(2)

PRIME MINISTER

Mr. Walker's Statement on Enterprise Oil

What could have been a difficult occasion for the Government proved to be very successful. The Opposition attack was feeble and predictable. Mr. Walker's explanation of his decision to cut RTZ's allocation was put across convincingly and he hammered home that the issue was a success in the sense that a new, well managed, well financed, independent oil company had been created; that underwriting had again proved its worth. The main danger was criticism from Government benches about the treatment of RTZ but this did not happen. Virtually the only critical note was from Jonathan Aitken who argued that the Government had allowed its timing to be dictated by PSBR and legislative factors.

AT

28 June 1984

With permission, Mr Speaker, I will make a statement about the sale of shares in Enterprise Oil.

The application list opened and closed yesterday for the sale of 212 million shares at a minimum tender price of 185p a share, payable in two instalments.

The issue was underwritten successfully and in full on 19 June by a wide range of institutions. The share market generally, and the oil market in particular, have substantially weakened beween the underwriting of the issue and the opening of the list. Applications were received for 66.4 per cent of the ordinary share capital. Rio Tinto Zinc have announced that they applied for 49 per cent of the shares. All their applications were made through nominees.

At the outset, the Government clearly stated its intention that Enterprise should be an independent oil exploration and production company. The Board and the staff of the company were recruited on that basis.

The Government's intention to ensure the continued independence of Enterprise for an initial period was clearly stated in the prospectus. To secure this the Government took two special steps.

First, it retained complete discretion to reject in whole or in part any application for shares on flotation of the company; and second, it retained a special share which, in effect, gives the Government a majority of shareholders' votes in the event of a take-over or attempted take-over of the company, for as long as such a situation continues.

These steps were designed to enable the Board and management to establish Enterprise as a new independent British oil company.

In keeping with this approach the Government has decided to exercise its power of rejection with a view to ensuring that no single individual or company, directly or through nominees, should hold beneficially more than 10 per cent of the equity as a result of the flotation.

On this basis applications for over 56m ordinary shares from more than 13,000 applicants have been accepted as valid and allocations will be made at the minimum tender price of 185p per share. The remaining shares will be taken up by the underwriters and sub-underwriters at the minimum tender price.

Finally, the Government wishes to make it clear that it is its firm intention to use the powers available to it to ensure the independence of Enterprise at this stage of its development consistent with the objectives specified in the prospectus.

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ
01 211 7214

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1A 0AA

28 June 1984

Dear Andrew

ENTERPRISE OIL

As discussed at Cabinet this morning, my Secretary of State is this afternoon to make a statement to the House on this subject. I attach his proposed text.

Copies go to Roger Bone (FCO), David Peretz (Treasury), Charles Marshall (Lord Privy Seal's Office), Callum McCarthy (DTI), Murdo Maclean and David Beamish (Chief Whips' Offices), and Lindsey Wilkinson (Cabinet Office).

Yours sincerely

Michael Reidy

M F REIDY
Private Secretary

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PRICING OF THE ENTERPRISE OFFER

A minimum tender price of 185p, capitalising the company at £392.2 million, was proposed by Kleinwort Benson at a pricing meeting on Friday 15 June on behalf of the underwriting team. This was agreed/provisionally to by Energy and Treasury Ministers after taking independent advice from Wood McKenzie and haering from Kleinworts that they had difficulty in holding their team at that price. The price was confirmed on Monday 18 June, the day before the offer, against a background of an uncertain and weakening market.

2. Press comment at the time (extracts attached) indicate htat the price was thought to have been set about right if not a little on the low side. The FT said it thought successful offers would have to be at about £2. The LEX article on 20 June said,

" .. a minimum temder price of 185p looks as nicely pitched as anything in the privatisation calender to date : low enough to prevent 185p being taken as a surrogate striking price but high enough in today's volatile market to make the underwriters earn their money. "

3. Over the following week however spot oil prices dropped further and share prices were shaky as the table below shows:

	Spot price of Brent	FT actuaries oil index	FT all shares index
Mon 11 June	29.65	1123.70	501.98
Mon 18 June	29.05	1057.92	488.91
Mon 25 June	28.30	1036.76	485.55
Wed 27 June	28.20	1037.98	486.01

4. This is the reason most analysts believe that there was so little demand for the shares rather than any problem with the company or the method of sale (while recognising that the City is always a bit unenthusuastic about tenders).

PE 1 division
28 June 1984

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THE GUARDIAN

Oil caution

18

THE newest member of the clutch of former subsidiaries of Her Majesty's Government, Enterprise Oil, is duly priced and on the stocks for its launch. The price makes sure that the stock will be attractive to the financial institutions, though less so to the widows and orphans.

The reason for sounding caution is basically that this is an exploration and a production company, not an integrated enterprise like Shell or BP. Put crudely, with the integrated companies the two sides of the business balance each other out.

If the oil price goes up the production side does well and the distribution side badly; if it goes down the reverse happens. If a company is solely at the sharp end, it is inevitably exposed to changes in the oil price, foreign exchange fluctuations, and exploration and production mishaps. By the same token, it can be a money spinner if it hits things right.

Enterprise Oil now sits on mature reserves, thanks to British Gas's entrepreneurial zeal. (British Gas is much better at finding oil than it is servicing your central heating).

Its future however depends on whether it can now find oil on its own. Most of the board are proven BP or Shell stock, but the new chief executive, Mr Hearne, comes from Tricentrol, and Carless Capel, companies whose only experience in finding oil is in the North Sea.

Enterprise Oil, faced with falling production, has to find more oil. it may well transpire that this mix of talent will pull together in an exciting way, and do so. On the other hand it may not.

Daily Telegraph

ENTERPRISE OIL VENTURE LAUNCHED

1

By ROLAND GRIBBEN
Business Correspondent

THE biggest disposal of State assets by the Government so far in its privatisation programme got under way yesterday with the launch of Enterprise Oil, formed from the North Sea oil assets of British Gas.

The Government will raise at least £392 million from the sale of the company, which starts life with interests in five North Sea oilfields and plans to expand.

But Mr Lawson, Chancellor, is looking to raise at least £2 billion this financial year from the sale of State run or controlled businesses to help fund Government borrowing.

City institutions say that the sheer weight of State stock could disrupt the market

Mr Lawson has opted for the controversial tender route for Enterprise, with a minimum price of 185p a share. Analysts feel that advisers have set their sights too low

City Report—P21

Daily Telegraph

Enterprise Oil 'issue that must succeed'

21

By DAVID BREWERTON

THE Government has gone as far as it needs to avoid the offer for sale by tender of 212 million shares in Enterprise Oil suffering the same ignominious fate as the Britoil tender—provided the market holds firm.

That was the almost unanimous view of City analysts and fund managers yesterday following publication of the full prospectus for Enterprise and the sub-underwriting of the issue at the 185p minimum tender price was completed before the market closed.

Enterprise had been judged in both the City and Whitehall as the issue that must succeed. It was under the shadow of the Britoil flop, and any difficulty with Enterprise would have undermined underwriters' confidence when British Telecom is floated later this year.

In the event the terms for Enterprise are hard to criticise, except in the respect of the forecast yield. That amounts to 5·41 p.c. based on the minimum tender price, but would fall to 5 p.c. on the 200p which is generally reckoned to be the target striking price.

Some investors would have preferred a yield in the same area as the 6 p.c. available on Lasmo and Britoil or the 7.4 p.c. on Tricentrol. Anthony Bellingan, oil analyst with Phillips and Drew commented that the dividend was "a bit tight."

Enterprise's chief executive the £90,000-a-year Graham Hearne, said that he believed shareholders were entitled to a dividend, but the company was anxious to project the image of an exploration and production company rather than a collection of producing assets.

Little adverse comment was found in the City yesterday afternoon on the discount to assets on which Enterprise is being offered. The prospectus contains no asset valuation but ample information on reserves, and on that basis the general view is that the discount is about 25 p.c.

David Gray, James Capel's oil expert, said the terms were reasonable and that the Government had given Enterprise "a fighting chance of success." He pointed out that the merchant bankers are not leaving underwriters exposed for long—the lists open and close next Wednesday.

The prospectus is backed up with a profits forecast of a pretax £113 million, but the City regards that, too, as conservative bearing in mind that production and prices will both be higher than on the "annualised" eight months historic acounts.

Despite yesterday's satisfaction with the terms, however, both the oil and the stock markets are in a volatile and nervous state, and potential subscribers are likely to wait as long as possible before coming to a decision about whether to subscribe for shares and at what prices.

Applicants for up to 2,500 shares can apply "at the striking price" and be sure of an allocation at whatever striking price is fixed. The big investors, however, will have to state the price at which they are prepared to buy shares.

Enterprise, which comprises the production assets formerly owned by British Gas, is keen to expand both in the United Kingdom and overseas to keep up its reserves. It comes to market with no cash, a tax position beneficial to exploration and appraisal effort and £84¼5 million of cash.

The production will peak, on current estimates, in 1985 and will then begin to decline unless new discoveries are made or additional production purchased. A dividend of 7p a share is forecast for the current year.

Full details of the prospectus will appear in Friday's editions of THE DAILY TELEGRAPH.

DAILY Mirror

16 Sell-off for oil firm

PLANS to sell off the Government shares in Enterprise Oil were announced yesterday. The company which was set up to take over the oil interests of British Gas, is valued at £392 million.

3/4

Wednesday 20th June 1984.

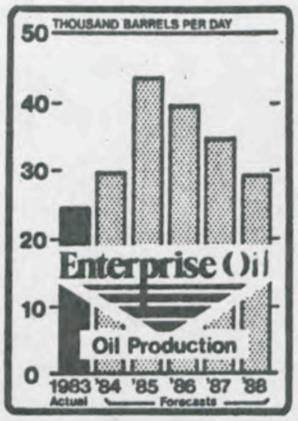
FINANCIAL TIMES

THE LEX COLUMN

Reward before Enterprise

36

Index rose 11.0 to 832.2



Enterprise Oil was presumably still knee-deep in eurodrafts of its flotation prospectus when oil shares began to slide a month ago. Since then, the sector has fallen almost twice as fast as the rest of the market, so yesterday's unveiling of a minimum, initial market capitalisation well below earlier speculation of £450m or so was as widely anticipated as most other details of the final offer document. In fact, the base line capitalisation of £392m—representing a minimum tender price of 185p—looks as nicely pitched as anything in the privatisation calendar to date: low enough to prevent 185p being seen as a surrogate striking price but high enough in today's volatile market to make the underwriters earn their money.

City estimates of the discounted cash flow value of Enterprise's assets, including net cash of roughly £100m, broadly range between £520m and £590m. Relative to the rest of the sector, this is not too difficult a figure to quantify since Enterprise has only five main fields to evaluate. In settling on a discount to asset value which might best reflect the group's potential, however, the market faces a problem of quite unusual complexity.

Weighed against its evident financial strength, Enterprise's existing production curve shows one of the steepest declines in the sector after 1986. It has an urgent ned to find new acreage for both exploration and development, possibly by swapping some of its present production. Its tax position in the North Sea is as good as any, while the group also has a eye on corporate acquisitions in the U.S. But success in either direction will depend critically on the management's perofromance. With no bid premium available and little likelihood of any exploration news big enough to move their price, the shares will be hypersensitive on this front where investors will be looking for more than a simple reduction in Enterprise's tax bill.

The management's acknowledgement of this and discussion of its strategy has so far been well-received in the City. The group's senior executives include several with sound reputations within the industry and no doubt the joys of prospectus writing have done wonders for their cohesion as a team. City nerves will certainly be tested by any major foray into the U.S. But in general the group may well be setting out with enough goodwill to warrant an initial discount to asset value on the shares rather narrower than that of either Tricentrol or Lasmo.

The group will not be short of cash to fund its aspirations: cash flow between now and 1990 could be £700m or thereabouts on present projections. If confidence in the management falters, the initial yield just over 5 per cent will be unfavourably compared with 6-8 per cent yields on the competition. Yet if the value added by good management is apparent by 1986, early investors will have stolen a march on the group's former owner.

THE TIMES

Enterprise £392m sale !

The Government assured itself of raising at least £392m yesterday when it formally launched the flotation of its latest privatization venture, Enterprise Oil.

The share capital of the company, set up to take over the North Sea oil assets formerly owned by British Gas, is being offered to investors at a minimum price of 185p a share. Mr Peter Walker, the Energy Secretary, announced the go ahead yesterday despite the recent fall in share values. Stockbrokers had originally estimated that the sell-off could raise between £400m and £475m.

The Treasury's final proceeds from the issue – a tender offer – could still top £400m

The Government has made sure of raising at least £392m by having the issue underwritten by merchant banks for fees of £6m. Page 19

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Wednesday 20th June 1984.

THE TIMES WEDNESDAY JUNE 20 1984

Enterprise goes to market in cut-price £392m sell-off 19

By Jonathan Davis, Financial Correspondent

The Government yesterday shrugged off the recent weakness of the stock market and pressed ahead with the planned flotation of Enterprise Oil, putting a minimun value on the business of £392m.

This is some way below most market estimates, which until the last few days at least had valued Enterprise, a new company set up to take over the North Sea oil assets of the state-owned British Gas corporation, at anything from £400m to £475m. The sharp slide in share values during the last few weeks, particularly in the oil sector, has left the Government with the awkward choice of either postponing the issue or settling for lower proceeds.

Mr Peter Walker, the Energy Secretary, confirmed in the Commons yesterday that the sale was going ahead, with 212 million shares being offered to investors at a minimum tender price of 185p. Apart from the single "golden share" which the Government is to retain until 1988 as a protection against unwanted foreign takeover, the entire share capital is, as expected, being sold in one go.

Prospectuses will be published later this week, with the closing date for applications set for next Wednesday.

By opting for what was generally seen in the City last night as a conservative minimum tender price, the Government could still get closer to its original £425m sale target if enough investors submit tenders above the minimum level, or if the market in general recovers.

The issue was underwritten on Monday by Kleinwort Benson, the merchant bank which has advized the Government on the privatization of Enterprise from the outset, and three other leading banks, Schroders, Morgan Grenfell and S. G. Warburg. Sub-underwriting by City institutions was successfully completed yesterday.

The prospectus shows that Enterprise is forecasting pretax profits this year of £113m, and net income after tax of £47m. At the minimum tender price of 185p a share produces a yield of 5.41 per cent at the minimum tender price.

Graham Hearne: salary of £90,000 a year

Production for Enterprise's proven North Sea fields is projected to rise from 24,410 barrels a day last year to a peak of 43,860 bpd in 1985, before starting to decline. The prospectus confirms that likely oil production from one of its key fields, North West Hutton, has been downgraded. Total estimated reserves in the field have also been downgraded from 280 million to 130 million barrels.

Enterprise's directors say the company has further oil and gas discoveries in the exploration acreage inherited from British Gas, four of which could be developed in the next 10 years. This could add between 20 million and 80 million barrels of oil to existing commercial reserves of 117 million barrels.

The prospectus also confirms that Enterprise has no real debt, and £80m of cash to help pursue plans for expansion in the North Sea and overseas. It discloses that Mr Graham Hearne, the chief executive, is being paid £90,000 a year, and three other directors £60,000 a year. A share option scheme for senior executives is planned.

Mr John MacArthur, a director of Kleinwort Benson, dismissed the recent suggestion by the Public Accounts Committee, that shares in privatized companies should be sold in a series of tranches, like a gilt-edged stock, as unrealistic.

THE GUARDIAN

Enterprise minimum price below City forecasts

Oil sell-off to raise £392m 18

By James Erlichman

Enterprise Oil, created by the government to privatise the North Sea oil assets of British Gas, will raise at least £392.2 million for the Exchequer when it is sold by tender on the Stock Exchange next Wednesday.

The sale price is less than some City forecasts and is certainly well below the £500 million price tag which British Gas originally put on the oil assets, which chairman Sir Denis Rooke was reluctantly forced to sell.

But the government has two reasons for caution. It wants to avoid a repetition of the embarrassment faced when its 51 per cent sale of Britoil by tender for £548 million flopped in 1982. And with Jaguar, Sealink and British Telecom being primed for sale, the government will have no difficulty reaching its annual £2 billion privatisation target in this financial year.

The terms of the enterprise tender require investors to make a minimum offer of 185p for each of the 212 million shares, representing 100 per cent of Enterprise's equity, which are up for sale.

In keeping with past policy, the allotment procedure will favour small shareholders if the tender is oversubscribed. Alternatively investors can opt to buy up to 2,500 shares at the "striking price" which will be determined by the tender. City opinion yesterday was that the "striking price" was likely to be between 190p and 195p. One analyst said: "The Enterprise sale will go all right, but it will not be a raving success."

Enterprise Oil is Britain's fifth largest producer and by conventional oil industry standards the £392.9 million price tag is conservative. The company has taken over four producing North Sea oil fields from British Gas (Beryl, Fulmer, Montrose and NW Hutton) with a fifth field, Hutton, due on stream this October.

It has total oil reserves of 1.5 billion barrels and the sale price represents a 25 per cent discount on these assets.

But the government is keeping a so-called "golden share" in Enterprise to prevent any takeover it dislikes for the next four years. The Government also has the discretion to extend its veto powers.

There are also question marks over Enterprise's future development. After reaching a peak in 1985, production from its North Sea fields will begin to fall quickly and the company will have to search both at home and abroad to replenish its dwindling reserves.

Although more UK exploration is the first priority, Enterprise's chief executive, Mr Graham Hearne, is eager to explore in Europe and the United States.

Oil properties which Mr Hearne helped to acquire when he was chief executive of Tricentrol have recently been sold by that company at a loss. "The United States is very attractive but it is very competitive," Mr Hearne said yesterday. "We will move very cautiously and carefully."

Mr Graham Hearne

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NBPM
AT 28/6
CC NO.

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JF6786
PS/Secretary of State for Trade and Industry

28 June 1984

CONFIDENTIAL

David Peretz Esq
Private Secretary to the
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1P 3AG

Dear David,

ENTERPRISE OIL

I am writing to confirm what I told you over the telephone at approximately 1.30pm this afternoon, namely that my Secretary of State has had an opportunity, since Cabinet, to consult Martin Jacomb, the Deputy Chairman of Kleinworts responsible for corporate finance. In the light of that advice, my Secretary of State is clear that the Enterprise Oil episode will be damaging to the BT flotation, and that the proposal to limit RTZ's shares must be recognized as likely to lead to an adverse effect on the price of BT shares. A 10 per cent limitation will be regarded by sub-underwriters badly. My Secretary of State hopes that the adverse effects will prove short lived. In the light of this clear advice, he remains of the view that a limitation at 10 per cent is too low. However, as I told you, and as I told Mike Reidy, the Secretary of State will accept whatever decision is made on the level of limitation of RTZ.

2 My Secretary of State is most concerned about the extent of the confusion that existed this morning in relation to the advice being tendered by Kleinworts on the effect on BT of what was proposed for Enterprise Oil. To ensure that there is no comparable confusion in the future, he has instructed Kleinworts that they are to ensure that Kleinworts give advice on matters affecting BT only to my Secretary of State. He would be extremely grateful if

other Departments could respect this instruction, since otherwise Kleinworts will be placed in an embarrassing position.

3 I am copying this letter to Mike Reidy (Department of Energy) and to Andrew Turnbull (No 10).

Yours ever,

Callum McCarthy

M C McCARTHY
Private Secretary

Nat... Privatisation AT 10/7 File

IMMEDIATE

MONDAY 2 JULY 1984

THE RIO TINTO-ZINC CORPORATION PLC

LONDON

THE RIO TINTO-ZINC CORPORATION PLC (RTZ) AND ENTERPRISE OIL PLC (ENTERPRISE OIL)

As a result of the allocation of shares in Enterprise Oil RTZ acquired approximately 10 per cent of the ordinary share capital of that company.

RTZ wishes to enlarge its holding to no more than 29.9 per cent which it believes is in the best interests of its own 91,000 predominantly UK shareholders. At the same time, RTZ is confident that the independent management of Enterprise Oil and the company as a whole will benefit from the strength and support which RTZ can provide as a substantial minority shareholder.

RTZ has today purchased at 105p per share 10 million ordinary shares (100p paid) in Enterprise Oil, thereby increasing its holding to approximately 14.7 per cent of Enterprise Oil's ordinary share capital.

Following these purchases RTZ proposes to make a Tender Offer for up to 32 million ordinary shares (100p paid) in Enterprise Oil at a maximum price of 110p per share. If the tender is successful, RTZ's holding in Enterprise will increase to a maximum of no more than 29.9 per cent of Enterprise Oil's ordinary share capital.

RTZ recognises the desire of the Secretary of State for Energy that Enterprise Oil should remain an independent company at this stage of its development. In the event of this Tender Offer succeeding, RTZ does not intend to acquire any further ordinary shares in Enterprise Oil in the foreseeable future so as to increase its percentage interest to more than 29.9 per cent of the issued ordinary share capital for the time being of Enterprise Oil.

It is intended to publish full details of the Tender Offer in national newspapers tomorrow morning.

ENDS

CONTACTS: RTZ: MR PETER DEAN
N M ROTHSCHILD & SONS LIMITED: MR MICHAEL RICHARDSON

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With the Compliments of

the Private Secretary to

the Secretary of State