

# Quarterly Report

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## Market Status February to April by Cliff Laundon

Modest, regular trading was punctuated with occasional large volume selling, notably from the paper and plastic sectors.

Prices in these classes, as well as in General Recycling and Recovery were depressed but subsequent traded prices recovered as we noted resistance to the sub-£10 level.

Aluminium traded at £13 and £14, with very light volumes at £15.

Wood/Other PRNs traded down to £9.50 in modest volume from a high of £14. Good tonnages were offered consistently, although at prices well above the trading range.

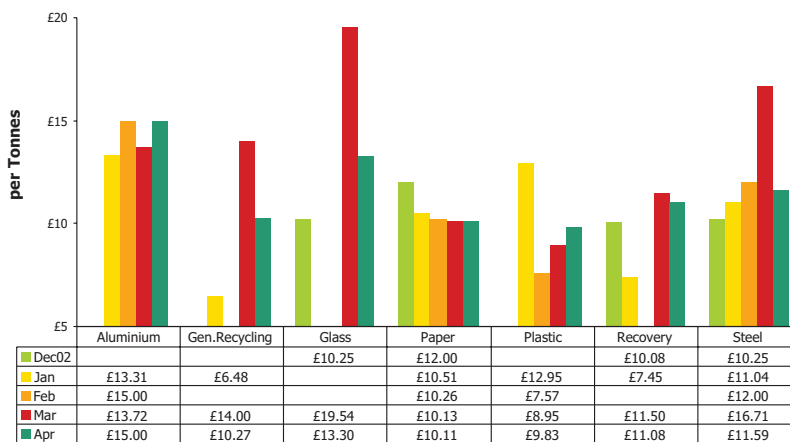
Recovery PRNs traded in modest volume between £11 and £11.50. Again, adequate volumes were offered throughout at prices above this range.

Glass and Steel prices fared better. After initial trading at £19.75 Glass prices softened to £13 before recovering to £13.75. After active trading at £12, Steel rose to £17, softening to £11 before rallying to £14 in light volume.

The large volume purchasing seen in this period last year was not as evident but nevertheless some sizeable transactions, 1,000 tonnes and higher, resulted.

In the absence of any new fundamentals the market has continued to lack direction. Details of the volumes of December 2002 transitional tonnage issued into 2003 and the tonnage written back to the Agencies has been keenly awaited. By the end of April, this was still not in the public domain. This information is widely regarded as pivotal to establishing the tone of the market for the remainder of the year.

2003 Obligation year - Trade Weighted Prices on t2e



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## Managing Director's Quarterly Report

While the first quarter of 2003 has seen a relatively quiet period of trading as the market awaits the last quarter reprocessing figures for 2002, it has been a busy period in other aspects.

I have agreed to sell Valpak a 40% stake in The Environment Exchange (t2e). Although it is not anticipated that there will be any fundamental objections, this proposed acquisition has been notified to the Office of Fair Trading for consultation.

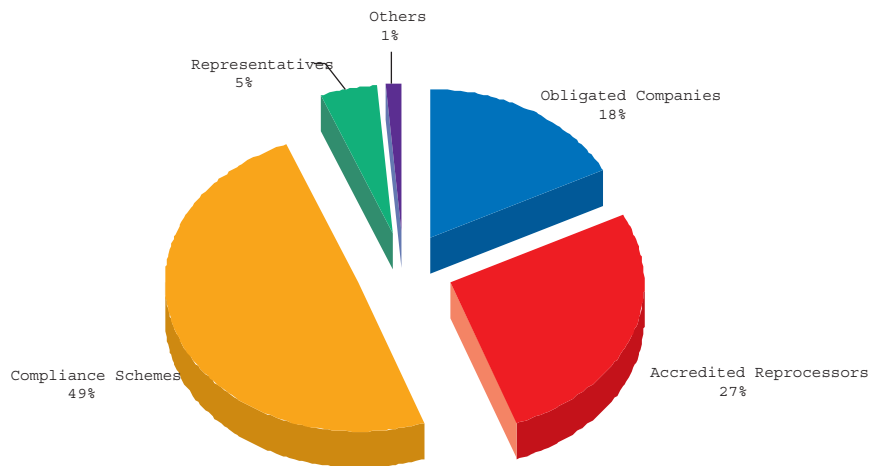
The key features of t2e are its integrity and independence. It would not be in anyone's interest to compromise this. Valpak will be a minority investor in t2e and there will be an independent Chairman. The Valpak Board members will be non-executive positions and the measures already in place will ensure that the confidentiality of trading information is maintained. Valpak as a trader will have access to the same trading

and a settlement and delivery service. Valpak is a compliance scheme. It acquires PRNs to meet its legal obligation on behalf of its members and provides them with additional compliance advisory services.

Obligated companies will continue to have the choice of joining a compliance scheme or going independently. t2e will continue to promote the transaction price of PRNs traded through the exchange and take no compliance advisory role. Equally it will not recommend one of its participants in preference to any other as a compliance option.

Valpak, compliance schemes and individually obligated companies will continue to have the option of acquiring PRNs through t2e or through bilateral contracts. Accredited reprocessors and exporters will retain the ability to sell PRNs through any of the channels that they have done previously.

2002 Obligation Year - Tonnes purchased on t2e



information as any other participant on the exchange. It will not receive preferential treatment.

This commitment by Valpak to t2e will increase traded volumes which will benefit other participants in the form of additional liquidity in transactions and tighter spreads between bid and offer prices.

The roles of t2e and Valpak are different. t2e provides a market-place service for its members. It provides a transparent price, simple standard contracts for trading PRNs

There will be an opportunity in due course to subscribe for up to another 40% of the shares in t2e. When this opportunity arises we will make it public.

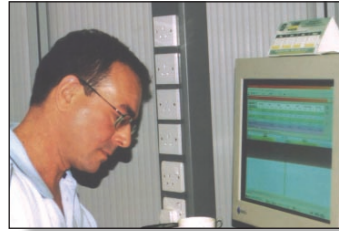
Once again thank you for your continued support.

  
**Angus Macpherson**  
Managing Director

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## Working the Market – by Cliff Laundon

My role as the Market Operator is to facilitate trading and encourage liquidity on the exchange by speaking with participants. I provide general information and perspectives of the market to assist them in deciding how and when to trade. I am not permitted to advise on how to trade or to disclose any confidential information about other participants.

When you place an order, it is recorded immediately on our trading system and posted on the t2e website within a minute or two. The posting occurs automatically and no manual intervention in the process is possible by any of the exchange staff.

You can amend or cancel your order at any time at no cost, but while it is in the market it can be matched. Unless you specify otherwise, any untraded balance will expire after 20 working days. I will then call you to discuss your intentions.

An order is your firm commitment to trade at the stated price. It is immediately available for trading to any other participant prepared to match your price, strictly on a first-come-first-served basis. When this happens you will receive a faxed confirmation of the resulting trade.

If the new order has become the best priced in the market, I will “work” the market to try to achieve a trade. I will inform participants whom I believe may be interested in matching the order.

To ensure that we conduct an orderly market, I am obliged to apply a strict order regarding who is contacted and when.

Firstly I will contact those with counter orders already in the market (buyers when a selling order is received, sellers when a buying order is received), to inform them of the new order.

The highest (lowest) priced buyer (seller) is contacted first when a new selling (buying) order is received, then each buyer (seller) in turn down to the lowest (highest) priced order in the market.

Only when this is done and if no one has matched the order will I call any other participant who may have expressed an interest to trade at around the order price.

The website is the exchange’s “shop window” for prices, so I will be selective when working the market. A call is only of value when the new order is at a price close to one already in the market.

| Steel                                      |      |           |                 |      |
|--|------|-----------|-----------------|------|
|  | SIZE | BUY PRICE | SELL PRICE      | SIZE |
| ⊖  | 150  | 9.00      | ⊕ 14.25         | 1000 |
|  | 70   | 8.00      | 14.50           | 2421 |
|  | 250  | 7.00      | 14.50           | 1587 |
| ⊕  | 200  | 5.00      | ⊕ 15.00 - 15.75 | 726  |
| ⊕ Expand...                                |      |           |                 |      |
| ⊖ Last 5: 1500 tonnes @ £10.00 02-May-2003 |      |           |                 |      |
| 89 tonnes @ £9.50 01-May-2003              |      |           |                 |      |
| 603 tonnes @ £9.50 01-May-2003             |      |           |                 |      |
| 80 tonnes @ £9.50 01-May-2003              |      |           |                 |      |
| 3 tonnes @ £9.50 01-May-2003               |      |           |                 |      |

| Plastic                                 |      |           |                 |      |
|---|------|-----------|-----------------|------|
|   | SIZE | BUY PRICE | SELL PRICE      | SIZE |
| ⊖                                       | 200  | 9.00      | ⊕ 11.00         | 1239 |
|   | 174  | 8.00      | 12.00           | 700  |
|   | 1000 | 6.00      | 15.00           | 100  |
| ⊕                                       | 6    | 4.50      | ⊕ 16.00 - 20.00 | 949  |
| ⊕ Expand...                             |      |           |                 |      |
| ⊖ Last 5: 6 tonnes @ £11.00 07-May-2003 |      |           |                 |      |
| 100 tonnes @ £9.50 02-May-2003          |      |           |                 |      |
| 5 tonnes @ £11.00 01-May-2003           |      |           |                 |      |
| 188 tonnes @ £9.00 29-Apr-2003          |      |           |                 |      |
| 200 tonnes @ £10.00 29-Apr-2003         |      |           |                 |      |





## Exciting Times – by Jonson Cox

These are exciting times for The Environment Exchange. Valpak, the UK's leading Producer Responsibility scheme, has agreed to buy a 40% stake in the business.

This deal brings many benefits to The Environment Exchange, which I outline below:

- Valpak's investment will enable The Exchange to accelerate the development and scope of its services on offer to participants. This can be achieved much more quickly than would previously have been possible through internal investment.
- This deal should increase the liquidity in all PRN markets which will benefit all traders, particularly as recycling and recovery targets increase substantially.
- With the increasing targets, it is also vital that the UK has a viable trading floor for PRNs. This will complement Valpak's principal method of procurement, which is long-term arrangements with reprocessors. Angus Macpherson has created a good basis for a traded market with The Environment Exchange – Valpak's investment will ensure that it flourishes and fulfills its potential.

- Finally, we believe there is the potential for electronic trading of PRNs and other traded compliance notes to grow significantly in the future, and Valpak's expertise and investment will enable The Environment Exchange to expand into this area, ensuring that it offers the best possible service to all participants.

It is in the best interests of all participants in The Environment Exchange that this deal is constructed to ensure the confidentiality and interests of traders will not be compromised. The deal we have drawn up is deliberately constructed so that neither Valpak nor any future investor has overall control, and we will have no access to information on specific trades or overall trading volumes other than that which is currently available to participants. To ensure that this is widely understood to be the case we have referred our agreement to The Office of Fair Trading for approval, and their decision should be with us by early June.

I am sure you will agree that this deal brings significant benefits to The Environment Exchange. If you have any queries, both Angus Macpherson and I are happy to discuss these points with you. We look forward to a flourishing partnership!

**Jonson Cox**  
Chief Executive  
Valpak Ltd

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