

We refer to our draft engagement letter of 22 December 2005, our subsequent discussions and specifically your discussions with Aneela de Soysa. We have set out below the information that you have requested and in addition have provided you with alternate scope and fee proposals to meet your requirements.

CDM project success in the cement industry so far

There are two approved methodologies for fuel switch in cement industry and one approved methodology for blended cement. Below we have set out the details of the projects that use blended cement methodology (ACM0005):

One project has submitted request for registration.

- “Optimal Utilization of Clinker” project at Shree Cement Limited (SCL), Beawar, Rajasthan : <http://cdm.unfccc.int/Projects/SGS-UKLI134758975.86/view.html>

About 20 projects have completed validation in the last few months and are expected to submit request for registration. These include cement projects in India by ACC, Binani Cement Limited, Birla Corporation Limited, Dalmia Cement Limited, GACL, Indorama Cement Ltd, Jaiprakash Associates Ltd, Lafarge India Pvt. Ltd., Mysore Cements Limited, Orient Cement Ltd, Ultra Tech Cement Ltd. and elsewhere by Cimento Mizu, Votorantim Cimentos, Indocement, etc.

PwC capability to give such advice

We have more than 140 CDM projects under various stages of the CDM cycle. In the cement industry, we are advising on five projects including those of Lafarge, Orient Cement, India Cement and HCC.

Retail carbon market

The retail carbon market is a voluntary market where buyers are interested in purchasing emission reductions for internal purposes and not for compliance. There are three broad categories of buyers that are emerging in the retail market. There are buyers which focus on emission reductions that have a significant component of sustainable development including community development, impact on local livelihood, etc. There is another category of buyers which would purchase emission reductions that follow the approved methodologies as closely as possible without going through the CDM process with the expectation that in future, a large market for such emission reductions may emerge. Whilst not applicable in this case, there are buyers who would take the registration risk in a CDM project, i.e., they would pay a price that is independent of whether the project is registered or not.

Process, milestones and timelines up to project registration

We would target to complete Stage I (PDD development) of the activities within 8 weeks from commencement of engagement. This is premised on your obtaining the Environmental Impact Assessment and local stakeholder consultation within 6 weeks of commencement of engagement.

We anticipate that the host country approval, the Stage II activity should take about 8 – 10 weeks after the Stage I activity is completed.

Validation process (Stage III) usually takes about 8 weeks (including a 30-day official stakeholder review period, period of linking with the UNFCCC website, etc).

The registration process is expected to take about 10 – 12 weeks (including the 8 week official period for a review request).

Scope and fee structures

Our scope and fee proposal is based on our estimate of effort involved, the timing of payment and the risk that we are sharing with our client. On this basis for the scope outlined in our proposal, we have provide below alternate proposals in addition to the proposal already with you. For the avoidance of doubt, the table below only refers to our professional fees. You will need to incur separate fees for validation, verification, any environment studies, stakeholder consultations, legal inputs and any other inputs that you may need in relation to this project including accounting and tax issues. We will recover out of pocket expenses incurred at actuals as well as any taxes including Sri Lanka VAT.

Scope/ Milestones	Current proposal Ie assistance in CDM development and transaction	No Transaction – Proposal I	No Transaction – Proposal II
Commencement of engagement	US\$8,000	US\$15,000	US\$30,000
Stage – I (PDD)		US\$15,000	US\$30,000
Stage – II (HGA)	US\$6,000	US\$15,000	US\$30,000
Stage – III (Validation)	US\$6,000	US\$15,000	US\$30,000
Registration of Project		US\$120,000	
Stage – V (Transaction)	10% of emission reductions value		