

Executive Summary

THE TREATMENT OF DEBT AND EQUITY

- ▶ The immediate issue for Government is to decide how much "economic pain" to make shareholders and debt providers suffer as a condition of Government's support. This is best considered in terms of the consequence for Government of various courses of action:
- ▶ Debt: Irrespective of the strict rights of debt providers, the key consideration for Government is the consequence for it of allowing the debt to go into default and lenders not to recover their principal:
 - Firstly, it is likely to be more expensive and possibly more difficult for Ariel (absent a total Government guarantee) to access the debt markets to raise the £8bn it requires over the remainder of this Control Period to fund its capital investment programme. It would have either to scale back its capital expenditure programme radically or look to Government for the additional funding.
 - Although Ariel is probably the only business in the UK where debt providers implicitly assume there is a Government guarantee, there is a reasonable prospect that adverse treatment of the debt providers would cause lenders to reappraise regulatory risk and increase the cost of funding accordingly in other regulated utilities. A [*] notch rating downgrade across all regulated industries, is estimated to increase funding costs by £[*]bn annually,
- ▶ Equity: The position of shareholders may be somewhat different. Without Government support, Ariel plc (the regulated entity) would have no choice but to go into Administration. Under such circumstances, the value of the equity of Ariel plc would depend on the terms of the transfer scheme proposed by Government but might be negligible. The value of Ariel Group shares would be the value of the property, insurance and CTRL subsidiaries that it also holds.
- ▶ However, the political consequences of subjecting the shareholders (including some 250,000 individuals) of a relatively recently privatised company to substantial loss would be significant if, as we expect, it resulted in a sense of grievance. The relative treatment of equity and debt holders would be an issue in the resulting controversy.

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Note connection with longer term vision: the more different the more difficult it will be to move it was all down to bad management.

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