



Quarterly Report

Report 40

November 2008

Market Status – August 2008 to October 2008

By Ian Andrews

At the start of the period PRN prices looked set to follow a similar trend to last year with good availability and falling prices. As we entered October the effects of the global economic slowdown began affecting the movement of recyclables out of the UK and fears swept through the market of a lack of availability. These fears led to a wave of buying coming into the market which, coupled with the declining availability, saw high prices being paid for Paper, Plastic, Aluminium and Wood.

Trading for the period equated to 248,617 tonnes across all markets with 163,309 tonnes traded through the Spot Market and 85,308 tonnes traded in the Forward Markets.

Market material analysis:

Paper – traded in excellent volume throughout the period with prices remaining stable until the last two weeks when record increases were recorded as the market traded up to £10.00 in value. Supply was strong with sellers realigning their prices as movement of material became more problematic.

Plastic – traded in good volume for the quarter with initial thoughts of surplus after the release of quarter two figures. During the early part of the period the market saw excellent selling volumes offered which led to a declining price. As the period progressed further evidence of a slowdown in exports saw the market price recover.

Glass – prices were relatively stable with excellent volumes being traded. Since the glass sector is more dependent on UK reprocessing to provide evidence notes, the export issues affecting the other markets have had little impact here.

Steel – traded in light volume at the start of the period as a lack of buying saw the price fall. The implementation of new broadly equivalent standard guidelines led most buyers to believe that further price falls were imminent and excellent quarter three figures seemed to confirm this, however the slowdown in exports reversed the initial thoughts on price and increases were seen at the end of the period.

Wood – traded in excellent volume for the period with the majority of trading coming during the last month as issues in the paper market materialised and demand for general requirements increased. The slowdown in the building sector led to a reduction in material being reprocessed and

this helped firm up the price at the end of the period to a three year high.

Aluminium – traded in good volume this quarter with prices remaining relatively stable. At the end of the period good demand came to the market and we saw the price increase.

Recovery – traded in very light volume this quarter as a lack of availability saw buyers' requirements filled by other materials. With the increasing value of the paper and wood notes it is hoped that the better value being offered for recovery notes should see more tonnage come into the market.



	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	Year to date aggregated traded
PAPER MARKET						
Spot 2008	£10.00	£1.50	70,128	£3.43	£2.75	166,801
Oct Fwd 2008	£1.50	£1.50	35,364	£1.50	£2.00	52,364
Jan Fwd 2009	£5.00	£2.75	10,000	£3.87	£3.88	10,000
Apr Fwd 2009	£5.00	£5.00	5,000	£5.00	£5.00	5,000
Jul Fwd 2009	£5.00	£5.00	5,000	£5.00	£5.00	5,000
Oct Fwd 2009	£5.00	£5.00	5,000	£5.00	£5.00	5,000
PLASTIC MARKET						
Spot 2008	£24.00	£13.50	14,611	£16.89	£18.34	36,505
Oct Fwd 2008	£15.00	£13.00	2,172	£13.62	£15.13	5,922
GLASS MARKET						
Spot 2008	£19.50	£17.00	22,148	£18.58	£20.33	80,432
Oct Fwd 2008	£18.50	£17.00	6,772	£17.44	£20.64	31,772
Jan Fwd 2009	£23.00	£23.00	1,000	£23.00	£23.72	9,000
STEEL MARKET						
Spot 2008	£11.50	£8.00	11,634	£8.61	£9.51	14,148
Oct Fwd 2008	£12.50	£12.50	2,000	£12.50	£12.54	6,035
Jan Fwd 2009	£15.00	£15.00	500	£15.00	£15.00	500
WOOD MARKET						
Spot 2008	£8.50	£1.50	42,707	£4.32	£3.77	59,053
Jan Fwd 2009	£4.75	£4.75	500	£4.75	£4.75	500
Apr Fwd 2009	£5.00	£4.00	4,000	£4.31	£4.31	4,000
Jul Fwd 2009	£5.00	£4.00	4,500	£4.36	£4.36	4,500
Oct Fwd 2009	£5.00	£4.00	3,000	£4.17	£4.17	3,000
ALUMINIUM MARKET						
Spot 2008	£100.00	£54.50	1592	£65.58	£68.50	2,878
Oct Fwd 2008	£70.00	£70.00	500	£70.00	£70.53	950
RECOVERY MARKET						
Spot 2008	£1.75	£1.50	489	£1.65	£1.80	3,209

If your company has a turnover in excess of £2 million and handles annually more than 50 tonnes of packaging then PRNs apply to you.

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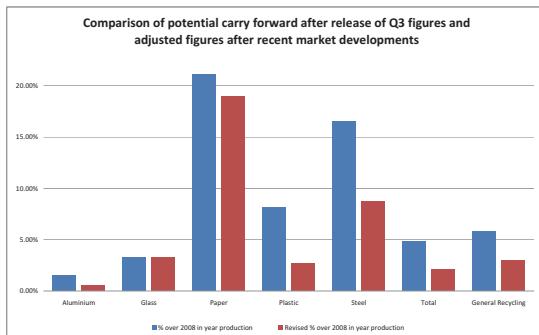


Managing Director's *Quarterly Report*

Global recession has been announced, China closed its doors to secondary raw materials, albeit temporarily, secondary raw materials prices have plummeted and the PRN price has rebounded on concerns that targets, which after the Q3 figures looked easily achievable, suddenly became more uncertain. It has been an astonishing quarter ending with a record trading month in October. For those that have traditionally waited to the end of the year before acquiring PRNs, compliance looks far more expensive than any year since 2004. The diagram below illustrates the change in the price of all materials particularly those used to meet the general recycling obligation. So much can change in a month and plenty more could happen before the 2008 market is finished!

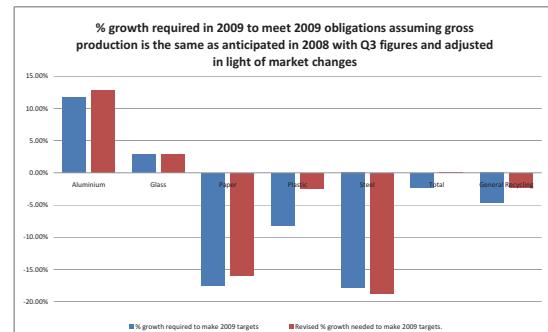


In the past PRN production is about 11% greater in the last quarter than an average of the preceding 3 quarters in any calendar year. However exports in all secondary raw material markets are anticipated to be down somewhere between 25 and 50% in the final quarter and metal and wood domestic production may also be down by a similar quantity. As already anticipated carry forward to 2009 will be down, possibly by as much as 200 to 250,000 tonnes lower than last year, and the 2008 aluminium target looks very challenging.



So where might that leave the PRN market in 2009? As obligations are calculated on the previous year and the recession did not impact until the last quarter there is little indication to date that consumer demand has reduced (in October it was 2.4% up on the previous year) obligations could be anticipated to stay the same level or be higher.

Sadly although consumer spending may continue over Christmas it looks as though it will be a pretty grim spring with everyone facing tighter budgets for 2009. If unemployment rises and time is valued less, recycling at the household level might increase while demand for secondary raw materials looks at best the same and possibly receding. Despite the boost from their Government, Chinese Industry is unlikely to recover until well into the first quarter and even that may be restricted unless global demand returns as well. So a year of increased obligations and increased supply struggling to find reprocessors either at home or abroad, makes it difficult to anticipate either high secondary raw material prices or an increased supply of PRNs.



2009 glass and aluminium material specific targets have always looked challenging; now the aluminium one looks a struggle and even if it achieves its target, the UK may struggle to meet its overall metals recycling target. Additionally the overall recovery and recycling targets look tight, which might both make discovery of supply difficult and maintain buoyant PRN prices. Certainly the forward markets are currently factoring in higher prices than a year ago. A fly in the ointment of demand may be company bankruptcies and a problem for supply may be fraud. The Agencies will need to be particularly vigilant to nip any potential abuse in the bud. Overall buyers will wish to secure supply while suppliers will be seeking value; a combination which makes our forward contracts look both desirable and good value.

Let us all hope that the future is not as dismal as many are predicting and the New Year brings joy with it. I wish everyone a Happy Christmas and look forward to being of service during the difficult months to come. Thank you for your support.

Angus Macpherson
Managing Director

t2e 10 years trading and still going strong

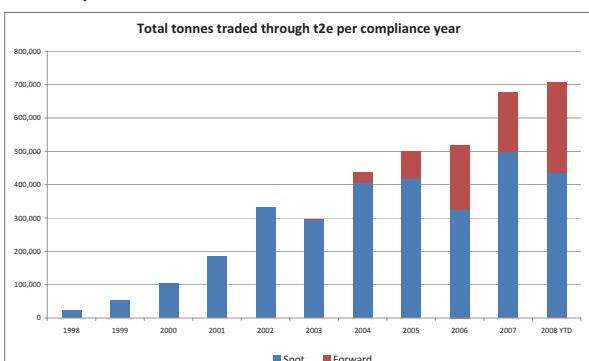
It is 10 years since the first transaction, 100 tonnes of paper PRNs at £10, traded on 25 November 1998 during the launch of OM Environment Exchange (OMEE) at London's Guildhall by Judith Mayhew who was then the Chair of the Corporation of London's policy and resources committee. At that stage t2e was 85% owned by OM, the owner and operator of the Swedish Stock Exchange. Rarely can anyone have had a better launch pad.

Surrounded by doubters that trading through the internet could ever take place and the nascent Emissions Trading Market, OMEE was recognised as an Investment Exchange (RIE) by the Financial Services Authority and with curiosity by the Environment Agencies and DEFRA. In 1999 it was part of a project to develop trading of Renewable Energy Certificates throughout Europe, a product of which was Renewable Obligations Certificates (ROCs). In 2000 it investigated introducing the PRN system throughout the Nordic Region, while feasible it was a bridge too far politically.

In compliance year 2000 103,021 tonnes were traded. In 2001 OM sold t2e back to me. At the same time t2e ceased to be a RIE and its address moved from London to Edinburgh. Trading continued to grow with 332,475 tonnes traded in compliance year 2002. Valpak took a 49% stake in t2e in 2003, which proved a difficult trading year with significant levels of fraud particularly in the plastics market driving PRN prices to below £1. In June 2003 came the first trade in the forward markets a concept launched in 2000. These first tentative steps have now swollen to 105,807 tonnes traded in the October 2008 forward market.

Valpak sold its stake back to me in 2004 while prices bounced back with aluminium and plastic PRNs both trading at over £100 a tonne. In 2005 prices soared with both aluminium and steel breaching £200 a tonne, t2e introduced interactive trading and an independent audit service for reprocessors and exporters. 2006 saw PRN prices plummet, t2e introduce a rebatable participation fee and cut its fees by 50% for trades of less than £5. In April 2007, 100,000 tonnes were traded in a month for the first time and t2e started to operate the recyclable commodities market pricing report on behalf of WRAP. In 2008 the WEN (Waste Electrical and Electronic Equipment Evidence Note) market-place and independent audit service were launched, the first WEN trade took place and more than 10% of all PRNs have been traded through t2e.

Thank you to everyone, investors, participants, suppliers and employees both past and present that has been so supportive over the last 10 years. t2e look forward to being of service to you for the next 10 years and beyond.



Quantum Leap - Thank you t2e!

Mandy Stoker, Director, E4 Environment

Shrewsbury, Sunday 5th October. Weather – heavy rain, strong wind, cold.

Normal people watch TV with the heating turned up, on days like this, but it seems at least 150 of us are not normal people. 150 of us were about to embark on a zip wire run from the roof of the new theatre in Shrewsbury, across the river Severn to a small patch of grass on the other side all for fun and in aid of charity.

The money raised is for the Severn Hospice. Severn Hospice cares for those with progressive illnesses. They help by providing nursing and medical care, trying always to sustain their quality of life and relief from pain. To their families, friends and carers they offer the same loving support, help and counselling because incurable illnesses affect whole families.

So, dressed in a Catwoman outfit (an obvious choice for the zipwire) I climbed onto the roof of the Theatre. I had good company, my daughter, sporting a cowboy outfit and my Dad, opting for the T-shirt with witty slogan option.

Once I'd been manhandled into a harness it was time to step off the roof and into the abyss over the river Severn. Whizzing at lightening speed towards a crowd of happy spectators, I was almost relieved to have no peripheral vision due to the cat mask. With a bang, the metal zipper hit the wooden block and the breaks were applied. Such fun.



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t2e - the purchasers perspective

Per-Jonas Carlsson - New Markets Manager, NASDAQ OMX, Stockholm

It was late in the afternoon in the spring of 1998, another rainy day in London. A man named Angus entered my office with holes at the elbows of his lambswool sweater but friendly and pleasant. He told me his purpose in life was to apply a market approach to the new legislation that the UK was about to introduce for recycling packaging materials.



At that time I was new in my job as manager for New Markets for OM (now NASDAQ OMX), and I was enchanted both by the idea, and by the man behind it. The result of this was that I became devoted to the idea and even missed Sweden's moose-hunting season that year, as on October 23rd OM together with Angus Macpherson announced the establishment of the OM Environment Exchange. Thereafter everything moved at breakneck speed and the first trade took place on 25th November 1998 at the Guildhall in London.

It is fair to say that the financial performance of the business did not quite meet our initial targets but the co-operation was an excellent one. Eventually OM decided to turn to other ventures while Angus continued to build up the exchange. This year, The Environment Exchange is celebrating its tenth anniversary. I am proud to have been part of this venture from start, and I am grateful for the friendship it has resulted in with Angus. I would like to take this opportunity to wish the Environment Exchange all the best in its business and in its important environmental mission.

Steve Gough - Chief Executive, VALPAK

When t2e opened for business in 1998 Valpak foresaw the exchange providing a marginal market through which independently obligated producers could acquire the evidence they required. Early on it became apparent, through the transaction and tonnage volumes being traded, that the exchange had also attracted interest from some of the larger compliance schemes.



The spot volumes traded on the exchange represent between 5 and 7% of the total obligated tonnage, mainly due to the prevalence of long term contracts between schemes and reprocessors & exporters. Nevertheless Valpak has been pleased to support t2e as it provides a valuable indicator of market trends and aids liquidity by facilitating trading opportunities that otherwise might not exist.

The statistical information available in the exchange's website and reports provides the PRN market with valuable historical information as well as the opportunity to discern prevailing trends.

The addition of the t2e forward markets, despite the slow initial uptake, has been a positive contribution to the PRN system, allowing both buyers and sellers to lock in a degree of price certainty well before the contracts have to be performed with deliveries.

t2e's success over the last ten years is confirmation that the PRN system works to deliver efficient compliance. Variations in PRN supply and demand are promptly reflected in prices and the availability of evidence on the exchange. In this way it sets the tone for the recycling market in what is required to meet packaging waste business and directive targets.

We are delighted that t2e has reached its tenth anniversary. Angus is to be congratulated for his vision and persistence in this achievement. He and his team have made a valuable contribution to the success of the PRN system.

As the end of the 2008 compliance year approaches reprocessors and exporters are reminded of our discounted independent audit service. If you wish more information please call Anna Lamin on 0131 473 2330

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