Prototype Carbon Fund

From the Chair of the PCF Participants' Committee

Since its inception, the project-based market for carbon credits was developed, shaped and dominated by buyers like the PCF. This market grew rapidly last year with further indication of a greater degree of maturity. With growing demand for quality emission rights from cost effective and low risk CDM and JI projects, we are observing now for example, that sellers are gaining increasing power in the market which is reflected in the terms and prices negotiated for carbon contracts.

This is one of the reasons that in spite of all efforts, fiscal year 2006 did not see the expected end of the allocation of available PCF funds to suitable climate protection projects. We are confident that we will be able to close the PCF in early fiscal year 2007 and move on to the implementation phase.

At the end of this fiscal year Jean-Claude Steffens stepped down as Chair of the PCF Participants' Committee. On behalf of the PCF participants, I would like to thank Jean-Claude for his guidance and advice and we are looking forward to cooperating with him in the Participants' Committee.

Hans Georg Adam

Hans Georg Adam
RWE

The Prototype Carbon Fund—Fulfilling its Mandate

The mission of the Prototype Carbon Fund was to pioneer the market for project-based greenhouse gas emission reductions within the framework of the Kyoto Protocol and to contribute to sustainable development. Operational since April 2000 as the first public/private partnership aimed at mitigating climate change to be established globally, the PCF has achieved these goals. Thanks in part to the innovative lead of the PCF, project-based mechanisms used to generate potential credits for reductions in emissions of greenhouse gases (CDM and JI) have now been solidly established.

The PCF provides funds to projects designed to produce high quality greenhouse gas emission reductions, which PCF participants may be able to use in compliance with their expected greenhouse gas reduction obligations. Six governments and 17 companies, all from industrialized countries, have contributed $180 million in funds to the PCF, which currently has a portfolio of 25 transactions covering a variety of technologies including renewable energy, energy efficiency, solid waste management and industrial gas emissions abatement. The PCF has signed emission reductions purchase agreements for 21 of these transactions.

By the end of 2006, the PCF will have all purchase agreements signed and is expected to close its portfolio. Several of the PCF transactions have started to generate emission reductions for the PCF participants and revenues for the project sponsors. The Brazil Alta Mogiana Bagasse Cogeneration project was the first PCF project to be registered by the CDM Executive Board (EB) and was issued the first certified emission reductions (CERs) in August of this year. Most of the CDM projects in the PCF portfolio are scheduled to be registered by the Executive Board by the end of December 2006.

BRAZIL

First Certified Emission Reductions for the PCF

Brazil Alta Mogiana Bagasse Cogeneration project is the first PCF project to be registered by the CDM Executive Board (EB) and was issued the first certified emission reductions (CERs) in August of this year. The project consists of increasing the efficiency in the bagasse cogeneration facility at Usina Alta Mogiana S/A Acucar e Alcool, a Brazilian sugar mill located in the State of Sao Paulo. Bagasse, a renewable fuel source, is a residue from sugarcane processing. By investing in more advanced boilers to increase the efficiency of bagasse combustion as well as steam output in the production of sugar and alcohol, Alta Mogiana generates surplus steam which is used to produce electricity for export to the national grid. The project thus avoids the generation from the grid of the same amount of electricity that would otherwise be produced using fossil fuel.

While the project promotes the generation of clean power based on renewable energy, it also demonstrates the viability of electricity production as a source of revenue for the sugar industry. The great majority of the 320 sugar mills in Brazil produce energy for on-site use only due to low efficiency equipment installed in most of those mills. The sale to the PCF of emission reductions generated by the project, amounting to 110,000 tons of carbon dioxide equivalent over seven years, will boost the attractiveness of bagasse cogeneration projects and will reduce dependency on fossil fuel.

PCF Participants

GOVERNMENT OF CANADA
The Canadian International Development Agency and Canada's Clean Development Mechanism and Joint Implementation Office have represented Canada in the PCF since its inception in 2000. Canada has been rewarded by participation in the PCF with a wealth of information on developing and implementing greenhouse gas emission reduction projects.*

GOVERNMENT OF FINLAND
The Finnish Government regards the Kyoto Protocol as a landmark agreement. The PCF is an integral part of Finland's Pilot Programme established to build capacity to utilize project-based mechanisms. Through participation in the PCF, Finland gains useful experience and information on the rapidly developing carbon market and contributes to developing JI and CDM as effective policy tools.*

JAPAN BANK FOR INTERNATIONAL COOPERATION
The Japan Bank for International Cooperation (JBIC), a policy-based financing institution for conducting Japan's external economic policy and cooperation, highly commends the PCF for accumulating know-how on CDM/JI project formulation. JBIC will utilize such know-how to provide assistance to projects that contribute to sustainable development and climate change mitigation in developing countries.*

GOVERNMENT OF THE NETHERLANDS
The Dutch government is committed to tackling global warming. The Ministry of Economic Affairs finds it of utmost importance that carbon dioxide emissions now have a price on the international market. The PCF played an important role in that process. The EU's linking directive has provided a good incentive for the development of CDM and JI. Now we need quick decisions on the climate regime after 2012.*

GOVERNMENT OF NORWAY
In 1996, Norway supported the creation of an Activities Implemented Jointly program at the World Bank. The program emphasized learning, client-country engagement, methodological development, private sector participation and the identification of projects. These experiences directly influenced the development of the carbon funds in the World Bank and the participation of Norway in the PCF.*

GOVERNMENT OF SWEDEN
Sweden strives to be a forerunner in global cooperation to curb climate change. Sweden has made great efforts to ensure that the Kyoto Mechanisms evolve into efficient, reliable and fair tools for international cooperation in climate change mitigation. Participation in the PCF aims to influence the fund's policy towards high-quality projects, interesting methodological challenges and a just geographical distribution of projects.*

BP P.L.C.
BP, one of the world's largest energy companies, aims to demonstrate environmental leadership and work with others to support and develop climate change policy and mitigating technologies. The PCF has been outstanding in developing carbon markets and communicating its market-leading knowledge. Participation has provided BP with valuable experience towards meeting its environmental goals.*

CHUBU ELECTRIC POWER CO., INC.
Chubu Electric Power Co. Inc. (Chubu Electric) shares environmental consciousness and coordinates with its partners in Japan and overseas in providing assistance to clean energy projects and energy efficiency improvements in Asian countries. Chubu Electric joined the PCF at its founding and has committed $10 million, among the largest contributions from a private sector participant.*

THE CHUGOKU ELECTRIC POWER CO., INC.
The Chugoku Electric Power Co., Inc. was established in 1951 and supplies electricity to the Chugoku region in western Japan. To prevent global warming, the company undertakes various measures including promotion of nuclear power generation and renewable energy. Participation in the PCF further indicates the company's commitment to address climate change and contribute to sustainable development.*

DEUTSCHE BANK
Deutsche Bank recognizes the fundamental importance of the sustainability oriented implications of climate change. The company strongly endorses the approach and methodology undertaken by the PCF. Deutsche Bank's ability to meet representatives of host governments, industry and the finance sector has been particularly welcome in the framework of implementing the concept of the PCF.*

ELECTRABEL
Electrabel is active in the generation, trading and supply of electricity in 10 countries of the European Union. The company recognized the importance of climate policy very early, and the investment in the PCF was considered a unique opportunity to learn about cimate friendly projects. This knowledge has contributed to the company's development of several CDM projects.*

FORTUM
Fortum is a leading energy company in the Nordic countries and the other parts of the Baltic Rim. The company has systematically developed its business towards low-carbon production and better management of greenhouse gases through its own investments and the utilization of the Kyoto Mechanisms. In this respect the PCF has been Fortum's flagship.*

PCF Participants *continued*

Gaz de France

GAZ DE FRANCE

Gaz de France is one of the leading European gas groups and is active throughout the world. Gaz de France is actively looking at sustainable development issues related to energy and climate change. Its many actions currently go from major research programs to voluntary reduction of its own emissions. Participation in the PCF is part of this effort.*

KYUSHU ELECTRIC POWER CO., INC.

KYUSHU ELECTRIC POWER CO., INC.

Kyushu Electric Power Company supplies electricity to the Kyushu region in southwestern Japan. Kyushu Electric endeavors to utilize its accumulated know-how on the reduction of greenhouse gases in activities to prevent global warming. As a part of such efforts, the company participated in the PCF upon its establishment in 2000.*

Mitsubishi Corporation

MITSUBISHI CORPORATION

Mitsubishi Corporation has been active in the whole range of business related to the Kyoto Mechanisms. Mitsubishi not only trades emission credits but develops CDM/JI projects by providing its technical, financial and marketing expertise in various countries. By participating in the PCF, Mitsubishi has gained know-how to support those who are potentially liable with the climate change problem.*

MITSUI & CO., LTD.

MITSUI & CO., LTD.

Mitsui is one of Japan's leading trading houses and has more than 150 overseas offices. Its main functions in the emissions trading business include project development, investment, financing and emissions trading. Mitsui continues to develop a wide range of knowledge in the field through participating in the PCF and contributing to the world by providing solutions concerning global environmental issues.*

HYDRO

NORSK HYDRO

Norsk Hydro manufactures aluminum and petrochemicals and has activities in the oil, gas and electricity sectors. The group has businesses in approximately 40 countries. Norsk Hydro's investment in the PCF has been an important element in the company's build-up of knowledge and position, as it prepared for the emissions trading system within the European Union.*

Rabobank

RABOBANK

Rabobank is the world's leading bank in the food and agri-business sectors with offices in 34 countries. Sustainable resource management and effective climate change policies are key to the business of Rabobank clients and hence to Rabobank's long-term interest. Rabobank offers a suite of products and services to help its clients interact effectively in the carbon market.*

RWE

RWE

RWE is one of the largest industrial companies in Germany and a leading player in the international electricity and gas sector. RWE's major power generation, energy sales and trading markets are in Germany, the United Kingdom and Central/Eastern Europe. RWE joined the PCF as part of its climate protection strategy and in order to gain experience with project-based generation of carbon credits.*

YONDEN

SHIKOKU ELECTRIC POWER CO., INC.

Shikoku Electric Power Co., Inc. (YONDEN), which is one of 10 electric utilities in Japan, currently provides high-quality, low cost, stable electricity service for more than four million people of Shikoku region. Shikoku expects the PCF to create high-quality greenhouse gas emission reduction credits economically while it contributes to sustainable development in the future.*

STATOIL

STATOIL ASA

Statoil is an integrated oil and gas company, headquartered in Norway, with 25,600 employees and activities in 33 countries. The company is one of the world's most environmentally-efficient producers and transporters of oil and gas. Statoil joined the PCF to help kick-start the implementation of the Kyoto Mechanisms, gain experience and meet future obligations for emission limitations cost-effectively.*

東北電力

TOHOKU ELECTRIC POWER CO., INC.

Tohoku Electric Power Company supplies electricity to about 7.7 million customers in the north-eastern region of Japan's main island. Involvement in the PCF gives the company a great opportunity to acquire know-how in implementing the Kyoto Mechanisms, and also a chance to demonstrate its strong capability to address climate change issues all over the world.*

TEPCO

TOKYO ELECTRIC POWER CO., INC.

Tokyo Electric Power Company Inc., (TEPCO) supplies electricity to the Tokyo Metropolitan area. TEPCO makes every effort to meet its voluntary target of reducing carbon dioxide emissions by enhancing the use of nuclear facilities and supporting high efficiency appliances. With the experience gained through its PCF participation, TEPCO has been involved in CDM/JI activities.*

* The information in the participants' writeups in this report was provided by the participants of the various carbon funds managed by the World Bank and, with the exception of minor editorial changes, is reproduced in the same form in which it was provided. The views and opinions expressed in the participants' writeups are those of the participants providing the information and do not necessarily represent the views and opinions of the World Bank. The World Bank does not take any responsibility for the information contained or the representations made in the participants' writeups.

PCF Portfolio Status

	Country/Project Name	Project Description	PCF Contract ERs (tCO_2e)
Emission Reductions Purchase Agreements Signed			
1	**Brazil: Alta Mogiana Bagasse Cogeneration**	Increase efficiency in manufacturing processes and install new facilities to generate surplus electricity to be commercialized	110,000
2	**Brazil: Plantar Sequestration and Biomass Use**	Charcoal produced from sustainably harvested plantation replacing coke for pig iron manufacture	1,514,286
3	**Bulgaria: Pernik District Heating**	District heating system upgrades for the city of Pernik	157,000
4	**Bulgaria: Sofia District Heating**	District heating system upgrades for the city of Sofia	1,084,000
5	**Bulgaria: Svilosa Biomass**	13.4 megawatt biomass-based boiler to utilize wood waste produced at the Svilosa pulp and cellulose plant to replace coal	450,000
6	**Chile: Chacabuquito Hydro**	26 megawatt run-of-river hydro to replace coal or gas in the grid	1,090,030
7	**China: HFC-23 Destruction**	Installation of an incineration facility to decompose HFC-23 generated by the existing HCFC22 manufacturing facility into carbon dioxide and hydrogen fluoride	5,000,000
8	**China: Jincheng Coal Mine Methane**	Capture of coal mine methane (CMM) associated with coal mining operation and utilization of CMM for power generation by installing steam turbine-gas engine combined cycling power plant of 120 megawatts	4,500,000
9	**China: Xiaogushan Hydropower**	98 megawatt peaking run-of-river hydroelectric plant located on the Heihe River in the Sunan Yugur	3,000,000
10	**Colombia: Jepirachi Wind Farm**	19.5 megawatt wind farm in the northern part of Colombia to displace a mix of coal- and gas-based power generation	288,383
11	**Costa Rica: Cote Hydro**	6.8 megawatt hydro to be supplied to the national grid	172,120
12	**Czech Republic: Czech Energy Agency (CEA) Energy Efficiency (Umbrella)**	Energy efficiency measures and renewables through the Czech Energy Agency. 18 sub-projects make up the umbrella project: two district heating projects and 16 mini hydro projects	500,000
13	**Guatemala: El Canada Hydro**	43 megawatt peaking run-of-river hydroelectric plant on the west coast of Guatemala to displace thermal power plants	2,000,000
14	**Hungary: Pannonpower Pécs Fuel Conversion**	Conversion of Pécs Power plant's existing coal-fired boilers to biomass	1,193,000
15	**Indonesia: Indocement Sustainable Cement Production**	Energy efficiency measures in Indocement plants by reducing clinker contents in the produced cement; burning alternative fuels for clinker formation; utilizing heat power generation in three locations at Citeureup, Cirebon and Tarjun	*
16	**Latvia: Liepaja Solid Waste Management**	Methane capture and utilization from waste management providing electricity to the national grid	387,933
17	**Moldova: Soil Conservation**	Afforestation of 20,000 hectares of degraded and eroded state-owned and communal agricultural lands throughout Moldova	1,300,000
18	**Philippines: NorthWind Bangui Bay Project—Phase I**	25 megawatt capacity wind farm on a strip of land on the foreshore of Bangui Bay in Ilocos Norte	356,000
19	**Poland: Stargard Geothermal**	District heating system to utilize geothermal energy to replace coal in the city of Stargard	240,000
20	**Romania: Afforestation**	Afforestation of 6,852 hectares of public land	854,985
21	**South Africa: Durban Municipal Solid Waste**	Collection and generation of electricity at two landfill sites. Initial electricity generation of one megawatt (0.5 megawatt at each site) with the potential to expand to two megawatts	613,881
Projects Under Negotiation (indicative contract volumes)			
22	**Brazil: Lages Cogen Facility**	Installed capacity of 28 megawatt electricity plus 25 tons per hour of steam, fueled by wood waste from the sawmill industries of the region	750,000
23	**China: Huitengxile Wind Farm**	Construct and operate a 100 megawatt wind farm in Inner Mongolia in China. The project will consist of around 50 to 100 wind turbines of one to two megawatt capacity with a net annual generation of 245 gigawatt hours per year	1,600,000
24	**Mexico: Umbrella Waste Management**	Three bundled waste-to-energy projects with nine megawatt capacity	2,000,000
25	**Uganda: West Nile Electrification Project**	Two 1.75 megawatt hydro to replace a number of diesel generator sets in West Nile region. The project will also install a 1.5 megawatt generator	472,462

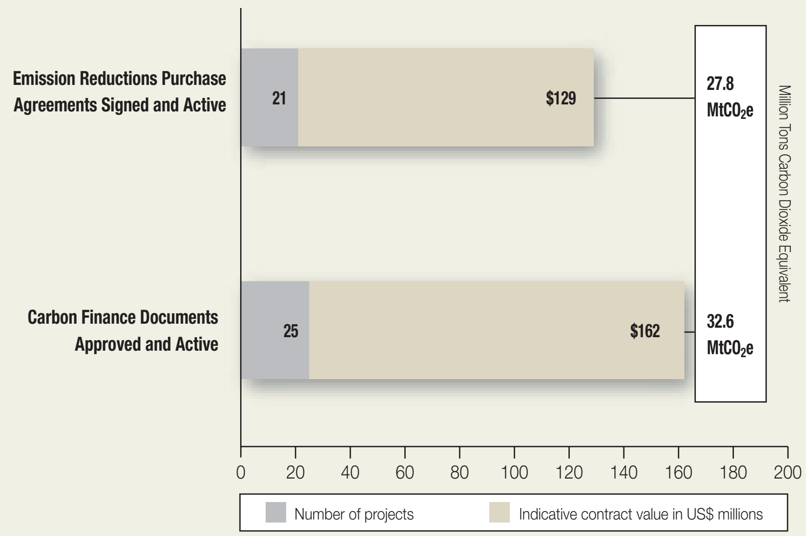
*Not publicly available.

Prototype Carbon Fund

PCF Portfolio Development

The PCF portfolio consists of 25 transactions with approved carbon finance documents worth approximately $162 million. As of August 31, 2006, 21 emission reductions purchase agreements had been signed. These projects, which total $129 million, represent most of the PCF portfolio. The four remaining purchase agreements are expected to be signed by the end of 2006, at which time the PCF will close its portfolio.

Status of Project Development in the PCF (cumulative)



Note: The above figures exclude options purchases.

CZECH REPUBLIC

Czech Energy Agency Energy Efficiency Umbrella Project

The current level of energy intensity in the Czech Republic is relatively high and there exists a large potential for energy efficiency improvements and small renewable energy projects. The Czech Umbrella Project demonstrates the PCF's ability to work with government agencies to review, develop and approve such small JI projects. For these projects, the Czech Energy Agency screened and grouped small district heating and hydro power projects from which the PCF is purchasing emission reductions.

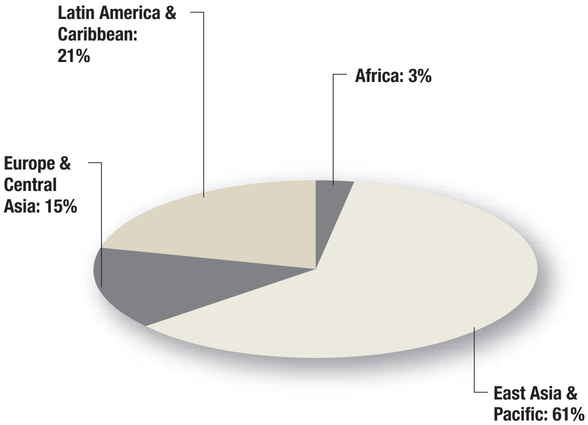
Included in the Umbrella Project are two district heating and 16 small hydro projects. An example of the projects is the Rozmital District Heating Project located in a small town of 5,000 in Central Bohemia in the western part of the country. The project installed new gas-fired boilers to supply current district heating loads, 36 new flats and a school. Heat production in the city used to be from three one-megawatt coal boilers that were in extremely poor condition.

PCF Portfolio Development *continued*

Active PCF Portfolio—$162 Million

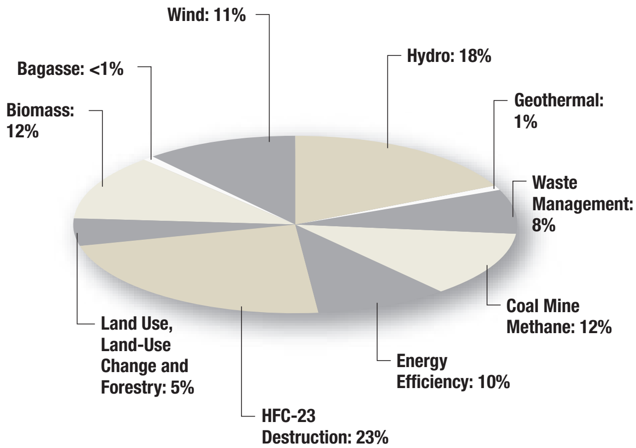
Geographic Distribution

Consistent with the evolution from previous years, the East Asia and Pacific portfolio has become stronger, accounting for roughly 60% of the portfolio value. It will continue to dominate the portfolio along with Latin America and the Caribbean, followed by Europe and Central Asia, with a relatively small share for Africa.



Technological Distribution

The asset class distribution of the PCF is technologically diverse. As intended, renewable energy projects still dominate the portfolio, representing 35% of emission reduction purchases. HFC-23 destruction has become a substantial source of emission reductions with 23% of the portfolio. Land use, land-use change and forestry (LULUCF) make up about 5% of the portfolio.



Pauli Mustonen
1957–2006

Mr. Pauli Mustonen, one of the pioneering advocates of the Prototype Carbon Fund and Participants' Committee member 2000–2001 died in a helicopter crash in eastern Nepal on September 23, 2006. He and 23 colleagues and crew members were returning from a ceremony in which the government of Nepal handed over the responsibility for managing the Kanchenjunga Conservation Area to local communities. Pauli Mustonen was serving as Finland's Chargé d'Affaires in the Nepalese capital, Kathmandu.

Pauli was born in Finland in 1957. He held a M.Sc. (Eng.) degree from Helsinki University of Technology, and joined the Finnish Ministry for Foreign Affairs in 1984.

Pauli Mustonen was a true diplomat and a determined supporter of environmental and development issues, both of which were especially close to his heart. He was among those who recognized the significance of climate change to development well before the agreement on the Kyoto Protocol. The way in which Pauli Mustonen championed the decision of the Finnish Government to invest in the establishment of the PCF, at a time when the carbon market did not exist, was a remarkable achievement. He was a man of quiet but firm conviction, and what he said was always important and often decisive. He reached out to many stakeholders and listened carefully to what they had to say. His understanding of where stakeholders stood increased his capacity to influence public policy in the same well thought out and effective way in which he spoke. His passion for poetry and the arts gave balance to his life and made him an even more intriguing friend and companion. Staff at the World Bank and participants in the PCF will remember Pauli Mustonen as a friend, colleague and a strong ally of those working to achieve sustainable development.