

NEWSLETTER

Exchange for Change (NSW) Pty Ltd

February 2018



Welcome to the February newsletter from Exchange for Change. In this newsletter we talk about the assumptions behind the April invoice as well as the January period true up, which will both be issued on the 1st March. We will also give you an update on the progress around developing an export protocol.

Exports

The intent of the NSW CDS is to have a container deposit on containers that are consumed within NSW. If a container is 1st Supplied in NSW and then exported out of the state, there needs to be a mechanism to offset the cost of the container deposit for these exported containers. Exchange for Change has been working with the NSW EPA to implement a process whereby Exporters would report their exported product to the 1st Supplier, who would then declare this to Exchange for Change. The adjustment for this export would then be paid to the 1st Supplier.

Exchange for Change has received representation from participants in the beverage and retail industries asking that we look at an alternative approach which would not involve the 1st Supplier. This alternative approach involves 1st Suppliers declaring all product that they 1st supply into NSW. Exporters would then declare directly to Exchange for Change volumes they have exported out of the State. The adjustment for the export would be paid directly to the Exporter. Exchange for Change is facilitating a meeting with the EPA to enable industry associations to put forward this alternative view. We expect the outcome of this meeting to be known in the coming weeks.

If you have a view on this export approach, please send an email to info@exchangeforchange.com.au.

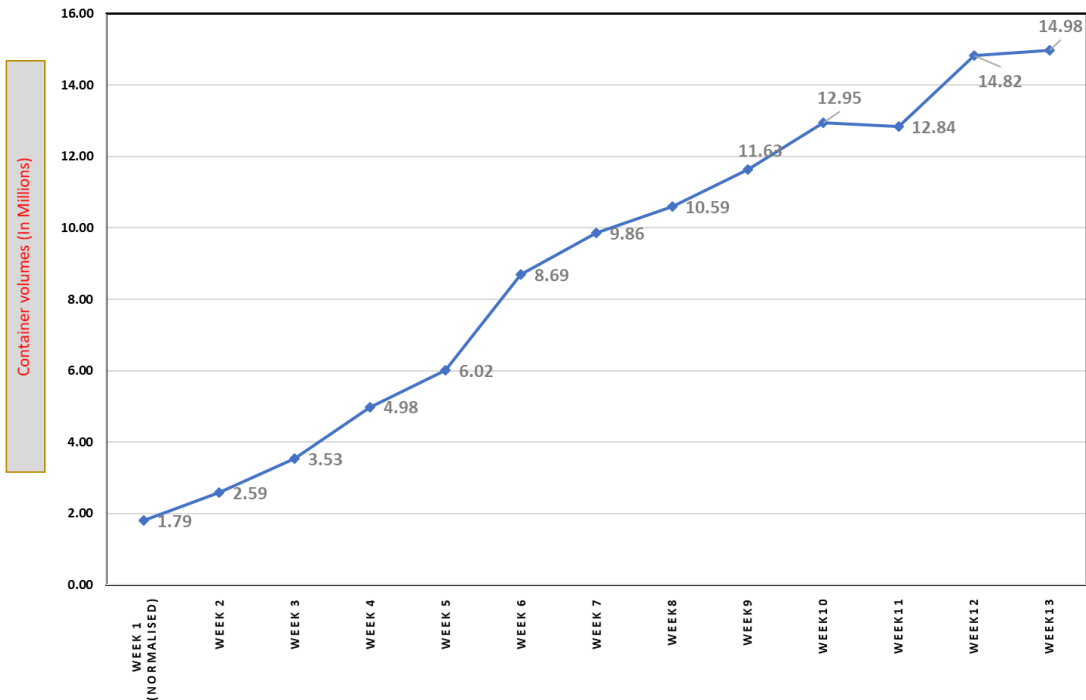
Regardless of the export methodology that is chosen, there needs to be an adjustment for export volumes from product that is 1st supplied. This was not factored into previous pricing but has become apparent that we need to factor this in going forward. We have not been able to get an accurate picture of the export volumes at this point in time, so we have had to make an allowance of 5% for the April period.

Collection Volumes

Collection volumes through the network operator channel continue to increase every week, with an average increase of 1 million containers per week. This is driven by the continued roll out of reverse vending machines by the Network Operator. These machines continue to be the most popular collection method.

The graph below shows volumes collected by the network operator.

WEEKLY TREND OF CONTAINER VOLUMES COLLECTED BY NETWORK OPERATOR DURING (01ST DEC'17 TO 25TH FEB'18)



For kerbside collections we will not know the final redemption volumes for the quarter until mid-May, however, tonnes being generated by this channel remain in line with historical volumes. We expect this channel to reduce in future months as more product moves from kerbside to the network operator.

April forecast

The variables involved in determining the April invoice are the total number of containers redeemed by both the Network Operator and the MRF's as well as the percentage split between these two channels. For the Network operator we have used the weekly volumes collected so far and then extrapolated this forward to the April period. Collected volumes are reported by the Network Operator on a weekly basis, ending Sunday. April has five Sundays so we will be providing a smoothing effect moving some of the volume to March and some to April to better reflect the calendar month basis of the invoices. This removes a spike in pricing.

The assumptions for the April invoice are:

- Network Operator collection in April 95 million
- MRF volumes will drop by 25% from historical volumes as product moves from MRF to Network Operator. This will mean a total of 91 million containers recovered through MRFs
- Estimated supply volume of 292 million
- 5% exported out of the state
- This gives an overall redemption rate of 67%

These assumptions and the resulting cost per container are shown in the table below.

Scheme Costs per Supplied Container (cents)	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Aluminium	13.54	12.24	10.94	8.71	9.36
Glass	14.07	12.78	11.36	9.00	9.72
HDPE	13.78	12.45	11.13	8.84	9.52
PET	13.78	12.45	11.13	8.84	9.52
Liquid Paper Board	14.42	13.03	11.64	9.18	9.96
Steel	14.07	12.72	11.36	9.00	9.72
Other Plastics	13.78	12.45	11.13	8.84	9.52
Other materials	13.78	12.45	11.13	8.84	9.52

True Up for January period

The 1st March invoice will also include a true up for the January period. This true up only covers the Network Operator portion of the invoice with the MRF portion trued up in May. We have also made an allowance for exports in this true up calculation.

For January, Exchange for Change forecast the collection volumes for the Network Operator would be 147 million containers, whereas the actual collection volumes by the Network Operator 40.8 million. The value of the true up across the whole beverage industry for January is approximately \$14.8 million, which will be returned to First Suppliers. The true up for each individual beverage supplier however will be based on each supplier's actual market share calculated by actual containers First Supplied in January which will be determined by container type, e.g. Glass, Aluminium, PET, etc.

Scheme outlook

We believe the collection volumes via the Network Operator will continue to increase further as collection points continue to be rolled out and the scheme is increasingly adopted by the NSW public. In parallel, we expect the volumes collected through the kerbside program to decline due to consumers redirecting containers from kerbside recycling to the Network Operator collection points in order to redeem the 10-cent refund.

Based on this, we anticipate the total redemption rate by the middle of 2018 to have increase further with a greater proportion coming through the Network Operator channel.

Please note that Exchange for Change is not in a position to accurately predict what the cost per container will be in the medium to long-term, and each scheme participant should make their own assumptions to this end.

The Exchange for Change website, exchangeforchange.com.au, has a section for suppliers. In this section you will see a \$ icon which gives information about pricing. This section of the website has tables that allow you to use the information above to predict future pricing for each container type.

Please note the information that Exchange for Change has provided in this newsletter is our best assessment of the market conditions however these estimates can change based on a range of external factors that are beyond the control of Exchange for Change.