

**BRITISH AMERICAN
TOBACCO
AUSTRALASIA**

**BRITISH AMERICAN TOBACCO
AUSTRALASIA LIMITED
ACN 002 717 160
ABN 70 002 717 160**

**THE NEW TAX SYSTEM PUBLIC
COMPLIANCE COMMITMENT**



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**BRITISH AMERICAN
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SECTION 1

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

INTRODUCTION



1.1 INTRODUCTION

British American Tobacco Australasia Limited and its subsidiaries British American Tobacco Australia Limited and British American Tobacco Australia Services Limited ("BATA") commit to ensuring that any net savings realised as a result of the New Tax System legislation ("NTS") are passed on to consumers. BATA is committed to complying with the legislation enacted by the Commonwealth to prevent businesses from exploiting the tax reform process to increase profits (Part VB of the *Trade Practices Act 1974 – Price exploitation in relation to A New Tax System*), and the Price Exploitation Guidelines ("the Guidelines") formulated by the Australian Competition and Consumer Commission ("the Commission").

BATA has initiated a major GST Implementation Project in preparation for the introduction of the NTS. Refer to Section 5.2 for details.

BATA expects to receive some cost savings as a result of the NTS reforms. The savings received by BATA will consist of direct cost reductions and savings passed through by its suppliers. BATA will monitor its costs to ensure that any savings received are passed through to customers as they are realised in the form of lower prices or smaller price rises. These will be passed on as part of our regular price reviews, performed approximately every six months.

In accordance with the Guidelines, the Commission invited BATA to make a NTS public compliance commitment. BATA has accepted this invitation and has drafted this Commitment in consultation with the Commission. The purpose of this Commitment is to record the commitment of BATA to furthering the principles of the Trade Practices Act 1974 and the Guidelines with respect to the NTS, and to provide greater certainty as to the basis on which the Commission may review the actions of BATA.

1.2 DEFINITIONS

The following definitions apply in this document:

"ACCC Liaison Officer" means the person appointed by the Commission as the point of contact for the BATA Liaison Officer.

"ACT" means the Trade Practices Act 1974.

"BATA Liaison Officer" means the person appointed by BATA as the point of contact for the Commission.

"Commission" means the Australian Competition and Consumer Commission.

"Commitment" means this public compliance commitment, and includes the Introduction and Attachments.

"CRC" means the Consumer Response Centre.

"GST" means the goods and services tax as defined in section 75AT of the Act.

"GST Implementation Project" means the comprehensive review, planning and implementation process undertaken by BATA in preparation for the implementation of the NTS.

"Guidelines" means the price exploitation guidelines produced from time to time by the Commission pursuant to section 75AV of the Act.

"NTS" means the New Tax System changes as defined in section 75AT of the Act and any related legislation enacted as a result of the NTS changes.



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SECTION 2

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

COMMITMENT TO COMPLY



2.1 GENERAL COMMITMENT TO COMPLY

BATA is committed to complying with the *Trade Practices Act* 1974 ("the Act"), including the recent amendments resulting from the NTS changes and the Guidelines released by the Commission.

BATA commits to:

- comply with the Act, in particular part VB;
- not engage in price exploitation in relation to the NTS;
- comply with the Guidelines as expanded in this Commitment;
- pass on to consumers any net cost benefits realised as a result of the NTS changes;
- advertise (where permitted) and display the GST-inclusive prices in a manner which is not misleading or deceptive; and
- ensure that an effective compliance program is in place to cover the NTS which is materially in accordance with Australian Standard AS 3806.

BATA recognise that no part of this commitment is legally binding on either BATA or the ACCC.



SECTION 3

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

COST CHANGES AND PASS THROUGH OF SAVINGS

3.1 COST CHANGES AND PASS THROUGH OF SAVINGS

BATA will use all reasonable endeavours to monitor its costs and liaise with its suppliers in the two-year period following 1 July 2000 to ensure any ongoing NTS related cost changes are identified and:

- where there has been a net realised cost reduction – ensure that such reduction is passed on to consumers in the form of lower prices or smaller price increases; or
- where there has been a net realised cost increase – ensure any price rises, or reductions in price falls, based on the cost change are no greater than the net realised cost increase.

As part of this process, BATA is committed to:

- assessing the impact of cost changes on BATA'S cost base and the revenue required to maintain dollar profits;
- review costs and prices on approximately a six-monthly basis to ensure net realised cost savings are identified and passed on at reasonable intervals; and
- communicating with suppliers to assist in supporting estimates used in setting prices for the period after 1 July 2000. Suppliers will be encouraged to pass on cost savings at the first available opportunity and identify where changes are NTS related.

3.2 REVIEW OF ESTIMATES

BATA has used a combination of actual and anticipated supplier cost changes to set prices. Actual prices from suppliers were used where available to determine the impact of the NTS. Where actual information was unavailable, data on estimated savings was used where possible. Where available, the estimates used included information on direct savings from the removal of WST and indirect savings from the pass through of NTS reforms.

These estimates will be reviewed and reconciled to the actual cost savings on regular basis. Prices will be adjusted to reflect the actual cost savings received as part of our normal price reviews, performed approximately every six months. Should there be a major discrepancy between the actual savings and the estimates used to set prices, a price change can be implemented and notified to customers within four working weeks.

3.3 DOCUMENTATION

It will be ensured that the justification of price changes is documented.



SECTION 4

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

SUPPLIER PROGRAM



4.1 SUPPLIER PROGRAM

BATA has initiated a communication program with its major local suppliers. This program has been designed to:

- maximise the information available to all parties in the supply chain;
- allow the identification of the NTS related cost savings; and
- encourage suppliers to pass on to us cost savings they achieve as a result of the NTS changes.

4.2 DOCUMENTATION

Copies of each letter sent and the response from the supplier will be maintained as part of the compliance program.



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SECTION 5

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

IMPLEMENTATION AND COMPLIANCE COSTS

5.1 IMPLEMENTATION AND COMPLIANCE COSTS

In assessing the net effect of the NTS on costs, BATA will:

- include only those implementation and compliance costs reasonably incurred and directly attributable to the introduction of the NTS; and
- offset any compliance cost reductions from the removal of the previous tax system.

In accordance with the Guidelines, BATA has taken into account additional internal and external implementation and compliance costs associated with the NTS in determining whether there are any net realised cost changes as a result of the NTS.

For the purposes of price setting, NTS implementation costs will be deferred and written off over a number of years. Ongoing compliance costs will be written off in the year in which they are incurred.

5.2 GST IMPLEMENTATION PROJECT

BATA is undertaking a comprehensive review, planning and change implementation process to prepare for the impact of the GST upon its business after its introduction on 1 July 2000. This Compliance Commitment forms part of the GST Implementation Project.

The following provides an overview of the approach by BATA to preparing for the introduction of the NTS.

Project Planning and Initiation (December 1998 to March 1999)

This involved the initiation of a Management Advisory Committee whose prime responsibility is to steer the overall GST program. The Management Advisory Committee is chaired by the Finance Director who acts as the Project Sponsor and reports periodically to the board of directors on the progress of the project.

The Management Advisory Committee appointed a dedicated Project Manager in March 1999 and agreed an overall approach to preparing for the NTS.

Scoping Study (April 1999 to August 1999)

A series of workshops were held across the entire organisation to identify the specific points of GST impact. Approximately 450 issues were identified and were categorised into six major workstreams as follows:

- Program Management
- Tax Issue Resolution
- Business Strategy including contract reviews, supply cost, cash flow, business cost impacts and ACCC related compliance issues.
- Business Process Redesign issues relating specifically to manual procedures.
- System Redesign issues.
- Communication and Training issues.

The output of this phase was a high level project plan and overall budget estimate to carry out all changes necessary for the business to become 'GST ready'.

Implementation Phase (September 1999 to September 2000)

The GST Implementation Project took the output of the Scoping Study and transformed its findings into a detailed project plan. The overall GST Implementation Project was broken down into the six



workstreams that were further broken down into 40 individual projects. This provided a more manageable structure and ensured that individual projects were focussed on discreet subject areas. As the project has progressed, the number of projects has been rationalised.

Each project was divided into four project management phases as follows:

- Preparation Phase – this covered the activities necessary to ‘start up’ each project and included preparation of Project Charters, Plans and budgets.

Each project was assigned an owner from the business, a Project Leader (who was responsible to managing all projects within a workstream, thereby ensuring a consistent approach across projects), a Team Leader responsible for day to day supervision of the project team and Team Members. Resources were drawn from internal pools wherever possible with gaps being filled by consultants from PricewaterhouseCoopers.

- Analysis Phase – because of the interrelated nature of the projects, it was necessary for each project to undertake some preliminary analysis to provide direction for the project including work to be carried out in parallel with other projects. This consisted of taken the business impacts previously identified in the Scoping Study and determining the business requirements necessary to address each impact. These business requirements formed the basis of changes made to the manual procedures and computer systems.
- Development Phase – these activities cover all the detailed work required to change systems and procedures to ensure that BATA is ‘GST Ready’ on 1 July 2000. This is commonly described as the ‘design, build and test’ phase. A comprehensive employee and customer communications program was launched at this point.
- Transition – this phase of each project covers those activities necessary to ‘cutover’ to the amended procedures, systems, prices etc on 1 July 2000. It also includes comprehensive training for staff on all systems and procedural changes, post ‘go-live’ support to the business and a final handover by the project teams to the business who will own the amended systems and procedures going forwards.

An overview of the GST Project workstreams and individual projects are shown at Attachment A.



SECTION 6

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

IMPACT OF THE NTS REFORMS



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6.1 SHORT TERM IMPACT OF THE NTS REFORMS

BATA has already implemented a portion of the NTS reforms with the change in the tobacco excise from a combined weight and ad valorem based system to a per stick calculation in November 1999. This change in tobacco excise has resulted in a significant decline in market demand, as cigarette prices rose by 10% to 30% depending on the pack size. As there is currently no wholesale sales tax charged on tobacco product sales, the retail price of tobacco products will rise as a result of GST being levied. This increase will be offset by any net cost savings realised by BATA as a result of the NTS.

Although there will be some cost reductions from the reduction and eventual abolition of wholesale sales tax in the short term, the majority of purchases made by BATA are wholesale sales tax exempt as they are related to the manufacturing process. Therefore, it is expected that cost reductions in this area will be minimal, as will be the effect on existing compliance costs. In addition, BATA will also incur NTS implementation and compliance costs which will be considered in determining the net impact of the costs reductions.

It is estimated that BATA's major cost savings will come from the following areas:

- Freight;
- Computer expenses; and
- Marketing materials.

Little to no savings are anticipated to flow through from suppliers in the manufacturing area as many materials are imported and responses received from suppliers to date indicate nil to minimal savings on domestic raw materials. In addition labour costs, which are unaffected by the NTS, represent approximately 18% of BATA's annual expenditure.

6.2 LONG TERM IMPACT OF THE NTS REFORMS

At this time, BATA is not able to determine the extent of any net cost reductions in the long term. However, BATA will continue to monitor cost movements and pass on net realised cost reductions associated with the NTS over the next two years, in accordance with the Act and the Guidelines as expanded in this Commitment.



SECTION 7

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

CUSTOMER AND CONSUMER INFORMATION



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7.1 CONSUMER INFORMATION AND COMMUNICATION

BATA will continue its commitment to ensuring that it does not mislead or deceive its consumers in relation to the goods and services offered.

Legislative restrictions constrain the style and type of direct consumer communications from tobacco companies.

Our packaging contains a consumer hotline number which is directed to a Consumer Response Centre ("CRC"), normally to handle product quality issues (eg. freshness). The CRC personnel have been armed with frequently asked questions and answers to respond to any basic GST related queries that consumers may raise. Refer to Section 8 for more information on the CRC.

7.2 CUSTOMER COMMUNICATION

BATA has implemented a comprehensive communications program with its customers to assist them to comply with the Act and guidelines as follows:

- GST Survival Kits have been developed specifically for trade customers, and employees who interact with customers:
 - Trade Marketing (field force);
 - National Business Team (dealing with key customers);
 - Consumer Response Centre;
 - Customer Sales Centre (Telesales);
 - Brand and Trade Marketing teams;
 - Retail Customers;
 - Vending Contractors; and
 - Vending Site Owners

Two further versions of the GST Survival kits will be issued prior to 1st July 2000;

- GST Videos (available from end May for the field force and retailers to view);
- Trade press editorials;
- Retail Customer Briefings;
- Retail Customer Workshops;
- Trade Hotline for GST queries; and
- Ongoing dialogue between the National Business Team and trade customers to ensure common interpretation and understanding of the key components of the new tax system. This involves a formal review and adjustment of all contracts and trading terms to ensure GST compliance.



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SECTION 8

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

COMPLAINTS HANDLING



8.1 COMPLAINTS HANDLING

The Consumer Response Centre ("CRC"), established in December 1994, is responsible for handling all consumer complaints and queries including those related to the NTS. Methods available to consumers for making an enquiry or complaint include telephone via 10 incoming toll free lines, fax and written correspondence.

The CRC consists of eight Consumer Specialists and one CRC Manager. Statistics are maintained on the number of complaints received and the time taken to satisfactorily resolve issues. These are reported to Quality, Production, Marketing and Corporate & Regulatory Affairs on a weekly basis. In addition Quality analyses complaint data on a daily basis.

There are written policies and procedures in place. Complaints are escalated to Corporate & Regulatory Affairs if they cannot be satisfactorily resolved by the CRC.

Training will be provided to all CRC staff, as part of our overall training program, to assist them in fulfilling their obligations under the Act, Guidelines and this Commitment.

8.2 CRC STRUCTURE

The structure of the CRC is detailed in Attachment B.

8.3 CRC COMPLAINTS HANDLING SYSTEM

The CRC has a detailed complaints handling system. A summary of this system is included as Attachment C.



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SECTION 9

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PRICE DISPLAY



9.1 PRICE DISPLAY

BATA will include the GST inclusive price of its products on all price lists, quotations, invoices and other correspondence containing pricing information.

9.2 INVOICES

Invoices issued under the NTS will include the following amounts, by invoiced item and in total:

- Gross price, exclusive of GST;
- Discount amount;
- Net price, exclusive of GST;
- GST amount; and
- Net price, inclusive of GST.



SECTION 10

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

PRICING POLICIES



10.1 PRICING

BATA is committed to passing on the savings from the NTS reforms as they are identified and realised as part of our regular price reviews, performed approximately every six months. As part of its compliance program BATA will review its costs approximately each six months to ensure any NTS related cost savings are identified and passed on.

10.2 PRICING PRINCIPLES

BATA will apply the following key principles when setting prices for the period following the NTS reforms:

- the net savings realised from the implementation of the NTS will be passed on to consumers;
- BATA will seek to maintain its net dollar margins at their level prior to the introduction of the NTS reforms when setting its prices in relation to the NTS reforms;
- no mark up will be applied to the GST;
- actual costs will be used in the setting of prices where available, in the period leading up to 1 July 2000 BATA will apply reasonable estimates to set prices. However, any increase in price will reflect only actual, not anticipated, tax increases;
- changes in input costs, supply and demand conditions and other business inputs will be reflected in prices in a manner consistent with the intent of the legislation and Guidelines;
- price point adjustments will be made on a weighted average basis to ensure there is no increase in overall margins; and
- the impact of the NTS changes will be passed on as part of our regular price reviews, approximately every six months, based on actual cost information.

10.3 PRICING POLICIES

The company policy in regards to determining price increases remains unchanged under the NTS.

10.4 NTS PRICE REVIEW

A price review has been performed in regards to the NTS, in accordance with our pricing policy.



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SECTION 11

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

COMPLIANCE PROGRAM

11.1 COMPLIANCE PROGRAM

BATA will implement a compliance program with the following essential elements:

- **Responsibility for Compliance**

The BATA Finance Director will:

- (i) be responsible for ensuring that BATA complies with all laws and regulations in regards to the NTS and this Commitment;
- (ii) be responsible for investigating any significant issues and concerns which may impact on the ability of BATA to comply with this Commitment; and
- (i) where necessary, raise significant issues that may arise in connection with this Commitment with the BATA Managing Director and/or the BATA Board.

- **Staff Training**

With staff numbering approximately 1500 nationally, it is essential that BATA implements comprehensive training and awareness programs to inform all relevant staff of the changes arising from the new tax system, together with their obligations under the Act and this Commitment. The various components of this training strategy are outlined below in Section 11.2.

- **Monitoring of Costs**

Costs will continue to be monitored and any net cost reductions arising from the NTS identified.

As previously mentioned, BATA has implemented a comprehensive supplier communication program. While BATA cannot ensure suppliers comply with the Act and guidelines, BATA has advised suppliers of their obligations.

- **NTS Enquiry Procedures**

The Trade Hotline for GST enquiries referred to in Section 7.2 will be wound up upon completion of the GST Implementation Project.

On an ongoing basis, the CRC and Customer Sales Centre will receive and answer NTS enquiries and report monthly to the BATA Liaison Officer. Any enquiries which are unable to be satisfactorily resolved at this level will be escalated to the BATA Liaison Officer for resolution.

Methods available to consumers for making an enquiry will include telephone, fax and written correspondence.

The BATA Liaison Officer will be responsible for ensuring that enquiries relating to the NTS are dealt with promptly and satisfactorily.

- **Audit Review**

The BATA Audit Services Department will undertake periodic reviews of the processes and procedures in place to ensure compliance with the Act and this Commitment.

The BATA Audit Services Department will provide a written report to the BATA Liaison Officer identifying amendments, if any, to the procedures or processes that it considers are required to ensure the requirements of the Act and this Commitment are fulfilled.

11.2 STAFF TRAINING

The training and awareness sessions for BATA employees in relation to the GST comprise the following:

- GST Survival Kits have been developed specifically for employees who interact with customers:
 - Trade Marketing (field force);
 - National Business Team (dealing with key customers);
 - Consumer Response Centre;
 - Customer Sales Centre (Telesales);
 - Brand and Trade Marketing teams;
 - Retail Customers;
 - Vending Contractors; and
 - Vending Site Owners

Two further versions of the GST Survival kits will be issued prior to 1st July 2000;

- GST Videos (available from end May for the field force and retailers to view);
- GST Newsletters;
- Departmental and functional briefings and workshops;
- Training to upskill personnel on new systems and procedures;
- GST posters providing general awareness and information;
- Intranet information repository and discussion forum for the GST;
- Employee Hotline for GST queries;
- Corporate logon messages acting as prompts and succinct messages;
- Help cards as aide-memoirs for new procedures;
- Personnel identified to be GST Champions in their states or function to channel information and provide feedback to the GST Project Team;
- Pulse checks conducted regularly to ensure the right information is reaching the right people; and
- Sustain plan developed to ensure that the optimum level of knowledge is maintained.



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SECTION 12

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

LIAISON WITH THE COMMISSION



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12.1 LIAISON WITH THE COMMISSION

BATA is committed to complying with its obligations under the law. As part of this commitment, BATA will liaise with the Commission to ensure complaints made and issues arising from the implementation of the NTS are dealt with expeditiously and with the full co-operation of the Company.

BATA will cooperate fully with the Commission representatives undertaking price monitoring and other activities in exercising its powers under the Act.

12.2 BATA LIAISON OFFICER

A Liaison Officer will be appointed by BATA whose responsibilities will include:

- being the first point of contact for the Commission regarding this Commitment or any other queries or requests the Commission may have; and
- providing information to the Commission on this Commitment.

12.3 ESCALATION OF ISSUES

The ACCC agrees to contact the BATA Liaison Officer prior to issuing any public statements concerning an issue.

If the communication between the BATA and ACCC Liaison Officers fails to resolve the issue, the BATA Finance Director will contact the Commission's Executive General Manager GST Operations to attempt to obtain a satisfactory resolution.



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SECTION 13

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

REPORTING AND PROVISION OF INFORMATION



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13.1 REPORTING AND PROVISION OF INFORMATION

To assist the Commission with its responsibilities under the Act, the BATA Liaison Officer will provide the following reports to the ACCC Liaison Officer on a six-monthly basis:

- half-yearly and full-year profit announcements (upon release to the market) and the Annual Report to Shareholders; and
- such other financial information as is agreed between BATA and the Commission.

All such non-public reports shall be treated by the Commission as BATA commercially sensitive and confidential.

In addition, BATA will inform the Commission before making significant price changes arising from the NTS which are outside the scope of our current pricing policy.



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SECTION 14

BRITISH AMERICAN TOBACCO AUSTRALASIA LIMITED

SIGN-OFF

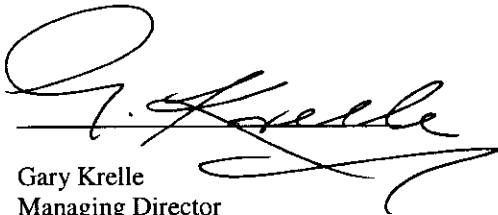


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14.1 PUBLIC REGISTER

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

Signed for British American Tobacco Australasia Limited
ACN 002 717 160



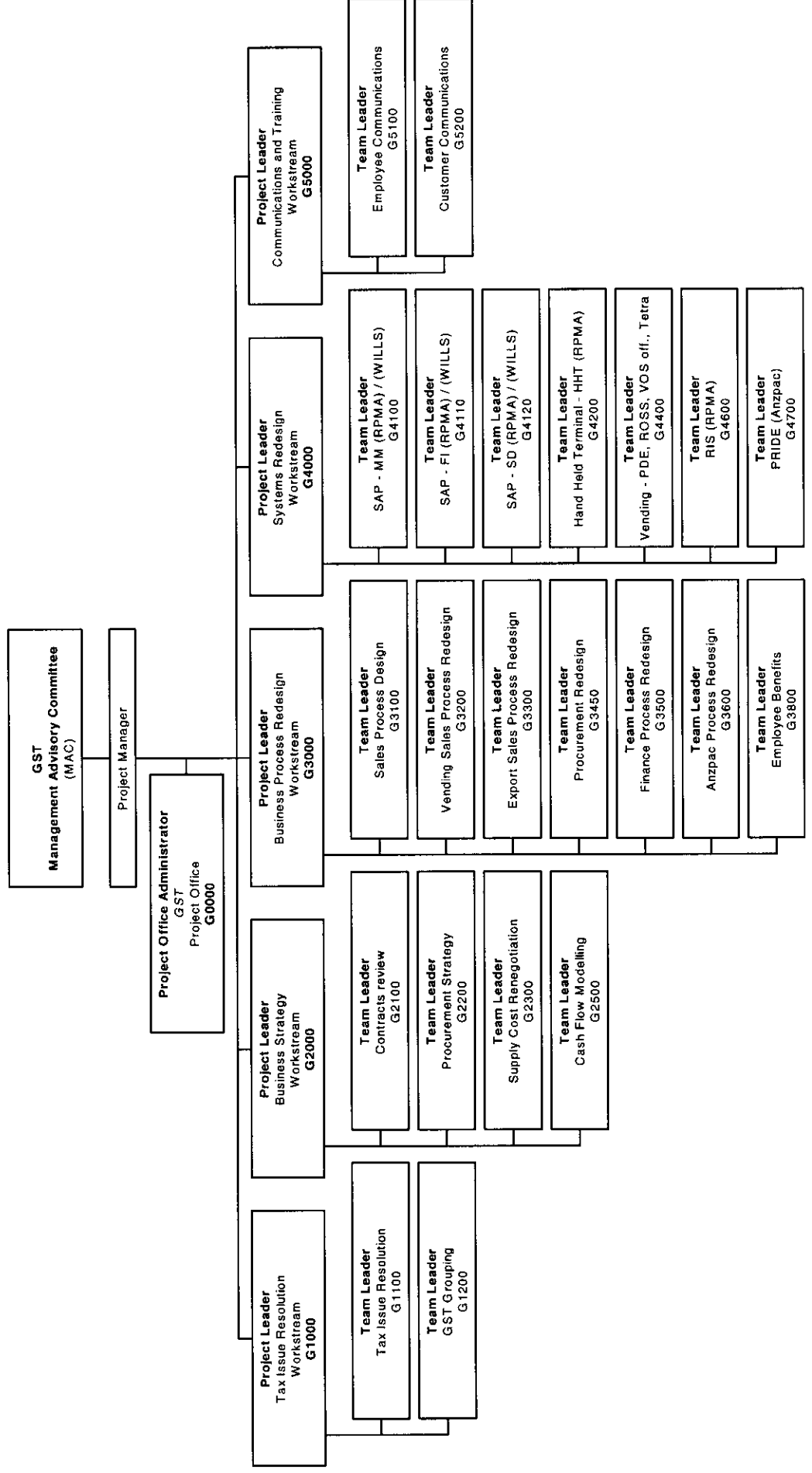
Gary Krelle
Managing Director
19 July 2000



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Attachment A

GST IMPLEMENTATION PROJECT WORKSTREAMS AND PROJECTS

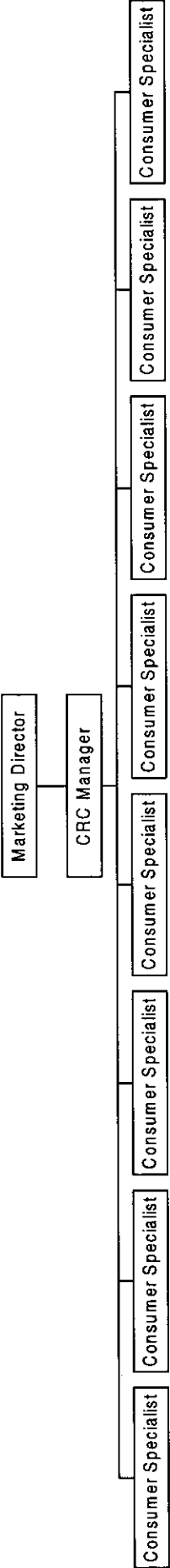




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Attachment B

CONSUMER RESPONSE CENTRE – STRUCTURE





Attachment C

