

EDGE* Energy Services

Developing the Carbon Mitigation Potential of CERAN Antas river hydroelectric complex, in Rio Grande do Sul, Brazil

A Proposal for Cia. Energética Rio das Antas (CERAN)

14th July 2005

Confidential

* Enterprise Dimensions of Greenhouse Gas Emissions

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1. Introduction

Growing concern over the impact on the atmosphere and the world's climate of anthropogenic (i.e., man-made) greenhouse gas (GHG) emissions has prompted the world community to address this pressing environmental problem. In 1997, the Kyoto Protocol, which was adopted by industrialised and developing nations (Annex I and non-Annex I countries according to the Protocol), set binding GHG emission limits for Annex I countries for the period 2008 - 2012. The Protocol established "Flexibility Mechanisms" to allow industries (and countries) to have more and lower-cost options for reducing emissions. The Clean Development Mechanism (CDM) and Joint Implementation (JI) are two of those mechanisms and they allow for the purchase of Certified Emission Reductions (CERs, under the CDM) and Emission Reduction Units (ERUs, under JI) by affected parties from sustainable development (e.g., renewable energy, energy efficiency) projects in non-Annex I countries as a means of complying with domestic emission limits. In addition, the European Parliament approved the European Union Emissions Trading Scheme (EU ETS) in 2003 to prepare European nations for the entry into force of the Kyoto Protocol. National Allocation Plans (NAPs) for key European industries (e.g., electricity generation, pulp and paper, ferrous and non-ferrous metals, cement) are being developed and will be in place by the end of 2004. The first set of NAPs will establish emission limits for the years 2005 – 2007. Under the Linking Directive to the EU ETS, CERs and ERUs from projects could be used for compliance with emission limits. In January of 2005 the EU ETS was launched and therefore the emission reductions commercialisation is already established between EU Annex 1 countries. Besides, in November 2004, Russia had ratified the Kyoto Protocol, which had entered into force on January 16th of 2005. Since this happened, most part of uncertainties about carbon credit commercialisation are over, increasing the standardisation and liquidity of such market.

CERAN is considering constructing 3 hydropower plants in the Antas river, located in Rio Grande do Sul state. The hydro plants have installed capacity of 130 MW (Monte Claro), 130 MW (Castro Alves) and 100 MW (14 de julho). The three plants involve construction of a dam, creating a small reservoir. The technology used represents the state of art, presenting a high efficiency, and small environmental impacts (density of more than 15MW of installed capacity per km² of flooded area). The three plants will supply electricity to grid, displacing more carbon-intensive sources of electricity generation, such as coal or natural gas thermal plants. One plant has already started operation and two other ones will start to operate in 2007. As a result of this environmental positive impact of project, CERAN could generate GHG emission credits, also known as "carbon credits", under CDM of the Kyoto Protocol. The carbon credits could be sold on the open market thereby generation additional cash flow for the project. For example, a similar project in Brazil, where a 50 MW run-of-river hydropower plant, is supplying 285,000 MWh to grid, could generate about US\$ 300,000 worth of carbon credits annually.

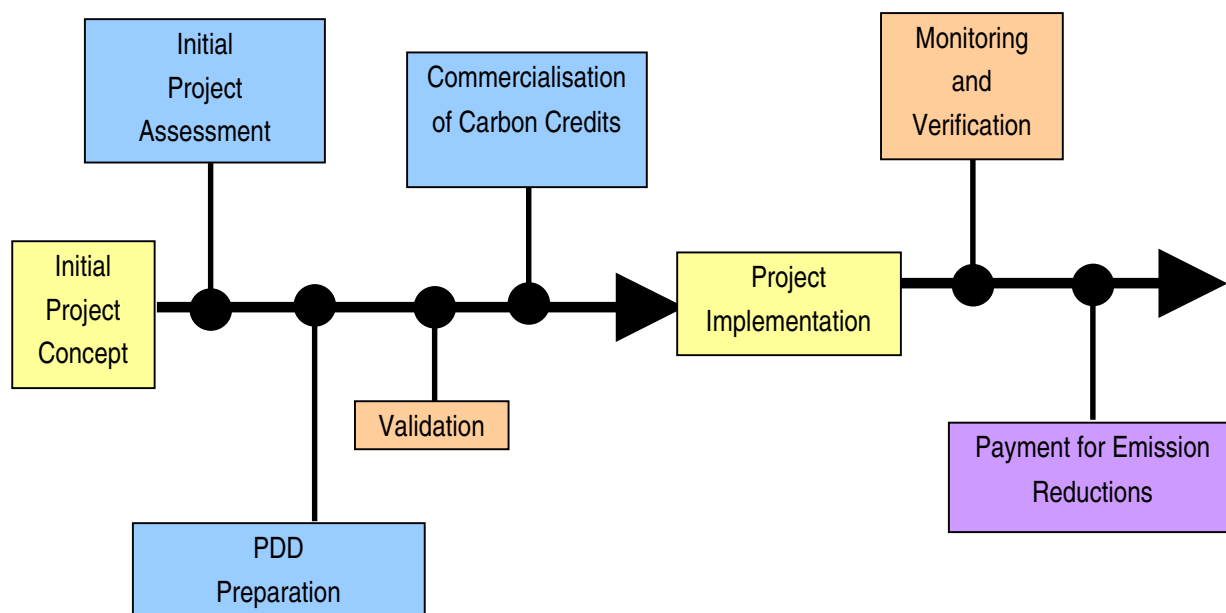
EcoSecurities was founded in 1997 by experts in the field of emissions trading and GHG accounting. Since then, EcoSecurities has grown to be the largest dedicated advisory firm in the world providing strategic advisory services related to GHG accounting and mitigation projects to the private sector as well as the public and non-governmental sectors. With highly capable staff located in offices throughout the world, EcoSecurities provides solid and innovative solutions for its clients, particularly private sector project developers seeking to capture, in financial terms, the positive environmental value of their projects. EcoSecurities' track record has been widely recognised, as evidenced by having been voted "Leading

Greenhouse Gas Advisory Firm Worldwide" by readers of 'Environmental Finance' magazine for four years in a row (2001, 2002, 2003 and 2004). For further information, see Annex 1 of this proposal and www.ecosecurities.com.

This proposal describes the services that EcoSecurities would provide to assess and develop the carbon mitigation potential of the project proposed by CERAN ("the Client"). The full set of services provided by EcoSecurities is entitled EDGE – Enterprise Dimensions of GHG Emissions – and consists of three principal phases: Project Assessment (if required), Project Preparation, and the Commercialisation of Carbon Credits generated.

EcoSecurities EDGE Energy Services guide the client from the initial design and eligibility assessment stage, through to the actual trading of carbon credits, by assisting clients to place their credits in the international market. The following diagram illustrates the various steps involved in the development and implementation of an emission reduction project, and also highlights the phases of the work that EcoSecurities would conduct.

The following proposal provides further details of the activities EcoSecurities proposes to undertake and the corresponding timeline and budget related to this work.



For the purpose of this agreement, 'carbon credits' refer to any greenhouse gas related environmental value including, but not restricted to, CERs, Emission Reduction Units (ERUs), Verified Emission Reductions (VERs), Green Certificates, Renewable Energy Certificates (RECs), and any other sort of carbon offsets, as deemed appropriate for the project. All work will be undertaken to ensuring that 'carbon credits' provide supplementary benefits to improve the overall economic performance of the project. In practice, this entails ensuring that proposed project activities are acceptable under the terms of the CDM and/or JI, or any other non-Kyoto compliant scheme.

2. Summary of Activities

This section describes the activities that EcoSecurities would undertake to assess and develop the carbon mitigation potential of the proposed project. The full set of services provided by EcoSecurities is designed to assist clients in capturing, in financial terms, the environmental value of projects that could generate carbon credits.

Phase I Initial Project Assessment

This phase is indicated especially to controversial projects, presenting question regarding eligibility, additionality or viability. Given that hydropower plants are common project category, it do not request this phase. Phase I would be done only if the project participant do not know how the carbon market works, and need some clarification about the project inside the context of carbon market or a report to present to shareholders or to the board.

In this phase, EcoSecurities will conduct a rapid two to three week assessment of the project to help the Client evaluate whether to proceed with the project development phase. This phase will include a field trip to the project site and will consist of the following activities.

- a) Conduct Eligibility Analysis. EcoSecurities will assess whether the project would be eligible under the guidelines established by multi-lateral and host country institutions for climate change projects under the Kyoto Protocol. Particular attention will be paid to key issues that are central to determining a project's eligibility, including the use of Official Development Assistance, the fulfilment of Host Nation sustainable development and other criteria and, perhaps most importantly, the additionality of the project. Under the terms of the Kyoto Protocol, the approval of projects hinges on the fact that the project would not be undertaken without carbon finance. To assess these issues EcoSecurities will consult with host government authorities, UNFCCC personnel and draw on the experience of our staff, who hold regular meetings to discuss the eligibility of the projects that are being currently evaluated by EcoSecurities.
- b) Review Existing Baseline and Monitoring Methodologies that Could be Applicable. EcoSecurities will review all of the baseline and monitoring methodologies that have been approved and/or have been proposed to date to determine whether any of them would be applicable to the project. Based on this review, EcoSecurities will determine whether to recommend the development of new baseline and monitoring methodologies specifically designed for the project, or if the project can use an existing methodology already approved or being considered by the UNFCCC. This task is of particular interest to the Client, as they want to make sure that an appropriate baseline methodology is selected for this project, and EcoSecurities will provide its expert opinion of the risks (if any) of choosing any one baseline methodology over another, or of adapting any of the existing methodologies according to the indicated guidelines. If a new methodology is required EcoSecurities will provide a proposal for how much this would cost to the client.

- c) Prepare Preliminary Estimates of GHG Reductions and Determine Their Market Value. To assist the Client in understanding the financial benefits of developing the project as a climate change activity, EcoSecurities will provide a preliminary estimate of the amount of carbon credits that would be generated by the project and their potential value on the market at current and expected prices.
- d) Conduct Field Trip. As indicated above, EcoSecurities will conduct a field trip of up to one week to meet key stakeholders involved in the project and to gather relevant project information as necessary. During this week much of the work outlined above would be conducted, including meeting with the project proponents and potentially visiting the project site, the latter to be determined in consultation with the Client. In addition, EcoSecurities would work with the Client to schedule meetings with other relevant stakeholders such as the Designated National Authority (DNA) of the Host Country Government, operators of the power grid, and other project partners, as appropriate.
- e) Prepare Briefing Report. EcoSecurities will prepare a briefing report outlining the findings from the tasks outlined above. Specifically, the briefing report will include EcoSecurities' expert opinion regarding project eligibility, the need for new baseline and monitoring methodologies, the amount and value of the emission reductions that could be generated, and any other information that may be relevant for the Client at this stage of project development.

Phase II Project Preparation

EcoSecurities will conduct all of the necessary analyses and develop the requisite documentation for the project to meet international requirements. In practice, this means the preparation of a Project Design Document (PDD), the official document required for submitting the project to the relevant international authorities. Project Preparation will therefore consist of the following specific activities. Given the different context, the three hydro plants may be separated in three PDD to reduce the risk. In this case, if one project presents problems related to PDD elaboration, validation, country approval or registration; it will not delay or reflect on the other plants.

- a) Prepare PDD. EcoSecurities will prepare a PDD for the project, the formal document that must be submitted for independent third-party validation, and ultimately submitted to the CDM Executive Board for registration of the project as a CDM activity. EcoSecurities will ensure that all of the relevant information is included in the PDD and presented appropriately[†].
- b) Prepare Baseline Analysis and Develop a New Baseline Methodology (if necessary). EcoSecurities will prepare a new monitoring methodology should it be required. In the event that an existing monitoring methodology can be used, this methodology would be used and the budget would be reduced downwards by US\$ 10,000 deducted from the last payment.

[†] EcoSecurities will select the most appropriate and cost effective methodology to be used by the project. As part of the preparation of the PDD, the project developer should know that there may be several options for conducting this analysis. One of those options includes conducting a dispatch data analysis, and should this option be the developer's preferred choice, this work would require extra resources as EcoSecurities will need to subcontract a consultancy firm specialised in such dispatch data analysis.

- c) Prepare a Monitoring Plan. EcoSecurities will develop a detailed Monitoring Plan to monitor emissions reductions achieved by the project, according to the correspondent baseline methodology.
- d) Conduct Stakeholder Consultation. EcoSecurities will work closely with the Client to design, organise, conduct, and write up an effective consultation with local stakeholders, a critical (and required) part of the project development and approval process. Given the sensitive nature of some projects, EcoSecurities will provide its expert opinion and recommendations regarding how best to conduct these events to ensure both effective consultation and project success.
- e) Conduct Field Visit. During the project preparation EcoSecurities will need to conduct a field visit. To that end, EcoSecurities has allowed for a trip and will work with the Client to conduct this visit at the most appropriate time. This trip will be agreed with the Client in advance.
- f) Assist with Validation. An essential requirement of all climate change projects is the validation of the project design by an independent third party accredited by the relevant authorities to validate projects and certify emission reductions (referred to as the Designated Operational Entities, or DOEs). To that end, EcoSecurities would assist the Client with the selection of a DOE by providing terms of reference and assisting in the selection process. EcoSecurities will also include any relevant comments made by the validators in the PDD.
- g) Assist with Project Registration. Once the project has been validated and submitted to the CDM Executive Board, EcoSecurities will provide assistance to the Client to ensure the project is registered. This assistance may include tracking the status of the project registration process and responding to queries raised by the CDM Executive Board.

Phase III Carbon Credit Commercialisation.

By contracting EcoSecurities to conduct the work described above the Client grants EcoSecurities the exclusive rights to market the project's carbon credits and arrange an acceptable sale of carbon credits that will be generated by the project. EcoSecurities has successfully advised multiple clients on the transaction of JI and CDM emission reduction rights and has taken many projects, including the ones in the box below, through the carbon project cycle and to the point of transaction. Through this experience, EcoSecurities has engaged in a wide variety of proposed contract structures behalf of its carbon-selling clients.

This announcement appears as a matter of record only United Power Company Hydro Project Romania € 3,063,155 Placement of Emission Reduction Units representing 612,631 tCO₂e to the Dutch ERUPT (1) Programme ECO SECURITIES Acted as Carbon Advisor to the Seller Harza Engineering Company Hidroelectrica April 2005	This announcement appears as a matter of record only NovaGerar Landfill Gas-to-Energy Project Brazil Pricing Confidential Placement of Certified Emission Reductions representing 5 million tCO₂ Purchaser Identity Confidential (pending host country approval) ECO SECURITIES Acted as Carbon Advisor to the Seller NovaGerar April 2005	This announcement appears as a matter of record only V&M do Brasil Fuel Switch Project Brazil Pricing Confidential Placement of Certified Emission Reductions representing 400,000 tCO₂e to Private Investor Identity Confidential ECO SECURITIES Acted as Carbon Advisor to the Seller V&M do Brasil February 2005	This announcement appears as a matter of record only V&M do Brasil Fuel Switch Project Brazil Pricing Confidential Placement of Certified Emission Reductions representing 5 million tCO₂ Purchaser Identity Confidential ECO SECURITIES Acted as Carbon Advisor to the Seller V&M do Brasil February 2005
This announcement appears as a matter of record only Hidroelectrica Papeles Elaborados Hydro Project Guatemala Volume & Price Confidential Placement of Green Certificates representing 8.2 MW of green electricity with Nuon (NL) ECO SECURITIES Acted as Carbon Advisor to the Seller November 2005	This announcement appears as a matter of record only BKB Waste Management BV Landfill gas-to-energy project Slovak Republic Pricing Confidential Placement of Emission Reduction Units representing 550,000 tCO₂e to the Dutch ERUPT (2) Programme ECO SECURITIES Acted as Carbon Advisor to the Seller Adrian 2005	This announcement appears as a matter of record only Wigton Wind Farm 20 MW Wind Jamaica Pricing Confidential Placement of 500,000 Certified Emission Reductions under Dutch Government funding programme ECO SECURITIES Acted as Carbon Advisor to the Seller Petroleum Company of Jamaica On going	

As part of this phase, EcoSecurities would assist the Client in commercialising the carbon credits generated by the project in the international carbon market. Services included in this phase include:

- Market the Project. EcoSecurities will market the project to potential buyers, both directly to such buyers and through intermediaries that buyers have retained in the marketplace. Given its extensive knowledge of the carbon market and its expertise dealing directly with the development and sale of carbon credits, EcoSecurities will provide the Client with access to a range of buyers that would be interested in purchasing the emission reductions from this project. The marketing strategy will reflect internal conversations with the Client and the dynamics of the project. Likely purchasers include the private sector, governments, and multilateral agencies located throughout the EU, Japan, Canada and the US. Upon reaching agreement with a buyer, EcoSecurities would suggest a short-term period for exclusive negotiation to get to either a Letter of Intent or a conditional Emission Reduction Purchase Agreement (ERPA).
- Negotiate the Contract. EcoSecurities will either negotiate, or help the Client negotiate, the terms of both a Letter of intent and an Emissions Reduction Purchase Agreement. Many emission reduction purchasers have consistently sought to place undue burdens upon the sellers of credits based on the variety of risks that exist (e.g., the relative inflexibility of CER delivery schedule, responsibility for due

diligence costs, multiple buyers), and EcoSecurities will assist the Client on how to deal with these requests.

Monetisation Services

In addition to the services provided above, EcoSecurities may be able to provide the Client with monetisation services, which refer to the structuring of a loan or other investment in the Client's project that would be secured by the ERPA. For example, under this set of services the anticipated cashflows from the ERPA, or a portion thereof, would be present valued at an agreed upon discount rate to calculate the loan amount. As part of this assignment, EcoSecurities would structure the monetisation offering and source lenders or investors for the Client. It would be up to the Client to accept or reject any offer that EcoSecurities provides in this respect. Remuneration for these services would be based upon a success fee based as a percentage of the gross amount of the loan or investment. Contracting for EcoSecurities services would be done separately from the work being proposed in this proposal.

3. Timeline

Unless there are no unexpected delays, this work can be done within 4-5 months. As Table below indicates, Phase 1 can be concluded in 1 month and Phases II and III can be concluded in 4 or 5 months after Phase I. This timeline assumes EcoSecurities will have access to all necessary information and anticipates some delays associated with timetables for the Host Country DNA, CDM Executive Board and/or the Methodologies Panel.

Phases	Mês					
	1	2	3	4	5	6
Phase I: Initial Project Assessment						
Fase II: Project Preparation						
Fase III: Carbon Credit Commercialisation						

4. Remuneration

The following table presents a breakdown of the budget for the services EcoSecurities would provide under this contract. These fees are based on EcoSecurities fee structure, which provides for a reduced cost for consulting services given the incentives for ensuring a successful sale of the carbon credits. The fees for Carbon Credit Commercialisation are based on a success fee as a percentage of the value of the credits sold. It is important to note that, unlike many other brokers in the market, EcoSecurities would accept no compensation from a buyer for conducting the transaction.

Phase	Cost
I) Initial Project Assessment	US\$ 4,500
II) Project Preparation (elaboration of 3 PDDs)	US\$ 30,000
III) Commercialisation of Carbon Credits	Success fee of 5.75% on the sale of carbon credits
Total	US\$ 34,500 + 5.75% Success Fee

Note that the above costs do not include travel costs, which must be paid by the Client. These costs are estimated to be US\$ 1,000 based on one field trip of one week to the project site. Flight and accommodation expenses will be accompanied by receipts and will be invoiced separately at net cost and miscellaneous expenses will be covered by a per diem of US\$ 50. Should additional travel be required, the travel budget may need to be revised, and this will be done in full consultation with the Client.

In the event that an existing approved baseline and monitoring methodology can be used, this methodology would be used and the budget would be reduced downwards by US\$ 10,000 deducted from the last payment. Considering a scenario where the client do not request the Phase I services, and there is an approved methodology applicable to project activity, the total costs would be of US\$ 20,000 + 5.75% success fee.

Payments will be made along the following schedule:

Initial Project Assessment

- 100% of Initial Project Assessment value on signature of contract.

Project Preparation

- 50% of Project Preparation value ;
- 40% of Project Preparation value on submission of PDD to the Client; and
- 10% of Project Preparation value on validation.

Carbon Credit Commercialisation

- All success fees will be paid within 15 days from the time the Client receives each payment for CERs based on the Emission Reduction Purchase Agreement (ERPA), or from monetisation services, as appropriate.

All payments are due within 15 days of presentation of an invoice.

In addition, the Client should be aware that third party costs associated with developing climate change projects are not included in this proposal. Specifically, the following costs are not included in the proposal:

- Validation, estimated to be between US\$10,000 and US\$30,000;
- Registration of the project with the relevant authorities, estimated to range between US\$5,000 and US\$30,000 depending on the size of the project size;
- Ongoing CER certification, estimated to range from US\$5,000 to US\$10,000 per audit; and
- Any legal cost that may be required by the Client.

If the scope of these services required by the Client change, the terms of this proposal may need to be adjusted by EcoSecurities in consultation with the Client.

5. Confidentiality

With regard to the above-mentioned services, all communications and information exchanged between the Parties will be conveyed in confidence. One of the first activities to be undertaken upon signature of contract will be the determination of information that the Client would like to be handled confidentially, thereby ensuring that confidential information between the Parties will not be used without the express consent of the originating Party.

6. Signatures

This Proposal/Agreement is subject to EcoSecurities standard Terms and Conditions, attached. If you wish to proceed with the work as proposed, please sign the table below and return this sheet as an indication of agreement.

Signed on behalf of EcoSecurities Ltd.:	Signed on behalf CERAN:
Name: Nuno Cunha e Silva EcoSecurities Brasil Director	Name: Vendolino Fischer
Date:	Date:

Annex 1: Background on EcoSecurities

EcoSecurities was founded in 1997 by experts in the field of emissions trading and greenhouse gas (GHG) accounting. Since then, EcoSecurities has grown to be the largest dedicated advisory firm in the world providing strategic advisory services related to GHG accounting and mitigation projects to private industry and the public and non-governmental sectors. With offices in the United Kingdom, the United States, Brazil, Holland and Australia, and a highly capable staff, EcoSecurities provides solid and innovative solutions for its clients. EcoSecurities' track record has been widely recognised, as evidenced by having been voted "Leading Greenhouse Gas Advisory Firm Worldwide" by readers of 'Environmental Finance' magazine for the fourth year in a row (2001, 2002, 2003 and 2004). For further information, see www.ecosecurities.com.

EcoSecurities has developed and/or advised on carbon dioxide (CO₂) and other GHG emission reduction projects in over 30 countries and has structured several of the world's first and largest certified emission reduction trades to date. EcoSecurities has a demonstrated track record of identifying a variety of different projects that would be eligible under international guidance and developing methodologies and the corresponding documentation to ensure project approval. For example, EcoSecurities has prepared Project Design Documents (PDDs) for a variety of technologies and sectors across a variety of countries (e.g., Brazil, Colombia, Jamaica, Malaysia, Peru, the Philippines, Slovakia, Thailand). These documents typically include the results of the emissions baseline study, a comprehensive projection of the emission reductions that could be generated by a project, an assessment of the social, economic and other environmental impacts of the project, a monitoring plan, and financial analyses.

Following are examples of EcoSecurities' work with respect to the development of specific projects in various sectors throughout the world.

- NovaGerar Landfill Gas to Energy Project (Brazil). EcoSecurities developed this project in its own account and recently closed a contract for the sale of over €6 million in carbon credits to the Netherlands Carbon Facility, run by the World Bank. As part of this project, EcoSecurities developed the baseline methodology, one of the first to be approved by the Methodologies Panel of the CDM, and conducted negotiations between the concessionaire managing the landfill site, the technology providers, carbon credit buyers and other stakeholders.
- Surduc-Nehoiasu Hydro Power Project (Romania). EcoSecurities acted as carbon advisors for this 56 MW hydro power plant that sold its emission reductions of 612,631 tCO₂ to the Dutch government through the Emission Reduction Unit Procurement Tender (ERUPT) programme for €3,063,155. This emission reduction transaction was one of the first of this scale in the world.
- Wigton Wind Farm (Jamaica). Working as carbon advisors for the Petroleum Company of Jamaica (PCJ) and RES Ltd (a UK based wind development company), EcoSecurities evaluated, structured, and transacted the CERs generated by the 20 MW Wigton Wind Farm. EcoSecurities role in this project consisted of supervising and participating in the preparation of all CDM documentation,

including the development of a new baseline methodology for grid-connected renewable energy projects, and in activities related to the on-going sale of CERs.

- KWTE Tapioca Starch (Thailand) and Philbio Alcohol Distillery (Philippines) Anaerobic Digestion Projects. EcoSecurities is currently in the process of assisting the project developers, KWTE and Philbio, prepare projects designed to take advantage of tapioca starch and alcohol distillery waste as means of generating biogas energy (electricity and or steam), whilst also mitigating fugitive methane emissions. These projects have required the development of new baseline and monitoring methodologies, as well as the other suite of services EcoSecurities provides to clients, including validation and stakeholder consultation and support in the financing of the project through CER transaction services.
- Palm Oil Refinery Biomass Fuel Switch (Malaysia). EcoSecurities is helping Felda Palm Industries capture the environmental value of switching fuel (from fuel oil to biomass) at one of their Palm Oil production and refining facilities in Malaysia. This project was developed under the CDM's small-scale methodology processes, is currently undergoing validation supported by EcoSecurities, and is also before the Malaysian Authorities, awaiting the final Host Nation Approval, having already received an interim endorsement. The project CERs are also currently at an advanced stage of negotiation with a buyer.

EcoSecurities has thus been at the forefront of developing climate change projects and helping clients capture, in financial terms, the environmental value of new activities. EcoSecurities has been able to establish a leadership position in the carbon industry due to its attention to detail, its careful and deliberate approach to developing projects, and its close and growing relationships with a steadily increasing client base.

In addition to direct experience developing specific projects that reduce GHG emissions, EcoSecurities provides a range of capacity building services that can assist developed and developing country governments prepare to engage with the flexible mechanisms of the Kyoto Protocol. While industrialised country governments are generally interested in minimising GHG compliance costs for their industries and developing export opportunities for technology providers, developing country governments focus on the potential development and poverty reduction opportunities provided by JI and the CDM. As part of these services, EcoSecurities has consulted to more than 15 governments on their climate change policies, including preparing and conducting several capacity building exercises and providing guidance on the establishment of Designated National Authorities (in developing countries) for addressing issues related to the Kyoto Protocol).

In 2003 EcoSecurities established a cooperative agreement with Standard Bank London to provide climate change services to their clientele. This agreement focuses on the structuring, monetisation and, in due course, the trading of carbon credits arising from the implementation of the CDM and Joint Implementation of the Kyoto Protocol. Standard Bank and EcoSecurities also provide advisory services to governments and other entities on how best to implement aspects of the Kyoto Protocol and the EU ETS in their own countries. In liaison with the worldwide network of the Standard Bank Group, the Standard Bank - EcoSecurities cooperation has focused on opportunities in the African continent and Russia, as well as in certain Asian and Latin American countries. Most recently, EcoSecurities and Standard Bank were awarded an € 8 million contract by the Danish Environmental Protection Agency to purchase carbon credits on behalf of the Danish Government from projects in Central and Eastern Europe and Central Asia.

In 2004 EcoSecurities established an agreement with Arcadis BV, a large international environmental consulting firm, to provide their clientele with a full suite of climate change related services. Specifically, the EcoSecurities – Arcadis alliance will allow European clients to determine their GHG emission inventory, assess emission reduction opportunities, both within their operations and in the carbon marketplace, monitor their on-site GHG emission reduction activities, and incorporate the purchase of CERs into their corporate climate change strategies.

Annex 2: Terms and Conditions

1. GENERAL

- 1.1 These Terms and Conditions are applicable to the legal relationship between EcoSecurities Ltd. and each person/Company with whom EcoSecurities engages in a contractual relationship ("the Client").
- 1.2 These Terms and Conditions and the Proposal (or Terms of Reference) together contain the entire agreement ("the Contract") between the Client and EcoSecurities with respect to the subject matter hereof. No variation to the Contract shall be valid unless it is in writing and signed by or on behalf of the Client and EcoSecurities.
- 1.3 The Client acknowledges that, in entering into the Contract, it does not rely on any representation, warranty or other provision except as expressly provided in the Contract.

2. SCOPE OF THE WORK AND DEFINITIONS

- 2.1. The scope of the Agreement is the provision by EcoSecurities Ltd of the Services specified in the Proposal / Terms of Reference attached.
- 2.2. For the purpose of this agreement, "carbon credits" refer to any greenhouse gas related environmental value including, but not restricted to, Emission Reduction Units (ERUs), Certified Emission Reductions (CERs), Verified Emission Reductions (VERs), Green Certificates, Renewable Energy Certificates (RECs), and any sort of carbon offsets.

3. CARBON CREDIT OWNERSHIP AND RE-ASSIGNMENT OF TRADING RIGHTS

- 3.1 By entering into this agreement, the Client confirms that it has the ownership of carbon credits that will be generated by the project activities covered by this agreement.
- 3.2 By entering into this agreement, the Client confirms that it has the legal authority to delegate EcoSecurities to develop and commercialise such carbon credits.
- 3.3 If the Client re-assigns the ownership of such carbon credits to any third party (e.g. wholly or partially owned subsidiaries, parent company, associated company), EcoSecurities rights to commercialise the credits from the project will remain in force.
- 3.4 In the event of a change in the ownership of the project, which will generate the carbon credits under this agreement, EcoSecurities rights to commercialise the credits from the project will remain in force.
- 3.5 If the Client decides to keep the carbon credits for internal purposes and/or delay commercialisation for more than one year from signature of the agreement, the Client agrees to advance to EcoSecurities 75 percent of the success fee, to be paid in carbon credits.

4. PERSONNEL

- 4.1. The Services shall be carried out by EcoSecurities' personnel provided that adjustments may be made with the prior mutual agreement of the parties.
- 4.2. EcoSecurities shall appoint a staff member as Project Manager who shall be responsible for supervising and co-ordinating the activities of the personnel and for liaison between the Client and EcoSecurities.

5. TIME SCHEDULE

- 5.1. The Services shall be carried out by EcoSecurities in the time frame stated in the Proposal / Terms of Reference.

6. FEES AND PAYMENT

- 6.1. The fees are those stipulated in the Proposal /Terms of Reference attached
- 6.2. All fees quoted are exclusive of travelling and subsistence costs (which will be charged to the Client at cost, upon presentation of receipts where possible). All fees and additional charges are exclusive of any applicable Value Added Tax or similar tax in the country concerned.
- 6.3. Following completion of the assignment described in the Proposal, EcoSecurities shall issue an invoice to the Client. All invoices are payable within 15 days of the date of each invoice. Payments made after that date will incur an interest charge of 1.0% for each 30-day period outstanding.
- 6.4. Any use by the Client of any Report or the information contained therein is conditional upon the timely payment of all fees and charges. EcoSecurities reserves the right to cease or suspend all work for a Client who fails duly to pay an invoice.

7. TERMINATION

- 7.1 EcoSecurities shall be entitled to terminate the Contract by giving not less than thirty days' notice in writing to the Client. If EcoSecurities terminates the Contract (other than by reason of default by the Client in its obligations) EcoSecurities shall reimburse to the Client any sums paid by the Client to EcoSecurities and any expenses incurred by EcoSecurities under the Contract, but EcoSecurities shall not be liable to make any other reimbursement or pay any other compensation to the Client.

8. FORCE MAJEURE

- 8.1 EcoSecurities shall not be deemed to be in breach of Contract by reason of any delay in performance or the non-performance of its obligations, and shall not incur any liability for delays, loss, damages, costs, claims, loss of profit or consequential loss, caused by or resulting from:
- [a] any prohibition, enactment, embargo or other limitation imposed by any government or local authority;
 - [b] disease or illness affecting personnel of EcoSecurities;
 - [c] war, industrial action or civil commotion;
 - [d] destruction or damage to property by fire, storm, tempest, vandalism, lightning, explosion or flood;
 - [e] the failure or withdrawal of public services; or
 - [f] acts of God, force majeure or any other cause beyond its control.
- 8.2 If any of the contingencies set out in Clause 8.1. results in a delay extending beyond six months, the Contract (upon notice of either EcoSecurities or the Client) shall be terminated.

9. LIMITATION OF LIABILITY AND INDEMNITY

- 9.1 EcoSecurities undertakes to exercise due care and skill in the performance of its services and accepts responsibility only in cases of negligence.
- 9.2. EcoSecurities shall have no liability to the Client arising out of or in connection with the Contract and its performance by reason of any representation or the breach of any express or implied condition, warranty or other term of any duty at common law or under any statute for any indirect, special or consequential loss of the Client (including loss of profits), and the total liability of EcoSecurities to the Client in respect of any other loss shall be limited, in respect of any one event or series of connected events, to an amount equal to the fees paid to EcoSecurities under the Contract (excluding Value Added Tax thereon).
- 9.3. The Client shall indemnify and hold EcoSecurities harmless from and against any and all claims or actions of third parties, arising directly or indirectly out of or relating to the services to be supplied by EcoSecurities pursuant to the Contract, and

against any damages, losses, penalties, fines, costs, expenses or professional fees incurred by EcoSecurities in relation to such claims or actions.

- 9.4. EcoSecurities shall be discharged from all liability to the Client for all claims for loss, damage or expense unless suit is brought within one year after the date of the performance by EcoSecurities of the service which gives rise to the claim or in the event of any alleged non-performance within one year of the date when such service should have been completed.

10. CONFIDENTIALITY

- 10.1. EcoSecurities and the Client shall treat as confidential all details of this Agreement as well as all information related to each other.
- 10.2. EcoSecurities, and its employees, and sub-contractors, shall not under any circumstances, before and/or during the completion of the Services and for a period of ten (10) years thereafter, disclose information to any third party on the activities and the business of the Client, whether or not related to the Services; except with the Client's prior written approval, or where such information has entered the public domain prior to such disclosure.

11. DISPUTES

- 11.1. If one party fails to fulfil the terms and conditions hereof the other party shall notify the first party in writing and the first party shall remedy the failure within thirty (30) days from receipt of such notice. If such failure is not deemed remedied by the other party within this period, the issue shall be referred to arbitration as provided for in sub-clause 11.2 hereof.
- 11.2. All disputes or differences arising out of this Agreement or in connection therewith which cannot be amicably settled between the parties shall be referred to arbitration, which shall take place in, and under the laws of England.

12. VARIATIONS

- 12.1. This Agreement may be varied only by written agreement signed by both parties.

13. EFFECTIVENESS

- 13.1. This Agreement shall be effective on the day following its signing by both parties and shall remain in force and effect until payment by the Client of the final invoice referred to in sub-clause 6.3 except for the conditions contained in sub-clauses 8 and 9.2 hereof that shall remain in full force and effect as provided for therein.