

Chair
CABINET

RECAPITALISATION OF AIR NEW ZEALAND

Proposal

1. It is proposed that Cabinet:
 - (a) confirm the decisions taken on 13 September 2001 by the Ad Hoc Ministerial Committee established to consider Air New Zealand's recapitalisation; and
 - (b) agree that Power to Act be given to POL on 19 September 2001 or, if timing considerations require it, the Ad Hoc Ministerial Committee to take such decisions as are necessary to respond to developments before the next Cabinet meeting on 1 October 2001.

Background

2. At its meeting on 10 September 2001 Cabinet considered a paper and was briefed on latest developments on the recapitalisation of Air New Zealand (Air NZ). At that meeting Cabinet agreed that the Crown continue to negotiate on a proposal submitted by the Air NZ Board, including any necessary changes to Air NZ's foreign ownership limits and a possible Crown financial support as lender of last resort [CAB Min (01) 28/18 refers]. Cabinet also authorised the Ad Hoc Ministerial Committee established to consider Air NZ'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.

Recapitalisation Package

3. At a meeting on 13 September 2001 the Ad Hoc Ministerial Committee established to consider Air NZ recapitalisation met to discuss a draft Heads of Agreement negotiated between Air NZ, Singapore Airlines (SIA), Brierley Investments (BIL) and the Crown. The Ad-Hoc Ministerial Committee made a number of decisions under its Power to Act granted by the Cabinet on 10 September 2001.

4. The Committee agreed to the Minister of Finance signing a Heads of Agreement with Air NZ, SIA and BIL, with the following 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.
5. The Committee also agreed that the Crown provide a subordinated debt facility in favour of Air NZ, with the following 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. A minute of the Committee's meeting is attached as **Annex One**.
7. Following the meeting of the Ad hoc Ministerial Committee, the Minister of Finance signed the Heads of Agreement, and made a statement to the media outlining the details of the recapitalisation package.

Next Steps

8. It should be stressed that the agreement reached between the Crown, Air NZ, SIA and BIL is subject to the parties being satisfied by 17 October 2001 – by means of a financial due diligence – that Air NZ has a Board approved business plan which demonstrates its economic viability.

9. The financial position of Air NZ remains very fluid, and it is possible that new developments will necessitate further important decisions to be taken before the next Cabinet meeting on 1 October 2001. I therefore propose that Cabinet agree that the Power to Act (PTA) to take such decisions be given to POL on 19 September 2001 or, if timing considerations require it, to the Ad Hoc Ministerial Group established to consider Air NZ's recapitalisation

Consultation

10. Due to time constraints it has not been possible to consult with agencies on this paper.

Recommendations

11. I recommend that Cabinet:
 1. **confirm** the decisions, set out in Annex One to this paper, 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;
 2. **note** 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 NZ has a Board approved business plan which demonstrates its economic viability;
 3. **note** 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;
 4. **agree** that the Power to Act (PTA) to take such decisions be given to POL 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
 5. **invite** the Minister of Finance to report to Cabinet on 1 October 2001 on any decisions taken under the Power to Act.

Hon Dr Michael Cullen
Treasurer/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.