

NEWSLETTER

Exchange for Change (NSW) Pty Ltd

October 2018 Pricing Assumptions

Issued: 30 August 2018



NSW Container Deposit Scheme Newsletter

Welcome to the August newsletter from Exchange for Change NSW. In this newsletter we talk about the assumptions behind the pricing for the October advanced contribution and the July period true up, which will both be contained in the invoice issued on the 3rd September.

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 September.

Exports

The export protocol went live on Monday 20 August. Registration to become an Exporter can be completed at: <https://returnandearn.org.au/partners/drinks-suppliers/exporter-sign-up/>

We are continuing to use 7.5% in our pricing models until we gain more accurate data once exporters commence reporting from September.

It is important that all suppliers correctly declare their gross supply volumes into NSW and pay the CDS contribution on these volumes. Under no circumstances should suppliers be netting off for exports. If you have not been reporting your volumes correctly, please amend your supply data via the Exchange for Change Portal.

Network Collection Volumes

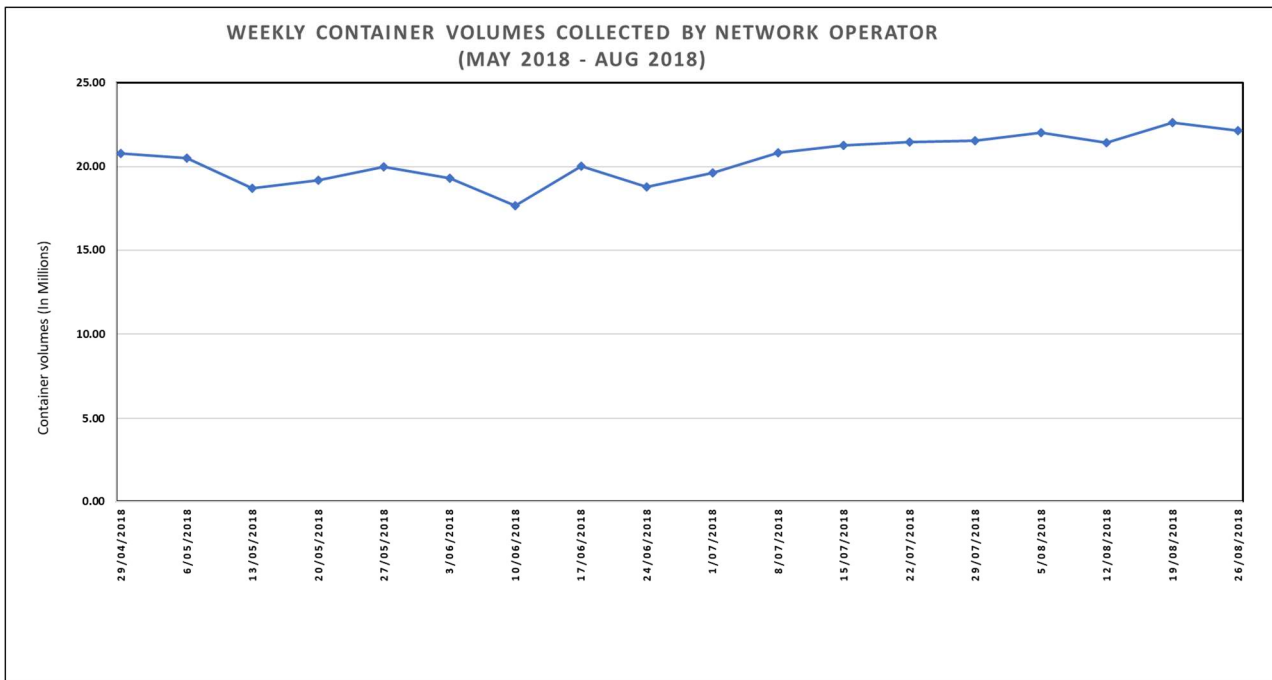
The Network Operator has now established 678 collection points across the State.

The advanced contribution rates in the September invoice will relate to the anticipated collection volumes for the month of October, the second month of spring.

While collection volumes have remained relatively flat through winter, collection volumes have started to increase through August. We anticipate collection volumes will continue to increase as we move into warmer weather patterns. The first two weeks of October also coincide with NSW school holidays.

For these reasons, the forecast collection volume through the Network Operator is expected to be 120 million containers in October.

The graph overleaf illustrates the volume of containers returned through the Network Operator channel (Reverse Vending Machines, Over the Counter and Automated Depots) since the beginning of May.



MRF Collection Volumes

MRF Collection volumes currently consider the expected return volumes for the quarter in which the forecast month falls. For Q4 2018, it is anticipated that approximately 74 million containers will be recovered by the MRFs each month. While container supply volumes are expected to increase in the lead up to the festive season and summer, the number of containers being returned through yellow bins per tonne is expected to remain at lower levels than the previous summer as evidenced by the change in the MRF eligible container factors. The lower levels of MRF recoveries also reflects a continued adoption of the scheme by the NSW public and changing behaviour as containers are returned at collection points for a 10c refund.

Supply Volume Forecast

A seasonality factor of 1.25 has been applied to the raw forecast volumes calculated using May to July 2018. This means that your forecast supply volumes in the September invoice will be 1.25 times the volumes calculated prior to the adjustment for seasonality.

Summary of Key Assumptions

The key assumptions behind the October 2018 advanced contribution rates included in the September 3rd invoice are:

- Network Operator collections in October of 120 million, an increase of 20 million containers to reflect the upturn in supply volumes and an anticipated increase in consumption of beverages in eligible containers as the weather becomes warmer.
- MRF and glass crushing collection volumes totalling 74 million containers recovered from kerbside collections (yellow lidded bins).
- Estimated gross supply volume of 318 million generated with a 1.25x seasonality adjustment.
- 7.5% of the containers supplied into NSW are exported out of the state
- This gives an overall redemption rate of 66% net of exports.

These assumptions and the resulting cost per container (excluding GST) are shown in the table below.

Schedule Costs - As at August 2018 (all figures exclude GST)	9th Invoice	10th Invoice	11th Invoice
Dates			
Scheme Month	Aug-18	Sep-18	Oct-18
Invoice Date	Jul-18	Aug-18	Sep-18
	Forecast	Forecast	Forecast
Assumptions			
Recovery Rate per material type	70%	72%	66%
% of containers recovered via MRFs/kerbside	46%	45%	38%
Containers recovered in month (m)	177	182	194
Calculations			
Total forecast scheme costs for month advertised (\$m)	27.58	28.52	31.51
Forecast Monthly True Up (\$m)	0.16	-4.12	-0.02
Quarterly True Up (\$m)			-6.49
Export Payments (\$m)			
Forecast Net Amount to be Invoiced (\$m)	27.74	24.40	25.00
Scheme Costs per Supplied Container (cents)			
Aluminium	9.84	10.25	9.70
Glass	10.24	10.67	10.13
HDPE	10.02	10.44	9.89
PET	10.02	10.44	9.89
Liquid Paper Board	10.50	10.95	10.42
Steel	10.24	10.67	10.13
Other Plastics	10.02	10.44	9.89
Other materials	10.02	10.44	9.89

Monthly true up for July 2018

The 3rd September invoice will include a true up to cover the Network Operator collections from July.

For July, Exchange for Change forecast the collection volumes for the Network Operator would be 95.0 million containers when the pricing was set, which almost perfectly aligned with the actual collection volumes by the Network Operator of 94.9 million. The value of the true up across the whole beverage industry for July is forecast to be negligible.

Please note that minor changes in volumes between the timing of price setting and running the invoice can result in small variances in the forecast volume of containers associated with the advanced contribution and as such the value of the true up provided here is a guide only. The actual assumptions that support the true up value on your invoice will be provided separately after the invoice has been run as noted at the beginning of this newsletter.

Quarterly true up for Q2 2018

The June invoice will also feature the second quarterly true up since scheme commencement. This true up will relate to the MRF payments associated with quarter 2 2018 being the months of April to June inclusive.

The anticipated true up for the MRFs is \$6.49 million as shown in the table above net of provisions for stockpiles of containers yet to be sent for recycling. As noted at the last quarterly true up, MRFs are paid by the scheme for containers shipped for recycling, not received and processed during the quarter. Exchange

for Change has estimated that approximately 12.7 million containers remain in inventory at the MRFs, which may be shipped and claimed during subsequent quarters.

As noted above, minor changes in volumes between the timing of price setting and running the invoice can result in small variances in the forecast volume of containers associated with the advanced contribution and as such the value of the true up provided here is a guide only. The actual assumptions that support the true up value on your invoice will be provided separately after the invoice has been run as noted at the beginning of this newsletter.

Scheme outlook

We believe the collection volumes via the Network Operator will continue increasing through October as beverages in eligible containers start being consumed in higher quantities as spring weather patterns start taking effect. In parallel, we expect the volumes collected through the kerbside program (MRFs) 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 will start to increase following the period of stabilisation in the middle of 2018 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.

Please also 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.