

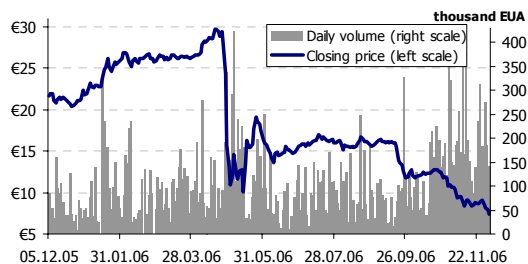
**FUNDAMENTALS PREVAIL – EUA PRICE UNDER €8**

**Pravda Capital conference in Poland**

**Trading SPOT**

Last week started with price of **€9.05 per EUA**, however EUA price lost its value significantly throughout next days. The biggest fall was on Friday, when allowances lost more than €0.5 (6%) and finally reached price of **€7.43 per EUA**. Very mild weather, lack of buying support from utilities and higher than usual supply reaching the market were main reasons.

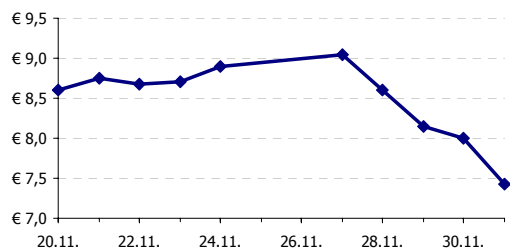
**EUA Prices and Volumes on Powernext exchange (spot)**



Source: Powernext

Volume traded on the last week was 24 million. This is 4% more than on the previous week. From the total volume, OTC market did 57% while the remaining 43% were executed on exchanges. The volume of EUAs traded in the EU ETS in November was 100.2 million, the largest monthly volume on record.

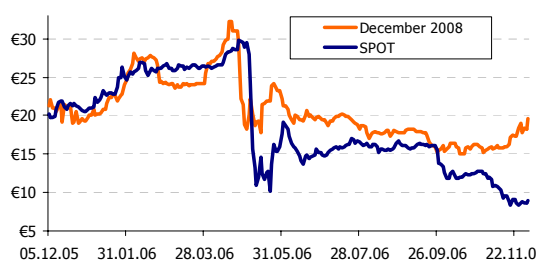
**EUA Prices on Powernext exchange – past two weeks (spot)**



**Trading FORWARD**

We are initiating coverage of the forward/futures prices as we believe that they will gain importance with the NAPII period approaching. As predicted in our client's conferences, we can observe decoupling of the SPOT06 and Dec08 prices. This is caused by growing confidence that NAPII will not be overallocated and NAPII EUAs will be very valuable.

**EUA SPOT and December 2008 Prices**



Source: Powernext, Pointcarbon

**News**

**Pravda Capital** would like to invite you to participate in conference " **Emissions permits valuation and optimal trading strategy**", which will take a place in **Sofitel Victoria Hotel in Warsaw on 14th of December 2006**. If you have not received invitation, please contact us on: **+48 223 897 316**

**European Commission, Wednesday:** NAPII proposed by 10 EU member states (Germany, Greece, Ireland, Latvia, Lithuania, Luxembourg, Malta, Slovakia, Sweden and UK) was **cut** by the **EC** by **46.86 million** tones per year. Therefore those countries have been allowed to allocate total amount of 860.1 million allowances annually in the second phase, which is approximately 5% less than NAPI and 1% less than their 2005 verified emission. The total average annual allocation for them in phase one is 917.6 million allowances. In addition, the EC also brought down cap of usage of CDM and JI credits for compliance purposes in the EU ETS. This situation is a clear signal for other countries, including Poland, France, and Czech Republic, that EC will be more restrictive about treatment of NAP2. That is why Dec08 forward price is growing and, reached its four-month high of € 19.60 on Friday.

**Hungary** has decided to auction 1.2 million EU allowances for the first phase of the EU ETS on 11th of December. According to the rules of the auction, minimum bid is 1,000 allowances. Another rule says that minimum acceptable rate can be €0.90 below the Dec2007 price reported on the day before the auction. This additional inflow of phase one allowances may result in further EUA phase one price drop.

*Pravda Capital is a member of Powernext exchange. Compiled using information acquired from Pravda Capital, CO2e.com, Bloomberg, Point Carbon and Powernext.*

