



Prime Minister

PRIME MINISTER

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CABLE & WIRELESS FLOTATION

As you will have seen in the press, the public offer for sale of just less than 50 per cent of the shares in Cable and Wireless has met with an enthusiastic response from the City and from the investing public despite rather uncertain trading conditions generally in the Stock Market.

2 Just over 133 million shares were offered for sale and there were 337,000 applications for a total of approximately 750 million shares. The offer was thus subscribed by about 5.6 times, excluding the preferential applications made by employees. The level of subscription and the number of applications necessitated a ballot among smaller applicants. Details of the basis of allotment are set out in the attached press notice issued by Kleinworts on 2 November.

3 The offer represented the largest new issue ever made on the London Stock Exchange, bigger by half as much again than the British Aerospace flotation which itself set a new record last February. The Government will receive about £224 million from the disposal of which £35 million will be passed to the company for new investment and £6 million will be set aside to meet the costs of the offer. The net proceeds to Government will thus be about £183 million which is substantially more than we had expected to raise when the prospects for flotation were being considered as recently as six months ago. The principal events since then have been the company's successful renegotiation of its vital franchises in Hong Kong and Bahrain, on terms much better than expected. With the stability of the company's position in its main areas of operations secured, C&W was able to offer investors the prospect of profits and growth in the fast developing telecommunications sector. The increased attention



which the BT Act drew during the summer to the commercial opportunities in this sector and our subsequent agreement in principle to license C&W on behalf of a consortium to set up a new telecommunications network in the UK, (Mercury), will undoubtedly have contributed towards the remarkable amount of interest shown in C&W shares. With public expectation of Mercury so high we must cut through remaining difficulties to ensure that it is a success.

4 Each one of the merchant banks, including Kleinwort Benson whom we eventually chose as our advisers, advised us that no offer of shares in C&W was possible without the satisfactory renegotiation of the company's franchise in Hong Kong. The principal credit for this success must go to Eric Sharp, whose leadership during his first year as C&W Chairman has been outstanding, and to the Governor of Hong Kong and his Financial Secretary, whose co-operation and personal interest were invaluable in highly charged local circumstances. The other negotiators on both sides also deserve credit for their diligence. Not only was the outcome satisfactory to both sides but it was accomplished in a remarkably short period in order to enable us to meet the tight timetable for flotation which we had imposed. As it has turned out, the flotation of C&W shares was made on exactly the day booked with the Government broker last February.

5 It would be unfair not to draw your attention to the contribution of the other directors of the company and the staff who had to work extremely hard to prepare for flotation and did so willingly despite the obvious risks to the company of both the premature renegotiation in Hong Kong and the reaction of overseas Governments to our proposal for privatisation. Both these risks caused us and the company some considerable concern and they required very delicate handling, in which the FCO also played an important role. That they were satisfactorily overcome for our purposes within the required timescale adds to the achievement.

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6 As in the case of British Aerospace we have left open the possibility of a further disposal but have undertaken in the Prospectus not to sell more shares for the foreseeable future. This was necessary in order to assure potential investors that the value of their investment would not be diluted soon after the offer and also to provide assurance for overseas Governments. The balanced form of words allows us some flexibility, although it will be expected to mean that a further sale is precluded for a period of at least eighteen months from the present offer for sale. The undertakings we have made to overseas Governments about the Government's majority shareholding should not commit us to any greater extent than we are committed to the investors in C&W. However, we shall obviously need to consider consulting overseas Governments once again if a further sale of C&W shares is contemplated in the future. I would hope that by that time the confidence of overseas Governments in C&W's private sector status will be secure and that any such consultation will be without risk to the company.

7 The success of the Cable and Wireless flotation should give us new encouragement for our remaining privatisation programme. There may, however, be those who will complain that the level of subscription for the shares indicates that the offer price was too low. Those who understand these matters will know that any such inference is superficial and I hope that colleagues will not allow themselves to be distracted from taking justifiable pleasure in the tangible fruits of success from the sale of these shares.

8 I am copying this minute to members of E(DL), the Secretary of State for Defence, the Lord Privy Seal, the Paymaster General and Sir Robert Armstrong.

PJ  
P J

4 November 1981

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123 Victoria Street

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