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**THE ENVIRONMENT
EXCHANGE**

Q1 Feb 1999

QUARTERLY REPORT

The aim of the quarterly report is to keep The Environment Exchange (t2e) members and interested parties up to date on progress and inform them of any major issues relating to the Packaging Waste Regulations. In this first issue as with future quarterlies, the report will include a number of key elements:

- Prices traded on t2e
- Trends and highlights
- Questions and answers about t2e
- Contact points for further information

The Start

On 25th November 1998 t2e was launched at the Corporation of London's marketing suite by Judith Mayhew, Chair of the Corporation's policy and resources committee. t2e is a partnership between Angus Macpherson, the Managing Director, and the OM Group of Sweden. t2e provides a trading facility which matches willing buyers with willing sellers of PRNs (Packaging Waste Recovery Notes), a tradeable environmental economic instrument which has been created in the United Kingdom in response to a European Directive on Packaging Waste. This is the first occasion that an economic instrument has been traded through a formal exchange in the United Kingdom.

Managing Director's Comments:

Events have passed immensely quickly since the launch. Not only has t2e traded the PRN equivalent of nearly 20,000 tonnes but also 167 contracts have been traded with almost every contract being settled within 10 days. Considering that all participants are new this is an astonishing achievement by everyone.

It is not only the market participants that have been learning during this period, so too have both the Environment Agency and the Scottish Environment Protection Agency. We are in the process of agreeing with both of the Regulators a policy for trading 1998 PRNs during subsequent compliance years.

We are aiming to introduce forward contracts in PRNs during the summer. This will provide a mechanism to allow all those involved to manage their risks and it should go some way towards spreading the demand for PRNs throughout the year.

On wider issues, concerns continue to be expressed about the ability of the PRN system to deliver the aims of the legislation. It can and it will so long as all market participants allow it to bed down. It is up to us to make it work rather than demanding adjustments that further unsettle the market place. Remember it is an evolving system that is striving to acquire some maturity. Furthermore it should provide the lowest cost of compliance in Europe.

There is still a long way to go before we have fully developed a market place that meets all of the needs of all of the participants. Nevertheless we have made a very positive start. Thank you to all those that have contributed to the success so far. I look forward to meeting you in the months to come.

A handwritten signature in black ink, appearing to read 'Angus Macpherson', written over a horizontal line.

Angus Macpherson
Managing Director



Below is a graph portraying PRN price trends for the
 Also included are some of the major miles

November 25th 1998

- Market launched at London's Guildhall by Judith Mayhew
- 238 tonnes Paper PRNs traded on first day
- 25 members at launch, including four compliance schemes

December 4th 1998

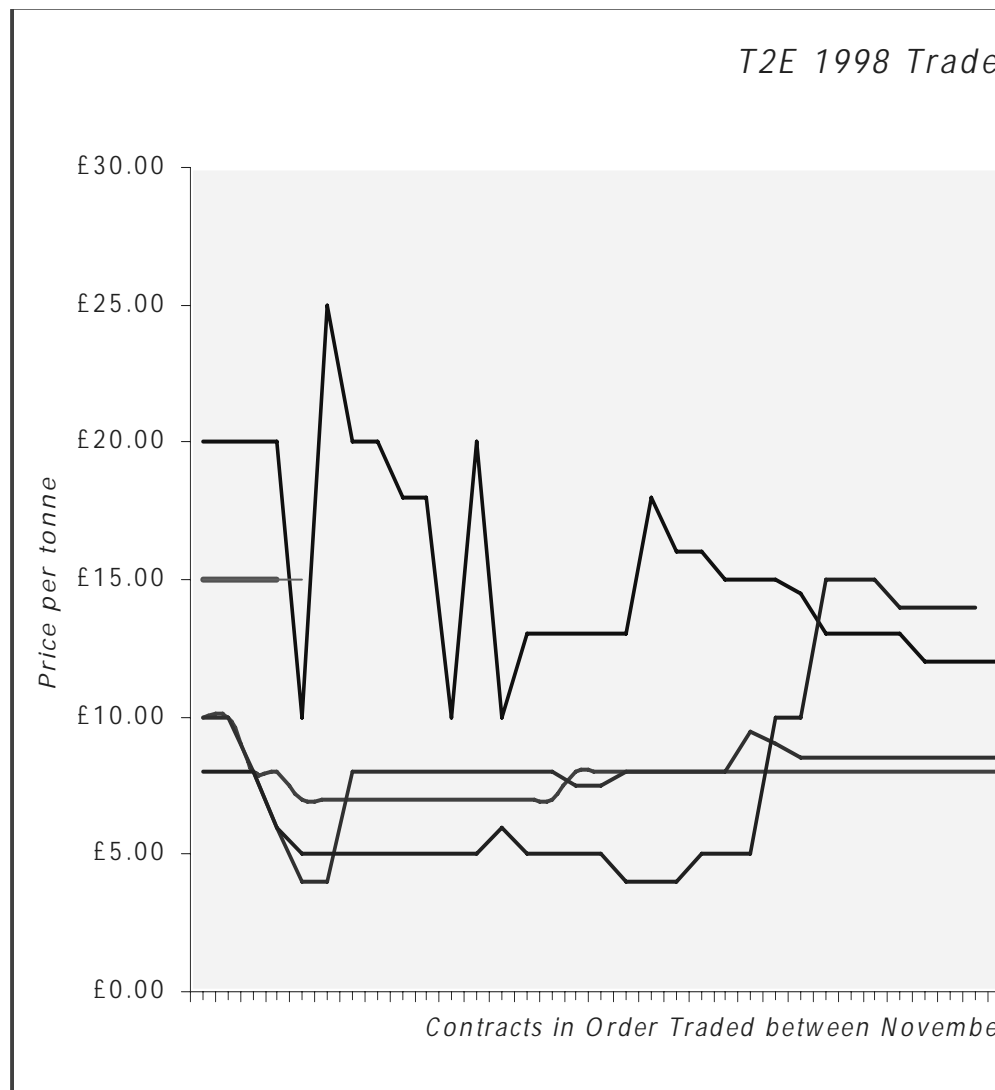
- 2,338 tonnes PRNs traded to date
- Selling order depth continues to be encouraging
- Membership increases to 32

December 10th 1998

- First trades in Plastic PRNs
- Membership increases to 35

December 17th 1998

- Traded volumes exceed 10,000 tonnes for the week
- Membership continues to increase
- Status of Steel Packaging Exported for Recovery (SPER) documents is clarified



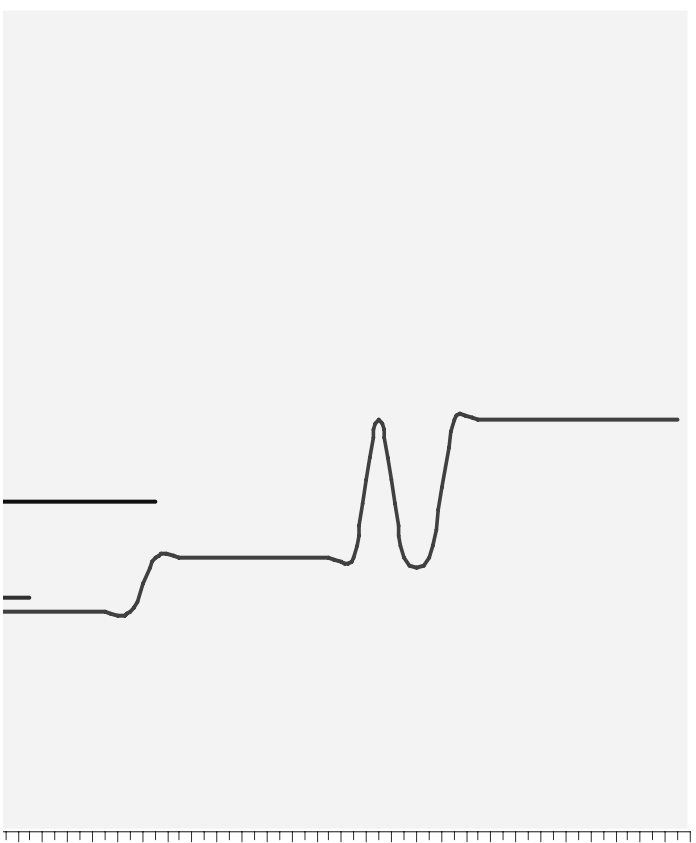
December 23rd 1998

- Quiet trading ahead of Christmas break
- Trading hours to be extended

January 8th, 1999

- Recovery PRNs prices firmed this week, starting at Stg 4, and trading up to Stg 8.
 - Paper PRNs traded thinly at Stg 7 but last traded at Stg 8 in small quantity.
 - Glass PRNs traded for the first time on the Environment Exchange, with three trades all at Stg 15.
 - Plastic PRNs traded at Stg 20 in small quantity.
- New sellers have come to the market and offer prices have weakened as buying interest has been reluctant to come forward.

Price Trends



- 1998Aluminium
- 1998Paper
- 1998Plastic
- 1998Recovery
- 1998Steel
- 1998Glass

January 15th, 1999

- Frequent trading in all classes of PRN this week, but in small quantities.
- Prices have remained firm.

January 21st, 1999

- Frequent trading in generally small in small quantities continues.
- Prices have continued to remained firm.

February 1st, 1999

- Trading in 1998 PRNs ends.
- 167 transactions executed in 1998 PRNs on the Environment Exchange
 - Average trade size: 118 tonnes
 - Maximum trade size: 1,238 tonnes
 - Minimum trade size: 1 tonne
- Membership stands at 81 companies
- Increases in Recovery Targets for 1999 & 2000

Below are some of the most commonly asked questions relating to t2e. We hope this section will clarify the following issues:

What is a bid and an offer?

A 'bid' is a commitment to buy PRNs whilst an 'offer' is a commitment to sell PRNs. When making a commitment to buy or sell PRNs the member gives an indication as to the amount they wish to buy or sell and the price at which they are prepared to trade.

What does size mean on the website?

'Size' is the amount a member wishes to buy or sell. In the case of a buyer the 'size' would be the total amount they wish to purchase, however in the case of a seller the 'size' relates to the total number of PRNs that they are making available through the Exchange. An offer to sell 2000 tonnes of Plastic PRNs therefore means that a buyer is able to buy any number of PRNs from 1 to 2000 at the price the seller is quoting on the screen.

How long does a bid or offer last?

A bid or offer is a firm commitment to buy or sell a set amount at a fixed price. That commitment must be honoured for as long as the price and size is quoted on the t2e website. Should you wish to withdraw a bid or an offer at any time however, you are free to do so, providing that all trades completed prior to the withdrawal of that price are honoured.

When is a trade completed?

A trade is deemed to be completed when a match has been found between a willing buyer and a willing seller. This is done on your behalf by the market operator who will confirm the trade by fax before 5pm that day.

What is the settlement procedure?

Once you have been informed that you have traded, the exchange of funds for PRNs is handled by t2e. The period of settlement that the exchange works to is 3 working days after the trade date.

How do I pay once I have traded?

The buyer of PRNs will be expected to forward payment to t2e by a number of means. They can use Direct Debit, BACS or pay by cheque according to their preference.

Payment incorporates the price for the PRNs plus the trading fee plus VAT. The seller of PRNs will receive payment into their account for the value of the PRNs sold including VAT less any trading fee they may owe.

For further information:

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OR you can visit our Website at:

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