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**5 December 2011**

Richard Chadwick  
General Manager, Adjudication  
Australian Competition and Consumer Commission  
23 Marcus Clarke Street  
Canberra ACT 2601

Copies to: David Jones / Clare McGinness / Imogen Hartcher-O'Brien

Dear Dr Chadwick,

**Authorisation A91227 & A91228: Alliance between Virgin Australia and Air New Zealand  
Compliance audit report**

We refer to the ACCC's determination to grant conditional authorisation in relation to the above matter.

The Conditions of authorisation provide that the Applicants must, within 25 Business Days of the end of a Scheduling Season, provide to the ACCC a written audit report from an Auditor in relation to the Applicants' compliance with the conditions (clause 3.5).

Enclosed is an audit report for the Northern Summer 2011 scheduling season which has been prepared by Pitcher Partners. It concludes that the Applicants have complied, in all material respects, with the Conditions (as varied by the ACCC's decisions of 27 July 2011 and 4 August 2011).

Please let us know if you would like to discuss.

Yours sincerely  
**Gilbert + Tobin**

Two handwritten signatures in black ink. The signature on the left is 'Luke Woodward' and the signature on the right is 'Louise Klamka'.

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## INDEPENDENT ASSURANCE PRACTITIONER'S COMPLIANCE AUDIT REPORT

To Virgin Australia and Air New Zealand

**Report on compliance with conditions 1(a) and 1(b) of Australian Competition & Consumer Commission (ACCC) authorisations A91227 & A91228 for the period 1 April 2011 to 31 October 2011.**

### *Background*

The Australian Competition and Consumer Commission has issued a determination granting conditional authorisation for an alliance between Virgin Australia and Air New Zealand (the applicants) in respect of Trans-Tasman passenger services. The conditions of authorisation require the applicants to meet certain seat capacity requirements, and for the compliance with those conditions to be subject to a compliance audit.

We have audited the applicants' compliance with the conditions of authorisation contained in Attachment A to ACCC authorisations A91227 & A91228 as measured by the achievement of minimum seat capacity requirements for the period from 1 April 2011 to 31 October 2011 in accordance with the varied compliance conditions dated 4 August 2011.

### *Respective Responsibilities*

The applicants are responsible for ensuring that they achieve compliance with the minimum seat capacity conditions outlined in Attachment A of ACCC authorisations A91227 & A91228.

Our responsibility is to express a conclusion as to whether the applicants have satisfied the varied conditions of authorisation, in all material respects. Our audit has been conducted in accordance with applicable Standards on Assurance Engagements (ASAE 3100 *Compliance Engagements*) to provide reasonable assurance that:-

- a) In respect of each Nominated Route, during the Northern Summer 2011 scheduling season, the applicants have flown not less than 100% of the Scheduling Season Alliance Seat Capacity for that route as defined in the conditions of authorisation; and
- b) In respect of the Trans-Tasman, during the Northern Summer 2011 scheduling season, the applicants have flown not less than 100% of the Trans-Tasman Base Year Alliance Seat Capacity as defined in the conditions of authorisation.

Our procedures included:-

- (a) interviews with management and review of procedures;
- (b) reviewing the systems and procedures for obtaining, collating and reporting data;
- (c) ensuring that calculations of minimum seat capacity were in accordance with the definitions and calculations in the conditions of authorisation;
- (d) controls testing and walk throughs in key risk areas;
- (e) testing the integrity and structure of key financial models and spreadsheets;
- (f) obtaining corroborative evidence from external sources; and
- (g) the performance of such other procedures as we considered necessary.

These procedures have been undertaken to form a conclusion as to whether Virgin Australia and Air New Zealand have complied in all material respects, with the conditions of the ACCC authorisations for the period from 1 April 2011 to 31 October 2011.

#### *Use of Report*

This compliance audit report has been prepared for Virgin Australia and Air New Zealand in accordance with clause 3.5 of Attachment A to ACCC authorisations A91227 & A91228. We disclaim any assumption of responsibility for any reliance on this report to any persons or users other than the Australian Competition & Consumer Commission, or for any purpose other than that for which it was prepared.

#### *Inherent Limitations*

Reasonable assurance means a high but not absolute level of assurance. Absolute assurance is very rarely attainable as a result of factors such as the following: the use of selective testing, the inherent limitations of internal control, the fact that much of the evidence available to us is persuasive rather than conclusive and the use of judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

Because of these inherent limitations it is possible that fraud, error or non compliance may occur and not be detected. An assurance engagement is not designed to detect all instances of non compliance with the conditions of authorisation, as assurance procedures are not performed continuously throughout the period and the procedures performed in respect of compliance with the conditions of authorisation are undertaken on a test basis. The conclusion expressed in this report has been formed on the above basis.

#### *Independence*

In conducting our engagement, we have complied with the independence requirements of the Australian professional accounting bodies.

#### **Conclusion**

In our opinion, Virgin Australia and Air New Zealand have complied, in all material respects, with the ACCC conditions of authorisation as measured by their achievement of the minimum seat capacity conditions detailed in Attachment A – Conditions of authorisation for the period from 1 April 2011 to 31 October 2011.

#### *Factual Findings*

The following table summarises the actual capacity achieved by the applicants during the Northern Summer 2011 scheduling season for the nominated routes and compares those

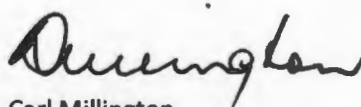
results with the ACCC capacity requirements determined by reference to the Base Year Alliance Seat Capacity.

<b>Northern Summer 2011 CAPACITY REQUIREMENTS SUMMARY TABLE</b>				
<b>Market/Route Group</b>	<b>Base Year Alliance Seat Cap</b>	<b>Calculated Capacity Requirement</b>	<b>Actual Alliance Capacity</b>	<b>Variance</b>
<b>Auckland – Brisbane</b>	320,212	327,257	334,891	7,634
<b>Brisbane - Dunedin</b>	47,038	48,073	48,608	535
<b>Brisbane - Wellington</b>	141,722	144,840	146,592	1,752
<b>Melbourne - Wellington</b>	55,555	56,777	62,328	5,551
<b>Sydney - Wellington</b>	107,871	110,244	132,984	22,740
<b>Sydney - Queenstown</b>	45,613	46,616	47,544	928
<b>Nominated Sector Total</b>	<b>718,011</b>	<b>733,807</b>	<b>772,947</b>	<b>39,140</b>
<b>Trans-Tasman Total</b>	<b>2,261,728</b>	<b>2,261,728</b>	<b>2,325,479</b>	<b>63,751</b>

The capacity growth factor applied to the Base Year Scheduling Season Alliance Seat Capacity was the amount determined by reference to the sum of quarterly changes in Australia's Trend Chain Volume GDP as it exceeded the percentage increase Total Industry Seat Capacity across the Trans-Tasman.

The Base Year Alliance Seat Capacity in the table above is as per the varied conditions of authorisation issued 4 August 2011.

PITCHER PARTNERS



Carl Millington  
Partner

Sydney, 1 December 2011