



Risk Management Tools in the Emissions Markets

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What is being traded?

Spot

Volumes have tailed off with the decline in Phase 1 prices but spot trades averaged around 10% of total trades in 2006.

Forward

OTC contracts for delivery Dec of each year of phase 1 and 2
Bulk of trades for delivery Dec 07 (phase 1) and 08 (phase 2).
There is significant bilateral trading

Exchange

Futures: IPE-ECX, Nordpool, EEX
Spot: Powernext, Nordpool, Climex

CERs

Mainly high risk “primary” CERs, “secondary” or “guaranteed” CER trading has started

Options

Few options have traded in the OTC / exchange market so far, 2007 looks set to buck this trend.

What new products will we see in the future?

CERs

Further development of secondary market as delivery mechanisms are put in place and exchanges quote standardised products

Options

Will introduce further liquidity and speculative capital and allow owners of real options (eg with the ability to abate emissions at a particular cost) to monetise these

Swaps

Will allow price exposure for participants not wanting to take a physical position and facilitate Euro cost averaging for players adopting this hedging strategy

Auctions

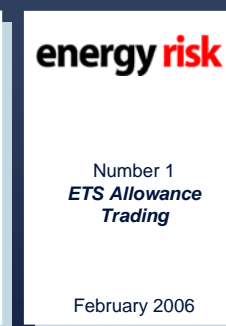
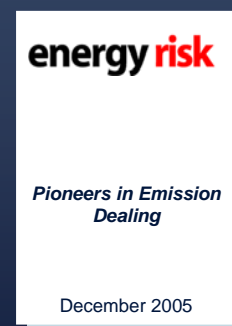
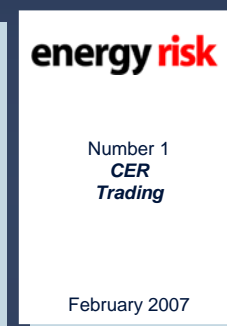
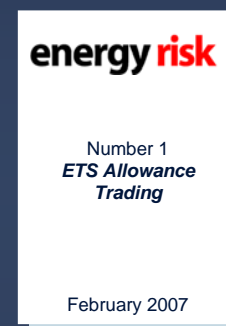
At least 25mt of Phase 2 EUAs will be auctioned every year as part of the allocation process

ERUs

Evolution of a secondary market for ERUs will happen much sooner after the primary market than has happened for CERs

Barclays carbon capabilities

- Barclays Capital has been at the forefront of emissions trading since the inception of the EU emissions trading scheme
- Barclays Capital are the largest intermediary in the carbon market
 - We have traded over 350 million tonnes of carbon credits, with a total notional value of around \$5.5 billion
- Barclays Capital holds the vice chair of the International Emissions Trading Association (IETA) and is committed to supporting this new market
- Access to a large network of customers across all industries within Europe and beyond
- Standardised the secondary CER market with the launch of the “Standard CER Forward Agreement”
- Recognised as a key player in the emissions market through various industry awards



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