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To:
Dr Michael Cullen

From
Rob Cameron

By
Memo

Date
29 August 2001

Air New Zealand Update

This note provides an update on the major aspects of the Air New Zealand situation.

Air New Zealand Board

- ▶ The Air New Zealand Board is due to meet tomorrow.
- ▶ Management is still working with its advisors to finalise:
 - The capital injection required.
 - The criticality of Virgin Blue.
- ▶ Our assessment is that management will conclude that Virgin Blue is critical and that the initial capital injection required is less than the \$1.5 billion figure circulating at the end of last week. Our assessment is that it will be somewhere in the range of \$1 billion to \$1.5 billion.
- ▶ The Board will be updated at its meeting tomorrow. Our view is that it is unlikely that the Board will sign off any proposal on these key issues. A Board resolution is unlikely because:
 - The management numbers are not yet finalised.
 - SIA and its advisors are still completing due diligence on the updated business plan and budgets.
 - BIL are still completing due diligence on the revised business plan and budgets.

- ▶ Our assessment is that it will be early next week before the Board is in a position to form a view on the capital injection and Virgin Blue issues.
- ▶ In the meantime, Air New Zealand has announced that it has deferred its final result announcement.
- ▶ The Audit Committee of the Board (which met today) is likely to defer a decision on the accounts (and any write down which may cause a breach of financial covenants) until nearer the revised announcement date which is likely to be September 13.

SIA Position

- ▶ SIA told us yesterday that:
 - They accept that the capital injection required is now larger than previously thought. They have not formed a final view on how large it needs to be.
 - SIA has financial limits and it should not be assumed that they can provide sufficient funds to get to 49% in all capital injection scenarios.
 - They are unlikely to consider the acquisition of Ansett alone.
- ▶ CK Cheong is in Wellington on Friday and will update us on the SIA position and the Air New Zealand Board position. It may be beneficial if he met you. We will let you know once we have assessed developments over the next 24 hours.

Implications

- ▶ Given the revised capital requirements and the SIA position the Board may not see a recapitalisation plan that works without significant Government involvement.

Possible Scenarios – Costings

- ▶ We do not currently know the final recapitalisation number, the strike price for new equity or the price at which a subsequent rights offering would be made.
- ▶ We have developed scenarios based on best guess. SIA told us its contribution would be capped at \$650 million. Therefore, the higher the recapitalisation number, the higher the Crown equity that might be sought.

Issues

Note:

- ▶ SIA may decline to participate in the recapitalisation of Air NZ if the recapitalisation numbers are significantly adverse.
- ▶ the Ansett turnaround business case is very risky therefore the more capital at risk SIA has, the more it is likely to be involved in ensuring success;

- ▶ It is not clear that BIL will participate in a rights issue and, if not then the Crown may need to take up those rights also.

Process

- ▶ Cameron & Company is developing an options paper will respect to the terms on which the Crown might offer assistance.
- ▶ Officials will prepare reports for you to table at Cabinet on Monday, 3 September. As sufficient detail of the Board's position will not be known until Friday afternoon, officials will draft the reports over the weekend. A draft will be faxed to your Napier residence on Sunday.

If you wish to discuss any of the above please ring Rob Cameron on _____ or Murdo Beattie on _____.