

**Description of the structure of the transactions between  
Bass, Allied Domecq and Carlsberg: note by Bass**

This note describes the structure of the transactions in respect of which clearance is sought:

**Stage 1-AD acquisition**

1.1 On 25 August 1996 Bass entered into an unconditional contract (the AD Acquisition Agreement) pursuant to which it acquired AD's interests in CT ('the AD Interests') comprising:-

- (a) AD's 50 per cent shareholding in CT (acquired by Bass Brewers 1996 Limited (BB1996));
- (b) the AD beer brands (acquired by BBL ); and
- (c) AD's shareholder loans to CT Brewing Limited (acquired by BB1996).

Bass funded the acquisition entirely with own funds.

1.2 The arrangements between Bass and AD also include the following matters:-

- (a) Bass has licensed back to AD certain of the beer brands acquired for use in its retail estate (by way of pub branding, etc);
- (b) The existing licence of the acquired AD brands to CT continues as AD's rights and obligations have been assigned to BBL;
- (c) The existing Supply Agreements between CT and AD for beer, wines and spirits and other drinks are to continue until their current term expires on 12 December 1997 subject to certain variations contingent on completion of the subsequent Merger (as defined in paragraph 1.3 below) ('Merger Completion'). The Beer Supply Agreement may continue beyond this time if Merger Completion has not yet taken place but subject in particular to the deletion of the exclusive purchasing requirement;
- (d) After the expiry of the existing beer supply arrangements between AD and CT (in December 1997 or on Merger Completion), Ind Coope (Oxford & West) Limited, a subsidiary of AD, will have the option to call for the supply at a discounted price of a volume of beer which represents over half of its requirement of beer for its retail estate for two years (the 'Purchase Option'). This is contingent on Merger Completion. Continuity of supply of the Tetley brand is also guaranteed to AD by BB1996 until 12 December 1999 to the extent that AD requires it, but this obligation ceases on completion of the exercise of the put option described below.
- (e) AD has agreed to continue for a limited period to supply certain computer services to CT pursuant to an existing arrangement subject to certain variations. Certain other reciprocal services arrangements will also continue for a transitional period.

1.3 The total purchase price for the AD Interests was approximately £205 million (inclusive of VAT) of which £30 million is subject to claw-back in circumstances where the BBL and CT merger ('the Merger') does not take place and the put option is exercised by BB1996 (see the

`Fallback Arrangements' outlined below).

- 1.4 Completion of the acquisition of the AD Interests by Bass took place on 25 August 1996. Carlsberg will subscribe one new share in CT at a premium of approximately £20 million if the Merger takes place.
- 1.5 As a consequence of AD's divestment of its interests in CT, and with effect from completion of the AD Acquisition, Carlsberg and CTB were released from their obligations (but retained their rights) under the existing Merger and Shareholders' Agreements dated 9 March 1992 (as varied) between AD and Carlsberg and their respective subsidiaries relating to the merger of their respective brewing businesses and the operation of CT. AD has also sold its rights to the Skol brand outside the UK directly to Carlsberg for a consideration of £4.8 million.

## **Stage 2-Bass/CT merger**

- 2.1 Immediately prior to the execution of the AD Acquisition Agreement, Bass and Carlsberg entered into a Merger Deed. Completion of the Merger Deed is conditional upon, *inter alia*,
  - (a) completion of the AD Acquisition (satisfied on 25 August 1996); and
  - (b) regulatory approval on terms satisfactory to Bass.
- 2.2 The Merger Deed provides for the following interim arrangements pending satisfaction of condition (b).
  - (a) The extent of Bass' rights as acquirer of AD's 50 per cent shareholding in CT in the period pending Merger Completion is regulated (Clause 7). These interim arrangements seek to ensure the continued operation of the CT business in its present form and to maintain the value of both parties' brewing businesses which are to be merged upon Merger Completion.
  - (b) In addition, Bass and Carlsberg have adopted interim Articles of Association for CT reflecting that Bass will have no right to appoint directors to the Board of CT, although it will have a right to receive 50 per cent of CT's profits which arise in the interim period.
- 2.3 Once the conditions are satisfied completion of the Merger will be effected by Bass procuring that Bass Holdings Limited transfers the entire issued share capital of BBL to CT in exchange for the issue by CT to Bass Holdings Limited of shares which will (in addition to those already held by BB1996) entitle Bass to exercise 80 per cent of the voting and economic rights in CT. New articles of association of CT will then be adopted and the parties will enter into a Shareholders' Deed in the form already agreed which will govern their relationship as shareholders in CT.
- 2.4 At the time of Merger Completion Carlsberg will terminate its existing licence agreement with CT and enter into an exclusive licence (in the form already agreed) in respect of the Carlsberg and Tuborg brands to CT for a minimum period of 20 years. It should be noted that the licence of the Carlsberg and Tuborg brands to the merged business will in principle cover the territory of Great Britain, the Channel Islands and the Isle of Man, because of pre-existing arrangements with third parties covering Northern Ireland and the Republic of Ireland. The merged business will, however, have the rights to the brands acquired from AD for the whole of the UK. Bass' existing Northern Ireland operations will also remain.

## **Stage 3-Fallback arrangements**

- 3.1 Bass, Carlsberg and AD have agreed that certain options may come into effect should certain regulatory conditions not be satisfied.
- (a) A proportion of the purchase price for the AD Interests will be subject to claw-back by Bass from AD in circumstances where the Merger does not proceed and Bass exercises the put option described in paragraph (b) below.
  - (b) If the regulatory conditions set out in the Merger Deed have not been satisfied or waived and consequently the Merger does not proceed, Bass will be entitled to put the AD Interests to Carlsberg for an initial option consideration of £110 million pursuant to a Guaranteed Option Deed dated 25 August 1996. If Bass has not exercised this option 16 months after the date of the Merger Deed (25 August 1996), this option will be deemed to be exercised automatically.
- 3.2 If the put option is exercised, both parties will agree to use all reasonable endeavours to put in place such mutually acceptable commercial arrangements in the UK as may be permitted to mitigate the adverse effects of the conditions referred to above not having been satisfied.
- 3.3 Carlsberg A/S has also agreed that during the four years following the exercise (or deemed exercise) of the put option:-
- (a) if it sells the CT business to certain named leading UK brewers, it will pay Bass a maximum of £60 million by way of deferred option consideration; and
  - (b) it will use best endeavours, subject to certain qualifications including that Carlsberg is not required to take any action if it would result in Carlsberg ceasing to have control over CT or if it would not be beneficial or reasonably acceptable to Carlsberg, to assist Bass in mitigating its resulting loss. Such measures would include investigating the possibilities of the listing of any share capital of CT or a disposal to a third party. Bass will be entitled in certain circumstances to call for up to 49.99 per cent of the equity share capital in CT in order to participate in any such listing or disposal and will be compensated out of the proceeds up to a maximum of £60 million.
- 3.4 Carlsberg and AD have also entered into 'fall back' arrangements if the Merger does not proceed and the put option referred to in paragraph 3.1(b) above is exercised or deemed exercised. In those circumstances, a supply agreement will come into effect. In addition, under an Option Deed dated 25 August 1996, Carlsberg may put to AD or AD may call for a shareholding of up to 14.99 per cent in CT, such options to be exercised in the period of 90 days after the former AD interests have transferred from Bass to Carlsberg. If AD becomes a shareholder, CT, Carlsberg and AD will enter into a Shareholders' Deed to govern their relationship as shareholders in CT.

The Option Deed also contains a provision that if, during the four years following the exercise (or deemed exercise) of Bass' put option, Carlsberg sells all or a substantial part of the CT business, the share capital of CT or the former AD brands to certain named leading UK brewers, it will pay AD a maximum of £30 million.