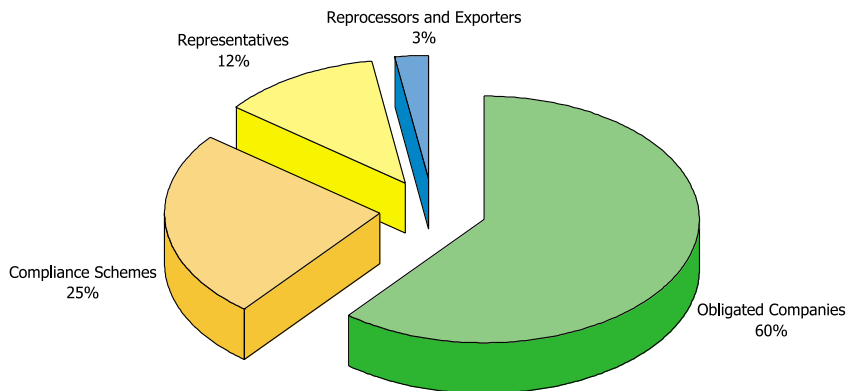
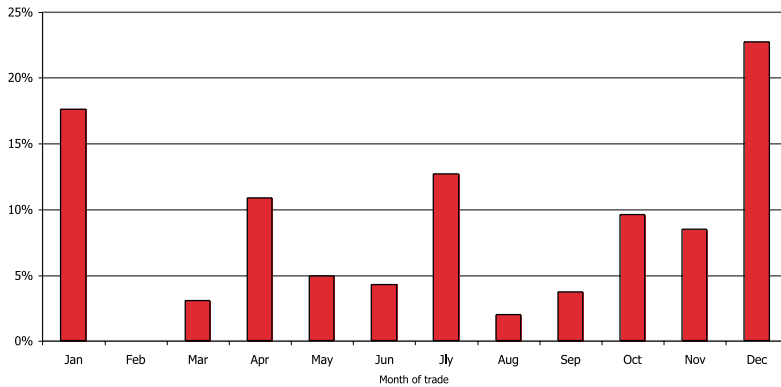


Trading on the Environment Exchange

When do members trade on The Environment Exchange?
 Trading Analysis: 2000 Obligation Year



www.t2e.co.uk
www.om.com

Forthcoming Event

The Environment Exchange is planning to exhibit at a number of shows in 2001.

Our next show will be at:

**The Recycling & Waste Management Exhibition
 at NEC, Birmingham
 on 11th - 13th September.**

We look forward to seeing you there.

Change of Address

The Environment Exchange has moved to 131 Finsbury Pavement, London EC2A 1NT.

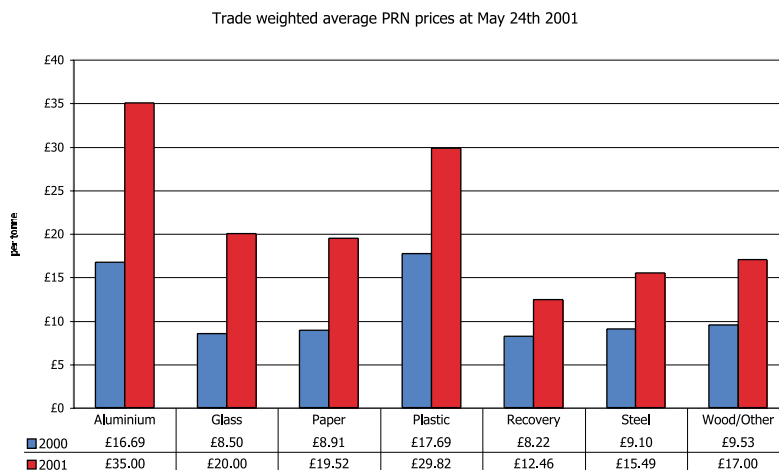
New contact numbers are: Trading: 0870 607 1354 (Calls charged at local rate)
 Marketing: 0207 065 8570
 Fax: 0207 065 8687

QUARTERLY REPORT

This issue covers the following:

- 2001 PRN prices
- A Cautionary note to Reprocessors
- Managing Director's Comments
- Reprocessor Survey
- Trading on the Environment Exchange
- Forthcoming Event
- Change of Address

2001 PRN Prices



NOTE: All prices quoted above are volume weighted to give the most accurate average price picture.

A Cautionary note to Reprocessors

Reprocessors should be aware of the risks of not retaining a reserve of PRNs.

The Agencies have made clear that the first option on PRNs should be to the deliverer of waste and if reprocessors are unable to meet this commitment they could be left seeking PRNs from elsewhere at a premium.

Reprocessors should be able to look forward to a more rewarding year but they do not want to do so at the risk of leaving themselves open to an agency investigation because they have been unable to supply PRNs to the deliverer of the packaging waste.





Managing Director's Comments:



2001 is review year for the Packaging Waste Regulations both within the UK and Europe. At this stage messages from Europe are hesitant but there has been a clear indication that market mechanisms are favoured as a solution to environmental challenges. The UK seems committed to tradable economic instruments with trading rules being drawn up for greenhouse gas trading, renewable obligation certificate trading on line and a consultation on trading permits to landfill biodegradable municipal waste launched. Many view that waste electrical equipment and end of life vehicles will also see the development of tradable permits.



It has been suggested that energy from waste will be removed as a recovery option but at this stage this looks unlikely to become a reality. While there are strong pro recycling lobbies there are also nations that wish to see the retention of energy from waste as a disposal option even if in a smaller role.

What seems clear is that an increase to recycling and recovery targets by 2006 is probable. The question is to what level.



Against this there is still disagreement of both what constitutes packaging and how to verify how much packaging is supplied onto national markets and how much of that packaging is recovered or recycled both nationally and internationally. Debate continues as to whether re-used packaging should be included as recycled packaging or whether there should be separate re-use targets. Neither of these options has universal support.

Meanwhile in the UK it is crunch year for PRNs. Are we or are we not going to achieve the magical 50% recycling rate?

Our reprocessor survey shows a tapering expectation of growth in capacity for 2002 onwards, and that less PRNs were issued in 2000 than forecast in 1999. Uncertainty continues as to whether national compliance will actually be achieved. However, informed sources are confident that this year's obligations will be met, although clearly the market will remain tighter than in previous years. Indeed traded prices in the PRN market this year have been at a premium of between 50 and 100% in comparison to previous years.

All the indications are that a substantial balancing exercise will be required as the year end approaches. It is unlikely that the market will follow the down ward trend of earlier years and both reprocessors and compliance schemes could find themselves disadvantaged without effective risk management strategies in place.

Forward contracts through t2e provide the certainty of a known volume at a known price at a known date in the future. As importantly in the event that a contracted party could not deliver on the contract then they could trade that obligation on with no loss of face and ensure that it is met elsewhere. A forward contract allows both sides to share the risk but what is the optimum premium for sharing that risk? As has been shown by the transparent price supplied on the spot market only the market can decide.

Many thanks to you all for your continued support. There is still a great deal left in this trading year and we look forward to helping you achieve compliance this year. If you wish to book early to avoid disappointment you can comply now using our forward contracts for 2002 as well!

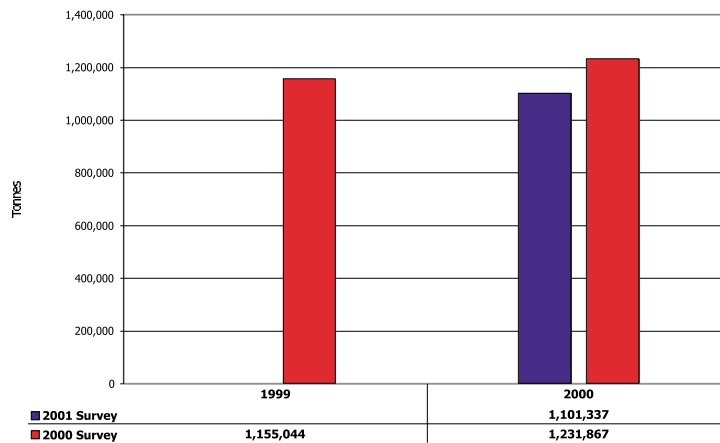
Angus Macpherson
Managing Director

BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

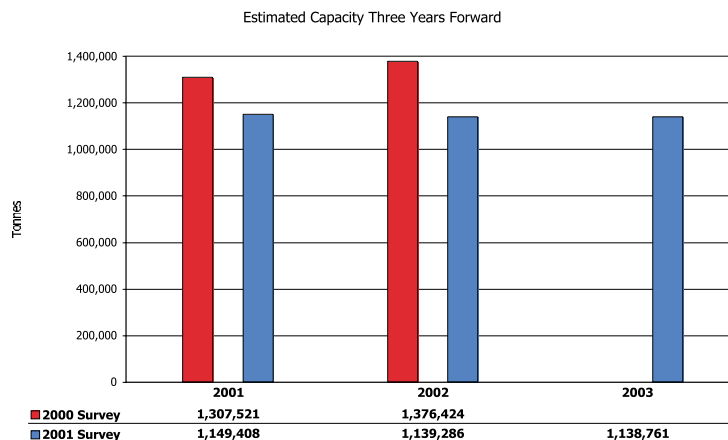
Reprocessor Survey

As last year, we have conducted a survey of reprocessor and exporter participants to gauge growth expectations for the next three years and compare these with last year's expectations.

We received replies from 49 out of our 84 reprocessor and exporter participants, who collectively represent 38% of our total membership. This data has been extrapolated to represent our total reprocessor/exporter membership.



From these responses both reality and expectations appear to be less buoyant in 2001 than in 2000. The total volume of PRNs issued in 2000 was 4.6% less than 1999. The actual tonnage of PRNs issued in 2000 was 10.6% less than anticipated in last year's survey.



Growth in reprocessor/exporter capacity is currently anticipated to be static over the next 3 years. This is down on last year's expectation of increased capacity.