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Date

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Aide Memoire for Cabinet - Air New Zealand

Proposals Considered

- The Crown Negotiating Team has been negotiating the detail of proposals from Qantas and Singapore Airlines for the re-capitalisation of Air NZ.
- Both proposals include national interest packages containing initiatives each airline would undertake in areas including tourism and preserving direct routes in and out of New Zealand.
- The Qantas proposal has an attractive national interest package but still has apparently insurmountable commercial difficulties and competition regulation hurdles. It requires Qantas to secure the Singapore Airlines 25% shareholding in Air NZ. Singapore Airlines has made it clear that these shares are not for sale.
- These difficulties cannot be resolved in a timeframe that meets Air New Zealand's needs for recapitalisation.

- The only option that appears feasible is one that includes Singapore Airlines.
- Communications with the Australian Government and Qantas will be delicate. I will attend to those communications at the appropriate time.

Singapore Airlines' Proposal

- The SIA proposal was unattractive to Ministers because it sought an equity stake in Air NZ of 49%. The Crown Negotiating Team has progressed a number of variations to that option with SIA to determine their feasibility. In particular, an option for the Crown to also purchase equity in Air NZ along with SIA was developed.
- Negotiations between the Crown Negotiating Team and SIA have not yet been completed. The Crown Negotiating Team has identified several significant aspects of the Air NZ business case that need to be reviewed by Air NZ before negotiations can continue.
- One of the issues is a question as to whether Air NZ's immediate capital requirements are greater than previously advised. If so, there is a risk that both the Crown and SIA may be required to make larger capital contributions than previously foreshadowed. To limit the cost for the Crown, there may be a need for the Government to consider allowing SIA to take a higher equity stake than it might otherwise wish to do.
- At this stage, it appears highly unlikely that there is any option with SIA below 49% that does not require significant Crown equity.

Timing

- Air New Zealand is currently finalising its position on initial capital requirements. A final proposal is likely to be developed over the course of this week.
- The initial timetable envisaged Cabinet considering final proposals today and Air New Zealand announcing its recapitalisation plan in conjunction with its annual result on September 4. This timetable now looks as if it will slip a week or two.

Confidentiality

- Imperative.