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THE ENVIRONMENT THE EXCHANGE

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QUARTERLY REPORT

Since publishing the first issue of the Quarterly Report, t2e has been offering prices in 1999 PRNs, whilst retaining a second market in 1998 PRNs. In this issue the report covers a number of key elements:

- PRN Forwards
- Results of the Member meetings
- Summary of trading for period 1 Feb 1999 to 30 Apr 1999
- Contact points for further information

The Environment Exchange stand at ET'99.

We received extremely encouraging feedback at the event both on our present PRN exchange and the marketplace for recyclable commodities which we intend to launch later this year.

Thank you to all who visited the stand this year, we have already booked a place for ET2000 and we look forward to seeing you all there again next year.



Managing Director's Comments:

Over the last quarter we have agreed with the Environment Agencies the trading of PRN pasts (currently 1998) as well as presents on the exchange. Clearly these 1998 PRNs, with the exception of those issued in December 1998 that were carried forward, can only be used to offset the 1998 obligation and those that purchase 1998 PRNs at this late stage cannot guarantee that they are exempt from prosecution. However they can be reassured that until now the Agencies have taken a tolerant view on those that have embraced rather than avoided the legislation.

Thank you to all those that attended the roadshow, we received a lot of useful feedback. We intend to introduce forward contracts for PRNs over the summer and a standard charge for issuing and splitting PRNs. We will also encourage reprocessors who are not members of the exchange to comply with this standard charge but cannot give any guarantees that they will conform. Further details on these proposals are enclosed in this newsletter. If you wish to give us any feedback please can you do so by 15 July 1999.

Traders are reminded that in order to get the best use out of the market-place they should allow it to do the work for them by leaving their bids and offers on the screen. This allows the other members to make their own assessments of the best price available on the market. With over 700 visits to the website daily all new bids and offers generate interest.

Angus Macpherson
Managing Director



PRN Forwards

We intend to launch trading on t2e in PRN forward contracts with the earliest last trading date 15 October 1999. The following summary explains some of the key elements of a forward contract:

What is a forward?

It is an agreement between a buyer and seller to purchase and sell PRNs at a price agreed today, but for delivery at an agreed date in the future.

EG: On 1st May Buyer and seller agree to trade 100 Paper PRNs at £25 per tonne for delivery on 20th October. On 20th October, the settlement day, the buyers pays £2,500 (£25 x £100) to the seller and receives 100 Paper PRNs.

How will it benefit me to trade PRN Forwards?

Reduces risks by allowing

- reprocessors to plan their income stream and ensure sales of their PRNs in advance.
- buyers to ensure delivery of PRNs in the future at an agreed price.

How far forward can I trade?

- An individual can trade up to 12 months forward.
- Settlement will be quarterly, with delivery months being April, July, October and January
- The last trading day will be the 15th day of each of the delivery months or nearest preceding business day. Settlement will be three working days after the last trading date.

EG: Buyers and sellers can choose which of the four delivery months they wish to settle in, but can set the price they will pay at the time of trade.

How do I know the contract will be honoured?

- All traders will be expected to conform with t2e's code of conduct.
- Once a contract has been agreed, both parties are committed to fulfil their part of the bargain.
- A deposit of 10% will be required from both sides of the trade when a deal is struck. When they are able to reprocessors may substitute the deposit in the form of valid PRNs.
- Additionally all those who wish to trade forward contracts will be encouraged to authorise direct debit mandates to t2e.
- Traders who default face losing the deposit, making good the trade on the exchange and the risk of a fine of not more than twice the value of the trade, public expulsion from the exchange and ultimately being reported to the relevant Financial and Environmental Regulators.

How much will it cost to trade PRN Forwards?

Fees will be the same as spot market trades on t2e, ie £0.50 per tonne traded, payable on settlement day.

How will I manage to keep track of my positions?

You will receive by 1700 on the day of the trade a fax confirming the price, quantity, type of PRN, deposit due and final settlement date. No contract will be deemed to have been made until the deposit has been received from both trading parties.

Two weeks prior to the last trading day and on the last trading day you will be faxed a copy of your net trading position.

Will there be a minimum trading size for forward contracts?

Yes, no forward trade of less than 20 tonnes will be permitted.

Will my deposit earn interest?

Yes, all deposits will earn a daily rate of interest which equates to 1.5% below base. This interest will be returned to the depositor on settlement of the contract. The deposit will be deducted from the final contract price.

Summary of Trading for the period 1st of February 1999 to 30th April 1999

Tuesday, February 9th, 1999

- Prices are being quoted for 1999
- Clarification of further trading in 1998 PRNs pending

Friday, February 19th, 1999

- Environment Agency advice on 1998 PRNs
- Trading in 1999 PRNs commences

Friday, March 19th, 1999

- Slow trading as companies calculate their obligations and await the DETR announcement on PRNs.
- Advice from SEPA regarding 1998 PRN trading.
- Membership reaches 100.
- Fees for 1999 PRN trading.

Monday, April 19th, 1999

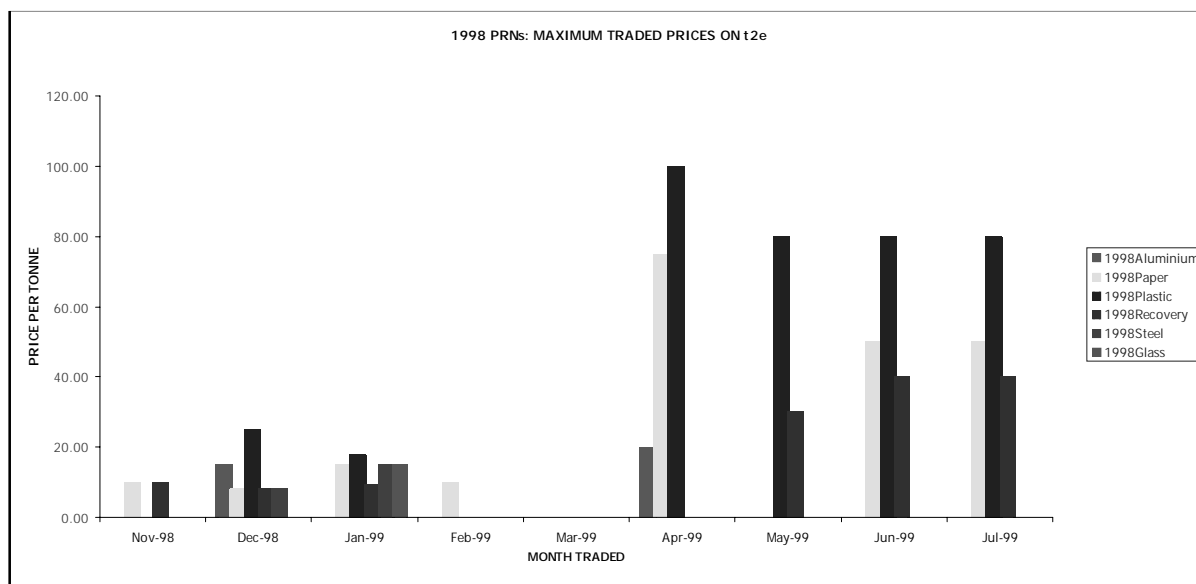
- Changes in PRN system announced.
- Limited further trading in 1998 PRNs.

Trading on t2e has to date been relatively quiet as predicted. Companies appear to be holding back to some extent while the market finds its natural price level in the various 1999 PRN categories.

However in recent weeks the exchange has seen increasing bid and offer activity and trading is starting to pick up. The spread between bids and offers is narrowing rapidly as the market-place finds its trading range, assisting companies to gain an estimate of potential cost of compliance or revenue from PRN sales.

Following clarification by the Agencies, t2e has also seen continued trading in 1998 PRNs since the end of January 1999, in order that companies who had not fulfilled their 1998 obligation could do so.

The chart below depicts maximum prices paid for 1998 PRNs on a monthly basis, both before and after the January 31st deadline. The clear message is that companies who did not fulfil their obligation in time have been heavily penalised in the prices they have had to pay since.



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