1. Overview: CMM in the Clean Development Mechanism
2. Case Study: CMM in China
3. Outlook for CDM in this market and post-2012
4. Appendix
The Macquarie Group is a diversified international provider of banking, financial, advisory and investment services.

- Macquarie is listed on the Australian Securities Exchange under the ticker ASX:MQG with a market capitalization of ~ $A8.9 billion*.
- The Group currently has total assets of ~ $A232 billion* under management.
- Macquarie has more than 60 offices in 25 countries with over 13,500 employees and approximately 57% of its total operating income is derived from the international markets outside Australia.

### Entities

<table>
<thead>
<tr>
<th>Entities</th>
<th>Short-term ratings (S&amp;P/Moody’s/ Fitch)</th>
<th>Long-term ratings (S&amp;P/Moody’s/ Fitch)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macquarie Group Limited</td>
<td>A2/P1/F1</td>
<td>A-/A2/A</td>
</tr>
<tr>
<td>Macquarie Bank Limited</td>
<td>A1/P1/F1</td>
<td>A/A1/A+</td>
</tr>
</tbody>
</table>

*As of 13/10/08*
Macquarie’s Emissions Desk

Macquarie Assets

### EUROPE
- **UK**
  - Airwave
  - Anglian Water
  - Bristol Airport
  - East London Bus Group
  - M6 Toll
  - MEIF Renewables**
  - Moto (motorway services)
  - National Car Parks
  - Red Bee Media
  - Thames Water
  - Wales & West Utilities
  - Wightlink Ferries
  - Isle of Man
  - Steam Packet (ferry services)
- **Belgium**
  - Brussels Airport
- **Spain**
  - Telefónica (vehicle inspection)
- **France**
  - Aubriboules Paris-Rhin-Rhône
  - Trois Sources & Lomont windfarms
- **Germany**
  - GWE* (heat and power)
  - TanQuid (tank storage business)
  - Techem (utilities allocation)
  - Warnow Tunnel
- **Denmark**
  - Copenhagen Airport

### AFRICA AND MIDDLE EAST
- **South Africa**
  - Balkenrae Platinum Corridor
  - N3 Toll
  - N4 Maputo Toll
  - Ndock
  - Kelvin Power
- **Tanzania**
  - Kilimanjaro Airport

### NORTH AMERICA
- **Canada**
  - 407 ETR
  - A-25
  - AltaLink
  - Cardinal Power
  - Chapais (biomass facility)
  - Edmonton Ring Road
  - Erie Shores Wind Farm
  - Fraser Surrey Docks
  - Halterm Limited (Port)
  - Hydro Power Business
  - Leisureworld
  - New World Gaming
  - Sea To Sky
  - Whitecourt (biomass facility)

### USA
- **AIR-serve (tyre inflation)**
  - American Consolidated Media
  - Aquafin Water
  - Atlantic Aviation (fixed base operations)
  - District Energy (heating/cooling)
  - Dufies Greenway
  - Duquesne Light
  - FastTrack Parking
  - Global Tower Partners
  - Hanjin Container Terminals**
  - Icon Parking
  - Indiana Toll Road
  - International-Matex Tank Terminals
  - Longview
  - Penn Terminals*
  - Puget Energy*
  - Skyway
  - Smarte Carte
  - South Bay Expressway
  - The Gas Company
  - Waste Industries*

### ASIA
- **South Korea**
  - Baekyang Tunnel
  - Busan New Port Container Terminal
  - C&M (cable TV)
  - Cheonan Nonsan Expressway
  - Daegu East Circular Road
  - Incheon Expressway
  - Incheon Grand Bridge
  - Kwangju 2nd Beltway
  - Kwangju 2nd Beltway, Section 1
  - Kwangju 2nd Beltway, Section 3-1
  - Machang Bridge
  - SK E&S (gas distribution)
  - Seosan-Os-Cheongda Expressway
  - Seoul Chuncheon Expressway
  - Seoul Subway #9
  - Ssogjusan Tunnel
  - West Sea Power/West Sea Water
  - Woomyunsan Tunnel
  - Yengin Seoul Expressway
- **Japan**
  - Fukuyama Driveway
  - Japan Airport Terminal
  - Toyota Tires Turnpike
- **China/Taiwan**
  - Changshu Xinghua Port
  - Hua Nan Expressway
  - InfraVest Wind Power
  - Taiwan Broadband Communications

### AUSTRALIA AND NEW ZEALAND
- **Australia**
  - Alinta Gas Networks
  - Broadcast Australia
  - Dampier-Bunbury (gas distribution)
  - EastLink
  - Hobart Airport
  - Macquarie Southern Cross
  - Multinet
  - Retirement Villages Group NSW
  - Retirement Villages Group Victoria
- **New Zealand**
  - MetLifeCare
  - PrivateLifeCare
  - Retirement Care NZ

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As at 31 March 2008 - the assets listed are managed on behalf of investors with various direct % stake held in each.

* Subject to financing and customary closing arrangements.
** MEIF Renewables also located in France and Sweden. European Directories also located in Austria, Czech Republic, Denmark, Finland, France, Slovakia, and Sweden. Hanjin Container Terminals also located in Japan, Korea and Taiwan.
Macquarie’s Environmental Financial Products (EFP) team is part of the Treasury & Commodities Group and is responsible for emissions-related transactions.

- Over the past two years, Macquarie has established a team of specialists in all aspects of emissions trading, including derivatives, legal, financial modelling and capital raising.

- In areas where our team does not have direct experience (e.g. engineering), our approach is to utilise specialist partners in the local market who have a track record of successfully delivering projects.

- Combined with our team’s international experience, the strength of our partner network creates a process where specialists in each field can work together to successfully implement projects.

  - This also allows us to quickly respond to client and project needs. For an example please see CDM project 1320 on the UNFCCC CDM website.
Overview
The CDM is a mechanism to enable CMM abatement and utilisation activities to occur where they would not otherwise be feasible.

- Methodology ACM008 enables projects that meet the following criteria to apply for CDM status.
  - coal mine methane, coal bed methane or ventilated air methane capture
  - used for power generation, heat generation or destruction through flaring or oxidation
  - new and existing operating mines (excludes open cast)
- CER volumes depend on a range of variables, including:
  - the amount of energy used to capture the methane
  - volumes, pressure and temperature, flow rate and density.
- All of these factors must be monitored on site in accordance with the established methodology.
- An individual project must also satisfy the CDM Executive Board that it complies with the CDM criteria, including “additionality”.
CMM Projects make up a very small percentage of the total number of registered CDM projects and issued CERs.

- To date, very few CMM projects have achieved registration (currently 10 registered projects – less than 10), although no CMM applications have yet been “rejected”. Barriers to registration have included satisfying the CDM EB that:
  - the project is not financially feasible (based on investment analysis) without the revenue from CERs (“additionality”)
  - the project was implemented with the CDM in mind (where the start date is prior to CDM application)
  - adequate monitoring measures are in place
  - the utilisation or destruction of the methane is not mandatory under applicable law
- CMM projects have also faced difficulties at the CER issuance stage. As of 13 October 2008, only 196,700 issued CERs from CMM projects (representing only 0.1% of total CERs issued).
Case Study: CMM in China
Case Study: CMM in China

CDM and Domestic Regulation

Although CMM is permissible under the international CDM rules, the feasibility of a particular CDM project will depend on local industry regulation.

- Coal mine gas is a major industrial health issue in China. The national government has imposed regulation and policy to deal with the safety risks posed by CMM in mine shafts.

- Difficulty with the regulations: “Attractive” high concentration CDM projects are no longer additional. Low concentration CDM projects may be prohibited.

<table>
<thead>
<tr>
<th>“High Concentration” CMM (&gt;30%)</th>
<th>“Low Concentration” CMM (&lt;30%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractive for CDM (larger CER volumes)</td>
<td>Lower CER volumes</td>
</tr>
<tr>
<td>Under China law it is now MANDATORY to utilise or destroy CMM</td>
<td>More volatile/explosive</td>
</tr>
<tr>
<td>This has an immediate impact on additionality for new CMM projects</td>
<td>Under China law, it has historically been prohibited to utilise the CMM</td>
</tr>
<tr>
<td>Govt. intends to enforce regulation.</td>
<td>Now that there are proven technologies for safely capturing low concentration methane, it is now possible to get local government “safety certificate”/ exemption</td>
</tr>
</tbody>
</table>
Outlook for CDM
CER prices (and indeed the Kyoto Protocol negotiations) are impacted by a range of market forces

- CER prices differ from other commodity prices in that supply and demand are governed by regulation

- Prices have been more closely linked to commodities prices than general “economic health” (e.g. evidenced by share prices)

- If the global economy slows such that European and Japanese emissions reduce due to industrial downturn, CER prices will certainly be impacted

- Supply and demand (and therefore pricing), are impacted by:
  - the number of market participants (e.g. whether the US participates in any global carbon market and whether any major developing economies take on targets)
  - delays in the administrative process (DOE and CDM EB bottleneck)
  - Fuel prices such as Coal, Oil and Gas and the ability to switch between different fuels
    - weather; and
  - Signals for post-2012 demand

Sourced on: Bloomberg 26 Sept 08
Outlook for CDM
In the current market and post-2012

Post-2012 Predictions (for what they’re worth)....**

- The ability of countries to politically agree to a multilateral political framework (including CDM or something similar) will be determined by local economies and politics.
  - Imposing additional costs through tighter regulation could be particularly unpopular in electorates in recession.
  - Conversely, global energy prices have already risen far higher than the predicted “cost of carbon” when the Kyoto Protocol was negotiated.
  - After the US elections, engaging in climate change dialogue (and indeed taking a multilateral approach on foreign policy) may be seen by both candidates as a positive departure from the Bush administration. Any engagement by the US would bolster European and potentially Chinese support.
  - China is very aware that climate change poses a major threat to China (including for health reasons and water supply). If the US engages in climate dialogue, China may well migrate to something like Joint Implementation for Russia, with gradually tightening targets.
- If an international climate change agreement survives in any form (i.e. the “Copenhagen Protocol”), it is almost certain to contain something like CDM (remembering that the vast majority of participants in any multilateral dialogue are developing countries).

** “Predictions are very difficult, particularly when they are about the future”
Neils Bohr, Danish physicist and Dan Quayle, former US Vice-President
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