

Answers for the Environment Siemens Financial Services

Support mechanisms for energy efficiency and
low carbon solutions

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Siemens Financial Services – Commercial Finance

Support mechanisms – market finance sources

Finance availability depends largely on who the company is, how well established it is.
A lack of successful trading history, backing or security diminishes options of substance.

Well established company

(Sponsor or well established “backing”)

- ✓ Options are *plentiful* - who owns, sponsors, & guarantees
- ✓ Lease, Hire Purchase, Loans, Bank
- ✓ JV's, Investors, Bonds, Cash etc

Newly established company

(SPC, without established “backing”)

- ✓ Options, depend on *security & pay-back*, who owns, sponsors, & g'tees
- ✓ Directors Loans, Shares, Ext Investors
- ✓ Debt, Cashflow, Project Finance



Evaluating the “project” – is it worth it, how will it work?

Understanding and focussing on these is key - or the lender wont be able to;

- Price it, or structure the finance correctly
- Be sympathetic to the suppliers terms
- Help create the Capex / ROI or payback case

Evaluating finance, Capex & environmental benefits

- CO2, emissions, carbon offset
- Cost reductions e.g. electricity
- Payback period / ROI
- Sign off process etc

Managing the timings

- Implementation
- Completion
- Milestones
- Supplier payment terms
- Acceptance
- Availability of funds

Support mechanisms – “just in time” credit line

Credit Line – finance for regular purchases

Access to funds during a planned acquisition phase

- Facility covering the scope of a “rollout” of equipment
 - Master agreement, overdraft or draw downs to cover the period or acquisition – just in time
- Draw downs in line with delivery, linked to suppliers terms or milestone payments (build, install, implement, acceptance)
- Would be a part of any properly constructed finance facility

Time

Example

Month 1	↑ Pre-agreed Credit Line Facility - £Total ↓	Month 6 £'s+6
Month 2		Month 5 £'s+5
Month 3		Month 4 £'s+4
Month 4		Month 3 £'s+3
Month 5		Month 2 £'s+2
Month 6		Month 1 £'s+1

£'s

Finance Sources & Products Featuring a Credit Line

Loans & overdrafts via banks

- Based upon a facility rather than aligned to the asset usage, life, payback or ROI

Asset finance / hire purchase / leasing

- Can be tailored to ROI, payback periods and match income with outgoings
- Different repayment profiles and structures available

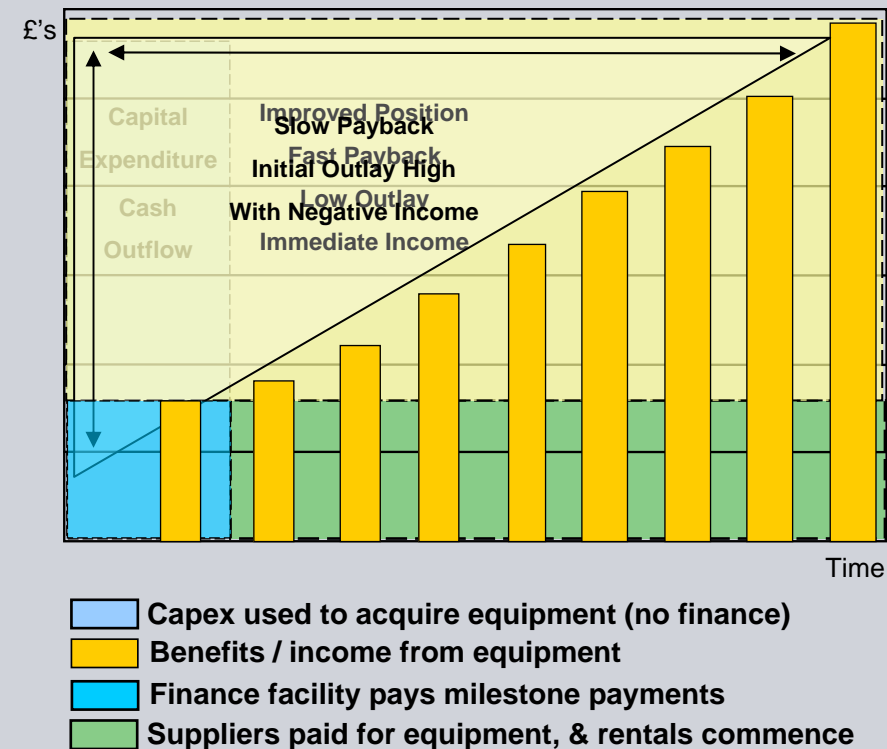
Project Finance – senior credit lines for new start, JV's, PFI, SPC's

- Loans or facilities tailored to the project or cashflow of the business

Support mechanisms – ROI managing outgoings & income

ROI managing outgoings with income

- Traditional model uses cash / capex paid prior to equipment being in service (earning)
- Equipment comes into service creating a ROI
- Using a “pre lease” or deferred period more closely aligns outgoings and earning
 - Operates similar to an overdraft facility
 - Access to funds during build / installation phase
 - Pays deposits / down payments etc
- Lease rentals commence upon final equipment commissioning / acceptance
 - Final payments to suppliers as agreed
 - Pre Lease charges can be settled separately or rolled into the lease
- Significantly enhanced payback, lower initial outlays and improved ROI



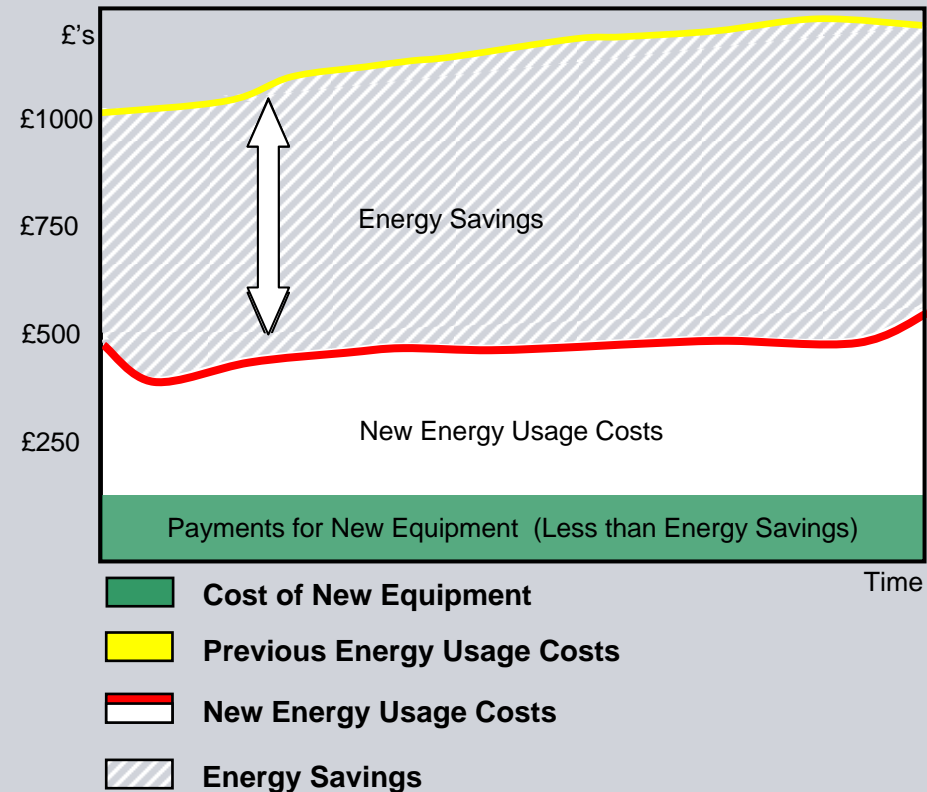
Support mechanisms – energy, zero cost & net savings projects

Positive cashflow = net savings

Finance facility encapsulates main costs of ownership. Creates a bundled managed estate

- Previous energy usage is high
- New energy usage is lower (significantly) due to better product
- The difference is cashflow / cost saved
 - Energy Savings
 - Provides funds or “budget”
- Lease put in place for the new equipment, which
 - Improves ROI
 - Provides quicker payback
- Results in
 - Low cost of entry to new equipment
 - No / Low upfront investment
 - Easy justification for acquisition

Energy Savings Example



Support Mechanisms - finance sources (public & private schemes)

Finance Source	Description
Cash / Capex	Capital expenditure (cash, loan, hire purchase) allows Enhanced Capital Allowances (ECA's) – 100% first-year capital allowances on their spending on qualifying plant and machinery.
Carbon Trust	Interest free loans (within a criteria) to invest in energy saving projects. Loans repaid over up to four years. What is the equipments life, does the term generate ROI, is the amount enough?
Salix	Salix provides interest free funding to accelerate investment in energy efficiency technologies across the UK public sector. Loan value is capped, will it survive or be revived?
Green Lease (BPP)	Improve sustainability of London's commercial buildings, CO2 reductions of 60% by 2025. Led by Better Buildings Partnership (colaboration of London's property owners, allied org's, Mayor of Ldn & London Development Agency. Cost potentially levied on the lanlord (feeding through to rents?).
Grants / Assistance	Tend to be "pots" of money, related to employment and local interests. Can be in the form of assistance rather than money and tend to require local employment.
Feed in Tariffs (FiT's)	Ability to sell surplus energy to the grid at a locked in price (criteria apply), cost laid onto utilities or Govt contributions. Driven by political agenda to change behaviour or invest in certain technology. Larger projects often don't get the FiT lenders or projects would like.
Green Bank	Labour announced, Coalition adopted – but what will it really be?
Asset Finance / Lease	Tailored finance solutions to fit each individual project. Ability to structure all types of assets & managed service propositions. Available for the equipment solution with specific equipment.
Project Finance	Debt provided by banks and other lenders, varies project by project. Available for the business.

Summary

- Variety of "supported" finance options, no one size fits all solution = caps, ceilings, max repayment terms
- Certain schemes don't necessarily fit with equipments useful life, payback etc
- Current economy could see Govt "claw backs" – "nothing is ring fenced" [opinion] = can ECA's survive?
- "Bleeding Edge" projects / solutions seen as risky to finance + current liquidity = challenges
- Certainty & reliability obtained via external market = don't build a business based on tax / grants

Enhanced Capital Allowances – tax relief for specific assets

ECA's are 100% capital allowances (tax relief) on qualifying plant and machinery ("P&M").

- Companies can write off the whole of the capital cost against taxable profits in the first year.
- Allowances are only good if a company is making taxable profits
- Contributes to a high ROI and low payback period.

There are three groups of P&M;

- Energy-saving plant and machinery
- Water conservation plant and machinery
- Low carbon dioxide emission cars, natural gas & hydrogen refuelling infrastructure

Consider, once installed a typical solution may be 10% / 20% of the qualifying equipment – of course it *could* be more. Therefore the best practice would be;

- Do not rely on a tax advantage which is politically driven (implemented by Mr Brown) – cost cutting inevitable
- Focus on the payback, ROI and cost of reduced ownership
- Seek methods of finance which are *always* tax advantageous and / or contribute to payback & ROI



Energy
 Air to air energy recovery
 Automatic Monitoring and Targeting
 Boilers
 Combined Heat and Power
 Compact heat exchangers
 Compressed air equipment
 Heat pumps for space heating
 HVAC zone controls
 Lighting
 Motors
 Pipework insulation
 Refrigeration Equipment
 Solar thermal systems
 Thermal screens
 Variable Speed Drives
 Warm air & radiant heaters

Water
 Air to air energy recovery
 Flow Controllers
 Meters
 Leakage detection
 Efficient toilets
 Efficient taps
 Rainwater harvesting

Obstacles & Enablers for Investment Decisions

Government tax schemes may be viewed as an incentive

- ECA's wont pay for it all
- Grants / Feed in Tariffs are not likely to make a good project alone
- "Don't build a business around a tax policy"

Good business practice and evaluation justifies the expenditure

- Capex requests are not always successful
- ROI, Energy Savings, CO2 Reduction, Pay back
- Identify what your company values

Finance products can be structured to;

- Provide finance where budget has dried up
- Manage multiple installations
- Justify payback and investment
- Manage suppliers terms
- Fund "new start", JV's, SPC's – with a sound business plan
- Enhance the return on investment
- Provide known costs for the equipments life



Thank You

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