

20 August 2001

Dr Cheong Choong Kong
Chief Executive
Singapore Airlines

Dear Dr Cheong

Thank you for your letter faxed to me on Friday 17 August in which you provide some options for Air New Zealand's recapitalisation that you consider would be acceptable to SIA. I have discussed your letter with Dr Cullen and to progress matters I have outlined issues that we need to further develop.

Recapitalisation and Governance Options

We would be interested in exploring further with you how the following two options might be implemented:

- ▶ SIA 49% economic interest, with 14% voting rights frozen for three years; and
- ▶ SIA 35% and New Zealand Government 14% equity stakes.

In addition we would like to develop a third "hybrid" option in the event that Air New Zealand's capital requirements are determined to be larger than the \$850 million equity injection included in your original proposal to the Crown. (I address Air New Zealand's capital requirements below under the heading "Recapitalisation Issues"). Such an option

might involve SIA having a 40% economic interest with, say, 5% of the voting rights frozen and the New Zealand Government also taking an equity interest.

We would therefore like your views on the following questions regarding the second and third (hybrid) options:

- ▶ Where would rights to appoint the Board fall? For example, we expect the New Zealand Government would seek the right to appoint two members to the Board (assuming a 13 member board) under a joint recapitalisation option where it owned an equity stake of 14%.
- ▶ How would the capital injection be structured? In our view the injection of capital by the Government and SIA would be contemporaneous and would be conditional upon Air New Zealand directors signing the prospectus for the rights offering.

In your letter you noted that "As a 49% shareholder ... we believe it is only fair that SIA's concurrence be sought for the appointment and removal of the Chairman and CEO ...". As part of any recapitalisation plan involving New Zealand Government equity participation we would expect to reach agreement with you on the appointment of the Chairman. (It is the Government's view that this appointment will be critical to ensure a well-functioning and effective board which maximises the prospect of successfully implementing the company's business plan). However, beyond this we would see no reason why the appointment and removal of the Chairman and CEO should not be a matter for the Board as a whole to determine.

In my letter of 15 August I raised with you the opportunity the recapitalisation presents to reduce the size of the Board. You provided me with your preliminary views on this matter in our last telephone conversation. We would like to develop with you further a Board configuration which met this objective and invite you to put forward proposals for discussion.

Recapitalisation Issues

In the course of our discussions two key issues have arisen which will need to be addressed as part of any recapitalisation plan:

- ▶ The adequacy of the equity injection of \$850 million to meet Air New Zealand's requirements for financial flexibility going forward in light of the extended timetable for the Ansett turnaround and larger operating losses now forecast by management for the next financial year (2001/2002); and
- ▶ The feasibility of the turnaround of Ansett without the acquisition of Virgin Blue (mentioned in my previous letter of 15 August to you).

We will be pursuing both of these issues with Air New Zealand management over the next few days. My purpose in highlighting this is to let you know that the Government expects the Board to confirm a consensus on both issues before it commits to any recapitalisation plan.

National Interest Package

Your submission on the National Interest Package is very helpful. We now wish to focus with you on several of the Singapore Airlines commitments and shift the primary application of the package to Air New Zealand. Accordingly, we propose adjusting the package outlined in your letter to:

- ▶ Define the word "reasonable" or "reasonably" further, or in the alternative, eliminate it;
- ▶ Explore options for enhancing the elements of the tourism package;
- ▶ Include a specific commitment to adjust networks and schedules to help to optimise passenger flows, connections and market reach of Air New Zealand; and
- ▶ Include Singapore Airlines' commitment to support Air New Zealand's Board as it fulfils its national interest obligations, including:
 - Fleet growth for Air New Zealand.
 - Preservation of a level of direct service.
 - Maintaining MRO Focus Centres in Auckland and Christchurch.
 - Commitment to support overarching tourism growth goals.

We would suggest the use of a schedule to the Singapore Airlines' Deed with the New Zealand government and have that deed interlock with a similar deed between Air New Zealand and the New Zealand Government.

Further Negotiations

As you are aware, time is of the essence. In order that Air New Zealand is able to present a credible recovery plan to the market on 5 September, the New Zealand Government is expected to make a decision as to its preferred option for Air New Zealand's recapitalisation in the week beginning 27 August.

Towards that goal, I invite you or your representatives to meet with my team in Wellington on Wednesday 22 August or Thursday 23 August. It would be vital that those appearing for you are mandated to negotiate the details of preferred options. I also consider that it would be most desirable for representatives of Air New Zealand to be available for that meeting when appropriate and sufficient time should be set aside by all parties to enable the proposals to be finalised.

I will telephone you this evening (NZ time) to discuss the content of this letter and the process for moving forward.

Yours sincerely

CAMERON & COMPANY LIMITED

Rob Cameron

Partner