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To
Laurie Doolan

At
Air New Zealand

From
Murdo Beattie

By
Email

Date
28 August 2001

Conference Call Issues

Set out below are a number of issues we would like to work through on the conference call tomorrow morning. We wish to position ourselves to advise the Government on timing and process in the event that major difficulties emerge with the Air NZ recapitalisation plan.

Possible scenarios are:

- ▶ Air New Zealand fails to get adequate capital commitments and the Directors determine that there is no positive value business plan without those capital commitments.
- ▶ Air New Zealand gets lower capital commitments than sought. Only a proportion of the board believes it is prudent to trade with these lower levels of capital commitments.

- ▶ Air New Zealand is not able to secure capital sufficient to give Directors confidence that the current business plan can be pursued. The Directors believe there is a positive value business plan but the transition to that business plan is not possible within the constraints of the current balance sheet. That is, some recontracting with lenders/creditors/employees is necessary to pursue the amended business plan.
- ▶ The current process fails to reach a conclusion on the business plan and capital needs before the result announcement. The market loses confidence in the Air New Zealand board resulting in a falling share price and difficulties securing adequate capital from existing shareholders.

Triggers

What might be the triggers in the above scenarios for events that move Air New Zealand towards insolvency/restructuring?

- ▶ Board resigns (wholly or partially) on basis that Air New Zealand can't keep trading.
- ▶ Capital requirements are inadequate. At what point do Directors decide that they must cease trading?
- ▶ Difficulties with audit certificate, public knowledge of banking covenant breach.

Key Issues

- ▶ What is the likely sequence of events once Directors seriously consider insolvency?
- ▶ What is the likely timing of the sequence from strong Director concerns through to appointment of a liquidator/administrator?
- ▶ In the event that impending failure becomes public (or is even suspected), what is the likely impact on Air New Zealand's working capital position, including prepaid tickets and suppliers? How quickly would Air New Zealand become cash constrained how much cash is required to cover against this possibility? Does a rumour precipitating events like this have the possibility to exhaust Air New Zealand's ability to trade going forward?
- ▶ What approaches would Air NZ be likely to make to the Government (eg guarantees over certain items, capital injection) and how much time would the Government have to act if it chose to act?