

4 The parties

A. Scottish & Newcastle Breweries plc

4.1. Scottish & Newcastle Breweries plc (S & N) is the largest independent industrial company managed from Scotland. Its main activities are the production and wholesale and retail sale of beer, the sale of wines and spirits and the ownership and operation of hotels. Turnover in the year ended 1 May 1988 was £911 million, of which £810 million was from the wholesaling of beer, the operation of managed and tenanted public houses, maltings, exports and the sale of wines and spirits. Profit before taxation on ordinary activities was £113 million on net assets at 1 May 1988 of £691 million.

History

4.2. S & N was formed by the merger of two brewers, Scottish Brewers Ltd and the Newcastle Breweries Ltd, in 1960. Its principal activities at that time the production and sale of beer have since developed with diversification into the operation of hotels and leisure facilities. The company attributes this development to expansion by active growth and to the acquisitions of Home Brewery PLC in 1986 and of Matthew Brown PLC in 1987. Essentially it comprises an amalgamation of six old-established brewing companies: William Younger and Company Ltd, William McEwan and Company Ltd, The Newcastle Breweries Ltd, Matthew Brown PLC, Home Brewery PLC and T & R Theakston Ltd. The brand names 'Younger's', 'McEwan's', 'Newcastle', 'Home', 'Matthew Brown' and 'Theakston's' derived from these companies are the principal brand names used by S & N today.

4.3. In 1749 William Younger established a brewery in Leith, the port of Edinburgh, and in 1778 one of his sons established his own brewery in the precincts of the Abbey of Holyrood. The Abbey Brewery ceased production in the mid-1950s, with the group headquarters continuing to be located at the site.

4.4. In 1856 William McEwan set up a brewery in the village of Fountainbridge on the outskirts of Edinburgh, where the company's Fountain Brewery is now situated. The firm was incorporated in 1889 as William McEwan and Company Ltd.

4.5. The Newcastle Breweries Ltd traces its origins to the Barras family who were involved in brewing in the early 1700s in Gateshead and Newcastle. In 1884 John Barras & Company acquired the Tyne Brewery in Newcastle upon Tyne, which is now part of S & N's Tyne Brewery site. The Newcastle Breweries Ltd was incorporated in 1890.

4.6. In 1931 William Younger and Company Ltd and William McEwan & Company Ltd merged to form Scottish Brewers Ltd. In 1960 Scottish Brewers Ltd merged with The Newcastle Breweries Ltd to become Scottish & Newcastle Breweries Ltd (the name was changed in 1981 to Scottish & Newcastle Breweries plc).

4.7. Home Brewery PLC, based in the Midlands, had originally been established as a maltster in Nottingham in 1877 and soon became a brewer and was incorporated as Home Brewery Company Ltd in 1890. It remained a family business until the merger, which resulted from an approach by the family to S & N.

4.8. Matthew Brown PLC, based in the North-West of England, bears the name of its founder, who started brewing and selling beer in Preston in 1830. In 1984, Matthew Brown had acquired

T & R Theakston, famous for its traditional Yorkshire beers. Robert Theakston began brewing in Masham, Yorkshire, in 1827. T & R Theakston was formed as a limited company in 1905. The acquisition of Matthew Brown, which was strongly resisted by the company's management, provided S & N with well-known English ale brands.

4.9. In 1961 S & N participated in a consortium formed to introduce Harp Lager to the United Kingdom market. Initially all the locally-brewed Harp Lager was produced at a new brewery built on a Courage site at Alton, Hampshire, but later on breweries were opened in Manchester and Edinburgh on sites provided by S & N. In a restructuring of the then consortium in 1979 S & N acquired the Harp breweries in Manchester and Edinburgh and it continues to brew Harp under licence.

4.10. The two acquisitions of 1986 and 1987 increased S & N's tied estate from 1,350 houses to its present size of 2,272 houses, and brought new breweries into the group: Home Brewery at Nottingham, the Blackburn brewery of Matthew Brown (its Workington brewery was closed following the acquisition) and Theakston's small Masham brewery. Having consolidated its beer and retail base in the northern half of the country, S & N believed it was better placed to pursue the marketing of its brands both nationally and internationally.

Present activities

4.11. S & N's activities are centred around two core areas: brewing and hotels.

Beer production

4.12. The functions of beer production and beer wholesaling and retailing are distinct within the company's operational structure. Production is carried out by Scottish & Newcastle Beer Production Ltd ('the beer production company'), a direct, wholly-owned subsidiary of S & N which also provides support services to the company's brewing and packaging plants as well as to other parts of the group. These services include: quality assurance, research and development, central engineering and building services, personnel and training, finance and accounting, logistics, business systems unit, retail and technical services.

4.13. The company operates six breweries in the United Kingdom:

- Fountain Brewery, Edinburgh
- Tyne Brewery, Newcastle
- Royal Brewery, Manchester
- Home Brewery, Nottingham
- Lion Brewery, Blackburn
- Theakston's Brewery, Masham, Yorkshire

The three core breweries at Edinburgh, Newcastle and Manchester are located to meet the national brand requirements of the company. Together they have an annual capacity of some 4.5 million barrels, and operate at an overall utilisation rate of 88 per cent. Apart from handling the national brands, a proportion of their output meets the regional taste requirements for the areas in which they operate, eg McEwans 70/- and 80/- in Scotland and Newcastle Exhibition for the North-East of England. The three small breweries (Home, Lion and Theakston's) acquired with Home Brewery and Matthew Brown, which together have a capacity of about two-thirds of a million barrels per annum, operate at a somewhat lower level of utilisation (82 per cent). Since their recent acquisition, S & N has invested significant amounts so as to improve the production and packaging efficiencies of these breweries and to bring them in line with the other breweries in the group.

4.14. S & N believes it is the lowest-cost producer of beer and packaged goods in the United Kingdom brewing industry. High-gravity brewing techniques associated with the use of dry goods (instead of sugars or syrups) have enabled it to gain higher levels of output per brewing stream than most other brewers, it believes. S & N told us that the innovative use of high-quality hops together with

isomerisation techniques and other patented procedures have given improved beer flavours and led to significant extract yields. These techniques are being exploited commercially within the company's breweries and on a world-wide basis.

4.15. S & N told us that product quality had been achieved by careful monitoring which had resulted in consistency with its products and a minimal level of customer complaints. Thus, it said, whereas both Matthew Brown and Home Brewery had high persistent levels of complaint and beer returns before acquisition by S & N, these were now reducing to the levels experienced elsewhere in the company as a result of implementing its quality control system.

4.16. Fountain Brewery is the main canning brewery, Tyne Brewery the main bottling plant. S & N indicated that efficiencies have been increased by investing in modern, fast packaging plant and achieving high utilisation rates. Fountain Brewery has, S & N told us, the fastest canning line in Europe, operating at a utilisation rate in 1988 of 100 per cent (ie continuously save for necessary weekly maintenance). The warehousing system, which reduces empty can stockholding to less than two hours, gives rise to revenue savings by limiting inventory, and also to a reduced need for capital expenditure on the provision of warehousing for empty cans. Associated with this system is a production and vehicle scheduling system to co-ordinate beer flow, packaging and material input programmes. The beer production company operates three of the most modern bulk packaging plants in Europe, with Canongate Automation systems for management control and fault diagnostics, ensuring the maintenance of quality. The bottling line at Tyne Brewery is one of the fastest in Europe, operates 24 hours a day on two products and has currently a utilisation rate of 100 per cent.

4.17. Throughout its brewing and packaging operations the beer production company implements high levels of automation, benefiting from the presence within the S & N group of Canongate Technology (see paragraphs 4.37 and 4.38). Capital expenditure within the beer production company for the five years to April 1988 was nearly £70 million gross, of which some 80 per cent was on fixed plant and equipment.

4.18. In the current year, the beer production company's capital expenditure on production and primary distribution is estimated at nearly £20 million, with about half that figure more already committed additionally for the year 1989/90.

Beer distribution

4.19. S & N has developed an integrated distribution system, using a combination of 'own' and contracted resources, trunking packaged product from the company's brewing and packaging locations to:

- (a) regional sales company warehouses prior to retail delivery to the on- and off-trade;
- (b) the warehouses of major off-trade customers; and
- (c) any of five contracted warehouses and distribution centres retained specifically for S & N (Sales) Ltd's use.

4.20. Trunk fleet operations are predominantly centred at Fountain Brewery, Edinburgh, and Tyne Brewery, Newcastle, supported in the supply chain by trunk fleets based at Aberdeen, Caerphilly, Chorley, Garforth and Kendal and by the use of hauliers at Royal Brewery, Manchester. The trunking requirements of Home Brewery, Nottingham, are met by local hauliers, assisted by the Chorley, Edinburgh and Garforth-based vehicles. Lion Brewery, Blackburn, has a minor trunk fleet operation which specifically supplies Workington.

4.21. The regional sales companies manage a total of 24 stockholding retail warehouses and seven non-stockholding depots in the United Kingdom. The retail delivery fleets based at each stockholding depot concentrate on supplying public houses, clubs, hotels and restaurants and off-licences within their specific sales areas, with beers and soft drinks.

Brands

4.22. S & N's brand portfolio includes 55 ales and 11 lagers. The company told us that the extent of its brand portfolio reflected the policy of continuing to produce beers, mainly ales, in line with regional tastes whilst at the same time developing national lager brands and ales particularly suited to the take-home trade. Each of the regional trading companies is responsible for wholesale and retail sale and distribution and the operation of the managed and tenanted public houses in its area, thus giving it, S & N said, a strong regional identity enhanced by the sale of its own regional ales, but with the benefit of the group's national lager and ale products. In national sales S & N told us that it had a record of product innovation, notably through the introduction of products such as Younger's Kestrel Lager, McEwan's Lager, McEwan's LA, Youngers Shilling and Kestrel Super Strength. The principal beer brands are:

<i>Ales</i>	<i>Lagers</i>
McEwan's Export	McEwan's
Newcastle Brown Ale	Kestrel
Younger's Tartan Bitter	Kestrel Super Strength
McEwan's 80/-	Beck's Bier
Younger's Scotch Bitter	Harp
McEwan's Best Scotch	Slalom
Newcastle Exhibition	McEwans LA low-alcohol
Home Mild/Bitter	
Theakston's Best Bitter	
Theakston's Old Peculier	
Matthew Brown Mild/Bitter	

4.23. In ale, S & N told us that it produced three of the five top-selling brands in the take-home market, namely McEwan's Export, Newcastle Brown Ale and Tartan Special, which together represent an almost 25 per cent share of consumers' expenditure in Great Britain on take-home ale. (McEwan's Export is the United Kingdom's biggest-selling canned ale, and Newcastle Brown is the United Kingdom's biggest-selling bottled ale.) In Scotland, Younger's Tartan Special is the top-selling ale brand, with a 30 per cent share of the draught ale market. In cask-conditioned ale, McEwan's 80/- is the top-selling brand in Scotland with a 30 per cent market share. In the North-East of England its leading ale brands are McEwan's Best Scotch and Newcastle Exhibition which together, the company claimed, have a 30 per cent share of the draught ale market.

4.24. In lager, S & N has a portfolio of brands with which it told us it intends to capitalise on this rapidly growing and segmenting market. According to the company Kestrel Lager is the second best-selling canned lager brand in the United Kingdom. McEwan's Lager, a mid-strength brand, is thought to be gaining market share, as are Kestrel Super and Beck's in the super strength and premium sectors of the market. McEwan's LA a low-alcohol lager is aimed at the fastest-growing sector of all, that of no-/low-alcohol products. In addition, S & N sells Harp Lager, which it brews under licence. In Scotland, draught McEwan's is second to Bass' Tennant's Lager. In the North-East of England the company told us that McEwan's and Harp hold a combined 25 per cent share of the draught lager market.

Wholesaling and retailing of beer

4.25. The wholesaling of beer to the on-trade and the retail sale of beer through managed and tenanted public houses are the responsibility of regional companies operating as agents for S & N, while sales to the off-trade are made by Scottish & Newcastle Breweries (Sales) Ltd.

4.26. Table 4.1 analyses, by region and by type of outlet, the total volume of beer sold by S & N in Great Britain showing separately volumes of ale and of lager.

TABLE 4.1 S & N beer sales by region and type of outlet, 1987/1988

	'000 barrels			
	<i>Free on</i>	<i>Tied on</i>	<i>Take-home</i>	<i>Total</i>
Scotland				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>]
Total	684	208	255	1,147
North-East				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>		
Total			]	807
North-West				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>		
Total			]	683
Yorkshire				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>		
Total			]	314
Midlands				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>		
Total			]	454
South-West and Wales				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>		
Total			]	153
London and South-East				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>		
Total			]	522
Total Great Britain				
Ale	[	<i>Figures omitted.</i>		
Lager		<i>See note on page iv.</i>]
Total	2,111	1,004	965	4,080

Source: S & N.

4.27. Table 4.1 shows that sales to S & N's tied estate account for less than 25 per cent of its total beer sales in Great Britain. It sells almost the same volume into the take-home sector where it has some of the leading brands. In the take-home sector, S & N delivers to some 7,500 outlets. The top ten customers in this sector account for around 54 per cent of the volume of beer sold by S & N to the take-home trade.

4.28. The free on-licensed sector accounts for over half of S & N's beer sales. In this sector, as in the free take-home trade, the company told us that it has successfully competed through the quality and range of its regional and national brands, its order and delivery service and the efficiency of its back-up retail technical services, which assist the customer to maintain bar and cellar equipment and to present the product in the best possible condition. The company believes that in this respect it is second to none in the industry, providing a rapid response to requests for service. It also offers publicans a wide range of support services, including stocktaking services, and financial and design advice. It supplies beer to some 16,500 free on-licensed outlets of which some 5,700 outlets have loan-tie agreements with the company.

4.29. S & N's tied estate is small relative to the other major tied estate brewers. The public houses, of which 38 per cent are operated as managed houses and the remainder as tenancies, are principally situated in Scotland, the North-East, the North-West and Cumbria, the East Midlands and Yorkshire. This tied estate is half that of the national brewer operating the next largest number of public houses, namely Courage.

4.30. Prior to the acquisition of Home Brewery and Matthew Brown, S & N had 1,350 tied houses. The acquisition of Home Brewery added 447 tied houses and Matthew Brown a further 527 tied houses, bringing S & N's tied estate, after certain disposals, to 2,272.

4.31. The company told us that it aims to develop a partnership relationship with its tenants, treating them as entrepreneurs running their own businesses, but leasing or renting the company's licensed premises. It encourages the tenant to retain all the earnings derived from the business, including earnings from gaming and amusement machines. It offers its tenants training in business management, promotions, and supplies wines and spirits at competitive free-trade prices. S & N is a shareholder in The Taunton Cider Company Ltd, but around a third of the cider supplied by S & N is Bulmers cider.

4.32. The company's policy towards its managed public houses is to develop them as broad-based retail outlets, emphasising the leisure aspect of their development.

Overseas beer business

4.33. S & N told us that it has a long tradition of exporting its branded and bulk beer particularly Younger's and McEwan's going back to the early 1800s. Until 1985, its beer exports were the responsibility of Waverley International, which also had responsibility for exporting Scotch whisky and spirits. Since 1985, beer exports have been the responsibility of S & N International, which is dedicated to beer alone. S & N International is extending its presence in the export markets with most potential (North America and Western Europe) and has recently established a small sales force in the USA and Canada. In European markets, S & N claims to have been more successful than any other British brewer save Guinness. In 1987, it told us, its exports of ale (some 60,500 barrels or 99,000 hl) accounted for 43.8 per cent of all British exports of ale and stout to Western Europe. S & N also has arrangements with overseas brewers for them to brew McEwan's Scotch Ale under licence. Taking into account production under those arrangements, in 1987/88 the company's total overseas sales of beer amounted to 121,270 barrels or 198,459 hl.

4.34. In the current year the company estimates that 26 per cent of total overseas sales will be through licensed production. Of the remainder 40 per cent will be exported in bulk and packaged abroad and 34 per cent will be packaged and exported from the United Kingdom.

4.35. S & N has several arrangements with overseas brewers for the sale of beer in Great Britain, notably with Beck and Carlsberg. It has an exclusive distribution agreement with Brauerei Beck and is a distributor of Carlsberg beer.

Other activities of S & N

Maltings

4.36. Moray Firth Maltings manufactures distilling malt for the Scotch whisky industry and lager and ale malt for the United Kingdom brewing industry. It exports world-wide and has long-established customers in the Far East, Africa, Europe, South America and the Caribbean. Moray Firth has three subsidiaries involved in general agricultural merchandising but specialising in barley trading. It also has grain-drying and storage facilities. Moray Firth is the prime supplier of malt to S & N but over 80 per cent of its output is sold to other brewers and distillers. The company operates maltings at Inverness, Arbroath, Grantham and Nottingham and a barley-drying and storage complex at Turriff. The company's total malting capacity is 140,000 tonnes.

Technology

4.37. Canongate Technology Ltd and Acumet Ltd form the nucleus of S & N's Technology Division which, S & N told us, in its few years of existence has established an international reputation for innovation. In 1972 S & N opened what it claims to be the first fully micro-processor-controlled brewery in the world and by the late 1970s had assumed responsibility for the further development of its automation systems in-house through the formation of an Automation Department within the engineering function. New processes which have been introduced include the keg-racking control systems introduced in 1979 and the Carbo-check CO₂ analyser developed in 1980, both of which

improved efficiency and quality. The Carbo-check instrument for CO₂ measurement, we were told, is used by every major brewer throughout the world.

4.38. The formation of Canongate Technology as a separate trading company in 1982 was, according to S & N, a natural progression to capitalise upon the growing interest and demand within the beverage industry for the equipment and services developed and offered by the company. Since then, by natural growth and acquisitions, Canongate Technology has, S & N told us, quadrupled in size and turnover, establishing a fast-increasing international business.

Wines and spirits wholesaling

4.39. Through its subsidiary, Waverley Vintners Ltd, based in Perth, Scotland, S & N wholesales wines and spirits throughout Great Britain including the sale of wines and spirits to its own managed and tenanted public houses and hotels. It is planned to integrate the wines and spirits subsidiaries of Home Brewery and Matthew Brown into Waverley Vintners in due course.

Cider

4.40. S & N has a 9.9 per cent shareholding in the equity of The Taunton Cider Company Ltd in which Courage and Bass both have a 41.6 per cent stake. Taunton Cider has approximately 30 per cent of the United Kingdom cider market.

Hotels

4.41. The company first diversified into hotels by the creation of its wholly-owned subsidiary, Thistle Hotels Ltd, in 1965. That business was enlarged in 1980 by the acquisition of the EMI hotels group with six hotels in London and one in Birmingham. The group won the Queen's Award for Export Achievement in 1987 and the Hotel of the Year Award in 1988. Today Thistle operates 34 hotels throughout Great Britain including eight in London, where it has nearly 50 per cent of all of its rooms. Operating profits in Thistle have increased from £2.9 million in 1983 to £19.1 million in 1988, representing a 46 per cent annual compound growth or an overall growth of 559 per cent.

Leisure

4.42. With its recent acquisition of a 50 per cent shareholding in the chalet hotels, holiday villages and holiday centres firm Pontin's Ltd, and an agreement for the acquisition of the remaining 50 per cent between 1991 and 1993, S & N has taken what it described as a major step to the creation of a Leisure Division. S & N's wholly-owned time-share subsidiary, the Langdale Group plc, has been transferred into this new Leisure Division. S & N also has a 50 per cent interest in Courtland's Leisure Ltd which specialises in high-class catering developments in large strategic shopping centre complexes throughout Great Britain.

Other interests

4.43. S & N has also taken an interest in a number of small joint ventures in the drinks/leisure retailing sector with individual entrepreneurs. S & N told us that its intention was to develop jointly new ideas and standards from which larger and more dynamic enterprises may be created.

Employment

4.44. S & N had a total workforce of 25,379, of which 13,903 were full-time employees and 11,476 part-time. Just over 30 per cent of its employees were based in Scotland. In 1988 about 87 per cent of its workforce was employed in the wholesale beer trade, managed public houses, maltings, exporting, or wines and spirits businesses. Most of the rest were employed in the hotel business, and just over 400 in group central functions.

Financial information

4.45. Financial information on S & N is given in Appendix 4.1. S & N's turnover, profit before taxation and earnings per share for the five years ended 1 May 1988 are set out in Table 4.2, together with return on average capital employed.

TABLE 4.2 S & N: turnover, profit before taxation, earnings per share and return on average capital employed

	1984	1985	1986	1987	1988
Turnover (£m)	692.5	707.2	773.6	827.5	911.5
Profit before taxation (£m)	55.2	65.2	75.1	90.3	113.1
Earnings per share (pence)	13.5	15.3	16.8	18.3	20.3
Return on average capital employed (%)	14.1	15.4	15.6	14.5	15.0

Source: S & N and MMC study.

B. ELDERS IXL LTD

4.46. Elders IXL Ltd (Elders) is an Australian company, based in Melbourne. Its shares are listed in Australia, London, Amsterdam, Frankfurt, New Zealand, Switzerland and Tokyo and it has offices in 23 countries, including the United Kingdom. It has what it describes as four 'core' businesses: brewing, agribusiness, finance and resources. There are about 21,000 full-time and over 4,000 part-time employees. Turnover (including agency sales) in the year ended 30 June 1988 was A\$15,350 million.

History

4.47. Elders was formed in 1981, as the result of the merger of Henry Jones (IXL) and Elders. Henry Jones, a food processing company, had itself been taken over in 1972 by a management team led by Mr J D Elliott, the present Chairman and Chief Executive of Elders. Since its formation the company has continued to grow, often by way of acquisition.

4.48. In 1983 it acquired Australia's largest brewer, Carlton & United Breweries Ltd (CUB), thereby doubling the total assets employed in Elders and forming the basis of what is now the Elders Brewing Group. In November 1986 Elders purchased from Hanson Trust PLC the Courage Group (Courage), whose main activities are the production, wholesale and retail sale of beer and the operation of public houses in the United Kingdom. Courage's turnover in the year to June 1988 was £639 million. In April 1987 Elders purchased Carling O'Keefe Breweries of Canada Ltd, and in January 1989 plans were announced to merge this company with Molson Companies Ltd (see paragraph 4.80).

4.49. Other significant developments were the flotation of Elders Investments in October 1987 and the disposal of Courage's public house estate to The Courage Pub Company Ltd (Pubco) in May 1988. Elders formed Pubco, which is a 50:50 joint venture with a property company (Hudson Conway Ltd), in order to separate the ownership and property management of the Courage public house estate from its retailing operation. Elders believed that property assets should be managed independently of the beer business to ensure the achievement of their full potential in terms of capital value, sales and profits. Elders has a 24.3 per cent shareholding in Hudson Conway Ltd (with the right through convertible notes to increase that holding to 31 per cent).

4.50. Courage Ltd carries the name of its founder, John Courage, who came to London from Aberdeen as the agent for a Scottish shipping company. In 1787, he purchased a brewhouse on the banks of the Thames at Southwark the borough that was to be the company's headquarters for the next 200 years.

4.51. At around the same time, other companies that were later to play a major role in the development of Courage were formed—companies such as H & G Simonds of Reading; The Bristol Brewery, Georges and Co; John Smith's Tadcaster Brewery Company; and London-based Barclay Perkins, for many years a rival of the Courage enterprise.

4.52. Courage became a limited company in 1888 and during the first half of this century continued to flourish and expand through the purchase of complementary brewing businesses, principally in the South-East. The Courage of today encompasses some 200 companies which were added during its development.

4.53. Its most active period of growth began in 1955 when Barclay Perkins joined Courage to form Courage and Barclay. In 1960 Reading-based H & G Simonds was acquired, followed ten years later by The Bristol Brewery, Georges and Co, to give the company a well-balanced presence across the South of England and South Wales. In 1970, Courage made its only major acquisition in the North of England—John Smith's of Tadcaster, near York. The following year saw the acquisition of The Plymouth Breweries. In the 1960s, Courage developed a presence in the fast-growing lager market in the United Kingdom with its association with Harp Lager. During this period, the various wines and spirits interests acquired over the years were integrated into a major wines and spirits wholesaling and retailing operation.

4.54. In 1972 Imperial Tobacco, later the Imperial Group plc (Imperial), acquired Courage. A process of rationalisation and modernisation of all aspects of the business took place, the most notable of which was the commissioning of the Berkshire Brewery at Reading and a programme of major works at Tadcaster and Bristol.

4.55. Courage was part of Imperial when in April 1986 that company was acquired by Hanson Trust PLC. In September 1986, Elders reached agreement with Hanson Trust PLC to acquire Courage and completed that acquisition in November 1986. The present ownership structure of Courage Ltd is shown at Appendix 4.2.

Present activities

4.56. Elders told us that its primary company objective is to create wealth for its shareholders by achieving above-average performances from its core business groups. The key measure of performance throughout the company is growth in earnings per share. To achieve this objective its corporate strategy is to:

- build the competitive position and financial and management resources of each operating group as an independent business within a decentralised management structure;
- develop each operating group into a global business, using the Elders network of offices and contacts;
- provide financial resources and strategic direction to enable each group to increase its profitability more rapidly, and with less risk, than it would on its own; and
- achieve growth through strong strategic direction and acquisitions which provide the potential for rationalisation and improvement of return on assets.

4.57. In order to implement this strategy, Elders' approach to management is to delegate decision-making to the operating level on the basis of agreed specific goals. Key performance criteria are carefully and rapidly measured to monitor performance against plan—enabling top management to identify problem areas, and initiate corrective action.

4.58. Following an acquisition, Elders advised, financial management systems are installed which encourage change as managers very quickly reorientate their priorities to those of the company. The company has established specific financial policies and guidelines which have changed little in recent years. Some relevant points include:

- equity—this is recognised as the most costly source of funds. The Elders policy is therefore to exceed the normal debt:equity ratio for short-term bridging purposes rather than to raise new equity;
- gearing—Elders believes that this should ideally be based on a long-term ratio of external debt to equity (including preference shares and convertible notes) of 1:1;

- asset valuation-this should reflect real market value and be based on biennial reviews; and
- capital expenditure-guidelines should ensure the best long-term use of available funds consistent with corporate strategy. New capital invested in manufacturing businesses should earn 20 per cent profit on capital employed before interest and taxes while capital invested in service businesses should earn 30 per cent.

These and other financial policies are reviewed and approved by the Board each year. Elders actively manages its balance sheet within these parameters. The established system of financial reporting and management control is readily adaptable to a rapidly growing business.

Approach to financial management

4.59. Elders has developed financial management techniques which involve a decentralised approach to managing its businesses and which relies on high-quality management information. Cash balances are centralised daily through treasury operations in each of the regions in which the company operates, with Treasury in Melbourne and London having an overseeing role. Elders told us that reporting procedures have been developed specifically to maintain overall control of the corporation while focusing individual managers on their key accountabilities and budgets so that responsibility can be fully decentralised.

Group structure

4.60. As a result of the acquisition of Courage and Carling O'Keefe and other developments within the group, at the beginning of 1987 the Board reviewed the company's structure. Following the review, the operations and businesses of Carlton and United Breweries in Australia, Courage in the United Kingdom and Carling O'Keefe in Canada were combined into one core group Elders Brewing Group. There are three other core groups: Agribusiness, Finance and Resources.

Management structure

4.61. Each operating group is a major business in its own right, headed by its own Chief Executive who is also a member of the Elders Board and who is responsible for developing its business activities, and reporting directly to the Chairman of Elders. This structure has enabled the company to expand rapidly by focusing operating management on established businesses and top management on the overall strategic direction of Elders.

4.62. The managers reporting to the Chairman and Chief Executive form the Chairman's Committee which meets regularly to review operating performance, and to discuss policy issues and the long-term direction of the company.

4.63. Each operating group has its own Board of Directors comprising:

- the Chief Executive of the group;
- executive directors or divisional heads;
- the senior financial officer;
- other senior managers; and
- the Chairman and Chief Executive and the Group Director, Administration and Services, of Elders.

4.64. These Boards meet monthly to review divisional operating performance, approve capital expenditure and develop policies and strategy. At quarterly meetings, selected external directors from the Elders Board join the group Board meetings.

4.65. Although the Agribusiness, Brewing, Finance and Resources Groups are interlinked, the company told us that it prefers to rely on the strong personal network that exists across these businesses and an awareness of group specialities to maximise shared opportunities. To facilitate this approach, where possible, staff, particularly in the smaller overseas offices of the different groups, are all located in the same office in any one location.

Proposed reconstruction

4.66. In September 1987, the Board of Elders proposed a major reconstruction of the company which would have involved the floating of 25 per cent of the capital of three subsidiaries which would have comprised the core businesses:

- Elders Brewing Group;
- Elders Agribusiness Group; and
- Elders Finance Group.

4.67. Following the Stock Market crash in October 1987 it was decided not to proceed with the reconstruction proposal. However, the Board of Elders still believes that in the long term there will be substantial benefits to shareholders in proceeding with a reconstruction proposal that separates the individual businesses as publicly listed companies when they are at a phase of their development that will enable them to continue to grow as independent businesses. Whilst the ability to proceed with the proposal, or any similar proposal, will be dependent on prevailing market conditions, the proposed flotation of the Elders Brewing Group is considered to be the most important element of this reconstruction.

Financial information

4.68. Financial information on Elders and Courage is detailed in Appendix 4.3. The Brewing Group's turnover and operating profit before taxation for the two years ended 30 June 1988 are set out in Table 4.3.

TABLE 4.3 Elders Brewing Group: turnover and operating profit before taxation

	<i>A\$ million</i>	
	<i>1987</i>	<i>1988</i>
Turnover	3,424	4,705
Operating profit before taxation and interest	353	657
Operating profit before taxation and after interest	150	371

Source: Elders.

4.69. The turnover and profit before taxation of Courage for the three accounting periods ended 30 June 1988 are set out in Table 4.4.

TABLE 4.4 Courage: turnover and profit before taxation

	<i>£ million</i>		
	<i>11 months ended 27.9.86</i>	<i>9 months ended 30.6.87</i>	<i>12 months ended 30.6.88</i>
Turnover	558.3	465.4	638.9
Profit before taxation	62.6	77.7	144.1

Source: Elders.

4.70. A note on gearing is at Appendix 4.4.

ELDERS BREWING GROUP

4.71. The Brewing Group markets beer in over 80 countries and employs approximately 16,800 people. It is currently the seventh largest brewer in the world, brewing beer in significant volumes in Australia, the United Kingdom and Canada. Its leading international brand is Foster's Lager but it has many other brands in its various national portfolios. There are three main units:

- Carlton and United Breweries in Australia;
- Carling O'Keefe Breweries in Canada; and
- Courage Ltd in the United Kingdom.

Details of these units are set out at paragraphs 4.72 to 4.105.

Carlton and United Breweries

4.72. Carlton and United Breweries operates breweries in Victoria, New South Wales, Queensland, the Northern Territory and Fiji. It is Australia's largest brewer with 48 per cent of the national market and its leading national brands Foster's Lager, Victoria Bitter, Carlton Draught, Carlton Light, Carlton Special Light and Crown Lager are backed by a series of regional brands. Foster's Lager is Australia's leading beer in both domestic and export markets with a record sales volume in 1988 in a market which remained virtually static.

4.73. The transfer of bulk brewing facilities from Carlton to Abbotsford, involving an investment of more than A\$60 million in new technology, has recently been completed. Elders told us that further substantial expenditure to improve the packaging capacity at Abbotsford to meet the needs of growing export markets is also well advanced.

4.74. In September 1988 Carlton announced that South Australia Brewing Holdings Ltd (SAB) would brew major Carlton brands at its Southwark Brewery in Adelaide under a tolling arrangement.

4.75. A new marketing unit, the Special Beer Company, has been created to market and distribute nationally a range of imported beers from Beck's, Tuborg and Corona as well as the company's prominent restaurant packs of Crown Lager, Foster's Lager and Carlton Light and Australian-produced speciality beers.

4.76. The Carlton and United Wines and Spirits Division, trading as John Cawsey and Company and Elders IXL Wines and Spirits, is one of Australia's largest distributors of wines and spirits.

Carling O'Keefe Breweries

4.77. Carling O'Keefe Breweries of Canada operates breweries in St Johns, Montreal, Toronto, Winnipeg, Saskatchewan, Calgary and Vancouver. Its leading brands are Foster's Lager, O'Keefe Ale, Old Vienna, Carling Black Label, Miller High Life and Miller Lite.

4.78. Elders told us that in the highly-regulated, intensely competitive Canadian beer market, Carling O'Keefe had a successful initial year under Elders' management, with a substantial improvement in operating profit. Improvements in cost control contributed significantly to this performance.

4.79. Foster's Lager is the national focus of the Marketing and Sales Division, supported by regional brands. Foster's Lager in packaged form has been launched in all provinces except Quebec, where it will be introduced in the near future. Elders said that the introduction of Foster's Lager on-tap to British Columbia, Ontario and Alberta has quickly captured more than 10 per cent of the draught beer market in each province.

4.80. In January 1989 Elders and the Molson Companies Ltd announced that agreement had been reached to combine their North American brewing operations in a 50:50 Canadian-based partnership. The combined group will have over 50 per cent of the Canadian beer market.

4.81. Century Importers, the Carling-owned US distribution company, increased its sales by 23 per cent over the previous year and has acquired the distribution rights for Kronenbourg and Courage beers in the USA.

Courage Ltd

Brewing and distribution

4.82. The company operates breweries at Reading, Bristol and Tadcaster, which have a total capacity of 3.6 million barrels per annum. The Berkshire Brewery at Reading is the largest plant (2 million barrels per annum) which produces only brewery-conditioned products, in particular the company's lager range of Foster's, Miller Lite, Hofmeister and Kronenbourg 1664. Bottling and canning also take place there and in early 1989 a low-alcohol plant is due to commence production. The brewery also produces a number of the company's speciality brands such as Bulldog Pale Ale and John Courage. At Tadcaster (capacity 1.2 million barrels per annum), the production is principally of brewery-conditioned products, of which lagers form an important part. Cask-conditioned ales were, however, reintroduced in 1984 and are an increasing percentage of production. John Smith's Bitter, produced at Tadcaster, is the company's largest-selling brand.

4.83. At Bristol (capacity 0.4 million barrels per annum), the production is solely of cask-conditioned beers for sale throughout Southern England, with much more limited distribution into the John Smith's trading area.

4.84. We have been advised that substantial investment has continued under Elders with major works undertaken at Berkshire and Tadcaster, with particular emphasis on production quality, and the opening of a new brewhouse at Bristol during the company's bicentenary year in 1987. When Elders acquired Courage the company was in the middle of a major expansion project at Bristol, which Elders continued to support to completion at a cost of £15 million. In total over £20 million has been invested in production since Elders acquired Courage in late 1986. In addition, under Elders Courage has invested £100 million in modernising and refurbishing existing public houses and buying new ones.

4.85. Primary distribution fleets are based at the three breweries and transport the beer to a network of 19 secondary distribution depots three in the North and 16 in the South for delivery to outlets. In addition, two of the breweries, Tadcaster and Berkshire, operate a secondary distribution fleet.

4.86. In total Courage volume sales have grown by 11 per cent since November 1986 when it was acquired by Elders. Tied sales were up by 5 per cent, free sales by 10 per cent and take-home sales by 32 per cent. These increases have been attributed to the development of a comprehensive brand portfolio in the ales and lagers sectors.

4.87. The company's reputation was originally built on its ale brands and these still account for just over 50 per cent of total sales. John Smith's Bitter, in both brewery and cask-conditioned form, is the company's leading brand and has been successfully developed from its Yorkshire base to be popular in the South of England. It is the company's second best-selling product in the take-home trade. Bristol-brewed Courage Best Bitter is the best-selling cask ale in the South.

4.88. Elders considered that the most significant change has been the improvement in the Courage lager mix, which, since the beginning of 1987, has increased from 41 per cent to 49 per cent. The introduction of Foster's Draught Lager in mid-1987 played a major role in this growth.

Regional coverage

4.89. Courage is predominantly a Southern-based company, with its largest clusters of public houses in and around London, Reading, Bristol and Plymouth, following closely the original estate of the companies that went to make up the group. In the North, the company's strength is in South Yorkshire, and to a lesser extent in the East Midlands. The company told us that its policy had been to seek to improve and develop the quality of the existing estate to compete for consumer acceptance and provide high-quality service standards, rather than to increase the size of the estate itself.

The on-trade

4.90. About 80 per cent of Courage sales are through the on-trade with some 50 per cent through tied outlets and 30 per cent through the free on-trade. At the end of September 1988, the estate comprised 5,020 public houses principally in the South of England. Of these, 4,604 were let by Courage (see paragraph 4.49) to tenant licensees, generally on five-year leases, while the remaining 416 were operated by the company through employee managers. The company currently has some 9,100 free-trade accounts which includes nearly 3,000 national accounts.

4.91. The operation of Courage's on-trade business (excluding its managed houses and national accounts) is organised in three regions:

- (a) East (the South-East), where Courage operates a total of 1,616 public houses based mainly in Greater London and the Home Counties. These are administered from a regional office at Brooklands, Surrey. The region as a whole is responsible for about 27 per cent of the company's total on-trade sales, 36 per cent of the company's total estate (including its managed houses) and 21 per cent of the company's 9,100 free-trade accounts.
- (b) West (Central, South-West England and South Wales), where Courage operates a total of 1,516 public houses that encompass an area north from the Thames Valley to the Midlands and then across to mid-Wales. These are administered from Bristol. The region as a whole is responsible for about 24 per cent of the company's total on-trade sales, 35 per cent of the company's total estate and 24 per cent of its free-trade accounts.
- (c) North, where Courage operates a total of 1,427 public houses in the remainder of the country north of a line through the Midlands. It is administered from Tadcaster. The majority of the public houses are in South Yorkshire. In many of the important areas of the Midlands and the North, the company has minimal or no representation (three public houses in Newcastle, 19 in Liverpool and 12 in Manchester). The company has no public houses in Scotland. The North region is responsible for some 29 per cent of the company's total on-trade sales, and has 22 per cent of its free-trade accounts.

Managed houses

4.92. The Managed House Division contains just over 400 outlets, or 8 per cent of the company's total estate, and also represents 8 per cent of the company's on-trade sales. The division is based in Bracknell and operates managed houses mainly inside the M25, in the Thames Valley and in the Bristol area.

National free-trade accounts

4.93. National accounts service around 3,000 separate outlets controlled by major customers with a widespread distribution base. These customers normally maintain a head office to head office relationship with the company. National accounts represent 12 per cent of the total on-trade sales.

Cider

4.94. Courage had as a matter of history had a substantial involvement with the Taunton consortium. When Guinness left the consortium some years ago, Bass and Courage each increased their shareholding in The Taunton Cider Company Ltd to 41.6 per cent. Elders told us that it did not regard its shareholding in Taunton as a key part of its international strategy.

The off-trade

4.95. The Courage share of the take-home sector is an estimated 11 per cent including own-label products. The vast majority of the business is through major multiple grocers. In total, the Take-Home Division is responsible for 20 per cent of the company's total sales. At the end of November 1988, the leading brand for Courage in the take-home trade was Miller Lite followed by John Smith's Bitter.

Take-home trade

4.96. The Take-Home Trade Division is a national sales unit responsible for all the company's sales to the take-home trade.

Exports

4.97. Elders said that Courage has long been exporting beer, particularly to the diplomatic trade, ships stores and the naval business. The division now sells Courage products in 20 countries. John Smith's Bitter is on sale in Canada and John Courage Amber has recently been launched in the USA and France. The major focus for developing this business fully is now on the premium export version of Foster's Lager with export sales primarily into Southern Europe.

Malting

4.98. The company operates a small maltings at South Milford in Yorkshire which provides about 80 per cent of the malt requirement for the Tadcaster Brewery.

Employment

4.99. As at 30 September 1988, Courage had a total workforce of 9,765. Of these, 1,359 were engaged in trading activities, 2,468 in brewing and distribution, 487 in administration and the remaining 5,451 were employees of managed houses.

Group organisation

4.100. The company's organisation within the Elders Brewing Group is headed by a Managing Director and five executive directors responsible for the main functions of brewing, trading, personnel, finance and administration, and property, who comprise the Courage Policy Committee. In turn, the trading, brewery, property and administration functions each have a Policy Committee which determines more specific operational direction and has responsibility for meeting financial, trading and production targets as appropriate.

4.101. Each of the three trading regions is under the control of a Sales Director who has responsibility, with two exceptions, for all trading activities in the tied and free trade in his area and the achievement of budgeted objectives. The exceptions are the Managed House Division and national accounts which are organised independently of the regional sales structure. In all five cases, those responsible for them report to the Sales Director, Courage Ltd.

4.102. The Take-Home Trade Division is organised to provide national coverage. This follows the practice of other major brewers and reflects the nature of the take-home sector of the beer industry. It is administered by a Sales Director who has similar trading and financial targets.

4.103. All breweries and distribution depots are under the direction of the Managing Director Brewing, with each brewery having its own Production Director responsible for meeting production and financial targets.

4.104. The functions of personnel, strategy, marketing, public relations, finance, administration, property, management services, trade services and export are administered centrally although in some instances there are representatives of these functions located in the regions.

Financial planning and control

4.105. In accordance with the Elders group strategy, management control, within established budget guidelines and the overall corporate strategy, is delegated to Courage. Reporting procedures have been developed specifically to maintain overall control by top management, whilst directing the attention of individual managers to their key accountabilities and budgets.

The ownership of Elders: the major holdings

Harlin Holdings Pty Ltd

4.106. In April 1986 Elders purchased 18.5 per cent of the shares of The Broken Hill Proprietary Ltd (BHP), Australia's largest company, at a cost of A\$1,875 million. In the same month BHP, in a separate transaction, purchased convertible bonds of Elders at a cost of A\$209 million, and entered into an agreement with Elders to subscribe for 1,000 redeemable preference shares in Elders at an issue price of A\$1 million per share. Additionally, Elders agreed to grant BHP 1,000 options to acquire ordinary shares in Elders at A\$4.35 per ordinary share over the next seven years. If any of the options were exercised, Elders was required to redeem a proportionate number of the preference shares.

4.107. In July 1986 BHP converted its Elders bonds into ordinary shares and exercised 140 of the options which it had acquired with its redeemable preference shares. As required, Elders redeemed 140 of the preference shares held by BHP. This gave BHP 18.6 per cent of Elders' undiluted ordinary share capital, or 13 per cent of Elders' ordinary share capital calculated on a fully-diluted basis assuming the exercise of the further 860 options which BHP continued to hold together with its remaining redeemable preference shares. Since, under the terms of its agreement with Elders, BHP was limited to holding 20 per cent of Elders, BHP could not exercise a significant proportion of its remaining options unless Elders increased its issued equity capital, or BHP sold part of its existing shareholding in Elders.

4.108. As a result of the series of four transactions detailed below, the Elders ordinary shares and share options held by BHP were transferred to Elders' present major shareholder, a company called Harlin Holdings Pty Ltd (Harlin), over the following two years.

4.109. The first transaction occurred in September 1986 when agreements were entered into between BHP, Elders and another company (Bell) under which Elders and Bell restricted themselves from acquiring shares in BHP except in limited circumstances. In the same month BHP granted to AFP Investments Corporation Ltd (AFP), now called AFP Group PLC, for A\$1,000 an option to acquire BHP's remaining 860 options to acquire ordinary shares in Elders and BHP's holding of A\$860 million redeemable preference shares. AFP then executed a declaration of trust in respect of that option in favour of Faversham Finance Ltd (Faversham), a company owned 80 per cent by AFP and 20 per cent by Elders' superannuation funds. Faversham undertook that if the options were exercised it would pay BHP a super-dividend so that BHP would effectively receive a dividend yield of 11 per cent on its preference shares in Elders from 14 April 1986 to the date of the exercise of the options. Faversham also paid a A\$40 million fee to Elders in consideration of Elders consenting to the variation of the existing option agreements to accommodate this transaction.

4.110. After a period of 16 months, during which time world stock markets collapsed, the second transaction was announced in January 1988 and comprised the following elements, each of which was conditional upon the other proceeding:

- (a) The ordinary shares that BHP held in Elders, representing 18.6 per cent of Elders' undiluted share capital (13 per cent diluted), were sold by BHP to Harlin.
- (b) BHP acquired from Elders a 50 per cent interest in Beswick, which was the subsidiary through which Elders held its then 18.9 per cent shareholding in BHP. Beswick became a 50:50 joint-venture company owned by BHP and Elders, and Elders received repayment of A\$1,600 million debt owed to it by Beswick. Beswick continued to own 18.9 per cent of BHP.

4.111. As a result of the above, Harlin, in which Elders' directors have a substantial interest, acquired, at a premium over the prevailing market price, 18.6 per cent of the capital of Elders (13 per cent diluted). The majority of the funds which enabled Harlin to acquire this significant holding in Elders were provided by BHP, which applied the proceeds from the sale of the Elders shares to subscribe for A\$735 million of Harlin preference shares redeemable in 1993. The dividend payable on these shares is cumulative, and in 1993 the amount repayable by Harlin to BHP will be the principal plus such amount as will give BHP an overall dividend yield of 8 per cent per annum. The Harlin shareholders

were required to subscribe for equity of A\$200 million in Harlin by the end of 1988, or alternatively commit the same amount as security against a fall in the Elders share price.

4.112. The third transaction occurred in April 1988 when AFP and the trustees of Elders' superannuation funds agreed to sell Favershams, including its option to acquire Elders' shares, to Harlin. As a result of the sale of Favershams, AFP and Elders' superannuation funds became shareholders in Harlin, and AFP advanced A\$110 million to Harlin in the form of debt subordinated to BHP's redeemable preference shares. Interest on this debt accrues and is not payable until the principal repayment date in 1993.

4.113. In June 1988 the fourth transaction in the series was effected when Elders' shareholders approved in general meeting the following:

- (a) Elders redeemed the remaining A\$860 million preference shares held by BHP for A\$940 million, thus paying BHP the equivalent of the redemption price plus a super-dividend to raise BHP's return on the shares to 11 per cent for the period between April 1986 and June 1988.
- (b) The options held by Favershams, which were designed effectively to allow conversion of the preference shares into ordinary shares, were cancelled and new options were issued to Favershams, covering the same number as the previous options, ie approximately 384 million ordinary shares in Elders.

4.114. As a consequence of the four transactions detailed above, Harlin holds both the ordinary shares and the options previously owned by BHP. The ordinary shares currently constitute 18.43 per cent of the issued ordinary share capital of Elders. If Harlin exercises its options it will increase its holding in Elders' ordinary shares to 32.15 per cent but Harlin's holding in Elders cannot increase beyond 20 per cent under Australian take-over law other than by 3 per cent every six months or by making a full bid for Elders which would require substantial new sources of finance.

4.115. Table 4.5 gives details of the present shareholdings in Harlin.

TABLE 4.5 Shareholdings in Harlin

	<i>Number of \$1 units at face value</i>	<i>Ownership if options exercised %</i>
<i>Elders directors and executives</i>		
[<i>Details omitted. See note on page iv</i>]	[<i>Figures omitted See note on page iv</i>]	38.70
<i>Other</i>		
Elders' superannuation funds		37.06
AFP		19.99
Other investors		<u>4.25</u>
Total ordinary shareholding	]	100.00

Source: Harlin.

Note: Interest of Elders or its directors in shareholders of Harlin:

- Elders through subsidiary companies at this date holds 109,238,500 shares in AFP, representing 23.6 per cent of fully-diluted capital.
- Mr P D Scanlon, a non-executive director of Elders, holds 35,260,119 shares in AFP, plus 5,799,553 options, representing 7.7 per cent of fully-diluted capital.
- Mr R F Wiesener, a non-executive director of Elders, holds 11,226,166 shares in AFP, plus 2,816,293 options, representing 2.6 per cent of fully-diluted capital.

4.116. Harlin's unaudited balance sheet as at 25 January 1989 is set out in Table 4.6.

TABLE 4.6 Harlin and its subsidiaries: consolidated balance sheet as at 25 January 1989

A\$ million

[

Details omitted

See note on page iv

]

Source: Harlin.

Petitio

4.117. Elders' second largest shareholder, after Harlin, is Petitio Ltd (Petitio), a joint-venture company owned 50:50 by AFP and Goodman Fielder Wattie Ltd (GFW). Petitio acquired 18.3 per cent of the issued ordinary share capital of Elders (12.9 per cent fully diluted) in November 1987 when it was formed specifically to acquire the Elders equity held by GFW and South Australian Brewing Ltd. The holding presently comprises 17.23 per cent of Elders' issued ordinary share capital (12.81 per cent fully diluted).

4.118. Petitio paid a total of A\$1,041 million for its shareholding in Elders at a time when the market value of that holding was A\$563 million. A\$165.5 million of the consideration was deferred until 1990. AFP and GFW each subscribed for equity capital in Petitio of A\$200 million, requiring Petitio to borrow A\$475.5 million to fund the transaction.

4.119. As noted at the foot of Table 4.5, Elders owns 23.6 per cent of the fully-diluted ordinary share capital of AFP. Elders also owns 11.1 per cent of the issued ordinary share capital of GFW.

Others

4.120. There are seven further major shareholdings in the issued ordinary share capital of Elders, which vary in size between 1.17 per cent and 4.37 per cent and together account for 16.95 per cent of the total issued equity.

Summary of major shareholders

4.121. A summary of the combined holdings of the two major shareholders in Elders and the direct holdings of the directors of Elders is set out below.

TABLE 4.7 Summary of Elders' shareholdings

	<i>% of undiluted capital</i>	<i>% of diluted capital</i>
(a) Harlin shares	18.4	13.2
(b) Harlin/Faversham options	-	18.9
(c) Petitio shares	17.2	12.8
(d) Directors' own holdings	<u>2.5</u>	<u>1.9</u>
Other shareholders	<u>61.9</u>	<u>55.1</u>
	100.0	100.0

Source: Elders.

4.122. The above summary indicates that a significant proportion of Elders' issued and fully-diluted ordinary share capital is held by Harlin, Petitio and the directors of Elders. Harlin's principal shareholders are certain directors and executives of Elders, Elders' superannuation funds, and AFP. AFP owns 50 per cent of Petitio, which company's other 50 per cent shareholder is GFW. Elders owns 23.6 per cent and 11.1 per cent of the ordinary share capital of AFP and GFW respectively. Mr P D Scanlon and R F Wiesener, non-executive directors of Elders, own 7.7 per cent and 2.6 per cent of the fully-diluted share capital of AFP respectively.

4.123. The structure of major shareholdings in Elders and the shareholdings held by Elders in its major shareholders is represented diagrammatically in Appendix 4.5.

4.124. A significant change in major shareholders in Elders could occur in the future if Harlin is unable to fund the redemption of its preference shares which are held by BHP. These preference shares are due for redemption in 1993, at which time either Elders' shares and/or options will have to be sold, or further monies raised; otherwise some or all of Harlin's holding in Elders could revert to BHP, making BHP a major shareholder in Elders once again.