

13 August 2001

**CONFIDENTIAL**

Hon Dr Michael Cullen  
Treasurer & Minister of Finance  
Executive Wing  
Parliament Buildings  
WELLINGTON

By fax to (04) 495 8442

Dear Minister


**Air New Zealand Ownership Issues**

My Board was disappointed to receive the message in the 7 August letter from your office. The directors recognise and acknowledge your duty of ensuring an outcome in the best interests of New Zealand. The company's interest and wishes are fully compatible with that objective. In addition, however, the directors have obligations the burden of which has been made greater by Government's sudden change of direction on 1 August following your meeting with Deputy Prime Minister John Anderson of Australia.

My 3 August letter drew your attention to the new pressures of uncertainty and timing created by Government's actions last week. My Board's concerns at these developments are serious and considered. I urge you to accept that, while Air New Zealand will work constructively and expeditiously with your newly-introduced process, Government must also do its part by placing a realistic limit on the duration of this process.

There are other issues that my Board feels have been overlooked or disregarded by Government. To eliminate any doubt about the Board's position on these points, I set them out again briefly:

1. The Board unanimously supports the proposal which the company and Singapore Airlines (SIA) have put to Government for the re-capitalisation of Air New Zealand.
2. Modifications of that proposal which entail lower levels of new equity than proposed to be sourced from SIA (prior to a general rights issue) will not result in adequate re-capitalisation of Air New Zealand to ensure its viability and competitiveness.
3. A forced sale of Ansett is not a realistic alternative to re-capitalisation because:
  - (a) the proceeds of sale will not be adequate to strengthen Air New Zealand's balance sheet, given that the sale price will be significantly less than acquisition cost;

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(b) the future of Air New Zealand will be seriously compromised, and thereby New Zealand's national interests as well, by the prospect ultimately of competition across the Tasman and internationally between three Australasian carriers.

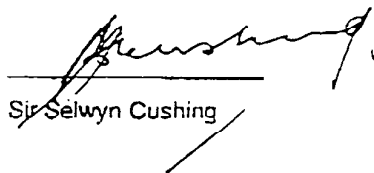
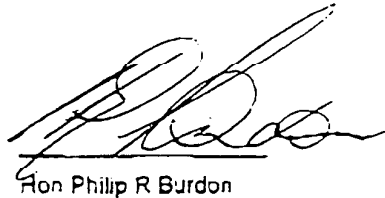
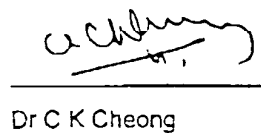
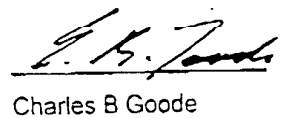
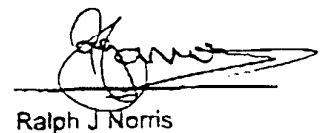
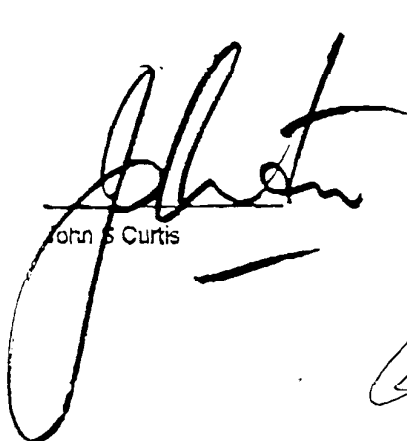
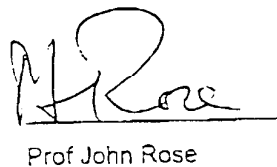
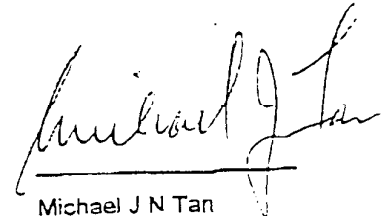
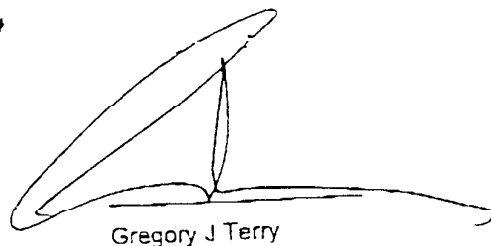
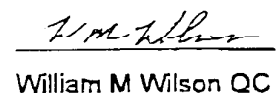
4. A larger SIA equity investment in Air New Zealand will not lead to competitive imbalances in the region to the unfair disadvantage of Qantas. That carrier's dominant position in Australasian aviation and its long-term partnership with major shareholder British Airways (endorsed by competition regulators) reinforce its long-term competitive strengths.

I am taking the liberty of copying this letter, counter-signed by other Air New Zealand directors, for the information of Mr Rob Cameron as Government's representative in the current process.

Yours sincerely



Dr J A Farmer, QC  
Acting Chairman

  
Sir Selwyn Cushing  
Hon Philip R Burdon  
Sir Ronald Carter  
Elizabeth M Goutts  
Dr C K Cheong  
Charles B Goode  
Ralph J Norris  
John S Curtis  
Prof John Rose  
Michael J N Tan  
Gregory J Terry  
William M Wilson QC



AIR NEW ZEALAND



ANSETT AUSTRALIA

cc Rt Hon Helen Clark, Prime Minister of New Zealand  
Hon Mark Gosche, Minister of Transport  
Mr Rob Cameron, Cameron & Company Limited

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