

Outline of Undertakings / Conditions

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1 Definitions

Effective Date means the date of satisfaction of the conditions precedent in the Strategic Alliance Agreement (including grant of authorisation by the ACCC and the NZCC and Air New Zealand shareholder approval).

Regulated City Pair means those Tasman City Pairs and New Zealand City Pairs on which, on the Effective Date, Air New Zealand and Qantas both operate flights and no other airline operates flights.

Operating Carrier means Air New Zealand or Qantas.

Tasman Routes means the city pairs between Australia and New Zealand, and **Tasman City Pair** means a city pair in the Tasman Routes.

New Zealand Routes means the city pairs between AKL, CHC and WLG, and **New Zealand City Pair** means a city pair in the New Zealand Routes.

New Entrant, in relation to routes or a city pair, means an airline that does not operate flights on those routes or that city pair on the Effective Date.

PART I ENTRY FACILITATION

2 Facilities

- 2.1 The Operating Carriers undertake to provide to a New Entrant to the Tasman Routes or New Zealand Routes access to the following facilities and services at airports in Australia and New Zealand:
- (a) airport gates;
 - (b) airport counter facilities;
 - (c) line maintenance services (including spares and parts as part of those services); and
 - (d) ground handling services.
- 2.2 The facilities and services in clause 2.1 will be provided for a maximum period of one year at each airport.
- 2.3 The facilities and services in clause 2.1 will be provided on the following terms:
- (a) at an equivalent rate and on similar conditions to those offered by the Operating Carrier at the relevant airport to other airlines with similar requirements (but disregarding terms attributable to global alliance membership and reciprocity); or
 - (b) where the facility or service is not provided by an Operating Carrier to another airline at the relevant airport, on reasonable commercial terms.
- 2.4 The facilities and services in clause 2.1 do not include facilities or services:
- (a) that are not necessary for the purposes of operating or maintaining the New Entrant's flights on the Tasman Routes or New Zealand Routes, as the case may be;
 - (b) that can reasonably or practicably be purchased or acquired by a New Entrant;
 - (c) that are not effectively controlled by an Operating Carrier at the relevant airport; or

- (d) that cannot reasonably be provided by either of the Operating Carriers, having regard to their capability based on current aircraft types in their fleets, their actual and reasonably anticipated schedules, operational or safety considerations, or legitimate business interests (for example, the necessity to incur capital costs in excess of NZ\$100,000).
- 2.5 Where the Operating Carriers and a New Entrant are unable to agree on terms, the dispute will be referred to an independent arbitrator.
- 2.6 This undertaking, and the provision of any facilities or services under it, will terminate two years after the Effective Date.

3 Capacity ceiling

- 3.1 The Operating Carriers undertake, in respect of each Regulated City Pair, not to increase the Operating Carriers' combined capacity on that city pair during the period of one year following the date on which a New Entrant announces its intention to commence operating flights on that city pair, except as permitted in this clause.
- 3.2 The undertaking in clause 3.1 will be suspended in respect of any city pair:
- (a) if the New Entrant does not accept bookings within one month of announcing its intention to commence operating flights on that city pair;
 - (b) during periods of abnormal demand (for example, sporting or cultural events); or
 - (c) if the New Entrant ceases to operate flights on that city pair.
- 3.3 The undertaking in clause 3.1 will not apply to:
- (a) temporary increases in capacity for periods not greater than 14 days (for example, changing aircraft type to cover operational requirements such as planned and unplanned maintenance and engineering);
 - (b) increases in capacity announced by either Operating Carrier prior to the New Entrant's announcement of its intention to commence operating flights;

- (c) increases in the combined capacity of the Operating Carriers not exceeding 5% per Scheduling Season;
- (d) the addition of one return flight per week; and
- (e) increases in capacity made following the commencement of operation of flights by a New Entrant and not exceeding 25% of the capacity operated on the city pair by the New Entrant.

3.4 The following will not be treated as an increase in capacity on any city pair:

- (a) for Air New Zealand, the replacement of B737 with A320 aircraft; and
- (b) for each Operating Carrier, the replacement of any aircraft series (for example B737-300) with another aircraft of the same type (for example B737-800).

3.5 This undertaking, and the restrictions in clause 3.1, will terminate two years after the Effective Date.

PART II CONSUMER PROTECTION

4 Capacity floor

- 4.1 The Operating Carriers undertake, in respect of each Regulated City Pair, during the period of two years following the Effective Date, not to reduce the Operating Carriers' combined capacity on that city pair, except as permitted by this clause.
- 4.2 The undertaking in clause 4.1 will terminate in respect of any city pair immediately upon another airline commencing operating flights on that city pair.
- 4.3 The Operating Carriers may reduce capacity on a city pair where load factors for a rolling three month period on that city pair are below historic load factors by 10% or more, but under no circumstances may the Operating Carriers' remaining capacity be less than the capacity of the Operating Carrier who had the larger capacity on the Effective Date.
- 4.4 The Operating Carriers may reduce capacity, or cease operating, on a city pair for any period where there is a material reduction in demand as a result of external shocks (for example terrorism or war).

PART III PUBLIC BENEFITS

5 New services

- 5.1 The Operating Carriers undertake to commence operating:
- (a) eight weekly flights (four return services) between Auckland and Adelaide within one year of the Effective Date; and
 - (b) two weekly flights (one return service) on each of the following city pairs within one year of the Effective Date:
 - (1) Auckland – Hobart;
 - (2) Wellington – Canberra; and
 - (3) Auckland – Canberra.
- 5.2 The Operating Carriers must continue operating flights on these city pairs for a period of one year.
- 5.3 The undertaking in clause 5.1 is subject to the negotiation of commercially acceptable agreements with the relevant airports (including on terms substantially the same as those currently provided to the Operating Carriers).
- 5.4 The Operating Carriers may reduce capacity, or cease operating, on a city pair in clause 5.1 for any period where there is a material adverse change to the financial returns earned by the Operating Carriers on the relevant city pair.
- 5.5 The undertaking in clause 5.1 will terminate in respect of a city pair immediately upon another airline commencing operating flights on that city pair.

6 Tourism

- 6.1 The Operating Carriers undertake to spend an additional A\$5.4 million in the one year following the Effective Date on costs directly associated with the implementation of the Qantas Holidays business plan and designed to stimulate an additional 50,000 tourists to New Zealand (including 18,000 dual destination tourists) which includes A\$1.75 million on direct sales and marketing.

- 6.2 The amount in clause 6.1 will be spent in conjunction with national and state tourism bodies where that is likely to maximise tourism flow.

7 Freight

- 7.1 The Operating Carriers undertake to add two weekly return Tasman wide-bodied “back of the clock” services specifically for freight to each of Auckland and Christchurch within one year of the Effective Date.
- 7.2 The Operating Carriers may reduce capacity, or cease operating, the additional freight services to Auckland and Christchurch for any period where there is a material adverse change to the financial returns earned by the Operating Carriers on that service.