



# CER Transaction Structures to Support Project Finance

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## About Trading Emissions PLC (TEP)

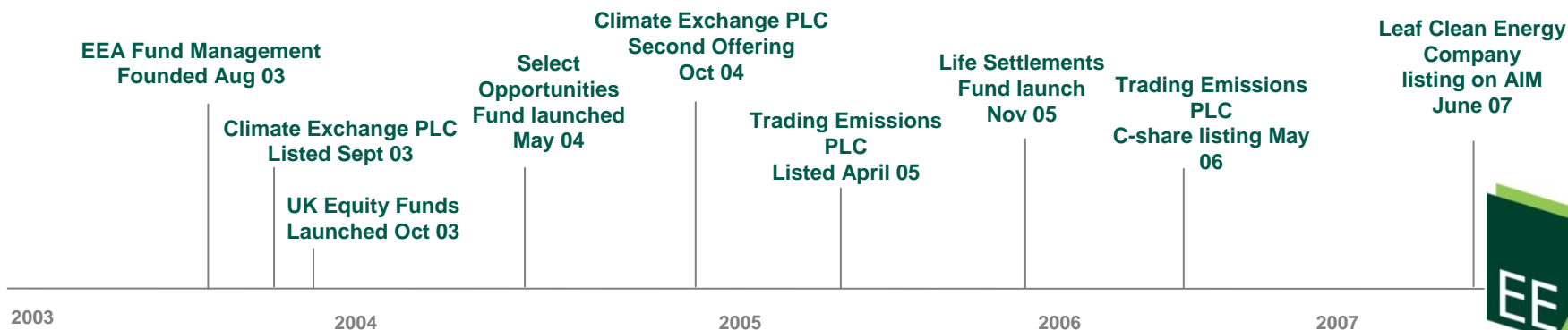
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- TEP is an investment vehicle formed to invest in a range of emission assets, with a focus on Kyoto compliant project credits - CERs & ERUs
- Publicly quoted company listed on the Alternative Investment Market (AIM) of the London Stock Exchange
- \$600m assets under management, > \$1bn total assets following October 2008 valuation
- Aim is to acquire a delivered portfolio of 66 million tonnes by 2012, current risk adjusted portfolio is 58.75 million tonnes until 2012
- Acquisition of credits is achieved through a diverse investment approach - from ERPAs to debt, equity and other financing structures
- Investors include Invesco Perpetual, Credit Suisse Asset Management, HSBC, Gartmore Asset Management, Jupiter Asset Management, F & C Unit Management, Bluecrest Asset Management and Moore Capital
- **GOAL: To give the company's investors exposure to the long term carbon price as a natural hedge against other elements in their portfolios**



## EEA Fund Management: Investment Advisor to TEP

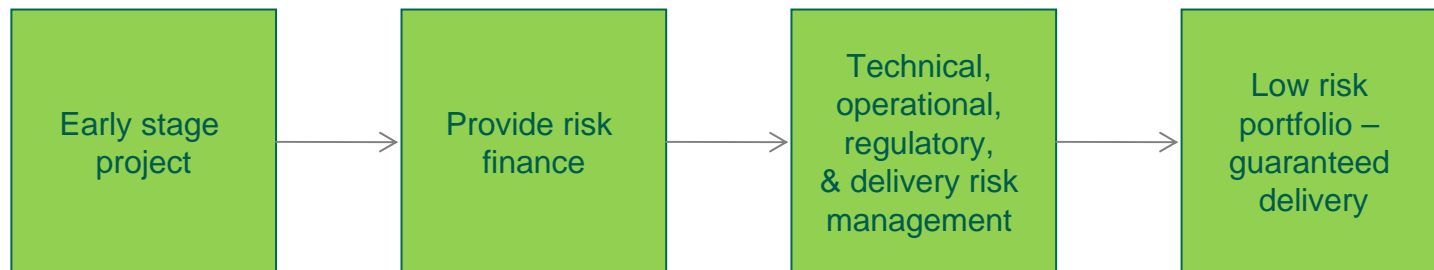
- EEA Fund Management Limited is the exclusive investment advisor to TEP
- The EEA “group” was set up in 2003 and currently has in excess of \$1.8bn assets under management
- Offices in London, Washington D.C, Rio de Janeiro, Beijing and Dublin
- Investment Advisor to Leaf Clean Energy Company, listed on AIM in 2007 raising \$400m and targeting equity opportunities in clean energy projects principally in North America
- EEA also manages three UK equity mutual funds, a futures fund and a life settlement fund





## CER acquisition motivation and methods

- Financial buyer, long in carbon credits
- Strong balance sheet, huge flexibility in the deployment of capital



- Transaction structures include:
  - Purchase of CERs under ERPA contracts
  - Where underlying project fundamentals are strong debt or equity investment in project opportunities to leverage CERs
  - Working capital and venture finance to carbon market companies



## ERPA Structures

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### Structures

- **Fixed Price:** in € (or \$) per CER payable on delivery
- **Index Linked Price:** a % of the CER market price at time of delivery
- **Floor Price plus Participation:** fixed floor price in € per CER payable on delivery PLUS a % of difference between the floor price and the prevailing market price

### ERPA contracts

- TEP's ERPA contracts are cash backed and designed to have a bankable role in the overall project finance package





## CER backed debt finance

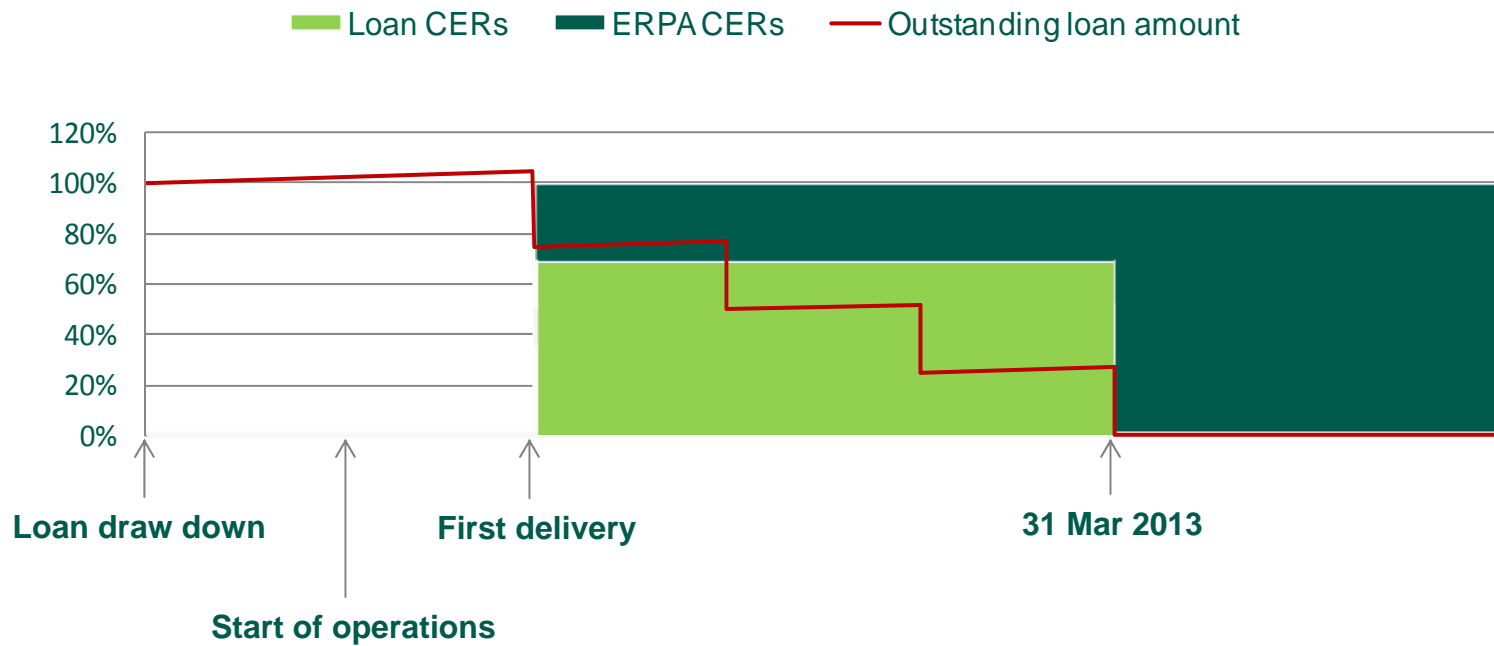
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- Debt structures where underlying project fundamentals are strong
  - Repayment in CERs and therefore debt structures typically suit projects with high carbon returns for the capital invested
  - For example, municipal solid waste management & waste water treatment
  - Nominal price of carbon agreed and interest rate applied to generate a potential repayment profile
- Completed or advanced debt transaction e.g. in Israel, Brazil & Mexico





## Typical carbon loan repayment





## Equity investment to leverage CERs

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- Strategic equity investor in clean energy projects, motivated by access to CERs
- Pre-financial close risk capital to finance project development
- Majority / minority equity investment at financial close, in partnership with local international and strategic investors
- Good connections with technology providers, contractors, advisors, multilateral and commercial lenders and other project stakeholders
- Completed equity / mezzanine investments e.g. in Peru, Mexico & Brazil





## Case studies – ERPA, debt & Equity

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- **ERPAs:** The majority of TEP's ERPA portfolio is from projects in China. Including projects in renewable energy, waste management, industrial efficiency, destruction of HFC-23 and N<sub>2</sub>O, methane capture and natural gas CCGT generation.
- **Debt:** TEP is providing \$4.5m of debt finance to a bundle of animal waste management projects in Mexico. The manure will be treated anaerobically in biodigesters and the produced biogas will either be flared and in some cases will be used for power generation.
- **Equity:** TEP has provided development capital to a 255 MW hydro project in Peru to take the project to financial close; TEP will hold a majority equity position in the project at financial close. Also, TEP has invested \$75m of equity in a biodiesel facility in Brazil that will produce 200 million litres per year from waste animal fat and jatropha.



## Case studies: Financing facilities & corporate investments

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- **Financing facility:** TEP set up a financing facility for a series of agricultural biogas projects in South-East Asia and has a local Joint Venture partner that will develop the projects.
- **Corporate investment:** Working capital provided to Eenergy International structured as a loan repaid in carbon credits. TEP also holds a minority shareholding in the company following its IPO. TEP has also invested in two project development business in North America that will help project hosts generate VERs from agricultural biogas projects.



## Contact details

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