

The Business of Offsets

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The industry snapshot

Emissions Trading is the key policy instrument for addressing climate change

- **Trading of Emissions Allowances in “capped countries such as the EU**
 - 13,000 regulated facilities in the EU
 - Similar programmes emerging in Japan, Australia, NZ, Canada
 - California leading the US, but Federal action is near-certain
- **Creation of allowances through investments in carbon efficient assets, mainly in the developing world (so-called “carbon credits” or CERs)**
 - Currently 2B tonnes of reductions in the pipeline over next five years
 - **Market Value of \$30B in those five year**
 - More than 800 projects “registered“ under Kyoto’s “Clean Development Mechanism (CDM)
 - A global class of “**carbon entrepreneurs**” has emerged
 - All this has emerged since 2003-4

A Booming Industry

- **Europe (especially the UK) is the undisputed hub of financing the Carbon constrained economy**
- Tens of Billions of Dollars are now deployed from the Capital Market
 - Large Funds, **investing in carbon assets** or the **underlying clean energy assets**
 - Virtually **every major financial institution** has a carbon trading desk and carbon financing capability
 - Publicly traded companies, with a **collective market cap in the billions**
 - Different segments, different business models, but all taking advantage of the new paradigm
 - The offsets component – which we are one player – is aggregating capital and is being financed by the market
- However, to fight climate change, this is a **tiny fraction of the trillions** that will be needed

EcoSecurities snapshot

Carbon Credit portfolio at of June 2007 comprised of:

- **422 projects (up 248 % since IPO)**
- **Projects reducing emissions using 18 technologies** spanning **35 countries**
- Projects will generate over **178 million carbon credits (1 credit = 1 ton of CO₂e)**
- **Current Gross Value = US\$3-4B**
- First emission reduction project registered by the UN under the Kyoto Protocol
- First project to receive Certified Emission Reductions (CERs) in the Kyoto Protocol market.

Financial Metrics:

- London Stock Exchanger Listed (ECO.L)
- **Current Market Cap \$600M @ 280p per share (150p @ IPO)**

Global expansion of offices and employees



Headcount		Offices and Representatives
June 2005	27 employees	5
IPO	72 employees	15
May 2007	246 employees	28

(*) No legal presence but EcoSecurities has entered into contracts with individuals to act as EcoSecurities representatives

Ranking Off-System mitigation Opportunities, from a Capital Utilization perspective

1. HFC destruction
 2. N2O abatement
 3. CH4 capture and destruction
 4. Energy Efficiency Fuel Switches on an existing facility
 5. Greenfield Renewable Energy
 6. Biofuels (assuming methodology issues are eventually resolved)
 7. Distributed Energy Efficiency (Buildings or transport)
 8. Afforestation
 9. Avoided Deforestation?*
- **The Low Hanging Fruit is GONE!!!**
 - **Whole new economic models now have to be created, building on the architecture of the first years of Kyoto**

Where are things going?

- Much of current market is largely based on low hanging fruit
- Low hanging fruit will disappear soon – through uptake and competition for “easy” profits from a rapidly growing number of interested offtakers
- Producing CERs will take more effort, more technology provision, more capability, and more capital and more risk
 - CER companies that provide a variety value added services – development capability, technology, financial structuring and capital – both local and international– will be the ones that survive the next round of culling
- Given this, we can expect competition from more “traditional” providers of the services above
 - As in every new market maturation there are companies that emerge from the grass roots and companies that move into the market laterally, once it is proven more mature
- **California – technology driven, financially innovative and export oriented is very well positioned**

- **The real forthcoming force is companies that combine expertise, capital and appetite for risk in order to secure Emissions Reduction supply**
 - Classic merchant banking model is emerging
- **However, the question is whether California best benefits from an Open or closed Architecture**
 - The general premise is that you promote an open architecture when you are competitively positioned
 - California is well positioned to be very competitive in providing finance, technology and services into this global market
 - Europeans are also looking at the US as an excellent investment opportunity for emission reductions
- **Walling off California from overall market dynamics will not bode well for participating – and being competitive - in the next stages of the market**