

Trading Emissions PLC

Report & Accounts

Results for the year ended 30 June 2011

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Company Information

Directors	Neil David Eckert (<i>Chairman</i>) Malcolm John Gillies Bertrand Rassool Philip Peter Scales Nigel Harley Wood Charles Peter Arthur Vanderpump
Secretary	Philip Peter Scales
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Crest Provider	Computershare Investor Services (Channel Island) Limited Ordinance House 31 Pier Road St. Helier Jersey JE4 8PW
Investment Adviser	EEA Fund Management Limited 22 Billiter Street London EC3M 2RY
Solicitors to the Company	Shepherd and Wedderburn Condor House 10 St. Paul's Churchyard London EC4M 8AL
Independent Auditor to the Company	PricewaterhouseCoopers LLC Sixty Circular Road Douglas Isle of Man IM1 1SA
Bankers	The Royal Bank of Scotland International Limited Royal Bank House 2 Victoria Street Douglas Isle of Man IM99 1NJ Barclays Private Clients International Limited Barclays House Victoria Street Douglas Isle of Man IM99 1AJ

Chairman's Report

Results for the year ended 30 June 2011

The Company was incorporated in the Isle of Man in March 2005 as a public limited company, and in April 2005 its ordinary shares were admitted to trading on AIM. The Company was formed with the principal objective of making capital profits from a portfolio of emission reduction credits and related assets such as renewable energy facilities and companies whose value is enhanced by way of emission reduction markets and associated regulations. The Company's assets comprise a trading portfolio (principally made up of carbon credits), a private equity portfolio of investments in unquoted companies and operational assets, and cash reserves.

RETURN OF CAPITAL TO SHAREHOLDERS

The most important point to discuss in this statement is the Board of Directors' objective to return capital to shareholders. In my 2010 year-end report, I emphasised the Board of Directors' intention to pursue a process to return capital to shareholders through a controlled realisation programme. During the year, we pursued several opportunities to achieve this objective on a portfolio basis (both with respect to the carbon and private equity portfolios) and were disappointed that in all cases we were unable to successfully complete these attempts on acceptable terms.

The Company is aggressively pursuing its realisation strategy through sales of individual assets to targeted strategic buyers. Financial advisers have been appointed where appropriate and we believe this process will maximise the sale value achievable and is in the best interests of shareholders. I will go into detail on the status of this process later on in the report.

Since initiating dividend payments in 2009 the Company has paid dividends, including an interim dividend of 6.0 pence per share paid this year on 21 April 2011 that exceeded the 5.50 pence per share total annual dividend paid for the year 2010. The Company has, to date, distributed a total of GBP 78.5 million to shareholders as dividends and through share buy backs.

However, due to a material decrease in prevailing carbon prices and, in turn, the value of the Company's portfolio of carbon related securities, the Company may have insufficient distributable reserves available for the payment of future dividends.

As announced on 10 October 2011, to address the issue of distributable reserves and to allow the return of cash to shareholders to be effected in a cost effective, flexible and timely manner going forward, approval will be sought from the shareholders of the Company at the forthcoming annual general meeting to reregister the Company as a company incorporated under the Isle of Man Companies Act 2006 and to amend the Company's articles to, *inter alia*, enable the Company to return cash to Shareholders by a series of one or more B share schemes pursuant to which shareholders will be able to choose whether to receive returns of cash as income or capital.

Accordingly, the Directors have not declared a dividend at this time. The Company however reaffirms its commitment to return realised proceeds from the sale of its assets subject to, in the opinion of Directors, the Company maintaining sufficient working capital to effect an orderly realisation of its assets. The first return of cash to shareholders will be announced as soon as the Directors determine that there is sufficient surplus available cash to enable such a return.

PORTFOLIO REALISATION PROCESS

It is important to set out the chronology of events that have been relevant to the Board of Directors' approach to the realisation of its assets in line with its revised investment policy.

Following discussions with certain of its shareholders, the Directors proposed a revised investment policy which was approved by its shareholders at an EGM on 13 September 2010. The revised investment policy stated that:

- the Company intends to optimise the cash value of the Company's assets through controlled realisation;

Chairman's Report (continued)

- the Company's portfolio of climate related securities will be realised tactically and before 31 December 2012;
- the Company's unquoted private equity portfolio will be managed to optimise its cash value in the near to medium term.

On 30 November 2010, the Company announced it had received an unsolicited offer for its private equity portfolio. Given the restated investment policy, the Company announced that it intended to consider the proposal and that, in order to create a competitive environment, it would also initiate a formal sales process for the private equity portfolio to be managed by Liberum Capital.

On 11 January 2011, the Board of Directors issued an update on this process, confirming that the Company had received several expressions of interest and would be engaging with interested parties with a view to exchanging information and soliciting indicative offers for the private equity portfolio. The Board of Directors also announced that the Company had received expressions of interest in its carbon portfolio. This announcement was followed up by a further update on 21 March 2011, that indicated that a number of indicative bids had been received for the private equity assets, and the Board of Directors had invited prospective purchasers who submitted the most compelling indicative cash offers to conduct a detailed due diligence ahead of submitting final bids.

However, the Board of Directors announced on 15 June 2011 that indicative offers had been received for the private equity portfolio and that, having considered these in the context of maximising returns to shareholders, the Board of Directors would pursue an individual asset realisation strategy with regard to the private equity portfolio. Information memoranda have been issued or prepared for the majority of the private equity portfolio and financial advisers have been appointed where appropriate to assist in the sale of these assets. The individual asset sales process is underway, and is described in more detail below.

UPDATE ON THE SALE OF THE CARBON PORTFOLIO

At the same time, the Company also announced it had received a number of bids for the carbon portfolio and that the process had entered its final stages. The Board of Directors demonstrated its high level of confidence that this transaction would complete, announcing the intention to return 50 pence per share to shareholders (made up of projected proceeds of a sale of the carbon portfolio together with other liquid assets).

However, following this announcement, prevailing prices of carbon related securities experienced a material reduction in value, with EUAs and CERs falling 21 per cent. and 19 per cent. respectively by 27 July 2011, reaching their lowest levels since February 2009, thus causing the Board of Directors to conclude that it would not be consistent with the Company's re-stated investment policy of a tactical and controlled realisation, to sell the Company's carbon portfolio at a time of such extreme market volatility.

Since this time, the Company has undertaken the realisation of delivered carbon stocks resulting in the disposal of approximately 1.9 million CERs with net proceeds of approximately EUR 16.0 million. In addition, the Company has sold forward approximately 0.5 million CERs for November 2011 delivery for aggregate proceeds of approximately EUR 3.8 million; 0.15 million CERs for December 2011 delivery for aggregate proceeds of approximately EUR 1.0 million; 0.6 million CERs for December 2012 delivery for aggregate proceeds of approximately EUR 13.2 million; and 1.0 million EUAs for December 2011 delivery for aggregate proceeds of approximately EUR 11.9 million. The above contracts are covered by physical stock, but despite this, the exchange market requires that counterparties provide cash collateral against forward contracts up until delivery. Accordingly, cash proceeds must be retained to ensure the Company can meet its working capital requirements. Beyond these obligations, this working capital will be used to fund projected future CER purchase commitments going forward.

FINANCIAL RESULTS AT 30 JUNE 2011

I now continue with a summary of the Company's financial results as at 30 June 2011.

Chairman's Report (continued)

The Group's Net Asset Value (NAV) at 30 June 2011 was 121.08 pence per share. This is down from 137.69 pence per share on 30 June 2010. The change can be ascribed predominantly to revisions of risk adjustment factors on the Company's CER portfolio, combined with a fall in carbon prices, and finally the downward adjustments in the carrying values of certain companies in the private equity portfolio. The final dividend of 3.85 pence per share and the share buy back (which had the impact of 2.60 pence per share) would also have reduced overall NAV.

The CER valuation for year end was completed based on a price of EUR 11.05 for spot delivery of CERs on 30 June 2011, compared with a 30 June 2010 market price of EUR 13.01 per CER for spot delivery. Figures are set out below in Tables 1 and 2.

Table 1: Risk adjusted CER portfolio for valuation – 30 June 2011 ('000)

<i>No. of Carbon Credits</i>	<i>Pre-2012</i>	<i>Post-2012</i>	<i>Total</i>	<i>Asset value (GBP m)*</i>	<i>Value per share (pence)</i>
Total risk adjusted contracted	30,176	4,655	34,831	122.0	48.84
Of which delivered	10,180	–	10,180	–	–

* Taking into account CER and EUA stock, commercialisation and hedging.

Table 2: Valuation reference prices – 30 June 2011

<i>December Contract Year</i>	<i>ICE CER Futures Contracts Settlement price (EUR)</i>
Spot	11.05
2011	10.98
2012	11.15
2013	11.67
Post 2013*	7.00
2013 HFCs	7.00
Post 2013 HFCs**	3.50

* Based on OTC reference price (note that we have used exchange pricing for 2013 CERs).

** Based on reference prices for Assigned Amount Units (AAUs).

The Group's assets can be broken down into three classes: the carbon portfolio (including inventory, forward purchase contracts and loan receivables, and the value of commercialisation and trading positions), the Company's private equity investments, and the Group's net cash position. At year end, and based on prevailing market prices, the Group's carbon portfolio accounted for 48.84 pence per share of the total NAV, or GBP 122.0 million as a portion of the Group's net asset value, down from GBP 150.4 million (58.41 pence per share) in 2010.

The Group's private equity investments accounted for 37.23 pence per share on 30 June 2011, or GBP 93.0 million, of the Group's net asset value. This is compared with the 30 June 2010 value of GBP 116.4 million or 45.23 pence per share.

The Group's cash position was equivalent to 38.11 pence per share, or GBP 95.2 million, down from 43.29 pence per share, or GBP 111.4 million in 2010. Of this cash balance GBP 35.6 million (2010: GBP 34.1 million) is restricted.

The combination of the carbon portfolio, investments and cash, then deducting the Group's net liabilities of 3.10 pence per share, result in the reported NAV of 121.08 pence per share.

The Group's general valuation methodology remains as for previous reporting periods, based on the net present value (discounted at 10 per cent.) of the risk adjusted contracted portfolio valued at market prices on 30 June 2011, as per Tables 1 and 2 above. In the current year, the Board of Directors has taken the view that as a robust market now exists for December 2013 CER futures, this price should be factored into the Group's valuations. Post 2013 CERs are valued at EUR 7.00, which is the same price as Post 2012 CERs were valued

Chairman's Report (continued)

at in prior reporting periods. The Board of Directors believe that this reference price of EUR 7.00, obtained from a combination of quotes from brokers and public statements from buyers, is a fair reflection of the level at which a transaction could be completed in the market today, for delivery of a generic CER in 2014. The Group views post 2012 HFCs as being of a lower quality, due to the credits no longer being eligible for compliance in the EU Emissions Trading Scheme. The Group still believes that these credits have some value, for use by governments as Kyoto compliant credits, and therefore values them at a EUR 4.67 spread below other CERs in 2013 and a EUR 3.50 spread below other CERs for post 2013, reflecting market prices for Assigned Amount Units (AAUs).

The valuation also takes into account the Group's weighted average CER acquisition price of EUR 6.71 per CER, and the portion of the portfolio that has been hedged through futures contracts, or already realised through commercialisation.

It is the Board of Directors' view that the Group's risk adjusted carbon portfolio is conservatively stated. Each project is assigned a unique risk adjustment factor determined through the combination of three risk parameters: progress through the CDM registration process; stage of financing, construction or operation; and technology (expected CER delivery performance once operational). These figures are determined with reference to data from existing projects and from third parties.

To illustrate the impact of the Company's risk adjustment in aggregate, the Company has contracted a gross volume of 39.4 million Pre-2012 CERs and 16.5 million Post-2012 CERs. A weighted average risk adjustment factor of 76 per cent. is applied to the Pre-2012 portfolio. A weighted average factor of 60 per cent. is applied to the combined Pre-2012 and Post-2012 portfolio. These figures can be explained by the less advanced status of projects that contribute to the Post-2012 portfolio, and whose projected CER volumes are therefore stated more conservatively.

Since year end, the impact of the fall in carbon price discussed above, has significantly reduced the value of the Company's CER inventory and forward book. The carbon portfolio's contribution to the NAV on 30 June 2011 was GBP 122.0 million, or 48.84 pence per share. Valuing the year end portfolio with reference to carbon prices on 28 October 2011, yields a projected carbon NAV of GBP 47.8 million or 19.12 pence per share.

For those private equity investments that are not consolidated the Company's valuation is based on an estimate of "Fair Value" or cost, minus impairment where appropriate.

During the year the Company has recognised impairment charges of GBP 20.8 million on its consolidated private equity portfolio as a result of a number of accounting transactions and events.

PRIVATE EQUITY ASSET SALE PROCESS

For each private equity asset the Board of Directors' has reviewed and where appropriate, appointed an appropriate financial Adviser to undertake the sale of the individual assets. Information memoranda have been prepared for the majority of the private equity portfolio. A summary of the status of each asset is set out below:

- In April this year, the Company signed a share purchase agreement for the sale of its minority shareholding in Jantus S.L. (held through Carbon Capital Markets, as a result of an asset swap in April 2009) to CPFL Energia S.A. through its subsidiary CPFL Comercialização Brasil S.A. (a Brazilian electricity distribution, generation and commercialisation company). Jantus S.L is the owner of SIIF Energias do Brasil Ltda which owns and operates four wind farms in the state of Ceara with a total installed capacity of 210MW. The final closing price will be adjusted based on net indebtedness and working capital of Jantus at the closing. It is expected that closing conditions will have been met and consideration paid by December 2011. Closing is subject to certain conditions in the SPA and the approval by various regulatory authorities.

Chairman's Report (continued)

- The Company's largest portfolio asset, Bionasa Combustivel, has progressed significantly since my interim statement. The Bionasa biodiesel plant in Brazil is now fully constructed, permitted and operational having held its inauguration earlier this year in May. The plant has also begun successfully to commercialise biodiesel fuel through the Brazilian auction programme and consecutively increased production over the last two quarters. Given the plant's improved technical and commercial situation and a general improvement in market conditions in Brazil, the Company believes that the optimum time to realize this asset is fast approaching. To that end, we await a final decision from the arbitration panel permitting the Company to assume control of Bionasa. Our team is moving the process along as rapidly as possible and currently expect a final decision in the new year. In preparation, the Company has met and evaluated several sell side financial advisers, and also identified management changes to be put in place once the controlling investment has been confirmed. We look forward to confirmation of conversion of our stake into a controlling interest and to move ahead with our plans for Bionasa.
- Asia Biogas Singapore PTE Limited ("ABS") appointed Brighton Capital and ReEx Capital Asia as joint financial advisers in August. The advisers have a mandate to sell the entire share capital of ABS and also sell TEP's rights to CERs associated with ABS. A condition of the sale will be repayment of the debt currently outstanding between TEP and ABS. Following its restructuring ABS is now implementing a new business plan, with seven projects currently under late-stage development and seeking finance. In addition it is disposing of certain under-performing and non-key assets. Sales of these assets are expected to generate cash for the business from November 2011.
- The Company has received several indicative offers for EWG Slupsk Sp Z.o.o, and is currently reviewing which is the most advantageous for the business. Further details will be disclosed in due course.
- The Company does not intend to appoint an Adviser for the sale of Environmental Credit Corp ("ECC"). ECC has completed an information memorandum which has been circulated to a number of interested potential acquirers and aims to have completed a sale process by Q1 2012.
- The Company has appointed G.C. Andersen Partners LLC to advise on the sale of Electricidad Andina S.A. ("Andina"), the Company's run-of-river hydro project development business in Peru. Indicative offers have been received and several parties are undertaking detailed due diligence.
- The Company has initiated discussions regarding the sale of its shareholding in EcoTraders. Ideal candidates include local consulting companies, international utilities and consulting companies with a presence in Israel.
- Surya Plc, through TEP (Solar Holdings) Limited owns and operates photovoltaic plants in excess of 22MW capacity at the date of this report and is progressing with the completion of the remaining photovoltaic projects in its pipeline. TEP (Solar Holdings) is in advanced negotiations for the financing (in the form of Project Finance and leasing) of its photovoltaic projects up to approximately 19MW capacity. The Company continues to consider its options regarding this investment.
- In addition to the investments stated above, the Company is considering its options available regarding Element Markets and Chapel Street.

The Board of Directors is confident that this orderly sale process is likely to realise the maximum value for shareholders.

Given the Company's revised investment policy to optimize the realized value of the business in the short to medium term, the Board has taken the decision not to fund Sun Biofuels ("SBF") any further as value creation in this business was a long term project. As a consequence, the SBF Board examined a number of alternative funding solutions. However none of these solutions were able to be put in place before the cash requirements of the business became critical. As a consequence of this, the Board of SBF decided to put SBF into administration on 10 August 2011.

Chairman's Report (continued)

CONCLUSIONS

To conclude, the Company has at various times during the year received offers from well known organisations and has entered into detailed due diligence and contract negotiations. However, this has been against the backdrop of extreme volatility and uncertainty in the financial markets and in carbon markets in particular. This confluence of events has meant that we have seen the CER price collapse from EUR 11.05 on 30 June 2011 to EUR 7.00 on 28 October 2011 making it a difficult environment in which to close any material sales on satisfactory terms. In effect, the Company has endured the perfect storm during a time that has been exceptionally difficult both in terms of European financial markets, still the only territory with a mandatory cap and trade system, and also a time where momentum has stalled in wider global environmental markets and in relation to the establishment of a framework for a post Kyoto world.

Following discussions with certain leading shareholders, four members of the Board of Directors, including myself, will be standing down at the AGM in December 2011. Resolutions will be put forward at the same meeting for the appointment of Christopher Agar, Martin Adams, Francis Hackett and Norman Crighton to continue to oversee the orderly realisation of the Company's assets in line with the Company's revised investment policy. The Board of Directors perceives the sale process to be well underway and wishes the incoming directors every success.

Neil Eckert

Chairman

31 October 2011

Investment Adviser's Report

Result for the year ended 30 June 2011

This report updates investors on the Company's activities for the period from 1 July 2010 to 30 June 2011 (the "Reporting Period"), including material post-balance sheet events up to the date of publication. The report is presented in two parts, reflecting the format of the Company's asset segmentation which follows in the accounts. First, the risk adjusted carbon credit portfolio is presented, including an update of the CDM status of major projects in the portfolio and transactions that were undertaken to create this CER portfolio; followed by an update on the Company's portfolio of energy and climate related private equity investments.

Following the Company's announcement in August 2010, the Investment Adviser has ceased origination of new equity investment and carbon credit opportunities on the Company's behalf (except for approved, funded investment activity within portfolio companies in relation to funds already reserved at that time and follow-on investments in existing portfolio companies). Activities have shifted in focus towards optimisation and realisation of the Company's private equity and carbon portfolios.

In the period up to 30 June 2010, the Company:

- originated and executed transactions for the acquisition and aggregation of a diversified portfolio of carbon credits, predominantly Certified Emission Reductions ("CERs") from Clean Development Mechanism ("CDM") projects; and
- made equity investments in a portfolio of projects and businesses which, directly or indirectly, have given shareholders diversified exposure either to global climate change policy or the price of carbon credits.

The Company continues to manage its cash position with the aim to ensure that it has sufficient funds to make payment against ongoing CER purchase obligations. In general it intends to maintain its long CER position without liquidating existing CER assets. However it should be recognised that as its carbon portfolio matures, payments will have to be made to obtain CERs. This will necessitate close monitoring and management of the Company's cash flow position, and existing CER assets will be sold as appropriate. The Company also maintains the capacity to provide anticipated follow-on capital to its private equity portfolio.

PART 1: CER PORTFOLIO

The Company's rights to CERs have been acquired principally through Emission Reduction Purchase Agreements ("ERPAs") whereby the Company enters into a contract with a project developer owner for the spot or forward purchase of primary CERs, with payment on delivery.

The Company has also provided debt finance to companies developing or operating CDM projects. These loans are repayable in CERs directly from the relevant projects and secured with project or company assets, or parent company guarantees.

The Company has also received and projects that it will receive further CERs as a consequence and related to a number of its equity investments, described in more detail in part two of this report.

The portfolio volumes set out below include CERs received or to be delivered as a result of these three types of transaction.

This report includes statements that are forward-looking statements, including tables that include projections or statements that use terms such as "projects", "expects", "will" or "should". In each case, these statements and tables reflect the current expectations of the Company and/or the Investment Adviser based on risk-adjusted calculations, but actual deliveries of CERs and/or other emission reduction credits may differ materially from those predicted by the projections or other forward-looking statements in this report.

Risk Adjusted CER Portfolio

The Company's risk adjusted portfolio was previously reported in two categories – "Category B" (Heads of terms – in exclusive negotiations) and "Category C" (contracted). The Company is no longer originating new

Trading Emissions PLC

Investment Adviser's Report (continued)

CER opportunities, and therefore only contracted projects are now reported. Figures are presented both as at period end on 30 June 2011 (Tables 1 and 2 below), and as at the date of this report (Table 3 below).

The portfolio is quoted in aggregate for two periods; firstly, CERs projected to be generated prior to the end of 2012 and issued before March 2013 ("Pre-2012"); and secondly, CERs generated after 2012 ("Post-2012").

The 30 June 2011 period end positions are summarised below in Table 1, rounded to the nearest 1,000 CERs:

Table 1: Risk adjusted contracted CER portfolio and delivered volumes – 30 June 2011 ('000)

<i>No. of Carbon Credits</i>	<i>Pre-2012</i>	<i>Post-2012</i>	<i>Total</i>
Total risk adjusted contracted	30,176	4,655	34,831
Of which delivered	10,180	–	10,180

The Company had a Pre-2012 risk adjusted contracted CER portfolio of approximately 30.2 million, of which approximately 10.2 million had been delivered on or before 30 June 2011. In addition the Company projects that it will receive approximately an additional 4.7 million CERs Post-2012 (risk adjusted).

Table 2 (below) compares the portfolio at 30 June 2011 with the portfolio as reported for 30 June 2010:

Table 2: Variance analysis, comparing Table 1 with the reported portfolio at year ended 30 June 2010 ('000)

<i>No. of Carbon Credits</i>	<i>Pre-2012</i>	<i>Post-2012</i>	<i>Total</i>
Total risk adjusted contracted	(2,370)	(2,443)	(4,813)
Of which delivered	2,699	–	2,699

The Company's Pre-2012 risk adjusted portfolio decreased by approximately 2.4 million during the Reporting Period. The decrease is due to the continued reduction of China's grid emissions, the availability of monitored data in South-East Asia, as well as the downward adjustment of the risk-adjustment approach for a number of technologies.

During the Reporting Period, 14 projects in China and four projects in the Philippines were successfully registered by the UNFCCC. One further large hydro project and a Mexican anaerobic digestion project were registered after 30 June 2011. The rate of CER issuance during the Reporting Period remained relatively low. We anticipate that a reasonable rate of issuance will continue following signs of projects' improved rates of progress through the verification process and improved CER issuance processing times at the UNFCCC Secretariat.

Table 3 (below) summarises the Company's risk adjusted CER portfolio on 28 October 2011:

Table 3: Risk adjusted contracted CER portfolio and delivered volumes on 28 October 2011 ('000)

<i>No. of Carbon Credits</i>	<i>Pre-2012</i>	<i>Post-2012</i>	<i>Total</i>
Total risk adjusted contracted	29,685	4,633	34,318
Of which delivered	12,402	0	12,402

The delivered portfolio has been boosted by the issuance of approximately 2.2 million CERs since the end of the Reporting Period.

Overall, as of the date of this report, the Company's total risk adjusted portfolio stands at 34.3 million CERs, with 29.7 million CERs Pre-2012 (of which 12.4 million CERs have been delivered) and 4.6 million CERs Post-2012 (Table 3).

Lastly, the portfolio has continued to progress through the CDM process, with a total of 98 per cent. (up from 88 per cent. at 2010 year end) of the Pre-2012 CER portfolio registered, and the remaining 2 per cent.

Investment Adviser's Report (continued)

(compared with 12 per cent. at 2010 year end) in validation or registration, further improving the risk profile of the Company's portfolio.

CDM Project Registration and Issuance

Following internal procedural changes at the UNFCCC and the request from Conference of the Parties serving as the Meeting of the Parties ("COP/MOP") in Cancun in December 2010 to shorten the timing of the registration and issuance process, the Company has experienced some improvement in the reaction time and predictability of the Executive Board of Directors' decision making. Eighteen projects were successfully registered during the Reporting Period. The registered projects are based in China and the Philippines and the technologies include hydropower, waste heat recovery and biogas.

The Company received approximately 1.1 million CERs from non-industrial gas and approximately 1.7 million CERs from HFC projects during the Reporting Period.

Out of the approximately 2.2 million CERs issued to the Company after the Reporting Period and prior to 28 October 2011, approximately 0.4 million CERs came from industrial gas projects.

Table 4: Summary of CDM projects and their registration and issuance

<i>Country</i>	<i>Project Type</i>	<i>Under validation</i>	<i>Submitted for registration</i>	<i>Registered but not yet in issuance</i>	<i>Registered and in issuance</i>
China	Natural Gas	–	1	1	3
	Large Hydro	1	2	8	2
	Small Hydro	6	–	5	1
	Coal Mine Methane	1	1	1	1
	Wind	–	–	1	3
	Biomass and Waste Water	–	2	3	–
	Landfill Gas	1	–	1	1
	Waste Energy Recovery	–	–	4	1
Thailand	Anaerobic Digestion	1	–	–	1
Philippines	Anaerobic Digestion	3 bundles	–	12 (incl 3 bundles)	–
Peru	Large Hydro	1	–	–	–
Israel	Small-scale fuel switch	–	–	–	1
Mexico	Anaerobic Digestion	–	–	1	–
Jordan	Natural gas CCGT	1	–	–	–

Per Table 5, 17 new projects have been registered since 30 June 2010; these projects account for more than 3.7 million of the Company's risk adjusted Pre-2012 CERs.

Table 5: Projects registered since 30 June 2010:

<i>Country</i>	<i>Date</i>	<i>Name</i>	<i>Project Type</i>
China	July 2010	Ningxia Helanshan V	Wind
China	July 2010	Xinjiang Qingsong	Waste Heat Recovery
China	September 2010	Jilin Nongan	Biomass
China	October 2010	Shanxi Qinxin	Coal Mine Methane
China	November 2010	Sichuan Liuheba	Small Hydro
China	November 2010	Guangxi Anning	Anaerobic Digestion
China	November 2010	Jiangxi Anfu	Small Hydro
Philippines	December 2010	Bundle (RP3001)	Anaerobic Digestion
Philippines	December 2010	Bundle (RP3003)	Anaerobic Digestion
China	December 2010	Yunnan Miaolin	Large Hydro
Philippines	January 2011	RF12 (RP2024)	Anaerobic Digestion
Philippines	January 2011	Bundle (RP3002)	Anaerobic Digestion
China	February 2011	Sichuan Maoer Gai	Large Hydro

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Investment Adviser's Report (continued)

<i>Country</i>	<i>Date</i>	<i>Name</i>	<i>Project Type</i>
China	February 2011	Jiangxi Wannianqing	Waste Heat Recovery
China	March 2011	Yunnan Xiaoyantou	Large Hydro
China	March 2011	Yunnan Tianhuaban	Large Hydro
China	March 2011	Sichuan Hekou	Large Hydro
Mexico	October 2011	ECC Dairy Bundle	Anaerobic Digestion

CDM Project Portfolio under ERPA (China)

- ***Natural Gas Projects***

The Company has contracts with four registered natural gas power generation CDM projects in its China portfolio. These projects have suffered due to constraints on the supply of natural gas in China; however these constraints have lessened in the last year and the projects are now approaching sixty per cent. of original projected performance per the Project Design Document. This trend in increased performance is expected to continue going forward.

Although levels of power generation are improving at the projects, China's grid emissions are reducing which impacts the CERs generated by these projects. For example, in the previous year grid emissions in the Eastern China Power Grid and Central China Power Grid fell by between 1.7 per cent. and 9.6 per cent. respectively reducing the emissions factor for the grid, and the resulting CER count for projects in these locations.

The Company has a contract with a further small-scale natural gas project (Hongyi) involving a fuel switch from coal to gas at an industrial facility. This project is currently under review by the UNFCCC.

- ***Hydro Power***

The Company has contracts to purchase Pre-2012 CERs from thirteen large scale hydro projects at various stages of the CDM cycle.

During the Reporting Period, five large-scale hydro projects were successfully registered, which together are projected to generate almost 3 million Pre-2012 CERs. This brings the Company's portfolio of registered large scale hydro projects to ten large hydro projects projected to generate over 4.7 million Pre-2012 CERs.

In addition to the above, the Company has contracts to purchase CERs from a further two large-scale hydro projects which are awaiting registration at the UNFCCC.

The Company's portfolio also includes six registered small scale hydro projects, which are projected to deliver approximately 500,000 Pre-2012 CERs.

One large-scale hydro project, Youfanggou, which was rejected by the EB during the Reporting Period, is undergoing revalidation and is expected to be resubmitted to the UNFCCC before the end of 2011.

All of the Company's large-scale hydro projects have been audited against principles set out by the World Commission on Dams which involves a review on the development effectiveness of large dams and assesses alternatives, and sets internationally-acceptable criteria and guidelines for planning, design, construction, operation, monitoring, and decommissioning of projects. This ensures that CERs generated by these projects will be eligible for compliance use in the EU Emissions Trading Scheme.

- ***Coal Mine Methane***

The Company has contracts with a portfolio of four coal mine methane ("CMM") projects. The first registered project, Fengrun, has received issuance of over 70,000 CERs to date. The second monitoring period is currently under verification for over 280,000 CERs. The Fengrun project is projected to continue to outperform expected CER generation. A second project, Qinxin, was registered in October 2010 and is projected to generate over 150,000 Pre-2012 CERs with the first verification scheduled for later in 2011. The other two CMM projects are still under validation.

Investment Adviser's Report (continued)

- **Wind Power**

The portfolio includes contracts with four registered Chinese wind projects which continue to perform in line with projections. Three of the projects are located in China's Ningxia region, while one is located in China's north-eastern Jilin Province. Three of the wind projects have now delivered CERs with the most recently registered, Ningxia Helanshan phase V project, expected to start verification before the end of 2011.

- **Biomass and Waste Water Utilisation**

The Company has contracts with three biomass projects: a 25MW biomass project (Nongan) which is projected to generate almost 120,000 Pre-2012 CERs; the Jiutai project which has been submitted to the UNFCCC but has experienced a delay to its anticipated commissioning until late 2012 and the Luyi project which is registered and operating, but whose issuance has been delayed as a result of changes made during project implementation. The changes have been approved by the UNFCCC and the issuance request has been submitted. The Luyi project is projected to generate over 900,000 risk-adjusted Pre-2012 CERs.

The Company has agreements with two small-scale Chinese wastewater projects, the Anning project which was registered in November 2010 and the Mashan project which is pending registration.

- **Landfill Gas**

The Company has a contract to acquire CERs from two registered landfill gas projects in China. The projects were built by a European developer as part of a joint venture with a Chinese counterparty. The Company projects that it will receive over 150,000 risk adjusted Pre-2012 CERs from these projects.

A third project at Qiaoyi is undergoing validation and registration is expected in 2011.

- **Waste Energy Recovery from Industrial Processes**

The Company's waste energy recovery portfolio includes agreements with four registered projects including two in the cement sector (Qingsong and Wannianqing), one in the coke sector (Huanda) and one in the chemicals sector (Zhangjiagang).

The Zhangjiagang project continues to perform in line with projections and has delivered approximately 388,000 CERs to date, with a further 394,000 Pre-2012 CERs projected. The Huanda coke Waste Heat Recovery project's CER generation continues to be adversely affected by the Chinese government's constraints on coke production in an attempt to curb oversupply problems experienced in this industry in the past. Monitoring for the Qingsong and Wannianqing projects is on-going.

- **Umbrella Carbon Facility**

The Company has agreements with two HFC-23 destruction projects through the World Bank Umbrella Carbon Facility ("UCF") for a total of approximately 11.4 million CERs, whose delivery takes place quarterly. The Company has received approximately 6.7 million CERs to date. The projects' issuance stalled during 2010 as a result of the HFC-23 methodology revision. Even though issuance has now been reinstated, there has been a lag-time to catch up with prior volumes. However receipt of all outstanding volumes is anticipated.

The Company's outstanding bank guarantee in favour of the World Bank currently stands at EUR 30.2 million.

Investment Adviser's Report (continued)

CDM Project Portfolio under ERPA (Rest of the World)

- ***Hadera Paper fuel switch project – Israel***

The Company signed an ERPA with a small-scale heavy fuel oil (HFO) to natural gas (NG) fuel switch project at the Hadera Paper manufacturing site. Approximately 62,000 CERs have been issued to date. The third verification for approximately 30,000 CERs is currently ongoing.

- ***Amman East – Jordan***

The Company signed an ERPA in November 2008 for the acquisition of CERs generated from the Amman East 380MW greenfield CCGT project. The validation site visit took place in November 2009 and a draft validation report was prepared by SGS in December 2009. On SGS's recommendation, two Requests for Clarification (RfCs) regarding the eligibility of the selected additionality approach under the applied methodology were submitted to the CDM Methodology Panel ("Meth Panel") in December 2010. In March 2011, the Meth Panel issued a negative decision on the RfCs which meant that the additionality approach needed to be changed in order to fulfill the requirements of the methodology. As a consequence, new supporting data and information was needed in order to be able to re-draft the PDD. This information was not forthcoming and so SGS (the Designated Operational Entity ("DOE") for the project) and the Company agreed that the project could not be validated and registered. The Company therefore terminated the ERPA in August 2011.

- ***Durban- eThekweni Landfill – South Africa***

The Company signed an ERPA with eThekweni Municipality (the owner of the project) in November 2008. One of the conditions precedent in the ERPA had not been satisfied, and the Company therefore terminated the ERPA in September 2011.

- ***Santa Rita – Peru***

As a result of its investment in Electricidad Andina S.A. (see section on Private Equity Portfolio), the Company has signed an ERPA for the purchase of Post-2012 CERs from the Santa Rita hydro project in Peru. The project is a 255MW run-of-river hydro project, which is in the development stage. The DOE, AENOR, expects to finalise CDM validation shortly. AENOR is also finishing validation of the project's compliance with the environmental, social and sustainability criteria of the World Commission on Dams in order that any CERs generated should be eligible for compliance in the EU Emissions Trading Scheme.

- ***Asia Biogas Singapore – South East Asia***

As a result of its investment in Asia Biogas Singapore Pte Limited (see section on Private Equity Portfolio), the Company projects that it will receive a total of 1.3 million risk adjusted Pre-2012 CERs from Asia Biogas' projects located in South East Asia.

- ***Swine Wastewater Treatment Turnkey projects – Philippines***

The Company has signed a secondary ERPA with nine registered small-scale anaerobic digestion swine wastewater treatment projects. These projects were built by Asia Biogas (see section on Private Equity Portfolio) on a turnkey basis and are owned and operated by local farm owners.

CDM Project Portfolio from Carbon Loans

- ***Alto Tietê Biogás – Brazil***

The Company agreed to provide a loan facility to the Alto Tietê Biogás ("ATB") landfill gas capture and flaring project located in Itaquaquecetuba, State of São Paulo, Brazil in March 2011. The project is registered with the UNFCCC and began operation in September 2008.

The loan facility provided ATB with a combination of cash and CERs. The entire cash facility has been drawn down in five tranches. The CER facility of 40,662 CERs allowed ATB to comply with its immediate obligations under two ERPAs signed in the past to raise working capital. The CER facility

Investment Adviser's Report (continued)

has been drawn down in full. The loan should be repaid in CERs from the project's first and second issuances, both of which have been requested and are undergoing completeness checks at the UNFCCC.

- ***Dairy farm finance facility – Mexico***

The Company signed an agreement in April 2009 with Environmental Credit Corp ("ECC", see section on Private Equity Portfolio) making available a carbon loan facility to finance the construction of biodigesters at a number of dairy farms in Mexico. A total of USD 875,000 has been drawn down. A bundle of biodigesters had been financed and they are now operational. The projects are projected to yield the Company a gross volume of approximately 200,000 CERs by 2016 through carbon loan and interest repayments and under an ERPA.

The project bundle was registered in October 2011 and the monitoring plans for the projects have been implemented.

Following the end of the Reporting Period, the Company executed an Assignment and Assumption Agreement which passes rights and title for all five of the projects to the Company, in exchange for forgiveness of ECC's CER backed loan obligations of USD 875,000. The Company will now be the beneficiary of CERs generated by the projects, and is considering options for their sale.

- ***Escalona – Mexico***

In 2007 the Company provided a USD 500,000 loan for working capital purposes to a 9.3MW run-of-river hydro project in Mexico under development with a local project development business called Energia Escalona. The loan is due to be repaid in CERs generated by the project before 2012.

The project has suffered delays to its development programme. Given these delays, the Company considers it unlikely that the project would be operational substantially prior to 2012. The Company expects loan repayment to be made either in cash or in CERs.

CER Commercialisation and Trading

As of the date of this report, the Company has built a risk adjusted portfolio of approximately 29.7 million CERs for delivery Pre-2012, of which 12.4 million have been delivered. In all reports we differentiate between commercialisation activities (secondary trading activities which result in the net sale of CERs, and with the effect of reducing the size of the unsold portfolio, effectively hedging the Company's forward position) and trading activities (activities which do not alter the Company's overall CER position but generate cash or favourably adjust the composition of the portfolio).

The Company's average CER purchase price is EUR 6.72 for delivered and future risk adjusted CERs. Commercialisation activity to date has been completed largely through physical delivery against exchange traded fund positions.

As at 28 October 2011, the Company has inventory of approximately 1.8 million CERs and 1.5 million EUAs (received as a result of swaps through which the Company delivered a quantity of CERs and received EUAs).

As at 30 June 2011, the Company had inventory of approximately 2.8 million CERs and 1.5 million EUAs, which were valued at GBP 46.7 million at that date. The Company received issuance of 2.2 million CERs after the reporting year end and prior to 28 October 2011. The corresponding value on the date of reporting is an inventory valued at GBP 25.2 million.

Credit standing and availability of free cash remain significant determinants of a market participant's ability to participate efficiently in the secondary CER and EUA markets. The Company has been selective in dealing with counterparties. The Company has sold CERs to European Governments and traded through the IntercontinentalExchange. Commercialisation and Trading activities for the period are summarised below.

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- ***IntercontinentalExchange (ICE)***

The Company has delivered CERs against its 2009, 2010 and 2011 futures positions. Since year end the Company has undertaken the realisation of delivered carbon stocks resulting in the disposal of approximately 1.9 million CERs with net proceeds of approximately EUR 16.0 million. In addition, the Company has sold forward approximately 0.5 million CERs for November 2011 delivery for aggregate proceeds of approximately EUR 3.8 million; 0.15 million CERs for December 2011 delivery for aggregate proceeds of approximately EUR 1.0 million; 0.6 million CERs for December 2012 delivery for aggregate proceeds of approximately EUR 13.2 million; and 1.0 million EUAs for December 2011 delivery for aggregate proceeds of EUR 11.9 million.

- ***UK Government Carbon Offset Fund II (GCOF II)***

In January 2010, the Company was one of ten successful suppliers to be selected through a competitive tender process to sign a Framework Agreement with the UK Government for the supply of high quality (Gold Standard or equivalent) CERs to offset departmental air travel. Government demand is projected to be greater than had been required for GCOF I, for which the Company had been the sole supplier of 305,000 CERs. So far, the Company has not sold CERs under this contract.

- ***Backwardation Arbitrage***

The Company has continued to take advantage of arbitrage opportunities presented as a result of the "backwardation" trend whereby CERs for spot and short term delivery trade at a higher price than future delivery. In December 2010, the market backwardation remained exaggerated, in part as a result of the shortage of spot CERs following the suspension of issuance from HFC-23 destruction projects by the EB. The Company not only delivered against all its December 2010 exchange short contract future positions, but additionally arbitrated the backwardation through sale of spot CERs and December 2010 contracts, while purchasing December 2011 and 2012 contracts.

At this time the Company also entered into several transactions to swap premium CERs from renewable energy projects for HFC plus a premium, in order to deliver "generic" CERs to the extent possible for exchange settled contracts.

PART 2: PRIVATE EQUITY PORTFOLIO

The Company has made a series of equity investments in projects that will generate CERs, and in companies or facilities that will by their nature be exposed to climate change policy or carbon price, in a diverse range of markets. Whilst the Investment Adviser has largely ceased origination of new equity investment and carbon credit opportunities on the Company's behalf, approved and funded investment activity within portfolio companies remains ongoing (mainly in the Solar sector).

This section of the report sets out activities during the Reporting Period and progress for each of these investments. Following on from a number of announcements made by the Company in the Reporting Period, the private equity portfolio is currently subject to an individual asset realisation strategy over the short to medium term.

Surya PLC – TEP (Solar Holdings) Limited – Europe

Surya PLC ("Surya") is a 100 per cent. subsidiary of the Company. As at 30 June 2011, the Company had invested approximately EUR 36 million in Surya via equity, while an additional EUR 12 million was provided by EEA Group Limited (parent company of the Investment Adviser) by way of a secured, repayable on-demand facility. EEA Group Limited has since requested repayment of this EUR 12 million to be before 30 November 2011.

Since the end of the Reporting Period, the Company has invested an additional EUR 17.7 million in Surya via debt instruments, as part of the total amount committed by the Board of Directors for follow-on

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Investment Adviser's Report (continued)

investments in private equity assets. The results of Surya and its subsidiaries are consolidated in the financial statements.

Surya, through TEP (Solar Holdings) Ltd. ("TS"), invests in companies which own and operate solar photovoltaic ("PV") projects located primarily in Italy. The Company believes that incentivised Feed-in Tariffs ("FiT") enshrined in government legislation in Italy have made the sector an attractive investment opportunity. In June 2010, the Company made an initial commitment of EUR 36 million to be deployed in investments in the solar projects. The Company's strategy, executed through Surya, has been to build critical mass in solar PV assets to leverage economies of scale and to create an operational platform dedicated to the operation and management of the PV assets.

During the Reporting Period TS acquired two projects in Italy with a total installed capacity of 10.4MW:

- Solar Energy Italia 1 S.r.l., owning a single site solar PV plant of 8.4MW capacity in Sicily (Italy), was acquired by TS in September 2010. The plant was constructed and connected to the grid by the end of December 2010. It is currently in commercial operation and generating proceeds from the sale of electricity as well as from Italy's 2010 FiT. The performance of the project over the first six months of operation has been in line with expectation. Solar Energy Italia 1 S.r.l. signed a project finance facility agreement of up to EUR 34.0 million with Centrobanca and Deutsche Bank in November 2010.
- ETuno S.r.l., which owns two PV plants of approximately 1 MW capacity each in Abruzzo (Italy), was acquired by TS in December 2010. The plants are fully constructed, connected to the grid, and in commercial operation. Both plants are receiving Italy's 2010 FiT payments and proceeds from the sale of electricity. ETuno S.r.l. signed a leasing financing with Leasint (part of the Intesa SanPaolo Group) in June 2011.

Since the end of the Reporting Period, TS has concluded the acquisition of the following two additional solar PV plants in Italy, increasing the total installed capacity to 22.3MW:

- Solar Energy Italia 6 S.r.l., which owns one single site PV plant of 9.2 MW in Sicily, was acquired in July 2011 by TS. The plant was constructed, commissioned and connected to the grid by April 2011. The plant is currently generating proceeds from the sale of electricity as well as from Italy's April 2011 FiT.
- RGP Puglia 1 S.r.l., which owns three PV plants for a total of 2.7MW in Apulia (Italy), was acquired in September 2011 by TS. The plants were constructed in 2010 and connected to the grid in April 2011. They are currently in commercial operation and generating proceeds from the sale of electricity as well as from Italy's 2010 FiT.

During the Reporting Period TS also entered into legally binding agreements for the acquisition of further two projects located in Sicily, with an aggregate capacity of approximately 7 MW, which were constructed and connected to the grid by the end of August 2011. The acquisitions are subject to the satisfaction of certain conditions precedent and it is anticipated that completion will take place over the next few months.

Element Markets, LLC – U.S.A.

During the reporting period the Company increased its holding in Element Markets, LLC ("Element Markets") from 21.7 per cent. to 51.2 per cent. The change in ownership resulted in Element Markets being fully consolidated in the results of the Company from 22 June 2011; previously the investment had been carried as part of the Financial Assets at fair value through the profit and loss line on the statement of financial position.

This increase in ownership was completed in two stages; firstly a USD 10 million convertible promissory note granted to Element Markets by the Company in June 2009 including accrued interest was converted on 1 January 2011. In addition the Company had granted a loan to LLP Enterprises, the previous majority shareholder in Element Markets. LLP Enterprises defaulted on the repayment of the principal but repaid all interest outstanding in October 2010. In June 2011 the Company received additional membership units in Element Markets from LLP Enterprises as full satisfaction of the loan. Details of the acquisition are outlined

Investment Adviser's Report (continued)

in note 36 of the financial statements. In total TEP has invested USD 48 million in Element Markets at the reporting date. TEP has a liquidation preference whereby the first USD 40 million of any sale or liquidation proceeds would be due to TEP while any residual would be split amongst the owners on a percentage ownership basis. As part of the step acquisition, the company was required to recognise an impairment of its previously held interest to the amount of GBP 7.3 million.

Founded in 2005 with an initial focus on air emissions (ERC), greenhouse gas (GHG) credit and Renewable Energy Certificate (REC) marketing, Element Markets developed a unique insight into U.S. environmental compliance markets that can be directly applied to the U.S. biogas market. Today Element Markets is the leading producer and marketer of biogas and environmental commodities in the U.S. Its in-depth experience across the entire spectrum of environmental commodities coupled with its biogas assets and deep industry relationships, allow Element Markets to provide its clients with creative environmental compliance solutions and products.

Element Markets has a contracted biogas supply of over 2,500,000 MMBtu/year and has off-take agreements for over 3,000,000 MMBtu/year. Element Markets owns and operates the Huckabay Ridge Renewable Natural Gas Facility in Stephenville, Texas, the largest anaerobic digestion project producing pipeline-quality biogas in the U.S., and is currently developing and constructing several landfill gas-based biogas projects. In addition to its proprietary development efforts, Element Markets also provides biogas marketing services to third-party projects representing an estimated 15 per cent. of total U.S. pipeline-quality biogas.

Element Markets is among the most active participants in the regional U.S. emission reduction credit (ERC) markets and has a substantial presence in both the voluntary carbon (GHG) and renewable energy credit (REC) markets. Element Markets is well positioned through its asset management agreements and its proprietary trading activities to enter the carbon cap and trade program in California (AB32) and to expand further into the federal criteria pollutants markets under the Cross State Air Pollution Rule (CSAPR) as these markets open in 2012 and 2013, respectively.

Bionasa Combustivel Natural S.A. – Brazil

The Company owns 25 per cent. of the equity capital on an unconverted basis and has invested approximately BRL 125 million in the project to date. Bionasa is accounted for as an investment and forms part of the financial assets at fair value through profit or loss on the statement of financial position as at the reporting date.

Bionasa is a special purpose Brazilian company established in 2007 for the development of a 200,000tpa (approx. 55 million gallons per annum) greenfield multi-feedstock biodiesel production plant in Poranguatu in the State of Goias. The plant is located at kilometre 65 of the principal north-south highway route of central Brazil (BR 153 – Trans-Brazilian Highway) and adjacent to developing rail links. The Bionasa plant has now completed construction and is an operational facility with formal inauguration having occurred in May 2011. Bionasa has obtained all necessary operational and commercialization licenses from the National Petroleum Agency of Brazil (“ANP”). In order to obtain the licensing, the Bionasa plant was required to produce qualifying volumes of biodiesel, which it has done successfully. The plant is currently physically and legally ready to produce and market biodiesel commercially.

Additionally, the plant has qualified for bidding in the quarterly Brazilian biodiesel auction programme organised by ANP and Bionasa transacted in the 22nd auction in May 2011. At auction Bionasa sold its first commercial biodiesel batch and successfully delivered 3,000m³ for total proceeds of BRL 7.2 million. Subsequently, the plant has ramped up production for the 23rd auction covering the final quarter of this year in which Bionasa transacted for the delivery of 23,900m³ for total proceeds of BRL 53.9 million. Each of the auctions in which Bionasa participated had total transacted biodiesel volumes of 700,000m³.

The purpose of the plant is to take advantage of the Brazilian market for biodiesel driven in part by the establishment of mandatory targets for the proportion of biodiesel blended in petroleum-derived diesel. Brazil will end the year as the largest biodiesel market in the world with approximately 2.8 billion litres of biodiesel produced and consumed in Brazil (17 per cent. increase on 2010). Moreover, Brazil is viewed as having availability and quality of agricultural land that can be used to grow a diversity of oilseed crops

Investment Adviser's Report (continued)

suitable for biodiesel production at competitive production costs. The location of the Bionasa plant allows it to source both oilseed feedstock and tallow (animal fats) from the ranching industry. The Bionasa site was initially designed to also have additional expansion potential.

The Bionasa plant was built under an EPC contract with a large Brazilian industrial manufacturing company. The civil works associated with the plant were the responsibility of Bionasa. The multi-feedstock technology was provided by Desmet Ballestra. The Desmet Ballestra technology was selected for its ability to allow the use of different feedstock in varying compositions. In the first years of operation, the management of Bionasa intends to use a mix of tallow and crude vegetable oils for the biodiesel production and has begun biodiesel production from tallow feedstock.

Bionasa also wholly owns a small subsidiary business – Bionasa Florestal Agricola S.A. – which is involved in the development of jatropha plantations to provide non-edible feedstock for Bionasa.

Under the terms of the investment, the Company is entitled to a cumulative priority minimum dividend of 15 per cent on its BRL 125 million convertible preferred equity. On 31 July 2010, TEP became entitled under the terms of the convertible preferred instrument to convert the preferred shares into 99.4 per cent of Bionasa's ordinary share capital as a result of Bionasa's non-payment of dividends. The Company gave notice of its exercise of the right to convert on 9 August 2010. The validity of this conversion is currently the subject of arbitration between the Company and other Bionasa shareholders. The Company expects a final decision on the arbitration process during the first half of 2012.

The Company continues to carry the investment in Bionasa at BRL 125 million and does not consider it to be impaired.

Asia Biogas Singapore Pte Limited ("ABS") – South East Asia

ABS is an 81 per cent. subsidiary of TEP. ABS was formed in September 2010 to facilitate a reorganisation of the interest of the Company and Silk Roads Limited (a holding company for the Asia Biogas founders). As part of this reorganisation, TEP recognised an impairment of GBP 5.3 million and provided a USD 5 million convertible loan to the ABS Group, this loan was in addition to the GBP 16.1 million historically invested by TEP in its Asian operations that now form part of ABS.

ABS and its subsidiaries (the "ABS Group") is one of Southeast Asia's largest biogas systems design, engineering, construction and operating groups. It has won a number of awards, most recently in August 2011 when it was awarded for the second time, Company of the Year (Bioenergy) by Frost and Sullivan. ABS Group employs more than 250 staff across its operations in Thailand, the Philippines, Vietnam, Indonesia and Malaysia.

The USD 5 million loan granted as part of the restructuring has enabled the ABS Group to strengthen its management team, bringing in a highly experienced CFO, a Chief Technical Officer, and Chief Scientist to improve oversight of the implementation and operation of biogas and biomass projects. The restructuring has led to a business with a more tax efficient structure and a revitalised management team with strong experience in the sector and region.

With restructuring largely complete ABS management is focussed on executing the pipeline developed over the past 12 to 18 months. The pipeline has set the basis for a five year business plan of the ABS Group. The plan is ambitious and achievable only with significant capital investment. The plan has identified a number of projects across the five markets in which the ABS Group operates: Thailand, Philippines, Vietnam, Indonesia and Malaysia. In total it targets 64 projects over a five year time line with more than half of the projects already identified and discussions with host facilities underway.

ABS Group was reorganised with a view for an exit by the end of 2012. The Board of Directors has decided to accelerate the sales process and local Advisers have been granted a sales mandate to dispose of the ABS Group. An information memorandum is expected to be released to interested parties in November with a view to completing a sale early in 2012.

Investment Adviser's Report (continued)

With the exception of outstanding loans from TEP of approximately USD 5.5 million, the ABS Group is debt free.

Thailand

The ABS Group has six wholly owned operating projects in Thailand and minority interests across another five. The largest of these projects is Korat Waste to Energy, which is operating successfully and has generated operating cash flow of USD 2.2 million in the Reporting Period. Since 2008 the project's performance had dropped due to an infestation of a regional mealy bug which has reduced throughput of cassava root at the host facility. This infestation has been brought under control and results during this financial year are significantly improved. In the first quarter of the financial year ending June 2012 management report the project's EBITDA is already in excess of USD 800k. Under the terms of the Build Operate and Transfer agreement, ABS Group has a right to extend the concession period of the project due to the under-delivery of waste water over the previous two years and management are currently in discussions with the host regarding this matter. Over 320,000 CERs from the project have been verified for the period of June 2007 to July 2009 but issuance has been delayed. ABS Management and the Investment Adviser are working with the verifier and anticipate being able to resolve the issues in the coming months. A further 239,000 CERs are anticipated to be verified shortly after.

At the end of June 2011, two of the ABS Group's projects in Thailand, owned by subsidiary Swine Waste to Energy Co Ltd ("SWTE") at the farms of the Eastern Laboratories group were seized by the host. ABS Group took a robust stance on these projects and has secured and enforced a court injunction in its favour to regain control of the assets. Further actions will follow with the ABS Group seeking full damages, including loss of profits, under the agreements it has in place with the host. The ABS Group has fully written down its investment in SWTE, although ABS management anticipate an amicable resolution to the current dispute resulting in significant increases in profitability. The projects are currently generating positive cash flow. In the event an amicable solution is not found then ABS Group intends to proceed to arbitration seeking a full recovery of losses.

At Kalasin Waste to Energy ("KalWTE"), the host facility was designed to enable it to increase its throughput capacity. However, due to the mealy bug infestation and therefore elevated cassava root prices the planned expansion did not occur and therefore this project has under-delivered effluent. ABS management is still confident that the project's performance will improve over time and it is currently making a positive cash flow contribution to the group. To be prudent however, management has written down its investment in KalWTE to reflect the historic underperformance of the project. The project has also suffered from a long delay in the issuance of the host nation letter of approval required for the CDM registration of the project. This issue has now been resolved and validation is close to completion.

Initially focussed on treating wastewater from the cassava industry, the Thai business has been examining new market opportunities. One of these is taking wet cake from the cassava industry and digesting it to produce energy. The ABS Group is commissioning, on behalf of its client, the first biogas project which utilises cassava wet cake as a feedstock. Although the project is not owned by the ABS Group, it is being designed and engineered by ABS and if proven successful, there are a number of parties interested in replicating this project across Thailand and ABS Group stands to benefit greatly from this new substrate. In addition, ABS management believe they are close to closing on their first two palm oil mill effluent biogas projects. These projects come packaged together along with a biomass gasification project taking empty fruit bunch solid biomass as a feedstock. ABS Management are very excited by the prospect of gasification technology in South East Asia and are working with a number of suppliers of mature technology out of India.

The Philippines

In the Philippines, operating projects are largely located on pig farms and owned by the ABS Group subsidiary Hacienda Bioenergy Corp ("HBC"). A large number of these projects have proven problematic with a number of issues having a detrimental impact on operations. The ABS Group recruited a new country manager to take over operations in the Philippines and tasked him with implementing a turnaround plan for the HBC portfolio. This plan is currently being implemented with operating projects expected to be halved

Investment Adviser's Report (continued)

in number. Poor performing projects are being sold back to hosts. The first two farm sales have been agreed and are expected to be completed in November. A number of the HBC projects have been registered with the CDM and any sale of projects to farmers will be subject to TEP's rights to the CERs to be generated by these projects being protected. On a risk adjusted basis, approximately 180,000 CERs are projected to be generated per annum by the HBC projects. Due to the poor performance of HBC the Group's development company in Philippines has been unable to continue in business.

ABS Group have established a new business in the Philippines which is focused on larger agro-industrial waste water streams projects and solid biomass projects. In the case of the latter, the ABS Group has been developing a 6MW biomass project in the Philippines. This project will benefit from the Philippines feed-in-tariff regime, final details of which are expected in November 2011. A number of EPC contractors have been invited to submit bids in the last week of October 2011. Local banks have been approached and have been highly supportive, indicating an interest in providing non-recourse debt on a 70:30 debt to equity ratio. Management are targeting full development of a bankable project by December 2011.

Vietnam

Operations in Vietnam are currently cash flow neutral, with the ABS group earning revenue from design and engineering work being carried out on a project treating effluent from an ethanol facility. ABS Management are developing a number of biomass gasification projects as well as biogas projects, to be implemented in the country.

Malaysia

The ABS Group's first two projects in Malaysia are currently under development, with BOT agreements close to being finalised and financing discussions well advanced. It is expected construction will commence in Q4 2011. The two projects are located at palm oil mills of Sime Darby, one of the largest palm oil plantation companies in Malaysia. Both projects are biogas projects, looking to utilise POME to generate biogas. A further two new projects are expected to reach financial close in 2012 and thirteen more have been identified for the subsequent four years.

Indonesia

The ABS group has negotiated a joint development agreement with GE and local IPP developer, Navigat. Under the Joint Development Agreement the three parties are collaborating on developing biogas projects at palm oil mills in Indonesia. The parties expect to develop at least 12 projects over the course of the next five years. Furthermore the ABS group expects to develop separately a number of biomass gasification projects during this time.

Sun Biofuels ("SBF") – Mozambique and Tanzania

Given the Company's revised investment policy to optimize the realized value of the business in the short to medium term, the Board has taken the decision not to fund Sun Biofuels any further as value creation in this business was a long term project.

As a consequence, the SBF Board examined a number of alternative funding solutions. However none of these solutions were able to be put in place before the cash requirements of the business became critical.

As a consequence of this, the Board of SBF decided to put SBF into administration on 10 August 2011. ReSolve Group was appointed administrator of Sun Biofuels Ltd, Sun Biofuels Africa Ltd and Sun Biofuels Mozambique UK Ltd, and has been working to realise as much value as possible back for creditors. TEP is the largest creditor of SBF.

On appointment, ReSolve immediately froze the UK bank accounts, which amounted to approximately USD 800k. Staff were sent home, except the financial controller, who was paid to remain *in situ* and assist with a variety of tasks associated with helping maximise realisations in the administration

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Pressure was applied by SBF to pay wages due and severance packages to staff in Africa. If this severance pay was not paid, there was a possibility that the land would be rendered unusable by staff, and there were also fears for the safety of supervising personnel on site.

Considering all of these factors, the administrator proceeded to pay the due balances of c. USD 500k. An impairment charge of GBP 6.8 million has been recognised at 30 June 2011 and the value of SBF in the financial statements of the Company is at its recoverable amount, being approximately GBP 300k.

Environmental Credit Corp. ("ECC") – U.S.A.

TEP owns 77.32 per cent. of the equity capital of Environmental Credit Corp. ("ECC") and to date has invested approximately USD 14.9 million in ECC via ordinary equity, preferred shares and debt instruments. The results of ECC are consolidated in the financial statements.

Founded in 2004 and located in State College, Pennsylvania, ECC is a leading developer of carbon offset projects in the United States. Carbon offset credits resulting from ECC's projects can be used to satisfy both voluntary and compliance needs of a variety of buyers throughout the US and certain other international markets. ECC registers its offset credits primarily through the Climate Action Reserve.

ECC's recent focus has been the creation of carbon offset credits which comply with the California Air Resource Board's ("ARB") requirements for compliance offsets under its upcoming cap and trade program. ECC has developed substantial expertise and experience in agricultural methane and ozone depleting substance destruction projects, projects accepted by the ARB for compliance needs, creating one of the largest portfolios of California-eligible projects.

ECC owns or is a project partner to 58 offset projects primarily in the United States, as well as in Brazil and India. ECC offers its clients a broad suite of carbon offset services, including feasibility and eligibility analysis; project design and development; data collection and management; monitoring and verification support; registry and transaction services; and credit monetization. ECC earns revenues primarily through the share of carbon assets it receives from the successful provision of these services and through consulting services it offers clients.

Electricidad Andina S.A. – Peru

Through its participation in the Santa Rita Limited Partnership, the Company owns 97.3 per cent. of Electricidad Andina S.A., a company incorporated in Peru, with the rights to a 255MW run-of-river hydro project in northern Peru. As of the Reporting Date the Company had invested approximately USD 23 million, which included a bond of USD 12.75 million issued by HSBC Peru which supported Andina's unsuccessful bid in a power purchase agreement tender process held in March 2011. This USD 12.75 million (which was included in restricted cash at 30 June 2011) was returned to the Company on 4 July 2011, thus the net investment to date is approximately USD 10.25 million.

The project is amongst the few advanced large hydro development prospects in Peru. It has an approved environmental impact assessment, transmission concession and statement of lack of archaeological remains, and further benefits from 46 years of consistent hydrology data, no population displacement and strong local support for the project. Electricidad Andina is now progressing with the final construction permits and transmission line easements.

As of the Reporting Date the Company had submitted a bond of USD 12.75 million which supported Electricidad Andina's unsuccessful bid in a power purchase agreement tender process held in March 2011. This USD 12.75 million was returned to the Company on 4 July 2011. Electricidad Andina needs to secure a long term contract to sell power in order to move forward with project finance for construction. The company's failure to secure this has slowed down progress to financial close and also led to the cancellation of the project's generation concession in July 2011. Electricidad Andina expects to re-file in due course.

The Designated Operational Entity, AENOR, expects to finalise CDM validation shortly. AENOR is also finishing validation of the project's compliance with the environmental, social and sustainability criteria of

Trading Emissions PLC

Investment Adviser's Report (continued)

the World Commission on Dams (WCD) in order that any CERs produced should be eligible for compliance in the EU Emissions Trading Scheme.

EWG Slupsk Sp. z o. o. – Poland

The Company owns 60 per cent. of the equity interest in EWG Slupsk Sp. Z.o.o (“EWGS”). To date approximately GBP 8.5 million has been invested in the subsidiary via equity and debt instruments. The results of EWG Slupsk are consolidated in the financial statements and the assets of this subsidiary are classified as “disposal group held for sale” on the statement of financial position at the Reporting Date.

EWGS consists of a 320 MW wind farm which is under development near the north coast of Poland. EWGS, when completed, will be one of the largest wind projects in Poland. Permits and licenses are progressing and a grid connection agreement (GCA) has been signed. Land rights have been acquired under leases. Environmental decisions are almost all obtained, with the remaining decisions expected during Q4 2011. The first 65MW is currently being approved for building permits, which will then allow construction to commence. The first of the construction permits, relating to electrical distribution lines, has been issued. Tender design and documents are complete and currently with Contractors as part of a competitive tendering process.

EWGS benefits from a favourable Polish renewable energy incentive regime which has a Green Certificate support mechanism and an obligation to off take electricity generated from renewable energy sources. “Green power” also enjoys priority of dispatch.

EWGS has entered into a management agreement with EWG Elektrownie Wiatrowe Sp. z.o.o – SpK (“EWG”), the other shareholder in EWGS, in terms of which EWG is responsible for land selection and acquisition, and for arranging the execution of design works related to the wind farms, the transformer stations and the electrical connections. Moreover, EWG is the main counterparty to local authorities in relation to the permitting procedure aimed at obtaining legally valid permissions to build. EWG is also responsible for overseeing the procedure to define the grid interconnection conditions and to obtain the environmental impact assessment.

The project consists of eight wind farm clusters located in the districts of Potegowo, Damnica, Slupsk and Malechowo, within the Pomorskie and Zachodniopomorskie Province of Poland.

Additional wind measurements at 100m height are currently being obtained from four IEC compliant meteorological wind masts and an independent energy yield study has been prepared by an international consultant to support project finance.

Carbon Capital Markets Limited (“CCM”) – U.K.

Following a shift amongst EU Emissions Trading Scheme (ETS) SME market participants towards exchange trading in preference to over-the-counter transactions, CCM pulled out of the EU ETS market making business for SMEs, as did other businesses in the sector. CCM's cost base has been adjusted accordingly.

CCM's free cash is positive and the company continues to perform the role of investment manager to the Carbon Assets Fund.

Jantus S.L. – Brazil

Jantus S.L. of which the Company owns 1.54 per cent. (on a fully diluted basis) is the holding company of SIIF Energias Do Brasil (“SIIF”). The Company acquired its shares in Jantus as a result of an asset swap agreement with Carbon Capital Markets completed in April 2010. The Company carries this asset on its books at GBP 1.8 million. SIIF is one of the largest players in the Brazilian wind power sector with 207 MW of installed capacity distributed among four wind farms located in the state of Ceará, one of Brazil's most attractive wind regions. The projects benefit from 20 year power purchase agreements with Electrobras through the PROINFA programme. In addition to the four operating wind farms, SIIF has a portfolio of projects in the development phase.

Investment Adviser's Report (continued)

In April 2011, CPLF Energia S.A. announced the purchase of Jantus. The process is subject to the completion of Jantus' corporate reorganisation and the approval of the necessary regulatory authorities. Completion is expected to take place by December 2011. An update on sale completion and proceeds will be reported in due course.

EcoTraders Limited – Israel (“ET”)

ET is 29 per cent. owned by the Company. The Company has invested approximately GBP 1.1 million in ET to date. ET is considered an investment and accounted for in the financial assets at fair value through profit or loss on the statement of financial position.

ET is an Israeli carbon consultancy business established in 2003. It is based in Tel Aviv and has specialised in consultancy services related to the development of CDM projects under the UNFCCC Kyoto Protocol. The services provided by ET comprise (i) the identification of greenhouse gas emission reduction projects that can be eligible under the CDM; (ii) the preparation of the project documentation needed for the registration of a project as a CDM project, mainly the Project Design Document (“PDD”); (iii) management of the validation and registration process of the projects; (iv) assistance with the monitoring of the CDM project activity post registration; (v) management of the periodic verification and issuance process of the CERs; (vi) commercialisation of the CERs; and related Advisory services.

ET has developed a portfolio of 17 potential CDM projects in Israel. 11 projects of the portfolio have been registered so far, 6 of which are already generating CERs, and 4 of these 6 projects are already issuing CERs. The remaining projects are at various stages of PDD development and validation. The technologies covered comprise landfill gas, fuel switch, magnesium production (SF₆), energy efficiency and renewable energy, mainly solar and wind. ET's revenues primarily comprise success fees determined as a certain percentage of the revenues from the sale of the CERs or as a percentage of the issued CERs. Due to substantial delays in the UNFCCC validation, registration, verification and issuance processes, cash flows from success fees have been delayed and ET has grown more slowly than expected. At present, ET is still loss making (loss of c. EUR 109k in 2010) and the Group has recognised impairments such that the fair value at year end is approximately GBP 200k. In order to improve the cash situation and to develop additional sources of steadier future cash flows, ET has started to expand into new business areas, mainly consultancy services, such as carbon foot printing, and emissions inventories.

Conclusion

In line with the Company's revised investment policy the Investment Adviser is focusing its activities towards optimisation and realisation of the Company's private equity and carbon portfolios. The Investment Adviser is actively involved in the process of marketing certain assets for sale whilst, in the meantime, working with the portfolios to aim to generate maximum value for the Company.

EEA Fund Management Limited

Investment Adviser

31 October 2011

Trading Emissions PLC

Directors' Report

The Directors present their report and the audited financial statements for the year ended 30 June 2011.

Principal activities, trading review and future developments

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

During the year, 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. There were a number of acquisitions that took place during the year, refer to note 36 in the notes to the financial statements.

Details of the Company's subsidiaries at the balance sheet date and at the date of this report are disclosed in note 17.

Following discussions with certain of its shareholders, the Directors proposed a revised investment policy which was approved by its shareholders at an EGM on 13 September 2010. As a result of this the Company is currently pursuing a realisation strategy which aims to optimise the cash value of the Company's assets through a controlled realisation process.

Results and dividends

The Group's results for the year ended 30 June 2011 are set out in the Consolidated Statement of Comprehensive Income on page 34.

A review of the Company's activities is contained within the Chairman's Report and the Investment Adviser's Report on pages 3 and 9 respectively.

The Directors paid an interim dividend per share of 6 pence per share in respect of the year ended 30 June 2011 (30 June 2010: interim dividend 1.65 pence per share).

The Directors do not recommend the payment of a final dividend (2010: 3.85 pence per share).

Particulars of the authorised and issued share capital of the Company are set out in note 28 to the financial statements.

Directors

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

N D Eckert
M J Gillies
B Rassool
P P Scales
N H Wood
C P A Vanderpump

The following Directors had interests in the shares of the Company as at 30 June

	<i>2011</i>	<i>2010</i>
	<i>Ordinary</i>	<i>Ordinary</i>
	<i>shares</i>	<i>shares</i>
N D Eckert	1,818,300	1,818,300
M J Gillies	66,707	66,707

Trading Emissions PLC

Directors' Report (continued)

Company Secretary

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

Auditor

The auditor, PricewaterhouseCoopers LLC, has indicated its willingness to continue in office in accordance with section 12(2) of the Companies Act 1982.

Events after the reporting date

For a summary of significant transactions entered into by the Group subsequent to 30 June 2011 see note 37 in the financial statements.

By Order of the Board

Philip Scales

9 November 2011

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Isle of Man law.

Company law requires the Directors to prepare financial statements for each financial year.

Under that law the Directors have elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

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

The Directors are responsible for keeping adequate 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 and the Group and to enable them to ensure that the financial statements comply with the Isle of Man Companies Acts 1931 to 2004. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By Order of the Board

Philip Scales
Company Secretary
9 November 2011

Corporate Governance Statement

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice as set out in the Combined Code on Corporate Governance (the “Combined Code”) and although the Company is not obliged by the rules of the AIM Market of the London Stock Exchange to do so, the Board intends to take appropriate measures to ensure that the Company complies with the Combined Code to the extent appropriate, taking into account the size of the Company and the nature of its business.

The Board directs the Company’s activities in an effective manner through its regular Board meetings and monitors performance through timely and relevant reporting procedures. The Chairman is responsible for co-ordinating the Company’s business and implementing strategy.

The members of the Board, all of whom are non-executive, have met fourteen times during the current financial year. Refer to Table 1 for details of all meetings that were held during the year, along with a list of attendance from each Director. 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.

All meetings of the Board and its Committee’s take place outside the United Kingdom. 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.

Table 1

<i>DIRECTORS MEETINGS</i>	<i>ND Eckert</i>	<i>PP Scales</i>	<i>NH Wood</i>	<i>B Rassool</i>	<i>CPA Vanderpump</i>	<i>MJ Gillies</i>
23 August 2010	x	x	x		x	x
24 August 2010		x	x			
20 September 2010	x	x	x	x	x	x
20 October 2010	x	x	x	x	x	x
03 December 2010		x	x			
10 January 2011	x	x	x		x	x
24 January 2011	x	x	x	x	x	x
26 January 2011			x	x	x	x
31 January 2011	x	x	x	x	x	x
16 March 2011	x	x	x	x		x
23 March 2011	x	x		x	x	x
01 June 2011	x	x	x	x		x
09 June 2011		x	x	x		
23 June 2011	x	x	x	x	x	x

Of the six Non-Executive Directors, three are considered independent. These are M J Gillies, B Rassool, and C P A Vanderpump. N D Eckert, N H Wood and P P Scales are not considered independent. N D Eckert served as a director of the Company’s subsidiary Environmental Credit Corporation. P P Scales is a director of IOMAFIM and both P P Scales and N H Wood have an ownership interest in IOMAFIM. IOMAFIM has entered into a sub-administration agreement with Chamberlain, who are 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 liability.

Committees of the Board

The Board has established two committees, the Audit Committee and the Investment Committee. It does not consider it necessary to have a separate nomination or remuneration committee. Matters relating to

Corporate Governance Statement (continued)

nominations and remuneration are dealt with at regular Board meetings. The Company Secretary acts as Secretary to both committees.

Audit Committee

The Audit Committee is a sub-committee of the Board and makes recommendations to the Board which retains the right of final decision. The Audit Committee has primary responsibility for reviewing the financial statements and the accounting policies, principles and practices underlying them. Nigel Wood is Chairman of the Audit Committee. The Audit Committee meets regularly throughout the year. Refer to Table 2 for detail 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:

- The appointment and composition of the Committee, quorum and the frequency and attendance of all meetings.
- Appointment and duties of the Committee Chairman.
- 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 Systems.
- 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's audit, to ensure that these fees do not create an audit independence issue.

Table 2

<i>AUDIT COMMITTEE MEETINGS</i>	<i>NH Wood</i>	<i>PP Scales</i>	<i>MJ Gillies</i>	<i>CPA Vanderpump</i>
13 August 2010	x	x		
23 August 2010	x	x		x
27 August 2010	x	x	x	x
02 September 2010		x	x	
07 September 2010	x		x	x
17 September 2010	x		x	x
20 September 2010	x	x	x	x
23 September 2010	x	x	x	
07 January 2011	x	x	x	x
08 March 2011	x	x	x	
14 March 2011	x	x		
15 March 2011	x	x	x	
21 March 2011	x	x	x	
23 March 2011	x	x	x	x
23 June 2011	x	x	x	x

Corporate Governance Statement (continued)

Investment Committee

The Investment Committee is a sub-committee of the Board and makes recommendations to the Board which retains the right of final decision. The Investment Committee has primary responsibility for reviewing requests from the Investment Adviser for expenditure on due diligence on new projects, approving or rejecting such requests as appropriate and considering any other requests from the Investment Adviser that may ordinarily require Board approval. The Investment Committee meets regularly throughout the year. Refer to Table 3 below for detail of all meetings that were held during the year, along with a list of attendance from each Director.

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

- The appointment and composition of the Committee, quorum and the frequency and attendance of all meetings.
- The Committee shall meet as and when requests are received from the Investment Adviser or at any other time it deems appropriate.
- Appointment and duties of the Committee Chairman and if appropriate a deputy Chairman.
- The structure and attendance requirements of all Committee meetings.
- 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 the consideration of all requests received from the Investment Adviser for and the approval and rejection of such requests.
- The reporting requirements of the Board.

Table 3

<i>INVESTMENT COMMITTEE MEETINGS</i>	<i>NH Wood</i>	<i>PP Scales</i>
21 July 2010	x	x
17 August 2010	x	x
23 August 2010	x	x
08 September 2010	x	x
10 September 2010	x	x
17 September 2010	x	x
01 October 2010	x	x
15 October 2010	x	x
23 November 2010	x	x
23 November 2010 – 2nd meeting	x	x
02 December 2010	x	x
27 January 2011	x	x
28 January 2011	x	x
11 February 2011	x	x
15 April 2011	x	x
04 April 2011	x	x
24 March 2011	x	x
10 March 2011	x	x
05 May 2011	x	x
10 May 2011	x	x

Trading Emissions PLC

Corporate Governance Statement (continued)

INVESTMENT COMMITTEE MEETINGS (continued)

	<i>NH Wood</i>	<i>PP Scales</i>
18 May 2011	x	x
25 May 2011	x	x
03 June 2011	x	x
20 June 2011	x	x
21 June 2011	x	x

Peter Vanderpump
Member, Audit Committee
9 November 2011

Independent auditor's report to the members of Trading Emissions PLC

Report on the Consolidated and Parent Company Financial Statements

We have audited the accompanying consolidated and parent company financial statements ('the financial statements') of Trading Emissions PLC and its subsidiaries (the 'Group') which comprise the consolidated and parent company statement of financial position as of 30 June 2011 and the consolidated statement of comprehensive income, the consolidated and parent company statement of changes in equity and the consolidated and parent company cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated and Parent Company Financial Statements

The directors are responsible for the preparation and fair presentation of these consolidated and parent company 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 and parent company 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 Section 15 of the Isle of Man Companies Act 1982 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 judgment, 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 consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2011, 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;
- the parent company financial statements give a true and fair view of the financial position of the parent company as at 30 June 2011, and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Isle of Man Companies Act 1982; and

**Independent auditor's report to the members of Trading Emissions PLC
(continued)**

- the financial statements have been properly prepared in accordance with the Isle of Man Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Isle of Man Companies Acts 1931-2004 require us to report to you if, in our opinion:

- Proper books of account have not been kept by the parent company or, proper returns adequate for our audit have not been received from branches not visited by us; or
- The parent company's statement of financial position and statement of comprehensive income are not in agreement with the books of account and returns; or
- We have not received all the information and explanations necessary for the purposes of our audit; and
- Certain disclosures of directors' loans and remuneration specified by law have not been complied with.

**PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
9 November 2011**

Consolidated Statement of Comprehensive Income

<i>Note</i>		<i>Year ended 30 June 2011 GBP '000</i>	<i>Year ended 30 June 2010 GBP '000</i>
3	Revenue	31,148	31,924
	Other income	480	1,948
	Net change in inventory at fair value less costs to sell	(12,785)	(18,274)
12	Net change in fair value of financial assets and financial liabilities at fair value through profit or loss	(22,397)	(23,306)
	Employee benefits expense	(3,382)	(3,726)
8	Impairment and other charges	(20,851)	(2,803)
	Depreciation and amortisation	(3,745)	(1,760)
5	Investment Advisory fees	(6,017)	(5,792)
5	Performance fees	23,715	–
5	Administration and custodian fees	(419)	(312)
	Net foreign exchange gains	406	896
9	Other expenses	(14,142)	(11,204)
	Operating loss	<u>(27,989)</u>	<u>(32,409)</u>
10	Finance income	1,908	3,450
10	Finance costs	(1,238)	(917)
	Finance income – net	<u>670</u>	<u>2,533</u>
	Loss before tax	<u>(27,319)</u>	<u>(29,876)</u>
11	Taxation	1,030	653
	Loss for the year	<u>(26,289)</u>	<u>(29,223)</u>
	Other comprehensive loss		
	Currency translation differences	2,812	7,133
	Total comprehensive loss for the year	<u>(23,477)</u>	<u>(22,090)</u>
	Loss for the year attributable to:		
	Equity holders of the Company	(23,986)	(28,757)
	Non-controlling interest	(2,303)	(466)
	Loss for the year	<u>(26,289)</u>	<u>(29,223)</u>
	Total comprehensive loss for the year attributable to:		
	Equity holders of the Company	(20,905)	(21,449)
	Non-controlling interest	(2,572)	(641)
	Total comprehensive loss for the year	<u>(23,477)</u>	<u>(22,090)</u>
	Loss per share attributable to the equity holders of the Company during the year: (expressed in pence per share)		
27	Basic and diluted	<u>(9.49)</u>	<u>(11.19)</u>

The notes on pages 42 to 101 form an integral part of these financial statements.

Consolidated Statement of Financial Position

<i>Note</i>		<i>Year ended 30 June 2011 GBP '000</i>	<i>Year ended 30 June 2010 GBP '000</i>
	Assets		
	Non-current assets		
15	Intangible assets	9,215	7,531
16	Property, plant and equipment	58,133	18,726
12	Financial assets at fair value through profit or loss	90,309	142,501
14	Loans and receivables	520	1,089
20	Trade and other receivables	–	7
19	Restricted cash	280	–
		<u>158,457</u>	<u>169,854</u>
	Current assets		
12	Financial assets at fair value through profit or loss	43,229	49,404
14	Loans and receivables	1,678	12,047
20	Trade and other receivables	11,511	11,464
21	Inventory at fair value less costs to sell	52,282	44,077
19	Cash and cash equivalents	66,193	91,988
19	Restricted cash	35,364	34,064
		<u>210,257</u>	<u>243,044</u>
18	Assets of disposal group classified as held for sale	8,517	–
		<u>218,774</u>	<u>243,044</u>
	Liabilities		
	Current liabilities		
22	Trade and other payables	(10,088)	(13,890)
19	Cash margin payable to broker	(9,039)	(14,618)
24	Borrowings	(15,042)	–
12	Financial liabilities at fair value through profit or loss	(5,029)	(6,191)
	Provision for liabilities and charges	(379)	–
11	Current tax liabilities	(196)	(77)
		<u>(39,773)</u>	<u>(34,776)</u>
18	Liabilities of disposal group classified as held for sale	(49)	–
		<u>(39,822)</u>	<u>(34,776)</u>
	Net current assets	<u>178,952</u>	<u>208,268</u>
	Non-current liabilities		
22	Trade and other payables	(3,690)	(19,863)
24	Borrowings	(30,408)	–
12	Financial liabilities at fair value through profit or loss	(877)	(2,181)
25	Deferred tax liabilities	(503)	(2,001)
		<u>(35,478)</u>	<u>(24,045)</u>
	Net assets	<u>301,931</u>	<u>354,077</u>

Trading Emissions PLC

Consolidated Statement of Financial Position (continued)

<i>Note</i>		<i>Year ended 30 June 2011 GBP '000</i>	<i>Year ended 30 June 2010 GBP '000</i>
	Financed by:		
	Capital and reserves		
28	Share capital	2,498	2,574
29	Share premium	301,086	301,086
31	Capital redemption reserve	395	319
31	Retained earnings	(18,078)	37,000
31	Translation reserve	16,559	13,478
	Total shareholders' equity	<u>302,460</u>	<u>354,457</u>
	Non-controlling interest	(529)	(380)
	Total equity	<u>301,931</u>	<u>354,077</u>

The financial statements on pages 34 to 101 were approved and authorised for issue by the Board of Directors on 9 November 2011 and signed on its behalf by:

Philip Scales
Director

Peter Vanderpump
Director

Trading Emissions PLC

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company					Total	Non-controlling interest	Total equity
	Share capital	Share premium	Share redemption reserve	Retained earnings	Translation reserve			
	GBP '000	GBP '000	GBP '000	GBP '000	GBP '000	GBP '000	GBP '000	GBP '000
Balance at 1 July 2009	2,551	297,061	319	77,728	6,170	383,829	454	384,283
Loss for the year	–	–	–	(28,757)	–	(28,757)	(466)	(29,223)
Other comprehensive income								
Currency translation differences	–	–	–	–	7,308	7,308	(175)	7,133
Total comprehensive loss	–	–	–	(28,757)	7,308	(21,449)	(641)	(22,090)
<i>Transactions with owners</i>								
Dividends paid (note 30)	–	–	–	(11,971)	–	(11,971)	(193)	(12,164)
Issue of share capital (note 28)	23	4,025	–	–	–	4,048	–	4,048
Balance at 30 June 2010	2,574	301,086	319	37,000	13,478	354,457	(380)	354,077
Loss for the year	–	–	–	(23,986)	–	(23,986)	(2,303)	(26,289)
Other comprehensive loss								
Currency translation differences	–	–	–	–	3,081	3,081	(269)	2,812
Total comprehensive loss	–	–	–	(23,986)	3,081	(20,905)	(2,572)	(23,477)
<i>Transactions with owners</i>								
Dividends paid (note 30)	–	–	–	(24,605)	–	(24,605)	(165)	(24,770)
Equity interest in subsidiary entity issued to non-controlling interest (note 36)	–	–	–	–	–	–	684	684
Non-controlling interest on business combinations	–	–	–	–	–	–	1,904	1,904
Purchase of own shares (note 28)	(76)	–	76	(6,487)	–	(6,487)	–	(6,487)
Balance at 30 June 2011	2,498	301,086	395	(18,078)	16,559	302,460	(529)	301,931

The notes on pages 42 to 101 form an integral part of these financial statements.

Trading Emissions PLC

Consolidated Cash Flow Statement

	<i>Year ended 30 June 2011 GBP '000</i>	<i>Year ended 30 June 2010 GBP '000</i>
Cash flows from operating activities		
Loss for the year	(26,289)	(29,223)
Adjustment for:		
– finance income	(1,908)	(3,450)
– income tax credit	(594)	(653)
– depreciation and amortisation	3,745	1,760
– net foreign exchange gains	(406)	(872)
– impairment charges	20,851	2,803
– performance fee release	(23,715)	–
– profit on disposal of investment in quoted securities	(58)	(652)
– provisions	379	–
– finance costs	1,238	917
Changes in working capital:		
Net decrease in financial assets at fair value through profit or loss	38,035	30,705
Net change in inventory at fair value less costs to sell	(2,896)	2,275
Net change in financial liabilities at fair value through profit or loss	(2,466)	(8,802)
Decrease in trade and other payables	(13,167)	(10,743)
Decrease/(increase) in trade and other receivables	983	(3,093)
Cash used in operations	<u>(6,268)</u>	<u>(19,028)</u>
Tax paid	(757)	–
Interest received	3,006	3,450
Interest paid	(801)	–
Net cash used in operating activities	<u>(4,820)</u>	<u>(15,578)</u>
Cash flows from investing activities		
Decrease in restricted cash	1,643	18,448
Proceeds on disposal of quoted securities	533	1,890
Acquisition of subsidiaries, net of cash acquired	14,704	–
Purchase of intangible assets	–	(3,994)
Loans granted to third parties	(464)	(12,062)
Purchase of property, plant and equipment	(24,950)	(6,093)
Loans repaid by third parties	88	–
Net cash used in investing activities	<u>(8,446)</u>	<u>(1,811)</u>
Financing activities		
Purchase of own shares	(6,487)	–
Dividends paid to company shareholders	(24,605)	(11,971)
Dividends paid to non-controlling interests	(165)	(193)
Repayment of borrowings	–	(320)
Proceeds from borrowings	22,195	–
Net cash used in financing activities	<u>(9,062)</u>	<u>(12,484)</u>
Net decrease in cash and cash equivalents	(22,328)	(29,873)
Cash and cash equivalents at beginning of the year	91,988	125,605
Exchange losses on cash and cash equivalents	(1,073)	(3,744)
Cash and cash equivalents at end of the year	<u>68,587*</u>	<u>91,988</u>

* Includes GBP 2,394,000 cash in disposal group classified as held for sale.

The notes on pages 42 to 101 form an integral part of these financial statements.

Company Statement of Financial Position

<i>Note</i>		<i>Year ended 30 June 2011 GBP '000</i>	<i>Year ended 30 June 2010 GBP '000</i>
	Assets		
	Non-current assets		
17	Investment in subsidiaries	76,475	44,072
12	Financial assets at fair value through profit or loss	27,975	61,820
14	Loans and receivables	57,013	51,037
		<u>161,463</u>	<u>156,929</u>
	Current assets		
12	Financial assets at fair value through profit or loss	41,471	48,466
14	Loans and receivables	2,116	12,671
20	Trade and other receivables	5,674	9,640
21	Inventory at fair value less costs to sell	46,817	42,433
19	Cash and cash equivalents	16,586	86,624
19	Restricted cash	27,284	33,396
		<u>139,948</u>	<u>233,230</u>
	Total assets	<u>301,411</u>	<u>390,159</u>
	Liabilities		
	Current liabilities		
22	Trade and other payables	(3,695)	(11,036)
19	Cash margin payable to broker	(9,039)	(14,618)
12	Financial liabilities at fair value through profit or loss	(3,961)	(4,488)
		<u>(16,695)</u>	<u>(30,142)</u>
	Net current assets	<u>123,253</u>	<u>203,088</u>
	Non-current liabilities		
22	Trade and other payables	(1,990)	(19,798)
12	Financial liabilities at fair value through profit or loss	(870)	(2,102)
		<u>(2,860)</u>	<u>(21,900)</u>
	Net assets	<u>281,856</u>	<u>338,117</u>
	Financed by:		
	Capital and reserves		
28	Share capital	2,498	2,574
29	Share premium	301,086	301,086
31	Capital redemption reserve	395	319
31	Retained earnings	(22,123)	34,138
	Total equity	<u>281,856</u>	<u>338,117</u>

The financial statements on pages 34 to 101 were approved and authorised for issue by the Board of Directors on 8 November 2011 and signed on its behalf by:

Philip Scales
Director

Peter Vanderpump
Director

Trading Emissions PLC

Company Statement of Changes in Equity

	<i>Share capital GBP '000</i>	<i>Share premium GBP '000</i>	<i>Capital redemption reserve GBP '000</i>	<i>Retained earnings GBP '000</i>	<i>Total equity GBP '000</i>
Balance at 1 July 2009	2,551	297,061	319	81,516	381,447
Loss for the year	–	–	–	(35,407)	(35,407)
Total comprehensive loss	–	–	–	(35,407)	(35,407)
Dividends paid (note 30)	–	–	–	(11,971)	(11,971)
Issue of share capital (note 28)	23	4,025	–	–	4,048
Balance at 30 June 2010	2,574	301,086	319	34,138	338,117
Loss for the year	–	–	–	(25,169)	(25,169)
Total comprehensive loss	–	–	–	(25,169)	(25,169)
Dividends paid (note 30)	–	–	–	(24,605)	(24,605)
Purchase of own shares (note 28)	(76)	–	76	(6,487)	(6,487)
Balance at 30 June 2011	2,498	301,086	395	(22,123)	281,856

The notes on pages 42 to 101 form an integral part of these financial statements.

Trading Emissions PLC

Company Cash Flow Statement

	<i>Year ended 30 June 2011</i>	<i>Year ended 30 June 2010</i>
	<i>Company GBP '000</i>	<i>Company GBP '000</i>
Cash flows from operating activities		
Loss for the year	(25,169)	(35,407)
Adjustment for:		
– finance income	(2,078)	(2,921)
– income tax credit	(263)	–
– net foreign exchange gains/(losses)	934	(3,728)
– impairment charges	22,777	17,691
– profit on disposal of investment in quoted securities	(58)	(652)
– performance fee release	(23,715)	–
Changes in working capital:		
Net decrease in financial assets at fair value through profit or loss	41,457	45,145
Net change in inventory at fair value less costs to sell	(3,785)	900
Net change in financial liabilities at fair value through profit or loss	(1,759)	(8,900)
Decrease in trade and other payables	(6,857)	(13,022)
Increase in trade and other receivables	(344)	(3,901)
Cash generated from/(used in) operations	1,140	(4,795)
Interest received	2,908	3,838
Tax paid	(373)	–
Net cash generated from/(used in) operations	<u>3,675</u>	<u>(957)</u>
Cash flows from investing activities		
Decrease in restricted cash	9,097	6,882
Proceeds on disposal of quoted securities	533	1,890
Investment in subsidiaries	(30,524)	–
Loans granted to subsidiaries	(21,365)	(17,916)
Loans granted to third parties	(464)	(12,062)
Loans repaid by subsidiaries	–	4,930
Net cash used in investing activities	<u>(42,723)</u>	<u>(16,276)</u>
Financing activities		
Purchase of own shares (note 28)	(6,487)	–
Dividends paid to company shareholders	(24,605)	(11,971)
Net cash used in financing activities	<u>(31,092)</u>	<u>(11,971)</u>
Net decrease in cash and cash equivalents	(70,140)	(29,204)
Cash and cash equivalents at beginning of the year	86,624	117,853
Exchange gain/(loss) on cash and cash equivalents	102	(2,025)
Cash and cash equivalents at end of the year (note 19)	<u>16,586</u>	<u>86,624</u>

The notes on pages 42 to 101 form an integral part of these financial statements.

Notes to the financial statements

1. Operations

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

The Company is a closed-ended investment company domiciled in the Isle of Man and the address of its registered office is 3rd Floor, Exchange House, 54-62 Athol 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.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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'), IFRIC interpretations and the Isle of Man Companies Acts 1931-2004. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) and inventory, at fair value through profit or loss.

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

As permitted by Section 3 of the Isle of Man Companies Act 1982, the Company has not presented its separate statement of comprehensive income. The amount of the Company's loss for the financial year dealt with in the financial statements of the Group is GBP 25,169,000 (2010: loss GBP 35,407,000).

The Group has adopted the following amendments to IFRSs as of 1 July 2010.

- Amendment to IFRS 2, 'Share based payments – Group cash-settled share-based payment transactions' (effective 1 January 2010).
- Amendments to IFRS 1 for additional exemptions (effective 1 January 2010).

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 July 2010 which are relevant to the Group and have not been early adopted;

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other

Notes to the financial statements (continued)

comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.

- IFRS 10, 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.
- IFRS 11, 'Joint arrangements'; this standard replaces IAS 31 'Interest in joint ventures', It has been issued in conjunction with IFRS 10 'Consolidated financial statements' and IFRS 12 'Disclosure of interests in other entities'. IFRS 11 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly. The standard is not applicable until 1 January 2013 and has not yet been endorsed by the EU.
- IFRS 12, 'Disclosures of interest in other entities'; includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013, subject to endorsement by the EU.
- IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2012, subject to endorsement by the EU.

2.2 Consolidation

The consolidated financial statements comprise the results of the Company and its subsidiaries. The Company's principal subsidiaries are set out in note 17.

(a) Subsidiaries

Companies, in which the Group has the power 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 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 statement of comprehensive income. Newly acquired companies are consolidated from the effective date of control.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's

Notes to the financial statements (continued)

share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Costs directly attributable to the acquisition are recognised directly in the statement of comprehensive income.

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 Group.

In the Company's financial statements investments in subsidiaries are carried at cost less impairment. Cost is measured as the fair value of the consideration given to acquire the share capital of the subsidiary undertakings.

(b) *Transactions with non-controlling interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests which result in gains and losses for the Group are recorded in equity. Purchases from non-controlling interests result in goodwill when there is a difference between any consideration paid and the relevant share acquired of the value of net assets of the subsidiary. This goodwill is also recorded in equity.

(c) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 per cent. and 50 per cent. of the voting rights. Investments that are held as part of the Group's investment portfolio are carried in the consolidated statement of financial position at fair value even though the Group 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 ("CODM"), which is defined as the Board of Directors. The Group is focused on three segments; the carbon portfolio, the private equity investments and cash and other items. Private equity investments are further represented by geographical segments being Asia & Middle East, Latin America, North America, Africa and Europe.

Segment results represent the operating loss before fees, foreign exchange and other expenses from each segment. Segment assets and liabilities are aligned with reported information to the CODM.

Additions to non current assets represent the total cost incurred to acquire property, plant and equipment, intangible assets and non current assets at fair value through profit or loss.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

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

Notes to the financial statements (continued)

(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 statement of comprehensive income.

(c) *Group companies*

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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of 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 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 *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses (see 2.7). Historical cost includes expenditure that is directly attributable to the construction or acquisition of items.

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 Group and the costs can be measured reliably. All other subsequent costs (primarily repairs and maintenance) are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided, on a straight line basis over the estimated useful economic lives of the assets so as to depreciate the initial and subsequent capitalised cost down to the residual value of the asset. The useful lives are as follows:

– Plant and Machinery	5–20 years
– Motor Vehicles	4–5 years
– Furniture and Equipment	4–40 years

Projects under construction are not depreciated. Land is also not depreciated.

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at each balance sheet date. Such a review takes into consideration the nature of the assets, their intended use including but not limited to the closure of facilities and the evolution of the technology and the competitive pressures that may lead to technical obsolescence.

Notes to the financial statements (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other operating expenses, in the statement of comprehensive income.

Borrowing costs incurred during the course of construction are capitalised if the assets under construction requires a substantial period to complete (typically more than six months). The capitalised rate is determined on the basis of short term borrowing rate for the period of construction.

Assets acquired under a finance lease or sold in a sale and lease back transaction are capitalised and depreciated in accordance with the Group's policy on property, plant and equipment unless the lease term is shorter. The associated obligations are recorded under financial liabilities. Any gain arising on the inception of the finance lease is deferred on the statement of financial position and released to the statement of comprehensive income over the life of the lease. Repayments made under finance leases are split between capital repayments and interest expense over the life of the lease term.

2.6 *Intangible assets*

(a) *Goodwill*

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses relating to goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) *Project developments*

This heading includes project development rights that are internally generated or acquired either separately or as part of an asset acquisition or business combination when they are identifiable and can be reliably measured. Project development rights are considered to be identifiable if they arise from contractual or other rights or if they are separate (i.e. they can be disposed of either individually or together with other assets).

Internally generated project development rights represent costs that are directly associated with the development of projects which the Company will ultimately derive a benefit from. It must be probable that the related costs will generate future economic benefits and that the amounts capitalised are clearly identifiable and allocable to specific projects. Costs include but are not limited to the payment of feasibility and environmental studies and engineering costs. Costs that do not meet the criteria for capitalisation are expensed as incurred.

Project development rights have a finite useful life. They are amortised over the shorter of their contractual or useful economic lives on a straight line basis. Project development rights are amortised over a five – twenty year period depending on the useful life of the underlying project.

(c) *Customer relationships*

Customer relationships acquired in business combinations are recognised at fair value at the date of acquisition. The contractual customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Notes to the financial statements (continued)

(d) *Trademarks and licences*

Trademarks and licences acquired in a business combination are recognised at fair value at the date of acquisition. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the trademarks and licences over their estimated useful lives of 15 years.

(e) *Computer software*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software acquired in business combinations are recognised at fair value at the date of acquisition. Computer software development costs recognised as assets are amortised over their economic useful lives.

2.7 *Impairment of non-financial assets*

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 *Disposal group held for sale*

Disposal groups are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Disposal groups that are classified as held for sale are available for immediate sale in their present condition, and a sale is highly probable. The sale of disposal groups is considered highly likely by the Group when the Directors are committed to the plan, there is an active programme to locate a buyer and when the sale is expected to be completed within one year from classification. Disposal groups that are held for sale are carried at the lower of cost and fair value less cost to sell.

2.9 *Financial assets and financial liabilities*

(a) *Classification*

The Group 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.

(i) *Financial assets and financial liabilities at fair value through profit or loss*

This category has two sub-categories: financial assets and financial liabilities held for trading, and 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 Group 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.

Notes to the financial statements (continued)

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.

(ii) **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 Group 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. Loans and receivables are separately stated on the balance sheet.

(b) *Recognition*

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

Regular-way purchases and sales of investments are recognised on trade date, which is the date on which the Group commits to purchase or sell the asset.

Emission Reduction Purchase Agreements

The Group enters into Emission Reduction Purchase Agreements ('ERPAs'). ERPAs are contracts for the future purchase of Carbon Credits ('CCs') with payment due upon delivery. ERPAs are classified as financial assets at fair value through profit or loss.

The Group recognises an ERPA when it enters into a binding contract with either a supplier relating to a project that produces CCs or an agreement with energy, agricultural or industrial company to either jointly or solely develop a facility that will generate CCs.

(c) *Measurement*

Financial assets and financial liabilities are initially recognised at fair value, and 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 is measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

Financial assets classified as loans and receivables are carried 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 at fair value through profit or loss' and 'financial liabilities at fair value through profit or loss' categories are included in the statement of comprehensive income in the period in which they arise. Interest income on loans and receivables is calculated using the effective interest method and presented separately in the statement of comprehensive income.

(d) *Fair value measurement principles*

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

Notes to the financial statements (continued)

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 statement of comprehensive income.

Emission Reduction Purchase Agreements

In order for the Group or a supplier to the Group to produce a CC, a number of steps must be performed, as follows:

- (i) where a project does not use an existing approved baseline and monitoring methodology, approval of a new methodology by the CDM-EB ('Clean Development Mechanism – Executive Board');
- (ii) submission for public review of a Project Design Document ('PDD');
- (iii) written approval of the project from the host country Designated National Authority ('DNA');
- (iv) written approval of an Annex I Party (e.g. government of UK) is obtained;
- (v) if it is a large hydropower project (i.e. over 20MW), a World Commission on Dams compliance report has to be completed before getting Annex I Party approval;
- (vi) project validation completed by an approved Designated Operational Entity ('DOE');
- (vii) project registration occurs once validation is completed subject to there being no objection from any of the parties involved or members of the CDM-EB. If an objection is submitted a review is requested and the project may be registered subject to corrections or clarifications;
- (viii) project operations; and
- (ix) verification of the CCs by an approved DOE (different to that validation DOE may be required).

When the CDM-EB receives the verification report, which constitutes a request to the CDM-EB to issue and distribute CCs, the CDM Registry administrator issues CCs into a temporary CDM account or a national registry account as instructed by project participants. There can be time delays in issuance from submission of the reports to issuance. Also if there are errors in the documentation, the Group may have to re-submit documentation resulting in further delays.

The delivery of CCs under ERPAs entered into by the Group or Company are subject to the success of the underlying projects which produce the CCs and there is no guarantee of delivery.

ERPAs are recorded in the Group's financial statements at their fair value. The fair value of each ERPA is determined using a valuation model which takes the face value of the Group's contracts at each period end and adjusts the CC delivery volumes in each contract by a risk adjustment factor that takes into account (i) project technology, (ii) CDM and project financing status, and (iii) the development and construction status. The risk adjusted volumes are then

Notes to the financial statements (continued)

valued using IntercontinentalExchange (“ICE”) CC prices at each period end for settlement in December 2010 – 2013. Estimated cash flows are then discounted to determine the net present value of each ERPA contract. The estimates, judgements and assumptions used by the Group in determining the fair values of each ERPA at each period end are disclosed in note 7.

Details of the Group’s risk adjusted contractual commitments under ERPA contracts at 30 June 2011 and 30 June 2010 are set out in note 33.

(e) *Impairment*

Financial assets that are stated at amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the 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.

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 statement of comprehensive income.

(f) *Derecognition*

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

2.10 *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the 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.

2.11 *Inventory at fair value less costs to sell*

Inventories are stated at fair value less costs to sell at each reporting date, as 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 statement of comprehensive income in the period of the change. Fair value is determined using quoted market prices for each category of CC’s held in inventory. In the absence of a quoted market price, valuation models and evidence of recent transactions in the prevailing CCs secondary market are used.

2.12 *Trade and other receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance

Notes to the financial statements (continued)

account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

2.13 *Cash, cash equivalents and restricted cash*

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

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

2.14 *Share capital*

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

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. In the event the shares are cancelled the nominal value is debited to the Company's capital redemption reserve. Where such ordinary 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.

2.15 *Trade and other payables*

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

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

2.16 *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 statement of comprehensive income over the period of the borrowings 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 draw-down occurs.

2.17 *Current and deferred tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

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. It establishes provisions 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 consolidated financial statements.

Notes to the financial statements (continued)

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 or 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 tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 taxes 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.

2.18 *Provisions*

Provisions comprise liabilities of uncertain timing or amount that arise. Provisions are recognised when the Group 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 expenditures 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.

2.19 *Contingent assets and liabilities*

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

2.20 *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 Group's activities. Revenue is shown net of value-added tax and after eliminating sales within the Group.

As further explained in note 13 the Company enters into futures contracts to sell CCs. These contracts are settled gross and revenue is recognised on delivery of the CC.

The Group 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. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) *Sales – Power generation*

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

Notes to the financial statements (continued)

(b) *Sales – CCs*

The Group recognises revenue on the sale of CCs when the CCs are delivered to a buyer.

2.21 *Leases*

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

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group 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 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.

2.22 *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.

2.23 *Dividend distribution*

Final dividend payments to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividend payment is approved by the Company's shareholders.

Interim dividends paid are recognised in the period in which the dividend is paid.

2.24 *Interest income*

Interest income is recognised in the statement of comprehensive income for all interest bearing instruments using the effective interest rate method.

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

2.25 *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.

2.26 *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 cost of the share issue less directly attributable transactions costs.

Notes to the financial statements (continued)

3. Segmental information

The Board of Directors has determined the operating segments based on the reports provided by the Company's Investment Adviser which are used by the Board of Directors to make strategic decisions.

The Board of Directors and the Investment Adviser consider the business from both a geographic and a portfolio perspective. The Board of Directors manage the Group's assets across the following three business portfolio segments:

- ***Carbon portfolio***

The carbon portfolio can be further broken down into emission reductions purchase agreements (ERPAs), carbon loans and the Group's commercialisation activities, which include the management of inventory. Within the ERPA sub-segment, the majority of these assets are originated in China. The Company commercialises its carbon portfolio through the use of futures contracts, options and OTC contracts.

- ***Private equity investments***

In the private equity investment portfolio the Group operates various power generation and other operations in a number of different jurisdictions. These include solar photovoltaic plants in Italy, waste to energy operations in South East Asia (Thailand, Malaysia, Vietnam, and Philippines), and biomethane capture and voluntary carbon market participation in North America.

- ***Cash and other items***

The Company has committed cash to fulfil its obligations under ERPAs and to fund its private equity investments. As such, the Company manages a relatively large portion of cash which forms a major segment of its business operation.

Geographically, the Board of Directors consider the performance of the portfolio of private equity investments in the following regions:

- Asia & the Middle East;
- Latin America;
- North America;
- Africa; and
- Europe.

The Board of Directors assess the performance of the segments based primarily upon net asset value that is attributable to the shareholders of the Company.

The Board of Directors also consider the portfolio from an operating profit or loss perspective across the carbon portfolio and private equity investment segments. The segmental business operations and assets are detailed below.

The carbon portfolio segment derives its revenue primarily from the sale of carbon credits. The private equity investments segment derives its revenue primarily from the sale of electricity and biogas. In 2011, 43 per cent. of the Group's revenue was executed through one specific brokerage service for the sale of carbon credits (2010: 37 per cent.), and 11 per cent. (2010: 0 per cent.) of the Group's revenue was for the sale of electricity by companies within the private equity investments segment to the Italian electricity grid. Income arising on the Group's cash and other segment assets primarily relates to interest income that is disclosed in the Group's statement of comprehensive income. Interest expense per the statement of comprehensive income primarily relates to the private equity investment segment. There were no revenues from transactions with other operating segments from within the Group.

See note 8 for details of impairments and other charges relating to the Group's private equity investments segment.

Trading Emissions PLC

Notes to the financial statements (continued)

An analysis of revenues from external customers by category is disclosed below:

	<i>Group</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000
Sale of CCs	24,254	29,301
Sale of electricity and biogas	6,093	2,623
Sale of biogas inventory	153	–
Design and consultancy fees	509	–
Other	139	–
	<u>31,148</u>	<u>31,924</u>

During 2011 the Company has changed the presentation of its segmental information. ERPA, Carbon loan and Commercialisation activities are now disclosed within one segment, the Carbon Portfolio segment. Accordingly the Company has restated its segmental information for the year ended 30 June 2010.

The segmental information for the years ended 30 June 2011 and 2010 is as follows:

<i>At 30 June 2011</i> <i>(all expressed in GBP '000)</i>					<i>Private Equity Investments</i>					
	<i>Carbon Portfolio</i>	<i>Private Equity Investments</i>	<i>Cash and other items</i>	<i>Total</i>	<i>Asia and Middle East</i>	<i>Latin America</i>	<i>North America</i>	<i>Africa</i>	<i>Europe</i>	<i>Total</i>
Total assets	124,255	140,214	104,245	368,714	9,682	63,019	41,739	641	85,443	200,524
Total liabilities	(2,257)	(56,201)	(16,793)	(75,251)	(1,452)	(552)	(2,355)	(330)	(51,512)	(56,201)
Net asset value from continuing operations	121,998	84,013	87,452	293,463	8,230	62,467	39,384	311	33,931	144,323
Disposal group asset held for sale	–	8,468	–	8,468	–	–	–	–	8,468	8,468
Net asset value	121,998	92,481	87,452	301,931	8,230	62,467	39,384	311	42,399	152,791
Non-controlling interest	–	529	–	529	–	–	–	–	–	529
Net assets attributable to shareholders	121,998	93,010	87,452	302,460	8,230	62,467	39,384	311	42,399	153,320
Additions to non current assets	–	25,248	–	25,248	245	–	183	2,300	22,520	25,248
Non-current assets acquired under business combinations	–	37,524	–	37,524	789	–	14,723	–	22,012	37,524

The Group's geographical analysis of its private equity investments include cash of GBP 60,310,000 included within the cash and other items segment.

<i>At 30 June 2010 Restated</i> <i>(all expressed in GBP '000)</i>					<i>Private Equity Investments</i>					
	<i>Carbon Portfolio</i>	<i>Private Equity Investments</i>	<i>Cash and other items</i>	<i>Total</i>	<i>Asia and Middle East</i>	<i>Latin America</i>	<i>North America</i>	<i>Africa</i>	<i>Europe</i>	<i>Total</i>
Total Assets	158,735	121,044	133,119	412,898	14,090	52,936	46,712	6,201	43,143	163,082
Total liabilities	(8,372)	(4,997)	(45,452)	(58,821)	(966)	(665)	(1,931)	(506)	(2,392)	(6,460)
Net asset value from continuing operations	150,363	116,047	87,667	354,077	13,124	52,271	44,781	5,695	40,751	156,622
Non-controlling interest	–	380	–	380	–	–	–	–	–	380
Net assets attributable to shareholders	150,363	116,427	87,667	354,457	13,124	52,271	44,781	5,695	40,751	157,002
Additions to non current assets	–	6,797	–	6,797	1,224	653	670	3,427	822	6,797
Non-current assets acquired under business combinations	–	3	–	3	–	–	–	–	3	3

The Group's geographical analysis of its private equity investments include cash of GBP 40,575,000 included within the cash and other items segment.

Trading Emissions PLC

Notes to the financial statements (continued)

At 30 June 2011 (all expressed in GBP '000)	Carbon Portfolio	Private Equity Investments	Total	Private Equity Investments					
				Asia and Middle East	Latin America	North America	Africa	Europe	Total
Revenue from external customers	23,170	7,978	31,148	3,212	–	1,170	–	3,596	7,978
Other income	–	480	480	137	–	53	117	173	480
Net changes in inventory at fair value less costs to sell	(12,148)	(637)	(12,785)	(377)	–	(260)	–	–	(637)
Net changes in fair value of financial assets and liabilities at fair value through profit or loss	(4,666)	(17,731)	(22,397)	44	–	(18,113)	–	338	(17,731)
Employee benefits expenses	–	(3,382)	(3,382)	(1,196)	–	(750)	(1,309)	(127)	(3,382)
Impairment	–	(20,851)	(20,851)	(5,816)	(946)	(7,318)	(6,771)	–	(20,851)
Depreciation and amortisation	–	(3,745)	(3,745)	(1,863)	(11)	(225)	(346)	(1,300)	(3,745)
Operating loss before fees, foreign exchange and other expenses	6,356	(37,888)	(31,532)	(5,859)	(957)	(25,443)	(8,309)	2,680	(37,888)
Segmental income tax	(153)	1,183	1,030	(21)		1,717		(513)	1,183

At 30 June 2010 Restated (all expressed in GBP '000)	Carbon Portfolio	Private Equity Investments	Total	Private Equity Investments					
				Asia and Middle East	Latin America	North America	Africa	Europe	Total
Revenue from external customers	29,301	2,623	31,924	2,589	–	33	–	1	2,623
Other income	–	1,948	1,948	(23)	–	158	1,316	496	1,948
Net changes in inventory at fair value less costs to sell	(18,274)	–	(18,274)	–	–	–	–	–	–
Net changes in fair value of financial assets and liabilities at fair value through profit or loss	(22,117)	(1,189)	(23,306)	(1,189)	–	–	–	–	(1,189)
Employee benefits expenses	–	(3,726)	(3,726)	(252)	–	(973)	(1,134)	(1,367)	(3,726)
Impairment	–	(2,803)	(2,803)	(1,925)	–	–	–	(878)	(2,803)
Depreciation and amortisation	–	(1,760)	(1,760)	(1,367)	(11)	(169)	(161)	(53)	(1,760)
Operating loss before fees, foreign exchange and other expenses	(11,090)	(4,907)	(15,997)	(2,167)	(11)	(950)	21	(1,801)	(4,907)
Segmental income tax	(297)	950	653	–	57	(224)	–	1,117	950

A reconciliation of operating loss before fees, foreign exchange and operating expenses to operating loss in the statement of comprehensive income is provided as follows:

	Group 2011 £'000	Group 2010 £'000
Operating loss before fees, foreign exchange and other expenses	(31,532)	(15,997)
Investment advisory fees	(6,017)	(5,792)
Performance fees	23,715	–
Administration and custodian fees	(419)	(312)
Net foreign exchange gains	406	896
Other expenses	(14,142)	(11,204)
Operating loss per statement of comprehensive income	(27,989)	(32,409)

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including price risk, cash flow, interest risk and currency 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. The Group uses derivative financial instruments to mitigate certain risk exposures.

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

Notes to the financial statements (continued)

4.1 *Market risk*

(a) *Price risk*

The Group is exposed to equity securities price risk as it invests in quoted and unquoted equity securities which are classified on the balance sheet as financial assets at fair value through profit or loss. The Group may also trade in financial instruments, taking positions in traded and OTC instruments, including derivatives, to take advantage of short-term market movements in the emission markets. The Group may therefore buy or sell call or put options and financial futures. It may do so on a covered or uncovered basis.

The Group's investment securities including derivative financial instruments are susceptible to market price risk arising from uncertainties about future prices of these securities and instruments. The Group's overall market positions are monitored on a daily basis by the Group's Investment Adviser and are reviewed on a quarterly basis by the Board of Directors.

The Group is exposed to commodity price risk on its inventory portfolio of carbon credits.

Quoted investments classified as financial assets at fair value through profit or loss

At 30 June 2011 the Group did not hold any quoted investments. Holding all other variables constant, for every 10 per cent. increase or decrease in the Group's quoted investments classified as financial assets at the fair value through profit or loss at 30 June 2010, the expected increase or decrease in the net assets and results of the Group would be GBP 48,000.

Unquoted investments classified as financial assets at fair value through profit or loss

Due to the ongoing arbitration the best estimate of the fair value of the Group's unquoted investment in Bionasa Combustivel Natural S.A – Brazil ("Bionasa") is considered to be the original cost of BRL 125,000,000. More information on this investment is provided in the Investment Advisers report. Unquoted investments also include the Group's investment of GBP 10,400,000 in TEP Trading 2 Limited. The carrying value of this entity is based on its underlying investments which are held at fair value derived from market prices.

Inventory

The Group is exposed to commodity price risk with respect to its inventory portfolio of carbon credits which is disclosed further in note 7 (a) (i).

ERPA valuation model

The Group is exposed to market price risk with respect to its portfolio of ERPA contracts where the market price of carbon credits is a key assumption and which is disclosed further in note 7 (a) (i).

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

The Group holds a significant amount of cash and deposits 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 and EUR. During the year, interest income from cash and deposits with financial institutions was GBP 903,000 (2010: GBP 2,001,000). At 30 June 2011, if interest rates in these currencies on average had been 1 per cent. higher, with all other variables held constant, interest income and post tax loss for the year would have been higher and lower, respectively by GBP 1,018,000 (2010: GBP 1,521,000).

During the year, interest expense on the external borrowings held by the Group was GBP 821,000 (2010: GBP nil). At 30 June 2011, if interest rates on average in subsidiaries had been 1 per cent. higher, with all other variables held constant, interest expense and post tax loss for the year would have been higher by GBP 458,000 (2010: nil).

Notes to the financial statements (continued)

(c) *Foreign exchange risk*

The Group operates internationally and is therefore exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, US dollar and Brazilian Real. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group uses forward foreign exchange contracts or other derivatives to mitigate its foreign exchange exposure to future cash flows. The derivatives are privately negotiated OTC contracts with a financial institution or broker. Positions are marked to market daily and are risk managed on this basis using market-recognised valuation methodologies.

In the ERPA valuation model, the Group adopts the ICE price quoted in EUR being the currency in which the carbon credits are normally traded. The Group monitors its currency exposure on this financial asset. Foreign exchange forward contracts for the sale of EUR 15,000,000 and purchase of GBP 12,533,000 were held at 30 June 2011 (2010: sale of GBP 45,000,000 and purchase of GBP 40,000,000). The contracts are held to partially mitigate the Group's foreign currency exposure on its EUR denominated ERPA asset. The sensitivity of the exchange rate change on the ERPA valuation model has been disclosed in note 7.

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 Groups foreign operations is monitored by the Board of Directors and for the Groups investment in TEP (Solar Holdings) Limited is managed primarily through borrowings denominated in EUR.

The Group holds its investment in Bionasa as a non-current financial asset at fair value through profit or loss, and the underlying asset is in Brazilian Real. A 10 per cent. strengthening in GBP against the Brazilian Real would result in a GBP 4,361,000 (2010: GBP 3,793,000) decrease in non-current financial assets at fair value through profit and loss, with a corresponding decrease in unrealised losses in the statement of comprehensive income.

The Group also holds significant balances denominated in EUR and USD as cash and cash equivalents. A 10 per cent. strengthening in GBP against the EUR would result in a GBP 5,900,000 (2010: GBP 2,645,000) decrease in cash and cash equivalents for the Group.

4.2 *Credit risk*

The Group's financial assets at fair value through profit or loss predominantly relate to the fair value of the Group's ERPAs for the future delivery of CCs, cash and cash equivalents, CC swap transactions, loans and trade receivables. ERPAs are gross settled upon delivery of CCs and therefore the risk of default is considered minimal as payment for CCs is only made once delivery of CCs has been received. The Directors consider the maximum counterparty risk to be the delivery of CCs under the terms of the ERPA contracts, the value of which at 30 June 2011 is GBP 54,132,000 (2010: GBP 84,136,000). Counterparty risks associated with the Group's ERPAs are reviewed on an ongoing basis by the Group's Investment Adviser and by the Board of Directors and are reflected in the risk adjustment factors used in the Group's ERPA valuation model, see note 7.

For banks and financial institutions only independently rated parties with a minimum rating of "A" are accepted.

The Company enters into forward contracts, options and swap contracts with counterparties other than "A" rated financial institutions. Most of these transactions once agreed will be cleared through the exchange to eliminate credit risk. In cases where the contracts cannot be cleared through the exchange, the Company will seek to structure the settlement through an escrow account or deliver only after the counterparty fulfils its obligations.

Notes to the financial statements (continued)

Credit risk is managed on a group basis, except for credit risk relating to accounts receivable balances. Each company within the private equity investment portfolio 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 consistently monitored to ensure that they do not breach their payment obligations. The Group's Investment Adviser also monitors the private equity investment portfolio for significant credit risks and exposures, and notifies the Board accordingly.

4.3 *Liquidity risk*

Cash flow forecasting is performed by the Group on a monthly basis. The Board of Directors 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 ongoing CER purchase obligations and providing follow-on capital to its private equity investment portfolio. Such forecasting takes into consideration an orderly realisation of the Company's assets and the Board of Directors' objective to return capital to shareholders.

The Group maintains the majority of its liquid assets in cash and cash equivalents in order to meet its future financial commitments. At 30 June 2011 the Group had cash and cash equivalents of GBP 68,587,000 (2010: GBP 91,988,000).

The table below analyses the Group's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date on an undiscounted basis.

	<i>Less than 1 year</i>	<i>Between 1 and 2 years</i>	<i>Between 2 and 5 years</i>	<i>Over 5 years</i>
At 30 June 2011				
(all expressed in GBP '000)				
Borrowings	(14,821)	(1,123)	(4,027)	(28,208)
Finance leases	(502)	(507)	(1,515)	(6,185)
Financial liabilities at fair value				
through profit or loss	(5,029)	(877)	–	–
Cash margin payable to broker	(9,039)	–	–	–
Trade and other payables	(6,289)	(3,690)	–	–
At 30 June 2010				
(all expressed in GBP '000)				
Borrowings	–	–	–	–
Financial liabilities at fair value				
through profit or loss	(6,191)	(2,181)	–	–
Cash margin payable to broker	(14,618)	–	–	–
Trade and other payables	(13,890)	(12,117)	(7,746)	–

4.4 *Capital risk management*

The Group's objectives when managing the 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 obtain an optimal capital structure to reduce the cost of capital. The Group raised sufficient funds for its operations during two share offerings in 2005 and 2006 which raised GBP 297,000,000 in aggregate. The Board of Directors monitors the Company's capital structure and the return on capital to shareholders. The Group defines capital as total shareholders' equity excluding minority interests.

The Company is pursuing its realisation strategy which includes maintaining sufficient working capital to effect an orderly realisation of the Company's assets.

Notes to the financial statements (continued)

The Company has to date returned capital to shareholders in the form of share buybacks and dividends. According to the Company's Articles, the Company has the ability to buyback up to 10 per cent. of its Ordinary shares until the next annual general meeting.

The Group has maintained a strong and low leveraged cash position, however in the current period the Group has entered into third party financing arrangements to refinance its Solar Photovoltaic projects. At 30 June 2011 the Group's subsidiaries had external borrowings of GBP 45,450,000 (2010: Nil).

The Group is not subject to any externally imposed capital requirement.

4.5 Fair value estimation

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

- Level 1: Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included in 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 liabilities 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 judgment by the Group.

The following table presents the Group's financial assets and financial liabilities that are measured at fair value at 30 June 2011.

	<i>Level 1</i> GBP '000	<i>Level 2</i> GBP '000	<i>Level 3</i> GBP '000	<i>Total</i> GBP '000
At 30 June 2011				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unquoted equity securities	–	10,439	53,497	63,936
Financial assets held for trading:				
Derivatives	13,830	1,640	54,132	69,602
Total financial assets	<u>13,830</u>	<u>12,079</u>	<u>107,629</u>	<u>133,538</u>
Financial liabilities				
Financial liabilities held for trading:				
Carbon credit deliverables	(7)	–	–	(7)
Derivatives	(2,257)	(3,642)	–	(5,899)
Total financial liabilities	<u>(2,264)</u>	<u>(3,642)</u>	<u>–</u>	<u>(5,906)</u>

Notes to the financial statements (continued)

The following table present the Group's financial assets and financial liabilities that are measured at fair value at 30 June 2010.

	<i>Level 1</i> <i>GBP '000</i>	<i>Level 2</i> <i>GBP '000</i>	<i>Level 3</i> <i>GBP '000</i>	<i>Total</i> <i>GBP '000</i>
At 30 June 2010				
Financial assets				
Financial assets designated				
at fair value through profit or loss:				
Unquoted equity securities	–	8,626	72,489	81,115
Financial assets held for trading:				
Quoted equity securities	475	–	–	475
Derivatives	23,567	2,611	84,137	110,315
Total financial assets	<u>24,042</u>	<u>11,237</u>	<u>156,626</u>	<u>191,905</u>
Financial liabilities				
Financial liabilities held for trading:				
Carbon credit deliverables	(70)	–	–	(70)
Derivatives	(3,215)	(5,087)	–	(8,302)
Total financial liabilities	<u>(3,285)</u>	<u>(5,087)</u>	<u>–</u>	<u>(8,372)</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise quoted equity securities and exchange traded derivatives classified as financial assets designated at fair value through profit or loss, or held for trading.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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. Instruments included in level 2 comprise over-the-counter derivatives and the Group's investment in a limited partnership that invests in exchange traded and over-the-counter derivatives.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. For the Group's ERPA valuation model, as disclosed in note 7, the inputs include adjustments to the carbon credit delivery volumes within each contract by using a risk adjustments factors that take into account (i) project technology, (ii) the CDM status and project finance, and (iii) the development and construction status. The assumptions for the Group's investments in unquoted equity securities have a wide range of estimates and accordingly the range of reasonable fair value estimates is significant. Instruments included in level 3 comprise the Group's ERPA valuation, and the value of the Group's investments in unquoted equity securities (private equity investments).

Notes to the financial statements (continued)

The table below presents the changes in level 3 instruments for the year ended 30 June 2011.

	<i>2011</i> <i>GBP '000</i>
Opening balance	156,626
Net change in financial assets and liabilities at fair value through profit or loss	(38,210)
Currency translation difference	2,745
Transfer to level 3	2,476
Transfer in through business combinations	1,903
Transfer out through business combinations	(17,911)
Closing balance	<u>107,629</u>

Transfers out through business combinations relate to the acquisitions of Element Markets LLC (GBP 16,840,000) and Asia Biogas Singapore Pte Limited (GBP 1,071,000).

The following table presents the changes in level 3 instruments for the year ended 30 June 2010. There were no transfers between levels during the year.

	<i>2010</i> <i>GBP '000</i>
Opening balance	174,046
Net change in the financial assets and liabilities at fair value through profit or loss	(24,863)
Currency translation difference	7,443
Closing balance	<u>156,626</u>

The analysis of the movements in 2010 has been restated on a basis consistent with 2011.

5. Investment Adviser, administration and custodian fees

Investment Adviser fees

On 25 August 2010, the Company entered into a deed of variation with EEA Fund Management Limited (“EEA”) to vary the terms in the Investment Advisory Agreement. The deed of variation was subsequently approved in the extraordinary general meeting held on 13 September 2010 and was effective from 1 July 2010. The new Investment Advisory agreement terms are summarized below:

- EEA foregoes payment of the remainder of the amended 2008 performance fee earned in 2008 which amounted to approximately GBP 23,700,000 on a discounted basis at 30 June 2010. This amount is now released and recorded as a credit to performance fees in the statement of comprehensive income for the twelve months to 30 June 2011.
- The previous Investment Advisory fee of 1.5 per cent. of the gross asset value of the Group’s investment portfolio payable quarterly in arrears was replaced, with effect from 1 July 2010, by a fixed fee of GBP 6,000,000 per annum payable quarterly in arrears (which may be subject to increase as set out in the agreement). Investment Advisory fees for the twelve months to 30 June 2011 were GBP 6,000,000.
- For the period up to 31 December 2012, EEA is entitled to a performance fee of up to GBP 10,000,000 in aggregate which will become payable to EEA based on (subject to exceptions) realised and received returns to the Company’s shareholders during the calculation period of between 150 and 230 pence per Ordinary Share to be calculated on a linear basis. Interim installments of the new performance fee may be paid to the Investment Adviser as at 31 December 2011 where the actual returns to shareholders at such dates satisfy the relevant performance criteria.

Trading Emissions PLC

Notes to the financial statements (continued)

- The payment of the performance and Investment Advisory fees may be accelerated, *inter alia*, in the event of a takeover or an insolvency event or an early termination of the Investment Advisory Agreement.

The new Investment Advisory Agreement will terminate on 31 December 2012.

No performance fees under the terms of the new Investment Advisory agreement have been triggered or paid as at 30 June 2011.

Administration fees

Chamberlain Fund Services Limited ('Chamberlain') receives an administration fee payable quarterly in arrears at a rate of 0.10 per cent. per annum of the Company's net asset value subject to a minimum of GBP 30,000 per annum or *pro-rata* for any period less than one year.

Chamberlain has entered into a sub-administration agreement with the Company and IOMA Fund and Investment Management Limited ('IOMAFIM'), a related party (see note 35) whereby Chamberlain has delegated certain administration functions to IOMAFIM. IOMAFIM is remunerated for these services by Chamberlain out of the administration fee which Chamberlain receives from the Company.

The administration agreement is terminable *inter alia* by either of the parties giving not less than six months notice.

Administration fees for the year ended 30 June 2011 were GBP 414,000 (2010: GBP 298,000) of which GBP 116,000 was accrued at 30 June 2011 (2010: GBP 86,000). Administration fees have increased in the period due to the payment of an additional administration fee of GBP 60,000 paid as a result of additional transactions occurring in the period.

Custodian fees

The Company has engaged the services of Cenkos Channel Islands Limited ("the Custodian") for the provision of custodian services.

6. Directors' fees

	<i>Company 2011 GBP '000</i>	<i>Company 2010 GBP '000</i>
The Company's Directors received the following fees:		
Neil David Eckert	40	40
Malcolm John Gillies	35	35
Bertrand Rassool	30	30
Philip Peter Scales*	5	5
Nigel Harley Wood*	35	35
Charles Peter Arthur Vanderpump*	35	38
	<hr/> 180	<hr/> 183

* Isle of Man resident directors.

In addition to their directors' fees, the amounts above include annual fees of GBP 5,000 each payable to Messrs Wood, Vanderpump and Gillies as members of the audit committee. In 2010 the Board of Directors approved a one off payment of GBP 10,000 to Mr. Wood and GBP 50,000 to Mr. Gillies in addition to the amounts disclosed above for additional work carried out during the proposed merger with Leaf Clean Energy Company. None of the Directors are entitled to any cash or non-cash benefits in kind, pensions, bonus or share scheme arrangements. The Directors are related parties and further disclosures regarding transactions with Directors have been made in notes 34 and 35.

Notes to the financial statements (continued)

7. Critical accounting estimates and judgements

The carrying value of assets, liabilities and contingent liabilities in the financial statements depends on the use of estimates and judgements.

Estimates and judgements are continually 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) *Financial assets at fair value through profit or loss*

(i) *ERPA contracts and their underlying carbon credits delivery*

ERPA valuation model

In determining the fair value of ERPA contracts, the Directors have developed a valuation model which takes the contracted value of the Group's completed contracts at each period end and adjusts the carbon credit delivery volumes within each contract by a risk adjustment factor that takes into account, (i) project technology, (ii) the CDM status and project finance, and (iii) the development and construction status. The risk adjusted volumes are then valued using IntercontinentalExchange (ICE) CC prices at each period end for settlement in December 2008 – 2013. Estimated cash flows have been discounted at a rate of 10 per cent. (2010: 10 per cent.) to determine the net present value of each ERPA contract.

The Group has entered into ERPA contracts for the acquisition of post 2012 CCs generated from pre-2012 CDM projects. These CCs fall within the first crediting period of the project. In the ERPA valuation as of 30 June 2011, 2013 CERs are valued by reference to the ICE CC prices as at that date, also as the Group has determined that there is a robust, liquid market for 2013 CCs. Post-2013 CERs are fair valued at EUR 7 each (2010: all post 2012 CCs were valued at EUR 7). This unit price is considered fair based on the fact that there is a market for such CCs at this price.

Changes in the risk adjustment assumptions and the cash flow discount rate assumptions used within the ERPA valuation model together with the market for carbon credits will affect the reported fair value of the ERPA contracts at each period end.

A financial instrument is defined in IAS 32 as any contract that gives rise to a financial asset of one entity (effectively the contractual right to receive cash or another financial asset from another entity) and a financial liability (effectively the contractual obligation to deliver cash or another financial asset to another entity) or equity instrument (effectively a residual interest in the assets of an entity) of another. IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (carbon credit prices, foreign exchange rates, interest rates and equity prices) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis discloses the effect on the Group's profit or loss at 30 June 2011 assuming that a reasonably possible change in the relevant risk variable had occurred at 30 June 2011 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in the risk variables on the Group's profit or loss. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on 30 June 2011 balances and on the basis that the balances and the proportion of financial instruments in foreign currencies at 30 June 2011 are all constant. Excluded from this analysis are all non-financial assets and non-financial

Notes to the financial statements (continued)

liabilities. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling.

The sensitivity analysis provided is hypothetical only and should be used with caution as the effects provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of carbon credit and assets and liabilities denominated in a currency other than the functional currency changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear.

In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group.

A discount rate of 10 per cent. has been applied to the cash flows within the ERPA valuation model at 30 June 2011 (2010: 10 per cent.). If the discount rate used in the ERPA valuation model was 1 per cent. higher or lower, the value of the Group's ERPAs would have been lower by GBP 746,000 (2010: GBP 1,681,000), or higher by GBP 764,000 (2010: GBP 1,743,000), respectively.

If the market price applied to the ERPA valuation model at 30 June 2011 was 10 per cent. or 30 per cent. higher the fair value of the Group's ERPAs would have increased by GBP 19,902,000 (2010: GBP 23,242,000) and GBP 59,545,000 (2010: GBP 69,725,000), respectively. If the market price applied was 10 per cent., 30 per cent. or 40 per cent. lower the fair value of the Group's ERPAs would have decreased by GBP 19,780,000 (2010: GBP 23,242,000), GBP 59,422,000 (2010: GBP 69,733,000) and GBP 79,324,000 (2010: 40 per cent. sensitivity not applied), respectively.

If the foreign exchange rates used in the ERPA valuation model at 30 June 2011 had seen GBP strengthen by 10 per cent. against EUR and USD then the value of the Group's ERPA's would have decreased by GBP 5,745,000 (2010: GBP 6,128,000). If the foreign exchange rates in use at 30 June 2011 had seen GBP weaken by 10 per cent. against EUR and USD then the value of the Group's ERPAs would have increased by GBP 5,715,000 (2010: GBP 7,663,000).

HFC-23 projects: post-2012 project eligibility

The European Parliament has voted to ban the use of carbon credits generated from HFC-23 CDM projects in Phase 3 of the EU's Emissions Trading Scheme, starting in May 2013. There is also significant debate at the UN level as to whether these credits should be allowable under the UNFCCC protocols for use in other emissions trading schemes. There is therefore significant uncertainty in the eligibility of HFC-23 generated credits post-2012. This demand uncertainty could materially impact the future value of HFC-23 generated CERs in the portfolio, and therefore the price assumptions used for HFC-23 post 2012 CERs are different to non HFC-23 post 2012 CERs. The Company has taken the view that post 2012 HFC-23 CERs are "lower quality" CERs and has valued them at a spread below other CERs in the portfolio, being EUR 7 for 2013 CERs and EUR 3.50 for post 2013 CERs. The value of the post 2012 HFC-23 CERS currently included in the ERPA valuation model is a GBP 955,000 credit.

The Company has refined its prior year methodology, which assumed a price of EUR 7 for all CER volumes realised after 2012 (i.e. delivered from 1 May 2013), as a result of market and regulatory changes. These present new cut-off risks.

Notes to the financial statements (continued)

The Company considers the market for December 2013 CERs relatively liquid and has valued these credits using the forward price curve. However a cut-off risk remains for December 2014 credits. The Company considers the market for these credits to have lower liquidity as traded volumes (on the ICE exchange) have not been significant. Credits not issued prior to the end of April 2014 have been valued at the lower price of EUR 7/CER, rather than the prevailing December 2013 price.

The company holds two significant contracts relating to HFC-23 projects. From 1 May 2013, HFC-23 credits will not be eligible for use for compliance in the EU ETS and therefore the Company has priced these at a discount to the non-HFC-23 CERs. This is to take account of the future uncertainty of demand (and supply) of these credits. Based on current performance of the CDM EB, the Company currently assumes that it takes 5 months from the end of monitoring to issuance of credits. So the latest monitoring report for a project would need to be issued by 30 November 2012 for the credits to be issued prior to the end of April 2013. Credits generated in the month of December 2012 might only be issued after the cut-off date and so have been valued at the price of EUR 7/CER, rather than the prevailing December 2012 price for CERs. Credits delivered from 1 May 2014 onwards have been valued at the price of EUR 3.50/CER, reflecting a consistent discount to the non-HFC-23 CERs.

If the assumption is used that issuances in use at 30 June 2011 are pushed out by a further three months (eg from 5 months to 8 months), then the value of the Group's financial assets and financial liabilities at fair value through profit or loss would have decreased by GBP 2,445,000 with a corresponding increase in the unrealised loss in the statement of comprehensive income.

Inventory

If the market price applied to the Group's portfolio of carbon credits included in the inventory at fair value less cost to sell had been 10 per cent. or 30 per cent. higher than the fair value of these assets and liabilities would have increased by GBP 4,690,000 (2010: GBP 4,407,000) and GBP 14,070,000 (2010: 30 per cent. sensitivity not applied) respectively, with a corresponding increase in the unrealised gain in the statement of comprehensive income. If the market price applied to the Group's portfolio of carbon credits in the inventory costs to sell had been 10 per cent., 30 per cent., or 40 per cent. lower than the fair value would have decreased by GBP 4,690,000 (2010: GBP 4,407,000), GBP 14,070,000 (2010: 30 per cent. sensitivity not applied) and GBP 18,761,000 (2010: 40 per cent. sensitivity not applied) respectively.

(ii) *Fair value of OTC derivatives*

The Group may from time to time hold financial instruments that are not quoted in active markets, such as OTC derivatives. Fair values of such instruments are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and reviewed by experienced personnel. Models are calibrated by back-testing to actual transactions to ensure that the outputs are reliable. Changes in assumptions will affect the reported fair value of OTC derivatives.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Directors to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(b) *Estimated impairment of goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill arising on the acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Notes to the financial statements (continued)

Goodwill has to be allocated to cash-generating units and tested for impairment once a year. Impairment losses are recognised when the carrying amount of the cash-generating unit exceeds the recoverable value. Impairment testing relies upon long-term cash flow projections based on economic trends and market opportunity. Bespoke discount rates for each cash-generating unit are derived based on the Group weighted average cost of capital in which the capital asset pricing model plays an important role. The WACC is made up of the risk-free rate, the beta of the Trading Emissions PLC shares as well as assumptions as to spread for credit risk and the market risk premium for the cost of equity.

Impairment losses are not reversed. Goodwill has been allocated for impairment testing purposes to the following two cash-generating units:

- Korat Waste to Energy Co. Ltd
- Environmental Credit Corporation (“ECC”)

Key assumptions used in the value in use calculations are as follows:

Korat Waste to Energy Co. Ltd

The carrying value of goodwill with respect to Korat Waste to Energy Co. Ltd (“Korat”) is GBP 1,243,000 at 30 June 2011.

The recoverable amount of the Korat cash generating unit (“CGU”) has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a 2.5 year period being the duration of the Build Operate Transfer contract.

The discount rate applied to cash flow projections is 10 per cent.; given the low risk profile of Korat, this is considered an appropriate discount rate.

Sensitivity to changes in assumptions:

The calculation of value in use for Korat is most sensitive to the following assumption:

Discount rate	discount rate reflects the weighted average cost of capital of the Group adjusted for appropriate risk.
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Management have considered the following sensitivities of note:

Discounted cash flow value	The value in use calculation considers a discount rate in line with the weighted average cost of capital of the Group adjusted for appropriate risk. Management is confident that the current forecast is achievable but should this assumption increase to 17.5 per cent., the value in use would equal the carrying amount.
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Environmental Credit Corporation (“ECC”)

The carrying value of goodwill with respect to ECC is GBP 1,590,800 at 30 June 2011.

The recoverable amount of the ECC unit has been determined based on a value in use calculation using cash flow projections based on a financial budget covering a 9 year period.

The discount rate applied to cash flow projections is 18 per cent., given the higher risk profile of ECC this is considered an appropriate discount rate.

Sensitivity to changes in assumptions:

Notes to the financial statements (continued)

The calculation of value in use for ECC is most sensitive to the following assumptions:

Discount rates	discount rates reflect the weighted average cost of capital of the Group adjusted for appropriate risk.
AB 32 credits receivable	The cash flow forecast assumes that the AB 32 carbon credits will be receivable.

Management have considered the following sensitivities of note:

Discounted cash flow value	The value in use calculation considers a discount rate in line with the weighted average cost of capital of the Group adjusted for appropriate risk. Management is confident that the current forecast is achievable, if these discount rates were flexed by 10 per cent., there would not be any impairment to goodwill.
AB 32 credits receivable	The goodwill valuation model only includes income to be received from the sale of Climate Action Reserve credits which are to be traded in the Californian climate market under the California Air Resource Board (“CAR”). Unlike previous years the value of Chicago Climate Exchange (“CCX”) is not included in the cash flow.

The AB 32 price used in the discounted tax flow for 2011 is USD 8.49. This is a weighted average between credits that are currently allowable under AB 32 – the Californian climate legislation and those credits to be received from projects that are not currently allowed under AB 32 (“Non-Compliance”). If these non AB 32 credits were not allowable, there would not be any effect on the goodwill.

(c) ***Impairment tests***

The Group tests annually whether any of its investments in subsidiaries have suffered any impairment in accordance with the accounting policy stated in note 2.7. The Group also tests annually whether any of its intangible assets, property, plant and equipment or goodwill have suffered any impairment. The Group also monitors for any triggering events which may result in impairments on the relevant assets.

This determination of impairments requires significant judgement. In making this judgement the Group evaluates, amongst other factors, the financial health of and the short-term business outlook for the subsidiary, including its performance against its business plan, factors such as industry and sector performance, operating and financing cash flows.

If any significant indicators of impairment are identified, the Group uses valuation techniques (for example, discounted cash flow, price earnings, and net asset multiple models) taking into consideration comparable recent arm’s length transactions in order to determine the amount of any impairment. The Group uses its judgement to select the valuation method (typically the method used to determine the original purchase decision) and assumptions which are based on market conditions existing at each reporting date. Changes in expected future cash flows, discount rates and expense assumptions will affect the carrying value of investments in subsidiaries at each reporting date.

Notes to the financial statements (continued)

8. Impairment and other charges

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Impairment of investment in subsidiaries	–	9,917	–	6,542
Fair value adjustment arising on business combinations (note 36)	7,318	–	–	–
Impairment of intangible assets	762	–	–	–
Impairment of loans and receivables	–	12,155	878	8,854
Impairment of trade and other receivables	1,650	705	–	2,294
Impairment of property, plant and equipment	11,121	–	1,925	–
	<u>20,851</u>	<u>22,777</u>	<u>2,803</u>	<u>17,690</u>

(i) *Carbon Capital Markets Ltd*

Following a shift amongst EU Emissions Trading Scheme (ETS) SME market participants towards exchange trading in preference to over-the-counter transactions, CCM pulled out of the EU ETS market making business for SMEs, as did other businesses in the sector. As a result of this change in business strategy an impairment charge against the following balances was recognised in Company's statement of comprehensive income; the carrying value of the subsidiary's ordinary shares of GBP 188,000 (2010: GBP 3,829,000) and the carrying value of trade and other receivables of GBP nil (2010: GBP 60,000). This investment is included within the Company's private equity investment segment. Recoverable amounts have been reduced to net asset value.

(ii) *Sun Biofuels Limited*

Given the Company's revised investment policy to optimize the realised value of the business in the short to medium term, the Board of Directors has taken the decision not to fund Sun Biofuels Limited ("SBF") any further as value creation in this business was a long term project. As a result of this, impairment charges against the carrying value of SBF's property, plant and equipment as well as its loans and receivables balances of GBP 5,757,000 and GBP 1,015,000 respectively have been recognised in the Group's statement of comprehensive income in 2011. The carrying value of the loan receivables in respect of investment in Sun Biofuels Limited and trade and other receivables have been impaired by GBP 11,057,000 and GBP 228,000 in the Company's statement of comprehensive income in 2011. This investment is included within the Company's private equity investment segment. Recoverable amounts are based on the Administrators' report.

(iii) *Asia Biogas Singapore Pte Limited ("ABS") – South East Asia*

ABS Group was reorganised during the year with a view for an exit by the end of 2012. As a result of this restructuring the Company performed a fair value exercise which identified that the carrying value of certain subsidiaries were impaired. The Group has recognised impairment charges of GBP 1,571,000, GBP 2,292,000, GBP 706,000, and GBP 481,000 with respect to property, plant and equipment for Hacienda Bio-Energy, Swine Waste to Energy, Kalasin Waste to Energy and Magallanes Bio-Energy respectively. In addition trade and other receivables and intangible assets amounting to GBP 635,000 and GBP 159,000 respectively within ABS were also identified as impaired. These investments are included within the Company's private equity investment segment. Recoverable amounts are based on discounted cash flows applying a discount factor of 15 per cent.

The Company has recognised an impairment charge of GBP 240,000 with regard to its investment in subsidiaries for Kalasin Waste to Energy. In addition, trade and other receivables amounting to GBP 2,520,000 within ABS were also identified as impaired. These investments are included within the Company's private equity investment. Recoverable amounts are based on discounted cash flows.

Notes to the financial statements (continued)

During the year, an assessment of ABS's cash flow projections was undertaken, as a result of this assessment an impairment charge against the carrying value of the investment in subsidiary of GBP 9,729,000 was made in the Group's statement of comprehensive income at the date of acquisition. Recoverable amounts are based on discounted cash flows applying a discount factor of 15 per cent.

(iv) ***Electricidad Andina SA***

During the year Electricidad Andina participated unsuccessfully in a tender to sell power under a long term contract. A long term contract is required in order to move forward with project finance for construction. As a result of the cancellation of Electricidad Andina's concession post year end, an impairment charge against the carrying value of Electricidad Andina's property, plant and equipment of GBP 342,000 and the intangible asset of GBP 603,000 has been recognised in the Group's statement of comprehensive income in 2011. The carrying value of the loan receivable in respect of the Company's investment in Electricidad Andina's parent company, Santa Rita LP has been impaired by GBP 1,098,000 in the Company's statement of comprehensive income in 2011. This investment is included within the Company's private equity investment. Recoverable amounts are based on discounted cash flows applying a discount factor of 12 per cent.

(v) ***Element Markets LLC***

On 22 June 2011, the Group achieved control of Element Markets. In accordance with IFRS 3 (2008) revised, the Group re-measured the fair value of its previously held interest and recognised a loss of GBP 7,300,000 (see note 36).

(vi) ***Zybranka***

As a result of the restructuring of the Company's subsidiary Carbon Capital Markets Limited ("CCM"), CCM's investment in Zybranka was written down by GBP 878,000 in 2010. This investment is included within the Company's private equity investment. Recoverable amounts are based on discounted cash flows.

(vii) ***Environmental Credit Corporation LLC***

The carrying value of the loan receivable and trade and other receivables were impaired by GBP 322,000 (2010: GBP 1,664,000) and GBP nil (2010: GBP 2,230,000) respectively in the Company's statement of comprehensive income in 2011. Recoverable amounts are based on discounted cash flows applying a discount factor of 17.5 per cent.

(viii) ***TEP Holding Luxembourg S.a.r.l***

The carrying value of the loan receivable was impaired by GBP 155,000 in the Company's statement of comprehensive income in 2011. Recoverable amounts are based on discounted cash flows applying a discount factor of 10 per cent.

Trading Emissions PLC

Notes to the financial statements (continued)

9. Other expenses

	<i>2011</i>	<i>2010</i>
	<i>GBP '000</i>	<i>GBP '000</i>
Administration expenses – subsidiaries	1,982	2,925
Professional fees	4,438	1,838
Project registration costs	974	1,638
Other expenses	5,410	2,633
Directors' fees and insurance	246	234
Pledge guarantee costs	61	71
Travel	485	379
Bank interests and charges	49	152
Membership fees	20	65
Commission payable and Bid bonds	86	313
Merger related expenses*	–	689
Auditor's remuneration:		
Audit of the Group's annual financial statements – current year	250	175
Audit of the Group's annual financial statements – prior year	75	40
Other services:		
Fees payable for the company's subsidiaries pursuant to legislation	16	28
Other services provided pursuant to such legislation	35	24
Services relating to taxation		
– Compliance services	7	–
– Advisory services	8	–
	<u>14,142</u>	<u>11,204</u>

* Merger related expenses include non-audit services of GBP 300,000 provided by PricewaterhouseCoopers LLP in connection with the unsuccessful merger between the Company and Leaf Clean Energy Company.

10. Finance income – net

	<i>Group</i>	<i>Group</i>
	<i>2011</i>	<i>2010</i>
	<i>GBP '000</i>	<i>GBP '000</i>
Finance income		
Income arising from cash deposits	903	2,001
Loan interest income	1,005	1,449
	<u>1,908</u>	<u>3,450</u>
Finance costs		
Interest on bank loans and other loans	(912)	–
Unwinding of discount on provisions	(326)	(917)
	<u>(1,238)</u>	<u>(917)</u>
Net finance income	<u>670</u>	<u>2,533</u>

Notes to the financial statements (continued)

11. Taxation

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

	<i>Group</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000
Current tax	(609)	393
Deferred tax (note 25)	1,376	260
Withholding tax	263	–
Tax credit	<u>1,030</u>	<u>653</u>

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

	<i>Group</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000
Loss before tax	<u>(26,882)</u>	<u>(29,876)</u>
Tax calculated at domestic rates applicable to (Loss)/profit in respective countries	14,521	3,701
Tax losses for which no deferred tax asset was recognised	(14,016)	(3,048)
Income not taxable in jurisdiction	525	–
Tax credit	<u>1,030</u>	<u>653</u>

The weighted average applicable tax rate was 12.64 per cent. (2010: 8.10 per cent.). The difference in rate from 2010 is due to acquisitions made in the year.

There have been no changes in the applicable tax rates in any of the countries in which the Group operates.

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

12.1 Non-current financial assets at fair value through profit or loss

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Designated at fair value through profit or loss:				
Unquoted equity securities	62,103	214	80,745	190
Held for trading:				
Derivatives				
– ERPA	26,951	26,861	59,548	59,422
– CC forward swap contracts	900	900	2,208	2,208
– Interest rate swap	355	–	–	–
Total non-current financial assets at fair value through profit or loss	<u>90,309</u>	<u>27,975</u>	<u>142,501</u>	<u>61,820</u>

Notes to the financial statements (continued)

12.2 *Current financial assets at fair value through profit or loss*

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Designated at fair value through profit or loss:				
Unquoted equity securities	1,833	1,780	370	–
Held for trading:				
Quoted equity securities held for trading	–	–	475	475
Derivatives				
– ERPA	27,180	26,598	24,588	24,020
– Short ICE CO2 instruments	12,707	12,707	20,422	20,422
– Renewable Energy Credit contracts	1,123	–	–	–
– Forward foreign exchange contracts	–	–	3,146	3,146
– CC forward swap contracts	386	386	403	403
Total held for trading	41,396	39,691	49,034	48,466
Total current financial assets at fair value through profit or loss	43,229	41,471	49,404	48,466

12.3 *Current financial liabilities at fair value through profit or loss*

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Held for trading:				
Derivatives				
– Short CCX Certified Carbon Credit Call Option	(5)	–	(15)	–
– Short ICE CER Call Options	(391)	(213)	(706)	(631)
– Short OTC CER/EUA instruments	–	–	(1,534)	–
– CC forward swap contracts	(3,568)	(2,772)	(2,985)	(2,985)
– Short ICE CO2 instruments	–	–	(951)	(872)
– Forward foreign exchange contract	(976)	(976)	–	–
– REC and carbon futures	(89)	–	–	–
Total held for trading	(5,029)	(3,961)	(6,191)	(4,488)
Total current financial liabilities at fair value through profit or loss	(5,029)	(3,961)	(6,191)	(4,488)

Notes to the financial statements (continued)

12.4 *Non-current financial liabilities at fair value through profit or loss*

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Held for trading:				
– Carbon credit deliverables	(7)	–	(70)	–
Derivatives				
– Short CCX Certified Carbon Credit Call Option	–	–	(9)	–
– CC forward swap contracts	(870)	(870)	(2,102)	(2,102)
Total held for trading	<u>(877)</u>	<u>(870)</u>	<u>(2,181)</u>	<u>(2,102)</u>
Total non-current financial liabilities at fair value through profit or loss	<u>(877)</u>	<u>(870)</u>	<u>(2,181)</u>	<u>(2,102)</u>

12.5 *Net change in fair value of financial assets and financial liabilities at fair value through profit or loss*

	<i>Group</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000
Designated at fair value through profit or loss:		
– Realised gains	–	–
– Unrealised gains	–	1,068
Net gains	<u>–</u>	<u>1,068</u>
Held for trading:		
– Realised gains	16,499	6,938
– Unrealised losses	(38,896)	(31,312)
Net losses	<u>(22,397)</u>	<u>(24,374)</u>

13. Derivative financial instruments

As of 30 June 2011 the Group has positions in futures and swaps contracts.

(a) *Futures*

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities; changes in futures contracts' value are settled daily with the exchange.

The Group enters into exchange traded CC futures contracts. CC futures are contractual obligations to receive or pay a gross amount based on changes in the price of CC's at a future date at a specified price established in an organised financial market. It is the Group's intention to physically settle its short futures from its portfolio of CC's.

(b) *Swaps*

In general a swap is a contract for the exchange of one asset or liability for a similar asset or liability for the purpose of lengthening or shortening maturities, or raising or lowering coupon rates, to maximize revenue or minimize financing costs. This may entail selling one securities issue and buying another in foreign currency; it may entail buying a currency on the spot market and simultaneously selling it forward. Swaps also may involve exchanging income flows; for example, exchanging the

Notes to the financial statements (continued)

fixed rate coupon stream of a bond for a variable rate payment stream, or *vice versa*, while not swapping the principal component of the bond. Swaps are generally traded over-the-counter.

(c) *Options*

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a specific date or during a specific period, a specified amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of the future securities price.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and do not therefore indicate the Group's exposure to credit or market price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices or interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

	2011		2010	
	<i>Contractual/ notional amount '000</i>	<i>Fair value GBP '000</i>	<i>Contractual/ notional amount '000</i>	<i>Fair value GBP '000</i>
Current and non-current derivative contract assets				
– ERPA	EUR 174,317 USD 11,717 & THB 53	54,131	EUR 205,019 & USD 32,942	84,136
– Short ICE CO ₂ instruments	EUR 29,398	12,707	EUR 61,419	20,422
– Short ICE CO ₂ instruments	USD 2,190	1,123	–	–
– Forward foreign exchange contract	–	–	EUR 45,000	3,146
– CC forward swap contracts	EUAs 104	1,286	EUAs 203	2,611
– Interest rate swap	EUR 27,636	355	–	–
		69,602		110,315
Less non-current position:				
– ERPA	EUR 106,025 USD 7,860 & THB 53	26,951	EUR 162,895 & USD 20,874	59,548
– CC forward swap contracts	EUAs 32	900	EUAs 118	2,208
– Interest rate swap	EUR 27,636	355	–	–
Current position		41,396		48,559

Notes to the financial statements (continued)

	2011		2010	
	<i>Contractual/ notional amount '000</i>	<i>Fair value GBP '000</i>	<i>Contractual/ notional amount '000</i>	<i>Fair value GBP '000</i>
Current and non-current derivative contract liabilities				
– Short CCX Certified Carbon Credit Call Option	CC's 12	5	USD 10,126	6
– Short ICE CER Call Options	EUR 1,935	391	EUR 1,230	706
– Short OTC CER/EUA instruments	–	–	EUAs 64 CERs 202 EUR 441	1,534
– CC forward swap contracts	CERs 623	4,438	CERs 854	5,098
– Long ICE CER instruments	–	–	EUR 1,661	29
– Short ICE CO ₂ instruments	–	–	EUR 4,212	929
– Forward foreign exchange contract	EUR 15,000	976	–	–
–REC and carbon futures	USD 589	89	–	–
		<u>5,899</u>		<u>8,302</u>
Less non-current portion:				
– CC forward swap contracts	CERs 276	870	CERs 565	2,102
– Short CCX Certified Carbon Credit Call Option	–	–	EUR 10,126	9
Current position		<u>5,029</u>		<u>6,191</u>

14. Loans and receivables

The Group and the Company have entered into the following loans:

	<i>Group 2011 GBP '000</i>	<i>Company 2011 GBP '000</i>	<i>Group 2010 GBP '000</i>	<i>Company 2010 GBP '000</i>
Non-current				
Loans to subsidiaries and subsidiary undertakings				
TEP Asia Limited	–	–	–	8,405
Clean Energy Asia Limited	–	–	–	2,625
Billiter Energy Corporation	–	29,901	–	20,074
Santa Rita Limited Partnership	–	12,935	–	5,863
Environmental Credit Corporation	–	1,839	–	1,079
Sun Biofuels Limited	–	–	–	6,691
TEP (Solar Holdings) Limited	–	–	–	5,403
TEP (Renewables Holding) Limited	–	9,223	–	–
Asia Biogas Singapore	–	3,115	–	–
Other loans and receivables				
Alto Tiete Biogas	–	–	897	897
Loan notes issued by Group companies	520	–	192	–
	<u>520</u>	<u>57,013</u>	<u>1,089</u>	<u>51,037</u>

Notes to the financial statements (continued)

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Current				
Loans to subsidiaries and subsidiary undertakings				
Kalasin Waste to Energy Co., Ltd.	–	–	–	627
Billiter Energy Corporation	–	–	–	12,044
TEP Asia Limited	–	133	–	–
Sun Biofuels Limited	–	311	–	–
Other loans and receivables				
Alto Tiete Biogas	1,361	1,361	–	–
LLP Enterprises	–	–	5,353	–
Element Markets LLC	–	–	6,691	–
JAC	311	311	–	–
Loan notes issued by Group companies	6	–	3	–
	<u>1,678</u>	<u>2,116</u>	<u>12,047</u>	<u>12,671</u>
Total loans and receivables	<u>2,198</u>	<u>59,129</u>	<u>13,136</u>	<u>63,708</u>

TEP Asia Limited

On 1 July 2010, the Company had an outstanding loan balance of GBP 8,405,000 with TEP Asia Limited. During the year, the Company merged its biogas interests in Asia into Asia Biogas Singapore Pte Limited, a new intermediate holding company. The outstanding loan with TEP Asia Limited was exchanged for equity in Asia Biogas Singapore Pte Limited. See note 36 for further detail.

A residual balance of GBP 133,000 remains outstanding at 30 June 2011.

Clean Energy Asia Limited

On 1 July 2010, the Company had an outstanding loan balance of GBP 2,625,000 with Clean Energy Asia Limited. During the year, the Company merged its biogas interests in Asia into Asia Biogas Singapore Pte Limited. The outstanding loan with Clean Energy Asia Limited exchanged for equity in Asia Biogas Singapore Pte Limited. See note 36 for further detail.

Billiter Energy Corporation, Element Markets LLC & LLP Enterprises

On 25 July 2007, the Company entered into a loan agreement with Billiter Energy Corporation, advancing USD 30,000,000 (GBP 20,074,000). The loan is unsecured and interest free.

On 16 June 2009 the Company entered into a further loan agreement with Element Markets advancing USD 10,000,000. On 1 January 2011 this loan plus accrued interest of USD 400,000 was converted into 1,305,147 membership units in Element Markets, which increased the Group interest in Element Markets from 21.7 per cent. to 28.1 per cent.

On 12 October 2009 the Company entered into a loan agreement with Billiter Energy Corporation for USD 8,000,000. This loan was used by Billiter Energy Corporation to provide a secured loan facility to LLP Enterprises. This loan was secured against convertible membership units in Element Markets. On 28 October 2010 the Group received a payment of USD 1,591,000 from LLP Enterprises representing the total interest that had accrued on the facility. The Group entered into negotiations with LLP Enterprises to secure the repayment of the principal balance. On 22 June 2011 the Group agreed a settlement with LLP Enterprises, whereby the loan principal of USD 8,000,000 plus accrued interest of USD 837,000 were satisfied by the transfer of 3,693,435 membership units in Element Markets previously held by LLP Enterprises. This resulted in the Group interest in Element Markets increasing to 51.2 per cent. Control of Element Markets

Notes to the financial statements (continued)

was achieved at this point and the transaction was accounted for as a control achieved in stages acquisition in accordance with IFRS 3 (revised) (see note 36).

Santa Rita Limited Partnership

On 26 January 2011 the Company entered into a facility agreement with Santa Rita Limited Partnership (“Santa Rita”) for USD 13,000,000 which was to be lent to Electricidad Andina SA (“EA”). EA used the loan to put up a bond which was required as part of the power purchase agreement in which EA was participating. The loan was interest free, unsecured and repayable on demand. At 30 June 2011 the full USD 13,000,000 had been drawn down. On 4 July 2011, USD 12,750,000 was repaid by EA to Santa Rita which was then repaid to the Company by Santa Rita.

During the 2011 financial year the Company advanced USD 663,000 (GBP 476,000) to Santa Rita. The total advanced at 30 June 2011 (including the USD 13,000,000 bond) was USD 22,525,000 (GBP 14,032,000). The loan is unsecured and interest free. This loan has been impaired by GBP 1,097,000 in the current year (see note 8).

Environmental Credit Corporation. (ECC)

The convertible promissory note (“PN”) which the Company entered into with ECC on 19 November 2008 for USD 1,000,000 was amended in August 2010, September 2010 and December 2010. The amended terms increased the principal of the PN to USD 6,185,000 (GBP 3,852,862) and amended the conversion price. The PN had previously been amended in May 2009, January 2010 and May 2010. USD 5,625,000 has been drawn down as at 30 June 2011. The PN is repayable on demand or on conversion of the PN to common shares. Interest is payable on the outstanding loan at 15 per cent. per annum.

An impairment charge of GBP 322,000 (2010: GBP 1,664,000) has been recognised by the Company during the year in relation to the PN, see note 8.

In April 2009 the Company entered into a convertible loan agreement with ECC to make a Carbon Loan facility of up to USD 5,000,000 available. The loan was used to:

- (i) refinance and replace the loan outstanding under the convertible promissory note; and
- (ii) pay for the construction of the Biogas Project in Mexico and expenses incurred by ECC in connection with the Project.

The loan is secured and is to be repaid through the delivery of CERs in accordance with the CER Loan Delivery Schedule. Under the terms of the loan agreement, interest shall accrue on the loan principal at a rate of 8 per cent. per annum.

In July 2009, ECC drew down USD 875,000 of the credit facility issued to it by the Company having reached a target of signing up projects generating 35,000 CERs. The balance of the undrawn facility expired in December 2009. The carbon loan is disclosed as a financial asset at fair value through profit or loss.

Sun Biofuels Limited

On 23 July 2009 the Company entered into a convertible loan agreement in the value of up to USD 5,000,000 with Sun Biofuels Limited to be used for the general working capital of the subsidiary as set out in the agreed business plan.

During the 2010 financial year the Company advanced USD 5,000,000 (GBP 3,346,000). The loan was unsecured, repayable on 23 July 2012 or converted into fully paid ordinary shares at an agreed conversion price on the conversion date. The interest was charged on the principle at a rate of 8 per cent. per annum.

On 26 March 2010 the Company entered into a loan agreement with Sun Biofuels Africa Ltd (UK), a wholly owned subsidiary of Sun Biofuels Limited. On 29 March 2010 the Company advanced the full amount of the loan USD 5,000,000 (GBP 3,346,000) and the loan was used by Sun Biofuels Africa Ltd (UK) for the

Notes to the financial statements (continued)

operation and development of the 5,000 ha jatropha plantation in Mozambique and the 8,000 ha jatropha plantation in Tanzania.

On 11 October 2010 the Company entered into a loan agreement with Sun Biofuels Limited, for USD 5,000,000 which was extended to USD 9,000,000 on 14 March 2011. At 30 June 2011 USD 8,250,000 had been advanced. The loan was secured and interest was payable at an annual rate of 8 per cent.

Sun Biofuels Limited was entered into administration on 10 August 2011 as disclosed in note 37. The Company considers the recoverable value of the total loans issued to Sun Biofuels Limited to be USD 500,000 (GBP 311,000) and have therefore impaired loans for a total amount of USD 17,750,000 (GBP 11,057,000) to its recoverable amount.

TEP (Solar Holdings) Limited & TEP (Renewables Holding) Limited

On 20 April 2010 the Company entered into a EUR 10,500,000 Total Return SWAP (“TRS”) agreement with TEP (Solar Holdings) Limited pursuant to which TEP (Solar Holdings) Limited acquired shares in two Polish companies, EWG Slupsk Sp. z.o.o and EWG Malechowo Sp. z.o.o., as well as debt instrument issued by EWG Slupsk Sp. z.o.o. in favour of TEP (Solar Holdings) Limited. EWG Slupsk and EWG Malechowo merged to become one entity, EWG Slupsk on 22 July 2010.

On 30 April 2010 TEP (Solar Holdings) Limited was advanced EUR 6,500,000 under the TRS for the purchase of the shares and debt of the two Polish companies and a further advance under the TRS of EUR 4,000,000 to TEP (Solar Holdings) Limited was made on 26 May 2010. On 4 June 2010, TEP (Solar Holdings) Limited returned EUR 3,900,000 under the TRS and as at 30 June 2010 the balance outstanding was GBP 5,403,000.

On 6 December 2010 the Company instructed TEP (Solar Holdings) Limited to transfer its investment in EWG Slupsk Sp z.o.o. to TEP (Renewables Holding) Limited a newly incorporated entity registered in the Republic of Ireland, which is 100 per cent. owned by the Group for EUR 6,000,000.

Asia Biogas Singapore (“ABS”)

On 18 August 2010 the Company entered into an interim loan with Asia Biogas Singapore PTE Limited. This facility carried a 10 per cent. interest rate, was unsecured and is repayable on demand. No amount was drawn down under this facility.

On 15 September 2011 the Company reorganised its Asian subsidiaries. As part of the restructuring the Company entered into a USD 5,000,000 loan agreement with ABS. This convertible loan agreement resulted in the cancellation of the interim loan. The convertible loan note is unsecured and interest is charged at 11 per cent. per annum with a maturity date of 15 September 2013. The conversion price and rights are impacted by a number of factors including additional fund raising by ABS. At 30 June 2011 the balance outstanding on the convertible loan is USD 5,653,000 (GBP 3,115,000).

Alto Tiete Biogas

On 6 April 2010 the Company entered into a EUR 1,000,000 (GBP 897,000) term loan facility under which cash advances may be made up to the cash facility limit, and a CER term facility under which 40,662 CERs shall be lent to Alto Tiete Biogas in Brazil. The loan is secured and is to be repaid through the delivery of CERs in accordance with the CER Loan Delivery Schedule. Under the terms of the loan agreement interest shall accrue on the loan principal at a rate of 10 per cent. per annum. Interest shall accrue on a daily basis and be calculated for any period on the actual number of days elapsed and on a 360 day year. The loan is expected to be repaid on 31 December 2011.

The loan to Alto Tiete Biogas (“ATB”) is past due for settlement. ATB are awaiting issuance of CERs from a CDM project before they can settle. The CDM project is currently under review by the UNFCCC. The Group expects full repayment of the loan and doesn’t consider the loan to be impaired.

Notes to the financial statements (continued)

15. Intangible assets

<i>Group</i>	<i>Goodwill</i> <i>GBP '000</i>	<i>Project development rights</i> <i>GBP '000</i>	<i>Contractual customer relationships</i> <i>GBP '000</i>	<i>Trade- marks & licences</i> <i>GBP '000</i>	<i>Computer software</i> <i>GBP '000</i>	<i>Total</i> <i>GBP '000</i>
As at 1 July 2009						
Cost	3,091	545	–	–	–	3,636
Accumulated amortisation and impairment	–	(41)	–	–	–	(41)
Net book amount	3,091	504	–	–	–	3,595
Year ended 30 June 2010						
Opening net book amount	3,091	504	–	–	–	3,595
Exchange differences	(66)	38	–	–	–	(28)
Additions	92	–	–	–	–	92
Acquisitions	–	3,902	–	–	–	3,902
Amortisation charge	–	(30)	–	–	–	(30)
Closing net book amount	3,117	4,414	–	–	–	7,531
At 30 June 2010						
Cost	3,117	4,485	–	–	–	7,602
Accumulated amortisation and impairment	–	(71)	–	–	–	(71)
Net book amount	3,117	4,414	–	–	–	7,531
Year ended 30 June 2011						
Opening net book amount	3,117	4,414	–	–	–	7,531
Exchange differences	(82)	(117)	–	–	–	(199)
Additions	–	503	–	–	–	503
Acquisitions	–	2,559	692	2,361	554	6,166
Impairment	(202)	(560)	–	–	–	(762)
Amortisation charge	–	(122)	–	–	–	(122)
Transferred to disposal group classified as held for sale	–	(3,902)	–	–	–	(3,902)
Closing net book amount	2,833	2,775	692	2,361	554	9,215
At 30 June 2011						
Cost	2,833	3,015	692	2,361	554	9,455
Accumulated amortisation and impairment	–	(240)	–	–	–	(240)
Net book amount	2,833	2,775	692	2,361	554	9,215

On 17 September 2010 the Group acquired 100 per cent. of the share capital of Solar Energy Italia 1 S.r.l. As a result of this acquisition the Group ascribed a value of GBP 2,212,000 to the permitting and project development rights to operate the 8.4MW plant for a 20 year period.

On 16 December the Group acquired 100 per cent. of the share capital of ETuno S.r.l. As a result of this acquisition the Group ascribed a value of GBP 334,000 to the permitting and project development rights to operate the 2 MW plant for a 20 year period.

Notes to the financial statements (continued)

On 22 June the Group acquired a 51.2 per cent. controlling interest in Element Markets LLC. As a result of this acquisition the Group ascribed a value of GBP 692,000 to the customer relationships, GBP 2,361,000 to the Element Markets brand name, and GBP 554,000 to computer software.

More detail on the above acquisitions is outlined in Note 36.

In March 2010 the Company acquired 100 per cent. shareholding interest of TEP (Solar Holdings) Limited, a private limited company incorporated in Ireland for the purpose of investing in environmental and renewable assets, companies providing product and services related to reduction of greenhouse gas (GHG) emissions and associated financial products. During the prior year the Group acquired a Polish entity that held rights amounting to GBP 3,902,000.

16. Property, plant and equipment

	<i>Plant and equipment GBP '000</i>	<i>Project under construction GBP '000</i>	<i>Motor vehicles GBP '000</i>	<i>Furniture and equipment GBP '000</i>	<i>Total GBP '000</i>
At 30 June 2009					
Cost	7,763	7,320	729	1,097	16,909
Accumulated depreciation	(1,628)	–	(357)	(51)	(2,036)
Net book amount	6,135	7,320	372	1,046	14,873
Year ended 30 June 2010					
Opening net book value	6,135	7,320	372	1,046	14,873
Exchange differences	636	438	(8)	(353)	713
Additions	2,912	2,590	305	990	6,797
Disposals	–	–	–	(1)	(1)
Transfer of assets	3,040	(3,040)	–	–	–
Depreciation	(1,438)	–	(194)	(99)	(1,731)
Impairment	(1,925)	–	–	–	(1,925)
At 30 June 2010	9,360	7,308	475	1,583	18,726
At 30 June 2010					
Cost	14,351	7,308	1,026	1,733	24,418
Accumulated depreciation	(4,991)	–	(551)	(150)	(5,692)
Net book amount	9,360	7,308	475	1,583	18,726
Year ended 30 June 2011					
Opening net book value	9,360	7,308	475	1,583	18,726
Exchange differences	(108)	279	(8)	28	191
Additions	23,172	1,183	88	302	24,745
Acquisitions	27,270	826	91	3,171	31,358
Transfer of assets	251	(8)	–	(243)	–
Transferred to disposal group classified as held for sale	–	(2,143)	–	–	(2,143)
Depreciation charge	(3,020)	(15)	(184)	(404)	(3,623)
Impairment charge	(8,714)	(1,783)	(363)	(261)	(11,121)
At 30 June 2011	48,211	5,647	99	4,176	58,133
At 30 June 2011					
Cost	58,899	6,131	271	6,194	71,495
Accumulated depreciation	(10,688)	(484)	(172)	(2,018)	(13,362)
Net book amount	48,211	5,647	99	4,176	58,133

Trading Emissions PLC

Notes to the financial statements (continued)

Plant and equipment includes land, which is not depreciated of GBP 1,073,000. At 30 June 2011, net property, plant and equipment held under finance leases amounted to GBP 7,934,000 (2010: GBP nil). Net property, plant and equipment of GBP 41,285,000 (2010: GBP nil) is pledged as security for financial liabilities.

17. Investment in subsidiaries

	<i>Company</i> 2011 GBP '000	<i>Company</i> 2010 GBP '000
At 1 July	44,072	50,614
Additions during the year	42,320	–
Impairments (note 8)	(9,917)	(6,542)
At 30 June	<u>76,475</u>	<u>44,072</u>

There were two additions to investment in subsidiaries during the year. Asia Biogas Singapore Pte Limited was incorporated and funded with GBP 11,797,000 of which GBP 11,540,000 was non-cash, and Surya PLC was incorporated by the Company and funded with GBP 30,523,000. An impairment to investment in subsidiaries of GBP 188,000 and GBP 9,729,000 was made in respect of Carbon Capital Markets Limited and Asia Biogas Singapore Pte Limited respectively, in the year. For further detail see note 8.

Principal subsidiary undertakings

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

<i>Name of subsidiary undertaking</i>		<i>Country of incorporation</i>	<i>% of nominal share capital</i>	<i>% voting rights held</i>
Environmental Credit Corporation	Carbon credit creator & trader	USA	77.32%	87.71%
Trading Emissions (Isle of Man) Limited	Investment holding company	Isle of Man	100.00%	100.00%
Asia Biogas Singapore Pte Limited	Investment holding company	Singapore	80.66%	80.66%
Santa Rita Limited Partnership	Investment holding limited partnership	UK	97.29%	97.29%
Trading Emissions Limited	Investment holding company	UK	100.00%	100.00%
Surya PLC	Investment holding company	Isle of Man	100.00%	100.00%
TEP Trading 1 Limited	Dormant	Isle of Man	100.00%	100.00%
TEP Trading 2 Limited	Investment holding company	Isle of Man	100.00%	100.00%
Sun Biofuels Limited	Development stage company	UK	98.25%	99.39%
Trading Emissions (Hong Kong) Ltd	Investment holding company	Hong Kong	100.00%	100.00%
Billiter Participacoes Ltda	Investment holding company	Brazil	100.00%	100.00%
Billiter Energy Corporation	Investment holding company	USA	100.00%	100.00%
Mekong Energy Developments Limited	Investment holding company	Hong Kong	90.00%	90.00%
Carbon Capital Market Limited	Trading & carbon fund management company	UK	99.89%	99.89%
TEP Holding Luxembourg S.à.r.l.	Investment holding company	Luxembourg	100.00%	100.00%
TEP (Renewables Holding) Limited	Investment holding company	Ireland	100.00%	100.00%

Environmental Credit Corporation (ECC)

The Company holds a total of 15,205,000 common shares in ECC, representing 77.32 per cent. of voting equity rights. The Company also has a holding of 2,991,000 non-voting A Preferred Stock and 9,434,000 voting B Preferred Stock giving the Company total voting rights of 87.71 per cent.

Trading Emissions (Isle of Man) Limited

On 11 October 2006 Trading Emissions (Isle of Man) Limited was appointed the general partner of Santa Rita Limited Partnership, a Scottish limited partnership (see below).

Trading Emissions PLC

Notes to the financial statements (continued)

Asia Biogas Singapore Pte Limited (“ABS”)

On 17 September 2010, the Company agreed to reorganise its interests in its Asia Biogas businesses. The Company first received 15,823,320 USD 1 shares in ABS in consideration for loans given to TEP Asia Limited and Clean Energy Asia Limited which were valued at GBP 8,405,000 and GBP 2,625,000 respectively at 30 June 2010. See note 14.

In consideration for shares held by the Company in Asia Biogas Co., Ltd, the Company received 661,755 USD 1 shares in ABS.

In consideration for shares held by the Company in Kalasin Waste to Energy Co., Ltd, the Company received 245,000 USD 1 shares in ABS.

The Company also received 1,702,000 USD 1 shares in ABS in consideration for a loan to Kalasin Waste to Energy Co., Ltd which was valued at GBP 627,000 at 30 June 2010. See note 14.

Santa Rita Limited Partnership

Santa Rita Limited Partnership (‘SRLP’) was established by a limited partnership agreement dated 20 September 2006 (amended and restated 11 October 2006). SRLP’s principal place of business is Edinburgh, Scotland and it is an investment vehicle through which the Group acquired 97.29 per cent. of the issued share capital of Electricidad Andina S.A. (‘Andina’), a company incorporated in Peru. Andina is developing a hydro-electric project in Santa Rita, Peru. Trading Emissions (Isle of Man) Limited has been appointed as the general partner of SRLP. The Company made an initial investment into SRLP of USD 3,500,000 by way of USD 35 capital and USD 3,499,965 as a loan, see note 14.

Trading Emissions Limited

Trading Emissions Limited holds certain ERPA’s that were received by the Group prior to the extension of the Kyoto Protocol by the United Kingdom to cover the Isle of Man.

Surya PLC

On 6 December 2010, the Company acquired 100 per cent. shareholding interest of Surya PLC, a company incorporated in the Isle of Man. Surya PLC through its holding in TEP (Solar Holdings) Limited, invests in environmental and renewable assets, companies providing product and services related to reduction of greenhouse gas (GHG) emissions and associated financial products.

TEP Trading 2 Limited

The Company was incorporated on 11 November 2005 in the Isle of Man. The share capital of the Company is USD 10,000,100 comprising 100 ordinary shares of USD 1 each and 10,000 redeemable preference shares of USD 0.01 issued at a price of USD 1,000 per share.

TEP Trading 2 Limited owns a limited partnership interest in a Delaware limited partnership, Chapel Street Environmental LP (the ‘Partnership’), which is managed by CK Environmental Capital Management LLC. TEP Trading 2 Limited’s interest in the Partnership is included in financial assets at fair value through profit or loss.

Sun Biofuels Limited

As at 30 June 2010, the Company held 99.39 per cent. of the voting rights (excluding the non-voting Deferred Shares) and 98.25 per cent. equity interest in Sun Biofuels Limited. Given the Company’s revised investment policy to optimize the realized value of the business in the short to medium term, the Board of Directors has taken the decision not to fund Sun Biofuels Limited (‘SBF’) any further as value creation in this business was a long term project. As a consequence of this, the Board of Directors of SBF decided to put SBF into administration on 10 August 2011.

Trading Emissions PLC

Notes to the financial statements (continued)

Billiter Participacoes Limitada

Billiter Participacoes Limitada is an investment holding company incorporated in Brazil. The Company has invested in a 25 per cent. share of Bionasa Combustivel Natural S.A., a Brazilian biodiesel production company.

Billiter Energy Corporation

Billiter Energy Corporation is an investment holding company incorporated in Delaware USA. The Company has issued unsecured, interest free, repayable on demand loans to Billiter Energy Corporation of USD 20,000,000. Billiter Energy Corporation used these funds to purchase investments to realise returns on emissions reductions credits. On 6 July and 12 October 2009, the Company lent USD 8,000,000 and USD 10,000,000 to Billiter Energy Corporation to match its further lending to LLP Enterprises and Element Markets. The loans carry interest rates of 20 per cent. and 10 per cent. respectively.

Carbon Capital Markets Limited (CCM)

Prior to 22 June 2009 the Company held 6,667 ordinary shares in CCM and 10,000,000 12 per cent. preference shares of GBP 1 each. The preference shares were non-convertible and represented 100 per cent. of the preference shares in issue. The total consideration paid for the preference shares was GBP 10,000,000. The preference shares had a fixed cumulative dividend of 12 per cent. per annum.

On 22 June 2009, as part of a restructuring of the CCM business, the Company converted 9,500,000 preference shares into A ordinary shares of GBP 0.01 each. In event of liquidation the A ordinary shares have priority over the remaining ordinary shares but rank after the remaining preference shares. A ordinary shareholders will be paid a sum equal to the total paid up amount and compounded at a rate of 12 per cent. per annum. The A ordinary share entitles the holder to one vote per share. Following the conversion, the Company has voting rights of 99.89 per cent. in CCM.

TEP Holding Luxembourg S.à.r.l.

TEP Holding Luxembourg S.à.r.l. is a holding company which owns the issued share capital of TEP Investment Luxembourg S.à.r.l., an investment holding company. On 5 February 2008 the Company subscribed for 41,800 Preferred Equity Certificates issued by TEP Investment Luxembourg S.à.r.l. at a price of EUR 25 each, for a total consideration of EUR 1,045,000. The Preferred Equity Certificates pay interest at a rate of 7.5 per cent. per annum and are mandatorily redeemable on the 30th anniversary of issue. TEP Investment Luxembourg S.à.r.l. used these funds to invest in 25 per cent. of the issued share capital of Ecotradars Limited. On 25 February 2010, TEP Investment Luxembourg S.à.r.l exercised a share warrant for a further 4 per cent. equity in Ecotradars Limited.

TEP (Renewables Holding) Ltd

On 6 December 2010 the Company acquired 100 per cent. shareholding interest of TEP (Renewables Holding) Limited, a private limited company incorporated in Ireland for the purpose of investing in environmental and renewable assets, companies providing product and services related to reduction of greenhouse gas (GHG) emissions and associated financial products.

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:

<i>Name of subsidiary undertaking</i>	<i>Country of incorporation</i>	<i>% of nominal share capital</i>	<i>% voting rights held</i>
TEP Asia Limited	Investment holding company Isle of Man	80.66%	80.66%
Clean Energy Asia Limited	Investment holding company Isle of Man	80.66%	80.66%
Hacienda Bio-Energy Corporation	Power generation company Philippines	80.66%	80.66%
Swine Waste to Energy Co., Ltd	Power generation company Thailand	80.66%	80.66%
Magallanes Bio-Energy Corporation	Development stage company Philippines	80.66%	80.66%
Korat Waste to Energy Co., Ltd	Power generation company Thailand	80.66%	80.66%

Trading Emissions PLC

Notes to the financial statements (continued)

<i>Name of subsidiary undertaking</i>		<i>Country of incorporation</i>	<i>% of nominal share capital</i>	<i>% voting rights held</i>
Kalasin Waste to Energy Co., Ltd	Power generation company	Thailand	80.66%	80.66%
TEP Investment Luxembourg S.à.r.l.	Investment holding company	Luxembourg	100.00%	100.00%
Electricidad Andina S.A.	Development stage company	Peru	97.29%	97.29%
Chapel Street Environmental GP LLC	Trading Limited Partnership	USA	92.45%	0.00%
EWG Slupsk Sp. z.o.o	Development stage company	Poland	60.00%	60.00%
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%
Element Markets LLC	Renewable energy investment company	USA	51.20%	51.20%

TEP Asia Limited

TEP Asia Limited is an investment holding company. The Company has received shares in ABS in consideration for a loan given to TEP Asia Limited which was valued at GBP 8,405,000 at 30 June 2010. See note 14.

In May 2011, TEP Asia Limited transferred its 47 per cent. shareholding in Asia Biogas Co., Ltd and its 99.9 per cent. shareholding in Clean Energy Asia Limited to ABS. At 30 June 2011 TEP Asia Limited owns an 11.54 per cent. stake in Thai Biogas Energy Co Limited.

Clean Energy Asia Limited

Clean Energy Asia Limited owns 100 per cent. of the issued share capital of Magallanes Bio-Energy Corporation and Hacienda Bio-Energy Corporation. It has transferred its 100 per cent. shareholding in Swine Waste to Energy Co., Ltd to ABS. The Company has received shares in ABS in consideration for a loan given to Clean Energy Asia Limited which was valued at GBP 2,625,000 at 30 June 2010. See note 14.

Korat Waste to Energy Co., Ltd, Swine Waste to Energy Co., Ltd, and Kalasin Waste to Energy Co., Ltd

As a result of the Asia Biogas group reorganisation, ABS now owns 80.66 per cent. of the issued share capital of each of Korat Waste to Energy Co., Ltd, Swine Waste to Energy Co., Ltd, and Kalasin Waste to Energy Co., Ltd.

TEP Investment Luxembourg S.à.r.l. and TEP Holding Luxembourg S.à.r.l.

The Group owns 100 per cent. of the issued share capital of TEP Investment Luxembourg S.à.r.l. through its subsidiary TEP Holding Luxembourg S.a.r.l. which holds the Group's investment in Ecotraders Limited.

Electricidad Andina S.A.

During 2007 the Group acquired Electricidad Andina S.A. through its subsidiary Santa Rita Limited Partnership.

TEP (Solar Holdings) Limited

During the year TEP (Solar Holdings) Limited disposed of its 60 per cent. interest in the issued share capital of EWG Slupsk Sp. z.o.o to TEP (Renewables Holding) Limited. TEP (Solar Holdings) Limited acquired 100 per cent. shareholdings in Solar Energy Italia 1 S.r.l., and ETuno S.r.l. in the year. See note 36.

Element Markets LLC

At 30 June 2010 the Group owned 21.7 per cent. of Element Markets and had an outstanding convertible promissory note of USD 10,000,000 with Element Markets as well as an USD 8,000,000 loan to Elements Markets majority shareholder LLP Enterprises.

Notes to the financial statements (continued)

On 1 January 2011 the promissory note and accrued interest of USD 437,000 were converted to equity in Element Markets, increasing the Company's overall stake to 28.1 per cent. The USD 8,000,000 loan issued to LLP Enterprises in October 2009 became payable in October 2010. At this date LLP Enterprises made repayment of all accrued interest but did not repay the principal. The Company entered a process of negotiation with LLP Enterprises to satisfy the loan principal which resulted in the Company receiving 3,693,435 membership units in Element Markets giving the Company a 51.2 per cent. equity interest on 22 June 2011. This was full satisfaction of the USD 8,000,000 note and USD 873,000 accrued interest that was due on 22 June 2011.

18. Disposal group classified as held for sale

The Group currently has a disposal group that is being classified as held for sale, being a 60 per cent. holding in EWG Slupsk S.p. z.o.o. An active programme to dispose of this asset was underway as at 30 June 2011.

EWG Slupsk is the project special purpose vehicle for a 320MW wind farm under development in Poland. The Group is engaged in a process whereby it is in discussions to dispose of its 60 per cent. stake in EWG Slupsk. EWG Slupsk has been fully consolidated by the Group since its acquisition in April 2010. The carrying value of EWG at 30 June 2011 is GBP 8,468,000. GBP 545,000 of expenses relating to this disposal group are included within other expenses in the consolidated statement of comprehensive income. EWG Slupsk is included within the private equity Europe segment (see note 3).

EWG Slupsk is held at the following per the consolidated statement of financial position:

	<i>Group 2011 GBP '000</i>
ASSETS OF THE DISPOSAL GROUP	
Intangible assets	3,902
Property, plant and equipment	2,143
Trade and other receivables	78
Cash and cash equivalents	2,394
Assets in the disposal group	<u>8,517</u>
LIABILITIES OF THE DISPOSAL GROUP	
Trade and other payables	(49)
Net assets in the disposal group	<u>8,468</u>

19. Cash and cash equivalents and cash margin payable to broker

(a) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances:

	<i>Group 2011 GBP '000</i>	<i>Company 2011 GBP '000</i>	<i>Group 2010 GBP '000</i>	<i>Company 2010 GBP '000</i>
Cash at bank	15,574	18	5,386	22
Short-term bank deposits	50,619	16,568	86,602	86,602
Cash held in disposal group	2,394	–	–	–
	<u>68,587</u>	<u>16,586</u>	<u>91,988</u>	<u>86,624</u>

Notes to the financial statements (continued)

The effective interest rate on short-term bank deposits at 30 June 2011 and 2010 was 0.88 per cent. and 1.12 per cent. per annum, respectively. These deposits have an average maturity of 137 days (2010: 111 days).

At 30 June 2011, Surya PLC, and its subsidiaries held EUR 40,313,000 (GBP 36,416,000), which was committed to financing solar acquisitions in Italy. Post year end, two acquisitions in the solar business occurred, Ravano and Librandello (see note 37).

Restricted cash

At 30 June 2011, restricted cash included GBP 27,284,000 (2010: GBP 33,396,000) of current and non current cash held in a pledge guarantee account which is used specifically for drawdown obligations under the World Bank Umbrella Carbon Facility agreement, see note 32.

(b) *Cash margin payable to broker*

In order to trade on ICE, the Company has to place a margin for each contract traded. The margin calls for futures and options contracts take two forms – initial and variation margin. Initial margin is a returnable good faith deposit required whenever a futures position is opened. The cash is returned when the position is closed out or expires (goes to delivery). Variation margin represents the profit/loss in a position each day which is calculated by the clearing house. In the case of excess margin collateralised against the marked to market gains, the Company can withdraw the excess from the broker account. At 30 June 2011, cash withdrawn against the unrealised marked to market gain was GBP 9,039,000 (2010: GBP 14,618,000).

The Company also holds foreign exchange forward contracts with a broker. The contracts are marked to market daily and if the contract is out of the money, a variation margin will be called on that day. As of 30 June 2011, no margin was required for these contracts (2010: nil).

20. Trade and other receivables

	<i>Group 2011 GBP '000</i>	<i>Company 2011 GBP '000</i>	<i>Group 2010 GBP '000</i>	<i>Company 2010 GBP '000</i>
Non-current				
Other debtors	–	–	7	–
	–	–	7	–
Current				
Accrued bank and loan interest	141	411	1,239	1,946
Trade and other receivables – subsidiaries	–	344	–	567
Trade and other receivables	6,521	599	6,350	6,788
Prepayments	4,849	4,320	3,875	339
	<u>11,511</u>	<u>5,674</u>	<u>11,464</u>	<u>9,640</u>

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	<i>Group 2011 £'000</i>	<i>Group 2010 £'000</i>
UK pound	1,059	4,643
Euros	2,145	81
US dollar	2,274	773
Other currencies	1,043	853
	<u>6,521</u>	<u>6,350</u>

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Notes to the financial statements (continued)

The carrying amounts of the Company's receivables are denominated in British pounds.

As at 30 June 2011 and 2010 there were no provisions for impairments of trade receivables. The fair value of trade and other receivables approximates their carrying value.

During the year trade and other receivables of GBP 1,650,000 (2010: nil) were identified as impaired and expensed to the statement of comprehensive income, see note 8.

At 30 June 2011 trade receivables of GBP 319,000 (2010: nil) were past due but not impaired.

21. Inventory at fair value less costs to sell

	<i>Group</i> <i>2011</i> <i>GBP '000</i>	<i>Company</i> <i>2011</i> <i>GBP '000</i>	<i>Group</i> <i>2010</i> <i>GBP '000</i>	<i>Company</i> <i>2010</i> <i>GBP '000</i>
European Union Allowances (EUAs)	18,134	18,134	20,340	20,340
Certified Emission Reductions (CERs)	28,611	28,527	23,336	21,952
Emission Credit (ERC's & CO ₂)	3,829	–	–	–
Renewable Energy Credit	1,575	–	–	–
Other CC's	133	156	401	141
	<u>52,282</u>	<u>46,817</u>	<u>44,077</u>	<u>42,433</u>

During the year GBP 17,787,000 (2010: GBP 13,473,000) was the cost of inventory sold and a credit of GBP 5,003,000 (2010: GBP 4,801,000 debit) was the movement in inventory at fair value less costs to sell relating to fair value changes.

22. Trade and other payables

	<i>Group</i> <i>2011</i> <i>GBP '000</i>	<i>Company</i> <i>2011</i> <i>GBP '000</i>	<i>Group</i> <i>2010</i> <i>GBP '000</i>	<i>Company</i> <i>2010</i> <i>GBP '000</i>
Non-current				
Amounts due to related parties	–	–	15,732	15,665
Trade and other payables	<u>3,690</u>	<u>1,990</u>	<u>4,131</u>	<u>4,133</u>
	<u>3,690</u>	<u>1,990</u>	<u>19,863</u>	<u>19,798</u>
Current				
Accrued expenses	3,799	318	670	440
Amounts due to related parties	–	699	10,365	10,365
Trade and other payables	<u>6,289</u>	<u>2,678</u>	<u>2,855</u>	<u>231</u>
	<u>10,088</u>	<u>3,695</u>	<u>13,890</u>	<u>11,036</u>

Included within amounts due to related parties as non-current and current, at 30 June 2010, are GBP 8,050,000 and GBP 15,630,000 respectively which relate to amounts due to the Company's Investment Adviser in accordance with the revised payment terms for the 2008 performance fee, as disclosed in note 5. In August 2010 the Company entered into a new agreement with EEA effective from 1 July 2010 under the terms of which the 2008 performance fee liability was foregone by EEA, see note 35.

23. Lease Liabilities

The Group holds a photovoltaic plant under a finance lease. The lease runs for a period of 216 months. The rental amounts are indexed on the basis with a monthly average of 3-month EURIBOR. Upon the expiration of the Agreement, ETuno shall choose one of the following options:

Trading Emissions PLC

Notes to the financial statements (continued)

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

	<i>Group</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000
Gross lease liability:		
Not later than one year	502	–
Later than one year and no later than 5 years	2,022	–
Later than 5 years	6,185	–
	<u>8,709</u>	<u>–</u>
Future finance charges on finance leases	(2,402)	–
Present value of finance lease liability	<u>6,307</u>	<u>–</u>

The present value of finance lease liabilities is as follows:

Not later than one year	262	–
Later than 1 year and not later than 5 years	1,168	–
Later than 5 years	4,877	–
Total over one year	<u>6,045</u>	<u>–</u>

24. Borrowings

Borrowings are represented by an external debt facility in place with Solar Energy Italia 1 S.r.l. (“SEI”) and a facility in place between Surya PLC and EEA Group Limited. The SEI facility is a EUR 36,800,000 facility, of which EUR 32,600,000 is a Senior Term Loan Facility, EUR 2,200,000 for a True Up Facility and EUR 2,000,000 for a VAT Facility while the EEA Group facility is for EUR 12,000,000.

For the SEI 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 2.5 per cent. For the VAT Facility the termination date is 2014 and the interest rate is six month EURIBOR plus a margin of 2 per cent.

Security has been established from this facility over the shares of SEI, property rights of land, and a pledge over other future receivables. The value of this security at 30 June 2011 is GBP 39,950,000.

As at 30 June 2011 SEI had drawn down EUR 31,250,000 under this facility.

SEI has entered into two interest rate SWAP agreements. The SWAP agreements cover 80 per cent. of the value of the facility. Under the SWAP agreements SEI will pay a fixed coupon of 3.38 per cent. per annum on the drawn down balance. As at 30 June 2011 the fair value of the swap contracts was GBP 393,000 which is recorded as a financial liability at fair value in the statement of financial position.

The EEA Group Facility was fully drawn down by Surya PLC at 30 June 2011. The facility is payable on demand and the interest rate is 3.81 per cent. per annum. EEA Group Limited is a related party to the Group acting as the Investment Adviser. Security has been established in the form of a fixed charge over the proceeds due to Surya PLC from its subsidiary TEP (Solar Holdings) Limited under a Total Return SWAP between the two parties and a floating charge over the assets of Surya PLC. The value of this security at 30 June 2011 is GBP 32,826,000.

Trading Emissions PLC

Notes to the financial statements (continued)

	<i>Group</i> 2011 GBP '000	<i>Company</i> 2011 GBP '000	<i>Group</i> 2010 GBP '000	<i>Company</i> 2010 GBP '000
Non-current				
Bank borrowings	24,363	–	–	–
Finance lease liabilities	6,045	–	–	–
	<u>30,408</u>	<u>–</u>	<u>–</u>	<u>–</u>
Current				
EEA Group Limited	10,408	–	–	–
Bank borrowings	4,372	–	–	–
Finance lease liabilities	262	–	–	–
	<u>15,042</u>	<u>–</u>	<u>–</u>	<u>–</u>

There is no significant difference between the carrying amount and the fair value of borrowings at the year end.

25. Deferred tax liabilities

<i>Group</i>	<i>Fair value</i> <i>gains</i> GBP '000	<i>Unremitted</i> <i>earnings</i> GBP '000	<i>Other</i> GBP '000	<i>Total</i> GBP '000
Deferred tax liabilities – Non-current				
At 1 July 2009	534	889	743	2,166
Exchange differences	5	90	–	95
(Credited)/debited to statement of comprehensive income in 2010	483	–	(743)	(260)
At 30 June 2010	1,022	979	–	2,001
Exchange differences	(55)	(67)	–	(122)
(Credited)/debited to statement of comprehensive income in 2011	(477)	(899)	–	(1,376)
At 30 June 2011	<u>490</u>	<u>13</u>	<u>–</u>	<u>503</u>

Deferred tax arises on both unrealised fair value gains recognised in the Group's overseas investments and subsidiaries, withholding tax and other taxes that would be payable on the unremitted earnings of certain investments and subsidiaries.

26. Financial instruments by category

	<i>Group 2011</i>		<i>Company 2011</i>	
	<i>Loans and</i> <i>receivables</i> GBP '000	<i>Assets at fair</i> <i>value through</i> <i>profit or loss</i> GBP '000	<i>Loans and</i> <i>receivables</i> GBP '000	<i>Assets at fair</i> <i>value through</i> <i>profit or loss</i> GBP '000
Assets				
Financial assets at fair value through profit or loss	–	133,538	–	69,446
Loans and receivables	2,198	–	59,129	–
Inventory at fair value less cost to sell	–	52,282	–	46,817
Trade and other receivables (excluding prepayments)	6,521	–	943	–
Cash, cash equivalents and restricted cash	101,837	–	43,870	–
Total	<u>110,556</u>	<u>185,820</u>	<u>103,942</u>	<u>116,263</u>

Notes to the financial statements (continued)

	<i>Group 2011</i>		<i>Company 2011</i>	
	<i>Other financial liabilities amortised at cost</i>	<i>Liabilities at fair value through profit or loss</i>	<i>Other financial liabilities amortised at cost</i>	<i>Liabilities at fair value through profit or loss</i>
	<i>GBP '000</i>	<i>GBP '000</i>	<i>GBP '000</i>	<i>GBP '000</i>
Liabilities				
Financial liabilities at fair value through profit or loss	–	5,906	–	4,831
Cash margin payable to broker	9,039	–	9,039	–
Borrowings	39,143	–	–	–
Finance lease liabilities	6,307	–	–	–
Trade and other payables (excluding statutory liabilities)	9,979	–	5,367	–
	–	–	–	–
Total	<u>64,468</u>	<u>5,906</u>	<u>14,406</u>	<u>4,831</u>

	<i>Group 2010</i>		<i>Company 2010</i>	
	<i>Loans and receivables</i>	<i>Assets at fair value through profit or loss</i>	<i>Loans and receivables</i>	<i>Assets at fair value through profit or loss</i>
	<i>GBP '000</i>	<i>GBP '000</i>	<i>GBP '000</i>	<i>GBP '000</i>
Assets				
Financial assets at fair value through profit or loss	–	191,905	–	110,286
Loans and receivables	13,136	–	63,708	–
Inventory at fair value less cost to sell	–	44,077	–	42,433
Trade and other receivables (excluding prepayments)*	6,357	–	7,355	–
Cash, cash equivalents and restricted cash	126,052	–	120,020	–
Total	<u>145,545</u>	<u>235,982</u>	<u>191,083</u>	<u>152,719</u>

	<i>Group 2010</i>		<i>Company 2010</i>	
	<i>Financial Liabilities amortised at cost</i>	<i>Other liabilities at fair value through profit or loss</i>	<i>Financial liabilities amortised at cost</i>	<i>Other liabilities at fair value through profit or loss</i>
	<i>GBP '000</i>	<i>GBP '000</i>	<i>GBP '000</i>	<i>GBP '000</i>
Liabilities				
Financial liabilities at fair value through profit or loss	–	8,372	–	6,590
Cash margin payable to broker	14,618	–	14,618	–
Trade and other payables (excluding statutory liabilities)	33,083	–	30,395	–
Total	<u>47,701</u>	<u>8,372</u>	<u>45,013</u>	<u>6,590</u>

* The comparative has been amended to exclude accrued bank loan interest.

Notes to the financial statements (continued)

27. Net asset value per share and loss per share

The net asset value per share is calculated by dividing the net assets attributable to the Ordinary shareholders of the Company by the number of Ordinary shares in issue at 30 June 2011 and 2010.

27.1 Net asset value per share

	<i>Group</i> 2011	<i>Group</i> 2010
Net assets attributable to Ordinary shareholders (GBP '000)	302,460	354,457
Ordinary shares in issue (number '000)	249,800	257,432
Net asset value per Ordinary share (in pence)	<u>121.08p</u>	<u>137.69p</u>

27.2 Loss per share

(a) Basic

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

	<i>Group</i> 2011	<i>Group</i> 2010
Ordinary shares		
Loss attributable to equity holders of Ordinary shares (GBP '000)	(23,986)	(28,757)
Weighted average number of Ordinary shares in issue (number '000)	252,644	257,007
Basic loss per Ordinary share (in pence)	<u>(9.49p)</u>	<u>(11.19p)</u>

(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. The Company had 6,940,629 dilutive potential ordinary shares as at 30 June 2010 in relation to the settlement of its 2008 performance fee liability. The dilutive potential ordinary shares have not been included in the calculation because their effect would be anti-dilutive and as a result there is no difference between the basic and the diluted loss per share for the periods presented.

On 25 August 2010 the Company entered a deed of variation with EEA under which EEA has forgone the payment of the remainder of the 2008 performance fee. Consequently the 6,940,629 dilutive potential shares outstanding at 30 June 2010 will not be issued.

28. Share capital

The total number of authorised and issued Ordinary shares of the Company at 30 June 2011 and 2010, together with their rights, is explained below.

	<i>2011</i> <i>(Number '000)</i>	<i>2011</i> <i>GBP '000</i>	<i>2010</i> <i>(Number '000)</i>	<i>2010</i> <i>GBP '000</i>
Authorised				
Ordinary shares of GBP 0.01 par value	<u>460,000</u>	<u>4,600</u>	<u>460,000</u>	<u>4,600</u>
Issued and fully paid				
Ordinary shares of GBP 0.01 par value	<u>249,800</u>	<u>2,498</u>	<u>257,432</u>	<u>2,574</u>

Notes to the financial statements (continued)

	<i>Ordinary shares GBP '000</i>
At 1 July 2009	2,551
Shares issued	23
At 30 June 2010	2,574
Purchase of own shares	(76)
At 30 June 2011	2,498

All issued Ordinary shares are fully paid, and each Ordinary share carries the right to one vote.

On 3 September 2009 the Company issued 2,313,543 Ordinary shares to the Company's Investment Adviser.

In November 2010 the Company purchased and cancelled 7,631,771 of its Ordinary shares at an aggregate cost of GBP 6,487,000.

29. Share premium

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

30. Dividends paid

In December 2009 the Company paid a final dividend of 3 pence per share in respect of the year ended 30 June 2009, distributing GBP 7,723,000 to shareholders.

In December 2010 the Company paid a final dividend of 3.85 pence per share in respect of the year ended 30 June 2010, distributing GBP 9,617,000 to shareholders. Combined with the 2010 interim dividend of 1.65 pence per share, which distributed GBP 4,248,000 to shareholders, this brought the total dividend for the year ended 30 June 2010 to 5.5 pence per share.

In March 2011 the Company paid an interim dividend of 6 pence in respect of the year ended 30 June 2011, distributing GBP 14,988,000 to shareholders. The Board of Directors does not propose to pay a final dividend in respect of the year ending 30 June 2011.

31. Reserves

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

<i>Reserve</i>	<i>Description and purpose</i>
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 and company 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 asset of overseas operations into the Company's functional currency.

32. Contingencies

The Company participated in the first Tranche of the Umbrella Carbon Facility managed by the World Bank in December 2005 to acquire CERs up to December 2013. The Company had arranged a fully pledged bank guarantee in favour of the World Bank to secure the transaction in August 2006 in the amount of

Notes to the financial statements (continued)

EUR 68,110,000. The bank guarantee commitment at 30 June 2011 was EUR 30,203,000 (2010: EUR 40,707,000). The Company has GBP 27,284,000 (2010: GBP 33,396,000) of restricted cash held in respect of this pledged bank guarantee. The Directors do not expect any losses to arise from the guarantee the Company has entered into.

33. Commitments

33.1 Investment commitment

(a) *Santa Rita Limited Partnership*

The Company had submitted a bond of USD 12.75 million which supported Electricidad Andina's unsuccessful bid in a power purchase agreement tender process held in March 2011. This USD 12,750,000 was returned to the Company on 4 July 2011. Electricidad Andina needs to secure a long term contract to sell power in order to move forward with project finance for construction. Electricidad Andina's failure to secure this has slowed down progress to financial close and also led to the cancellation of the project's generation concession in July 2011. Electricidad Andina expects to re-file in due course.

The Company will fund Electricidad Andina in its bid process prior to any sale of this asset through the provision of operational running costs. The Company has budgeted approximately GBP 380,000 for this in the coming twelve months.

(b) *Environmental Credit Corporation (ECC)*

On 14 September 2010, the Company granted ECC a credit facility of USD 6,100,000 to develop environmental projects in Mexico. During the period up to 30 June 2011, ECC had drawn down USD 5,600,00. This results in a year end commitment amount of USD 56,000.

33.2 Contractual commitments

The Group has entered into a number of long term ERPAs to purchase Carbon Credits (CCs) produced from various projects. As of 30 June 2011, the maximum quantity contracted for by the Group amounted to 44.8 million CERs (2010: 68.1 million CERs).

Element Markets also has forward purchase commitments for carbon instruments. As of 30 June 2011, the maximum quantity contracted for by Element Markets amounted to 0.6 million CO₂ instruments and 1.4 million Renewable Energy Credits.

Details of the Group's risk adjusted commitments, which are payable in EUR, USD and THB at 30 June 2011 and 2010 are as follows:

	<i>2011</i>	<i>2010</i>
	<i>GBP '000</i>	<i>GBP '000</i>
Within one year	68,376	42,561
Two to five years	97,790	131,008
More than five years	5,708	16,315
Total	<u>171,874</u>	<u>189,884</u>

34. Directors' interests

The following Directors had interests in the Ordinary shares of the Company:

	<i>2011</i>	<i>2010</i>
	<i>Ordinary</i>	<i>Ordinary</i>
	<i>shares</i>	<i>shares</i>
	<i>Number</i>	<i>Number</i>
	<i>('000)</i>	<i>('000)</i>
N D Eckert	1,818	1,818
M J Gillies	<u>67</u>	<u>67</u>

Notes to the financial statements (continued)

None of the other Directors had any interest in the Ordinary shares of the Company at any time during the years ended 30 June 2011 and 30 June 2010.

35. 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 following have been identified as related parties:

- Subsidiaries;
- The Company's Investment Adviser, EEA Fund Management Ltd;
- Individuals including the Directors of the Company, and certain partners, directors and senior management of EEA Fund Management Limited who meet the definition of "key management personnel" in IAS 24; and
- Close family members of key management personnel and companies combined by, or associated with, key management personnel or their close family members.

35.1 Directors

The Directors of the Company have received fees during the year as set out in note 6. Directors' interests in the Ordinary shares of the Company are set out in note 34.

Neil Eckert, the Chairman of the Company also served as director of the Company's subsidiary Environmental Credit Corporation. At 30 June 2011 the Company held 88 per cent. of ECC's total voting rights, see note 17.

Philip Scales is a director of IOMAFIM and both Philip Scales and Nigel Wood have a beneficial ownership interest in IOMAFIM. Philip Scales and Nigel Wood are both directors of the Company. Chamberlain, the Company's administrator has entered into a sub administration agreement with IOMAFIM (see note 5). Sub-administration fees amounting to GBP 236,000 (2010: GBP 199,000) were payable to IOMAFIM during the year.

During the year, M J Gillies served as a consultant to Shepherd and Wedderburn, the Solicitors to the Company. Trading Emissions also regularly employs other solicitors. Mr. Gillies does not vote on any decision regarding the employment of Shepherd and Wedderburn.

35.2 Investment Adviser

The Company is advised by EEA Fund Management Limited ('EEA'), an investment management company incorporated in the United Kingdom. The Investment Adviser receives an advisory and performance fee under the terms of the Investment Advisory agreement. A summary of the terms of the agreement, together with the amount of fees paid in the years ended 30 June 2011 and 2010 and the amounts due to the Investment Adviser at 30 June 2011 and 2010, is included in note 5.

EEA Group Limited is a related party as it is the parent company of the Investment Adviser. EEA Group Limited has provided a loan facility to the Group in the year in the amount of GBP 10,408,000. The EEA Group Facility was fully drawn down by Surya PLC at 30 June 2011. The facility is payable on demand and the interest rate is 3.81 per cent. per annum. Security has been established in the form of a fixed charge over the proceeds due to Surya PLC from its subsidiary TEP (Solar Holdings) Limited under a Total Return SWAP between the two parties and a floating charge over the assets of Surya PLC. Details of this facility are set out in note 24.

Notes to the financial statements (continued)

Certain directors and employees of the Investment Adviser are regarded as key management personnel, and hold director positions on a number of the Group's subsidiaries and equity investments as follows:

Simon Shaw is a director of Kalasin Waste to Energy Co., Ltd, Sun Biofuels Limited, Korat Waste to Energy Co., Ltd, Carbon Capital Markets Limited, Asia BioGas Co., Limited and Swine Waste to Energy Co., Ltd.

Des Godson is a director of Asia Biogas Singapore PTE Ltd, Kalasin Waste to Energy Co., Ltd, Korat Waste to Energy Co., Ltd, Swine Waste to Energy Co. Ltd, Hacienda Bio-Energy Corporation, Magallanes Bio-Energy Corporation, Trading Emissions (Hong Kong) Limited, EWG Slupsk Sp. zo.o., EWG Malechowo Sp. zo.o. and Mekong Energy Developments Ltd.

Paul Bowden and Michael van der Meer are directors of Asia Biogas Singapore PTE Limited.

Ricardo Nogueira is a director of Environmental Credit Corporation, Billiter Participacoes Ltda, Billiter Energy Corporation and Bionasa Combustivel Natural S.A.

Gabriele Pammesberger is a director of EcoTraders Limited.

Francisco Avendano is a director of EcoTraders Limited and Electricidad Andina S.A.

Joe Fox is a director of Billiter Energy Corporation and Element Market LLC.

Norbert Gallagher is a director of TEP (Solar Holdings) Limited and TEP (Renewables Holding) Limited.

Conor Kealy is a director of TEP (Solar Holdings) Limited, TEP (Renewables Holding) Limited and Electricidad Andina S.A.

Camilla Taylor is a director of Electricidad Andina S.A.

35.3 Subsidiaries

The Company has entered into loans with its subsidiaries in which it has invested and are accounted for as loans and receivables. Details can be found in notes 14 and 17.

36. Business combinations

Acquisitions in financial year 2011

The Group completed the acquisitions of Asia Biogas Company Limited on 15 September 2010, Solarinvest Ragusa 1 S.r.l on 17 September 2010, ETuno S.r.l on 6 December 2010 and Element Markets LLC on 22 June 2011.

Asia Biogas Company Limited

Asia Biogas Company Limited (incorporating Clean Energy Development Co. (Thailand) Limited, Kanchanaburi Waste to Energy Company Limited, Philippine Bio-Science Company Inc., PT Asia Biogas Indonesia, Asia Biogas Vietnam Company Limited and Chumpron Biogas Limited) is one of Southeast Asia's largest biogas systems design, engineering, construction and operating groups. Focusing primarily on renewable waste water to energy generation, Asia Biogas Company Limited and its subsidiaries design, build and operate power plants which convert agro-industrial waste water streams into methane for energy generation. These projects generate multiple benefits including:

- Lowering the host facility's total energy costs;
- Reducing the need for traditional fossil fuels;
- Reducing the emissions of greenhouse gases into the environment; and
- Improving the quality of agro-industrial waste water.

Notes to the financial statements (continued)

Asia Biogas Company Limited and its subsidiaries focus on biogas energy systems that generate methane which replaces liquid and solid fuels to generate heat, steam and electricity. The plants can take waste streams from a number of sources, many of which are abundant in Southeast Asia.

Previously the Group owned 47 per cent. of the equity of Asia Biogas Company Limited and its subsidiaries. The 47 per cent. holding was an associate undertaking and had previously been accounted for at fair value through profit or loss. 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 the change. As part of a reorganisation of its Asian operations which saw the incorporation of a new holding company, Asia Biogas Singapore PTE Limited (“ABS”), the Group increased its share holding in Asia Biogas Company Limited and its subsidiaries to 81 per cent., the consideration transferred was 19 per cent. of the Group’s equity capital in ABS.

The purchase of Asia Biogas Company Limited represented a transaction where control was achieved in stages in accordance with IFRS 3 (2008) revised. The Group re-measured the fair value of its previously held interest as at the date of acquisition to GBP 1.1 million, which resulted in the recognition of a loss of GBP 765,000 which is included within impairment and other charges in the statement of comprehensive income.

Solar Energy Italia 1 S.r.l

100 per cent. of the share capital for Solarinvest Ragusa 1 S.r.l (“SIR”) was acquired on 17 September 2010. SIR was a holding company for a project company called Solar Energy Italia 1 S.r.l (“SEI”). SEI was in the process of constructing an 8.4MW solar photovoltaic (“PV”) project in the Ragusa region of Sicily. At the date of acquisition the project was partially complete and as part of the transaction the Group entered into a turnkey Engineering, Procurement and Construction contract (“EPC”) with Alpine Energie Österreich GmbH to complete the construction of the project.

At the date of the acquisition the cash acquired exceeded the fair value of the consideration transferred by GBP 6,389,000, this was offset by the net liability position that SIR was in as at 17 September 2010.

Since the date of acquisition a merger has occurred between SEI and SIR whereby SEI is the remaining entity.

ETuno S.r.l

On 6 December 2010 the Group purchased 100 per cent. of the share capital of ETuno S.r.l. ETuno S.r.l is a project company which had completed construction of two solar PV projects for 1MW each in the Abruzzo region of Italy.

On the date of acquisition the two projects were fully complete and connected to the Italian national grid and were generating electricity. ETuno S.r.l had made a request to the Gestore Servizi Energetici (“GSE”) for the 2010 Feed-in-Tariff. The Group has since qualified for the 2010 tariff.

Element Markets LLC

Element Markets LLC (“Element Markets”) is a vertically integrated biomethane (renewable natural gas) company with substantial environmental credit marketing expertise.

At 30 June 2010 the Group owned 21.7 per cent. of Element Markets and had an outstanding convertible promissory note of USD 10,000,000 – with Element Markets as well as an USD 8,000,000 loan to Element Markets’ major shareholder, LLP Enterprises, secured against its shareholding in Element Markets.

On 1 January 2011 the promissory note and accrued interest of USD 437,000 were converted for equity in Element Markets LLC, increasing the Group’s overall stake to 28.1 per cent. The USD 8,000,000 loan issued to LLP Enterprises in October 2009 became payable in October 2010. At this date LLP Enterprises made repayment of all accrued interest but did not repay the principal. The Group began a process of negotiation with LLP Enterprises to satisfy the loan principal, which resulted in the Group receiving 3,693,435 additional membership units in Element Markets, giving the Group a 51.2 per cent. equity interest on 22 June 2011. This was full satisfaction of the USD 8,000,000 loan and USD 873,000 accrued interest that was due on the loan at 22 June 2011.

Trading Emissions PLC

Notes to the financial statements (continued)

Previously the Group had a liquidation preference of USD 52,000,000 whereby the first USD 52,000,000 of any sales or liquidation proceeds would be attributable to the Company, with the remainder being split among existing shareholders based on their percentage ownership. As part of the satisfaction of the USD 8,000,000 loan and USD 873,000 accrued interest, the Company reduced this liquidation preference to USD 40,000,000.

The purchase of Element Markets represented a transaction where control was achieved in stages in accordance with IFRS 3 (2008) revised. The Group re-measured the fair value of its previously held interest as at the date of acquisition, which resulted in the recognition of a loss of GBP 7,318,000 which is included within impairment and other charges in the statement of comprehensive income.

	<i>Solar Energy Italia</i> GBP '000	<i>ETuno</i> GBP '000	<i>Asia Biogas</i> GBP '000	<i>Element Markets LLC</i> GBP '000	<i>Total</i> GBP '000
Consideration					
Cash	8	339	–	–	347
Equity interest in subsidiary entity issued to non-controlling interest	–	–	684	–	684
Loan and interest receivable converted	–	–	–	5,507	5,507
Contingent consideration	2,151	–	–	–	2,151
Total consideration transferred	<u>2,159</u>	<u>339</u>	<u>684</u>	<u>5,507</u>	<u>8,689</u>
Fair value of TEP's equity interest before the business combination	–	–	1,072	20,823	21,895
Total consideration	<u>2,159</u>	<u>339</u>	<u>1,756</u>	<u>26,330</u>	<u>30,584</u>
Acquisition related costs (included in Professional fees in TEP's SOCI)	267	168	709	26	1,170
Recognised amounts of identifiable assets acquired and liabilities assumed					
Cash acquired	8,548	–	109	8,199	16,856
Financial assets	–	–	1,450	394	1,844
Inventory	–	–	39	5,302	5,341
Property, plant and equipment	13,803	7,225	789	8,468	30,285
Land	943	40	–	90	1,073
Other receivables	41	193	1,068	3,850	5,152
Identifiable intangible assets	2,212	334	13	3,607	6,166
Assumed liabilities	(23,388)	(7,453)	(1,188)	(2,200)	(34,229)
Total identifiable net assets	<u>2,159</u>	<u>339</u>	<u>2,280</u>	<u>27,710</u>	<u>32,488</u>
Non-controlling interest	–	–	(524)	(1,380)	(1,904)
Goodwill	–	–	–	–	–
	<u>2,159</u>	<u>339</u>	<u>1,756</u>	<u>26,330</u>	<u>30,584</u>

Notes to the financial statements (continued)

Contingent consideration

As part of the total purchase consideration for SIR, deferred consideration up to an amount of EUR 28,000,000 was payable. The contingent consideration is contingent on two variable elements. The first element of EUR 2,000,000 (c. GBP 1,800,000) was contingent on the SEI project being connected to the grid by 31 December 2010 in time to receive the 2010 Feed-in-Tariff, and was paid during the year. The second element of the contingent consideration was based on the performance of the solar plant over a five year period.

The second element is an earn-out based on the performance of the plant ranging from nil, payable if the energy yield is below 1,676 kWh/kWp to EUR 800,000, payable if the energy yield is equal to or greater than 1,715 kWh/kWp for a five year period.

At the date of acquisition, management considered it 90 per cent. probable that SIR would receive the Feed-in-Tariff for 2010. In addition, based on a third party engineering report, the directors completed an assessment for the likely earn out, which resulted in an expected earn out at the date of acquisition of EUR 700,000. In accordance with IFRS the probable earn-out has been discounted to present value using a discount rate of 14.1 per cent., giving a discounted value of EUR 400,000 at the date of acquisition. The discount rate represents the weighted average cost of capital specific to the project at the date of acquisition. The discount will be unwound over the five year period. At each reporting date the directors will re-assess the probability that the earn-out will be achieved and adjust the deferred consideration accordingly.

As at 31 December 2010, Solar Invest Italia had completed construction of the 8.4MW project and was successfully connected to the grid. The 2010 Feed-in-Tariff was subsequently awarded and as a result a premium of EUR 2,400,000 was paid during the financial year. The additional EUR 200,000 paid to what was booked as contingent consideration at the time of acquisition has been charged to the statement of comprehensive income for the year to 30 June 2011. The additional premium equal to 40 per cent. of the cost savings on the build-out of the project was paid to the Group. This amount of EUR 200,000 was charged to the statement of comprehensive income for the year to 30 June 2011.

The net cash flow on acquisitions during the year was disclosed in the Group cash flow statement as follows:

	<i>Total GBP '000</i>
Cash flows from operating activities	
Transaction costs paid	(1,170)
	<u>(1,170)</u>
Cash flows from operating activities	
Cash consideration	(2,152)
Cash acquired	16,856
	<u>14,704</u>
Total cash from acquisitions	<u>13,534</u>

Post acquisition revenues and consolidated loss before tax relating to these acquisitions amounted to GBP 900,000 and GBP 900,000, respectively. If the acquisitions had occurred on 1 July 2010, the Board of Directors estimates that consolidated revenue from continuing operations would have been GBP 54,600,000 and consolidated loss before tax would have been GBP 29,700,000. The Board of Directors estimate that Element Markets would have contributed approximately GBP 23,100,000 of additional revenue and GBP 2,400,000 of a consolidated loss before tax. In determining these amounts management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2010.

Notes to the financial statements (continued)

37. Events after the reporting date

Disposal Strategy

The Company is now aggressively pursuing its realisation strategy through sales of individual assets to targeted strategic buyers. As a result of this strategy there have been developments since year end which result in the following assets meeting the “held for sale” criteria set out in IFRS 5 after 30 June 2011. These assets have been disclosed below:

- ***Asia Biogas Singapore PTE Limited (“ABS”) – Asia and Middle East***

ABS appointed joint financial advisers in August 2011. The advisers have a mandate to sell the entire share capital of ABS and also sell the Company’s rights to CERs associated with ABS. A condition of the sale will be repayment of the debt currently outstanding between the Company and ABS.

- ***Environmental Credit Corp. (“ECC”) – North America***

The Company does not intend to appoint an Adviser for the sale of ECC. ECC has completed an information memorandum which has been circulated to a number of interested potential acquirers and aims to have completed a sale process by Q1 2012.

- ***Electricidad Andina S.A. – Latin America***

At 30 June 2011 the Company had submitted a bond of USD 12,750,000 which supported Electricidad Andina’s unsuccessful bid in a power purchase agreement tender process held in March 2011. This USD 12,750,000 was returned to the Company on 4 July 2011. Electricidad Andina needs to secure a long term contract to sell power in order to move forward with project finance for construction. Electricidad Andina’s failure to secure this has slowed down progress to financial close and also led to the cancellation of the project’s generation concession in July 2011. Electricidad Andina expects to re-file in due course.

The Company has appointed G.C. Andersen Partners LLC to advise on the sale of Electricidad Andina S.A. Indicative offers have been received and several parties are undertaking detailed due diligence.

- ***EcoTraders Limited – Asia and Middle East***

The Company has initiated discussions regarding the sale of its shareholding in EcoTraders. Ideal candidates include local consulting companies, international utilities and consulting companies with a presence in Israel.

Acquisitions

The Company is progressing with the completion of the remaining photovoltaic projects in its pipeline. Subsequent to the year end the Company has completed the following acquisitions.

Solar Energy Italia 6 S.r.l. (“Librandello”)

On 12 July 2011, TEP (Solar Holdings) Limited (“TEP Solar”) completed the acquisition of a 9.2 MW solar photovoltaic (“PV”) plant in Ragusa, Sicily by acquiring 100 per cent. equity in Solar Energy Italia 6 S.r.l. The total consideration paid for this transaction was EUR 40,000,000. The ground-mounted 9.2 MW project is fully permitted under the Autorizzazione Unica regime.

RGP Puglia 1 S.r.l. (“Ravano”)

On 23 September 2011, TEP Solar signed a Sale Purchase Agreement (“SPA”) with the shareholders of Ravano, when all of the conditions precedent in this SPA were met by both parties, the Company obtained control of Ravano by purchasing 100 per cent. equity shares in quotas. Total consideration paid for this transaction was EUR 12,427,000. The ground-mounted 2.7 MW project is fully permitted under the Autorizzazione Unica regime.

Trading Emissions PLC

Notes to the financial statements (continued)

Details of the net assets acquired are as follows:

	<i>Ravano</i> <i>GBP '000</i>	<i>Librandello</i> <i>GBP '000</i>	<i>Total</i> <i>GBP '000</i>
Consideration			
Cash	10,824	31,020	41,844
Contingent consideration	–	4,218	4,218
Total consideration transferred	<u>10,824</u>	<u>35,238</u>	<u>46,062</u>
Acquisition related costs (included in Professional fees in TEP's SOCI)	<u>113</u>	<u>65</u>	<u>178</u>
Recognised amounts of identifiable assets acquired and liabilities assumed			
Cash acquired	46	134	180
Property, plant and equipment	6,574	29,535	36,109
Land	84	113	197
Other receivables	1,428	750	2,178
Identifiable intangible assets	2,702	5,233	7,935
Assumed liabilities	(10)	(527)	(537)
Total identifiable net assets acquired	<u>10,824</u>	<u>35,238</u>	<u>46,062</u>
Goodwill	<u>–</u>	<u>–</u>	<u>–</u>
	<u>10,824</u>	<u>35,238</u>	<u>46,062</u>

As at the date of acquisition there is a contingent fee pertaining to the Librandello project which is payable if the 2011 Feed-in-Tariff is received. The Group determined that there was a 95 per cent. probability that this contingent consideration of GBP 4,440,000 would be paid; this contingent consideration is valued at GBP 4,218,000 at the date of acquisition. On 24 September 2011, this Feed-in-Tariff was granted, the amount of GBP 4,440,000 was payable. The additional fee of GBP 222,000 will be recognised in the Group statement of comprehensive income as incurred.

Other

Sun Biofuels Administration

Given the Company's revised investment policy to optimize the realized value of the business in the short to medium term, the Board of Directors has taken the decision not to fund Sun Biofuels Limited ("SBF") any further as value creation in this business was a long term project.

As a consequence of this, the Board of SBF decided to put SBF into administration on 10 August 2011. TEP is the largest creditor of SBF.

The Board of SBF paid wages due and severance packages to staff in Africa of c. USD 400,000. This was considered to be an adjustment after the reporting date event. As a consequence it was decided to write down the assets in SBF at 30 June 2011 (see note 8).

Termination of ERPA for Durban-eThekweni Landfill

The Company signed an ERPA with eThekweni Municipality (the owner of the project) in November 2008. One of the conditions precedent in the ERPA had not been satisfied, and the Company therefore terminated the ERPA in September 2011. The contract had a negative value of GBP 1,727,000 in the Company's ERPA portfolio at 30 June 2011, and therefore its termination will have a favourable impact on the ERPA fair value valuation.

