

Trading Emissions PLC  
Report & Financial Statements  
for the year ended 30 June 2013

# Trading Emissions PLC

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# Trading Emissions PLC

## Company Information

<b>Directors</b>	Martin Adams (Chairman) Christopher Agar Norman Crighton Mark Lerdal Philip Scales Peter Vanderpump
<b>Secretary</b>	Philip Scales
<b>Administrator, Registrar and Registered Office</b>	IOMA Fund and Investment Management Limited IOMA House Hope Street, Douglas Isle of Man IM1 1AP
<b>Nominated Adviser</b>	Liberum Capital Limited Ropemaker Place, Level 12 25 Ropemaker Street London EC2Y 9LY
<b>Crest Provider</b>	Computershare Investor Services (Channel Island) Limited Ordinance House 31 Pier Road St Helier Jersey JE4 8PW
<b>Investment Adviser</b>	EEA Fund Management Limited 3rd Floor, Becket House 36 Old Jewry London EC2R 8DD
<b>Independent Auditor to the Company</b>	PricewaterhouseCoopers LLC Sixty Circular Road, Douglas Isle of Man IM1 1SA

# Trading Emissions PLC

## Chairman's Statement

Dear Shareholder

During the second half of the financial year, we continued to make progress in implementing the investment objective of Trading Emissions PLC ("TEP" or the "Company") to carry out an orderly realisation of the private equity and carbon portfolios and to distribute the net proceeds to Shareholders.

### Cash and Distributions

During the financial year the Board has concentrated on maximising the cash position of the Company in order to be able to return money to Shareholders. The greatest source of cash generated during the financial year was from the refinancing of TEP Solar's Librandello project with approximately EUR 31.0 million of limited recourse debt. Following the end of the financial year, the letter of credit held by the World Bank, acting as Trustee for the Umbrella Carbon Facility Tranche 1 ("UCF T1"), was returned to the Company, which released a further EUR 4.8 million from funds that had been held as security. As a result, TEP returned GBP 15.0 million (6.00p per share) to Shareholders in February 2013 and, subsequent to the financial year end, a further GBP 37.5 million (15.00p per share) was distributed. During the financial year TEP effected and announced aggregate distributions of GBP 52.5 million, equivalent to 21.00p per share.

The Board expects to make further distributions to Shareholders as and when sufficient cash is available from the sale of investments, after allowing for operating and other costs.

Recent distributions to Shareholders have been made by means of B share schemes. Under such a scheme, every time a return of cash is to be effected by TEP, Shareholders receive a bonus issue of B shares pro rata to their holding of ordinary shares. Each Shareholder then has the opportunity to elect to receive the return of cash either by selling the B shares to TEP's broker or by way of dividend or a combination thereof. In order to provide TEP with flexibility to distribute small amounts of capital, the share buyback powers are renewed annually. However, these powers have not been utilised by the Company since 2010. Unless a majority of Shareholders indicate otherwise, we expect to make future distributions of significant amounts by means of further B share issues.

### Financial Highlights

During the financial year, the Net Asset Value ("NAV") of the Company decreased to GBP 75.1 million (30.08p per share), compared with GBP 157.3 million (62.98p per share) at the beginning of the financial year and GBP 145.2 million (58.12p per share) at 31 December 2012. The NAV decrease was mainly due to the distributions of GBP 52.5 million and the reduction in equity value of three private equity investments. Partly offsetting this reduction has been a decline in estimated liabilities relating to the carbon portfolio, where the Company continues to benefit from the renegotiation of 27 of its 31 performing ERPAs and the termination of the World Bank UCF T1.

The methodology applied in valuing the private equity investments is consistent with previous years. The aggregate value of the private equity portfolio was GBP 57.1 million at 30 June 2013 compared with GBP 114.2 million at the beginning of the financial year. The reduction in the value of the private equity portfolio was principally due to four investments having been sold or refinanced for an aggregate of GBP 25.0 million and GBP 33.7 million in equity valuation write-downs. The Directors estimate that at the end of June 2013, the comparable fair value of the private equity portfolio was GBP 62.2 million, 9% more as compared with the book value calculated in accordance with international financial reporting standards. The difference is caused mainly by the requirement to consolidate controlled subsidiaries into TEP's financial statements. In order not to compromise commercial negotiations, TEP continues not to disclose the carrying values of individual private equity investments.

At 30 June 2013, the value of the carbon portfolio was a net liability of GBP 0.4 million (-0.17p per share) compared with a net liability, gross of hedges, of GBP 17.0 million (-6.81p per share) at 31 December 2012 and a net liability, gross of hedges, of GBP 17.1 million (-6.84p per share) at the beginning of the financial year. Given that delivery of fixed price carbon contracts is at a negligible level, no hedges were in place either at the financial year-end or currently.

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## Chairman's Statement (continued)

The consolidation of controlled subsidiaries into TEP's financial statements makes it impossible for Shareholders to analyse TEP's operating costs independent of the operating expenses of its consolidated investments. The Board reviews regularly all of TEP's operating expenses and significant reductions have been made in the last financial year, particularly associated with service providers. The estimated cost of operating TEP, exclusive of costs of operating subsidiaries and the Directors' incentive plan, in the last financial year was GBP 5.6 million. Unsurprisingly, the largest single operating cost related to investment advisory fees of GBP 3.7 million. The investment advisory fee was fixed at GBP 6.0 million in calendar year 2012 (half of which is included in the latest audited financial statements) and at a maximum of GBP 1.2 million in private equity retainers in calendar year 2013 (of which GBP 0.3 million was offset against the 1% performance fee that EEA earned in respect of the Librandello refinancing). There were additional fees payable to EEA in connection with advice relating to the carbon portfolio.

TEP's investments are mainly denominated in currencies other than Sterling, principally the US Dollar, the Euro, the Brazilian Real and the Polish Zloty. Shareholders will be aware that there has been considerable volatility in foreign exchange markets during the last financial year. TEP does not hedge its foreign currency exposures. As the Pound Sterling is TEP's reporting currency, substantially all cash is held in, or converted to Sterling as soon as is reasonably practicable except for amounts required to match obligations in any particular currency. For example Euros are held to meet obligations in respect of the carbon portfolio and the outstanding investment commitment to EWG Slupsk.

### Realisation of the Private Equity Portfolio

Detailed negotiations continue in respect of the sales of most of the private equity investments. While there is no guarantee that acceptable final terms can be agreed, we gain comfort from the fact that the prospective buyers of three of the more significant holdings are investing significant time and resource in order to acquire the assets. Nevertheless, from experience, the Board recognises that not all of the sales processes may complete as currently envisaged. These three investments have substantial value and the Board is determined to obtain as full a price as possible, taking into consideration potential post-sale contingent liabilities.

More troubling is the investment in Bionasa, where our partners have failed to comply with their contractual obligations and the management they appointed failed to meet key operational milestones. The biodiesel plant was completed in mid-2011, some three years behind schedule and substantially over budget. From the time Bionasa commenced commercial operations, its management has struggled to meet biodiesel delivery commitments, with significant negative consequences. On several occasions, Bionasa was precluded from participating in biodiesel auctions due to prior delivery failures. Although Bionasa's plant itself is fully functional and able to operate, a combination of the original cost overruns (which diverted capital previously earmarked to finance the operational start up) and mismanagement of third party short term credits has resulted in Bionasa no longer having access to working capital. Bionasa has defaulted on its obligations to suppliers, customers, employees and financiers. The Brazilian controlling investors commenced an arbitration process in São Paulo in order to frustrate our right to convert our preferred shares into a substantial majority of the equity of Bionasa. Equity control would allow us to replace the management and implement a turnaround of the business. Attempts to sell Bionasa failed and negotiations with the Brazilian shareholders to try to reverse the slide towards insolvency have so far been unsuccessful. As a result, the arbitration proceedings continue while the financial position of Bionasa deteriorates. The Brazilian shareholders and Bionasa's management appear ignorant of the commercial cost, risk and resources that a financial and operational turnaround requires in order to rescue the business. It is scant comfort that the Brazilian national association of petroleum, natural gas and biofuels recently stated that it expects to pronounce "shortly" on an increase in the biodiesel content in diesel from 5% to 7%, a notional 40% increase in demand. Such a decision could transform the economics of what is currently a low margin business in Brazil. We will continue our endeavours to find a commercial solution and to protect TEP's investment in Bionasa through all legal and other remedies open to us. The Board decided to write down the value of the investment in Bionasa as at 30 June 2013 and further information is provided in note 4.5 in the Financial Statements.

# Trading Emissions PLC

## Chairman's Statement (continued)

There has been some progress in replacing the short term cash flows of Asia Biogas ("ABS") following the expiry of its principal revenue sharing agreement in May 2013. Various new project initiatives are underway that ABS hopes will generate revenue in due course. In addition, operating costs have been substantially reduced. ABS is current on the repayment schedule of its loan from TEP. The future value of ABS's business will depend largely on the success of rebuilding project cash flows.

During the first half of the financial year, TEP completed the exits of its investments in Chapel Street Environmental, Ecotradors and Energia Escalona, generating aggregate proceeds of GBP 2.7 million. No realisations completed during the second half of the financial year.

The voluntary winding up of the investments in Carbon Capital Markets and Sun Biofuels are progressing and the liquidators estimate that TEP will have received approximately GBP 1.1 million by the end of 2013.

### Realisation of the Carbon Portfolio

The process of selling the ERPA portfolio to a strategic end-user of carbon credits has been underway for over a year. Although we continue to engage with the buyer, if we do not see material progress in the near future, we intend to seek alternative potential purchasers of the portfolio.

Following the return of the letter of credit issued in support of TEP's commitment to UCF T1, TEP no longer has any outstanding obligations to UCF T1 and no further outstanding engagements with the World Bank. At 31 December 2012 the liability relating to the UCF T1 was GBP 9.3 million. On termination of the UCF T1 this liability was crystallised as a loss of GBP 4.1 million.

### Investment Adviser

EEA has been the Company's investment adviser since the launch of TEP in 2005. More recently, EEA's activities in respect of TEP have changed and their remuneration has reduced significantly. TEP and EEA mutually agreed to replace the original advisory agreement with a new one year appointment that commenced on 1 January 2013. That agreement will terminate at the end of 2013. Rather than extend the existing arrangement to cover all investments, we have agreed in principle with EEA to put in place two separate arrangements relating to the private equity and carbon portfolios:

- In relation to the private equity portfolio, a short term consultancy-type services agreement has been agreed which will commence on 1 January 2014. The intention is that EEA will continue to support the orderly realisation of the Element Markets, EWG Slupsk and TEP Solar investments for a short period of time. Termination of the new services agreement will be subject to one month's notice from 28 February 2014. After termination, EEA's formal role in supporting the winding down of the private equity portfolio will cease and these will be self-managed by TEP. Notwithstanding the termination of the investment advisory and services agreements, we will continue to liaise with EEA given that they benefit from performance fees relating to any sale within 6 months of termination in respect of any buyer originated by EEA or where EEA has provided more than de minimis services. The performance fee of 2.7% is payable after adjusting for the balance of retainers paid to EEA during 2013.
- In relation to the carbon portfolio, we are in discussions with EEA with a view to putting in place new arrangements that would also commence on 1 January 2014.

The change in EEA's role means that in future, no separate Investment Adviser's Report will be provided to Shareholders with TEP's future interim and audited financial statements.

### Change in Administrator

Effective 1 January 2013, IOMA Fund and Investment Management Limited ("IOMAFIM") was appointed as the Administrator of TEP and its subsidiaries, encompassing all aspects of group accounting and financial control, corporate secretarial, administration, registration, nominee and subsidiary directorships. Philip Scales, who has been TEP's Company Secretary since launch, is a founder and the Managing Director of IOMAFIM. TEP has experienced a significant improvement in financial reporting, budgeting and general corporate administration since IOMAFIM assumed its enlarged role.

# Trading Emissions PLC

## Chairman's Statement (continued)

### Internalisation of the Management of the Investment Portfolio

During the first half of 2014, we expect TEP to complete the internalisation of the management of the remaining private equity investments. EEA has co-operated in this process, principally through the new short term service agreement in relation to Element Markets, EWG Slupsk and TEP Solar and in making available an EEA executive to transfer to TEP on a consultancy basis in relation to Bionasa. The Board has assigned specific investment responsibilities to individual Directors over and above their normal fiduciary duties as non-executive directors. The addition of Mark Lerdal to the Board in January 2013 is facilitating the internalisation of management of the investment portfolio. Mark, Norman Crighton, Chris Agar and I are all engaged on the management and realisation of specific investments.

We have renegotiated the consultancy contracts relating to the operational team based in Rome, who manage the TEP Solar operating assets on a day-to-day basis. As and when appropriate, TEP intends to appoint advisers and/or agents to assist in implementing specific tasks in relation to realisations and, potentially, in relation to the turnaround of Bionasa.

### Outlook

TEP remains a complicated company and the management and realisation of the private equity and carbon portfolios are still challenging. Although we continue to identify buyers interested in the types of assets held by TEP, inevitably sales processes are time-consuming and expensive. The Directors spend significant time closely engaged with the investee companies, the realisation processes and contingency planning. The improved administration of TEP allows us to direct more of our resources to the management and realisation of assets and, as a result, we are confident that the process of internalising the management of the remainder of the private equity portfolio in 2014 will be smooth. We intend to make further distributions to Shareholders as and when further realisations complete.

Thank you for your continued support and patience.

**Martin M. Adams**  
**Chairman**  
31 October 2013

# Trading Emissions PLC

## Investment Adviser's Report

This Investment Adviser's report ("Report") includes statements that are forward-looking and tables that include projections or statements that use terms such as "projects", "expects", "will" or "should". There can be no guarantee that such projections or estimates will be achieved. In relation to the CER portfolio, the statements and tables reflect the current expectations of the Company and/or the Investment Adviser based on risk-adjusted calculations, but actual deliveries of CERs and/or other emission reduction credits may differ materially from those predicted by the projections or other forward-looking statements in this Report.

For the purposes of this Report, "Financial Year" means the period from 1 July 2012 to 30 June 2013 (inclusive). Subsequent developments are also highlighted where relevant.

### Part 1: CER portfolio

**Table 1: Key abbreviations and terminology relating to the carbon portfolio**

Term	Detail	Explanation
CDM	Clean Development Mechanism	The mechanism defined as such in Article 12 of the Kyoto Protocol.
CER	Certified Emission Reduction	A unit issued pursuant to Article 12 of the Kyoto Protocol and all other relevant international rules that represents a reduction of one metric tonne of carbon dioxide equivalent by a CDM project as measured in accordance with the international rules.
ERPA	Emissions Reduction Purchase Agreement	An emissions reduction purchase agreement between a buyer and a seller in which the terms relating to the purchase of emissions reductions are set out.
EU Directive	EU Emissions Trading Scheme Directive	Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emissions trading and amending Council Directive 96/61/EC, as may be amended, supplemented, superseded or re-adopted from time to time.
EUA	European Union Allowance	A unit of account that is an "allowance" as defined in the EU Directive.
HFC projects	Hydrofluorocarbon projects	CDM projects which remove or destroy hydrofluorocarbon 23. CERs generated from these projects are not allowable post-2012 in the EU trading scheme established by the EU Directive.
ICE	InterContinental Exchange	Principal market used as a valuation reference point for CER market and futures prices by the Company.
KP	Kyoto Protocol	The optional protocol to the UNFCCC adopted at the third conference of the parties to the UNFCCC in Kyoto, Japan on 11 December 1997, as may be amended from time to time.
UCF	World Bank Umbrella Carbon Fund	Agreement entered into by the Company to receive CERs from two HFC destruction projects.

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## Investment Adviser's Report (continued)

**Table 2: CER Prices**

The following are the CER futures prices as quoted on ICE which have been used to value the Company's rights to CERs under ERPAs entered into by the Company or one of its subsidiaries at 30 June 2013 and 25 October 2013. The Company has assumed a CER price of EUR 0.80 (as at 30 June 2013) and EUR 0.82 (as at 25 October 2013) for post-2014 CERs.

December Contract Year	30 June 2013 EUR	25 October 2013 EUR
2013	0.50	0.53
2014	0.52	0.52

**Table 3: Key foreign exchange rates**

The following are the key foreign exchange rates used in currency conversions at 30 June 2013 and 25 October 2013:

	As at 30 June 2013	12 Months average for Year ended 30 June 2013	As at 25 October 2013
USD:GBP	1.5213	1.5692	1.6165
EUR:GBP	1.1693	1.2113	1.1711
BRL:GBP	3.3728	3.2245	3.5366
PLN:GBP	5.0573	5.0462	4.8963

The Company's rights to CERs have been acquired principally through ERPAs entered into by the Company (or one of its subsidiaries) with a seller for the purchase of CERs, with payment due on or after delivery to the Company or its relevant subsidiary. ERPAs representing the majority of the existing risk-adjusted fixed price carbon portfolio with Chinese counterparties have been renegotiated. For those projects not being renegotiated, the Company is exploring several options including the possible termination of a number of contracts.

The Company also receives CERs related to its equity investment held in Asia Biogas.

The Company has provided debt finance to companies developing or operating CDM projects. These loans were repayable in CERs directly from the relevant projects and secured with project or company assets or guarantees. The Company does not expect to receive any further significant quantities of CERs from these arrangements.

A summary of notable operational and financial detail relating to the CER portfolio during the Financial Year is set out below:

- The price of CERs has fallen significantly since 30 June 2012. The December 2013 CER future price has fallen from EUR 4.44 on 30 June 2012 to a low of EUR 0.25 on 17 April 2013, subsequently increasing to EUR 0.50 by 30 June 2013.
- Excluding HFC projects, as at 30 June 2013, the Investment Adviser had renegotiated or the Company had terminated 94% of the Company's fixed price risk adjusted CER quantities expected to be delivered under the Company's ERPAs. Subsequently, in September 2013 all of the participants of the Umbrella Carbon Facility Tranche 1 (UCF T1) and the two projects owners came to an amicable solution to terminate two ERPAs for HFC 23 incineration in China. The Letter of Credit held by the World Bank, acting as Trustee for the UCF T1, was returned to the Company releasing approximately EUR 4.8 million from funds held as security.
- The Company's fair valuation of its CER portfolio (excluding inventory and payables) on 30 June 2013, excluding the HFC projects which have since been terminated, is a liability of GBP 0.4 million (see Table 4). This represents a reduction of liabilities of over GBP 7.3 million since 31 December 2012.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### CER portfolio overview

The Company's CER portfolio was designed to provide a long exposure to the price of CERs. This was achieved principally by acquiring CERs issued from CDM projects on a fixed price basis under ERPAs. Prior to 1 July 2011, the average purchase price paid by the Company for CERs was consistently below the secondary market price, meaning that the CER portfolio was a net asset for the Company. However, CER prices then declined significantly and the long position in CERs became a significant net liability for the Company. The Investment Adviser, on behalf of the Company, has substantially reduced these liabilities primarily through the renegotiation of ERPAs as well as through the execution of hedging activities in the secondary market.

The risk adjusted quantities have been valued as at 30 June 2013 using the CER prices set out in Table 2. Consistent with previous years, the estimated cash flows resulting from the Company's rights to CERs under ERPAs entered into by it or one of its subsidiaries are discounted to determine the net present value of the rights to CERs under each ERPA.

**Table 4: Contracted Portfolio**

<b>Total NAV (GBP)</b>	<b>Expected contracted CER quantities tCO2</b>
(0.4) million	25.4 million

### Renegotiated ERPAs

The current market price of CERs is now substantially lower than when the original ERPAs were executed. Under the original ERPAs, the Company was obliged to purchase CERs generated prior to the end of 2012 ("Pre-2012 CERs") at a fixed price and in some instances the Company had an option or a right of first refusal to buy CERs generated after 2012 ("Post-2012 CERs") at a fixed price. The Company was also obliged to purchase some Post-2012 CERs out to dates between 2015 and 2020, depending on the individual projects. The new structure for the majority of the renegotiated ERPAs has replaced the fixed price paid per CER with one where the Company or one of its subsidiaries pays a percentage of the CER spot price on the date of delivery to the Company or its relevant subsidiary. In effect, the Company or its subsidiaries should earn a positive margin, provided the CER price remains at a level sufficient to cover costs and expenses. At the same time, the Company or one of its subsidiaries, where possible, has also offered to purchase Post-2012 CERs on the same floating price terms.

As at the date of this Report, 27 out of 31 previously fixed price ERPAs have been renegotiated, such that the price per CER has changed from a fixed price to a floating price basis. These 27 projects account for approximately 94% of the Group's risk adjusted CER quantities expected to be delivered. For all but two of the remaining fixed price ERPAs, the Company projects that there will be no future issuances and is exploring several options relating to the remaining ERPAs, including the possible termination of the contracts, which, in some instances, has already happened.

### Cash flows from purchases and sales of carbon

In the Financial Period, the Group sold approximately 5.4 million CERs and 0.1 million EUAs with gross proceeds of approximately GBP 7.7 million. The Group's average CER purchase price was EUR 2.71 for the 5.1 million CERs received in the Financial Period but only 2.6 million CERs were paid for in the period. A summary of the purchases and sales cash inflows and outflows in GBP from the CER portfolio has been included in Table 5, with June 2012 comparative movements.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

Table 5: Cash flow from purchases and sales of carbon (GBP)

	Year ended 30 June 2013			Year ended 30 June 2012		
	CER/EUA quantities '000	Weighted average price per CER (GBP)	Total monetary amount (GBP) '000	CER/EUA quantities '000	Weighted average price per CER (GBP)	Total monetary amount (GBP) '000
<b>INCOME</b>						
CER sales	5,376	1.403	7,544	7,176	5.47	39,253
EUA sales	72	2.69	194	1,547	5.83	9,019
<b>Total income</b>	<b>5,448</b>		<b>7,738</b>	<b>8,723</b>		<b>48,272</b>
<b>PURCHASES</b>						
CER purchase costs	5,095	(2.708)	(13,797)	4,997	(5.81)	(29,033)
EUA purchase costs	-	-	-	72	(17.96)	(1,293)
<b>Total purchases</b>	<b>5,095</b>		<b>(13,797)</b>	<b>5,069</b>		<b>(30,326)</b>
<b>Gross cash (outflow)/ inflow</b>			<b>(6,059)</b>			<b>17,946</b>
<b>Other carbon expenses reclaimed/ (paid)</b>			<b>(1,467)</b>			<b>(423)</b>
<b>Net Cash (Outflow) / Inflow before movements in working capital</b>			<b>(7,526)</b>			<b>17,523</b>

### Inventory

As at 30 June 2013, the Group held inventory of approximately 1.8 million CERs, valued at EUR 0.9 million (GBP 0.8 million). The Company sold its entire holding of 0.1 million EUAs in May 2013. As at 31 December 2012, the Group held inventory of approximately 0.9 million CERs and 0.1 million European Union Allowances ("EUAs"), valued at EUR 0.6 million (GBP 0.5 million). As at 30 June 2012, the Group held inventory of approximately 2.0 million CERs and 0.04 million EUAs which were valued at EUR 8.7 million (GBP 7.0 million).

### Trading activities including hedging and swaps

As at 31 December 2012, the Company held a short position of 2.0 million CER futures valued at EUR 3.5 million (GBP 2.8 million) at that time. These futures acted as a hedging mechanism for the portfolio when there were a large number of fixed price deliveries expected. These futures expired and were delivered against by the end of March 2013. The Company does not now hold any futures as a hedge on the value of the carbon portfolio.

The Company no longer has any position under any CER/EUA future or swap.

### Cash position for CER payments

The Investment Adviser and the Board closely monitor cash held by the Company in connection with management of the CER portfolio. The Investment Adviser and the Board believe the Company should be prudent in managing this exposure. Successful ERPA renegotiations have reduced this exposure. The following reconciliation shows the available cash projection on the basis of expected fixed price exposures as at 30 June 2013:

Table 6: Exposure for projected risk adjusted CERs	Quantities '000
<b>Total CERs projected to be delivered as at 30 June 2013</b>	<b>25,386</b>
Asia Biogas Group CERs (for which the Company pays a nominal amount)	(1,191)
Renegotiated ERPA CERs (for which the Company/its subsidiary pays on a floating price basis)	(23,843)
Risk adjusted exposure	352
Quantities received not yet paid for	2,533
<b>Exposure</b>	<b>2,885</b>

# Trading Emissions PLC

## Investment Adviser's Report (continued)

Should CER prices have fallen to zero at 30 June 2013, it is estimated that the Company would have had a cash exposure of GBP 2.9 million at that date. The Company held cash at 30 June 2013 of GBP 57.5 million of which GBP 5.0 million was restricted.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### Part 2: Private equity portfolio

#### Asia Biogas ("ABS")

TEP investee company	Asia Biogas Singapore Pte. Ltd
Location	Thailand, Indonesia and Philippines
Company activities	Development, design, construction and operation of biogas and biomass projects in South East Asia
Date of investments	November 2005 - September 2010
Ownership	95.1% (Increased from 81% effective from 17 September 2012 due to a conversion of part of the outstanding loan and accrued interest)

Investment summary	Amount Invested USD millions
Investment:	
<ul style="list-style-type: none"><li>Equity (CERs and capitalised loans)</li><li>Convertible loan</li></ul>	29.4 5.0
Return on investment	
<ul style="list-style-type: none"><li>CERs (value at delivery date)</li><li>Dividends</li><li>Convertible loan repayments</li></ul>	(10.1) (3.7) (0.75)
<b>Net amount invested</b>	<b>19.85</b>

ABS was formed in September 2010 to consolidate the interests of the Company and Silk Roads Limited (a holding company for the Asia Biogas founders) in a number of jointly owned companies in South East Asia. ABS and its subsidiaries (the "ABS Group") form a biogas systems design, engineering, construction and operating group with operations in Thailand and Indonesia.

When ABS was formed, the Company invested USD 5.0 million by way of a convertible loan note, which became due for repayment on 17 September 2012. The Company converted USD 250,000 of principal plus all accrued interest at that date to increase its shareholding to 95.1%. The Company has agreed with ABS a repayment schedule in instalments with the final payment by April 2014.

The ABS Group has been cash flow negative since May 2013 when the build-own-operate-transfer ("BOOT") period for the Korat Waste to Energy Project, until recently the principal generator of cash flow for the ABS Group, came to an end. As at 30 June 2013, the ABS Group held cash balances of approximately GBP 2.2 million.

ABS continues to operate at one starch facility in Thailand and owns a minority interest in a second. ABS Group also operates a number of waste to energy projects hosted on pig farms in the Philippines and Thailand which generally have performed poorly and are currently being restructured, closed or sold.

ABS is presently developing projects to replace these income streams, the most advanced being a 2MW gasification plus 1.9MW biogas electricity generating project in Krabi, Thailand. Most of the required investment to start up the projects would be sourced from third party debt and equity investors. ABS management continues to explore other possibilities for an exit and is reporting progress in relation to discussions with several third parties.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### EWG Slupsk Sp.zo.o (EWGS)

TEP Investee company	EWG Slupsk Sp.zo.o.
Irish SPV	TEP (Renewables Holding) Limited
Project Location	Northern Poland
Company description	Wind farm development in Poland
Date of Investment	March 2010 - June 2013
TEP Ownership	60 per cent. TEP 40 per cent. EWG Elektrownie Wiatrowe. (EWG)

<b>Investment Summary</b>	<b>Amount Invested EUR m</b>
Investments:	
• Equity	6.5
• Loans	6.6
<b>Total Investment</b>	<b>13.1</b>

### Company Overview

The project consists of 98 wind turbines across eight wind farm clusters located in Northern Poland with an installed capacity of at least 245MW (assuming 2.5MW WTGs). The Company, through TEP (Renewables Holding) Limited, bought a 60% share in the project development company EWG Slupsk Sp. Zoo. ("EWGS") with the aim of taking the project to a fully permitted and ready for construction stage, before managing a profitable exit.

EWGS signed a grid connection agreement with PSE Operator, the Polish transmission grid operator in August 2010. Obtaining the grid connection agreement was a major milestone for the project. EWGS also entered into a management agreement with EWG, the other shareholder in EWGS. EWG is responsible for land selection and acquisition and for the execution of design works related to the wind farms, for the transformer stations, for the electrical interconnections and for preparing and applying for building permits.

All building and environmental permits for each wind turbine location have been obtained and land rights have been acquired under leases.

The Polish Ministry of Economy released a proposal for a new law on renewable energy at the end of September 2013. It came in the form of a short presentation full of inconsistencies, effectively annulling the latest draft of the new law released in October 2012 and leaving little clarity as to what the final draft may include. The main features of the new proposal appear to be the end of the green certificate scheme by 2021 and a price setting mechanism via an inverted auction system (i.e., where the winner is the lowest bidder). We understand that the Government is currently working on a draft which will then be subject to a consultation exercise with market participants and debates in Parliament. The party in power currently holds a majority of one seat in Parliament. As a result, any sensitive law like this one is expected to go through many amendments before a vote can take place. The timing of implementation remains unclear.

### Exit / Realisation Strategy

The Company and EWG are currently in exclusive discussions with a potential buyer. The Company hopes to agree on a disposal of EWGS by the end of 2013.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### Surya - TEP Solar

TEP investee company	Surya PLC
Irish SPV	TEP (Solar Holdings) Limited
Location	Italy
Company activities	Investments in companies which own and operate solar photovoltaic ("PV") projects
Date of investment	June 2010 - December 2011
Ownership	100%

<b>Investment summary</b>	<b>Amount Invested EUR 'm</b>
Investment:	
• Equity	36.0
• Loan	21.1
Return on investment (including refinancing)	(26.4)
<b>Net amount invested</b>	<b>30.7</b>

Surya PLC ("Surya") is a wholly-owned subsidiary of the Company. Surya, through its subsidiary TEP (Solar Holdings) Limited ("TS"), has invested primarily in companies that own and operate solar PV projects located in Italy. Surya's strategy has been to build critical mass in solar PV assets to leverage economies of scale.

As at the date of this Report, TS directly owns five special purpose vehicles ("SPVs" or "Project Companies") that in turn own and operate eight PV plants in southern and central Italy with a total installed operating capacity of approximately 24.6 MW.

TS has refinanced with bank debt one SPV, Librandello. The financing was provided by a leading Italian bank and amounted to EUR 31.0 million.

The Investment Adviser believes that with the completion of the re-financing of Librandello, TS' assets represents an attractive fully-financed operating investment portfolio.

As at June 2013, the Company had invested approximately EUR 36.0 million in Surya via equity, and a further EUR 21.1 million via debt instruments. The outstanding loan of EUR 2.0 million, plus accrued interest, provided by EEA Group Limited (parent company of the Investment Adviser) has been fully repaid.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### Element Markets

TEP investee company	Element Markets, LLC
US SPV	Billiter Energy Corporation
Location	Houston, Texas
Company activities	A leading marketer of biogas and environmental commodities in the U.S.
Date of investments	July 2007 – June 2011
Ownership	51.2%

<b>Investment summary</b>	<b>Amount Invested USD 'm</b>
Investment:	
• Equity	52.7
Return on investment	(1.6)
<b>Net amount invested</b>	<b>51.1</b>

### Company overview

Element Markets was founded in 2005 with an initial focus on marketing for environmental credits markets, including air emissions ("ERC"), greenhouse gas ("GHG") credits and renewable energy certificates ("REC"). Today, Element Markets is a producer and marketer of biogas and environmental commodities in the US.

Through its biogas holdings, Element Markets is an active participant in the renewable power and transportation markets. In addition, Element Markets is an active participant in the USA ERC regional markets, as well as the GHG, REC and carbon cap and trade programmes.

### Exit/realisation strategy

Discussions are ongoing with senior management at Element Markets regarding the future strategy and financing options of the business, taking into account the Company's desire for liquidity and a timely exit. To this end, the Company and management are now reviewing indications of interest that may provide for a near-term exit for the Company. However, there can be no assurances that any transaction will take place.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### Bionasa

TEP investee company	Bionasa Combustivel Natural S.A.
Brazilian SPV	Billiter Participacoes Lda.
Location	Goias, Brazil
Company activities	200,000 tonnes per annum (approximately 55 million gallons per annum) operating multi-feedstock biodiesel production plant
Date of investment	July 2007
Ownership	25% (consists of preference shares that have contractual conversion rights to a 99.4% ownership stake)

<b>Investment summary</b>	<b>Amount Invested BRL 'm</b>
Investment:	
• Equity	125.0
<b>Net amount invested</b>	<b>125.0</b>

Bionasa Combustivel Natural S.A. ("Bionasa") is a special purpose Brazilian biodiesel company. The Bionasa project was developed and implemented by Bionasa's original shareholders, Jaragua and Canabrava. The Company provided the bulk of the development capital through a convertible preferred equity investment. The Company became entitled to convert its 25% minority interest into 99.4% of Bionasa's ordinary share capital on 31 July 2010 as a result of Bionasa's non-payment of dividends. Jaragua and Canabrava have disputed the validity of this conversion and this is the subject of an on-going dispute resolution process before the arbitral chamber of the Sao Paulo Stock Exchange (BOVESPA).

In January 2012, the Company's subsidiary, Jaragua and Canabrava agreed to suspend the arbitration process and pursue a joint capital raise intended to enable the Company to realise its investment in Bionasa. The parties retained a financial adviser to lead the capital raise. Notwithstanding some interest in Bionasa from third parties, the Company decided in January 2013 to return to arbitration. The arbitration process is expected to conclude in the first quarter of 2014.

Whilst the Bionasa plant became fully operational and licensed in 2011, and achieved social seal certification in 2012, the business has not been able to operate satisfactorily due to lack of working capital. The Company continues to seek solutions both on the arbitration front as well as through direct negotiations.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### Private equity investments disposed of during the Financial Year

The Company has realised a number of private equity investments during the Financial Year.

- **Chapel Street Environmental LP ("Chapel Street")**

The Company received USD 1.9 million on 27 April 2012 as a capital distribution from Chapel Street. The Company received a further USD 4.0 million on 29 November 2012 in return for the disposal of its interest in Chapel Street. The Company no longer holds an interest in Chapel Street.

- **EcoTraders ("ET")**

A management buyout of ET was completed during the Financial Period and TEP Investment Luxembourg S.a.r.l received EUR 0.1 million. The Company no longer holds an interest in ET.

- **Energia Escalona**

The Company had provided a USD 0.5 million loan for working capital purposes to Energia Escalona. The loan was due to be repaid in CERs generated before 2012. The project suffered delays to its development programme and was not operational. The Company terminated the loan and related agreements and received USD 0.3 million as final settlement on 3 October 2012.

### Private equity investments disposed of in prior Reporting Periods with contingent consideration

- **Environmental Credit Corp ("ECC")**

The Company sold its interest in ECC to ECC's senior management in May 2012, with consideration taking the form of a nominal upfront cash payment to the Company of USD 0.02 million, a 12 month loan note for USD 0.1 million, and the right to an additional payment in the event of a future sale of ECC above a certain threshold. The additional payment is worth up to 80% of the excess over a payment of USD 0.3 million in the event of a change of control of ECC outside the ordinary course of business or the transfer of the majority of ECC's assets. If this happens i) on or before 31 May 2014, 50% of the excess will be due to the Company and ii) after 31 May 2014 but on or before 31 May 2015, 20% of the excess will be due to the Company.

- **Electricidad Andina**

Through its participation in the Santa Rita Limited Partnership ("SRLP"), the Company owned 97.3% of Electricidad Andina S.A., a company incorporated in Peru. Electricidad Andina was sold in April 2012. SRLP received USD 0.1 million upon the signing of the sale and purchase agreement. Additional amounts may become payable to SRLP if any of the following occur: i) USD 0.4 million upon the project receiving a power purchase agreement, ii) USD 9.5 million upon the project's financial close and iii) an amount capped at USD 5.0 million in the event that certain performance targets are met. It should be noted that there can be no assurance that any of these events will happen either within these timeframes or at all.

# Trading Emissions PLC

## Investment Adviser's Report (continued)

### Private equity investments in liquidation

- **Sun Biofuels ("SBF")**

The Company appointed an administrator of SBF in July 2011 and a creditor's liquidation is currently in process. The Company expects to receive approximately GBP 0.3 million once the liquidation process has been completed.

- **Carbon Capital Markets ("CCM")**

CCM was placed into voluntary liquidation after the business remaining assets were liquidated. GBP 0.5 million was paid out to the Company in October 2013 and it is anticipated a further GBP 0.3 million will be returned when the liquidation is completed.

### Carbon loans

- **Alto Tietê Biogás – Brazil**

In October 2010, the Company provided a cash and CER facility to the Alto Tietê Biogás ("ATB") landfill gas capture and flaring project located in Itaquaquecetuba, State of São Paulo, Brazil. The cash facility was for up to EUR 1.0 million and the CER facility was for 0.04 million CERs. It was intended that the facility would be repaid in CERs generated from the project. However, although the project registered with the UNFCCC and began operation in September 2008, issuances were rejected by the UNFCCC. As such, the Board reassessed the recoverability of the outstanding loan balance and recognised an impairment in the 2012 financial year. The Board is instructing local lawyers regarding the recovery of the loan.

- **Dairy farm finance facility – Mexico**

In April 2009, the Company entered into a carbon loan facility with Environmental Credit Corp ("ECC") to finance the construction of biodigesters at a number of dairy farms in Mexico. A total of USD 0.9 million was drawn down. In July 2011, the loan was settled by ECC by assigning its project lagoon covers to the Company and hence the Company became the beneficiary of the CERs expected to be generated by the project's bundle of biodigesters.

The Company is currently pursuing the transfer of the projects and rights to the CERs to the project owners.

### EEA Fund Management Limited

#### Investment Adviser

31 October 2013

# Trading Emissions PLC

## Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 June 2013.

### Principal activities, trading review and future developments

Trading Emissions PLC (the "Company") was incorporated in the Isle of Man as a public limited company on 15 March 2005 for the purpose of investing in environmental and emission assets, companies providing products and services related to the reduction of green-house gas (GHG) emissions and associated financial products. On 22 December 2011 the Company was re-registered as a company under the Isle of Man Companies Act 2006.

On 13 September 2010, the Company restated its investment policy and committed to realising assets and distributing net proceeds as soon as practicable to Shareholders, subject to retaining sufficient cash to meet current and future liabilities.

The Company continued to pursue its realisation strategy and disposed of three investments during the year, namely Chapel Street Environmental, Ecotraders and Energia Escalona, generating proceeds of GBP 2.7 million in the period. The Company is actively pursuing the disposal of other investments.

Other than the transactions mentioned above, there were no changes to the nature of the Company's business, its subsidiaries or in the classes of business in which the Company has an interest. Details of the Company's subsidiaries at the balance sheet date and at the date of this report are disclosed in note 15.

### Results and distributions

A number of business units ("disposal groups") meet the criteria of held for sale and discontinuing operations in accordance with the International Financial Reporting Standard 5 'Non Current Assets Held for Sale and Discontinued Operations' ("IFRS 5"), as explained in the accounting policy note 2.5 and note 16. The impact of this on the presentation of the primary statements is to present the income and expenses of the disposal groups as one line in the Consolidated Statement of Comprehensive Income as 'Profit/(loss) from discontinuing operations'. All assets of the disposal group are presented as a single line in the Consolidated Statement of Financial Position as 'Assets of disposal groups classified as held for sale'. Similarly all liabilities are presented as 'Liabilities of disposal groups classified as held for sale'. No further investments were classified as held for sale during this financial year.

Trading Emissions PLC and its subsidiaries (the "Group") results for the year ended 30 June 2013 are set out in the Consolidated Statement of Comprehensive Income on page 26.

A review of the Group's activities is contained within the Chairman's Statement and the Investment Adviser's Report on pages 3 to 6 and 7 to 17 respectively.

The following distributions have been declared in the financial year:

	<b>Amount (GBP m)</b>	<b>Date declared</b>	<b>Date paid</b>
<b>First distribution</b>	15.0	7 January 2013	11 February 2013
<b>Second distribution</b>	37.5	21 June 2013	25 July 2013

The proposed transfers to and from reserves are as set out in the Consolidated Statement of Changes in Equity on page 28.

Particulars of the authorised and issued share capital of the Company are set out in note 24 to the financial statements.

### Directors

The Directors of the Company during the year and to date were as follows:

Martin Adams (Chairman)  
Christopher Agar  
Norman Crighton  
Mark Lerdal (appointed 31 January 2013)  
Philip Scales  
Peter Vanderpump

# Trading Emissions PLC

## Directors' Report (continued)

No Directors holding office at 30 June 2013 had any interests in the shares of the Company.

### Company secretary

The secretary of the Company throughout the year and to date was Philip Scales.

### Auditor

PricewaterhouseCoopers LLC, being eligible, has indicated its willingness to continue in office.

### Post balance sheet events

For a summary of significant transactions entered into by the Group subsequent to 30 June 2013 refer to note 30 of the financial statements.

### By Order of the Board

**Philip Scales**  
**Company Secretary**  
31 October 2013

# Trading Emissions PLC

## Statement of Directors' Responsibilities in Respect of the Report and the Financial Statements

The Directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

The Directors have elected to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

In preparing those financial statements it is the Directors' responsibility to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business; and
- prepare financial statements which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

The Directors confirm that they have complied with the above in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the group. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**By Order of the Board**

**Philip Scales**  
**Company Secretary**  
31 October 2013

# Trading Emissions PLC

## Corporate Governance Statement

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice.

The Board communicates frequently and meets at regular intervals, and at these meetings the Directors are responsible for approval of the overall strategy and major developments of the Group. The Board directs the Company's activities in an effective manner through its regular Board meetings and monitors performance through timely and relevant reporting procedures.

The members of the Board, all of whom are non-executive, have met regularly, as detailed in Table 1 below. Accurate and detailed minutes are taken at each meeting. In addition to formal Board and Committee meetings, Directors also attend a number of informal meetings to represent the Company's interests.

It is the Board's policy that all new Director appointments are considered and, if appropriate, approved by the full Board, following recommendation by the Nomination and Remuneration Committee.

The Company Secretary, to whom all Directors have access, attended Board and Committee meetings, and ensured compliance with relevant procedural obligations, as well as being available for provision of advice to the Company and Directors.

**Table 1 – Directors' meetings**

<b>Directors' Meetings</b>	<b>Martin Adams</b>	<b>Christopher Agar</b>	<b>Norman Crighton</b>	<b>Mark Lerdal*</b>	<b>Philip Scales</b>	<b>Peter Vanderpump</b>
12 July 2012	x	x	x	-		x
27 July 2012	x	x	x	-	x	x
28 September 2012	x	x	x	-	x	x
24 October 2012	x	x	x	-	x	x
03 December 2012	x	x	x	-	x	x
03 January 2013	x	x	x	-	x	x
17 January 2013		x	x	-	x	x
21 January 2013	x	x	x	-		x
08 February 2013	x				x	
12 March 2013	x	x	x	x	x	x
12 June 2013	x	x	x	x	x	x
20 June 2013					x	x
19 September 2013					x	x

\*Appointed 31 January 2013.

Of the six non-executive Directors, four are considered independent. These are Martin Adams, Norman Crighton, Mark Lerdal and Peter Vanderpump. Philip Scales and Christopher Agar are not considered independent. Mr Agar is a Director of Laxey Partners (UK) Limited, a Shareholder of the Company, and Mr Scales is a Director and Shareholder of IOMAFIM. IOMAFIM is the Company's Administrator.

Each Director shall retire at the annual general meeting held in the third calendar year following the year in which he was elected or last re-elected by the Company.

Each Director (other than the Chairman and any Director holding an executive office) shall retire at each general meeting following the ninth anniversary of the date on which he was appointed or elected (as the case may be).

The Group maintains insurance cover for Directors' potential liabilities.

### Committees of the Board

The Board operates two committees: the Audit Committee and the Nomination and Remuneration Committee. Since 2 December 2011, all matters previously dealt with by a third committee, the Investment Committee, have been dealt with by the Board. The Company Secretary acts as Secretary to all committees.

# Trading Emissions PLC

## Corporate Governance Statement (continued)

### Audit Committee

The Audit Committee makes recommendations to the Board, which retains the right of final decision. The Audit Committee is advisory in nature to the Board, and its terms of reference require it to be independent in relation to controls.

The Audit Committee has primary responsibility for reviewing the financial statements and the accounting policies, principles and practices underlying them. The Chairman of the Audit Committee is Mr Vanderpump.

Table 2 below contains details of all meetings that were held during the year, along with a list of attendance from each Director.

The terms of reference of the Audit Committee cover the following:

- Membership of the Committee, quorum and the frequency and attendance of all meetings.
- Appointment and duties of the Committee Chairman.
- All meetings of the Committee shall take place outside the United Kingdom and any decision reached or resolution passed by the Directors in the United Kingdom or at a meeting at which a majority of Directors present are resident in the United Kingdom shall be invalid and of no effect.
- The notice and minutes of all meetings including the communication of the Board Minutes to all members of the Committee and, once agreed, to all members of the Board.
- Duties in relation to external reporting, including reviews of financial statements, Shareholder communications and other announcements.
- Duties in relation to Internal Controls and Risk Management System.
- Duties in relation to Whistle blowing and Fraud.
- The appropriateness of whether or not the Group should maintain an internal audit function, and if appropriate, the duties in relation to the monitoring of such a function.
- All duties in relation to the monitoring of the external audit process.
- The appropriate and timely training provided to committee members.
- The authority given to the Committee in relation to various matters, including the right to obtain any information required to perform its duties, either internally from any employee of the Group or externally from outside legal or other professional advice.

The Audit Committee also monitors the non-audit fees pertaining to the Group audit, to ensure that these fees do not impair the external Auditor's independence or objectivity.

**Table 2 – Audit Committee**

<b>Audit Committee Meetings</b>	<b>Peter Vanderpump</b>	<b>Martin Adams*</b>	<b>Norman Crighton</b>	<b>Mark Lerdal**</b>	<b>Philip Scales</b>
7 February 2013	x	x	x	-	x
12 March 2013	x	x	x	-	x
12 June 2013	x	x	x	x	x
18 September 2013	x	-	x	x	x

\*Until 12 June 2013  
\*\*From 12 June 2013

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee was established in February 2012 and makes recommendations to the Board, which retains the right of final decision.

The Nomination and Remuneration Committee has responsibility for exercising the full powers and authority of the Board in regularly reviewing the structure, size and composition required of the Board compared to its current position along with succession planning for Directors and other senior executives, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.

# Trading Emissions PLC

## Corporate Governance Statement (continued)

Additionally, the Nomination and Remuneration Committee determines and agrees with the Board the framework or broad policy for the remuneration of the Company's non-executive Directors, ensures that the Company's non-executive Directors are provided with appropriate incentives to encourage enhanced performance and attract, motivate and retain non-executive Directors of the high calibre needed to enhance the Company's performance and to reward them for improving Shareholder value.

No Director plays a part in any discussion about his own remuneration.

The Nomination and Remuneration Committee has met regularly since its formation. The Chairman of the Nomination and Remuneration Committee is Mr Agar.

Table 3 below contains details of all meetings that were held during the year, along with a list of attendance from each Director.

The terms of reference of the Nomination and Remuneration Committee cover the following:

- To regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position.
- To give full consideration to succession planning for Directors in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.
- To identify and nominate candidates to fill Board vacancies as and when they arise.
- To evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment.
- To use, if considered appropriate, open advertising or the services of external advisers to facilitate the search for suitable candidates who should be evaluated on merit and against objective criteria, taking care that appointees have enough time available to devote to the position.
- To keep under review the non-executive leadership needs of the organization with a view to ensuring the continued ability of the organization to compete effectively in the marketplace.
- To ensure that non-executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, Committee service and involvement outside Board meetings.
- To determine and agree the framework or broad policy for the remuneration of the Company's non-executive Directors and to review the on-going appropriateness and relevance of such policy.
- To review the design of all share incentive plans for approval by the Board and Shareholders.
- To ensure that contractual or on termination, any payments made, are fair to the individual and to the Company, and that failure is not rewarded and that the duty to mitigate loss is fully recognised.
- To give due regard to any relevant legal requirements, the provisions and recommendations in the UK Corporate Governance Code and the UK Listing Authority's Listing Rules and associated guidance when considering any remuneration package.
- To be exclusively responsible for establishing the selection criteria, selecting appointing and setting the terms of reference for any remuneration consultants who advise the Committee.

**Table 3 – Nomination and Remuneration Committee  
Nomination and Remuneration Committee meetings**

	<b>Christopher Agar</b>	<b>Philip Scales</b>	<b>Peter Vanderpump</b>
14 August 2012	x	x	x
13 September 2012	x	x	x
01 November 2012	x	x	x
09 November 2012	x	x	x
19 December 2012	x	x	x
09 January 2013	x	x	x
18 January 2013	x	x	x
17 April 2013	x		x
29 July 2013	x	x	x

# Trading Emissions PLC

## Corporate Governance Statement (continued)

### Relations with Shareholders

The Company is committed to good investor communications and seeks to build and maintain good relationships with its Shareholders. The Company values the views of Shareholders and recognises their interests in the Company's strategy and performance.

Meetings are held with Shareholders on a regular basis and briefings are held with institutional fund managers, analysts and other investors, primarily following the announcement of interim and final results, as well as at other times during the year as may be appropriate.

Care is taken to ensure that any price sensitive information is released to all Shareholders at the same time in accordance with Stock Exchange requirements. Separate resolutions on each substantially separate issue, in particular any proposal relating to the Annual Report and financial statements, will be made at the Annual General Meeting.

Communication is also provided through the Annual Report and the Interim Report and the investor relations area on the Company's website ([www.tradingemissionsplc.com](http://www.tradingemissionsplc.com)). The Company's website provides information as required by Rule 26 of the AIM Rules in addition to general corporate and investor information. All material public and regulatory announcements are reviewed by the Board and the Company's Nominated Adviser prior to release and publication.

**Philip Scales**  
**Director and Company Secretary**  
31 October 2013

# Trading Emissions PLC

## Independent Auditor's Report to the members of Trading Emissions PLC

### Report on the financial statements

We have audited the accompanying Consolidated Financial Statements ("the financial statements") of Trading Emissions PLC (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 30 June 2013 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with applicable Isle of Man law and International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with our engagement letter dated 15 January 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Group as at 30 June 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Emphasis of matter – Valuation of private equity investments at fair value

Without modifying our opinion, we draw your attention to the disclosures made in note 4.5 concerning the Group's private equity investments measured at fair value through profit or loss. As explained in note 4.5 the Board has estimated the investments' fair value taking into account all events and circumstances pertaining to those investments. However, because of the inherent uncertainty of the valuation basis, the estimated fair value may differ materially from the value of the private equity investments that might ultimately be realised.

**PricewaterhouseCoopers LLC**  
**Chartered Accountants**  
**Douglas, Isle of Man**

31 October 2013

# Trading Emissions PLC

## Consolidated Statement of Comprehensive Income

Note		Year ended 30 June 2013 GBP '000	Year ended 30 June 2012 GBP '000
	Revenue	7,738	48,282
	Net change in inventory at fair value less costs to sell	(20,418)	(79,876)
12	Net change in fair value of financial assets and financial liabilities at fair value through profit or loss	(8,355)	(68,815)
8	Impairment and other charges	-	(2,189)
	Depreciation and amortisation	-	(55)
5	Investment advisory fees	(3,660)	(6,000)
5	Administration fees	(304)	(226)
	Net foreign exchange gains/(losses)	1,880	(4,905)
9	Other expenses	(4,133)	(4,726)
	<b>Operating loss</b>	<b>(27,252)</b>	<b>(118,510)</b>
10	Finance income	238	466
10	Finance costs	(41)	(488)
	<b>Finance income/(costs) – net</b>	<b>197</b>	<b>(22)</b>
	<b>Loss before tax</b>	<b>(27,055)</b>	<b>(118,532)</b>
11	Taxation	(27)	485
	<b>Loss for the year from continuing operations</b>	<b>(27,082)</b>	<b>(118,047)</b>
16	<b>Loss for the year from discontinuing operations</b>	<b>(3,945)</b>	<b>(15,575)</b>
	<b>Loss for the year</b>	<b>(31,027)</b>	<b>(133,622)</b>
	<b>Other comprehensive income/(loss)</b>		
	<b>Items that may be reclassified subsequently to profit or loss:</b>		
	Currency translation differences	942	(11,702)
	<b>Other comprehensive income/(loss) for the period</b>	<b>942</b>	<b>(11,702)</b>
	<b>Total comprehensive loss for the year</b>	<b>(30,085)</b>	<b>(145,324)</b>
	<b>Profit/(loss) for the year attributable to:</b>		
	Equity holders of the Company	(30,662)	(133,268)
	Non-controlling interest	(365)	(354)
	<b>Loss for the year</b>	<b>(31,027)</b>	<b>(133,622)</b>
	<b>Total comprehensive loss for the year attributable to:</b>		
	Equity holders of the Company	(29,720)	(145,146)
	Non-controlling interest	(365)	(178)
	<b>Total comprehensive loss for the year</b>	<b>(30,085)</b>	<b>(145,324)</b>
	<b>Total comprehensive loss for the year attributable to equity holders of the Company arises from:</b>		
	Continuing operations	(24,722)	(128,272)
	Discontinuing operations	(4,998)	(16,874)
	<b>Loss for the year attributable to equity holders of the Company</b>	<b>(29,720)</b>	<b>(145,146)</b>
	<b>Loss per share (basic and diluted) from continuing and discontinuing operations attributable to the equity holders of the Company during the year (expressed in pence per share):</b>		
23	<b>From continuing operations</b>	<b>(10.84)</b>	<b>(47.26)</b>
23	<b>From discontinuing operations</b>	<b>(1.43)</b>	<b>(6.09)</b>
		<b>(12.27)</b>	<b>(53.35)</b>

The notes on pages 31 to 69 form an integral part of these financial statements.

# Trading Emissions PLC

## Consolidated Statement of Financial Position

Note	30 June 2013 GBP '000	30 June 2012 GBP '000	
<b>Assets</b>			
<b>Non-current assets</b>			
12	Financial assets at fair value through profit or loss	968	2,228
		<b>968</b>	<b>2,228</b>
<b>Current assets</b>			
12	Financial assets at fair value through profit or loss	2,144	38,464
14	Loans and receivables	-	191
18	Trade and other receivables	151	870
19	Inventory	766	7,006
17	Restricted cash	5,047	18,433
17	Cash and cash equivalents	55,140	47,103
		<b>63,248</b>	<b>112,067</b>
16	Assets of disposal groups classified as held for sale	141,397	140,039
	Current assets	<b>204,645</b>	<b>252,106</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
20	Trade and other payables	(2,890)	(13,339)
26	Distribution payable	(37,470)	-
22	Borrowings	-	(1,613)
12	Financial liabilities at fair value through profit or loss	(1,061)	(15,145)
	Current tax liabilities	-	(4)
		<b>(41,421)</b>	<b>(30,101)</b>
16	Liabilities of disposal groups classified as held for sale	(87,964)	(59,904)
	Current liabilities	<b>(129,385)</b>	<b>(90,005)</b>
	<b>Net current assets</b>	<b>75,260</b>	<b>162,101</b>
<b>Non-current liabilities</b>			
20	Trade and other payables	(446)	(526)
12	Financial liabilities at fair value through profit or loss	(1,477)	(7,195)
		<b>(1,923)</b>	<b>(7,721)</b>
	<b>Net assets</b>	<b>74,305</b>	<b>156,608</b>
<b>Equity attributable to owners of the parent</b>			
24	Share capital	2,498	2,498
25	Share premium	301,086	301,086
27	Retained earnings	(236,012)	(151,345)
27	Translation reserve	7,170	4,681
27	Capital redemption reserve	395	395
	<b>Total Shareholders' equity</b>	<b>75,137</b>	<b>157,315</b>
	Non-controlling interests	(832)	(707)
	<b>Total equity</b>	<b>74,305</b>	<b>156,608</b>

The financial statements on pages 27 to 69 were approved and authorised for issue by the Board on 31 October 2013 and signed on its behalf by:

Director

Director

# Trading Emissions PLC

## Consolidated Statement of Changes in Equity

### Attributable to equity holders of the Company

	Share capital GBP '000	Share premium GBP '000	Capital redemption reserve GBP '000	Retained earnings GBP '000	Translation reserve GBP '000	Total GBP '000	Non- controlling interests GBP '000	Total equity GBP '000
Balance at 1 July 2011	2,498	301,086	395	(18,078)	16,559	302,460	(529)	301,931
<b>Comprehensive loss</b>								
Loss for the year	-	-	-	(133,267)	-	(133,267)	(354)	(133,621)
<b>Other comprehensive income/(loss)</b>								
Currency translation differences	-	-	-	-	(11,878)	(11,878)	176	(11,702)
<b>Total comprehensive loss</b>	-	-	-	(133,267)	(11,878)	(145,145)	(178)	(145,323)
<b>Balance at 1 July 2012</b>	<b>2,498</b>	<b>301,086</b>	<b>395</b>	<b>(151,345)</b>	<b>4,681</b>	<b>157,315</b>	<b>(707)</b>	<b>156,608</b>
<b>Transfer of reserves</b>	-	-	-	(1,547)	1,547	-	-	-
<b>Comprehensive loss</b>								
Loss for the year	-	-	-	(30,662)	-	(30,662)	(365)	(31,027)
<b>Other comprehensive income/(loss)</b>								
Currency translation differences	-	-	-	-	942	942	-	942
<b>Total comprehensive loss</b>	-	-	-	(30,662)	942	(29,720)	(365)	(30,085)
<b>Transactions with owners</b>								
Distributions (note 26)	-	-	-	(52,458)	-	(52,458)	-	(52,458)
<b>Transactions with non-controlling interests</b>								
	-	-	-	-	-	-	240	240
<b>Balance at 30 June 2013</b>	<b>2,498</b>	<b>301,086</b>	<b>395</b>	<b>(236,012)</b>	<b>7,170</b>	<b>75,137</b>	<b>(832)</b>	<b>74,305</b>

The notes on pages 31 to 69 form an integral part of these financial statements.

# Trading Emissions PLC

## Consolidated Cash Flow Statement

	Year ended 30 June 2013 GBP '000	Year ended 30 June 2012 GBP '000
<b>Cash flows from operating activities</b>		
Loss for the year	(31,027)	(133,622)
Adjustment for:		
- finance income	(336)	(944)
- income tax credit	3,532	625
- depreciation and amortisation	-	4,175
- net foreign exchange differences	(3,047)	-
- impairment charges	2,846	15,789
- (profit)/loss on disposal of investments	(196)	9,053
- profit on disposal of property, plant and equipment	(2,036)	
- finance costs	2,469	2,802
Changes in working capital:		
Net decrease in financial assets at fair value through profit or loss	42,952	69,734
Net decrease in inventory at fair value less costs to sell	9,490	40,234
Net (decrease)/increase in financial liabilities at fair value through profit or loss	(19,800)	23,453
Decrease in trade and other payables	(9,433)	(12,003)
Decrease in trade and other receivables	1,139	1,102
<b>Cash (used)/generated in operations</b>	<b>(3,447)</b>	<b>20,398</b>
Tax paid	(2,552)	(196)
Interest received	346	1,085
Interest paid	(2,469)	(2,802)
<b>Net cash (used)/generated in operating activities</b>	<b>(8,122)</b>	<b>18,485</b>
<b>Cash flows from investing activities</b>		
Decrease in restricted cash	13,576	14,743
Proceeds on disposal of investments	2,563	2,607
Acquisition of subsidiaries, net of cash acquired	-	(47,499)
Purchase of intangible assets	-	(80)
Purchase of property, plant and equipment	(1,880)	(429)
Disposal of property, plant and equipment	1,903	-
<b>Net cash generated/(used) in investing activities</b>	<b>16,162</b>	<b>(30,658)</b>
<b>Financing activities</b>		
Distributions paid to Shareholders	(14,988)	-
Repayment of borrowings	(4,671)	(9,854)
Proceeds from borrowings	26,253	15,770
Costs of financing	(2,590)	-
<b>Net cash generated in financing activities</b>	<b>4,004</b>	<b>5,916</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12,044</b>	<b>(6,257)</b>
Cash and cash equivalents at beginning of the year	63,431	68,587
Exchange gains on cash and cash equivalents	1,902	1,101
<b>Cash and cash equivalents at end of the year (note 17)</b>	<b>77,377</b>	<b>63,431</b>

The notes on pages 31 to 69 form an integral part of these financial statements.

# Trading Emissions PLC

## Notes to the financial statements

### 1 General information

Trading Emissions PLC (the “Company”) and its subsidiaries (together the “Group”) invest in environmental and emissions assets, companies providing products and services related to reduction of GHG emissions and associated financial products. The Group is currently pursuing a realisation strategy which aims to optimise the cash value of the Group’s assets through a controlled realisation process.

The Company was incorporated on 15 March 2005 in the Isle of Man under the Isle of Man Companies Acts 1931-2004 as a public limited company. The Company is quoted on the Alternative Investment Market (“AIM”) operated and regulated by the London Stock Exchange and on 22 December 2011 following approval at the Company’s AGM the Company was re-registered under the Isle of Man Companies Act 2006.

### 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (“IFRS”), International Financial Reporting Interpretations Committee (“IFRIC”) interpretations and the Isle of Man Companies Act 2006. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) and inventory, at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors’ to exercise their judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 7.

As noted in the Directors’ Report on pages 19 to 20, the presentation of the financial statements continues to be impacted by IFRS 5.

#### a) **The Group has adopted the following amendments to IFRS as of 1 July 2012;**

Amendment to IAS 1: Presentation of Financial Statements, which applies to annual periods beginning on or after 1 July 2012. The amendment revises the way other comprehensive income is presented and requires entities to group items presented in ‘other comprehensive income’ (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The change has not had a material impact on the presentation of the Group’s financial position or results of operations.

#### b) **New standards, amendments and interpretations issued and endorsed by the EU unless otherwise stated but not effective for the financial year beginning 1 July 2012 which are relevant to the Group and have not been early adopted;**

The Group has or intends to adopt the following standards no later than the accounting period in which they become effective.

IFRS 13, ‘Fair Value Measurement’ - The standard aims to provide a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across all IFRSs. The standard was effective from 1 July 2013.

IFRS 9, ‘Financial Instruments’ – The standard is the first step in the process to replace IAS 39 Financial Instruments: Recognition and measurement. It introduces new requirements for classifying and measuring financial assets and financial liabilities. The standard is not EU endorsed and is effective for accounting periods beginning on or after 1 January 2015.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### **b) New standards, amendments and interpretations issued and endorsed by the EU unless otherwise stated but not effective for the financial year beginning 1 July 2012 which are relevant to the Group and have not been early adopted;** (continued)

IFRS 10, 'Consolidated Financial Statements' – The standard builds on existing principles for the presentation and preparation of consolidated financial statements and provides additional guidance to determine control where it is difficult to assess. The standard is effective from 1 July 2014.

IFRS 12, 'Disclosures of Interests in Other Entities' - The standard requires disclosure for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard is effective from 1 July 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) is effective for accounting periods beginning on or after 1 January 2014, subject to EU endorsement. It defines an investment entity and introduces an exception to consolidating particular subsidiaries for investment entities and instead requires those subsidiaries to be measured at fair value through profit or loss in accordance with IAS 39.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact to the Group.

#### 2.2 Consolidation

The financial statements comprise the results of the Company and its subsidiaries as set out in note 15.

##### **(a) Subsidiaries**

Companies in which the Group has the ability to exercise control are fully consolidated. This applies irrespective of the percentage of interest in the share capital. Control refers to the power to govern the financial and operating policies of a company so as to obtain the benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Non-controlling interests are shown as a component of equity in the Consolidated Statement of Financial Position and the share of profit attributable to the non-controlling interests is shown as a component of profit for the year in the Consolidated Statement of Comprehensive Income. Newly acquired companies are consolidated from the effective date of control. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations. The consideration for the acquisition is the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Any non-controlling interest in acquired entities is recognised by the Group on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquired's identifiable net assets. Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the non-controlling interest over the identifiable net assets acquired and the liabilities assumed. If the cost of the acquisition is less than the fair value of the net assets of the acquired entity, the difference is recognised directly in the Consolidated Statement of Comprehensive Income. Acquisition related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.2 Consolidation (continued)

##### (b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in a loss of control are accounted for as transactions with equity owners of the Company. Disposals to non-controlling interests which result in gains and losses for the Company are recorded in equity. For purchases from non-controlling interests the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity.

##### (c) Associates

Associates are all entities over which the Company has significant influence but not control, generally encompassing a shareholding of between 20 per cent. and 50 per cent. of the voting rights. Investments that are held as part of the Company's investment portfolio are carried in the consolidated statement of financial position at fair value even though the Company may have significant influence over those companies. This treatment is permitted by IAS 28, whereby investments held by mutual funds and similar entities are excluded from the scope of IAS 28 where those investments are designated, upon initial recognition, at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the statement of comprehensive income in the period of change.

#### 2.3 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

#### 2.4 Foreign currency translation

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in GBP, which is the Company's presentation currency.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

##### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.4 Foreign currency translation (continued)

##### (c) Group companies (continued)

On consolidation, exchange differences arising from the translation of net investments in foreign operations, and borrowings are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the Consolidated Statement of Comprehensive Income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### 2.5 Disposal groups held for sale

Disposal groups are classified as held for sale in accordance with IFRS 5 when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Disposal groups are classified as held for sale when they are available for immediate sale in their present condition, and a sale is highly probable. The sale of disposal groups is considered highly probable by the Group when the Directors are committed to a plan, there is an active programme to locate a buyer and when the sale is expected to be completed within one year from classification.

Assets and liabilities in a disposal group are assessed for impairment immediately before being classified as held for sale. Subsequent to this all assets and liabilities are measured in accordance with applicable IFRSs except for property, plant and equipment, intangible assets and goodwill, which are no longer depreciated or amortised. At the year end the disposal group is carried at the lower of its carrying value and fair value less cost to sell. Impairment losses recognised are presented in the Consolidated Statement of Comprehensive Income within 'Profit/(loss) from discontinuing operations'.

The impact on the presentation of the financial statements has been explained in the Directors' Report.

All property, plant and equipment and intangible assets are held by disposal groups. All other assets, liabilities, revenue and expenses of the disposal groups are measured and recognised in accordance with policies stated in notes 2.6 to 2.24.

##### (a) Property, plant and equipment

Property, plant and equipment comprises of biogas plants, photovoltaic power plants, motor vehicles, furniture and equipment, projects under construction and land. In accordance with IFRS 5, whilst the disposal group remains classified as held for sale no depreciation has been recognised on property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. All other subsequent costs (primarily repairs and maintenance) are charged to the Consolidated Statement of Comprehensive Income within profit from discontinued operations during the financial year in which they are incurred.

Assets acquired under a finance lease are capitalised and depreciated in accordance with the Company's policy on property, plant and equipment unless the lease term is shorter. The associated obligations are recorded under financial liabilities. All assets and corresponding finance lease liabilities are included within disposal groups classified as held for sale (see note 16). Repayments made under finance leases are split between capital repayments and interest expense over the life of the lease term.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.5 Disposal groups held for sale (continued)

##### (b) Intangible assets

All intangible assets are included within disposal groups classified as held for sale (see note 16).

Intangible assets comprise of the following:

##### (i) Project developments

These are project development rights that are internally generated or acquired either separately or as part of an asset acquisition or business combination when they are identifiable and can be reliably measured. Project development rights are considered to be identifiable if they arise from contractual or other rights or if they are separate (i.e. they can be disposed of either individually or together with other assets). Internally generated project development rights represent costs that are directly associated with the development of projects from which the Company will ultimately derive a benefit. It must be probable that the related costs will generate future economic benefits and that the amounts capitalised are clearly identifiable and allocable to specific projects.

Costs include but are not limited to the payment of feasibility and environmental studies and engineering costs. Costs that do not meet the criteria for capitalisation are expensed as incurred.

##### (ii) Customer relationships

Customer relationships acquired in business combinations are recognised at fair value at the date of acquisition less accumulated amortisation and less impairment losses until classified as held for sale.

##### (iii) Trademarks and licences

Trademarks and licences acquired in a business combination are recognised at fair value at the date of acquisition less accumulated amortisation and less impairment losses until classified as held for sale.

##### (iv) Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software acquired in business combinations is recognised at fair value at the date of acquisition. Computer software development costs recognised as assets are carried at cost less accumulated amortisation less impairment losses until classified as held for sale.

#### 2.6 Impairment of non-financial assets

All non-financial assets are classified as held for sale and they are assessed for impairment at each reporting period end date as part of recognising the disposal groups at the lower of carrying value and fair value less costs to sell.

#### 2.7 Financial assets and financial liabilities

##### (a) Recognition and classification

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. It classifies its investments in debt and equity securities, and derivatives as financial assets and financial liabilities in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets and financial liabilities were acquired. The Directors determine the classification of financial assets and financial liabilities at initial recognition and re-evaluate the designation at each reporting date.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### 2.7 Financial assets and financial liabilities (continued)

##### (b) Financial assets and financial liabilities at fair value through profit or loss

There are financial assets and financial liabilities held for trading, or those designated at fair value through profit or loss at inception. Financial assets or financial liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorised as held for trading, as the Company has not designated any derivatives as hedges in hedging relationships. Assets and liabilities in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

The Company and its subsidiaries enter into ERPAs which are contracts for the future purchase of CCs with payment due upon delivery. A subsidiary company also enters into contracts to forward buy and forward sell renewable energy credits, CCs and biogas in the USA.

Derivatives are recognised when a company within the Group enters into a binding contract with a customer and supplier relating to a project that produces the credits and biogas.

In addition, contracts to buy CCs under an ERPA are recognised when a company within the Group enters into an agreement with an energy, agricultural or industrial company to either jointly or solely develop a facility that will generate CCs.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy.

##### (c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Company's loans and receivables comprise trade and other receivables, restricted cash and cash and cash equivalents.

##### (d) Measurement

Financial assets and financial liabilities are initially recognised at fair value. Transaction costs for all financial assets and financial liabilities carried at fair value through profit or loss are expensed as incurred. Subsequent to initial recognition all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Consolidated Statement of Comprehensive Income.

Financial assets classified as loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any impairment losses.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate.

Gains and losses arising from changes in fair value of financial assets and financial liabilities at fair value through profit or loss are included in the Consolidated Statement of Comprehensive Income as net change in fair value of financial assets and financial liabilities at fair value through profit or loss. Interest income on loans and receivables is calculated using the effective interest method and presented in the Consolidated Statement of Comprehensive Income within finance income.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### 2.7 Financial assets and financial liabilities (continued)

##### (e) Fair value measurement principles

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

If a quoted market price is not available on a recognised stock exchange or from a broker/dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques, including use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration). All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Subsequent changes in the fair value of any derivative instrument are recognised immediately in the Consolidated Statement of Comprehensive Income.

Financial assets that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

##### (f) Impairment

If any such indication exists, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Evidence of the impairment may include indications that the debtor is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with default.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Consolidated Statement of Comprehensive Income.

##### (g) Derecognition

The Company derecognises financial assets when the contractual rights to receive cash flows from the financial assets have expired or the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

#### 2.8 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### 2.9 Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2. Summary of significant accounting policies (continued)

#### 2.10 Inventory at fair value less costs to sell

Inventories comprise of carbon and energy credits acquired and are stated at fair value less costs to sell at each reporting date, because they are principally acquired with the purpose of selling in the near future. Changes in fair value less costs to sell are recognised in the Consolidated Statement of Comprehensive Income in the period of the change. Fair value is determined using quoted market prices for each category of credits held in inventory. In the absence of a quoted market price, valuation models and evidence of recent market transactions in the prevailing secondary market are used.

#### 2.11 Cash, cash equivalents and restricted cash

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Restricted cash comprises reserve funds required for settlement of specific long term contracts and margin call cash accounts.

#### 2.12 Share capital

The Company's shares are classified as equity. Incremental costs attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

In the event the shares are cancelled the nominal value is debited to the Company's capital redemption reserve. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

#### 2.13 Trade and other payables

Accounts payable are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated Statement of Comprehensive Income over the term of the borrowing facility using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs.

#### 2.15 Current and deferred tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.15 Current and deferred tax (continued)

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. The Directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 2.16 Provisions

Provisions comprise liabilities of uncertain timing or amount that may arise. Provisions are recognised when the Company has a present obligation, legal or constructive, as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

#### 2.17 Contingent assets and liabilities

Contingent assets and liabilities are possible rights and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not fully within the control of the Group. Any such contingent assets and liabilities are disclosed in the notes to the financial statements.

#### 2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below and all risks and rewards have transferred to the buyer.

##### (a) Sales – Power generation

The Group operates a number of small biogas and power generation projects and a number of medium to large scale photovoltaic power plants. Revenue is recognised when a group entity sells biogas and power to the customer or transfers electricity to a national grid.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.18 Revenue recognition (continued)

##### (b) Sales – Carbon and Environmental Credits

The Company recognises revenue on the sale of CCs when the CCs are delivered to a buyer. The derivative sales contracts are settled gross and revenue is recognised on delivery of the CC to the customer or broker if physically settling a futures position.

#### 2.19 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the period of the lease.

A subsidiary company leases certain property, plant and equipment. Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and the finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Consolidated Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life and the lease term.

#### 2.20 Expenses

Expenses are recognised when the risks and rewards of goods are transferred to the Group or when services are received. Expenses are accounted for on an accruals basis.

#### 2.21 Distributions

Distribution payments to the Company's Shareholders are recognised as a liability in the financial statements in the period in which the distribution is approved by the Company's Shareholders.

#### 2.22 Interest income

Interest income is recognised in the Consolidated Statement of Comprehensive Income for all interest bearing instruments using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset. No income is accrued with regards to financial assets that are in default.

#### 2.23 Dividend income

Dividend income is recognised when the right to receive payment is established. Realised and unrealised gains on the holding of units in money market funds are categorised as interest income.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### 2.24 Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. A contract that is settled by delivering a fixed number of equity instruments in exchange for a fixed amount of cash or other financial asset is classified as an equity instrument. Equity instruments are measured at the cost of the share issue less directly attributable transaction costs.

### 3 Segmental information

The Board has determined the Group's operating segments based on the reports and financial information provided to it by the Company's Investment Adviser and Administrator. These reports are used by the Board to make strategic decisions. The Board manages the Group's assets across four segments.

#### Carbon

The carbon segment is the Group's ERPAs, and its commercialisation activities, which include the management of inventory. The segment is the sum of these as measured in a manner consistent with IFRS.

#### Cash held by the Company

The Company's cash resources, including restricted cash, as reported in the Consolidated Statement of Financial Position, are monitored by the Board to ensure there is sufficient cash to meet its obligations as they fall due.

#### Private equity

The private equity segment comprises the Company's subsidiaries and investments. Given the Board's realisation strategy, all private equity investments are in one reportable segment and the Board reviews the net asset value of the segment attributable to the Company. Net asset value is measured in a manner consistent with IFRS. All investments within the private equity segment are classified as held for sale under IFRS 5, except for those classified and measured as financial assets at fair value through profit or loss.

#### Corporate

The Company incurs certain costs and holds certain assets and liabilities, which are not attributable to the carbon or private equity segments. The Board reviews material expenses incurred by the Company on a regular basis.

#### Net asset value attributable to Shareholders of the Company

	2013 GBP'000	2012 GBP'000
Carbon	(172)	(17,036)
Cash	57,482	63,128
Private equity	57,096	114,194
Corporate	(39,269)	(2,971)
<b>Total net asset value attributable to the Shareholders of the Company</b>	<b>75,137</b>	<b>157,315</b>

The corporate segment includes the distribution of GBP 37,470,000 which was declared on 21 June 2013 and at 30 June 2013 had not been paid.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 3 Segmental information (continued)

#### Loss after tax attributable to Shareholders of the Company

	2013 GBP'000	2012 GBP'000
Carbon	7,325	(89,628)
Cash	2,085	(2,028)
Private equity	(33,159)	(31,471)
Corporate	(6,913)	(10,141)
<b>Loss after tax attributable to Shareholders of the Company</b>	<b>(30,662)</b>	<b>(133,268)</b>

#### Revenue

The carbon segment derives its revenue primarily from the sale of CCs. Revenue earned from the sale of CCs during 2013 was GBP 7,738,000 (2012: GBP 48,282,000) and the majority of these sales were executed through one specific brokerage service based in the United Kingdom. There were no revenues from transactions between segments within the Group.

### 4 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, cash flow interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. In line with the Board's realisation strategy, the financial risk management policy has been not to expose the Group to any new exposures but to manage existing exposures and only enter into new instruments as needed by its existing asset portfolio.

Risk management is carried out by the Group's Investment Adviser under policies approved by the Board. The Group's Investment Adviser identifies and evaluates financial risks taking into account the Group's exposure to its carbon, private equity, corporate and cash segments.

#### 4.1 Market risk

##### (a) Price risk

The Group is exposed to price risk in respect of trading environmental credits (CER purchases under the Company's ERPA's and UCF projects and renewable energy and CCs within the US market), biogas trading also within the US market and its private equity investments classified as financial assets at fair value through profit or loss. The Company closed out its UCF projects during the financial year.

#### Environmental credits

The Group, through its subsidiary Element Markets LLC, buys and holds US renewable energy and CCs in inventory. As at 30 June 2013, Element Markets LLC inventory was fair valued at GBP 1,747,000 (2012: GBP 4,896,000). The Group is therefore exposed to risk resulting in changes in market prices of these CCs. The price received upon sale of these CCs may be materially higher or lower than the inventory's carrying value. To mitigate its exposure to variability in market prices, Element Markets LLC sells long where possible to ensure a margin is secured. Element Markets' management continually reviews the quantity exposure between buying and selling and will buy long if required. Hence in the normal course of business, transactions may also be conducted through a broker.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.1 Market risk (continued)

##### (a) Price risk (continued)

##### Environmental credits (continued)

The Group holds CER inventory from purchases under its ERPAs which are generated from projects managed under the CDM framework. As of 30 June 2013, the Group's CER inventory was fair valued at GBP 766,000 (2012: GBP 7,006,000). The ERPAs include projected CER deliveries until December 2020.

This results in the Group being exposed to changes in market prices of CERs. The European carbon market is subject to political and regulatory risk on a national, regional and global basis.

The consequence of the interaction of these is that the market price for environmental credits may be significantly affected by demand and supply considerations which can lead to significant fluctuations in market prices.

The spot price of a UN backed environmental credit has significantly decreased in the year ended 30 June 2013 from EUR 4.18 to EUR 0.50. To mitigate the Group's exposure to the fall in carbon prices, the Investment Adviser, on the instruction of the Board, has engaged in the renegotiation of ERPAs and at 30 June 2013 27 of the 31 ERPAs included in the valuation had been renegotiated. The renegotiated ERPAs have been amended so that the Group will pay a variable price based on a percentage of the prevailing CER spot price on the date of delivery.

##### Biogas

The Group, through Element Markets LLC, participates in the growing US biogas market. The market price of biogas generated from renewable sources takes into account the price of the related energy credit and CCs in addition to the natural gas price. Element Markets LLC forward sells biogas to mitigate its exposure to market price variability. To meet its obligations under forward sales contracts which extend to 2022, Element Markets LLC in the short term has entered into forward purchase contracts. Element Markets LLC is currently developing projects with the aim of generating future biogas to fulfil its obligations under forward sales contracts. Forward purchase and sale contracts are accounted for as derivatives and fair valued. The methods in determining fair value are explained in note 4.5 which also refers to the sensitivities of these contracts to price risk.

##### Private equity

One of the Group's private equity investments is classified as a financial asset at fair value through profit or loss in accordance with the accounting policy set out in note 2.2(c). This investment is unquoted and there is no active market in which it operates so therefore the Group is not exposed to securities price risk. The methods in determining fair value are explained in note 4.5.

##### (b) Cash flow interest rate risk

Before commencing the realisation strategy, the Company was committed to certain follow-on investments in its solar plant companies through a combination of debt and equity. During the year one more solar plant company was refinanced through bank loan finance. As a result, the Group's external borrowings have increased to GBP 71,907,000, of which GBP 5,644,000 relates to a finance lease as at 30 June 2013 (2012: GBP 47,771,000 of which GBP 5,636,000 relates to a finance lease). The Group is exposed to variable interest rate risk arising from such borrowings, as disclosed in note 22. The borrowings are denominated in EUR.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.1 Market risk (continued)

##### (b) Cash flow interest rate risk

EEA regularly analyses the Group's interest rate exposure and manages its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts (refer to note 22 for further details).

Interest expense on external borrowings was GBP 2,461,000 (2012: GBP 2,646,000). If interest rates in subsidiaries had been on average 0.25% higher, with all other variables held constant, total comprehensive income/equity for the year ended 30 June 2013 would decrease by GBP 150,000 (2012: GBP 202,000). If the interest rates were to increase, the fair value of the interest rate swaps would change to compensate for the overall impact of the interest rate movement noted above.

The Group holds a significant amount of cash and cash equivalents with financial institutions and as a result the Group's interest income and cash flows are subject to changes in market interest rates, primarily changes in the base rates of GBP, EUR and USD.

During the year, interest income from cash and deposits, including restricted cash with financial institutions was GBP 336,000 (2012: GBP 944,000), of which GBP 98,000 (2012: GBP 478,000) is in disposal groups classified as held for sale. At 30 June 2013, if interest rates on average had increased/decreased by 0.25% with all other variables held constant, total comprehensive income/equity for the year would increase/decrease by GBP 211,000 (2012: GBP 240,000), of which GBP 42,000 (2012: GBP 122,000) is attributable to disposal groups classified as held for sale.

##### (c) Foreign exchange risk

In addition to the Group's commitments to purchase CERs under its ERPAs, which are denominated in EUR, the Group also has investments in companies that are located in a number of different countries. Therefore the Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, US Dollar, Polish Zloty and Brazilian Real. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. No foreign exchange hedging is carried out

##### Private equity

The Group has investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is monitored by the Board.

The private equity investments classified as financial assets through profit or loss are originally denominated in BRL and USD, which is the functional currency of the investments. A 10% strengthening/ weakening in GBP against the BRL would result in an increase/decrease of GBP 100,000 (2012: 10% strengthening/weakening of GBP against BRL and 5% strengthening/weakening of GBP against USD, GBP 3,021,000/GBP 3,693,000 respectively) in total comprehensive income/equity.

##### Cash and trade receivables

The Group also holds significant cash and cash equivalent balances denominated in EUR and USD. A 10% strengthening of GBP against the EUR would result in a GBP 1,650,000 (2012: GBP 4,279,000) decrease in cash and cash equivalents for the Group, of which GBP 1,075,000 (2012: GBP 530,000) is attributable to disposal groups classified as held for sale. A 10% strengthening of GBP against the USD would result in a GBP 881,000 (2012: GBP 840,000) decrease in cash and cash equivalents for the Group, of which GBP 835,000 (2012: GBP 729,000) is attributable to disposal groups classified as held for sale.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### (c) Foreign exchange risk

The Group also holds significant trade receivables denominated in the following currencies:

	2013 GBP'000	2012 GBP'000
GBP	7	767
EUR	4,222	6,661
USD	2,623	3,486
Other currencies	75	-
	<b>6,927</b>	<b>10,914</b>

Within the 2013 balances, GBP 6,926,000 (2012: GBP 10,380,000) is within disposal groups held for sale.

#### 4.2 Credit risk

The Group's financial instruments, including those within disposal groups classified as held for sale, that are subject to concentrations of credit risk consist primarily of cash and cash equivalents of GBP 77,377,000 (2012: GBP 63,431,000), restricted cash of GBP 7,325,000 (2012: GBP 20,901,000), trade and other receivables of GBP 11,032,000 (2012: GBP 11,978,000) and derivatives held for trading of GBP 8,421,000 (2012: GBP 16,978,000), being the maximum exposure to the carrying values.

##### Cash and restricted cash

Cash and deposits are held with top rated international financial institutions. 71% of cash is held with two such institutions. In certain jurisdictions in Asia some smaller cash balances are held with smaller financial institutions.

##### Trade and other receivables

Each company in the Group is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. These clients are then regularly monitored by local management to ensure that they do not breach their payment obligations by falling overdue.

##### Derivatives held for trading

The Investment Adviser has assessed the risk of counterparty failure under the ERPAs and considered that the risk of failure by the project developers to deliver CERs to the Group is more likely to arise through technology failure of the projects or the projects not achieving CDM status. As such, the expected number of CER deliveries within the Group's ERPA valuation model is adjusted as part of determining its fair value as explained in note 4.5. ERPAs are settled gross upon delivery of credits and therefore the Group is not exposed to credit risk on settlement.

Credit risk arising from buying and selling credits and biogas in the US is managed by Element Markets LLC local management as appropriate. Collateral is generally not required for credit extended to customers; however, many transactions require payment prior to the transfer of inventories. Element Markets LLC have certain critical controls around managing their credit risk exposure, such as independent credit ratings being obtained for all counterparties, appropriate credit limits being assigned to these counterparties, and regular monitoring controls such as a daily counterparty exposure report. Counterparty exposure is also monitored regularly by the risk committee of Element Markets LLC.

Further, the Group is subject to credit risk to the extent any broker with whom it conducts business is unable to fulfil contractual obligations on its behalf. The Investment Adviser and local management monitor the financial condition of such brokers and do not expect any losses from these parties.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.3 Liquidity risk

Cash flow forecasting is performed by the Group on a monthly basis. Such forecasting takes into consideration the strategy of achieving an orderly realisation of the Group's assets and the Board's objective to return capital to Shareholders.

The Board monitors the Group's liquidity requirements to ensure that the Group has sufficient cash to meet its operational needs including meeting banking covenants, making payments against on-going credit and biogas purchase obligations and providing follow-on working capital to its private equity investments, to the extent it is required and it is in line with the revised investing policy.

The Group maintains most of its liquid assets in cash and cash equivalents in order to meet its future financial commitments. At 30 June 2013 the Group had cash and cash equivalents of GBP 77,377,000 (2012: GBP 63,431,000), of which GBP 22,237,000 (2012: GBP 16,328,000) is included within disposal groups held for sale (refer to note 16).

The table below analyses the Group's financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining period at the date of the Consolidated Statement of Financial Position to the contractual maturity dates on an undiscounted basis.

<b>At 30 June 2013</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
(all expressed in GBP '000)				
<b>Continuing operations</b>				
Borrowings	-	-	-	-
Financial liabilities at fair value through profit or loss	(1,145)	(822)	(841)	(237)
Trade and other payables	(40,360)	(446)	-	-
Tax payable	-	-	-	-
<b>Discontinuing operations</b>				
Borrowings	(5,406)	(5,652)	(18,219)	(65,786)
Finance lease	(424)	(426)	(1,293)	(4,992)
Financial liabilities at fair value through profit or loss	(2,419)	(710)	(726)	(3,696)
Tax payable	(995)	-	-	-
Trade and other payables	(5,792)	-	-	-
<hr/>				
<b>At 30 June 2012</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
(all expressed in GBP '000)				
<b>Continuing operations</b>				
Borrowings	(1,613)	-	-	-
Financial liabilities at fair value through profit or loss	(16,963)	(6,589)	(2,247)	(323)
Trade and other payables	(12,278)	(497)	-	-
Tax payable	(4)	-	-	-
<b>Discontinuing operations</b>				
Borrowings	(3,595)	(3,603)	(12,311)	(42,301)
Finance lease	(442)	(442)	(1,327)	(5,272)
Financial liabilities at fair value through profit or loss	(2,966)	(975)	(254)	(501)
Tax payable	(1,462)	-	-	-
Trade and other payables	(3,799)	(593)	-	-

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.4 Capital risk management

The Company defines capital as total Shareholders' equity excluding non-controlling interests. The Company's objectives in managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the distributions paid to Shareholders, return capital to Shareholders or sell assets to reduce debt.

The Board monitors the Company's capital structure and the return on capital to Shareholders.

The Company's cash balances including restricted cash as at 30 June 2013 were GBP 57,482,000 (2012: GBP 63,128,000), of which GBP 5,047,000 (2012: GBP 18,433,000) is restricted cash mainly in connection with the UCF T1. All restricted cash held in respect of the UCF T1 was returned to the Company on 4 September 2013 (see note 30). On 25 July 2013 the Company made a distribution via a B share scheme of GBP 37,470,000. The Board closely monitors the cash balance so the Company is able to meet its liabilities as they fall due.

At 30 June 2013 the Company's subsidiaries had external borrowings (excluding finance leases) of GBP 66,263,000 (2012: GBP 42,135,000). The entire borrowings (2012: GBP 40,522,000) are used to fund the solar subsidiaries and it is subject to covenants as explained in note 22. The investment strategy was to raise debt to ensure that the Company would have a certain amount of net capital investment in Surya, while building a scalable portfolio of solar investments in Italy. This commitment to external borrowings was in place before the implementation of the realisation strategy. The remaining debt in 2012 relates to a loan received from EEA Group Limited which was fully repaid during the year as explained in note 22.

The solar subsidiaries remain in full compliance with their covenants and this is monitored regularly by the Investment Adviser.

#### 4.5 Fair value estimation

Financial instruments held by the Group carried at fair value include private equity investments in accordance with accounting policy note 2.2(c), derivatives and inventory.

The table below analyses the Group's financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The categorisation of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Group's perceived risk of that instrument. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgement by the Group.

A market is regarded as active if quoted prices are readily and regularly available from an exchange. The quoted market price used for financial assets held by the Group is the current bid price. Those instruments included within level 1 are forward CCs to buy and sell for which the price has been obtained from a quoted exchange.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. Market prices used within the model include broker quotations. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2, otherwise they are classified as level 3. Where valuation techniques (for example, models) are used to determine fair values, they are validated and reviewed by experienced personnel. Models are calibrated by back-testing to actual transactions to ensure that the outputs are reliable. Changes in assumptions will affect the reported fair values. The judgements and the assumptions used by the Board in determining fair values are disclosed in note 7 (c).

Those instruments included within level 2 are over the counter ("OTC") derivatives relating to the US carbon and energy credits. Those instruments included within level 3 are the Group's ERPAs, US carbon and energy credits, the private equity investments and forward biogas contracts.

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 30 June 2013. The discontinuing operations table shows those instruments that are included within disposal groups classified as held for sale.

<b>Continuing operations at 30 June 2013</b>	<b>Level 1 GBP '000</b>	<b>Level 2 GBP '000</b>	<b>Level 3 GBP '000</b>	<b>Total GBP '000</b>
<b>Financial assets</b>				
<b>Financial assets designated at fair value through profit or loss:</b>				
Unquoted equity securities	-	-	1,000	1,000
<b>Financial assets held for trading:</b>				
Derivatives	-	-	2,112	2,112
<b>Total financial assets</b>	<b>-</b>	<b>-</b>	<b>3,112</b>	<b>3,112</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	-	-	(2,538)	(2,538)
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>(2,538)</b>	<b>(2,538)</b>
<b>Discontinuing operations at 30 June 2013</b>	<b>Level 1 GBP '000</b>	<b>Level 2 GBP '000</b>	<b>Level 3 GBP '000</b>	<b>Total GBP '000</b>
<b>Financial assets</b>				
<b>Financial assets held for trading:</b>				
Derivatives	-	359	5,950	6,309
<b>Total financial assets</b>	<b>-</b>	<b>359</b>	<b>5,950</b>	<b>6,309</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	-	(3,746)	(3,042)	(6,788)
<b>Total financial liabilities</b>	<b>-</b>	<b>(3,746)</b>	<b>(3,042)</b>	<b>(6,788)</b>

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

Continuing operations at 30 June 2012	Level 1 GBP '000	Level 2 GBP '000	Level 3 GBP '000	Total GBP '000
<b>Financial assets</b>				
<b>Financial assets designated at fair value through profit or loss:</b>				
Unquoted equity securities	-	2,404	32,020	<b>34,424</b>
<b>Financial assets held for trading:</b>				
Derivatives	713	215	5,340	<b>6,268</b>
<b>Total financial assets</b>	<b>713</b>	<b>2,619</b>	<b>37,360</b>	<b>40,692</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	-	(1,036)	(21,304)	<b>(22,340)</b>
<b>Total financial liabilities</b>	<b>-</b>	<b>(1,036)</b>	<b>(21,304)</b>	<b>(22,340)</b>
Discontinuing operations at 30 June 2012	Level 1 GBP '000	Level 2 GBP '000	Level 3 GBP '000	Total GBP '000
<b>Financial assets</b>				
<b>Financial assets designated at fair value through profit or loss:</b>				
Unquoted equity securities	-	468	-	<b>468</b>
<b>Financial assets held for trading:</b>				
Derivatives	1,366	764	8,112	<b>10,242</b>
<b>Total financial assets</b>	<b>1,366</b>	<b>1,232</b>	<b>8,112</b>	<b>10,710</b>
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	(191)	(5,844)	(751)	<b>(6,786)</b>
<b>Total financial liabilities</b>	<b>(191)</b>	<b>(5,844)</b>	<b>(751)</b>	<b>(6,786)</b>

#### ERPAs

The Group's valuation model takes the contracted value underlying each ERPA at each period end and adjusts the CER delivery volumes within each ERPA by a risk adjustment factor that takes into account, (i) project technology, (ii) the CDM status and project finance, and (iii) the development and construction status. The risk adjusted volumes are then valued using CER prices from the ICE for settlement between December 2013 and December 2020. The estimated cash flows for each underlying contract have been discounted at a rate of 7.88% per annum (2012: 10%) to determine the net present value of each ERPA.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

Market prices used in valuing the CERs relating to each ERPA as at 30 June 2013 and 30 June 2012 in relation to futures contracts are as follows:

<b>December Contract Year</b>	<b>30 June 2013 EUR</b>	<b>30 June 2012 EUR</b>
2013	0.50	4.44
2014	0.52	4.44
Post-2014	0.80	4.98
Large hydro CER prices (2012 to 2020)	No discount applied	Discounted by 5.88%*

\*This is a discount applied to the CER future prices for each of the contract years noted above.

The Board has determined that there is a robust, liquid market for Post-2012 CCs but the market for Post-2014 issuances is less liquid and hence an average market price has been used.

There are a number of large hydropower ("large hydro") projects generating CERs, which are defined as having a generating capacity exceeding 20MW. These projects have been subject to criticisms concerning their sustainability. As a result, the European Climate Exchange used to exclude these CERs from being traded on its platform. In 2013 the European Climate Exchange produced a list of large hydro projects from which CERs would be accepted. All but 2 of the Company's large hydro project ERPAs are included on the list. In view of this the CERs expected to be issued from large hydro project ERPAs are no longer subject to a discount (30 June 2012: average discount applied 5.88%).

The inputs into the Group's ERPA valuation model which are considered by the Board most significantly to impact the reported fair value are the market prices of CERs and the discount rate. The risk adjustment factors are not considered a key assumption as the carbon portfolio is mature and volumes reported in the model are taken from verification reports where available. In adjusting these inputs for the sensitivity analysis, all other inputs are kept constant.

The sensitivity analysis provided is hypothetical only and should be used with caution as the effects provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing.

If the discount rate used in the ERPA valuation model was 1% higher, the net liability of the Group's ERPA would decrease by GBP 4,000 (2012: GBP 350,000). If the discount rate was 1% lower, then the net liability of the ERPA would increase by GBP 3,000 (2012: GBP 154,000).

Market prices applied to the ERPA valuation model at 30 June 2013 were based on the ICE ECX forward curve at this date. Due to a number of different factors market prices have fallen significantly below those prevailing at 30 June 2012. During April 2013 prices fell to a record low but have since recovered slightly. Therefore, the Board believes that a reasonable possible change is an increase or decrease in price by 100%. A decrease in market price of 50%, 75% and 100% would decrease total comprehensive income and equity by GBP 1,233,000, GBP 1,858,000 and GBP 2,493,000 respectively. An increase in market price of 50%, 75% and 100% would increase total comprehensive income and equity by GBP 1,144,000, GBP 1,709,000 and GBP 2,264,000 respectively (2012: if market prices had decreased by 80% total comprehensive loss/ equity would decrease by GBP 24,563,000).

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

##### US environmental financial assets

The fair value of the Group's US environmental financial assets and liabilities have been determined using discounted cash flow models. Cash flows are based on the signed contractual terms as of the balance sheet date. The market price for energy credits and CCs has been derived from broker quotes which have been reviewed and assessed as reflecting fair value. As biogas comprises the three components of natural gas, energy credits and CCs, the natural gas market price component has been valued using an exchange based forward curve taking into account the delivery region and hub reference points. The cash flows have been discounted at a rate of 21% (2012: 17.5%) which represents the weighted average cost of capital for Element Markets LLC. Further discount is taken from the future cash flows to take account of the complexity and judgement applied to the future pricing of the derivatives. The average term of a contract is 10 years and the future market prices used to value the cash flows over a 10 year period are inherently judgemental. If our discount applied increased by 25%, total comprehensive income and equity would decrease by GBP 1,453,000.

The assumptions that are most susceptible to market change are the market prices and the discount rate. If market prices had increased/ decreased by 5% total comprehensive loss/equity would increase/decrease by a negligible amount (2012: increase GBP 1,876,000, decrease GBP 1,887,000). If the discount rate had increased by 5%, total comprehensive income and equity would decrease by GBP 83,000 (2012: GBP 655,000). If the discount rate had decreased by 5%, total comprehensive income and equity would increase by GBP 55,000 (2012: GBP 851,000).

##### Private equity

The fair value of the Group's private equity investments classified as financial assets through profit or loss, have been assessed by the Board. Attention is particularly drawn to the financial difficulties facing Bionasa Combustivel Natural S.A ("Bionasa"), a company in which the Group has invested. The Board has reassessed the fair value of the investment and concluded that a write down is appropriate. Bionasa's plant is currently not operational and an arbitration process between other stakeholders is on-going. As a consequence, the Board has recognised a reduction in the fair value of this investment which is disclosed in note 12. Further information is provided in the Chairman's Statement on pages 3 to 6

##### Level 3 reconciliation (continuing and discontinuing):

The table below presents the changes in level 3 instruments for the year ended 30 June 2013. There have been no transfers between levels during the year.

	Financial assets and liabilities designated as held for trading	Financial assets and liabilities at fair value through the profit and loss	Total
	GBP '000	GBP '000	GBP '000
Opening balance	(8,603)	32,020	23,417
Net change in financial assets and liabilities at fair value through profit or loss – continuing operations	15,538	(30,277)	(14,739)
Net change in financial assets and liabilities at fair value through profit or loss – discontinuing operations	(4,453)	-	(4,453)
Foreign exchange effect on financial assets and liabilities	-	(743)	(743)
<b>Closing balance</b>	<b>2,482</b>	<b>1,000</b>	<b>3,482</b>

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

The following table presents the changes in level 3 instruments for the year ended 30 June 2012.

	Financial assets and liabilities designated as held for trading GBP '000	Financial assets and liabilities at fair value through the profit and loss GBP '000	Total GBP '000
Opening balance	68,000	39,629	107,629
Net change in financial assets and liabilities at fair value through profit or loss – continuing operations	(83,266)	(7,609)	(90,875)
Net change in financial assets and liabilities at fair Value through profit or loss – discontinuing operations	7,281	-	7,281
Foreign exchange effect on financial assets and liabilities	(618)	-	(618)
<b>Closing balance</b>	<b>(8,603)</b>	<b>32,020</b>	<b>23,417</b>

### 5 Investment Adviser and administration fees

#### Investment Advisory fees

The Company entered into a revised investment advisory agreement (“Revised Agreement”) with EEA which was effective from 1 January 2013. The Revised Agreement terminates on 31 December 2013 and may be extended subject to written notice served by the Company on the Investment Adviser prior to 1 October 2013, subject to 3 months written notice of termination thereafter to be given by the Company or 6 months written notice thereafter to be given by the Investment Adviser.

Under the Revised Agreement, EEA is entitled to receive fixed fees, with the fee structure being split between carbon advisory and private equity advisory services. The fee in relation to private equity advisory services is GBP 1,200,000 per annum payable monthly in advance.

The fee in relation to carbon advisory services is GBP 120,000 per annum, payable monthly in advance. The investment advisory agreement covering the carbon advisory services terminated on 30 June 2013. This was renegotiated and continues in effect until 31 December 2013. EEA are entitled to a one off payment of GBP 30,000 when the UCF 1 restricted funds are released and a further GBP 30,000 on the earlier of the termination of all the Group’s obligations to purchase CERs or when any of the remaining fixed price ERPAs have been terminated or renegotiated. EEA is also entitled to an additional one off fee of GBP 20,000 once the carbon portfolio is fully realised.

EEA is entitled to an Equity Transaction fee equal to 2.7 per cent of the net aggregate consideration received by the Group on any disposal of an investment from the private equity portfolio during the duration of the Revised Agreement and up to 6 months following the termination of the Revised Agreement, payable after adjusting for the balance of private equity advisory fees paid to EEA during 2013.

Under the terms of the previous agreement which was in effect to 31 December 2012, EEA was entitled to a fixed management fee of GBP 6,000,000 per annum which covered both portfolios. Investment advisory fees for the year ended 30 June 2013 were GBP 3,660,000 (2012: GBP 6,000,000).

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 5 Investment Adviser and administration fees (continued)

#### Investment Advisory fees (continued)

In addition to the investment advisory and performance fees, EEA has been reimbursed for out of pocket expenses and received fees for additional work required for the Company's subsidiaries of GBP 193,000 (2012: GBP 403,000) and GBP 154,000 (2012: GBP 50,000) respectively.

EEA Ireland and EEA Clean Energy China, associated companies of EEA, have also invoiced the Company project costs of GBP 120,000 (2012: GBP 267,000) in relation to ERPAs that were originally entered into by EEA Ireland and previously transferred to the Company. Under the terms of this agreement, EEA Clean Energy China is entitled to certain fees based on these ERPAs achieving certain milestones and upon actual delivery of CERs to the Company under these ERPAs.

#### Administration fees

IOMA Fund and Investment Management Limited ("IOMAFIM") replaced Chamberlain Fund Services Limited ("Chamberlain") as the Company's administrator on 1 January 2013. IOMAFIM receives an administration fee of GBP 212,000 per annum. Effective from 1 July 2012 Chamberlain received an administration fee of GBP 120,000 per annum or pro-rata for any period less than one year.

Until 1 January 2013 the Company and Chamberlain had a sub-administration agreement with IOMAFIM whereby Chamberlain delegated certain administration functions to IOMAFIM. IOMAFIM was remunerated for these services by Chamberlain out of the administration fee which Chamberlain received from the Company.

Administration fees paid to IOMAFIM for the year ended 30 June 2013 were GBP 106,000 (2012: GBP nil). Those paid to Chamberlain for the year ended 30 June 2013 were GBP 198,000 (2012: GBP 226,000). Sub-administration fees amounting to GBP 51,000 (2012: GBP 116,000) were payable by Chamberlain to IOMAFIM during the year.

### 6 Directors' fees

The Company's Directors received the following Directors' fees during the year:

	2013 GBP '000	2012 GBP '000
Martin Adams (elected 2 December 2011)	60	81
Christopher Agar (elected 2 December 2011)	45	28
Norman Crighton (elected 2 December 2011)	40	41
Mark Lerdal (appointed 31 January 2013)	16	-
Philip Scales*	5	5
Peter Vanderpump*	60	48
Neil Eckert (resigned 2 December 2011)	-	17
Malcolm Gillies (resigned 2 December 2011)	-	15
Francis Hackett (elected 2 December 2011 and resigned 21 June 2012)	-	136
Bertrand Rassool (resigned 2 December 2011)	-	13
Nigel Wood* (resigned 2 December 2011)	-	15
	<b>226</b>	<b>399</b>

\* Isle of Man resident Director

Directors' fees include an additional annual fee of GBP 20,000 (pro-rata) payable to Mr Vanderpump as the Chairman of the Audit Committee and GBP 5,000 (pro-rata) payable to Mr Agar as the Chairman of the Nomination and Remuneration Committee. The annual non-executive directors' fees (excluding any additional fees) are currently GBP 60,000 for the Chairman and GBP 40,000 for the other non-executive directors other than for Mr Scales who receives an annual fee of GBP 5,000. The Directors are also reimbursed for travel expenses incurred.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 6 Directors' fees (continued)

The Company entered into a Directors Incentive Plan ("DIP") with Martin Adams and Norman Crighton ("Participating Directors") with effect from 19 December 2012. Under the terms of the DIP each of the Participating Directors is entitled to a fee of 0.30% of any distribution to Shareholders and up to a further 0.40% in aggregate between them of any distribution to Shareholders at the discretion of the Remuneration Committee such that the total amount payable to them under the terms of the DIP will not exceed in total 1% of each distribution made.

A total of 25% of any amounts payable to the Participating Directors will be held in escrow and will only be released on the earlier of (a) the disposal of all of the Company's investments; and (b) the total NAV of the Company having declined to less than GBP 1,000,000.

Under the terms of the DIP, if either of Mr Adams or Mr Crighton ceases to be a director by virtue of voluntary resignation or as a result of his appointment as a director being terminated (under the terms of his appointment letter) for good cause then he will no longer be entitled to participate in the DIP in respect of distributions made after the date of any such resignation or termination. Additionally, to the extent that, at the time of any such resignation or termination, there are amounts held in the escrow account on his behalf, these will be forfeited and will revert to the Company. Conversely, in the event that Mr Adams or Mr Crighton is removed from office as a director in any other circumstances (to include removal by Shareholders or notice being given under the terms of his appointment letter) or the revised investment policy is changed such that distributions are no longer a priority, then they will be entitled to receive an amount equal to 0.30% of the then most recently announced total NAV to be applied in subscribing for ordinary shares at an issue price per ordinary share equal to the prevailing NAV per ordinary share. Furthermore to the extent that, at the time of any such removal, there are amounts held in the escrow account on his behalf, these will be released to the relevant Participating Director.

As at the reporting date the termination payment represents a financial liability. The Board has assessed its fair value and considers the liability to be negligible.

On 21 February 2013 the Company made a distribution of GBP 14,988,000 to Shareholders by means of a bonus issue of B shares. This distribution resulted in amounts being due to Mr Adams and Mr Crighton as part of the DIP of GBP 75,000 each. Of this amount GBP 37,000 was put into an escrow account.

On 21 June 2013 the Company announced a distribution of GBP 37,470,000 would be made to Shareholders. As at 30 June 2013 the distribution was unpaid and an accrual was made for the non-discretionary element of the DIP of GBP 112,000 each (see note 30 for details of payment).

Other than detailed above, none of the Directors is entitled to any cash or non-cash benefits in kind, pensions, bonus or share scheme arrangements.

### 7 Critical accounting estimates and judgements

Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 7 Critical accounting estimates and judgements (continued)

ERPAs are recorded at fair value in the financial statements. The fair value of each ERPA is determined using a valuation model which takes the face value of the Group's contracts at each period end and adjusts the carbon delivery volumes in each contract by a risk adjustment factor that takes into account (i) project technology; (ii) CDM and project financing status; and (iii) the development and construction status. The risk adjusted volumes are then valued using ICE carbon prices at each period end for settlement in December 2012–2020. Estimated cash flows are then discounted to determine the net present value of each ERPA. The critical estimates, judgements and assumptions are used by the Group in determining the fair values of each ERPA at each period end and these are disclosed in note 4.5.

The Investment Adviser's team in China has been charged with renegotiating the ERPAs in recognition of the fact that they have become unprofitable due to the current and likely future price of CERs. As at 30 June 2013, the Group had renegotiated and signed 27 ERPAs, whereby consideration paid by the Group per CER will be based upon the spot market price at the date of delivery. At 30 June 2013 there are 4 ERPAs which are performing and included within the valuation which are still fixed price contracts.

#### (a) US forward environmental credits and biogas contracts

These contracts are recorded at fair value. Where the underlying credits are not exchange traded, the Group has determined fair value using a discounted cashflow model. The inputs into the model reflect the terms of the signed contracts at each period end. Market prices are obtained from several brokers and assessed to determine whether the quotation represents the price at which an orderly transaction could take place between market participants on the measurement date. Biogas generated from renewable resources comprises natural gas and the related energy and CCs and the market prices used in fair valuing the forward biogas contracts takes into account the market price of each component. The critical estimates, judgements and assumptions used by the Group in determining fair value of these contracts are disclosed in note 4.5.

#### (b) Contingent consideration on sale of disposal group classified as held for sale

In April 2012, the Company sold its subsidiary Electricidad Andina for USD 10,000,000. USD 9,900,000 is contingent upon Electricidad Andina completing construction of the hydro plant and securing a power purchase agreement. An additional amount capped at USD 5,000,000 may also become receivable in the event that certain performance targets are met.

The Company sold its subsidiary Environmental Credit Corporation in May 2012 for USD 15,000. Should Environmental Credit Corporation be sold subsequently for more than USD 300,000, then the Group would be entitled to receive up to 50% of the consideration paid by the buyer less USD 300,000. The Board has assessed the probability of receiving all contingent considerations as low and has therefore assigned it a negligible value. The Board will continue to re-assess the position.

#### (c) Impairment tests and fair value assessments of private equity

In line with the IFRS 5 accounting policy disclosed in note 2.5, in determining fair value less costs to sell the Board has utilised a number of valuation methods which have included, where available, market comparable information, recently reported transactions and indicative offers received to date. The valuation models which comprise of discounted cash flows and net asset multiples use all available information and take into account specific facts and circumstances of the investment. Assumptions within those models include current and forecast market data, and the economic and legal environment of the country in which the investment operates.

The Board meets regularly with the Investment Adviser and the management teams of each investment to review the current status of the realisation strategy for each investment. For a number of the Group's investments, external financial advisers were appointed to assist the Board and the Investment Adviser in implementing individual realisation strategies.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 7 Critical accounting estimates and judgements (continued)

#### (c) Impairment tests and fair value assessments of private equity (continued)

During the year, the Company has recognised impairments relating to these investments primarily as a result of the Board's assessment that a successful exit will be based on the investments' underlying realisable net assets. The impairments are disclosed in note 16, and in accordance with IFRS 5 they have been allocated against non-current assets, with GBP 2,373,000 (2012: GBP 11,539,000) being recorded against property, plant and equipment and GBP 1,015,000 (2012: GBP 3,420,000) being recorded against intangible assets.

The Board's best estimate of the effect on the Company's net assets and comprehensive loss due to a reasonably possible change of 10% in the value of those unquoted securities that have been subject to impairment, with all other variables held constant, is an increase/reduction in net assets of GBP 100,000 (2012: GBP 2,063,000) and an decrease/increase in comprehensive loss of GBP 100,000 (2012: GBP 2,063,000).

Factors impacting the fair value of the private equity investments measured at fair value through profit or loss is provided in note 4.5.

### 8 Impairment and other charges

	2013 GBP '000	2012 GBP '000
Impairment of loans and receivables	-	1,563
Impairment of property, plant and equipment	-	490
Impairment of trade and other receivables	-	136
<b>Total</b>	<b>-</b>	<b>2,189</b>

Previously, the Company issued a carbon based loan to a subsidiary for USD 875,000. The loan was settled in July 2011 through receipt of lagoon covers which were expected to generate CERs. The loan was initially valued at GBP 541,000 but as at 30 June 2012 given no CER issuances had been made, the Board reassessed the recoverable amount of the covers and determined that they should be impaired.

### 9 Other expenses

	2013 GBP '000	2012 GBP '000
Administration expenses – subsidiaries	209	702
Legal and other professional fees	1,306	1,905
ERPA project expenses	1,216	811
Directors' fees and insurance	259	439
Directors' incentive plan	375	-
Travel	109	126
Audit fees*	377	395
Other expenses	282	348
	<b>4,133</b>	<b>4,726</b>

\* Audit fees include £40,000 (2012: £84,000) in relation to other assurance services provided to the Company.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 10 Finance income/(costs) - net

	2013 GBP '000	2012 GBP '000
<b>Finance income</b>		
Income arising from cash deposits	238	466
	<b>238</b>	<b>466</b>
<b>Finance costs</b>		
Interest on bank loans and other loans	(41)	(488)
	<b>(41)</b>	<b>(488)</b>
<b>Net finance income/(costs)</b>	<b>197</b>	<b>(22)</b>

### 11 Taxation

The Company is liable to tax in the Isle of Man at the rate of 0%. Companies within the Group which are incorporated outside the Isle of Man are taxed in accordance with the laws, rules and regulations within their own jurisdictions.

	2013 GBP '000	2012 GBP '000
Current tax (expense)/refund	(8)	90
Deferred tax	-	395
Withholding tax	(19)	-
<b>Tax (expense)/credit</b>	<b>(27)</b>	<b>485</b>

The tax on the Group's loss before tax differs from the theoretical amount that could arise using the weighted average tax rate applicable to profits/(losses) of the consolidated entities as follows:

	2013 GBP '000	2012 GBP '000
Loss before tax	(27,055)	(118,532)
Tax calculated at domestic rates applicable to profit in respective countries	-	3,261
Tax losses for which no deferred tax asset was recognised	-	(2,866)
Income not taxable in jurisdiction	(27)	90
<b>Tax (expense)/ credit</b>	<b>(27)</b>	<b>485</b>

The weighted average applicable tax rate was 0% (2012: 2.75%). The difference in rate from 2012 is due to a change in operations of the UK subsidiary.

### 12 Financial assets and liabilities at fair value through profit or loss

#### 12.1 Non-current financial assets and liabilities at fair value through profit or loss for continuing operations

	Assets		Liabilities	
	2013 GBP '000	2012 GBP '000	2013 GBP '000	2012 GBP '000
<b>Held for trading:</b>				
Derivatives				
- CERs	968	2,228	(1,477)	(7,195)
<b>Total</b>	<b>968</b>	<b>2,228</b>	<b>(1,477)</b>	<b>(7,195)</b>

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 12 Financial assets and liabilities at fair value through profit or loss (continued)

#### 12.2 Current financial assets and liabilities at fair value through profit or loss for continuing operations

	Assets		Liabilities	
	2013 GBP '000	2012 GBP '000	2013 GBP '000	2012 GBP '000
<b>Designated at fair value through profit or loss:</b>				
Unquoted equity securities	1,000	34,424	-	-
<b>Held for trading:</b>				
Derivatives				
- CERs	1,144	3,327	(1,061)	(15,145)
- CER hedging	-	713	-	-
<b>Total</b>	<b>2,144</b>	<b>38,464</b>	<b>(1,061)</b>	<b>(15,145)</b>

#### 12.3 Financial assets and liabilities at fair value through profit or loss for discontinuing operations

	Assets		Liabilities	
	2013 GBP '000	2012 GBP '000	2013 GBP '000	2012 GBP '000
<b>Designated at fair value through profit or loss:</b>				
Unquoted equities	-	468	-	-
<b>Held for trading:</b>				
US environmental instruments	2,167	3,048	(1,593)	(2,786)
Biogas contracts	3,783	7,194	(1,449)	(190)
Short OTC CER/EUA instruments	-	-	(663)	(645)
Interest rate swaps	359	-	(3,083)	(3,165)
<b>Total</b>	<b>6,309</b>	<b>10,710</b>	<b>(6,788)</b>	<b>(6,786)</b>

#### 12.4 Net change in fair value of financial assets and financial liabilities at fair value through profit or loss

	2013 GBP '000	2012 GBP '000
<b>Designated at fair value through profit or loss:</b>		
Net loss	(30,277)	(14,450)
<b>Held for trading:</b>		
Net gain	21,922	(54,365)
<b>Net losses (note 4.5)</b>	<b>(8,355)</b>	<b>(68,815)</b>

The change in fair value above includes the impairment of Bionasa which is referred to in note 4.5 and the Chairman's Statement

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 13 Derivative financial instruments

The Group has entered in to a number of forward contract agreements to buy and sell CCs and biogas. The Group's contracted quantities were as follows:

Contractual amount		2013 '000	2012 '000
<b>Current and non-current derivative contracts</b>			
<b>Purchases</b>			
- CERs	EUR	17,711	113,865
	USD	419	4,524
- US Carbon instruments forward contracts	USD	31,267	9,731
- Biogas forward contracts	USD	77,558	67,732
<b>Sales</b>			
- CER hedging	EUR	-	18,758
- US Carbon instruments forward contracts	USD	39,864	196,379
- Biogas forward contracts	USD	242,444	174,011
<b>Swaps</b>			
- Interest rate swaps	EUR	62,736	39,585
- CC forward swap contracts	EUA*	-	32
- CC forward swap contracts	CER*	-	276

\* EUAs and CERs relate to swap positions for carbon instruments and are not conditional on a currency value

### 14 Loans and receivables

In previous years, the Company made a number of EUR denominated loans to project developers of which repayment was due to be made by CERs generated from the projects managed by those developers. The remaining balance of these loans at 30 June 2012 of GBP 191,000 has been repaid during the year.

### 15 Principal subsidiary undertakings

#### Principal subsidiary undertakings

A summary of the Company's principal subsidiary undertakings each of which is included in the financial statements of the Group is as follows:

Name of subsidiary undertaking	Company description	Country of incorporation	% of nominal share capital	% of voting rights held
Trading Emissions (Isle of Man) Limited	Investment holding company	Isle of Man	100.00	100.00
Asia Biogas Singapore Pte Limited*	Investment holding company	Singapore	95.14	95.14
Santa Rita Limited Partnership	Investment holding limited partnership	UK	97.29	97.29
Trading Emissions Limited	Investment holding company	UK	100.00	100.00
Surya PLC	Investment holding company	Isle of Man	100.00	100.00
TEP Trading 1 Limited	Dissolved (15 August 2013 )	Isle of Man	100.00	100.00
TEP Trading 2 Limited	In liquidation	Isle of Man	100.00	100.00
Sun Biofuels Limited	In liquidation	UK	98.25	99.39
Billiter Participacoes Ltda	Investment holding company	Brazil	100.00	100.00
Billiter Energy Corporation	Investment holding company	USA	100.00	100.00

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 15 Principal subsidiary undertakings (continued)

#### Principal subsidiary undertakings (continued)

Carbon Capital Market Limited*	In liquidation	UK	99.89	99.89
TEP (Renewables Holding) Limited	Investment holding company	Ireland	100.00	100.00
TEP (Carbon Holdings) Limited	Investment holding company	Isle of Man	100.00	100.00
TEP (Hydro Holdings) Limited	Investment holding company	Isle of Man	100.00	100.00

#### Group subsidiary undertakings

In addition to its investments in direct subsidiaries listed above, the Company has the following effective interest in undertakings owned by its subsidiaries:

Name of subsidiary undertaking	Company description	Country of incorporation	% of nominal share capital	% of voting rights held
TEP Asia Limited*	Investment holding company	Isle of Man	95.14	95.14
Clean Energy Asia Limited*	Investment holding company	Isle of Man	95.14	95.14
Hacienda Bio-Energy Corporation*	Power generation company	Philippines	95.14	95.14
Swine Waste to Energy Co. Ltd*	Power generation company	Thailand	95.14	95.14
Magallanes Bio-Energy Corporation*	Development stage company	Philippines	95.14	95.14
Kalasin Waste to Energy Co., Ltd*	Power generation company	Thailand	95.14	95.14
Clean Energy Development Co (Thailand) Ltd*	Investment holding company	Thailand	95.14	95.14
Clean Energy Management (Thailand) Ltd*	Management company	Thailand	95.14	95.14
EWG Slupsk Sp.z.o.o*	Development stage company	Poland	60.00	60.00
TEP (Solar Holdings) Ltd	Investment holding company	Ireland	100.00	100.00
Solar Energy Italia 1 S.r.l.*	Power generation company	Italy	100.00	100.00
ETuno S.r.l.*	Power generation company	Italy	100.00	100.00
Solar Services Italia S.r.l.*	Management company	Italy	100.00	100.00
Solar Energy Italia 6 S.r.l.*	Power generation company	Italy	100.00	100.00
RGP Puglia 1 S.r.l.*	Power generation company	Italy	100.00	100.00
Florasolar S.r.l.*	Power generation company	Italy	100.00	100.00
Element Markets LLC*	Renewable energy investment company	USA	51.20	51.20

\* These subsidiaries are accounted for under IFRS 5.

### 16 Disposal groups classified as held for sale and discontinuing operations

The Board is pursuing a strategy around sales of individual private equity investments in the short to medium term to targeted strategic buyers, with the objective of maximising returns to Shareholders. All of the Company's private equity investments other than those accounted for as financial assets at fair value through profit or loss continue to be classified as held for sale in accordance with IFRS 5.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 16 Disposal groups classified as held for sale and discontinuing operations (continued)

Note	30 June 2013 GBP '000	30 June 2012 GBP '000
<b>(a) Cash flows of disposal groups classified as held for sale and discontinuing operations</b>		
	7,383	1,886
	(2,936)	(44,559)
	18,992	13,980
<b>Total cash flows</b>	<b>23,439</b>	<b>(28,693)</b>
<b>(b) Assets of disposal groups classified as held for sale</b>		
	81,779	78,653
	14,598	14,168
	-	288
12	6,309	10,710
	237	246
4	10,881	11,108
4	1,792	5,042
	22,237	16,328
17	2,278	2,468
	1,286	1,028
<b>Total</b>	<b>141,397</b>	<b>140,039</b>
<b>(c) Liabilities of disposal groups classified as held for sale</b>		
	(5,792)	(4,391)
22	(66,263)	(40,522)
21	(5,644)	(5,636)
12	(6,788)	(6,786)
	(112)	(446)
	(2,339)	(661)
	(1,026)	(1,462)
<b>Total</b>	<b>(87,964)</b>	<b>(59,904)</b>
<b>(d) Cumulative income or expense recognised in other comprehensive income relating to disposal groups classified as held for sale</b>		
	(1,418)	375
<b>Total</b>	<b>(1,418)</b>	<b>375</b>
	47,646	48,690
	(44,698)	(41,845)
	2,948	6,845
	(3,505)	214
<b>Profit/(loss) after tax on discontinuing operations</b>	<b>(557)</b>	<b>7,059</b>
	-	(9,053)
	(3,388)	(14,959)
	-	1,378
<b>Loss for the year from discontinuing operations</b>	<b>(3,945)</b>	<b>(15,575)</b>

At 30 June 2013, net property, plant and equipment held under finance leases amounted to GBP 6,960,000 (30 June 2012: GBP 6,880,000). Net property plant and equipment of GBP 71,373,000 (30 June 2012: GBP 43,158,000) is pledged as security for financial liabilities.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 17 Cash and cash equivalents and restricted cash

#### (a) Cash and cash equivalents

For the purpose of the Consolidated Cash Flow Statement, cash and cash equivalents comprise the following balances:

	2013 GBP '000	2012 GBP '000
Cash at bank	55,140	47,103
Total cash and cash equivalents*	55,140	47,103
Cash in disposal group classified as held for sale	22,237	16,328
<b>Cash and cash equivalents for the purposes of the cash flow statement</b>	<b>77,377</b>	<b>63,431</b>

\*GBP 52,435,000 (2012: GBP 44,695,000) is held by the Parent Company.

#### (b) Restricted cash

At 30 June 2013, restricted cash included GBP 5,037,000 (2012: GBP 16,327,000) of cash held in a pledge guarantee account which is used specifically for drawdown obligations under the UCF T1 facility agreement (refer to note 28) and GBP 10,000 (2012: GBP 2,106,000) cash held at the Company's prime broker.

A Group company held for sale also holds restricted cash of GBP 2,278,000 (2012: GBP 2,468,000). This primarily relates to margin requirements for positions held through brokers, as well as letters of credit held on trading positions entered into.

In order to trade on ICE, the Company has to place a margin for each contract traded. During the year trading activity has markedly decreased and at 30 June 2013 the Company holds GBP 10,000 with the broker to maintain a trading account which is classified as restricted cash. At 30 June 2012 margin cash deposited against the unrealised marked to market gain was GBP 2,106,000.

### 18 Trade and other receivables

	2013 GBP '000	2012 GBP '000
<b>Current</b>		
Accrued bank and loan interest	-	10
Trade and other receivables	118	533
Prepayments	33	327
	<b>151</b>	<b>870</b>

As at 30 June 2013 there were provisions for impairments of trade receivables amounting GBP nil (2012: GBP 206,000). The fair value of trade and other receivables approximates their carrying value.

### 19 Inventory at fair value less costs to sell

	2013 GBP '000	2012 GBP '000
EUAs	-	264
CERs	766	6,742
	<b>766</b>	<b>7,006</b>

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 20 Trade and other payables

	2013 GBP '000	2012 GBP '000
<b>Non-current</b>		
Trade and other payables	446	497
	<b>446</b>	497
	2013 GBP '000	2012 GBP '000
<b>Current</b>		
Accrued expenses	1,659	1,061
Trade and other payables*	1,231	12,278
	<b>2,890</b>	13,339

\*Included in the trade and other payables are CERs delivered before year end but not yet paid for, amounting to GBP 119,000 (2012: GBP 8,580,000). The fair value of trade and other payables approximates their carrying value.

### 21 Lease liabilities

A subsidiary holds a photovoltaic plant under a finance lease. The lease runs for a period of 216 months from June 2011 to June 2029. The rental amounts are indexed using the monthly average of 3-month Euribor. Upon the expiration of the finance lease, the subsidiary shall choose one of the following options:

1. to purchase back the plant without receiving any guarantee from the lessor for consideration equal to 1% of the consideration; or
2. to deliver to the lessor the plant, in good maintenance condition and free from any encumbrance within 15 business days from the expiration date. In case of delay, a penalty equal to the last monthly rent increased by one third would apply for each day of delay.

	2013 GBP '000	2012 GBP '000
Gross lease liability:		
Not later than one year	424	442
Later than one year and no later than 5 years	1,719	1,770
Later than 5 years	4,992	5,272
	<b>7,135</b>	7,484
Future finance charges on finance leases	<b>(1,811)</b>	(1,877)
<b>Present value of finance lease liability</b>	<b>5,324</b>	5,607
The present value of finance lease liabilities is as follows:		
Not later than one year	269	246
Later than 1 year and not later than 5 years	1,176	1,076
Later than 5 years	4,199	4,314
<b>Total over one year</b>	<b>5,375</b>	5,390
<b>TOTAL</b>	<b>5,644</b>	5,636

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 22 Borrowings

#### i) Continuing operations

	2013 GBP '000	2012 GBP '000
<b>Current</b>		
EEA Group Limited	-	1,613
<b>Total</b>	-	1,613

In 2010 the Group entered into a facility with EEA Group Limited for an amount of EUR 12,000,000 which was subject to an average interest rate for the financial year of 4.2% per annum. EEA Group Limited is a related party to the Group, as its subsidiary EEA Fund Management Limited acts as the Company's Investment Adviser. During the year the remainder of the loan was fully repaid and the charge over the assets held by the Company's subsidiary Surya PLC has been released.

Other borrowings described in this note relate to disposal groups classified as held for sale.

#### ii) Discontinuing operations

	2013 GBP '000	2012 GBP '000
<b>Non-current</b>		
Bank borrowings	63,421	39,181
Finance lease liabilities	5,375	5,390
	<b>68,796</b>	<b>44,571</b>
<b>Current</b>		
Bank borrowings	2,842	1,341
Finance lease liabilities	269	246
	<b>3,111</b>	<b>1,587</b>

The carrying amounts and the fair value of the discontinued borrowings are as follows:

	Carrying amount		Fair value	
	2013 GBP '000	2012 GBP '000	2013 GBP '000	2012 GBP '000
Bank borrowings	66,263	40,522	72,625	45,170
Finance lease liabilities	5,644	5,636	5,450	6,061
<b>Total</b>	<b>71,907</b>	<b>46,158</b>	<b>78,075</b>	<b>51,231</b>

The finance lease liabilities are disclosed in note 21.

Borrowings are represented by several external debt facilities detailed below.

#### EUR 36,800,000 facility

This comprises EUR 32,600,000 for a senior term loan facility, EUR 2,200,000 for a true up facility and EUR 2,000,000 for a VAT facility.

For the senior term loan facility and the true up facility the termination date is 2028 and the interest rate is six month EURIBOR plus a margin of 2.50%. For the VAT facility the termination date is 2014 and the interest rate is six month EURIBOR plus a margin of 2%.

Security has been established by the lender for this facility over the shares of Solar Energy Italia 1 S.r.l. (SEI) property rights of land, and a pledge over other future receivables.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 22 Borrowings (continued)

#### ii) Discontinuing operations (continued)

As at 30 June 2013 the Group had drawn down EUR 30,412,000 (GBP 26,009,000) (2012: EUR 31,680,000 (GBP 25,548,000)) under this facility.

Related to this facility are two interest rate swap agreements, with Centrobanca and Deutsche Bank. The swap agreements cover 80% of the value of the facility and have a termination date in 2028. Under the swap agreements, SEI pays a fixed coupon of 3.38% per annum on the drawn down balance. As at 30 June 2013 the fair value of the swap contracts was GBP 2,438,000 (2012: GBP 2,504,000) which is recorded as a financial liability at fair value through profit or loss.

#### **EUR 10,998,000 facility**

This comprises EUR 9,843,000 for a term loan facility and EUR 1,155,000 is for a VAT facility. For the term loan facility the termination date is 2029 and the interest rate is six month EURIBOR plus a margin of 3.05%. For the VAT facility the termination date is 2015 and the interest rate is six month EURIBOR plus a margin of 1.8%.

Security has been established by the lender for this facility over the shares of RGP Puglia S.r.l ("Ravano"), rights of land, and a pledge over other future receivables.

As at 30 June 2013 the Group had drawn down EUR 9,677,000 (GBP 8,276,000) (2012: EUR 10,422,000 (GBP 8,405,000)) under this facility.

Related to this facility is an interest rate swap agreement with Centrobanca. The swap agreement covers 80% of the value of the facility and has a termination date in 2029. Under the swap agreement Ravano pays a fixed coupon of 2.855% per annum on the drawn down balance. As at 30 June 2013 the fair value of the swap contracts was GBP 457,000 (2012: GBP 470,000) which is recorded as a financial liability at fair value through profit or loss.

#### **EUR 8,273,000 facility**

This comprises EUR 7,532,000 for a senior term loan facility and EUR 741,000 for a VAT facility.

For the senior term loan facility the termination date is 2029 and the interest rate is six month EURIBOR plus a margin of 3.05%. For the VAT facility the termination date is 2015 and the interest rate is six month EURIBOR plus a margin of 1.8%.

Security has been established by the lender for this facility over the shares of Florasolar S.r.l ("Florasolar"), rights of land, and a pledge over other future receivables. The loans disclosed above must keep the following gearing ratio (capital:external debt) of 20:80.

As at 30 June 2013 the Group had drawn down EUR 7,573,000 (GBP 6,477,000) (2012: EUR 8,149,000 (GBP 6,572,000)) under this facility.

Related to this facility is an interest rate swap agreement with Centrobanca. The swap agreement covers 80% of the value of the facility and has a termination date in 2029. Under the swap agreement Florasolar fixed coupon of 2.46% per annum on the drawn down balance. As at 30 June 2013 the fair value of the swap contracts was GBP 183,000 (2012: GBP 190,000) which is recorded as a financial liability at fair value through profit or loss.

#### **EUR 31,000,000 facility**

This comprises EUR 31,000,000 for a senior loan facility which came into effect during the year. The termination date is 2028 and the interest rate is six month EURIBOR plus a margin of 4.50%.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 22 Borrowings (continued)

#### ii) Discontinuing operations (continued)

Security has been established by the lender for this facility over the shares of Solar Energy Italia 6 S.r.l. (SEI 6), rights of land, and a pledge over other future receivables. The loan must keep the gearing ratio (capital:external debt) of 25:75.

As at 30 June 2013 the Group had drawn down EUR 29,819,000 (GBP 25,502,000) under this facility.

Related to this facility is an interest rate swap agreement with UniCredit. The swap agreement covers 80% of the value of the facility and has a termination date in 2026. Under the swap agreement SEI 6 fixed coupon of 1.754% per annum on the drawn down balance. As at 30 June 2013 the fair value of the swap contracts was GBP 308,000 which is recorded as a financial asset at fair value through profit or loss.

Net property plant and equipment of GBP 71,373,000 (30 June 2012: GBP 43,158,000) is pledged as security for the four facilities.

### 23 Net asset value per share and loss per share

The net asset value per share is calculated by dividing the net assets attributable to the ordinary Shareholders of the Company by the number of ordinary shares in issue at 30 June 2013 and 2012.

#### 23.1 Net asset value per share

	2013	2012
Net assets attributable to ordinary Shareholders (GBP '000)	75,137	157,315
Ordinary shares in issue (number '000)	249,800	249,800
<b>Net asset value per ordinary share (in pence)</b>	<b>30.08p</b>	62.98p

#### 23.2 Loss per share

##### (a) Basic

The basic loss per ordinary share is calculated by dividing the loss attributable to the ordinary Shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2013	2012
<b>Ordinary shares</b>		
Loss from continuing operations attributable to equity holders of ordinary shares (GBP '000)	(27,082)	(118,047)
Loss from discontinuing operations attributable to equity holder of ordinary shares (GBP'000)	(3,580)	(15,221)
Total loss attributable to equity holders of ordinary shares (GBP '000)	(30,662)	(133,268)
Weighted average number of ordinary shares in issue (number '000)	249,800	249,800
<b>Basic loss per ordinary share from continuing operations (in pence)</b>	<b>(10.84)</b>	(47.26)
<b>Basic loss per ordinary share from discontinuing operations (in pence)</b>	<b>(1.43)</b>	(6.09)
	<b>(12.27)</b>	(53.35)

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 23 Net asset value per share and loss per share (continued)

#### 23.2 Loss per share (continued)

##### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. At 30 June 2013 and 2012 the Company had no dilutive potential ordinary shares.

### 24 Share capital

The total number of authorised and issued ordinary shares of the Company at 30 June 2013 and 2012 together with their rights is explained below.

	2013 (Number '000)	2013 GBP '000	2012 (Number '000)	2012 GBP '000
Authorised				
Ordinary shares of GBP 0.01 par value	460,000	4,600	460,000	4,600
Issued and fully paid				
Ordinary shares of GBP 0.01 par value	249,800	2,498	249,800	2,498

All issued ordinary shares of 249,800,202 are fully paid, and each ordinary share carries the right to one vote.

### 25 Share premium

The Company's share premium represents the difference between the issue price of GBP 1.00 on the Company's ordinary shares and the par value of GBP 0.01. Amounts are recorded net of issuance costs.

### 26 Distributions paid and declared

The Company is pursuing its realisation strategy through the sales of individual assets to targeted strategic buyers. On 11 February 2013 the Company made a distribution of GBP 14,988,000 to Shareholders by means of a B share scheme.

On 21 June 2013 it was announced that the Company would be making a further distribution of GBP 37,470,000 to Shareholders by means of a second B share scheme. As at 30 June 2013 this amount is unpaid and has been accrued for in the accounts. This was paid on 25 July 2013

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 27 Reserves

The following describes the nature and purpose of each reserve within Shareholders' equity.

<b>Reserve</b>	<b>Description and purpose</b>
Share premium	Amount subscribed for share capital in excess of nominal value, less share issue costs.
Retained earnings	Cumulative net realised and unrealised gains and losses recognised in the Consolidated Statement of Comprehensive Income.
Capital redemption reserve	The capital redemption reserve is the nominal amount of the Company's own shares that have been purchased for cancellation. The amounts included in this reserve represent transfers from the Company's retained earnings.
Translation reserve	Unrealised gains and losses arising on retranslating the net assets of overseas operations into the Group's presentation currency.

### 28 Contingent liabilities

The Company participated in the UCF T1 sponsored by the World Bank in December 2005. Under the UCF T1, the Company was obliged to acquire CERs generated from two Chinese HFC-23 destruction projects up to December 2013. The Company pledged a single deposit in support of a bank guarantee in favour of the World Bank to secure participation in the UCF T1 in August 2006 for the amount of EUR 68,110,000. The World Bank and UCF T1 participants agreed in the second half of the financial year that the UCF T1 would be terminated early. Restricted cash pledged in support of the bank guarantee at 30 June 2013 was EUR 5,901,000 (2012: EUR 20,247,000) and was released on 4 September 2013 once a final termination payment of EUR 1,070,000 had been made and the bank guarantee had been cancelled (see note 30).

### 29 Related-party transactions

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial or operational decisions. The Directors and the Investment Adviser, including certain partners, directors and senior management of the Investment Adviser and the subsidiaries within the Group who meet the definition of "key management personnel" in IAS 24 are considered to be related parties.

#### 29.1 Directors

Directors' fees, the Directors Incentive Plan and other transactions with the Directors of the Company during the year are disclosed in note 6.

Philip Scales was a Director throughout the year. Mr Scales is a director of IOMAFIM and has a beneficial ownership interest in IOMAFIM. Until 31 December 2012 Chamberlain had entered into a sub administration agreement with IOMAFIM. Sub-administration fees amounting to GBP 51,000 (2012: GBP 116,000) were payable to IOMAFIM during the year. On 1 January 2013 IOMAFIM took over full administration from Chamberlain. Since 1 January 2013 IOMAFIM have received fees of GBP 106,000 for the administration services provided. IOMAFIM have also received reimbursement for out of pocket expenses.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 29 Related-party transactions (continued)

#### 29.2 Investment Adviser

The Company is advised by EEA, an investment advisory company incorporated in the United Kingdom. EEA is entitled to receive an investment advisory and a performance fee under the terms of the Revised Agreement as disclosed in note 5. EEA has also received reimbursement for out of pocket expenses.

EEA Group Limited is a related party as it is the parent company of EEA. EEA Group Limited provided a loan facility to the Group in 2010 for the amount of EUR 12,000,000, as disclosed in note 22.

Certain partners, directors and senior management of EEA are regarded as key management personnel and hold director positions on a number of the Group's subsidiaries and private equity investments. As the individuals are employed by EEA as opposed to the Group, their compensation has not been disclosed.

#### 29.3 Remuneration for remaining key management personnel

Certain employees of the Group, who are not employed by the Investment Adviser, are considered to be key management personnel. Compensation payable to key management for employee services during the year ended 30 June 2013 was GBP 687,000 (2012: GBP 1,373,000).

Certain directors of Element Markets LLC are entitled to receive a transaction payment based on a fixed percentage of the net sale proceeds generated from the sale of all, or substantially all of the membership interests of Element Markets LLC provided the sale is completed by 31 December 2013.

### 30 Events after the reporting date

#### 30.1 Distribution of cash

The B share scheme distribution of GBP 37,470,000 which was declared on 21 June 2013 was fully paid on 25 July 2013.

The payment of the distribution gave rise to the second DIP payment to Martin Adams and Norman Crighton. The Nomination and Remuneration Committee voted to award the extra 0.4% DIP to the two Directors. A second DIP payment was made on the 7 August 2013 of GBP 141,000 each to Martin Adams and Norman Crighton. GBP 94,000 was put into an escrow account on the same date in relation to the second DIP payment.

#### 30.2 Restricted cash

As a consequence of the early termination of the World Bank UCF T1 the bank guarantee was cancelled on 4 September 2013 and on that date the Company received EUR 4,814,000 of cash previously held as restricted cash. This represents the release of all restricted cash held in respect of the UCF T1.