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29 June 2000

Ms C Noone
GST Operations
Australian Competition & Consumer Commission
GPO Box 520J
MELBOURNE VIC 3001

Dear Claire

Please find enclosed a final signed PCC from Goodman Fielder as discussed.

Kind regards

John Richardson

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|-----------------|
| FILE No. |
| ENTITY |
| D MAN DOO 18345 |

**Public Compliance Commitment
Goodman Fielder Limited
June 2000**

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PART A: PUBLIC REGISTER

1 COMMITMENT TO COMPLY

- 1.1.1 Goodman Fielder Ltd (GMF) and its subsidiaries wish to place on the public register its commitment:
- ◆ To comply with the Trade Practices Act 1974 (TPA), in particular Part VB of the Act;
 - ◆ Not to engage in price exploitation in relation to the New Tax System;
 - ◆ To pass on to its Customers any net cost benefits realised as a result of the New Tax System changes;
 - ◆ Display its list prices and invoices in a way that is not misleading or deceptive, in particular with respect to the Goods and Services Tax (GST);
 - ◆ To ensure that there is an effective GST Compliance Programme in place.

2 PROGRAMME MANAGEMENT

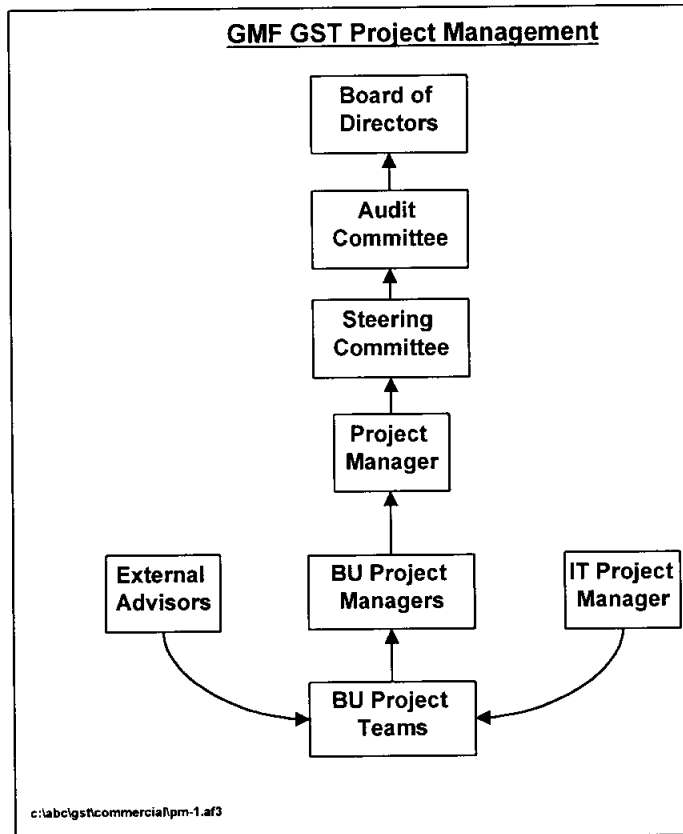
2.1 Corporate Organisation

- 2.1.1 GMF has instituted a comprehensive GST Compliance Programme aimed at addressing its Suppliers, Customers and Staff.
- 2.1.2 The Programme is organised at a Corporate and Business Unit (BU) level with a senior Corporate executive appointed to act as the Corporate GST Project Manager to manage the total Programme.
- 2.1.3 A Steering Committee comprising functional experts from within GMF oversees the project and reports on a regular basis to the Audit Committee, (a sub-committee reporting to the Board of Directors).
- 2.1.4 External advice has been sought from GMF's tax and legal advisors, initially on a comprehensive basis and subsequently on a needs basis, as internal expertise has developed.
- 2.1.5 The Steering Committee currently meets fortnightly.

2.2 Business Unit Organisation

- 2.2.1 Each Business Unit (BU) is accountable for the implementation of the GST under the guidance of the Corporate umbrella.
- 2.2.2 Within each BU, the Managing Director holds the primary accountability and is supported by a BU Steering Committee and a GST Project Manager.
- 2.2.3 In most cases the BU Steering Committee is chaired by the BU Finance Director.
- 2.2.4 The Corporate GST Project Manager attends all BU Steering Committee meetings which are held fortnightly.

2.2.5 Figure 1: Summary of the GST Project Management structure



3 SUPPLIER PROGRAMME

3.1 Objectives

3.1.1 GMF has implemented a Supplier Programme with the objective of encouraging Suppliers to pass on tax-related cost savings that they realise as a result of the introduction of the GST.

3.1.2 The Programme is designed to operate until 30 June 2002 or until advised by the ACCC that it is no longer required.

3.2 Methodology

3.2.1 There are 3 phases to the Supplier Programme:

- ◆ Phase 1: Initial contact;
- ◆ Phase 2: Detailed questionnaire;
- ◆ Phase 3: Regular follow up.

3.2.2 The timings are as follows:

- ◆ Phase 1: February to March 2000;
- ◆ Phase 2: April to May 2000;
- ◆ Phase 3: June 2000 to June 2002.

3.3 Phase 1

- 3.3.1 A letter (Appendix 1) was sent to the majority of Suppliers in February 2000 to advise them of their obligations to pass on tax-related savings to GMF and to request any details of savings known to them at the time.
- 3.3.2 Not unexpectedly there was very little response to the initial letter as most Suppliers were not in a position at that time to advise of any GST tax-related savings.
- 3.3.3 This limited response in relation to tax-related savings was, however, used in Phase 1 of the Cost Change Programme, outlined in Section 5.

3.4 Phase 2

- 3.4.1 Deloitte Touche Tohmatsu (DTT) was engaged to apply the Monash econometric model to the GMF business by BU in order to provide a benchmark against which to measure the GST tax-related savings advised to GMF by its Suppliers:
- ◆ The cost structure of each BU based on twelve months actual data was provided to DTT which then applied this detail to the Monash model;
 - ◆ This yielded an expected percentage cost saving from each major industry sector from which GMF BU's source their supplies;
 - ◆ A comparison of the expected GST tax-related savings derived from the Monash model versus the Prismod model is provided in Appendix 2.
- 3.4.2 The BUs were provided with specific instructions, a detailed questionnaire and a standard letter (Appendix 3) to be sent to all Suppliers.
- 3.4.3 As of mid April this questionnaire had been sent to all Suppliers with the exception of Wheat Growers who will be sent the questionnaire in late May along with other documentation relevant to the operation of the GST.
- 3.4.4 The objective of this questionnaire was to more formally build on the first contact made with the Suppliers.
- 3.4.5 Along with other details relevant to the introduction and operation of the GST, Suppliers were asked to:
- ◆ Confirm that they are aware of their obligations under s75AU of the Trade Practices Act;
 - ◆ Confirm that they had read the ACCC guidelines concerning price exploitation. They were directed to the ACCC website if they did not have a copy of the guidelines;
 - ◆ Confirm that they will comply with s75AU and pass on to their Customers all realised tax-related savings as per the guidelines;
 - ◆ Confirm that they understand how the tax-related savings are derived, in particular the time lags that will be experienced. A summary explanation of the origin of the tax-related savings was provided as an Appendix to the questionnaire with an offer to provide more details, if required;
 - ◆ Confirm acceptance and sign a copy of GMF's standard terms of purchase which have been amended to include *inter-alia* a GST clause that requires the Supplier to comply with s75AU of the TPA;
 - ◆ Provide details of all known tax-related savings that will be passed on to GMF as of 1 July 2000;
 - ◆ Confirm that they understand that, where they are not currently in a position to advise details of GST tax-related savings, they can expect follow up from GMF until such time as they:

- Provide details of GST tax-related savings; or
- Confirm in writing that they have no GST tax-related savings to pass on either now or in the future; or
- The end of the monitoring period is reached, i.e. June 2002; or
- The ACCC advises that no further monitoring is required.

3.4.6 All responses received to-date have been stored in a centralised database.

3.4.7 GMF has taken a position that it will take into account GST tax-related savings it considers to be reasonably certain even if not notified by Suppliers. As of 19 May 2000, this has included:

| | |
|-------------------|--|
| Long-haul freight | Notified by some but not all contractors |
| Stationery | Not notified |
| Fuel excise | Public Statement by Government |
| Electricity | Notified |
| Domestic Airfares | Public Statement by Supplier |

3.5 Phase 3

3.5.1 Phase 3 will commence July 2000 and will run continuously until 30 June 2002 or until no longer required by the ACCC.

3.5.2 The objective of Phase 3 is to follow up on Suppliers who:

- ◆ Have not responded at all; or
- ◆ Have responded with current details and now need a follow up to request advice of any further GST tax-related savings derived from:
 - Other Suppliers further up the supply chain and/or;
 - Reduced depreciation arising out of their own capital expenditure.
- ◆ Monitor actual savings
 - It is expected that GST tax-related savings may be passed on by Suppliers without any prior notification. GMF will closely monitor Supplier prices post July 2000 and recognise any such savings.

4 COMPLIANCE COSTS

4.1 External advice

4.1.1 GMF has sought both tax and legal advice to support its Programme to introduce the GST.

4.1.2 The principal areas of advice sought have been:

- ◆ The GST classification of products. GMF has an extensive range of products that required classification. Given that GST is a Supplier liability this has been a lengthy but critical component of the Programme;
- ◆ The preparation and lodgement of private ruling requests as required in relation to the above;
- ◆ General commercial advice as to the operation of the GST;
- ◆ The review of all major contracts;
- ◆ IT systems advice.

- 4.1.3 External compliance costs are not expected to be material after 30 June 2000.
- 4.1.4 External compliance costs are given in Part B: Commercial-in-Confidence Section 13.1
- 4.2 IT Systems Costs**
- 4.2.1 While GMF is actively installing SAP as its corporate wide IT business solution, it nevertheless has, in addition to SAP, a number of active IT legacy systems that have also to be rendered GST compliant.
- 4.2.2 Capital costs have been incurred to modify and test SAP and the legacy systems. Such capital costs will be amortised over 3 years in accordance with the ACCC guidelines.
- 4.2.3 IT systems costs are tabled in Part B: Commercial-in-Confidence Section 13.2
- 4.3 Internal Costs**
- 4.3.1 Substantial internal costs have been incurred in managing the GST Compliance Programme. Each BU has its own GST Steering Committee and is responsible for its own implementation.
- 4.3.2 While no extra Staff have been employed, other projects have been delayed in light of the need to implement the GST.
- 4.3.3 These costs have not been included in the cost of compliance that has been deducted off the gross GST tax-related savings and are not expected to be material after 30 June 2000.
- 4.3.4 Internal compliance costs are given in Part B: Commercial-in-Confidence Section 13.3
- 4.4 On-going compliance costs: GST vs WST**
- 4.4.1 GMF is a Wholesale Sales Tax (WST) exempt manufacturer. It pays WST only on non-manufacturing related expenditure.
- 4.4.2 In addition, approximately 75-80% of its products are WST exempt.
- 4.4.3 As a consequence GMF's WST compliance costs are relatively low and comprise:
- ◆ A low level of tax advice, in the order of a maximum of \$40,000 p.a.;
 - ◆ The preparation of only two (2) monthly WST returns, estimated to take a maximum of 2-3 man-days per month.
- 4.4.4 By comparison on-going GST compliance costs will be higher:
- ◆ The Accounts Payable function is more complex and may require additional Staff;
 - ◆ The Accounts Receivable function is also more complex due to the requirement for adjustment notes;
 - ◆ In both areas, on-going training will be more complex;
 - ◆ Each BU is required to prepare a GST return each month.
- 4.4.5 Although on-going costs will exceed current costs of compliance GMF has not, at this stage, factored this increase into the net savings calculations.
- 4.4.6 GMF will assess the impact of such on-going compliance costs once the GST has been implemented.

5 COST CHANGE PROGRAMME

5.1 Source of Cost Changes

- 5.1.1 GMF expects to receive some cost reductions from the abolition of the Wholesale Sales Tax (WST) and other indirect taxes.
- 5.1.2 As a WST-exempt manufacturer, GMF expects to derive the majority of its GST tax-related savings indirectly from Suppliers further up the supply chain.
- 5.1.3 It also expects to derive additional indirect tax-related savings from its freight contractors who will benefit from the reduction in fuel excise and the introduction of the Diesel Fuel Grants Scheme.
- 5.1.4 In summary GMF expects to realise these savings from:
- ◆ The limited purchases it makes that currently attract WST; and
 - ◆ A reduction in the selling prices of other goods and services from Suppliers who have realised similarly derived WST and fuel-cost savings; and
 - ◆ The limited direct fuel purchases it makes that will qualify for the new Diesel Fuel Grants Scheme.
- 5.1.5 It will recognise these GST tax-related savings when they are known with a reasonable degree of certainty, which may arise from:
- ◆ A direct written notification of a price reduction from a Supplier, or
 - ◆ A public announcement by a Supplier of a pending price reduction.
 - ◆ Monitoring of actual Supplier prices from July 2000.

5.2 Methodology

- 5.2.1 GMF has implemented a Cost Change Programme to manage the transformation of GST tax-related cost savings derived from the Supplier Programme to a reduction in its selling prices.
- 5.2.2 The Cost Change Programme is closely linked to the Supplier Programme and also comprises 3 phases:
- ◆ Phase 1: Initial cost change assessment;
 - ◆ Phase 2: Final assessment prior to 1 July 2000;
 - ◆ Phase 3: Quarterly assessments until 30 June 2002 or no longer required by the ACCC.
- 5.2.3 The timings are as follows:
- ◆ Phase 1: End of March 2000;
 - ◆ Phase 2: End of May 2000;
 - ◆ Phase 3: End of September 2000 and quarterly thereafter.

5.3 Phase 1

- 5.3.1 Each BU has prepared a price-cost model relating inputs to outputs at the Earnings Before Interest and Tax (EBIT) level.
- 5.3.2 The large number of products in each BU does not make it practical to model at the individual product level. Instead the models were constructed at a product group level consistent with normal business practice.
- 5.3.3 The volume applied to each product within a group is that of the prior 12 months and is being held constant for the purposes of modelling the effect of the GST tax-related savings.

- 5.3.4 The unit dollar margin of each product group was noted prior to the application of any GST tax-related cost savings.
- 5.3.5 A cut-off date of 24 March 2000 was used to take note of and apply all Supplier GST tax-related savings that were known with a reasonable certainty to be applicable to GMF's purchases as of 1 July 2000.
- 5.3.6 The impact of the GST on wages has been assumed to be nil.
- 5.3.7 The impact of all such savings on the unit dollar margin was noted for each product group.
- 5.3.8 The total GST tax-related savings were summed for each BU and for GMF as a whole.
- 5.3.9 Compliance costs were deducted from the gross savings at a GMF level.
- 5.3.10 The GST tax-related savings relating to Phase 1 are tabled in Part B: Commercial-in-Confidence Section 14.1.3

5.4 Phase 2: Measurement of GST tax-related savings

- 5.4.1 The objective of Phase 2 is to refine the outcome of Phase 1 prior to GMF finalising its selling prices for 1 July 2000.
- 5.4.2 Specific instructions were issued to each BU for the running of Phase 2. A copy of these instructions is attached as Appendix 4.
- 5.4.3 The cut-off date for Supplier information arising out of Phase 2 of the Supplier Programme was 19 May 2000.

5.4.4 Table 1: Summary of Supplier responses as at 19 May 2000.

| Business Unit | No. contacted | Total Responses | Tax Savings advised | Definite no savings |
|------------------|---------------|-----------------|---------------------|---------------------|
| Shared Services | 205 | 41 | 14 | 5 |
| Milling & Baking | 1100 | 35 | 6 | 22 |
| Ingredients | 400 | 194 | 4 | 40 |
| Starch | 350 | 10 | - | - |
| Meadow Lea | 106 | 19 | - | 18 |
| Uncle Tobys | 135 | 63 | - | 9 |
| Food Services | 15 | 2 | - | 1 |
| GF Fresh | 37 | - | - | - |
| Total | 2348 | 364 | 24 | 95 |

- 5.4.5 The GST tax-related cost savings advised by Suppliers and other sources that GMF accepted as reasonably certain, as outlined in Section 3.4.7, were applied to the price-cost models developed in Phase 1.
- 5.4.6 As per Phase 1, the effect of the GST on wages was assumed to be nil.
- 5.4.7 The GST tax-related savings relating to Phase 2 are tabled in Part B: Commercial-in-Confidence Section 15.2.3.

- 5.4.8 On the basis of these GST tax-related savings it was concluded that the magnitude of the savings cannot as of 19 May 2000, support an **even** allocation of the net savings across all products in each product groups.
- 5.4.9 In order to comply with s75AU of the TPA, GMF proposes that the GST tax-related savings in question be passed on to its Customers in a product-specific manner by nominating a limited number of products to which a 'whole number' price reduction of can be applied so as to pass on the total savings.
- 5.4.10 The proposed allocation of the GST tax-related savings is tabled in Part B: Commercial-in-Confidence Section 15.3.2.
- 5.5 Phase 3**
- 5.5.1 Phase 3 will be a repeat of the procedure followed in Phase 2. In addition to information received from Suppliers, each BU will monitor its costs to identify cost changes as they arise.
- 5.5.2 It will be performed on a quarterly basis with the next review scheduled for September 2000.

6 CUSTOMER PROGRAMME

6.1 Objectives

- 6.1.1 The objective of the Customer Programme is to advise all Customers that GMF:
- ◆ Is committed to comply with the TPA;
 - ◆ Will not engage in price exploitation in relation to the New Tax System;
 - ◆ Is using reasonable endeavours to encourage its Suppliers to pass on GST tax-related savings that they realise;
 - ◆ Will continue with its Supplier Programme until 30 June 2002 or until the ACCC no longer requires follow up;
 - ◆ Will re-assess GST tax-related savings on a quarterly basis as part of the Supplier Programme.

6.2 Methodology

- 6.2.1 There are 3 phases to the Customer Programme:
- ◆ Phase 1: Initial contact;
 - ◆ Phase 2: Formal advice for 1 July 2000;
 - ◆ Phase 3: Regular follow up.
- 6.2.2 The timings are as follows:
- ◆ Phase 1: End March 2000;
 - ◆ Phase 2: Early June 2000;
 - ◆ Phase 3: September 2000 to June 2002.

6.3 Phase 1

- 6.3.1 An initial letter (Appendix 5) advising all GMF Customers (not consumers) of the GST and its compliance requirements was sent to all Customers in early February 2000.
- 6.3.2 Following the completion of Phase 1, a letter (Appendix 6) was sent to all major Customers in both the retail and commercial sectors advising them that as of 31 March 2000:
- ◆ WST on products would be abolished on 1 July 2000;
 - ◆ Advice from GMF Suppliers as to GST tax-related savings net of compliance costs was insufficient to generate an **evenly** allocated price reduction across all products within a BU-product group and;
 - ◆ As a consequence of the above, there would be no change to pre-WST list prices on 1 July 2000 as a result of the introduction of the GST and;
 - ◆ GMF intended to re-visit this decision at the end of May 2000 and would advise them accordingly.

6.4 Phase 2

- 6.4.1 Phase 2 has two objectives:
- ◆ To formally notify all GMF Customers of the GST classification of all products sold by GMF;
 - ◆ To formally notify all Customers of any changes to GMF's selling prices arising from the introduction of the GST:
 - The removal of WST, where applicable;
 - The imposition of GST, where applicable;
 - The pass-on of GST tax-related savings, where applicable.
- 6.4.2 The timing of Phase 2 is dependent upon the ACCC's approval of the allocation of the GST tax-related savings as proposed.
- 6.4.3 Given the extent of GMF's product range, the wide Customer base and the fact that most of GMF products are GST Free (approximately 75%) it is proposed that Customers are notified as to which products will:
- ◆ No longer attract WST; and/or
 - ◆ Attract GST.
- 6.4.4 Any other GMF products are by default GST Free.
- 6.4.5 Once the plan is approved, all Customers will be notified in writing (Appendix 7) of:
- ◆ The list price, to be effective 1 July 2000, for all products that:
 - No longer attract WST and/or;
 - Will attract GST and;
 - Have been allocated GST tax-related savings.

6.4.6 Customers will also be advised again of the on-going nature of the Programme.

6.5 Phase 3

6.5.1 The objective of Phase 3 is to communicate any further GST tax-related list price reductions to all Customers as soon as realised by GMF.

6.5.2 It is an on-going process that follows Phase 3 of the Supplier and Cost Change Programmes.

7 PRICE DISPLAY & INVOICING

7.1 Price Display

7.1.1 All GMF list prices will be quoted exclusive of GST. The lists will clearly indicate that GST has not been included.

7.1.2 All products subject to GST will be clearly identified.

7.2 Invoicing

7.2.1 GMF tax invoices and adjustment notes will comply with the Subdivision 29-C of the A New Tax System (Goods and Services Tax) Act 1999 and will include the GST amount, where applicable, at the line item level as well as the total amount of GST payable.

7.2.2 Given the number of IT systems within GMF there are numerous tax invoice and adjustment note formats. All such formats will be submitted to the Australian Tax Office (ATO) for approval in early June.

8 STAFF TRAINING

8.1 Objectives

8.1.1 The objective of Staff training is to:

- ◆ Educate all Staff in relation to the GST to a level that is commensurate with their need to manage their roles confidently and accurately;
- ◆ Ensure that GMF complies with and continues to comply with the TPA;
- ◆ Ensure that Customer and Supplier communications are satisfactorily undertaken.

8.2 Methodology

8.2.1 The training methodology separates general from specialised training.

8.3 Specialised Training

8.3.1 The training methodology has been and continues to be to:

- ◆ Identify the commercial aspects of the New Tax System that affect the operations of the business;
- ◆ Ensure that each BU has appointed a training coordinator;
- ◆ Centrally develop the appropriate training material which can either be used as is by the BUs or modified as required;
- ◆ Identify all personnel whose roles require specialised training;

- ◆ Deliver training as required either directly or via a 'train the trainer' approach;

8.3.2 The training material is available on-line to all Staff and will be maintained and enhanced as required.

8.4 General Training/Information

8.4.1 All GMF Staff will receive a general information kit outlining the key aspects of the New Tax System and how it will affect them and their roles at GMF.

8.4.2 This kit will be distributed in mid June.

8.5 Complaints Handling

8.5.1 GMF maintains a call centre with a '1800' complaints number for Consumers to contact.

8.5.2 The Staff that run this centre have been identified as requiring specialist knowledge and will be specifically trained in the areas of:

- ◆ The GST status of all GMF products;
- ◆ The origin and nature of GST tax-related savings;
- ◆ The current status of the Compliance Programme i.e. what savings have been passed via which products;
- ◆ The on-going nature of the Compliance Programme.

8.6 Sales & Purchasing Training

8.6.1 These Sales and Purchasing Staff have received specialised training (Appendix 8) to ensure that they clearly understand:

- ◆ The obligations of GMF and its Suppliers in respect of the TPA;
- ◆ The origins of the GST tax-related savings;
- ◆ The on-going nature of the Compliance Programme.

9 LIAISON WITH THE ACCC

9.1.1 Compliance

9.1.2 GMF is committed to complying with its obligations under the law.

9.1.3 As part of this commitment it will liaise with the ACCC to ensure that any complaints made and issues arising are dealt with expeditiously and with its full cooperation.

9.1.4 A Liaison Officer has been appointed for providing information to, and to act as the first point of contact for, the ACCC on this commitment.

9.1.5 GMF will cooperate fully with the ACCC representatives undertaking price monitoring and other activities in exercising its powers under the Act.

9.2 Reporting and information provision

- 9.2.1 Subsequent to this Commitment, GMF will inform the ACCC before making any significant price changes related to or likely to be related to the New Tax System changes including any claim for net incremental implementation and compliance costs.
- 9.2.2 GMF will provide relevant information supporting the basis for those price changes.
- 9.2.3 GMF will report to the ACCC every three (3) months in arrears on the actual cost savings achieved.
- 9.2.4 GMF will ensure that reports and information provided are independently verified and will be sufficiently detailed to satisfy the ACCC that its prices reflect actual cost savings achieved or incremental compliance costs incurred.

10 CONFIDENTIALITY & THE PUBLIC REGISTER

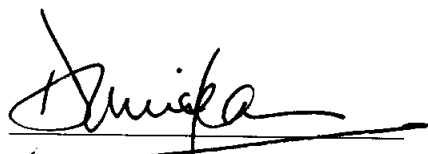
- 10.1.1 The ACCC has agreed that Part B of this document is confidential and commercially sensitive to GMF and that all of Part B will not be placed on the Public Register.
- 10.1.2 Subject to Clause 10.1.1, the ACCC may place Part A of this document on the Public Register.

11 LEGAL STATUS OF THIS COMMITMENT

- 11.1.1 With the exception of Part A Section 10 and Section 11, this Commitment is not legally binding. GMF does, however, intend to fully comply with all the terms of this Commitment.

Signed for Goodman Fielder Limited

ACN 000 003 958



DG Hearn

Chief Executive