

NEWSLETTER

Exchange for Change (NSW) Pty Ltd

June 2018 Pricing Assumptions

Issued: 30 April 2018



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

To assist you with reconciling your invoices, we intend on providing additional data once the invoices are sent out. This should occur by the 7th May.

Exports

Exchange for Change has continued to work with the EPA throughout April to develop this enhancement to the NSW Container Deposit Scheme. A revised methodology is nearing completion after which a short period of consultation will commence allowing all interested parties an opportunity to review and comment on the methodology. A single methodology will apply for all participants.

It is still anticipated that the earliest that we will be signing up exporters to the process will be June with first payments occurring in August, if no significant amendments are required post consultation.

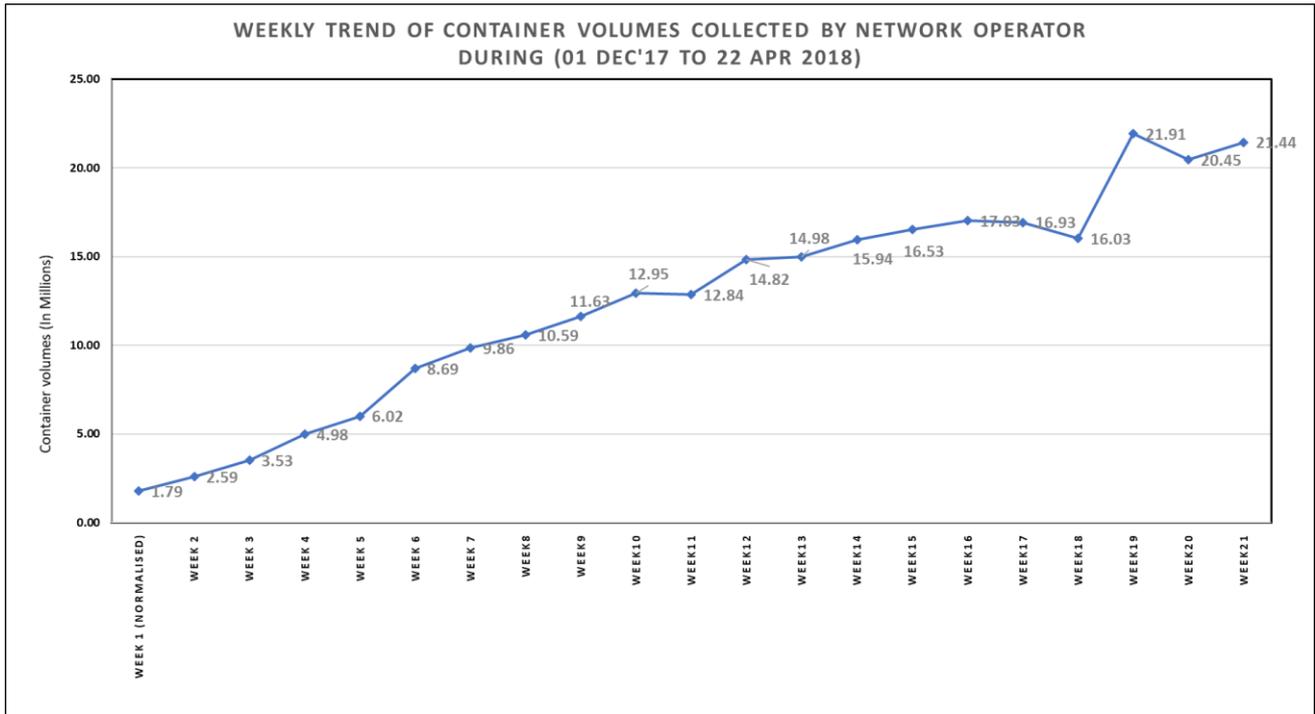
We are continuing to use 7.5% in our pricing models until we gain more accurate data once all exporters commence reporting in June and July.

Collection Volumes

The Network Operator is continuing to roll out more collection points and they have now implemented 565 collection points across the State. We are seeing an increase in the number of automated depots which are aimed at taking larger volumes of containers from groups like sporting clubs and schools.

April saw a step change in Network Operator collections with over 20 million containers collected each week (up to and including the 22nd of April) .

The graph overleaf shows volumes collected by the Network Operator, Tomra Cleanaway.



June forecast

The variables involved in determining the May invoice are the total number of containers redeemed by both the Network Operator and the MRFs 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 June period. Collected volumes are reported by the Network Operator on a weekly basis, ending Sunday.

The assumptions for the June invoice are:

- Network Operator collection in June 105 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 268 million
- 7.5% exported out of the state in June 2018
- This gives an overall redemption rate of 79% net of exports.

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

| Schedule Costs - As at April 2018 | 5th Invoice | 6th Invoice | 7th Invoice |
|---|-------------|-------------|-------------|
| Dates | | | |
| Scheme Month | Apr-18 | May-18 | Jun-18 |
| Invoice Date | Mar-18 | Apr-18 | May-18 |
| | Forecast | Forecast | Forecast |
| Assumptions | | | |
| Recovery Rate per material type | 67% | 74% | 79% |
| % of containers recovered via MRFs/kerbside | 49% | 52% | 46% |
| Containers recovered in month (m) | 159 | 149 | 169 |
| Calculations | | | |
| Total scheme costs for month advertised (\$m) | 27.95 | 26.81 | 30.57 |
| Total scheme costs for month invoiced (\$m) | 27.95 | 26.81 | 30.57 |
| Total invoice issued after adjustments (\$m) | 27.95 | 26.81 | 30.57 |
| Monthly True Up (\$m) | -13.79 | -9.14 | -0.44 |
| Quarterly True Up (\$m) | | | |
| Export Payments (\$m) | | | |
| Net Amount Invoiced (\$m) | 14.15 | 17.67 | 30.13 |
| Scheme Costs per Supplied Container (cents) | | | |
| Aluminium | 9.36 | 10.21 | 11.11 |
| Glass | 9.72 | 10.59 | 11.56 |
| HDPE | 9.52 | 10.38 | 11.31 |
| PET | 9.52 | 10.38 | 11.31 |
| Liquid Paper Board | 9.96 | 10.84 | 11.85 |
| Steel | 9.72 | 10.59 | 11.56 |
| Other Plastics | 9.52 | 10.38 | 11.31 |
| Other materials | 9.52 | 10.38 | 11.31 |

True Up for March period

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

For March, Exchange for Change forecast the collection volumes for the Network Operator would be 86.6 million containers, whereas the actual collection volumes by the Network Operator 73.6 million. The value of the true up across the whole beverage industry for March is approximately \$0.44 million, which will be credited to first suppliers. This is a significant reduction when compared with previous true up values and is driven by the continuing refinements to the forecasting process using actual data from the scheme post 1 December 2017.

The true up for each individual beverage supplier will, however, be based on each supplier's actual market share calculated by actual containers First Supplied in February 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 commence stabilising from the middle of the year following the completion of the next round of RVM roll outs. 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 stabilise 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.