

**PROPOSED ACQUISITION BY
SERVICED DISPENSE EQUIPMENT LIMITED
OF THE TECHNICAL SERVICES FUNCTION
OF COORS BREWERS LIMITED**

**REFERENCE TO
THE COMPETITION COMMISSION**

**JOINT MAIN SUBMISSION
BY
SERVICED DISPENSE EQUIPMENT LIMITED
AND
COORS BREWERS LIMITED**

20 OCTOBER 2004

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Joint Main Submission

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**Proposed Acquisition by Serviced Dispense Equipment Limited
of the Technical Services Function of Coors Brewers Limited**

Reference to the Competition Commission

**Joint Main Submission by
Serviced Dispense Equipment Limited
and
Coors Brewers Limited**

EXECUTIVE SUMMARY

This reference concerns the supply of dispense equipment for beer and related services to on-trade outlets in Great Britain. Coors Brewers Limited ("Coors") supplies such dispense equipment and related services as an ancillary part of supplying beer to the on-trade. It proposes to outsource these functions to Serviced Dispense Equipment Limited ("SDEL"). Coors will acquire a minority interest in SDEL's holding company alongside its current shareholders, Scottish Courage Limited, Carlsberg UK Limited and others.

For Coors and the other brewers the transaction is one of a series of measures taken by them in recent years to outsource non-core areas of activity to a specialist provider (and in so doing reduce their costs and ultimately improve quality), so that they can focus on competing in the supply of beer.

With few exceptions, dispense equipment and related services are supplied to retailers as an integrated part of the supply of beer (i.e. no separate price is charged by the brewer for supply of dispense equipment and related services). The cost of these items is a small proportion of the overall supply price of beer to the retailer.

There is no differentiation in the generic equipment supplied by brewers to the on-trade owing to the frequency with which such equipment changes ownership. There is also no significant differentiation between the brewers in the servicing of dispense equipment. There is differentiation in branded equipment, and innovation by Coors in branded equipment will continue. Coors will retain the ownership of the intellectual property rights in such innovation and will maintain control over expenditure on its branded equipment.

The parties believe that the transaction will not lead to a substantial lessening of competition for the following reasons:

- the transaction is an outsourcing arrangement and will not affect the contractual relationship between Coors and its customers;
- the supply of generic dispense equipment and the servicing of dispense equipment are not a significant point of competition between the brewers when supplied as an integrated part of the supply of beer;
- innovation by Coors in branded equipment will continue;
- the transaction will have a beneficial effect on the supply of generic dispense equipment and servicing of dispense equipment, when integrated with the supply of beer, as costs will be reduced and quality should be enhanced;
- the contractual arrangements are such that SDEL will not make more than a minimal profit;

- competition in the supply of dispense equipment and related services independently from beer supply will continue to be effective, because Coors will continue to be free to supply such equipment and services to its customers and there are numerous alternative credible suppliers today and there are no barriers to entry.

The parties also believe that there are significant benefits to be derived from the transaction which will benefit not just the SDEL brewers but their customers and ultimately consumers. The parties believe that the transaction will facilitate a more efficient and effective model for the supply of dispense equipment and related services.

The parties invite the Commission to reach the same conclusion.

**Proposed Acquisition by Serviced Dispense Equipment Limited
of the Technical Services Function of Coors Brewers Limited**

Reference to the Competition Commission

**Joint Main Submission by
Serviced Dispense Equipment Limited
and
Coors Brewers Limited**

1. BACKGROUND TO THE TRANSACTION

This reference concerns the supply of drinks dispense equipment (technical services equipment ("TS Equipment")) and related on site technical maintenance, repair, installation and replacement services (technical services ("TS")) to on-trade outlets in Great Britain.

In simple terms, TS Equipment means the equipment installed in a pub or other on-trade retail outlet for the purpose of dispensing draught beer. TS Equipment can be divided between generic items and branded items. The generic equipment comprises, broadly, the cooling and pressure equipment located in the cellar and the pipes delivering the drink to the bar. It forms part of the necessary infrastructure of an outlet serving draught beer and other drinks. The branded items are mainly those items visible to the customer on top of the counter, which bear the logo etc of the supplying brewer, but may include other equipment such as the brand specific flash coolers under the bar.

Whilst TS Equipment is a significant element of the infrastructure of an on-trade outlet, it is rarely owned by the non-brewer retailer. Generic equipment is almost always provided by a brewer. This is a result of the way in which the on-trade marketplace has developed. The branded equipment is always provided by the brewer, because its purpose is brand differentiation.

See Annex 1 for a fuller description of TS Equipment and TS, Annex 2 for diagrams showing branded and generic equipment, and Annex 3 for the history of and recent developments in the supply of TS Equipment and TS.

2. THE TRANSACTION AND ITS STRUCTURE

In summary, the proposal is that Coors Brewers Limited ("Coors") (further details of which appear in Annex 4) will sell its TS Equipment and related assets to SDEL and will simultaneously enter into a services agreement with SDEL. SDEL (further details of which appear in Annex 5) is the existing joint venture between Scottish Courage Limited ("Scotco") and Carlsberg UK Limited ("Carlsberg UK") and others.

SDEL will rent TS Equipment to Coors and provide related TS under a ten year rolling agreement with Coors. SDEL will sub-contract the service element for [] years to a sub-contractor, Innserve Limited ("Innserve"). The duration of these contracts was a pre-requisite of the financing arrangements. Innserve has been sub-contracted by SDEL to provide TS to Scotco and Carlsberg UK.

Innserve is a wholly-owned subsidiary of Innserve Holdings Limited which is owned by Mr Nicholas Bryan and Mr Michael Foster. Innserve focuses on the supply of TS. []

The transaction is an outsourcing arrangement and does not change the relationship between Coors and its customers. Coors will continue to contract to supply its customers with beer, TS Equipment and TS.

Coors is therefore procuring its TS by using SDEL as its sub-contractor instead of a combination of in-house resources and sub-contractors. Coors' TS staff will be transferred under TUPE through SDEL to Innserve. Coors' sub-contractors will still be involved in supplying these services, but as sub-contractors not to Coors, but to SDEL's services sub-contractor, Innserve.

Any increase in the volume of services supplied by SDEL or Innserve occurs merely as a consequence of the sub-contract between Coors and SDEL. The parties are not aware of any other outsourcing arrangement of this type having been considered by the Competition Commission (or its predecessor) under the Fair Trading Act 1973 or the Enterprise Act 2002.

SDEL provides TS Equipment and TS to Scotco and to Carlsberg UK, who in turn provide such equipment and services to their retail customers. SDEL does not have relationships with retailers. While the main focus of Coors' business is the supply of beer, Coors provides TS Equipment and TS ancillary to the supply of beer to its retail customers.

3. RATIONALE FOR THE TRANSACTION

For the brewers, the supply of TS Equipment and TS is an important, but non-core, activity. The brewers' primary focus is competition in beer brands. Competition in the market for the supply of beer is fierce. The decline in draught beer consumption in the on-trade and the greater purchasing power of retailers through consolidation moves in both the on-trade and off-trade has led to significant margin pressures. Brewers are under increasing pressure to find ways of cutting costs. This has typically been addressed in two ways:

- by improving the efficiency of core activities (eg through the rationalisation of and investment in breweries);
- through outsourcing of non-core activities to service providers who can provide the service in a more cost-effective and efficient manner (eg distribution services, keg management, car fleet, IT, debt recovery).

Coors therefore sees the outsourcing of its TS function as a logical extension of its strategy of focusing on its core activities.

The addition of Coors to the existing joint venture is expected to generate efficiencies and consequential cost savings for the brewers, to the ultimate benefit of the consumer. []

SDEL is entirely focused on the supply of TS Equipment and TS and Innserve is entirely focused on the supply of TS. It is envisaged that this focus will ultimately enable higher levels of service provision and quality equipment to be provided, leading to a better product being offered to the consumer. The pooling of the generic equipment creates the potential for longer-term ownership and thus an

owner who is better placed to make long term investment decisions regarding that equipment. This is because switching of accounts between the three SDEL brewers will not give rise to a change of ownership of that equipment. This should result in improved standards of beer dispense. The transaction will also result in reductions in the inventories held.

4. THE SUPPLY OF TS EQUIPMENT AND TS AFTER THE TRANSACTION: INTEGRATED WITH BEER SUPPLY

Almost all TS Equipment and the vast majority of TS are supplied to retailers by brewers ancillary to the supply of beer.

The transaction will not affect the contractual relationship between Coors and its customers. Coors will continue to contract with retailers for the supply of beer and the ancillary supply of TS Equipment and TS. This outsourcing arrangement is simply a means for Coors to deliver TS Equipment and TS to its customers more efficiently.

The FBI criteria for determining FBI principal supplier at an outlet (see Annex 1) will continue to be applied by reference to the role of Coors (and the other SDEL brewers) individually in each outlet, rather than on a combined basis for SDEL as a whole.

The parties believe that the vast majority of retailers, especially the independent on-trade, will, as a matter of convenience, continue to wish to purchase an integrated offering from the supplier of beer, including its associated TS Equipment and TS.

Provision of branded TS Equipment

Coors will continue to invest in innovative, differentiating branded TS Equipment, which will be held in a separate pool by SDEL. Coors, as in the case of Scotco and Carlsberg UK, will continue to control innovation on its branded TS Equipment and to own the intellectual property rights. Coors will set its own capital expenditure budgets on branded equipment. The supply of Coors' branded TS Equipment will always be integrated with the supply of beer.

Provision of generic TS Equipment and TS

(a) Current position: No direct competition; little incentive to invest

Coors' generic TS Equipment will be pooled with that already owned by SDEL and will be made available to the SDEL brewers.

As noted above, the supply of generic TS Equipment has not been an area in which brewers have traditionally competed directly, as it is standard equipment of a basic nature, which has been supplied to retailers as part of an integrated offering. This equipment is often shared by the brands of several brewers; this and the frequent switching of brands and accounts by customers and consequent change of ownership of equipment, has meant that this is an area in which there has not been a large incentive to invest, as it would not create any added value or point of difference between the brands.

Furthermore, the available evidence is that the quality of TS provided by the major brewers is very similar, so it has not been important to the retailer's purchasing decision. There is no direct competition in the provision of TS in the context of integrated supply.

(b) Beneficial effects

The transaction is beneficial in its effects in that it will lead to [] cost savings, the benefit of which will ultimately feed through to the consumer. Competition between the brewers will ensure that a fair share of the resulting savings flow through to retailers and on to the consumer. The increment in cost savings as a result of Coors joining the joint venture is expected to be around [] per annum.

As mentioned above, by creating the potential for longer-term ownership, the transaction will improve the incentive to invest in generic TS Equipment, also to the benefit of the consumer.

(c) No negative effects

For the reasons set out below, the transaction will not have any negative effects on the supply of generic TS Equipment or related TS in relation to either pricing or quality and innovation:

- *Pricing*

[] SDEL is not contractually able to raise prices to the brewers in this way.

[]

In addition to the above provisions, any attempt by the SDEL brewers to collude to raise prices to retail customers would be unlawful.

Further details are given in Annex 6.

- *Quality and innovation*

The OFT has suggested that the transaction may lead to a reduction in competition on quality.

First and foremost, it is in the brewers' own interests to maintain and enhance the dispense quality and general presentation of their brands. Many of these brands are valuable international assets. In the case of their licensed brands, such as Scotco's Fosters brand and Coors' Grolsch brand, the licensor will have a similar concern to maintain the dispense quality.

The SDEL brewers will therefore wish to retain an attractive high quality offering in TS to avoid a knock-on effect on their main business i.e. beer supply. In other words, competition in the supply of beer will ensure that the SDEL brewers will insist on SDEL maintaining quality levels. In addition, the maintenance of good quality beer dispense is essential to prevent consumers switching from draught beer to other drinks.

[] there is currently no significant difference in the level of quality between Coors and the existing SDEL brewers in the provision of TS. Brand owners tend to use the same sub-contractors for a significant amount of work.

One of the key objectives of the joint venture arrangements is to improve quality in the provision of TS, by locating the TS function within an entity which will focus on providing these services. The quality of TS (e.g. response times) is assured by the contracts between SDEL and Coors (and the other SDEL brewers), and between SDEL and Innserve. [] The SDEL brewers have a clear interest in the provision of good and efficient services by SDEL. The arrangements would be undermined if Innserve or SDEL did not meet the agreed standards of dispense. The agreements therefore include provisions to ensure this. Further details are provided in Annex 7.

[]

Were the quality of TS to diminish, retailers could and would seek alternative sources of supply. The retailer would have the option of seeking an integrated supply of the same beer brands from a regional brewer or obtaining a supply of beer exclusive of TS and entering into a direct contractual relationship with a third party supplier of TS.

Finally, effective competition in supplying larger retailers with TS independently of the supply of beer will have positive spillover effects for smaller retailers, by keeping the suppliers of TS Equipment and TS (including SDEL and Innserve) efficient and innovative.

5. THE SUPPLY OF TS EQUIPMENT AND TS AFTER THE TRANSACTION: INDEPENDENTLY FROM BEER SUPPLY

Introduction

As described in Section 1 above, the demand for TS Equipment and TS to be supplied independently of the supply of beer has historically been limited. Nevertheless, there is the possibility that such demand may develop in the future, and so the Commission may wish to assess the impact that this transaction might have on such a market if it were to emerge.

In the few instances where retailers have requested independent provision, this has been primarily in relation to the supply of TS rather than TS Equipment. For example, in 2002 Punch Supply Company, on behalf of Punch Taverns and Spirit Group, contracted with City Refrigeration, an independent third party provider, to supply TS across those respective estates. As a consequence, the focus of this section is primarily on competition and entry into the supply of TS. []

We also discuss TS Equipment because it is possible that in the future there could also be demand for generic TS Equipment independently of the supply of beer. Branded TS Equipment is part of the beer brand offering by each brewer and will continue to be controlled by each brewer. Accordingly, it is not envisaged that branded TS Equipment could be supplied by third parties to retail outlets.

Competition in supply of TS independently from beer supply

If demand for the independent supply of TS were to develop, then there would be effective competition to supply it for two main reasons:

- there are numerous credible suppliers today;
- there are no barriers to entry.

(a) Existing Suppliers

Retailers who wished to purchase TS on an independent basis would be able to turn to a range of TS suppliers. Retailers could purchase TS independently from Scotco, Carlsberg UK and Coors, who would supply through SDEL/Innserve, and from Interbrew or one of the many regional brewers. Moreover, there are numerous independent TS providers, who have historically supplied the brewing industry and could supply retailers directly. These suppliers include City Refrigeration, Total Cellar Systems and Innflow (BOC's franchise operation). In relation to the ability of these independent TS providers to tender successfully for a TS contract offered by one of the large retailers, the following three aspects should be highlighted:

- independent TS suppliers currently account for around one-third of the supply of all TS, either through direct provision of TS, or subcontracting agreements with the brewers;
- the largest independent TS supplier already operates on a national basis, and other independent TS suppliers who operate on a regional or multi-regional basis, could readily do so through subcontracting arrangements;
- national coverage sufficient to meet the demands of a large retailer such as [] or [] could be achieved with a relatively small number of subcontractor agreements, as the subcontractors would themselves be able to sub-subcontract out work to extend the area they cover.

(b) No Barriers to Entry

There are no barriers to entry into the supply of TS as there are no major sunk costs associated with setting up a TS business and none of the relevant inputs are in short supply. The activities involved in the provision of TS can be summarised under four headings:

- Call centre – a call centre would be required to answer the publicans' requests for TS provision, log the calls and transfer the relevant information to the resource planner. Some simple filtering questions may be asked but the call centre staff would not require specific TS knowledge.
- Resource planning – a system would be required for sorting requests by order of importance and scheduling the despatch of technicians. While some firms use specific software to perform this task, Carlsberg UK currently organises its TS network on the basis of a subcontractor being responsible for an area, with the subcontractor responsible for the despatch of technicians.

- Technicians – they are the resource required to diagnose the problem and then repair the TS Equipment or replace the faulty part. If a major component requires replacing (e.g. a remote cooler) then a further visit to the site may be required, but this follow-up visit is often subcontracted.
- Supply chain management – TS technicians use vans that contain the parts required to service the majority of call-outs. Due to the consumption of materials a supply chain must be organised to refill the vans with the relevant replacement parts and consumables. [].

There are a number of firms operating in related fields who could readily begin supplying TS with minimal outlay if the demand were to grow and if there were insufficient existing suppliers to meet that demand. For example:

- There are businesses which have the necessary infrastructure and technicians who visit on-trade outlets to service the gas installations and who have the necessary skills to provide TS.
- Soft drinks suppliers, whose technicians already visit on-trade outlets and maintain the soft drinks dispensers, could easily extend their service into the supply of TS. The skills required for servicing beer installations are similar to those required to service soft drinks installations. This is illustrated by the fact that many TS providers, including City Refrigeration and Total Cellar Systems, employ technicians who perform TS for both soft drinks and beer installations.

The high levels of subcontracting prevalent in the sector would facilitate such entry and/or expansion. For example, when Heineken launched its Heineken Export brand in the UK, it employed Diageo as the TS subcontractor for its branded assets. Furthermore, as well as tendering directly, operators such as City Refrigeration and Total Cellar Systems currently supply TS as subcontractors to the soft drinks manufacturers and the brewers.

To summarise, if demand for TS independently from beer supply were to develop, the parties believe that the large number of actual and potential suppliers and the lack of barriers to entry would ensure effective competition.

Interaction between TS Equipment and TS

The parties are aware that concerns may have been expressed that interactions exist between the supply of TS and the supply of TS Equipment and that these interactions may affect the provision of independent TS and the ability of independent TS providers to compete effectively. []

However, the parties are firmly of the view that the interactions between the supply of TS and TS Equipment would not frustrate the development of competition in independent TS, were demand to develop. First, the parties would continue to supply TS Equipment and make equipment available to retailers who chose to purchase TS separately. There should be no concerns that independent TS providers would not be able to access SDEL's equipment.

[] In this context, a number of observations are relevant:

- The parties note that some third parties may have indicated to the OFT that retailers are reluctant to purchase the TS Equipment. However, this

would seem to be for accounting reasons only, rather than genuine economic justifications, as the retailers would prefer not to have these assets on their balance sheets.

- This suggested reluctance on the part of retailers to own the assets contrasts with most comparative situations, e.g. in similar retail businesses, where retailers would commonly own equipment which is important to their business and is a natural part of fulfilling their business activities such as fridges in supermarkets and kitchen equipment in restaurants.
- There are no barriers to entry into the supply of leasing by third parties to retailers, if retailers are genuinely unwilling or unable to purchase the equipment. The provision of such a leasing service would, the parties believe, be straightforward for a large number of leasing companies. []

Accordingly, the parties believe that none of the previously stated concerns in relation to the ownership of TS Equipment is a credible impediment to the development of effective competition in the supply of TS on an independent basis.

6. CONCLUSION

The parties believe that the transaction will not lead to a substantial lessening of competition for the following reasons:

- the transaction is an outsourcing arrangement and will not affect the contractual relationship between Coors and its customers;
- the supply of generic TS Equipment and TS are not a significant point of competition between the brewers when supplied as an integrated part of the supply of beer;
- innovation by Coors in branded TS Equipment will continue, with Coors retaining ownership of the intellectual property rights in such innovation and maintaining control over capital expenditure on its branded TS Equipment;
- the transaction will have a beneficial effect on the supply of generic TS Equipment and TS when integrated with the supply of beer, as costs will be reduced and quality should be enhanced;
- the contractual arrangements are such that SDEL will not make more than a minimal profit;
- competition in the supply of TS Equipment and related TS independently from beer supply will continue to be effective, because Coors will continue to be free to supply equipment and services and there are numerous credible alternative suppliers today and there are no barriers to entry.

The parties also believe that there are significant benefits to be derived from the transaction which will benefit not just the SDEL brewers but their customers and ultimately consumers. The parties believe that the transaction will facilitate a more efficient and effective model for the supply of TS Equipment and related TS.

The parties invite the Commission to reach the same conclusion.

**SERVICED DISPENSE
EQUIPMENT LIMITED**

COORS BREWERS LIMITED

20 October 2004

ANNEX 1

GLOSSARY

The following terminology is used in this memorandum.

Technical Services or TS

TS consist of the installation and servicing (including repair, refurbishing and removal) of TS Equipment. TS are provided by brewers ancillary to the supply of beer to retail outlets and also by independent third party providers.

TS Equipment

TS Equipment is the equipment installed in a pub for the purpose of dispensing draught beer. It consists of:

- Dispense points, founts and T-bars;
- Product lines (that is, beer lines enclosed within a "python");
- Line coolers (including both remote coolers and flash coolers);
- Gas systems and associated equipment.

Diagrams illustrating the TS Equipment generally found in a retail outlet and showing which pieces are generic and which are branded equipment are contained in Annex 2 to this Submission.

Branded Equipment

A distinction is drawn between generic equipment and branded equipment (see the diagram in Annex 2). Branded equipment is the specific equipment used for the dispense of a particular brand of beer. The branded items are mainly those items visible to the customer on top of the counter, which bear the logo or name of the supplying brand owner, but may include other equipment which is used to distinguish certain characteristics of the relevant brand, such as flash coolers. T-bars (i.e. multiple founts), however, are generic equipment. Branded equipment is the responsibility of each brand supplier.

Generic Equipment

Generic equipment is all the equipment that is not branded equipment i.e. the lines, the remote cooler, the keg connectors and so on. Generic equipment is used for the dispense of any beers regardless of brand and forms part of the infrastructure necessary in an outlet for serving draught beer and other drinks. Generic equipment is either shared or specific to each brand owner. Shared generic equipment (the remote cooler and the python) is usually the responsibility of the FBI principal supplier or regional brewer but where the outlet does not contain a remote cooler, it is the responsibility of the brand suppliers. Whilst regional brewers do not participate in the FBI, they own the generic equipment in on-trade outlets which they own or for which they are the main beer supplier. Generic equipment which is specific to a particular beer line (e.g. a pump and controller (see Annex 2)) is the responsibility of the brand supplier who uses it.

Four Brewers Initiative or FBI

The Four Brewers Initiative is an informal agreement between the four (originally five) major brewers that they will provide secondary lines to secondary suppliers at the pubs at which they are the principal supplier and, where there is a switch of principal supplier at a pub, the outgoing supplier must sell and the incoming brewer must buy the shared generic equipment at the pub for a standard price fixed under the FBI. In addition, generic equipment which is

specific to a brand owner is also transferred on a change of user at a standard price fixed under the FBI.

Principal Supplier

Under the FBI, the principal supplier is generally the owner of (or has responsibility for) the generic equipment whose use is shared (the remote cooler and the python). The principal supplier in a pub is generally identified as the brewer who has the most taps on the bar. Generic equipment which is specific to a particular beer line (e.g. a pump and controller), however, is the responsibility of the brewer using the line not the principal supplier.

Not all outlets have a principal supplier under the FBI. For instance, regional brewers do not participate in the FBI, but they tend to operate in the same way as the national brewers and arrangements are made with them that are similar to the FBI. For the purposes of this submission, references to principal supplier should where applicable be read as including regional brewers.

Where there is no remote cooler at an outlet, there is generally no requirement for a principal supplier, as the generic equipment is unlikely to be shared.

ANNEX 2

DIAGRAMS SHOWING BRANDED AND GENERIC EQUIPMENT

SEE SEPARATE ANNEX ATTACHED

ANNEX 3

HISTORY AND RECENT DEVELOPMENTS IN THE SUPPLY OF TS AND TS EQUIPMENT

1. HISTORY

Before the MMC inquiry into the supply of beer in the late 1980's, which was followed by the implementation of the tied house disposal requirements under the Beer Orders in 1992, the beer industry was largely vertically integrated. National brewers owned large estates of pubs that were either managed or leased to tied tenants. In their estates and in the tied free trade, the brewers supplied both the beer and services ancillary to the supply of the beer (including TS and TS Equipment).

Following the implementation of the Beer Orders, the vertically integrated structure of the market was broken down and pub-owning companies were established through acquiring the tied and managed estates of the national brewers. Subsequently those pub companies have consolidated, forming large and powerful groups. However, the industry has near-universally retained the model that beer is supplied inclusive of TS Equipment and the related servicing. In general, there has been no significant pressure to change from this model: the pub companies have shown no desire to take on the capital investment and only a limited desire to assume the responsibility for servicing the equipment.

The retailers, however, introduced multiple brand sourcing to their outlets and were willing to switch beer brands. As a result, it became much more common for the beer suppliers at a pub to change. This led to significant wastage and unnecessary removals and installations each time an outlet changed suppliers. In 1994, to reduce this wastage, the major brewers established a Code of Practice, followed by the Five (now Four) Brewers Initiative ("FBI").

The participants in the FBI are the brewers Carlsberg UK, Interbrew, Scotco and Coors, together with HP Bulmer (now owned by Scottish & Newcastle) and Matthew Clark (a leading drinks wholesaler and brand owner which is the UK division of Constellation Brands Inc.).

The FBI provides for the installation, alteration, modification and servicing of the shared generic dispense equipment in an on-trade outlet. It also determines who owns the equipment and who has the legal responsibilities for compliance with statutory regulations, in particular, those applicable to pressure systems and electricity at work. In addition, the FBI sets out the prices charged for the installation and use of dispense installations and provides for the sale of shared generic equipment *in situ* by outgoing to ingoing suppliers at independently determined transfer prices (known as "must buy must sell" or MBMS)¹.

A fundamental part of the FBI in relation to installation of shared generic dispense equipment is that the principal supplier to an outlet (as defined in Annex 1 above)

¹ The parties intend that the FBI will remain unchanged. Indeed, it would be contrary to the SDEL brewers' interests to alter the FBI arrangements, as they rely on reciprocal trading arrangements with other brewers.

is responsible for installing all the product lines for himself and any secondary supplier. The principal supplier leases beer lines to secondary suppliers in consideration of a one off rental charge which is inclusive of service and maintenance of the line. Secondary suppliers may add additional equipment to a beer line, for example branded and additional flash coolers, in which case they would be responsible for the cost of the installation and subsequent servicing of that item. With the agreement of the principal supplier other suppliers can contract the principal supplier to install their equipment for them.

On a change of principal supplier, all of the shared generic equipment owned by the outgoing supplier must be transferred to the ingoing supplier as it exists and at the specified rates (even if surplus to requirements of the ingoing supplier, with certain exceptions). These prices are in the range between 50-60% of the cost of a new item of equipment of the same type.

The impact of the changing market is that ownership of generic equipment now changes more often. As a result, brewers have mixed portfolios of generic equipment comprising equipment from a range of different origins. It has therefore been an area in which there has been little incentive to compete and innovate.

On the other hand, branded equipment, which is seen as an essential part of the beer brand, remains the responsibility of each brewer and has been the area where the brewers have worked with manufacturers to develop innovations that will distinguish their products from those of their competitors. These innovations have included the development of extra cold brands with specific cooling and smooth flow, and the HIT (head-gas injection tap) system.

2. RECENT DEVELOPMENTS

Despite the changes in the pub sector, the universal model has, with few exceptions, continued to be that TS Equipment and TS are provided by brewers as part of the supply of beer.

Because the larger independent pub companies have increasingly multisourced their draught beers, they have had to deal with a number of separate TS providers (i.e. the FBI principal supplier to service the shared generic equipment (remote cooler and python) and one or more separate servicers for other generic equipment and for branded equipment). This has led to a few experiments by pub companies in obtaining all of their TS (but not TS Equipment) from a single service provider (a "one-stop-shop"), being either a brewer or an independent third party contractor (who would usually be one of the brewers' subcontractors).

With a view to engaging a one-stop-shop service provider, some pub companies have recently asked brewers to negotiate with them for a beer-only price. This requires that (a) the brewer supplies the beer and the branded equipment but does not service that equipment and (b) a brewer who would be principal supplier under the FBI provides the generic equipment but does not service it.

It is not clear whether the demand by pub companies for a one-stop-shop will increase.

ANNEX 4**COORS**

Coors Brewers Ltd (Coors) (company number 00026018) is a brewer and wholesaler of beer and other beverages in the UK and elsewhere. It is ultimately a subsidiary of Adolph Coors Company (ACC), a company incorporated in the USA (IRS employer identification number 84-0178360). Coors' main beer brands in the UK are Carling, Grolsch and Coors Fine Light Beer (see off-the-shelf document 13 - structure chart). Coors is the second largest brewer in Great Britain, with a share of around 22% by volume of the supply of beer to the UK on-trade. On 22 July 2004 ACC announced that it had agreed to merge with Molson Inc, the Canadian brewer, subject to shareholder and regulatory approvals.

ACC entered the UK beer market by acquiring Bass Brewers Limited in 2002 (after the hive out of certain parts of the business to Interbrew) following the report of the MMC *Interbrew/Bass*.

Coors owns no pubs.

Websites are at <http://www.coors.com/> (Adolph Coors Company) and <http://www.coorsbrewers.com/> (Coors Brewers Ltd) -

ANNEX 5

SERVICED DISPENSE EQUIPMENT LIMITED ("SDEL") AND ITS HOLDING COMPANY

1. INCORPORATION OF SDEL AND SDEHL

SDEL was incorporated on 11 November 2003 in England and Wales under Company Number 04959037.

Serviced Dispense Equipment (Holdings) Limited ("SDEHL") was incorporated on 11 November 2003 in England and Wales under Company Number 04959428.

2. SHARE CAPITAL OF SDEL AND SDEHL

The share capital of SDEL comprises one ordinary share of £1 which is held by SDEHL. The share capital of SDEHL as it is now and as it is proposed to be following completion of the transaction is as follows:

Shareholder	Current Shareholding	Proposed Shareholding
Hallriver Limited	1 A ordinary share (nil paid)	5,000 A ordinary shares
Mordaunt & Foster Limited	1 A ordinary share (nil paid)	5,000 A ordinary shares
Scotco	9 B ordinary shares 6,281,991 preference shares	30,000 B ordinary shares [] preference shares
Carlsberg UK	9 B ordinary shares 2,717,991 preference shares	30,000 B ordinary shares [] preference shares
Coors Brewers Limited	N/a	30,000 B ordinary shares [] preference shares
Total Paid-Up Share Capital	£9,000,000	£[]

Scotco is a wholly owned subsidiary of Scottish & Newcastle plc. Carlsberg UK is a wholly owned subsidiary of Carlsberg UK Holdings plc, which is in turn a wholly owned subsidiary of Carlsberg A/S. Mordaunt & Foster Limited is owned by Mr Michael Foster and his wife. Hallriver Limited is owned by Mr Nicholas Bryan who is a director of SDEHL and SDEL. Mr Bryan and Mr Foster are the shareholders in Innserve Holdings Limited, the parent company of Innserve Limited, the subcontractor appointed by SDEL. Both of them are directors of and have service contracts with Innserve Limited.

[] The rights attaching to the shares as set out in the Articles of Association of SDEHL and the Shareholders' Agreement entered into between the shareholders of SDEHL are summarised as follows.

Appointment of Directors

The A Ordinary Shareholders have the right to appoint and remove one director (an A Director) of SDEHL, and each of the B Ordinary Shareholders has the right to appoint and remove one director (B Directors) of SDEHL. Each director has one vote, and resolutions are decided by the majority of votes cast. These provisions also apply to the board of SDEL.

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Transfer of Shares

There are detailed provisions in the Articles and the Shareholders' Agreement relating to the transfer of shares.

Dividends

The holders of the preference shares are entitled to a 5% fixed non-cumulative preferential dividend out of profits available (if any) for distribution, payable on 31 December each year.

Voting

Every holder of Ordinary Shares in SDEHL has one vote per Ordinary Share held (except that, where a resolution is proposed to remove an A Director or a B director appointed by it, it will have such additional voting rights attached to its Ordinary Shares as are necessary to defeat such a resolution). If a holder of B Shares becomes the holder of more than 50% of the Ordinary Shares then in issue, then, provided there are other B Shareholders, its voting rights will be limited to 50% (and the excess votes will accrue to the other B Ordinary Shareholders). If, however, there are no other B Shareholders, then this will not apply.

The Preference Shares give their holders no right to attend or vote at any general meeting.

Return of Capital

On a return of capital on liquidation or otherwise, the surplus assets of SDEHL will be returned to the shareholders: first, to the holders of the Preference Shares in an amount equal to the subscription price of each Preference Share held by them; and second, the balance, if any, will be returned to the holders of the Ordinary Shares in proportion to the number of Ordinary Shares held by them.

3. FINANCING

Post-completion, the total amount of paid-up share capital in SDEHL will be £ million. SDEHL will down lend the subscription proceeds to SDEL.

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4. PRINCIPAL ACTIVITIES OF SDEL

The principal activity of SDEHL is to act as a holding company. SDEL's principal activities consist of the provision of TS Equipment and TS . SDEL carries out these activities in Great Britain.

ANNEX 6
SUMMARY OF CONTRACTUAL CHARGING PROVISIONS

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