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ANNOUNCEMENT 314

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Dear Sir

CO2 Group welcomes the passage of the Clean Energy Bills through the House of Representatives

Executive Summary

The passing of the Clean Energy Legislation creates 3 new market opportunities for CO2 Group:

1. Clean Energy Legislation creates about 500 new potential customers that have a direct liability under the carbon price;
2. International funds can now invest in Australia and repatriate credits created to offshore markets;
3. Big fuel consumers can invest in carbon sinks and opt into the carbon price in order to avoid an imposed reduction in fuel excise rebates, further increasing the number of potential customers.

CO2 Group is confident that its projects will meet the standards required to create Australian Carbon Credit Units.

Clean Energy Bills and the Carbon Farming Initiative

CO2 Group welcomes the passage of the Clean Energy Legislation through the House of Representatives.

With the legislation now passed by the House and near its final form, the company is able to provide an assessment of the implications of the legislation on its business.

The Clean Energy legislation is the second tranche of law-making – complementary to the Carbon Farming Initiative (CFI) which became law on 15 September 2011 – that sets up the national regulatory environment for the company's domestic business.

Significant opportunities for CO2 Group arise as a result of this legislative progress. Much of the opportunity arises from the interaction between the Clean Energy Bills and the Carbon Farming Initiative.

The CFI established the legislative and regulatory basis for the creation of carbon credits from Australian projects that reduce emissions or store more carbon in the landscape. The CFI also establishes quality standards for these projects. The Department of Climate Change and Energy Efficiency has advised that the CFI will be operational from mid-December 2011.

CO2 Group Limited

Level 11, 225 St Georges Terrace Perth WA 6000
PO Box 7312 Cloisters Square Perth WA 6850

Tel. 08 9321 4111 ABN 50 009 317 846
Fax. 08 9321 4411 www.co2australia.com.au

Projects accredited under the CFI will produce carbon credits (Australian Carbon Credit Units, or ACCUs) that are either 'Kyoto compliant' or 'non-Kyoto compliant' and are issued by the Australian Government.

Kyoto compliant ACCUs will be of the highest quality.

Importantly, the Clean Energy legislation passed by the House today allows only Kyoto compliant credits (ACCUs) to be used by companies liable to pay the carbon tax to acquit their liability.

Some project types such as those aiming to increase soil carbon are not Kyoto compliant and will generate credits that will only be bought by the Government or sold onto the voluntary market. They will not be able to be used to acquit the tax liability. CO2 Group has no current involvement in soil carbon projects.

CO2 Group has reviewed its reforestation carbon sink projects and has formed the view that all the projects it has developed will be capable of being registered to produce Kyoto-compliant ACCUs. The company has also submitted its Draft Methodology for consideration by the Domestic Offsets Integrity Committee. Approval by the Committee of the Draft Methodology is critical to credit creation and given CO2 Group's strong track record in gaining project accreditations (Greenhouse Friendly and NSW Greenhouse Gas Abatement Scheme), we are confident of achieving this outcome.

ACCUs are a very attractive method of meeting the carbon tax liability when they are created for less than the fixed carbon price. The fixed price starts at \$23 per tonne in 2012 and rises 2.5% plus CPI each year until 2015.

Kyoto compliant ACCUs have additional benefits in that they can be banked or traded and are treated as personal property and a financial product under the law.

During the floating price period (2015-2020) any companies able to directly source Kyoto-compliant ACCUs for less than \$15 per tonne CO₂e, will be able to acquit their liability for less than this \$15 floor price.

Kyoto compliant ACCUs appear to be the only source of offset able to be used by liable Parties to reduce the cost of carbon during the fixed price period.

CO2 Group is of the view that the 5% limit to use Kyoto compliant ACCUs by companies liable to pay for the carbon tax during the fixed price period will not constrain demand, because supply is also likely to be severely limited during this time. Some new supply from legacy waste projects may be available during the early phase of the scheme.

The limited supply is a function of the regulatory arrangements. It is clear that the process of accreditation is potentially long and it is not likely that start-up or new projects aiming to produce Kyoto-compliant credits will develop a supply pipeline before 2015.

Quick and timely action by companies will be required if they are to secure a reliable domestic supply of offsets to significantly reduce their cost of carbon.

Since 2004, forest carbon sinks have provided a strategic, cost-effective, robust approach to carbon abatement that uses proven technologies.

One of the surprising features of the Clean Energy Bill is inclusion of an 'opt-in' provision, available from 1 July 2013 in which large users of specified fuels (who pass the eligibility criteria) can voluntarily opt into the carbon price mechanism rather than pay the equivalent carbon price under the fuel tax excise system.

This change provides yet another significant market opportunity for CO2 Group because large mining companies and airlines that otherwise had no option other than to accept a reduction in their fuel excise



rebate can now choose to invest in offset projects that deliver carbon credits i.e. large fuel users can opt-in to the carbon price mechanism.

Kyoto-compliant ACCUs also have the benefit of being exchangeable with AAUs or RMUs before 2012 and from the Australian Government's perspective they are fully exportable.

This opens up the prospect of Joint Implementation-style projects. Joint Implementation projects are bilateral emission reduction projects between countries that have an emissions target under the Kyoto Protocol. International carbon funds now have a clear pathway for investment in Australian carbon projects.

CO2 Group has been building platforms to assist companies lower their cost of carbon. Lowering the cost of carbon will confer a competitive advantage on those companies because they will be able to either reduce the need to pass the full cost of the carbon tax through to their customers or lower their liability cost base.

As a specialist carbon company CO2 Group is well placed to provide a package that will assist companies meet their carbon liabilities at the minimum cost through a portfolio approach that includes direct investment, off-take agreements, and spot purchase across a range of carbon instruments (ACCUs, CERs, RMUs, ERUs and AAUs).

Increasingly it will be important for liable companies, or those with large fuel bills, to use a portfolio of options that reduce exposure to carbon price hikes and volatility and currency risks. Importantly the use of international carbon credits is limited to a maximum of 50% of the market from 2015 to 2020. This means those companies with an investment in a domestic abatement pipeline will be able to significantly reduce their carbon cost. The legislation provides a fixed base price on the import of credits. Should an emitter be able to acquire carbon credits offshore for say \$8 they will still need to pay the Federal Government \$7 to top-up to the floor price of \$15.

Even though companies have been reporting their emissions under the National Greenhouse Energy and Reporting Act, it will take some time for companies directly exposed to the carbon price to determine their approach; especially in those instances where liabilities can be transferred within a corporate group or where Joint Ventures are involved.

CO2 Group through its subsidiary CO2 Australia has an unsurpassed record in delivering fixed price carbon abatement projects at scale. Existing customers include Woodside Petroleum, Newmont Mining, Inpex, Eraring Energy, Origin Energy, Actew, Kansai Electric Power, Macquarie Bank and Wannon Water.

Glossary of carbon units

Unit	Full name	Explanation
ACCU	Australian Carbon Credit Unit	Created through projects registered under Australia's Carbon Farming Initiative.
Kyoto-compliant ACCU		Created through projects registered under Australia's Carbon Farming Initiative from activities that contribute to abatement recognized within Australia's international account (Kyoto Account). Can be used by companies liable to pay the carbon price to meet their obligations and can be exchanged for 'Kyoto Units' for international trade.
Non Kyoto ACCU		Units created under the Carbon Farming Initiative from activities that do not contribute to Australia's international carbon account under the Kyoto Protocol. They are not exchangeable with Kyoto Units and cannot be used by entities liable under Australia's carbon tax legislation to acquit their liability.
CU	Carbon Unit (also known as Eligible Emissions Unit)	Issued by the Australian Government and obtained by companies at fixed charge, or freely allocated under the Jobs and Competitiveness Program. Cannot be traded during the fixed price period. During the floating price period these units are either allocated or purchased through auction and can be banked.
Kyoto Units		Carbon units created as a result of the Kyoto Protocol
AAU	Assigned Amount Unit	Units assigned to Governments with commitments under the Kyoto Protocol (Annex B Parties). Can be exchanged under rules for international emissions trading. The Australian Government will exchange Kyoto compliant ACCUs for AAUs.
RMU	Removal Units	Kyoto Unit created through reforestation and other land use change activities appearing as a 'credit' in national accounts.
ERU	Emissions Reduction Unit	Created through Joint Implementation Projects between countries with targets under the Kyoto Protocol. The Carbon Farming Initiative provides for the establishment of Joint Implementation projects, allowing international investors to invest in Australian reforestation projects and obtain the carbon unit for trade in the international market.
CER	Certified Emissions Reduction	Created through Clean Development Mechanism projects under the Kyoto Protocol. These involve projects that reduce emissions in developing countries financed from countries with a Kyoto target.
NZU	New Zealand Units	Created under New Zealand's Emissions Trading Scheme exchangeable by the New Zealand Government for AAUs.



Any queries in on this announcement should be directed to Harley Whitcombe on (08) 9321 4111.

Yours faithfully
CO2 Group Limited

A handwritten signature in black ink, appearing to read 'Harley Whitcombe'.

Harley Whitcombe
Company Secretary

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For more information contact:

Elise Margaritis: Marketing and Communications Manager, CO2 Australia
03 9928 5111 or 0408 359 977 or elise.margaritis@co2australia.com.au

www.co2australia.com.au

or

Judith Bence, Wilkinson Group
02 8001 8888 or 0415 903 849 or jbence@wilkinson-group.com.au