

INDEPENDENT ASSURANCE REPORT

Reasonable assurance report on Qantas Airways Limited's and China Eastern Airlines Corporation Limited's Statement of Compliance with the Conditional Authorisation of the Australian Competition and Consumer Commission ('ACCC') dated 21 August 2015 (Authorisation A91470-A91471) for the period 1 April 2018 to 31 October 2018

To the Directors of Qantas Airways Limited and China Eastern Airlines Corporation Limited

On 21 August 2015, the Australian Competition and Consumer Commission ('ACCC') issued a determination granting conditional authorisation for a Joint Coordination Agreement between Qantas Airways Limited ('Qantas') and China Eastern Airlines Corporation Limited ('China Eastern') (the 'Applicants') ('Conditional Authorisation') to coordinate their operations between Australia and China for an initial period of five years.

The conditions of authorisation require the Applicants to meet certain minimum seat capacity requirements on routes between Sydney and Shanghai individually and Australia to Shanghai in aggregate where Qantas and China Eastern operate separate services (the 'Relevant Routes'), and for the compliance with those conditions to be subject to a compliance audit.

We have undertaken a reasonable assurance engagement on Qantas Airways Limited's ('Qantas') and China Eastern Airlines Corporation Limited's ('China Eastern') (collectively the 'Applicants') Statement of Compliance, in all material aspects, with Attachment B of the Conditional Authorisation ('Conditions of Authorisation') granted by the ACCC dated 21 August 2015 in respect of a Joint Coordination Agreement between Qantas and China Eastern dated 17 November 2014 (the 'requirements') as evaluated against the minimum seating capacity conditions for the Northern Summer Scheduling Season 1 April 2018 to 31 October 2018.

In our opinion, the Applicants' statement that the Applicants have complied with the requirements is, in all material aspects, fairly presented as evaluated against the minimum seating capacity conditions for the Northern Summer Scheduling Season 1 April 2018 to 31 October 2018.

Basis for Opinion

We conducted our engagement in accordance with Standards on Assurance Engagements ASAE 3100 *Compliance Engagements* issued by the Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Applicants' Responsibilities

The directors of Qantas and China Eastern are responsible for:

- a) Providing a Statement of Compliance covering the Northern Summer Scheduling Season 1 April 2018 to 31 October 2018, which accompanies this independent reasonable assurance report;
- b) Identification of the requirements if not identified by law and regulation;
- c) The compliance activity undertaken to meet the requirements; and
- d) Identification and implementation of controls which will mitigate those risks that prevent the compliance requirements being met and to monitor ongoing compliance.



Our Independence and Quality Control

We have complied with the independence and other relevant ethical requirements relating to assurance engagement, and apply Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audit Engagements* in undertaking this assurance engagement.

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 6.5(a) of the conditions set out in Attachment B of the Conditional Authorisation in relation to the reasonable assurance engagement.

Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on the Applicants' Statement of Compliance with the requirements, in all material respects, as evaluated against the minimum seating capacity conditions for the Northern Summer Scheduling Season 1 April 2018 to 31 October 2018. ASAE 3100 requires that we plan and perform our procedures to obtain reasonable assurance about whether the Applicants' Statement that the Applicants have complied with the requirements is, in all material aspects, fairly presented as evaluated against the minimum seating capacity conditions for the Northern Summer Scheduling Season 1 April 2018 to 31 October 2018.

An assurance engagement to report on the Applicants' Statement of the Applicants' compliance with the requirements involves performing procedures to obtain evidence about the compliance activity and controls implemented to meet the requirements. The procedures selected depend on our judgement, including the identification and assessment of risks of material misstatement in the Applicants' Statement are likely to arise.

Our procedures included:

- a) Documentation of the systems and controls implemented by Qantas and China Eastern to record and report the Actual Available 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 China Eastern 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 Actual Available Seat Capacity; and
- j) Corroboration, on a sample basis, of the Actual Available Seat Capacity with externally available information for flights flown and aircraft seat configurations.

Inherent Limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure it is possible that fraud, error, or non-compliance with compliance requirements may occur and not be detected.

A reasonable assurance engagement throughout the period 1 April 2018 to 31 October 2018 does not provide assurance on whether compliance with the requirements will continue in the future.

Use of Report

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

BDO East Coast Partnership

A handwritten signature in black ink, appearing to read 'Grant Saxon', with a horizontal line underneath it.

Grant Saxon
Partner

Sydney, 31 January 2019

Information and Reasons for Audit Conclusion

In accordance with our engagement letter dated 22 January 2019 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 measures 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 Attachment 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 in respect of a Joint Coordination Agreement between Qantas and China Eastern dated 17 November 2014 to coordinate their operations between Australia and China for an initial period of five years.

The authorisation is subject to conditions that the Applicants maintain at least their pre-alliance aggregated capacity on the Sydney - Shanghai route. The Applicants are not initially required to grow the Scheduling Season Base Year Seat Capacity on this route however the ACCC may over the term of the authorisation decide that, following a review, the Applicants are required to grow capacity on this route.

The Applicants are required to grow Scheduling Season Base Year Seat Capacity in aggregate across all routes between Australia and Shanghai by a Compound Annual Growth Rate ('CAGR') of 4%, measured on a rolling basis over the term of the authorisation.

Under the conditions of the Conditional Authorisation, the Applicants are required to maintain a minimum operated seat capacity between the following two distinct routes:

- a) Shanghai - Sydney; and
- b) Shanghai - Australia (which includes Shanghai - Sydney, Shanghai - Melbourne and Shanghai - Cairns in aggregate).

The Applicants prepared and provided BDO East Coast Partnership ('BDO') with a Statement of Compliance covering the Northern Summer Scheduling Season 1 April 2018 to 31 October 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 Summer Scheduling Season;
- b) the applicable Scheduling Season Seat Capacity requirements in accordance with Schedule A of the Conditional Authorisation; and
- c) a statement by the Applicants as to whether, in their view, they have complied with the conditions of Attachment B of the Conditions of Authorisation.

This report, in accordance with Clause 6.6(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.

Our work and supplementary report reflect the separate operations managed by each airline. Accordingly, our findings, detailed in the following pages, report on two airlines being Qantas and China Eastern.

2. Reasons for the conclusions reached in our report

As outlined in the attached Appendix A Statement of Compliance, the Applicants report the following totals in relation to the Relevant Routes:

Shanghai - Sydney

252,442 seats for the Northern Summer Scheduling Season which exceeds the NS Scheduling Season Base Capacity for the scheduling season, included in Schedule A to the Conditional Authorisation, by 20,219 seats (NS Scheduling Season Base Capacity: 232,223).

Shanghai - Australia

384,418 seats for the Northern Summer Scheduling Season which exceeds the NS Scheduling Season Base Capacity for the scheduling season, included in Schedule A to the Conditional Authorisation, by 48,856 seats (NS Scheduling Season Base Capacity: 335,562).

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 Summer 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 two relevant airlines. Compliance is measured for management purposes on a monthly basis throughout the scheduling season through the preparation and maintenance of an 'ACCC Shanghai Tracking Summary' spreadsheet. This spreadsheet is maintained on behalf of the Applicants by Qantas.

On or around the 10th business day of each month, China Eastern provides to Qantas, via email, details of all operated seats for each Relevant Route for the previous month. This data is corroborated against scheduled data supplied via Qantas' subscription to Diio Mi (an airline business intelligence tool that provides historic and future global airline schedule data), collated by Qantas and circulated to China Eastern.

The ACCC Shanghai Tracking Summary forms the basis of the data included in the attached Appendix A Statement of Compliance. Qantas has 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. Qantas has 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

China Eastern

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 a base level of capacity on routes between Australia - Shanghai and Sydney - Shanghai for Scheduling Seasons commencing during the term and to increase capacity on routes between Australia - Shanghai over the term.

The Conditional Authorisation determined two distinct minimum seat capacity conditions which are as follows:

- a) *'For each Scheduling Season which commences during the term, the Applicants must make available not less than 100% of the applicable Sydney - Shanghai City Pair Scheduling Season Base Year Capacity.'*
- b) *'For each Scheduling Season which commences during the term, the Applicants must make available not less than 100% of the applicable Sydney - Australia Scheduling Season Base Year Capacity.'*

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 has confirmed that this is the methodology used to report to the Australian 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 LOPAs. 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. 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 enquiry 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.
- Meetings and correspondence with China Eastern employees from the following departments:
 - o Marketing and Sales Committee;
 - o Engineering department;
 - o Route Planning; and
 - o Aircraft Operations Centre.

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 April 2018 to 31 October 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 Summer season. Using this information we performed analytical procedures to compare actual operated flights with scheduled flights on a monthly basis.

Qantas primarily operates one type of aircraft on the Relevant Routes (A330-300s) with various configurations and fitted seats ranging from 235 to 297 seats. Our analytical procedures confirmed that all flights for the scheduling season on the Relevant Routes were the same sub-type of aircraft fit within the seat capacity ranges noted above.

China Eastern

Schedules for the Northern Summer season were obtained from the Route Planning team. Using this expectation we performed analytical procedures to identify any deviations on a monthly basis. Our analytical procedures identified a number of variances between scheduled and operated data however the majority of these related to changes to aircraft due to operational requirements.

China Eastern operates predominately two aircraft types on the Relevant Routes being the Airbus A330-300s (230, 232, 234 and 292 seats) and Boeing 777s (314 and 316 seats). Our analytical procedures included identifying any instances where seat numbers did not correspond to the aircraft sub-type.

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

- (i) Agree flight departure and arrival (date, time & location) to ACARS message and 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 the 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. 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.

LOPAs were obtained for the aircraft used on the Relevant Routes during the year to confirm the accuracy of the physical seat capacity. This was done by tracing the aircraft registration to the manufacturer's internal reference ('MSN') and in turn agreeing this to LOPA. No exceptions were noted.

China Eastern

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 the 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. 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.

LOPAs were obtained for the aircraft used on the Relevant Routes during the period to confirm the accuracy of the physical seat capacity. For the Airbus fleet, this was performed by tracing the aircraft serial number provided by China Eastern to the LOPA's drawing number. For the Boeing fleet, this was performed through obtaining the Boeing "Detailed Specification" document and linking the aircraft tail number to the Airplane Tab Number which directly reconciles back to the LOPA.

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 April 2018 - 31 October 2018 with the operated flight data subject to this reasonable assurance engagement.

Qantas

No differences were identified.

China Eastern

Variances netted to 288 seats and were deemed immaterial based on the excess capacity noted in the overall findings below. Please refer to our recommendations in Section 7 of this report in relation to reporting operated seats to BITRE.

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 and China Eastern:

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

Qantas

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.

China Eastern

This review was performed by a BDO IT specialist in the Northern Winter Scheduling Season 1 November 2015 to 31 March 2016 period and included walkthroughs and controls testing on key identified controls. During the current scheduling season, China Eastern confirmed that there have been no changes to the reporting systems and controls associated with the reporting systems. 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, however recommendations to improve the China Eastern's reporting systems were raised. Please refer to our recommendations in Section 7 of this report.

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 Attachment B of the Conditional Authorisation as measured in the attached Statement of Compliance covering the Northern Summer Scheduling Season 1 April 2018 to 31 October 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 Summer Scheduling Season and has been reported accurately; and
- The Applicants have exceeded the Northern Summer Scheduling Season Base Year Seat Capacity across the Relevant Routes as reported in the Statement of Compliance by 20,219 seats for the Shanghai - Sydney route and 48,856 seats for the Shanghai - Australia routes in aggregate.

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 Attachment B of the Conditional Authorisation

Throughout this engagement we found the representatives of Qantas and China Eastern to be accommodating to our requests and willing to facilitate the necessary meetings required to complete the work.

Our overall 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 a significant improvement in the Applicants’ processes or reporting systems.

We have however noted the following best practice recommendations in relation to improving China Eastern’s processes or reporting systems in relation to compliance with these conditions:

Recommendations identified during the prior period which remain relevant

Findings	Recommendations
<p>1. IT General Control - Logical Access and Program Change</p> <p>Logical Access:</p> <p>Through discussion with the Sector Vice Manager at China Eastern we noted a lack of documentation for requests by the Aircraft Operations Centre (AOC) to the Sabre technician to amend flight times within Movement Manager after a flight has landed.</p> <p>Program Change:</p> <p>Through discussion with the Sector Vice Manager, we noted that approvals for promotion of change requests and patches to Movement Manager’s production environment are communicated verbally by the AOC rather than through written requests to validate approvals prior to the migration of the change/patch.</p>	<p>BDO recommends that communication of requests and approvals for all types of changes to Movement Manager should be communicated in writing or electronic form for validation of the existence, accuracy and completeness of such actions and retained for verification and audit purposes.</p> <p>This recommendation is consistent with recommendations made since the NW 16 audit reports.</p>
<p>2. IT General Control - Logical Access</p> <p>During our testing of the mitigating control whereby data change forms are completed for each change made to the flight data within the Movement Manager system by the Aircraft Operations Centre (AOC), we noted that data change forms are not consistently maintained in support of changes made to the flight data.</p>	<p>Completed data change forms should be consistently maintained for all changes made to flight data within the Movement Manager system for the 3 month period required by China Eastern regulations for all dispatch notifications.</p> <p>This recommendation is consistent with recommendations made since the NW 16 audit reports.</p>

Findings

3. BITRE data

As noted in Section 6.1(c) above, we were unable to reconcile operated data produced by China Eastern with operated flight data provided to BITRE for the period 1 April 2018 to 31 October 2018 by a net total of 288 seats.

Through investigation of the variances, it was found that variances were due to manual input errors.

Similar findings were identified since the Northern Winter 2016 season.

Recommendations

BDO recommends that China Eastern implement and modify reporting tools to ensure that only final operated flight data is reported to BITRE to ensure that no differences exist between the information retained by both parties.

We also recommend that management review operated data against BITRE on a monthly basis and reconcile any variances.

This recommendation is consistent with recommendations made since the NW 16 audit reports.



Appendix A Statement of Compliance

This Statement of Compliance outlines whether, in their view, Qantas and China Eastern have complied with the conditions in Attachment B of the conditional authorisation granted by the Australian Competition and Consumer Commission ('ACCC') dated 21 August 2015 in respect of a Joint Coordination Agreement between Qantas and China Eastern dated 17 November 2014 ('Conditional Authorisation').

Qantas and China Eastern 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 on the Sydney – Shanghai route and not less than 100% of the applicable Scheduling Season Base Year Seat Capacity aggregated across all routes between Australia and Shanghai. Further, Qantas and China Eastern must increase the aggregated Australia – Shanghai Scheduling Season Base Year Seat Capacity by not less than the Australia – Shanghai CAGR (currently 4%) over the term of the Conditional Authorisation.

Scheduling Season Seat Capacity – Northern Summer Season from 1 April, 2018 to 31 October, 2018

Route / Airline	Scheduling Season Seat Capacity
Sydney-Shanghai	
Qantas	121,224
China Eastern	131,218
Total:	252,442
Melbourne-Shanghai	
Qantas	-
China Eastern	131,976
Total:	131,976
Australia-Shanghai	
Qantas	121,224
China Eastern	263,194
Total:	384,418

Qantas and China Eastern Compliance Statement

The Scheduling Season Seat Capacity of 252,442 on the Sydney – Shanghai route and 384,418 on the Australia – Shanghai route for the Northern Summer Season from 1 April, 2018 to 31 October, 2018 is not less than 100% of the applicable Scheduling Season Base Year Seat Capacity on the Sydney – Shanghai route of 232,223 and not less than 100% of the applicable Scheduling Season Base Year Seat Capacity on the Australia – Shanghai route of 335,562. Further, Qantas and China Eastern's aggregated Scheduling Season Seat Capacity of 384,418 is 14.56% above the applicable Scheduling Season Base Year Seat Capacity.

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: 31 January, 2019

China Eastern

Date: 31 January, 2019



Basis of Preparation

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

Australia – Shanghai CAGR means the compound annual growth rate of 4% and as:

- a) adjusted as determined by the ACCC pursuant to clause 4(a) of Attachment B of the Conditions of Authorisation; or
- b) varied in accordance with clause 5 of Attachment B of the Conditions of 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.

Route: means any city pair between Shanghai and a city in Australia flown by either or both of the Applicants during the Term

Basis of Preparation (continued)

2. Scheduling Season Base Year Seat Capacity

Scheduling Season Base Year Seat Capacity – Northern Winter Season from 1 November, 2014 to 31 March, 2015

Route / Airline	Scheduling Season Base Year Seat Capacity	Annual Capacity Growth Rate
Sydney-Shanghai		
Qantas	88,934	0%
China Eastern	103,922	0%
Total:	192,856	0%
Melbourne-Shanghai		
Qantas	0	0%
China Eastern	102,580	0%
Total:	102,580	0%
Cairns-Shanghai		
Qantas	0	0%
China Eastern	28,206	0%
Total:	28,206	0%
Australia-Shanghai		
Qantas	88,934	0%
China Eastern	234,708	0%
Total:	323,642	4%

Scheduling Season Base Year Seat Capacity – Northern Summer Season from 1 April, 2015 to 31 October, 2015

Route / Airline	Scheduling Season Base Year Seat Capacity	Annual Capacity Growth Rate
Sydney-Shanghai		
Qantas	120,878	0%
China Eastern	111,345	0%
Total:	232,223	0%
Melbourne-Shanghai		
Qantas	0	0%
China Eastern	103,339	0%
Total:	103,339	0%
Australia-Shanghai		
Qantas	120,878	0%
China Eastern	214,684	0%
Total:	335,562	4%