

Telephone Conversation with Dr CK Choong, 3.40pm Friday 24 August 2001

In response to his request I telephoned Dr Cheong at 3.40pm today.

Dr Cheong said he had being fully briefed by Matt Henning of Morgan Stanley (advisor to SIA) on his conversation with Murdo and myself. He wished me to know that the information provided by Air NZ management to his advisors over the last two or three days changed matters (and his understanding of Air New Zealand's recapitalisation requirement) substantially. If the numbers were correct he believed that the recapitalisation would be unable to proceed without New Zealand Government participation (SIA would not be able to meet the implied capital requirement whether they were permitted to go to 49% or a substantially higher economic interest in Air NZ). He pointed out that the numbers implied that if SIA was permitted to take a 49% economic interest then the New Zealand Government may need to pick up around 15% equity interest to facilitate a successful recapitalisation. I told him that we understood this.

CK said that the situation required him to do a formal due diligence on Air NZ management's business plan and recapitalisation scenarios. He would be sending his own team down to New Zealand to examine the management plans and challenge all the assumptions. He expected the team to arrive Monday morning and to have completed their task within two to three days.

CK then told me he wished to share some views with me on a confidential basis;

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I asked him about his view of:

- ▶ The process going forward.
- ▶ The matters likely to be deserved by Board next Wednesday.

His views of the process was that SIA would have a much clearer picture of matters by Wednesday. Inevitably Air NZ would have to delay the results announcement until a recap plan was finalised but he believed this was possible within the time available (September 13 – last day for announcement).

The Board would be discussing the nomination of the chair and the annual results on Wednesday. He asked for my support in persuading Jim Farmer to defer the first matter. On the latter he expected the results to be discussed by the timing of results (and final decision on the Ansett value in the accounts) to be deferred.

He finished the conversation by asking if it was appropriate for he and I to meet when he was in New Zealand (for the Board meeting). I told him I would be happy to meet with him.