



Everything you wanted to know about carbon offsets but were afraid to ask

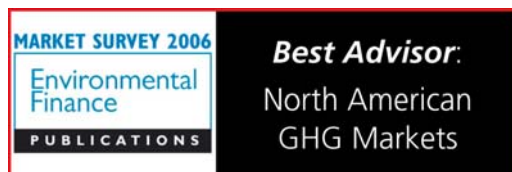
Abyd Karmali
Managing Director, Europe

London, May 2007

Origins of our perspectives

Highlights of Experience

- Founded in 1969; listed since September 2006 (NASDAQ: ICFI)
- Provided climate policy advice to > 60 governments
- Providing climate strategy advice to > 55 companies in the FT Global 500
- Over 230 professionals with climate-related expertise out of 1,800 worldwide staff



Service Offerings

- Developing climate strategies aligned with key corporate drivers based on our *Value-at-Stake* methodology
- Carbon market pricing analysis using our *InCaP* model
- Carbon footprint and energy management
- Bringing CDM and JI projects through the Kyoto cycle
- Undertaking due diligence of CDM and JI projects using our *K-Prism* model
- Providing market analysis to low-carbon technology companies
- Modeling emissions scenarios
- Assisting governments establish their climate change policy framework and institutions

Outline

- Market overview
- Threats & challenges

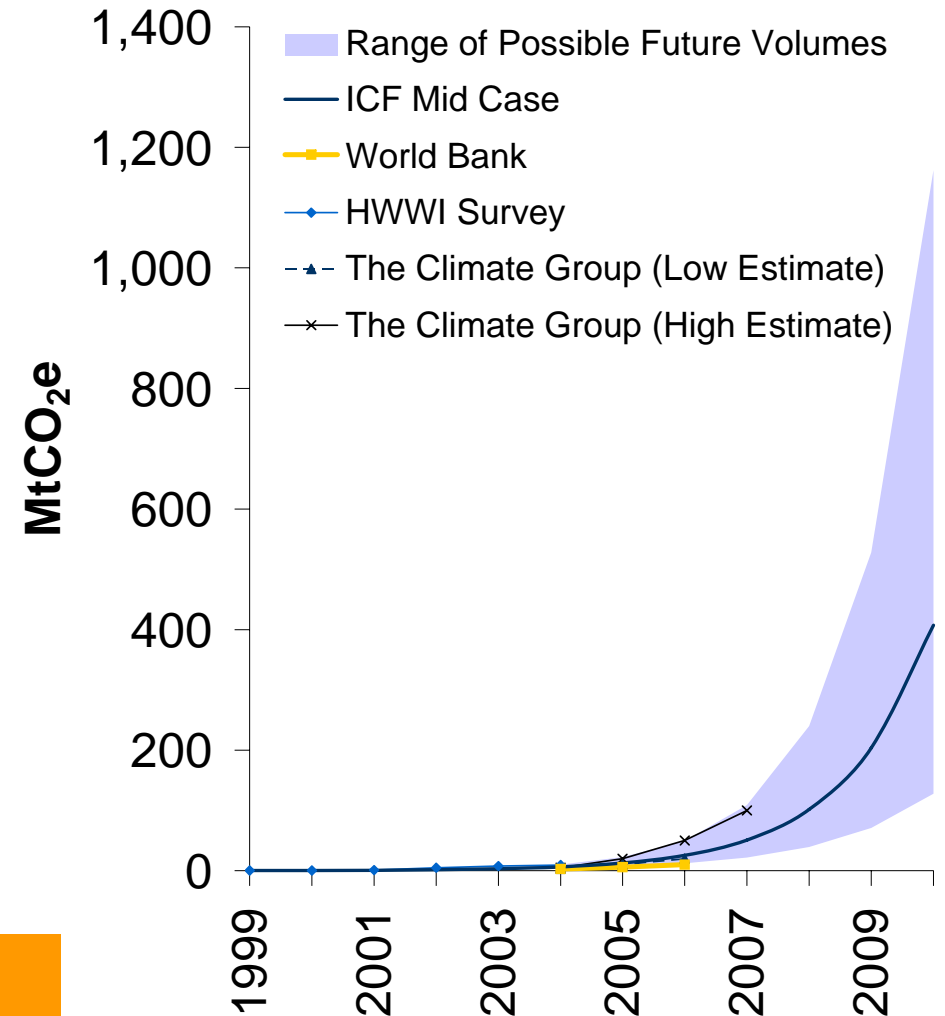
Market overview

Estimating market size

- Carbon offsetting is everywhere, and growing fast
- Roughly **10-25 MtCO₂e** offset in 2005, likely double that amount in 2006
- High uncertainty regarding future volumes, but ICF's extrapolations of current growth rates suggest a market of **125-1,200 MtCO₂e**, with a mid case projection of **400 MtCO₂e** by 2010

***Source: ICF International (December 2006):
Voluntary Carbon Offset Market: Outlook 2007***

Market Volumes, Historic and Projected



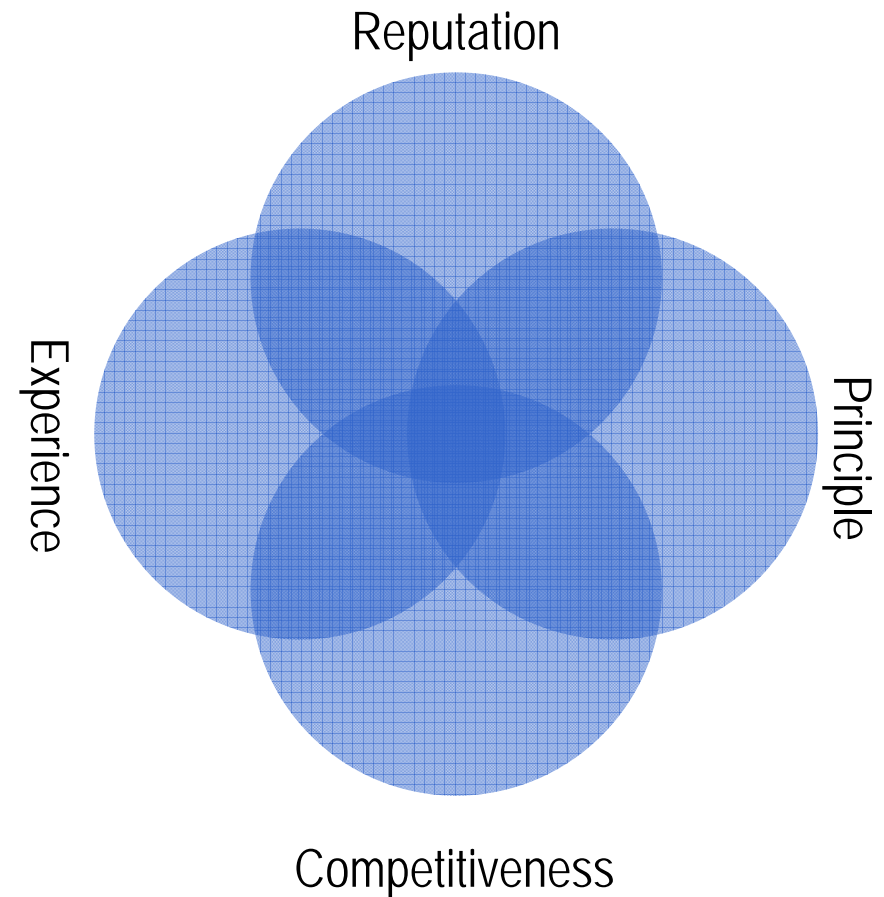
Sources: HWWI, World Bank, The Climate Group, ICF Calculations

Market overview

Voluntary market defined

- Market segments
 - Mandatory vs. voluntary
 - Binding vs. non-binding

- The opportunity
 - Reputation
 - Experience
 - Principle
 - Competitiveness



Market overview

Emissions and offset types

- Emissions types

- Transport
- Electricity
- Fuels
- Supply chain
- Product-related
- Process

- Offset types

- Commoditised
- Non-commoditised



- Supply Chain
 - Electricity Generation
 - Transport (Supply)
-
- Fuels
 - Process
 - Transport (Business Travel)
-
- Product-Related
 - Transport (Distribution)

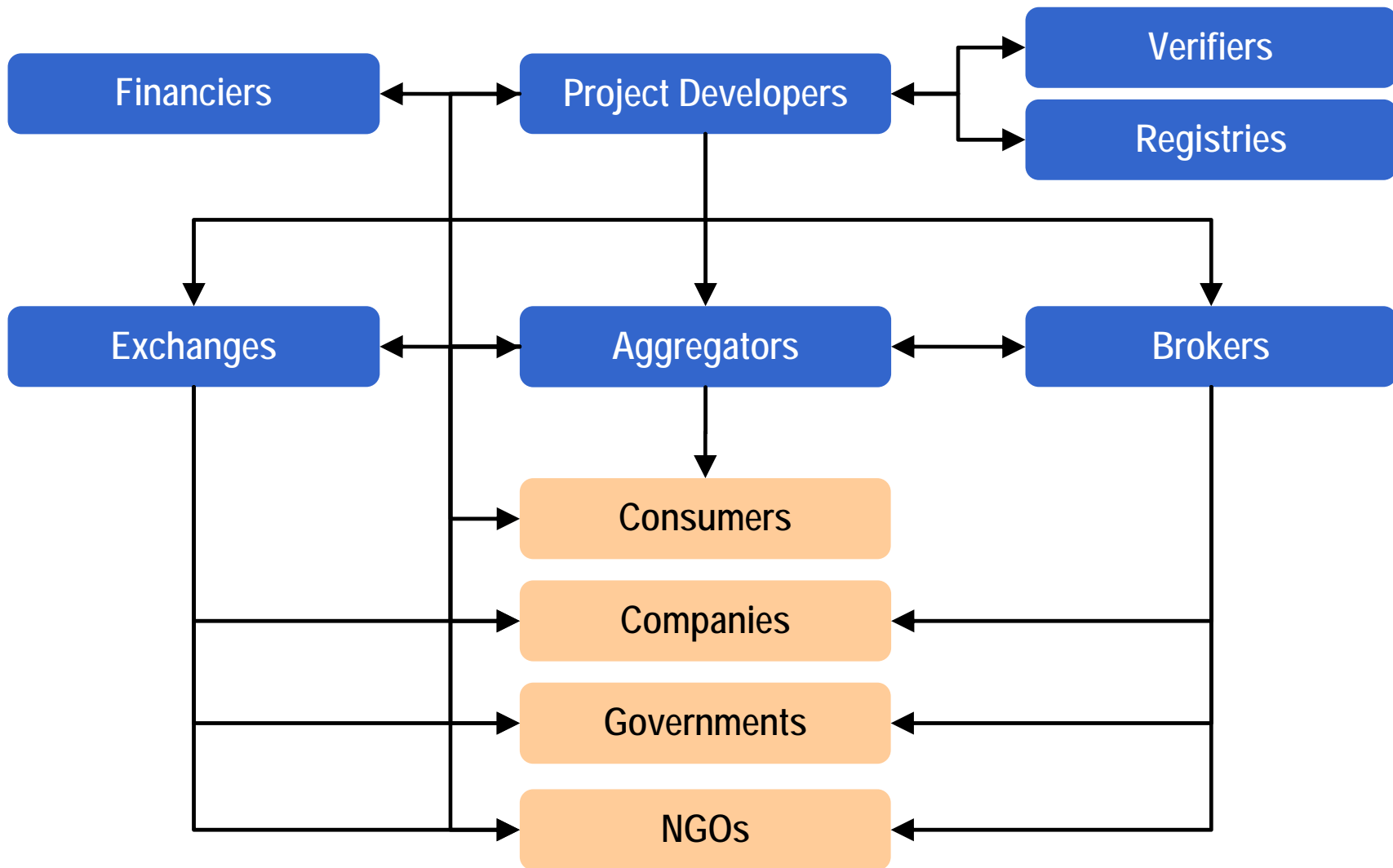
Market overview

Project types

- Variety of project types for offsetting emissions
- Each have different strengths and weaknesses
 - Potential
 - Credibility
 - Project Scale
 - Economic Viability
 - Secondary Benefits
 - Market Compatibility
- Afforestation/Reforestation
- Agriculture
- Renewables
- Industrial Process Emissions
- Manufacturing Fuel Switching
- Manufacturing Energy Efficiency
- Building Fuel Switching
- Building Energy Efficiency
- Landfill Gas
- Mining Methane
- Carbon Capture and Sequestration (CCS)
- Fugitive Natural Gas Emissions
- Transport: Motor Vehicles
- Transport: Non Motor Vehicles
- N2O
- HFC

Market overview

Market structure



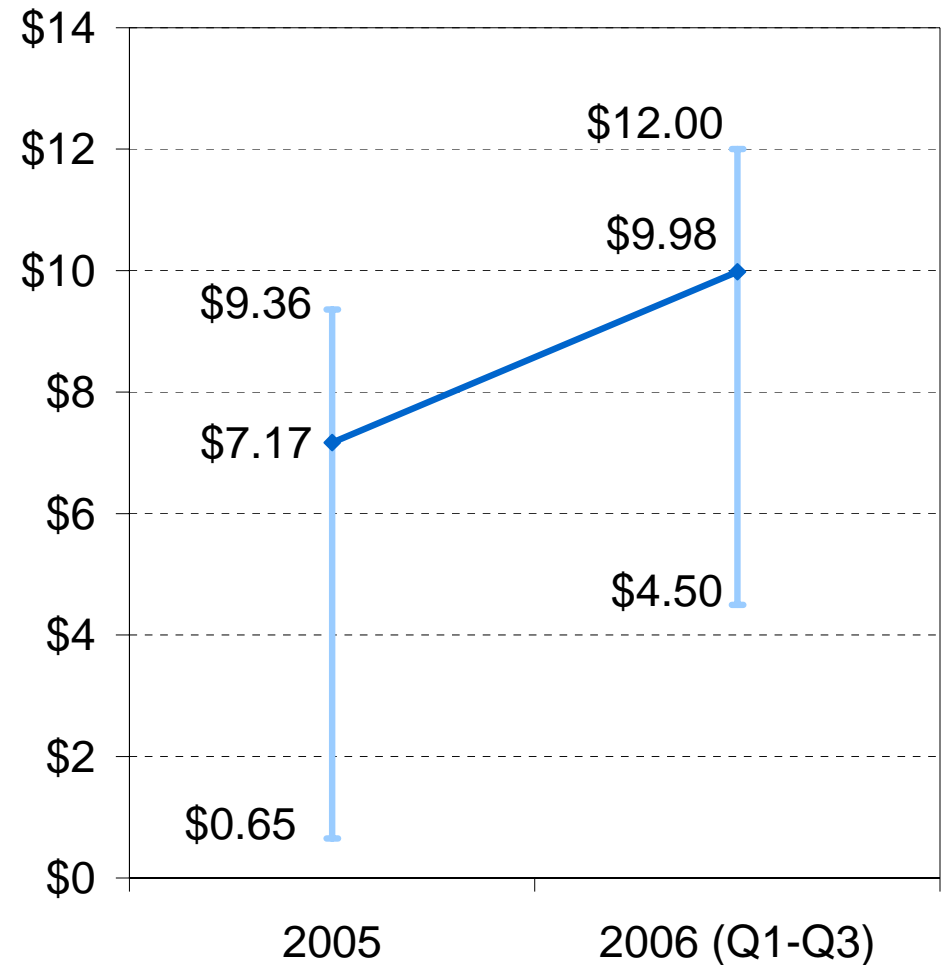
Source: World Bank	2004		2005		2006	
	MtCO2e	MUS\$	MtCO2e	MUS\$	MtCO2e	MUS\$
Allowance Markets						
Mandatory						
EU ETS	8.5	NA	321	7,908	1,101	24,357
New South Wales	5	NA	6	59	20	225
UK ETS	0.5	NA	<1	1	-	-
Mandatory Total	14	NA	327	7,968	1,121	24,582
Voluntary (CCX)	2.2	NA	1	3	10	38
Allowance Markets Total	16.3	NA	328	3,971	1,131	24,620
Project-Based Transactions						
Compliance						
CDM	97	485	351	2,638	475	5,257
JI	9.1	54	11	68	16	141
Other	1	4.4	20	187	17	79
Compliance Total	107	544	382	2,894	508	5,477
Voluntary & Retail	2.9	5.6	6	44	10+	100
Project-Based Total	110	549	388	2,937	518	5,577

Market overview

Offset prices

- Pricing components
 - Commodity costs
 - Transaction costs
- Wide range of prices
 - Heterogeneity
 - Immaturity

Average Voluntary and Retail Project-Based Carbon Transactions

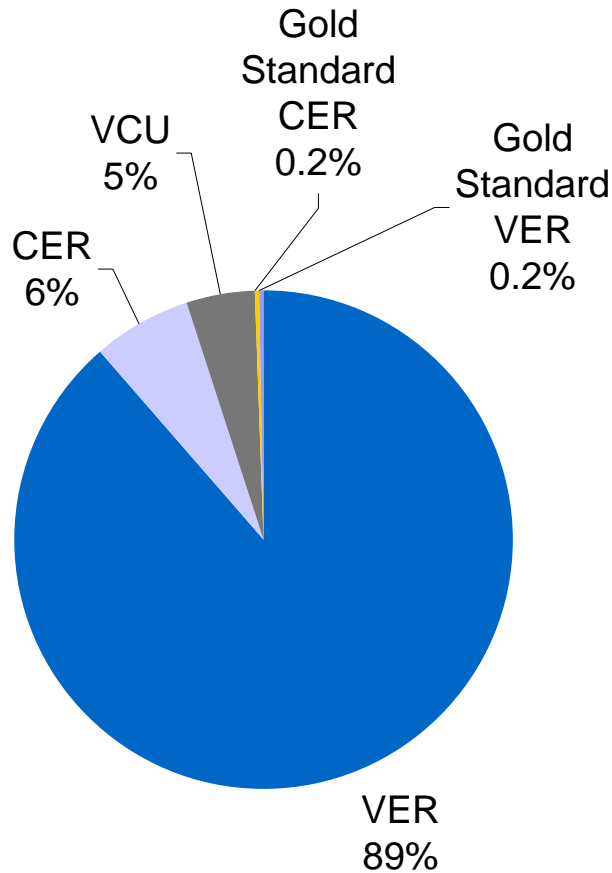


Source: World Bank

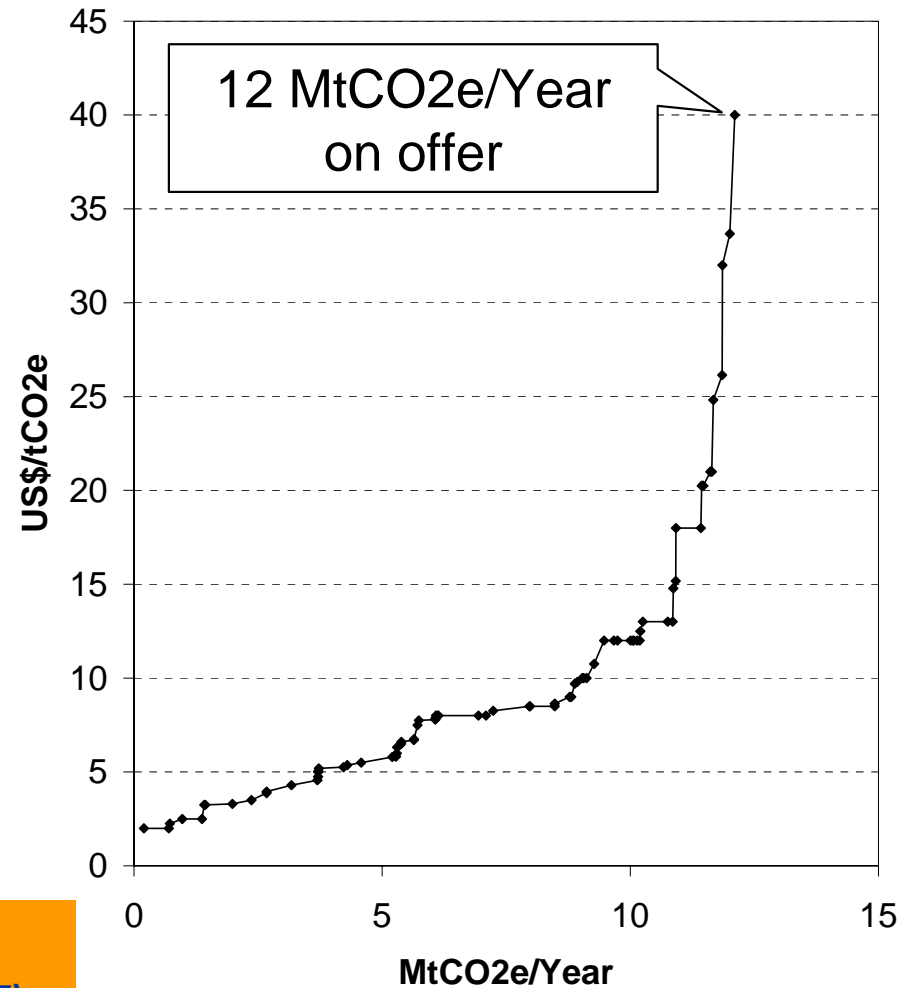
Market overview

Offset prices: ICF-managed tenders

Volumes Offered



Offset Supply Curve



Source: ICF International

Proprietary data from carbon offset tenders (2006-07)

Outline

- Market overview
- Threats & challenges

Threats & Challenges

Credibility and fragmentation are significant threats

- Credibility concerns
 - Claimed benefits are not real
 - Offsets are the easy way out
 - Offsets disguise unsustainable practices
 - Offset projects ignore larger socioeconomic problems
 - Offset amounts are insignificant

- Fragmentation
 - Variety, but also confusion
 - Complicates due diligence, adds risk
 - Undermines credibility

- Mandatory market will grow and take market share

Threats & Challenges

Credibility: standards and verification

- Role of standards
 - Additionality
 - Double-counting
 - Verification
- No single standard exists, but efforts underway
 - Kyoto-compliant
 - Voluntary Carbon Standard (VCS)
 - Voluntary Gold Standard (VGS)
 - CCX Standard
 - Climate, Community, and Biodiversity Alliance (CCB)
 - Climate Neutral Network (CNN)
 - Plan Vivo
- Overarching efforts
 - Carbon Stewardship Council
 - UK Defra
 - Australian government
- UK Defra initiative
 - issued its draft code for offset providers, currently in public consultation phase
 - Provide seal of approval only to offset providers offering CER, ERU, and EUA



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