MACQUARIE CAPITAL ADVISERS LIMITED

FOREST CARBON MARKET OVERVIEW – AN INVESTOR'S PERSPECTIVE

IMPORTANT NOTICE

Preparer: This information in this presentation (Information) has been prepared by Macquarie Capital Group Limited ABN 54 096 705 109 based on information available to it as at 27 November 2008.

Confidential information: This Information is confidential and is intended to be provided only to the recipient to whom it is addressed or presented. By accepting this Information you agree to keep the Information confidential. The Information must not be copied or distributed in whole or in part or disclosed by any recipient to any other person.

Not an offer: No part of the Information is to be construed as solicitation or recommendation to make a financial investment, financial advice or an offer of any financial product. This Information is for general information purposes only. The offer or solicitation of any products mentioned in this Information is made only through delivery of the relevant offering document and will be subject to the terms and conditions contained in such a document.

No commitment: Nothing in this Information constitutes a commitment on the part of Macquarie to provide, or arrange for, any finance or any facility, nor to make any investment, or otherwise impose any obligation on Macquarie, in relation to the Information.

No responsibility: This Information has been prepared in good faith with all reasonable care. However, certain parts of this Information may be obtained or are based upon information obtained from third parties which may not have been checked or verified. To the maximum extent permitted by law Macquarie Capital Group Limited and the Macquarie Group of companies, its directors, employees, advisers or agents do not accept any liability, including, without limitation, any liability arising from fault or negligence on the part of any person, for any loss arising from the use of this Information or otherwise arising in connection with it. The Information is based on present circumstances, market conditions and beliefs. Macquarie has no obligation to ensure the Information is correct, to update the Information or correct any inaccuracies or omissions.

Past performance is not a reliable indication of future performance.

General advice only: None of the Information takes into account of potential investors' objectives, financial situation or needs. This Information does not constitute financial product advice and should not be relied on as such. The views or opinions expressed are the presenter's own and may not reflect the views or opinions of Macquarie Capital Group Limited or any member of the Macquarie Group of companies.

No guarantee: Other than Macquarie Bank Limited ABN 46 008 583 542 (MBL), any Macquarie Group entity or Macquarie managed fund noted in this document is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). That entity's obligations do not represent deposits or other liabilities of MBL. MBL does not guarantee or otherwise provide assurance in respect of the obligation of that entity, unless noted otherwise

The market is responding to world leaders

"The United States will once again engage vigorously in these negotiations, and help lead the world toward a new era of global cooperation on climate change"

Barack Obama, President-elect of the USA, November 2008

"Indonesia has etched a diplomatic history, by successfully hosting the UN Conference on Climate Change in Bali. We shall continue to strive that this Bali Roadmap will bring about a global consensus on climate change"

Susilo Bambang Yudhoyono, President of Indonesia, August 2008

"The Australian Government's ultimate aim is to ensure that future international carbon markets provide incentives for reducing emissions from deforestation and forest degradation"

Kevin Rudd, Australian Prime Minister, March 2008

Global market for emissions reductions

- Extremely high future demand for emissions reductions is expected if ambitious commitments are made by Annex 1 countries
  - The carbon market could reach over 6,000 MtCO2e p.a. in 2030 requiring an estimated 25,000-35,000 registered projects p.a.1
- Supply will fall short of demand unless the post-Kyoto framework includes new categories of emissions reductions (e.g. REDD) and national schemes recognise projects in developing countries
  - Efficiency dictates that at least half of abatement spending (until 2050) should occur in developing countries

Carbon market potential in 2030 – Energy Modeling Forum estimates[5*]	
Emissions reduction (from 1990 base)	30%
Stabilisation of GHG concentrations	450 -550 ppmv CO2e
Volume of reduction[2]	6,400 Mt CO2e p.a.
Volume purchased from developing countries p.a[3]	3,200 Mt CO2e p.a.
Market value[4]	US$107bn p.a.

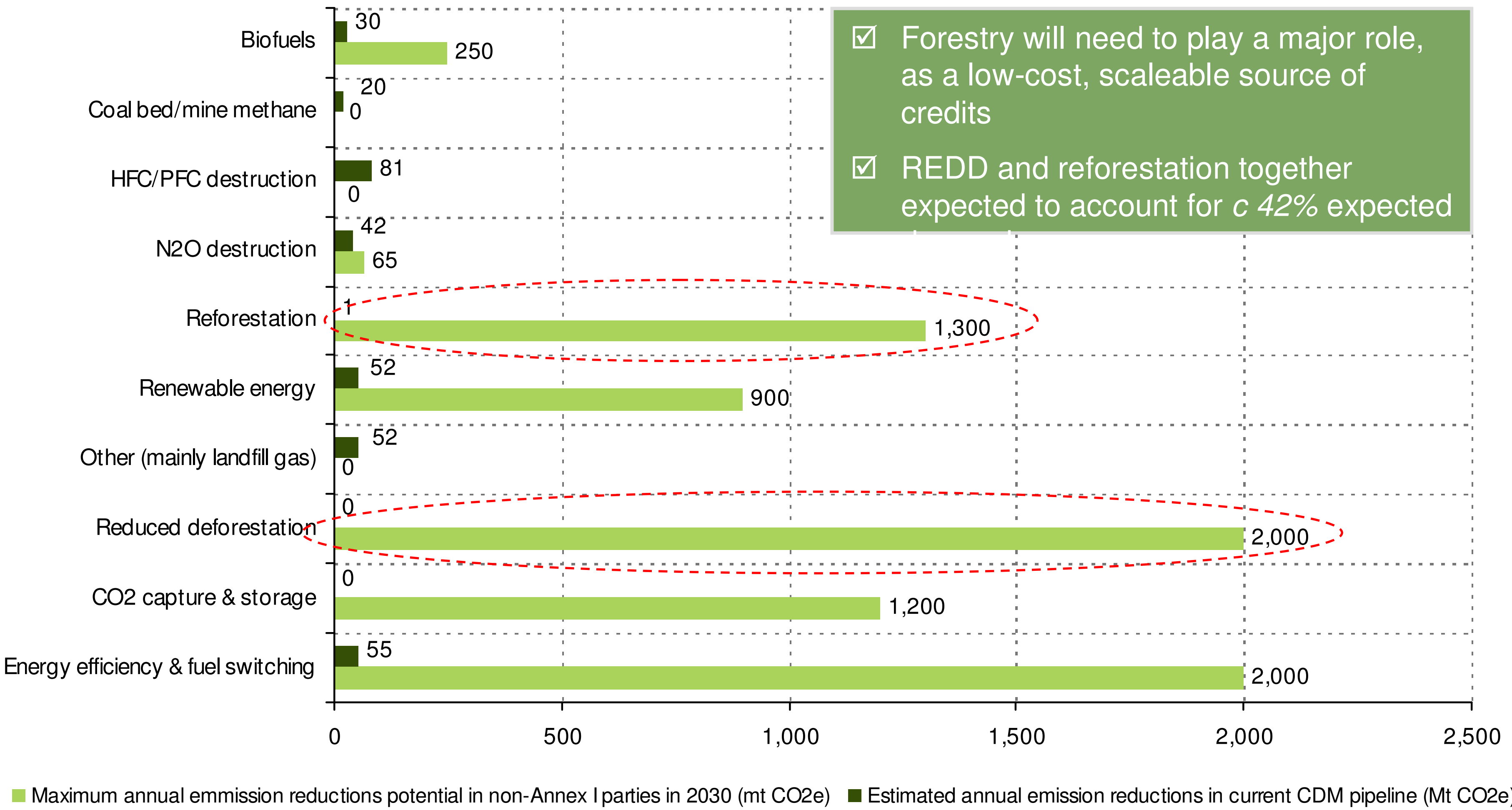
*Based on UNFCCC assessment of a range of models and data sources

Source: Investment And Financial Flows to Address Climate Change: Background paper on analysis of existing and planned investment and financial flows relevant to the development of effective and appropriate international response to climate change, UNFCCC, 2007

Notes:
1. Assuming projects represent average annual emissions reductions of 165,000tCO2e p.a.- this would require a 4 to 5 fold increase in projects
2. Includes GHG emissions by all Annex I / B parties (including Australia and the US)
3. Assumes that half of the CO2e reduction is purchased from developing countries
4. Assumes market price of US$16.5 t/CO2e in 2030
5. Energy Modelling Forum estimates included in UNFCCC report cited below. Assumes ambitions commitments by all Annex I parties (including Australia and the US) and no commitments from non-Annex I parties

Demand for forestry projects will be high

Sources of carbon credits: Now and in 2030



- ☑ Forestry will need to play a major role, as a low-cost, scaleable source of credits
- ☑ REDD and reforestation together expected to account for *c 42%* expected

Source: Investment And Financial Flows to Address Climate Change: Background paper on analysis of existing and planned investment and financial flows relevant to the development of effective and appropriate international response to climate change, UNFCCC, 2007

What does the private sector bring?

MACQUARIE

Private sector investment can channel carbon finance from developed nations to developing nations, drive quality project design and management, deliver accountability to carbon buyers and trigger economic incentives for real and measurable reductions in deforestation for national and international policy makers.

Investing capital in developing markets	☑	→ Capital for project design and verification (typically min. 12 months) → Investment over the long-term, including ability to fund upfront costs while carbon benefit accrues (i.e. concession buy-outs)
Proven project management expertise	☑	→ Experience in sustainable long term management of community assets (similar to other privately financed social infrastructure i.e. water supply, schools, hospitals) → Ensure project level accountability and success → Experience in carbon credit creation and Clean Development Mechanism projects
Accessing global carbon finance	☑	→ Providing a link to and consistency with existing carbon markets (US$64 bn market) → Sourcing investment to transfer finance from developed to developing nations
Accountability & risk management	☑	→ Risk held by project manager, consistent with current Kyoto rules → Accountable to the carbon buyer for project success (and carbon benefit, i.e. ERPA) – key requirement for finance flows → Transparency of all financial flows
Scale and speed of investment	☑	→ Ability to finance rapid reduction in deforestation as demand for abatement increases in accordance with global emission reduction agreements → The existing carbon market demonstrates the effectiveness of private investment

What does the private sector get?

MACQUARIE

REDD projects can be attractive to investors as eco-infrastructure….

Stable and predictable cashflows	☑
Long term return profile	☑
Bond-like characteristics as projects de-risk	☑
Natural hedge for carbon-based portfolios	☑
Boost to corporate sustainability profile	☑

….providing value beyond pure 'carbon' benefit

- → Trigger for private foreign investment in developing nations at significant scale
- → Ability to pursue complementary projects in surrounding area (e.g. sustainable logging, agriculture and renewable energy)
- → Local employment opportunities
- → Broader ecosystem services benefits (food, water, rainfall, biodiversity)

Credibility is critical for market success

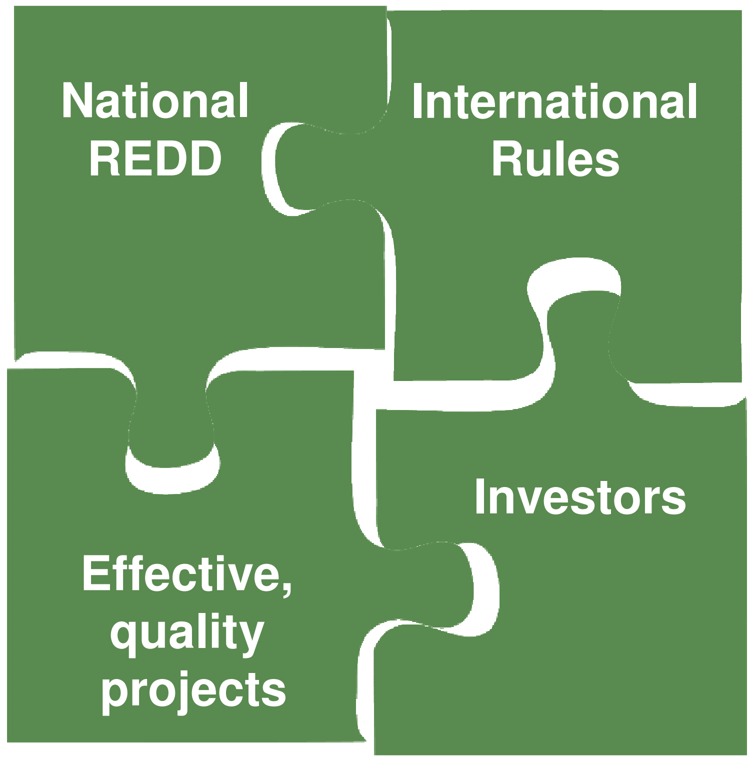
Key ingredients for private investment in REDD……..

Nationally endorsed REDD framework

- ✓ Process for approving projects and recognising carbon rights
- ✓ National carbon monitoring and accounting
- ✓ Policy settings for co-benefits (biodiversity, community)
- ✓ Great progress: e.g. Government of Indonesia REDD framework

Effective, quality projects

- ✓ Meet national and sub-national framework
- ✓ Deliver additionality and address leakage & permanence
- ✓ Sustainable carbon and co-benefits (pro-poor impact)



Certainty on international agreement

- ✓ Meaningful deal on emissions reduction to drive abatement
- ✓ REDD inclusion
- ✓ Effective & <u>efficient</u> rules that encourage investment

Strategic investors

- ✓ Suit long-term investors
- ✓ Appreciation for co-benefits and sustainable land use manage
- ✓ Effective links to carbon markets – achieving price premium

…….no one wants to buy junk bonds!