



From the Minister of State for Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

Norman Lamont MP

CONFIDENTIAL

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

2 . August 1985

Dear Andrew

IAN MACGREGOR: PERFORMANCE REVIEW AWARD

You asked for further information and background papers on this.

... In April 1980, the Secretary of State for Industry entered into an agreement with Lazard Freres and Co, New York, (LFNY) in order to obtain the services of Mr MacGregor as Chairman of BSC for 3 years. The terms of the agreement provided for the compensation of LFNY for the release of Mr MacGregor, the amount to be determined by a Review Committee. I attach a copy of the agreement at Flag A.

... The agreement provided that the Review Committee should be guided in determining the performance payments to LFNY by criteria agreed by the Secretary of State, LFNY, Mr MacGregor and the Review Committee. I attach a copy of the agreed criteria at Flag B. There was one amendment in October 1984, when it was agreed that the two performance payments would be awarded at the same time, in 1985.

... The Review Committee have now delivered a unanimous report awarding £875,000 to LFNY in compensation for the release of Mr MacGregor. I attach a copy of this at Flag C.

... In April 1981 the Government published a document describing the terms of the agreement for the compensation of LFNY which incorporated the agreed criteria: this published document is attached to the Review Committee's report. The Secretary of State now intends to publish the report itself, and to lay it in the Library of both Houses, on the day it is announced. I attach the text of the proposed formal announcement and press release at Flag D.

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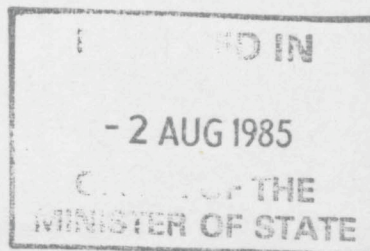


The Government is bound by the terms of its agreement with LFNY to act on the Review Committee's decision. The decision could only be altered by substituting a new agreement. The agreement stipulates that the payments to LFNY are due 28 days after completion of the Review Committee's report, which is dated 25 July, but not that the report itself must be published by a particular date, or indeed at all.

I am copying this to Geoff Dart at the Department of Energy and to Rachel Lomax at the Treasury.

Yours sincerely
Edmund Hosker

EDMUND HOSKER
Private Secretary



THIS AGREEMENT is entered into the

twenty-ninth day of April

one thousand nine hundred and eighty BETWEEN THE SECRETARY OF STATE FOR INDUSTRY (hereinafter referred to as "SoS") of the first part and LAZARD FRERES & CO. of 1 Rockefeller Plaza New York N.Y. 10020 United States of America (hereinafter referred to as "LFNY") of the second part.

WHEREAS

(A) (i) SoS desires to appoint IAN KINLOCH MACGREGOR of 2 Broad Road Greenwich Connecticut 06830 United States of America (hereinafter referred to as "IKM") as the Chairman of the British Steel Corporation (hereinafter referred to as "BSC") pursuant to Section 1(4) of the Iron and Steel Act 1975 with effect from the first day of July one thousand nine hundred and eighty (hereinafter referred to as "the Effective Date").

(ii) SoS desires that IKM shall agree to serve as Deputy Chairman of BSC as from the second day of May one thousand nine hundred and eighty (hereinafter referred to as "the Preliminary Date") until the Effective Date.

(iii) SoS and IKM both contemplate that BSC will appoint IKM as Chief Executive upon his assuming the office of Chairman.

(B) LFNY is a partnership carrying on business in New York aforesaid and IKM is and has since August 1978 been actively engaged as a valued and senior General Partner of LFNY.

(C) SoS has requested LFNY to release IKM as from the Effective Date from such of his responsibilities to LFNY (and in particular to release him from his obligations as a General Partner) as may be necessary to make him available to serve as full-time Chairman of BSC from the Effective Date and as Deputy Chairman of BSC from the Preliminary Date to the Effective Date.

(D) LFNY has indicated its willingness to agree to this proposal on the basis (inter alia) that it will receive a substantial and sufficient sum to compensate LFNY for the resultant disruption in its business affairs and in the contractual relations as between the partners which will result from the release referred to in Recital (C) above.

(E) Whilst SoS and LFNY accept that the full amount of the sums more particularly described in Clause 2 hereof represent the amount which is required sufficiently to compensate LFNY for the aforementioned disruption for the envisaged three years of IKM's Chairmanship nonetheless LFNY recognises that it would be appropriate that that amount should be reduced if BSC fails to meet certain performance criteria or (in certain circumstances) if IKM should not remain Chairman of BSC for the full three-year period currently envisaged.

(F) (i) IKM has provided SoS with a list (a copy of which is appended hereto and marked "A") of directorships and other appointments currently held by him which he wishes to continue and SoS has agreed that IKM is at liberty to continue with those shown in such list.

(ii) SoS will write to IKM in the terms of the letter (hereinafter referred to as "the Letter") a draft of which is appended hereto and marked "B".

(iii) IKM will be at liberty to resign (inter alia) upon giving not less than fourteen days' notice at any time during the seventh month after the Preliminary Date as he may decide in the event that "the Agreed Criteria" (as defined in the Schedule hereto) shall not have been agreed and defined in terms satisfactory to LFNY and himself within the first six months after the Preliminary Date.

(G) Reference herein to "this Agreement" is deemed to include reference to the Schedule hereto and to other documents appended hereto.

(H) The partners of LFNY (including IKM) have made it known that they were not prepared to enter into this Agreement unless certain assurances as regards the United Kingdom taxation effects of these proposals were forthcoming.

(I) Following discussions the Board of Inland Revenue has written a letter to the partners of LFNY in terms set out in Appendix "C" hereto (a copy of which letter has been initialled by the parties hereto) and in reliance on the content of and representations made in that letter the partners of LFNY (including IKM) have agreed to enter into this Agreement and IKM has agreed to take up the appointments referred to in Recital (A) hereof.

N O W IT IS HEREBY AGREED as follows:-

1. IN consideration of compensation for the disruption referred to in Recital (D) hereto to be paid in accordance

with Clause 2 hereof and upon the other terms and conditions hereinafter contained LFNY hereby agrees with SoS to release IKM from such of his obligations and duties to LFNY as may be necessary during the period between the Preliminary Date and the Effective Date and to release IKM from his obligations and duties as a General Partner in LFNY with effect from the Effective Date so that IKM may (as between LFNY and IKM) become available to accept appointment initially as Deputy Chairman and subsequently as Chairman of BSC upon the terms of the draft Minute of Appointment appended hereto and marked "D" and on the basis of the points recorded in the Letter.

2(a) SoS shall subject as hereinafter otherwise prescribed make payments in Sterling by way of compensation as referred to in Clause 1 above as follows:-

- i) TO LFNY on the Effective Date the sum of £225,000 (hereinafter called "the First Initial Payment");
- ii) TO the persons (hereinafter referred to as "the Trustees") nominated as Trustees in substantially the form of the draft Indenture of Trust which is appended hereto and marked "E" (hereinafter referred to as "the Indenture") the sum of £450,000 to be held upon the terms of the Indenture.
- iii) SUBJECT to IKM having held the office of Chairman at least until the expiration of six months from the Effective Date to LFNY on the dates prescribed by the Schedule hereto the sums (if any) ascertained

in accordance with such Schedule (hereinafter called "the Final Payments").

(b) FOR the purpose of giving effect to the provisions of sub-clause (a) of this Clause the parties hereto agree to execute and exchange before the Effective Date an indenture in the form of the Indenture and a Guarantee substantially in the form of the draft appended hereto and marked "F" (hereinafter called "the Guarantee").

3. IF at the time when a sum is due to be paid by LFNY or by the Trustees under the Indenture or the Guarantee any sum is due to LFNY under any other provision of this Agreement then such sums shall be set-off one against the other and the balance only shall be payable by whichever party owes the balance.

4. SoS confirms that he is satisfied that BSC is not necessarily precluded from using the services of LFNY and Lazard Freres et Cie Paris and of Lazard Brothers & Company Limited or any of them on the grounds that IKM may for the time being be a member of BSC.

5. NOTICE may be given by any party to any of the other parties hereto by letter or by cable or by telex message addressed to that other party at (in the case of SoS) Ashdown House 123 Victoria Street London S.W.1 and (in the case of LFNY) at its address hereinbefore stated or other its principal office for the time being in New York and any such notice given by letter cable or telex shall be deemed to have been given at the time at which the letter cable or telex message would be

delivered in the ordinary course of first-class airmail post or transmission (as the case may be).

6(a) SoS and LFNY shall on the second day of May one thousand nine hundred and eighty make announcement(s) in the terms annexed hereto and marked "G" or any such other terms as may be agreed between them with regard to the proposed appointment and the terms and conditions relating thereto.

(b) SoS and LFNY mutually agree that each is at liberty to make public the whole or any part of this Agreement and of any of the documents appended hereto.

7. THIS Agreement shall be interpreted and enforced in accordance with the laws of England.

A S W I T N E S S the hands of the authorised representative of the Secretary of State and of ALAN ROBERTS MCFARLAND on behalf of LFNY hereunto set in London the day and year first before written.

THE SCHEDULE

Ascertainment of Final Payments

1. THE amount of the Final Payments shall be determined by a Review Committee (hereinafter called "the Committee").
- 2(a) THE Committee shall be composed of:
- i) TWO persons nominated by SoS; and
 - ii) TWO persons nominated by LFNY and acceptable to IKM;
 - iii) AN independent Chairman acceptable to SoS and LFNY and to IKM. In the absence of agreement the Chairman shall be appointed by the President for the time being of the Institute of Chartered Accountants in England and Wales.
- (b) IF the Chairman of the Committee shall resign or for any other reason ceases to be available to act as Chairman his successor shall be appointed in the manner set out in and otherwise in accordance with paragraph 2(a)(iii) above. If any other member of the Committee resigns or for any other reason ceases to be a member the person or party by virtue of whose nomination such member became a member shall be entitled to appoint another person to take the place of the outgoing member.

at the date hereof are considered likely to be appropriate for inclusion within "the Agreed Criteria":

- i) achievement of annual cash targets by BSC;
- ii) achievement of annual profit and loss targets by BSC;
- iii) achievement of a particular level of results before tax and interest by BSC in the year ending on the thirty-first day of March one thousand nine hundred and eighty-four (or any earlier year in which IKM ceases to be Chairman);
- iv) the U.K. market share supplied by BSC steel production;
- v) satisfactory establishment of strong and healthy organisation through for example:
 - an effective corporate structure
 - management strength and stability
 - labour relations stability
 - improved productivity
 - improved export performance

(d) IT is foreseen that all or any of SoS LFNY IKM and the Committee may from time to time consider that the Agreed Criteria as for the time being determined should be amended in which case amendments shall take effect upon the same being agreed in writing between SoS LFNY and IKM and a copy thereof being delivered to the Chairman of the Committee.

4(a) IF IKM shall have been Chairman of BSC for three years from the Effective Date then the Committee shall further certify without undue delay after the thirty-first

(b) IN the event of an Early Cessation the Committee shall meet without undue delay thereafter and make its certificate with all due despatch after the thirty-first day of March next following the date of such Early Cessation taking into account the establishment of the health and strength of BSC and improvement (or deterioration)

in its performance up to and including the financial period of BSC ending on such thirty-first day of March.

6(a) THE Committee shall (until it has concluded its duties) meet

i) as soon as reasonably convenient after the month of March in each successive calendar year from 1982 inclusive and

ii) in any event as soon as possible after IKM ceases to hold office as Chairman

in order to assess the performance of BSC in its financial years ending on the thirty-first day of March last preceding such meeting and (in the case of (ii) above) in the period up to the date on which IKM ceases to hold office as Chairman.

(b) THE Chairman of the Committee shall determine the place at which meetings shall take place and SoS will give such assistance towards the arrangements for such meetings as the Chairman may reasonably request.

(c) THE quorum for the transaction of business of the Committee shall be the presence throughout the meeting of at least three members of the Committee including at least the Chairman and one of the members nominated by SoS and one of the members nominated by LFNY.

the date on which the Committee shall certify the
respective amounts thereof as aforesaid and for the
avoidance of doubt shall not thereafter be refundable
in any circumstances.

SIGNED by PHILIP RYALLER)
RIDLEY)
on behalf of the Secretary)
of State being duly authorised)
in that behalf in the presence)
of:

J. M. E. E. E.
Department of Industry
Solicitor

P. Ridley

SIGNED by)
ALAN ROBERTS MCFARLAND)
on behalf of Lazard Freres &)
Co. being duly authorised in)
that behalf in the presence)
of:

A. R. M. C.
Banking House
St. James St
London.

Solicitor

Lazard Freres & Co.

CURRENT APPOINTMENTS

DIRECTORSHIPS: Amax Inc. (also Honorary Chairman)
Alumax Inc. (also Chairman)
Atlantic Assets Trust Ltd.
Brunswick Corporation
General Partner of Lazard Freres & Co. until
the Effective Date - Limited Partner
thereafter

OTHER:

Member of the U.S. Council of the
International Chamber of Commerce
International Chamber of Commerce;
Member of Finance Committee
Member of the American Mining Congress
Chairman of the German - American
Chamber of Commerce
Board Member of Resources for the
Future Inc.
Board Member of the International
Institute for Environment and Development
Senior Member of the Conference Board Inc.
Member of A.I.M.E.
Member of the Mining and Metallurgical
Society of America
Member of the Society of Automotive
Engineers
Honorary Life Member of the Aluminum
Association
Associate of the Institute of Mechanical
Engineers, London
Member of the Council of the Trade Policy
Research Centre, London
North American Co-Chairman of the
British - North American Committee; and
Member of the Executive Committee
Committee for Economic Development -
Honorary Trustee for Life
Consultant to the Japan - U.S. Friendship
Committee

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Letter from Secretary of State to Mr MacGregor

We both contemplate that BSC will
appoint you as Chief Executive upon your assuming the
I have today formally appointed you part-time non-executive Deputy
Chairmanship.
Chairman of the British Steel Corporation ("BSC") with effect from
2nd May next and as full-time ~~executive~~ Chairman for the period of
three years beginning on 1st July next. A related agreement has
today been entered into between myself and Lazard Freres & Company
("LFNY") who have agreed to release you from your present commitments
to them. A number of points arise from these arrangements which we
have agreed should be recorded in *separate* ~~an exchange of letters~~ between us.

You and I are agreed on the objective that under your chairmanship
BSC shall achieve enduring profitability. I assure you of my fullest
support. It is my intention that BSC shall have as free a hand as
practicable in the attainment of this objective. Various powers and
duties are conferred and imposed on me by the Iron and Steel Act 1975
as amended. In exercising them I will try to give effect to all
reasonable proposals which you may make, particularly with regard to
the membership of the Board *and the appointment of the Auditors.*

I should be surprised - and disappointed - if any serious and lasting
disagreement were to arise between us *on these matters* ~~in this area~~. If, nevertheless,
this were to occur I recognise that you might wish to exercise your
right of immediate resignation. In this event, I would think it
reasonable for BSC's performance up to the date of your resignation
to be assessed by the Performance Review Committee set up under my
agreement with LFNY and the appropriate payment, if any, made under
that agreement. The Committee should, in making its determination
under the criteria provided for in the agreement, consider in addition
whether it would be appropriate to make any *adjustment* ~~modification~~ in either
direction on account of the circumstances leading to your resignation.

/ I appreciate that it was fundamental to your acceptance of the Chairmanship that the tax position should be and remain as you are at present advised. If there should be some unexpected and substantial change in this respect, we would consider together how the new position might be handled. If it proved impossible to deal with this aspect satisfactorily, I recognise that you might wish to resign on less than six months notice. In any event the provisions relating to the final payment under the agreement between myself and LFNY would apply.

I further appreciate that if agreement cannot be reached under that agreement on the criteria to be used by the Performance Review Committee under that agreement, you will, of course, be at liberty to resign but will in that case give at least 14 days notice. If you should resign for any other reason, it is envisaged that you should give at least six months notice of your intention.

The salary attaching to your appointment as Chairman is contained in the minute of appointment. This will, of course, be subject to review along with the salary attaching to other similar appointments.

I confirm that I do not consider your remaining a limited partner in LFNY to be incompatible with your holding office as Chairman of BSC but if you should wish to enter into any other contractual relationship with LFNY I would expect you to seek my prior agreement as would, under the Iron and Steel Act 1975, be necessary in respect of the acquisition of any other potentially conflicting interest.

I have agreed that you should retain the appointments set out in the list attached to this letter and also keep any fees ^{or other emoluments} to which these appointments may entitle you. I recognise that it may take some little

time for you to relinquish other appointments which you presently hold
and I have no doubt that you will take the necessary steps within a
reasonable time.

I am glad we have reached the agreements and understandings which
have enabled me to appoint you as Chairman of BSC. I have every hope
of its success under your leadership and I envisage that we may be able
to reach new agreement on the terms on which you might continue as
Chairman after your present appointment comes to an end.

[KEITH JOSEPH]

FROM: THE BOARD OF THE INLAND REVENUE

TO : THE PARTNERS OF LAZARD FRERES & CO.
1 Rockefeller Plaza
New York
N.Y. 10020
United States of America

Dear Sirs

The Commissioners of Inland Revenue are aware that discussions have been taking place between Lazard Freres & Co. (LFNY) and The Secretary of State for Industry (SoS) concerning a proposed contract, a draft of which in its final form is attached, to be entered into between SoS (1) and LFNY (2). We are aware that it is of importance to all the partners of LFNY including Ian Kinloch MacGregor (IKM) that no part of the sums which will or may be paid by the Department of Industry pursuant to Clause 2 of the said contract should be the subject of any form of United Kingdom taxation either on income or chargeable gains of LFNY or of IKM or otherwise howsoever. We are aware that unless LFNY has appropriate reassurance on this aspect and other matters concerning United Kingdom taxation described more fully below then LFNY is not prepared to enter into a binding contract on the basis proposed.

We have not seen a copy of the Partnership Agreement currently in force for LFNY but we do understand that IKM has been a General Partner in LFNY since about August 1978 and that during the currency of the present proposals he will not continue as such but will become a Limited Partner in LFNY. We understand that as a Limited Partner IKM will receive approximately one percent of the profits of LFNY plus a payment of approximately \$75,000 per annum and in this respect will be in a similar position to some four or five other former General Partners in LFNY who have retired and become Limited Partners. We understand that there is no arrangement between LFNY and IKM whereby the sums to be paid to LFNY under Clause 2 of the proposed contract will be paid over or otherwise passed on to IKM except that IKM will participate in such fees by reason of his being a Limited Partner and receiving a share of the profits and payments as stated above.

We have been supplied with a completed domicile questionnaire for IKM and the Board of Inland Revenue has determined that IKM is not domiciled in any part of the United Kingdom. This determination was made in the knowledge that IKM might be taking up the Chairmanship of the British Steel Corporation (BSC) and implementation of the proposals the subject of the attached draft Contract or referred to therein will accordingly not of itself affect the Board's decision. We have also

been asked to confirm that IKM will not be regarded as acquiring or reacquiring a domicile in any part of the United Kingdom if, at some time during the currency of the appointment, he moves his permanent home from Connecticut to some other State in the United States of America. We are able to give this confirmation but only on the understanding:

1. that the change will occur when IKM is in the United States of America and actually moves to his new permanent home State (even though shortly thereafter he would return to the United Kingdom for the temporary purpose of completing his duties under the appointment); and
2. that until such time as he actually moves (as stated in (1) above) to such new permanent home State he retains his intention to return to Connecticut as his permanent home.

To avoid misunderstanding we would add that the mere sale of IKM's house in Connecticut would not affect the position. We are also satisfied that nothing contained in Section 45 Finance Act 1975 will have the effect of deeming him to be domiciled in any part of the United Kingdom for the particular purposes of Capital Transfer Tax at any time during the continuance of the proposed appointment.

We understand that LFNY is a limited partnership established in accordance with the law of the State of New York and that its partnership meetings are not held in the United Kingdom.

We consider that on the basis of present United Kingdom law so long as LFNY does not have a permanent establishment relevant to this transaction as mentioned in Article 5 of Part 1 of the Schedule to The Double Taxation Relief (Taxes on Income) (The United States of America) Order 1980 then no part of the sums to be paid by SoS pursuant to Clause 2 of the proposed Contract will be the subject of any form of United Kingdom taxation as taxable income or chargeable gains of LFNY.

After consultation with the Department of Industry we have considered the facts appertaining to the present negotiations including the information that Lazard Brothers & Company Limited (a company resident for tax purposes in the United Kingdom) is a Limited Partner in LFNY, that IKM is at present a General Partner in LFNY and is to become a Limited Partner and that IKM will take up the appointment with BSC in the manner proposed. We are satisfied that the facts are such that none of the said sums can be said to be attributable to a transaction effected through a permanent establishment of LFNY in the United Kingdom. We are accordingly able to confirm that no part of the said sums will be liable to United Kingdom taxation as being profits attributable to a permanent establishment of LFNY in the United Kingdom. The unqualified assurance which we are able to give you in relation to this transaction and the sums referred to above

is of course without prejudice to any other transactions which LFNY may have in the past effected, or may in the future effect, through a permanent establishment in the United Kingdom.

We confirm also that subject as mentioned below no part of the above-mentioned sums will be treated as any form of taxable income or chargeable gains of any of the partners of LFNY. In particular we confirm that IKM will not be liable to United Kingdom tax on any part of the said sums which pass through to him by reason of his being entitled to a share of the profits of LFNY and also that IKM will not be liable to United Kingdom tax on any part of the sums to which he is entitled from LFNY save only to the extent that he remits the same to the United Kingdom.

Lazard Brothers & Company Limited will naturally continue to be liable to United Kingdom tax on its share of the profits of LFNY in the normal way. Leaving aside IKM (whose position we have dealt with separately above) if any of the other partners in LFNY are resident for tax purposes in the United Kingdom then they too will continue, in the usual way, to be liable to United Kingdom tax on their share of the profits of LFNY.

For completeness we note that certain of the payments under the proposed Contract will be paid to Trustees of the Trust, a draft of which is annexed to the draft Contract, and would add that the views expressed above as applicable to LFNY are likewise applicable to those Trustees so long as such Trustees are not resident in the United Kingdom.

Finally, we confirm that based on present United Kingdom law there is no basis (other than as expressly referred to above) on which the Inland Revenue would be entitled to tax the said sums either as the income or chargeable gains of LFNY or any of its partners including IKM.

Yours faithfully

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Mr

IRON AND STEEL ACT 1975

MINUTE OF APPOINTMENT

The Secretary of State in exercise of his powers under section 1 of, and paragraphs 1 and 2 of Schedule 1 to, the Iron and Steel Act 1975 hereby appoints IAN KINLOCH MacGREGOR to be -

- (a) a member and a deputy chairman of the British Steel Corporation for the period beginning on 2nd May 1980 and ending on 30th June 1980 at a salary at an annual rate of £15,000; and
- (b) chairman of the British Steel Corporation for a period of three years beginning on 1st July 1980 at a salary at an annual rate of £48,500,

and subject in each case to the provisions of that Act and of this minute.

Mr MacGregor shall devote himself -

- (a) part-time to the duties of a member and a deputy chairman; and
- (b) full-time to the duties of chairman,

and may hold such other appointments as the Secretary of State may from time to time agree.

Mr MacGregor shall vacate the office of -

- (a) a member and a deputy chairman or of chairman if the Secretary of State is satisfied that he -
 - (i) is incapacitated by physical or mental illness, or
 - (ii) is otherwise unable to discharge the functions of a deputy chairman or of chairman, as the case may be; and
- (b) chairman if the Secretary of State gives him not less than six months notice to do so.

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INDENTURE OF TRUST, dated this ~~1st~~ day of ~~July~~,
1980, by and between ~~Her Majesty's~~ ^{The} Secretary of State for
Industry, London, England, as Grantor, and THOMAS F. X.
MULLARKEY, ALAN ROBERTS MCFARLAND and MICHAEL DAVID-WEIL,
as Trustees ^{being General Partners in LFNY as defined}
^{below}

W I T N E S S E T H:

WHEREAS, on 29th April, 1980, ^{an Agreement} ~~a Deed~~ was
entered into by and between ~~Her Majesty's~~ ^{The} Secretary of
State for Industry ("~~S&S~~") of the first part and LAZARD
FRERES & CO. of One Rockefeller Plaza, New York, New York
("LFNY") of the second part (said ~~Deed~~ ^{Agreement} together with all
schedules ^{and annexures} ~~annexed~~ thereto, being hereinafter referred to
as "the Agreement"); and

WHEREAS, in and by the terms of the Agreement,
LFNY agreed to release its general partner IAN KINE^{LE}CH
MACGREGOR, of Greenwich, Connecticut ("IKM") from his ob-
ligations and duties as such general partner, so as to
enable him to accept an appointment, initially as deputy-
Chairman and subsequently as ~~full-time~~ Chairman, of the
British Steel Corporation ("BSC"), in accordance with the
express desire of ~~S&S~~; and

WHEREAS, in consideration of LFNY's agreeing to
release IKM as its general partner as aforesaid, ~~S&S~~

undertook and agreed to make certain payments ~~to LFNY~~ as more fully set forth in the Agreement.

NOW, THEREFORE, the Grantor and the Trustees hereby agree as follows:

FIRST

I. The Grantor hereby transfers, assigns and delivers to the Trustees, and the Trustees hereby acknowledge receipt of, the sum of Four Hundred Fifty Thousand Pounds Sterling (£450,000), TO HAVE AND TO HOLD the same, IN TRUST, to invest and reinvest the same, to collect the rents, income and profits thereof, and to pay ^{and dispose of said principal} the ~~net~~ income ^{therefrom not less frequently than annually to LFNY (hereinafter in this} ~~Indenture of Trust referred to as "the Beneficiary") except as otherwise provided herein, until the termination of the trust~~ as hereinafter provided.

period

II. If IKM ~~shall for any reason cease to be Chairman of BSC prior to July 1, 1981, then the Trust hereby~~
II. If IKM shall for any reason cease to be Chairman of BSC prior to July 1, 1981, the Trust hereby created shall terminate upon the date when he shall cease to be Chairman, as aforesaid, and thereupon the Trustees shall pay over and distribute to the Grantor four hundred and fifty thousand pounds sterling (£450,000).

III. If the then value of the principal and income of said Trust shall exceed the sum of four hundred fifty thousand pounds sterling (£450,000), any balance of principal and income shall be paid over and distributed to LFNY (hereinafter in this Indenture of Trust referred to as "the Beneficiary") absolutely.

IV (1) If IKM shall be Chairman of BSC on July 1, 1981, then the Trust hereby created shall terminate on June 30, 1983, or upon IKM's prior ceasing to be Chairman of BSC. ^{shall terminate}

(2) Upon the termination of the Trust pursuant to this Paragraph IV the principal and income thereof shall be disposed of as follows:—

(a) If the Trust shall terminate on June 30, 1983, the entire ~~[[then remaining]]~~ principal and income of the Trust shall be paid over and distributed to the Beneficiary, absolutely.

(b) If the Trust shall terminate by reason of IKM's ceasing to be Chairman of BSC on any date ^{in the} ~~between~~ ^{period beginning} June 30, 1981 and ~~June 30,~~ ^{ending on June 30} 1983 (such date of termination being hereinafter referred to as "said date"),

(i) the Trustees shall pay to the Grantor a sum which bears to four hundred and fifty thousand pounds sterling (£450,000), the same proportion as the ^{June 30 1983} period between said date and ~~the expiration of~~ ~~three years from July 1, 1980 (the effective date of the Agreement and of this Indenture of Trust)~~ bears to ^{two} ~~three~~ years and

(ii) the Trustees shall pay over and distribute the balance, if any, of the assets then remaining in the trust, whether income or principal, to the Beneficiary absolutely.

V During the term of the Trust the Trustees shall pay to the Beneficiary on December 31 of each year an amount equal to the excess of the value of the assets of the Trust on such December 31 over the amount which would be distributable to the Grantor if the Trust terminated on such December 31. Such payment shall be made first out of income and then out of principal.

SECOND

I. (1) If one or more of the Trustees herein named shall resign or shall for any other reason cease to act hereunder, the others or other of them may act alone; subject, however, to Subparagraph (2) hereof.

(2) In the event of the occurrence of a vacancy in the office of Trustee hereunder, the remaining Trustees or Trustee, as the case may be, shall be authorized and empowered to appoint a successor co-Trustee, or successor co-Trustees, as the case may be, PROVIDED, HOWEVER, that no more than three Trustees shall act hereunder at any one time. Any such appointment shall be made by instrument in writing, duly signed

delivered

and acknowledged and delivered to the person or persons therein designated; and a copy^{ies} of such instrument of appointment^{shall be} shall^{to the Grantor} and be annexed to this Indenture of Trust.

(3) If at any time during the term of the Trust none of the Trustees named herein or appointed pursuant to Subparagraph (2) hereof shall remain to act or be available to qualify hereunder, the Beneficiary shall, forthwith upon the occurrence of such vacancy, appoint one or more successor Trustees (but in no event more than three) by instrument in writing, duly signed and acknowledged and delivered to the person or persons therein designated; and a copy of such instrument of appointment shall be annexed to this Indenture of Trust. Any Trustee or Trustees so appointed shall, after qualifying hereunder, have the power to appoint a co-Trustee or co-Trustees in the manner hereinbefore set forth in Subparagraph (2) hereof.

II. No Trustee acting hereunder, whether named herein or appointed pursuant hereto, shall be required to post any bond or other security for the faithful performance of his duties hereunder.

III. The term "Trustees", wherever used herein, shall be taken to mean the Trustees for the time being in office and shall also apply, where appropriate, to one Trustee acting alone hereunder. Each Trustee acting hereunder shall have the same rights, powers and authority, whether or not discretionary, as if originally appointed hereunder.

THIRD

I. The Trustees named herein hereby assume the Trust created by this Indenture of Trust and undertake to carry out each and every provision thereof.

II. Any successor Trustee hereunder shall, in order to qualify, execute an instrument in writing, duly signed and acknowledged, expressly agreeing to assume the Trust created by this Indenture of Trust and to carry out each and every provision thereof; and such instrument shall be annexed to this Indenture of Trust.

III. No Trustee acting hereunder shall incur any liability for any act done or omitted in the exercise of his duties as Trustee in good faith.

FOURTH

Any Trustee acting hereunder may at any time resign his office as Trustee by written declaration, duly signed by him and delivered to one of his then acting Co-Trustees or if there be none, to any successor Trustee designated to succeed him and in default thereof to the Beneficiary; and a copy of such declaration of resignation shall be annexed to this Indenture of Trust.

FIFTH

I. The Trustees shall have, with respect to any and all property at any time held by them hereunder, the following powers, in addition to those conferred by law:

(1) To retain any such property as an investment without regard to the proportion which such property, or property of a similar character, so held, may bear to the entire amount of the trust estate, whether or not such property is of the class in which Trustees are authorized by law or any rule of court to invest trust funds.

(2) To sell any such property at either public or private sale, for cash or on credit; to exchange such property; and to grant options for the purchase thereof.

(3) To invest and reinvest in property of any character, real or personal, foreign or domestic, including, but without limiting the generality of the foregoing, bonds, notes, debentures, mortgages, common and preferred stock, shares or interest in investment trusts, and/or money market funds, without being limited to the class of securities in which Trustees are authorized by law or any rule of court to invest trust funds and without regard to the proportion which any such property or property of a similar character held by the Trustees may bear to the entire amount of the Trust estate.

(4) To borrow money for any purpose in connection with the administration of the Trust created hereunder (whether from themselves or from other sources) and to continue or renew any loan made to the Trustees, and in connection therewith, to mortgage, pledge or otherwise encumber any property forming part of the Trust upon any terms and conditions, in any amount, and for any period of time, even if for longer than the probable duration of the Trust.

(5) To lend any part of the Trust, with or without security, in any amount, upon any terms and conditions, with or without interest, for any period or periods of time, even if for longer than the probable duration of said Trust, and to any person, firm or corporation.

(6) To manage any real property held by the Trustees hereunder in the same manner as if the Trustees were the absolute owner thereof, including but not by way of limitation, the power from time to time to lease or grant options to lease, any such real property for any term or terms, although in excess of ten years (and although any such term may extend beyond the period of administration of the Trust hereunder), without application to any court; and to enter into any covenants or agreements relating to the property so leased, or any improvements which may then or thereafter be erected thereon; to make ordinary and extraordinary repairs and alterations to any building, to raze old buildings and to erect new buildings and make other improvements; to insure against loss by fire or other casualty; to make, partition or enter into any agreements of partition of any real property which, or an interest in which, shall at any time constitute part of the Trust hereunder, and to give or receive money or other property for equality of partition.. To whatever extent the same shall not be prohibited by law, the Trustees may, with respect to any building transferred to them, and shall, with respect to any improvement which in the

Trustees' judgment is not a permanent improvement but has a usable life in excess of one year, depreciate or amortize the inventory value of cost to the Trustees, as the case may be, by appropriate annual deductions from income and corresponding credits to principal; PROVIDED, HOWEVER, that in all cases such annual deductions from income shall not in any year exceed the amount properly deducted for depreciation or amortization for that year under federal income tax law as then in effect, and regulations issued thereunder.

(7) To vote on any securities forming part of any trust by discretionary proxy or otherwise; to join in or oppose any reorganization, recapitalization, sale, lease, merger, exchange or consolidation; to exercise conversion, subscription or other rights, or to sell or abandon such rights; to receive and hold any securities issued as a result of any of the foregoing transactions; and generally to take all action in respect of any such securities as the Trustees might or could do as absolute owner thereof.

(8) To deposit any securities with voting trustees or protective or similar committees, to delegate to them discretionary powers, to pay a share of their expense and compensation, and to charge the same to principal or income as the Trustees may see fit.

(9) To cause any stocks, bonds, securities, cash or other property at any time held by the Trustees to be in bearer form or to be registered or held in the names of the

Trustees individually, to the extent permitted by law, without indicating their fiduciary capacity, or in the name of a nominee or nominees.

(10) To compromise, settle or arbitrate any claim in favor of or against the Trust hereunder.

(11) To determine whether, and, if so, to what extent, premiums on investments shall be amortized.

(12) To make any distribution hereunder, in whole or in part, in securities or other property comprising the principal of the Trust at the time of such distribution, and in making such distribution the Trustees shall not be required to prorate any item of property so distributed among the persons entitled to such distribution, but shall be authorized and empowered to distribute different items of property to the distributees.

(13) To maintain on behalf of the Trust hereunder one or more custody accounts with any bank or trust company or any brokerage firm, wherever located, and to retain investment counsel, investment advisers, accountants and attorneys (including any firm of investment counsel, investment advisers, accountants or attorneys with which any Trustee hereunder shall be associated or otherwise connected) and to charge the cost of any such custody account or any commission, fees or other compensation payable to any such investment counsel, investment advisers, accountants or attorneys to the principal or income of the Trust as they may deem appropriate.

(14) To exercise any other or further authority or discretion not hereinabove specifically granted as may from time to time be permitted by applicable statutes or rules of law, it being the intention hereof that the foregoing powers shall be in addition to and shall not be deemed a limitation upon such authority and discretion as the Trustees would have but for such provisions.

(15) Persons dealing with the Trustee shall not be bound to see to the application of any moneys paid to the Trustee pursuant to their exercise of any of the foregoing powers.

II. In addition to the power and authority hereinbefore conferred upon the Trustees in Paragraph I hereof, the Trustees shall be specifically authorized to acquire shares or other participating interests of or in any company, corporation, partnership or other business venture with which they may be respectively connected or associated, or otherwise to invest therein additional funds of the Trust, and to pay for the same out of other assets of the Trust; to enter into any arrangements from time to time with any other stockholders or stockholder, partner or partners, or other person or persons interested or proposing to be interested therein; and generally to hold and administer any such investment in the same manner and to the same extent as any individual could do in his own right. The Trustees shall further be authorized to participate in the management of any such

business enterprise, to serve as members of the Board of Directors thereof, or otherwise to perform such services therefor, and in any of said capacities to receive compensation for their services so rendered.

SIXTH

The Trust hereby created shall be irrevocable and the Grantor shall have no right to change, alter or amend any of the provisions thereof.

SEVENTH

The Trust hereby created shall be deemed to be a New York Trust and shall be governed and construed in all respects by and in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the Grantor and the Trustees have hereunto set their respective hands and seals as of the day and year first above written.

Grantor (L.S.)

Trustee (L.S.)

Trustee (L.S.)

Trustee (L.A.)

Guarantee

TO THE SECRETARY OF STATE FOR INDUSTRY

In consideration of your having at our request agreed to transfer, assign and deliver to Thomas F X Mullarkey, Alan Roberts McFarland and Michael David-Weill ("the Trustees") being General Partners in Lazard Frères & Co of 1 Rockefeller Plaza, New York, New York ("LFNY") the sum of four hundred and fifty thousand pounds under and subject to the provisions of an indenture ("the Indenture") intended to bear even date herewith and made between the Secretary of State for Industry and the Trustees, WE, LFNY, hereby guarantee to you the payment by the Trustees of ~~the~~ such sum as may become payable to you under the Indenture subject as hereinafter mentioned:-

1. Notice in writing of any default on the part of the Trustees is to be given by you to us and within one month from its receipt payment shall be made by us of all sums then due from us under this guarantee.
2. This guarantee shall be interpreted and enforced in accordance with the laws of England.

AS WITNESS the hands of ~~the authorised representatives~~ ^{=, on behalf} of LFNY,
at London the day and year first before written.

[The signature will read
"Lazard Freres & Co"]

THIS IS APPENDIX " G " TO THE AGREEMENT DATED 29th APRIL 1980
BETWEEN THE SECRETARY OF STATE FOR INDUSTRY AND LAZARD FRERES
& CO.

Draft Press Notice

British Steel Corporation

Appointment of Chairman

Sir Keith Joseph, Secretary of State for Industry, has appointed Mr. Ian MacGregor as full-time Chairman of the British Steel Corporation for a period of three years *from 1 July 1980. Mr. MacGregor is appointed a part-time Deputy Chairman of BSC from today.*

Mr. MacGregor was born in Scotland where he obtained degrees in metallurgy from the University of Glasgow and the University of Strathclyde. Since then he has spent many years in industry in the United States. From 1966 to 1977, he was Chief Executive Officer of Amax, Inc., a major American metals and natural resources company. He is currently a partner of Lazard Freres and Co., a United States investment bank, the Deputy Chairman of BL Ltd., Chairman of Alumax, and a director of a number of major international industrial companies, including Amax, the Singer Company, American Cyanamid and the Brunswick Corporation. He is also a director of the LTV Corporation, the third largest producer of steel in the U.S.A., and a governor of the newly formed New York Insurance Exchange. (V)

whose term
of office was
due to expire
on 9 September
1980. Sir
Charles Villiers
has agreed
to relinquish
the post of
Chairman to
enable Mr.
MacGregor
to take office
with the
minimum
of delay.

^{will}
Mr. MacGregor, ~~succeed~~ Sir Charles Villiers ~~(sentence to reflect position of Sir Charles Villiers).~~

Mr. MacGregor's personal salary will be £48,500 a year, the rate currently determined by the Government on the recommendation of the review body on top salaries.

The Department of Industry have separately agreed to make payments to Lazard Freres for releasing Mr. MacGregor to serve as full-time Chairman. These payments will reflect in part the length of time Mr. MacGregor serves (up to £675,000 for the full three years) and in part the success of BSC in attaining certain goals under his Chairmanship (up to an additional £1,150,000). Mr. MacGregor will not be pensionable.

Mr. MacGregor, an active senior general partner of Lazard Freres in New York, will become a Limited Partner with a reduced interest in the Firm. ✓

DATED 29th APRIL 1980

THE SECRETARY OF STATE
FOR INDUSTRY

and

LAZARD FRERES & CO.

A G R E E M E N T

Payments to Lazard Freres, New York

Agreed Criteria for the Review Committee

1 If Mr MacGregor serves a full 3-year term as BSC Chairman, the Committee has to determine a first performance payment of up to £700,000 soon after 31 March 1984, and second payment of up to £450,000 soon after 31 March 1985. This note sets out the Agreed Criteria required to be determined under Paragraph 3(c) of the Schedule to the Agreement of 29 April 1980 for the guidance of the Committee in determining the amount of the payments which in their opinion "reasonably reflects the establishment under the Chairmanship of IKM of the health and strength of BSC and improvement (or deterioration) of its performance within the period of three years from 31 March 1981". No suggestions are made for allocations of the payments to reflect the performance in particular years up to 31 March 1984. But in exercising its discretion, the Committee should recognise that the Government is looking for a progressive improvement in BSC's performance over the years in question, and that the effects of Mr MacGregor's chairmanship should be more apparent in the later years.

2 In assessing performance, the Committee should be guided in particular by the following.

Heading I - Profit and Loss Targets

3 This heading covers the achievement by BSC of the profit and loss targets (before tax and interest) agreed for each relevant financial year between BSC and the Government. Where targets are revised during a year, the revised targets should form the basis of the assessment. The Committee's assessment should take into account the attainment of the targets year by year, the need to achieve a progressive improvement during the period and the overall achievement over the period as a whole.

4 It is left to the discretion of the Committee to decide what shortfall from the profit and loss targets should disqualify LFNY from payments under this heading. In assessing performance under this heading, the Committee, in addition to the level of profit or loss achieved in relation to the targets, should also have regard

to the level of output of the Corporation in terms of total tonnage and in relation to the size of the UK markets it serves and the amount it exports; changes in the capital structure of the Corporation; and any variations in accounting practices adopted.

Heading II - Cost Reduction

5 Targets for cost reduction will include such aspects as reductions in manning levels, better plant utilisation, improved energy utilisation and other improvements in efficiency. A different balance between the different aspects of cost reduction may be appropriate in different years. The Committee should, in its assessment of performance under this heading, have regard to the extent to which cost reduction targets, agreed between the BSC and the Government (whether in a Corporate Plan or otherwise) have been met. To earn payments under this heading there should be improvements across the board in the indicators chosen, although failure to secure a significant level of improvement in one particular indicator should not prevent LFNY from receiving payment if the overall cost-reduction programme had gone well.

Heading III - Privatisation

6 The Government attach particular importance to reducing the size of the public sector involvement in the steel industry, and as a consequence to the transfer, wholly or partly, to the private sector of BSC assets and activities. In making an award under this heading the Committee should not make separate annual assessments but should take into account the extent to which BSC has been privatised over the period of Mr MacGregor's chairmanship.

7 Any transfers to the private sector which affect BSC's performance should not be a ground for a reduction of payments under other headings.

Heading IV - Broader Assessment of BSC's continuing Health and Strength

8 The Committee should take into account the qualitative factors reflecting BSC's longer term health and strength. These factors would include, but are not limited to, management structure, business organisation, financial control, management succession, technical developments, labour relations and general reputation, at all levels of the Corporation.

Assessment of Payments by the Committee

9 The Committee should, in determining payments under the Agreement, pay particular regard to the achievement of the profit and loss targets under Heading I and cost reductions under Heading II; about one-third of the money available under the Agreement should be allocated for consideration of an award under each of these headings.

10 The BSC will be expected to adhere to the External Financing Limit (EFL) as originally set for each relevant Financial Year by the Government after consultations with the BSC. Although cash discipline is an important indicator of financial performance, the Committee should regard adherence to EFLs as a normal and necessary part of the discipline to which all the nationalised industries are subject, and adherence to the EFLs should not be treated as an element meriting performance payments. The Committee should consider, however, whether success by BSC in achieving its objectives, whilst requiring less than the originally agreed EFLs, should be regarded as an element justifying an increased award under Heading I; and conversely whether failure to keep within the original EFLs should be regarded as justifying a reduced award under Heading I.

11 The effects of external economic circumstances will normally be taken into account each year by the BSC and the Government in setting profit and loss, EFL and cost reduction targets. Where unforeseen circumstances arise during the year, which are judged to be beyond the reasonable capacity of the Corporation to accommodate within their original targets, the appropriate response is for the Government and the BSC to reconsider the targets. As a general rule, therefore, the Committee should not take external economic circumstances into account in assessing performance. They should however take into account any directions given by the Government to BSC which may restrict BSC's ability to achieve its targets.

12 The Government will maintain and make available to the Committee a file of documents relevant to the Committee's task.

Payments to Lazard Freres and Co, New York, based on the
Performance of the British Steel Corporation under the
Chairmanship of Mr Ian MacGregor

On 29 April 1980 the Secretary of State for Industry entered into an Agreement with Lazard Freres & Co, New York (LFNY) for the release of Mr Ian MacGregor from his duties and obligations as a General Partner of LFNY in order that he should serve as Chairman of BSC for 3 years from 1 July 1980.

2. The terms of the Agreement provided that the Secretary of State would compensate LFNY for the release of Mr MacGregor, who has become a Limited Partner in LFNY in which he retains a greatly reduced interest. This compensation to LFNY was to take 2 separate forms:

- (a) an initial payment of £675,000, part of which is returnable if Mr MacGregor does not serve the full 3 year term as Chairman;
- (b) final payments of up to £1,150,000 to be determined by a Review Committee which is to base its decision on its opinion of the establishment under the Chairmanship of Mr MacGregor of a strong and healthy Corporation and the improvement (or deterioration) in the performance of BSC in the 3 years from 31 March 1981.

3. The final payments are to be made in two stages: a first performance payment of up to £700,000 to be determined when the results for the year ending March 1984 are known, and a final performance payment of up to £450,000 to be determined after the results for the year ending March 1985 are known.

4. The members of the Review Committee have already been announced. They are:

Chairman	Mr John Gardiner
Nominated by LFNY	Mr Albert Frost Lord Weir
Nominated by the Secretary of State	Mr K J Sharp Mr J R Steele

The Agreement provides that the Review Committee should be guided, in determining the performance payments to LFNY, by Agreed Criteria. These Criteria were to be determined by discussion between the Secretary of State, LFNY, Mr MacGregor and the Review Committee. These discussions have now been completed, and the attached document sets out the Agreed Criteria.



Copy:

Number 1
J.A. Gardiner
July 30 1985

- 1 -

(C)

PAYMENTS TO LAZARD FRERES & CO., NEW YORK, BASED ON THE
PERFORMANCE OF THE BRITISH STEEL CORPORATION UNDER THE
CHAIRMANSHIP OF MR IAN MACGREGOR

REPORT BY THE REVIEW COMMITTEE ON THE ASSESSMENT LEADING TO
THE TWO PERFORMANCE PAYMENTS, 1985

INTRODUCTION

1 On 14 April 1981 the Government (HMG) released publicly
a document entitled:

"Payments to Lazard Freres & Co. of New York
based on the performance of the British
Steel Corporation under the Chairmanship of
Mr. Ian MacGregor.

2 The document described the terms of an agreement between
HMG and Lazard Freres & Co. of New York (LFNY) under which
two payments would be made to LFNY up to a maximum of
£1.15 million. These amounts were to be determined by a
review committee and the document, which is attached,
incorporates Agreed Criteria as guidance for the Committee's
task. One amendment subsequently took place in October
1984, when HMG and LFNY agreed that the two performance
payments would be awarded at the same time, in 1985.

3 This report describes how the amounts of the performance
payments have been assessed and records the Committee's
conclusion.

COMMITTEE MEMBERSHIP AND COST

4 Since the Committee was established in 1981,
Mr. J.A. Gardiner has acted as independent Chairman.
Mr. A.E. Frost and Lord Weir have served throughout as the

nominees of Lazard Freres & Co. of New York and Mr. A.G. Manzie (who replaced Mr. J.R. Steele in October 1981, before the Committee first met) and Mr. J.A. Knox (who replaced Mr. K.J. Sharp in July 1983) have served as the nominees of the Secretary of State for Industry* (SoS).

5 The Agreement between the SoS and LFNY provided that the SoS should bear the reasonable fees and expenses both of the Committee members themselves and of any outside consultants and professional advisers whom the Committee might appoint. Estimated costs over four years total £57,000 and relate almost exclusively to work commissioned from professional advisers to establish and maintain a comprehensive information-base. The Committee members themselves have not claimed any fees or expenses.

METHOD OF WORK

6 The Agreed Criteria as amended require the Committee to determine the amount of the payments to be awarded in 1985 which in its opinion "reasonably reflect the establishment under Mr. MacGregor's Chairmanship of the health and strength of the British Steel Corporation (BSC) and improvement (or deterioration) in its performance within the period of three years from 31 March 1981".

7 The Committee decided that, in order to provide the necessary build-up in information, continuity and experience to support the final assessments originally required in 1984 and 1985, it would undertake annual reviews of BSC's performance in each of the three financial years from 31st March 1981, together with a final review in 1985. Accordingly, the Committee first met on 26 November 1981 and regularly thereafter. Nineteen meetings have been held.

8 From the outset, the Committee regarded it as essential to create a wide-ranging, objective and accurate

* (since June 1983 the Secretary of State for Trade and Industry)

information-base as the foundation for its assessment of the two performance payments:

- (a) For detailed assessment of BSC's performance against annual targets, as required under Headings I and II in the Agreed Criteria, the Committee needed a clear and accurate statement, comparable from year to year, of the results achieved by the Corporation against the targets agreed by the Government (whether in Corporate Plans or otherwise). In addition, a judgement on whether progressive improvement had taken place under Mr. MacGregor's Chairmanship, and on the overall achievement during the period, required comparable information about BSC's results in the years immediately before he was appointed.
- (b) The Committee also needed to be aware of the context in which it was assessing BSC's performance during the review period. Accordingly, at the outset of its work, the Committee considered detailed papers covering the history of BSC, particularly in the mid to late 1970s, as well as trends in the steel industry internationally. Thereafter, the Committee reviewed developments over the review period in the steel market in the UK, Europe and worldwide, taking account of the European Community's steel policy.

HEADINGS I AND II

9 Under these Headings in the Agreed Criteria, the Committee required detailed information about BSC's performance against planned targets, as well as year-on-year results, over a wide range of indicators. For Heading I, these related to profit and loss before interest and tax, taking account also of BSC's liquid steel output, home

sales, UK market share, export sales, cash requirement, capital structure and any changes in accounting practices. In addition, the Committee reviewed the exceptional items in BSC's annual profit and loss accounts. For Heading II, the main indicators related to numbers employed, labour productivity, plant utilisation, energy use, and costs per tonne for employment, energy and materials.

10 In May 1982 the Committee appointed Coopers & Lybrand, BSC's auditors, to assemble the information at the end of each financial year and to vouch for its accuracy. Wherever possible, the information was also taken back to 1978/79, the last year in which BSC's performance was not affected by the three month steel strike in 1980.

HEADING III

11 As regards Heading III in the Agreed Criteria - Privatisation - the Committee quantified progress achieved under Mr. MacGregor's Chairmanship. In particular it reviewed:

- Disposals of UK businesses, including wholly-owned companies.
- Disposals of shares and holdings in UK partly-owned companies.
- Disposals of overseas interests.
- Disposals of surplus land, buildings, plant and machinery.
- Formation of private sector joint companies (the "Phoenix" programme).
- Formation of Companies Act companies.

The Committee also considered the effect on BSC's performance.

Heading IV

12 As regards Heading IV in the Agreed Criteria - BSC's continuing Health and Strength - the Committee was required to assess a range of "qualitative factors" which were not susceptible to the quantified approach adopted under the other Headings. In this case, therefore, the Committee based its judgement on information drawn from a number of sources including:

- Enquiries by Committee members amongst major UK steel-users.
- Written submissions to the Committee from the General Secretary of the Iron and Steel Trades Confederation.
- Reports by the House of Commons Select Committee on Trade and Industry and its predecessor (reflecting the results of four enquiries into BSC since 1981).
- Academic and other publications.

CONCLUSION

13 The Committee has unanimously determined that the amount of the first performance payment to be made to Lazard Freres & Co. New York by the Secretary of State for Trade and Industry (the SoS) should be £525,000. A maximum of £700,000 was provided for under the Agreement between the two parties.

14 In respect of the second performance payment, of up to £450,000, the Committee has unanimously determined that the amount should be £350,000.

Signatures

J.A. Gardiner

J A Gardiner Chairman

A. E. Frost

A E Frost

W. Weir

Lord Weir

A.G. Manzie

A G Manzie

J.A. Knox

J A Knox

(25 July) 1985