

# Coles Myer Ltd.

ACN 004 089 936

ABN 11 004 089 936

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PUBLIC COMPLIANCE COMMITMENT  
THE NEW TAX SYSTEM

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## 1. INTRODUCTION

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Coles Myer Ltd. ("Coles Myer") is Australia's leading retailer and largest private sector employer. We operate nearly 2,000 stores in Australia and New Zealand. We have over 380,000 shareholders.

Coles Myer's objectives are:

- To be recognised as Australia's leading retailer by our customers, with the support of, and a commitment to, our staff and suppliers;
- To drive shareholder value and deliver consistent and superior returns to our shareholders;
- To focus on our core retail competencies and fill Brand and category gaps in markets where it is profitable for Coles Myer to enter;
- To be a good corporate citizen;
- To ensure all our dealings with staff, suppliers, customers, shareholders and the general community are open and fair; and
- To engender a spirit of co-operation across the company.

## 2. THE COLES MYER COMMITMENT TO COMPLIANCE

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Coles Myer's commitment to compliance is "from the top", as seen by the following general statement of policy approved at Board Level.

### **Coles Myer Ltd. Compliance Policy**

#### **Application**

This policy applies to all who may from time to time represent the company in dealings within the company and with external parties.

#### **Commitment**

We will comply with all relevant laws, regulations and company policies.

Our behaviour will reflect this commitment.

All company policies and procedures will reflect this commitment.

All management will be responsible for ensuring that this commitment is implemented and monitored.

#### **Monitoring**

Appropriate procedures will be implemented to monitor adherence to this policy.

**(Policy approved by Coles Myer Board August 1998).**

The Coles Myer compliance policy applies across all of the Coles Myer Brands and to all of its people, as seen in the Coles Myer Code of Conduct, a copy of which is provided as Attachment A.

As is clear from the Coles Myer Compliance Policy and the Coles Myer Code of Conduct, there is a genuine commitment within the organisation as a whole to

comply with all applicable legislation, including, of course the Trade Practices Act 1974.

Given this level of commitment, as a good corporate citizen and in its desire to co-operate with the Australian Competition and Consumer Commission (" the ACCC") in promoting the consumer protection principles espoused in the Trade Practices Act 1974, Coles Myer has agreed to make this voluntary Public Compliance Commitment ("the commitment") declaring the same.

In accepting this commitment, the ACCC has noted the substantial compliance efforts of Coles Myer as witnessed by this Public Compliance Commitment.

### **3. THE COLES MYER PUBLIC COMPLIANCE COMMITMENT**

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At Coles Myer we are committed to:

- Complying with the Trade Practices Act, in particular Part VB;
- Not engaging in price exploitation in relation to the New Tax System;
- Complying with the ACCC's price exploitation guidelines pursuant to section 75AV of the Trade Practices Act and as expanded in this document;
- Passing on to customers any net cost benefits realised as a result of the New Tax System changes. Coles Myer has informed the ACCC of its approach in this regard
- Advertising and displaying GST inclusive prices in a manner which is not misleading or deceptive;
- Ensuring that there is a compliance program in place in relation to the above matters; and
- Liasing regularly with the ACCC, through a nominated Coles Myer liaison officer.

This commitment is made publicly to ensure a high level of customer confidence in our compliance program and in our genuine desire to comply.

Indeed, Coles Myer intends to comply with the highest levels of consumer protection required under the Trade Practices Act and to co-operate with the ACCC in its administration of the Price Exploitation and the New Tax System Guidelines ("the guidelines").

## **4. THE IMPACT OF THE GST ON COLES MYER AND ITS CUSTOMERS**

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### **The New Tax System**

The New Tax System reforms include:

- A reduction in the Wholesale Sales Tax ("WST") rate of 32 percent to 22 percent (29 July 1999);
- Abolition of WST (1 July 2000);
- Introduction of the Goods and Services Tax ("the GST")(1 July 2000);
- Changes to excise on petrol and diesel and to the Diesel Fuel Rebate Scheme (1 July 2000);
- Changes to excise on alcoholic beverages (1 July 2000); and
- Changes to excise on cigarettes (from 1 July 1999).

### **The Impact on Coles Myer:**

The introduction of the New Tax System and the GST in particular has a profound effect on Coles Myer's operations.

Being a major participant in the retail industry, the major impact on Coles Myer's operations brought about by the New Tax System is the introduction of a GST. As such, this document refers to the New Tax System changes generally by using the abbreviation "GST".

Coles Myer has 14 retail businesses ("Brands") which are affected by the GST. These are:

- Myer Grace Bros;
- Coles;
- Fosseys;
- Bi Lo;

- Kmart;
- Kmart Automotive;
- Target;
- Katies;
- Red Rooster
- Liquorland;
- Officeworks;
- Direct Fulfilment Group;
- Harris Technology; and
- World 4 Kids.

In recognition of the significant impact GST will have across its Brands, Coles Myer commenced an extensive GST Pricing compliance program in 1999.

### **The Impact on Consumers:**

At Coles Myer, we recognise the significant impact the GST will have on our customers.

Whilst our GST Pricing Compliance Program is chiefly designed to help us comply with the applicable laws, we also see it as providing us with a means of assisting our customers, so that they face as little disruption and discomfort as possible upon the introduction of the GST.

Our GST Pricing Compliance Program is intended to facilitate compliance, so that we will be able to reassure our customers that where net savings become available as a result of the new tax system, they will be passed through, and importantly, that where prices are set to rise as a result of the GST, that those price rises are in line with the Coles Myer GST Pricing Guidelines as submitted to the ACCC. Other factors, such as the exchange rate, and market and competitive factors will continue to influence the prices of goods and services supplied to Coles Myer and those supplied by Coles Myer.

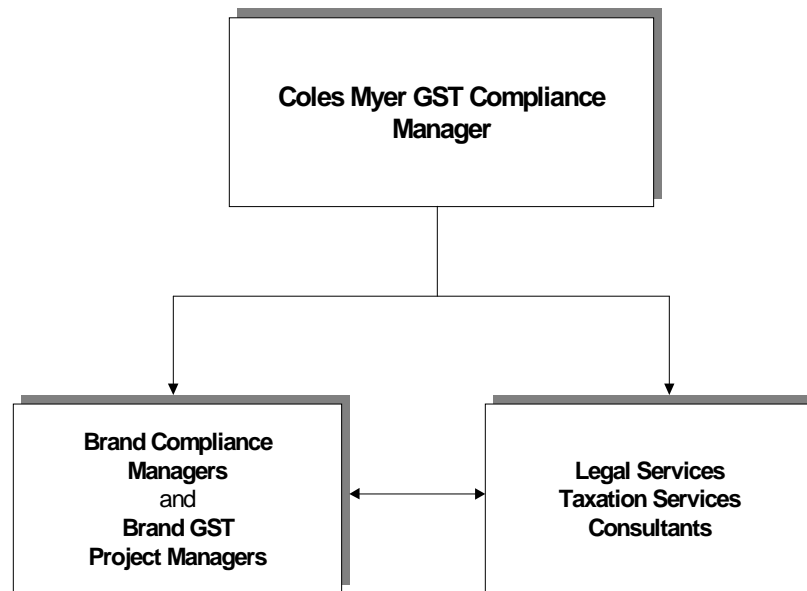
During the initial stages of the NTS, we are also concerned that customers may face some confusion and as such, we are committed to keeping them informed, where possible, and will make every effort to do so.



## 5. THE COLES MYER GST PRICING COMPLIANCE PROGRAM

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The structure of Coles Myer GST Pricing Compliance Program can be shown schematically as follows:



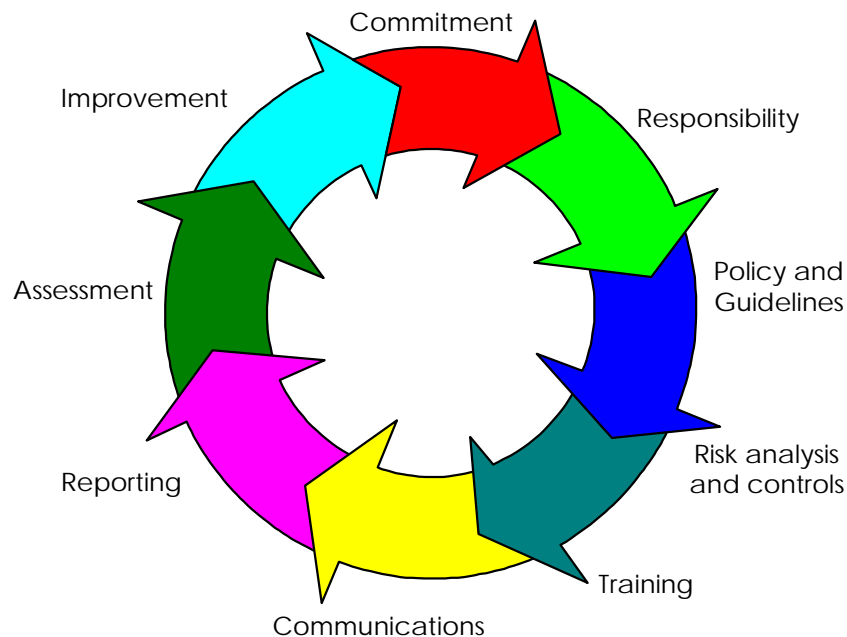
### Best Practice Compliance: AS3806

At Coles Myer we believe in striving for best practice in every aspect of our organisation. As such, in developing our GST Pricing Compliance Program we have adopted the principles of AS 3806 - 1998, the Australian Standard® for Compliance Programs ("the standard"), which is endorsed by the ACCC. The senior executives within our organisation, who are charged with the responsibility for compliance, are familiar with the framework. The program framework is based on the standard.

## Elements of Coles Myer's GST Pricing Compliance Program

At Coles Myer we see the following elements as part of an ongoing process of compliance.

### Compliance Program Elements



#### 5.1 Commitment

At Coles Myer we believe that compliance goes hand in hand with good customer service.

Our Brands are, by their nature, customer service oriented organisations. As such, we recognise that by providing the right structure and extending the culture of "getting things right" for customers, to our GST Pricing Compliance Program, we should be able to achieve compliance. Indeed we are committed to doing so.

#### 5.2 Responsibilities

As reflected in the above Compliance Statement, at Coles Myer, we recognise that whilst all staff need to be actively involved in the compliance process, for any compliance program to be successfully implemented and maintained, senior management need to be directly involved and responsible.

As such, as part of the GST Pricing Compliance Program, a group of senior executives within Coles Myer have been given the responsibility of implementing and developing processes to facilitate compliance with the GST right across our Brands.

The existing role of the Compliance Manager in each Brand has been used to track compliance issues associated with GST. The Compliance Managers are assisted in this function by the GST Project Managers working within each Brand.

At the point of co-ordination is the Coles Myer GST Compliance Manager. This function is performed by Coles Myer's General Manager, Taxation, (who in turn, reports to the Management Committee on GST compliance issues and to the Board as required).

In order that those responsible are adequately supported, services in the Legal and Taxation departments are available at all times. External consultants, PricewaterhouseCoopers, have also been used extensively to assist.

We estimate that the resource commitment by Coles Myer to the GST implementation will have been the equivalent of over 1600 employees working full time for 12 months. Some staff members have been seconded to the GST project. External consultants have also been retained.

An outline of the GST project structure is provided in Attachment B.

### 5.3 GST Pricing Compliance Policy and Guidelines

Coles Myer's GST Pricing Compliance Policy is as follows:

#### **The Coles Myer GST Pricing Compliance Policy**

##### **Introduction**

This statement of policy applies to all employees of Coles Myer Ltd and its subsidiaries.

##### **Commitment**

We are committed to complying with the Trade Practices Act 1974, in particular Part VB, and all other applicable laws, regulations, codes, official guidelines and company policies relating to the introduction of the New Tax System.

Furthermore, we are committed to complying with the Coles Myer GST Pricing Guidelines, as reviewed by the ACCC.

All company policies and procedures will reflect this commitment where appropriate.

All management will be responsible for ensuring that this commitment is implemented and monitored.

**(Policy approved by Coles Myer Senior Management Team May 2000)**

A confidential copy of Coles Myer's GST Pricing Guidelines is set out in Attachment C. The guidelines issued by the ACCC on 9 March 2000 in relation to price exploitation have been referenced and expanded in a way that is specific to Coles Myer's circumstances. The Coles Myer Pricing Guidelines are intended to provide guidance to Brands to assist them to develop appropriate operating procedures and processes across the business for integration into day

to day normal business practice. A confidential copy of the Coles Myer approach to cost savings and pass through, as discussed with the ACCC is included at Attachment G.

#### **5.4 Review of Advertising and Marketing Material**

At Coles Myer we are committed to ensuring that our customers and the general public are not misled by any of our promotional material. We value our customers and their right to make decisions on an informed basis and we take this very seriously. As such, all Coles Myer advertising and promotional material undergoes a review process. All Brands understand that marketing and advertising claims must not breach Part V or Part VB of the Trade Practices Act and indeed, each Brand has review processes in place to ensure compliance with those provisions. Where necessary, legal advice from the internal legal departments at Coles Myer is available. This service will continue to be available to all Brands after 1 July 2000.

#### **5.5 Risk Analysis and Controls**

A risk analysis process was also undertaken by the GST Pricing Compliance Project Team. This involved documenting current pricing controls within each of the Coles Myer Brands. A standard form Compliance Assessment was used for this purpose, an extract of which is provided in Attachment D. Work was then undertaken to apply a compliance framework (with regard to the principles of AS 3806) to price management within each Coles Myer Brand. Controls and mechanisms were put in place with the objective of ensuring that GST price movements could be justified, recorded and checked.

#### **5.6 Training**

At Coles Myer we believe in providing our staff with ongoing practical training to enable them to better serve our customers. We also believe that when Coles Myer staff take an active and informed role in compliance, they are better able to provide quality customer service. Fundamental to our training approach is that our staff have a real understanding of their compliance responsibilities, and that if they are in doubt or are faced with questions they themselves cannot answer, they have ready access to information.

Extensive GST training has been and continues to be undertaken within all Coles Myer Brands. Some examples of training initiatives are:

- a video which was prepared for Coles Supermarkets' staff (audience of 57,000) at a cost of \$40,000, that being one of a number of training materials presented;

- an extensive series of workshops held with all relevant staff; and
- specific training for customer relations staff to ensure that customer queries or complaints about the GST can be dealt with effectively.

A more detailed description of how the Brands have approached training staff is set out in confidential Attachment E.

## **5.7 Communications and Complaints Handling**

An extensive communications strategy has been undertaken to reach all of Coles Myer's staff, customers, suppliers, shareholders and other stakeholders in our organisation, ranging from a dedicated information page on Coles Myer's intranet site, through to individual letters.

Following are some examples of the communications strategy we have adopted:

In terms of our suppliers:-

- Supplier bulletins to each of Coles Myer's merchandise and non-merchandise suppliers (in excess of 50,000); and
- A series of workshops and presentations to suppliers.

In terms of our customers:-

- A GST customer leaflet available in every Coles Myer store from March onwards. As at June, 5.6 million of these leaflets have been circulated, and continue to be resupplied to Brands for circulation.
- Brand specific additional leaflets and bulletins.

It is the philosophy of Coles Myer to provide customer satisfaction as well as strive for continuous improvement. We recognise that customer feedback helps us do so. As such we put a lot of emphasis on providing an effective enquiries and complaints handling process to deal with the many customer issues which arise as a matter of course in a retail business.

At Coles Myer we are committed to "getting things right" .

However, we recognise that despite the very best efforts, things can go inadvertently wrong, for example, as a result of a systems or human error.

We are committed to redressing those situations, to both safeguard our customers' interests as well as preserve our good relationship with our customers

generally. We also recognise that upon the implementation of the GST, customers are likely to have more questions than usual and may require additional assistance on GST specific issues. As such, customer service personnel have been given additional training and information to enable them to resolve GST customer queries. In most cases, Coles Myer will be able to resolve these queries itself and seeks every opportunity to do so. A more detailed description of GST complaints handling process at Brand level is set out in confidential Attachment F.

## **5.8 Reporting**

A centralised reporting of GST issues has been introduced within each Brand. The central contact point for GST issues is the position of GST Project Manager. Issues are streamed from the Brand GST Project Manager to the GST Program Office (often at the regular fortnightly forum with all Brand representatives). The involvement of the Coles Myer GST Pricing Compliance Manager is then sought if the issues have a fundamental compliance nature or if further discussion is required with the ACCC or the Australian Taxation Office.

The GST Pricing Compliance Program is designed to detect actual and potential compliance failures which can then be reported to appropriate levels to ensure incident specific rectification as well as improvement of processes generally.

## **5.9 Assessment**

The assessment of Coles Myer's GST Pricing Compliance Program commenced in June 2000. Various controls have been introduced to check the efficacy of changes made to operating procedures. PricewaterhouseCoopers has provided Coles Myer with a proposal to carry out various assessment and audit tasks. This is being progressed. The result of the assessment will be reported to Coles Myer's GST Pricing Compliance Manager for action where necessary.

Coles Myer also believes in the value of assessment on an ongoing basis. Ongoing review will be undertaken to determine whether the requirements of the Act and this Commitment are being fulfilled.

## **5.10 Improvement**

The results of the assessment carried out in June will be used to improve the general GST Pricing Compliance Program. These, together with feedback from staff, customers and the ACCC will provide an ongoing review of effectiveness and performance, and any improvements which can be factored into Coles Myer's policy, guidelines or procedures will be considered and made, where appropriate.

## **6. LIAISON WITH AND REPORTING TO THE ACCC**

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Coles Myer believes in the importance and value of clearly defined protocols for liaison with regulators.

### **6.1 Liaison Officer**

Coles Myer intends to liaise with the ACCC to ensure that any complaints and issues are dealt with quickly and effectively. In most cases, Coles Myer will be able to resolve the matter itself. Coles Myer has appointed its General Manager, Taxation as a point of first contact for the ACCC. In this capacity, the General Manager, Taxation, will be responsible for addressing ACCC requests or queries relating to the New Tax System changes.

In turn, the ACCC has informed Coles Myer that it will appoint an officer, as a point of contact for Coles Myer's contact officer.

Should the ACCC consider that an explanation is required from Coles Myer or one of its Brands, in relation to the price of one of its goods or services, be it as a result of a customer enquiry or otherwise, the ACCC will, prior to deciding to issue a notice under section Part VB of the Act, contact the Coles Myer Liaison Officer to seek further information and clarification.

The same process will apply with respect to explanations required in relation to advertising and/or promotional matters arising out of Part VB of the Act.

### **6.2 Reporting**

Coles Myer is committed to maintaining communication and dialogue with the ACCC on an ongoing basis. Coles Myer views communication with the ACCC as a means of assisting it in its compliance efforts and as such places great importance upon such dialogue.

As part of maintaining ongoing dialogue, Coles Myer intends to report to the ACCC on a periodic basis, (initially in 6 months' time) discussing with the ACCC, amongst other matters, the status of its price monitoring under the Coles Myer Pricing Guidelines, as well as any cost savings being achieved as a result of the NTS.



### **6.3 Confidentiality, The Public Register and Use of Materials**

Coles Myer consents to the placing of this commitment on a public register by the ACCC.

The attachments to this commitment described and / or marked as “confidential” and the supporting documents provided to the Commission throughout the course of making this commitment, and as part of the ongoing reporting process, contain commercially sensitive information. The Commission will treat that information as commercially sensitive and confidential and will not place those documents on the public register.

### **6.4 Use of Materials**

The materials and information described in 6.3 have been provided to the Commission for the purposes of demonstrating Coles Myer’s compliance with Part VB of the Act. The Commission will contact Coles Myer’s Liaison Officer and inform him if those materials are to be made available to persons within the Commission for other purposes.

### **6.5 Legal Status of the Commitment**

Whilst this commitment is not a legally binding document, Coles Myer will make every effort to comply with its contents.

## SUMMARY

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Coles Myer is confident that the program put in place to meet the challenges of the New Tax System is sound, customer-focused and commercial. Although the magnitude of the task has been great (and there remains much to do) and we have made a significant investment to achieve compliance, we expect that our businesses will be in a position to comply with the New Tax System at its commencement on 1 July 2000.

Dennis Eck  
Managing Director and Chief Executive Officer

16<sup>th</sup> June 2000