BILLET D'ÉTAT

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WEDNESDAY, 29th MAY, 2002

STATES ADVISORY AND FINANCE COMMITTEE

THE FUTURE PROVISION OF TELECOMS
SERVICES AND NETWORKS

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BILLET D'ÉTAT

TO THE MEMBERS OF THE STATES OF

THE ISLAND OF GUERNSEY

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on WEDNESDAY,** the **29th MAY 2002,** immediately after the meetings already convened for that day.

STATES ADVISORY AND FINANCE COMMITTEE

THE FUTURE PROVISION OF TELECOMS AND NETWORKS

The President,
States of Guernsey,
Royal Court House,
St. Peter Port,
Guernsey.

29th April, 2002.

Dear Sir,

THE FUTURE PROVISION OF TELECOMS SERVICES AND NETWORKS

1. Introduction

1.1 In January 2000 the States considered and approved the recommendations in a report from the Advisory and Finance Committee on the Future Provision of Telecoms Services for the Bailiwick (Billet II of 2000).

1.2 The January 2000 report, which drew heavily on the conclusions of Analysys, a telecoms consultancy, concluded that:

- The development and successful implementation of a strategy to exploit the potential of e-commerce is essential to the future economic well-being of the Bailiwick;
- The provision of world class telecoms services is a prerequisite to the development of e-commerce;
- Guernsey Telecoms ("GT") on its own is too constrained to be able to provide world class telecoms services and must engage with a major telecoms player to develop the telecoms network;
- There should be "controlled licensing" of telecoms services under strong, independent regulation.

1.3 Following approval of the January 2000 proposals the Advisory and Finance Committee and the Board of Industry worked together to develop and implement an e-commerce strategy and the controlled licensing approach to telecoms. The Committee reported back to the States in March 2001 (Billet VI of 2001) on the results of a programme of market testing of controlled licensing whereby a major player would "take control" of GT wider some form of leasing arrangement.

1.4 The Report explained; ***"the precise terms under which a licensee would operate GT's infrastructure was a cause of uncertainty in the market testing exercise and that uncertainty moderated interest in the process."***

1.5 The policy letter went on to describe an alternative approach to securing world class telecoms services by seeking a Strategic Equity Partner for GT as follows:

> ***"In broad terms a new company would be formed (say) Guernsey Telecoms Limited with the States putting into the company the current technical infrastructure and systems, the right to operate the infrastructure and systems (through the granting of appropriate licences) and (under the appropriate terms) property, buildings and other assets. The major player would put in a commitment to investment in and development of the infrastructure, systems and activities of the company. The staff of GT with their skills and experience would be transferred to Guernsey Telecoms Limited under the terms of the TUPE-type legislation.***
>
> ***The transfer of contractual obligations etc. from GT would need to be effected under the provisions of appropriate legislation. The States Trading Companies (Bailiwick of Guernsey) Law, 2001, would provide an appropriate vehicle for such a transfer.***
>
> ***The major player would have a controlling interest in Guernsey Telecoms Limited but with the States retaining an equity holding which will almost certainly be less than 50%."***

1.6 The policy letter also requested the States to confirm its decisions of July 2000 that the States Electricity Board and its commercialised successor should not be involved in the provision of telecoms services or in the commercial exploitation for telecoms purposes of the fibre optic capacity in the electricity link to France. In July 2000 the Committee had been given responsibility for the connection of the capacity and undertook to bring forward proposals for its future exploitation taking into account that the States ***"did not favour"*** the States Telecoms Board, or it successor undertaking this role.

1.7 After consideration of the policy letter the States resolved:

> ***"1 To agree the implementation of the controlled licensing of telecoms services by way of seeking an equity partner for Guernsey Telecoms along the lines described in that report***
>
> ***2 a) That the States Advisory and Finance Committee shall commission expert advice including corporate finance and related services.***
>
> ***b) That the Strategic and Corporate Measures budget of the Advisory and Finance Committee for 2001 shall be increased by £200,000* such sum to be taken from the General Revenue account***
>
> ***3 That the States Advisory and Finance Committee be delegated to choose the equity partner and the terms for the partnership under the process described in that report.***
>
> ***4 To endorse the approach set out in that report for the future operation and management of States interests in the fibre optic capacity in the CIEG cable link to France and to the future involvement of the Electricity undertaking in the provision of telecoms services."***

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* The £200,000 was a provisional sum to begin the process until the Committee could come forward with a more accurate figure. The States subsequently agreed a proposal in the 2001 Policy and Resource Planning Report to increase this sum by a further £1.1m for 2001.

2 The Process for Selection of a Strategic Equity Partner

2.1 Immediately following approval of the March 2001 proposals, the Committee set up a Project Team consisting of members of staff from the Committee, the Board of Industry and the then Telecoms Board (now Guernsey Telecoms Limited ("GTL")). In addition, prior to her formal appointment as Regulator, the Shadow Regulator acted as an advisor to the Board of Industry on the process.

2.2 The full Advisory and Finance Committee took all major decisions regarding the selection of a Strategic Equity Partner, generally following a recommendation from the Project Team. Notes of all Project Team meetings were submitted to the Committee as an agenda item. To further strengthen the link with the Committee, the President and Deputy Roper received all papers and were invited to attend any meeting. The President, Deputy Roper or both have attended all but one of the Project Team meetings held since April 2001.

2.3 The March 2001 report stated:

"The process for developing an equity partnership is therefore crucial but it is not an area in which the States has experience or expertise. The Advisory and Finance Committee therefore proposes to commission "corporate finance" expertise in the area of international telecoms business.

The fees for such advice are usually directly related to the value of the equity being transferred and in this instance could be of the order of £1m to £2m."

On the basis of the proposals in this policy letter, the total fees payable will be between £1.5m and £2m.

2.4 Through the Project Team the Committee instigated a process for the selection of corporate finance advisers. The top ten or so of the companies involved in telecoms-related mergers and acquisitions in recent years were invited to submit tenders to provide a package of commercial, financial and legal advice.

2.5 On the recommendation of the Project Team the Committee approved the appointment of CIBC World Markets ("CIBC"), the investment banking division of the Canadian Imperial Bank of Commerce, and invited representatives of CIBC to sit on the Project Team.

2.6 The process for inviting interest and selection recommended by CIBC, endorsed by the Project Team and approved by the Committee was:

- The preparation of a Notice of Qualification ("NOQ") document giving a broad description of GTL, the States' objectives for the process, derived from previous policy letters, and the minimum criteria potential bidders would need to meet to participate in the process. It described the potential deal as acquiring 51% to 75% of the equity of GTL;

- The distribution in September 2001 of the NOQ to over 100 potential bidders, which were identified through CIBC's network of contacts, and the issuing of a general invitation to express interest through an advertisement placed in the Financial Times;

- The preparation of draft Transaction Documents based on the March 2001 policy letter, on CIBC's assessment of the telecoms market and on initial reactions to the NOQ;

- The assessment in early November 2001 of responses to the NOQ against the specified criteria, followed by an invitation to qualifying entities to undertake due diligence on GTL based on information provided in a “data room” and presentations from the company and States officials, and an invitation to comment on the draft Transaction Documents;

- The issue of final Transaction Documents in mid January 2002;

- The receipt of bids at the end of January 2002;

- Closing of the deal by the end of February 2002.

3 Commercialisation of Guernsey Telecoms

3.1 At its September 2001 meeting the States agreed that GTL be designated a States Trading Company and that the telecoms undertaking should be transferred to GTL under the terms of the States Trading Companies Ordinance of 2001. Staff were transferred under the provisions of the Transfer of States Undertakings (Protection of Employment) (Guernsey) Law 2001 (commonly referred to as “TUPE”). An additional Ordinance was also approved which deferred the application of pension provisions under TUPE until the completion of the Strategic Equity Partner process, in order to give employees TUPE protection when they transferred from the Public Servants Pension Scheme into a GTL successor scheme.

3.2 Under the transfer arrangements, shares in GTL, of a value equivalent to the net asset value of the assets transferred, are held in trust for the States. Properties were transferred on the basis of a 99-year lease with a commercial valuation of the current value of such leases at £6.2m; other assets were transferred at net book value. At the time of the States meeting the net asset value was considered to be £49.3m but was subject to audit of the actual 1 October 2001 figures. It is worth stating, however, that the net asset value shown in a set of accounts is not necessarily an indication of market value, especially in a rapidly changing sector.

4 Development of the Regulatory Regime

4.1 In parallel with this overall process, the regulatory regime put in place by the States has developed a number of measures that are designed to set a level playing field for the introduction of competition into the telecoms sector in Guernsey, while at the same safeguarding consumers’ interests and ensuring that efficiencies achieved within GTL are passed on to consumers. Those measures include:

- Setting the timetable for the opening up of the Guernsey telecoms market to the introduction of competition in accordance with States Direction given in 2001;

- Issuing licences to GTL to continue to provide both fixed and mobile telecommunications services in the Bailiwick, also in accordance with States Directions;

- Publishing licence conditions for new entrants into the fixed market and inviting applications for licensing from 1 July 2002;

- Setting a retail price control (“price cap”) that caps the maximum charges that GTL may levy for services in the fixed telecommunications market, so as to ensure the affordability of universal services in accordance with States Direction and to require efficiency gains within the company to be achieved and passed on to customers;

- Requiring the establishment of an "interconnection" regime, including the publication by GTL of a reference offer or "shopping list" for new services GTL will sell to competitors following detailed review of the text this will be republished before July 2002, along with interim interconnection rates which will apply from 1st July 2002;
- Publishing guidelines for GTL on accounting separation setting out in detail how GTL must separate its costs for its various business activities so as to ensure that there is no unfair cross subsidisation and to facilitate the setting of cost oriented rates in the future;
- Requiring a number of customer focussed activities on the part of GTL including the development of terms and conditions for customers so that there is transparency for customers as to the service they are purchasing and redress where customers face any difficulties, as well as the publication of a customer code of conduct and a complaints resolution mechanism;
- Publishing the framework for the issuing of mobile telecommunications licences, including 3G licences, in early 2003.

5 The Response to the Tender Process

5.1 Because of the major disruption in investment markets following the tragic events of September 11 2001, the deadline for submissions of expressions of interest under the NOQ was extended by two weeks to 26 October 2001. By that date seven entities had made submissions. For the protection of both the States and bidders the whole of the tender process is covered by confidentiality agreements and so the Committee is limited in what it can report on these expressions of interest.

5.2 One of the entities withdrew before its submission could be assessed against the criteria in the NOQ and one was rejected as it was unable to provide sufficient information to carry out an assessment.

5.3 The remaining five entities were able to show that they had the potential to meet the NOQ criteria and can be broadly described as follows:

- two were companies with international credentials;
- one was a consortium involving a national UK company with an extensive network;
- two were companies with networks in islands with populations in excess of the Channel Islands.

5.4 In line with the tender process outlined above, the five entities which showed that they had the potential to meet the NOQ criteria were invited to undertake due diligence and to comment on the draft Transaction Documents.

5.5 By the end of January 2002, one qualified bidder had withdrawn from the tender process but had expressed an interest in participating in an exclusive negotiation (subject to certain pre-conditions), one was continuing to show active interest, one passive interest and the other two had withdrawn completely.

5.6 The qualified bidder interested in participating in exclusive negotiations was Cable & Wireless plc ("C&W") and, following a recommendation from the Project Team, the Committee considered the credentials and potential of C&W to meet the telecoms and e-commerce aspirations of the Bailiwick as compared with those entities remaining in the tender process.

6 Exclusive Negotiations with Cable & Wireless

6.1 At the very beginning of the tender process, representatives of C&W met the President of the Advisory and Finance Committee and members of the Project Team to explain what benefits C&W believed it could bring to the Bailiwick on e-commerce, its concerns about how the tender process might not sufficiently take account of those benefits and the terms under which it would be prepared to be involved with GTL.

6.2 The main terms specified by C&W were:

- to purchase the entire issued share capital of GTL; and
- to transfer to GTL the States ownership, held by the Committee, of rights to use telecoms capacity in the electricity link to France.

6.3 C&W was advised that the terms it specified were outside the parameters agreed by the States in March 2001, outside the mandate given to the Committee to complete a deal and contrary to the States' previously expressed view that "it did not favour" its interests in the fibre optic capacity available for telecoms use in the French cable link being passed to GTL.

6.4 It was made clear to C&W that if the Committee was to contemplate entering into an agreement on such terms it would need to be put to the States for prior approval. C&W accepted this condition.

6.5 C&W is, however, exactly the type of global player that the Committee had in mind when presenting its January 2000 and March 2001 proposals to the States for securing world-class telecoms services and developing e-commerce in the Bailiwick. The potential of C&W to meet the strategic aspirations of the Bailiwick was far in excess of the two entities remaining in the tender process.

6.6 The Committee therefore decided to suspend the tender process and to enter into a period of exclusive negotiations with C&W to gain a better understanding of its potential to meet the Bailiwick's requirements and to explore the commercial terms for the possible sale of all of the equity in GTL.

7 The Outcome of Negotiations with Cable & Wireless

7.1 **Throughout the negotiation process the Committee's primary aim was to place the Bailiwick in the strongest possible position to exploit telecoms services in order to grow existing businesses, including those in the financial services sector, and to attract new Internet-related business. Its secondary aim was to achieve this on the most favourable financial terms possible.**

7.2 C&W is a major global telecommunications business with revenues of over £8 billion in the year to 31 March 2001, 25,000 employees around the world. It has customers in 70 countries and facilities in 50 countries including the USA, Canada, Australia, Hong Kong, Japan and the major European countries. It consists of two core and complementary divisions: Cable & Wireless Regional and Cable & Wireless Global. Cable & Wireless Regional offers a full range of telecoms services in 35 countries around the world. Cable & Wireless Global focuses on future growth in Internet Protocol ("IP") and data services and solutions for business customers.

7.3 C&W has developed advanced IP networks and value-added services in the US, Europe and the Asia-Pacific region in support of this strategy. With its financial strength and the capability of its global IP infrastructure, C&W occupies a very strong position in terms of global coverage and services to business customers.

7.4 C&W submitted that examples of its potential to provide world-class telecoms services and to use its existing customer base and expertise to develop e-commerce and e-government in the Bailiwick were as follows:

- C&W owns, or has an investment in, 78 major global land and undersea cable systems that total over 500,000 km, providing connectivity across every continent in the world. It can provide access to one of the world's leading IP backbone networks and is a world leader in submarine fibre optic cable deployment and maintenance;
- Its recent US$1.2 billion acquisitions of Digital Island, which manages Internet services for business customers and Exodus, which provides managed and co-location hosting services. Exodus hosts 46 of the 150 most visited Internet sites worldwide. These acquisitions further enhance C&W's ability to provide leading edge data and IP services in North America, Europe and Asia Pacific;
- C&W manages the UK government's IP connectivity and hosted applications, currently supporting 30,000 users. This is set to expand to include suppliers to government and local authorities. A consortium headed by C&W and incorporating Lotus and IBM provides high security solutions for government departments, such as the Cabinet Office;
- The establishment of eWorld, which uses IP technology to develop best practice across C&W's two operating divisions and fosters interchange of employees. GTL could participate in eWorld to acquire skills in ADSL rollout, Data Centre deployment and other advanced digital and communications technologies.

7.5 **The Committee is convinced that engaging with C&W would place the Bailiwick in the strongest possible position to secure world-class data and telecoms services of the kind needed to support the growth of existing businesses, to secure new Internet-related business and to develop e-government.**

7.6 Initially the Committee was concerned that, as well as not being within the terms approved by the States in March 2001, the sale of 100% of the equity in GTL would not enable the States to protect its strategic telecoms interests through minority shareholder rights and a seat on the Board. The introduction of a robust and professionally directed regulation regime does, however, give comfort that the interests of consumers in core telecoms service and networks can be protected through an independent and statutory process.

7.7 The Committee was also concerned that transferring the States' rights of use of the fibre optic telecoms capacity in the electricity link to France might reduce the opportunity for competition in international connectivity. However, for as long as GTL holds a dominant position in the supply of off-island capacity, the Regulator can require that access to the capacity is offered to competitors within an interconnect pricing regime on fair and non-discriminatory terms and conditions. In addition, the capacity controlled by the Jersey Electricity Company provides for competition.

7.8 Following a period of intense and detailed negotiations over the terms of the Share Purchase Agreement and the financial consideration, C&W submitted the following final offer (subject to contract at the time of drafting) for the acquisition of 100% of the equity in GTL and of the States' rights of use of the available telecoms capacity in the link to France:

Total offer		**£30.0m**
Of which		
Value of properties (see 7.9 below)		£6.2m
Total cash payment (see 7.10 below)		**£23.8m**
Made up of:		
Payment on sale	£13.8m	
Payment deferred 12 months	£5.0m	
Payment deferred 24 months	£5.0m	
Capital expenditure		
(Current GTL Business Plan anticipates £20.0m to end 2004)		
Total anticipated by C&W to end 2004	£26.0m	
Of which contractual commitment		
to e-commerce (see 7.11 below) of		**£5.2m**

7.9 The properties utilised by the States Telecoms Board were transferred to GTL on commercialisation on the basis of 99-year leases at nominal rents of £1 per annum. The capital value of leases on this basis was assessed commercially at £6.2m. C&W have agreed that GTL, will surrender these leases and enter into 25year commercial leases at a rent of £545,000 per annum (including an option on one property) subject to 5 yearly review. The Committee believes that the revised lease arrangements will give the States strategic comfort over the future use of properties. The move from a nominal rent to commercial rents, with the tenant responsible for repairs and maintenance, will produce an **additional income to the States of £13.6m** over the 25-year lease period at today's prices, which will be paid into General Revenue.

7.10 The cash payment of £23.8m includes a sum of £1.3m in respect of the transfer of the available telecoms capacity in the link to France. It is anticipated that at the date of sale, there will be some £11m to £13m cash in GTL but C&W consider that this will be used up very quickly to fund its capital expenditure programme.

7.11 The current GTL Business Plan envisages capital expenditure of some £20m over three years on a self-funding basis and C&W currently plans that GTL will expend £26m. Of this amount, C&W will enter into a legally binding commitment to invest £5.2m specifically in e-commerce related projects. It should also be borne in mind that with C&W's existing scale and involvement in e-commerce and advanced communications technology it will be able to achieve far greater benefit from every pound it spends compared to GTL on its own. It is also the case that C&W has a significant "blue chip" customer base and the sort of extensive sales and marketing presence that is a pre-requisite to success in the commercial offering of e-commerce services.

7.12 In addition, C&W will undertake to honour until the end of 2004 the Millennium Commitment given to the Education Council to support the Guernsey Grid for Learning and to continue to operate the Telephone Museum for the same period, following which the premises and exhibits will revert to the States.

7.13 C&W would propose to undertake a restructuring of GTL to enable it to cope with competition and provide competitive services and may also re-brand some or all of GTL's services under the C&W banner so as to project a global profile.

7.14 The most significant terms of the Share Purchase Agreement covering the sale are:

- The States will have first right of refusal if C&W wishes to sell 50% or more of the business within two years, under the terms and at a price no less favourable to that offered to any third party;
- A requirement for the States to make good any loss or detriment that C&W can prove it has suffered due to any misrepresentation in the contract of sale of GTL's business and activities which become apparent up to two years after the sale, up to a limit of £22.5m. This is a standard "Representations and Warranties" provision in a negotiated sale and all possible steps have been taken to avoid any misrepresentation;
- A requirement for the States to indemnify C&W without limit for any loss arising from any undisclosed existing environmental problems or from a re-nationalisation" of GTL within a 50-year period and on other specified occurrences over a two to five year period after sale;
- A requirement that any past service benefits transferred from the Public Servants Pension Scheme ("PSPS") to the new GTL Pension Scheme ("GTPS") are fully funded in accordance with the latest financial reporting standard, FRS17;
- States agreement that C&W will have access to up to 15 housing licences (being a mixture of short, medium and long-term licences) for management and skilled staff over the seven-year period following the sale.

7.15 Because of the resources which remain committed to the project until closure and the imminent first stage in the removal of exclusivity and exposure to competition, C&W require the transfer of equity to be effected within five working days of States consideration of this matter at the May 2002 States meeting, with a target date of 31 May 2002.

8 Comments on the Cable & Wireless Offer

8.1 There is no doubt that since January 2000 there have been major changes in the global and local commercial environment in which GTL operates and that this has been reflected in the level of interest shown by prospective investors. It is also true that such changes will continue to impact on GTL whether it is sold or continues to operate as a States Trading Company (STC).

8.2 E-commerce has not taken off as fast as was predicted and the collapse of the dot.com sector has impacted on the technology sector in general, and the telecoms sector in particular. Nevertheless, the use of the Internet to support and enhance traditional business is evolving rapidly and e-commerce is developing significantly. However, any investment by GTL, in the telecoms infrastructure to support e-commerce must now be looked at as potentially delivering returns for the investor in the medium rather than the short term.

8.3 On the other hand the Bailiwick cannot afford any further delay in the development of its e-commerce capabilities if it is to grasp the opportunities that are arising.

8.4 The introduction of regulation of telecoms activities and the removal of exclusivity will also have a dramatic effect on the activities of GTL whoever owns it. GTL will have to become "lean and mean" to cope with competition and externally-imposed price regimes. Competition will be good for the customer but the past business performance of GTL is not necessarily a guide to its future performance in the new telecoms environment.

8.5 When putting together an offer, any prospective investor in GTL would therefore take a conservative view of the future performance of GTL within the local telecoms environment as well as considering the evolving nature of the global telecoms and e-commerce environment. Had the tendering process attracted two or more bidders who met the criteria as major/global telecoms players, the competitive process may have led to higher bids but this is hypothetical as it did not happen. The Committee believes that it has done well to attract an investor of the undoubted calibre of C&W.

8.6 The offer from C&W is at the low end of the valuation range for GTL produced by CIBC. This needs to be considered both in the context of the prevailing market conditions and the exceptional capabilities and expertise that C&W offers to the Bailiwick.

8.7 The opening paragraph of section 7 of this policy letter states that: ***"throughout the negotiation process the Committee's primary aim was to place the Bailiwick in the strongest possible position to exploit telecoms services in order to grow existing businesses, including those in the financial services sector, and to attract new Internet-related business. Its secondary aim was to achieve this on the most favourable financial terms possible."***

8.8 The Advisory and Finance Committee believes that it has achieved these aims and **recommends the States to agree to the sale of 100% of the share capital of GTL and the transfer of its rights to use the available telecoms capacity in the link to France under the terms broadly described in this policy letter,** a view supported by its corporate finance advisers.

8.9 One member of the Committee does not believe that the offer represents fair value but acknowledges that C&W would be able to provide the appropriate advanced technology. He has consistently had reservations about the sale of 100% of the equity and also has concerns regarding C&W's international trading reputation.

9 Process to Complete the Deal

9.1 By the time the States debates this report, the Advisory and Finance Committee will have signed a Share Purchase Agreement with C&W on the terms described, which becomes binding subject to certain "Conditions Precedent" being fulfilled. One of those conditions is that the Share Purchase Agreement does not become binding unless the States approves the proposals in this policy letter.

9.2 In September 2001, the States agreed the terms for 99-year leases at a peppercorn rent on the properties utilised by GTL. The Committee has lodged at the Greffe the proposed revised terms for 25-year leases at commercial rents that the **States is recommended to approve**.

9.3 The Committee has written to the Housing Authority in respect of C&W's requirements for Housing Licences and received a response stating:

"The Housing Authority has considered your request and is prepared, in principle, to grant in the region of 15 housing licences for key personnel employed by Guernsey Telecoms in the event that the States approves the Advisory and Finance Committee's proposals.

However, before any licence is issued the Authority will require the employer to prove the essentiality to the community of employment in the individual post by providing full details of the post concerned indicating the qualifications, skills or experience required to undertake the duties."

9.4 The Board and management of GTL have developed a Pension Scheme as a successor scheme to the PSPS into which GTL employees will transfer on the sale being completed and into which they may transfer past service benefits built up in the PSPS if they so wish. Members' benefits in the PSPS are underwritten by funds in excess of the FRS17 level required by C&W and the payment of transfer values for past service benefits calculated under this standard falls within the PSPS rules approved by the States in March 2002. There has been wide consultation with staff representatives on the development of the GTPS and on obtaining independent advice for individual employees on the transfer of past service benefits.

9.5 On the advice of the States Actuary, the GTPS has been confirmed as being TUPE compliant and suitable to receive the transfer of past service benefits and the funds underwriting those benefits from the PSPS. An Actuary's Letter confirming the basis on which the value of past service benefits is to be calculated has been agreed with C&W.

9.6 Other Conditions Precedent are that no material change in circumstances relating to GTL's activities occurs between signing and closure, that there is no statutory hindrance to the sale, that there will be Regulatory approval of the change in ownership and no change in the regulatory environment as a result of it. The Committee does not foresee any problems in meeting these Conditions Precedent.

9.7 Whilst every effort has been made to represent accurately the GTL business to C&W there is the possibility that the States will be subject to a claim under the Representations and Warranties or Indemnities clauses in the Share Purchase Agreement. The Committee will bring forward proposals in the 2003 Budget Report as to how the sale proceeds will be treated but its current intention is to place it in the Contingency Reserve Fund.

9.8 The Committee is unanimous that C&W has the potential to provide the Bailiwick with world-class telecoms services and to develop its e-commerce potential. With the exception of one member, the Committee is recommending the States to agree to the offer from C&W.

10 Recommendations

10.1 The Advisory and Finance Committee therefore recommends the States to:

i) Agree to the sale of 100% of the share capital of Guernsey Telecoms Limited and the transfer of its rights to use the available telecoms capacity in the link to France to Cable & Wireless plc under the terms broadly described in this policy letter;

ii) Agree that in respect of the properties which are to be leased to Guernsey Telecoms Limited, leases be granted on the terms set out in the Heads of Agreement document dated 29 April 2002 which has been deposited at the Greffe;

iii) Authorise the Advisory and Finance Committee to take whatever steps are necessary to complete the sale within the terms broadly described in this policy letter.

I shall be grateful if you will lay this matter before the States with appropriate propositions.

Yours faithfully,

L. C. MORGAN,

President,
States Advisory and Finance Committee.

The States are asked to decide:–

Whether, after consideration of the Report dated the 29th April, 2002, of the States Advisory and Finance Committee, they are of opinion:–

1. To agree to the sale of 100% of the share capital of Guernsey Telecoms Limited and the transfer of its rights to use the available telecoms capacity in the link to France to Cable & Wireless plc under the terms broadly described in that Report.

2. To agree that in respect of the properties which are to be leased to Guernsey Telecoms Limited, leases be granted on the terms set out in the Heads of Agreement document dated 29 April, 2002, which has been deposited at the Greffe.

3. To authorise the States Advisory and Finance Committee to take whatever steps are necessary to complete the sale within the terms broadly described in that Report.

DE V. G. CAREY
Bailiff and President of the States

The Royal Court House,
Guernsey.
The 10th May, 2002.

IN THE STATES OF THE ISLAND OF GUERNSEY

ON THE 30TH DAY OF MAY, 2002

The States resolved as follows concerning Billet d'Etat No. X dated 10th May, 2002

(Meeting adjourned from 29th May, 2002)

STATES ADVISORY AND FINANCE COMMITTEE

THE FUTURE PROVISION OF TELECOMS SERVICES AND NETWORKS

After consideration of the Report dated the 29th April, 2002, of the States Advisory and Finance Committee:-

1. To agree to the sale of 100% of the share capital of Guernsey Telecoms Limited and the transfer of its rights to use the available telecoms capacity in the link to France to Cable & Wireless plc under the terms broadly described in that Report.

2. To agree that in respect of the properties which are to be leased to Guernsey Telecoms Limited, leases be granted on the terms set out in the Heads of Agreement document dated 29th April, 2002, which has been deposited at the Greffe.

3. To authorise the States Advisory and Finance Committee to take whatever steps are necessary to complete the sale within the terms broadly described in that Report.

K.H. TOUGH
HER MAJESTY'S GREFFIER