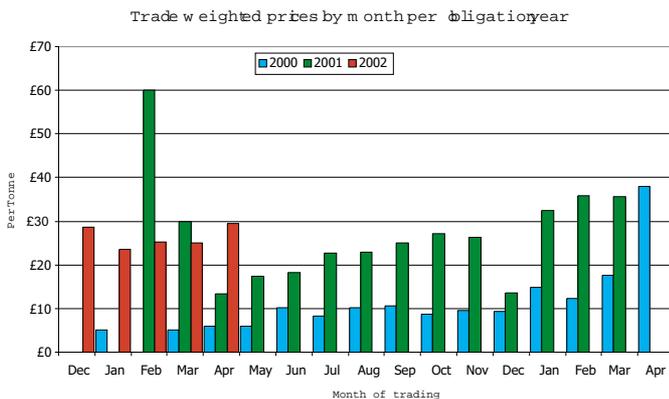


Quarterly Report

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Volumes continue to rise exponentially



- Trading volumes on t2e for the 2002 obligation year so far indicate that record volumes will be achieved again this year. The year-on-year increases seen since t2e commenced trading are:

Year	Tonnage	Incremental Growth
1998	22,536	-
1999	51,452	128%
2000	103,021	100%
2001	183,358	78%
2002 (5 months)	94,285	44%

- With over 70% of trading completed in the last 3 months of the 2001 compliance year further growth can be anticipated.
- The average value per tonne of 2002 PRN prices on the exchange has increased by over 22% on 2001 prices. April's average traded price of £29.40 per PRN tonne up 10% on year to date average.
- Speculation, then the news that a major compliance scheme failed to take 'reasonable steps' to meet its 2001 recovery and recycling obligations, and the subsequent decision by the agency responsible not to deregister it, has been the major talking point during the first quarter of the year.

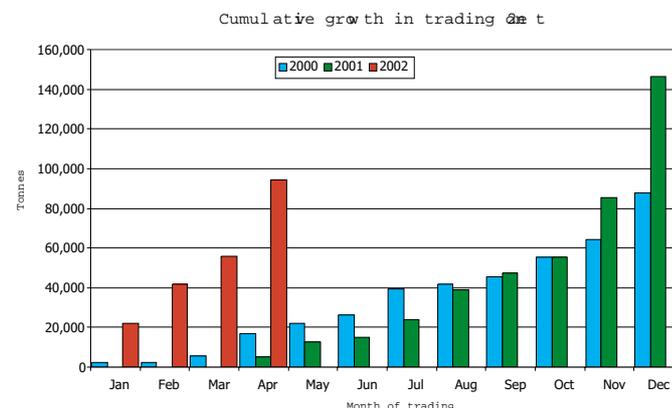
The Managing Director's report overleaf considers some aspects of this in more detail.

The market will watch with interest as the implications of the news are further digested and responses from various market sectors emerge.

- The DTI has consulted on EC's proposals for targets in 2006. The exchange's response is featured below.

t2e response to DTI Consultation Paper

- Accept Europe's proposals for minimum target increases to 55 per cent for recycling and 60 per cent for recovery.
- Endorse the requirement for maximum targets of 70 per cent and 75 per cent respectively.
- Endorse the non-binding annex on definitions of packaging and the desire for greater harmony in the collection of data by nations. This harmony should include packaging, recovery and recycling data.
- Challenge the requirement for varied material specific targets. Instead introduce a challenging minimum recycling target (25 per cent) for all packaging materials.
- Request a 2-year derogation for the EU's compliance to these proposed 2006 targets.



www.t2e.co.uk

Direct Trading Line
0870 607 1354

Managing Director's *Quarterly Report*

Unlike in previous years, trading on The Environment Exchange has continued to be busy during the first quarter with traded volumes now in excess of 80,000 tonnes. Elsewhere our market operator Cliff Laundon provides an analysis of market activity. An interesting aspect has been who used the Exchange last year with 49 per cent of purchases being made by compliance schemes, 30 per cent by obligated companies and 20 per cent by reprocessors and exporters.

Participants are requesting more information from the Exchange both from a general market perspective and with respect to their individual portfolios. To cater for this demand we wish to introduce an interactive facility during 2002. Our roadshow will introduce participants to this service. We also wish to learn what further might be requested from us. We intend to re-introduce the forward contract during 2002 and we will explain how this can be used to the participant's best advantage. It will also be an opportunity for you to learn how others are using t2e.

It is good to put a face to a voice at the end of a telephone so please make the time to come along. From a catering perspective I would be grateful if you could let Isla McCurrach (0131 558 9650) know of your plans. There is no charge to participants or for those that join and trade through the exchange in 2002.

During the last quarter there have been two major issues within the PRN/PERN market:

1. It was confirmed that a compliance scheme had not obtained sufficient evidence (PRNs/PERNs or alternative evidence) to reach its compliance obligation
2. The European consultation on the targets for the recovery and recycling obligations in 2006.

These apparently unrelated events will have a significant impact on availability of PRNs/PERNs/alternative evidence and consequentially on their value in future years.

The acquisition shortfall was 235,000 tonnes (5 per cent) from a national obligation of 4.65 million. Of this 57,000 tonnes (1 per cent) were handed back to the Agency and an unknown quantity - with the establishment of a central register the exact quantity would be known - were carried forward into 2002.

It is not clear from the announcement whether any alternative evidence of compliance was provided and in which case whether that evidence was insufficient in tonnage terms or otherwise or whether there has been a request to make up any shortfall in future years. Regardless, what is clear is that there will be a significant demand this year for PRNs in addition to the 250,000 tonnes created by the incremental increase in the targets. Now is the time for compliance schemes and accredited reprocessors/exporters to demonstrate the products of the additional revenue that they have earned to date.

There has been speculation about the impact of this non-acquisition on the PRN system. Against this background the signal from both Government and the Agencies remains consistent, PRNs/PERNs are the expected form of compliance.

If PRNs/PERNs are not acceptable to industry then it is the responsibility of industry and its representatives the compliance schemes to provide a coherent alternative. Although not stated the implied threat is that the alternative to a PRN system is a statutory instrument. Inevitably this would considerably increase the bureaucratic and financial burden on all involved as well as reduce the flexibility that is available within the current system.


Angus Macpherson
Managing Director

BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

Interpreting the Exchange's Weekly Bulletins

Marketplace parlance adopted by the Exchange is sometimes unfamiliar to those who have grown up in the environmental sector of industry. In addition, price gyrations do not inspire confidence.

It is clear that many Exchange participants are neither watching the market consistently nor at ease with information published on the website. So, both as a market reminder and a convenience, we e-mail our Weekly Bulletin to almost 500 participants.

It happened last year and it'll happen again

A wise strategy is to calculate what you need, divide it by two, four or even 12 and ensure that you acquire PRN tonnages regularly. Use the Bulletin to work out the best time to make a bid using data in the bid and offer quantity columns and don't make unrealistic bids – equally, the converse of this is that you do not need to be too generous. The statistics in the Weekly Bulletin are also an invaluable guide – last price, volume weighted average for exact price information followed by the high, the low and finally total tonnage traded to date.

Also shown is the movement during the week. This is important. It will also show you where there was trading aberration – for example a tiny trade at an abnormally high or low price.

Product	Bid Quantity (tonnes)	Bid Range (£/tonne)	Offer Range (£/tonne)	Offer Quantity (tonnes)	Last Traded Price (£/tonne)	Volume Weighted Average (£/tonne)	Traded High (£/tonne)	Traded Low (£/tonne)	Traded Volume (tonnes)
Aluminium	3,440	22.5 to 37.5	70 to 75	700	65	54.98	65	21.5	3,051
Gen. Recycling	17,223	15 to 24.25	32.5	543	29.5	24.58	30	22	31,757
Glass	7,600	18 to 28	30 to 53	5,390	28	24.73	28	21.5	5,963
Paper	16,040	18 to 30	32.5 to 35.5	4,000	28.5	26.03	29	23.5	35,956
Plastic	532	25 to 33	34.5	42	34.5	31.7	45	28	5,148
Recovery	22,903	8 to 24	29.5 to 30	1,694	24.5	23.39	24.5	19	2,075
Steel	10,008	8 to 25.25	30 to 45	5,393	30	27.21	31	21.5	6,418
	77,746			17,762					90,368

Prices as at April 26th 2002

Strong Start for 2002 by Cliff Laundon

Notwithstanding continued uncertainty about targets and obligations being met in 2001, trading on t2e during the first quarter of the 2002 obligation year has got off to an early and consistent start, with more than 60,000 tonnes traded already.

Prices have continued to remain generally firm, a continuation of the trend we saw developing in January. Spreads in most PRNs are surprisingly tight for this early stage of the year, with buying interest at realistic prices being the feature so far.

The delay in announcing recovery and recycling targets for 2002 was seen by some as a reason to hold back from trading, although targets were always going to be higher than last year.

The effects of the delay were largely discounted by the larger participants. For some smaller independent obligated companies however, the delay caused some confusion in respect of their registration with the Agencies.

With targets of 59 per cent for Recovery (56 per cent in 2001) and 19 per cent for Recycling (18 per cent), it is expected that the supply of PRNs will have to increase by 300,000 tonnes in 2002. As exporters are beginning to sound more bullish, it will be interesting to see how much of this extra tonnage comes from them.

After the roller coaster of December and January trading, we have noted a tendency amongst participants on both sides of the market to trade structurally: A strategy to avoid being at the mercy of prices at the year end.

In the past two Quarterly Reports, we have offered some answers to questions the Exchange is frequently asked. Here are some more.

At what stage is an order legally binding?

If a participant places an order on t2e and it is matched, it becomes a legally binding contract. Placing an order indicates that the participant is committed to buying or selling in 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.

What happens if I buy more than I need through t2e?

If a participant, in error, buys more than he or she requires through t2e, the participant must honour the order. The participant may re-sell the excess back through t2e or elsewhere.

In the event that this requires the PRN to be split and the participant asks t2e to arrange the split then there will be a £5 charge for cancelling the old PRN and a £5 charge for each new PRN issued.

What happens if I sell more than I meant to through t2e?

If a participant sells more PRNs through t2e than they possessed or were permitted to issue then that seller is potentially in default of his or her contract.

It is vital the seller makes good the contract immediately either through purchasing PRNs through t2e or from another source.

What happens if I have a number of small orders and I wish to bulk them together?

Buyers and sellers are allowed to aggregate a number of small orders to make a large single order on t2e. As that order is matched, the buyer is then responsible for paying the splitting fee as described above.

Meeting Opportunities

The Environment Exchange – the internet-based marketplace for PRN (packaging recovery note) trading – is marking the beginning of their fifth year of operation with a series of seminars throughout the UK as a briefing opportunity for obligated company traders who are skilled and others who want to know more about PRN trading.

Environment Exchange MD Angus Macpherson and Cliff Laundon will lead the seminars – see *opposite*.

The delegate cost will be £50 although attendance is free for existing participants and reimbursable for any delegate who trades in 2002. To book a place, either ring Isla on 0131-558 9650 or fax the Exchange for tickets on 0131-556 9959.

The Seminar Programme

London	12pm-2pm	Tuesday May 14th	Dyers Hall, Dowgate Hill
Bristol	12pm-2pm	Thursday May 16th	The Create Centre
Birmingham	11am-1pm	Friday May 17th	Aston Science Park
Stirling	11am-1pm	Friday May 24th	Golden Lion Milton Hotel
Manchester	11am-1pm	Tuesday May 28th	Midland Crown Plaz
Doncaster	11am-1pm	Wednesday May 29th	The Earth Centre



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