



Notice of Annual Meeting
19 December 2001

AIR NEW ZEALAND LIMITED

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ENCLOSURE

Report by Grant Samuel & Associates Limited



CHAIRMAN'S LETTER

29 November 2001

Dear Shareholder

There has been considerable publicity surrounding the extraordinarily difficult and unfortunate circumstances the Company encountered earlier this year which resulted in Ansett being placed in Voluntary Administration and the write down of the carrying value of the net assets of Ansett. That situation left Air New Zealand in a tenuous financial position and without the financial support committed by the New Zealand Government it is unlikely that Air New Zealand would have survived in its present form. The terrorist attacks which occurred at approximately the same time and the consequences of those attacks have left many airlines worldwide (including some of the former giants of the industry) equally concerned about their continued financial viability. The effect of the terrorist attacks has exacerbated the situation for Air New Zealand as international travel has decreased and security and insurance costs have substantially increased.

The New Zealand Government's appreciation of the importance of Air New Zealand to the New Zealand economy and of the issues faced by the Company provided the basis against which the Government was prepared to commit financial support which should be welcomed by all of the Company's shareholders.

This Notice of Annual Meeting describes the matters which shareholders will be asked to approve to enable the recapitalisation programme agreed with the Crown to be implemented. In summary, these are:

- A placement to the Crown of 2,166,666,667 new ordinary shares at an issue price of 27 cents per share which will result in additional capital for the Company of \$585 million.
- The satisfaction of a \$300 million subordinated loan from the Crown by the issue to the Crown of 1,250,000,000 convertible preference shares at an issue price of 24 cents per share.
- The issue to the Crown of a further 29,866,438 new convertible preference shares also at an issue price of 24 cents per share in satisfaction of the Company's obligation to pay the accrued interest on the \$300 million loan from 15 October 2001 until 18 January 2002 which is the likely date on which the shares are to be issued to the Crown.

As shareholders will be aware, the price at which these shares are to be issued has been set after discussion and negotiation between the Crown and the Board. The Board obtained independent advice before concluding that the price is fair and reasonable to the Company and existing shareholders as required by Section 47 of the Companies Act 1993.

The valuation of airline companies' shares is a difficult exercise at the best of times given the volatility of the industry; as a result of the present uncertainties of Air New Zealand the potential valuation range is very wide.

In the final analysis, the Board has concluded that having regard to the present circumstances of the Company, its likely future prospects, uncertainties surrounding the current operating environment in the airline industry and the fact that without the Crown's injection of equity capital the Company's shares would almost certainly be worthless, the price is fair and reasonable. This conclusion is supported by the independent appraiser, Grant Samuel. A copy of Grant Samuel's report is enclosed.

At the time of mailing of this Notice of Meeting the recapitalisation proposal is still conditional on formal agreement being reached with the Company's unsecured banks on the terms of a new facility. An unconditional agreement with the banks has not yet been concluded but the negotiation of a new facility is continuing.

In conjunction with the recapitalisation, the Company's ordinary share structure is to be simplified and a new constitution is to be adopted. The A and B ordinary share structure was adopted at the time the Company was privatised in 1989 as a mechanism to ensure substantial ownership and effective control of the Company by New Zealand Nationals was maintained. This was a requirement for the Company to access international airline operating rights agreed between New Zealand and other countries. While that continues to be a requirement, there has been an international trend to allow more flexibility in relation to ownership with greater emphasis being placed on control and on requirements as to the principal place of business of an airline. As the Company will for the foreseeable future be very substantially owned by the New Zealand Government, the Company's access to international operating rights is unlikely to become contentious. However, the changes to the share structure and the

constitution will allow the Company more flexibility in the future. This is particularly important for access to international capital markets. The current requirement that 51% of the Company's equity requirements can only be funded from equity available in New Zealand's small capital markets has considerably restricted Air New Zealand's capital raising abilities in the past and put the Company at a substantial disadvantage to its international competitors. The removal of the A and B ordinary share structure and its replacement with a single class of ordinary shares will leave the Company with considerably more options available to it in relation to its future capital raising requirements.

At an operational level we have also been taking decisive steps both to improve profitability and to respond to the downturn in demand following the terrorist attacks in September. We have realigned our schedule to match the new demand environment. Trimming trans-Tasman and trans-Pacific services and deploying aircraft better matched to the demand on those sectors have been the most obvious reductions. Offsetting this we have boosted services to Asian destinations including Hong Kong and Taipei. We have also increased the services provided by Freedom Air into Australia, including new services to Newcastle and the Gold Coast and increased the frequency of mainline services to Perth and Cairns. These service adjustments reflect the fact that Air New Zealand is currently operating in its traditional "high" season and that despite the global downturn, New Zealand is fortunate to retain a degree of "safe destination" status and travel has not been as badly affected as in other regions of the world.

We have also started to feel the benefit of falling aviation fuel prices. As fuel cost is one of the primary operating costs of an airline, reductions in fuel price have a direct effect on profitability. With over eighty percent of our fuel now exposed to downward movements in price, the decreasing cost of fuel has provided some welcome relief but the continued intense competitive pressure means it will be difficult to fully realise the benefit.

Notwithstanding this, we are still facing a tremendously difficult period ahead and there is great uncertainty in the global aviation market. Even with the investment by the Government, Air New Zealand will still have a very high level of debt and, as a result, strategic flexibility will be limited. We are however committed to bringing debt levels back to a better level. This will be achieved through a combination of measures including retention of profits, asset sales and cost reductions. As a consequence, Directors do not envisage being in a position to recommend a resumption of dividends on the Company's ordinary shares in the near future. Rather this money is likely to be needed for the further repayment of debt to bring the business back to target gearing levels below sixty percent.

Any non-core assets will be looked at closely to see whether their contribution to the Company is best made through continued ownership or whether they can be sold and the proceeds used to further retire debt. Similarly a comprehensive cost reduction programme has been initiated throughout the Company. This has unfortunately resulted in job losses as we adjust the organisation to match the network reductions. These job losses have been felt throughout the organisation with salary reductions for management also contributing to the necessary savings.

This has been a particularly difficult year for the Company, its directors, management and staff and for its shareholders. The expansion into the Australian domestic market which had the potential to yield so much proved ultimately to be beyond the resources of the Company and the cost of that has been felt by many in many different ways. The recapitalisation proposal being submitted to the Annual Meeting provides an opportunity, and perhaps the only opportunity, to begin to rebuild on the solid foundation of an airline which is highly respected in New Zealand and internationally. The Board considers that the recapitalisation proposal is the best and only viable option available to the Company. With the continued support of shareholders, employees and a loyal customer base, Air New Zealand has a positive future. The first and most important step towards that is the implementation of the recapitalisation programme which the Board strongly recommends to shareholders for support at the Annual Meeting.

Yours sincerely



Dr Jim Farmer QC
Acting Chairman

DEFINITIONS

The following terms where used in this Notice of Meeting have the meanings ascribed to them unless the context otherwise requires.

A Director	Has the meaning given to that term in the Company's existing constitution
A Ordinary Share	Has the meaning given to that term in the Company's existing constitution
Air New Zealand	Air New Zealand Limited
B Director	Has the meaning given to that term in the Company's existing constitution
B Ordinary Share	Has the meaning given to that term in the Company's existing constitution
BIL	Brierley Investments Limited
BIL Subsidiaries	BIL NZ Assets Limited, Isa Investments Limited and Anafi Investments Limited
Company	Air New Zealand Limited
Companies Act	The New Zealand Companies Act 1993
Crown	Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance
Equity Security	Has the meaning given to that term in the New Constitution
Heads of Agreement	The heads of agreement between the Crown and the Company dated 4 October 2001 relating to, amongst other things, the subscription for the New Shares by the Crown
Interest	Has the meaning given to that term in the New Constitution
Kiwi Share	Has the meaning given to that term in the New Constitution
Kiwi Shareholder	Her Majesty the Queen in right of New Zealand as the holder of the Kiwi Share in the Company
Listing Rules	The Listing Rules of the New Zealand Stock Exchange
New Constitution	The proposed new constitution referred to in resolution 2 of the Business section in this Notice of Meeting and described in the section of this Notice of Meeting headed "Explanatory Statement in Relation to New Constitution"
New Shares	The new ordinary shares and new convertible preference shares to be issued to the Crown
New Zealand National	Has the meaning given to that term in the New Constitution
Notice of Meeting	This notice of meeting (including the Chairman's letter and all explanatory statements, procedural notes and other information contained in it)
NZSE	New Zealand Stock Exchange
Shareholder Support Agreement	The agreement dated 4 October 2001 between the Crown, the Company, BIL, BIL NZ Assets Limited, Anafi Investments Limited, Isa Investments Limited and SIA under which the parties (other than the Crown and the Company) have undertaken to exercise voting rights in favour of resolutions for the approval of the allotment of the New Shares to the Crown, the reclassification of the Company's A Ordinary Shares and B Ordinary Shares and the adoption of the New Constitution
SIA	Singapore Airlines Limited
Takeovers Code	The Takeovers Code approved by the Takeovers Code Approval Order 2000 (SR 2000/210)
Voting Right	Has the meaning given to that term in the New Constitution
\$ or NZ\$	New Zealand Dollar



NOTICE OF ANNUAL MEETING

Notice is given that the Annual Meeting of Air New Zealand Limited will be held in the Newmarket Room, Ellerslie Convention Centre, Ellerslie Racecourse, Greenlane Road, Auckland, New Zealand, on Wednesday 19 December 2001 commencing at 2pm.

Business

To consider and, if thought fit, to pass the following resolutions in accordance with the procedural notes set out on pages 7 and 8 and which form part of this Notice of Meeting.

Resolution 1 – Reclassification of A Ordinary Shares and B Ordinary Shares

"That, subject to resolutions 2 and 3 being passed and with effect from 5pm on 21 December 2001, all of the A Ordinary Shares and B Ordinary Shares in the Company be reclassified as one class of ordinary shares with each ordinary share having those rights and limitations applicable to ordinary shares set out in the new constitution referred to in resolution number 2 and:

- (a) each ordinary share will rank equally with each other ordinary share in all respects, including as to:
 - (i) dividends and other distributions;
 - (ii) distribution of the surplus assets of the Company on a liquidation; and
 - (iii) voting rights;
- (b) the existing restrictions on persons who are not New Zealand Nationals holding or having interests in A Ordinary Shares in the Company will cease to apply; and
- (c) the prior written consent of the Kiwi Shareholder will be required for:
 - (i) any person who is not a New Zealand National to hold or have an Interest in Equity Securities which confer 10% or more of the total Voting Rights of the Company; and
 - (ii) any person that owns or operates an airline business (or any associated person) to hold or have an Interest in an Equity Security."

Resolution 2 – Adoption of New Constitution

"That, subject to resolutions 1 and 3 being passed and with effect from 5pm on 21 December 2001, the existing constitution of the Company be revoked and the Company adopt the new constitution in the form tabled at the meeting and signed by the Chairman for the purpose of identification."

Resolution 3 – Issue of New Shares to the Crown

"That subject to resolutions 1 and 2 being passed the Board of the Company be authorised to issue and allot on or before 19 June 2002 to Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance the following shares:

- (a) 2,166,666,667 new ordinary shares at an issue price of 27 cents each (payable in full at the time of issue) which shall:
 - (i) have attached to them the rights and limitations applicable to ordinary shares set out in the new constitution referred to in resolution number 2; and
 - (ii) rank equally in all respects with all other ordinary shares in the Company existing as at 5.01pm on 21 December 2001 immediately following the reclassification of the Company's existing A Ordinary Shares and B Ordinary Shares referred to in resolution 1 and the adoption of the new constitution referred to in resolution 2;

- (b) 1,250,000,000 new convertible preference shares at an issue price of 24 cents each which shall:
 - (i) be issued in satisfaction of the Company's obligation to repay the NZ\$300 million subordinated loan made by the Crown to the Company on 15 October 2001 (the "Crown Loan"); and
 - (ii) have attached to them the rights and limitations described in the "Terms of the New Convertible Preference Shares" accompanying and forming part of this Notice of Meeting;
- (c) an additional 29,866,438 new convertible preference shares at an issue price of 24 cents each which shall:
 - (i) be issued in satisfaction of the Company's obligation to pay the accrued interest on the Crown Loan from 15 October 2001 to 18 January 2002; and
 - (ii) have attached to them the rights and limitations described in the "Terms of the New Convertible Preference Shares" accompanying and forming part of this Notice of Meeting."

Resolution 4 – Auditors' Remuneration

That the Directors be authorised to fix the remuneration of the auditors.

Resolution 5 – Election of A Directors

Resolutions will be put for the election of two A Directors.

Sir Ronald Carter retires by rotation and, being eligible, offers himself for re-election.

Mr R J Norris retires by rotation and, being eligible, offers himself for re-election.

Mr S L Franks has been nominated for election as an A Director and offers himself for election.

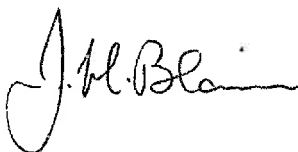
Resolution 6 – Election of B Directors

Resolutions will be put for the election of two B Directors.

Mr G R W France was appointed as a B Director by the Board on 3 October 2001. In accordance with the Company's constitution Mr France retires from office at the meeting and, being eligible, offers himself for election.

Mr J L Palmer was appointed as a B Director by the Board on 29 November 2001. In accordance with the Company's constitution he retires from office at the meeting and, being eligible, offers himself for election.

By Order of the Board



J H Blair,
General Counsel & Company Secretary
Auckland, New Zealand
4 December 2001

Notes

1. Persons Entitled to Vote

The persons who will be entitled to vote at the Meeting are those persons (or their proxies or representatives) registered as holding A Ordinary Shares or B Ordinary Shares on Air New Zealand's share register at 5pm on 17 December 2001.

2. Proxies and Corporate Representatives

Shareholders entitled to attend and vote at the Meeting may appoint a proxy or representative (in the case of a corporate shareholder) to attend and vote on their behalf. A proxy need not also be a shareholder. The notice appointing a proxy or representative must be received at the office of the Company's share registrar, Computershare Registry Services Limited, 159 Hurstmere Road, Takapuna, Private Bag 92119, Auckland 1020, New Zealand by 2pm on Monday 17 December 2001. An Instrument Appointing a Proxy is enclosed with this Notice.

PROCEDURAL NOTES IN RELATION TO RESOLUTIONS

Resolution 1 – Reclassification of A Ordinary Shares and B Ordinary Shares

In accordance with the requirements of sections 116 and 117 of the Companies Act separate approvals (by special resolution) of each "interest group" are required to reclassify the A Ordinary Shares and the B Ordinary Shares as one class of ordinary shares. For this purpose there are two interest groups, one consisting of the holders of the A Ordinary Shares and the other consisting of the holders of the B Ordinary Shares. Therefore, Resolution 1 will be proposed as:

- (a) a special resolution (requiring a majority of 75% or more of the votes cast) of the holders of the A Ordinary Shares only; and
- (b) a special resolution (requiring a majority of 75% or more of the votes cast) of the holders of the B Ordinary Shares only.

Resolution 2 – Adoption of New Constitution

The New Constitution also reflects changes to the rights attaching to the A Ordinary Shares and the B Ordinary Shares which will result from the reclassification of those shares as one class of ordinary shares. Therefore, in accordance with the requirements of sections 116 and 117 of the Companies Act, separate approvals (by special resolution) of each "interest group" are required to adopt the New Constitution. For this purpose there are the same two interest groups as for the reclassification – the holders of the A Ordinary Shares (as one group) and the holders of the B Ordinary Shares (as the other group). To adopt the New Constitution a further special resolution of the holders is required of the A Ordinary Shares and the B Ordinary Shares, voting together. Therefore, Resolution 2 will be proposed as:

- (a) a special resolution (requiring a majority of 75% or more of the votes cast) of the holders of the A Ordinary Shares only;
- (b) a special resolution (requiring a majority of 75% or more of the votes cast) of the holders of the B Ordinary Shares only; and
- (c) a special resolution (requiring a majority of 75% or more of the votes cast) of the holders of the A Ordinary Shares and the B Ordinary Shares, voting together.

Resolution 3 – Issue of New Shares to the Crown

In accordance with the requirements of the Listing Rules and the Takeovers Code in relation to the issue and allotment of the New Shares to the Crown, Resolution 3 will be proposed as:

- (a) an ordinary resolution (requiring a majority of more than 50% of the votes cast) of the holders of the A Ordinary Shares only;
- (b) an ordinary resolution (requiring a majority of more than 50% of the votes cast) of the holders of the B Ordinary Shares only; and
- (c) an ordinary resolution (requiring a majority of more than 50% of the votes cast) of the holders of the A Ordinary Shares and the B Ordinary Shares, voting together.

In accordance with the provisions of the Listing Rules and the Takeovers Code, the Crown is not permitted to vote on any of those ordinary resolutions.

The Market Surveillance Panel of the New Zealand Stock Exchange has granted a waiver from Listing Rule 9.2 in relation to voting commitments to vote in favour of the proposal to issue New Shares to the Crown. Those voting commitments were given under the Shareholder Support Agreement by SIA, BIL and the BIL Subsidiaries. As a result of that waiver SIA, BIL and the BIL Subsidiaries will not be disqualified by the Listing Rules from voting in favour of the shareholder resolutions to approve the issue of the New Shares to the Crown.

The Takeovers Panel has, pursuant to the Takeovers Code (Air New Zealand Limited) Exemption Notice 2001, granted certain exemptions from Rules 6(1), 7(d) and 17(2) of the Takeovers Code. The effect of those exemptions is that the entry into or performance of the Shareholder Support Agreement will not breach the Takeovers Code and will not prohibit SIA, BIL and the BIL Subsidiaries from voting on the shareholder resolutions to approve the issue of the New Shares to the Crown.

Under the Company's existing constitution and the Listing Rules an issue of shares authorised by shareholder resolutions must be completed within 6 months of the passing of the resolutions. 19 June 2002 is, therefore, the last date upon which the New Shares can be issued to the Crown pursuant to the resolutions to be considered at the meeting. Air New Zealand expects that the issue and allotment of the New Shares will be completed well before that date.

The Crown and the Company have agreed that if the New Shares are issued and allotted to the Crown after 18 January 2002, the additional interest accrued on the Crown Loan after 18 January 2002 until the date of the issue and allotment of the New Shares will not be satisfied by way of the issue of further new convertible preference shares to the Crown but will be paid to the Crown by the Company in cash.

Resolution 5 – Auditors' Remuneration

The resolution to authorise the directors to fix the remuneration of the auditors is an ordinary resolution which requires approval by a simple majority of the votes of the holders of the A Ordinary Shares and the B Ordinary Shares, voting together.

Resolution 6 – Election of A Directors¹

1. There are two vacancies for the election of A Directors and three candidates to fill those vacancies. They are Sir Ronald Carter and Mr R J Norris who are both retiring by rotation and seeking re-election and Mr S L Franks who has been nominated for election as an A Director by a shareholder, Catharine Franks (Mackenzie).
2. As there are three candidates to fill only two vacancies for A Directors that election will be conducted by way of a ballot.
3. A voting paper is attached which can be used at the Meeting. If you are attending the Meeting please bring it with you.
4. Only two of the three candidates may be elected as A Directors to fill the vacancies as a result of the ballot.
5. Only holders of A Ordinary Shares may vote (either in person or by proxy or representative) for the election of A Directors.
6. Holders of A Ordinary Shares who vote (whether in person or by proxy or representative):
 - (a) may vote **for only one or two** of the three candidates. A vote for all three candidates will be invalid.
 - (b) may vote **against** all or any of the candidates.

To be elected a candidate must have more votes cast for him ("For Votes") than against him ("Against Votes").
7. If all three candidates receive more For Votes than Against Votes the result of the ballot will be determined as follows:
 - (a) the two candidates who receive the highest and second highest number of For Votes will be elected;
 - (b) if after counting the number of For Votes in accordance with paragraph (a) there is a tie between two or more candidates, the candidate(s) to be elected from those that are tied will be the candidate(s) who receive the least number of Against Votes;
 - (c) if after counting the number of For Votes and Against Votes in accordance with paragraphs (a) and (b) there is still a tie, the candidate(s) to be elected from those that are tied will be determined by lot.
8. If no candidate or only one candidate receives more For Votes than Against Votes the remaining vacancy or vacancies (being one or two vacancies, as the case may be) will not be filled at the meeting and the Board will fill the resulting casual vacancy or vacancies.
9. A statement from Catharine Franks (Mackenzie) in support of the election of Mr S L Franks is included with this Notice of Meeting.
10. Statements from Sir Ronald Carter and Mr R J Norris are also included with this Notice of Meeting.

Resolution 7 – Election of B Directors¹

1. Only holders of B Ordinary Shares may vote (either in person or by proxy or representative) for the election of B Directors.
2. Each resolution to elect a B Director requires approval by a simple majority of the votes of the holders of the B Ordinary Shares only.
3. Statements from Mr G R W France and Mr J L Palmer are included with this Notice of Meeting.

Minority Buy-out Rights

Section 118 of the Companies Act may confer minority buy-out rights on shareholders who vote against the separate interest group resolutions to approve the reclassification of the A Ordinary Shares and the B Ordinary Shares and the adoption of the New Constitution.

A shareholder will be entitled to exercise those buy-out rights if:

- (a) the shareholder casts all the shares registered in the shareholder's name against one of the "interest group" resolutions (i.e. one of the separate resolutions of A shareholders only or of B shareholders only) required to approve the reclassification of the A Ordinary Shares and the B Ordinary Shares or adopt the New Constitution; and
- (b) that special resolution is nevertheless passed; and
- (c) the Company becomes entitled to take the action affecting the shareholder's rights.

The Heads of Agreement between the Company and the Crown contains a condition under which the Crown's subscription for the New Shares is dependent on there not being a shareholder or shareholders who collectively hold more than 2% of the existing share capital exercising their minority buy-out rights. At the time the period for minority buy-out notices to be given to the Company expires the A Ordinary Shares and the B Ordinary Shares will have been reclassified into one class of ordinary shares. The 2% threshold mentioned above therefore effectively refers to 2% of the reclassified ordinary shares (excluding the New Shares to be issued to the Crown).

¹ The classifications of A Directors and B Directors will disappear when the New Constitution comes into effect.

EXPLANATORY STATEMENT IN RELATION TO RECLASSIFICATION OF SHARES

Introduction

This section contains:

- (a) a timetable for the reclassification of shares;
- (b) a description of the Company's existing ordinary share structure (which is divided into A Ordinary Shares and B Ordinary Shares);
- (c) a description of the proposed new ordinary share structure, namely a single class of ordinary shares.

Timetable for Reclassification for Shares

Below is a timetable of the key dates for the reclassification of the A Ordinary Shares and the B Ordinary Shares as one class of ordinary shares.

Wednesday 19 December 2001	Annual Meeting held
Friday 21 December 2001	Record Date (5pm) ¹
Monday 24 December 2001	A Ordinary Shares and B Ordinary Shares cease trading on NZSE ² Reclassified ordinary shares commence trading on NZSE ²
Friday 4 January 2002	FASTER statements relating to holdings of reclassified ordinary shares sent to shareholders ²

Notes

¹ Each existing A Ordinary Share or B Ordinary Share held by shareholders on the share register at 5pm on the Record Date will be reclassified as an ordinary share.

² Will only occur if resolutions 1, 2 and 3 are passed at the Annual Meeting.

Existing Ordinary Share Structure – A Ordinary Shares and B Ordinary Shares

The Company's ordinary shares are currently divided into two classes, A Ordinary Shares and B Ordinary Shares. The key features of that structure are:

- (a) the current maximum number of B Ordinary Shares that may be on issue is 49% of the total number of all ordinary shares on issue. Therefore the number of A Ordinary Shares on issue must be at least 51% of the total number of ordinary shares on issue;
- (b) the A Ordinary Shares and the B Ordinary Shares all rank equally for dividends and distribution of the surplus assets of the Company on a liquidation and, except in relation to the appointment and election of directors, carry the same voting rights;
- (c) a formula is contained in the Company's existing constitution in relation to the composition of the Board. Essentially the holders of the A Ordinary Shares and of the B Ordinary Shares are entitled to appoint or elect A and B directors respectively (other than any managing director who is appointed by the Board);
- (d) A Ordinary Shares may be held only by New Zealand Nationals;
- (e) B Ordinary Shares are not restricted to ownership by New Zealand Nationals and may be held by any person but if they are to be held by the owners or operators of an airline business (or parties related to those owners or operators), the prior consent of the Kiwi Shareholder is required.

New Ordinary Share Structure – Single Class of Ordinary Shares

If the A Ordinary Shares and the B Ordinary Shares are reclassified into a single class of ordinary shares, the key features of that single class structure will be:

- (a) all ordinary shares will rank equally in all respects, including as to dividends, distribution of the surplus assets of the Company on a liquidation and voting rights;
- (b) there will no longer be any separate voting or appointment rights in relation to the election or appointment of directors;
- (c) the existing restrictions on persons who are not New Zealand Nationals holding or having interests in A Ordinary Shares in the Company will cease to apply;

- (d) the prior written consent of the Kiwi Shareholder will be required for:
 - (i) any person who is not a New Zealand National to hold or have an Interest in Equity Securities which confer at any time 10% or more of the total Voting Rights at that time; and
 - (ii) any person that owns or operates an airline business (or any associated person) to hold or have an Interest in an Equity Security.

The Board and the Kiwi Shareholder will continue to have powers to take action in relation to ordinary shares (and any other Equity Securities) in accordance with the provisions of section 10 of the New Constitution.

Securities Act (Renewals and Variations) Exemption Notice 1997

For the purposes of the Securities Act (Renewals and Variations) Exemption Notice 1997 the following information is provided:

- (a) the information set out under the headings "Existing Ordinary Share Structure – A Ordinary Shares and B Ordinary Shares" and "New Ordinary Share Structure – Single Class of Ordinary Shares" provides details of the terms of the proposed variation to the terms and conditions of the A Ordinary Shares and the B Ordinary Shares (under which the A Ordinary Shares and the B Ordinary Shares will be reclassified as a single class of ordinary shares);
- (b) the purpose and effect of the proposed variation is to vary the Company's existing ordinary share structure so that following the variation the Company will have a single class of ordinary shares on issue and all of those ordinary shares will rank equally in all respects;
- (c) to bring the proposed variation into effect it is necessary for all of resolutions 1, 2 and 3 set out in the Notice of Meeting to be passed at the Annual Meeting;
- (d) other than matters set out elsewhere in this Notice of Meeting there are no matters material to the proposed variation to the terms and conditions of the A Ordinary Shares and the B Ordinary Shares.

EXPLANATORY STATEMENT IN RELATION TO NEW CONSTITUTION

New Constitution

Resolution 2 of the Business in this Notice of Meeting is a proposal that the Company revokes its existing constitution and adopts the New Constitution. A clean copy of the New Constitution and a copy of the New Constitution marked-up to show the differences between the New Constitution and the existing constitution may be viewed on the Company's website www.airnz.co.nz.

Copies of those documents are also available on request from the Company at Private Bag 92007, Auckland, Attention: Mr John Blair, General Counsel & Company Secretary. You may also inspect copies of those documents at the registered office of the Company, Level 19, Quay Tower, 29 Customs Street West, Auckland.

An explanation of the major differences between the New Constitution and the existing constitution is set out below. In addition to the changes described below there are a number of other changes which are either consequential changes or drafting improvements. References to clause numbers are references to clause numbers in the New Constitution.

1. **Clause 1.2 – Trading Name**

The New Constitution contains a provision that the trading name used by the Company in respect of its international air services operated to or from New Zealand under the Company's Scheduled International Air Service Licence must include the words "Air New Zealand" unless the Kiwi Shareholder agrees otherwise. This requirement will not apply to the Freedom Air operations because they are undertaken by a separate subsidiary under its own international air services licence.

2. **Clause 1.3 – Place of Incorporation**

The New Constitution contains a provision that the Company's place of incorporation must be in New Zealand.

3. **Clause 1.4 – Principal Place of Business**

New Constitution contains a provision that the principal place of business in relation to each of the Company's New Zealand domestic airline services and its international air services operated to and from New Zealand must be in New Zealand. Clause 1.5 which requires the Company's Head Office to be in New Zealand has been made consistent with clause 1.4 by removing the provision which enabled the location of the Head Office to change from New Zealand with the consent of the Kiwi Shareholder.

4. **Clause 1.6 – Definitions**

The following are the main changes in relation to definitions in the Constitution:

- A number of definitions which are relevant to the existing A Ordinary Share and B Ordinary Share structure are deleted (for example the definitions of "A Ordinary Share", "B Ordinary Share", "A Director" and "B Director" will no longer be necessary and are not included in the New Constitution).
- A new definition of "Associated Person" is included (in clause 1.8 of the New Constitution) and applies in connection with clause 3.3 (which relates to limitations on airline shareholdings) and section 10 (which relates to the powers of the Board and the Kiwi Shareholder in relation to Equity Securities).
- The definition of "Equity Security" is amended to make it clear that it includes an "ordinary share" and excludes the Kiwi Share.
- A new definition of "Interest" is included (which is set out in clause 1.7). That new definition follows closely the definition of "relevant interest" in the Securities Amendment Act 1988 and is a more modern and relevant definition than the definition of "Interest" contained in the existing constitution.
- A definition of "International Air Services" is included. That definition is used in relation to the provisions relating to the Company's trading name and principal place of business. Those services are defined as those operated by the Company under its Scheduled International Air Service Licence granted under the New Zealand Civil Aviation Act 1990.
- The definition of "Intervening Act" is amended so that it refers to circumstances where operating rights may be affected as a result of persons owning or controlling or having an interest in any of the Company's "Equity Securities". Previously the definition referred to persons owning or controlling or having an interest in "Shares".
- The definition of "New Zealand Business" is amended by modifying the references to underwriters of public offers so that underwriters of offers of "Equity Securities" may be capable of qualifying as a "New Zealand Business". Previously the definition only referred to underwriters of offers of "Ordinary Shares".
- The definition of "New Zealand National" is modified slightly to make it clear that an investment trust must be substantially owned and effectively controlled by New Zealand Nationals to fall within that definition. The ability of foreign employees to be treated as "New Zealand Nationals" is removed. It is no longer necessary for foreign employees to have the ability to be treated as New Zealand Nationals as the only restriction on them holding shares will be the new 10% of voting rights restriction described below.
- A new definition of "Related Body Corporate" is included. That definition is used in the new definition of "Associated Person".
- A new definition of "Voting Right" extends the concept of voting so that it also covers voting rights which attach to securities other than shares.

5. **Clause 3.1 – Existing Ordinary Shares**
This clause makes it clear that each ordinary share will confer the right to one vote on a poll at a meeting of the Company on any resolution. Such voting rights are subject to the voting restrictions in the Listing Rules (which are reflected in section 17 of the New Constitution) and to the rights of any shares that may be issued with special voting rights.
6. **Clause 3.2 – Classes of Shares**
This clause in the New Constitution now refers to one class of ordinary shares in place of the references to A Ordinary Shares and B Ordinary Shares in the existing constitution.
7. **Clause 3.3 – Limitation on Airline Ownership**
This clause is modified to restrict any person that owns or operates an airline business and any of its Associated Persons from holding or having an Interest in any Equity Security unless the prior written consent of the Kiwi Shareholder is obtained. The corresponding clause in the existing constitution only restricts airlines holding or having an interest in B Ordinary Shares.
8. **Clause 3.4 – Limitation on Ownership by Non-New Zealand Nationals**
A new provision is included under which any non-New Zealand National must obtain the prior written approval of the Kiwi Shareholder to hold or have an Interest in 10% or more of the total Voting Rights in the Company.
9. **Clause 3.5 – Kiwi Share**
The provisions of the Constitution which can not be amended, removed or altered without the prior written consent of the Kiwi Shareholder ("Protected Provisions") are changed to reflect a number of the other amendments introduced by the New Constitution. New provisions which will be "Protected Provisions" are those relating to the Company's trading name, its place of incorporation, its principal place of business and the definitions of "Equity Security", "International Air Services", "Voting Right", "Related Body Corporate", "Representative", "Interest" and "Associated Person". Clause 2.3 which relates to Exchange Rulings, a new clause 9.6 relating to a shareholder disclosure register, clause 12.2(a) which relates to meetings of groups of shareholders and the entire section 24 which relates to the appointment and removal of directors will also be Protected Provisions.
10. **Clause 3.7 – New Shares**
Clause 3.7 which sets out the types of new shares that may be issued has been updated to bring it into line with modern practice.
11. **Clause 4.6 – Employee Share Issues**
This clause is modified to provide that securities that have been issued to employees but have ceased to be on issue (such as options which have lapsed) are not taken into account in calculating the thresholds for the making of issues of equity securities to employees without shareholder approval.
12. **Clause 4.8(a) – Other Issues of Shares**
As a result of the introduction of the Takeovers Code this clause in the New Constitution does not contain the obsolete references to the now repealed Companies Amendment Act 1963 and makes specific reference to the Takeovers Code which came into force earlier this year.
13. **Clause 9.6 – Shareholder Disclosure Register**
The requirement in the existing constitution that a certificate of nationality be provided in connection with every transfer of A Ordinary Shares to a new transferee is removed. A new provision is included requiring the Company to keep a register of the information it obtains from any statutory declarations or other disclosures provided to the Company by registered holders of shares. The existing clause 9.5 enabling the Company to obtain statutory declarations from significant transferees of shares is retained. In addition a new provision enabling the Board to obtain nationality declarations from holders of Equity Securities is included in a new clause 10.1.
14. **Clause 10.1 – Nationality Declaration Required on Request**
The new clause 10.1 gives the Board the power to seek nationality declarations from registered holders of Equity Securities in the Company. The Board will be obliged to exercise those powers if it is requested to do so by the Kiwi Shareholder in respect of any persons who are registered as the holders of 1% or more of the Equity Securities of any Class.
15. **Other Provisions of Section 10 – Powers of Board and Kiwi Shareholder in Relation to Equity Securities**
Section 10 contains the powers of the Board (and the Kiwi Shareholder) to take action in relation to Equity Securities issued by the Company if it is considered necessary to do so to protect the Company's international airline operating rights.
A number of amendments are made by the new section 10 including the following:
 - The relevant powers currently apply only in relation to shares. The new section 10 will extend those powers so that they apply in relation to any "Equity Security".
 - There will no longer be a reference to the exercise of the powers being necessary to establish whether a non-New Zealand National has an interest in A Ordinary Shares. That is replaced with a reference to those powers being exercisable to establish whether an airline holds or has an interest in Equity Securities in contravention of clause 3.3 or whether any person other than a New Zealand National holds or has an interest in Equity Securities in contravention of the new 10% restriction to be introduced by clause 3.4. Those powers will also be exercisable if it is necessary to establish whether any person has failed to comply with any of the terms or conditions of a consent given by the Kiwi Shareholder under clause 3.3 (which relates to airline shareholdings) or clause 3.4 (which relates to substantial shareholdings by non-New Zealand Nationals).

- The Board's powers to take action will be made more flexible. In particular if the Board decides to exercise those powers it may decide to limit or restrict Voting Rights or require the sale of the relevant Equity Securities. The existing constitution is more inflexible. Under the existing constitution where shares are determined to be "Affected Shares", voting rights may be removed and ultimately the "Affected Shares" must be sold or otherwise disposed of.
 - A new clause 10.13 is included which provides that an inability or failure to give a notice to any person will not prevent the implementation of or invalidate any action taken under section 10.
 - New clauses 10.14 and 10.15 are included which provide that decisions taken by and certificates issued by the Board or the Kiwi Shareholder in relation to their powers under section 10 are final and conclusive.
- 16. Takeover Restrictions**
The takeover restrictions contained in the existing constitution to comply with the NZSE Listing Rules will be deleted. Those provisions are now replaced by the provisions of the Takeovers Code.
- 17. Section 24 – Appointment and Removal of Directors**
Section 24 relates to the appointment and removal of Directors. The main amendments made by the new section 24 are:
- The number of Directors (excluding any Managing Director) must not be more than 8 nor less than 5. Subject to those limitations the number of Directors to hold office may be fixed from time to time by Ordinary Resolution. At the time of adoption of the New Constitution the number of Directors is deemed to have been fixed by ordinary resolution at 8. The New Constitution specifies that at least 3 Directors must be ordinarily resident in New Zealand.
 - The provisions relating to the appointment and removal of directors are simplified in the New Constitution as a result of the removal of the A Ordinary Share and B Ordinary Share distinction.
 - The separate election powers of A Ordinary Shareholders to elect A Directors and of B Ordinary Shareholders to elect B Directors will no longer apply. The election or removal from office of directors will be a power exercisable by ordinary resolution of the ordinary shareholders. The power of the Board to appoint Directors (if there is a vacancy) is retained. The existing requirement that any Director appointed by the Board will need to seek re-election at the next annual meeting of shareholders is also retained.
- 18. Retirement Age for Directors**
Consistent with current customary practice the New Constitution does not specify an age at which a director must retire or at which a person is ineligible for appointment or election as a director. The existing constitution contains a provision requiring a director to retire at the next annual meeting after the director has attained the age of 70 years.
- 19. Clause 27.4 – Notice of Board Meetings**
The New Constitution retains the requirement that the normal period of notice for Board meetings will be 7 days but removes the proviso that 48 hours notice is required for urgent meetings. No minimum or other prescribed period of notice is included for urgent meetings.
- 20. Clause 27.8 – Chairperson**
The existing requirement for the Chairperson to be a New Zealand citizen is retained. In addition there will be a new requirement that while the Crown is a "substantial security holder" through being the beneficial owner of Equity Securities the Chairperson must be approved by the Minister of Finance.

NZSE Approvals and Waivers

The Market Surveillance Panel of the NZSE (the **Panel**) has approved the New Constitution. In giving its approval the Panel has:

- pursuant to Listing Rule 11.1.5 provided its approval to the inclusion in the New Constitution of restrictions on transfer of Equity Securities which extend beyond those specifically provided for in the Listing Rules. That approval has been provided by the Panel on the understanding that those transfer restrictions are imposed to enable the Company to ensure that its operating rights are not affected and that the Company remains substantially owned and effectively controlled by New Zealand Nationals;
- granted a waiver from Listing Rule 11.1.6 to the extent necessary to enable those restrictions on transfer to be included in the New Constitution;
- granted a waiver from Listing Rule 3.3.2 to the extent necessary to allow clause 24.3 of the New Constitution to contain a requirement that the majority of the Directors must be New Zealand citizens;
- granted a waiver from Listing Rule 3.1.1(d) to the extent necessary to allow clause 2.3 of the New Constitution to provide that an NZSE ruling cannot authorise an act or omission which would contravene certain provisions of the New Constitution which relate to the Kiwi Share or which can not be amended without the Kiwi Shareholder's consent.

EXPLANATORY STATEMENT IN RELATION TO RECAPITALISATION

Introduction

On 4 October 2001 Air New Zealand announced that it was to be recapitalised by the injection of up to \$885 million in a two-phase loan and equity investment by the New Zealand Government, under the terms of an agreement reached between the Government, the Company, and its major shareholders – Brierley Investments Limited and Singapore Airlines Limited.

The Company also announced that it had reached agreement with the Voluntary Administrators of the Ansett Group to settle claims between the Ansett Group and Air New Zealand.

At the Annual Meeting several resolutions will be considered which are designed to give effect to the recapitalisation. In particular:

- (a) resolutions to reclassify the existing A Ordinary Shares and B Ordinary Shares into a single class of ordinary shares will be considered;
- (b) resolutions to adopt a new constitution will also be considered; and
- (c) approvals will be sought to issue new ordinary shares and new convertible preference shares to the Crown.

\$300 Million Loan from the Crown

The first phase of the recapitalisation programme, which was not subject to shareholder approval, was completed on 15 October 2001. It involved:

- A Crown loan to the Company of NZ\$300 million.
- A payment to the Ansett Group of A\$150 million in settlement of claims by the Ansett Group against Air New Zealand.
- The balance of the Crown loan being used or available for use by the Company for working capital.
- The Company relinquishing claims against the Ansett Group for moneys owed, amounting to approximately A\$160 million, as part of the Ansett settlement.

The loan bears interest at the 90 day bank bill rate on 15 October 2001 plus 4% (in total 9.18%) and interest will be payable on repayment of the loan. The obligation to pay that interest for the period from 15 October 2001 to 18 January 2002 will be satisfied by the issue of convertible preference shares.

Ansett Settlement

Under the terms of the agreement reached with the Voluntary Administrators of the Ansett Group, the Air New Zealand Group and its directors are released by the Voluntary Administrators on behalf of the Ansett companies from all claims which relate to Air New Zealand's involvement with the Ansett Group.

The agreement with the Voluntary Administrators was not opposed by the Ansett Committee of Creditors and was approved by the Federal Court of Australia.

The Company's Board of Directors and its advisers have reviewed other potential exposures relating to Ansett and any further material liability for the Company is considered to be unlikely.

Unsecured Banks

The Company entered into a deed of waiver with its unsecured banks on 15 October 2001 under which those banks agreed to waive certain breaches of financial covenants caused by the writedown of the Ansett investment. The Company is negotiating a new facility with its unsecured banks which, if concluded, will supersede that waiver.

At the time of mailing of this Notice of Meeting an unconditional agreement has not yet been concluded with the banks but the negotiation of a new facility is continuing. The Heads of Agreement is conditional on such an agreement being concluded before the New Shares are issued.

Crown Equity Investment

The second phase of the recapitalisation programme is subject to shareholder approvals which are being sought at the Annual Meeting. That second phase involves:

- The Company's obligation to repay the principal amount of the NZ\$300 million loan being satisfied by the issue to the Crown of 1,250,000,000 new convertible preference shares in the Company at an issue price of 24 cents per share;
- The Company's obligation to pay the accrued interest on that loan from 15 October 2001 to 18 January 2002 (which is the likely issue date of the new shares) being satisfied by the issue to the Crown of a further 29,866,438 new convertible preference shares at an issue price of 24 cents per share;
- The investment of a further NZ\$585 million by the Crown in subscribing for 2,166,666,667 new ordinary shares in the Company at an issue price of 27 cents per share;
- The reclassification of the Company's A Ordinary Shares and B Ordinary Shares into one class of ordinary shares; and
- The adoption of a new constitution.

If the convertible preference shares are issued after 18 January 2002, the Company's obligation to pay interest to the Crown on the \$300 million subordinated loan after that date will be satisfied in cash. That interest amounts to \$75,452.05 per day.

The Crown has also advised the Company that it is prepared to commit a further \$150 million of capital before 30 June 2003, in a form appropriate to the capital structure needs of the airline at the time it is required. If any further investment of that nature is to be made by the Crown any necessary shareholder approvals for that investment will be sought at the appropriate time. The Directors would also give favourable consideration to ensuring that other shareholders participate in any such capital raising on the same terms and conditions as the Crown.

The convertible preference shares will carry a fixed cumulative dividend of 5% per annum and will have full voting rights. They will convert into ordinary shares on a one for one basis on 31 January 2005 or such earlier date as the Crown decides. They will not be listed prior to conversion.

No further capital is being sought from BIL, SIA, or other shareholders as part of the recapitalisation package. BIL and SIA have agreed to support the recapitalisation proposal and to vote in favour of the shareholder resolutions to put it in place. They have agreed to retain their current shareholdings until the earlier of 31 January 2002 and the conclusion of the shareholders' meeting.

BIL (through the BIL Subsidiaries) currently holds 30.3% of Air New Zealand's ordinary shares. Upon completion of the recapitalisation that holding will reduce to 5.5%. SIA currently holds 25.0% of Air New Zealand's ordinary shares. Upon completion of the recapitalisation that holding will reduce to 4.5%.

Upon completion of the recapitalisation after NZ\$885 million has been invested by the Crown at 27 cents per ordinary share and 24 cents per convertible preference share the Crown will hold approximately 74% of the ordinary shares and 82% of the enlarged share capital of the Company. If dividends on the convertible preference shares are satisfied not in cash but by the issue of further convertible preference shares that percentage shareholding may increase, although not materially.

Conditions

The principal remaining conditions (apart from shareholder approvals) applying to the implementation of the recapitalisation programme which have not been satisfied yet are as follows:

- The completion or continued operation of the agreement with the Voluntary Administrators of the Ansett Group.
- Any shareholder or shareholders collectively holding more than 2% of the existing share capital not exercising their minority buy-out rights following the shareholders meeting.
- Air New Zealand's unsecured bankers agreeing to continue their facilities (or replacement facilities) until at least 31 December 2003 and the Crown being satisfied as to the repayment profile of other financiers.
- No steps being taken to place any member of the Air New Zealand Group in statutory management or liquidation, and no secured creditor exercising rights in respect of material assets.

Independent Expert's Report

Enclosed with this meeting is an independent expert's report from Grant Samuel & Associates Limited (Grant Samuel) in relation to the issue of the New Shares to the Crown. That report is:

- an Appraisal Report under NZSE Listing Rule 9.2 on the fairness to shareholders of Air New Zealand (other than the Crown) of the issue of the New Shares to the Crown; and
- an independent adviser's report under Rule 18 of the Takeovers Code on the merits of the issue of the New Shares to the Crown having regard to the interests of shareholders of Air New Zealand (other than the Crown).

The independent report by Grant Samuel has concluded that the proposed recapitalisation is fair and reasonable. The Board of Air New Zealand encourages shareholders to read the full report from Grant Samuel.

Air New Zealand has provided Grant Samuel with all Relevant Information (as defined in the Listing Rules) about Air New Zealand which is held by Air New Zealand and to which Air New Zealand believes the Crown has had, or may have had, access. Air New Zealand believes that this information has been addressed and reflected in Grant Samuel's report. Grant Samuel has formed its own view on Air New Zealand's prospects.

Conclusion

The Board¹ of Air New Zealand supports the proposed recapitalisation and recommends that shareholders vote in favour of the resolutions to reclassify the existing A Ordinary Shares and B Ordinary Shares into a single class of ordinary shares, to adopt the New Constitution and to approve the issue of the New Shares to the Crown.

The Board¹ received comprehensive independent financial advice before the issue price for the New Shares was determined. The Board considered the issue price in the context of the independent advice it received and formed the opinion that the proposed issue price and the terms and conditions of the issue are fair and reasonable to the Company and to all existing shareholders.

¹ Excluding Mr J L Palmer – Mr J L Palmer was appointed to the Board on 29 November 2001. Mr Palmer has therefore not been involved in the recapitalisation process or any Board decisions relating to it. For that reason he does not consider it appropriate for him to make a recommendation to shareholders.

TERMS OF THE NEW CONVERTIBLE PREFERENCE SHARES

(a) Dividends

Each convertible preference share will confer on the holder the right to receive a fixed dividend at the rate of 5% per annum of the issue price (making a total annual dividend payment of 1.2 cents per convertible preference share).

Dividends will accrue from day to day commencing on the date of issue of the convertible preference shares (*Issue Date*) and will be payable annually in arrears on each anniversary of the Issue Date (*Dividend Payment Date*).

Air New Zealand may elect (by giving the holder not more than 10 working days written notice nor less than 7 working days written notice) to pay the dividend payable on the convertible preference shares held by that holder in cash on a Dividend Payment Date or (so long as the issue of the relevant ordinary shares to the relevant holder will not cause that holder to breach any applicable law or regulation) to satisfy its obligation to pay that dividend by issuing to that holder on that Dividend Payment Date that number of ordinary shares in Air New Zealand (with fractions of a share being rounded upwards to the nearest whole number) as is arrived at by dividing the aggregate amount of the dividend payable to that holder by the lower of:

- (i) the issue price per share of the convertible preference shares; and
- (ii) the volume weighted average trading price per trade of Air New Zealand's ordinary shares on the NZSE during the last 10 trading days on which those ordinary shares have been traded immediately preceding the relevant Dividend Payment Date.

Any ordinary shares issued under this paragraph (a) shall rank equally in all respects with other ordinary shares in Air New Zealand.

(b) Satisfaction of Accrued Dividends on Conversion

Dividends which have accrued on a convertible preference share but are unpaid as at the date on which that convertible preference share converts into an ordinary share shall be paid in cash on the relevant Conversion Date (as defined below) or (so long as the issue of the relevant ordinary shares to the relevant holder will not cause that holder to breach any applicable law or regulation) may, at Air New Zealand's election be satisfied by Air New Zealand issuing to the holder of that convertible preference share that number of ordinary shares (with fractions of a share being rounded upwards to the nearest whole number) as is arrived at by dividing the aggregate amount of such accrued but unpaid dividends by the lower of:

- (i) the issue price of that convertible preference share; and
- (ii) the volume weighted average trading price per trade of Air New Zealand's ordinary shares on the NZSE during the last 10 trading days on which those ordinary shares have been traded immediately preceding the date of the relevant Conversion Notice.

Any ordinary shares issued under this paragraph (b) shall rank equally in all respects with other ordinary shares in Air New Zealand.

(c) Preference on Liquidation

On a liquidation of Air New Zealand each convertible preference share will confer on the holder the right to repayment of the issue price and to payment of any accrued but unpaid dividend up to the date of the commencement of the liquidation in priority to all amounts payable in a liquidation of Air New Zealand on or in respect of ordinary shares but shall not confer on the holder any further right to participate in the profits or assets of Air New Zealand.

(d) Voting and Other Rights

Each convertible preference share will confer on the holder the same right to receive notices, reports and financial statements of Air New Zealand and to attend, speak at, and vote at meetings of shareholders of Air New Zealand as are conferred on the holder of an ordinary share.

(e) Conversion Ratio

Each convertible preference share will convert into one ordinary share on the relevant Conversion Date referred to below.

(f) Optional Conversion

A holder of convertible preference shares may at any time and from time to time, provided that such holder has obtained all statutory and regulatory consents and it is otherwise lawful for it to do so, convert all or some of its convertible preference shares into ordinary shares on giving not less than 5 working days notice (Conversion Notice) to Air New Zealand and the following provisions will have effect:

- (i) the Conversion Notice must be sent to the Company Secretary of Air New Zealand and shall state that the holder thereby converts the number of convertible preference shares specified in the Conversion Notice (in this paragraph referred to as the *Conversion Shares*) on the date specified in the Conversion Notice (in this paragraph referred to as the *Conversion Date*);

- (ii) the holder must deposit with the Conversion Notice any certificate or certificates relating to the Conversion Shares, unless Air New Zealand waives this requirement; and
- (iii) the Conversion Notice shall take effect on the Conversion Date and thereupon the Conversion Shares shall be automatically converted into the number of ordinary shares equal to the number of Conversion Shares and thenceforth shall rank *pari passu* in all respects with other ordinary shares, except that they shall not participate in any dividend declared on the Company's ordinary shares before the Conversion Date.

(g) Automatic Conversion

On 31 January 2005 all convertible preference shares not already converted into ordinary shares in accordance with the foregoing paragraphs shall, whether or not a Conversion Notice has been given by the holders thereof and whether or not any share certificates therefor have been deposited with the Company Secretary of Air New Zealand, be automatically converted into the number of ordinary shares equal to the number of those convertible preference shares and thenceforth shall rank equally in all respects with other ordinary shares in Air New Zealand except that they shall not participate in any dividend declared on the Company's ordinary shares before 31 January 2005.

(h) Bonus Issues

If prior to a conversion of convertible preference shares Air New Zealand makes an issue of fully paid ordinary shares by way of capitalisation of profits or reserves (a *bonus issue*) to the holders of the ordinary shares then each holder of the convertible preference shares shall be entitled to participate pro rata, on the basis of the number of ordinary shares which that holder would be entitled to have allotted to it upon conversion (excluding any ordinary shares which could, at the Company's election, be allotted to satisfy an entitlement to accrued dividends on the convertible preference shares), with the holders of the ordinary shares in such bonus issue.

Each such holder of convertible preference shares shall have allotted to it the number of ordinary shares (the *bonus shares*) which it would have been entitled to have allotted to it in each such bonus issue if at the date on which entitlements thereto were calculated it had been registered as the holder of the number of ordinary shares equal to the number of its convertible preference shares.

The bonus shares shall be issued credited as fully paid and otherwise on the same terms and conditions as, and shall rank equally with, the other ordinary shares issued as a result of that bonus issue.

(i) Cash Issues

Holders of convertible preference shares shall be entitled to participate pro rata, on the basis of the number of ordinary shares (including bonus shares) which such holders would at the relevant time be entitled to have allotted to them upon conversion (excluding any ordinary shares which could, at the Company's election, be allotted to satisfy an entitlement to accrued dividends on the convertible preference shares), with the holders of the ordinary shares in all pro rata cash issues to all such holders of shares, debentures, convertible notes and other securities or obligations.

(j) Change in Capital Structure

In the event of the consolidation or sub-division of ordinary shares, or any other change in the capital of Air New Zealand (other than by way of a bonus issue or issue for cash as set out above) (a *capital structure change*), then:

- (i) the number of ordinary shares into which each convertible preference share is convertible will automatically be adjusted simultaneously with the occurrence of that capital structure change so that the number of ordinary shares that would be held by holders of the convertible preference shares on conversion of the convertible preference shares represents the same percentage of the ordinary shares that would have been held by the holders of the convertible preference shares had the relevant capital structure change not occurred; and
- (ii) the number of votes attaching to each convertible preference share will automatically be adjusted simultaneously with the occurrence of that capital structure change so that the total number of votes held by the holders of the convertible preference shares represents the same percentage of all the votes conferred by shares in Air New Zealand had the relevant capital structure change not occurred.

Any such adjustments in the number of ordinary shares into which each convertible preference share is convertible or in the number of votes attaching to each convertible preference share will not be treated as an action affecting the rights attaching to existing ordinary shares.

(k) Other Rights

Subject to the foregoing paragraphs, holders of convertible preference shares shall have the same rights and shall be subject to the same restrictions as holders of ordinary shares.

INFORMATION REQUIRED BY THE TAKEOVERS CODE

Information Required by Rule 16 of the Takeovers Code

The following information is provided in accordance with Rule 16 of the Takeovers Code in connection with the proposal to issue and allot the New Shares to the Crown.

1. The Crown will be the allottee.
2. The voting securities to be allotted comprise:
 - (a) new ordinary shares which are being allotted for cash;
 - (b) new convertible preference shares which are being allotted in satisfaction of the Company's obligation to repay the NZ\$300 million loan made by the Crown to the Company on 15 October 2001 (the "Crown Loan"); and
 - (c) further convertible preference shares which are being allotted in satisfaction of the Company's obligation to pay accrued interest on the Crown Loan from 15 October 2001 to 18 January 2002 (which is the proposed date of allotment).
3. In respect of the voting securities to be allotted:
 - (a) the number of voting securities being allotted is 3,446,533,105, New Shares comprising 2,166,666,667 new ordinary shares and 1,279,866,438 new convertible preference shares; and
 - (b) that number of New Shares represents 81.995% of the aggregate of all existing voting securities and all voting securities being allotted;
 - (c) after completion of the allotment the Crown will hold or control 81.995% of all voting securities; and
4. The issue price for the New Shares is NZ\$892,167,944 in aggregate, being 27 cents for each new ordinary share and 24 cents for each new convertible preference share. The issue price is payable in full on the date of allotment in the manner set out in paragraph 2 above.
5. The allotment is an integral part of Air New Zealand's recapitalisation programme. The recapitalisation is necessary to return Air New Zealand's financial position to a more sustainable base. The Chairman's Letter on pages 2 and 3 of this Notice of Meeting describes the Company's recapitalisation programme, and its rationale, in more detail.
6. The allotment, if approved, will be permitted under Rule 7(d) of the Takeovers Code as an exception to Rule 6 of the Takeovers Code.
7. The statement by the allottee, the Crown, required by Rule 16(g) of the Takeovers Code is set out on page 19 of this Notice of Meeting.
8. The report from an independent adviser that complies with Rule 18 of the Takeovers Code accompanies this Notice of Meeting.
9. The statement by the Directors of Air New Zealand required by Rule 19 of the Takeovers Code is set out below.

Directors' Statement

The Directors¹ of Air New Zealand Limited (other than Mr J L Palmer) unanimously recommend approval of the proposed allotment of the New Shares to the Crown. Their reasons for that recommendation are that:

- (a) the allotment of the New Shares is essential to the Company's ongoing viability;
- (b) the Board has received comprehensive independent financial advice before the issue price for the New Shares was determined;
- (c) the Board has considered the issue price in the context of the independent advice it received and formed the opinion that the proposed issue price and the terms and conditions of the issue are fair and reasonable to the Company and to all existing shareholders.

¹ Mr J L Palmer was appointed to the Board on 29 November 2001. Mr Palmer has therefore not been involved in the recapitalisation process or any Board decisions relating to it. For that reason he does not consider it appropriate for him to make a recommendation to shareholders.

STATEMENT BY THE CROWN

Rule 16(g) of the Takeovers Code requires the Crown to provide a statement setting out particulars of any agreement or arrangement (whether legally enforceable or not) that has been, or is intended to be, entered into between the Crown and any other person relating to the allotment, holding or control of the New Shares or to the exercise of voting rights in the Company.

Accordingly, the Crown makes the following statement in relation to the Heads of Agreement and the Shareholder Support Agreement (copies of which were released to the NZSE by the Company on 4 October 2001).

Heads of Agreement

The Heads of Agreement includes a confirmation by the Crown and the Company that the New Shares will not be issued with a view to any of them being offered for sale to the public in New Zealand in terms of the New Zealand Securities Act 1978.

Shareholder Support Agreement

The Shareholder Support Agreement includes covenants by BIL NZ Assets Limited, Anafi Investments Limited, Isa Investments Limited and SIA to exercise voting rights in the Company in favour of, and to procure that each of their "Affiliated Directors" supports, the implementation of the transactions contemplated by the Heads of Agreement between the Company and the Crown, namely:

- (a) the provision of a subordinated loan of \$300 million by the Crown to the Company;
- (b) the issue by the Company to the Crown of convertible preference shares in the Company for an aggregate issue price equal to the amount of the subordinated loan referred to above, together with the accrued but unpaid interest on that loan;
- (c) the issue by the Company to the Crown of ordinary shares in the Company for an aggregate issue price of up to \$585 million;
- (d) reclassification of the Company's A Ordinary Shares and the B Ordinary Shares as one class of ordinary shares;
- (e) the adoption by the Company of a new constitution in a form approved by the Crown; and
- (f) the composition of the Company's board of directors being changed to satisfy the requirements of paragraphs 1.6 and 2.7 of the First Schedule to the Heads of Agreement.

BIL has concurred in the transactions contemplated by the Heads of Agreement.

These covenants continue until the earlier of 31 January 2002, the date on which the New Shares are issued to the Crown, or the date on which the Crown notifies the Company in writing that the Heads of Agreement is at an end. However, each of BIL, BIL NZ Assets Limited, Anafi Investments Limited, Isa Investments Limited and SIA have the right to review and, if it so elects, withdraw its support for the implementation of the transactions contemplated by the Heads of Agreement if there is any change to the overall substance of the capital raising arrangements contemplated by the Heads of Agreement.

In addition:

- the Shareholder Support Agreement terminates the Heads of Agreement dated 13 September 2001 between the Crown, the Company, BIL, BIL NZ Assets Limited, Anafi Investments Limited, Isa Investments Limited and SIA, under which SIA and BIL had each agreed to subscribe for new shares in the Company; and
- BIL, BIL NZ Assets Limited, Anafi Investments Limited, Isa Investments Limited and SIA have each agreed that, until the earlier of the conclusion of the meeting of shareholders to approve the implementation of the transactions contemplated by the Heads of Agreement and 31 January 2002, they will not sell or dispose of their shares or voting rights in the Company, nor will they acquire any further shares or voting rights in the Company.

STATEMENTS RELATING TO CANDIDATES FOR ELECTION AS DIRECTORS

Introduction

This section contains the following:

1. A statement from Sir Ronald Carter, an existing A Director who is retiring by rotation and offers himself for re-election.
2. A statement from Mr R J Norris, an existing A Director who is retiring by rotation and offers himself for re-election.
3. A statement from Catharine Franks (Mackenzie) who has nominated Mr S L Franks for election as an A Director.
4. A statement from Mr G R W France who is an existing B Director who was appointed by the Board on 3 October 2001. In accordance with the Company's constitution Mr France retires from office at the meeting and offers himself for election.
5. A statement from Mr J L Palmer who is an existing B Director and who was appointed by the Board on 29 November 2001. In accordance with the Company's constitution Mr Palmer retires from office at the meeting and offers himself for election.

A DIRECTORS' STATEMENTS

Sir Ronald Carter KNZM

Sir Ron Carter has had close links with New Zealand aviation for many years. As a self employed consulting engineer he was a founding director of Beca Carter Hollings & Ferner Limited the largest privately owned consulting engineering company in New Zealand.

That company has been responsible for the design and project management of new terminals at Auckland and Wellington airports and for airport planning and runway design at several New Zealand airports. Hangars at Auckland and Christchurch were designed by Beca Carter.

From 1992 until 1998 he was founding Chairman of the Civil Aviation Authority of New Zealand and the Aviation Security Service. Under his supervision the CAA developed a completely revised set of aviation rules to replace the outdated regulations. The Aviation Security Service which was reorganised under his Chairmanship is respected throughout the Pacific as having world best practice in managing aviation security.

He also chaired for the Government the review in 2000 of the Border Services being provided by the MAF, Customs, Immigration and Transport Ministries.

Sir Ron has a Masters Degree in Engineering (Civil) and an Honorary Doctorate in Engineering, both awarded by the University of Auckland. He is a Past President of the Institution of Professional Engineers New Zealand and a Distinguished Fellow of that Institution. He was honoured with the award of KNZM in the New Year Honours 1998 for services to engineering and business.

In Sir Ron's view, Air New Zealand requires a Board with a range of proven experience in aviation governance and operational experience. He is able to contribute in one of the areas important to the company's future.

Mr R J Norris

Ralph Norris recently retired as Managing Director and Chief Executive Officer of ASB Bank Limited, roles which he held for nearly eleven years. In that time the Bank's asset base grew fivefold and its profit nearly sixfold, underpinned by the fastest market share growth of the major banks.

Mr Norris is the immediate past Chairman of the New Zealand Business Roundtable and a past Chairman of the New Zealand Bankers Association. His current directorships include Fletcher Building Limited and Defence New Zealand Limited (America's Cup Defence). He is also involved in the community as a Trustee of the Starship Hospital Foundation, Northern Lifeguard Services Trust and the Woolf Fisher Trust.

Mr Norris is currently a member of the Board of Air New Zealand and has with fellow directors been heavily involved in the recapitalisation and turnaround programme for the airline.

Mr Norris commented that "Air New Zealand is a national icon which plays a critical and key role in New Zealand's economy and it is my desire to see it returned to financial health and vibrancy as soon as possible. To achieve this goal requires energy and commitment along with practical commercial experience. These are the attributes I offer in my nomination for re-election as a director".

Mr S L Franks

This statement from Catharine Franks (Mackenzie) explains why Stephen Franks is standing for the Board.

The nomination was made just before the closing time for nominations in September, when it seemed that the only candidates at the scheduled Annual Meeting of the company would be existing directors retiring. They had presided over one of the worst destructions of shareholder value in New Zealand history.

Stephen Franks was nominated after discussion with Bruce Sheppard of the NZ Shareholders' Association, to ensure that there would be a contested election. We thought it would be a disgrace for New Zealand shareholders to appear so inactive that they could passively re-elect directors without challenge.

We had no illusions about success. We did not imagine that the two dominant shareholders, BIL and Singapore Airlines, would vote for Stephen Franks. He had been too outspoken, demanding answers to questions about their role and motives in the disastrous events. But the opportunity to vote for an alternative candidate would enable the real New Zealand shareholders to record their views on how the Board had acted. We thought it would also allow the institutions to show whether they simply support the status quo, no matter how badly the company has performed. Many of the NZ fund managers know Stephen Franks, or know of him. They would not feel that it was "irresponsible" to vote for him.

A great deal has changed since, and we should be looking forward. Assuming we shareholders approve the rescue package the Government will have the power to decide who is on the Board, from the time of issue of their shares. So why has Stephen Franks not withdrawn the nomination?

Compelling reasons remain for a contested election. We do not know who the government will want to put on the Board. We have still not heard what lay behind the Chairman's public statements indicating that he thought major shareholders had pursued interests against those of the company. We do not know whether, and if so why, the Government will leave either or both of those major shareholders with influence at Board level. A vote for Stephen Franks, nominated by a small shareholder, allows shareholders to show whether they want directors not associated with any major shareholder. The interests of the Company, and ordinary investors, must rank ahead of any major shareholders' self-interest.

Was it a major shareholder strategy that decimated the value of the company's shares in little more than a year?

There is no point in crying over spilt milk. But to ensure that the same mistakes will not be made again we need to know the decisions taken in the immediate past will not be buried. Shareholders should be represented by a truly independent director, to help make sure of that.

Who is Stephen Franks?

Stephen is ACT's spokesman for Commerce in Parliament. Until 1999 he was a senior commercial lawyer. He had 20 years experience in commercial law including nine years on the New Zealand Stock Exchange's Market Surveillance Panel, membership of the Securities Commission, and chairing the Board of his law firm, Chapman Tripp. Until he went to Parliament he was a director of a listed company and had previous director experience in others. He was on the Council of the Institute of Directors in New Zealand.

As a lawyer he advised on the structure through which BIL's shares in Air New Zealand were held. For ethical reasons he will not comment on anything based on information provided to him in that professional capacity.

Why would a Member of Parliament Stand?

Through two decades Stephen has been involved in measures to upgrade corporate governance in New Zealand. New laws and regulations have been often disappointing. He is convinced that will always be the case in the absence of a will to enforce, a readiness to make the rules mean what they say. He has devoted hundreds of unpaid hours to trying to uphold ethical business standards in various prominent roles. He believes shareholders have to use their rights more vigorously. Cosy incumbent Boards must know that shareholders will not passively re-elect them in the face of non-performance.

Stephen and the NZ Shareholders' Association hoped that an eminent New Zealand business person would stand. However against the nomination deadline Stephen agreed to be nominated to ensure a contest. He was free to do that because he retired from his law firm on becoming an MP. Previously he declined almost all requests to join public company boards, because he considered it incompatible with the intense demands of his law practice.

He sees the opposite position for an MP. It would be better for us all if they were not full time politicians. Too few retain practical contact with the real world away from Parliament, experiencing the impact of the laws so often passed to make political points without genuine determination to make them work.

What Can It Achieve to Stand for Election?

There is a low likelihood of success, given the voting power wielded by the major shareholders. But minority shareholders must have a voice and an opportunity to question the direction the airline was taken in by the majority shareholders. It could be vital for the future not to sweep under the carpet the reasons why the airline came to be bailed out by the taxpayer. What are Singapore's strategic objectives?

Questions We Need Answered

Stephen Franks wants the election to force answers to the following questions:

1. Were all decisions taken by the previous board taken in the interests of all shareholders, and who drove them?
2. What assurances can shareholders be given that any new directors nominated as "independent" directors will act in the interests of all shareholders?
3. What further debt provisions will it be necessary for the airline to make in this and future financial years as a result of decisions taken by the previous board?
4. Why did the previous board think Ansett was salvageable under New Zealand management? What account was taken of belligerent unions and colluding Australian politicians and Australian anti-foreigner sentiment?
5. Was there dishonesty or incompetence within Ansett or Air New Zealand that left Air New Zealand represented on the Ansett board, but not knowing the true state of the business?
6. Was timely recapitalisation blocked by foreign control, pursuing a wider strategy not in New Zealand's interests but aimed more at eventually inheriting Australian assets perhaps through Air New Zealand being reduced to a shell? If so did that influence involve a breach of restrictions in the constitution on foreign control?

7. Did major shareholders block possible earlier and more timely alternative capital raising, in case it would dilute their control, and if so was consideration given to using constitution powers (or the government's Kiwi Share powers) to override any such block? What professional advice was sought by the Board about raising finance without increasing foreign airline ownership limits and the loss of New Zealand control?
8. Small independent airlines challenged and ultimately toppled the majors in the United States, after domestic "open skies" policies freed up competition. Is that now the vision for our company? Did the Board conclude that there is no future for an airline of Air New Zealand's size except under the potentially smothering wing of a parent? If so does the Government share that view?
9. Why was it not open to Air New Zealand to challenge status quo companies as Virgin did in the United Kingdom and is now in Australia instead of buying Ansett Australia?

By the time you receive this, and certainly by the time of the annual meeting, the future control of our company will be more clear. It is possible that we may be heartened and want simply to endorse plans announced. I hope so.

B DIRECTORS' STATEMENTS

Mr G R W France

Roger France was appointed a Director, with the approval of the Crown, on 4 October 2001. Over the previous five weeks, he had been intensively involved, as an adviser to the Company, in the negotiations between the Company, the Crown and the Company's major shareholders, Brierley Investments Limited and Singapore Airlines Limited in relation to the recapitalisation of the Company.

Mr France retired as the Senior Partner at PricewaterhouseCoopers Auckland on 30 June 2001, at the age of 57. Most of his working life has been spent with PricewaterhouseCoopers and its predecessor firms, but he was also the Chief Financial Officer of two major New Zealand listed public companies between 1975 and 1985.

Mr France is currently serving his second term as a member of the Market Surveillance Panel of the New Zealand Stock Exchange. He is also Chairman of Tappenden Holdings Limited and a Member of the Council of The University of Auckland. He is currently acting as Executive Director of the Company, pending the appointment of a full-time Chief Executive Officer.

Commenting on his approach to the rebuilding of Air New Zealand, Mr France said:

"The Company faces many challenges at this time, but two particularly stand out. It needs a short term focus on achieving financial flexibility and a more appropriate gearing level. Looking further out, Air New Zealand has to redefine its long term strategic positioning recognising that the events of 11 September are setting off long term structural changes in the aviation industry. Having been involved in the Company on a full time basis for the past three months, I believe I have gained some valuable insights and perspectives on the issues it has to address."

Mr J L Palmer

John Palmer currently serves on a number of boards and is Chairman of Wrightson Limited, a position he has held since July 1998. He is Chairman of Saxton Fruit Limited and Nelson Fruit Services Limited. His directorships include AMP Bank Limited and he has been on the Advisory Board of AMP New Zealand since October 1996. Mr Palmer's past experience includes Chairmanship of Trustbank Canterbury Limited followed by Chairmanship of Community Trusts Investments Limited, a holding company which consolidated the interests of 8 diverse trusts as part of the development of Trust Bank New Zealand Limited. Mr Palmer was integral in the public float process for Trust Bank New Zealand Limited in 1994 and its subsequent sale to Westpac in 1996.

A new strategic direction for the kiwifruit industry was introduced under Mr Palmer's Chairmanship of the New Zealand Kiwifruit Marketing Board including the successful establishment of Zespri International Limited which he chaired until 1997.

Mr Palmer's track record demonstrates strong leadership skills and will bring to the Company considerable experience in changing management structures and cultures which will be valuable in the rapidly changing environment of the aviation industry.



AIR NEW ZEALAND