

NEWSLETTER

Exchange for Change (NSW) Pty Ltd

May 2018 Pricing Assumptions

Issued: 30 March 2018



Welcome to the March newsletter from Exchange for Change. In this newsletter we talk about the assumptions behind the May invoice as well as the February period true up, which will both be issued on the 1st April. 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 5th April.

Exports

Exchange for Change has had several meetings with the EPA during March to discuss the approach to include exports in the NSW Container Deposit Scheme. A final position has not been reached at this stage, however, good progress is being made. We expect a proposed solution will be developed in early April followed by a short period of industry consultation. It is anticipated that the earliest that we will be signing up exporters to the process will be June with first payments occurring in August.

There is some confusion with 1st Suppliers if they should be reporting their supplied volumes to Exchange for Change as a gross number or net of exports. It is critical that 1st supplied volumes are your gross supply into NSW. There should be no adjustment for exports. Once the Export Protocol is resolved then Exchange for Change will be making payments to the appropriate party for the exported containers.

We have surveyed the largest exports in the state and it appears that exported volumes are approximately 7.5% of total volume supplied into NSW. As a result, we will use 7.5% in our pricing models until we gain more accurate data once all exporters commence reporting in June and July.

Collection Volumes

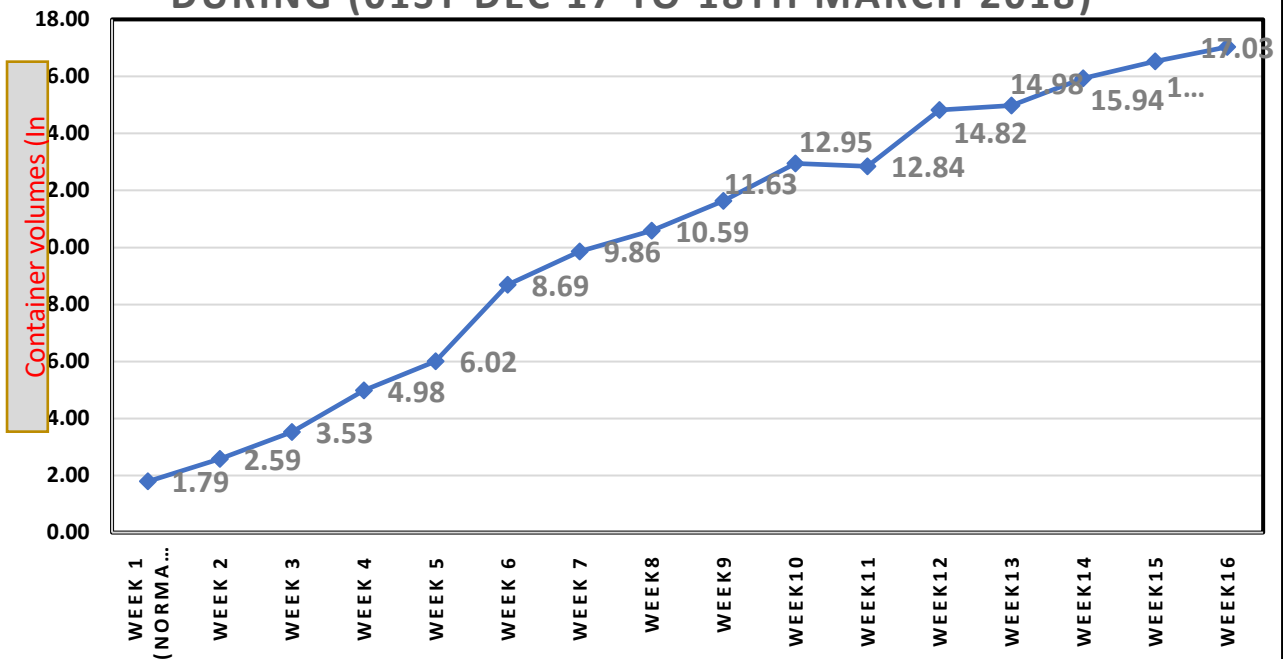
The Network Operator is continuing to roll out more collection points and they have now implemented 521 collection points across the State. We are seeing an increase in the number of automated depots which are aimed at taking larger volumes of containers from groups like sporting clubs and schools.

Most days over 2 million containers are collected and on Sunday 18th March the Network Operator collected just over 3 million containers. This is a new milestone in collection volumes and is a great achievement.

The weekly collection volumes are increasing at an average rate of 0.5 million containers per week and in the week ending 18th March, 17 million containers were collected.

The graph below shows volumes collected by the Network Operator, Tomra Cleanaway. For kerbside collections we will not know the final redemption volumes for the quarter until mid-May.

WEEKLY TREND OF CONTAINER VOLUMES COLLECTED BY NETWORK OPERATOR DURING (01ST DEC'17 TO 18TH MARCH 2018)



May forecast

The variables involved in determining the April 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 May period. Collected volumes are reported by the Network Operator on a weekly basis, ending Sunday.

The assumptions for the May invoice are:

- Network Operator collection in May 85 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 257 million
- 7.5% exported out of the state
- This gives an overall redemption rate of 74%

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

Schedule Costs	4th Invoice	5th Invoice	6th Invoice
Dates			
Scheme Month	Mar-18	Apr-18	May-18
Invoice Date	Feb-18	Mar-18	Apr-18
	Forecast	Forecast	Forecast
Assumptions			
Recovery Rate per material type	67%	67%	74%
% of containers recovered via MRFs/kerbside	60%	49%	52%
Containers recovered in month (m)	216	186	176
Calculations			
Total scheme costs for month advertised (\$m)	28.50	27.95	26.81
Monthly True Up (\$m)	-26.67	-13.79	-9.14
Quarterly True Up (\$m)			
Export Payments (\$m)			
Net Amount Invoiced (\$m)	1.82	14.15	17.67
Scheme Costs per Supplied Container (cents)			
Aluminium	8.71	9.36	10.21
Glass	9.00	9.72	10.59
HDPE	8.84	9.52	10.38
PET	8.84	9.52	10.38
Liquid Paper Board	9.18	9.96	10.84
Steel	9.00	9.72	10.59
Other Plastics	8.84	9.52	10.38
Other materials	8.84	9.52	10.38

True Up for February period

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

For February, Exchange for Change forecast the collection volumes for the Network Operator would be 116 million containers, whereas the actual collection volumes by the Network Operator 56.3 million. The value of the true up across the whole beverage industry for February is approximately \$9.14 million, which will be returned to First Suppliers. 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 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.