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AIR NEW ZEALAND

25 November 2002

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RECEIVED  
27 NOV 2002  
IN THE OFFICE OF  
HON DR MICHAEL CULLEN

Hon. Dr Michael Cullen MP  
Parliament Buildings  
Wellington

Dear Dr Cullen

**AIR NEW ZEALAND AND QANTAS TO FORM MAJOR AIRLINE GROUPING**

The Board and management of Air New Zealand have today unanimously supported the entry by the airline into a major strategic alliance with Qantas. This concludes a far reaching agreement which will secure long-term opportunities for both parties, bring substantial economic benefits to Air New Zealand and deliver public benefits to New Zealand.

Under the alliance, all the airline activities of Air New Zealand will be combined with those parts of Qantas which operate to, from or within New Zealand, under the commercial management of Air New Zealand. We are, in effect, creating a major airline grouping in this part of the world.

The basis of the strategic alliance is the absolute commitment of both parties to Air New Zealand being New Zealand controlled, and managed autonomously under the oversight and direction of its own Board.

The name Air New Zealand will remain and the Koru will continue to fly proudly to major international destinations.

This decision represents a significant opportunity for New Zealand. Independent economic analysis, which will be vetted by the regulatory authorities, has identified benefits to New Zealand from the alliance approaching \$1 billion over five years, arising from areas including:

- Generation of up to 50,000 additional tourists to New Zealand each year
- Additional and more effective promotion of New Zealand in overseas markets
- Enhancement of air-freight services to and from New Zealand
- Creation of more than 200 additional highly skilled jobs within Air New Zealand

It represents an excellent outcome for New Zealand, for the travelling public, for New Zealand's exporters and business people, for all Air New Zealand shareholders and for our employees.

The alliance will be supported by an injection of approximately up to \$550 million in new capital from Qantas who will subscribe for sufficient Air New Zealand shares equating to up to 22.5% of the Company's enlarged capital. The Board currently plans to offer all shareholders an opportunity to participate in a rights issue in 2003 to raise approximately a further \$200 million.

An application by Qantas is being lodged today with the Minister of Transport, and holder of the Kiwi Share, Hon Paul Swain, for consent to own shares in Air New Zealand.

We believe that regulators, including the New Zealand Commerce Commission and Australian Competition and Consumer Commission, will see the public benefits of this strategic alliance.

The alliance will not mean the elimination of low airfares in New Zealand or across the Tasman. In particular, we are committed to continuing to offer the low fares and quality service of our recently introduced Express Class. Our trans Tasman services will continue to offer competitive fares as a traditional airline and low cost international travel through our "value based" airline, Freedom Air.

This alliance is a one time opportunity for New Zealand and Australia to co-ordinate our major airline resources and create a competitive and sustainable international airline operation with the interests of New Zealand and Australia at its heart.

I look forward to your support for this initiative as we work towards meeting the economic needs of New Zealand, while at the same time securing a profitable future for Air New Zealand.

Yours sincerely

A handwritten signature in black ink, appearing to read 'J. Palmer', with a large, stylized loop at the end.

**John Palmer**  
Chairman

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