

Commercial Sensitive

CAB Min (01) 29/27

Additional Item: Recapitalisation of Air New Zealand

On 17 September 2001 Cabinet:

- 1 noted the contents of the submission tabled by the Minister of Finance, "Recapitalisation of Air New Zealand", and his oral briefing on recent developments;
- 2 confirmed the decisions, set out in the Annex to this minute, taken on 13 September 2001 under Power to Act from Cabinet on 10 September [CAB Min (01) 28/18] by the Ad Hoc Ministerial Committee established to approve a negotiations strategy on Air New Zealand's recapitalisation;
- 3 noted that the agreement reached between Air New Zealand, Singapore Airlines, Brierley Investments Ltd and the Crown is conditional on the parties being satisfied by 17 October 2001 by means of a financial due diligence that Air New Zealand has a Board approved business plan which demonstrates its economic viability;
- 4 noted that it may be necessary for further important decisions related to the recapitalisation of Air New Zealand to be taken before the next Cabinet meeting on 1 October 2001;
- 5 agreed that the Power to Act (PTA) to take such decisions be given to the Cabinet Policy Committee on 19 September 2001 or, if timing considerations require it, to the Ad Hoc Ministerial Group established by Cabinet to approve a negotiations strategy on Air New Zealand's recapitalisation; and
- 6 invited the Minister of Finance to report to Cabinet on 1 October 2001 on any decisions taken under the PTA.

Secretary

Reference: Paper "Recapitalisation of Air New Zealand" tabled by the Minister of Finance

**MINUTE OF A MEETING OF THE AD-HOC MINISTERIAL COMMITTEE
ON AIR NEW ZEALAND, THURSDAY 13 SEPTEMBER 2001 AT 10.00 AM.**

PRESENT: Hon Jim Anderton
Hon Dr Michael Cullen (Chair)
Hon Mark Burton
Hon Paul Swain
Hon Mark Gosche

IN ATTENDANCE: Officials from Department of Prime Minister and Cabinet &
Treasury

The Committee:

1. noted that on 10 September 2001 Cabinet had considered a paper and been briefed on latest developments on the recapitalisation of Air New Zealand, and had agreed that the Crown continue to negotiate on the Air New Zealand Board's proposal, including any necessary changes to Air New Zealand's foreign ownership limits and a possible Crown financial support as lender of last resort on certain conditions [CAB Min (01) 28/18 refers];
2. noted that on 10 September 2001 Cabinet had authorised the Ad Hoc Ministerial Committee established to approve a negotiations strategy on Air New Zealand's recapitalisation, to have Power to Act if required to take the decisions on the finance and ownership issues referred to in CAB Min (01) 28/18;
3. noted that a Heads of Agreement has been negotiated between the Crown, Air New Zealand (Air NZ), Singapore Airlines (SIA) and Brierley Investments (BIL) for the recapitalisation of Air NZ, with the following principal features:
 - SIA and BIL will each subscribe for new equity in Air NZ of \$150 million each subject to shareholder approval;
 - the Kiwi shareholder lifting the foreign ownership limit for foreign airline investment in Air NZ to 35%;
 - the Crown provides a subordinated debt facility to Air NZ capped at \$550 million;
 - the Board of Air NZ is reduced to nine members comprising three each from SIA and BIL and the Chairperson is appointed following consultation between major shareholders and the Crown, plus the Crown gets consulted on one each from BIL and SIA; and
 - merging of the A and B share structure;

4. agreed to the Minister of Finance signing a Heads of Agreement with Air NZ, SIA and BIL with the principal features set in paragraph 3 above;
5. agreed that the Crown provide a subordinated debt facility (described in the Heads of Agreement) in favour of Air NZ that provides the following principal features:
 - the facility is capped at \$550 million, in two tranches of \$275 million each, one tranche having a term of seven years, the other a term of 10 years;
 - of the \$550 million, \$200 million can be drawn over a period of two years on a revolving basis, and \$350 million is set aside for purposes to be agreed which increases to the full \$550 million so long as the funding under the revolving credit facility has been repaid;
 - the rate of return on the debt is to be on fully commercial terms, to be struck following the advice of an independent expert;
 - the debt facility is not to be used to repay bank or finance company debt; and
 - any debt drawn under the revolving credit will rank equally with all other unsecured and the remaining other creditors but ahead of equity.
6. noted that if the margin on the Crown's debt cannot be accommodated within Air NZ's capital structure, the parties will negotiate to restructure the facility appropriately;
7. noted that the injection of equity by SIA and BIL, and the provision of the debt facility by the Crown, is subject to due diligence by those parties as set out in the Heads of Agreement;
8. noted that the Heads of Agreement remains subject to final drafting;
9. authorised the Minister of Finance to make a media statement and agree the final terms and conditions;
10. noted that agreement has been reached that any statements to the media or Stock Exchange will be the subject of consultation between the parties to the Heads of Agreement, and that the parties agree that negotiations have been conducted in good faith and in a collegial manner; and
11. invited the Minister of Finance to report to Cabinet on 17 September 2001 on the decisions set out in this minute and the latest developments on the recapitalisation of Air New Zealand.