

## ***The KfW Carbon Fund***

### **Conditions for Participants**

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| <b>1. Purpose of the KfW Carbon Fund</b>    | <p>The KfW Carbon Fund is a programme for acquiring greenhouse gas emission certificates (“certificates”). Certificates within the meaning of this acquisition programme are:</p> <ul style="list-style-type: none"> <li>• Emission credits from projects pursuant to Article 6 (Joint Implementation/JI); Emission Reduction Units (ERU) and Article 12 (Clean Development Mechanism/CDM); Certified Emission Reductions (CER) of the Kyoto Protocol,</li> <li>• Other emission credits under the condition that they are related to emission reductions in projects in Germany or in other countries that are tantamount to the projects described above, and</li> <li>• Allowances issued by other EU member states or third countries pursuant to Art. 13 Para. 1 and 3 of the German Greenhouse Gas Emissions Trading Act (TEHG). Allowances are only acquired to the extent that measures are implemented to reduce CO<sub>2</sub> emissions in an amount equal to the entitlement secured by those allowances. Simple trading of the EU Allowances (EUA) allocated under the EU Emissions Trading System (ETS) is not planned.</li> </ul> |
| <b>2. Goal of the acquisition programme</b> | <p>The purchase of certificates encourages the implementation of projects and measures that contribute to reducing global greenhouse gas emissions. The goal of the acquisition programme is to provide participants with cost-efficient certificates that can be used to fulfill obligations under the TEHG.</p>  |
| <b>3. Participants</b>                      | <p>Companies and other private and/or public-sector entities or institutions (“Participants”) whose financial status KfW considers to be sufficient (investment grade rating or comparable security for payment obligations of the Participants) may take part in the acquisition programme.</p>   |
| <b>4. Agent</b>                             | <p>KfW</p>   |
| <b>5. Object of agency business</b>         | <p>The acquisition of the certificates is carried out by KfW in its own name for the account of the Participants on the basis of individual agency contracts.</p>  |
| <b>6. Contribution</b>                      | <p>Usually not below EUR 500,000.--</p>  |
| <b>7. Programme volume</b>                  | <p>The programme volume equals the total of all contributions; the target programme volume is EUR 50 million.</p>  |

- 8. Minimum volume** KfW starts its activities as agent only if the programme volume amounts to at least EUR 25 million.
- 9. Deadline for participation** The deadline for concluding agency contracts is December 31, 2004. If the minimum volume is not achieved by then, KfW is entitled to cancel any agency contracts concluded until such date.
- 10. Payment request** Unless agreed otherwise in individual cases, KfW will request payment of the contributions in a timely manner in accordance with the funds needed to purchase certificates under the purchase agreements concluded by KfW.
- 11. Transfer of the certificates** Upon receipt by KfW the certificates will be transferred to the Participants without undue delay. The Participants undertake to acquire certificates from KfW at any time up to the value of their respective contribution. The certificates to be transferred will be taken from the available certificates in accordance with the share of the individual contribution of the programme volume. Participants have no right of claim to the transfer of certificates from specific purchase agreements.
- 12. Quality of the certificates** With the due care and diligence customary in banking practice KfW will assess whether the certificates to be purchased satisfy the requirements set forth in the TEHG for recognition or conversion into allowances. Applying for recognition or conversion is the responsibility of the Participants. KfW cannot guarantee recognition or conversion.
- 13. Project selection criteria** KfW will select the projects and measures underlying the emission credits or allowances according to customary banking criteria and to their suitability as required by the TEHG and according to cost and risk criteria. The following criteria in particular will be taken into account in the selection (as far as they are necessary and relevant):
- Fulfillment of the requirements of the CDM Executive Board of the UNFCCC Secretariat
  - Fulfillment of the requirements of the JI Supervisory Committee of the UNFCCC Secretariat
  - Fulfillment of the requirements of the federal government of Germany and of the host country as well as those set forth in the EU Emissions Trading Directive
  - Fulfillment of relevant environmental standards
  - Acceptable risks to project implementation and operation
  - Acceptable country risk
  - Creditworthiness of the project partners
  - Transaction volume (usually not below 50,000 t of CO<sub>2</sub>e p.a.; bundling of smaller measures is possible)
  - Transaction costs
  - Status of preparation

- 14. Portfolio criteria** In order to diversify the risk KfW will strive for adequate diversification of the purchase agreements for certificates that it concludes, taking special account of country, counterparty and technology risks.
- 15. Maximum price** KfW will conclude purchase agreements for a fixed price per ton of CO<sub>2</sub>e. It will strive for the best price possible, which is limited beforehand to a certain maximum price that may only be exceeded if the Participants consent.
- 16. Purchase agreements** The purchase agreements to be concluded will be negotiated by KfW. In so doing KfW will strive to serve the economic interests of the Participants as well as possible. In principle the following structural elements are planned for the agreements to be concluded:
- The intention is to conclude purchase agreements that will be valid until 2012 at the latest with an option for the period 2013-17.
  - The purchase agreements shall provide for the acceptance of defined annual quantities for a fixed price.
  - The maximum purchase amount per purchase agreement shall generally not exceed 50% of the expected annual quantity of certificates that are generated or released in connection with the project or measure serving as a basis. Where applicable, an option may be agreed for quantities beyond this amount. The seller shall principally be granted an option for early fulfilment of the agreement.
  - Payment is rendered upon delivery of the certificates; downpayments out of the programme volume are usually not provided for. Any decision on possible downpayments is to be taken on a case by case basis depending on the availability of specified funds for pre-financing.
  - KfW will make use of risk hedging instruments available in the market according to customary banking practice.

- 17. Purchase period** Purchase agreements may be concluded up to but no later than December 31, 2006. At such date the programme volume will be reduced by the amounts not covered by purchase agreements. The contributions will be reduced pro rata.
- 18. KfW funds** KfW will contribute own funds equalling a share of at least 20% but no more than EUR 10 million of the programme volume.
- 19. Right of first refusal** The Participants are granted an option on the certificates acquired by KfW with its own funds in accordance with their share of the programme volume. The option must be exercised at the market price for the certificates offered as determined by KfW and which may not be less than the weighted average of the purchase prices agreed in the respective purchase agreements.
- 20. Services by the Agent** KfW will, insofar as required and desired, play a supporting role in the preparation/acquisition of the documents necessary for the selection and appraisal of the projects and measures as well as in the various authorization procedures that are required. This includes in particular
- Preparation of project design documents (PDD) and monitoring plans in accordance with the requirements of the CDM Executive Board or, where applicable, of the Supervisory Committee of the UNFCCC Secretariat;
  - Selection and commissioning of designated operating entities (DoE) or independent entities (IE) as validators and certifiers;
  - Assurance of the proper submission of the project documents to the bodies of the UNFCCC Secretariat;
  - Coordination with the competent national agencies in Germany and in the host country;
  - Preparation of business plans and other documents required for an assessment by a bank.
- Insofar as external costs are incurred in this connection, they must be borne by the seller. Pre-financing for these costs out of KfW's own funds (cf. Item 18) may be agreed as needed in individual cases.
- 21. Remuneration of the Agent** For its services KfW will receive remuneration in the amount of a certain percentage p.a. of the respective outstanding contribution; i.e. the original contribution amount (possibly reduced in accordance with Item 17) less the contributions paid for purchase agreements that have already been fully processed. The remuneration is payable on a quarterly basis per calendar year beginning with the start of work by KfW and ending with the final transfer of certificates.

**22. Information to the Participants**

KfW will report to the Participants semi-annually on the utilization of the contributions and the progress of the projects and measures serving as a basis for the concluded purchase agreements. In particular, it will report circumstances that may jeopardize the planned acquisition of emission credits and/or allowances.

**23. Advisory Council**

The Participants will form an Advisory Council to discuss the development of the KfW Carbon Fund on the basis of KfW's reports and make recommendations for activities in the following year.

- The Council will convene for the first time 12 months after KfW takes up its work.
- Every Participant whose contribution is 10% or more of the programme volume is entitled to send a representative to the Council. Participants whose contribution is less than 10% of the programme volume may designate one or more joint representatives. The total number of representatives of the Participants is limited to ten.
- Apart from the Participants, the Council will also comprise one representative of the German federal government.
- The Participants are entitled to send a third party to the Council to represent them.
- KfW will convene, prepare, and hold the council meetings.
- Any costs incurring in connection with the council meetings such as travel expenses etc. must be borne by the council members themselves.

**25. Information to the public**

KfW and the Participants are entitled to make information about the KfW Carbon Fund and the projects and measures on which it is based available to the public insofar as this information does not consist of operating or business secrets of those involved that would need to be kept confidential.

**Note**

The present Conditions for Participants are to serve as information for parties interested in the KfW Carbon Fund. They do not constitute a contractual document. These conditions for Participants do not give rise to claims of any kind against KfW.