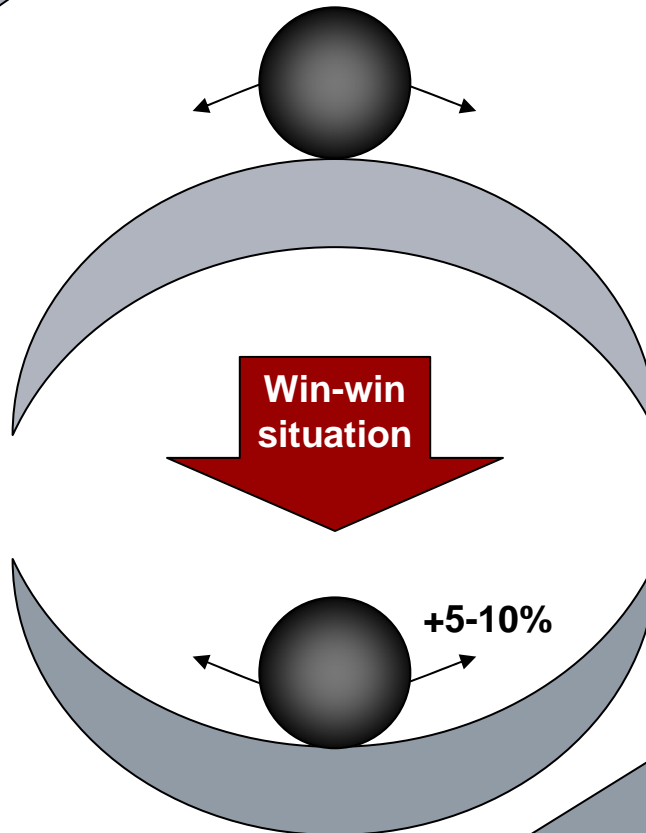
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From an unstable equilibrium...

Uncertainty-filled projects, e.g., because of:

- untenable access to risk sharing
- high bidding costs
- excessively long contract terms
- lack of competition

Error intolerance



...to stable earnings for the public and private sectors

Project quality criteria (example: UK):

- determination of service to be outsourced
- risk sharing
- earnings expectations
- key conditions and preconditions
- bankability
- binding schedule
- self-commitment of sponsors
- statutory process

Example 1: Criteria for successful equity investments

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Infrastructure projects

- Emphasis on financing the development, construction and operation of infrastructure projects
- Capital requirements of the projects range from around €100 million to more than €1 billion
- Mostly minority holdings of 10 to 40 percent
- Specialization in energy, transportation, healthcare, airports
- Company influence necessary (e.g., through representation in company bodies)
- Exit prospects within five years
- Insurance for country risks where possible and economically viable Use of export insurance to improve risk-return profile
- Strict adherence to market conditions when Siemens serves as a supplier

Example 2: key success factors for successful Public Private Partnerships

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Identifiability

- The interfaces to the economic environment must be clearly identifiable and definable.
Example: power plant vs. railroad network

Stable demand

- Due to the long service life, efficient risk sharing requires a reliable basis for long-term planning
Example: energy and water supplies, mobility

Low risk of substitution

- Similarly, the risk related to the introduction of competing solutions and technology must be limited throughout the project
Example: bridges / tunnels in road construction

Flexible contract design

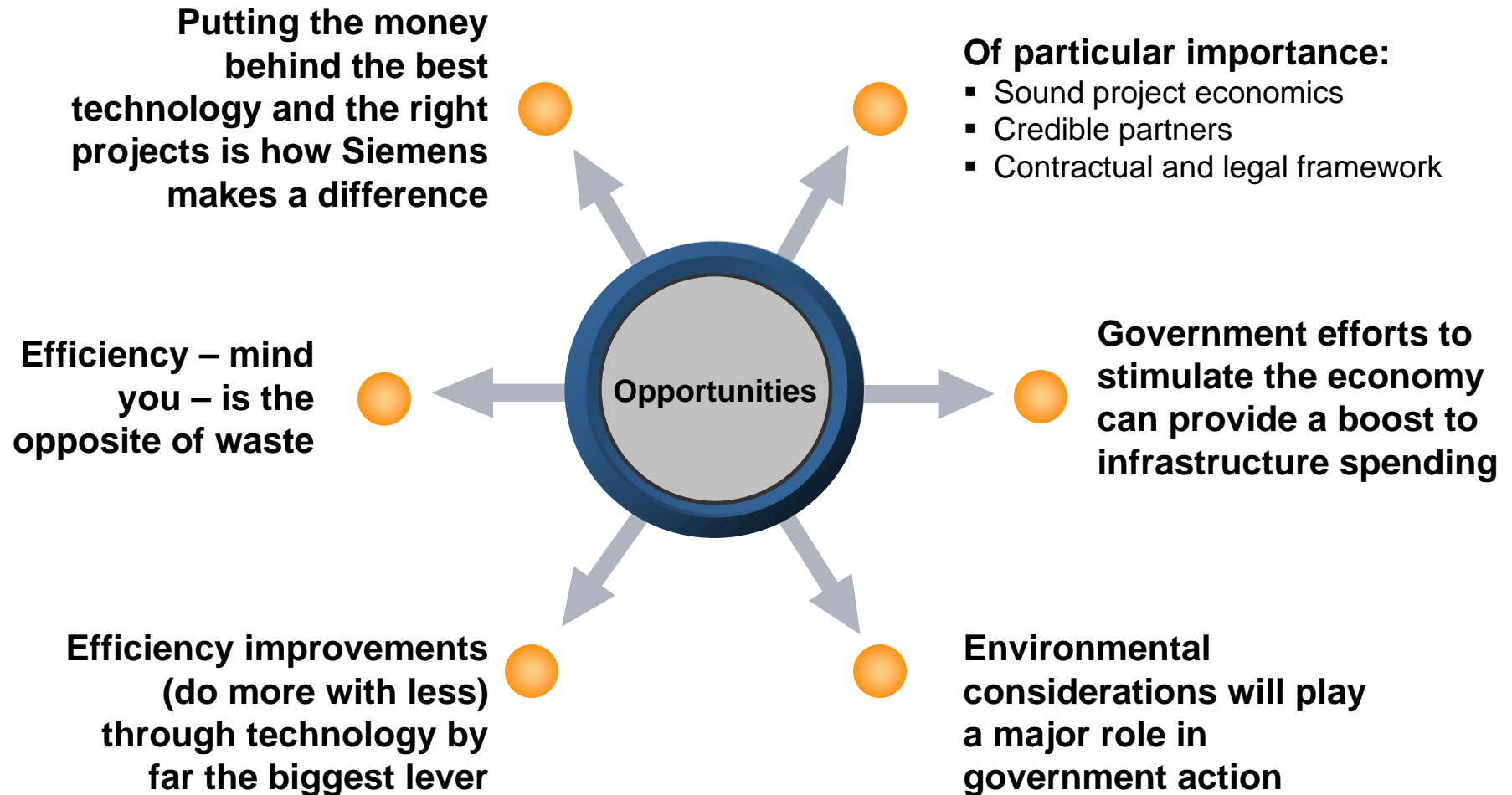
- Sustainable solutions must be project focused, not based on standardized stipulations
Transportation sector example: Arlanda airport rail connection Stockholm

Low risk of “politicization”

- It must not be possible to use the project for political purposes
Example: administrative prices as an election campaign tool (local public transport, energy, water, disposal)

Financing energy projects in Eastern Europe: There are opportunities

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Questions & answers

