

# SINGAPORE AIRLINES LIMITED



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DC 684

17 August 2001

Dear Mr. Cameron,

Following your meeting in Wellington with my colleagues and representatives, your letter dated 15 August 2001 and our subsequent discussions, I am pleased to provide you with SIA's responses on the issues that have been raised

You have indicated to us that the Crown's interest in the Air NZ recapitalisation proposal falls into two broad areas: (1) the NZ national interest; and (2) the extent of voting power held by SIA in Air NZ. Both of these areas are discussed further below.

### National Interest Package

As demonstrated in our presentation to you in Wellington, we strongly believe that Air New Zealand's ("Air NZ") proposed recapitalisation plan best positions the airline for growth and is therefore beneficial in many ways to New Zealand's national interest.

In this regard, we believe it is important to appreciate the commercial alignment of interests of SIA and Air NZ following the proposed additional investment by SIA in Air NZ. Many of the matters which the NZ Government has proposed be addressed by SIA through specific undertakings and commitments are matters where the commercial interest of the parties will cause them to act in a manner which is mutually beneficial, which ensures the growth of Air NZ and which thereby meets the national interest of New Zealand. You will appreciate that it is difficult, in commercial endeavours, to legislate in advance for the large array of commercial circumstances which may arise in the future.

We understand the need for the Air NZ proposal to be capable of presentation in a manner which best demonstrates that it will meet the national interest of New Zealand. Accordingly, in addition to those benefits to the country's national interest outlined in our presentation in Wellington which we believe naturally follow from an alignment of the commercial interest of SIA and Air NZ through our increased investment, SIA is prepared to consider giving the following general assurances.

Star Alliance	It should be noted that SIA and Air NZ are equal partners in the Star Alliance.
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STAR ALLIANCE MEMBER

	<ul style="list-style-type: none"> <li>•</li> </ul>
<p><b>Most Favoured Customer Status</b></p>	<p>It must be noted that many of SIA's subsidiaries are not wholly owned, and can not undertake any actions which contravene the rights of their minority shareholders.</p> <ul style="list-style-type: none"> <li>• However, SIA will use all reasonable efforts to provide, and to procure its subsidiaries to provide, Air NZ with goods and services on terms and conditions which, recognizing the close relationship between SIA and Air NZ, are reasonably favourable. This is on the condition that these provisions are, to the extent reasonably possible, reciprocated by Air NZ, both in terms of value and nature of goods and services provided. It is intended that these arrangements will be for the mutual benefit of both airlines.</li> </ul>
<p><b>Route Structure</b></p>	<ul style="list-style-type: none"> <li>• As a shareholder in Air NZ, and commensurate with its voting rights, SIA will encourage Air NZ to expand its network both domestically and internationally.</li> </ul>
<p><b>Fleet Growth and Replacement</b></p>	<ul style="list-style-type: none"> <li>• To the extent possible as a shareholder in Air NZ, and commensurate with its voting rights, SIA will encourage Air NZ to grow, and SIA will support fleet capital expenditure plans required to achieve this growth.</li> </ul>
<p><b>Technology Transfer</b></p>	<ul style="list-style-type: none"> <li>• SIA will use all reasonable efforts to provide Air NZ with access to its technological developments and methodologies, subject to mutual agreement on commercial terms and subject to legal restrictions on SIA.</li> </ul>
<p><b>Tourism</b></p>	<ul style="list-style-type: none"> <li>• SIA will commit up to NZ\$2 million per annum over the next five years towards marketing New Zealand as a major tourist destination, provided that this commitment is matched on a dollar for dollar basis by the New Zealand Tourism Board.</li> </ul>
<p><b>Employment</b></p>	<ul style="list-style-type: none"> <li>• SIA's encouragement of Air NZ's growth and network expansion should offer more employment and bring more tourist arrivals and business traffic to New Zealand.</li> <li>• To the extent possible as a shareholder in Air NZ, and commensurate with its voting rights, SIA will support Air NZ's headquarters remaining in New Zealand.</li> <li>• SIA will also use all reasonable endeavours to give Air NZ's staff access to its training programmes and facilities.</li> </ul>

<p><b>Protection of Air Traffic Rights</b></p>	<ul style="list-style-type: none"> <li>• SIA supports a Board structure which preserves the current requirement for the majority of Air NZ's Board Directors to be New Zealand citizens, and which requires the New Zealand Government's approval for the appointment of the Chairman.</li> <li>• Given that the international aviation industry is being liberalised, SIA does not believe that Air NZ's international traffic rights will be threatened as a result of Air NZ's proposal. However, in the unlikely event that Air NZ's traffic rights are threatened, SIA believes that there are mechanisms to ensure that Air NZ's traffic rights can be safeguarded, as in the case of KLM which was pointed out in the presentation in Wellington.</li> </ul>
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**Capital Structure and Governance**

You have suggested that the Crown may be willing to accept a position where SIA has a 49% economic interest in Air NZ's share capital but a lower, voting interest of 35%, with the remaining 14% voting rights being vested in the New Zealand Government.

As a commercial enterprise, we would not be prepared to accept a position where we subscribe for equity on the one hand and give up our fundamental rights as an equity holder to a third party on the other. However, if the New Zealand Government wishes to have a 14% voting interest in Air NZ, then we would propose that it subscribe for 14% of the equity and SIA subscribe for equity which would raise its shareholding from 25% to 35%.

Recognising the political constraints you mentioned to our team in Wellington, we would be prepared to consider a situation where SIA subscribes for additional equity to increase its shareholding from 25% to 49%, but where voting rights attaching to a 14% interest held by us are suspended. In this case, we consider it appropriate that this suspension should be removed after 3 years, unless it can be clearly demonstrated that SIA had not acted in accordance with the provisions of the national interest package set out above. Given the significant capital we are committing and the associated risks, and the fact that we will not be in any position to control Air NZ, we are not prepared to accept any additional liabilities or sanctions that the Crown may wish to impose in relation to the national interest package. Because SIA does not have the ability to control Air NZ, it can only give the Crown assurances about its own activities, as an independent partner offering commercial assistance to Air NZ, and as a minority shareholder in Air NZ. SIA cannot control outcomes for Air NZ itself. As we made clear in our presentation in Wellington, as the holder of a 49% economic interest in Air NZ, we have every interest in seeing that the company succeeds as a commercial enterprise, and we believe that a successful Air NZ will bring tangible benefits to the New Zealand public interest.

As a 49% shareholder, and in order to safeguard SIA's interests as a significant contributor of capital to Air NZ, we believe it is only fair that SIA's concurrence be sought for the appointment and removal of the Chairman and CEO.

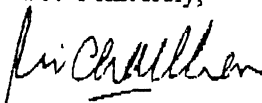
**Risks**

As SIA is prepared to commit the majority of the capital required to recapitalise Air NZ, and as this is not an insignificant amount, we naturally share the Government's concern that the company's turnaround strategy is viable and that there will be adequate long term capital sources. In making this commitment, we are demonstrating our confidence in the management team and its ability to execute the strategy. With regard to your question on Virgin Blue, I have asked Air NZ to revert to you more specifically. As I said to you, we are supportive of the Board's plan to acquire Virgin Blue, but this acquisition should not be made at any cost and is therefore not an indispensable part of Air NZ's recapitalisation plan.

We believe it is important to assess the relative merits of the Air NZ proposal in meeting the legitimate national interest concerns of New Zealand by comparing it to the position which may otherwise arise or against other proposals which are capable of being implemented. At this stage, we are not aware of any competing proposal for the recapitalisation of Air NZ which is capable of being implemented, or which keeps Air NZ and Ansett together, which we believe is vital to prevent Air NZ from becoming relegated to the status of a regional carrier.

I hope this answers most of the questions you and your team have raised, and I look forward to progressing these issues with you. As we have mentioned previously, we believe that the Air NZ proposal best addresses the key concerns of all the stakeholders involved, and we are committed to finding a solution to the current situation as fast as possible.

Yours sincerely,



for Cheong Choong Kong  
Deputy Chairman and  
Chief Executive Officer  
Singapore Airlines