

ALLIED DOMECCQ PLC
Form 20-F
February 28, 2003

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

- o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**
or
- ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended 31 August 2002
or
- o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

ALLIED DOMECCQ PLC

(Exact name of registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

The Pavilions, Bridgwater Road, Bedminster Down, Bristol, BS13 8AR, England

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Ordinary Shares, nominal value £0.25 each ("ordinary shares")
American Depositary Shares, each representing 4 ordinary shares
("ADSs")

New York Stock Exchange*

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

* Not for trading, but only in connection with the registration of the ADSs pursuant to the requirements of the Securities and Exchange Commission.

Edgar Filing: ALLIED DOMEQ PLC - Form 20-F

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

1,106,570,314 ordinary shares

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

TABLE OF CONTENTS

Introduction

Currency and Currency Translation

Industry Data

Trademarks

Presentation of Financial Information

Cautionary Statement Regarding Forward-Looking Information

PART I

Item 1.	<u>Identity of Directors, Senior Management and Advisors</u>
Item 2.	<u>Offer Statistics and Expected Timetable</u>
Item 3.	<u>Key Information</u>
Item 4.	<u>Information on the Company</u>
Item 5.	<u>Operating and Financial Review and Prospects</u>
Item 6.	<u>Directors, Senior Management and Employees</u>
Item 7.	<u>Major Shareholders and Related Party Transactions</u>
Item 8.	<u>Financial Information</u>
Item 9.	<u>The Offer and Listing</u>
Item 10.	<u>Additional Information</u>

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Item 12. Description of Securities other than Equity Securities

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Item 15. Controls and Procedures

Item 16. [Reserved]

PART III

Item 17. Financial Statements

Item 18. Financial Statements

Item 19. Exhibits

i

Introduction

We are incorporated under the name of Allied Domecq PLC as a public limited company under the laws of England and Wales. We operate pursuant to our Memorandum and Articles of Association, the UK Companies Act 1985, other legislation and regulations in England and Wales and, where applicable, local legislation. Our principal executive office is located at The Pavilions, Bridgwater Road, Bedminster Down, Bristol, BS13 8AR, England, and the telephone number at that office is +44 117 978 5000.

The Group's authorised representative in the United States is the General Counsel of Allied Domecq Spirits & Wine North America and its agent for service of process is Allied Domecq North America Corporation, both of 355 Riverside Avenue, Westport, CT 06880 (telephone: 203-221-5400).

In this annual report, except as otherwise indicated or as the context otherwise requires, the "Company", "Group", "Allied Domecq", "we", "us" and "our" refers to Allied Domecq PLC and its subsidiaries.

You should rely only on the information contained in this annual report. We have not authorized anyone to provide you with information that is different. The information in this annual report may only be accurate on the date of this annual report or on or as at any other date provided with respect to specific information.

Currency and Currency Translation

Unless we otherwise indicate in this annual report, references to "Pound Sterling", "Pounds Sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, all references to "US Dollar", "US Dollars", "Dollars", "\$", "cents" or "¢" are to the lawful currency of the United States.

Solely for your convenience, we have translated some Pound Sterling amounts contained in this annual report into US Dollars. The rate used to translate such amounts was £1.00 to \$1.5476, which was the noon-buying rate for cable transfers in Pounds Sterling as certified for customs purposes by the Federal Reserve Bank of New York on 30 August 2002, known as the "noon-buying rate", unless the context otherwise requires or implies. We provide the US Dollar equivalent information in this annual report solely for the convenience of the readers of this annual report, and you should not construe it as implying that the Pound Sterling amounts represent, or could have been or could be converted into, US Dollars at such rates or at any rate. See the section entitled "Item 3 Key Information Exchange Rate Information" for more detailed information regarding the translation of Pounds Sterling into US Dollars.

Industry Data

In this annual report, we refer to information regarding the premium distilled spirits market segments from Impact International, an international drinks magazine that is independent from industry participants. Impact International collects information on the premium distilled spirits market from a variety of sources, including brand owners, import and export enterprises, trade associations and governmental agencies such as the US Commerce Department.

Data provided by Impact International may differ from data we have compiled with respect to our products. We believe that all of the information in this annual report that is based on statements from Impact International is reliable.

Trademarks

This annual report includes names of our products, which constitute trademarks or trade names which we own or which others own and license to us for our use. This annual report also contains other

ii

brand names, trade names, trademarks or service marks of other companies, and these brand names, trade names, trademarks or service marks are the property of those other companies.

Presentation of Financial Information

Unless otherwise noted, the financial data that we present in this annual report has been prepared in accordance with generally accepted accounting principles in the United Kingdom, or UK GAAP. UK GAAP differs in some respects from generally accepted accounting principles in the United States, or US GAAP. For a summary of the main differences between US GAAP and UK GAAP as they relate to us, see Note 33 to our Audited Consolidated Financial Statements.

Cautionary Statement Regarding Forward-Looking Information

Some statements in this annual report represent our expectations for our business and the industries in which we operate, and involve risks and uncertainties. We principally make these forward-looking statements in the sections entitled "Item 4 Information on the Company" and "Item 5 Operating and Financial Review and Prospects". You can identify these statements by the use of words such as "believes", "expects", "may", "will", "should", "intends", "plans", "anticipates", "estimates" or other similar words. We have based these forward-looking statements on our current expectations and projections about future events. We believe that our expectations and assumptions with respect to these forward-looking statements are reasonable. However, because these forward-looking statements include risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements, including the factors discussed in the section entitled "Item 3 Key Information Risk Factors".

We undertake no obligation publicly to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Given these considerations, you should not place undue reliance on such forward-looking statements.

iii

PART I

Item 1. Identity of Directors, Senior Management and Advisors

Directors and Senior Management

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

You should read the following selected historical consolidated financial data in conjunction with the section entitled "Item 5 Operating and Financial Review and Prospects", our Audited Consolidated Financial Statements and the related Notes appearing elsewhere in this annual report.

In September 1999, we restructured our business to focus on our spirits and wine business, which we refer to as our Spirits & Wine business, and our quick service restaurants business, which we refer to as our QSR business, by disposing of our managed and leased pub business and our 50% interest in a liquor store joint venture, which we collectively refer to as our UK Retail business, to Punch Taverns Group Limited. Accordingly, we treat the UK Retail business, which represented 38% of our total turnover during the year ended 31 August 1999, the last full financial year prior to its disposal, as a discontinued business.

Our selected historical consolidated financial data for the three years ended 31 August 2002 have been derived from our Audited Consolidated Financial Statements and the Notes thereto appearing elsewhere in this annual report.

We have implemented Financial Reporting Standard No. 19 Deferred Tax in the year ended 31 August 2002. As a result, our Audited Consolidated Financial Statements as at 31 August 2001, and for the two year period ended 31 August 2001 have been restated.

Our consolidated financial statements have been prepared in accordance with UK GAAP, which differs in certain respects from generally accepted accounting principles in the United States, or US GAAP. See Note 33 to our Audited Consolidated Financial Statements for a summary of the main differences between UK GAAP and US GAAP as they relate to us.

1

UK GAAP Information

Consolidated profit and loss account	Year ended 31 August					
	2002(1)	2002	2001(2) (restated)	2000(2) (restated)	1999(2) (restated)	1998(2) (restated)
	\$	£	£	£	£	£
	(million, except for per share and dividend data)					
Turnover:						
Continuing activities	5,160	3,334	2,879	2,602	2,408	2,398
Discontinued activities(3)				30	1,695	1,910
Total turnover(4)	5,160	3,334	2,879	2,632	4,103	4,308
Trading profit:						
Continuing activities	944	610	543	487	430	419
Discontinued activities				13	241	302
	944	610	543	500	671	721

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

Year ended 31 August

Total trading profit before goodwill amortization and exceptional items						
Finance charges	(201)	(130)	(90)	(83)	(92)	(106)
Profit on ordinary activities before taxation and the following items:	743	480	453	417	579	615
Goodwill amortization	(59)	(38)	(12)	(3)		
Mexican excise rebate(5)	330	213	47			
Exceptional operating costs	(130)	(84)	(9)	(54)	(253)	(87)
Profits/(losses) on sales of businesses and fixed assets			6	59	167	(37)
Debenture/loan stock repayment premia					(272)	(36)
Profit on ordinary activities before taxation	884	571	485	419	221	455
Taxation	(257)	(166)	(128)	(80)	(140)	(187)
Minority interests and preference dividends	(20)	(13)	(13)	(9)	(6)	(21)
Profit earned for ordinary shareholders	607	392	344	330	75	247
Earnings and dividends						
Earnings per ordinary share:						
Basic	57.0¢	36.8p	32.6p	31.2p	7.2p	23.7p
Diluted	56.8¢	36.7p	32.6p	31.2p	7.2p	23.7p
Earnings per ordinary share before goodwill amortization, exceptional items and discontinued activities:						
Basic(6)	50.5¢	32.6p	31.0p	28.6p	22.3p	19.8p
Diluted(6)	50.3¢	32.5p	31.0p	28.6p	22.3p	19.8p
Dividends per ordinary share	20.1¢	13.0p	12.1p	11.0p	15.0p	25.3p
Weighted average ordinary shares used in earnings per share calculations:						
Basic	1,066	1,066	1,054	1,059	1,047	1,042
Diluted	1,069	1,069	1,055	1,059	1,067	1,044

2

As at 31 August

Consolidated balance sheet data	2002(1)	2002	2001(2) (restated)	2000(2) (restated)	1999(2) (restated)	1998(2) (restated)
	\$	£	£	£	£	£
	(million)					
Fixed assets	3,699	2,390	1,547	762	2,908	2,938
Net current assets excluding net borrowings	2,086	1,348	1,019	1,009	932	703
Creditors over one year and provisions	(579)	(374)	(303)	(316)	(306)	(250)
Total assets	5,206	3,364	2,263	1,455	3,534	3,391
Short-term borrowings less cash	(1,241)	(802)	(659)	(446)	(535)	(543)
Loan capital	(2,749)	(1,776)	(1,195)	(806)	(780)	(858)
Net assets	1,216	786	409	203	2,219	1,990

US GAAP Information

Consolidated profit and loss account data	Year ended 31 August			
	2002(1)	2002	2001	2000
	\$	£	£	£
	(million, except for per share data)			
Turnover(7)	4,923	3,181	2,759	2,520
Trading profit	963	622	575	373
Net income:				
Continuing activities(8)	628	406	332	266
Discontinued activities				1,288
Net income(8)	628	406	332	1,554
Basic and diluted net earnings per share:				
Continuing activities(8)	58.8¢	38.0p	31.5p	25.1p
Discontinued activities				121.6p
Total(8)	58.8¢	38.0p	31.5p	146.7p

Consolidated balance sheet data	Year ended 31 August		
	2002(1)	2002	2001
	\$	£	£
	(million)		
Total assets	9,354	6,044	5,260
Shareholders' funds and minorities	2,509	1,621	1,552

Notes:

- (1) Amounts translated for convenience at the noon-buying rate on 30 August 2002 of £1.00=\$1.5476.
- (2) As explained within the Accounting Policies section of our Audited Consolidated Financial Statements, we adopted Financial Reporting Standard No. 19 Deferred Tax in the year ended 31 August 2002 which resulted in the restatement of the financial statements of prior periods. The following table provides a reconciliation between profit earned for ordinary shareholders and earnings per ordinary share as originally reported and after adoption of FRS No. 19.

3

Year ended 31 August (restated)			
2001	2000	1999	1998
£	£	£	£

Edgar Filing: ALLIED DOMEQ PLC - Form 20-F

	Year ended 31 August (restated)			
	(million, except for per share)			
Profit earned for ordinary shareholders as originally reported	344	317	76	274
Adoption of FRS No. 19 Deferred Tax		13	(1)	(27)
Profit earned for ordinary shareholders restated	344	330	75	247
Earnings per ordinary share basic and diluted as originally reported	32.6p	29.9p	7.3p	26.3p
Adoption of FRS No. 19 Deferred Tax		1.3p	(0.1)p	(2.6)p
Earnings per ordinary share basic and diluted restated	32.6p	31.2p	7.2p	23.7p

- (3) Discontinued activities relate primarily to the disposal of our UK Retail business to Punch Taverns Group Limited and the disposal of Cantrell & Cochrane in 1999.
- (4) In the years ended 31 August 2000 and 1999, turnover respectively included £12 million and £624 million of our share of turnover from third-party ventures
- (5) In September 2000, the Mexican Supreme Court ruled that the excise duty regime imposed on large spirits companies in Mexico was inequitable and awarded damages to several of the plaintiffs, including us. The Mexican Supreme Court has awarded compensation which, by agreement with the Mexican tax authorities in October 2001, is principally received by offset against current and future duties and taxes. During the year ended 31 August 2002, £213 million was received (2001: £47 million) and was subject to applicable corporation tax at 35%. Due to the significant increase in its size, the rebate has been treated as exceptional operating income. As a result, for comparative purposes, the rebate of £47 million received during the year ended 31 August 2001 has been reclassified as an exceptional item. For a further description of the Mexican excise rebate, see "Item 5 Operating and Financial Review and Prospects Factors Affecting Results of Operations Mexican Excise Rebate".
- (6) Basic earnings per share of 32.6p in the year ended 31 August 2002 (2001: 31.0p, 2000: 28.6p) has been calculated on earnings before goodwill amortization, exceptional items and discontinued activities of £347 million (2001: £327 million, 2000: £303 million) divided by the average number of shares of 1,066 million (2001: 1,054 million, 2000: 1,059 million). Diluted earnings per share of 32.5p in the year ended 31 August 2002 (2001: 31.0p, 2000: 28.6p) has been calculated on earnings before goodwill amortization, exceptional items and discontinued activities of £347 million (2001: £327 million, 2000: £303 million) divided by the average number of shares and potentially dilutive ordinary shares of 1,069 million (2001: 1,055 million, 2000: 1,059 million).
- (7) As explained in Note 33 to our Audited Consolidated Financial Statements, we adopted EITF 01-09 Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products on 1 September 2001. Following the adoption of EITF 01-09, we have reclassified certain marketing expenditure as a reduction in turnover for the three years ended 31 August 2002. Compliance with this pronouncement resulted in turnover and operating costs for the year ended 31 August 2002 decreasing by £143 million (2001: £120 million, 2000: £100 million). In addition, for the year ended 31 August 2002, our US GAAP turnover includes a £9 million adjustment for franchise income relating to our QSR business.
- (8) As explained in Note 33 to our Audited Consolidated Financial Statements, we adopted Statement of Financial Accounting Standards ("SFAS") No. 142 on 1 September 2001. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized, but instead tested for impairment at least annually. If such amortization were excluded from results for prior periods, net income (and earnings per share) would be increased by £61 million (5.9p) for the year ended 31 August 2001 (2000: £56 million (5.3p)).

Dividends

Our Board of Directors normally declares an interim dividend in respect of each fiscal year in April for payment in July. The final dividend in respect of each fiscal year is normally recommended by our Board of Directors in October and paid in February following approval by our shareholders.

The following table sets out the dividends paid on our ordinary shares and American Depositary Shares, or ADSs, in respect of each of the five years ended 31 August 2002. In July 2002, we entered into an amended and restated deposit agreement, which we refer to as the Deposit Agreement, among ourselves, JPMorgan Chase Bank, as depositary of our ADSs, and the holders from time to time of our American Depositary Receipts, or ADRs. The amended and restated Deposit Agreement, among other things, amended the terms of our ADSs so that each ADS

represents a beneficial interest in four

4

ordinary shares. Payments of dividends per ADS shown in the table below represent payments on the four ordinary shares underlying that ADS.

In September 1999, we restructured our business and disposed of our UK Retail business. In connection with the disposal, we returned the value of our UK Retail business, approximately £2.6 billion, to our shareholders. Accordingly, our Board of Directors did not declare a final dividend with respect to the year ended 31 August 1999. Since that time, interim and final dividends have reflected our restructured business.

	Year ended 31 August				
	2002	2001	2000	1999	1998
per ordinary share					
Interim	4.90p	4.50p	4.00p	15.00p	9.73p
Final	8.10p	7.60p	7.00p		15.60p
Total	13.00p	12.10p	11.00p	15.00p	25.33p
per ADS(1)					
Interim	30.88¢	21.60¢	19.16¢	89.36¢	58.20¢
Final	52.63¢	38.40¢	36.52¢		93.20¢
Total	83.51¢	60.00¢	55.68¢	89.36¢	151.40¢

Note:

- (1) Each ADS represents a beneficial interest in four ordinary shares.

Our dividends are payable in Pounds Sterling. Dividends paid by the depositary in respect of ADSs are paid in US Dollars based on market rates of exchange that may differ from the noon-buying rate on the payment day.

Our Board of Directors has concluded that the appropriate level of dividend cover, earnings per share divided by dividend per share, should be approximately 2.5 and that our dividends should grow in line with growth in underlying earnings. This supports our strategic objective to optimize the efficiency of our capital structure while maintaining prudent financial ratios. We believe that this policy will enable us to retain sufficient cash flow to finance both investment in brands and future capital expenditure. We measure the returns on such expenditure against the benefits of returning capital to shareholders. Nevertheless, our future dividends depend upon our earnings, financial condition and other factors, and as a result, we cannot assure you that the interim and final dividends that we paid in the past are indicative of future interim or final dividends.

A revised income tax convention between the United States and the United Kingdom is currently being ratified. This may affect the US Federal income tax consequences of owning our ordinary shares or ADSs, including the taxation of dividend payments. For a more detailed discussion of those and other tax consequences of owning our ordinary shares or ADSs, see the section entitled "Item 10 Additional Information Taxation".

Exchange Rate Information

The following tables set out the low, high, average and period-end exchange rates for the years indicated and the low and high exchange rates for the past six months. These rates, expressed in US Dollars per Pound Sterling, are based on the noon-buying rates for cable transfers in Pounds Sterling as certificated for customs purposes by the Federal Reserve Bank of New York. The average rates reflect the average of the noon-buying rates on the last business day of each month during the relevant year. We have provided these rates for your convenience. They are

not the rates we have used

5

in this annual report for currency translations or, where applicable, in the preparation of the financial statements included in this annual report.

**Annual exchange rates of US Dollars per £1.00
for the year ended 31 August**

	2002	2001	2000	1999	1998
Low	1.4095	1.3730	1.4514	1.5515	1.5827
High	1.5800	1.5045	1.6765	1.7222	1.7035
Average	1.4624	1.4418	1.5667	1.6303	1.6550
Period-End	1.5476	1.4510	1.4515	1.6086	1.6760

	February 2003(1)	January 2003	December 2002	November 2002	October 2002	September 2002	August 2002
Low	1.5860	1.5975	1.5555	1.5440	1.5418	1.5343	1.5192
High	1.6480	1.6482	1.6095	1.5915	1.5708	1.5700	1.5709

Note:

(1) Through 24 February 2003.

On 24 February 2003, the noon-buying rate was £1.00=\$1.5860.

Exchange Controls and Other Limitations Affecting Security Holders

There are currently no UK foreign exchange control restrictions on our operations or affecting the remittance of dividends. Any dividends we pay to holders of our ADSs may be subject to UK or other taxation. You should read the information in the section entitled "Item 10 Additional Information Taxation" for a more detailed discussion of the tax consequences of investing in our ADSs. There are no restrictions under our Memorandum and Articles of Association or under the laws of England and Wales that limit the right of non-resident or foreign holders to hold or exercise voting rights in connection with our ordinary shares.

Risk Factors

Investors, holders and prospective purchasers of our ADSs and ordinary shares should, in addition to paying due regard to the Cautionary Statement Regarding Forward-Looking Information noted above, also carefully consider all of the information set out in this annual report. In particular, you should consider the special features applicable to an investment in us, including those set out below.

Contamination or other circumstances could harm the brand integrity or customer support for our brands and adversely affect the sales of those products.

The success of our brands depends upon the positive image that consumers have of those brands, and contamination, whether arising accidentally or as a consequence of deliberate third-party action, or other events that harm the brand integrity or consumer support for those brands, could adversely affect their sales. We purchase most of the raw materials for the production of our spirits and wine from third-party producers or on the open market. Contaminants in those raw materials or defects in the distillation or fermentation process could lead to low beverage quality as well as illness among, or injury to, our consumers and may result in reduced sales of the affected brand or all of our brands. Also, to the extent that third parties sell products which are either counterfeit versions of our brands or brands that look like our brands, consumers of our brands could confuse our products with products that they consider inferior. This could cause them to refrain from purchasing our brands in the future and in turn could impair brand equity and adversely affect our sales and operations.

In addition, we have entered into agreements with third parties to produce ready-to-drink and other products that carry our brands and trademarks. If these third parties contaminate or cause a decrease

in the quality of these products, they could tarnish the overall reputation of the relevant brands and this could result in reduced sales of the affected brand or brands.

Sales from our portfolio of premium branded spirits and wine may be disproportionately affected relative to non-premium branded drinks products by an economic downturn, recession, acts or threats of terrorism, acts or the threat of war or other adverse political developments in our key markets.

We believe that during times of economic uncertainty or hardship consumers may choose to purchase lower value consumer goods as opposed to higher value consumer goods, which include our premium branded spirits and wine. Reduced sales by our Spirits & Wine business as a result of an economic downturn or recession in certain key markets, particularly the United States, Mexico, South Korea, Spain and the United Kingdom, may have an adverse effect on the results of operations of our Spirits & Wine business. Because turnover of our Spirits & Wine business represented 91% of our total turnover during the year ended 31 August 2002, a reduction in sales of our premium branded spirits and wine in those key markets could have an adverse effect on our results of operations and business prospects as a whole. In the same way, acts of terrorism or the outbreak of war, consumer concern over threats of terrorism or the threat of war or other adverse political developments may have a depressing effect on consumers' propensity to purchase higher value goods in our key markets. In particular, we believe that terrorist acts, threats of further terrorist acts or the outbreak of war, may reduce consumers' inclination to travel, thereby adversely affecting sales of our spirits and wine in the duty free market. In addition, we also believe that other adverse political developments affecting some of our key markets could lead to an economic down turn or recession in those markets.

Regulatory decisions and changes in the legal and regulatory environment in the countries in which we operate could limit our business activities or increase our operating costs.

As a leading international branded drinks and retailing group, our business is subject to extensive regulatory requirements regarding production, distribution, marketing, advertising and labeling in the countries in which we operate. In addition, our products are subject to differing import and excise duties in the countries in which we operate. Regulatory decisions or changes in the legal and regulatory requirements in these areas may have the following effect on our business:

Product recall: Governmental bodies in the countries in which we operate may have enforcement powers that can subject us to actions such as product recall, seizure of products and other sanctions, each of which could have an adverse effect on our sales or damage our business.

Advertising and promotion: Governmental bodies in the countries in which we operate may impose limitations on advertising activities used to market alcoholic beverages such as prohibition or limitations on the television advertising of spirits. These limitations may inhibit or restrict our ability to maintain or increase the strong consumer support for and recognition of our brands in key markets and may adversely affect our results of operations.

Labeling: Governmental bodies in the countries in which we operate may impose additional labeling and production requirements. Changes to labeling requirements for alcoholic beverages, including our portfolio of premium branded spirits and wine, may detract from their appeal to consumers and as a result, lead to a reduction in sales of those beverages. In addition, this may result in increased costs.

Import and excise duties: Our products are subject to import and excise duties. An increase in import or excise duties may reduce overall consumption of our premium branded spirits and wine or cause consumers to prefer lower-taxed spirits and wine to ours.

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

We depend upon our trademarks and proprietary rights, and any failure to protect our intellectual property rights or any claims that we are infringing upon the rights of others may adversely affect our competitive position.

Our success depends, in large part, on our ability to protect our current and future brands and products and to defend our intellectual property rights. We have been issued numerous trademarks covering our brands and products and have filed, and expect to continue to file, trademark applications seeking to protect newly-developed brands and products. We cannot be sure that trademarks will be issued with respect to any of our pending trademark applications or that our competitors will not challenge, invalidate or circumvent any existing or future trademarks issued to, or licensed by, us.

If we do not successfully anticipate changes in consumer preferences and tastes, sales of our products could be adversely affected.

Our portfolio includes a range of premium branded spirits and wine and food products. Maintaining our competitive position depends on our continued ability to offer products that have a strong appeal to consumers. Consumer preferences may shift due to a variety of factors, including changes in demographic and social trends or changes in travel, vacation or leisure activity patterns. Any significant shift in consumer preferences coupled with our failure to anticipate and react to such changes could reduce the demand for certain products in our portfolio resulting in reduced sales or harm to the image of our brands.

A substantial decrease in our ability to supply our consumers with our products could adversely affect the results of our operations.

An interruption or substantial decrease in our ability to supply customers of our brands could damage our sales and image as well as our relationships with customers and consumers. Problems which might constrain supply or lead to increased costs include:

Climate, agriculture and nature: A number of our products such as champagne, cognac, wine, some whiskies and tequila depend on agricultural produce from demarcated regions. If any of these regions were to experience weather variations, natural disasters, pestilence or other occurrences, we might not be able to obtain readily a sufficient supply of these commodities and there could be a decrease in our production of the product from that region or an increase in its cost.

Loss of inventory: We have a substantial inventory of aged product categories, principally Scotch whisky, Canadian whisky, cognac, brandy and fortified wine, which mature over periods of up to 30 years. As at 31 August 2002, our maturing inventory amounted to £953 million. While our maturing inventory is stored at numerous locations throughout the world, the loss through fire or other natural disaster of all or a portion of our stock of any one of those aged product categories may not be replaceable and, consequently, may lead to a substantial decrease in supply of those products.

We have entered into arrangements with third parties in various key markets, and the termination of our relationship with those third parties for any reason may adversely affect our results of operations in those key markets and our results of operations and business prospects as a whole.

We have relationships with third parties throughout our business. The breakdown of some of these relationships could immediately limit our access to customers and, as a result, damage short- and long-term performance. These relationships include:

Distribution and manufacturing partnerships: We have agreements with third parties to distribute and in some cases manufacture our products in various key markets, including Jinro Limited, in

South Korea, and Suntory Limited, in Japan. A change in these relationships could seriously interrupt our business in those countries in both the long- and short-term.

Brand distribution rights: We distribute some third-party brands through our global spirits and wine distribution network. In particular, we have acquired the trademark rights to the Stolichnaya® brand of vodka in the United States. We have an exclusive distribution agreement with Spirits International NV and S.P.I. Spirits (Cyprus) Limited, which together we refer to as SPI Spirits, to distribute Stolichnaya vodka in the United States and the right of first refusal over the distribution of the Stolichnaya brand as it becomes available in countries outside the United States. We understand SPI Spirits and the Russian government are currently involved in a dispute over the trademark rights to Stolichnaya. While we are not a party to the dispute, there is a risk that the Russian government may take action that prevents our supplier entirely fulfilling its

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

obligations to us. Any sustained interruption in the supply may adversely affect our business.

Franchisees: We entrust the management of each quick service restaurant to franchisees. Differing levels of quality or service at each quick service restaurant or improper management by any of these franchisees could compromise the consumer image of our quick service restaurant brands and adversely affect our business performance.

International retail customers: Multiple retail chains are an important channel for our Spirits & Wine business. The increasing consolidation of the supermarket industry worldwide is resulting in the creation of a small number of powerful international retailers. The concentration of our business in fewer, larger, customers could present a significant risk to us if mutually beneficial relationships are not sustained.

Failure to successfully integrate and manage acquired businesses and brands could adversely impact current and future business performance and potentially impact our ability to meet our increased debt obligations.

We have acquired a number of businesses and brands in the last three years and have incurred an amount of additional debt to finance them. As at 31 August 2002, our net debt was £2,578 million, an increase of £724 million from 31 August 2001. The ability of these acquired businesses to make a positive contribution to our business depends on our ability to integrate them successfully into our existing operations and optimize the benefit that comes from the synergies arising throughout our various businesses. If we do not achieve successful integration of our new businesses, we may not achieve the financial and operational benefits we currently anticipate and as a result, may not be able adequately to service our increased debt obligations. In addition, the successful integration of newly acquired businesses may require greater amounts of management time and resources than we anticipate and thereby have an adverse effect on the conduct of our business, financial condition and results of operations.

Litigation and publicity concerning product quality, health and other issues may cause consumers to avoid our products and may result in liabilities.

Litigation and complaints from consumers or government authorities resulting from beverage and food quality, illness, injury and other health concerns or other issues stemming from one product or a limited number of products, including ready-to-drink and other products produced by licensees or franchisees may affect our industry. More specifically, we may be the subject of class action or other litigation relating to these allegations. Any litigation or adverse publicity surrounding any of these allegations may negatively affect us and our licensees, regardless of whether the allegations are true, by discouraging consumers from buying our products. In addition, litigation could result in a judgment for significant damages against us. We could also incur significant litigation costs and the diversion of management time as a result of a lawsuit or claim regardless of the result.

9

Our operations are conducted in many countries and, as a result, fluctuations between the Pound Sterling and other major currencies may affect our financial results.

We conduct our operations in many countries, and accordingly, a substantial portion of our sales and production costs are denominated in currencies other than Pounds Sterling. As a result, fluctuations between the Pound Sterling and other major currencies, including the US Dollar and the Euro, may affect our financial results. In particular, we believe that, due to the fact that North America accounts for a substantial proportion of our total sales volumes, a substantial decline in the rate of exchange between the US Dollar and Pound Sterling has had and may continue to have a material adverse effect on our financial results. We cannot assure you that further volatility in the rate of exchange between Pounds Sterling and other currencies will not have or continue to have a material adverse effect on our financial results.

The cost of providing pension and post-retirement healthcare benefits to eligible former employees is subject to changes in pension fund values and changing demographics, and may have a material adverse effect on our financial results.

We operate a number of pension and post-retirement healthcare plans throughout the world which provide defined benefits. While the majority of these plans are closed to new employees, the cost of providing these benefits to eligible former employees is subject to changes in pension fund values and changing demographics, including longer life expectancy of beneficiaries. We believe that sustained declines in equity markets and reductions in bond yields have and may continue to have a material adverse effect on the value of our pension funds. In addition, any shift to a sustained lower level of UK price inflation would increase pension liabilities as the relevant fund rules require that a minimum annual increase be applied to UK pensions. In these circumstances we may be required to recognize a charge to our profit and loss account to the extent that the

pension fund values are less than the total anticipated liability under the plans. We cannot assure you that such charges will not have an adverse effect on our financial results.

Item 4. Information on the Company

Overview

We are a leading international branded drinks and retailing group. Our business comprises one of the world's largest international spirits and wine groups, which we refer to as our Spirits & Wine business, and a leading international quick service restaurants group, which we refer to as our QSR business. During the year ended 31 August 2002, our turnover was £3,334 million and trading profit was £610 million.

Our Spirits & Wine business manufactures, markets and sells a portfolio of premium branded spirits, which Impact International estimates included 14 of the top 100 premium distilled spirit brands by volume in 2001, and a growing portfolio of premium branded wines. Our Spirits & Wine business operates through a global distribution network in over 50 countries and generates approximately 33% of its trading profit in North America and 31% in Europe. During the year ended 31 August 2002, turnover of our Spirits & Wine business was £3,018 million and trading profit was £516 million. Turnover and trading profit of our Spirits & Wine business represented approximately 91% and 85% of our total turnover and trading profit in that year respectively.

Our QSR business operates an international franchise business, which comprises over 10,000 outlets. Our QSR business is comprised of Dunkin' Donuts®, one of the world's leading coffee and baked goods chains; Baskin-Robbins®, one of the world's leading ice cream franchises; and Togo's®, a sandwich chain operating principally on the West coast of the United States. During the year ended 31 August 2002, turnover of our QSR business was £316 million and trading profit was £78 million. Turnover and trading profit of our QSR business represented approximately 9% and 13% of our total turnover and trading profit in that year respectively.

We also hold a 25%, less one share, interest in Britannia Soft Drinks Limited, a UK company engaged in the manufacture and sale of soft drinks.

The following table sets out for each of the three years ended 31 August 2002 our turnover and trading profit by business segment and as a percentage of total turnover and trading profit for each business segment.

	Year ended 31 August					
	2002		2001		2000	
	£	%	£	%	£	%
	(million, except percentages)					
Turnover(1)						
Spirits & Wine	3,018	91	2,571	89	2,297	88
QSR	316	9	308	11	305	12
Total	3,334	100	2,879	100	2,602	100
Trading Profit(2)						
Spirits & Wine	516	85	458	85	414	85
QSR	78	13	72	13	64	13
Britannia	16	2	13	2	9	2
Total	610	100	543	100	487	100

Notes:

(1)

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

Turnover for our Spirits & Wine business includes excise duty paid on our spirits and wine products and for our QSR business primarily comprises franchise income. Turnover for both our Spirits & Wine and QSR businesses excludes discontinued activities.

(2)

Trading profit is stated before exceptional items, goodwill amortization and finance charges and excludes discontinued activities. The Mexican excise rebate has been treated as an exceptional item in the year ended 31 August 2002. For comparative purposes the £47 million benefit in the year ended 31 August 2001 has been reclassified as an exceptional item.

11

The following table sets out for each of the three years ended 31 August 2002 our turnover by geographic market and as a percentage of total turnover.

	Year ended 31 August					
	2002		2001		2000	
	£	%	£	%	£	%
(million, except percentages)						
Geographical analysis						
Turnover						
Europe	1,213	36	982	34	968	37
Americas	1,599	48	1,542	54	1,392	54
Rest of World	522	16	355	12	242	9
	3,334	100	2,879	100	2,602	100

History and Development

The Company was established in 1961 by the merger of three UK brewing and pub retailing companies. Since then, we have grown to become a leading international branded drinks and retailing company with operations in the spirits and wine industry, the quick service restaurants industry and, until recently, the retail pub industry.

Spirits & Wine Business

The key events in the growth of our Spirits & Wine business were:

In 1966, we acquired Harveys of Bristol, a UK based producer of spirits and wine and the owner of Harveys® sherry and Cockburn's® port;

In 1986, we acquired the Canadian distillers Hiram Walker, Gooderham & Worts, owners of a large premium branded spirits portfolio including Ballantine's® whisky, Canadian Club® whisky, Courvoisier® cognac and Kahlúa® coffee liqueur;

In 1988, we entered into a spirits distribution arrangement with Suntory Limited, a leading spirits distributor in Japan;

In 1990, we acquired James Burrough Limited, distillers of Beefeater® gin;

In 1994, we acquired Pedro Domecq S.A., a leading spirits producer and marketer in Spain and Mexico;

In 2000, we established a spirits production and distribution venture with Jinro Limited in South Korea;

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

In 2000, we entered into a Trademark, Supply and Distribution Agreement with SPI granting us exclusive distribution and trademark rights in respect of its various vodka brands, including Stolichnaya in the United States;

In 2001, we acquired Kuemmerling GmbH, a German spirits producer; and

In 2002, we acquired the Malibu® brand, a coconut-flavored rum-based spirit.

We have recently increased the scope of our premium wine portfolio through a series of acquisitions, namely:

In 2001, we acquired G. H. Mumm & Cie and Champagne Perrier Jouët, champagne producers;

In 2001, we acquired Montana Group (NZ) Limited, New Zealand's largest winemaker;

12

In 2001, we acquired Buena Vista Winery, Inc., a Californian wine producer;

In 2001, we acquired Bodegas y Viñedos Graffigna Limitada S.R.L. and Viñedos y Bodegas Sainte Sylvie S.R.L., two Argentine wine producers;

In 2001, we acquired Bodegas y Bebidas S.A., the leading Spanish wine producer; and

In 2002, we acquired Mumm Cuvée Napa, a Californian sparkling wine.

QSR Business

We entered the quick service restaurants business in 1978 with our acquisition of J. Lyons & Company Limited, owner of Baskin-Robbins. In 1989, we acquired Dunkin' Donuts, and in 1997 we acquired Togo's.

Discontinued Activities

In 1999, we decided to focus our activities on our Spirits & Wine and our QSR businesses. Accordingly, in January 1999, we disposed of Cantrell & Cochrane, which was primarily a cider and soft drinks company based in Ireland. In September 1999, we disposed of our UK Retail business, which consisted of our managed and leased pub business and our 50% interest in a liquor store joint venture with Whitbread PLC, to Punch Taverns Group Limited.

Business Description and Strategy

Spirits & Wine Description

We are one of the largest international spirits producers, and we have a global distribution network dedicated to distributing our brands and brands owned by third parties. Our Spirits & Wine business oversees and operates these production and distribution operations. Turnover of our Spirits & Wine business for the year ended 31 August 2002 was £3,018 million and trading profit, excluding goodwill amortization and exceptional items was £516 million.

Our spirits portfolio consists principally of "premium" brands, those that generally retail at a global price greater than \$10 per 750 ml bottle and have a US retail price of greater than \$12 per 750 ml bottle. We divide our spirits and wine portfolio into:

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

core brands, brands which have strong customer appeal, typically in more than one market, and high margins;

local market leaders, brands which occupy a strong position in a particular market;

other spirits brands; and

wine brands.

Our core brands, Ballantine's Scotch whisky, Kahlúa liqueur, Malibu coconut-flavored rum-based spirit, Beefeater gin, Canadian Club whisky, Sauza® tequila, Courvoisier cognac, Tia Maria® liqueur and Maker's Mark® bourbon, collectively accounted for sales of approximately 17.9 million nine liter equivalent cases, or 28% of our spirits and wine portfolio by volume, in the year ended 31 August 2002. We acquired the Malibu brand in May of 2002, and as a result, the sales volume for our core brands in the year ended 31 August 2002 does not include a complete year of sales for Malibu. Our local market leaders, which include Presidente® brandy, Don Pedro® brandy and Imperial® whisky, accounted for approximately 12.4 million cases, or 20% of our spirits and wine portfolio by volume, in the year ended 31 August 2002. Other spirits brands accounted for sales of approximately 13.2 million cases, or 21% of our spirits and wine portfolio by volume, during the same period.

13

Our wine portfolio consists primarily of premium branded wines that generally retail at a global price of greater than \$7 per bottle, including table wine, sparkling wine and champagne. During the year ended 31 August 2002, our Spirits & Wine business sold approximately 12.9 million cases of premium branded wines, or 20% of our spirits and wine portfolio by volume. Approximately 14.2 million cases were produced by our wineries. Other wine brands accounted for sales of approximately 7.0 million cases, or 11% of our spirits and wine portfolio by volume.

Spirits & Wine Strategy

The objective of our Spirits & Wine business is to create shareholder value through the profitable growth of the business. We believe that we are building a strong platform for sustainable future growth using a combination of focused investment in our core business to drive organic growth, being trading before acquisitions, and through acquisitions.

Driving organic growth

Focus on key brand/market combinations. We will continue to invest in dynamic, consumer-led marketing behind our core brands in key markets to drive sustained long-term growth. In the year ended 31 August 2002, our Spirits & Wine business invested £443 million in advertising and promotion, of which approximately 55% was in connection with our core brands. Key markets are those where scale, market and competitor dynamics offer clear growth opportunities, such as the United States, Spain and South Korea. We also intend to intensify the focus on our local market leaders in their respective markets.

In our drive to become a truly marketing-led company, we have changed our approach to understanding the consumer. We have committed £6 million across ten countries to develop a new modal approach to consumer segmentation, which is enabling us to better predict consumers' choice of drink and brand. This work has given us the marketing tools to determine strategies for eleven brands and country strategies for our ten largest markets.

Product innovation and line extension. We have increased investment behind new product development and innovation as a means of driving future revenue and profit growth. For example, we plan to take advantage of market opportunities to introduce new product lines where appropriate and cost effective. One new product that we have recently introduced is Tia Lusso, a new light cream liqueur that is an extension of the Tia Maria brand.

Optimize returns from existing assets. We actively seek opportunities to improve returns from our existing assets through the effective management of our brands and optimization of our cost and capital base. We have undertaken a number of major initiatives that we expect will enable us to reduce costs in our production operations, mainly in Scotland and Mexico. We are seeking to achieve additional cost efficiencies and working capital improvements from progressive supply chain integration and targeted cost reductions through efficient business processes and structure.

Improving the growth profile of our business through value-enhancing acquisitions

Re-align and strengthen our portfolio. We have recently completed a number of transactions to support our objective to build a strong platform for sustainable future growth. Our acquisitions have been selected to deliver the following benefits: Fill gaps in the portfolio the acquisition of the Malibu brand, the trademark rights for Stolichnaya in the United States and the distribution rights for Stolichnaya in Canada, the Nordic countries and Mexico. Build critical mass in markets of strategic importance the acquisition of Kuemmerling® bitters in Germany. Extend geographical reach into markets with growth potential the creation of the Jinro Ballantines venture in South Korea. Access categories that we deem to have growth potential the establishment of a premium wine business of global scale.

14

Strategic acquisitions. We will continue to pursue potential acquisitions of businesses, brands and products. Attractive acquisition targets may become available in the future dependent upon, among other factors, the amount of consolidation in the spirits and wine industry, the disposal of brands or businesses by industry participants and the sale of privately-owned brands or businesses. In addition to acquiring brands that are global premium brands or local market leaders, we would consider acquiring brands or products that we believe we could turn into global premium brands or local market leaders by exploiting potential synergies with our existing brand portfolio. Our evaluation of potential acquisitions and disposals takes into account their contribution to building sustainable future growth as well as their ability to generate acceptable future returns on investment ahead of our cost of capital.

Spirits & Wine Portfolio

Core Brands

Our core brands typically have a strong position in more than one market with potential for global scale. Impact International estimates that in 2001 seven of our core brands were in the top 100 premium distilled spirit brands by volume. A description of our core brands follows:

Ballantine's. The Ballantine's range includes Ballantine's Finest and Ballantine's Premium aged whiskies ranging from 12 to 30 years old. Impact International estimated that Ballantine's was one of the top ten premium distilled spirit brands by volume in 2001. We sold approximately 5.7 million cases of Ballantine's in the year ended 31 August 2002. Ballantine's is our largest selling brand in Europe with Spain, its largest market, accounting for approximately 1.9 million cases during the year ended 31 August 2002.

Kahlúa. Kahlúa is a coffee-flavored liqueur. Impact International estimated that Kahlúa was one of the top 20 premium distilled spirit brands by volume in 2001. We sold approximately 3.1 million cases of Kahlúa during the year ended 31 August 2002 with the United States, its largest market, accounting for approximately 2.0 million cases. We also sell a range of ready-to-drink Kahlúa cocktails under the tradename of "Kahlúa to Go®".

Malibu. Malibu is a coconut-flavored rum-based spirit that was first produced in 1980. Impact International estimated that Malibu was one of the top 35 premium distilled spirit brands by volume in 2001. Impact International estimates that 2.4 million cases of Malibu were sold in 2001. We purchased the Malibu brand from Diageo plc in May 2002. In the period from our purchase of Malibu to 31 August 2002, we sold approximately 0.5 million cases of Malibu.

Beefeater. Impact International estimated that Beefeater gin was one of the top 35 premium distilled spirit brands by volume in 2001. We sold approximately 2.3 million cases of Beefeater during the year ended 31 August 2002 with Spain, its largest market, accounting for 0.9 million cases.

15

Canadian Club. Impact International estimated that Canadian Club whisky was one of the top 40 premium distilled spirit brands by volume in 2001. We sold approximately 2.2 million cases of Canadian Club during the year ended 31 August 2002 with the United States, its largest market, accounting for approximately 1.2 million cases.

Sauza. Impact International estimated that Sauza tequila was one of the top 55 premium distilled spirit brands by volume in 2001. We sold approximately 1.9 million cases of Sauza during the year ended 31 August 2002 with the United States and Mexico, its largest markets, accounting for 0.9 million and 0.6 million cases, respectively.

Courvoisier. Impact International estimated that Courvoisier cognac was one of the top 100 premium distilled spirit brands by volume in 2001. We sold approximately 1.0 million cases during the year ended 31 August 2002 with the United States and the United Kingdom, its largest markets, accounting for 0.5 million and 0.3 million cases, respectively.

Tia Maria. Tia Maria is a premium, medium-strength Jamaican coffee-flavored liqueur. During the year ended 31 August 2002, we sold approximately 0.8 million cases of Tia Maria with its principal market being the United Kingdom. We launched a sister brand, Tia Lusso, a new light cream liqueur, in May 2002.

Maker's Mark. Maker's Mark is a niche Kentucky bourbon that we produce in batches of less than 19 barrels with every bottle sealed by being hand dipped into its signature red wax. During the year ended 31 August 2002, we sold approximately 0.4 million cases, principally in the United States.

Local Market Leaders

In addition to our core brands, we have identified brands that occupy a strong position in key markets and are capable of delivering critical mass in those markets or which present opportunities for growth. We refer to these brands as local market leaders. Impact International estimated that seven of our local market leaders were in the top 100 premium distilled spirit brands by volume in 2001. Our most important local market leaders are:

Presidente. Presidente is a brandy distilled and primarily consumed in Mexico. Impact International estimates that Presidente was one of the top 30 premium distilled spirit brands by volume in 2001. We sold approximately 2.4 million cases of Presidente during the year ended 31 August 2002.

Whisky DYC. Whisky DYC® is a whisky distilled and primarily consumed in Spain. Impact

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

International estimated that Whisky DYC was one of the top 40 premium distilled spirit brands by volume in 2001. We sold approximately 1.9 million cases of Whisky DYC in Spain during the year ended 31 August 2002.

16

Stolichnaya. Stolichnaya is a Russian vodka for which we have acquired the distribution rights for various countries, including the United States. We sold approximately 1.5 million cases of Stolichnaya during the year ended 31 August 2002, primarily in the United States.

Don Pedro. Don Pedro is a brandy distilled and primarily consumed in Mexico. Impact International estimated that Don Pedro was one of the top 65 premium distilled spirit brands by volume in 2001. We sold approximately 1.3 million cases of Don Pedro during the year ended 31 August 2002.

Imperial. Imperial is a Scotch whisky primarily consumed in South Korea. We sold approximately 1.0 million cases of Imperial whisky during the year ended 31 August 2002.

Hiram Walker liqueurs. The Hiram Walker® liqueur range offers a wide range of flavored liqueurs. We sold approximately 0.9 million cases of Hiram Walker liqueurs during the year ended 31 August 2002, primarily in the United States.

Centenario. Centenario® is a brandy produced and primarily consumed in Spain. We sold approximately 0.8 million cases of Centenario in Spain during the year ended 31 August 2002.

Teacher's. Teacher's® is a Scotch whisky whose largest market is the United Kingdom. We sold approximately 0.7 million cases of Teacher's during the year ended 31 August 2002.

Other Spirits

Other spirits brands are managed in their respective markets, and we expect to utilize their cash and profit generation to maximize their return for shareholders.

Wine Brands

Since January 2001, we have substantially increased our wine portfolio through a series of acquisitions. These acquisitions now provide us with a branded premium wine business of global scale with production interests in New Zealand, the United States, France, Spain, Argentina, Mexico and Portugal. Our most important wine brands are:

Mumm. Mumm® is one of the leading worldwide champagne brands with its principal markets in France and the United States. During the year ended 31 August 2002, we sold approximately 0.5 million cases.

Perrier Jouët. The flagship of this champagne range is Perrier Jouët® Belle Époque, distinguished by the hand painted flower design on its bottle. Perrier Jouët's key market is the United States. During the year ended 31 August 2002, we sold approximately 0.2 million cases.

17

Montana. Based in New Zealand, Montana® produced approximately 5 million cases of bottled premium wine in 2001. During the year ended 31 August 2002, we sold approximately 5.5 million cases.

Clos du Bois. Clos du Bois® is one of the leading super-premium Californian wine brands. During the year ended 31 August 2002, we sold approximately 1.4 million cases, primarily in the United States.

Campo Viejo. Campo Viejo®, produced by Bodegas y Bebidas, is a leading brand from the Rioja region of Spain. Campo Viejo is sold throughout Europe, and during the year ended 31 August 2002, approximately 0.7 million cases of Campo Viejo were sold. We acquired Bodegas y Bebidas in December 2001.

Graffigna. Graffigna® is based in the San Juan region of Argentina. During the year ended 31 August 2002, we sold approximately 0.8 million cases.

Spirits & Wine Production

Properties, Plants and Equipment

We own or lease land and buildings throughout the world. Our properties primarily consist of a variety of manufacturing, distilling, maturing, bottling and administration operating sites spread across our operations, as well as vineyards in New Zealand, the United States, France, Spain and Argentina. As at 31 August 2002, our properties had a net book value of £468 million. Seven principal Allied Domecq operating units account for approximately 76% of the total net book value of £468 million, namely Montana (vineyards), Allied Domecq Wines USA (vineyards), Allied Distillers Limited (distilling), Mumm and Perrier Jouët (vineyards), Hiram Walker & Sons Limited (distilling), our Spanish production facilities (distilling and vineyards) and Domecq Mexico (distilling and agave cultivation).

These operating units each have several manufacturing facilities. The locations, principal products, production capacity and production volume in the year ended 31 August 2002 of these principal operating units is set out in the following table:

Operating unit	Location	Principal products	Production capacity	Production volume in 2002
			(Thousands nine-liter cases)	
Allied Distillers	Scotland	Scotch whisky, gin, liqueurs and other	25,000	11,796
Domecq	Mexico	Brandy and tequila	26,000	9,600
Hiram Walker	United States and Canada	Canadian whisky, liqueurs and other	14,000	9,411
Domecq	Spain	Brandy, whisky, sherry and wine	7,700	6,453
Courvoisier	France	Brandy	1,600	1,077
				(Tons)(1)
Montana	New Zealand	Wines	57,500	46,000

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

			(Tons)(1)	
Bodegas y Bebidas(2)	Spain	Wines	52,000	34,840
Allied Domecq Wines USA	United States	Wines	41,000	34,843
Mumm and Perrier Jouët	France	Champagne	21,688	15,835

Notes:

- (1) Metric tons of grape crush capacity.
- (2) We acquired Bodegas y Bebidas S.A. in December 2001. Approximately 62% of the production volume in 2002 was produced in the period from acquisition to 31 August 2002.

18

No individual tangible fixed asset has a net book value in excess of 5% of the aggregate net book value. We own approximately 96% of our properties by value and hold approximately 3% of our properties by value under leases running for 50 years or longer. Some of our production locations are sited in areas prone to earthquakes. Although we have previously bought insurance to cover earthquake damage, we have recently discontinued this practice and now self-insure.

Raw Materials

Most of the raw materials required for the production of our spirits and wine are agricultural commodities that we grow or purchase from third-party producers or on the open market. The raw materials that are the most volatile in supply are grapes and agave.

In the year ended 31 August 2002, we secured approximately 22% of our grapes for wine production, through our ownership and cultivation of vineyards. We also secured a substantial portion of our grapes through long-term supply contracts with a wide variety of local growers throughout the world. Those grapes that we do not grow or purchase through long-term supply contracts, we purchase on the open market.

Mexican regulations require that tequila is produced exclusively with blue agave from a specific region. As the result of the shortage of this material over the last few years, we have undertaken our own agave cultivation, and as at 31 August 2002, we had approximately 13,000 hectares under cultivation of proprietary and contracted plantations. As we have recently begun our agave cultivation and as agave should grow for between seven and ten years prior to harvest and use, we currently rely on long-term agave supply contracts and the open market for all of our agave needs. The agave shortage has not yet been overcome, but our investment in new cultivation techniques is benefiting the local farmers.

When purchasing other raw material supplies such as closures, bottles and labels, we take advantage of our scale as a global drinks business. We attempt to use a balanced roster of preferred suppliers to strike a favorable balance between consistent quality and low cost.

Spirits & Wine Distribution

We own or control the distribution of approximately 90% of the sales of our Spirits & Wine business by volume through subsidiaries and operations in over 50 countries. The balance is carried out on our behalf by third parties with whom we usually have long-term distribution contracts. Of our total sales volume during the year ended 31 August 2002, Europe accounted for approximately 31%, North America for approximately 24%, Latin America for approximately 17%, Asia Pacific for approximately 6%, the Wine region for approximately 20% and Other, which includes bulk sales of spirits and wine as well as stand-alone Duty Free operations for approximately 2% of our sales by volume.

Generally, we distribute our products via wholesalers directly to specialist stores, supermarkets, convenience stores and owners of on-premise outlets. However, our distribution arrangements vary depending upon the particular markets with important regional differences outlined below.

North America. Local law in some US States and in most of the provinces and territories of Canada requires that local government-owned monopolies control the distribution of spirits. In the United States, we trade in a mandatory three-tier system, meaning that in states where the state liquor board does not control sales, we must sell to wholesalers who, in turn, sell to retailers and then to the end consumer. During the year ended 31 August 2002 we implemented a new five year country strategy in the United States. We have refined pricing by brand and by State, improved communications within the business, reviewed deployment of our sales forces and re-aligned our advertising and promotion spend to improve its effectiveness. In addition, a new organisation structure is being implemented that will allocate our resources closer to the

market place and increase sales coverage. This will facilitate a better understanding of customers and consumers and further strengthen our relationships with distributors.

Asia Pacific. In Asia Pacific, we distribute our products through a combination of subsidiaries, third-party distributors and through associations with other industry participants, such as our arrangement with Jinro Limited for the bottling and distribution of whisky and other spirits in South Korea and Suntory Limited for the principal distribution of our products in Japan.

Spirits & Wine Seasonality

Demand for our premium branded spirits and wine traditionally experiences seasonal fluctuations in sales volume. This is particularly true for products, like champagne and sparkling wine, that are associated with end of the year holiday events in some key markets. Seasonal fluctuations mean that our turnover may be highest in the first half of our fiscal year.

Spirits & Wine Competitors

Our Spirits & Wine business competes with other producers and distributors of spirits and wine on a local and international basis. At a local level, the spirits and wine industry is heavily fragmented. Internationally, we compete with an array of global companies. We list below our principal international competitors and a summary, to the best of our knowledge, of their main activities in relation to the spirits and wine industry:

Diageo plc, formed in 1997 as a result of the merger between Grand Metropolitan Public Limited Company and Guinness PLC, is one of the world's leading consumer goods companies. Diageo's brands include Smirnoff vodka, Smirnoff Ice, Johnnie Walker whisky, Gordon's gin and Bailey's liqueur. Diageo also distributes Cuervo tequila in some markets. In 2001, Diageo agreed to purchase a number of brands from the Seagram's wines and spirits business, including Captain Morgan rum and Crown Royal Canadian whisky.

Pernod Ricard, a French spirits group, whose premium brands include Ricard, Pastis 51, Pernod, Jameson Irish whiskey, Havana Club rum and Jacob's Creek wine. In 2001, Pernod Ricard purchased a number of brands from the Seagram's wines and spirits business, including Chivas Regal whisky, Martell cognac and Seagram's gin.

Brown-Forman Corporation, which produces the premium brands of Jack Daniel's, Southern Comfort and Canadian Mist and distributes Finlandia vodka. It derives its spirits profits primarily from the United States. It cooperates with third parties for the distribution of its products outside the United States. Brown-Forman also maintains a large premium wine business, which includes Fetzer wines and Korbel champagne.

Bacardi-Martini Inc., which produces the premium brands of Bacardi rum, Martini vermouth, Dewar's whisky and Bombay gin. Bacardi-Martini also produces Bacardi Breezers, a line of ready-to-drink products.

Fortune Brands Inc., a US consumer brands company that has a division devoted to spirits and wine. Its principal brands are Jim Beam bourbon, DeKuyper liqueurs and Geysler Peak wine.

The world wine market is extremely fragmented with the top five corporate producers accounting for just 3.5% of the global wine market. Competition is specific to particular niche price points and country of origin and there is no single producer with a similar business profile to us. Well known premium wine brand producers include LVMH, Remy Cointreau, BRL Hardy, Southcorp, and the Fosters Group's wine division Beringer Blass.

Spirits & Wine Regulation and Taxes

The production of spirits and wine in Europe is subject to various regulations, including the testing of raw materials used and the standards maintained in production processing, storage, labeling and distribution. In the United States, the spirits and wine business is subject to strict Federal and State government regulations covering virtually every aspect of its operations, including production, marketing, pricing, labeling, packaging and advertising.

Spirits and wine are subject to national import and excise duties in many markets around the world. Most countries impose excise duties on distilled spirits, although the form of such taxation varies significantly from a simple application on units of alcohol by volume to intricate systems based on the imported or wholesale value of the product. Several countries impose additional import duty on distilled spirits, often discriminating between categories, like Scotch whisky or bourbon, in the rate of such tariffs. Within the European Union, such products are subject to different rates of excise duty in each country, but within an overall European Union framework that imposes minimum rates of excise duties.

Import and excise duties can have a significant effect on our sales, both through reducing the overall consumption of alcohol and through encouraging consumer switching into lower-taxed categories of alcohol. We devote resources to encouraging the equitable taxation treatment of all alcoholic drink categories and to reducing government-imposed barriers to fair trading.

The advertising, marketing and sale of alcoholic beverages are subject to various restrictions in markets around the world. These range from a complete prohibition of the marketing of alcohol in some countries to restrictions on the advertising style, media and messages used. A number of countries prohibit or discourage televised advertising for spirits brands, either through regulation or a voluntary code of practice, while other countries permit televised advertising for spirits brands, but only under careful regulation.

Spirits and wine are also regulated in distribution. Many countries only permit the sale of alcohol through licensed outlets, both on and off premise. This may vary from government or State operated monopoly outlets to licensed on premise outlets, such as bars and restaurants, which prevail in much of the western world.

Labeling of alcoholic drinks is also regulated in many markets, varying from health warning labels to importer identification, alcoholic strength and other consumer information. All alcoholic beverages sold in the United States must contain warning statements related to the risks of drinking alcoholic beverages. Further requirements for warning statements and any prohibitions on advertising and marketing could have an adverse impact on our sales.

International compliance with environmental requirements has not had a material adverse effect on our results of operations, capital expenditures or competitive position.

QSR Description

Our QSR business comprises our US and international food franchising business. The core trading market for the business is the United States with over 6,600 distribution points nationwide, while the international business operates more than 3,900 additional distribution points. The system is almost exclusively franchised, limiting our required capital investment. Turnover for the year ended 31 August 2002 was £316 million, principally related to franchise income on total retail sales by our franchisees of £2,869 million, and trading profit was £78 million.

The brands included in our QSR business are:

Dunkin' Donuts. Dunkin' Donuts is one of the world's leading coffee and baked goods chains. During the year ended 31 August 2002, it generated 92% of its total retail sales from US markets. As at 31 August 2002, Dunkin' Donuts had 5,438 distribution points, of which 3,836 were located in the United States.

Baskin-Robbins. Baskin-Robbins is one of the world's largest ice-cream franchises. During the year ended 31 August 2002, it generated slightly more than half of its total retail sales from US markets. As at 31 August 2002, Baskin-Robbins had 4,704 distribution points, of which approximately half were in the United

States.

Togo's. The Togo's brand was historically a West Coast sandwich chain. As at 31 August 2002, Togo's had 425 distribution points, substantially all of which were in the United States.

QSR Strategy

The objective of our QSR business is to be a global leader in its industry, known for the quality of its brands, retail offerings and staff. To achieve this objective, we intend to continue to pursue the following six key strategies:

Multi-branding concept development. Our three quick service restaurant brands are complementary in terms of consumer consumption throughout the day. According to our internal data, Dunkin' Donuts achieves a majority of its sales before 11.00 a.m., Togo's has a majority of its sales at lunch-time, and Baskin-Robbins' sales traditionally occur during the afternoon and early evening. Our strategy is to combine our brand offerings within the same restaurant. We believe this strategy brings significant benefits to our franchisees through improved scale and operating efficiencies as well as the opportunity to increase revenue from cross-selling our brands. As at 31 August 2002, we had more than 800 restaurants selling more than one of our brands.

Brand revitalization. Complementary to our multi-brand development strategy, we also recognize the importance of continually revitalizing our existing asset base. Since 1996 and as at 31 August 2002, our franchisees had remodeled 69% of the existing US Dunkin' Donuts restaurants. In addition, we have recently changed the Dunkin' Donuts logo to better represent an increased focus on coffee while continuing to reinforce the core bakery business. In the international markets, we have begun to streamline our asset base and have focused our approach on prospective development.

Baskin-Robbins re-positioning. We have substantially revised our business model for Baskin-Robbins so as to provide a greater focus on retailing. Prior to April 2000, we principally derived our income from Baskin-Robbins franchisees from the margin on the cost of producing ice cream and wholesale prices of ice cream sold to our franchisees. In April 2000, we introduced a program to amend our agreements with our Baskin-Robbins franchisees to the effect that our income would be derived exclusively from franchise royalties. We also required our franchisees to increase their contribution to their cooperative advertising fund. Approximately 75%, or 1,200 of our franchisees eligible to participate accepted these amended terms. All new franchise agreements for Baskin-Robbins or for combination restaurants will be on these terms. As at 31 August 2002, approximately 81% of eligible franchisees are participating. As part of this

22

repositioning strategy, we have disposed of our ice cream manufacturing operations in the United States and entered into a long term supply contract with Dean Foods for the ice cream requirements of our US Baskin-Robbins franchisees.

Product innovation. Total retail sales have grown as a result of updated shop designs and significant improvements to store operating systems. We have also increased same store sales by continued investment in new product development. Our new products have increased consumer traffic, average consumer spending and profit margins.

Accelerating brand development. We believe that there is a real opportunity to increase the distribution of our brands, and subsequently our income sources, by increasing the pace of our branded store openings. In particular, we believe that the use of multi-branded combination stores will allow us to increase penetration of markets in which we believe we are under-represented.

Improving organizational effectiveness and talent acquisition. We have undertaken several initiatives to invest in systems and processes to improve the efficiency and effectiveness of the corporate infrastructure.

QSR Raw Materials

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

In the United States, a franchisee-owned cooperative manages the purchase, supply and distribution of raw materials and finished products for the Dunkin' Donuts brand. For Baskin-Robbins, we have a long-term, cost-plus arrangement with Dean Foods for the supply and distribution of ice cream and related products. International Multi-Foods supplies the Togo's brand.

Internationally, Dunkin' Donuts is managed through the US system, with some local supply of product where it makes sense either from a financial or a regulatory standpoint. Outside the United States, Baskin-Robbins is supplied primarily out of our manufacturing plant in Peterborough, Canada, although some local procurement exists, including relationships in Japan and South Korea.

QSR Competitors

The quick service restaurant industry is highly competitive. We believe that the combination of overcapacity and rising real estate and labor costs means that unit economics have begun to decline.

We believe our QSR business is strongly positioned to compete in the industry. Currently, we view our key competition as Starbucks, McDonald's, Tricon (which owns Taco Bell, KFC and Pizza Hut), Texas Pacific Group, Bain Capital Partners and Goldman Sachs Capital Partners (who collectively own Burger King), Wendy's, Subway, Krispy Kreme, Quizno's and Panera Bread.

QSR Regulation

In the United States, we are subject to various Federal, State and local laws affecting our QSR business. Each quick service restaurant must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the State or municipality in which the restaurant is located. In addition, each operating company must comply with various State laws that regulate the franchisor/franchisee relationship. To date, we have not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

In the United States, we are also subject to Federal and State laws governing such matters as employment and pay practices, overtime and working conditions. The QSR restaurants pay the bulk of their employees on an hourly basis at rates related to the Federal minimum wage. The QSR restaurants are also subject to Federal and State child labor laws which, among other things, prohibit the use of

23

certain "hazardous equipment" by employees 18 years of age or younger. We have not to date been materially adversely affected by such laws.

Outside the United States, the QSR restaurants are subject to national and local laws and regulations which are similar to those affecting the restaurants in the United States, including laws and regulations concerning labor, health, sanitation and safety. These restaurants are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment. International compliance with environmental requirements has not had a material adverse effect on our results of operations, capital expenditures or competitive position.

QSR Property

We own production facilities as well as own or lease buildings for our franchise stores throughout the United States and internationally. The largest of our production facilities produces Baskin-Robbins branded ice cream and is located in Peterborough, Canada. In the year ended 31 August 2002, it produced 4.1 million gallons of ice cream, and it has an annual production capacity of 4.5 million gallons. As at 31 August 2002, our properties related to our QSR business had a net book value of £85 million.

Group Environmental Policy

We seek to adopt operating procedures with minimal environmental impact, to prevent or control pollution of the environment and to conserve energy and other natural resources used in our operations. As a means of achieving these environmental goals, we are implementing ISO 14001, the environmental management standard of the International Organization for Standardization. The International Organization for Standardization has certified that we have ISO 14001 compliant operating sites in Brazil, Canada, France, Portugal, Spain, the United Kingdom and the United States, and we intend to increase the number of our ISO 14001 certified operating sites.

Of the environmental issues that are under our control, the most relevant to us are energy use, water use, emissions to air from processing, discharges to water, solid waste and packaging. Except as described elsewhere in this annual report, we are not currently aware of any environmental problems or issues that could materially adversely affect our business or results of operations.

Third-Party Ventures

On 15 February 2000, we purchased a 70% interest in two South Korean companies, Jinro Ballantines Company Limited and Jinro Ballantines Import Company Limited, for £103 million. Jinro Limited, one of South Korea's largest spirits distributors, holds the remaining 30% interest. The first of these companies bottles and distributes the acquired Imperial whisky brand while the second company imports and distributes brands from our international spirits portfolio.

On 18 January 2002, we entered into a commercial partnership with the Miller Brewing Company to introduce two new flavored malt-based beverages based on our Stolichnaya vodka and Sauza tequila brands. These new drinks, Stolichnaya Citrona and Sauza Diablo were launched in the Spring of 2002, with the object of reaching a significant number of US consumers through retail outlets serviced by Miller's nationwide distributor network. Since that time, however, we believe that the results achieved by these beverages have been disappointing to both parties. To date, the positive impact on our business which we had anticipated would occur as a result of our investment in the development, launch activity and marketing of these beverages has not occurred. Nonetheless, we currently intend to maintain our presence in the flavored malt beverage market in the US.

We have entered into a series of arrangements with Suntory Limited, one of Japan's leading producers and distributors of spirits. We have a 50% interest in a Japanese company, Suntory Allied Limited,

24

which has the principal rights to distribute our spirit products in Japan for a period up to and including 2029. Suntory Allied Limited is under the management control of Suntory Limited.

Organizational Structure

Allied Domeccq PLC is the holding company of the Group. We have over 500 subsidiaries incorporated in over 50 countries. We have a 100% equity interest in all of our significant subsidiaries. We list those significant subsidiaries as at 31 August 2002 below together with their jurisdiction of incorporation.

Name	Jurisdiction of incorporation
Allied Domeccq (Holdings) PLC	England and Wales
Allied Domeccq Spirits & Wine Holdings PLC	England and Wales
Allied Domeccq Spirits & Wine Limited	England and Wales
Allied Domeccq Financial Services PLC	England and Wales
Allied Domeccq Overseas Limited	England and Wales
Allied Domeccq Overseas (Canada) Limited	England and Wales
Allied Domeccq Overseas Holdings Limited	Cayman Islands
Allied Domeccq Overseas (Europe) Limited	England and Wales
Allied Domeccq International Holdings B.V.	Netherlands
Allied Domeccq Netherlands B.V.	Netherlands
Allied Domeccq Luxembourg Holdings S.a.r.l	Luxembourg
Allied Domeccq Luxembourg S.a.r.l	Luxembourg
Allied Domeccq Canada Limited	Canada
Hiram Walker-Gooderham & Worts Limited	Canada
Allied Domeccq North America Corp	United States
Allied Domeccq Spirits & Wine Americas Inc.	United States
Allied Domeccq Spirits & Wine USA, Inc.	United States

25

Item 5. Operating and Financial Review and Prospects

You should read the following commentary together with our selected historical consolidated financial data and our Audited Consolidated Financial Statements and the related notes contained elsewhere in this annual report. This discussion contains forward-looking statements. Our actual results could differ materially from historical results or those contemplated in the forward-looking statements. Forward-looking statements involve a number of risks and uncertainties, and include trend information and other factors that could cause actual results to differ materially, including, but not limited to, those identified in this annual report under the section entitled "Item 3 Key Information Risk Factors".

General

The following discussion and analysis of our results of operations and financial condition should be read in conjunction with our Audited Consolidated Financial Statements and the related Notes appearing elsewhere in this annual report. Our Audited Consolidated Financial Statements have been prepared in accordance with UK GAAP, which differs in certain significant respects from US GAAP. For a discussion of the principal differences between UK GAAP and US GAAP as they relate to us, and a reconciliation of profit and loss and equity shareholders' funds to US GAAP, see Note 33 to our Audited Consolidated Financial Statements.

We are a leading international branded drinks and retailing group. Our business comprises one of the world's largest international spirits and wine groups, our Spirits & Wine business, and a leading international quick service restaurants group, our QSR business. Our objective is to create shareholder value through the profitable growth of the business. In 1999, we disposed of our UK Retail business, and since that time we have been strengthening our brand portfolio through acquisitions of spirits and wine producers and brands.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with UK GAAP, which requires us to make certain estimates and assumptions. We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity:

Accounting for acquisitions. During the past three years, we have completed several acquisitions. An acquisition is accounted for at a purchase price based upon the fair value of the consideration given, whether it is in the form of cash, assets, stock or the assumption of liabilities. The assets and liabilities acquired are measured at their fair values, and the purchase price is allocated to the assets and liabilities based upon these fair values. Determining the fair values of the assets and liabilities acquired involves the use of judgment. Different techniques may be used to determine fair values, including market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows, among others. Since these estimates involve the use of significant judgment, they can change as new information becomes available.

Impairment of tangible and intangible assets. Tangible and intangible assets are evaluated for impairment when events and circumstances indicate that the assets may be impaired and the discounted cash flows to be generated by those assets are less than the net book value. The determination of discounted cash flows is based upon estimates that reflect our assumptions about discount rates, selling prices, production and sales volume levels, costs, and market conditions over the estimated operating period. If the assumptions related to the fair value calculation of tangible and intangible assets are inaccurate, an impairment charge may be required in the future.

Pensions and post-retirement medical benefits. We charge pension and post-retirement medical benefit costs to the profit and loss account on a systematic basis over the service life of employees in accordance with Statement of Standard Accounting Practices No. 24, or SSAP No. 24, and with the advice of actuaries using the projected unit credit method. Inherent in these actuarial valuations are key assumptions, including discount rates and expected returns on the plan. We are required to consider market conditions, including potential changes in interest rates, in selecting these assumptions. These assumptions may not address actual changes in related pension and post-retirement benefit costs in the future. If actual changes are different from these assumptions, the cost of providing these benefits could increase or decrease.

In November 2000, FRS No. 17 Retirement Benefits was issued, and adoption becomes mandatory for us in the year ended 31 August 2006. FRS No. 17 favors a market-based approach and its adoption would lead to different profit and loss charges and balance sheet provisions than those calculated using SSAP No. 24. We have not adopted FRS No. 17 early, but have complied with the transitional disclosure requirements of the standard.

Factors Affecting Results of Operations

For the period under review, our consolidated results of operations should be considered in light of the following specific factors.

Effect of Recent Acquisitions

Since the disposal of our UK Retail business in 1999, we have completed a number of acquisitions in order to diversify our portfolio and bring other specific benefits to our business, including building critical mass in key markets and extending our geographic reach into markets with growth potential. We have financed these acquisitions primarily from new bank facilities and capital market fund raising activities during the period. During the year ended 31 August 2002, our net debt increased by £724 million primarily as a result of acquisitions.

Since 31 August 2001, we have acquired Kuemmerling GmbH, one of Germany's largest spirit brands, for a cash consideration of £124 million and Bodegas y Bebidas, a leading Spanish wine producer, for a cash consideration of £164 million. In addition, we made a deferred payment of £231 million associated with our acquisition of Montana.

On 22 May 2002, we acquired the Malibu brand, a coconut-flavored rum-based spirit, Mumm Cuvée Napa, a Californian sparkling wine business, and associated assets from Diageo plc. The cash consideration of the acquisition was £586 million on a debt free basis, subject to a working capital adjustment. On 4 March 2002, we completed a private placement of 39 million new ordinary shares for gross proceeds of approximately £152 million to partially fund the acquisition. We funded the remainder of the acquisition price through the issuance of EUR600 million bonds due 2009 and £250 million bonds due 2014.

Mexican Excise Rebate

In September 2000, the Mexican Supreme Court ruled in favor of a complaint, brought by a number of spirits companies in Mexico challenging the excise duty regime applicable to their Mexican operations during 1998 and 1999. The Mexican Supreme Court ruled that the excise tax, which only applied to large companies, was inequitable, and awarded damages to certain plaintiffs, including us. The Mexican Supreme Court awarded compensation which, by agreement with the Mexican tax authorities in October 2001, is principally received by offset against current and future duties and taxes.

A total of £260 million has been received to date (2002: £213 million, 2001: £47 million) and was subject to applicable corporation tax at 35%. It is anticipated that the remaining recovery will be in the

region of £30 million to £50 million comprising excise duty rebate and related interest and inflation adjustments and will be fully recovered by 31 August 2003. Due to the significant increase in the size of the rebate during the year ended 31 August 2002 and the acceleration in its collection, the rebate was treated as an exceptional item. As a result, for comparative purposes, the £47 million benefit during the year ended 31 August 2001 was reclassified as an exceptional item.

Pensions

In line with other companies, market and demographic dynamics over recent years have increased the cost of providing pensions. We have absorbed an increased pension profit and loss charge of £16 million in the year ended 31 August 2002. Whilst many of our pension funds have been able to absorb a significant proportion of recent equity market underperformance, we anticipate some increase to pension fund charge in the year ending 31 August 2003 and this will be dependent upon the outcome of the triennial valuation of our largest pension funds by our actuaries to be completed prior to the fiscal year-end. See the section entitled "Risk Factors The cost of providing pension and post-retirement healthcare benefits to eligible former employees is subject to changes in pension fund values and changing demographics, and may have a material adverse effect on our financial results" and the subsection entitled "Trend Information Non-operating Items".

Seasonality

We experience some seasonal fluctuations in demand. Retail demand for certain spirits, sparkling wines and champagne, for example, is highest during end of the year holiday events in certain key markets.

Exchange Rate Fluctuations

We conduct our operations in many countries, and accordingly, a substantial portion of our sales and production costs are denominated in currencies other than Pounds Sterling. As a result, fluctuations between the Pound Sterling and other major currencies, including the US Dollar and the Euro, may affect our operating results. We have a partial natural hedge against the impact of foreign exchange fluctuations associated with transactions denominated in Euro.

During the year ended 31 August 2002, the impact of foreign exchange movements on the translation of profits was adverse compared to the prior year, resulting principally from the depreciation of the US Dollar in the last two months of the fiscal year. This was partially offset by the strengthening of the Euro. Since the periods under review, the US Dollar has continued to weaken substantially in comparison with Pounds Sterling and the Euro. We believe that these fluctuations in exchange rates have had and may continue to have a material adverse effect on our results of operations for the year ended 31 August 2003. For a further discussion of the likely impact on our business of the weakening of the US Dollar against Pounds Sterling and the Euro, see the section entitled "Risk Factors Our operations are conducted in many countries and, as a result, fluctuations between the Pound Sterling and other major currencies may affect our financial results" and the subsection entitled "Trend Information Non-operating Items".

Our balance sheet can be significantly affected by currency translation movements. Our policy is to match foreign currency debt in proportion to foreign currency earnings so as to provide a natural hedge of part of the translation exposure. While we currently hedge certain of these exposures through financial instruments in the form of forward contracts and currency swaps, there can be no assurance that exchange rate fluctuations in the future will not have a material adverse effect on our results of operations.

Results of Operations

Except where stated, the following discussion on our volume, turnover, gross profit, advertising and promotion and trading profit is based on our continuing activities before goodwill amortization and exceptional items.

Year ended 31 August 2002 compared with the year ended 31 August 2001

Operating results

Group Comparative Performance

Turnover. Turnover was £3,334 million during the year ended 31 August 2002, an increase of £455 million, or 16%, from the year ended 31 August 2001. This increase reflects increased turnover of our Spirits & Wine business through organic growth and acquisitions.

Trading profit. Trading profit was £610 million for the year ended 31 August 2002, an increase of £67 million, or 12%, from the year ended 31 August 2001. As a result of the Mexican excise rebate being treated as an exceptional item during the year ended 31 August 2002, the figures for the year ended 31 August 2001 were reclassified to provide a comparison. The increase in trading profit reflects a 13% increase in our Spirits & Wine business and an 8% increase in our QSR business. Excluding acquisitions, trading profit increased by 6% as compared to the prior year.

Segment Comparative Performance

We are an international business and, as a result, fluctuations between the Pound Sterling and other major currencies, particularly the US Dollar and the Euro, have a substantial impact on our results of operations. In order to provide investors and potential purchasers of our ordinary shares and ADSs with a meaningful discussion of the changes and trends in our results of operations, we translate the results of the prior period at the weighted average exchange rates of the most recent period. We refer to this translation as "at constant exchange rates".

Spirits & Wine

The following table sets out financial data from the results of operations of our Spirits & Wine business for the year ended 31 August 2002, and financial data from the results of operations of our Spirits & Wine business during the year ended 31 August 2001 translated into Pounds Sterling at 2002 constant exchange rates.

Year ended 31 August	Year ended 31 August 2001
-------------------------	------------------------------

Edgar Filing: ALLIED DOMECQ PLC - Form 20-F

	<u>2002</u>	<u>at 2002 constant exchange rates</u>
	£	£
	(million)	
Turnover(1)	3,018	2,504
Duty	(638)	(601)
Net turnover	<u>2,380</u>	<u>1,903</u>
Gross margin	1,425	1,129
Trading profit(2)	<u>516</u>	<u>450</u>

Notes:

- (1) Translation adjustments to turnover at 2002 constant exchange rates were £37 million. A further reclassification of £30 million was made to reduce turnover during the year ended 31 August 2001 to reflect certain discounts that had been previously included in operating expenses in order to show both years on a constant comparable basis. Gross Margin and

29

trading profit are both unaffected by this reclassification. Turnover as reported for the year ended 31 August 2001 was £2,571 million.

- (2) Translation adjustments to trading profit at 2002 constant exchange rates were £8 million. Trading profit for the year ended 31 August 2001 was £458 million, compared to £505 million as previously reported, as a result of the reclassification of the Mexican excise rebate as an exceptional item.

Volume, turnover and gross margin. We sold 63.5 million nine liter equivalent cases of spirits and wine during the year ended 31 August 2002 as compared with 50.4 million cases in the prior period, an increase of 26%. This increase principally reflects the impact of recent acquisitions, primarily Montana and Bodegas y Bebidas. Before acquisitions, year on year volume growth was flat reflecting growth of 2% in our core brands, offset by volume declines in the local market leaders and other spirits. Our wine region grew volumes by 7% before recent acquisitions.

Net turnover, excluding excise duty paid by customers on our spirits and wine products, was £2,380 million during the year ended 31 August 2002, an increase of £477 million, or 25%, as compared with net turnover during the prior period at 2002 constant exchange rates. The increase in net turnover principally reflects acquired businesses' turnover. Excluding acquisitions, net turnover grew by 7% as a result of pricing and mix improvements.

Gross margin was £1,425 million during the year ended 31 August 2002, an increase of £296 million, or 26%, as compared with the prior period at 2002 constant exchange rates. This increase principally reflects acquired businesses' and brand gross margin of £152 million including the contribution of Montana, Kuemmerling, Bodegas y Bebidas and Malibu. Excluding acquisitions, gross margin grew by £144 million, or 13%. Of this £144 million increase, volume increases of £43 million, primarily in Asia Pacific and Europe, were partially offset by the supply chain re-engineering in the United States, where shipments were below the level of depletions from our distributors, representing a volume de-stock of £19 million in the supply chain. Price increases, particularly in Latin America, accounted for £25 million of gross margin increase. We also benefited from enhanced mix improvements of £86 million in premium wines and champagne, in Asia Pacific and North America, and cost benefits of £9 million.

Advertising and Promotion. Advertising and promotion investment in our brands for the year ended 31 August 2002 was £443 million, an increase of 35% as compared to the prior period at 2002 constant exchange rates. Advertising and promotion of our core brands, including Malibu, which represented 28% of our Spirits & Wine portfolio by volume, accounted for 55% of the total expenditure. In particular, there was focused investment in Ballantine's in over 50 markets, Mumm and Perrier Jouët in the US and UK, Stolichnaya in the US, Imperial whisky in South Korea and the launch of Tia Lusso in nine markets.

Trading profit. Trading profit was £516 million during the year ended 31 August 2002, an increase of £66 million, or 15%, as compared to the prior period at 2002 constant exchange rates. The increase in trading profit principally reflects the impact of acquisitions during the period. Excluding acquisitions, trading profit increased by 3%, reflecting increased pricing and enhanced mix, partially offset by lower sales volumes in

Latin America.

Trading profit by sales region. Our Spirits & Wine business is a marketing-led business where resource allocation decisions with respect to brands are made on a global basis. However, as these decisions are executed within key markets, we believe it is appropriate to additionally disclose the trading profit of our Spirits & Wine business on a regional basis. During the year ended 31 August 2002, we have presented our premium wine business separately within the regional review. Our Wine region includes Bodegas y Bebidas, Montana, Mumm and Perrier Jouët champagnes and our enlarged US wine business, including Buena Vista® and Mumm Cuvée Napa. The following table sets out for each of our sales regions the trading profit of our Spirits & Wine for the year ended 31 August 2002,

30

and trading profit of our Spirits & Wine business during the year ended 31 August 2001 at 2002 constant exchange rates.

	Year ended 31 August 2002	Year ended 31 August 2001 at 2002 constant exchange rates(1)
	£	£
	(million)	
Europe	160	152
North America	169	158
Latin America	61	43
Asia Pacific	66	55
Wine region		