

Quarterly Report

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Market Status

Quarter 4: Too much too late? – by Cliff Laundon

In the last Quarterly Report we asked whether the 2002 obligation year PRN market would be in overhang or in balance.

The answer lay in the EA statistics for Q3, which suggested that the market could be oversupplied by up to 400,000 tonnes.

before the December 31st deadline for reprocessors and exporters to issue and dispose of pre-November tonnage, or lose it.

January provided a respite with prices firming initially in calmer conditions as December transitional tonnage chased the

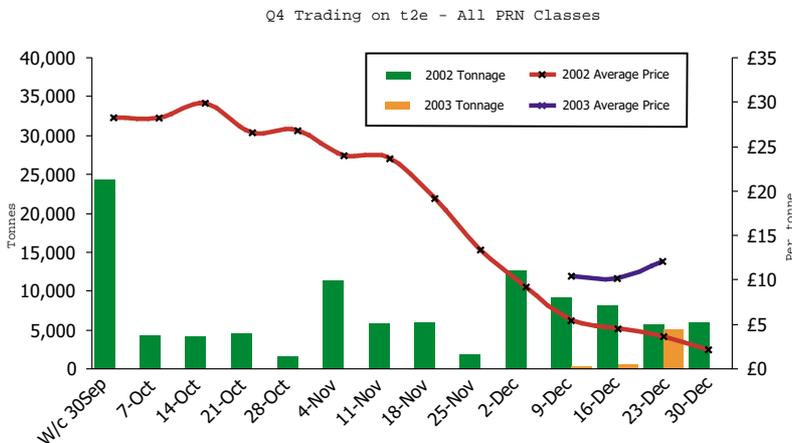
better of the prices in either the 2002 or 2003 obligation years.

Prices softened again in the middle of the month and this led some to conclude that the 2003 market was undervalued because of the presence of the transitional tonnage, and

therefore it offered attractive purchasing opportunities.

Where now for 2003?

During these early days of the new obligation year the market is, predictably, lacking direction. Traded prices remain soft compared to those at the end of January,



The January to September 2002 reprocessing and export total (nearly 3.8 million tonnes) implied that, with a revised national obligation of 4.7 million tonnes (reduced by 114,000 tonnes), only 900,000 tonnes were required in Q4 to achieve a balance in supply and demand: This, following a third quarter in which 1.3 million tonnes had been received for reprocessing and export, an amazing 9% increase over the average of the previous two quarters.

Prices headed downwards. Not only did the market factor-in what was regarded as the inevitable oversupply during Q4 but also the expectation that, as in previous years, a significant tonnage would come to the market during this quarter.

Traded prices went into freefall, with PRN traded prices reaching £1 per tonne



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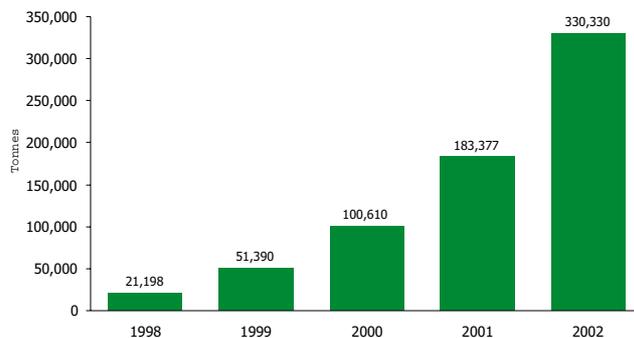
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Direct Trading Line
0870 607 1354



At 31 January 2003 the total volume traded in 2002 PRNs reached 330,330 tonnes, approximately 7% of the total obligation, a year on year increase of 80%. Trading in the 2003 market, which opened on 1 December 2002, is 9% above last year's level at this date. Thank you to all who have helped t2e to achieve this growth.

t2e Traded Volumes per Obligation Year



2002 in review

Despite falling prices in the last quarter, 2002 has been a success from a compliance perspective. Agency 3rd Quarter statistics show that both the number of accredited reprocessors and accredited reprocessing capacity has increased significantly during 2002. The market awaits 4th Quarter statistics with expectation.

Concerns continue to be expressed about the accuracy of the data behind the statistics. These focus on possible double counting of export tonnage in paper and plastic, and a general concern in the wood reprocessing sector. All actions to prevent abuse in the issuing of PRNs and data are welcome. Regardless of whether the abuse is deliberate or inadvertent almost invariably it is legitimate reprocessors and exporters that suffer its consequences.

Trade Weighted Prices on t2e by Obligation Year



On average t2e trade weighted prices for the year were up 12.24% on 2001 levels. This is significantly above the 5.36% increase in obligation. In the material specific categories Steel prices were consistent with 2001, Glass and Paper declined slightly, while Plastic dropped 30% as these materials came in line with the General Recycling (Wood/Other) price which experienced a 60% increase. Recovery showed an increase in line with the General Recycling price. In light trading Aluminium prices also showed growth.

The reaction by the market in November to the Agencies 3rd Quarter statistics reinforces our belief that the timely dissemination of accurate information to the market is an essential part of allowing it to fulfil its objectives. Central registration of the issuing of PRNs and the total obligation would greatly facilitate the dissemination of aggregated statistics. Until this register is in place the market will constantly be working with minimal knowledge which increases the likelihood that targets will be missed. To date the market has been in excess but this may not be the situation always. The central registration of ownership will reduce the opportunities for market abuse.

Another cause of this price drop, which reflects previous years, is the selling strategies adopted by reprocessors. To use the market and the opportunities it presents, to its fullest extent, reprocessors and exporters should make a broader analysis of their selling options. Those covering obligations should look to use the recovery and general recycling elements of their obligation to the maximum extent.

Hoarding throughout the year to offset obligations and bi-lateral contracts, and then coming to the market with the residue at the end of the year is not the only choice available. This starves the market of supply which distorts the market price (as a result a significant surplus was generated in 2002 with the consequent price drop at the year end). It also increases the volatility at the year end which benefits neither market participants nor those striving to plan a long term strategy. The introduction of our forward contracts will provide an important additional tool in a seller's portfolio.

BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

Developments for 2003

t2e will be launching a forward market in PRNs on 17 March 2003. This will enable participants to manage the extent to which they are at risk to adverse price movements during the year. We will contact interested participants directly to show how these simple contracts can be used effectively. If you wish to learn more about these contracts please do not hesitate from getting in contact with us.

For those who wish to trade directly on the website, we will be introducing the final phase of our development to introduce interactive trading. For those who do not, we will continue to provide telephone access to the market in the normal way.

A new member of the team

I am delighted to welcome Edward Cooke to t2e as Head of Sales and Marketing with effect from 1 February 2003. Edward's experience in both the waste management industry and the PRN market will improve the quality of service and commitment that we are able to offer our members.

Once again thank you to everyone for your support during the last year, we look forward to being of service to you again in this compliance year.


Angus Macpherson
Managing Director

www.t2e.co.uk – How to view contract settlement details

Mark Sydenham explains

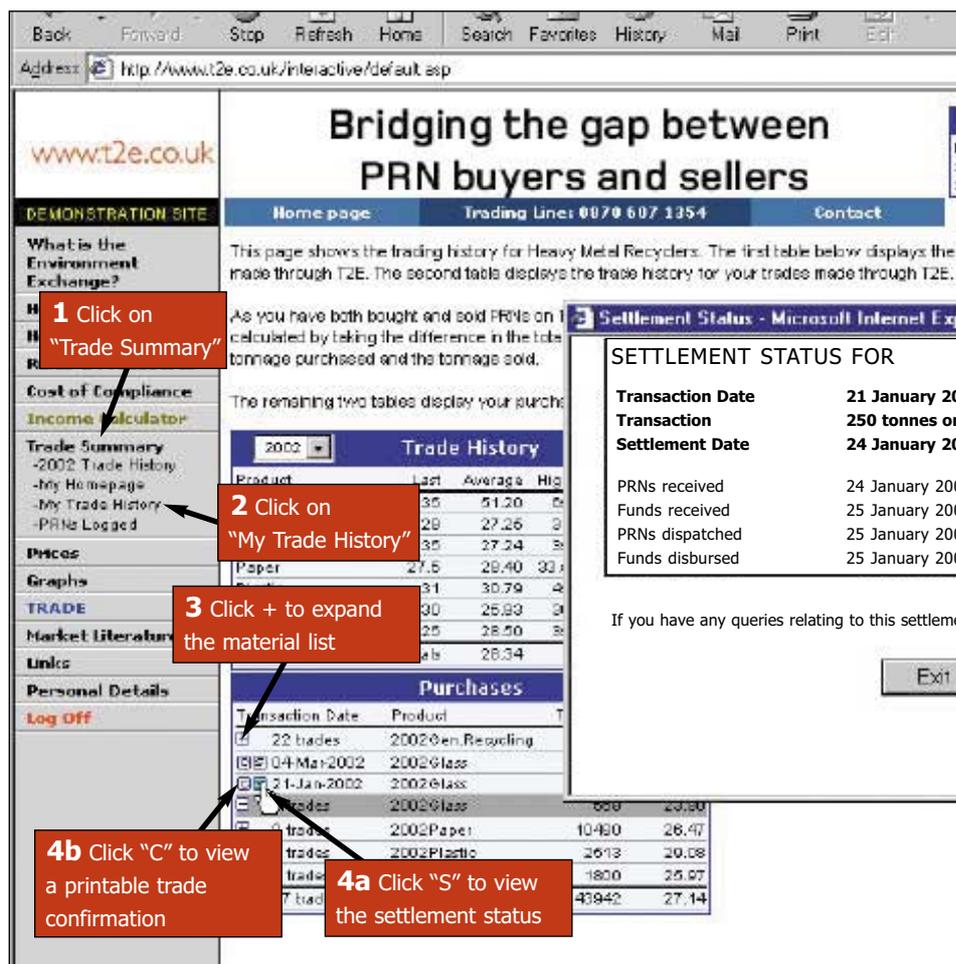
t2e's website allows market participants to track and trace all contracts that they have entered into, and to reprint their trade confirmations. You can see when funds were released, when a PRN was despatched to you, or whether t2e has received payment or the PRN document from your counterparty.

To use this facility, once you have logged on, go to the left-hand margin and follow the steps below:

1. Click on "Trade Summary"
2. Click on "My Trade History"

You can now view all your transactions, summarised by material, for example glass.

3. Click + to expand the material list.
4. For the contract you wish to view.
 - a. Click "S" to view the settlement status.
 - b. Click "C" to view a printable trade confirmation.



Address: http://www.t2e.co.uk/interactive/default.asp

Bridging the gap between PRN buyers and sellers

Home page | Trading Line: 0070 607 1354 | Contact

1 Click on "Trade Summary"

2 Click on "My Trade History"

3 Click + to expand the material list

Transaction Date	Product	Last	Average	High
22 trades	2002Gen.Recycling	35	51.20	5
04-Mar-2002	2002Glass	29	27.26	3
31-Jan-2002	2002Glass	35	27.24	3
7 trades	2002Glass	27.5	29.40	32
4 trades	2002Paper	31	30.79	4
30 trades	2002Paper	30	25.93	3
25 trades	2002Plastic	25	28.50	3
7 trades	2002Plastic	26	26.34	3

4b Click "C" to view a printable trade confirmation

4a Click "S" to view the settlement status

SETTLEMENT STATUS FOR

Transaction Date	21 January 20
Transaction	250 tonnes on
Settlement Date	24 January 20
PRNs received	24 January 200
Funds received	25 January 200
PRNs dispatched	25 January 200
Funds disbursed	25 January 200

If you have any queries relating to this settleme

Exit

Steady Progress

t2e spoke to John Turner, Chairman of the Advisory Committee on Packaging

The Advisory Committee on Packaging is looking at the Packaging Waste regulations to see how the operation of the current system can be improved. The Advisory Committee includes representatives from the four packaging sectors as well as compliance schemes, WRAP, the environment agencies, DTI, DEFRA, the Scottish Parliament, and the Welsh and Northern Ireland Assemblies.

The Advisory Committee has identified several key areas for examination. Four task forces have been set up to look into the issues and to pull together a more detailed analysis for the ACP's consideration. The ACP will advise the Minister on these issues in early in April.

The Task forces that include representatives from the ACP also include wider representation from industry.

Firstly a task force led by Phil Conran of Biffpack is looking into the opportunity to create a national database for the handling on line of all obligated parties data as well as reprocessor data. This system would facilitate much quicker analysis and use of information.

Secondly a task force led by Chris Scholey from Rexam is looking at the de-minimis issue to see what actually is the level of packaging in this area and to recommend whether any adjustments should be made to the current arrangements.

Thirdly an Enforcement task force is looking at what additional powers may be required by the environment agencies with particular regard to the Accreditation process. This task force is also looking at the resources available to the Agencies and their focus.

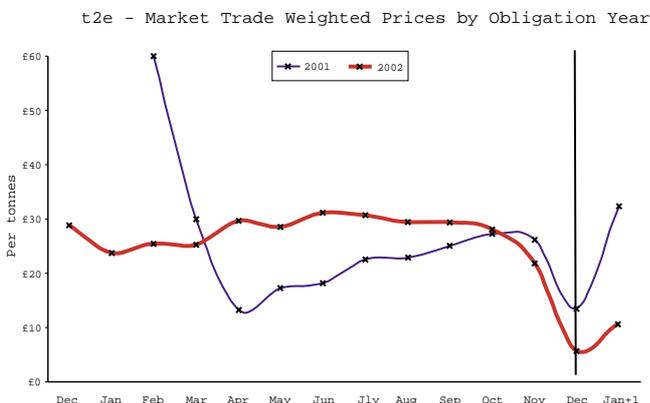
Fourthly there is a task force looking at Targets up to 2008. This is aimed at giving industry more confidence to invest in infrastructure. The effects of targets will also be examined to see what infrastructure, particularly in the domestic sector, is required and what blockages to satisfactory progress may arise.

In summary, the task forces are making steady progress and expect to complete the work to meet the April objective.

Market Undervalued *(continued from page 1)*

with the usual optimism amongst both the buyers and sellers who are quoting. Coupled with unchanged obligations, there

is no obvious source of upward price pressure at the moment.



Future action taken by the environment agencies in addressing the legitimacy of reprocessor and exporter data could tighten the supply side during the year.

With significant increases in obligations already forewarned for 2004, uncertainty lies in whether the national reprocessing and exporting capacity will be able to grow sufficiently during 2003 to meet these higher targets.



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Forthcoming Events

Come and meet t2e at the following exhibitions:

Environmental Technology 2003

NEC Birmingham
8 - 10 April

Recycling and Waste Management 2003

NEC Birmingham
2 - 4 September

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