

CONFIDENTIAL



FROM: M E DONNELLY  
DATE: 25 January 1982

NOTE FOR THE RECORD

cc Chancellor  
Chief Secretary  
Economic Secretary  
Minister of State (C)  
Minister of State (R)  
Sir D Wass  
Mr Bailey  
Mr Burgner  
Mr Morgan

ASSOCIATED BRITISH PORTS

Mr Burgner and Mr Broadbent reported to the Financial Secretary at 6pm on 24 January on the latest position in the discussion about the sale of ABP.

Mr Broadbent said that following the revised, more pessimistic, profits forecasts adopted by the Board last week (as reported in his note of 20 January) Schrodgers had spent the weekend clarifying the figures with ABP's accountants. Some agreement had been reached on exceptional items. But a major problem had arisen because the Board's latest estimates now showed 1983 operating profits lower by £2.1 million at £11.5 million, implying a downturn in profits in 1983. The Board were prepared on the basis of these figures to say only that had they been a public company in 1982 they would have paid a dividend of £2.8 million and in the absence of unforeseen circumstances they would pay £2.8 million in 1983. Schrodgers had real doubts whether a sale was possible on this basis. In their opinion, the new profits forecast was cautious in the extreme. It would support a sale only if the Board were prepared to go further in forecasting a dividend and committing themselves to "not less than £2.8 million" in 1983. Even on this basis, equity valuation would be well down at around £43 million.

The Board were open to criticism in that they had waited until the last moment to make the strength of their views on the profit forecasts known. In retrospect the ABP Chairman had made commitments which did not reflect the views of the majority of the Board and

it appeared he had now failed to carry his Board. But though they were perhaps being excessively cautious it was not possible with certainty to impute any other motive to them.

In discussion it was agreed that there were now three options:

- i) assuming the Board did in the event provide a dividend forecast of not less than £2.8 million, to sell ABP on Wednesday 2 February for about £43 million;
- ii) the Board could be restructured. This would mean a delay of one year in the sale since the markets would want to have a full year's operating figures behind a new management team;
- iii) the sale could be deferred, leaving the present Board substantially unchanged. The sale might then take place in September when higher proceeds could well be secured on the basis of half year 1983 figures - assuming that there was then no further election uncertainty.

Option (i) provided for immediate privatisation; but might be open to the criticism that the Government was giving overriding priority to selling public sector assets quickly and possibly therefore below their true value. Option (ii) could have a wider and useful demonstration effect on management involved in later, and more important, privatisations. But how far it would in fact produce this effect was debatable. Option (iii) would probably lead to increased proceeds, although one could not be certain. But it would be heavily dependent on the timing of an election.

Summing up the Financial Secretary said that it would be necessary to review the situation again when the Board's decision on whether or not to provide a dividend forecast was known.

CONFIDENTIAL



FROM: M E DONNELLY

DATE: 20 January 1983

MR BROADBENT

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State (C)  
PS/Minister of State (R)  
Sir D Wass  
Mr Bailey  
Mr Burgner  
Mr Morgan  
Mr S Thomas

ASSOCIATED BRITISH PORTS HOLDING (ABPH)

This note records the conclusions of the meeting between yourself, Mr Burgner and the Financial Secretary to discuss the developments outlined in your note of 20 January.

It was agreed:

(i) it was necessary for Schrodgers to check the revised profit figures endorsed by the Board, with the Board's accountants Price Waterhouse. If Schrodgers could agree amended figures with Price Waterhouse these could be presented to the Board, even though

(ii) this would inevitably involve a delay of 1 week in the sale date (from 26 January to 2 February);

(iii) an urgent meeting should be held between the Board, Mr Howell and the Financial Secretary to discuss the Board's new decisions.

You agreed to keep this Office closely in touch with developments.

MEJ  
M E DONNELLY