



DEPARTMENT OF INDUSTRY
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LONDON SW1E 6RB

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PS/ Secretary of State for Industry

14 March 1980

Tim Lankester Esq
Private Secretary to the Prime Minister
10 Downing Street
London SW1

Prime Minister

Dear Tim,

1 copy - a
small meeting
ref.

On X, we took over should
by a stock-taking meeting
on 24 March. Otherwise, we'll
have no meeting before Easter.
(You are stays are being
blocked after
26 March.)

BL

I am writing to bring you up-to-date on the BL situation
following the Board meeting on 12 March.

1979 Results

At a press conference at 3.30 pm this afternoon, Sir Michael Edwardes will announce his company's preliminary unaudited accounts for the year ended 31 December 1979 (resumé attached, with some comments). They will show a £46.2m loss before interest and tax; Ministers were warned in December that a loss of the order of £50m was likely to be sustained. The figure for losses after extraordinary items is £144.5m.

12
14/3

Sir Michael Edwardes' Future

Sir Michael will announce his intention to remain as Chairman of BL during the course of the press conference. This should provide a major boost to management and dealer morale and help to offset some of the unhelpful and untrue rumour-mongering in the media and elsewhere that BL has a cash flow crisis on its hands.

BL Cars Wages and Conditions Negotiations

These remain blocked. BL management have written to the members of the Joint Negotiating Committee saying that, in the management's view, after 14 meetings, there is no future in continuing discussions. The purpose of this move was to transfer the negotiations to the level of the General Secretaries of the relevant unions. A meeting will take place this morning, but it is by no means certain that the TGWU will agree to be represented even by a substitute for Mr Moss Evans. The management will

/decide ...



decide in the light of progress made at this meeting how to proceed with the wages and conditions package. They may decide to announce that it is being imposed unilaterally and make this public during the afternoon press conference. If such a decision is made, management will then implement the new working conditions at plant level with the possibility that such action will lead to local industrial action. BL Cars do not appear to think there is much danger of a company-wide strike in pursuit of the claim.

Contingency Planning

This subject was discussed by the BL Board on 12 March. My Secretary of State expects to receive a letter from Sir Michael Edwardes in the next few days formally asking that guarantees should be issued in the period prior to any formal decision to withdraw the Plan. The BL Board are not asking for guarantees in other circumstances. The Chancellor has already agreed in principle to this action being taken.

The BL Board will consider at their next meeting on 26 March whether any modification of the 1980 Corporate Plan is called for at this stage. There is at the present time no question of the BL Board asking the Government for additional finance during 1980 and the CSEU have already been told that the model and facility renewal programme in the Plan should remain intact provided there are no further setbacks. Fortunately there has been some recovery in market share in the wake of the BL Cars sales campaign: BL Cars sales in the first 10 days of March were 21% of the UK market as against 16.7% in February.

As you know, Treasury officials have updated the estimates in the Official Group Report on the BL Corporate Plan of the impact of a BL collapse on public expenditure and the PSBR in 1980/81. This was primarily a budget planning exercise but this Department will be ready to participate in further work on the need for supplementary measures to help the supplies industry and the regions affected in the event of a BL collapse.

Conclusion

My Secretary of State thinks it will be premature to have a further meeting of the Prime Minister's Group on 24 March. There is clearly no immediate danger of the BL Board withdrawing the Plan. It will also be useful before any further meeting to see the March market share results and the outcome of BL Cars next moves on the wages and conditions front. He would suggest therefore that a further meeting should be considered in the light of the decisions made by the BL Board on 26 March. In the meantime, however, there will continue to be unhelpful

/speculation ...



speculation in the press that BL face a cash crisis. He would be grateful therefore if colleagues would refute any such suggestions put to them by journalists by pointing out that Government has received no request for additional funds from BL or any suggestion that it is about to withdraw the Plan.

I am copying this letter to Martin Hall (Treasury), Richard Dykes (Employment) and to David Wright.

Yours ever

Ian Ellison

I K C ELLISON
Private Secretary

THIS DOCUMENT IS IMPORTANT. If you are in any doubt about the course you should follow, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

BL LIMITED

(Registered in England No. 1213133)

Directors:

Sir Michael Edwardes (*Chairman*)
Ian MacGregor (*Deputy Chairman*)
D. R. G. Andrews
Sir Austin Bide
Sir Robert Clark
Albert E. Frost
Sir Robert Hunt

Registered Office:

35-38 Portman Square,
London W1H 0HQ.

14th March, 1980.

To the Ordinary shareholders of the Company and, for information only, to the holders of the 7½ per cent. Convertible Unsecured Loan Stock 1982/87 of BLMC Limited.

Dear Sir or Madam,

I am writing to give you the preliminary unaudited results for the year ended 31st December, 1979 and to give notice of an Extraordinary General Meeting to be held on 31st March, 1980 to consider proposals for the issue of further equity capital at par to the National Enterprise Board ("NEB"). The preliminary results, which reflect a marked deterioration in the second half of the year, and my comments on them are set out in Appendix 1 on page 3.

The BL Bulletin sent to you in September, 1979 contained details of the unaudited results for the six months ended 30th June, 1979 and of the plans for streamlining the business of BL and accelerating the new model programmes. Subsequently, we initiated discussions with employee representatives and national union officials on proposals for the restructuring and slimming of the Company which your Board insists is essential to the survival of BL. These plans, which were overwhelmingly supported by employees in a secret ballot held in November, 1979, form the basis of the Company's Corporate Plan for 1980 and underline the Board's objectives of building on the profitable parts of the business and turning round or discontinuing those parts which are unprofitable.

The Corporate Plan

Under the 1980 Corporate Plan, the Company will concentrate its operations at fewer locations while retaining enough capacity to meet demand when market prospects improve. This concentration, together with the considerable reductions in manpower planned over the next two years, has enabled the Company to set higher targets for improvements in productivity than were possible previously. In 1980 Leyland Vehicles has launched the Roadtrain, the first of a new range of trucks, and Austin Morris is launching the Mini Metro. In order to accelerate the necessary further revitalisation of the product range the Company is also seeking collaborative deals with other manufacturers. To this end, on 27th December, 1979, I signed an agreement with Honda Motor Co., Limited, one of the leading Japanese automotive manufacturers, under which BL will produce and sell in the European community, under a BL marque name, a new car currently being developed by Honda Motor Co., Limited. BL will start assembly in the summer of 1981 with a large and increasing content of the car originating in the UK. Your Board regards this agreement as being of major importance to BL.

The Plan envisages that £297 million of public funds will be required in 1980 with a further £133 million between 1981 and 1983. These two sums together represent the £225 million balance of the original £1,000 million recommended in the Ryder Report, with an additional £205 million to meet the cost of redundancies and closures under the Company's restructuring programme. Clearance has been sought from the EEC Commission for the additional funding.

In spite of the vigorous action being taken BL is unlikely to achieve anything approaching a commercial rate of return on assets for some time. Indeed, the severity of the engineering industry strike in the autumn of last year and the decline in market share which the Company experienced has already put in jeopardy some aspects of the Plan. The extensive programme of rationalisation and development contained in the 1980 Plan is vulnerable to continuing industrial unrest, both internal and external. Further national disputes like those which did your Company such immense harm in 1979 and undermined the improvement in our own industrial relations would put the Plan beyond us.

Accordingly, in seeking Government approval to the Plan, I wrote to the Secretary of State for Industry on 19th December, 1979 as follows:—

"I should like to make clear beyond any doubt the basis on which my Board have sought from the Government the funds needed for the 1980 Corporate Plan.

Considerable hazards face us from within and without. The Board will monitor progress very closely, and if shortfalls in performance place the achievement of the Plan in jeopardy, then the Board consider that they will have no option but to abandon the Plan.

In particular if there is a significant shortfall in cash flow whether due to major disruptions through internal or external strikes, or to delays in any of our programmes for investment and launch of new products, restructuring and redundancies or for improving productivity and working practices, or to any other cause internal or external, the Board will abandon the Plan.

If the Government decides to support the Plan and provide the funds, you can be assured that the Board and management will pursue it with the utmost determination and commitment. I have every reason to believe that this goes for our employees as well."

On 20th December, 1979 the Secretary of State announced that, following receipt by the Government of a report by the staff of the NEB on the Company's performance in 1979 and its 1980 Corporate Plan and Budget, and in the light of my letter set out above, the Government had decided to fund the Plan up to the end of its 1980/81 financial year by the provision of £150 million in equity form, with an additional facility on which the Company would be entitled to draw, on giving evidence of its need, up to a maximum of a further £150 million in equity. In addition, the Government accepted your Board's request for conversion to equity of the £150 million NEB subordinated loans provided in 1977.

Issues to the NEB

In 1978 and 1979 the Company raised £598.4 million of equity capital by means of rights issues underwritten, free of charge, by the NEB. With very few exceptions shareholders followed the advice of the Board and did not take up their rights entitlement. The middle market quotation for the existing Ordinary shares on 10th March, 1980 (the latest practicable dealing date before printing this document) was 20½p per share and did not exceed 25½p per share in the preceding twelve months. Accordingly, shareholders wishing to acquire further Ordinary shares are likely to be able to acquire them in the market at materially less than their par value of 50p which by law is the minimum price at which they can be issued. The Directors do not see the likelihood of dividends being paid on the Ordinary shares of the Company for some years to come. In these circumstances your Board has decided that a rights issue (for which the Board would again recommend that shareholders, other than the NEB, should not subscribe) would not be an appropriate or efficient way of arranging the further provision of equity capital and it has therefore decided to recommend the alternative method of issuing shares direct to the NEB.

You will find on page 6 Notice of an Extraordinary General Meeting at which a resolution will be proposed to increase the authorised share capital of the Company by £400 million and to authorise the Board to issue a maximum of 900 million additional shares to the NEB. It is not intended to seek a listing on The Stock Exchange for the new shares and the relative share certificates will be marked accordingly; otherwise the new shares will rank *pari passu* in all other respects with the existing issued shares. The authority for the issue of shares to the NEB is expressed to expire at the conclusion of the 1981 Annual General Meeting unless then renewed.

Ordinary shareholders will find enclosed a proxy card for use at the Extraordinary General Meeting. Whether or not they intend to be present at the Meeting they should please complete and return the proxy card as soon as possible and in any event so as to arrive not later than 48 hours before the time appointed for the Meeting. The completion and return of a proxy card will not preclude them from attending the Meeting and voting in person should they wish to do so.

Your Board believes the proposals to be in the best interests of the Company, its shareholders and stockholders and strongly recommends that you vote in favour of the resolution set out on page 6 of this Circular.

Additional information is set out in Appendix 2 on pages 4 and 5.

Yours faithfully,

MICHAEL EDWARDES,
Chairman

APPENDIX 1

PRELIMINARY UNAUDITED RESULTS FOR THE YEAR ENDED 31st DECEMBER, 1979

	1979 £ million	1978 £ million
Sales		
UK	1,759	1,715
Overseas	1,231	1,358
Total	2,990	3,073
of which direct exports from UK	865	910
(Loss)/1978 Profit before Interest and Taxation (before exceptional manpower reductions)	(46.2)	71.3
Exceptional Manpower Reductions*	10.0	13.6
Interest payable less receivable	66.0	56.0
(Loss)/1978 Profit before Taxation	(122.2)	1.7
Taxation charge	6.3	12.6
Loss after Taxation	128.5	10.9
Minority interests	3.0	2.1
Loss before Extraordinary Items	131.5	13.0
Extraordinary Items**	13.0	24.7
Loss after Extraordinary Items	144.5	37.7
Vehicle Unit Production ('000)	658	771
Vehicle Unit Sales ('000)	693	797
Weekly average number of employees ('000)***	177	192

(Loss)/1978 Profit is after charging depreciation and amortisation of £83.6 million £75.7 million

*"Exceptional Manpower Reductions" refers to costs incurred in those plants which continue in operation.

**"Extraordinary Items" are mainly the costs of closure of plants or companies where operations are being discontinued.

***At 31st December, 1979 there were 168,600 employees.

Chairman's comments:

Overall sales revenue at £3 billion was slightly down on 1978. In the UK the Company, although it maintained its sales revenues, was unable to take full advantage of the highest ever vehicle sales because of the effect of externally generated disputes. BL was the only major motor vehicle producer directly affected by the national engineering dispute, which occurred in the second half of the year.

The trading results, before interest, tax and the cost of exceptional manpower reductions, were hit heavily by the national engineering dispute which was the biggest single contributor to the overall trading loss of £46 million.

The other unhelpful factor was the strength of sterling which gave a competitive advantage to the importers in the UK and led to lower exports by BL, one of Britain's leading exporters.

The loss before tax was £122 million compared with a profit of £2 million in 1978. Interest costs of £66 million were incurred (1978—£56 million).

The main component in the change from profit to loss was the severe setback suffered by BL Cars which showed a deterioration of £108 million compared with last year. BL Commercial Vehicle's profit before interest and taxation was virtually unchanged from 1978.

The Company has taken determined action to reduce its manpower as a prerequisite to improving productivity of both cars and commercial vehicles. Reductions in manpower levels of on-going operations in 1979 cost the Company £10 million. In addition the £13 million of extraordinary costs include the cost of discontinuance of certain operations to reduce excess production capacity, where decisions have already been taken.

In the autumn employees approved the Company's recovery plan by a 7 to 1 majority; this plan provides for the acceleration of model programmes, closure of plants and the loss of at least 25,000 jobs. The backing by the workforce of the Company's recovery plan encouraged the Board to seek further funds from the Government in December. £300 million is to be made available to the Company by the Government during its 1980/81 financial year for capital investment and for meeting the cost of redundancies and closures under the restructuring programme.

BL's capital expenditure continued at a high level in 1979, the three main projects being the new Mini Metro facilities at Longbridge, Phase 2 of the Land Rover programme and the new truck assembly hall at Leyland. An agreement was signed with Honda at the end of the year; this major collaborative venture will provide the Company with a new car.

1980 will see the first major results of the public investment in BL—in the shape of new commercial vehicles and new cars.

Nevertheless, 1980 will be a very difficult year for BL. Improved production performance to date has been offset by our lack of success so far in restoring our market share to a satisfactory level. Action is being taken to increase sales; in the meantime we are trimming vehicle inventories by adjustments to production schedules.

APPENDIX 2
ADDITIONAL INFORMATION

Share Capital

1. The following table shows the authorised and issued share capital of the Company before and after the proposed increase in authorised share capital and the issue of the maximum number of Ordinary shares to the NEB:—

<i>Authorised</i>			<i>Issued and Fully Paid</i>	
<i>Before</i>	<i>After</i>		<i>Before</i>	<i>After</i>
£'000	£'000		£'000	£'000
850,000	1,250,000	Ordinary shares of 50p each	728,096	1,178,096

Note: It is not intended to seek a listing on The Stock Exchange for the new shares to be issued to the NEB.

2. The NEB holds 1,443,404,996 Ordinary shares representing 99.12 per cent. of the issued share capital. Upon conversion into equity of the £150 million of NEB subordinated loans and the maximum subscription of a further £300 million of equity by the NEB, the NEB would hold 2,343,404,996 Ordinary shares representing 99.46 per cent. of the enlarged issued share capital of the Company.

3. Since 31st December, 1978, the date to which the latest audited accounts were made up, the Company has issued 298,852,088 Ordinary shares at par by way of rights (of which all but 1,118 Ordinary shares were allotted to the NEB) and a subsidiary has issued 4.96 million Ordinary shares of Indian Rupees 5 each. In addition two subsidiaries with external shareholders are proposing to capitalise reserves of Zaires 6 million and Zambian Kwacha 0.4 million respectively. Otherwise no share of loan capital of the Company or any of its subsidiaries (except for share capital issued within the Group) has been issued for cash or other consideration and no discounts, commissions, brokerages or other special terms have been granted by the Company or any of its subsidiaries in connection with the issue or sale of any part of the capital of the Company or its subsidiaries. Save as disclosed herein, no unissued share or loan capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option or is proposed to be issued.

4. The holders of the outstanding £26,748,480 nominal of 7½ per cent. Convertible Unsecured Loan Stock 1982/87 of BLMC Limited have the right to convert their Stock for a period of one month, normally the month of June, in each of the years up to and including 1987 (subject to the provisions for early redemption contained in the Trust Deeds constituting the Convertible Stock) into fully paid Ordinary shares of 50p each of the Company at the rate of one fully paid Ordinary share for every £5.50 nominal of Convertible Stock converted. Full conversion on this basis would involve the issue of 4,863,360 Ordinary shares.

Group Indebtedness

At 31st December, 1979 the Company and its subsidiaries had outstanding the following loan capital and term loans:—

	<i>£ million</i>
Loans from NEB	
Parent — Subordinated Loans 1982/97	150.0
Subsidiary — 7½ per cent. Subordinated Loan 1982	10.0
	160.0
7½ per cent. Convertible Unsecured Loan Stock 1982/87	26.7

	<i>Short Term</i>	<i>Long Term</i>	
	<i>£ million</i>	<i>£ million</i>	
Other Loan Capital and Term Loans			
<i>Secured</i>	3.8	16.8	20.6
<i>Unsecured</i>			
6 per cent. Unsecured Loan Stock 1998/2003	—	12.4	12.4
6.1 per cent. Unsecured Loan Stock 1977/82	—	3.4	3.4
7½ per cent. Unsecured Loan Stock 1987/92	—	9.9	9.9
8 per cent. Unsecured Loan Stock 1998/2003	—	10.9	10.9
8 per cent. Industry Act Loan 1977/83 repayable in instalments	0.4	1.3	1.7
10 per cent. Industry Act Loan 1978/85 repayable in instalments	0.4	2.0	2.4
5½ per cent. Unsecured Loan of 50m Swiss Francs 1979/84 repayable in instalments	2.8	11.3	14.1
7½ per cent. French Franc Bonds 1977/87 repayable in instalments	0.7	8.5	9.2
Long Term Bank Loans 1982/86	—	115.0	115.0
Other	9.5	3.9	13.4
	13.8	176.6	192.4
	17.6	195.4	213.0

Notes: 1. The NEB Subordinated Loans with the Parent Company totalling £150 million are at various rates of interest between 13½ and 15½ per cent. and, under the proposals set out in this Circular, are to be converted into equity.

2. Short term loans are loans repayable within one year.

The majority of the above loan capital and term loans are constituted by trust deeds or loan agreements which, *inter alia*, contain various covenants as to the Group's financial condition.

At the same date the Company and its subsidiaries had, in addition, outstanding bank indebtedness, other short term borrowings and liabilities under acceptance credits which amounted to £253 million (of which £15 million was secured) and there were contingent liabilities in respect of bills discounted and guarantees amounting to £39 million in respect of which no material loss was expected to arise.

For the above purposes, amounts in foreign currencies have been translated into sterling at rates of exchange ruling on 31st December, 1979.

Save as disclosed herein and excluding intra-group liabilities, neither the Company nor any of its subsidiaries had outstanding at such date any borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits, mortgages, charges, hire purchase commitments, or guarantees (except for normal trading guarantees) or other material contingent liabilities.

At 29th February, 1980 (the latest practicable date before the printing of this document) Head Office records indicated no material change in overall Group borrowings since 31st December, 1979.

General

A claim has been made against the Company and certain of its subsidiaries arising from the proposed termination of a distributor franchise in North America. This claim is being vigorously resisted and no material loss is expected to arise. Save as disclosed, so far as the Directors of the Company are aware, there is no material litigation or claim of material importance pending or threatened against the Company or any of its subsidiaries.

Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 31st March, 1980:—

- (i) the Memorandum and Articles of Association of the Company;
- (ii) the published accounts of the Company for the financial years ended 31st December, 1977 and 31st December, 1978;
- (iii) the Report for Parliament by the staff of the NEB on the 1980 Corporate Plan of BL Limited together with the text of the Parliamentary statement made by the Secretary of State for Industry on 20th December, 1979; and
- (iv) the Principal Trust Deed and Supplemental Trust Deeds constituting the Unsecured Loan Stocks of BLMC Limited.

BL LIMITED

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at Café Royal, 68 Regent Street, London W1 at 12 noon on Monday, 31st March, 1980 for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an ORDINARY RESOLUTION:—

RESOLUTION

THAT:—

- A. The authorised share capital of the Company be increased from £850 million to £1,250 million by the creation of an additional 800 million Ordinary Shares of 50p each, and
- B. The Directors be authorised hereby from time to time to issue at par for cash and/or by way of conversion of loan to the National Enterprise Board additional Ordinary Shares of 50p each to a maximum aggregate nominal value not exceeding £450 million subject to the following restrictions and conditions:—
- (i) the authorisation hereby conferred shall cease to have effect at the conclusion of the Annual General Meeting in the year 1981 unless then renewed or extended; and
 - (ii) the authorisation hereby conferred shall forthwith cease and determine if the middle market quotation for the fully paid Ordinary Shares of the Company on The Stock Exchange (determined on the basis of The Stock Exchange Daily Official List) shall not be less than par on five consecutive dealing days.

By Order of the Board,

A. R. W. LARGE,

Secretary.

Dated 14th March, 1980.

Registered Office:—

35-38 Portman Square,
London W1H 0HQ.

Notes:—

1. A member of the Company who is entitled to attend and vote at the Meeting may appoint a proxy or proxies to attend and, on a poll, to vote in his stead. A proxy need not be a member.
2. Forms of proxy must be lodged at the transfer office of the Company, 35-38 Portman Square, London, W.1 not later than 48 hours before the time appointed for the holding of the Meeting.
3. Holders of the Convertible Stock are not as such entitled to attend or vote at the Meeting.

14 MAR 1980

