

CAMERON & COMPANY
Investment Bankers

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Dr Cheong Choong Kong
Chief Executive
Singapore Airlines

Dear Dr Cheong

The Crown Negotiating Team was pleased to meet with your colleagues yesterday in Wellington to discuss the Singapore Airlines proposal for the future ownership of Air New Zealand. At the end of the meeting we agreed to set out for Singapore Airlines some more specific thoughts from the New Zealand government about what it might wish to see included as part of any recapitalisation package. This note is intended to fulfil that commitment.

NATIONAL INTEREST PACKAGE

We spent some time yesterday discussing a possible "National Interest" package. We would see this covering the following issues set out in my letter of 6 August:

- ▶ Employment in New Zealand
- ▶ Promotion of New Zealand tourism
- ▶ Protection of Air New Zealand's access to New Zealand's traffic rights
- ▶ Strengthening of Air New Zealand's position within the international aviation industry
- ▶ Protection and enhancement of the Air New Zealand route structure
- ▶ Fleet replacement and enhancement

The New Zealand Government is particularly concerned that there are tangible and presentable benefits for the public of New Zealand in any Government approval to increase foreign ownership limits for the airline. These benefits would be primarily related to ensuring that the Air New Zealand brand, financial strength and route structure are protected and enhanced.

Your colleagues had a discussion with Sam Fairchild yesterday afternoon subsequent to the meeting, which provided a more detailed description of what we are looking for. As I said in my 6 August letter, we are looking for concrete and verifiable commitments where these are possible. We cannot emphasise strongly enough the importance of achieving this package.

CAPITAL STRUCTURE AND GOVERNANCE

We confirmed with your colleagues that the Government would not be able to approve your proposal in its current form, and after some discussion of other options we agreed to send you today some detail of an option that might be acceptable to Ministers (although I should emphasise that Ministers have not yet made any decisions).

The option I would like your views on is as follows.

- ▶ Singapore Airlines would hold 49% of the equity in Air New Zealand, and would receive dividends and all financial benefits from those shares.
- ▶ Singapore Airlines would have the voting rights accruing from 35% of the shares, and would vest the voting rights of the remaining 14% in the New Zealand Government.

On the basis of the current Board size of 13, the New Zealand Government would appoint two directors to the Board of Air New Zealand, and would also be consulted about the appointment of the Air New Zealand Chairman.

We think it would be sensible to also consider reducing the size of the Board. In our view, the future of Air New Zealand would be better provided for with a smaller and more cohesive Board. There are however some impediments to reducing the size of the Board beyond 11 members. These arise as a result of requirements for certain proportions of New Zealand and Australian nationals to be appointed to the Board to protect bilateral air traffic rights and conditions set by the Australian Foreign Investment Review Board relating to the Ansett purchase.

While it may be desirable to reduce the Board numbers to eight or nine members, we believe this is difficult in view of the above New Zealand/Australian national requirements. However we believe that a reduction of two, to 11, would be both achievable and beneficial. The configuration might look as follows:

Singapore Airlines	4
Crown	1
Brierley	2
Others	3
Managing Director	1
Total	11

Nationality of Board Members

New Zealanders	6
Australians	3
Singaporeans	2
Total	11

RISKS

It is clear that the Ansett turnaround will be both difficult and risky. The New Zealand Government, in agreeing to any proposal that is built around this turnaround, will want to be confident that there are adequate long-term capital sources, and in particular that there will be no future need for Government regulatory change to make it happen. We have some ideas on this matter which I will discuss with you when we speak later today.

There is one particular aspect of the turnaround strategy, which we discussed with your colleagues, that I would welcome any views you might have. To what extent do you see the Air New Zealand group's potential acquisition of Virgin Blue as critical to the Ansett recovery plan, and how confident are you that all the necessary regulatory approvals can be secured. What do you see happening if the Virgin Blue acquisition is not achieved?

I look forward to progressing these issues further with Singapore Airlines as soon as possible. We advised your representatives yesterday that timing is of the utmost importance in this exercise. We are required to report to the Government next Monday with details of what can be included as part of an agreement with Singapore Airlines, if the proposal is to be progressed.

I will call you today to discuss the content of this letter in fuller detail with you and to discuss how the Singapore Airlines proposal can be further progressed in the time available.

Yours sincerely

CAMERON & COMPANY LIMITED



Rob Cameron

Partner