



AGM Briefing Note

Share redemptions

At last year's Annual General Meeting, we had a discussion about the redemption of shares.

The current Rules – the relevant extract is set out below – gives members the right to call for repayment of their capital and gives the directors discretion to do so subject to the company's financial position.

To date there have been few redemptions.

However the company's business model assumes that a proportion of members will call for repayment of their capital investment each year but this assumption has not been met. This has meant that the company is accumulating cash, which earns a negligible return, whilst continuing to pay interest on members capital.

There are reasons why accumulating cash is necessary. For example, there will come a time when the existing inverters will need to be replaced. The current expectations that this will be after a ten year life. But apart from these needs, there are a number of options available for using the balance of the accumulated cash as follows:

1. To increase the rate of interest payable to members back to the original level of 6.0%;
2. To increase the annual community benefit contribution;
3. To redeem shares in line with the business model.

The interest rate payable to members was reduced last year from 6.0% to 4.0% as a precautionary measure due to the increasing debt due from Frome Town Holdings. There has been no progress in resolving the outstanding amount due and the directors are taking legal advice on next steps. At this stage there seems little justification for reversing this decision. If members are unhappy at the directors' decision, then they are able to ask for redemption but this has not happened.

FRECO's balance sheet contains a number of community benefit contributions that have not been spent and it would seem better to use these reserves first before adding to the balance.

Redeeming outstanding shares would have the benefit of reducing the interest rate burden on the company in the future, whilst managing the repayment of members capital. However this course of action would be at the directors' rather than the members' discretion. It would be simplest if applied equally on a pro-rata basis across all members, payable at the same time as the interest payment. Members rights to ask for repayment would be unaffected but would have a bearing on the value of any redemptions called for by the directors.

The directors realise that this change might not suit some members. FRECO has many years of life to run and the pace of repayments called for by members might be expected to increase as time passes. If this does happen then the extent of redemptions by the directors will be limited. However the directors believe that such a move is on the best interests of the company and therefore its members.

Any such change to the Rules would have to be agreed by members and reported to the Financial Conduct Authority.

Once the directors have had an opportunity to consider the administration and implications further of such a change to the Rules, members will be asked for their views and approval.

Appendix 1



Withdrawal of share capital

28. Class A shares may be withdrawn by Members upon giving three months' notice to the Society (though the Board retain sole discretion to return money paid for them), provided that:

- (a) All withdrawals shall be paid in the order in which the notices were received by the Society;
- (b) A Member shall not be entitled to withdraw Class A shares which would leave them with less than the minimum Class A shareholding, unless they intend to terminate their membership of the Society;
- (c) The Board may waive the notice required for a withdrawal and may direct payment to be made without notice or on such shorter notice as they consider fit;
- (d) The Board may, at their sole discretion, suspend the right to withdraw Class A shares either wholly or partially, and either indefinitely or for a fixed period. The suspension shall extend and apply to all notices of withdrawal which have been received and remain unpaid at the time the Board suspends the right to withdraw. Where the suspension is for a fixed period, such period may be extended from time to time by the Board;
- (e) During any period when the right of withdrawal has been suspended under the provision immediately above, the Class A shares of deceased Members may, if the Board agree, be withdrawn by their personal representatives upon giving such notice as the Board may require;
- (f) The amount to be paid to a Member on withdrawal shall be the amount paid up or credited on the Class A shares to be withdrawn, except where the Class A shares are subject to a reduction in their value in accordance with the provisions of these Rules;
- (g) Interest shall be payable on any Class A share in respect of which a notice of repayment has been given until the date of repayment.

29. Any Class A share withdrawn in accordance with these Rules shall be cancelled.

30. The Society may deduct such reasonable sum to cover any administrative costs of withdrawal from the monies payable to a Member on the withdrawal of Class A shares in the Society.

31. Class B Shares shall be transferable only with the prior written consent of the Board of Directors.