

# Undertaking to the Australian Competition and Consumer Commission

Given under section 87B of the *Competition and Consumer Act 2010 (Cth)* by Linfox Armaguard Pty Ltd

## 1. Person giving the Undertaking

- 1.1 This Undertaking is given to the Australian Competition and Consumer Commission (**ACCC**) by Linfox Armaguard Pty Ltd (ACN 099 701 872) (**MergeCo**) for the purposes of section 87B of the *Competition and Consumer Act 2010 (Cth)* (the **CCA**).

## 2. Background

### *The Proposed Transaction*

- 2.1 On 27 September 2022, the ACCC received an application for merger authorisation under section 88(1) of the CCA from Linfox Armaguard Pty Ltd (**Armaguard**) and Prosegur Australia Holdings Pty Ltd (**Prosegur**) (the **Applicants**) (the **Application**).
- 2.2 The Application proposes to combine the Applicants' cash distribution and management, device monitoring and maintenance and ATM businesses in Australia (the **Proposed Transaction**).
- 2.3 As part of the Proposed Transaction:
- (a) MergeCo will purchase 100% of the shares in Prosegur Australia Pty Limited and Precinct Hub Pty Ltd from Prosegur, being the businesses that carry out Prosegur's cash in transit (**CIT**) maintenance, and ATM businesses; and
  - (b) MergeCo will issue shares in MergeCo to Prosegur, such that Prosegur will hold 35% of the total issues share capital of MergeCo on completion.
- 2.4 In addition, shares will be transferred or issued such that Prosegur will have a 15% shareholding in Integrated Technology Services Pty Ltd.

### *The ACCC's assessment of the Proposed Transaction*

- 2.5 The ACCC commenced public consultation on the Application on 6 October 2022.
- 2.6 As part of this consultation, the ACCC undertook market inquiries and considered information provided by interested parties.
- 2.7 The ACCC also served notices to the Applicants under section 155(1)(a) and (b) of the CCA to ascertain further information in respect of the Proposed Transaction (the **Notices**).
- 2.8 In response to the Notices, the Applicants produced a significant amount of information and documents, specifically with respect to the financial data of each of the Applicants in order to assist the ACCC in making its decision.
- 2.9 The Applicants seek merger authorisation on the basis that the Proposed Transaction will:
- (a) not have the effect, or be likely to have the effect, of substantially lessening competition in any market (**Effects Limb**); and / or
  - (b) result in benefits to the public which will outweigh any detriment to the public that would result, or be likely to result, from the Proposed Transaction (**Benefits Limb**).
- 2.10 The Applicants submit that, in all circumstances, the Proposed Transaction will satisfy both the Effects Limb and the Benefits Limb.

### *The ACCC's competition concerns*

- 2.11 The ACCC released its Statement of Preliminary Views (**SoPV**) on 21 December 2022. As per the SoPV, the ACCC considers that competition concerns are likely to arise in the following three areas of competition:

- (a) the supply of wholesale and retail CIT services to the Major Banks;
- (b) the supply of full-service retail CIT services for retail customers (i.e. both transportation and processing services); and
- (c) provided it cannot be satisfied that the Proposed Transaction would not lead to a substantial lessening of competition in the two areas of competition outlined above, then it also has concerns regarding the supply of some types of ATM services where vertical issues may arise (i.e., where moving from 2 major suppliers of CIT services may create opportunities and incentives for the Applicants to foreclose other suppliers).<sup>1</sup>

### **The Undertaking remedy**

2.12 The objective of this Undertaking is to address the ACCC's competition concerns by placing obligations on MergeCo with respect to the supply of CIT Services to Customers with respect to:

- (a) price;
- (b) service offering;
- (c) national coverage;
- (d) ongoing, non-discriminatory, supply of CIT services to Independent ATM Deployers;
- (e) third party access to cash centres;
- (f) complaint handling process; and
- (g) reporting to the ACCC and the RBA,

together, the **Commitments** (as contained in Section 4 of this Undertaking).

### **3. Commencement, term and variation of the Undertaking**

3.1 This Undertaking comes into effect when:

- (a) this Undertaking is executed by MergeCo; and
- (b) the Undertaking so executed is accepted by the ACCC,

being, the **Commencement Date**.

3.2 The Applicants acknowledge that the Commitments contained in clause 4 of this Undertaking commence on the Commencement Date.

3.3 In the event of a material change in circumstances from the Commencement Date of this Undertaking, MergeCo may apply to the ACCC to vary the terms of the Undertaking.

3.4 The ACCC will consider such an application and decide within [60 days] of receiving such an application whether:

- (a) it is satisfied that there has been such a material change in circumstances; and
- (b) if it is so satisfied whether it accepts the variation to the terms of the Undertaking proposed by MergeCo.

3.5 MergeCo may request the withdrawal of the Undertaking pursuant to section 87B of the CCA at any time. The Undertaking is taken to be withdrawn on the date the ACCC consents to such a request by MergeCo in writing.

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<sup>1</sup> ACCC 'SoPV' (21 December 2022), p. 14.

4. **Commitments****THE PRICE OF CIT SERVICES**

- 4.1 MergeCo will be subject to the revenue and pricing process set out in this Section 4.
- 4.2 MergeCo will determine Prices for the Pricing Period in accordance with the process set out in clauses 4.8 to 4.31 below (**Pricing Process**).
- 4.3 MergeCo will use the formulas set out in Appendix 1 to implement the Pricing Process. In the event of any inconsistency between the Pricing Process and the formulas set out in Appendix 1, the formulas set out in Appendix 1 will prevail.
- 4.4 The duration of each Pricing Period will be 12 months with the first Pricing Period commencing on 1 January 2024.
- 4.5 In the period between the Commencement Date and 1 January 2024 the Price that is charged to the Existing Customers will be based on the Contracted Price as at the Commencement Date.
- 4.6 Prices will be determined so that MergeCo recovers no more than the Target Revenue over time. The Target Revenue will reflect the efficient costs of providing CIT Services as determined by the Undertaking.
- 4.7 The outcome of the Pricing Process is subject to verification by the Approved Independent Auditor as set out in clauses 4.25 to 4.31 below.

*Target Revenue and Price Setting*

- 4.8 There will be a Target Revenue for each Pricing Period.
- 4.9 The Target Revenue is equal to the Target Expenditure plus the EBIT Margin expressed as a percentage of Target Revenue.
- 4.10 To calculate the Target Revenue for a Pricing Period, MergeCo will in accordance with the requirements in clause 4.3:
- (a) forecast the Target Expenditure for the Pricing Period as the sum of:
    - (i) forecast Target Operating Expenditure which will be equal to the average of previous period:
      - (A) actual Operating Expenditure; and
      - (B) Target Operating Expenditure;
 adjusted for forecast inflation and the expected impact on operating costs of forecast volumes changes;
    - (ii) budgeted Depreciation; and
    - (iii) budgeted Common Costs attributed to the supply of CIT Services;
  - (b) calculate the variance between budgeted and actual Depreciation and Common Costs and the variance between forecast and corrected Target Operating Expenditure from preceding Pricing Periods which is the Variation;
  - (c) apply the EBIT Margin to the Target Expenditure and the Variation; and
  - (d) calculate an adjusted Target Revenue so as to account for under or over recovery of Actual Revenue compared to the Target Revenue in previous Pricing Periods in accordance with the Unders and Overs Mechanism in clauses 4.20 to 4.24 below.
- 4.11 To calculate Prices for the Pricing Period MergeCo will in accordance with the requirements in clause 4.3:
- (a) forecast the quantities of CIT Services it will supply to Contracted Customers and Uncontracted Customers in the Pricing Period;

- (b) forecast the revenue it will earn during the Pricing Period from Contracted Customers and forecast the revenue that it will be assessed to earn from its Internal Customer in accordance with clause 4.15 below; and
  - (c) propose Prices for Uncontracted Customers so that its Forecast Revenue is no greater than the Adjusted Target Revenue determined in accordance with clause 4.10 above subject to the constraints set out in clauses 4.12 to 4.14 below.
- 4.12 The Pricing Process includes Special Pricing Conditions which constrain the change in the Prices charged to individual customers as a safeguard against price shocks.
- 4.13 As at the Commencement Date of each Pricing Period, MergeCo must offer prices for:
- (a) every cashpoint that MergeCo supplies CIT Services to;
  - (b) every service level that MergeCo supplies CIT Services at; and
  - (c) multi-location CIT Services supplied across more than one State or Territory.
- 4.14 For each Existing Customer that is a Large Customer, the Percentage Change in Average Price cannot be more than the greater of:
- (a) Inflation plus 5%; or
  - (b) Inflation plus the Customer Volume Change Adjustment.
- 4.15 For each Existing Customer that is not a Large Customer, the Percentage Change in Average Price cannot be more than the greater of:
- (a) Inflation plus 5%; or
  - (b) Inflation plus the Aggregate Volume Change Adjustment.
- 4.16 The revenue that MergeCo assesses to be earned from its Internal Customer must be no less than if it charged itself the highest Price it charges to any of the 3 largest Independent ATM Deployers for the supply of CIT Services.
- 4.17 MergeCo will have the discretion to offer Customers discounts relative to the proposed Prices determined as part of the Pricing Process.
- 4.18 A Customer may request Prices from MergeCo at any time for any CIT Services it acquires, or wants to acquire. MergeCo must provide those Prices to the Customer.
- 4.19 All amounts specified in or calculated in accordance with this Undertaking are exclusive of any applicable GST levied *under A New Tax System (Goods and Services Tax) Act 1999* (Cth) or any similar or equivalent tax.

#### *Unders and Overs Mechanism*

- 4.20 There will be an Unders and Overs Account the purpose of which is to carry forward any difference between Actual Revenue and the Target Revenue in a Pricing Period.
- 4.21 If the Actual Revenue in a Pricing Period varies from the Target Revenue then the difference is added to the Unders and Overs Account.
- 4.22 The balance of the Unders and Overs Account will be carried forward each year by applying a discount rate equal to the WACC.
- 4.23 MergeCo's obligations and allowances to adjust revenues to bring the balance of the Unders and Overs Account closer to a zero balance is set out in Appendix 1 to this Undertaking. The larger the Unders and Overs Balance the smaller the share of the balance that will be used to adjust the Target Revenue.
- 4.24 If the balance of the Unders and Overs Account is less than negative 50% of the Target Revenue as of 1 January 2029, then clause 4.14 no longer constrains the setting of Prices. However, there

would continue to be limits on the proportion of the Unders and Overs Account that is recoverable in a given year to reduce price shocks.

*Verification by the Approved Independent Auditor*

- 4.25 Three months prior to the start of the next Pricing Period, MergeCo must submit to the Approved Independent Auditor:
- (a) a forecast of Target Expenditures for the Pricing Period including:
    - (i) the forecast Target Operating Expenditure;
    - (ii) budgeted Depreciation;
    - (iii) budgeted Common Costs; and
    - (iv) the Variation.
  - (b) a calculation of Target Revenue for the Pricing Period and the EBIT Margin;
  - (c) a forecast of revenues that will be received from Contracted Customers during the Pricing Period based on:
    - (i) forecast quantity of CIT Services (e.g. volume of cash, number of cash collections and deliveries); and
    - (ii) Contracted Prices;
  - (d) a forecast of revenues that will be received from Uncontracted Customers based on:
    - (i) forecast quantity of CIT Service (e.g. volume of cash, number of cash collections and deliveries); and
    - (ii) proposed prices for Uncontracted Customers;
  - (e) a forecast of the revenue it expects to assess itself to earn in the Pricing Period from its Internal Customer;
  - (f) the balance of the Unders and Overs Account for the Pricing Period and any proposed adjustment to Target Revenues; and
  - (g) a record of compliance with the Special Pricing Conditions for the prior Pricing Period.
- 4.26 The Approved Independent Auditor will review the information provided by MergeCo pursuant to clause 4.25 above and determine whether MergeCo has:
- (a) provided all of the information required pursuant to clause 4.25 above;
  - (b) complied with the requirements of the Undertaking in determining proposed Prices for Uncontracted Customers and the Target Revenue for the Pricing Period including statements verifying that:
    - (i) the cost allocation, Depreciation and Common Cost allocation in the Target Expenditure; and
    - (ii) the forecasts of revenue;have been prepared in accordance with the relevant Accounting Standards; and
  - (c) complied with the Special Pricing Conditions for the previous Pricing Period.
- 4.27 The Approved Independent Auditor must make his or her determination within 60 days of receiving the information provided by MergeCo pursuant to clause 4.25 above.

- 4.28 The Approved Independent Auditor will provide MergeCo with a draft of his or her determination for comment no later than 14 days before the final date for the determination as specified in clause 4.27 above.
- 4.29 The Pricing Process is complete once the Approved Independent Auditor has confirmed to MergeCo in writing that it has complied with the requirements of the Undertaking in determining proposed Prices for Uncontracted Customers and the Target Revenue for the Pricing Period.
- 4.30 MergeCo must publish the Approved Independent Auditor's Price Setting Process Report on its website within 5 days of receiving the report.
- 4.31 The Price Setting Process must be completed one month prior to the commencement of the Pricing Period.

## **SERVICE OFFERING TO ONGOING CUSTOMERS**

- 4.32 MergeCo will continue to supply CIT Services to Ongoing Customers in accordance with the standard of service that those customers were supplied the CIT Services in the period immediately preceding the Commencement Date, with any optimisation to be agreed between MergeCo and the Ongoing Customer.
- 4.33 MergeCo will work with customers and suppliers to identify, approve and implement productivity improvements that benefit all stakeholders including consumers.

## **GEOGRAPHIC COVERAGE**

- 4.34 MergeCo will offer CIT Services to Customers on a national basis to all of the cash point locations that it services as at the Commencement Date.

## **SUPPLY OF CIT SERVICES TO INDEPENDENT ATM DEPLOYERS**

- 4.35 MergeCo will offer the "ATM Specific Services" defined below to Independent ATM Deployers in accordance with the terms of this Undertaking.
- 4.36 For the purposes of this Undertaking, "ATM Specific Services" consists of the following services:
- (a) cash supply and replenishment;
  - (b) reconciliation and re-bank; and
  - (c) packing the ATM cash cassette.



## THIRD PARTY ACCESS TO CASH CENTRES

- 4.37 MergeCo will supply cash processing and related services to Third Party CIT Providers at its ACCs across Australia ("**Third Party Cash Services**"). This will enable Third Party CIT Providers to expand the Geographic Coverage of the cash processing services they currently offer customers or start offering cash processing services.
- 4.38 A "*Cash Processing Service*" is a service by which MergeCo will manually and/or machine process (count and fitness sort) Cash delivered by the Third Party CIT Provider to one of MergeCo's ACCs in exchange for payment by MergeCo for the processed value of the Cash. MergeCo will offer three different types of Cash Processing Services:
- (a) bulk cash;
  - (b) bag level; and
  - (c) bulk coin.
- 4.39 To facilitate Third Party CIT Providers offering customers retail cash processing services, MergeCo will also offer Third Party CIT Providers the following 3 ancillary services:
- (a) cash collection service from Third Party CIT Provider Depot to MergeCo ACC;
  - (b) cash delivery service from MergeCo ACC to Third Party CIT Provider Depot; and
  - (c) cash supply service – bulk and/or change.
- 4.40 MergeCo will supply the Third Party Cash Services on reasonable commercial terms and conditions and CIT Services at prices which comply with the Pricing Process. Given the fundamental importance of safety and security to MergeCo's operations and that certain services will require Third Party CIT Providers to have access to MergeCo's ACCs, Third Party CIT Providers will need to:
- (a) comply with all relevant MergeCo policies and procedures including as to safety and security which may include a time based slot booking system; and
  - (b) be subject to a risk assessment/audit by MergeCo prior to the Third Party Cash Services being provided.

## **COMPLAINT HANDLING PROCESS**

- 4.41 At the Commencement Date, MergeCo must have a complaint handling process which enables Customers to make a complaint if MergeCo has acted in a way which is not compliant with the Undertaking and requires MergeCo to investigate and respond to such a complaint.
- 4.42 MergeCo's complaint handling process must comply with the Australian Standard on Complaints Management (AS 10002 2022).
- 4.43 A copy of the complaint handling process is to be published on MergeCo's website and be accessible to Customers.

## REPORTING TO THE ACCC AND THE RESERVE BANK OF AUSTRALIA

### *Report on Compliance*

- 4.44 MergeCo will report to the ACCC on compliance with this Undertaking on a six monthly basis. That reporting will include a description of any complaints made by a Customer to MergeCo pursuant to the complaint handling process in Section 4 of the Undertaking. The ACCC may disclose MergeCo's report to the RBA.

### *Independent Audit*

- 4.45 MergeCo must appoint and maintain an Approved Independent Auditor to audit and report upon MergeCo's compliance with this Undertaking.

### *Process for approving a Proposed Independent Auditor*

- 4.46 At least [15] Business Days before the Control Date, MergeCo must provide the ACCC with a notice for a Proposed Independent Auditor, including draft terms of appointment and a draft audit plan.
- 4.47 In complying with clause 4.46, MergeCo may propose the appointment of two Proposed Independent Auditors in the notice where one of Proposed Independent Auditors is to be appointed only to undertake the verification of the Pricing Process set out in clauses 4.25 to 4.29 of the Undertaking.
- 4.48 The ACCC has the discretion to approve or reject in writing the Proposed Independent Auditor identified in the Proposed Independent Auditor Notice.

### *Appointment of the Approved Independent Auditor*

- 4.49 After receiving a written notice from the ACCC of its approval of a Proposed Independent Auditor, the draft terms of appointment and draft audit plan, MergeCo must by the Commencement Date:
- (a) appoint the person approved by the ACCC as the Approved Independent Auditor on the Approved Terms of Appointment; and
  - (b) forward to the ACCC a copy of the executed Approved Terms of Appointment.

### *Failure to appoint*

- 4.50 If:
- (a) an Approved Independent Auditor has not been appointed by the Commencement Date;
  - (b) the Approved Independent Auditor has not been appointed within [15] Business Days after the Approved Independent Auditor resigns or otherwise ceases to act as the Approved Independent Auditor; or
  - (c) the ACCC has not received a Proposed Independent Auditor Notice then the ACCC may at its sole discretion:
    - (i) identify and approve a person as the Approved Independent Auditor, including approving the draft terms of appointment and draft audit plan; and / or
    - (ii) direct MergeCo to appoint a person who the ACCC has deemed is an Approved Independent Auditor.

### *Obligations and powers of the Approved Independent Auditor*

- 4.51 MergeCo must procure that any proposed terms of appointment for the Approved Independent Auditor include obligations on the Approved Independent Auditor to:
- (a) maintain their independence from MergeCo, apart from appointment to the role of Approved Independent Auditor, including not forming any relationship of the types

- described in 4.57(b)(iii)(C) to this Undertaking with MergeCo for the period of their appointment;
- (b) conduct compliance auditing accordance to the Approved Audit Plan;
  - (c) provide the following reports directly to the ACCC:
    - (i) a scheduled written Audit Report as described in clause 4.53; and
    - (ii) an immediate report of any issues that arise in relation to the performance of their functions as Approved Independent Auditor or in relation to compliance with this Undertaking by any person named in this Undertaking; and
  - (d) follow any direction given to them by the ACCC in relation to the performance of their functions as Approved Independent Auditor under this Undertaking.
- 4.52 MergeCo must procure that any proposed terms of appointment for the Approved Independent Auditor provide the Approved Independent Auditor with the authority to:
- (a) access any information or documents that the Approved Independent Auditor considers necessary for carrying out their functions as the Approved Independent Auditor or for reporting to or otherwise advising the ACCC; and
  - (b) engage any external expertise, assistance or advice reasonably required by the Approved Independent Auditor to perform their functions as the Approved Independent Auditor.

#### *Audit Report*

- 4.53 The Approved Independent Auditor must conduct an audit and prepare a detailed report (**Audit Report**) that includes:
- (a) the Approved Independent Auditor's procedures in conducting the audit, or any change to audit procedures and processes since the previous Audit Report;
  - (b) a full audit of MergeCo's compliance with this Undertaking;
  - (c) identification of any areas of uncertainty or ambiguity in the Approved Independent Auditor's interpretation of any obligations contained in this Undertaking;
  - (d) all of the reasons for the conclusions reached in the Audit Report;
  - (e) any qualifications made by the Approved Independent Auditor in forming their views;
  - (f) any recommendations by the Approved Independent Auditor to improve:
    - (i) the integrity of the auditing process;
    - (ii) MergeCo's processes or reporting systems in relation to compliance with this Undertaking;
    - (iii) MergeCo's compliance with this Undertaking; and
  - (g) the implementation and outcome of any prior recommendations by the Approved Independent Auditor.
- 4.54 The Approved Independent Auditor is to provide the Audit Report to both the ACCC and MergeCo annually from the Control Date.
- 4.55 MergeCo must implement any recommendations made by the Approved Independent Auditor in the Audit Report, and notify the ACCC of the implementation of the recommendations, within 10 Business Days after receiving the Audit Report or such other period as agreed in writing with the ACCC.
- 4.56 MergeCo must comply with any direction of the ACCC in relation to matters arising from the Audit Report within 10 Business Days after being so directed (or such other period as agreed in writing with the ACCC).

*MergeCo's obligations in relation to the Approved Independent Auditor*

- 4.57 Without limiting its obligations in this Undertaking, MergeCo must:
- (a) comply with and enforce the Approved Terms of Appointment for the Approved Independent Auditor;
  - (b) maintain and fund the Approved Independent Auditor to carry out their functions including:
    - (i) indemnifying the Approved Independent Auditor for any expenses, loss, claim or damage arising directly or indirectly from the performance by the Approved Independent Auditor of their functions as the Approved Independent Auditor except where such expenses, loss, claim or damage arises out of the gross negligence, fraud, misconduct or breach of duty by the Approved Independent Auditor;
    - (ii) providing and paying for any external expertise, assistance or advice required by the Approved Independent Auditor to perform their functions as the Approved Independent Auditor; and
    - (iii) not interfere with, or otherwise hinder, the Approved Independent Auditor's ability to carry out their functions as the Approved Independent Auditor, including:
      - (A) providing to the Approved Independent Auditor any information or documents they consider necessary for carrying out their functions as the Approved Independent Auditor or for reporting to or otherwise advising the ACCC;
      - (B) not requesting any information relating to the compliance audit from the Approved Independent Auditor without such a request having been approved by the ACCC; and
      - (C) not appointing the Approved Independent Auditor, or have any Agreements with the Approved Independent Auditor, to utilise the Approved Independent Auditor's services for anything other than compliance with this Undertaking until at least 12 months after the Approved Independent Auditor ceases to act in the role of the Approved Independent Auditor.

*Resignation, revocation or termination of the Approved Independent Auditor*

- 4.58 MergeCo must immediately notify the ACCC in the event that the Approved Independent Auditor resigns or otherwise stops acting as the Approved Independent Auditor.
- 4.59 The ACCC may revoke an Approved Independent Auditor's status as the Approved Independent Auditor if the ACCC becomes aware that any information provided to it in connection with the appointment of the Approved Independent Auditor was incorrect, inaccurate or misleading.
- 4.60 The ACCC may approve any proposal by, or alternatively may direct, MergeCo to terminate the appointment of the Approved Independent Auditor if in the ACCC's view the Approved Independent Auditor acts inconsistently with the provisions of this Undertaking and / or the Approved Terms of Appointment or the Approved Independent Auditor fails to perform their role to an adequate standard.

**5. ACCC Enquiries**

- 5.1 For the purpose of monitoring compliance with this Undertaking, the ACCC can direct MergeCo to provide information, produce documents and materials in MergeCo's power, custody or control or meet with the ACCC to answer questions regarding this Undertaking within the timeframe requested or as otherwise agreed with the ACCC.

**6. Acknowledgements**

- 6.1 MergeCo acknowledges that:

- (a) the ACCC will make this Undertaking publicly available including by publishing it on the ACCC's public register of section 87B undertakings on its website;
- (b) the ACCC will, from time to time, make public reference to this Undertaking including in news media statements and in ACCC publications; and
- (c) this Undertaking in no way derogates from the rights and remedies available to any other person arising from the alleged conduct.

**7. Obligation to procure**

- 7.1 Where the performance of an obligation under this Undertaking requires a Related Body Corporate of MergeCo to take or refrain from taking some action, MergeCo will procure that Related Body Corporate to take or refrain from taking that action.

**8. No Derogation**

- 8.1 This Undertaking does not prevent the ACCC from taking enforcement action at any time whether during or after the period of this Undertaking in respect of any breach by MergeCo of any term of this Undertaking.

- 8.2 Nothing in this Undertaking is intended to restrict the right of the ACCC to take action under the CCA for penalties or other remedies in the event that MergeCo does not fully implement and / or perform its obligations under this Undertaking or in any other event where the ACCC decides to take action under the CCA for penalties or other remedies.

**9. Change of Control**

- 9.1 In the event that a Change of Control is reasonably expected to occur, MergeCo must:

- (a) notify the ACCC of this expectation as soon as practicable; and
- (b) only implement a Change of Control to another person or entity if that person or entity has given a section 87B undertaking to the ACCC that requires it to comply with the same obligations as are imposed on MergeCo pursuant to this Undertaking, or on terms that are otherwise acceptable to the ACCC, unless the ACCC has notified MergeCo in writing that a section 87B undertaking under this clause is not required.

**10. Costs**

- 10.1 MergeCo must pay all of its own costs incurred in relation to this Undertaking, including the costs of any independent auditor appointed pursuant to clause 4.49.

**11. Notices**

*Giving Notices*

- 11.1 Any notice or communication to the ACCC pursuant to this Undertaking must be sent to:

Email: [mergers@acc.gov.au](mailto:mergers@acc.gov.au)

Attention: Executive General Manager - Merger, Exemptions & Digital Division

With a copy to be sent to:

Email: [mergersru@acc.gov.au](mailto:mergersru@acc.gov.au)

Attention: Director, Remedies Unit – Policy, Coordination & Remedies - Merger, Exemptions & Digital Division

- 11.2 Any notice or communication to MergeCo pursuant to this Undertaking must be sent to:

Name: MinterEllison and the General Counsel of MergeCo

Address: Level 40, 1 Farrer Place, Sydney NSW 2000 and [MergeCo GC address TBC]

Email: [Katrina.groshinski@minterellison.com](mailto:Katrina.groshinski@minterellison.com) and [MergeCo GC email TBC]

Phone: (02) 9921 4396 and [MergeCo GC phone TBC]

Attention: Katrina Groshinski and [MergeCo GC TBC]

*When a notice is received*

- 11.3 If sent by post within Australia, notices are taken to be received 5 Business Days after posting unless proved otherwise.
- 11.4 If sent by email, notices are taken to be received at the time shown in the email as at the time the email was sent unless proved otherwise.

*Change of contact details*

- 11.5 MergeCo must promptly notify the ACCC of a change to its contact details.
- 11.6 Any notice or communication will be sent to the most recently advised contact details and subject to clauses 11.3 and 11.4, will be taken to be received.

12. **Defined Terms** [ME note: ensure that all of the terms included below have been incorporated into the Undertaking]

**ACC or Approved Cash Centre** means a purpose built high security depot approved as such by the RBA

**ACCC** means the Australian Competition and Consumer Commission.

**Accounting Standards** means:

- (a) accounting standards approved under the Corporations Act and its requirements about the preparation and contents of accounts;
- (b) generally accepted accounting principles, policies, practices and procedures in Australia as regulated by the Australian Accounting Standards Board (**AASB**); and
- (c) to the extent applicable, the International Financial Reporting Standards.

**Actual Revenue** means the amount of revenue MergeCo earns from the supply of CIT Services to Contracted Customers and Uncontracted Customers plus the amount it assesses it earned from its Internal Customer in accordance with clause 4.16 of this Undertaking.

**Aggregate Volume Change Adjustment** means the constraint on the Percentage Change in Average Price for an Existing Customer who is not a Large Customer set out in clause 10 of Appendix 1 to this Undertaking.

**Approved Independent Auditor** means the person or persons approved by the ACCC and appointed under clauses 4.48 and 4.49 of this Undertaking.

**Approved Audit Plan** means the plan approved by the ACCC in accordance with the terms of this Undertaking, by which the Approved Independent Auditor will audit and report upon compliance with this Undertaking.

**ATM** means an automatic teller machine.

**ATM Business** means a business operated by MergeCo deploying ATMs as part of network providing cash withdrawal facilities.

**ATM Maintenance Services** means services to maintain the ongoing operation of ATMs and related hardware and includes fixing operational faults as well as repairing and replacing parts, conducting diagnostics and loading new software.

**Audit Report** has the meaning given to it in clause 4.53 of this Undertaking.

**AWE** means the dollar value of Average Weekly Earnings, Australia (Dollars) – Seasonally Adjusted published by the Australian Bureau of Statistics or a series that replaces it.

**Business Day** means a day other than a Saturday or Sunday on which banks are open for business generally in New South Wales.

**Cash Volume** is the carried value of cash collected or delivered by MergeCo in providing CIT Services.

**Capitalised Expenditure** means expenditure capitalised in accordance with AASB 116 Property, Plant and Equipment, AASB 101 Presentation of Financial Statements) and the Australian Accounting Standard Board's Framework for the Preparation and Presentation of Financial Statements.

**CCA** means *Competition and Consumer Act 2010* (Cth).

**Corporations Act** means *Corporations Act 2001* (Cth).

**Change of Control** means:

- (i) the assignment or other transfer of the legal or beneficial ownership of some or all of the share capital of [MergeCo] to any other person or entity that may impact compliance with this Undertaking in its entirety; or
- (ii) the sale or transfer of any assets necessary, or which may be necessary, to enable [MergeCo] to continue to comply with this Undertaking in its entirety.

**CIT Services** means services for the transportation, storage and processing of cash by MergeCo for Customers including:

- (b) cash collection and delivery services;
- (c) cash processing services;
- (d) cash administration services; and
- (e) cash storage;

but does not include the supply of precious cargo services, security services, the supply of vending and safe products, transaction services, payment solutions or ATM Maintenance Services.

**Commencement Date** has the meaning given in clause 3.1 of this Undertaking.

**Common Costs** means the expenditures incurred by MergeCo in providing CIT Services that are common to the provision of Non-CIT Services by MergeCo allocated in proportion to the operating cost of providing those category of service (an equi-proportionate mark-up). Such costs may include the depreciation and amortisation of Capitalised Expenditures and non-capitalised expenses.

**Contracted Customers** means an Existing Customer of MergeCo who is not an Uncontracted Customer.



**Contracted Prices** means the Price that Contracted Customers pay for CIT Services pursuant to a written contract agreed to by the customer and MergeCo.

**Control Date** means the day the Proposed Transaction is completed in accordance with the relevant transaction documents.

**CPI** means the value of the CPI All Groups Consumer Price Index – Average of the Eight State Capitals published by the Australian Bureau of Statistics or an index that replaces it.

**Customers** means Existing Customers and New Customers.

**Customer Volume Change Adjustment** means the constraint on the Percentage Change in Average Price for an Existing Customer who is a Large Customer set out in clause 9 of Appendix 1 to this Undertaking.

**Depreciation** is the depreciation expense and the amortisation expense for the Opening Capital Balance and New Capital Expenditure attributed period. Depreciation will be calculated in accordance with the relevant Accounting Standards.

**EBIT Margin** means the profit margin in percentage terms used to calculate MergeCo's Target Revenue from the Target Expenditure.

**Existing Customers** means a person or organisation that obtains CIT Services from MergeCo and includes Contracted Customers and Uncontracted Customers, but excludes its Internal Customer.

**Forecast Revenue** means the amount of revenue MergeCo estimates it will earn from the supply of CIT Services to Customers plus the amount it expects to assess that it will earn from its Internal Customer in accordance with clause 4.15.

**Geographic Coverage** means the location of cashpoints in Australia to which CIT Services are provided by MergeCo.

**GST** has the meaning given to it under the *New Taxation System (Goods and Services Tax) Act 1999* or similar tax.

**Independent ATM Deployer** means an entity which operates a standalone ATM network and charges a fee on transactions that occur on ATMs which are part of their network.

**Indexed Contract** is a contract for an Existing Customer that allows MergeCo the ability to adjust Price for CPI or another similar index.

**Inflation** is a measure of the change in the average of the CPI and AWE across a defined period.

**Internal Customer** is the business division within MergeCo that operates an ATM network and charges a fee on transactions that occur on ATMs which are part of its network.

**IPART** means the Independent Pricing and Regulatory Tribunal of NSW established pursuant to the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).

**Joint Business Advisor** means the external independent financial adviser retained by MergeCo to provide a forecast of Operating Expenditure for CIT Services in the first Pricing Period.

**Large Customer** is a customer that ranks in the top 30 of Existing Customers of MergeCo when those customers are ordered by Actual Revenue in the 12 months ending on 30 June, three months prior the Pricing Submission Date.

**New Capital Expenditure** is all Capitalised Expenditure incurred by MergeCo in providing CIT Services from the Commencement Date.

**New Customers** means a person or organisation that does not currently obtain CIT Services from MergeCo.

**Non-CIT Services** means any service MergeCo supplies to a third-party or related body corporate which is not a CIT Service.

**Ongoing Customers** means a person or entity which obtains CIT Services from Armaguard or Prosegur at the Commencement Date and remains a customer of MergeCo.

**Opening Capital Balance** is the book value of the assets used by MergeCo in providing CIT Services on the Commencement Date. The book value of the assets is to be determined in accordance with Accounting Standards.

**Operating Expenditure** is all non-capitalised expenditures incurred by MergeCo in providing CIT Services that are not Common Costs.

**Percentage Change in Average Price** is the percentage change in revenue from changes in Price based on previous period volumes. The Percentage Change in Average Price will be calculated in accordance with Clause 8 of Appendix 1.

**Pricing Period** means a period of one year for which future prices are set accordance with the methodology set out in this Undertaking.

**Price** means the schedule of charges MergeCo levies on Customers for the supply of CIT Services.

**Pricing Process** means the process set out in clauses 4.1 to 4.31 of this Undertaking.

**Pricing Submission Date** means the date on which MergeCo submits the required information to the Independent Auditor pursuant to clause 4.25 of the Undertaking.

**Proposed Independent Auditor** means a person named in a Proposed Independent Auditor Notice.

**Proposed Independent Auditor Notice** has the meaning given to it in clause 4.46 of this Undertaking.

**Related Body Corporate** has the meaning given to it by section 50 of the Corporations Act.

**Related Entities** has the meaning given to it by section 9 of the Corporations Act.

**Special Pricing Conditions** means the constraints on the change in individual customer prices contained in clauses 4.14 to 4.16 of this Undertaking.

**Target Expenditure** means the expenditure MergeCo is expected to incur determined in accordance with the Pricing Process set out in Section 4 of this Undertaking.

**Target Operating Expenditure** is the Operating Expenditure used to determine the Target Revenue determined in accordance with the Pricing Process set out in Section 4 of this Undertaking.

**Target Revenue** means the maximum revenue MergeCo can target in accordance with the Pricing Process set out in Section 4 of this Undertaking.

**Third Party Cash Services** means the supply by MergeCo to Third Party CIT Providers of cash processing and related services.

**Third Party CIT Provider** means a person or organisation other than MergeCo, Armaguard or Prosegur which supplies CIT Services.

**Uncontracted Customers** means a New Customer or an Existing Customers who either:

- (a) acquire services from MergeCo other than pursuant to a written contract agreed to by the customer and MergeCo prior to the beginning of the next Pricing Period; or

(b) is an Existing Customer whose written contract with MergeCo ends prior to the commencement of the next Pricing Period.

**Unders and Overs Account** means the account MergeCo is to establish pursuant to clause 4.20 of this Undertaking.

**Unders and Overs Mechanism** is the mechanism set out in clause 4 to Annexure 1 to this Undertaking.

**Undertaking** is a reference to all provisions of this document and as varied from time to time under section 87B of the CCA.

**Variation** means the variance between forecast and actual Depreciation, Common Costs and Target Expenditure calculated in accordance with clause 3 of Appendix 1.

**WACC** means the Weighted Average Cost of Capital as calculated in accordance with the methodology in Appendix 2 to this Undertaking.

13. **Executed as an Undertaking**

**Executed** by [MergeCo] (ACN 099 701 872) in accordance with Section 127 of the *Corporations Act 2001*

\_\_\_\_\_

Signature of director

\_\_\_\_\_

Signature of director/company secretary  
(Please delete as applicable)

\_\_\_\_\_

Name of director (print)

\_\_\_\_\_

Name of director/company secretary (print)

Accepted by the Australian Competition and Consumer Commission pursuant to section 87B of the *Competition and Consumer Act 2010* (Cth) on:

\_\_\_\_\_

Date

\_\_\_\_\_

and signed on behalf of the Commission:

Chair

## APPENDIX 1

## THE TARGET REVENUE MODEL

## Calculation of the Target Revenue for a Pricing Period

1. The Target Revenue in Pricing Period  $T$  is equal to the Target Expenditure in providing CIT services plus a margin:

$$TarRev_T = \frac{TargExp_T}{(1 - EBIT\ Margin)}$$

Components

$T$  is the relevant Pricing Period for which Price is being determined. Each  $T$  is a 12-month period ending 31 December. In the first Pricing Period  $T=2024$ .

$EBIT\ Margin$  is equal to 10%.

$$TargExp_T = TargOpex_{T,forecast} + BudgDep_T + BudgCommon_T + Variation_{T-1}$$

$TargOpex_{T,forecast}$  is the forecast Target Operating Expenditure for the Pricing Period  $T$  as defined in clause 2 below.

$BudgCommon_T$  is the budgeted Common Costs attributed to CIT Services for the Pricing Period  $T$ .

$BudgDep_T$  is the budgeted Depreciation of the Opening Capital Balance and New Capital Expenditure for Pricing Period  $T$ .

$Variation_{T-1}$  as defined in clause 3 below.

## Target Operating Expenditure

2. The Target Operating Expenditure in Pricing Period  $T$  is equal to an average of the actual Operating Expenditure and Target Operating Expenditure in previous periods indexed for cost inflation:

$$TargOpex_{T,forecast} = \frac{ActOpex_{T-1} \times (Indexation_{T-1})^{3/2} + TargOpex_{T-1,corrected} \times Indexation_{T-1}}{2}$$

- For the first Pricing Period  $TargOpex_{T=2024,forecast}$  is the forecast of Operating Expenditure provided by the Joint Business Advisor for  $T=2024$ .

Components

$ActOpex_{T-1}$  is the actual Operating Expenditure incurred in the 12-month period ending on 30 June in Pricing Period  $T - 1$  or the 6-month period ending on 30 June if  $T-1=2024$  adjusted to a 12-month period on pro rata basis.

$$Indexation_{T-1} = \frac{\left[ \frac{CPI_{June_{T-1}}}{CPI_{June_{T-2}}} \times \frac{AWE_{May_{T-1}}}{AWE_{May_{T-2}}} \right]}{2} \times \left[ 1 + \left[ \frac{Cash\ Volume_{T-1}}{Cash\ Volume_{T-2}} - 1 \right] \times CostSensitivity_{T-2} \right]$$

$AWE_{MonthPeriod}$  is the value of the AWE published by the ABS for the specified Month and Period.

$CPI_{MonthPeriod}$  is equal to the value of the CPI published by the ABS for the specified Month and Period.

$Cash Volume_T$  is the carried value of cash handled in providing CIT Services for the 12 months ending June in Pricing Period T.

$T-1$  is a 12-month period ending on 30 June in Pricing Period T – 1 or the 6-month period ending on 30 June in Pricing Period T-1=2024.

For the second Pricing Period T=2025, the ratio  $\frac{Cash Volume_{T-1=2024}}{Cash Volume_{T-2=2023}} = 0.95$ .

For the third Pricing Period T=2026, the ratio  $\frac{Cash Volume_{T-1=2025}}{Cash Volume_{T-2=2024}}$  is the ratio in Cash Volume for the 6 months ending on 30 June 2025 and the 6 months ending on 30 June 2024

$CostSensitivity_{T-1}$  is a coefficient reflecting the relationship between Operating Expenditure and Cash Volume. It is updated based on the formula:

$$CostSensitivity_{T-1} = CostSensitivity_{T-2} \times \left( \frac{Cash Volume_{T-1}}{Cash Volume_{T-2}} \right) / \left( \frac{TargOpex_{T-1,corrected}}{TargOpex_{T-2,corrected}} \times \frac{1}{\frac{CPI_{June_{T-1}}}{CPI_{June_{T-2}}} \times \frac{AWE_{May_{T-1}}}{AWE_{May_{T-2}}}} \right)$$

For the first Pricing Period T=2024  $CostSensitivity_{T-1=2023}$  is 40%.

For the second Pricing Period T=2025  $CostSensitivity_{T-1=2024}$  is 40%.

$TargOpex_{T-1,corrected}$  is the Target Operating Expenditure for MergeCo in Pricing Period T-1.

$$TargOpex_{T-1,corrected} = \frac{[ActOpex_{T-2} \times Indexation_{T-1} + TargOpex_{T-2,corrected} \times Indexation_{T-1}]}{2}$$

- For the first Pricing Period  $TargOpex_{T-1=2024,corrected}$  is the forecast of Target Operating Expenditure provided by the Joint Business Advisor expressed in June 2024 dollars.

### Variation in Target Expenditure

- The Target Expenditure will be varied to account for the difference in forecast and actual cost inflation on Target Operating Expenditure and variation between budgeted and actual Depreciation and Common Costs.

$$Variation_{T-1} = [OpexVariation_{T-1} + (CommonVariation_{T-1} + DepreciationVariation_{T-1}) \times (1 + WACC_{T-1})^{1/2}](1 + WACC_{T-1})$$

- For the first Pricing Period T=2024,  $Variation_{T-1=2023}$  is zero.

### Components

$$OpexVariation_{T-1} = TargOpex_{T-1,corrected} - TargOpex_{T-1,forecast}$$

$$CommonVariation_{T-1} = ActuCommon_{T-1} - BudgCommon_{T-1}$$

$$DepreciationVariation_{T-1} = ActuDep_{T-1} - BudgDept_{T-1}$$

$ActuCommon_{T-1}$  is the actual Common Costs for the specified period.

$BudgCommon_{T-1}$  is the budgeted Common Costs for the specified period.

$ActuDep_{T-1}$  is the actual Depreciation for the specified period.

$BudgDep_{T-1}$  is the budgeted Depreciation for the specified period.

$\overline{T-1}$  is a 12-month period ending on 30 June in Pricing Period T – 1 or the 6-month period ending on 30 June in Pricing Period T-1=2024.

$WACC_T$  is the WACC determined in June of period T in accordance with Appendix 2.

### Operation of the Unders and Overs Mechanism

4. The balance of the Unders and Overs Account for Pricing Period T will be calculated as follows:

$$U/O \text{ Balance}_T = U/O \text{ Balance}_{T-1} \times (1 + WACC_{T-1}) + \left[ ActRev_{T-1} - \frac{TarRev_{T-1}}{2} - \frac{TarRev_{T-2}}{2} \right] \times (1 + WACC_{T-1})^{3/2}$$

- o For the first Pricing Period, T=2024,  $U/O \text{ Balance}_{T-1} = 0$
- o For the second Pricing Period T=2025,  $TarRev_{T-2} = 0$

### Components

$U/O \text{ Balance}_T$  is the Unders and Overs Balance at the beginning of Pricing Period T.

$WACC_T$  is the WACC determined in June of Pricing Period T accordance with Appendix 2.

$ActRev_{T-1}$  is the Actual Revenue in  $\overline{T-1}$  received from providing CIT services, including revenue assessed to be earned from the Internal Customer,  $ActRev_{Internal \text{ ATM}, \overline{T-1}}$ .

$\overline{T-1}$  is a 12-month period ending on 30 June in Pricing Period T – 1 or the 6-month period ending on 30 June in Pricing Period T-1=2024.

### Calculation of the Adjusted Target Revenue for a Pricing Period

5. An adjustment to the Target Revenue for a Pricing Period from the Unders and Overs Mechanism is calculated and applied as follows:

$$Adjusted \text{ TarRev}_T = TarRev_T - Balance \text{ Adjustment}_T$$

$Adjusted \text{ TarRev}_T$  is the Target Revenue after accounting for adjustments to or from the Unders and Overs Balance.

$Balance \text{ Adjustment}_T$  must satisfy the following criteria:

The amount of  $Balance \text{ Adjustment}_T$  MergeCo can (must) adjust Target Revenue from the Unders and Overs Balance to Pricing Period when the U/O Balance is negative (positive) is:

$$Balance \text{ Adjustment}_T \geq \left( \max \left( 1 - \frac{|U/O \text{ Balance}_T|}{2 \times TarRev_T}, 50\% \right) \right) \times U/O \text{ Balance}_T$$

### Calculation of Prices

6. MergeCo will determine proposed Prices for the Pricing Period so that the Forecast Revenue for the Pricing Period is equal to or less than the Target Revenue.

$$\sum_{cust} Rev(Rate_{cust,T}, Exp Vol_{cust,T}) \leq Adjusted TarRev_T$$

$\sum_{cust} Rev(Rate_{cust,T}, Exp Vol_{cust,T})$  is the Forecast Revenue MergeCo expects to earn from Customers and its Internal Customer at the Price it charges to each customer and the volume forecast for the Pricing Period T.

$Rate_{cust,T}$  is the Price that will apply to the customer in Pricing Period T.

$Exp Vol_{cust,T}$  is the forecast volume of a customer in Pricing Period T.

$Rev(Rate_{cust,T}, Exp Vol_{cust,T})$  is all revenues MergeCo is expected to earn from a customer based on the product of the rate charged and the forecast volumes. Where a customer takes multiple services in Pricing Period T then  $Rate_{cust,T}$  and  $Exp Vol_{cust,T}$  are vectors containing the full set of rates and associated expected volumes for each individual service in that year.

### Special Pricing Conditions

7. The Pricing Process includes special pricing conditions which constrain the change in the Prices charged to individual customers as a safeguard against positive price shocks.
8. The Percentage Change in Average Price for an Existing Customer is calculated as the percentage change in revenue from the customer due to the change in the Price based on the volume of CIT Services supplied to the customer in the previous period.

$$Price Change_{cust,T} = \frac{Rev(Rate_{cust,T}, Vol_{cust,\overline{T-1}}) - Rev_{cust,\overline{T-1}}}{Rev_{cust,\overline{T-1}}}$$

$Price Change_{cust,T}$  is the Percentage Change in Average Price for an Existing Customer.

$Rev_{cust,\overline{T-1}}$  is the revenue earned by MergeCo from the Customer from the supply of CIT Services in  $\overline{T-1}$ .

$Rev(Rate_{cust,T}, Vol_{cust,\overline{T-1}})$  is the revenue amount calculated by multiplying the vector of CIT Service volume supplied to the Customer in  $\overline{T-1}$  with the vector of Price in Pricing Period T, where:

$Rate_{cust,T}$  is the vector of Price for the Customer in period T.

$Vol_{cust,\overline{T-1}}$  is the vector of CIT Service volumes supplied to the Customer in  $\overline{T-1}$ .

$\overline{T-1}$  is a 12-month period ending on 30 June in Pricing Period T – 1.

9. The Percentage Change in Average Price for an Existing Customer which is a Large Customer is limited to the following:

$Price Change_{cust,T}$  is restricted to be not more than the greater of:

$$\frac{\left[ \frac{CPI_{June\ T-1}}{CPI_{June\ T-X}} \times \frac{AWE_{May\ T-1}}{AWE_{May\ T-X}} \right]}{2} \times [1 + 5\%] - 1$$

or

$$\frac{\left[ \frac{CPI_{June\ T-1}}{CPI_{June\ T-X}} \times \frac{AWE_{May\ T-1}}{AWE_{May\ T-X}} \right] / 2}{\left( 1 + VariableRevShare_T \times (1 - VariableCostShare_T) \times \left( \frac{CashVolume_{cust, \overline{T-1}}}{CashVolume_{cust, \overline{T-X}}} - 1 \right) \right)} - 1$$

$AWE_{Month\ period}$  is the value of the AWE Index published by the ABS for the specified Month and Period.

$CPI_{Month\ period}$  is equal to the value of the CPI Index published by the ABS for the specified Month and Period.

For an Existing Customer that has not previously had their price set under this Pricing Process, and that is not on an Indexed Contract,  $T - X$  is equal to 2022. For all other Existing Customers  $X = 2$ .

$CashVolume_{cust, T}$  is the carried value of cash handled in providing CIT Services for the Customer 12 months ending June in Pricing Period T:

For an Existing Customer that has not previously had their price subject to this Pricing Process,  $T - X$  is 2023. For all other Existing Customers  $X = 2$ .

$VariableCostShare_T$  has a value of:

$$\frac{TargOpex_{T-1, corrected} \times CostSensitivity_{\overline{T-1}}}{TargOpex_{T-1, corrected} + ActuCommon_{\overline{T-1}} + ActuDep_{\overline{T-1}}}$$

For the first Pricing Period T=2024,  $VariableCostShare_{2024}$  is:

$$\frac{TargOpex_{T=2024, forecast} \times 40\%}{TargOpex_{T=2024, forecast} + BudgDep_{T=2024} + BudgCommon_{T=2024}}$$

For the second Pricing Period T=2025,  $VariableCostShare_{2025}$  is:

$$\frac{TargOpex_{2024, corrected} \times CostSensitivity_{\overline{2024}}}{TargOpex_{2024, corrected} + 2 \times (ActuCommon_{\overline{2024}} + ActuDep_{\overline{2024}})}$$

$VariableRevShare_{cust, T}$  has a value of:

$$\frac{VariableRev_{cust, \overline{T-1}}}{Rev_{cust, \overline{T-1}}}$$

$VariableRev_{cust, \overline{T-1}}$  is the revenue earned from the customer in  $\overline{T-1}$  that is a function of the carried value of cash handled in providing CIT Services for the customer in the 12 months ending June in period  $\overline{T-1}$ , or  $CashVolume_{cust, \overline{T-1}}$ .

$\overline{T-1}$  is a 12-month period ending on 30 June in Pricing Period T - 1.

$\overline{T-1}$  is a 12-month period ending on 30 June in Pricing Period T - 1 or the 6-month period ending on 30 June in Pricing Period T-1=2024.

10. The Percentage Change in the Average Price for an Existing Customer that is not a Large Customer is limited to the following percentage increases.

$Price\ Change_{cust, T}$  is restricted to be not more than the greater of:



$$\frac{\left[ \frac{CPI_{June\ T-1}}{CPI_{June\ T-X}} \times \frac{AWE_{May\ T-1}}{AWE_{May\ T-X}} \right]}{2} \times [1 + 5\%] - 1$$

or

$$\frac{\left[ \frac{CPI_{June\ T-1}}{CPI_{June\ T-X}} \times \frac{AWE_{May\ T-1}}{AWE_{May\ T-X}} \right] / 2}{\left( 1 + VariableRevShare_T \times (1 - VariableCostShare_T) \times \left( \frac{CashVolume_{sum\ non-Large\ Cust, \overline{T-1}}}{CashVolume_{sum\ non-Large\ Cust, \overline{T-X}}} - 1 \right) \right)} - 1$$

$CashVolume_{sum\ non-Large\ Cust, Period}$  is the sum of the carried value of cash handled in providing CIT Services for all customers that are both an Existing Customer and not a Large Customer for the specified Period.

$VariableRevShare_T$  is the average  $VariableRev_{cust, \overline{T-1}}$  of customers classified as a Large Customer:

$$\frac{\sum_{cust}^{Large\ Customer} VariableRev_{cust, \overline{T-1}}}{\sum_{cust}^{Large\ Customer} Rev_{cust, \overline{T-1}}}$$

11. To ensure that MergeCo's internal ATM business is charged at arm's length for CIT Services, restrictions are placed on the revenue attributable to its internal ATM businesses.

$$ActRev_{Internal\ ATM, \overline{T-1}} = \max \left( \begin{array}{l} Rev(Rate_{largest\ ext, \overline{T-1}}, Vol_{Internal\ ATM, \overline{T-1}}) \\ Rev(Rate_{2nd\ largest\ ext, \overline{T-1}}, Vol_{Internal\ ATM, \overline{T-1}}) \\ Rev(Rate_{3rd\ largest\ ext, \overline{T-1}}, Vol_{Internal\ ATM, \overline{T-1}}) \end{array} \right)$$

$ActRev_{Internal\ ATM, \overline{T-1}}$  is the Actual Revenue in  $\overline{T-1}$  assessed for MergeCo's Internal Customer in Pricing Period  $\overline{T-1}$ .

$Vol_{Internal\ ATM, \overline{T-1}}$  is the CIT Service volume of MergeCo's Internal ATM business in Pricing Period  $\overline{T-1}$ .

$Rate_{largest\ ext, \overline{T-1}}$ ,  $Rate_{2nd\ largest\ ext, \overline{T-1}}$ ,  $Rate_{3rd\ largest\ ext, \overline{T-1}}$  is the Price charged to the 3 largest ATM Independent Deployers, respectively in  $\overline{T-1}$ .

$Rev( )$  is the revenue amount calculated by multiplying the vector of CIT Service volume supplied to its Internal Customer in  $\overline{T-1}$  with the vector of Price charged to the relevant ATM Independent Deployer in Pricing Period  $\overline{T-1}$ .

$\overline{T-1}$  is a 12-month period ending on 30 June in Pricing Period T – 1 or the 6-month period ending on 30 June in Pricing Period T-1=2024.

## APPENDIX 2

## WACC

1. The WACC applied in the Undertaking is to be calculated based the methodology published by the Independent Pricing and Regulatory Tribunal of New South Wales (**IPART**) in January 2018 for calculating a current and long-run estimate of the WACC.<sup>2</sup>
2. The WACC for future Pricing Periods will adopt market parameters published by IPART in its most recently published Market Update.<sup>3</sup> All other parameters will be fixed.
3. The WACC will be the simple average of the current and long-run WACC.
4. The WACC is calculated as follows:

$$WACC_T = \frac{Pre - tax nominal WACC_{T,long run} + Pre - tax nominal WACC_{T,current}}{2}$$

- $WACC_T$  is the weighted average cost of capital applied in the Undertaking for Pricing Period T
  - $Pre - tax nominal WACC_{T,long run}$  is the WACC calculated using long run (or 10 year) parameters
  - $Pre - tax nominal WACC_{T,current}$  is the WACC calculated using current parameters
5. The pre-tax nominal WACC based on long run parameters and current parameters is calculated as follows:

$$Pre - tax nominal WACC_{T,m} = Equity Cost_{T,m} \frac{(1 - Gearing)}{1 - tax(1 - gamma)} + Debt Cost_{T,m} Gearing$$

- $m$  is the index for *long run (or 10 year)* and *current*
  - $Equity Cost_{T,m}$  is the cost of equity calculated using parameters of type  $m$  for pricing period T
  - $Debt Cost_{T,m}$  is the cost of debt calculated using parameters of type  $m$  for pricing period T
  - $Gearing = 40\%$
  - $gamma = 0.25$
  - $tax = 30\%$
6. The formula for cost of equity is as follows:

$$Equity Cost_{T,m} = rfr_{T,m} + MRP_{T,m} Beta$$

- $rfr_{T,m}$  is the most recent available risk-free rate of type  $m$  published during pricing period T by IPART
  - $MRP_{T,m}$  is the most recent available market risk premium of type  $m$  published during pricing period T by IPART.
  - $Beta = 1$
7. The formula for cost of debt is as follows:

$$Debt Cost_{T,m} = rfr_{T,m} + Debt margin_{T,m}$$

<sup>2</sup> [https://www.ipart.nsw.gov.au/sites/default/files/documents/final-report-review-of-our-wacc-method-february-2018\\_0.pdf](https://www.ipart.nsw.gov.au/sites/default/files/documents/final-report-review-of-our-wacc-method-february-2018_0.pdf) viewed on 14 February 2023.

<sup>3</sup> <https://www.ipart.nsw.gov.au/Home/Industries/Special-Reviews/Regulatory-policy/Market-Update> viewed on 14 February 2023.

- *Debt margin <sub>$T,m$</sub>*  is the is the most recent available market risk premium of type  $m$  published during pricing period  $T$  by IPART. It is calculated based on the risk profile of a BBB bond.