

18 December 2002

John Palmer
Chairperson
Air New Zealand Limited
Private Bag 92007
AUCKLAND

Dear John

AIR NEW ZEALAND/QANTAS STRATEGIC ALLIANCE

I am advising you, in my role as principal shareholder, of my in-principle decision to support Air NZ's proposal for a strategic Alliance with Qantas. As you will be aware, this in-principle decision means that if the proposal in its current form gains all other necessary approvals, I expect to vote for it at a shareholders' meeting. If there are material changes to the proposal over the course of gaining other approvals or were significant new information to emerge, I would reconsider my decision.

I know the Board is keenly aware of the need to preserve Air New Zealand's autonomy and to consistently safeguard Air New Zealand's ability to quit the Alliance at minimal cost. I fully support the Board in this view as I agree it is necessary to protect the best interests of Air New Zealand and of all its shareholders. I therefore expect the Board will ensure that direct and indirect costs to Air New Zealand from any future termination of the Alliance are minimised and that, in the event of termination, Air NZ will be able to operate independently from Qantas within a reasonable period of time.

If the proposal gains all necessary approvals, I will be instructing the Treasury to put in place arrangements with Air New Zealand to monitor the Board's fulfilment of this expectation. If I am not satisfied that the Board is continuing to meet this expectation I would need to consider exercising my rights as principal shareholder accordingly.

Yours sincerely



Hon Dr Michael Cullen
Minister of Finance