

Senator SC Ferguson
Chairman of the Corporate Services Scrutiny Panel
Scrutiny Office
States Greffe
Morier House
St Helier JE1 1DD

4 August 2014

Dear Senator Ferguson

Review of the Draft 2015 Budget Statement

I write further your letter dated 29 July 2014 seeking written submissions from Jersey Water on the proposed 2015 Budget for the States of Jersey and specifically, the proposal relating to the possible redemption of the 900,000 10% cumulative fifth preference shares in Jersey Water. As requested, I set out below some relevant information and our answers to the three specific questions that you raised.

The following relevant points should be noted:

- The proposed redemption has no impact on the Equity share capital of the Company or the States of Jersey's majority holding of 75% of the equity share capital.
- As the preference shares only confer one vote per holding, the redemption by the States would not have any noticeable impact on the voting powers of the States of Jersey.
- The preference shares have no automatic redemption clause and therefore Jersey Water can only seek to redeem them with shareholder approval, which would have to be sought at a duly convened extraordinary general meeting.
- Jersey Water has for some years been interested in the possibility of redeeming this class of preference share and we have informally noted our interest on occasion during discussions with the Treasury Department.
- The 900,000 preference shares have a face value of £4.5 million but are valued in the States' accounts at £7.4 million. The budget proposal has assumed a redemption price of £6.8 million. The market value of the shares is driven by the high fixed interest rate attached to the shares (10%) relative to the current market rates of interest. Jersey Water had no involvement in the selection of values used by the States of Jersey in their accounts or the draft budget.
- The actual redemption amount may differ from the budgeted £6.8 million and will need to be the subject of negotiation between the Company and the Treasury Department. It will be necessary for the Board to satisfy itself that the proposals are in the interests of the Company and all its shareholders and not just the majority shareholder.

The Board is currently considering whether the proposed redemption is in the Company's interests. In advance of this determination, we have no particular position on the proposals other than to say that we are investigating the options for redemption with interest.

Your letter raised three specific questions regarding the proposals:

1. When did discussions take place with the Minister for Treasury and Resources and his Department about how the Budget would affect you?

Representatives from the Board of Jersey Water regularly meet with the Treasury Minister, Assistant Minister, Treasurer of the States and civil servants for formal biannual shareholder briefings. The most recent briefing was held on 8 July 2014 (a date which was scheduled in January 2014).

The possibility of the States asking the Company to redeem their preference shares was included on the agenda and discussed at the meeting. Subsequent ad hoc conversations of a fact finding nature have taken place between our Chief Operating Officer and Dawn Shipley from the Treasury Department.

2. What has been agreed with the Minister and his Department and when was it agreed?

Jersey Water has agreed that it will undertake its own assessment of the feasibility of redeeming the preference shares such that it is in a position to enter into further discussions with the Treasury Department. This was agreed at the meeting on the 8th of July.

3. What else now needs to happen from your perspective for those Budget measures which relate to Jersey Water to be implemented?

In the event that the Draft 2015 Budget is approved and that Jersey Water is formally requested by the Treasury to consider the redemption, then the following items need to happen:

- a) Jersey Water's Board will need to consider whether a redemption of this class of preference share is in the long term interests of the Company and if so on what terms. This decision will be based on professional advice that is currently being sought.
- b) Contingent on point 3(a), Jersey Water and the States of Jersey need to negotiate a mutually agreeable redemption price for the shares.
- c) In the meantime, the Company will need to source alternative funding for the redemption price. In anticipation of the possible redemption this process is currently underway.
- d) Once a redemption price has provisionally been agreed, the Company will need to convene an extraordinary general meeting where shareholders will be asked to vote on the resolutions to redeem the preference shares. The notice of the meeting will need to be sent to shareholders at least 21 clear days prior to the meeting.

I trust that this letter provides the information you were seeking. In the event that further information is required or if there are additional specific questions please do contact either myself or Helier Smith.

Yours sincerely

Howard Snowden
Managing Director