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PRIVATE AND CONFIDENTIAL

20 March 1987

R E Clarke Esq
Department of Transport
2 Marsham Street
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Dear Roger

BAA Impact Day

You have asked for our advice on whether it would be possible to bring forward the impact day for the privatisation of BAA to 17 June from 1 July and, in particular, to comment on the possible effect on proceeds.

We have discussed the proposal with Cazenove & Co., County Securities, Allen & Overy, Touche Ross, J. Walter Thompson, Charles Barker City and ICM. We believe that it would be possible to shorten the timetable to the extent suggested. We do consider though that there are significantly greater risks involved in such a course than if the period to impact day were not shortened.

Touche Ross's initial view is that audited accounts for the year ending 31 March 1987 can still be included in the prospectus; we consider this to be essential. It is unlikely to be possible for audited figures for that year to be included in the pathfinder prospectus but we consider it necessary that, at the least, unaudited figures are provided at the time of publication of the pathfinder prospectus. We understand this is capable of being achieved by 1 June. It will undoubtedly cause some difficulty for BAA to produce these figures within this time scale. Clearly, we must have confidence that the figures included in the pathfinder will not be subject to amendment prior to the auditors signing off.

The retail and institutional marketing campaigns are integral to the successful privatisation of BAA and to the achievement of maximum proceeds, subject to other objectives including wider share ownership. The shortage of BAA resources at senior management level would certainly make it difficult to ensure that the timetable can be advanced by a fortnight without jeopardizing the effectiveness of the institutional and public relations campaigns in particular, which require a great deal of time both in preparation and execution. These elements of the campaign are particularly essential given the absence of a Chief Executive. Furthermore, advancing the flotation by a fortnight will diminish the possibility of a suitable candidate for this post presenting himself in reasonable time ahead of the issue. I have discussed with William Shaw the need for BAA to ensure that all necessary resources within BAA can be committed to meeting the possible revised timetable and he has confirmed that this will be done.

The retail marketing effort depends on a press and television campaign which is due to commence in the week beginning 30 March 1987. The education and flotation phases of this campaign are both essential given the current low level of awareness of BAA. The advice we have received from J Walter Thompson & Co. is that the approach they would recommend if the earlier impact day is decided on is to compress the flotation phase into a shorter period and increase correspondingly the weekly advertising spend. They have however advised that the campaign could be asking for too much in too short a time and would certainly be a high risk option.

If market research indicates that the advertising task is not wholly successful, there would be less time to rectify that situation and consequently there may be implications for pricing.

It is also not ideal that the second instalment for British Gas shares is payable on 9 June. This could have an effect on the level of demand from both institutional and retail investors, particularly given the size of this call, which will be £1,800 million.

In conclusion, whilst the flotation should be achievable within a shorter timetable, we have reservations about taking this course. The very tight financial timetable which would need to be met adds to the risk of problems being encountered but our major concern is on the marketing programme, its impact on the success of the issue and its possible effect on proceeds. Our strong advice therefore is to stay with the existing timetable.

Yours sincerely

John

J W Matthews
Managing Director