

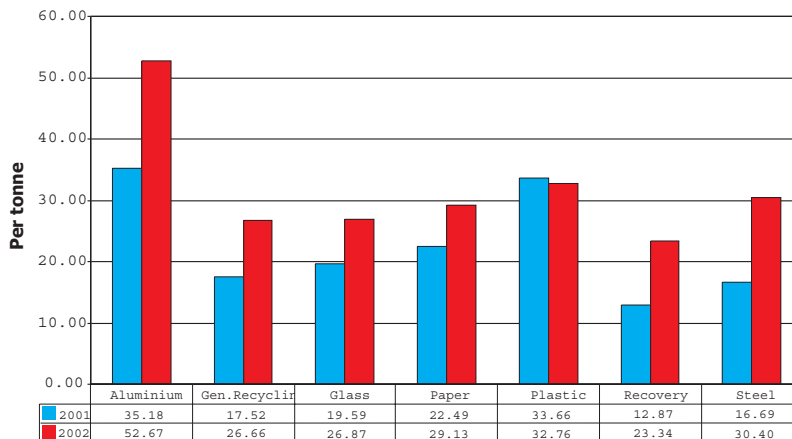
Quarterly Report

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PRN Trading on the Exchange Soars

Trade weighted average PRN prices to 31st July 2002



In 2001, 183,358-tonnes of PRNs were traded on t2e. However, this figure has almost been reached in less than nine months of the current, 2002, obligation year. Based on experience in previous years, the majority of trading occurs during the final third of the obligation year.

The average value of PRNs traded through t2e has increased by 28 per cent year-on-year and this, combined with the increased volumes, has been reflected in the total value of trading through the Exchange.

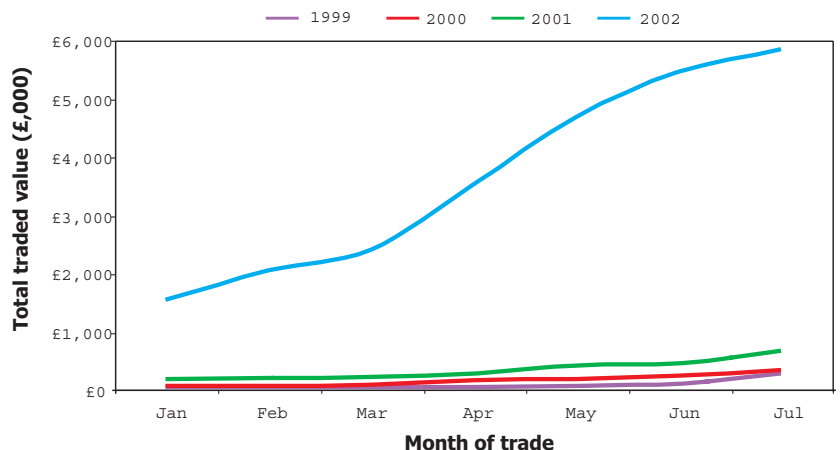
In 2001, 87 per cent of the year's trading through the Exchange took place from August onwards. If this pattern of trading is repeated in the current year, almost one million tonnes of PRNs will be traded in the 2002 obligation year. This would equate to over 25 per cent of the entire market.

However, t2e MD Angus Macpherson counsels caution in making such extravagant forecasts.

"Our larger trading members have adopted more regular trading strategies and this means that frequent trading has been a feature of the market. As an indicator, year-on-year the average contract size has increased by a factor of three.

However, there are still a number of members, who do not seem to have traded yet and are likely, therefore, to become active at the end of the year."

Traded values to 31st July



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Managing Director's Quarterly Report



Trading through The Environment Exchange in the second quarter has continued at far higher levels than in previous years, even though volumes have reduced during the summer close-down period. The Environment Exchange continues to break record volumes every month and the indication is that trading volumes will once again increase as the year reaches its conclusion. Compliance schemes are still trying to balance their requirements, reprocessors and exporters to meet their commitments and individual companies have still to meet their legal obligations.

Prices during the year have risen steadily from a monthly average of £23.57 a tonne in January 2002 to an average of £30.93 in June 2002. This fell back slightly to £30.55 in July 2002 as trading slackened during the summer period. While both buyers and sellers continue to argue that the prices shown on The Exchange are either unrealistically high or low, this fails to take into account the fact that prices are not set by the Exchange but by participants, who in turn will use them to their advantage.

House of Lords Recommendation

As the trading year has progressed many participants will have been watching progress in Brussels and the House of Lords. The continued inability of the European Commission to provide a framework for future levels of recycling and recovery is undoubtedly detrimental to attempts to maintain the momentum in the growth of packaging recycling. At times it appears as though arbitrary figures are being pulled out of a hat with no environmental or other justification.

This directive which has a substantial impact and cost on a pan European scale has been running for more than five years and yet has produced no consensus on what is being measured or how that measurement should be made. As Caroline Jackson MEP, rapporteur for the European Parliament Committee on the Environment, has identified without hamony, it could be argued that any target selected in Brussels would be neither measurable nor verifiable and is certainly not comparable across Europe.

Zero Guidance for Players

As a result the UK and other Governments have no guidance on which to structure their own national targets or formulate long term plans as recommended by the House of Lords Select Committee on Packaging and Packaging Waste. Hence the Lords'

encouragement to Government to seek an early resolution on future targets - but this resolution should not involve the adoption of unsupportable and unachievable targets. The UK should continue to advocate a common minimum recycling level for all packaging materials with achievable recycling and recovery targets that include primary, secondary and tertiary packaging and a maximum overall recovery limit for each nation.

In a list of 15 recommendations by the House of Lords, Government has been criticised on several counts, including the failure to appoint a manager for the managed market. It has also been encouraged to simplify the regulations, to revisit the penalty system for non-compliance, to ensure the provision of more timely and accurate data and to include all companies that handle packaging. These would seem to be the first tasks for a manager if appointed.

Amongst a range of options suggested were the possible removal of shared obligations and/or the creation of a standard mechanism for calculating obligations through to enforceable sanctions for non-compliers.

Full Interactivity Shortly

Meanwhile, The Environment Exchange is introducing new web-enabled capabilities, which will permit full management of members' PRN trading accounts on the internet (see the opposite page).

This will be followed by the introduction of on-line trading This new version will run concurrently with the Exchange's existing service. Your current password and user name will be required to access these services, so please do not hesitate to get in touch with us if you have forgotten them..

Please take the earliest opportunity to try out our new site and let us know immediately if it gives you any problems.

Once again thank you for your continued support and we look forward to being of assistance to you as the remainder of the compliance year progresses.


Angus Macpherson
Managing Director



BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

The Exchange launches its new Interactive Website

Account Management, statistical archives, settlement status and lots more

The Environment Exchange now provides additional services for t2e participants with the launch of its new website, containing enhanced levels of functionality and semi-interactivity. The improved website has been developed to meet the requirements of an increasingly demanding membership which now numbers over 500.

On-line Trading predicted as next step

The current year's trading has seen marked increases in both PRN prices and volumes. To reflect this sharp upward growth in trading and to meet the progressively greater requirements of the membership, t2e's new website introduces the first stage in the development of a fully interactive trading capability. This will be launched later this year and will allow members to execute their trades on line.

Automatic calculation of Obligation

Newcomers to the site have the opportunity to use a straight-forward obligation calculator, which will automatically provide the cost of compliance based on prevailing market prices. The calculator also offers the opportunity to compare the cost of alternative compliance routes with the current market.

Settlement Status facility

The site has been personalised. A participant's unique login allows the user to access details of all aspects of his individual trades, which can also be compared with the overall performance of the market. In addition, regular traders will be able to check the settlement status of their outstanding contracts to see, for instance, when a due payment is scheduled to be made. The Exchange will also be able to insert messages regarding a contract to advise of any delays, or leave other notes or instructions.

At the same time, the wealth of material trading and statistical data showing trade-weighted prices per month, price, bid-offer spreads and average traded prices will be invaluable in aiding participants in their planning, benchmarking and record keeping.

Magnums all Round

Three people demonstrated extraordinary accuracy in predicting total tonnages traded on the Exchange on target dates. The competitions were run at various exhibitions earlier this year. The winners were:

- Eva Sohlman from Reuters at PRASEG
- Peter Lansdale from ERI at IWM
- Catherine Lincoln from Disney Stores at ET2002

Fair's Fair

The European Commission has just published a Directive on the introduction of the right by all businesses and public sector bodies to charge interest on the late payment of commercial debt.

In future, there will a statutory right to charge 8 per cent over Bank of England base rate on overdue sums. The EU Directive also provides the right to reasonable compensation on debt recovery costs incurred as a result of late payment. The Environment Exchange is introducing a new rule to reflect these changes.

Participants are strongly recommended to use direct debit facilities to settle contracts to avoid the risk of late payment penalties.

Settlements – A vital function of the Marketplace by Mark Sydenham – Transaction Manager

One of the benefits of trading through The Environment Exchange is the speed of the settlement procedure, but companies buying and selling through t2e should be aware that contracts require settlement within three working days of the trade date.

For the buyer, this means that The Exchange should receive payment no later than three working days. In practice this means that they should be prepared to send us payment immediately a trade has been concluded, either by cheque or by the Bankers Automated Clearing Service (BACS).

Meeting the Three-Day Target

Many companies, especially larger ones with centralised accounts departments, often find this a stumbling block. However there are simple steps that can be taken to ensure that the three-day target can be met.

Paying for Purchases

If a company has to issue a purchase order before a payment can be made, all the necessary authorisation should be in place before trading with the PO number passed to the t2e trader at the moment of trading. The same advance planning will be necessary if a cheque needs more than one signature or a requisition form is required.

Ensure that the people concerned are available on the day of the transaction. Many companies pay by BACS on certain days each month so it is important that a trade is timed on the appropriate day of the month to meet the three day settlement rule.

If you have an open bid on the market, please make arrangements for payment should a trade occur when the person responsible for issuing payment is away. By far the simplest method of ensuring that you meet the settlement deadline is to pay by Direct Debit (DD), where the Exchange can automatically call the funds three days after the trade: - **get in touch with the Settlement Department on 0131 558 9655 if you want to start paying by DD.**

Delivering the PRN document

In the case of the seller, the PRN document must be faxed to the Exchange by midday of the day following the trade to reach t2e on the third working day following the trade. Sellers are advised to use a service such as Post Office Special Delivery to ensure that PRN documents, which are irreplaceable, are not lost in the post.

Sellers should also ensure that they are in a position to issue the document as soon as a trade has been made whenever they place an offer on the market. If you are selling on behalf of someone else, or are selling a document issued by someone else, you should ensure that you are able to access the document swiftly after trading.

The 'No Sweat' Six Day Transaction

If both parties meet their settlement requirements, we can complete the settlement within six working days of the contract. If cheques are cleared for payment, funds will then arrive in the seller's account within eight working days, and the document will be with the buyer within seven.

Importantly, if for any reason you cannot meet t2e's demanding settlement timetable, please advise the Exchange at the time of the transaction or as soon as possible thereafter to allow us to negotiate a revised settlement timetable with the other counter party. It is important that once the revised timetable has been agreed by both parties, it is adhered to otherwise default penalties may have to be initiated.



www.t2e.co.uk

ShowTime

Recycling & Waste Management Show 2002 - NEC, Birmingham September 10th-12th

Come and talk to us on Stand 559 about the interactive capabilities of www.t2e.co.uk. We will be demonstrating the new services for account management with individual records stored for members, trading performance benchmarking and the availability of a plethora of historic trading information.

AGRA in London, September 19th – Environment Exchange MD Angus Macpherson will speak on 'The Financial Implication for the UK of the Implementation of European proposals'.

Also see us at **RIBEX** in Telford on September 25th and the **E-Mart Energy Conference** in Paris where Angus Macpherson will speak about 'The role of the Marketplace'.

The Environment Exchange

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