

INDEPENDENT ASSURANCE PRACTITIONER'S COMPLIANCE AUDIT REPORT

To Qantas Airways Limited / Emirates

Report on Compliance with the Conditional Authorisation of the Australian Competition and Consumer Commission ('ACCC') dated 27 March 2013 (Authorisation A91332-A91333) for the period 1 November 2017 to 31 March 2018.

On 27 March 2013, the Australian Competition and Consumer Commission ('ACCC') issued a determination granting conditional authorisation for a Master Coordination Agreement to coordinate air passenger and cargo transport operations and other related services between Qantas Airways Limited ('Qantas') and Emirates (the 'Applicants') ('Conditional Authorisation').

The conditions of authorisation require the Applicants to meet certain minimum seat capacity requirements on the four Trans-Tasman routes where Qantas (including Jetstar Airways Pty Limited, ('Jetstar')) and Emirates operate services, namely Sydney-Auckland, Melbourne-Auckland, Brisbane-Auckland and Sydney-Christchurch ('Relevant Routes'), and for the compliance with those conditions to be subject to a compliance audit.

We have performed a reasonable assurance engagement to test compliance of the Applicants with the requirements of the minimum seat capacity conditions included in Appendix B of the Conditional Authorisation ('Conditions of Authorisation') as reported in the attached Statement of Compliance covering the Northern Winter Scheduling Season 1 November 2017 to 31 March 2018.

Respective Responsibilities

The directors of Qantas and the leadership team of Emirates are responsible for compliance with the Conditions of Authorisation as measured by the aggregated seat capacity on the Relevant Routes.

Our responsibility is to express a conclusion on the Applicants' compliance with the Conditions of Authorisation, in all material respects, as reported in the Statement of Compliance. Our reasonable assurance engagement has been conducted in accordance with applicable Standards on Assurance Engagements (*ASAE 3100 Compliance Engagements*) to provide reasonable assurance that the Applicants have complied with the Conditions of Authorisation. Our procedures included:

- a) Documentation of the systems and controls implemented by Qantas, Jetstar and Emirates to record and report the Scheduling Season Seat Capacity as included in the Statement of Compliance from scheduling through to final departure;
- b) Performance of a walk-through of each identified system of controls to verify that key controls are operating as designed and were effective throughout the period under review;
- c) Identification of key controls relevant to potential risks of misstatement within data used to prepare the Statement of Compliance and testing of these controls as appropriate;
- d) Performance of an IT systems review to document and test the controls relevant to protecting the efficacy of data used in the Statement of Compliance;
- e) Review of the definition used by Qantas and Emirates to determine the Scheduling Season Seat Capacity to confirm consistency with the definition included in the Conditions of Authorisation;
- f) Review of the calculation of the required seat capacity in light of any Capacity Growth Adjustments or other adjustments required by the ACCC;

- g) Discussions with Management to understand the network, scheduling, fleet type and fleet configuration deployed by the Applicants during the relevant Scheduling Season;
- h) Reconciliation of the Scheduling Season Seat Capacity to source systems and management reports produced by the Applicants;
- i) Analytical review of Scheduling Season Seat Capacity; and
- j) Corroboration of the Scheduling Season Seat Capacity with externally available information for flights flown and aircraft seat configurations.

These procedures have been undertaken to form a conclusion as to whether the Applicants have complied in all material respects, with the Conditions of Authorisation, as reported in the attached Statement of Compliance covering the Northern Winter Scheduling Season 1 November 2017 to 31 March 2018.

Use of Report

This compliance audit report has been prepared for the directors of Qantas and the leadership team of Emirates. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the directors of Qantas, the leadership team of Emirates and the ACCC, or for any purpose other than that for which it was prepared.

Inherent Limitations

Because of the inherent limitations of any reasonable assurance engagement, it is possible that fraud, error or non-compliance may occur and not be detected. A reasonable assurance engagement is not designed to detect all instances of non-compliance with the requirements of the Conditional Authorisation. A reasonable assurance engagement is not performed continuously throughout the scheduling season and the procedures performed in respect of compliance with requirements of the Conditional Authorisation are undertaken on a test basis. The conclusion expressed in this report has been formed on the above basis.

Independence

We confirm that, to the best of our knowledge and belief, BDO East Coast Partnership currently meets the independence requirements as set out in Clause 4.2 of the conditions set out in Appendix B of the Conditional Authorisation in relation to the reasonable assurance engagement.

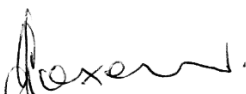
Quality control

The firm applies Auditing Standard ASQC1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Conclusion

In our opinion, the Applicants have complied, in all material respects, with the Conditions of Authorisation as measured in the attached Statement of Compliance covering the Northern Winter Scheduling Season 1 November 2017 to 31 March 2018.

BDO East Coast Partnership



Grant Saxon
Partner

Sydney, 8 May 2018

Information and Reasons for Audit Conclusion

In accordance with our engagement letter dated 31 March 2017, we provide the following information which provides an overview of the scope of our engagement, the reasons for the conclusions reached in our report, details of any qualifications made in forming our views, how the data to measure compliance was gathered, the method used by each Applicant to measure compliance with its seat capacity obligations, our analysis of the data and measure used in concluding that seat capacity requirements were met by the Applicants and any recommendations for improving the integrity of the auditing process or the Applicants processes or reporting systems in relation to compliance with the conditions set out in Appendix B of the Conditional Authorisation.

1. Outline of the scope of our engagement

Our reasonable assurance engagement was conducted in accordance with the Australian Standard on Assurance Engagements ASAE 3100 *Compliance Engagements* in order to provide us with sufficient evidence to obtain reasonable, but not absolute, assurance, as to whether the Applicants have complied in all material respects, with the minimum seat capacity requirements of Appendix B of the Conditional Authorisation granted by the Australian Competition and Consumer Commission ('ACCC') dated 27 March 2013 ('Conditional Authorisation') in respect of a Master Coordination Agreement between Qantas and Emirates dated 6 September 2012 to coordinate air passenger and cargo transport operations and other related services, for five years until 31 March 2018.

The authorisation is subject to conditions that the Applicants maintain at least their pre-alliance aggregated capacity on the four Trans-Tasman routes where they both operate services. The capacity requirement is subject to a review by the ACCC commencing on 1 September 2015 to determine whether to increase the Capacity Growth Rate, which, in accordance with Clause 6 of Appendix B is set at 0% for the 2013 and subsequent scheduling seasons.

The four relevant routes are (return):

- a) Sydney - Auckland;
- b) Melbourne - Auckland;
- c) Brisbane - Auckland; and
- d) Sydney - Christchurch.

Following the end of the Northern Winter Scheduling Season, the Applicants prepared and provided BDO East Coast Partnership ('BDO') with a Statement of Compliance covering the Northern Winter Scheduling Season 1 November 2017 to 31 March 2018 as attached in Appendix A, which details:

- a) the total number of seats flown by the Applicants on all Relevant Routes during the Northern Winter Scheduling Season;
- b) the applicable Scheduling Season Seat Capacity requirements in accordance with Appendix B of the Conditional Authorisation; and
- c) a statement by the Applicants as to whether, in their view, they have complied with the conditions of Appendix B of the Conditional Authorisation.

This report, in accordance with Clause 4.5(b) of Appendix B of the Conditional Authorisation, presents our reasonable assurance conclusion on compliance of the Applicants with the Conditions of Authorisation along with the information required to explain the basis on which we have formed our conclusion.

We note that in performing this reasonable assurance engagement the applicant ‘Qantas’ comprises Qantas Airways Limited and its subsidiary, Jetstar Airways Pty Limited (‘Jetstar’). Our work and supplementary report reflect the separate operations managed by each airline. Accordingly, our findings, detailed in the following pages, report on three airlines being Emirates, Qantas and Jetstar.

2. Reasons for the conclusions reached in our report

As outlined in the attached Appendix A Statement of Compliance, the Applicants report a total Scheduling Season Seat Capacity of 1,232,745 for the Northern Winter season which exceeds the NW Scheduling Season Base Capacity for the scheduling season, included in Appendix B to the Conditional Authorisation, by 16,140 seats (NW Scheduling Season Base Capacity: 1,216,605).

In line with clause 1 of Appendix B, the seat capacity is measured on an aggregated basis across all Relevant Routes with no minimum capacity requirement set in relation to a particular route.

Our reasonable assurance engagement in relation to the Statement of Compliance, more details of which are provided in the following pages, was completed satisfactorily without any material exceptions being identified.

Accordingly we have reached the conclusion that the Applicants have complied, in all material respects, with the Conditions of Authorisation.

3. Qualifications made in forming our views

We have issued an unqualified conclusion covering the Northern Winter Scheduling Season. Accordingly no qualifications have been made in forming our views.

4. How the data used to measure compliance was gathered

Measuring compliance with Conditions of Authorisation requires the aggregation of data for the three relevant airlines. Compliance is measured for management purposes on a monthly basis throughout the scheduling season through the preparation and maintenance of an ‘ACCC Tasman Tracking Summary’ spreadsheet. This spreadsheet is maintained on behalf of the Applicants by Qantas.

On or around the 10th business day of each month, Jetstar and Emirates provide to Qantas, via email, details of all operated seats for each Relevant Route for the previous month. This data is collated by Qantas in the ACCC Tasman Tracking Summary and following review by the Qantas Head of International Network, is circulated to Emirates and Jetstar.

The ACCC Tasman Tracking Summary forms the basis of the data included in the attached Appendix A Statement of Compliance. We have checked the integrity of the formulae used in the spreadsheet to compute each Relevant Route’s actual capacity to obtain assurance over the mathematical accuracy of the outputs from the spreadsheet. We have also verified the input actual capacity data for each airline back to the source reports extracted from the underlying systems, discussed in more detail below, used for analytical and substantive testing purposes to ensure consistency.

We have outlined below a summary of the method used by each airline to record and report the data used to measure compliance:

Qantas

REDACTED

Emirates

REDACTED

Jetstar

REDACTED

5. The method used by each Applicant to measure compliance with its seat capacity obligations

The objective of the conditions contained within the Conditional Authorisation is to require the Applicants to maintain at least their pre-Alliance aggregated capacity on the Relevant Routes.

The Conditional Authorisation determined the minimum seat capacity condition to be as follows:

‘The Applicants must make available in respect of each Scheduling Season during the term not less than 100% of the applicable Scheduling Season Seat Capacity. For the avoidance of doubt, the above obligation requires Qantas and Emirates to make the specified capacity available in aggregate across all Relevant Routes.’

Within the airline industry, seat capacity can be interpreted, and therefore measured, in a number of ways. The Applicants measure and report saleable capacity which is the number of physical seats on each aircraft less any seats which cannot be sold to a paying customer i.e. seat blocks. Management have confirmed that this is the methodology used to report to the Bureau of Infrastructure, Transport and Regional Economics (‘BITRE’).

Based on our assessment we deem saleable capacity to be an appropriate basis on which to calculate Scheduling Season Seat Capacity for the purposes of demonstrating compliance with the seat capacity requirement in the Conditional Authorisation.

Discussions were held with each airline to reconfirm the types of aircraft generally used on the Relevant Routes and the nature of seat blocks which generally arise. For a sample of aircraft, identified using the tail number, we verified the physical capacity to LOPA’s. Each aircraft is required to have an approved LOPA which is prepared by the aircraft manufacturer. Each LOPA can be tied back to a specific tail number using aircraft serial numbers. Verification was also performed by reference to Civil Aviation Safety Authority (‘CASA’) registration documents. See section 6 below for more details.

6. Our analysis of this data and the measure used in concluding that seat capacity requirements were met by the Applicants

Our evidence was gathered through a combination of inquiry and observation, tests of controls, substantive and analytical tests and obtaining representations from management. In order to complete our procedures we performed:

- Site visits to Qantas premises in Sydney and meetings with employees from the following departments:
 - o International Network;
 - o Information Technology;
 - o Flight Operations;
 - o Integrated Operations Control; and
 - o Engineering department

- Site visits to Emirates premises in Dubai and meetings with employees from the following departments:
 - o Group Financial Reporting;
 - o Management Accounting;
 - o Information Technology;
 - o Engineering Services;
 - o Route Planning & Analysis;
 - o Flight Operations; and
 - o Network Control

- Site visits to Jetstar premises in Melbourne and meetings with employees from the following departments:
 - o Fleet and Network Analysis;
 - o Operations Delivery;
 - o Jetstar Operations Control Centre; and
 - o Group IT and Systems Support

In conjunction with a review of the Conditional Authorisation, these discussions provided us with a detailed understanding of the systems, controls and processes implemented by each Applicant to record and report capacity data across the Relevant Routes. Further details on the specific procedures performed are included below in sections 6.1 - 6.2.

6.1 Detail of audit testing

Raw flight data files were obtained from each of the Applicants systems for the period covering 1 November 2017 to 31 March 2018. These files were in a csv format and extracted from the underlying databases using SQL commands. The reports were then filtered to include only flight numbers related to the Relevant Routes. For each flight the csv file lists arrival and departure location, date of flight, tail number and the number of saleable seats on the flight (capacity). We subjected the data files to a variety of analytical and substantive procedures. A summary of the procedures performed and the results of those procedures are outlined below:

a) Analytical review of Scheduling Season Seat Capacity data extracted from the Applicant systems

Qantas

Schedules were obtained from the Qantas Network Planning team which documented the expected number of flights per month by flight number throughout the Northern Winter season. Using this information we performed analytical procedures to compare actual operated flights with flights on a monthly basis.

Qantas predominately operates three aircraft types on the Relevant Routes being B737-800 (174 seats), A330-200 (265 seats) and A330-300 (297 seats). Our analytical procedures confirmed that the majority of aircraft in the scheduling season on the Relevant Routes operated on an aircraft with either 174, 265 or 297 seats.

Emirates

Schedules for the Northern Winter season were obtained from the Network Planning team and it was noted that one flight was scheduled for each Relevant Route each day during the season.

Using this expectation we performed analytical procedures to identify any deviations on a daily basis.

Emirates operate one aircraft type on the Relevant Routes an A380-800 (which depending on the sub-type operated has a saleable capacity of primarily 488, 490, 515 or 518 seats). Our analytical procedures included identifying any instances where seat numbers did not correspond to the aircraft sub-type.

Jetstar

Schedules were obtained from the Jetstar Network Planning team which documented the expected number of flights per month by flight number throughout the Northern Winter season. Using this information we performed analytical procedures to compare actual operated flights with flights on a monthly basis.

Jetstar operates one aircraft type on the Relevant Routes being A320-200s (180 or 186 seats). We performed analytical procedures to ensure that all operated flights showed the correct number of seats.

b) Select a sample of operated flights during the period, and:

- (i) Agree flight departure and arrival (date, time & location) to ACARS message & external third party evidence (e.g. Air Services Australia invoice); and*
- (ii) Agree seat capacity noted for each flight to the approved LOPA for that specific aircraft, identified by a tail registration number.*

Qantas

A sample of flights was selected from the raw data files. For each item in the sample we verified the existence of the flight to Air Services Australia Invoice data which confirmed flight number, departure and arrival location (in both ICAO and IATA formats), flight date and time and aircraft registration. No exceptions were noted. In addition we also verified the existence of each flight to ACARS messages confirming the same critical details. No exceptions were noted.

LOPAs were obtained for the aircraft sampled in the above testing. For each aircraft, physical seat capacity was agreed without exception. In order to verify each tail number to the LOPA, either a screenshot of the aircraft's Fleet Profile from the Boeing website was provided or, where this was unavailable, a copy of the Notice of Delivery was provided. The aircraft's Fleet Profile/Notice of Delivery provides the tail number and a variable code which we were able to reconcile directly back to the LOPA. No exceptions arose from this testing.

Emirates

A sample of flights was selected from the raw data files. For each item in the sample we verified the existence of the flight to Air Services Australia Invoices which confirmed flight number, departure and arrival location (in both ICAO and IATA formats), flight date and time and aircraft registration. No exceptions were noted. In addition we also verified the existence of flights to ACARS messages confirming the same critical details - due to the data retention protocols for the Core system, ACARS data was only available for flights operated in the last 3 months. The audit tests completed on the data sample selected gives us comfort on the integrity of the process of collation of seat capacity data. No exceptions were noted from the testing completed.

LOPAs were obtained for the aircraft used on the relevant routes during the period to confirm the accuracy of the physical seat capacity. This was done by either tracing the aircraft serial number as noted on the GCAA Air Worthiness Certificate to the manufacturer's internal reference (MSN) and in turn agreeing this to the LOPA, or through directly agreeing the aircraft tail number and MSN to the Airbus website and in turn agreeing this to the LOPA. No exceptions were noted during this testing.

Jetstar

A sample of flights was selected from the raw data files. For each item in the sample we verified the existence of the flight to Air Services Australia invoice data, which confirmed flight number, departure and arrival location (in both ICAO and IATA formats), flight date and time and aircraft registration. No exceptions arose during this testing. In addition we also verified the existence of each flight to ACARS messages confirming the same critical details. No exceptions were noted.

LOPAs were obtained for the aircraft sampled in the above testing. For each aircraft, physical seat capacity was agreed without exception. In order to verify the tail number to the LOPA, data from CASA was obtained that reconciled the tail number to the MSN reference (Airbus unique aircraft signifier) and using data from the Airbus website we were able to obtain the relevant LOPA drawing number which enabled the LOPAs to be reconciled to specific tail numbers. No exceptions were noted.

c) Compare Scheduling Season Seat Capacity to external data

Each airline is required to provide data on operated flights to BITRE. We compared the operated flight data provided to BITRE for the period 1 November 2017 - 31 January 2018 with the operated flight data subject to this reasonable assurance engagement. BITRE data for the period post 28 February 2018 is not currently available. Our comparison identified nominal differences in operated flights.

Qantas

Differences amounted to 0 seats in aggregate due to seating capacity netting off on different routes. This difference was investigated and it was confirmed that the difference related to diversions in flights between Sydney and Auckland. The BITRE data includes each leg as a separate flight as opposed to a single operated flight from the initial origination to the final destination. The diversion difference was been taken into account as an adjustment in the final calculation of Qantas' Actual Base Year Seat Capacity.

Emirates

Differences amounted to 556 seats in aggregate. This difference was investigated and it was confirmed that it related to one Melbourne - Auckland flight that operated but was not computed correctly through to BITRE. The remaining difference was investigated and predominately related to the incorrect aircraft configurations used by BITRE when computing the operated capacity. Difference in the cancelled flight has been taken into account in the final calculation of Emirates' Actual Base Year Seat Capacity.

Jetstar

Differences amounted to 180 seats in aggregate. This difference was investigated and is due to one flight that was cancelled but operating capacity was not computed correctly through to BITRE. Difference in the cancelled flight has been taken into account in the final calculation of Jetstar's Actual Base Year Seat Capacity.

- d) *Perform an IT systems review to document and test the controls relevant to protecting the efficacy of data used in the Statement of Compliance.*

As part of the engagement we performed an IT general controls assessment which focused on the following key aspects of the IT environments of Qantas, Jetstar and Emirates:

- Application controls;
- Interface controls;
- User access controls; and
- Change management controls.

This review was performed by a BDO IT specialist and included walkthroughs and controls testing on key identified controls. The results of this review concluded that reliance could be placed on the operation of the systems as it applies to the initiation, recording and reporting of capacity data.

6.2 Overall findings

Based on the results discussed above we conclude our overall findings as follows:

- In our opinion, the Applicants have complied, in all material respects, with the minimum seat capacity requirements of Appendix B of the Conditional Authorisation as measured in the attached Statement of Compliance covering the Northern Winter Scheduling Season 1 November 2017 to 31 March 2018;
- Scheduling Season Seat Capacity reported in the attached Statement of Compliance has been agreed to underlying flight data extracted from the Applicants' systems for the Northern Winter Scheduling Season and has been reported accurately; and
- The Applicants have exceeded the Northern Winter Scheduling Season Base Year Seat Capacity across the Relevant Routes as reported in the Statement of Compliance by 16,140 seats.

7. Recommendations to improve the integrity of the auditing process and recommendations to improve the Applicants' processes or reporting systems in relation to compliance with the conditions set out in Appendix B of the Conditional Authorisation

Throughout this engagement we have found the representatives of Qantas, Jetstar and Emirates to be accommodating to our requests and willing to facilitate the necessary meetings required to complete the work.

Our findings above allow us to conclude that based on our review no significant matters have come to our attention which in our opinion would lead to a significant improvement in the integrity of the auditing process or an improvement in the Applicant's processes or reporting systems.



Appendix A

Statement of Compliance

This Statement of Compliance outlines whether, in their view, Qantas and Emirates have complied with the conditions in Appendix B of the conditional authorisation granted by the Australian Competition and Consumer Commission ('ACCC') dated 27 March 2013 in respect of a Master Coordination Agreement between Qantas and Emirates dated 6 September 2012. ('Conditional Authorisation')

Qantas and Emirates must make available in respect of each Scheduling Season during the Term not less than 100% of the applicable Scheduling Season Base Year Seat Capacity. For the avoidance of doubt, the above obligation requires Qantas and Emirates to make the specified capacity available in aggregate across all Relevant Routes. There is no minimum capacity requirement in relation to a particular Relevant Route.

Scheduling Season Seat Capacity – Northern Winter Season from 1 November 2017 to 31 March 2018

Route / Airline	Seat Capacity
Sydney-Auckland	
Qantas	325,462
Jetstar	56,880
Emirates	-
Total:	382,342
Melbourne-Auckland	
Qantas	157,637
Jetstar	64,860
Emirates	140,240
Total:	362,737
Brisbane-Auckland	
Qantas	99,875
Emirates	139,676
Total:	239,551
Sydney-Christchurch	
Qantas	52,515
Jetstar	40,224
Emirates	155,376
Total:	248,115
TOTAL	1,232,745

Qantas and Emirates Compliance Statement

The Scheduling Season Seat Capacity of 1,232,745 for the Northern Winter Season from 1 November 2017 to 31 March 2018 is not less than 100% of the applicable Scheduling Season Base Year Seat Capacity of 1,216,605 as outlined in the Basis of Preparation.

Accordingly, the Applicants conclude that they have complied with the conditions in Appendix B of the Conditional Authorisation.

On behalf of:

Qantas Airways Limited

Date: 8 May 2018

Emirates

Date: 8 May 2018



Basis of Preparation

1. Definitions (Clause 6 of Appendix B to the Conditional Authorisation).

Scheduling Season Seat Capacity: means the Applicants' combined total number of seats flown on all Relevant Routes in a particular Scheduling Season, calculated by reference to the applicable Scheduling Season Base Year Seat Capacity.

Scheduling Season Base Year Seat Capacity: means the Applicants' combined total number of seats flown on all Relevant Routes in, as applicable, the NS Season or the NW Season in the Base Year as set out in Schedule A to the Conditions (adjusted for any Capacity Growth Rate determined by the ACCC pursuant to clause 2.3(a) in previous Scheduling Seasons and for any adjustments by the ACCC pursuant to clause 2.1(c)).

Scheduling Season: means either the NS Season or the NW Season.

NS Season: means the Northern Summer season from 1 April to 31 October.

NW Season: means the Northern Winter season from 1 November to 31 March.

Capacity Growth Rate: means:

- (a) in relation to each Scheduling Season commencing in 2013 – 0% per Scheduling Season;
- (b) in relation to each Scheduling Season commencing thereafter – 0% per Scheduling Season unless adjusted in accordance with clauses 2.2 or 3.

Relevant Route: means each of the following city pairs (Return):

- (a) Sydney-Auckland;
- (b) Melbourne-Auckland;
- (c) Brisbane-Auckland;
- (d) Sydney-Christchurch.



Appendix A

Basis of Preparation (continued)

2. Scheduling Season Base Year Seat Capacity

Northern Summer Season

Route / Airline	Capacity Growth Rate	Scheduling Season Base Year Seat Capacity
Sydney-Auckland		
Qantas	0%	254,649
Jetstar	0%	48,156
Emirates	0%	145,800
Total:	0%	448,605
Melbourne-Auckland		
Qantas	0%	152,880
Jetstar	0%	54,753
Emirates	0%	146,775
Total:	0%	354,408
Brisbane-Auckland		
Qantas	0%	102,886
Emirates	0%	106,908
Total:	0%	209,794
Sydney-Christchurch		
Qantas	0%	51,758
Jetstar	0%	45,132
Emirates	0%	106,908
Total:	0%	203,798
TOTAL	0%	1,216,605