Chair
CABINET

PROPOSED SEQUENCE FOR THE REMAINING GOVERNMENT SHARE OFFERS TRANSACTIONS

Proposal and Summary

1. Cabinet is asked to authorise an initial public offer (IPO) of Meridian Energy Limited to be executed as soon as possible, expected to be early October. The Meridian transaction will be announced in the Budget speech.

2. In addition, Cabinet is asked to agree that Genesis Energy Limited be prepared for an IPO in either December 2013 or the first half of 2014 depending on market conditions.

3. We will return to Cabinet with a proposal for a reduction of the Crown’s holding in Air New Zealand shortly.

Background

4. Following the completion of the Mighty River Power (MRP) IPO there will be three remaining transactions in the GSO programme. These are the IPOs of Meridian and Genesis and the reduction of the Air New Zealand holding. Work on a Solid Energy transaction as part of the GSO programme is not currently planned.

5. We have considered the range of programme issues and the individual characteristics of the companies and what these imply for an optimal sales sequence. The issues that have been worked through fall under the following groupings of issues:

   • **Programme considerations:** How do we reduce the risk of not completing the programme? What sequence best contributes to the achievement of the Government’s objectives for the GSO programme?

   • **Procurement:** Can we meet all required probity and procurement requirements for a given sequence?
• **Company comparisons:** are there any impediments to sale favouring one company over another?

• **Preparatory discussions on IPO design:** Is one company’s proposed approach to IPO design and execution more amenable to a successful IPO than the other?

• **Publicity:** what are the implications for optimal announcement timing regarding the next IPO in the programme?

6. Officials have conducted the preparatory process whereby they have negotiated agreed IPO positions with the GSO companies on items having an impact on the success of the transactions. These negotiations have created a good base from which successful IPO execution can be achieved.

7. Officials have also worked through sequencing and procurement issues with the GSO probity advisor to ensure that the necessary probity requirements can be met for the proposed timing options for the remaining transactions.

8. Once the MRP transaction is complete an ex-post review will be conducted. This review should identify improvements that can be incorporated into the detailed design of the remaining IPOs.

9. We discuss the analysis underlying the proposed sequence below.

**Programme Considerations**

10. The Government’s GSO programme goals include raising revenue to reduce debt and fund infrastructure assets, deepening and strengthening New Zealand capital markets, and applying equity market disciplines to more of the Government’s commercial assets. In our view, the impact on each of these goals generated by a GSO transaction is a function of the size of that transaction. In other words an IPO of Meridian will contribute more to each of these goals than an IPO of Genesis, or than a reduction in Air New Zealand holding, simply by virtue of its significantly greater size.

11. The programme includes the two IPOs remaining as well as the reduction in Air New Zealand holding. Solid Energy is currently on hold. There are two six month windows remaining before we get too close to the next election. Therefore there is now a slightly heightened risk that the programme is not concluded in the current electoral term should a window be unusable.

12. There are a number of events that could occur that would mean that an IPO may need to be deferred. These include items such as volatile or negative equity markets, electricity market shocks (e.g. hydrological events or infrastructure failure), or company specific events (e.g. specific asset failure, scandal or fraud etc). This means that we cannot completely rely on being able to achieve a successful IPO in any given six month window.

13. To reduce this risk the next IPO should be scheduled for listing during early October 2013. This provides room for slippage within that window and also retains the option of the third IPO occurring in December 2013. The December IPO would only go
ahead if conditions were clearly very favourable as it is a higher execution risk option than a longer gap between IPOs. The October timing for the first IPO maximises the chances of using the second half 2013 window and takes a bit of pressure off the first half 2014 window.

15. Programme features that should be considered in assessing the optimal sequence include

We have assessed this question on the basis of assessing which sequence provides the greatest contribution towards achieving the Government’s stated goals for the GSO programme (as per paragraph 10 above). On this basis we consider that Meridian should be the favoured candidate subject to consideration of company specific issues as discussed below.

16. Our programme considerations conclusion is that the next IPO should be scheduled for early October and Meridian should be favoured as the second IPO. The option of a third IPO in 2013 should be maintained and further work undertaken in relation to Air New Zealand (see paragraph 27).
22. On this basis, we consider that Meridian should be the company selected for the early October IPO.

Procurement

23. As authorised by Cabinet, officials commenced the procurement process for the remaining IPOs in April. The intention is to appoint Joint Lead Managers and legal advisors for the transactions by mid to late May. Procurement is a simplified process given the panel has already been appointed but high quality procurement principles still need to be adhered to.

24. The approach that has been chosen is to make appointments for both of the remaining IPOs at the same time. This has administrative and timing advantages as officials only need to run the process once and it supports the option of two IPOs in the second half of 2013 if conditions are favourable. It also reduced the need for an announcement of the second IPO company at the same time as commencing procurement as we can say that both options are still being considered.

25. The JLMs for the Meridian transaction would immediately commence work aiming for the October listing date. The JLMs for Genesis would also commence work but at a slower pace aiming to be ready for the December listing date. During the second half of the year the decision would be made as to whether conditions were sufficiently attractive to attempt the December IPO for Genesis. At that time the JLMs would be instructed to continue towards the December date or to slow down and aim for a first half 2014 date.
Solid Energy

26. Solid Energy still formally remains part of the GSO programme. It is unlikely to be in a state conducive to sale in the immediate future. Ministers should note that no work is planned to prepare Solid Energy for an IPO at this stage.

Air New Zealand

27. The reduction in Air New Zealand shareholding will be a much simpler transaction than the electricity company transactions as Air New Zealand is already publicly listed. The intention is to take an opportunistic approach to the timing of an Air New Zealand transaction by either taking advantage of favourable market conditions when they arise or by fitting the transaction in between IPOs. We will return to Cabinet with a proposal for the Air New Zealand transaction shortly.

Publicity

28. We propose that the intention to undertake an IPO of Meridian, scheduled for the second half of 2013, be announced in the Budget speech.

29. We do not propose making any announcements about the expected timing of either a Genesis or an Air New Zealand transaction. If asked, Ministers would say that the Treasury is preparing those transactions as part of the programme but no decision has been made regarding the exact timing of those transactions.

Consultation

30. Lazard, the Crown’s Independent Advisor on the GSO programme, has been consulted on transaction sequencing and timing, and on the approach to procurement of financial service providers.

Financial Implications

31. This paper has no financial implications.

Recommendations

32. We recommend that Cabinet:

1. authorise Treasury to proceed with an initial public offer of Meridian Energy Limited scheduled for listing as early as possible in the second half of 2013

2. agree that this transaction be publicly announced in the Budget speech

3. agree that Genesis Energy Limited should be prepared in readiness for a potential December public listing
4 note that a December listing of Genesis would only proceed if market conditions are very favourable, and

5 note that if December is not achievable, the IPO of Genesis will be scheduled for the first half of 2014.

Hon Bill English
Minister of Finance

Hon Tony Ryall
Minister for State Owned Enterprises

Date: