

Cable & Wireless Optus Limited

Public Compliance Commitment

Commitment to Comply

Since its inception in 1992, Cable & Wireless Optus Limited (CWO) ("The Company") has driven the Australian telecommunications market towards a more competitive environment. For Australians, this has resulted in lower prices, and improvements in service range and quality. CWO is committed to ongoing processes of efficiency and innovations to reduce costs and ensure savings are passed on to our customers. This document is an extension of that commitment.

CWO is currently engaged in an extensive GST compliance program to ensure that changes resulting from the New Tax System are managed in a proactive and controlled manner. CWO will ensure compliance with the Trade Practices Act 1974 and the Price Exploitation Guidelines. This activity has been assigned a high priority within the business and considerable resources have been dedicated to this program.

This Public Compliance Commitment records our commitment to:

- comply with the Trade Practices Act, in particular part VB of the Act;
- not engage in price exploitation in relation to the New Tax System;
- comply with the Price Exploitation Guidelines as expanded in the Commitment;
- pass on to consumers any net cost benefits realised as a result of the New Tax System changes;
- advertise and display prices in a manner which is not misleading or deceptive; and
- ensure there is an effective compliance program in place.

Cost Changes

CWO expects to receive some cost reductions from the reduction and abolition of wholesale sales tax and other indirect taxes.

We have implemented a methodology to estimate cost reductions resulting from the New Tax System changes. We will base our initial pricing on those anticipated cost reductions on capital and operational expenditure. We will continue to monitor our supplier costs and adjust prices to reflect the actual cost reduction achieved.

CWO expects its networks to expand and undergo technical development and expects to receive some cost reductions from the abolition of wholesale sales tax and other indirect taxes for incremental goods to be used in this network for growth and development.

Capital Cost

CWO has conducted an initial assessment of the impact of the New Tax System on capital costs. The process employed has been to establish an estimate as to the wholesale sales tax included within historical purchase commitments and to utilise this data as a basis of forecasting the impact to the business and for future negotiation and comparison purposes.

The assessment conducted takes into account a methodology to determine the amount of wholesale sales tax that may have been included within purchase order commitments for the supply of goods over the 1998/99 period from preferred and major suppliers, and subsequently the effective rate of tax applicable. From this data modeling was undertaken to estimate the overall wholesale sales tax reductions that may result, taking into account taxable and non-taxable purchase content. These capital cost reduction estimates have been used in the Company's pricing model to derive product line prices effective 1 July 2000.

Operating Expense

Anticipated operating cost changes were identified using the "Econtech" model and year to date actual operating expense data. The modeling was conducted independently by specialist tax consultants. This model has been used to assist the Company in estimating cost reductions resulting from the New Tax System changes. The estimates have been used in the Company's pricing mechanism to derive product line prices effective 1 July 2000.

Cost Monitoring

CWO is committed to monitoring identifiable cost changes which result from the New Tax System and ensuring that any net cost reduction is passed on to consumers in the form of lower prices or smaller price rises. Where there has been a net realised cost increase we will ensure price rises, or reductions in price falls, based on the cost change are not greater than the net realised cost increase.

The CWO Procurement Group is responsible for the procurement of most goods and services to the Company. This group will be responsible for establishing and implementing a process to track identifiable capital cost movement arising from the New Tax System, quantify those cost changes and report into the Company's pricing mechanism.

The capital cost monitoring process is focused on the Company's major and preferred suppliers. Their existing price lists have been analysed to identify the wholesale sales tax and indirect tax components, if any. The resultant gross prices will form the baseline from which we will measure cost reductions. All subsequent price lists negotiated with major and preferred suppliers will be compared with the baseline and variations recorded. If net cost reductions exceed that calculated, and the reductions are a consequence of the New Tax System, details will be forwarded to the Company's pricing mechanism or relevant business division for prices to be adjusted.

Operating expense details contained in the "Econtech" model will form the baseline from which cost movements will be measured. If net cost reductions exceed that calculated, and the reductions are a consequence of the New Tax System, details will be forwarded to the Company's pricing mechanism or relevant business division for prices to be adjusted.

Supplier Program

CWO has implemented a program to encourage suppliers to pass on cost savings they achieve as a result of the New Tax System changes. The program covers:

- notification to all suppliers under purchase commitments of:
 - CWO's expectations of them with respect to the New Tax System
 - the requirement for implementing and passing on cost changes through price reductions prior to the addition of GST
 - CWO's procurement policy
- identify major and preferred suppliers and monitoring pre-GST price trends for purchase commitments transacted with those suppliers under the provisions of the Sales Tax Assessment Act 1992
- identifying the wholesale sales tax component from preferred suppliers' price lists or current purchase transaction records
- reviewing all existing procurement related legal agreements for compliance with the requirements of the New Tax System, and to negotiate formal agreement variations where applicable
- ensuring all new Procurement related agreements are GST compliant

Implementation and Compliance Costs

We will include only those implementation and compliance costs reasonably incurred and directly attributable to the introduction of the New Tax System and offset them against any costs associated with the removal of the previous tax system.

We have included only incremental costs such as contractors employed specifically for GST compliance activities or IT development costs incurred specifically to make CWO IT systems compliant. CWO employees have been costed only if they are assigned full-time to the GST Program and their previous position has been filled.

Incremental operational costs have been limited to customer communications solely related to GST, modification of business processes directly attributable to the GST, and equipment performance upgrades necessary to facilitate the extra processing load due to the increased transactions caused by the GST.

An external accounting firm has conducted a review of the Company's incremental compliance costs.

Impact of New Tax System Changes

CWO is Australia's second largest telecommunications provider delivering integrated communications, information and entertainment services, including:

- Mobile communications services
- National and international long distance services
- Local telephony services
- Business Network Services
- Internet & Multimedia services; and
- Cable television

CWO expects to continue to deliver services to customers using mainly existing infrastructure which comprises a fixed national backbone network, suburban and local access networks, a digital mobile network and satellite network.

Generally, cost reductions from implementation of the New Tax System will be confined to areas where new purchases of goods are made after 1 July 2000 to deliver these telecommunications services. This is because these networks are mainly established, having been designed and constructed over the past eight years. We do not expect cost reductions attributable to New Tax System to be as high as those calculated by the Department of Treasury using its Price Revenue Incidence Simulation Model ("PRISMOD").

Examples of CWO established networks are:

- More than 8,600 kilometres of inter-city fibre are in place from Brisbane to Perth via Sydney, Canberra, Melbourne and Adelaide. In addition, switching centres are located throughout Australia;
- The international network consists of ownership and capacity interests in established international submarine cables and satellites;
- More than 7,700 kilometres of metro fibre and 1,600 kilometres of CBD fibre;
- Broadband local access networks exist in suburban areas of Sydney, Melbourne and Brisbane; and
- CWO's mobile digital network consists of more than 2,200 base stations, providing coverage to approximately 93% of the Australian population.

However, these networks have also been designed to accommodate growth and technical developments and CWO expects to receive cost reductions from the reduction and abolition of wholesale sales tax and other indirect taxes for goods purchased after 1 July 2000.

In addition, cost reductions are expected to be achieved where goods are purchased to directly deliver services, for example, mobile phone handsets.

Customer & Consumer Information

CWO will continue its commitment to ensuring we will not mislead or deceive our customers in the claims we make about the goods and services we sell.

We have put in place an extensive company wide GST training program to cover our employees and our major retail outlets. The program clearly outlines our obligations with respect to the GST and ACCC.

Along with the training we have conducted a company wide check of marketing materials to ensure appropriate GST related clauses have been used. All new collateral will accurately reflect the GST.

Complaints Handling

CWO has an established complaint handling system to enable customers to raise issues directly with the Company.

GST related issues will be handled using existing complaints mechanisms. Our call centres log and monitor customers issues to resolution. With the extensive training planned for our Customer Service Representatives we anticipate the majority of GST queries to be handled immediately.

Price Display

CWO is committed to display prices in a manner that is not misleading or deceptive.

All publicly displayed pricing, advertising, and point of sale collateral for retail products is to be GST inclusive which have been phased in over the months leading up to 1 July 2000. Our invoices will be clearly identified as "Tax Invoices" and will display our ABN. The Tax Invoice will display the total amount for the service, the amount of total GST for the Invoice and the total owed.

Pricing Policies

As previously described Capital and Operating Expenses were modeled for GST effects. These costs were used as inputs into the CWO pricing mechanism from which we derive the basic charges for our services.

Capital expenditure cost reductions was amortised over a number of years in accordance with normal accounting practice. Operating expenditure cost reductions were expensed. These cost reductions were input into our pricing mechanism, and cost reductions for each product line were derived in accordance with the Company's pricing policies. The business divisions in determining their post 1 July 2000 prices then considered cost reductions attributed to product lines.

Compliance Program

CWO has a comprehensive compliance Program in place to ensure that changes resulting from the New Tax System are managed in a proactive and controlled manner.

CWO has appointed a senior executive, General Manager Tax, to ensure compliance with this Commitment.

Consistent with CWO's responsible approach to competitive pricing and business practices, we are engaged in identifying direct and indirect cost reductions which should result from the New Tax System, and these anticipated cost reductions will be factored into CWO prices to the maximum extent possible. Ongoing monitoring arrangements will ensure that prices are further refined to reflect actual net cost benefits achieved, if these prove to be necessary.

Our Internal Audit Division will continually review and verify the appropriateness of the methodology undertaken by the company to ensure effective compliance with the Guidelines and this Commitment. The division complies with the Institute of Internal Auditor's *Standards for the Professional Practice of Internal Auditing*.

Additionally, CWO is engaged in amending business and information systems that are affected by the New Tax System to ensure minimum disruption to our customers and to accurately reflect any GST payable.

All CWO representatives engaged in sales and customer liaison activities are receiving GST training to further enhance the company's responsiveness to GST related enquiries. An extensive communications strategy has been developed to ensure customer and suppliers remain informed of changes resulting from the New Tax System.

Liaison with the ACCC

CWO is committed to complying with our obligations under the law. As part of this commitment we will liaise with the ACCC to ensure that issues arising are dealt with expeditiously and with the full co-operation of our organisation. We have assigned our General Manager Tax as the liaison officer responsible for providing information to, and being the first point of contact for, the Commission regarding this Commitment.



CWO will co-operate fully with Commission representatives undertaking price monitoring and other activities in exercising its powers under the Act.

Reporting and Information Provision

CWO will inform the Commission before making any significant price changes related to or likely to be perceived to be related to the New Tax System changes. We will provide relevant information supporting the basis for those price changes.

CWO will report to the Commission every six months on the actual cost savings achieved. We will provide information to the Commission in support of any additional claim for net incremental implementation and compliance costs.

CWO will ensure that reports provided are verified and will be sufficiently detailed to satisfy the Commission that our prices reflect actual cost reductions achieved.



DEPUTY CEO

Chris Anderson
Chief Executive
Cable & Wireless Optus Limited