

BlueNext

The environmental exchange

Market News

IETA/IEA/EPRI Workshop
Paris, September 22, 2008

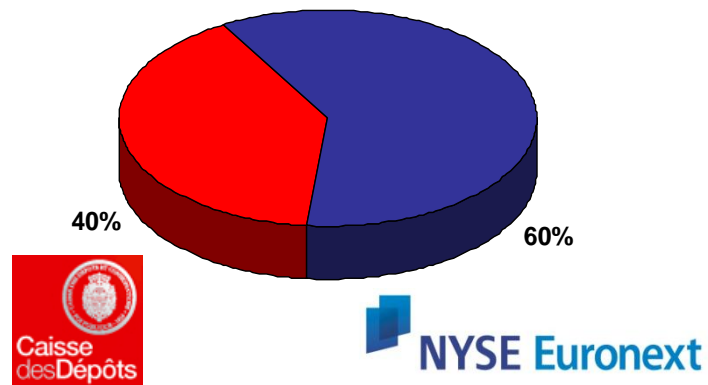
Andrei Marcu, CEO, BlueNext

What is BlueNext?

since 2005
Powernext
Carbon

2008
BlueNext SA

- BlueNext is the environmental exchange with global ambition
- Two shareholders are committed to the long term success of BlueNext and will support the company in its future technical and financial developments



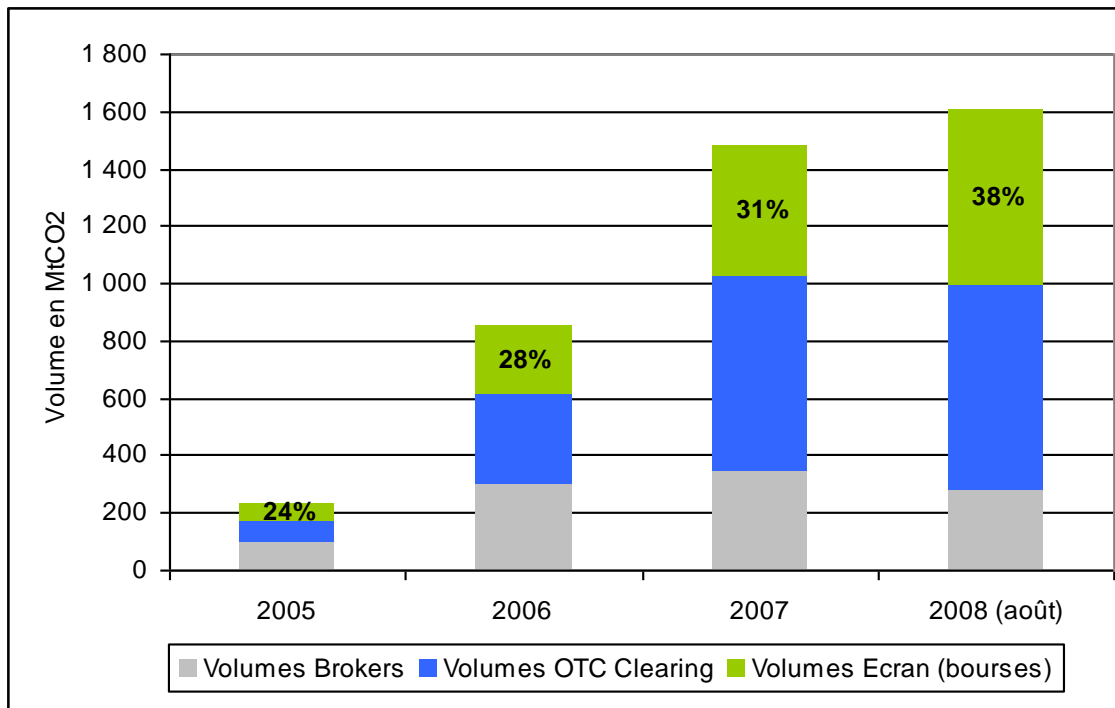
Lessons learnt from phase I

- Has the EU ETS delivered?
 - Well functioning market
 - Emission reductions
 - CDM development
 - Cultural change

The Start of Period II of EU ETS Exchange Vs. Brokers

- Trades made on secured platforms have increased continuously since 2005...
- ... especially on spot trading where 95% of contracts have been traded on exchanges in 2008 against 85% in 2007.

Total volumes on European market (EUA) and breakdown between OTC and exchange trades

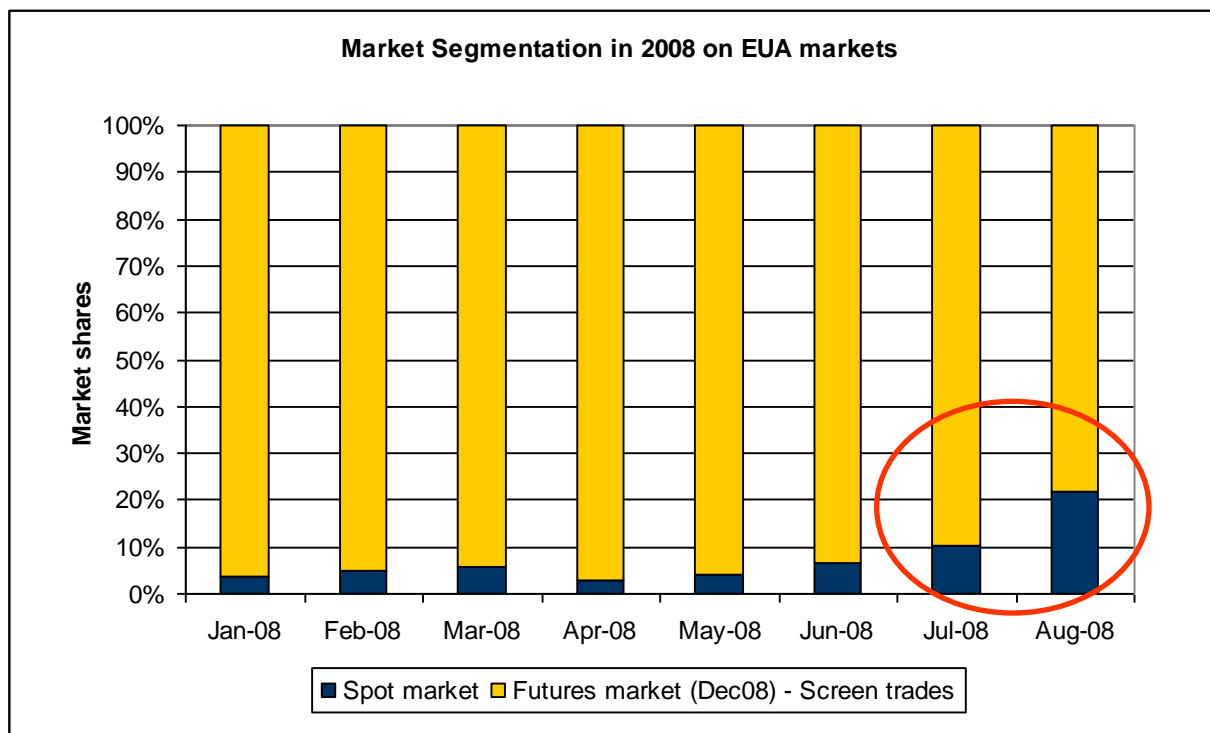


Source: BlueNext from Reuters

The Start of Period II of EU ETS

Spot Vs. Futures

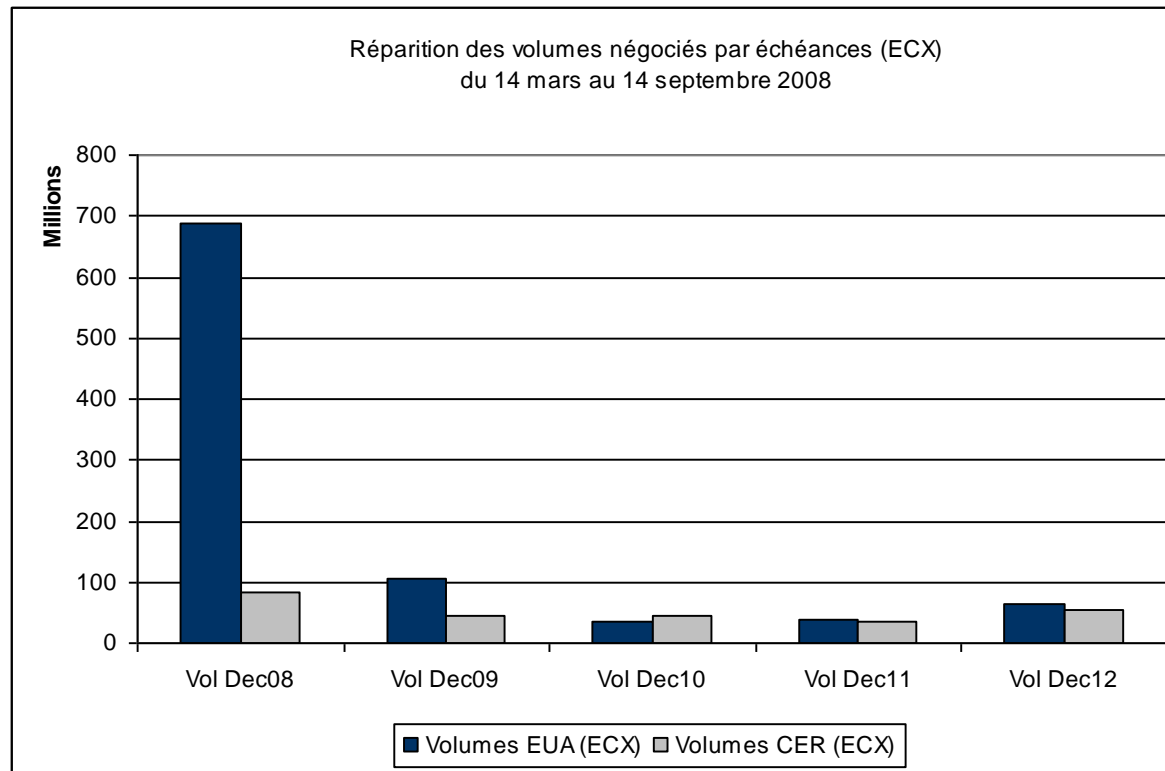
- Spot market has become more financial in the last months: more and more players are doing arbitrage between spot and futures contract. This is due to the increasing liquidity seen on the spot market and number of members on BlueNext Spot.
- In the actual context of financial crisis, investors try to diversify their investments. Carbon market, spot and futures, is a way to enlarge their product portfolio.



Source: BlueNext from ECX

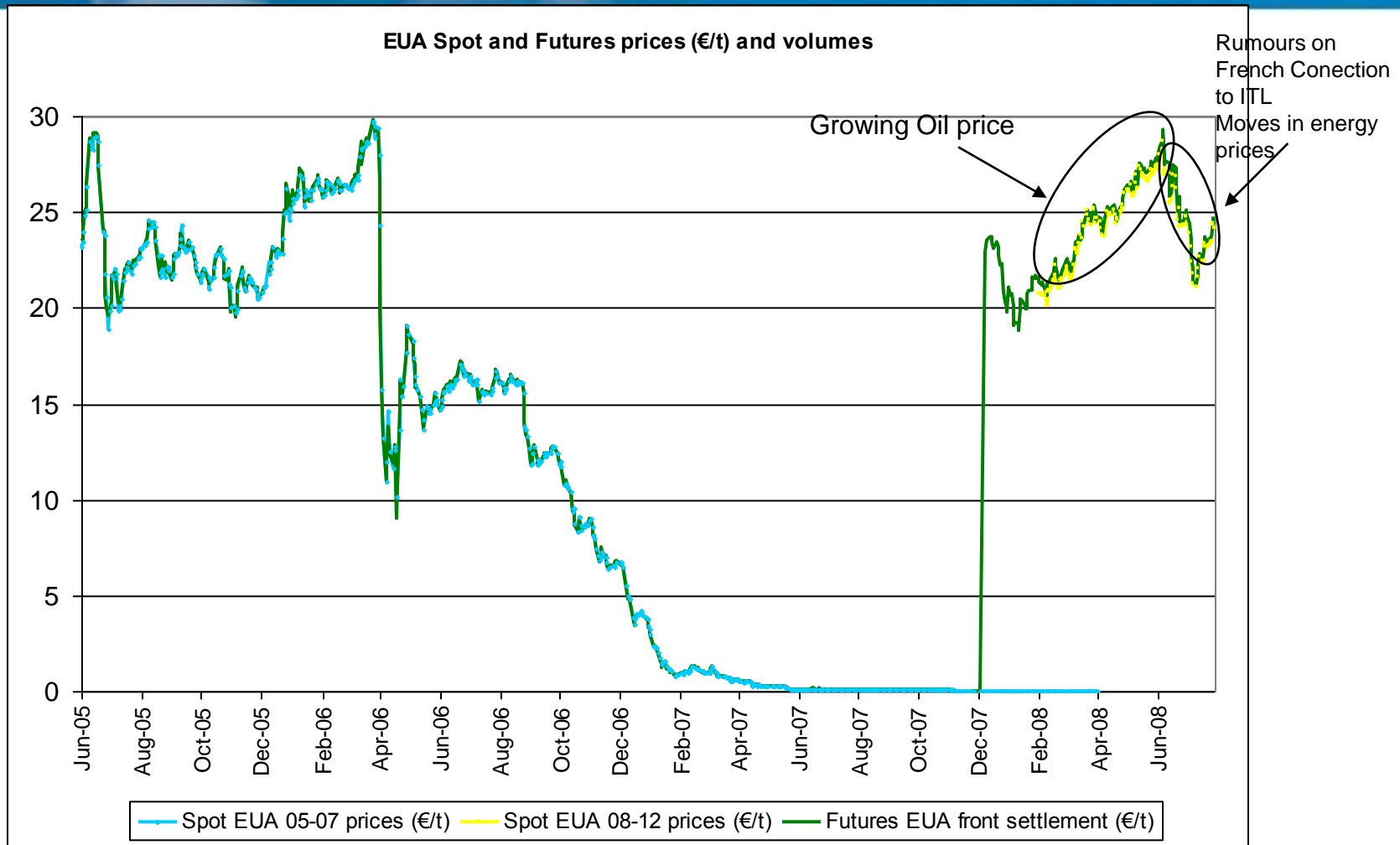
Futures volumes breakdown by maturity

- On EUA market, volumes are concentrated on first delivery (December 2008).
- However, on CER market, volume breakdown is more homogeneous
- This can be explained by the fact that, on CER market, market players need to cover their total number of CERs whereas on EUA market, they only need to cover the difference between emissions and allocation.



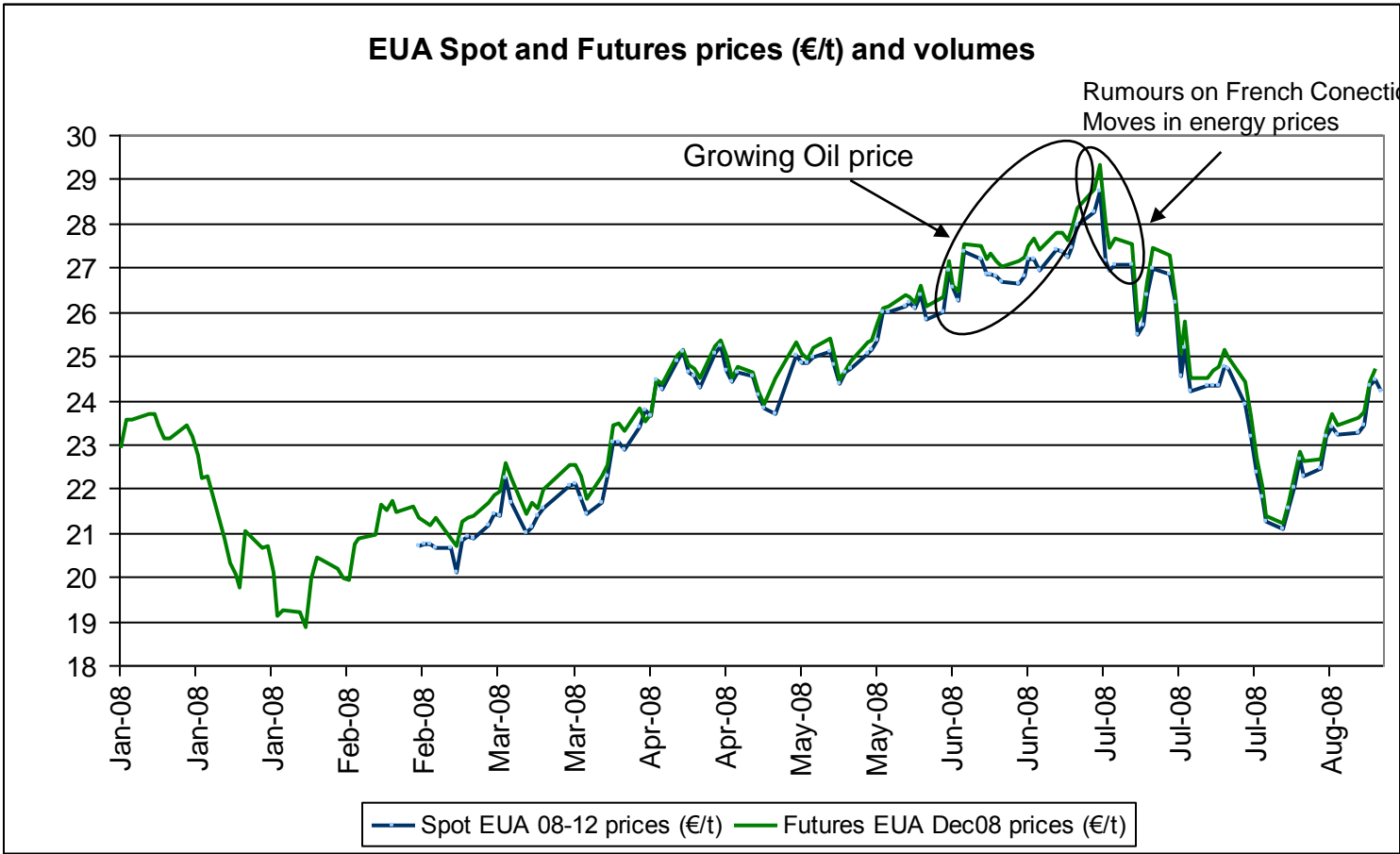
Source: BlueNext à partir d'ECX

The Start of Period II of EU ETS Prices



Source: BlueNext, ECX

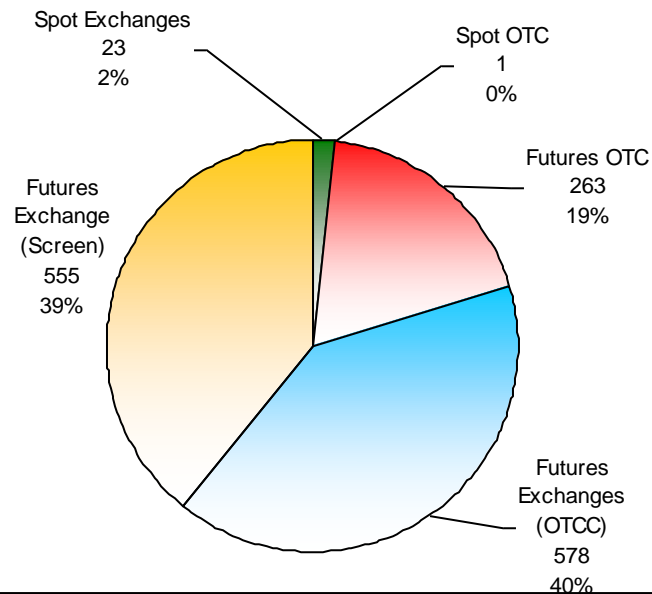
Market prices



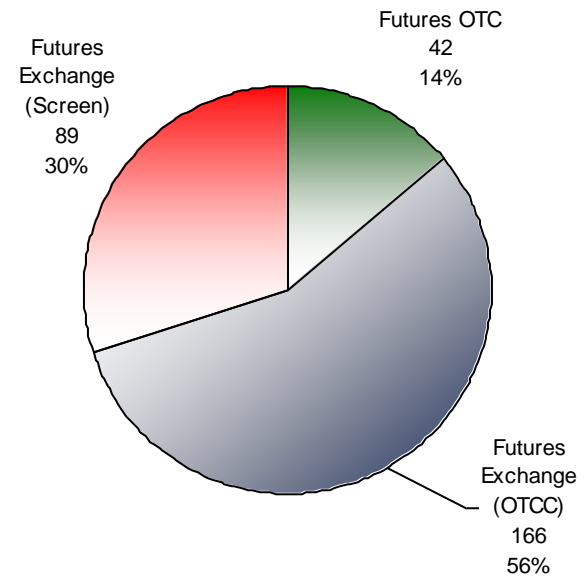
Source: BlueNext, ECX

Market Segmentation

EUAs Traded Volumes (Mt) and Market Breakdown



CERs Traded Volumes (Mt) and Market Breakdown



Source: Own calculations based on BlueNext and Exchanges' Data

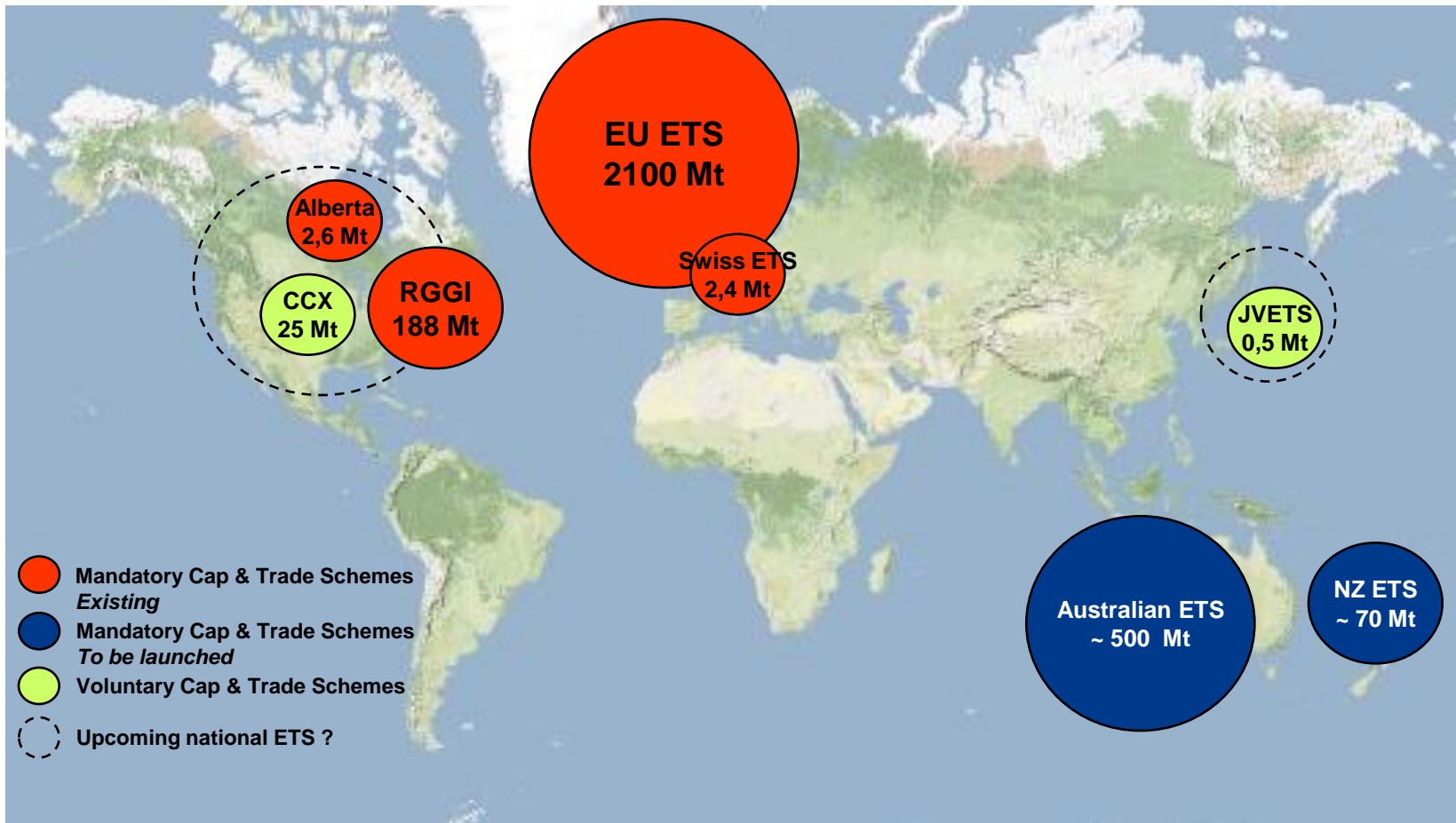
Main issues for post 2012

- Most important issues in the EU proposal:
 - Flexibility between ETS and non ETS sectors
 - Coverage: gases, sectors, installations
 - Community registry vs national registries
 - Allocation
 - Auctioning vs. free allocation, benchmarking
 - Regulation on auctioning : how are auctions organized?
 - Use of auction revenues (earmarking?)
 - Use of offsets : quality & quantity
 - Small installations
- ➔ Key word for phase 3 : harmonization

Additional « Elephants » in the room

- Post 2012 uncertainty : international negotiations & impact on EU ETS
 - Effort : 20 – 30% reduction
 - Countries with binding reductions ?
 - Countries & sectors “CDM able”
 - Potential sectoral agreements

Domestic ETS



Source: BlueNext

Exchanges & Products

SPOT EXCHANGES				
	Opening	Products	Services	2008 Volume (Kt)
BlueNext	June 2005	EUA, CER	Continuous trading	38 231
Climex	March 2005	EUA, (CER)	Continuous trading, auctions	1 308
EEX	March 2005	EUA	Continuous trading	703
Exaa	June 2005	EUA	Fixing	97
Nord Pool	February 2005	EUA	Continuous trading	104

FUTURES EXCHANGES			
	Opening	Products	Services
EU Market Places			
BlueNext	April 2008	EUA, CER	Futures
ECX	April 2005	EUA, CER	Futures, Options, Swap
EEX	Oct. 2005	EUA, CER	Futures, Options (EUA)
Nord Pool	Feb. 2005	EUA, CER	Futures
North American Market Places			
NYMEX	Mar. 2008	EUA, CER, RGA + NOX, So2	Futures, Options
MCeX	May 2008	Canadian emissions (large emitters)	Futures
Indian Market Places			
NCDEX	April 2008	CER	Futures
MCX	Jan. 2008	Mini CFI, CER	Futures
MCX	Jan. 2008	Mini CFI, CER	Futures

Issues from the exchange perspective

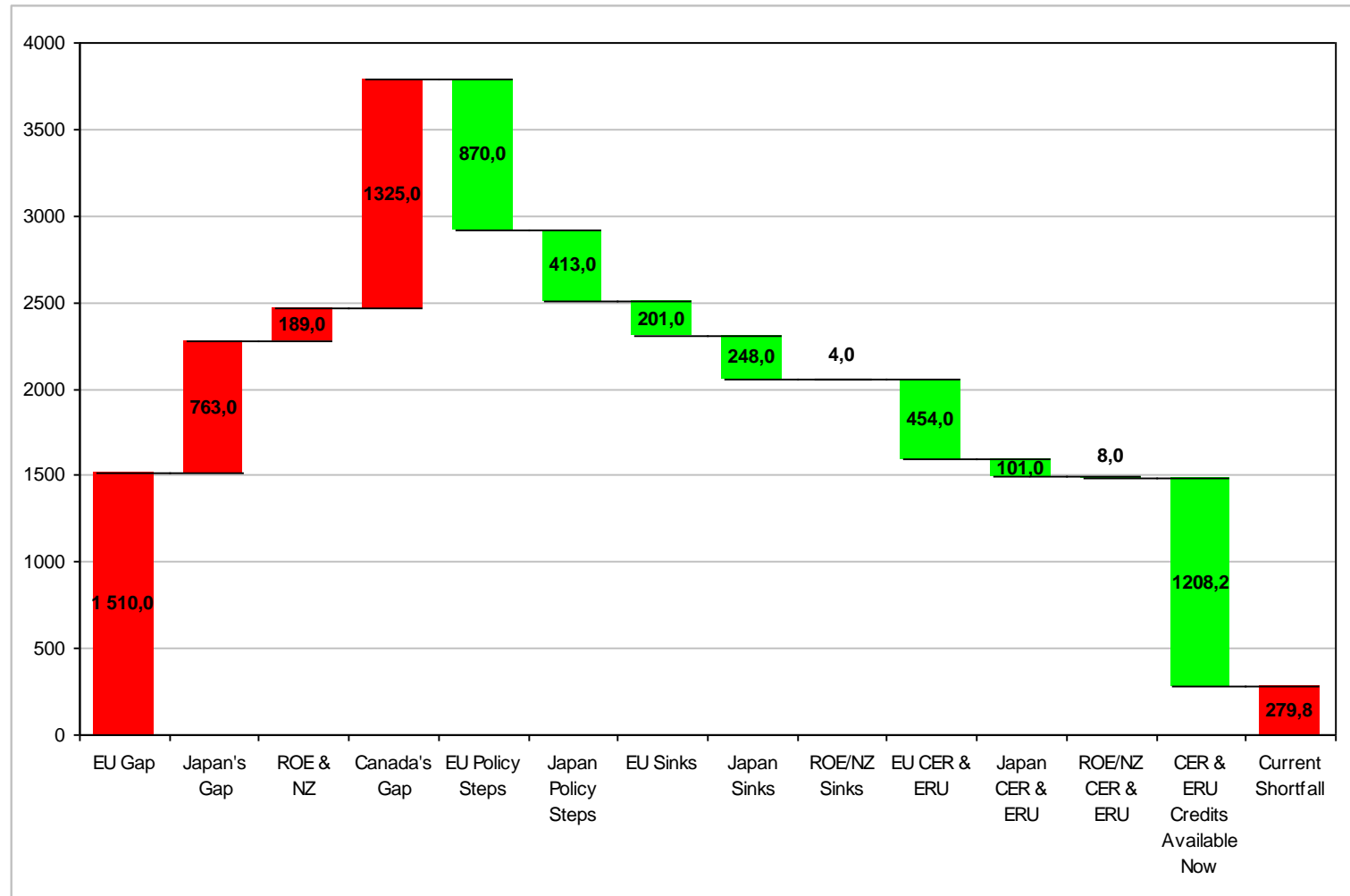
- Direct interest as an exchange: a well functioning liquid market (exchanges live by volume)
 - Liquidity: ability to find a counterparty for a transaction, broad participants, tight bid & ask spreads
- Long term interest: a stable ETS, long-term existence. Must deliver on the intersection
 - Environmental objective
 - Broad societal concerns, including accounting for competitiveness

Phase III debate – BlueNext interests

- Presence of CERs – will CERs have higher market velocity ?
- Consistency on CERs across EU – cannot filter if no consistency
- Auctioning vs free allocation- will auctioning increase liquidity?
- How can auctioning be done to maximize liquidity?
 - Type of auctioning
 - Timing
 - Frequency
 - Participation
- What is better for solid infrastructure - one registry vs 27 registries.
- More gases and sectors: more underlying, diversity of abatement – better liquidity

Supply/demand outlook until 2012

The Kyoto Balance



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Thank you for your attention !

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