

A NEW TAX SYSTEM

**PUBLIC COMPLIANCE
COMMITMENT**

WOOLWORTHS LIMITED

ABN 88 000 014 675

Status: Final 6.6.00

June 2000

INTRODUCTION AND BACKGROUND

- A. Woolworths Limited ("**Woolworths**") has initiated a major project plan in preparation for the introduction of A New Tax System legislation ("**ANTS**"). The GST project plan seeks to identify the impact of ANTS upon Woolworths and co-ordinates the implementation of changes in response to ANTS. The project represents a significant investment by Woolworths.
- B. Woolworths expects to receive some cost reductions from the abolition of wholesale sales tax and reduction of other indirect taxes. There will be direct cost reductions to Woolworths and other cost reductions to suppliers which should be passed on to Woolworths.
- C. Woolworths makes this statement in order to record its commitment to the principles of Part VB of the Trade Practices Act (the "Act") with respect to ANTS and to provide a framework upon which the Australian Competition and Consumer Commission ("ACCC") may review Woolworths' response to ANTS. Woolworths has discussed this statement with the ACCC.

WOOLWORTHS' COMMITMENT

Woolworths' ANTS Commitment

- (a) It is Woolworths GST pricing policy to reduce its prices to pass on the full effect of any net tax reductions as a result of ANTS. Woolworths intends to re-price each product which is subject to wholesale sales tax to reflect the removal of any applicable tax.
- (b) Where a tax is reduced or removed from products sold by Woolworths, prices overall of those products are expected to fall by at least the amount of the tax saved by Woolworths, as well as reflect overall any tax-related savings which Woolworths realises or reasonably expects to realise as a result of ANTS changes.
- (c) Woolworths will take all reasonable steps to ensure that its prices for products which are subject to GST will not increase overall by more than the amount reasonably attributable to the GST after applying offsets relating to cost increases and any realised direct or indirect cost savings, due to ANTS.
- (d) Woolworths' intention is to ensure that it maintains the same net dollar margin that applies to its business immediately prior to the commencement of ANTS. Woolworths will use its existing trading departments for the purpose of monitoring pricing and ensuring that overall margins have not increased as a result of ANTS.
- (e) In some Woolworths' businesses, price points are customarily used for competitive reasons. Woolworths will use all reasonable endeavours to ensure that overall margins do not increase as a result of price pointing under ANTS.
- (f) In any event, prices in its stores will not increase by more than 10 per cent as

a result of ANTS.

Compliance Commitment

As part of Woolworths' long established Trade Practices Compliance Program, Woolworths will use all reasonable endeavours to:

- (a) comply with the Act, in particular Part VB of the Act;
- (b) not engage in price exploitation in relation to ANTS;
- (c) pass on to consumers any net cost benefits which result from ANTS;
- (d) advertise and display prices as GST inclusive in a way that is not misleading or deceptive; and
- (e) continue to ensure that Woolworths has an effective Trade Practices Compliance Program which will continue to be materially in accordance with the provisions of Australian Standard 3806 (1998).

Cost of Doing Business Savings

Woolworths will use all reasonable endeavours to pass on, across a range of categories, in numerous stores and at SKU level (stock keeping units), all anticipated savings (net of all implementation and compliance costs) in costs of doing business, due to ANTS, based on anticipated benefits from 1 July 2000. Woolworths intends to monitor realised benefits on material items against anticipated savings which will be adjusted on a regular basis.

To estimate cost savings arising from ANTS, Woolworths has used a combination of external modelling information (ECONTECH) and internal modelling to quantify anticipated savings to apply on 1 July and for the longer term. Woolworths will use reasonable efforts to secure these anticipated cost savings and pass them on to customers in reduced prices or lower price rises.

Woolworths has requested its expense vendors to notify their anticipated cost savings by May 2000 in order to take them into account in its estimations.

Customer Advocate

Woolworths has appointed a Customer Advocate, supported by Ernst and Young, to assist Woolworths' customers to resolve any concerns about Woolworths' implementation of ANTS changes which Woolworths is unable itself to resolve.

Ernst & Young Review

Ernst & Young have been engaged by Woolworths to investigate, verify and provide a report that Woolworths' policies and procedures as explained in this Commitment are in accordance with Part VB of the Act.

WOOLWORTHS' IMPLEMENTATION OF THE NEW TAX SYSTEM CHANGES

Implementation of New Pricing

Across Woolworths' diverse business divisions, in excess of 20 million system and shelf prices will need to be changed between midnight on 30 June and commencement of trading on 1 July in approximately 1000 retail stores. Woolworths is endeavouring to develop procedures and undertaking preparatory measures to change all prices prior to opening for business on 1 July.

In Woolworths Supermarkets, Big W, Crazy Prices and other retail divisions, IT systems are being developed and tested to monitor and change in excess of 150,000 price records on 30 June.

It may become necessary to adopt dual ticketing for a maximum period of one month prior to and following 1 July. Dual pricing may be required during the period item prices are being adjusted. Shelf prices will be changed no later than 10 July and the scanning equipment changes will be effected on 1 July.

Transitional Pricing Issues

Woolworths has planned and is implementing the logistics of changing all of its prices in all of its stores in order to give effect to the introduction of the GST. In preparation for this task, Woolworths has undertaken the following steps:

- (a) Woolworths has requested all of its merchandise vendors to provide prices for their products to be effective 1 July 2000 so that Woolworths' prices can be programmed into its system ready for the implementation date.
- (b) Woolworths has notified its vendors in writing that it requires written notification of any cost variations. Vendors are requested to identify any ANTS savings that should flow through to customers.
- (c) For logistic reasons, Woolworths will seek the support of its vendors to minimise cost changes, other than for highly seasonable and short life fresh food items, for a period of two calendar months from 22 May 2000.
- (d) Woolworths may employ some dual price tickets on selected categories of items from 1 June 2000. These tickets will only be used for a short transition period and will be removed by 31 July.
- (e) Woolworths will ensure that customers are not disadvantaged by products pre-priced by suppliers prior to 1 July and that any ANTS savings are reflected

in post 1 July prices for those products.

Cost Management

Woolworths has established as part of the GST program, a system to anticipate and quantify, so far as it is possible, identifiable cost reductions arising from ANTS and to track those changes. Woolworths will continue to review its processes to ensure they are up to date and relevant to ANTS changes and their impact upon the Woolworths group.

Whilst Woolworths cannot be responsible for ensuring that suppliers comply with the requirements of ANTS and the Act, this process will also allow Woolworths to assess the pricing conduct of Woolworths' suppliers. The process aims to identify reasons for cost changes from suppliers.

Verification of Woolworths' Price Changes

Prices in the retail industry change on a regular basis. Generally these price changes are due to supply cost changes, short term promotions, competitive conditions, seasonal and commercial factors.

As provided in paragraph 1.1, Woolworths will use its best endeavours to identify and pass on any net realised cost reductions which result from ANTS.

Woolworths acknowledges that it may be required to verify that it has passed on any changes in realised net costs due to ANTS in accordance with paragraph 1.1.

Should Woolworths make significant changes in the overall prices in a category of its goods and services during the ANTS transition period (as defined in Part VB of the Act), Woolworths will keep the ACCC informed.

However, individual item price changes initiated at individual store level due to localised factors, eg competition are frequent and written records may not be available.

Subject to these limitations, Woolworths will use best endeavours to set standard sell prices for all items which comply with Part VB of the Act.

Woolworths' Expectation for Prices and Costs Under ANTS

Woolworths believes that there will be cost reductions resulting from the initial reduction and subsequent abolition on 30 June 2000 of wholesale sales tax and other indirect taxes in the short term. Woolworths will also incur ANTS implementation and compliance costs which will need to be accounted for in determining the net impact of the cost reductions.

At this time, Woolworths is not able to determine the extent of any net cost reductions in the long term. However, Woolworths will monitor cost reductions and pass on anticipated and realised net cost reductions in accordance with the Act as expanded in this Commitment.

Implementation and Compliance Costs

Woolworths will recoup implementation and compliance costs reasonably incurred and directly related to ANTS.

SUPPLIER PROGRAM

Vendor Relationship Management Plan

Woolworths has implemented a program to encourage suppliers to pass on to Woolworths cost savings they achieve as a result of ANTS. Woolworths has adopted a Vendor Relationship Management Plan in a range of areas including:

- vendor education (which includes expense vendors);
- new trading terms;
- document management and exchange; and
- GST transition management.

Vendor Education

For all Woolworths' merchandise vendors (who exceed 5,000 in number), Woolworths has:

- provided a written summary of Woolworths' approach to the implementation of the Goods and Services Tax ("GST") and how it impacts on Woolworths' relationships with its vendors;
- conducted vendor briefing sessions in October and November 1999 for over 80 major merchandise vendors;
- issued proposed new vendor trading terms which have been revised to reflect the ANTS changes and conducted one-to-one negotiations in relation to these revised terms;
- encouraged vendor feedback and consultation; and
- appointed internal Woolworths contacts for all vendors to raise queries in relation to the introduction of the GST.

Fair Trading Policy

Woolworths will, in discussions and negotiations with vendors, act in accordance with its published Fair Trading Policy which has been provided to all Woolworths' vendors. All vendors, large or small, will be treated fairly, having regard to their particular circumstances.

IMPACT OF ANTS CHANGES

Impact on Retailing

ANTS will affect the supply chain and the retail industry in which Woolworths' carries on business in many respects. Some of these changes are:

- The retail price of most goods and services supplied by Woolworths will change as from 1 July, requiring major logistical steps to be taken by Woolworths' employees as well as a need to inform and educate Woolworths' customers.
- Woolworths will change its customer dockets to show an asterisk "*" against those goods for which GST has been included in the price paid by customers and the total GST paid on all items will be calculated at the bottom of the docket. This will not occur in Dick Smith Electronics.
- The net effect of ANTS changes on Woolworths' prices is likely to be small. Some items will be more expensive and some will be cheaper. The majority of fresh foods will, subject to market availability, remain at similar price levels to pre-1 July prices.
- Woolworths will be working in conjunction with vendors to identify those goods and services which attract GST and those which do not.

CUSTOMER INFORMATION AND COMPLAINTS HANDLING

Customer Information

Woolworths will provide information to its customers to assist them to understand the transition to ANTS and will implement a comprehensive program to inform its customers of the impact of relevant ANTS changes in Woolworths' stores. Customer initiatives will include:

- (a) In-store distribution of Customer Communication Leaflets, supported by editorial content in Australian Good Taste magazine.
- (b) Instore signs with basic information on how GST will affect customers in Woolworths' stores.
- (c) Instore assistance.
- (d) Provision of a Call Centre utilising 1300 Customer Care line for customer queries.
- (e) Comprehensive employee training program in all Woolworths' stores for designated levels of staff which will include the following elements:
 - (i) GST Customer Inquiries Team Talk presented to shopfloor employees;

- (ii) Merchandising Personnel GST and Vendors Information Package;
 - (iii) In-Store policy statements and pocket cards for all staff containing key pricing principles and practical examples of price setting procedures which comply with the guidelines.
- (f) Posting an ANTS/GST page to the Woolworths' website which will include information for customers and suppliers about the way GST applies to the products and services supplied by Woolworths.
- (g) Make resources available within the existing customer service departments to provide information to customers in relation to Woolworths and the GST.

Complaints Handling

Woolworths will establish a multi-levelled customer GST reference and inquiry handling system to deal specifically with GST-related queries. Key features will include:

- X 1300 Customer Care Line to handle GST related queries
- X Dedicated Woolworths GST officers to handle GST issues
- X appointment of the external Customer Advocate to adjudicate GST complaints which cannot be resolved by Woolworths.

WOOLWORTHS' COMPLIANCE PROGRAM

GST Program

Woolworths has implemented a GST Compliance Program with the following elements:

- (a) senior management responsibility for compliance through General Manager, Corporate Services, who will, where necessary, raise significant issues which may arise in connection with this commitment with the Woolworths Chief Executive and/or the Board's Audit Committee;
- (b) the Legal Manager will be responsible for:-
 - (i) ensuring Woolworths' compliance with this Commitment; and
 - (ii) investigating any significant issues and concerns which may impact on the ability of Woolworths to comply with this Commitment including any issues that are raised in the auditors report provided under clause 8.2, or identified through the customer inquiry procedures;
- (c) comprehensive monitoring, focus team meetings and workshops to work through specific GST issues in Woolworths' business and internal and external auditing. It centres upon monthly status reporting by every business division in relation to key compliance risk areas reviewed and signed off by external legal advisers and presented to the Woolworths' Board Audit Committee; and

(d) The Woolworths Compliance Program is focussed upon five key areas of GST implementation:

- X Vendor Relations;
- X Pricing Management;
- X Consumer Education and Marketing and Advertising;
- X Price Justification and In-Store Systems Compliance; and
- X Customer Complaints Handling.

Advertising / Promotional Review

Woolworths has developed an ANTS Changes Promotional Policy based upon its Fair Trading Policy which will apply in all Woolworths marketing and advertising.

Training

Woolworths will provide training and awareness programs for its staff and its agents to inform them of their responsibilities under the Act and of this Commitment. In particular, GST training will be provided to all merchandise buying staff and personnel who have pricing responsibilities and in-store staff who will respond to customers' GST inquiries.

The obligations of Woolworths under this commitment will be incorporated into the existing Woolworths' Trade Practices Compliance Program as described within Woolworths' Trade Practices / GST Supply Chain and Memorandum.

ACCC PROCEDURES

Communication

If the ACCC receives a GST related inquiry from a consumer that it considers requires an explanation by Woolworths, the ACCC Liaison Officer (appointed under clause 7.3) will contact the Woolworths' Liaison Officer and inform Woolworths of the issue. Woolworths will use its best endeavours to co-operate with the ACCC to resolve the issue subject to the law and the provisions of the Act, following a review and investigation of the circumstances. The Woolworths' Liaison Officer will report to the ACCC and provide supporting information to the ACCC in relation to the examination of an issue.

If these procedures fail to resolve the issue to the satisfaction of the ACCC, Woolworths General Manager, Corporate Services will contact the ACCC's Executive General Manager, GST Operations, and they will discuss the issue and attempt to obtain a satisfactory resolution.

Liaison Officer

Woolworths will appoint a Woolworths' Liaison Officer who will be the Woolworths' Legal Manager and who will maintain ongoing contact with the ACCC with regard to this Commitment. In particular, the Woolworths' Liaison Officer will:

- (a) be appointed first contact for the ACCC for any queries or requests the ACCC may have; and
- (b) inform the ACCC of any developments or changes in the industry which in the opinion of the Woolworths' Liaison Officer, may be of relevance to the ACCC and, in particular, any developments which may necessitate a variation of this Commitment.

The Woolworths' Liaison Officer will be responsible for:

- (a) ensuring enquiries relating to the GST and ANTS are dealt with promptly and satisfactorily;
- (b) identifying particular Woolworths' practices and procedures which have given rise to inquiries and which may require review or more urgent attention; and
- (c) if, following a review and investigation of an inquiry, Woolworths needs to take action to address the conduct that gave rise to the inquiry, ensuring that Woolworths:
 - (i) takes any necessary action (including stopping the relevant conduct if necessary and, if appropriate, such other forms of redress);
 - (ii) adjusts its practices and procedures to avoid a recurrence of the conduct; and
 - (iii) reviews the affected practices and procedures.

ACCC Liaison Officer

The ACCC will appoint a Liaison Officer who will be the point of contact with the Woolworths' Liaison Officer.

AUDIT REVIEW

Woolworths' Review

In conjunction with Ernst and Young, Woolworths' Group audit will undertake a review of procedures and cost savings on a half-yearly basis during the ANTS transition period to review whether the requirements of the Act are being fulfilled. Woolworths' Group audit will identify amendments, if any, to the procedures or processes that it considers are required to ensure that the requirements of the Act are fulfilled.

Reports to the ACCC

To assist the ACCC in its responsibilities under Part VB of the Act, Woolworths will provide the following reports for the duration of the transition period to the ACCC Liaison Officer:

- (a) the audit report referred to in clause 8.1;
- (b) half-yearly and full year profit announcements once released to the market and the annual report to shareholders; and
- (c) half – yearly Group consolidated compliance report.

All such non-public reports shall be treated by the ACCC as commercially sensitive and confidential but may be used by the ACCC in the proper exercise of its powers.

OTHER ISSUES

ACCC Regular Communication

Regular meetings between Woolworths' Liaison Officer and the ACCC's Liaison Officer and other representatives will be held to discuss current issues and queries relating to ANTS.

GENERAL

Public Register

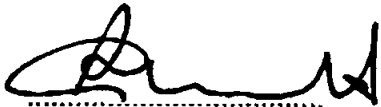
The ACCC may place a copy of this Commitment on a public register.

Legal Status of this Commitment

With the exception of this clause this Commitment is not legally binding. However, Woolworths intends to implement the terms of this Commitment as varied from time to time.

Dated: 22 June 2000

SIGNED for and on behalf of
WOOLWORTHS LIMITED

A handwritten signature in black ink, appearing to be 'R Corbett', written over a dotted line.

R Corbett
Chief Executive Officer