

National Rail: Notes for Meeting with Minister - 5 May, 2003

Options and Issues.

Wait for banks/suppliers to put company into receivership

1. Timing of any move to distress is uncertain (dependent on attitude of banks; possibly also attitude of LTSA)
2. As company moved towards distress it would try to sell assets to raise cash. Most major asset sales are inherently difficult, and are unlikely to happen. Some small asset sales may be possible but may not be in the long-term interests of the rail operator.
3. As company moved towards distress, further decline in service quality would be likely. While the company would maintain major services in order to raise cash; some marginal services might be cut.
4. Once the company went into receivership or liquidation, the Crown could buy part (or all) of the company assets from the receiver/liquidator. The seller would be keen to sell, but the Crown could only secure those parts of the business for which it was the highest bidder. (There may be other bidders for some parts)
5. Buying part of the business, and establishing a new company to operate it, may lead to delays as LTSA works through licensing procedures.
6. If the LTSA were to withdraw Tranz Rail's operating licence, the likely outcome is that the Banks would put Tranz Rail (and perhaps other operators) into receivership. There would then be no rail service until such time as a new buyer had purchased assets to run a rail system, and secured a licence from the LTSA.
7. The LTSA is only likely to withdraw the licence to operate where there is a liquidation, or a change in the management of the safety system.

Recapitalise the company

1. Recapitalisation would follow the following broad outline
 - (a) Heads of agreement establishing amount of capital required; debt/equity mix; process for agreeing share price; process for determining precise level of board control; short-term financial arrangements; process for ensuring appropriate level of Crown control of company in the meantime. A public announcement would be made at the point the HoA was ready to sign.
 - (b) Crown due diligence of company, leading to Crown determination of appropriate share price, and thus to negotiation of price of shares and precise level of Board control.
 - (c) Extraordinary General Meeting of existing shareholders to approve recapitalisation
 - (d) Crown recapitalises company and takes control.
2. Note concerns about existing shareholder rights and the company's view that Crown would strengthen its position by being debt holder.