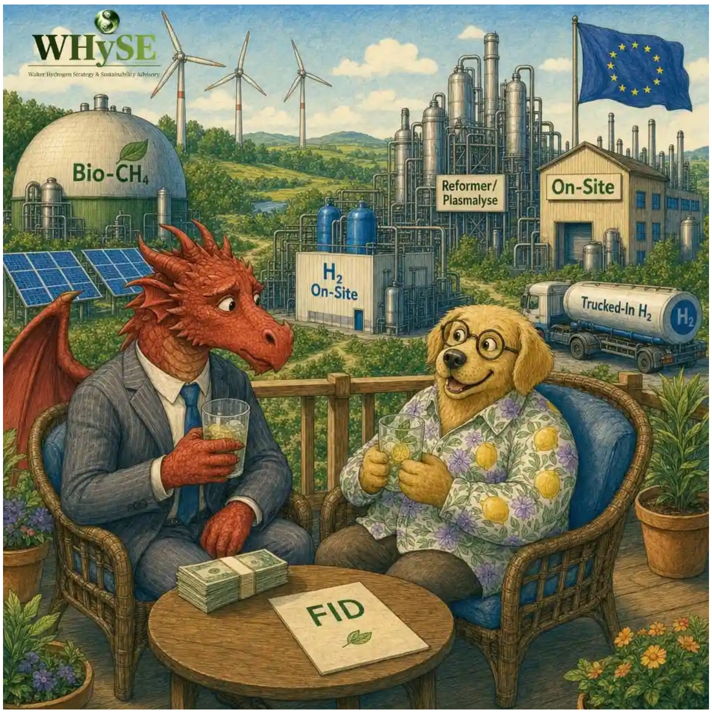
WHySE Compass Landmark 2

FID – Final Investment Decision



Dragon and the FID

It was the first time Dragon had sat on the WHySE veranda.

That in itself was quite an event.

Dragon rarely dropped by just like that. When he did come, there was always something important on the table. Sometimes a grant notification. Sometimes a funding model. Sometimes a contract whose signature meant more than just ink on paper.

This time, a single sheet of paper lay between him and Dog. Written on it in large green letters was:

FID

Dragon held his glass in his claw, looked at the note and snorted softly. “Dog.” Dog raised his head. “Yes?”

“They used to call that the final signing of the contract.”

Dog nodded. “That was often the defining moment.”

Dragon tapped the note with his claw. “Or financial approval. Or an investment decision. Or the supervisory board’s go-ahead. After that, orders were placed, construction began and payments were made.” “That’s right,” said Dog.

"And today?" "Today, many people call this decision-making threshold 'FID'." Dragon raised an eyebrow. "Final Investment Decision."

"Exactly."

"Then explain it to me in more detail. Without any dragon smoke."

Dog smiled.

"I promise."

What does FID mean?

FID stands for **Final Investment Decision.**

The term describes the moment when a project has been reviewed, planned and secured to such an extent that those responsible make a binding decision:

We're investing. We're moving forward with implementation.

Up to this point, a project is in the preparatory phase.

There are ideas. Variants. Studies. Discussions with suppliers. Discussions with banks. Discussions with authorities. Discussions with potential customers. There are technical concepts, cost estimates, timetables and many unresolved issues.

After FID, the nature of the project changes.

That's when orders are placed. Contracts come into effect. Budgets are approved. Teams are committed. Delivery times begin. An option becomes a project.

Dragon nodded slowly. "So, the point at which money takes flight." Dog nodded. "And that's exactly why Dragon looks so closely."

What used to happen before everyone started talking about FID?

Dragon was right in his observation. In the past, people often spoke of **investment decisions**, **project approval**, **contract award decisions**, **funding approval** or simply the **signing of the contract**.

In many projects, the signature was the defining moment. Then it was clear: **Now they're getting serious.**

- ✓ The supply contract was signed.
- ✓ The plant manufacturer was awarded the contract.
- ✓ The banking documents were finalised.
- ✓ The acceptance contract was on the table.

- ✓ The management had given its approval.
- ✓ The supervisory board had given its go-ahead.

The crucial question was the same as it is today:

> **Do we have enough clarity to commit funds, people and responsibility in a binding manner?**

The difference lies in the context.

Today, hydrogen (H_2) projects often navigate a landscape of technology, regulation, funding, acceptance contracts, sustainability certifications, permits and European market dynamics. Many stakeholders are around the table. Many decisions are interdependent.

The term FID therefore helps to identify a clear threshold. Sometimes FID and the signing of contracts occur very close together. Sometimes the internal FID takes place beforehand, so that contracts can be signed afterwards.

- Before FID, development, testing, negotiation and structuring take place.
- With FID, a binding decision is made.
- After FID, contracts are signed, equipment is ordered, teams are committed and construction phases are prepared.

It is important to make the distinction:

> **Signing the contract is often the visible act. FID is the decision-making threshold behind it.**

Dragon smiled. “I like that. In the past, you could see the ink on the paper. Today, I want to understand whether the decision holds water.”

Why is FID so important in projects?

Hydrogen projects are rarely purely technical projects. They are systems projects.

A water electrolyser needs water and electricity. A plasma electrolyser needs electricity and hydrocarbons. An on-site solution needs customers, space, safety, permits and operational concepts.

FID brings all these issues together at a single decision point. Dragon listened attentively. “So it’s not just a ceremonial push of a button.” “More like a point of accountability,” said Dog. “And what do you need before that?”

- Is the technology suitable for the application?
- Are the investment and operating costs viable?
- Have permits, the site and supply been clarified?
- Are there customers, or a reliable internal demand?

- Have financing, funding and risks been properly assessed?

“Enough reliable answers.”

This is important: FID does not mean a perfect world. Projects remain dynamic. Prices can change. Delivery times can shift. Permits can raise questions.

FID means: the key uncertainties have been clarified to such an extent that the decision is sound.

Or in Dragon-speak: **The fire can be lit because the flight plan is in place.**

Common misconceptions surrounding FID

The first misconception is: **FID marks the start of the project.**

Prior to FID come strategy, feasibility, concept development, financing discussions, technical clarifications and coordination with all stakeholders.

FID is the threshold between development and implementation.

The second misconception is: **FID is purely a financial matter.**

Dragon snorted. “I hear that quite often.”

FID is more than just financial approval. Technology, legal matters, sustainability, the timetable, procurement, operations and organisation are also part of it.

The third misconception is: **FID means complete certainty.**

A better way to put it would be: FID means that the decision is sufficiently well-founded.

A project remains a project. It carries both opportunities and risks. The difference is that, after FID, the key issues have been structured in such a way that management, investors and the project team can take responsibility for the next steps.

The fourth misconception is: **FID is an English label for a simple decision.**

For small-scale projects, an investment decision may be straightforward. For hydrogen projects, FID can act as the interface between technology, funding, finance, acceptance and implementation. Then a single word becomes a genuine anchor for guidance.

How can you tell when a project is ready for FID?

Dragon set down his glass. “Dog, how does a dragon tell if a project is ready?” “By the quality of the answers,” said Dog.

A project is approaching FID when the key building blocks fit together. Dragon looked at the FID note. “So FID is less of a date on the calendar.” “Yes.” “More of a state.”

i. The technology must be understood. The chosen solution must be suited to the application, the site and the operation.

ii. The economic viability must be transparent. This includes investment costs, operating costs, energy prices, maintenance, staffing, usage, revenue and avoided costs.

iii. The contracts must be in place. Who is supplying? Who is accepting delivery? Who is operating it? Who bears which risks?

iv. The issues relating to approvals and verification must be known. In the H_2 sector in particular, many subsequent delays arise from issues that seemed minor at the outset.

v. The organisation must be ready. A project may be technically sound and financially compelling. If responsibilities, decision-making and resources are lacking, it will still remain on the back burner.

“Exactly.”

Plain-language translation

When someone in an H_2 project talks about FID, what they essentially mean is:

We have carried out sufficient checks, calculations, negotiations and clarifications to now commit funds, personnel and responsibility to this project.

FID is therefore more than just a signature.

The signature shows that something is becoming binding. FID explains why this commitment can be upheld.

Why FID provides guidance

The WHySE Compass does not sell hydrogen technology.

It provides guidance on the technology.

FID is a good benchmark for this because it highlights one of the most important questions:

When is an H_2 project ready for a decision?

Many projects get stuck precisely at that point. At the front, there is enthusiasm. At the back, implementation awaits. In between lies a landscape of figures, technology, contracts, funding, approvals and responsibility.

FID helps to organise this landscape. Dragon stood up, took the piece of paper marked 'FID' and looked once more at the H_2 terrain in the valley. "Dog?" "Yes?" "They used to call that the final contract signing." "That was often the defining moment." "Today we call the decision threshold behind it FID." "Yes."

- As a threshold.
- As a point of responsibility.
- As a shared understanding.

Dragon smiled.

"Then everyone should understand what that means."

Dog nodded.

"That's exactly what the Compass is for."

The One-Sentence Guide

> FID is the threshold at which assessment, negotiation and planning give way to a binding investment decision.

Note:

This guide describes FID in general terms. It is no substitute for a project-specific financial assessment or a thorough review of the entire project in all its parts (project due diligence).