

Trading Emissions PLC  
Report & Financial Statements  
for the year ended 30 June 2014



# Trading Emissions PLC

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# Trading Emissions PLC

## Company Information

<b>Directors</b>	Martin Adams (Chairman) Christopher Agar Norman Crighton Neil Duggan (appointed 10 February 2014) Mark Lerdal Philip Scales Peter Vanderpump (until 19 January 2014)
<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 Queensway House Hilgrove Street, St Helier Jersey JE1 1ES
<b>Investment Adviser</b> (until 31 December 2013)	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

Consistent with its investment policy and objective, Trading Emissions PLC ("TEP" or the "Company") has distributed GBP 72.5 million to Shareholders, equivalent to 29.0p per share over the past two years. Of this amount, GBP 57.5 million, or 23.0p per share, was paid in the last financial year.

At 30 June 2014, the Net Asset Value ("NAV") of TEP was GBP 29.6 million, equivalent to 11.8p per share, which included four private equity investments valued at GBP 29.0 million, 29 Emissions Reduction Purchase Agreements ("ERPAs") valued in aggregate as a net liability of GBP 2.4 million and cash at the Company (excluding subsidiaries) of GBP 5.0 million. TEP's closing share price on 30 June 2014 was 7.6p, giving a market capitalisation of approximately GBP 19.0 million and implying that the Company's market value was a discount of approximately 36% to NAV. Since the end of the financial year, one investment has been sold, generating initial proceeds of GBP 5.6 million.

### Financial Highlights

During the second half of the financial year, the NAV of the Company reduced to GBP 29.6 million (11.8p per share) from GBP 55.9 million (22.4p per share) on 31 December 2013 and GBP 75.1 million (30.1p per share) on 30 June 2013. The reduction in NAV during the second half of the financial year was caused mainly by a GBP 11.4 million net reduction in cash and cash equivalents (including the distribution to Shareholders and realisations from disposals) and a reduction of GBP 12.9 million in the book value of the remaining private equity investments.

The aggregate value of the private equity portfolio at 30 June 2014 was GBP 29.0 million (11.6p per share), compared with GBP 41.9 million on 31 December 2013 and GBP 57.1 million on 30 June 2013. Proceeds generated during the financial year from the realisation and liquidation of investments and cash distributions from subsidiaries to TEP amounted to GBP 9.4 million (3.8p per share). The book value of the remaining private equity investments reduced by GBP 26.0 million (10.4p per share) during the year.

The Directors estimate that, at 30 June 2014, the comparable fair value of TEP's private equity portfolio, including TEP's loans and excluding the future impact of tax, was GBP 37.3 million (14.9p per share), which is 29% more than the consolidated book value of GBP 29.0 million calculated in accordance with International Financial Reporting Standards ("IFRSs"). The comparable fair value of TEP's private equity portfolio was GBP 46.3 million at 31 December 2013 and was GBP 69.2million at 30 June 2013. The difference between book value and fair value continues to be a function of the requirement to consolidate controlled subsidiaries into TEP's financial statements. As in previous periods, TEP does not disclose the carrying values of individual private equity investments.

The value of the carbon portfolio at 30 June 2014 was a net liability of GBP 2.4 million (1.0p per share) compared with a net liability, of GBP 1.8 million at 31 December 2013 and GBP 0.4 million at the beginning of the financial year.

### Cash and Distributions

The consolidated cash balance held by the Company and its subsidiaries (not including cash in disposal groups classified as held for sale) at 30 June 2014 was GBP 6.1 million (2.4p per share), compared with GBP 18.6 million at 31 December 2013 and GBP 55.1 million (excluding restricted cash) at 30 June 2013. Since the end of the financial year, GBP 5.6 million (2.2p per share) was received by the Company's subsidiary, TEP Renewables, from the sale of EWG Slupsk.

During the year, GBP 37.5 million (15.0p per share) was distributed to Shareholders in July 2013 and GBP 20.0 million (8.0p per share) in June 2014, both by means of B share schemes.

As and when further cash is generated by TEP, the Board intends to announce further distributions to Shareholders. Prior to any such distribution being made the Board will continue to give full consideration to the solvency and cash requirements of the Company and its subsidiaries, including possible follow on investment requirements, projected operating costs, estimated liabilities and contingent liabilities. The Board intends to review with key Shareholders in the coming months whether future distributions should also be

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made by means of further issues of B shares or whether other, simpler and more cost effective methods would be preferred that could also allow for capital returns of smaller amounts.

### Private Equity Portfolio

#### *Asia Biogas*

In December 2013, TEP sold its equity and loan interest in Asia Biogas to management for a consideration of GBP 0.2 million. TEP also received GBP 0.3 million in loan repayments during the first half of the financial year.

#### *Bionasa*

Through its wholly owned Brazilian subsidiary, Billiter Participações, TEP owns a 25% equity interest together with preference shares in biodiesel producer, Bionasa. Since May 2010, we have been engaged in an arbitration process conducted under the rules of the arbitral chamber of BOVESPA, the São Paulo Stock Exchange, regarding conversion by Billiter Participações of the preference shares to a substantial controlling equity interest in Bionasa. Delivery of the final verdict by the arbitration tribunal was delayed by six months due to the failure by our local joint venture partners to pay their share of the final amount due to conclude the arbitration process. The arbitration decision was finally issued on 23 September 2014. The tribunal rejected all of the claims and allegations made by the joint venture partners and found in favour of Billiter Participações and TEP, in particular recognising the right for Billiter Participações to convert its preference shares into ordinary shares. After conversion, Billiter Participações will own 99.4% of the equity of Bionasa. The tribunal also awarded costs to Billiter Participações and TEP, including reimbursement of legal fees and arbitration costs.

The conclusion of the four year arbitration process is a pyrrhic victory given that, in the meantime, the management of Bionasa appointed by the Brazilian joint venture partners steered the business into effective insolvency. Bionasa's biodiesel plant has not operated since the first quarter of 2013, liabilities have continued to mount and creditors, including former employees, have initiated actions through the courts to recover amounts due.

During the second half of the financial year, TEP appointed an adviser to sell Billiter Participações. Negotiations have commenced with a limited number of buyers who are interested to find a resolution with Bionasa's creditors (including banks and employees) and, in due course, to resume production of biodiesel. These potential buyers of our subsidiary are attracted by the age and condition of the plant and recent regulatory changes which will result in a 40% increase in demand for biodiesel that should also lead to higher prices. These changed prospects result from the minimum biodiesel content in diesel sold in Brazil having increased on 1 July 2014 from 5% to 6%. Effective 1 November 2014, there will be a further increase of biodiesel content to a minimum of 7%.

#### *Element Markets*

Management has made good progress in limiting the risk of Element Markets' portfolio and selling its distinct business units. Work on both efforts continues. A distribution of GBP 2.3 million was received by TEP in April 2014 and further amounts are expected during the current financial year.

#### *EWG Slupsk*

In July 2014, the Company announced the sale by its wholly owned subsidiary, TEP Renewables, of its interest, comprising a controlling equity stake and loans, in EWG Slupsk to a Polish special purpose vehicle owned and controlled by Winergy Last Mile.

The consideration comprises an initial amount of EUR 7.0 million (GBP 5.6 million), which was paid upon signature of the sales and purchase documentation and deferred amounts of between EUR 15.4 million and EUR 19.1 million receivable over a period of up to 48 months from signature and after debt financing has been arranged to fund the development of EWG Slupsk's wind farm project. The deferred amounts could exceed the minimum if the buyer obtains certain financing conditions from banks and successfully amends some of the building permits. The terms of the sale were consistent with the estimated fair values at 30 June 2014 and at 31 December 2013 and constituted a premium to book value at those dates.

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TEP Renewables has provided various representations and warranties to the buyer customary for this type of transaction. These representations and warranties expire 24 months after signature of the sale and purchase documentation and the maximum aggregate liabilities are capped at 66% of all amounts actually received.

### *Sun Biofuels*

A final distribution of GBP 0.3 million was received from the liquidators in April 2014.

### *Surya/ TEP Solar*

The five photovoltaic ("PV") plants in Italy held through TEP Solar generated aggregate revenues of EUR 15.1 million during the financial year, compared with EUR 16.2 million during the financial year ended 30 June 2013. The TEP Solar group revenues were 2.5% below budget during the year ended 30 June 2014, due in large part to decreasing electricity prices, reduced operations at the two smaller PV plants caused by damage from lightning and the effects of the abnormal rate of panel degradation at the three larger PV plants using First Solar thin film modules. Negotiations with the EPC contractors and panel supplier to rectify the abnormal rate of panel degradation have been disappointing, with no timetable or replacement work programme having been agreed so far.

During the second half of the financial year, we were informed by a provincial authority in Sicily of a project approved by the regional Government providing for the construction of a public road that would cut through the Librandello PV plant, together with the expropriation of the relevant land leased by TEP Solar's subsidiary. Due to the prejudice that the implementation of the planned public road would cause to the Librandello PV project, our subsidiary filed a claim with the administrative judicial courts against the provincial, regional and other related local authorities. In order to settle the litigation on an amicable basis, a letter of understanding was provided to us, whereby the provincial authorities committed to find other options to redirect the public road. Following subsequent consultations, the authorities have communicated to us that they have identified a possible alternative solution. Should the proposed alternative be acceptable to all parties, the approval of the regional Government of Sicily will be required in order for the revised plan to become effective. We are currently optimistic that material prejudice to the Librandello PV plant resulting from the planned new public road can be avoided.

Following the end of the financial year, in August 2014, the Italian Parliament converted into law a controversial decree, which imposes unilateral changes in the incentive tariffs for existing PV plants with individual nominal capacity over 200 kW (the "New Law"). The New Law applies to all of TEP Solar's PV plants. Under the New Law, affected PV plant operators in Italy are provided with three alternative options, which are summarised as follows:

1. the so-called '*spalma incentivi*' whereby a PV plant operator can choose to cut the incentive tariff rates by a declining rate from 25% to 17% (depending on the remaining contracted period) in return for an extension to the period of the incentive tariffs from 20 to 24 years from the date the plant commenced operations;
2. an outright reduction in the incentive tariff of 8% for the remaining contracted period; and
3. a restructuring of the incentive tariff, allowing for an offset of the resulting revenue reduction so that reduced receipts in the years 2015 to 2019 are offset through an increase of the same amount during the subsequent remaining contracted period.

Affected PV plant owners must select one of these options by 30 November 2014 and the new long-term incentive tariff rates will become effective on 1 January 2015. Failure to select either the first or third option above means that the outright 8% cut will automatically apply by default.

As the New Law unilaterally and retroactively amends existing incentive tariff agreements to the detriment of existing PV plant operators, formal actions are expected to be taken by the PV industry in Italy with the competent European bodies, Italian courts and international arbitration tribunals. These legal challenges will take time, however, and in the meantime, affected PV plant operators in Italy, including TEP Solar, will suffer reduced revenues under all three options.

Excess cash of GBP 5.8 million not required to meet the TEP Solar group's debt obligations or operating expenses was distributed to TEP in May 2014. We continue to enjoy good relations with the Italian bankers to

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our projects. Each of the TEP Solar group companies is current on the repayment and service of its limited recourse debt facilities, which, in total, amounted to EUR 73.4 million at 30 June 2014. We will be discussing the impact of the New Law and the preferred option for each of our PV plants with our bankers.

Determination of the Directors' valuation of the equity in TEP Solar at 30 June 2014 has been particularly challenging given the significant uncertainties surrounding the performance of the solar panels, the public road planned to be built through the Librandello PV plant and the impact of the New Law. As further information is obtained by the Board and applied to our equity holdings, it is possible that future valuations of TEP's investment in TEP Solar could be materially different from those estimated at 30 June 2014.

### Carbon Portfolio

In March 2014, TEP announced the sale and transfer of its then-existing stock of carbon credits and a portfolio of 24 ERPAs for no material consideration. Progress in transferring the ERPAs has been slow. The liabilities associated with the carbon portfolio will decrease as and when the ERPAs are novated or terminated. The long stop date for transferring the ERPAs is March 2015.

The estimated value of the carbon portfolio at 30 June 2014 was a net liability of GBP 2.4 million compared with a net liability, of GBP 1.8 million at 31 December 2013 and GBP 0.4 million at the beginning of the financial year. The net liability increased because of falls in the market price of Certified Emission Reductions ("CERs") to current extremely low levels and the transfer of most of the CER inventory in March 2014 as part of the ERPA portfolio sale. Given that delivery of fixed price carbon is at a negligible level, no hedges were in place at the end of the financial year or currently.

Following the termination of the Umbrella Carbon Facility Tranche 1 in September 2013, for which the World Bank acted as trustee, TEP had no outstanding obligations under the facility at the end of the financial year compared with GBP 0.9 million at 30 June 2013.

During the last half year, TEP was served with notices of arbitration in respect of six ERPAs governed by Hong Kong law relating to Chinese hydropower projects. On 20 March 2014, the Company received notices of arbitration challenging the enforceability of amendments that had been made to two ERPAs that had previously been renegotiated with the respective Chinese counterparties. The claims are for declaratory relief and sums alleged to be payable under the ERPAs. On 23 June 2014, TEP received four further notices of arbitration in respect of four further ERPAs, making similar claims for declaratory relief and sums alleged to be payable under these four further ERPAs. The aggregate sum alleged to be payable by the Company under all six of the notices of arbitration received to date amounts to approximately EUR 24.1 million, being approximately EUR 6.1 million in the first two cases and EUR 18.0 million in the more recent cases. Having taken legal advice, TEP believes the claims to be unjustified and is rigorously defending them. The Chinese counterparties made two applications for freezing injunctions to prevent TEP's distribution to Shareholders on 24 June 2014. The initial applications were dismissed by the arbitration tribunal, and the later application by the Commercial Court in London, both dismissals on 23 June 2014.

### Operating Expenses

The Directors regularly consider in detail the appropriateness of TEP's current and projected operating cost base, both at quarterly Board meetings and, in conjunction with the projected cash requirements and solvency reviews, prior to announcing distributions to Shareholders.

#### *Investment Advisory Fees*

As EEA's advisory role in relation to TEP continues to reduce, the annual advisory fees paid to EEA have also fallen, from GBP 6.0 million in the year ended 30 June 2012 to GBP 3.7 million in the year ended 30 June 2013 and GBP 1.0 million in the last financial year. Periodic fees payable to EEA will continue to decline. At present, EEA's main role is to provide support in respect of the management of TEP's carbon portfolio and, to a more limited extent, the remaining deferred amounts in respect of the sale of EWG Slupsk. Performance fees are also payable to EEA based on successful sales of private equity investments and/ or the carbon portfolio.

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## *Other Operating Expenses*

Other operating expenses increased to GBP 4.3 million in the last financial year from GBP 4.1 million in the financial year ended 30 June 2013. Legal and professional fees and project costs in association with the ERPAs accounted for 47% of operating expenses in the last financial year.

## **Governance and Regulatory Developments**

We announced in January 2014 the sad news that Peter Vanderpump had suddenly passed away. Peter had been a loyal and hardworking Director for over seven years and chaired the Board's Audit Committee. We were fortunate that, in February, we were able to welcome to the Board Neil Duggan, who was formerly a partner with KPMG in the Isle of Man. Neil assumed the chairmanship of the Audit Committee and has overseen the preparation of these audited financial statements.

In line with the reduction in the NAV and the number of investments held by TEP, the Nomination and Remuneration Committee regularly reviews the composition of the Board. Chris Agar and Norman Crighton have expressed their intention to resign from the Board at the next annual general meeting of the Company, expected to take place on 5 December 2014. In terms of special duties, Chris chairs the Nomination and Remuneration Committee and has overseen the management and successful realisation of the EWG Slupsk investment. Norman has been actively involved in overseeing the management of the carbon portfolio, including the successful reduction of the substantial liabilities under the fixed price ERPAs, the renegotiation of the ERPAs to floating CER prices and the sale of most of the ERPA portfolio. He was also closely involved in negotiating the sale of TEP's investments in Asia Biogas and Chapel Street and has been overseeing the remaining Santa Rita/ Electricidad Andina contingent asset. The Board is most grateful to both Chris and Norman for their dedication and efforts over the past three years.

International Financial Reporting Standard 10 ("IFRS 10") becomes effective for the financial year ending 30 June 2015 which could directly impact TEP. IFRS 10 permits qualifying investment entities to no longer consolidate investments they control but instead carry them at fair value. TEP is currently considering whether it is appropriate to adopt IFRS 10 for the interim financial statements at 31 December 2014. If adopted by the Company, IFRS 10 would be applied retrospectively and accordingly prior period figures would have to be restated. Had TEP applied these accounting standards at 30 June 2014, the NAV would have been 28% higher at approximately GBP 37.8 million (15.2p per share).

During the last financial year, the Isle of Man introduced new legislation that has a direct effect on TEP. The Isle of Man Government signed an agreement with the USA in December 2013 and draft guidance notes in relation to the US Foreign Account Tax Compliance Act were published on 31 January 2014. The Administrator has registered and received a Global Intermediary Identification Number ("GIIN") both as a foreign financial institution and as a sponsoring entity for funds including TEP. In addition, TEP has also registered for and obtained its own GIIN.

The Isle of Man Bribery Act 2013, which updated the 2008 legislation, became effective on 16 December 2013 and is applicable to all Isle of Man companies, including TEP. The law mirrors the UK anti-bribery legislation with two exceptions. It remains an offence in the Isle of Man both to fail to report bribery to the appropriate authorities and to interfere with this duty to report. The Directors monitor compliance with the anti-bribery legislation on an ongoing basis through the Administrator and more formally at each quarterly Board meeting.

The Board considers that the Company is exempt from the requirements of the EU's Alternative Investment Fund Managers Directive.

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## Outlook

Significant risks and uncertainties remain for TEP in valuing and monetising the remaining assets in the portfolio. There is, of course, no assurance that any of the current realisation strategies will be successful, that sales proceeds will approximate the latest carrying values and/or that the arbitration proceedings will conclude in TEP's favour. Nevertheless, although significant challenges remain, the Board is optimistic that further cash will be generated in the next 12 to 24 months.

The Board continues to appreciate your patience and support.

Martin M Adams  
Chairman  
3 October 2014

# Trading Emissions PLC

## Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 June 2014.

### Principal activities, trading review and future developments

Trading Emissions PLC ("TEP" or 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 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, Shareholders amended the Company's investment policy such that TEP is 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 Asia Biogas and liquidated Sun Biofuels in the year generating net proceeds of GBP 0.8 million. During the year, TEP received an interim distribution of GBP 0.5 million from the process of voluntary winding up of Carbon Capital Markets. The Company is actively pursuing the disposal of other investments.

During the year the Company received distributions totalling GBP 8.1 million from two investments. In March 2014, the Company entered into an agreement to transfer the Company's existing carbon emission reduction credits ("CERs") stock and 24 Emission Reduction Purchase Agreements ("ERPAs") for no material consideration.

Post year-end TEP Renewables, sold its interest in investment EWG Slupsk. This transaction occurred on 7 July 2014 and was the only investment held by TEP Renewables at the year-end.

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 13.

### 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 14. 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) for the year 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.

The results of TEP and its subsidiaries (the "Group") for the year ended 30 June 2014 are set out in the Consolidated Statement of Comprehensive Income on page 17.

A review of the Group's activities is contained in the Chairman's Statement on pages 3 to 8.

The following distribution was declared in the financial year:

<b>Amount (GBP '000)</b>	<b>Date declared</b>	<b>Date paid</b>
19,984	20 May 2014	24 June 2014

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## Results and distributions (continued)

Two distributions were declared in the prior financial year:

<b>Amount (GBP '000)</b>	<b>Date declared</b>	<b>Date paid</b>
14,988	7 January 2013	11 February 2013
37,470	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 19.

Particulars of the authorised and issued share capital of the Company are set out in note 21 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  
Neil Duggan (appointed 10 February 2014)  
Mark Lerdal  
Philip Scales  
Peter Vanderpump (until 19 January 2014)

No Director holding office at 30 June 2014 had any interest 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 2014 refer to note 28 of the financial statements.

## By Order of the Board

**Philip Scales**  
**Company Secretary**  
3 October 2014

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

The Directors are responsible for preparing the Directors' 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 judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company 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 Company. They are also responsible for safeguarding the assets of the Company 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**  
3 October 2014

# 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 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 the 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>Neil Duggan*</b>	<b>Mark Lerdal</b>	<b>Philip Scales</b>	<b>Peter Vanderpump**</b>
4 July 2013	x		x			x	x
29 July 2013	x	x	x		x	x	x
18 September 2013	x	x	x		x	x	x
19 September 2013						x	x
2 October 2013	x	x	x		x	x	x
28 October 2013	x	x	x				x
03 December 2013	x	x	x		x	x	x
12 December 2013						x	x
7 February 2014	x		x		x	x	
5 March 2014			x	x		x	
18 March 2014	x	x	x	x	x	x	
13 May 2014	x	x	x	x	x	x	
19 May 2014	x	x	x	x	x	x	
29 May 2014	x					x	
17 June 2014	x	x	x	x	x	x	

\* Appointed 10 February 2014

\*\* Until 19 January 2014

Of the six non-executive Directors, five are considered independent. These are Martin Adams, Christopher Agar, Norman Crighton, Neil Duggan and Mark Lerdal. Peter Vanderpump was also considered independent. Philip Scales is not considered independent as he is a Director and Shareholder of IOMA Fund and Investment Management Limited ("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.

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## Corporate Governance Statement (continued)

### 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.

### 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 its operations.

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 was Peter Vanderpump until 19 January 2014. Neil Duggan was appointed as Chairman of the Audit Committee on 10 February 2014.

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 at 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, 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>Neil Duggan**</b>	<b>Norman Crighton</b>	<b>Mark Lerdal</b>	<b>Philip Scales</b>
18 September 2013	x		x	x	x
28 October 2013	x		x		
3 December 2013	x		x	x	x
18 March 2014		x	x	x	x
17 June 2014		x	x	x	x

\* Until 19 January 2014

\*\*Appointed 10 February 2014

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## Corporate Governance Statement (continued)

### 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, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.

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 Christopher 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 paid to consultants who advise the Committee.

# Trading Emissions PLC

## Corporate Governance Statement (continued)

**Table 3 – Nomination and Remuneration Committee**

<b>Nomination and Remuneration Committee meetings</b>	<b>Christopher Agar</b>	<b>Neil Duggan*</b>	<b>Philip Scales</b>	<b>Peter Vanderpump**</b>
29 July 2013	x		x	x
29 August 2013	x		x	x
17 June 2014	x	x	x	

\* Appointed 10 February 2014  
\*\* Until 19 January 2014

### **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 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**  
3 October 2014

# 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 2014 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 19 February 2014 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 2014, 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 less costs to sell. As explained in note 4.5 the Board has estimated the investments' fair values 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.

# Trading Emissions PLC

## Consolidated Statement of Comprehensive Income

Note	Year ended 30 June 2014 GBP '000	Year ended 30 June 2013 GBP '000
	<b>601</b>	7,738
	<b>(2,154)</b>	(20,418)
11	<b>(1,529)</b>	(8,355)
5	<b>(974)</b>	(3,660)
5	<b>(212)</b>	(304)
	<b>(827)</b>	1,880
8	<b>(4,301)</b>	(4,133)
	<b>(9,396)</b>	(27,252)
	<b>54</b>	238
9	<b>-</b>	(41)
	<b>54</b>	197
	<b>(9,342)</b>	(27,055)
10	<b>-</b>	(27)
	<b>(9,342)</b>	(27,082)
14	<b>(12,518)</b>	(3,945)
	<b>(21,860)</b>	(31,027)
	<b>(4,479)</b>	942
	<b>(4,479)</b>	942
	<b>(26,339)</b>	(30,085)
	<b>(21,094)</b>	(30,662)
	<b>(766)</b>	(365)
	<b>(21,860)</b>	(31,027)
	<b>(25,573)</b>	(29,720)
	<b>(766)</b>	(365)
	<b>(26,339)</b>	(30,085)
	<b>(7,902)</b>	(24,722)
	<b>(17,671)</b>	(4,998)
	<b>(25,573)</b>	(29,720)
20	<b>(3.74)</b>	(10.84)
20	<b>(4.70)</b>	(1.43)
	<b>(8.44)</b>	(12.27)

The notes on pages 21 to 53 form an integral part of these financial statements.

# Trading Emissions PLC

## Consolidated Statement of Financial Position

Note		30 June 2014 GBP '000	30 June 2013 GBP '000
	<b>Assets</b>		
	<b>Non-current assets</b>		
11	Financial assets at fair value through profit or loss	-	968
		-	968
	<b>Current assets</b>		
11	Financial assets at fair value through profit or loss	39	2,144
16	Trade and other receivables	247	151
	Inventory	16	766
15	Restricted cash	-	5,047
15	Cash and cash equivalents	6,063	55,140
		6,365	63,248
14	Assets of disposal groups classified as held for sale	108,947	141,397
	Current assets	115,312	204,645
	<b>Liabilities</b>		
	<b>Current liabilities</b>		
17	Trade and other payables	(2,043)	(2,890)
23	Distribution payable	-	(37,470)
25	Provisions	(1,129)	-
11	Financial liabilities at fair value through profit or loss	(607)	(1,061)
		(3,779)	(41,421)
14	Liabilities of disposal groups classified as held for sale	(83,955)	(87,964)
	Current liabilities	(87,734)	(129,385)
	<b>Net current assets</b>	27,578	75,260
	<b>Non-current liabilities</b>		
17	Trade and other payables	(397)	(446)
11	Financial liabilities at fair value through profit or loss	(944)	(1,477)
		(1,341)	(1,923)
	<b>Net assets</b>	26,237	74,305
	<b>Equity attributable to owners of the parent</b>		
21	Share capital	2,498	2,498
22	Share premium	301,086	301,086
24	Retained earnings	(277,090)	(236,012)
24	Translation reserve	2,691	7,170
24	Capital redemption reserve	395	395
	<b>Total Shareholders' equity</b>	29,580	75,137
	Non-controlling interests	(3,343)	(832)
	<b>Total equity</b>	26,237	74,305

The financial statements on pages 21 to 53 were approved and authorised for issue by the Board on 3 October 2014 and signed on its behalf by:

Neil Duggan  
Director

Philip Scales  
Director

# Trading Emissions PLC

## Consolidated Statement of Changes in Equity

	Share capital GBP '000	Share premium GBP '000	Capital redemption reserve GBP '000	Retained earnings GBP '000	Translation reserve GBP '000	Total *	Non- controlling interests GBP '000	Total equity GBP '000
Balance at 1 July 2012	2,498	301,086	395	(151,345)	4,681	157,315	(707)	156,608
<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</b>								
Currency translation differences	-	-	-	-	942	942	-	942
<b>Total comprehensive loss</b>	-	-	-	<b>(30,662)</b>	<b>942</b>	<b>(29,720)</b>	<b>(365)</b>	<b>(30,085)</b>
<b>Transactions with owners</b>								
Distributions (note 23)	-	-	-	(52,458)	-	(52,458)	-	(52,458)
<b>Transactions with non-controlling interests</b>								
	-	-	-	-	-	-	240	240
<b>Balance at 1 July 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>
<b>Comprehensive loss</b>								
Loss for the year	-	-	-	(21,094)	-	(21,094)	(766)	(21,860)
<b>Other comprehensive loss</b>								
Currency translation differences	-	-	-	-	(4,479)	(4,479)	-	(4,479)
<b>Total comprehensive loss</b>	-	-	-	<b>(21,094)</b>	<b>(4,479)</b>	<b>(25,573)</b>	<b>(766)</b>	<b>(26,339)</b>
<b>Transactions with owners</b>								
Distributions (note 23)	-	-	-	(19,984)	-	(19,984)	-	(19,984)
<b>Transactions with non-controlling interests</b>								
Distribution	-	-	-	-	-	-	186	186
Share based payment paid by non-controlling interest	-	-	-	-	-	-	(2,546)	(2,546)
	-	-	-	-	-	-	615	615
<b>Balance at 30 June 2014</b>	<b>2,498</b>	<b>301,086</b>	<b>395</b>	<b>(277,090)</b>	<b>2,691</b>	<b>29,580</b>	<b>(3,343)</b>	<b>26,237</b>

\* Attributable to equity holders of the Company

The notes on pages 21 to 53 form an integral part of these financial statements.

# Trading Emissions PLC

## Consolidated Cash Flow Statement

	Year ended 30 June 2014 GBP '000	Year ended 30 June 2013 GBP '000
<b>Cash flows from operating activities</b>		
Loss for the year	(21,860)	(31,027)
Adjustment for:		
- finance income	(72)	(336)
- income tax credit	2,710	3,532
- net foreign exchange differences	785	(3,047)
- impairment charges	15,247	2,846
- profit on disposal of investments	(59)	(196)
- loss /(profit) on disposal of associate	4	-
- loss/(profit) on disposal of property, plant and equipment	352	(2,036)
- finance costs	4,335	2,469
Changes in working capital:		
Net decrease in financial assets at fair value through profit or loss	3,119	42,952
Net decrease in inventory at fair value less costs to sell	87	9,490
Net increase/(decrease) in financial liabilities at fair value through profit or loss	1,425	(19,800)
Decrease /(increase) in trade and other payables	995	(9,433)
Decrease in trade and other receivables	4,251	1,139
<b>Cash generated/(used) in operations</b>	<b>11,319</b>	<b>(3,447)</b>
Tax paid	(2,105)	(2,552)
Interest received	72	346
Interest paid	(4,335)	(2,469)
<b>Net cash generated/(used) in operating activities</b>	<b>4,951</b>	<b>(8,122)</b>
<b>Cash flows from investing activities</b>		
Decrease in restricted cash	5,030	13,576
Final termination of World Bank UCFT1	(923)	-
Proceeds on disposal of investments	327	2,563
Purchase of property, plant and equipment	(70)	(1,880)
Disposal of property, plant and equipment	28	1,903
<b>Net cash generated in investing activities</b>	<b>4,392</b>	<b>16,162</b>
<b>Financing activities</b>		
Distributions paid to Shareholders	(57,454)	(14,988)
Distributions paid to subsidiary non-controlling interests	(2,546)	-
Repayment of borrowings	(6,550)	(4,671)
Proceeds from borrowings	-	26,253
Costs of financing	-	(2,590)
<b>Net cash (used)/generated in financing activities</b>	<b>(66,550)</b>	<b>4,004</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(57,207)</b>	<b>12,044</b>
Cash and cash equivalents at beginning of the year	77,377	63,431
Exchange (losses)/gains on cash and cash equivalents	(1,508)	1,902
<b>Cash and cash equivalents at end of the year (note 15)</b>	<b>18,662</b>	<b>77,377</b>

The notes on pages 21 to 53 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”) invests in environmental and emissions assets, companies providing products and services related to the reduction of greenhouse gas emissions and associated financial products. The Investing Policy of the Company is to carry out an orderly realisation of the portfolio of carbon and private equity assets, distribution of the net proceeds to Shareholders and then undertake a voluntary winding-up of the Company. No new private equity investments will be made except where the Board of Directors of the Company (the “Board”) considers it necessary to provide follow-on capital to protect an existing investment.

The Company is a closed-ended investment company domiciled in the Isle of Man and the address of its registered office is IOMA House, Hope Street, Douglas, Isle of Man. The Company was incorporated on 15 March 2005 in the Isle of Man as a public limited company and is quoted on the Alternative Investment Market (“AIM”) operated and regulated by the London Stock Exchange. In December 2011, 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 explained in note 7.

As explained in the Directors’ Report on pages 8 to 9, the presentation of the financial statements continues to be impacted by IFRS 5.

#### a) **The Group has adopted the following standards and amendments to IFRS as of 1 July 2013;**

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.

Amendment to IFRS 7, ‘Financial instruments: Disclosures’, on offsetting financial assets and liabilities – These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.

#### 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 2013 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 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 will be effective for accounting periods beginning on or after 1 January 2018, subject to EU endorsement.

IAS 27 (revised 2011) ‘Separate financial statements’ – This standard includes provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

# 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 2013 which are relevant to the Group and have not been early adopted;** (continued)

IAS 28 (revised 2011) 'Associates and joint ventures' – This standard includes the requirement for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11 'Joint Arrangements'.

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 and EU endorsed for periods beginning on or after 1 January 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 and EU endorsed for periods beginning on or after 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 11, IFRS 12 and IAS 27) is effective for accounting periods beginning on or after 1 January 2014. It defines an investment entity and introduces an exception to consolidating particular subsidiaries of 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 explained in note 13.

##### (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.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### 2.2 Consolidation (continued)

##### (a) Subsidiaries (continued)

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.

##### (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.

##### (c) Associates

Associates are 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 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;

# 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)

- (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.

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 estimated 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 photovoltaic power plants, 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. 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.

Intangible assets, recognised as part of the acquisition of the Company's subsidiaries, comprise of the following:

- (i) Project developments
- (ii) Trademarks and licences
- (iii) Computer software

#### 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.

##### (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 Emissions Reduction Purchase Agreements ("ERPAs") which are contracts for the future purchase of Carbon Credits ("CCs") with payment due upon delivery. A subsidiary company also enters into contracts for the future purchase and sale of renewable energy credits, CCs and biogas.

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.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

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

##### (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.

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

The fair values of instruments traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the balance sheet date. The quoted market prices used for assets and liabilities held by the Company are the last traded 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.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

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

##### (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.

#### 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 and 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.

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.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### 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.

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 explained 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.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### 2.18 Revenue recognition (continued)

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.

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

The Group 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 (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.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### 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.

#### 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 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, CER inventory and associated costs. 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 aggregated into 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

	2014 GBP'000	2013 GBP'000
Carbon	(3,471)	(172)
Cash	5,029	57,482
Private equity	28,950	57,096
Corporate	(928)	(39,269)
<b>Total net asset value attributable to the Shareholders of the Company</b>	<b>29,580</b>	<b>75,137</b>

The corporate segment comparative for 2013 includes a distribution of GBP 37,470,000 which was payable at 30 June 2013.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 3 Segmental information (continued)

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

	2014 GBP'000	2013 GBP'000
Carbon	(3,311)	7,325
Cash	(1,330)	2,085
Private equity	(12,646)	(33,159)
Corporate	(3,807)	(6,913)
<b>Loss after tax attributable to Shareholders of the Company</b>	<b>(21,094)</b>	<b>(30,662)</b>

#### Revenue

The carbon segment derives its revenue primarily from the sale of CCs. Revenue earned from the sale of CCs during 2014 was GBP 601,000 (2013: GBP 7,738,000). 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 in accordance with policies approved by the Board. The Board 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:

1. the ERPAs
2. CER inventory
3. US environmental credits and biogas inventory
4. US environmental credits and biogas derivatives

Price risk has been reflected the fair values of these assets and liabilities as described in note 4.5.

##### (b) Cash flow and fair value interest rate risk

The Group has external borrowings of GBP 63,727,000, of which GBP 4,986,000 relates to a finance lease as at 30 June 2014 (2013: GBP 71,907,000 of which GBP 5,644,000 related to a finance lease). The Group is exposed to variable interest rate risk arising from such borrowings, as explained in note 19. The borrowings are denominated in EUR.

Management 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 (as explained in note 19).

Interest expense on external borrowings was GBP 4,331,000 (2013: GBP 2,461,000). If interest rates in subsidiaries had been on average 0.25% higher, with all other variables held constant, total comprehensive loss/equity for the year ended 30 June 2014 would increase/decrease by GBP 170,000 (2013: GBP 150,000).

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.1 Market risk (continued)

##### (b) Cash flow and fair value interest rate risk (continued)

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 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 72,000 (2013: GBP 336,000), of which GBP 18,000 (2013: GBP 98,000) is in disposal groups classified as held for sale. At 30 June 2014, if interest rates on average had increased by 0.25% with all other variables held constant, total comprehensive loss/equity for the year would decrease/increase by GBP 132,000 (2013: GBP 211,000), of which GBP 58,000 (2013: GBP 42,000) 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 and Polish Zloty. 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.

##### Cash and trade receivables

The Group 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 858,000 (2013: GBP 1,650,000) decrease in cash and cash equivalents for the Group, of which GBP 697,000 (2013: GBP 1,075,000) is attributable to disposal groups classified as held for sale. A 10% strengthening of GBP against the USD would result in a GBP 578,000 (2013: GBP 881,000) decrease in cash and cash equivalents for the Group, of which GBP 522,000 (2013: GBP 835,000) is attributable to disposal groups classified as held for sale.

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

	2014 GBP'000	2013 GBP'000
GBP	6	7
EUR	2,787	4,222
USD	1,253	2,623
Other currencies	-	75
	<b>4,046</b>	<b>6,927</b>

Within the balances at 30 June 2014, GBP 4,040,000 (2013: GBP 6,926,000) is within disposal groups held for sale.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 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 18,662,000 (2013: GBP 77,377,000), restricted cash of GBP 2,295,000 (2013: GBP 7,325,000), trade and other receivables of GBP 6,781,000 (2013: GBP 11,032,000) and derivatives held for trading of GBP 6,302,000 (2013: GBP 8,421,000), being the maximum exposure to the carrying values.

#### Cash and restricted cash

Cash and deposits are held with international financial institutions that have high credit ratings from recognised global credit rating agencies. 84% of cash is held with three such 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

Credit risk arising from buying and selling credits and biogas in the US is managed by the management of Element Markets. Collateral is generally not required for credit extended to customers; however, many transactions require payment prior to the transfer of inventories. Element Markets has certain critical controls around managing its 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.

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 management of Element Markets monitors the financial condition of such brokers and does not expect any losses from these parties.

#### 4.3 Liquidity risk

Cash flow forecasting is performed by the Group on a quarterly basis. Such forecasting takes into consideration the strategy of achieving an orderly realisation of the Group's assets and the investment policy 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 2014 the Group had cash and cash equivalents of GBP 18,662,000 (2013: GBP 77,377,000), of which GBP 12,599,000 (2013: GBP 22,237,000) is included within disposal groups held for sale (as explained in note 14).

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.3 Liquidity risk (continued)

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 2014</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>				
Financial liabilities at fair value through profit or loss	(633)	(429)	(722)	-
Trade and other payables	(2,043)	(397)	-	-
<b>Discontinuing operations</b>				
Borrowings	(5,277)	(5,744)	(16,191)	(56,058)
Finance lease	(399)	(401)	(1,217)	(4,265)
Financial liabilities at fair value through profit or loss	(1,989)	(1,137)	(3,433)	(5,386)
Tax payable	(386)	-	-	-
Trade and other payables	(6,130)	-	-	-
<hr/>				
<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>				
Financial liabilities at fair value through profit or loss	(1,145)	(822)	(841)	(237)
Trade and other payables	(40,360)	(446)	-	-
<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)	-	-	-

#### 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 of capital to Shareholders.

The Company's cash balance as at 30 June 2014 was GBP 5,029,000 (2013: GBP 57,482,000 of which GBP 5,047,000 was restricted cash in connection with the Umbrella Carbon Facility Tranche 1 ("UCF T1")). All restricted cash held in respect of the UCF T1 was returned to the Company on 4 September 2013. At 30 June 2014 the Company had no restricted cash. On 20 May 2014 the Company announced the distribution via a B share scheme of GBP 19,984,000 this was distributed on 24 June 2014 (2013: GBP 37,470,000). The Board closely monitors the cash balance so the Company is able to meet its liabilities as they fall due.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.4 Capital risk management (continued)

At 30 June 2014 the Company's subsidiaries had external borrowings (excluding finance leases) of GBP 58,741,000 (2013: GBP 66,263,000). The borrowings are used to fund the solar subsidiaries and are subject to covenants, as explained in note 19. 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 current investment policy.

The solar subsidiaries remain in full compliance with their covenants and this is monitored regularly by the management of TEP Solar.

#### 4.5 Fair value estimation

Assets and liabilities held by the Group carried at fair value include derivatives, inventory and private equity investments.

The table below analyses the Group's asset and liabilities 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 Board.

A market is regarded as active if quoted prices are readily and regularly available from an exchange. The quoted market price used for assets held by the Group is the last traded price at the date of valuation. Those instruments included within level 1 are the Group's CER inventory with a fair value of GBP 16,000 (2013: GBP 766,000).

The fair value of assets and liabilities 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. 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.

The Group's level 2 assets and liabilities are interest rate swaps. The fair value of the interest rate swaps are independently confirmed. The valuation reflects the estimated amount that would be received or paid to terminate the interest rate swaps at the valuation date, taking into account current interest rates.

Those instruments included within level 3 are the Group's:

1. ERPAs
2. US environmental credits and biogas inventory
3. US environmental credits and biogas derivatives
4. Private Equity Investments.

# 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 Group's assets and liabilities that are measured at fair value at 30 June 2014. The discontinuing operations table shows those instruments that are included within disposal groups classified as held for sale.

Continuing operations at 30 June 2014	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	-	-	-	-
<b>Financial assets held for trading:</b>				
Derivatives	-	-	39	39
<b>Total financial assets</b>	-	-	39	39
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	-	-	(1,551)	(1,551)
<b>Total financial liabilities</b>	-	-	(1,551)	(1,551)
Discontinuing operations at 30 June 2014	Level 1 GBP '000	Level 2 GBP '000	Level 3 GBP '000	Total GBP '000
<b>Financial assets</b>				
<b>Financial assets held for trading:</b>				
Derivatives	-	671	5,592	6,263
<b>Total financial assets</b>	-	671	5,592	6,263
<b>Inventory</b>	-	-	2,917	2,917
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	-	(4,405)	(4,795)	(9,200)
<b>Total financial liabilities</b>	-	(4,405)	(4,795)	(9,200)
Continuing operations at 30 June 2013	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	-	-	1,000	1,000
<b>Financial assets held for trading:</b>				
Derivatives	-	-	2,112	2,112
<b>Total financial assets</b>	-	-	3,112	3,112
<b>Financial liabilities</b>				
<b>Financial liabilities held for trading:</b>				
Derivatives	-	-	(2,538)	(2,538)
<b>Total financial liabilities</b>	-	-	(2,538)	(2,538)

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

Discontinuing operations at 30 June 2013	Level 1 GBP '000	Level 2 GBP '000	Level 3 GBP '000	Total GBP '000
Financial assets				
Financial assets held for trading:				
Derivatives	-	359	5,950	6,309
Total financial assets	-	359	5,950	6,309
Inventory	-	-	1,747	1,747
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	-	(3,746)	(3,042)	(6,788)
Total financial liabilities	-	(3,746)	(3,042)	(6,788)

### Valuation Methodology

#### 1. ERPAs

The Group committed to sell most of its ERPAs in March 2014. At 30 June 2014 the Company valued four ERPAs using a valuation model which takes into account the market CER prices from the Intercontinental Exchange Inc. European Climate Exchange, verification reports and past issuance experience. The market CER prices used at 30 June 2014 ranged from EUR 0.16 to EUR 0.35 (2013: EUR 0.50 to EUR 0.80). The estimated cash flows for each underlying contract have been discounted at a rate of 6.44% per annum (2013: 7.88%) to determine the net present value of each ERPA. A reasonable possible change to the discount rate, which the Board considers to be the most significant unobservable input, by 1%, would result in a negligible movement in the Group's ERPA net liability.

#### 2. US environmental credits and biogas inventory

The market prices for the US environmental credits (renewable energy and CCs) have been derived from broker quotations which have been reviewed and assessed as reflecting fair value. As biogas comprises three components which are natural gas, renewable energy credits and CCs, the natural gas component has been valued using the last exchange traded price at the valuation date. If the market prices of the different components had increased/decreased by 5% total comprehensive loss/ equity would increase/decrease by GBP 146,000 (2013: GBP 42,000).

The price received upon sale of this inventory may be materially higher or lower than the inventory's carrying value. To mitigate its exposure to variability in market prices, Element Markets enters into forward sales where possible to ensure a margin is secured. Element Market's management regularly reviews the quantity exposure between buying and selling and enters into forward purchases and/or sales as and when required.

#### 3. US environmental credits and biogas derivatives

The fair value of the Group's US environmental credits and biogas derivatives 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 quotations 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 19% (2013: 21%) which represents the weighted average cost of capital for Element Market. 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 8 years and the future market prices used to value the cash flows over an 8 year period are inherently judgemental. If our discount applied increased by 25%, total comprehensive loss/equity would increase/decrease by GBP 54,000 (2013: GBP 1,453,000).

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

#### 3. US environmental credits and biogas derivatives (continued)

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 (2013: increase/decrease would be a negligible amount). If the discount rate had increased by 5%, total comprehensive loss/equity would decrease/increase by GBP 12,000 (2013: GBP 83,000). If the discount rate had decreased by 5%, total comprehensive loss/equity would decrease/increase by GBP 191,000 (2013: GBP 55,000).

#### 4. Private Equity Investments

The private equity portfolio is held at fair value in the financial statements to the extent that this is permitted under IFRS 5. Fair value is determined using third party purchase offer data in the first instance. If this is not available the fair value is determined using the income approach based on Group's own historical data and Directors estimates and assumptions. Where impairment is deemed necessary it is taken against the non-current assets of that disposal group.

#### Fair value inputs

The fair values of the above assets and liabilities are summarised below:

Assets and liabilities	Fair value as at 30 June 2014 GBP '000	Valuation techniques and key inputs	Significant unobservable input	Input values
Derivative financial assets – ERPA, US environmental contracts and interest rate swaps	5,631	Discounted cash flows	Market price Inputs specific to the contracts e.g. delivery dates, contract price, terms, discount rate	The input values are described above, including sensitivity analysis of the inputs that are susceptible to change
Derivative financial liabilities – as above	6,346	Discounted cash flows	As above	As above
Financial assets designated at fair value through profit or loss - Unquoted equity securities	-	Net asset value	The Board has determined that the net asset value represents the fair value at 30 June 2014 based on financial information and performance of the investment	N/A
Unquoted equity securities – Element Markets LLC and investment in photovoltaic plants measured at fair value less costs to sell	21,189	Net asset value, discounted cash flows, indicative third party offers	The significant assets and liabilities of Element Markets are inventory, derivatives (as described above) and cash.  The Board has determined that discounted cash flows represent the fair value at 30 June 2014 of the Group's investment in photovoltaic plants. The significant unobservable inputs used are the discount rate and projected future revenues.	The fair value methodology and significant unobservable inputs of the inventory and derivatives have been described above.  Discount rate(s) are in line with industry standards/ data and take into account specific performance factors of the investment. Projected future revenues take into account the factors described in more detail in the Chairman's Statement (e.g. feed-in tariff cut, panel degradation etc.)

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 4 Financial risk management (continued)

#### 4.5 Fair value estimation (continued)

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

The table below presents the changes in level 3 instruments for the year ended 30 June 2014. There have been no transfers between levels during the year.

	Inventory	Financial assets and liabilities held for trading	Financial assets and liabilities designated at fair value through the profit and loss	Total
	GBP '000	GBP '000	GBP '000	GBP '000
Opening balance	1,747	2,482	1,000	5,229
Net change in fair value – continuing operations	-	(1,086)	-	(1,086)
Net change in fair value – discontinuing operations	1,170	(2,111)	(1,000)	(1,941)
<b>Closing balance</b>	<b>2,917</b>	<b>(715)</b>	<b>-</b>	<b>2,202</b>

The following table presents the changes in level 3 instruments for the year ended 30 June 2013.

	Inventory	Financial assets and liabilities held for trading	Financial assets and liabilities designated at fair value through the profit and loss	Total
	GBP '000	GBP '000	GBP '000	GBP '000
Opening balance	4,896	(8,603)	32,020	28,313
Net change in fair value – continuing operations	-	15,538	(31,020)	(15,482)
Net change in fair value – discontinuing operations	(3,149)	(4,453)	-	(7,602)
<b>Closing balance</b>	<b>1,747</b>	<b>2,482</b>	<b>1,000</b>	<b>5,229</b>

### 5 Investment Advisory and Administration fees

#### Investment Advisory fees

Investment Advisory and services fees for the year-ended 30 June 2014 were GBP 974,000 (for the year ending 30 June 2013: GBP 3,660,000).

The Company entered into an agreement with its Investment Adviser (“Investment Advisory Agreement”), EEA Fund Management Limited (“EEA”), with effect from 1 January 2013. Under the Investment Advisory Agreement the fee structure was split between carbon advisory and private equity advisory services. The total fee in relation to both services was GBP 1,320,000 per annum, payable monthly in advance.

In accordance with the Investment Advisory Agreement, EEA received a one-off performance fee of GBP 30,000 in September 2013 after the Letter of Credit held by the World Bank, acting as Trustee for the UCF T1, was returned to the Company.

The Investment Advisory Agreement terminated on 31 December 2013 and was replaced with a Services Agreement which commenced on 1 January 2014. The Services Agreement may be terminated by either party with one month’s notice.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 5 Investment Advisory and Administration fees (continued)

#### Investment Advisory fees (continued)

Under the Services Agreement, EEA received a one-off fee of GBP 40,000 and a monthly fee of GBP 45,000 to cover services provided in relation to two private equity investments and the carbon portfolio. From 1 May 2014 the monthly fee reduced to GBP 32,000 as services relating to one of the private equity investments were terminated.

EEA is entitled to an Equity Transaction fee equal to 2.7% of 98% of the consideration actually received by the Company on any sale, disposal or liquidation of an investment from the private equity portfolio during the duration of the Services Agreement and under certain circumstances up to 6 months following the termination of the Services Agreement. In addition, EEA is entitled to receive up to GBP 40,000 on the unconditional novation, sale, disposal, termination or renegotiation of ERPAs (on terms approved by the Company) within the term of the Services Agreement and up to 6 months following termination of the Services Agreement.

#### Administration fees

IOMA Fund and Investment Management Limited ("IOMAFIM") receives an administration fee of GBP 212,000 per annum.

Administration fees paid to IOMAFIM for the year ended 30 June 2014 were GBP 212,000 (2013: GBP 106,000).

### 6 Directors' fees

The Company paid the following fees to Directors during the year:

	2014 GBP '000	2013 GBP '000
Martin Adams	60	60
Christopher Agar	45	45
Norman Crighton	40	40
Neil Duggan* (appointed 10 February 2014)	22	-
Mark Lerdal (appointed 31 January 2013)	40	16
Philip Scales*	5	5
Peter Vanderpump* (until 19 January 2014)	37	60
* Isle of Man resident		
	<b>249</b>	<b>226</b>

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 Philip Scales who receives an annual fee of GBP 5,000. The Directors are also reimbursed for travel and out of pocket expenses incurred. Directors' fees include an additional annual fee of GBP 20,000 payable to the Chairman of the Audit Committee. An annual fee of GBP 5,000 is payable to the Chairman of the Nomination and Remuneration Committee.

The Company operates a Directors Incentive Plan ("DIP"). During the year the terms of this agreement changed. Under the terms of the DIP each of the Participating Directors was 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 Nomination and Remuneration Committee. The Participating Directors have now waived their fixed entitlements under the DIP in respect of any future distribution to Shareholders and 1% of any future distribution to Shareholders will be shared between Participating Directors at the discretion of the Nomination and Remuneration Committee.

On 17 June 2014 Mark Lerdal became a Participating Director, in addition to Martin Adams and Norman Crighton who were already Participating Directors.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 6 Directors' fees (continued)

At 30 June 2014 GBP 200,000 had been accrued for the DIP payment relating to the June 2014 distribution to Shareholders. In total an amount of GBP 131,000 has been retained from previous DIP payments in line with the terms of the DIP and will be paid to the Participating Directors at a later date. (At 30 June 2013: Accrual of GBP 225,000 and a retained DIP amount payable at a later date of GBP 37,000.)

Other than as 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.

#### (a) ERPAs

As explained in note 4.5, the Company sold 24 ERPAs for no material consideration. The remaining ERPAs have been measured at fair value using a discounted cash flow model. The key inputs and sensitivity analysis are described in note 4.5.

#### (b) US environmental credits and biogas derivatives and inventory

US environmental credits and biogas derivatives and inventory are recorded at fair value. The Group has determined the fair value using a discounted cash flow model and market prices at 30 June 2014. The key inputs and sensitivity analysis are described in note 4.5

#### (c) 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.

#### (d) Re-measurement of disposal groups to fair value less costs to sell

In line with the IFRS 5 accounting policy explained 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 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 management teams of each operating subsidiary and investment to review the current status of operations and strategy. For a number of the Group's investments, external financial advisers were appointed to assist the Board in implementing individual strategies.

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### (d) Re-measurement of disposal groups to fair value less costs to sell (continued)

During the year, the Group 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 explained in note 14, and in accordance with IFRS 5 they have been allocated against non-current assets, with GBP 12,032,000 (2013: GBP 2,373,000) being recorded against property, plant and equipment and GBP 1,557,000 (2013: GBP 1,015,000) being recorded against intangible assets.

Factors impacting the fair value of the private equity investments measured at fair value less cost to sell are explained in note 4.5.

### 8 Other expenses

	2014 GBP '000	2013 GBP '000
Administration expenses – subsidiaries	103	209
Legal and other professional fees	2,456	1,306
ERPA project expenses	713	1,216
Directors' fees and insurance	271	259
Directors' Incentive Plan	349	375
Travel	136	109
Audit fees*	212	377
Other expenses	61	282
	<b>4,301</b>	<b>4,133</b>

\* Audit fees includes GBP 21,000 (2013: GBP 40,000) in relation to other assurance services provided to the Company.

### 9 Finance income- net

	2014 GBP '000	2013 GBP '000
<b>Finance income</b>		
Income arising from cash deposits	54	238
	<b>54</b>	<b>238</b>
<b>Finance costs</b>		
Interest on bank loans and other loans	-	(41)
	<b>-</b>	<b>(41)</b>
<b>Net finance income</b>	<b>54</b>	<b>197</b>

### 10 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 the relevant jurisdictions.

	2014 GBP '000	2013 GBP '000
Current tax refund/(expense)	-	(8)
Deferred tax	-	-
Withholding tax	-	(19)
Tax credit/(expense)	-	(27)

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 10 Taxation (continued)

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:

	2014 GBP '000	2013 GBP '000
Loss before tax	(9,342)	(27,055)
Tax calculated at domestic rates applicable to profit in respective countries	-	-
Tax losses for which no deferred tax asset was recognised	-	-
Income not taxable in jurisdiction	-	(27)
Tax credit/(expense)	-	(27)

The weighted average applicable tax rate was 0% (2013: 0%).

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

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

	Assets		Liabilities	
	2014 GBP '000	2013 GBP '000	2014 GBP '000	2013 GBP '000
<b>Held for trading:</b>				
Derivatives				
- CERs	-	968	(944)	(1,477)
<b>Total</b>	-	968	(944)	(1,477)

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

	Assets		Liabilities	
	2014 GBP '000	2013 GBP '000	2014 GBP '000	2013 GBP '000
<b>Designated at fair value through profit or loss:</b>				
Unquoted equity securities	-	1,000	-	-
<b>Held for trading:</b>				
Derivatives				
- CERs	39	1,144	(607)	(1,061)
<b>Total</b>	39	2,144	(607)	(1,061)

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

	Assets		Liabilities	
	2014 GBP '000	2013 GBP '000	2014 GBP '000	2013 GBP '000
<b>Held for trading:</b>				
US environmental instruments	1,925	2,167	(679)	(1,593)
Biogas contracts	3,667	3,783	(4,116)	(1,449)
Short OTC CER/EUA instruments	-	-	(8)	(663)
Interest rate swaps	671	359	(4,397)	(3,083)
<b>Total</b>	6,263	6,309	(9,200)	(6,788)

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### 11.4 Net change in fair value of financial assets and financial liabilities at fair value through profit or loss for continuing operations

	2014 GBP '000	2013 GBP '000
<b>Designated at fair value through profit or loss:</b>		
Net loss	(1,000)	(30,277)
<b>Held for trading:</b>		
Net gain/(loss)	(529)	21,922
<b>Net losses</b>	<b>(1,529)</b>	<b>(8,355)</b>

### 12 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:

<b>Contractual amount</b>		2014 '000	2013 '000
<b>Current and non-current derivative contracts</b>			
<b>Purchases</b>			
- CERs	EUR	2,486	17,711
	USD	-	419
- US Carbon instruments forward contracts	USD	17,164	31,267
- Biogas forward contracts	USD	75,436	77,558
<b>Sales</b>			
- US Carbon instruments forward contracts	USD	22,718	39,864
- Biogas forward contracts	USD	197,967	242,444
<b>Swaps</b>			
- Interest rate swaps	EUR	66,478	62,736

### 13 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:

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 13 Principal subsidiary undertakings (continued)

#### Principal subsidiary undertakings (continued)

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
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
Billiter Participações Ltda	Investment holding company	Brazil	100.00	100.00
Billiter Energy Corporation	Investment holding company	USA	100.00	100.00
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
EWG Slupsk Sp.Z.o.o*	Development stage company	Poland	64.44	64.44
TEP (Solar Holdings) Limited	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.

### 14 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)

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

Note	30 June 2014 GBP '000	30 June 2013 GBP '000
<b>(a) Cash flows of disposal groups classified as held for sale and discontinuing operations</b>		
	10,031	7,383
Operating cash flows		
	264	(2,936)
Investing cash flows		
	(9,096)	18,992
Financing cash flows		
<b>Total cash flows</b>	<b>1,199</b>	<b>23,439</b>
<b>(b) Assets of disposal groups classified as held for sale</b>		
	64,303	81,779
Property, plant and equipment		
	12,358	14,598
Intangible assets		
12	6,263	6,309
Financial assets at fair value through profit or loss		
	-	237
Investment in associate		
4	6,534	10,881
Trade and other receivables		
4	2,917	1,792
Inventory at fair value less costs to sell		
	12,599	22,237
Cash and cash equivalents		
15	2,295	2,278
Restricted cash		
	1,678	1,286
Deferred income tax		
<b>Total</b>	<b>108,947</b>	<b>141,397</b>
<b>(c) Liabilities of disposal groups classified as held for sale</b>		
	(6,130)	(5,792)
Trade and other payables		
19	(58,741)	(66,263)
Borrowings		
18	(4,986)	(5,644)
Leases		
12	(9,200)	(6,788)
Financial liabilities at fair value through profit or loss		
	(536)	(112)
Provisions for liabilities and charges		
	(3,976)	(2,339)
Deferred income tax liabilities		
	(386)	(1,026)
Current tax liabilities		
<b>Total</b>	<b>(83,955)</b>	<b>(87,964)</b>
<b>(d) Cumulative income or expense recognised in other comprehensive income relating to disposal groups classified as held for sale</b>		
	4,451	(1,418)
Foreign currency translation difference for foreign operations		
<b>Total</b>	<b>4,451</b>	<b>(1,418)</b>
<b>(e) Profit or loss for the year from discontinuing operations</b>		
	52,989	47,646
Revenue		
	(48,691)	(44,698)
Expenses		
Profit before tax on discontinuing operations	4,298	2,948
Tax	(2,710)	(3,505)
<b>Profit/(loss) after tax on discontinuing operations</b>	<b>1,588</b>	<b>(557)</b>
	59	-
Gain on disposal of subsidiaries		
	(14,165)	(3,388)
Re-measurement of disposal groups to fair value less costs to sell (see note 7c)		
<b>Loss for the year</b>	<b>(12,518)</b>	<b>(3,945)</b>

At 30 June 2014, net property, plant and equipment held under finance leases amounted to GBP 5,488,000 (30 June 2013: GBP 6,960,000). Net property plant and equipment of GBP 55,656,000 (30 June 2013: GBP 71,373,000) is pledged as security for financial liabilities.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 15 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:

	2014 GBP '000	2013 GBP '000
Cash at bank	6,063	55,140
Total cash and cash equivalents*	6,063	55,140
Cash in disposal group classified as held for sale	12,599	22,237
<b>Cash and cash equivalents for the purposes of the cash flow statement</b>	<b>18,662</b>	<b>77,377</b>

\*GBP 5,029,000 (2013: GBP 52,435,000) is held by the Parent Company.

#### (b) Restricted cash

At 30 June 2013, restricted cash included GBP 5,037,000 of cash held in a pledge guarantee account which was used specifically for drawdown obligations under the UCF T1 facility agreement. The Letter of Credit held by the World Bank, acting as Trustee for the UCF T1, was returned to the Company on 4 September 2013. That action released EUR 4,814,000 (GBP 4,013,000) from funds held in the pledge guarantee account. The Company no longer holds any restricted cash in respect of the UCF T1. At 30 June 2014 the Company held no restricted cash.

As at 30 June 2014, a group company classified as held for sale holds restricted cash of GBP 2,295,000 (30 June 2013: GBP 2,278,000). This primarily relates to margin requirements for positions held through brokers, as well as letters of credit held in relation to trading positions.

### 16 Trade and other receivables

	2014 GBP '000	2013 GBP '000
<b>Current</b>		
Trade and other receivables	76	118
Prepayments	171	33
	<b>247</b>	<b>151</b>

The fair value of trade and other receivables approximates to their carrying value.

### 17 Trade and other payables

	2014 GBP '000	2013 GBP '000
<b>Current</b>		
Accrued expenses	484	1,659
Trade and other payables*	1,559	1,231
	<b>2,043</b>	<b>2,890</b>
	2014 GBP '000	2013 GBP '000
<b>Non-current</b>		
Trade and other payables	397	446
	<b>397</b>	<b>446</b>

\*Included in the trade and other payables are CERs delivered before year end but not yet paid for, amounting to GBP 952,000 (2013: GBP 511,000). The fair value of trade and other payables approximates to their carrying value.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 18 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 re-purchase the Plant without receiving any guarantee from the lessor for an amount equal to 1 per cent. of the initial purchase consideration.

2. To deliver to the lessor the Plant, in good condition and free from any encumbrance within 15 business days from the expiration date of the lease. In case of delay, a penalty equal to the last monthly rent increased by one third would apply for each day of delay.

	2014 GBP '000	2013* GBP '000
Gross lease liability:		
Not later than one year	399	424
Later than one year and no later than 5 years	1,618	1,719
Later than 5 years	4,265	4,992
	<b>6,282</b>	<b>7,135</b>
Future finance charges on finance leases	<b>(1,296)</b>	<b>(1,491)</b>
<b>Present value of finance lease liability</b>	<b>4,986</b>	<b>5,644</b>

\*The comparative figures have been presented in accordance with the amended disclosure table for leases.

Related to this lease are two interest rate swap agreements, with Intesa Sanpaolo. The swap agreements cover 80% of the value of the facility and have a maturity date in 2029. Under the swap agreements, E Tuno S.r.l ("Etuno") pays a fixed coupon of 6.00% per annum on the outstanding balance. As at 30 June 2014 the fair value of the swap agreements was GBP (409,000) which is recorded as a financial liability at fair value through profit or loss.

### 19 Borrowings

All borrowings relate to discontinuing operations.

	2014 GBP '000	2013 GBP '000
<b>Non-current</b>		
Bank borrowings	56,198	63,421
Finance lease liabilities	4,725	5,375
	<b>60,923</b>	<b>68,796</b>
<b>Current</b>		
Bank borrowings	2,543	2,842
Finance lease liabilities	261	269
	<b>2,804</b>	<b>3,111</b>

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

	Carrying amount		Fair value	
	2014 GBP '000	2013 GBP '000	2014 GBP '000	2013 GBP '000
Bank borrowings	58,741	66,263	63,092	72,625
Finance lease liabilities	4,986	5,644	4,760	5,450
	<b>63,727</b>	<b>71,907</b>	<b>67,852</b>	<b>78,075</b>

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 19 Borrowings (continued)

The finance lease liabilities are explained in note 18.

Borrowings are represented by the external debt facilities explained 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 December 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 future receivables. The loan agreement requires that SEI maintains a gearing ratio (capital:external debt) of 20:80.

As at 30 June 2014 SEI had an outstanding balance of EUR 29,340,000 (GBP 23,486,000) (2013: EUR 30,412,000 (GBP 26,009,000)) 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 maturity date in 2028. Under the swap agreements, SEI pays a fixed coupon rate of 3.38% per annum on the outstanding balance. As at 30 June 2014 the fair value of the swap agreements was GBP (3,037,000) (2013: GBP (2,438,000)) 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 for a VAT facility. The VAT facility was repaid in full during the financial year.

For the term loan facility the termination date is 2029 and the interest rate is six month EURIBOR plus a margin of 3.05%. The VAT facility had an interest rate of 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"), land rights and a pledge over future receivables. The loan agreement requires that Ravano maintains a gearing ratio (capital:external debt) of 20:80.

As at 30 June 2014 Ravano had an outstanding balance of EUR 8,536,000 (GBP 6,832,000) (2013: EUR 9,677,000 (GBP 8,276,000)) 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 outstanding balance. As at 30 June 2014 the fair value of the swap contracts was GBP (668,000) (2013: GBP (457,000)) 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. During the financial year EUR 595,000 of the VAT facility was repaid.

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%.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 19 Borrowings (continued)

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 future receivables. The loans agreement requires that Florasolar must maintain a gearing ratio (capital:external debt) of 20:80.

As at 30 June 2014 Florasolar had an outstanding balance of EUR 6,669,000 (GBP 5,338,000) (2013: EUR 7,573,000 (GBP 6,477,000)) 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 pays a fixed coupon rate of 2.46% per annum on the outstanding balance. As at 30 June 2014 the fair value of the swap contract was GBP (365,000) (2013: GBP (183,000)) 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. The termination date is 2028 and the interest rate is six month EURIBOR plus a margin of 4.50%.

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 agreement requires that SEI 6 maintains a gearing ratio (capital:external debt) of 25:75.

As at 30 June 2014 SEI 6 had an outstanding balance of EUR 28,840,000 (GBP 23,085,000) under this facility (2013: EUR 29,819,000 (GBP 25,502,000)).

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 pays a fixed coupon rate of 1.754% per annum on the outstanding balance. As at 30 June 2014 the fair value of the swap contract was GBP 623,000 (2013: GBP 308,000) which is recorded as a financial asset at fair value through profit or loss.

Net property plant and equipment of GBP 55,656,000 (30 June 2013: GBP 71,373,000) is pledged as security for the four facilities.

#### Fair Value

The fair value of borrowings and leases is based on the net present value of the expected future cash flows discounted at the loans effective interest rate which is considered to reflect the current market rate, except for SEI 6 which was refinanced in June 2013 and has an interest rate of 5.3% (2013: 4.5%). The fair values are within level 3 of the hierarchy.

### 20 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 Shareholders by the number of ordinary shares in issue at 30 June 2014 and 2013 respectively.

#### 20.1 Net asset value per share

	2014	2013
Net assets attributable to Shareholders (GBP '000)	29,580	75,137
Ordinary shares in issue (number '000)	249,800	249,800
<b>Net asset value per ordinary share (in pence)</b>	<b>11.84p</b>	30.08p

# Trading Emissions PLC

## Notes to the financial statements (continued)

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

#### 20.2 Loss per share

##### (a) Basic

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

	2014	2013
<b>Ordinary shares</b>		
Loss from continuing operations attributable to holders of ordinary shares (GBP '000)	(9,342)	(27,082)
Loss from discontinuing operations attributable to holders of ordinary shares (GBP'000)	(11,752)	(3,580)
Total loss attributable to holders of ordinary shares (GBP '000)	(21,094)	(30,662)
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>(3.74)</b>	(10.84)
<b>Basic loss per ordinary share from discontinuing operations (in pence)</b>	<b>(4.70)</b>	(1.43)
	<b>(8.44)</b>	(12.27)

##### (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 2014 and 2013 the Company had no dilutive potential ordinary shares.

### 21 Share capital

The total number of authorised and issued ordinary shares of the Company at 30 June 2014 and 2013 together with their rights is explained below.

	2014 (Number '000)	2014 GBP '000	2013 (Number '000)	2013 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.

### 22 Share premium

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

### 23 Distributions paid and declared

The Company is pursuing a realisation strategy through the sales of individual assets to targeted strategic buyers. On 20 May 2014, the Company announced a distribution of GBP 19,984,000 (8.0p per share) to Shareholders by means of a B share scheme. The distribution was paid on 24 June 2014 (2013: Distributions of GBP 52,468,000 declared of which GBP 14,998,000 (6.0p per share) was paid in February 2013 and GBP 37,470,000 (15.0p per share) was paid in July 2013).

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 24 Reserves

The following table explains 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.

### 25 Provisions

A provision has been made for the estimated costs that may be incurred in connection with litigation processes to which the Company is a party.

### 26 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, including certain partners, directors and the subsidiaries within the Group who meet the definition of "key management personnel" in IAS 24 are considered to be related parties.

#### 26.1 Directors

Directors' fees, the DIP and other transactions with the Directors of the Company during the year are explained 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. IOMAFIM have received fees of GBP 212,000 (2013: GBP 157,000) for administration services provided. IOMAFIM have also received reimbursement for out of pocket expenses. Administration fees are explained in note 6.

#### 26.2 Remuneration for remaining key management personnel

Certain employees of the Group are considered to be key management personnel. Compensation payable to key management for employment services during the year ended 30 June 2014 was GBP 1,102,000 (2013: GBP 687,000).

Certain directors of Element Markets are entitled to receive transaction fees 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 provided that the sales are completed by 31 December 2014.

# Trading Emissions PLC

## Notes to the financial statements (continued)

### 27 Contingent liabilities

On 20 March 2014, lawyers acting on behalf of the Company received two notices of arbitration challenging the enforceability of amendments that had been made to two ERPAs that had previously been renegotiated with the respective Chinese counterparties. On 23 June 2014 the Company received four further notices of arbitration in respect of four additional ERPAs.

The aggregate sums alleged to be payable by the Company under all six of the notices of arbitration received amount to approximately EUR 24,078,000.

Having taken legal advice, the Company believes the claims made in the notices of arbitration to be unjustified and is rigorously defending them.

### 28 Events after the reporting date

#### 28.1 Disposal of EWG Slupsk Sp. z.o.o. (“EWG Slupsk”)

On 7 July 2014 TEP (Renewables Holding) Limited, sold its interest in EWG Slupsk, comprising a 64.44% equity interest and loans with an outstanding amount at 30 June 2014 of GBP 3,334,000, to Pakenham Sp. z o.o. (“the Buyer”), a Polish special purpose vehicle owned and controlled by Winergy Last Mile Ltd.

The consideration comprises an amount of EUR 7,000,000 (GBP 5,560,000) payable in cash upon signature of the sales and purchase documentation and undiscounted deferred amounts of between EUR 15,414,000 and EUR 19,140,000 receivable over a period of up to 48 months from signature. The minimum deferred amount will be settled when the Buyer secures debt financing to fund the development of the project and the project is commissioned, which may be before the end of the 48 month period. The deferred amounts will be received if the Buyer obtains debt under certain financing conditions from banks and successfully amends certain building permits.

The post year-end gain on disposal made by the Group has been estimated at EUR 4,777,000 based on the discounted minimum deferred consideration. The additional deferred consideration, estimated at GBP 3,253,000, will be recognised when the Board is confident that it will be received.

TEP (Renewables Holding) Limited has provided various representations and warranties to the Buyer customary for this type of transaction. These representations and warranties expire within 24 months of signature of the sale and purchase documentation. The maximum aggregate potential liabilities are capped at 66% of all amounts actually received from the Buyer.

#### 28.2 Arbitration decision – Bionasa Combustivel Natural S.A. (“Bionasa”)

The Company and its wholly owned Brazilian subsidiary, Billiter Participações Ltda (“Billiter”), have been the defendants in an arbitration process since 2010 relating to Billiter’s investment in Bionasa. The claimants, Jaragua Participações Ltda (“Jaragua”) and Canabrava Participações Ltda (“Canabrava”), which together control Bionasa, disputed Billiter’s right to convert its preference shares into ordinary shares.

The decision of the arbitration tribunal was issued on 23 September 2014. The tribunal rejected the claims made by Jaragua and Canabrava and found in favour of the Company and Billiter, in particular recognising the right of Billiter to convert its preference shares into ordinary shares. After conversion, Billiter will own 99.4% of the equity of Bionasa.

At the date of signing the Report and Financial Statements, neither Bionasa nor Billiter had commenced the share conversion process. Until the conversion has taken place neither Billiter nor the Company has control of Bionasa as they do not have the power to appoint management nor to govern its financial and operating policies.





