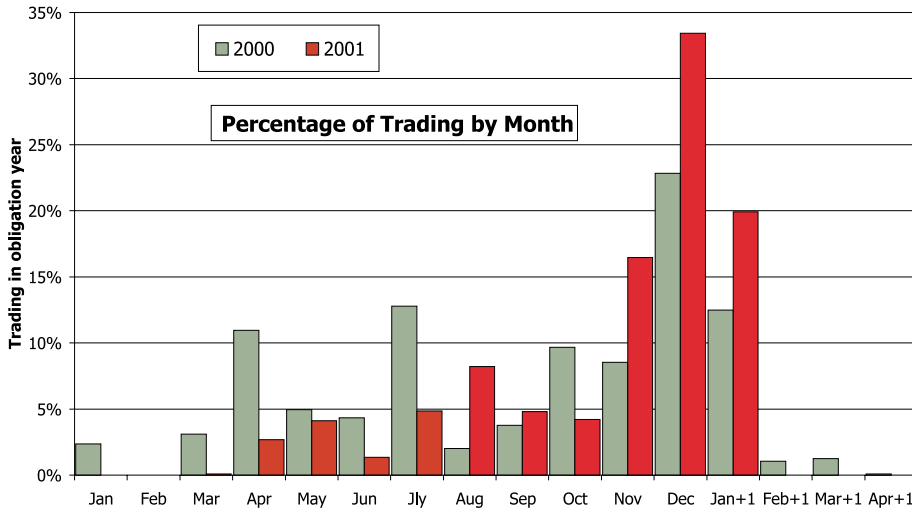


Quarterly Report

Inside this issue

- Latest Year Reviewed
- Regular Bulletins explained
- Tight conditions forecast for 2002
- Questions and Answers



Lessons for both Winners and Losers

Record volumes and record prices in Compliance Year 2001 were not unnaturally welcomed by some and grudgingly accepted by others. However, excessive volatility in the last three months of the compliance year would not have occurred if there had been less speculation and traders had adopted a more consistent PRN purchasing strategy of a 'little and often'.

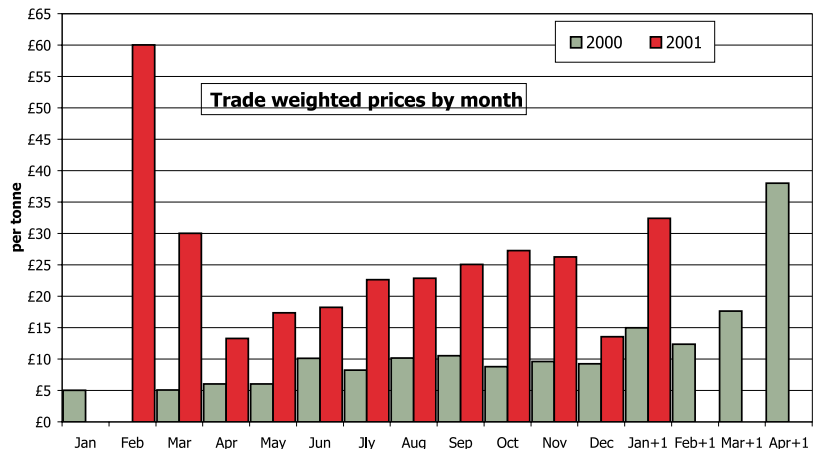
As Environment Exchange MD Angus Macpherson points out in his Report (overleaf), 1,000-tonnes purchased each week from February to the end of December would have cost an obligated company £19.34 a tonne or 80 per cent less than 50,000-tonnes purchased in January at an average of £32.40 – ergo the need for a purchasing strategy.

Chart 1 illustrates the percentage of the 180,000-tonnes traded on the Exchange each month, which puts the above case study into stark perspective with so little traded in February that it failed to register on the chart compared to 60,000-tonnes traded in December.

In terms of PRN prices, Chart 2 shows that levels increased inexorably each month although compliance year 2001 did feature two aberrations. The abnormally high average price in February represented a single 1-tonne deal where the purchaser was forced to

take what was on offer, a similar situation occurred in March.

In December, prices were depressed by a number of factors but essentially an excess of supply over demand occurred. In turn prices declined and monthly volume soared with a third of total annual tonnage traded on The Environment Exchange in a single month.



www.t2e.co.uk

Direct Trading Line
0870 607 1354

Managing Director's *Quarterly Report*

As the dust settles at the end of an extremely hectic final quarter, The Environment Exchange celebrates a record year of trading with the traded volume over 180,000 tonnes an increase of almost 80 per cent from last year.

The total transaction volume has also increased by approximately 20 per cent to over 1,100 trades. Most significantly the traded value has increased to over £4 million at an overall average of £21.94 up by more than 135 per cent on 2000 PRN average prices. If that figure is more closely examined it shows that PRNs bought between January and December averaged £19.34 whereas those that left matters to the last month found themselves buying PRNs in January 2002 at an average price of £32.40, an increase of over 68 per cent.

This reflects a similar trend to 2000 where prices up to 31 December averaged £8.32 whereas the average for those that bought in 2001 the price averaged £15.11, an increase of 82 per cent.

In the first three quarters of the compliance year the market rose steadily from an average of £13.27 in April 2001 to a peak of £27.80 in October 2001. This increase in value may have caused businesses to delay their purchasing plans in the expectation that prices must fall. Additionally reprocessors and exporters were anxious about their ability to fill their contracts. As a result a considerable tonnage arrived on the market in December which pushed prices very firmly down. This decline was exacerbated by three other factors which are unlikely to re-occur in 2002:

- Some reprocessors and exporters got final approval for their accreditation late in the year and arrived in the market with a significant element of their annual tonnage after the majority of major purchasers had made their plans – effectively they became distressed sellers.
- A considerable noise effect was created by independently registered companies and their representatives who left orders with a number of reprocessors for the same tonnage giving an impression of greater demand than actually existed.



Angus Macpherson
Managing Director

- The impact of speculation that one or more compliance scheme may have been short of their required tonnage.

As a result almost 70 per cent of the annual total was traded in the last quarter. For all involved this proved to be a very high risk strategy, which created a highly volatile market with prices varying between £3.75 and £60 a tonne.

For the 2002 compliance year it is clear that the targets will be increasingly demanding and supply could be extremely tight. So once again businesses are recommended to reconsider their PRN purchasing strategies. Those that use the market steadily putting in reasonable bids and offers get far more consistent value from the market than those that hold out for prices that are substantially outside the spread of prices between best offer and best bid. Participants are reminded that 1,000 tonnes bought or sold every week of



BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

the year adds up to 50,000 tonnes just as effectively as one transaction of 50,000 tonnes at the year end. Furthermore it leaves both buyers and sellers far less exposed to the volatility of the market than those who are waiting for the big deal.

Compliance schemes flourish

Data made available from The Environment Agencies for 1998, 1999, 2000 and the first three quarters of 2001 shows that:

- The number of compliance schemes that have been accredited in the UK, including Northern Ireland, is 18 with a further two or three going through registration currently. Of these one, Valpak, has registered separately with the Agencies in Scotland, England and Northern Ireland, nine others have registered with two Agencies although two have failed to recruit any members in one of these regions, while two have voluntarily ceased to trade.
- Of the total producer responsibility fees paid to the Agencies, Valpak pays 45 per cent, other schemes pay 28 per cent and independent registrants 27 per cent.
Since 1998 the number of accredited sites in the UK has increased by over 55 per cent.
- The total tonnage of packaging waste accepted at accredited sites for reprocessing or exported in 2001 has increased between 1998 and 2001 by in excess of 25 per cent.

- The total growth in issuing capability for:
 - material specific PRNs and PERNs has increased by 9 per cent.
 - PRNs has increased by 7 per cent.
 - PERNs by almost 250 per cent

The largest issuing sectors for PRNs are Paper and Glass. Both these sectors have reduced their intake of packaging waste in the UK since 1998.

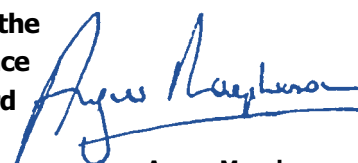
The fastest growth sector for reprocessing packaging waste is Wood and for export is Plastic.

- In 1999 and 2000 approximately 53 per cent of all PRN income was paid out to collectors. In 2000 this averaged at a PRN supplement of £4.89 per tonne delivered to an accredited reprocessor or exporter and in 1999 £5.46. If this percentage was maintained in 2001 the PRN supplement could have been an average of £11.71 per tonne.
- The cost to UK industry per incremental tonne of packaging waste reprocessed between 1998 and 2000 was £92.91.
- The average prices traded on The Environment Exchange in 1999 and 2000 very closely reflected the average price per tonne received by reproducers and exporters in those years but was lower than the average transfer price for PRNs see the tables below.

1999	t2e	Accepted	Transferred	2000	t2e	Accepted	Transferred
Aluminum	£12.49	£15.43	£17.78		£16.69	£16.52	£20.29
Glass	£5.35	£4.85	£8.69		£8.50	£7.97	£10.40
General Recycling	£0.00	0	£0.00		£9.53	£5.24	£5.87
Paper	£6.12	£12.06	£13.98		£8.91	£8.49	£8.70
Plastic	£31.48	£21.95	£34.38		£17.69	£23.33	£28.21
Steel	£5.92	£9.72	£14.53		£9.10	£11.17	£11.58
Recovery	£6.82	£6.89	£7.84		£8.22	£8.74	£8.99
Average	£10.28	£10.13	£13.15		£9.32	£9.16	£9.95

If you wish a copy of our analysis of The Agency's data to date it is available at £25.00 per copy.

I look forward to seeing and talking to many of you during the next few months or at one of our presentations in May. Once again thank you all for your support in 2001 and we look forward to assisting you again in 2002.



Angus Macpherson
Managing Director

Questions & Answers on the Exchange

What service does The Environment Exchange (T2E) provide?

T2E is an integrated electronic market place which provides matching and settlement services for those that trade through the exchange. As a result T2E supplies a transparent transaction price and an historical price picture for PRNs.

T2E provides a common code of conduct by which all participants are expected to abide. All participants are either supplied with a copy of these rules or can access them on the website and must agree to abide by them.

T2E is not permitted by the Environment Agencies to become counter-party to PRN trades. It therefore provides a delivery versus payment service. (e.g. T2E neither issues nor takes ownership of the PRNs).

Only accredited reprocessors, accredited exporters, accredited compliance schemes, obligated companies and representatives of any of these categories are permitted by the Regulators, the Environment Agencies, to use T2E.

T2E is open for trading between 1000 and 1600 every bank day. These hours may be changed through a market notice, which will be issued to every participant.

Participants using T2E have the option of:

- a. accepting the prices that are bid or offered by the other market participants
- b. placing and leaving bids and offers at the prices they wish

T2E charges £0.50 per tonne traded through T2E with a minimum charge of £10 per transaction. In addition a reprocessor fee £5 is charged and relayed onto the selling party. This covers the administrative costs of issuing a PRN.

What does it mean to place an order on T2E?

- Only authorised traders are permitted to place orders on T2E. If that authorised participant is a representative they must declare on whose behalf they are making the purchase.
- All orders are made using recorded telephone lines (0870 607 1354) to the market place operator, Cliff Laundon. There are six lines available on this number so you should always be able to get through.
- All orders are placed on a price (highest buyer, lowest seller) sequence followed by first come, first served (e.g. highest placed) basis. Participants are permitted to withdraw or part withdraw orders at any time the market place is open without losing their position in the market.
- They are not allowed to fill orders to maintain their position in the market. Any increased volume is a new order.
- If a participant places an order of T2E, it is a legally binding contract. A participant must be prepared to sell or buy up to the quantity declared at the price declared.
- Once the order has been matched in part or in whole the match will be confirmed by fax.

Seminars in 2002

Forthcoming seminars covering the operations of The Environment Exchange, the PRN market and future tradable economic instruments will take place as follows:

London	Tuesday May 14 th
Bristol	Thursday May 16 th
Birmingham	Friday May 17 th
Stirling	Friday May 24 th
Manchester	Tuesday May 28 th
Leeds	Wednesday May 29 th

Details of venues will be published in T2E's Regular Bulletin.



www.t2e.co.uk

The Environment Exchange

6th Floor, Scott House, 10 South St Andrew Street, Edinburgh EH2 2AZ
Trading 0870 607 1354 Marketing 0131-558 9650 Fax 0131-556 9959