adopted 1.6.82

JERSEY NEW WATERWORKS COMPANY LIMITED: ACQUISITION OF CONTROLLING INTEREST.

Lodged au Greffe on 11th May, 1982 by the Finance and Economics Committee.

STATES OF JERSEY

STATES GREFFE

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PROPOSITION

THE STATES are asked to decide whether they are of opinion -

(a) to authorise the Finance and Economics Committee to make an offer to the shareholders of the Jersey New Waterworks Company Limited on the basis of the provisions set out in the Appendix to the Report of that Committee, dated 7th May, 1982;

(b) to authorise the Treasurer of the States to make the necessary payments from an additional vote of credit to be requested on the next Supply Day.

FINANCE AND ECONOMICS COMMITTEE

REPORT

The following resolution was adopted by the States on 2nd March, 1982 on the proposition of Senator R.J. Shenton:-

> "to request the Finance and Economics Committee to submit to the States a comprehensive report as to whether having regard to the needs of the Island it would be desirable for the States to acquire a controlling interest in the shareholding of the Jersey New Waterworks Company Limited and, if so, to make recommendations as to how that interest should best be acquired."

During the debate leading to that resolution members expressed their appreciation of the manner in which the Company and its staff had provided the most vital of community needs over a period of no less than a century - this year being in fact its centenary - in a highly efficient and satisfactory way.

Nevertheless concern was generally felt at the recent unprecedented volume of dealing in the shares of the Company with a consequential risk of control passing into the hands of overseas investors, or other persons who might not approach the operation of the company with the same high level of responsibility as had been shown in the past. Because of such sentiments the resolution was adopted without dissent.

The Finance and Economics Comnmittee came to the conclusion that for these reasons the States should seek to acquire a controlling interest in the Company but, before being in a position to recommend to the States that an offer for a controlling interest be made, realised that the Assembly would require some idea of the possible cost entailed and accordingly began discussions with the Board. These discussions have led to detailed negotiations in which the Board has consulted a London Merchant Bank, Samuel Montagu and Company Limited.

One of the factors on which the Board and the Committee have found themselves to be in agreement is the desirability of offering a continuing interest to existing shareholders. Many of the shareholders are of well known Jersey families who have held shares in the Company for many years, and the Committee has not wished to suggest any arrangement which would deprive them of their continuing interest. The Committee would prefer the Company to continue as a private Company in which the States hold a controlling interest, rather than as a wholly owned States' concern.

It was therefore possible to agree with Samuel Montagu and Company Limited at an early stage that any agreement reached should be based on the following principles -

(A) that all shareholders should be treated equally;

(B) that the sum which the Committee was prepared to expend on the acquisition of a controlling interest was to be allocated between the purchase of existing shares and the subscription of new shares;

(C) that private investors should be able to continue to hold interests in the equity of JNWW, albeit as a minority;

(D) that any proposals which might be put to the shareholders of JNWW should carry the recommendation of its Board.

The finances involved have not been so easy to agree, but the Committee is glad to be able to report that both sides have now arrived at a proposed scheme which is thought to be fair to the shareholders, fair to the taxpayer and of substantial benefit to the Company and, consequently, of advantage both to the consumers and to the continuing shareholders. The formal proposals are set out in the Appendix.

The essence of the scheme is that the States should acquire 50 per cent of the existing Ordinary shares and should then take up a further issue of 'A' Ordinary shares resulting in the States eventually holding about 74 per cent of the issued Ordinary share capital.

The cost to the States for the whole scheme as envisaged would be £1,166,200, of which £411,600 would represent a consideration due by the States being a partial offer for the existing shares and £754,600 the cost of the subscription by the States for the new 'A' Ordinary shares.

The value of the partial offer represented by reference to the holder of one existing Ordinary share is as follows -

0.5 x £49 cash (under partial offer)	£24.50
0.5 x £5.50 (assumed value of share retained)	£2.75
	£27.25

Thus, a present holder of 100 Ordinary shares would receive a cash offer of £2,450 and would retain 50 shares which, at the present market price of £5.50, would be worth £275.

The sum of £754,600 to be put into the Company by the States for the purchase of new shares will, it is thought, be of particular benefit to the Company in view of its future capital requirements.

A complicating factor is the share voting structure of the Company in that the preference shareholders have one vote per holding. As the shares are currently held they have very little voting impact but if such holdings were to be minutely divided the preference shareholders could then play a dominant part. It is for this reason that the majority voting rights are added to the new issue Ordinary shares to be acquired.

Difficulties could theoretically arise if the shareholders did not eventually agree to such an issue and therefore the States offer has to be conditional on such an issue being made, although the States could waive this condition if thought desirable after the response of the shareholders is known. It will be noted also that it is proposed that there should be an issue to existing preference shareholders of a further 2 per cent share for each existing preference share held thus in effect adding 2 per cent to the income obtained from such shares. This provision is included in order to compensate the preference shareholders for the loss of their potential voting power, theoretical though this may be.

The Committee is satisfied and is pleased to find that the Board is also satisfied, that the offer to shareholders is fair on all sides and promises secure continuation of the Company.

The consent of a sufficient portion of shareholders and of the States Assembly is of course essential to the scheme.

APPENDIX

PROPOSALS WHEREBY THE STATES WOULD ACQUIRE A CONTROLLING INTEREST IN THE SHARE CAPITAL OFTHE JERSEY NEW WATERWORKS COMPANY LIMITED (JNWW)

1. The States will make an offer ("the partial offer") to acquire one existing Ordinary share of £5 in JNWW in every two held for £49 per share in cash. The States' offer will be conditional, inter alia, on the acquisition of 8,400 Ordinary shares (50 per cent of the 16,800 Ordinary shares in issue) and, for this purpose, Ordinary shareholders will be entitled to tender excess shares which would be accepted pro rata in the event that shares acquired pursuant to the partial offer fell short of the total of 8,400;

2. the States will subscribe £754,600 for 15,400 new Ordinary shares of £5 each in JNWW (to be designated 'A' Ordinary shares) at £49 per share. The 'A' Ordinary shares will rank pari passu in all respects with the Ordinary shares at present in issue save that they will carry the right in all circumstances, provided that they remain held in their entirety by the States, to votes equal to twice the number of votes cast by all other shareholders on a poll in general meeting of JNWW; and

3. since the issue of the 'A' Ordinary shares to the States would have the consequence of limiting the voting power which could attach in aggregate to the three classes of Preference shares of JNWW at present in issue, the existing Preference shareholders will receive compensation in the form of an issue by way of capitalisation of one 2 per cent Cumulative Fourth Preference share of £5 for every existing Preference share of any class.

The partial offer, which will comply with the City Code on Take-overs and Mergers, will be subject to the following conditions -

(a) to acceptances of the partial offer being received in respect of 8,400 Ordinary shares;

(b) to approval of the partial offer being given by shareholders holding over 50 per cent of the voting rights in JNWW. For this purpose -

(i) the total number of votes exercisable in general meeting of JNWW shall be determined by reference to the register of shareholders of JNWW at the opening of business on 21st May, 1982;

(ii) shareholders of JNWW will be asked to indicate their approval, in the case of Ordinary shareholders, by means of a separate box on the form of acceptance of the partial offer, and, in the case of Preference shareholders on the register at the opening of business on 21st May, 1982, by the return of a form of approval to the States;

(iii) Members of the States will abstain from recording their approval in respect of shares in JNWW registered as held or otherwise beneficially held by them, and the States will abstain from recording their approval in respect of the 250 Ordinary shares registered in their name but the beneficial interest in which rests in a charitable settlement, Le Don de Faye (although such shares will be eligible for acceptance under the partial offer);

(c) to the approval of the shareholders of JNWW of a special resolution (requiring at a general meeting of JNWW a two-thirds majority of the votes cast on a poll and at a further general meeting, held not less than 15 days and not more than 30 days thereafter, a simple majority of the votes cast) -

(i) to increase the authorised capital so as to permit the issue of 'A' Ordinary shares to the States and the issue by way of capitalisation of 2 per cent Cumulative Fourth Preference shares to the existing Preference shareholders;

(ii) to authorise the allotment of the 'A' Ordinary shares to the States and of 2 per cent Cumulative Fourth Preference shares to the existing Preference shareholders;

(iii) to sanction the waiver of the relevant provisions of the JNWW's Articles of Association required for the issue by way of capitalisation of 2 per cent Cumulative Fourth Preference shares to the existing Preference shareholders;

Members of the States, and the States, will, as in respect of their approval under (b)(iii) above, abstain from recording their votes on this special resolution;

(d) to the approval of the Ordinary shareholders of JNWW of a special resolution (requiring at a class meeting of such shareholders a two-thirds majority of the votes cast and at a further class meeting, held not less than 15 days and not more than 30 days thereafter, a simple majority of the votes cast) to sanction the issue by way of capitalisation of 2 per cent Cumulative Fourth Preference shares to the existing Preference shareholders.

The States will reserve the right to waive conditions (c) and (d). In the event that these conditions are waived but conditions (a) and (b) are satisfied, the States will undertake to subscribe £754,600 for 15,400 'A' Ordinary shares in JNWW at £49 per share carrying the rights described in paragraph 2 above so soon as the approval of shareholders in general and class meetings of JNWW to the requisite resolutions (on which the States will undertake not to vote) is obtained.

7th May, 1982.