

Treasury Report: Final MRP IPO Decisions

Date:	8 May 2013	Report No:	T2013/1235
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Action Sought

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Prime Minister (Rt Hon John Key)	Agree to recommendations	3pm Wednesday 8 May 2013
Minister of Finance (Hon Bill English)	Agree to recommendations	3pm Wednesday 8 May 2013
Associate Minister of Finance (Hon Steven Joyce)	Agree to recommendations	3pm Wednesday 8 May 2013
Minister for State Owned Enterprises (Hon Tony Ryall)	Agree to recommendations	3pm Wednesday 8 May 2013

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
Dominic Milicich	Senior Analyst, Commercial Transactions Group	04 917 6087	N/A	✓
Andrew Blazey	Manager, Commercial Transactions Group	04 917 6985	[Withheld under s.9(2)(a)]	

Actions for the Minister's Office Staff (if required)

None.

Enclosure: Yes (attached)

Treasury Report: Final MRP IPO Decisions

Purpose of Report

1. This report documents the decisions you will need to make during the final bookbuild meeting at Treasury from 3pm on Wednesday 8 May.

Background

2. The Mighty River Power (MRP) initial public offer (IPO) culminates in the final bookbuild meeting. At this meeting you will need to make the following decisions:
 - setting the final price
 - setting aggregate allocations for the following pools of demand:
 - New Zealand retail
 - New Zealand institutional, and
 - overseas institutional
 - setting the scaling profile for retail investors
 - the treatment of very large retail bids, and
 - any preferable scaling treatment for eligible employee applicants.
3. At that point you would then direct Treasury, in consultation with the Joint Lead Managers, the company, the Crown Advisor, and the independent advisor, to determine allocations to individual institutional applicants based on the allocation criteria stipulated in the offer document. Treasury would then report back to you with the results of the institutional allocation process to demonstrate that it was consistent with the allocation criteria you had set.
4. Two other items for you to note are that yet to settle iwi have applied for \$0.82m in stock which they will be allocated in full, and we will create a small allocation of buffer stock for administrative purposes where there may be particular circumstances under which a retail applicant should have received stock but did not. The size of the buffer stock will likely be under \$1m.
5. The bookbuild meeting will be interactive in nature. Our intention is to provide options for you to choose from for each of the decisions noting the first three decisions (pricing, pools and retail scaling) are somewhat interdependent. We will be able to make adjustments for various parameters of the offer and show the results immediately. Attached to this report is a schedule itemising the decisions to be made. Our intention is to fill out this schedule during the meeting to formally capture the decisions you make.
6. At our meeting with you on Monday 6 May you made decisions regarding the level of pre-registration benefit to be provided, the treatment of the applications of high net worth investors applying through the Broker Sponsored Bids (BSB) process, and the treatment of the applications of charities and collective interests applying through the BSB process. This report documents those decisions. At that meeting you also

indicated you were not interested in a capped scaling treatment for retail investors. We will not include any capped options in Wednesday's meeting.

Setting the Price and Aggregate Pool Allocations

7. In mid-April we provided you with a dry run of the bookbuild meeting. In the dry run we presented a number of illustrative scenarios to give you a feel for the range of outcomes that could occur and the different decisions you would face under each outcome. In some ways the actual bookbuild meeting will be less complicated as we will know the scenario we are dealing with.

8. [Withheld under s.9(2)(i)]

9.

10.

11.

[Withheld under s.9(2)(i)]

Scaling Profiles for Retail Allocations

12. You have agreed to a progressive scaling approach whereby larger applications are scaled more strongly than smaller applications. The choice you will have will be at what application size to start scaling and how strongly scaling should increase as application size increases.

13. [Withheld under s.9(2)(i)]

[Withheld under s.9(2)(i)]

[Withheld under s.9(2)(i)]

15.

16.

17.

Treatment of Eligible Employee Applications

18. At Monday's meeting you indicated that you would like to apply some scaling to employee applications but that you were open to this scaling being more favourable than that for the general offer, as allowed for in the offer document.
19. At this afternoon's meeting we will provide you with some options involving different levels of allocation preferences for employee applicants for you to choose from. Given the small aggregate size of the employee applications this decision will have no wider impacts for the offer.

Decisions Already Made

20. At Monday's meeting you agreed with proposed approaches to pre-registration benefits, and the treatment of different types of BSBs. We would like to receive detailed confirmation of these decisions as follows.
 - The full 25% pre-registration allocation preference will be provided to pre-registrants in the general offer.
 - High net worth investors applying through the BSB process will be considered as part of the general offer. They will be scaled based on the scaling rules applied to applicants that did not pre-register in the general offer. An additional 5%

scaling penalty will be applied to their BSB allocations to reflect the advantage they have received through not having to provide cleared funds as general offer applicants do.

- Charities and collective interests applying for amounts below \$500,000 through the BSB process will receive a positive scaling preference as part of the general offer compared to the high net worth equivalents to reflect the wide range of New Zealand interests that the applicants represent.
- Charity and collective interests applying for amounts above \$500,000 through the BSB process will be considered for scaling alongside the other New Zealand institutions as part of the institutional offer scaling process.

Recommended Actions

We recommend that you:

- a **note** that final decisions regarding the MRP IPO will be made at the bookbuild meeting at Treasury from 3pm on Wednesday 8 May

- b **agree** that bookbuild decisions will be recorded for Shareholding Minister's agreement on the schedule attached to this report during the final bookbuild meeting

Agree/disagree
Prime Minister

Agree/disagree
Minister of Finance

Agree/disagree
Associate Minister of Finance

Agree/disagree
Minister for State-Owned Enterprises

- c **confirm** that the full 25% pre-registration allocation preference will be provided to pre-registrants participating in the general offer

Agree/disagree
Prime Minister

Agree/disagree
Minister of Finance

Agree/disagree
Associate Minister of Finance

Agree/disagree
Minister for State-Owned Enterprises

- d **confirm** that high net worth individuals participating in the BSB process will receive equivalent scaling treatment to non-pre-registrant bids in the general offer less a 5% scaling penalty

Agree/disagree
Prime Minister

Agree/disagree
Minister of Finance

Agree/disagree
Associate Minister of Finance

Agree/disagree
Minister for State-Owned Enterprises

- e **confirm** that charities and collective interests applying for less than \$500,000 through the BSB process will receive a positive scaling preference relative to the general offer to reflect the wide range of New Zealand interests that these applicants represent.

Agree/disagree
Prime Minister

Agree/disagree
Minister of Finance

Agree/disagree
Associate Minister of Finance

Agree/disagree
Minister for State-Owned Enterprises

Andrew Blazey
Manager, Commercial Transactions Group

Rt Hon John Key
Prime Minister

Hon Bill English
Minister of Finance

Hon Steven Joyce
Associate Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Schedule: Mighty River Power Initial Public Offer Bookbuild Decisions

Minutes of Meeting [to be completed during meeting]

Date of Meeting: Wednesday, 8 May 2013

Time: 3:00pm

Location: The Treasury, 1 The Terrace, Wellington

Attendees:

Hon Bill English	Minister of Finance
Hon Tony Ryall	Minister for State Owned Enterprises
Treasury	
Joint Lead Managers	First NZ/Credit Suisse
	Goldman Sachs NZ
	Macquarie Capital NZ
Crown Advisor	Deutsche Bank
Independent Advisor	Lazard
Probity Advisor	Peter Castle

The Minister of Finance and the Minister for State Owned Enterprises:

- a) **agreed** to set the final share price for the MRP IPO at \$2.xx per share
- b) **agreed** that the aggregate allocation to New Zealand retail investors, inclusive of loyalty bonus shares, shall be \$xx
- c) **agreed** that the progressive scaling factors to be applied to retail applications shall be as follows:

Application Band	Marginal Scaling Factor
\$0 to \$2000	100%
\$2,000 to \$5,000	XX
\$5,000 to \$10,000	XX
\$10,000 to \$15,000	XX
\$15,000 to \$20,000	XX
\$20,000 to \$50,000	XX
XX to XX	XX

- d) **agreed** that the aggregate allocation to New Zealand institutional investors shall be \$xx
- e) **agreed** that the aggregate allocation to overseas institutional investors shall be \$xx
- f) **agreed** that the aggregate allocation to overseas institutional investors shall be \$xx

- g) **agreed** that a scaling preference of xx% shall be applied to applications from eligible employees
- h) **directed** Treasury, in consultation with the Joint Lead Managers, the company, the Crown advisor, and the independent advisor, to make individual allocation decisions for New Zealand and overseas institutions in accordance with the allocation criteria outlined in the offer document and to report back to Government Share Offer Ministers to demonstrate that allocation decisions have been made in accordance with the allocation criteria.

Hon Bill English
Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

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