



Quarterly Report

Issue No 25
February 2005

Market Status – November to January

2004 – A record breaking year

by Andrew Fendick

Activity during this final quarter was driven in part by many obligated companies leaving all, or a significant proportion, of their purchasing to the end of the year. Publication of the third quarter UK recycling statistics by DEFRA confirmed that Plastics and 'the metals' were going to struggle to meet their targets and that Paper and Wood would be at the best quite tight. Glass was identified as being the only class of PRN in excess; reprocessors in this sector worried that they would be left holding tonnage began to sell into General Recycling.

The on-going demand for 2004 PRNs kept driving prices ever higher in December, giving the reprocessors no reason to write their PRNs into 2005. This trend continued into January so little tonnage was carried forward at the end of compliance year.

Trading in Q4 represented 40% of 2004's total volume. In December, a total of 61,230 tonnes traded in all markets. The compliance year finished with a record breaking 438,151 tonnes traded in all 2004 markets. We have also seen the highest price paid for a PRN on the Exchange when 2 tonnes of Aluminium traded at £150 per tonne

Paper traded in very good volume from a low in early November of £5.50 to a high in late January of £20. Paper filled the majority of General Recycling requirements. A total volume of 51,531 was traded in the quarter.

Plastic traded in good volume from a low of £19.50 in November to a high of £101 in January. Although selling was at times sporadic good volume was consistently traded ending up with a total of 12,176 for the period.

Steel traded in low to fair volume from a low of £25.25 in November to £125 in early January as fears about availability were realised. For extended periods selling was not active, when it did occur it traded quickly and at the offer price. Total volume was 10,556 for the period.

Glass traded in good volume from a low of £7 in November to a high of £30 in late January as available transitional tonnage

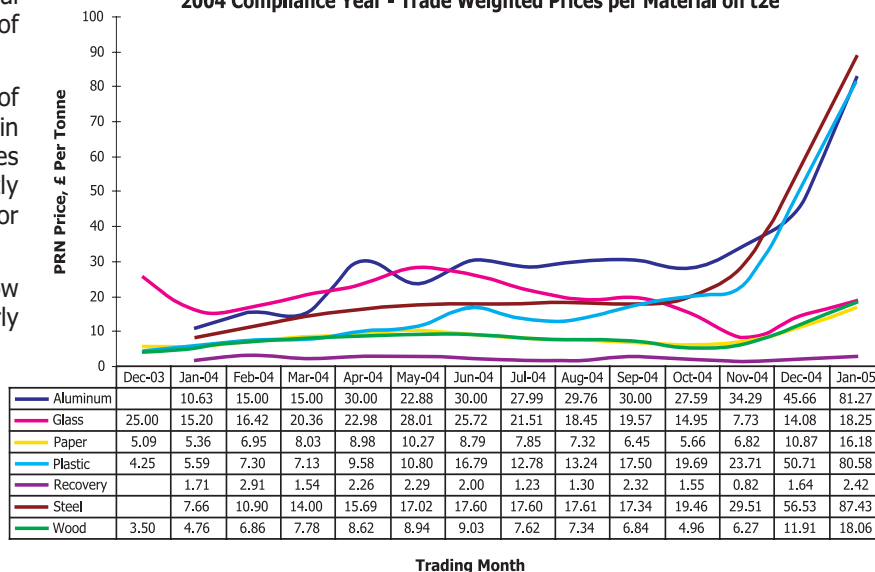
began to run dry. In late November and early December Glass competed successfully with Paper to meet General Recycling requirements. Total volume for the period was 24,093.

Wood traded in good volume from a low of £5 per ton in early November to a high of £25.50 in late January as supply of transitional tonnage ran short. Wood traded a total volume of 16,347 in the quarter.

Recovery traded in good volume throughout the quarter fluctuating in price from a low of £0.75 to a high of £3.50. The lower end of the price scale represented good-sized contracts being traded whereas buyers were paying the higher prices for smaller denominations. The reduction in fees to 25p per tonne helped the volume to reach 23,237 for the period.

Aluminium traded in very low volume from a low of £30 per tonne to a high of £150. Fears about availability also affected the manner in which this material was traded. Aluminium traded as soon as it was offered into the market and generally at the offer price. A total of 891 tons were traded in the quarter.

2004 Compliance Year - Trade Weighted Prices per Material on t2e



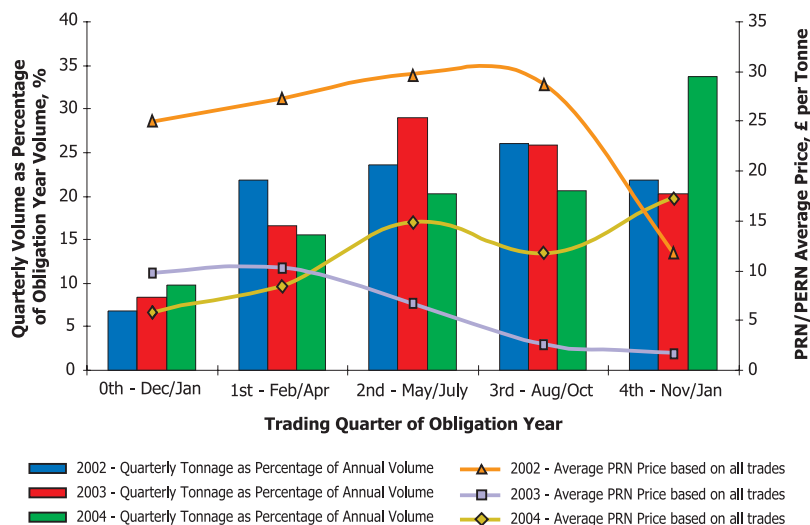


Managing Director's Quarterly Report

t2e has had a record year and PRNs traded at record prices.

The timeliness and accuracy of the Agency figures surprised many who were anticipating a 'traditional' end of year slump. Prices moved from £5 - £10 in November to over £100 in Plastics, Aluminium and Steel in January reflecting a transition from complacency, through amazement, to almost panic as buyers appreciated the tightness of supply. This tightness was exacerbated by difficult trading conditions for exporters in the fourth quarter; tardy performance by obligated companies on 'bring-back' contracts to compliance schemes and late exposure to the market of demand. This led to poor supply with reprocessors and exporters uncertain of their commitments to deliver on bi-lateral contracts to compliance schemes, on some occasions these contracts reflected a duplication of direct demand from their customers that are obligated companies.

Variation in T2E Market for past 3 Obligation Years, illustrating the variation in quarterly traded volumes and the trade weighted price paid per PRN/PERN based on an average of all sectors



As the year progressed availability of wood, aluminium and steel tightened as a result of these open, uncalled, unfixed options contracts which created bottlenecks in supply. Ultimately only sufficient aluminium failed to be found although it is unclear whether this is as a result of a shortfall of supply or surpluses being used to meet general recycling obligations. It is crucial that both buyers and sellers allocate a sufficient quantity available to be traded through the open market to allow price discovery and continuous trading through spot and forward markets. Not only to widen availability but also dampen demand and supply surprises, thus reducing the risks of price volatility.

Unexpectedly, plastic, which was anticipated to be the tightest, retained liquidity as the compliance year ended.

It is unclear how this was achieved. The

issue of how a PRN can be checked for validity or fraud remains unresolved; although the impossibility of tackling these issues without a flow of timely information from the agencies is beginning to be appreciated.

It is to be hoped that all participants will review, in the cold light of February, their purchasing plans for 2005, and consider both spreading their purchasing through the year as well as using forward contracts to mitigate their price risks. The importance of the simple t2e criteria, that a contract does not exist if price, volume and delivery date are not fixed, was reflected in a marked increase in trading in the last quarter as buyers returned to t2e, having been disappointed elsewhere.

Against a background of potential shortfalls the DEFRA consultation to allow more flexibility to the registration of reprocessors and exporters is welcomed. To request exporters to list all their potential customers 15 months in advance fails to understand the sector and to restrict applications for accreditation to a single point in the year is unnecessarily inflexible and will do little to restrict fraud. With this in mind we are initiating our annual survey of reprocessors and exporters and also encouraging them to make this information available with their public information.

The end of year material specific reconciliations and the requirements to get the correct end receiver names on PRNs imposed significant administrative burdens. Ultimately this may explain the shortfall in aluminium PRNs. Please take time to read Anna's comments on settlement and common faults in filling in PRNs/PERNs, and follow that process.

Thank you to all participants for your patience and support during this demanding period. It was and is greatly appreciated. We are improving our website so that it is easier for you to manage your PRNs electronically and we look forward to working with you again in 2005.

Angus Macpherson
Managing Director



Settlements

by Anna Lamin

Settlements Timetable

Buyers	Timescale	Sellers
Buyers Transaction Confirmation Notice faxed at time of trade	Transaction Day (T)	Sellers Transaction Confirmation Notice faxed at time of trade
Cheque issued/funds available to transfer by CHAPS, BACS or Direct Debit	T+1	Midday - copy of PRN/PERN faxed to t2e on 0131 220 4847
Settlement Date Cleared funds received at t2e	T+3	Settlement Date Sellers advice fax with end receiver name sent to seller and published on website
–	T+4	Completed PRN/PERN(s) received at t2e
PRN/PERN(s) received by buying counterparty	T+5	–
–	T+6	Cleared funds received by selling counterparty

Sellers need to fax copies of PRNs to t2e marked with the contract number by 1200 on the day following the transaction date or for forward contracts the day after the expiration date as:

1. It acts as a confirmation that sellers have received the transaction confirmation note;
2. It ensures that sellers do not inadvertently double sell this tonnage or overlook a contract;
3. It allows t2e to check that the PRN/PERN has been correctly completed hence avoiding unnecessary additional administrative cost and delay in payment.

Sellers are recommended to post all PRNs/PERNs by Royal Mail's Special Delivery or an equivalent service.

Sellers should not send their PRN/PERN until they have received the sellers advice fax stating the end receiver and filled in this section. Once cleared funds are received you can also find the end receiver on Trade Summary/My Trade History by clicking the **S** box along side the relevant transaction.

Buyers are encouraged to sign Direct Debit arrangements with t2e as:

1. It saves on time and administration for the buyer by reducing the requirement to chase around for cheques as t2e takes full responsibility for drawing funds;
2. It allows funds to be transferred swiftly with the minimum cost to buyers as transfer costs are borne by t2e.

SETTLEMENT STATUS FOR CONTRACT 007631

Transaction Date **11 February 2005**
Transaction **180 tonnes of 2005Paper**
Settlement Date **16 February 2005**

PRNs received
Funds received **17 February 2005**
PRNs dispatched
Funds disbursed

End Receiver: **Obligated Company Ltd**

If you have any queries relating to this settlement please contact us on **0131 220 4862**.

Exit

General points for completing PRNs:

- PRNs/PERNs should not have Tippex or Felt pen deletions. Corrections should be crossed out and initialled by the signatory. If more than one correction is required the PRN/PERN should be cancelled and a substitute issued;
- Substitutes should be dated the date that the substitute is issued not the date that the original was issued;
- Substitutes issued during the transitional period may not be used to offset obligations in the subsequent compliance year;
- For substitutes sections 2, 3 and 4 only are required to be completed, not section 1;
- Tonnages in substitute documents should be in numbers not words.

Common mistakes in completing PRN/PERNs:

- Accreditation Number – the format of these numbers has changed in 2005 e.g. from ER199700 to ER**05**199700;
- Ticks – failure to tick either Original or Substitute;
- Process code either not entered or entered wrong;
- PRN/PERN not signed or the title or name of the signatory not entered;
- PRN/PERN not dated.

Recent buyers comment on their participation in the 2004 market

Ty Nant Spring Water Ltd

Producer of Mineral & Spring water

"The Environment Exchange provides excellent customer service. They provide good information throughout the year and always contact us at the relevant times when our returns are due. If we ever have any problems in compiling our figures they are always on hand to give us direction."

LBS Horticulture Ltd

Horticultural Wholesaler

"Unfortunately our company does not have a dedicated resource whose sole responsibility is for the compliance of Packaging Waste Regulations and who is equipped with an in depth knowledge of the PRN legalisation. The Environment Exchange provides the additional expertise we require to assist us in the purchase of PRN's at the most convenient time for our company and with the additional benefit of a one stop shop for the purchase of the majority of our PRN requirements"

New Balance Shoes

Sports Footwear Manufacturer

"The main benefit in using the Environment Exchange is that it is easy to use. I cannot afford the time to contact all the reproprocessors individually to negotiate price and quantity of PRN's. The Environment Exchange keeps me up to date with the market, sending me the relevant information by email on a daily basis, making it easy for me to track the market trends. I think the exchange provides great service at a very modest price."

Roseby's Operations Ltd

Household Textiles Retailer

"The Environment Exchange has been of tremendous help this year at very short notice. They always provide me with the most up to date information, making it easy for me to judge when to purchase. Their website allows me to identify the costs of purchasing my obligation immediately, whilst giving me the ability to plan more effectively, by reviewing my position."

Netto Foodstores Ltd

Retail Foodstores

"The Environment Exchange provides our business with an efficient means of managing our PRN procurement process. As a large retailer, the amount of PRNs we require is considerable and the Exchange provides us with the volume we require throughout the year. I am very impressed with their online trading platform which keeps me up to date with all current and past market activity and, combined with their simple and traceable payment system, lead to a highly efficient operation."



www.t2e.co.uk

info@t2e.co.uk

**Direct Trading Line
0870 607 1354**

The Environment Exchange
41 Charlotte Square, Edinburgh, EH2 4HQ
Tel: +44 131 220 4870 Fax: +44 131 220 4847